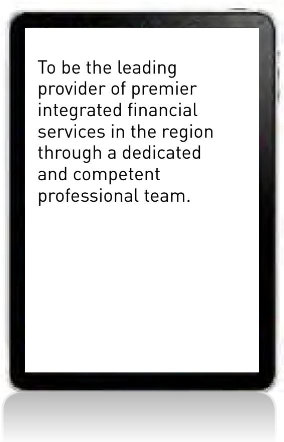
Writing the future

SBM

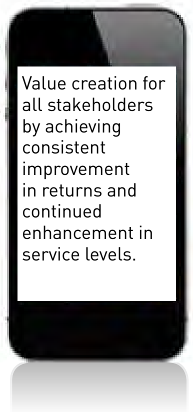
Annual Report | **2012**

STATE BANK OF MAURITIUS LTD BRN: C07002193

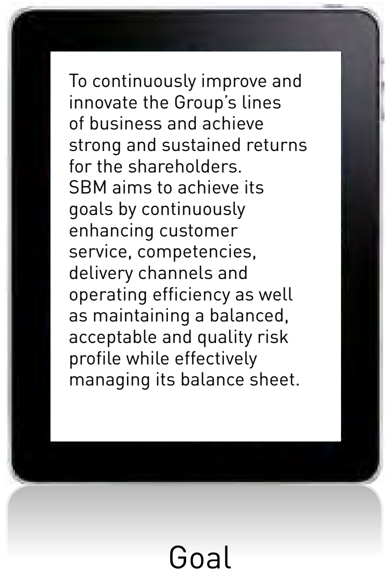
Writing
the
future



Vision



Mission



Goal

Caution regarding forward-looking statements

Within this report, State Bank of Mauritius Ltd (SBM) has made various forward-looking statements with respect to its financial position, business strategy and objectives of management. Such forward-looking statements are identified by the use of words such as 'expects', 'estimates', 'anticipates', 'believes', 'intends', 'plans', 'forecasts', 'projects' or words or phrases of a similar nature.

By their nature, forward-looking statements require the company to make assumptions and are subject to inherent risks and uncertainties. There is a significant risk that predictions and other forward-looking statements may not prove to be accurate. Readers of this report are thus cautioned not to place undue reliance on forward-looking statements as a number of factors could cause future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed therein.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to interest rate and currency value fluctuations, local and global industry, economic and political conditions, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the company operates, as well as management actions and technological changes. The foregoing list of factors is not exhaustive and when relying on forward-looking statements to make decisions with respect to SBM, investors and other parties should carefully consider these factors, as well as the inherent uncertainty of forward-looking statements and other uncertainties and potential events. SBM does not undertake to update any forward-looking statement that may be made, from time to time, by the organisation or on its behalf.

CONTENTS

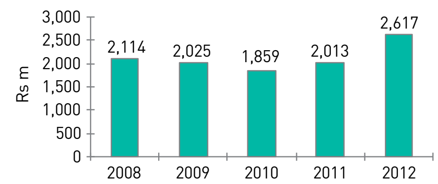
Key financial highlights

	2012	2011[a]	2010[a]	2009[a]	2008[a]
Shareholders' equity (Rs m)	**17,924**	15,971	14,656	12,943	10,974
Capital adequacy ratio (%)	**21.73**	22.42	26.49	24.04	21.61
Earnings per share (cents)[b]	**1,014**	780	720	784	819
Economic value added (Rs m)	**547**	185	331	418	371
Profit before income tax (Rs m)	**3,230**	2,475	2,212	2,345	2,397
Profit attributable to equity holders of the parent (Rs m)	**2,617**	2,013	1,859	2,025	2,114
Return on average assets (%)[c]	**2.69**	2.29	2.34	2.76	3.31
Return on average risk-weighted assets (%)[c]	**4.03**	3.79	4.10	4.62	5.12
Return on average shareholders' equity (%)[c]	**15.44**	13.15	13.47	16.94	20.64
Return on average Tier 1 capital (%)[c]	**22.12**	19.11	19.99	24.71	30.76
Credit deposit ratio (%)	**83.42**	81.83	72.83	64.17	66.03
Cost to income (%)	**34.60**	38.55	39.03	38.43	37.08
Gross impaired advances to gross advances (%)	**1.07**	1.40	1.87	2.00	2.42
Net impaired advances to net advances (%)	**0.36**	0.46	0.81	0.47	0.48
Dividend payout ratio (%)	**34.52**	38.47	38.20	35.06	31.14
Electronic to gross transactions (%)	**87**	87	85	84	82

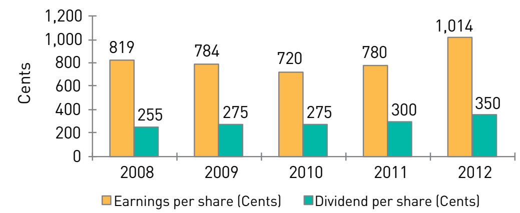
[a] Restated for comparative purposes.
[b] EPS, excluding the increase in dividend receipt in 2008, would have been Rs 6.05.
[c] Averages are calculated using year-end balances.

Key financial charts

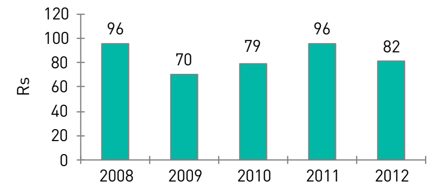
Profit for the year



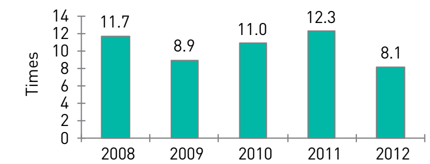
Earnings per share and dividend per share



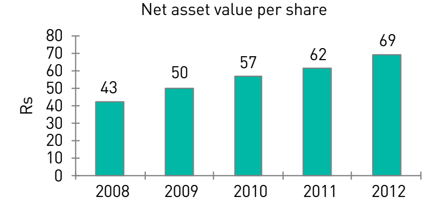
Market price per share



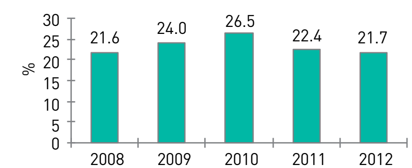
Price earnings ratio



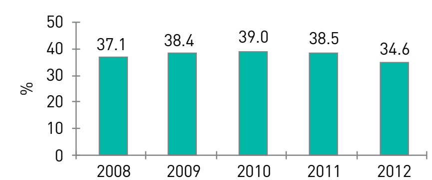
Net asset value per share



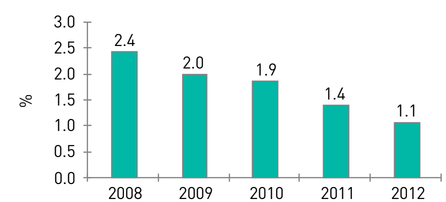
Capital adequacy ratio



Cost to income ratio



Gross impaired advances to gross advances ratio



Tailoring

small ways for you to do

business large

Independent Non-Executive Directors

REDDY Muni Krishna T, *G.O.S.K. – Chairman*

DUMBELL George John

RAMNAWAZ Rohit

REY Alfred Joseph Gerard Robert Alain

SCOTT Professor Andrew – *Lead Independent Director*

SUMMUN Mohammad Shakeel Aboobakar

YAT SIN Régis, *C.S.K., G.O.S.K.*

Non-Executive Directors

BHANJI Kalindee

DABEE Dheerendra Kumar, *S.C., G.O.S.K.*

Executive Directors

APPADOO Chandradev

SONOO Jairaj, *C.S.K., M.S.K.*

(The profiles of the directors are at pages 158 to 159 of the Annual Report)

The Board of Directors is pleased to present the annual Financial Statements along with their report to the shareholders. The financial year ended 30 June 2012 (FY 2012) was a landmark year in many ways for State Bank of Mauritius Ltd (SBM) and its group.

1. *First and foremost, SBM successfully engineered and re-balanced its balance sheet along with its income statement; in a planned manner and on timely basis to desired levels; both assets and liabilities, in (a) currency-wise composition (b) portfolio-wise composition (c) high to low interest spreads-wise composition, and (d) risks versus rewards-wise composition to maximise value to shareholders. Indeed, this was achieved with negligible increase of 1.1% in the Group's balance sheet assets excluding the increase in shareholders' funds for FY 2012;*
2. *SBM re-gained its market share in domestic credit by successfully focusing on and accelerating its credit growth, particularly in Mauritian rupees;*
3. *SBM aligned its market risks to desirable levels by downsizing certain assets and liabilities at appropriate and timely manner;*
4. *Successfully harmonising and realising the above initiatives, on timely basis, enabled SBM to achieve a record net increase in profits as also in earnings per share, despite a marginal decrease in interest spread on advances portfolio in Mauritian rupees;*
5. *By successfully achieving above in planned and timely manner, the Economic Value Added (EVA) both for the Bank and the Group improved substantially for FY 2012;*
6. *In line with and to comply with regulatory requirements/guidelines, SBM has segregated its businesses into (a) Banking Business, (b) Non-Banking Financial Business, and (c) Non-Financial Business, including existing businesses with Chinese walls between banking and non-banking activities; and*
7. *Finally, SBM's international ranking and rating were upgraded, namely (a) ranking by "The Banker", among Top 1,000 World Banks, (b) rating of long-term foreign currency deposit, by Moody's Investors Service, an independent and well recognised global rating agency, during the year.*

Operating results

SBM Group not only achieved an excellent performance but also set the stage for strong and sustainable growth in the years to come. Net profit and earnings per share increased substantially by 30% to Rs 2,617 m from Rs 2,013 m and Rs 10.14 from Rs 7.80 respectively in spite of the continued difficult operating economic environment. Return on assets and return on equity also improved to 2.69% from 2.29% and 15.44% from 13.15% respectively. Excluding one-off gain on disposal of equity investment of Rs 114 m in 2011, net profit increased by 38% on a like-to-like basis.

Growth in profitability was underpinned in 2012 (a) by growing and down-sizing both assets mix and liabilities mix currency-wise as planned to the desirable levels (b) by achieving a higher average business volume particularly in Mauritian rupee credit to gain domestic market share as focused and directed, and (c) by growing in fee-based income, especially through cross border transactions, to generate higher revenue growth by taking short term risks. At the same time, cost increase was kept under control and as planned during the year.

Group total on-balance sheet assets reached Rs 98.7 Bn as at June 2012. Excluding the increase in shareholders' funds, total assets increased by mere 1.1%. Asset growth was mainly driven by net advances growth of 9.7% to Rs 62.3 Bn particularly on the back of market share gains in the Mauritian rupee coupled with the planned downsizing of cross-border lending from Mauritius in other currencies. Conversely, investment in Mauritian gilt-edged securities decreased substantially by 46.9% to reach Rs 9.3 Bn from Rs 17.4 Bn as focus was laid onto improving the asset mix to desired levels. On an average basis, advances grew by 10.8% while Group total assets went up by a mere 1.1% excluding the growth in shareholders' funds. Deposits increased by 7.4% to Rs 76.2 Bn and remained by far the main source of funding for the Group whereas Mauritian rupee deposits grew by 12.5% taking into account planned downsizing of deposits and borrowings in other currencies. Although spreads have been under pressure due to heightened competition and excess liquidity in Mauritian rupee, Net Interest Income after cost of capital to Average Assets improved from 1.62% in FY 2011 to 2.03% in FY 2012 by planned reduction of interest cost on funding and at the same time increase in net interest margin by assets aligned with enhanced asset mix in major currencies. Due to the above, the overall Net Interest Revenue increased by 28.0% to reach Rs 3,199 m for FY 2012 from Rs 2,499 m. Non Interest Revenue increased by 9.6% to Rs 1,870 m from Rs 1,706 m, spurred by a 31.2% rise in net fee and commission income in line with strong business growth as also an increased contribution from cross-border activities.

Gross Operating Revenue, thus, grew by 20.5% to reach Rs 5,068 m for FY 2012 from Rs 4,205 m while operating expenses increased by a lower rate of 11.2% to Rs 1,666 m from Rs 1,498 m. This contributed to an improvement in the cost to income ratio from 38.5% to 34.6%, reflecting improved level of operational efficiency and cost management. The gross and net impairment ratios improved further to 1.07% from 1.40% and 0.36% from 0.46% respectively, reflecting the quality of assets. This bears the result of robust governance and risk management practices adhered to by SBM.

For a more detailed discussion of corporate governance and risk management policies and practices, please refer to the Corporate Governance section – pages 137 to 151 – and the Risk Management section – pages 109 to 133.

Group Operating Profit was up by 31.9% to reach Rs 3,149 m in FY 2012 from Rs 2,388 m. Despite a significantly higher level tax charge, profit attributable to shareholders rose by a healthy 30.0% to reach Rs 2,617 m from Rs 2,013 m. Excluding one time capital gain of Rs 114 m in FY 2011, Group Operating Profit increased by 38.5% while net profit increased by 37.8%. Return on average assets and return on average equity also improved to 2.69% from 2.29% and 15.44% from 13.15% respectively. Economic Value Added has increased by 197% to Rs 547 m for FY 2012 from Rs 185 m, reflecting improved value creation for shareholders.

A more detailed assessment of SBM's financial performance is provided in the Management Discussion and Analysis section at pages 91 to 105.

Based on the sound and improved Bank's fundamentals, the Bank achieved further headway in terms of international recognition. Prominently, the long term foreign currency deposit rating of SBM was upgraded from Baa2 to Baa1 following a corresponding upgrade in the country ceiling. At a time when the ratings of a number of banks and even countries are being downgraded, the upgrade represents a notable testimony to the strength of the Mauritian economy as well as to the financial soundness of SBM and its group. Besides, the Bank continued to maintain its 'C-' Financial Strength Rating and remains the first and only Mauritian bank to attain this rating for the last 5 years. SBM's ranking in The Banker's Top 1,000 World Banks improved further from 938 to 894.

Capital and share price evolution

Shareholders' funds, through internal accruals, reached Rs 17.9 Bn as at June 2012, from Rs 16.0 Bn, an increase of 12.2%. SBM remained well capitalised, with the Tier 1 and capital adequacy ratios, computed as per Basel II, standing at 17.8% and 21.7% respectively as at end of June 2012. The Bank of Mauritius has yet to issue Basel III guidelines for implementation in Mauritius. However, based on guidelines on Basel III issued by the Basel Committee on Banking Supervision on capital requirements for banks, the Bank and the Group are in compliance in capital adequacy requirements under Basel III as at end of June 2012 itself, well ahead of the January 2019 deadline.

In spite of SBM's excellent performance, its share price dropped from Rs 96 to Rs 82 on a point-to-point basis over the financial year, representing a decline of 14.6%, in the wake of deteriorating investor sentiment world-wide. On a comparative basis, the SEMDEX, where SBM is listed, went down by 15.3%.

In May 2012, the Board of Directors resolved to split each SBM share of Re 1 nominal value into 100 shares of 1 cent each. The implementation of this resolution, which has been approved by the regulators, is subject to approval of shareholders, and is expected to improve liquidity of the Bank's share and help unlock latent value.

Outlook

SBM's improved performance and international recognition are a source of pride and encouragement for the Board as they testify to the aptness of the strategies being implemented, which are, among others, based on the following principles:

- Pro-active relationship management practices, based on proven global best practices, as also aligning with customers' aspirations, for building (a) sound,(b) sustainable, (c) improved and (d) long-lasting relationships;
- Robust risk management benchmarking to the proven global best practices, supported by (a) appropriate business and operating models, (b) suitable analytical tools, (c) a balanced judgment on risk appetite level, and (d) available capital for the Bank and the Group;
- Continued diversification of revenue streams, based on, carefully evaluated opportunities versus risks in (a) new geographies, (b) new business lines, (c) new customer segments, and (d) new or improved products and services;
- Well motivated, loyal, dedicated and capable work force at all levels, coupled with continuous building of capacities and capabilities;
- Straight-through and efficient business processes and work practices;
- Planned and balanced growth, both in business volumes and profits, in desired direction; and
- Staying alert and aligning in time to and ahead of the emerging strategies, opportunities, business and operating models and technology solutions with a view to continue to maintain competitive edge and at the same time to continue to add value to stakeholders.

These strategies will remain key guidelines for SBM's continued journey towards continued strong and sustainable growth in the years to come.

During the year under review, important initiatives have been embarked upon to bolster revenue generating potential and other internal capabilities. Notably, SBM has embarked upon an ambitious and comprehensive overhaul of its technology platform. Supported by global pioneer partnerships in technology consulting, this programme is expected, upon successful execution, to significantly improve efficiency, customer service delivery, revenue generation and customer satisfaction. In the same breath, SBM has been laying the ground for geographical expansion of its business, particularly in high performance regions such as India in Asia and in selected regions in East Africa. Over time, the contribution of these initiatives, coupled with centralisation of core functions and competencies to achieve a scale of economy, efficiency and much needed standardisation across Group operations, to the Group's performance is expected to increase substantially, thus strengthening the sustainable earnings base.

The Bank's financial year starting 1 July 2012 will be of an 18-month period ending 31 December 2013 so that subsequent financial years will not only coincide with the calendar year but will also coincide with the financial year of the majority of banks worldwide. This move is also in line with the recent change in the Government of Mauritius fiscal year to the calendar year. This 18 months' business operating plan would be very exciting and challenging.

A key focus of the current financial year will be the implementation, in an innovative and improved cost-effective manner, and rollout of the new technology solutions to have unified customer experience across all geographies we operate in Asia and Africa. This should materially enhance service delivery and operational efficiency, thus generating significant value to SBM stakeholders over the medium to long term. However, in the short term, the cost base, mainly relating to implementation of the systems, is expected to rise from present level. To mitigate this impact to certain possible extent, cost management will be reinforced and efforts will be geared up to build on the current business growth momentum and improved revenue generation so as to continue to add value to shareholders and other stakeholders.

Besides, further headway is expected with respect to SBM's geographical diversification strategy during the 18 months both in Africa and Asia. Indeed, subject to relevant regulatory approvals, SBM should, during the financial year, be in a position to firm up its implementation of wholly owned subsidiary strategy in India as also Africa expansion initiative through acquisition strategy. This is in line with the strategy of continuously exploring opportunities to diversify risks besides better utilisation of the Bank's capital.

In the same breath, SBM is re-organising its group structure into various clusters to better align with the Group objectives, besides complying with regulatory requirements.

Acknowledgements

SBM thanks Mr Gautam Vir for his contribution to the Group. He retired in April 2012 from the position of Chief Executive and Managing Director of the Bank on expiry of his contract. The Board places on record its appreciation to Mr Azim Currimjee, Mr Ali Mansoor and Miss Pauline Seeyave, who did not offer themselves for re-election to the Board in December 2011, for their valuable contribution. The Board is pleased to welcome Messrs Chandradev Appadoo, Shakeel Summun and Régis Yat Sin, *C.S.K., G.O.S.K.,* to the Bank's Board of Directors as from December 2011. Mr Jairaj Sonoo, who has been appointed as Chief Executive of SBM Banking Cluster of the Indian Ocean Islands, joined the Bank on September 14, 2012, will also serve on the Bank's Board as executive director by virtue of his office under the constitution of the Company. The Board welcomes him back as he left SBM after spending 32 years with the Bank to take up the position of Chief Executive of a bank in Mauritius in February 2010. The Board would like to thank Mr Soopaya Parianen who has acted ably as Chief Executive since April 2012 till mid August 2012.

SBM is proud to have a competent and dedicated workforce. The Board wishes to place on record their appreciation to the Management and staff for their efforts, which went a long way for business growth in 2012. SBM is grateful to its large customer base for their encouragement and continued trust in the Bank and Group. This represents a source of inspiration for further enhancing the service delivery level to meet their aspirations. The Board of Directors thanks the regulators and the authorities for their advice and support to the Group.

The Board of Directors is also grateful to the shareholders for their continued confidence, trust and support to the Bank and its management.

Jairaj Sonoo, *C.S.K., M.S.K.*
Chief Executive

Alain J.G.R. Rey
Chairman, Audit Committee

Muni Krishna T. Reddy, *G.O.S.K.*
Chairman

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Board of Directors ensures through its system of governance, including the structure of Board Committees, that appropriate internal controls and risk management processes are set in place for the proper running of the business. The Risk Management Committee has the responsibility to ensure that effective structures and processes are put in place to properly identify, evaluate, measure, monitor and manage key risks faced by the business. Amongst others, it sets and reviews policies for the management of risks particularly in the areas of credit, market and operational risks including legal, reputational and strategic, ensuring that adequate procedures and limits as well as appropriate methodologies and systems are in place. The Audit Committee monitors the integrity of the Financial Statements and is responsible, amongst others, for reviewing the systems of internal controls and for ascertaining their adequacy and effectiveness. It examines and discusses weaknesses that may be identified in controls and, if necessary, recommends additional procedures to enhance the system of internal controls. An internal audit function, whose Head also reports directly to the Audit Committee, is in place to ensure that the Group's operations are conducted according to the established practices by providing an independent and objective assurance, and by advising on best practice. The Audit Committee reviews reports from internal and external auditors and monitors relevant actions taken by management. The Risk Management section contained in the Annual Report provides further details on the processes for risk management and internal controls.

The directors confirm that (i) an effective system of internal controls and risk management has been maintained to safeguard the assets and for the prevention and detection of fraud (ii) there is no reason to believe that the business will not be a going concern in the year ahead and the Financial Statements have been prepared on this basis, and in accordance with and in compliance with the International Financial Reporting Standards, the Banking Act 2004, applicable Bank of Mauritius guidelines, and appropriate accounting policies. These were supported by reasonable and prudent judgements, and estimates have been used consistently, (iii) the Financial Statements fairly present the financial position of the Company and the Group as at the end of the financial year ending 30 June 2012 and the financial performance and cash flows for FY 2012, (iv) proper accounting records have been kept, in accordance with the Companies Act 2001, disclosing with reasonable accuracy at any time the financial position of the Company and the Group. The external auditors, Deloitte, Chartered Accountants have independently reported on whether the Financial Statements are fairly presented.

Alain J.G.R.Rey
Chairman, Audit Committee

Muni Krishna T. Reddy, *G.O.S.K.*
Chairman

Certificate from the Company Secretary

I certify that, to the best of my knowledge and belief, the company has filed with the Registrar of Companies all such returns as are required of the Company under the Companies Act 2001.

B.M. Kallee
Company Secretary

Bridging the generation gap

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

The Bank's Board of Directors, acting in part through the Audit Committee, Conduct Review Committee and Risk Committee, which are comprised mostly of 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, Deloitte, 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.

Jairaj Sonoo, *C.S.K, M.S.K.*	Alain Rey	Muni Krishna T. Reddy, *G.O.S.K.*
Chief Executive	Chairman, Audit Committee	Chairman

26 September 2012

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF STATE BANK OF MAURITIUS LTD

This report is made solely to the shareholders of State Bank of Mauritius Ltd (the "Bank"), as a body, in accordance with section 205 of the Mauritius Companies Act 2001. Our audit work has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in an auditor's 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 shareholders 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 the Group and of the Bank set out on pages 4 to 66 which comprise the statements of financial position as at 30 June 2012 and the statements of income, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritius Companies Act 2001, the Banking Act 2004 and the Financial Reporting Act 2004. They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF STATE BANK OF MAURITIUS LTD

Opinion

In our opinion, the financial statements on pages 24 to 87 give a true and fair view of the financial position of the Group and of the Bank as at 30 June 2012 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the requirements of the Mauritius Companies Act 2001 applicable to banks and the Financial Reporting Act 2004.

Report on other legal and regulatory requirements

Mauritius Companies Act 2001

We have no relationship with, or interests in, the Bank or any of its subsidiaries, other than in our capacities as auditors and arm's length dealings in the ordinary course of business.

We have obtained all information and explanations that we have required.

In our opinion, proper accounting records have been kept by the Bank as far as appears from our examination of those records.

Banking Act 2004

In our opinion, the financial statements have been prepared on a basis consistent with that of the preceeding year and are complete, fair and properly drawn up and comply with the provisions of 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.

The 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.

Deloitte

Chartered Accountants

26 September 2012

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Note	Group 2012 Rs' 000	Group 2011 Rs' 000	Group 2010 Rs' 000	Bank 2012 Rs' 000	Bank 2011 Rs' 000	Bank 2010 Rs' 000
ASSETS							
Cash and cash equivalents	5	**6,993,395**	6,744,422	5,501,822	**6,964,275**	6,502,047	5,195,931
Mandatory balances with Central Banks		**4,966,156**	4,180,104	2,892,794	**4,671,915**	3,866,714	2,586,145
Loans to and placements with banks	6	**1,511,936**	943,359	-	**1,511,936**	943,359	-
Trading assets	7	**254,168**	146,113	148,224	**254,168**	146,113	148,224
Loans and advances to customers	8	**62,273,473**	56,741,302	43,731,741	**62,017,430**	56,052,338	43,094,855
Investment securities	9	**19,430,791**	23,570,849	24,160,809	**15,042,044**	22,138,108	22,552,091
Property and equipment	10	**2,672,885**	2,786,920	2,853,003	**2,664,445**	2,779,732	2,846,929
Intangible assets	11	**86,865**	54,148	77,373	**85,437**	55,846	82,189
Other assets	12	**552,146**	560,589	473,553	**511,626**	501,113	397,920
Total assets		**98,741,815**	95,727,806	79,839,319	**93,723,276**	92,985,370	76,904,284
LIABILITIES							
Deposits from banks	14	**115,946**	218,252	195,628	**214,657**	262,531	253,073
Deposits from non-bank customers	15	**76,158,615**	70,888,333	61,502,326	**75,533,152**	70,396,081	60,914,910
Other borrowed funds	16	**2,924,795**	7,124,674	2,083,289	**2,924,795**	7,124,674	2,083,289
Trading liabilities	7	**164,353**	141,077	84,964	**164,353**	141,077	84,964
Derivative liabilities held for risk management	7b	**18,371**	-	-	**18,371**	-	-
Current tax liabilities		**287,931**	176,292	245,335	**287,558**	171,701	245,559
Deferred tax liabilities	17b	**88,291**	177,349	178,705	**88,254**	177,246	178,578
Other liabilities	18	**1,059,373**	1,031,326	893,076	**960,460**	941,453	823,549
Total liabilities		**80,817,675**	79,757,303	65,183,323	**80,191,600**	79,214,763	64,583,922
SHAREHOLDERS' EQUITY							
Share capital	20	**303,740**	303,740	303,740	**303,740**	303,740	303,740
Retained earnings		**14,708,408**	12,839,632	11,514,037	**13,453,336**	10,187,914	9,041,522
Other reserves		**5,245,278**	5,160,417	5,171,505	**2,107,886**	5,612,239	5,308,386
		20,257,426	18,303,789	16,989,282	**15,864,962**	16,103,893	14,653,648
Less treasury shares		**(2,333,286)**	(2,333,286)	(2,333,286)	**(2,333,286)**	(2,333,286)	(2,333,286)
Total equity attributable to equity holders of the parent		**17,924,140**	15,970,503	14,655,996	**13,531,676**	13,770,607	12,320,362
Total equity and liabilities		**98,741,815**	95,727,806	79,839,319	**93,723,276**	92,985,370	76,904,284
Contingent liabilities	21	**24,707,962**	22,218,891	14,710,583	**24,497,965**	21,881,976	14,510,813

Approved by the Board of Directors and authorised for issue on 26 September 2012.

Jairaj Sonoo, *C.S.K., M.S.K.*
Chief Executive

Alain Rey
Chairman, Audit Committee

Muni Krishna T. Reddy, *G.O.S.K.*
Chairman

STATEMENTS OF INCOME FOR THE YEAR ENDED 30 JUNE 2012

	Note	Group 2012 Rs' 000	Group 2011 Rs' 000	Group 2010 Rs' 000	Bank 2012 Rs' 000	Bank 2011 Rs' 000	Bank 2010 Rs' 000
Interest income		**5,897,800**	4,901,190	4,867,484	**5,687,956**	4,727,620	4,707,368
Interest expense		**(2,699,107)**	(2,402,661)	(2,374,327)	**(2,593,942)**	(2,317,247)	(2,299,239)
Net interest income	25	**3,198,693**	2,498,529	2,493,157	**3,094,014**	2,410,373	2,408,129
Fee and commission income		**1,187,424**	919,750	660,473	**1,121,496**	859,310	611,234
Fee and commission expense		**(32,525)**	(39,402)	(12,472)	**(30,805)**	(37,469)	(12,001)
Net fee and commission income	26	**1,154,899**	880,348	648,001	**1,090,691**	821,841	599,233
Dividend income	27	**230,714**	219,821	205,582	**1,699,771**	221,101	204,985
Net trading income	28	**449,810**	490,286	490,621	**447,288**	441,373	449,752
Other operating income	29	**34,094**	115,526	66	**11,806**	1,169	(182)
Non interest income		**1,869,517**	1,705,981	1,344,270	**3,249,556**	1,485,484	1,253,788
Operating income		**5,068,210**	4,204,510	3,837,427	**6,343,570**	3,895,857	3,661,917
Personnel expenses	30	**(992,133)**	(909,364)	(784,133)	**(964,045)**	(884,730)	(761,405)
Depreciation and amortisation		**(176,527)**	(183,711)	(166,345)	**(177,737)**	(183,587)	(166,455)
Other expenses	31	**(497,085)**	(404,545)	(422,898)	**(451,425)**	(362,820)	(381,925)
Non interest expense		**(1,665,745)**	(1,497,620)	(1,373,376)	**(1,593,207)**	(1,431,137)	(1,309,785)
Profit before net impairment loss on financial assets		**3,402,465**	2,706,890	2,464,051	**4,750,363**	2,464,720	2,352,132
Net impairment loss on financial assets	32	**(253,560)**	(319,255)	(318,425)	**(173,897)**	(220,390)	(248,928)
Operating profit		**3,148,905**	2,387,635	2,145,626	**4,576,466**	2,244,330	2,103,204
Share of profit of associates	9	**81,515**	87,027	66,622	**-**	-	-
Profit before income tax		**3,230,420**	2,474,662	2,212,248	**4,576,466**	2,244,330	2,103,204
Tax expense	17a	**(612,923)**	(461,567)	(353,408)	**(562,323)**	(417,414)	(346,692)
Profit for the year attributable to equity holders of the parent		**2,617,497**	2,013,095	1,858,840	**4,014,143**	1,826,916	1,756,512
Earnings per share (Rs)	33	**10.14**	7.80	7.20			

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

	Group 2012 Rs' 000	Group 2011 Rs' 000	Group 2010 Rs' 000	Bank 2012 Rs' 000	Bank 2011 Rs' 000	Bank 2010 Rs' 000
Profit for the year attributable to equity holders of the parent	**2,617,497**	2,013,095	1,858,840	**4,014,143**	1,826,916	1,756,512
Other comprehensive income :						
Exchange differences on translation of foreign operations	**(328,183)**	(338,949)	(540)	**(252,980)**	(143,689)	27,120
Increase in value of available-for-sale investments	**441,214**	289,469	22,364	**148,294**	490,495	363,131
Fair value realised on disposal of available-for-sale investments	**(21,524)**	75,181	-	**(3,387,334)**	-	-
Increase in revaluation surplus of property	**-**	-	637,196	**-**	-	637,196
Deferred tax on revaluation surplus of property	**13,484**	(13,484)	(98,090)	**13,484**	(13,484)	(98,090)
Share of other comprehensive income of associates	**5,687**	(812)	3,545	**-**	-	-
Other comprehensive income for the year	**110,678**	11,405	564,475	**(3,478,536)**	333,322	929,357
Total comprehensive income attributable to equity holders of the parent	**2,728,175**	2,024,500	2,423,315	**535,607**	2,160,238	2,685,869

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

	Share capital Rs' 000	Treasury shares Rs' 000	Reserve arising on share buy back Rs' 000	Statutory reserve Rs' 000	Revenue reserve Rs' 000	Investment fluctuation reserve Rs' 000	Net unrealised investment fair value reserve Rs' 000	Net property revaluation reserve Rs' 000	Net translation reserve Rs' 000	Net other reserve Rs' 000	Total equity Rs' 000
Group											
At 01 July 2009	303,740	(2,333,286)	236,071	504,185	10,318,964	35,122	2,673,897	1,010,937	123,106	69,938	12,942,674
Profit for the year	-	-	-	-	1,858,840	-	-	-	-	-	1,858,840
Other comprehensive income for the year	-	-	-	-	-	-	22,364	539,106	(540)	3,545	564,475
Transfer to retained earnings	-	-	-	(21,786)	49,360	-	-	(27,574)	-	-	-
Transfer to statutory reserve	-	-	-	3,134	(3,134)	-	-	-	-	-	-
Dividend	-	-	-	-	(709,993)	-	-	-	-	-	(709,993)
At 30 June 2010	303,740	(2,333,286)	236,071	485,533	11,514,037	35,122	2,696,261	1,522,469	122,566	73,483	14,655,996
At 01 July 2010	303,740	(2,333,286)	236,071	485,533	11,514,037	35,122	2,696,261	1,522,469	122,566	73,483	14,655,996
Profit for the year	-	-	-	-	2,013,095	-	-	-	-	-	2,013,095
Other comprehensive income for the year	-	-	-	-	-	-	364,650	(13,484)	(338,949)	(812)	11,405
Transfer to retained earnings	-	-	-	-	41,532	-	-	(41,532)	-	-	-
Transfer to statutory reserve	-	-	-	19,039	(19,039)	-	-	-	-	-	-
Dividend	-	-	-	-	(709,993)	-	-	-	-	-	(709,993)
At 30 June 2011	303,740	(2,333,286)	236,071	504,572	12,839,632	35,122	3,060,911	1,467,453	(216,383)	72,671	15,970,503
At 01 July 2011	303,740	(2,333,286)	236,071	504,572	12,839,632	35,122	3,060,911	1,467,453	(216,383)	72,671	15,970,503
Profit for the year	-	-	-	-	2,617,497	-	-	-	-	-	2,617,497
Other comprehensive income for the year	-	-	-	-	-	-	419,690	13,484	(328,183)	5,687	110,678
Transfer to retained earnings	-	-	-	-	41,378	-	-	(41,378)	-	-	-
Transfer to statutory reserve	-	-	-	15,561	(15,561)	-	-	-	-	-	-
Dividend	-	-	-	-	(774,538)	-	-	-	-	-	(774,538)
At 30 June 2012	303,740	(2,333,286)	236,071	520,133	14,708,408	35,122	3,480,601	1,439,559	(544,566)	78,358	17,924,140

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

	Share capital Rs' 000	Treasury shares Rs' 000	Statutory reserve Rs' 000	Revenue reserve Rs' 000	Investment fluctuation reserve Rs' 000	Net unrealised investment fair value reserve Rs' 000	Net property revaluation reserve Rs' 000	Net translation reserve Rs' 000	Total equity Rs' 000
Bank									
At 01 July 2009	303,740	(2,333,286)	448,843	7,760,462	35,122	3,013,298	1,010,937	105,370	10,344,486
Profit for the year	-	-	-	1,756,512	-	-	-	-	1,756,512
Other comprehensive income for the year	-	-	-	-	-	363,131	539,106	27,120	929,357
Amalgamation with subsidiary	-	-	-	206,967	-	(206,967)	-	-	-
Transfer to retained earnings	-	-	-	27,574	-	-	(27,574)	-	-
Dividend	-	-	-	(709,993)	-	-	-	-	(709,993)
At 30 June 2010	303,740	(2,333,286)	448,843	9,041,522	35,122	3,169,462	1,522,469	132,490	12,320,362
At 01 July 2010	303,740	(2,333,286)	448,843	9,041,522	35,122	3,169,462	1,522,469	132,490	12,320,362
Profit for the year	-	-	-	1,826,916	-	-	-	-	1,826,916
Other comprehensive income for the year	-	-	-	-	-	490,495	(13,484)	(143,689)	333,322
Transfer to retained earnings	-	-	-	41,532	-	-	(41,532)	-	-
Transfer to statutory reserve	-	-	12,063	(12,063)	-	-	-	-	-
Dividend	-	-	-	(709,993)	-	-	-	-	(709,993)
At 30 June 2011	303,740	(2,333,286)	460,906	10,187,914	35,122	3,659,957	1,467,453	(11,199)	13,770,607
At 01 July 2011	303,740	(2,333,286)	460,906	10,187,914	35,122	3,659,957	1,467,453	(11,199)	13,770,607
Profit for the year	-	-	-	4,014,143	-	-	-	-	4,014,143
Other comprehensive income for the year	-	-	-	-	-	(3,239,040)	13,484	(252,980)	(3,478,536)
Transfer to retained earnings	-	-	-	41,378	-	-	(41,378)	-	-
Transfer to statutory reserve	-	-	15,561	(15,561)	-	-	-	-	-
Dividend	-	-	-	(774,538)	-	-	-	-	(774,538)
At 30 June 2012	303,740	(2,333,286)	476,467	13,453,336	35,122	420,917	1,439,559	(264,179)	13,531,676

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Group			Bank		
	2012	2011	2010	**2012**	2011	2010
	Rs' 000	Rs' 000	Rs' 000	**Rs' 000**	Rs' 000	Rs' 000
Cash flows from operating activities						
Profit for the year	**2,617,497**	2,013,095	1,858,840	**4,014,143**	1,826,916	1,756,512
Adjustments to determine net cash flows:						
Depreciation of tangible assets	**153,387**	156,803	136,012	**151,470**	153,552	131,362
Amortisation of intangible assets	**23,140**	26,908	30,333	**26,267**	30,035	35,093
Pension expense	**17,493**	15,953	21,967	**17,493**	15,953	21,967
Net impairment loss on financial assets	**253,560**	319,255	318,425	**173,897**	220,390	248,928
Decrease in revaluation of property	**-**	-	6,156	**-**	-	6,156
Exchange difference	**(332,100)**	(286,294)	(47,366)	**(244,655)**	(131,762)	22,356
Net gain on sale of available-for-sale equity investments	**(25,071)**	(114,357)	-	**(6,278)**	-	-
Net loss / (gain) from dealings in trading securities	**9,362**	4,946	(3,210)	**9,673**	4,946	(3,210)
Net (gain) / loss on disposal of property and equipment	**(722)**	3,565	(66)	**(722)**	3,565	182
Tax expense	**612,923**	461,567	353,408	**562,323**	417,414	346,692
Share of profit of associate	**(81,515)**	(87,027)	(66,622)	**-**	-	-
Dividend income	**(230,714)**	(219,821)	(205,582)	**(1,699,771)**	(221,101)	(204,985)
Operating profit before working capital changes	**3,017,240**	2,294,593	2,402,295	**3,003,840**	2,319,908	2,361,053
Change in operating assets and liabilities						
(Increase) / decrease in trading assets	**(133,077)**	(2,835)	51,266	**(133,389)**	(2,835)	51,266
(Increase) / decrease in loans to and placements with banks	**(568,577)**	(943,359)	2,766,726	**(568,577)**	(943,359)	2,766,726
Increase in loans and advances to customers	**(5,731,499)**	(13,245,995)	(4,198,363)	**(6,135,849)**	(13,155,818)	(4,268,187)
Decrease / (increase) in gilt-edged investment securities	**4,579,604**	3,271,895	(5,057,835)	**4,941,582**	3,406,132	(4,954,661)
(Decrease) / increase in other investment securities	**44,223**	(2,501,628)	-	**336,786**	(2,501,628)	-
Increase in mandatory balances with Central Banks	**(786,052)**	(1,287,310)	(70,231)	**(805,201)**	(1,280,569)	(86,326)
(Increase) / decrease in other assets	**(77,801)**	(146,714)	5,808	**(96,863)**	(135,613)	5,157
(Decrease) / increase in deposits from banks	**(102,306)**	22,624	43,903	**(47,874)**	9,458	(18,698)
Increase / (decrease) in deposits from non-bank customers	**5,270,282**	9,386,007	(2,067,049)	**5,137,071**	9,481,171	(2,067,166)
Increase in trading liabilities	**41,645**	56,113	35,893	**41,645**	56,113	35,893
Increase / (decrease) in other liabilities	**44,334**	116,298	(49,887)	**35,295**	97,827	(51,414)
Other dividend received	**230,714**	219,821	205,582	**2,547**	214,601	199,235
Income tax paid	**(505,740)**	(501,591)	(556,827)	**(451,108)**	(490,376)	(550,125)
Net cash from / (provided by) operating activities	**5,322,990**	(3,262,081)	(6,488,719)	**5,259,905**	(2,924,988)	(6,577,247)
Cash flows (used in) / from financing activities						
Increase in other borrowed funds	**(4,199,879)**	5,041,385	1,025,783	**(4,199,879)**	5,041,385	953,722
Dividend paid on ordinary shares	**(774,538)**	(709,993)	(709,993)	**(774,538)**	(709,993)	(709,993)
Net cash (used in) / from financing activities	**(4,974,417)**	4,331,392	315,790	**(4,974,417)**	4,331,392	243,729
Cash flows (used in) / from investing activities						
Acquisition of property and equipment	**(65,136)**	(111,970)	(94,775)	**(61,664)**	(107,825)	(91,337)
Acquisition of intangible assets	**(56,695)**	(3,935)	(30,454)	**(56,423)**	(3,935)	(30,454)
Disposal of property and equipment	**856**	4,997	35,948	**856**	4,997	34,935
Disposal of intangible assets	**272**	-	748	**-**	-	748
Dividend received from associate and subsidiaries	**7,250**	6,500	5,750	**251,078**	6,500	5,750
Investment in subsidiary	**-**	-	-	**(25)**	(25)	-
Amalgamation with subsidiary	**-**	-	-	**-**	-	127,947
Acquisition of other equity investments	**(41,205)**	(2,976)	(6,905)	**(33,664)**	-	-
Disposal of investment in associates	**-**	-	-	**14,000**	-	-
Disposal of other equity investments	**55,058**	280,673	-	**62,582**	-	-
Net cash (used in) / from investing activities	**(99,600)**	173,289	(89,688)	**176,740**	(100,288)	47,589
Net change in cash and cash equivalents	**248,973**	1,242,600	(6,262,617)	**462,228**	1,306,116	(6,285,929)
Cash and cash equivalents at 01 July	**6,744,422**	5,501,822	11,764,439	**6,502,047**	5,195,931	11,481,860
Cash and cash equivalents at 30 June	**6,993,395**	6,744,422	5,501,822	**6,964,275**	6,502,047	5,195,931

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. General information

State Bank of Mauritius Ltd ("SBM") is a public company incorporated and domiciled in Mauritius. SBM is listed on the Stock Exchange of Mauritius. The address of its registered office is State Bank Tower, 1 Queen Elizabeth II Avenue, Port Louis, Mauritius.

The Group operates in the financial services sector, principally commercial banking.

2. Application of new and revised International Financial Reporting Standards (IFRS)

In the current year, the Group has applied all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 01 July 2011.

New and revised IFRS applied with no material effect on the financial statements

The following new and revised Standards and Interpretations have been applied in these financial statements. Their application has not had any material effect on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

IAS 1	Presentation of financial statements – Amendments resulting from May 2010 annual improvements to IFRSs
IAS 24	Related Party Disclosures – Revised definition of related parties
IAS 34	Interim Financial Reporting - Amendments resulting from May 2010 annual improvements to IFRSs
IFRS 7	Financial Instruments: Disclosures – Amendments resulting from May 2010 annual improvements to IFRSs
IFRS 7	Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets
IFRIC 14	IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction November 2009 Amendments with respect to voluntary prepaid contributions

New and revised IFRS in issue but not yet effective

At the date of authorisation of these financial statements, the following relevant standards and interpretations were in issue but effective on annual periods beginning on or after the respective dates as indicated.

IAS 1	Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented (Effective 1 July 2012)
IAS 1	Presentation of Financial Statements - Amendments resulting from Annual Improvements 2009-2011 Cycle (comparative information) (effective 1 January 2013)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

2. Application of new and revised International Financial Reporting Standards (IFRS) (Cont'd)

IAS 12	Income taxes – Limited scope amendment (recovery of underlying assets) (effective 1 January 2012)
IAS 16	Property, Plant and Equipment - Amendments resulting from Annual Improvements 2009-2011 Cycle (servicing equipment) (effective 1 January 2013)
IAS 19	Employee benefits – Amended standard resulting from the post-employment benefits and termination benefits projects (effective 1 January 2013)
IAS 27	Separate Financial Statements (as amended in 2011) (effective 1 January 2013)
IAS 28	Investments in associates and joint ventures (effective 1 January 2013)
IAS 32	Financial Instruments: Presentation - Amendments relating to the offsetting of assets and liabilities (effective 1 January 2014)
IAS 32	Financial Instruments: Presentation - Amendments resulting from Annual Improvements 2009-2011 Cycle (tax effect of equity distributions) (effective 1 January 2013)
IAS 34	Interim financial reporting - Amendments resulting from Annual Improvements 2009-2011 Cycle (interim reporting of segment assets) (effective 1 January 2013)
IFRS 7	Financial Instruments: Disclosures - Amendments related to the offsetting of assets and liabilities (effective 1 January 2013)
IFRS 7	Financial Instruments: Disclosures - Amendments requiring the disclosures about the initial application of IFRS 9 (effective 1 January 2015)
IFRS 9	Financial Instruments – Classification and measurement (effective 1 January 2015)
IFRS 9	Financial Instruments - Accounting for Financial Liabilities and de-recognition (effective 1 January 2015)
IFRS 9	Financial Instruments - Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures (effective 1 January 2015)
IFRS 10	Consolidated financial statements – Amendments to transitional guidance (effective 1 January 2013)
IFRS 12	Disclosure of Interests in Other Entities (effective 1 January 2013)
IFRS 12	Disclosure of Interests in Other Entities - Amendments to transitional guidance (effective 1 January 2013)
IFRS 13	Fair value measurement (effective 1 January 2013)

The directors anticipate that these amendments will be applied in the financial statements of the Group and the Company at the above effective dates in future periods. The directors have not yet had an opportunity to consider the potential impact of the application of these amendments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

3. Accounting policies

The principal accounting policies adopted by the Group and the Bank are as follows:

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain tangible fixed assets and financial instruments, and in accordance with International Financial Reporting Standards ("IFRSs") and the guidelines of Bank of Mauritius

(b) Basis of consolidation

The consolidated financial statements include the state of affairs and results of the Bank and those of its subsidiaries and its associates. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases. Intragroup transactions are eliminated on consolidation.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are recognised as an expense in profit or loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of income. Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% to 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the Statement of income; its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Gains and losses arising from disposal of investments in associates are recorded as Other operating income in the Statement of income.

It is the policy of the holding company to have a coterminous financial year end for all its operations and subsidiaries except in jurisdictions where regulations impose different dates. However, in such cases, the state of affairs and results of these branches and subsidiaries are consolidated using financial statements drawn up to correspond with the financial year end of the holding company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

3. Accounting policies (Cont'd)

(c) Revenue recognition

Revenue is generally recognised on an accrual basis.

Interest income is generally recognised on performing interest-earning financial assets using the effective interest method.

Dividend income from equity investments is accounted for in the Statement of income when the right to receive payment is established.

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

(d) Foreign currency translation

Assets, liabilities, income and expense items denominated in other currencies are translated into Mauritian Rupees in accordance with IAS 21.

(i) The assets and liabilities of the overseas branches, subsidiaries and associates denominated in foreign currencies are translated into Mauritian Rupees at the rates of exchange ruling at the reporting date, as follows:

	2012	2011	2010
USD / MUR	30.93	28.52	31.90
INR / MUR	0.556	0.638	0.687
100 MGA / MUR	1.426	1.478	1.421

Their statements of income are translated into Mauritian Rupees at weighted average rates. Any translation differences arising are classified as equity and transferred to the *Net translation reserve*. Such translation differences are recognised in the *Statement of income* as part of *Other operating income* in the period in which the foreign equity is disposed of.

(ii) Transactions denominated in foreign currency are converted at the rate prevailing at the date of the transactions.

(iii) Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into Mauritian Rupees at the rates of exchange ruling at that date.

(iv) Non-monetary assets and liabilities denominated in foreign currency are reported using the exchange rates at the date of the transactions, if carried at cost, or the exchange rates that existed when the fair values were determined, if carried at fair value.

(v) Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at closing rate.

(vi) Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the Statement of income for the period. When a gain or loss on a non-monetary item is recognised in equity, any exchange component of that gain or loss shall be recognised in equity. Conversely, when a gain or loss on a non-monetary item is recognised in the Statement of income, any exchange component of that gain or loss shall be recognised in the Statement of income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

3. Accounting policies (Cont'd)

(e) Investment securities

(i) Investments in gilt-edged securities

Investments in gilt-edged securities reported under Investment securities are classified in the following categories: Loans-and-Receivables ("L&R"), Held-to-Maturity ("HTM") and Available-for-Sale ("AFS"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Gilt-edged securities that are not held for trading purposes and that are not quoted in an active market are classified as L&R. Those gilt-edged securities that are purchased on the secondary market and that are not held for trading purposes are classified as HTM where management has the intent and ability to hold the securities to their maturity. Otherwise they are classified as AFS.

Investments in gilt-edged securities are recognised on a trade-date basis and are initially measured at fair value plus transaction costs. At subsequent reporting dates, securities classified as L&R or HTM are measured at amortised cost using the effective interest method, less any impairment loss. The impairment loss for investments carried at amortised cost is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows, discounted at the investment's original effective rate.

Securities classified as AFS are subsequently remeasured to fair value based on quoted prices at the reporting date and the unrealised gains and losses on revaluation are recognised directly in equity (Net unrealised investment fair value reserve), until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity in respect of that security is included in the Statement of income as Other operating income. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment has been impacted.

The interest accrued on investment in gilt-edged securities is recorded as Interest Income in the Statement of income and any gains or losses on disposal are recorded as Other operating income.

(ii) Equity investments

In the Bank's separate financial statements, the equity investments in subsidiaries and associates are classified as AFS and reported under Investment securities in the Statement of financial position. In the Group's and Bank's financial statements, other equity investments, which are not classified as trading securities, are reported under Investment securities and classified as AFS. They are recognised on a trade-date basis and are initially measured at fair value plus transaction costs. At subsequent reporting dates, listed equity investments are remeasured at fair value based on quoted prices at that date while the fair value of unlisted equity investments are determined based on valuation techniques. However, AFS equity investments which do not have a quoted market price and whose fair value cannot be reliably measured are subsequently measured at cost less any impairment loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

3. Accounting policies (Cont'd)

(e) Investment securities (Cont'd)

Unrealised gains and losses are recognised directly in Other comprehensive income, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in Other comprehensive income in respect of that investment is included in the Statement of income as Other operating income. Objective evidence of impairment of an AFS equity investment includes a significant and prolonged decline in the fair value of the security below its cost. Any increase in fair value of an equity investment subsequent to an impairment loss is recognised directly through the Statement of comprehensive income.

(f) Financial assets at Fair Value through Profit or Loss (FVTPL)

Financial assets are classified as FVTPL where it is either held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading (HFT) if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is part of a portfolio of identified financial instruments that is managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated or effective as a hedging instrument.

A financial asset is designated as FVTPL because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or recognising the gains and losses on them on different bases; or
- a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to key management personnel.

Investments in gilt-edged securities and equity investments that are held for trading purposes are classified as HFT. They are recognised on a trade-date basis and are initially measured at fair value. Subsequently, they are remeasured to fair value with the unrealised gains and losses on revaluation and the realised gains and losses on disposal included in the Statement of income as Net trading income.

Interest accrued on gilt-edged securities held for trading purposes is accounted for in the Statement of income as Interest income.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in Net trading income.

(g) Loans and advances and allowance for credit impairment

(i) Loans and advances are classified under L&R and are measured at amortised cost, less allowance for credit impairment. In cases where, as part of the Group's asset and liability management activity, fair value hedge accounting is applied to loans and advances measured at amortised cost, their carrying amount is adjusted for changes in fair value related to the hedged exposure – refer to item (ac) for further details on hedge accounting. Allowance for credit impairment consists of specific and portfolio allowances.

Specific allowances are made on impaired advances and are calculated as the shortfall between the carrying amounts of the advances and their recoverable amounts. The recoverable amount is the present value of expected future cash flows discounted at the original effective interest rate of the advance.

Loans that are either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

3. Accounting policies (Cont'd)

(g) Loans and advances and allowance for credit impairment (Cont'd)

(ii) A portfolio allowance for credit impairment is maintained on the aggregate amount of all loans and advances to allow for potential losses not specifically identified but which experience indicates are present in the portfolio of loans and advances. The portfolio allowance is estimated based upon historical patterns of losses in each component of the portfolio of loans and advances as well as on current economic and other relevant conditions. The Bank of Mauritius Guideline on Credit Impairment Measurement and Income Recognition prescribes that the portfolio allowance should be no less than 1 per cent of the aggregate amount of loans and advances excluding impaired advances, excluding loans granted to or guaranteed by the Government of Mauritius and excluding loans to the extent that they are supported by collateral of liquid assets held by the Group. The charge for portfolio allowance is recognised in the Statement of income.

(iii) Allowance for credit impairment in respect of on-balance sheet items is deducted from the applicable asset whereas the allowance for credit impairment in respect of off- balance sheet items is included in Other liabilities in the Statement of financial position. Changes in the carrying amount of the allowance accounts are recognised in the Statement of income. When an advance is uncollectible, it is written off against the specific allowance. Subsequent recoveries of amounts previously written off are credited to the Net impairment loss on financial assets in the Statement of income.

(iv) Interest income is recognised after impairment based on the recoverable amount and the rate of interest used to discount the future cash flows to determine the recoverable amount.

(h) Placements and other receivables

Placements and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as L&R. They are measured at amortised cost, less any impairment loss. Interest income is recognised applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial. Interest accrued on placements is accounted for in the Statement of income as Interest income.

(i) Borrowings

Borrowings are measured at amortised cost using the effective interest method.

(j) Deposits

Deposits are measured at amortised cost using the effective interest method.

(k) Derivative financial instruments

Derivative financial instruments are initially recorded at fair value and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Statement of income as Net trading income.

(l) Acceptances

Acceptances are obligations to pay on due dates the bills of exchange drawn on customers and accepted by them. It is expected most of these acceptances will be honoured by the customers on due dates. Acceptances are accounted for as off-balance sheet items and are disclosed as contingent liabilities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

3. Accounting policies (Cont'd)

(m) Financial guarantee contracts

Liabilities under financial guarantees are recorded initially at their fair value and subsequently measured at the higher of the initial fair value, less cumulative amortization, and the best estimate of the expenditure required to settle the obligations.

(n) Sale and repurchase agreements

Gilt-edged securities sold subject to linked repurchase agreements ("repos") are retained in the Statement of financial position and the counterparty liability is included in Other borrowed funds. Gilt-edged securities purchased under agreements to resell ("reverse repos") are recorded as balances due from other banks. The differences between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective interest method.

(o) Property and equipment

Property and equipment are stated at cost (except for freehold and leasehold land and buildings) less accumulated depreciation and any cumulative impairment loss. Land is stated at revalued amounts and buildings are stated at revalued amounts less accumulated depreciation and any impairment loss.

It is the Group's policy to revalue its freehold and leasehold land and buildings at least every five years by independent valuers. Any revaluation surplus is credited to the Net property revaluation reserve. Any revaluation decrease is first charged directly against any net property revaluation reserve held in respect of the same asset, and then to the Statement of income.

Work in progress is carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other tangible fixed assets, commences when the assets are ready for their intended use.

Depreciation is calculated to write off the cost or revalued amounts of tangible fixed assets over their estimated useful lives on a straight-line basis. Depreciation is calculated from the month the asset is capitalised. No depreciation is provided on freehold land.

The estimated useful lives of property and equipment are as follows:

Buildings	Over 50 years
Plant, machinery, furniture, fittings and computer equipment	Over 3 to 10 years
Motor vehicles	Over 5 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset. These are included within Other operating income in the Statement of income.

Each year, the difference, net of the impact of deferred tax, between the depreciation based on the revalued carrying amount of the asset (the depreciation charged to the Statement of income) and the depreciation based on the asset's original cost is transferred from the Net property revaluation reserve to the Revenue reserve.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

3. Accounting policies (Cont'd)

(p) Leasing

(i) The Group and Bank as lessor

Amounts due from lessees under finance leases are recorded as loans and advances in the Statement of financial position at the amount of the Bank/Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

(ii) The Group and Bank as lessee

Assets held under finance leases are recognised as assets at their fair value at the date of acquisition and are depreciated over their estimated useful lives. The corresponding liability to the lessor is included in Other borrowed funds on the Statement of financial position. Lease finance charges are charged to the Statement of income over the term of the leases so as to produce a constant periodic rate of interest on the outstanding obligations under finance leases.

Rentals payable under operating leases are charged to the Statement of income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(q) Borrowing costs

All borrowing costs are charged to the Statement of income in the period in which they are incurred.

(r) Deferred taxation

Deferred taxation is provided on the comprehensive basis using the liability method. Deferred tax liabilities are recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted by the reporting date.

Deferred tax is charged or credited to the Statement of income, except when it relates to items credited or charged to equity, in which case the deferred tax is also dealt with in equity.

(s) Employee benefits

(i) Pension benefits for eligible participating employees

Eligible participating employees are entitled to retirement pensions under the SBM Group Pension Fund, a defined benefit scheme. The retirement age is 60. The cost of providing benefits is determined using the projected unit credit method. The assets of the scheme are managed presently by the SBM Mauritius Asset Managers Ltd.

The net total of the present value of funded obligations, the fair value of plan assets, any unrecognised actuarial gains and losses and any unrecognised past service cost is recognised in the Statement of financial position either as a liability (if there is a deficit) or as an asset (if there is a surplus). Any asset resulting is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

3. Accounting policies (Cont'd)

(s) Employee benefits (Cont'd)

(i) Pension benefits for eligible participating employees (Cont'd)

The current service cost and any recognised past service cost are included as an expense together with the associated interest cost, net of expected return on plan assets.

A portion of the actuarial gains and losses will be recognised as income or expense if the net cumulative actuarial gains and losses at the end of the previous financial year exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date; and
- 10% of the fair value of any plan assets at that date.

(ii) Pension benefits for employees under term contracts

Employees under term contracts are entitled to defined contribution pension arrangements. Employer contributions are expensed in the Statement of income.

(iii) Travel tickets/allowances

Employees are periodically entitled to reimbursements of overseas travelling and allowances up to a certain amount depending on their grade. The expected costs of these benefits are recognised on a straight-line basis over the remaining periods until the benefits are payable.

(iv) Equity compensation benefits for senior executives

The Group issues, to certain employees, phantom share options which are share appreciation rights that require the Group to pay the intrinsic value of the phantom share option at the date of exercise. A phantom share option liability equal to the portion of the services received is recognised at the current fair value determined at each reporting date.

(t) Intangible assets

Intangible assets consist of computer software. The software cost is amortised on a straight-line basis over their estimated useful lives of 3 to 10 years.

(u) Impairment

The carrying amounts of assets are assessed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated, being the higher of the asset's net selling price and its value in use, to determine the extent of the impairment loss, if any, and the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognised as an expense immediately, unless the asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

(v) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

(w) Cash and cash equivalents

For the purposes of the Statement of cash flows, cash and cash equivalents comprise cash and balances with banks and borrowings from banks with maturity of 3 months or less from the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

3. Accounting policies (Cont'd)

(x) Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are authorised by the directors.

Dividends that are declared after the reporting date are dealt with in the notes to the financial statements.

(iii) Treasury shares

Where the Bank purchases its own equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

(y) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if they have the ability, directly or indirectly, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or vice versa, or if they and the Group are subject to common control. Related parties may be individuals or other entities.

(z) Segmental reporting

Segmental reporting is based on the internal reports regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess their performance. The operating segments are the banking segment and the non-banking segment. Only the banking segment is a reportable segment.

(aa) Comparative figures

Where necessary, comparative figures are restated or reclassified to conform to the current year's presentation and to the changes in accounting policies (see note 2).

(ab) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell, except for financial assets which are measured as described above.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

3. Accounting policies (Cont'd)

(ac) Hedge accounting

The Group designates certain hedging instruments, which include derivatives in respect of interest rate risk, as cash flow hedge.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

(i) Fair value hedges

Fair value hedges are particularly used to hedge interest rate risk on fixed rate assets and liabilities, both for identified financial instruments (loans and deposits) and for portfolios of financial instruments (in particular term deposits and fixed rate loans).

Changes in the fair value of hedging instruments that are designated and qualify as fair value hedges are recognised in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If a hedging relationship no longer meets the criteria for fair value hedge, the cumulative adjustment to the carrying amount of the hedged item is amortised to the statement of income over the residual period to maturity based on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is released to the statement of income immediately.

(ii) Cash flow hedges

Cash flow hedges are particularly used to hedge interest rate risk on floating rate assets and liabilities, including rollovers, and foreign exchange risks on highly probable forecast foreign currency revenues.

A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income and a gain or loss on the ineffective portion is recognised immediately in the statement of income. The accumulated gains and losses recognised in other comprehensive income are reclassified to the statement of income in the periods in which the hedged item will affect profit or loss. However, when the hedge results in the recognition of a non financial asset or a non financial liability, the gains and losses previously recognised in other comprehensive income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains separately in equity until the forecast transaction is eventually recognised in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to the statement of income.

(iii) Hedge of net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income and a gain or loss on the ineffective portion is recognised immediately in the statement of income. Gains and losses previously recognised in other comprehensive income are reclassified to the statement of income on the disposal of the foreign operation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

4. Accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in accordance with IFRS requires the directors and management to exercise judgement in the process of applying the accounting policies. It also requires the use of accounting estimates and assumptions that may affect the reported amounts and disclosures in the financial statements. Actual results could differ as a result of changes in these estimates.

The notes to the financial statements include areas where management has applied judgements that have a significant effect on the amounts recognised in the financial statements and include the classification of financial instruments into the FVTPL category, L&R category, HTM category and AFS category. The estimations and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

(i) Fair value of equity investments

The fair value of equity investments that are quoted on active markets are based on the quoted prices for these instruments. Valuation techniques used to estimate the fair value of unquoted equity investments include the dividend growth, net assets and earnings models. Management has made certain assumptions for inputs in the models, such as risk free rate, discount factor, dividend growth rate, future cash flows, which may be different from actual. Inputs are based on information available at the reporting date.

(ii) Fair value of other financial assets and liabilities

The determination of fair values, estimated by discounting future cash flows and by determining the relative interest rates, is subjective. The estimated fair value was calculated according to interest rates prevailing at the reporting date and does not consider interest rate fluctuations. Given other interest rate assumptions, fair value estimates may differ.

(iii) Specific allowance for credit impairment

The calculation of specific allowance for credit impairment requires management to estimate the recoverable amount of each impaired asset, which is the estimated future cash flows discounted at the original effective interest rate of the advance. Where cash flows for large credits include the realisable value of collateral securing the credit, the value of such collateral is based on the opinion of independent and qualified appraisers.

(iv) Portfolio allowance for credit impairment

The portfolio allowance is estimated based upon historical patterns of losses in each component of the portfolio of loans and advances as well as management estimate of the impact of current economic and other relevant conditions on the recoverability of the loans and advances portfolio.

(v) Defined benefit pension plan

The Bank operates a defined benefit pension plan for its employees. The amount shown in the Statement of financial position in respect of retirement benefit obligations is subject to estimates in respect of periodic costs which would be dependent on returns on assets, future discount rates, rates of salary increases and inflation rate in respect of the pension plan. The value of the defined benefit pension fund is based on report submitted by an independent actuarial firm on an annual basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

5. Cash and cash equivalents

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Cash in hand	**753,536**	807,099	705,117	**753,536**	807,099	705,117
Foreign currency notes and coins	**127,747**	114,083	100,699	**95,204**	86,354	85,083
Unrestricted balances with central banks[1]	**1,066,193**	595,619	156,596	**1,066,193**	403,301	148,761
Loans and placements with banks[2]	**3,929,706**	4,654,142	3,995,985	**3,936,128**	4,645,940	3,725,893
Balances with banks	**1,116,213**	573,479	543,425	**1,113,214**	559,353	531,077
	6,993,395	6,744,422	5,501,822	**6,964,275**	6,502,047	5,195,931

[1] Unrestricted balances with central banks represent amounts above the minimum cash reserve requirement
[2] The balances above include loans and placements with banks having an original maturity of up to three months.

6. Loans to and placements with banks

	Group and Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Loans to and placements with banks outside Mauritius	**1,511,936**	943,359	-
a. Remaining term to maturity			
Up to 3 months	**111,152**	-	-
Over 3 months and up to 6 months	**700,171**	285,722	-
Over 6 months and up to 12 months	**390,295**	371,324	-
Over 1 year and up to 2 years	**310,318**	286,313	-
	1,511,936	943,359	-

7. Trading assets

	Group and Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Trading assets			
Government securities	**41,119**	13,465	85,698
Equities	**12,324**	985	1,026
Derivative assets	**200,725**	131,663	61,500
	254,168	146,113	148,224
Trading liabilities			
Derivative liabilities	**164,353**	141,077	84,964

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

7. Trading assets (Cont'd)

a. The fair values of derivative instruments are further analysed as follows:

	Group and Bank			
		Fair Values		
	Notional Pricipal Amount Rs' 000	Assets Rs' 000	Liabilities Rs' 000	Net Rs' 000
2012				
Forward foreign exchange contracts	**13,820,006**	**189,877**	**(157,240)**	**32,637**
Interest rate swap contracts	**3,958,095**	**3,410**	**(1,327)**	**2,083**
Other derivatives contracts	**1,345,982**	**7,438**	**(5,786)**	**1,652**
	19,124,083	**200,725**	**(164,353)**	**36,372**
2011				
Forward foreign exchange contracts	18,945,760	121,362	(135,409)	(14,047)
Interest rate swap contracts	4,492,912	8,258	(3,625)	4,633
Other derivatives contracts	204,290	2,043	(2,043)	-
	23,642,962	131,663	(141,077)	(9,414)
2010				
Forward foreign exchange contracts	6,509,244	54,273	(84,964)	(30,691)
Interest rate swap contracts	2,095,289	7,227	-	7,227
	8,604,533	61,500	(84,964)	(23,464)

b. Derivative liabilities held for risk management

		Fair Values		
	Notional Pricipal Amount Rs' 000	Assets Rs' 000	Liabilities Rs' 000	Net Rs' 000
2012				
Interest rate swap contracts designated as fair value hedges	**794,518**	**-**	**(18,371)**	**(18,371)**

8. Loans and advances to customers

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Retail customers						
Credit cards	**414,595**	358,563	303,554	**414,595**	358,563	303,554
Mortgages	**12,616,986**	9,419,961	7,349,260	**12,616,986**	9,419,961	7,349,260
Other retail loans	**8,045,760**	6,736,757	5,814,497	**8,045,760**	6,736,757	5,814,497
Corporate customers	**30,599,806**	23,582,800	18,912,487	**30,902,840**	23,582,800	18,912,487
Governments	**5,985**	2,397	1,904	**5,985**	2,397	1,904
Entities outside Mauritius	**11,848,560**	17,904,358	12,410,134	**11,219,197**	17,030,912	11,624,754
	63,531,692	58,004,836	44,791,836	**63,205,363**	57,131,390	44,006,456
Less allowance for credit impairment	**(1,258,219)**	(1,263,534)	(1,060,095)	**(1,187,933)**	(1,079,052)	(911,601)
	62,273,473	56,741,302	43,731,741	**62,017,430**	56,052,338	43,094,855
a. Remaining term to maturity						
Up to 3 months	**13,298,845**	14,498,822	9,190,121	**13,195,701**	14,201,263	8,739,259
Over 3 months and up to 6 months	**4,200,528**	7,191,512	1,931,148	**4,503,118**	7,191,494	1,923,386
Over 6 months and up to 12 months	**3,286,480**	3,292,642	2,873,375	**3,039,554**	3,084,333	2,735,909
Over 1 year and up to 2 years	**2,045,957**	1,961,740	3,424,338	**2,023,577**	1,692,488	3,413,371
Over 2 years and up to 5 years	**12,556,442**	10,399,251	7,673,671	**12,300,112**	10,301,098	7,495,508
Over 5 years	**28,143,440**	20,660,869	19,699,183	**28,143,301**	20,660,714	19,699,023
	63,531,692	58,004,836	44,791,836	**63,205,363**	57,131,390	44,006,456

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

8. Loans and advances to customers (Cont'd)

b. Net investment in finance leases

The amount of net investment in finance leases included in loans and advances to customers and the associated allowance for impairment are as follows:

	Group and Bank			
	Up to 1 year Rs' 000	After 1 year and up to 5 years Rs' 000	After 5 years Rs' 000	Total Rs' 000
2012				
Gross investment in finance leases	551,113	1,249,696	105,569	1,906,378
Less: Unearned finance income	(153,364)	(160,239)	(6,331)	(319,934)
Present value of minimum lease payments	397,749	1,089,457	99,238	1,586,444
Allowance for impairment				(26,760)
				1,559,684
2011				
Gross investment in finance leases	455,308	948,771	103,988	1,508,067
Less: Unearned finance income	(127,634)	(134,852)	(7,275)	(269,761)
Present value of minimum lease payments	327,674	813,919	96,713	1,238,306
Allowance for impairment				(21,735)
				1,216,571
2010				
Gross investment in finance leases	396,590	767,862	44,013	1,208,465
Less: Unearned finance income	(109,944)	(103,509)	(3,157)	(216,610)
Present value of minimum lease payments	286,646	664,353	40,856	991,855
Allowance for impairment				(13,114)
				978,741

Finance lease contracts give the lessees the option to purchase the assets for a residual value at the conclusion of the lease arrangements. The term of lease contracts generally ranges from five to seven years. Finance leases are secured mainly by charges on the leased assets and/or corporate/personal guarantees.

c. Allowance for credit impairment

	Group			Bank		
	Specific allowance for credit impairment Rs' 000	Portfolio allowance for credit impairment Rs' 000	Total Rs' 000	Specific allowance for credit impairment Rs' 000	Portfolio allowance for credit impairment Rs' 000	Total Rs' 000
At 01 July 2009	628,049	369,955	998,004	358,314	349,860	708,174
Balance transferred on amalgamation	-	-	-	1,036	11,137	12,173
Exchange adjustment	(43,215)	(671)	(43,886)	638	479	1,117
Loans written off out of allowance	(209,132)	-	(209,132)	(54,704)	-	(54,704)
Interest accrued on impaired advances	(24,017)	-	(24,017)	(24,017)	-	(24,017)
Allowance for credit impairment for the year	130,576	208,550	339,126	57,688	211,170	268,858
At 30 June 2010	482,261	577,834	1,060,095	338,955	572,646	911,601
Exchange adjustment	5,129	(1,099)	4,030	(1,460)	(1,319)	(2,779)
Loans written off out of allowance	(53,185)	-	(53,185)	(43,949)	-	(43,949)
Allowance for credit impairment for the year	115,084	137,510	252,594	81,515	132,664	214,179
At 30 June 2011	549,289	714,245	1,263,534	375,061	703,991	1,079,052
Exchange adjustment	(15,379)	(6,400)	(21,779)	(9,664)	(6,021)	(15,685)
Loans written off out of allowance	(223,441)	-	(223,441)	(80,478)	-	(80,478)
Allowance for credit impairment for the year	144,531	95,374	239,905	119,343	85,701	205,044
At 30 June 2012	455,000	803,219	1,258,219	404,262	783,671	1,187,933

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

8. Loans and advances to customers (cont'd)

d. Allowance for credit impairment by industry sectors

	2012					2011	2010
	Gross amount of loans Rs' 000	Impaired loans Rs' 000	Specific allowance for credit impairment Rs' 000	Portfolio allowance for credit impairment Rs' 000	Total allowances for credit impairment Rs' 000	Total allowances for credit impairment Rs' 000	Total allowances for credit impairment Rs' 000
Group							
Agriculture and fishing	3,857,114	-	-	22,871	22,871	51,973	41,922
Manufacturing	6,870,706	128,918	42,250	100,984	143,234	158,576	106,653
of which EPZ	*837,777*	*115*	*40*	*26,190*	*26,230*	*25,712*	*22,250*
Tourism	11,187,639	1,419	1,419	344,765	346,184	323,958	284,771
Transport	2,457,219	1,126	1,126	16,457	17,583	18,131	10,357
Construction	2,693,630	117,472	88,496	37,706	126,202	107,656	74,771
Financial and business services	3,012,973	-	-	37,839	37,839	67,420	29,276
Traders	6,183,822	84,194	41,528	61,467	102,995	143,625	131,875
Personal	20,154,591	299,074	252,452	125,669	378,121	317,663	300,245
of which credit cards	*386,508*	*10,525*	*10,525*	*10,187*	*20,712*	*16,952*	*19,004*
Professional	119,167	-	-	987	987	17,410	17,077
Global Business Licence holders	2,075,423	-	-	18,209	18,209	13,286	10,280
Others	4,919,408	46,203	27,729	36,265	63,994	43,836	52,868
	63,531,692	678,406	455,000	803,219	1,258,219	1,263,534	1,060,095
Bank							
Agriculture and fishing	3,837,873	-	-	20,205	20,205	16,369	7,671
Manufacturing	6,798,059	105,624	24,310	96,779	121,089	126,295	103,095
of which EPZ	*837,777*	*115*	*40*	*26,190*	*26,230*	*25,712*	*22,250*
Tourism	11,187,624	1,419	1,419	344,765	346,184	323,958	284,771
Transport	2,457,219	1,126	1,126	16,457	17,583	18,131	10,357
Construction	2,685,498	117,472	88,496	37,438	125,934	97,217	67,296
Financial and business services	2,673,659	-	-	28,177	28,177	34,608	6,638
Traders	6,002,650	10,814	8,863	58,857	67,720	70,596	66,078
Personal	20,146,390	298,957	252,334	125,532	377,866	317,346	298,791
of which credit cards	*386,508*	*10,525*	*10,525*	*10,187*	*20,712*	*16,952*	*19,004*
Professional	118,637	-	-	987	987	17,410	17,077
Global Business Licence holders	2,378,456	-	-	18,209	18,209	13,286	10,280
Others	4,919,298	46,203	27,714	36,265	63,979	43,836	39,547
	63,205,363	581,615	404,262	783,671	1,187,933	1,079,052	911,601

Total impaired loans for 2011 for the Group and the Bank were Rs 811M (2010: Rs 839M) and Rs 571M (2010: Rs 613M) respectively.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

9. Investment securities

Remaining term to maturity

	2012										
	Up to 3 months Rs' 000	3-6 months Rs' 000	6-9 months Rs' 000	9-12 months Rs' 000	1-2 years Rs' 000	2-5 years Rs' 000	Over 5 years Rs' 000	No specific maturity Rs' 000	Total Rs' 000	2011 Rs' 000	2010 Rs' 000
Group											
(a) **Held-to-maturity investment securities**											
Government bonds and treasury notes	-	-	-	-	612,531	249,424	-	-	861,955	687,977	-
Treasury bills	357,392	-	-	-	-	-	-	-	357,392	1,167,500	1,103,628
Securities issued by government bodies	-	53,985	394	-	-	619	-	-	54,998	63,823	68,725
	357,392	53,985	394	-	612,531	250,043	-	-	1,274,345	1,919,300	1,172,353
(b) **Investment securities - loans and receivables**											
Government bonds and treasury notes	401,065	100,486	51,455	-	-	4,217,379	-	-	4,770,385	4,855,497	5,449,607
Treasury bills	2,284,027	349,646	1,618,478	847,477	-	-	-	-	5,099,628	7,953,393	13,502,127
Bank of Mauritius bills / notes	467,865	50,952	74,739	-	-	-	-	-	593,556	1,662,712	-
Other Central Bank bills	-	83,652	-	-	-	-	-	-	83,652	461,290	-
	3,152,957	584,736	1,744,672	847,477	-	4,217,379	-	-	10,547,221	14,932,892	18,951,734
(c) **Available-for-sale investment securities**											
Government bonds	-	-	-	-	-	-	451,021	-	451,021	-	-
Equity shares of companies:											
- Investment in associates	-	-	-	-	-	-	-	747,754	747,754	667,803	588,088
- Other equity investments	-	-	-	-	-	-	-	3,962,310	3,962,310	3,549,472	3,448,634
Bank bonds	-	-	-	-	-	1,728,335	175,381	-	1,903,716	1,623,754	-
Corporate paper and preference shares	110,614	249,740	57,659	-	-	117,852	8,559	-	544,424	877,628	-
	110,614	249,740	57,659	-	-	1,846,187	634,961	4,710,064	7,609,225	6,718,657	4,036,722
Total investment securities	3,620,963	888,460	1,802,725	847,477	612,531	6,313,609	634,961	4,710,064	19,430,791	23,570,849	24,160,809
Bank											
(a) **Held-to-maturity investment securities**											
Government bonds and treasury notes	-	-	-	-	612,531	249,424	-	-	861,955	687,977	-
Treasury bills	357,392	-	-	-	-	-	-	-	357,392	1,167,500	1,103,628
Securities issued by government bodies	-	53,985	394	-	-	619	-	-	54,998	63,823	68,725
	357,392	53,985	394	-	612,531	250,043	-	-	1,274,345	1,919,300	1,172,353
(b) **Investment securities - loans and receivables**											
Government bonds and treasury notes	401,065	100,486	51,455	-	-	4,217,379	-	-	4,770,385	4,855,497	5,449,607
Treasury bills	1,054,045	349,646	1,618,478	847,477	-	-	-	-	3,869,646	7,463,027	12,684,708
Bank of Mauritius bills / notes	467,865	50,952	74,739	-	-	-	-	-	593,556	1,662,712	-
	1,922,975	501,084	1,744,672	847,477	-	4,217,379	-	-	9,233,587	13,981,236	18,134,315
(c) **Available-for-sale investment securities**											
Government bonds	-	-	-	-	-	-	451,021	-	451,021	-	-
Equity shares of companies:											
- Investment in subsidiaries	-	-	-	-	-	-	-	122	122	97	72
- Investment in associates	-	-	-	-	-	-	-	-	-	667,803	423,318
- Other equity investments	-	-	-	-	-	-	-	1,926,645	1,926,645	3,068,290	2,822,033
Bank bonds	-	-	-	-	-	1,728,335	175,381	-	1,903,716	1,623,754	-
Corporate paper and preference shares	110,614	133,435	-	-	-	-	8,559	-	252,608	877,628	-
	110,614	133,435	-	-	-	1,728,335	634,961	1,926,767	4,534,112	6,237,572	3,245,423
Total investment securities	2,390,981	688,504	1,745,066	847,477	612,531	6,195,757	634,961	1,926,767	15,042,044	22,138,108	22,552,091

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

9. Investment securities (Cont'd)

c. Available-for-sale investment securities (Cont'd)

(i) Subsidiaries

Details of subsidiaries and associate are as follows:

	Country of Incorporation and Operation	Business Activity	Issued Capital	Effective % holding 2012	2011	2010
SBM Holdings Limited[2]	Mauritius	Investments	Rs 25,000	100	100	-
A. Banking Segment: Non Operating Entities (GBL 1[3])						
(a) SBM Global Investments Limited	Mauritius	Special Purpose Vehicle / Investments	USD 2,000	100	100	100
(b) SBM India Holdings Ltd[1]	Mauritius	Special Purpose Vehicle / Investments	Rs 1	100	-	-
(c) SBM (India) Ltd[1]	Mauritius	Special Purpose Vehicle / Investments	USD 1	100	-	-
Banking Segment - Banking Entities						
Banque SBM Madagascar SA	Madagascar	Banking	MGA 7.4 bn	100	100	100
B. Non Bank Financial Entities						
Non Operating Holding Company:						
SBM Investments Limited	Mauritius	Special Purpose Vehicle / Investments	Rs 25,000	100	100	100
Operating Entities:						
(a) SBM Fund Services Ltd	Mauritius	Fiduciary services / Back Office processing	Rs 0.5 m	100	100	100
(b) SBM Mauritius Asset Managers Ltd	Mauritius	Asset Management	Rs 1.6 m	100	100	100
(c) SBM Securities Limited	Mauritius	Stockbroking	Rs 1 m	100	100	100
Operating Entities (GBL 1[3]):						
(d) SBM Asset Management Limited	Mauritius	Asset Management	USD 40,000	100	100	100
(e) SBM Capital Management Limited[4]	Mauritius	Investments	USD 125,000	100	100	100
C. Non Financial Entities						
SBM Investments Managers Ltd[1]	Mauritius	Investments	Rs 25,000	100	-	-
Associate						
Non Bank Financial Entity						
State Insurance Company of Mauritius Ltd	Mauritius	Insurance	Rs 25 m	20	20	20

The issued share capital of all subsidiaries have remained the same over the 3 years, except for SBM Asset Management Limited (2010: USD 10,000) and SBM Capital Management Limited (2010: USD 10,000).

[1]The Group set up three subsidiaries during the current Financial Year.
[2]The names of some of the subsidiaries above are in the process of change to better reflect their activities in the context of the Group restructuring currently undertaken. SBM Holdings Limited will become the ultimate holding company when the restructuring is completed.
[3]GBL 1 refers to Global Business Licence Category 1 licensed by the Financial Services Commission of Mauritius.
[4]SBM Capital Management Ltd also holds a Foreign Institutional Investor licence issued by Securities and Exchange Board of India.

(ii) Associate

Summarised financial information in respect of the Group's associate is set out below:

	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Total assets	15,938,115	15,324,195	14,051,927
Total liabilities	12,199,343	11,985,182	11,111,488
Total revenue	1,380,870	1,072,959	1,340,521
Total profit for the year	406,921	435,135	333,112
Share of profit	81,515	87,027	66,622
Share of net assets	747,754	667,803	588,088

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

10. Property and equipment

	Freehold land and buildings Rs' 000	Leasehold buildings Rs' 000	Other tangible fixed assets Rs' 000	Motor vehicles Rs' 000	Total Rs' 000
Group					
Cost or Valuation					
At 01 July 2009	619,873	1,574,540	1,619,971	27,805	3,842,189
Exchange adjustment	5,768	-	(4,260)	(419)	1,089
Revaluation	24,142	328,518	-	-	352,660
Additions	946	1,487	83,832	2,821	89,086
Disposals	-	-	(76,712)	(13,041)	(89,753)
Write off	-	-	(18)	-	(18)
Transfer from intangible assets	-	-	2,805	-	2,805
Transfer	(2,255)	2,255	-	-	-
At 30 June 2010	648,474	1,906,800	1,625,618	17,166	4,198,058
Exchange adjustment	(15,677)	-	(989)	(49)	(16,715)
Additions	609	335	79,963	9,320	90,227
Disposals	-	-	(127,304)	(4,977)	(132,281)
At 30 June 2011	633,406	1,907,135	1,577,288	21,460	4,139,289
Exchange adjustment	(26,234)	-	(5,011)	(377)	(31,622)
Additions	205	936	88,344	4,083	93,568
Disposals	-	-	(33,037)	(760)	(33,797)
At 30 June 2012	607,377	1,908,071	1,627,584	24,406	4,167,438
Accumulated depreciation					
At 01 July 2009	39,856	192,977	1,317,269	8,675	1,558,777
Exchange adjustment	519	-	(3,525)	(243)	(3,249)
Revaluation	(49,683)	(228,697)	-	-	(278,380)
Disposals	-	-	(49,944)	(3,179)	(53,123)
Write off	-	-	(18)	-	(18)
Transfer from intangible assets	-	-	1,068	-	1,068
Transfer	(76)	76	-	-	-
Charge for the year	11,525	40,270	80,945	3,272	136,012
At 30 June 2010	2,141	4,626	1,345,795	8,525	1,361,087
Exchange adjustment	(224)	-	(1,114)	14	(1,324)
Disposals	-	-	(123,581)	(2,841)	(126,422)
Charge for the year	12,938	55,509	85,644	2,712	156,803
At 30 June 2011	14,855	60,135	1,306,744	8,410	1,390,144
Exchange adjustment	(1,109)	-	(4,539)	(201)	(5,849)
Disposals	-	-	(33,026)	(760)	(33,786)
Charge for the year	12,277	55,524	82,275	3,311	153,387
At 30 June 2012	26,023	115,659	1,351,454	10,760	1,503,896
Net book value					
At 30 June 2012	581,354	1,792,412	276,130	13,646	2,663,542
Progress payments on tangible fixed assets					9,343
					2,672,885
At 30 June 2011	618,551	1,847,000	270,544	13,050	2,749,145
Progress payments on tangible fixed assets					37,775
					2,786,920
At 30 June 2010	646,333	1,902,174	279,823	8,641	2,836,971
Progress payments on tangible fixed assets					16,032
					2,853,003

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

10. Property and equipment (Cont'd)

	Freehold land and buildings Rs' 000	Leasehold buildings Rs' 000	Other tangible fixed assets Rs' 000	Motor vehicles Rs' 000	Total Rs' 000
Bank					
Cost or Valuation					
At 01 July 2009	619,873	1,574,540	1,550,260	12,824	3,757,497
Transferred on amalgamation with SBM Lease Limited	-	-	34,325	12,065	46,390
Exchange adjustment	5,768	-	852	17	6,637
Revaluation	24,142	328,518	-	-	352,660
Additions	946	1,487	81,587	1,628	85,648
Disposals	-	-	(76,712)	(12,065)	(88,777)
Write off	-	-	(18)	-	(18)
Transfer from intangible assets	-	-	2,805	-	2,805
Transfer	(2,255)	2,255	-	-	-
At 30 June 2010	648,474	1,906,800	1,593,099	14,469	4,162,842
Exchange adjustment	(15,677)	-	(2,319)	(164)	(18,160)
Additions	609	335	75,837	9,320	86,101
Disposals	-	-	(127,304)	(4,977)	(132,281)
At 30 June 2011	633,406	1,907,135	1,539,313	18,648	4,098,502
Exchange adjustment	(26,234)	-	(3,648)	(272)	(30,154)
Additions	205	936	84,853	4,083	90,077
Disposals	-	-	(33,037)	(760)	(33,797)
At 30 June 2012	607,377	1,908,071	1,587,481	21,699	4,124,628
Accumulated Depreciation					
At 01 July 2009	39,856	192,977	1,281,675	4,401	1,518,909
Transferred on amalgamation with SBM Lease Limited	-	-	7,769	2,781	10,550
Exchange adjustment	519	-	830	17	1,366
Revaluation	(49,683)	(228,697)	-	-	(278,380)
Disposals	-	-	(49,944)	(2,968)	(52,912)
Write off	-	-	(18)	-	(18)
Transfer from intangible assets	-	-	1,068	-	1,068
Transfer	(76)	76	-	-	-
Charge for the year	11,525	40,270	76,840	2,727	131,362
At 30 June 2010	2,141	4,626	1,318,220	6,958	1,331,945
Exchange adjustment	(224)	-	(2,268)	(57)	(2,549)
Disposals	-	-	(123,581)	(2,841)	(126,422)
Charge for the year	12,938	55,509	82,736	2,369	153,552
At 30 June 2011	14,855	60,135	1,275,107	6,429	1,356,526
Exchange adjustment	(1,109)	-	(3,441)	(134)	(4,684)
Disposals	-	-	(33,026)	(760)	(33,786)
Charge for the year	12,277	55,524	80,591	3,078	151,470
At 30 June 2012	26,023	115,659	1,319,231	8,613	1,469,526
Net book value					
At 30 June 2012	581,354	1,792,412	268,250	13,086	2,655,102
Progress payments on tangible fixed assets					9,343
					2,664,445
At 30 June 2011	618,551	1,847,000	264,206	12,219	2,741,976
Progress payments on tangible fixed assets					37,756
					2,779,732
At 30 June 2010	646,333	1,902,174	274,879	7,511	2,830,897
Progress payments on tangible fixed assets					16,032
					2,846,929

Other tangible fixed assets, included within Property and equipment, consist of plant, machinery, furniture, fittings and computer equipment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

10. Property and equipment (Cont'd)

The carrying amounts of land and buildings, that would have been included in the financial statements had the assets been carried at cost, are as follows:

	Group and Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Freehold land and buildings	**245,375**	263,226	271,981
Leasehold buildings	**451,514**	463,764	476,602
	696,889	726,990	748,583

The freehold land and buildings and buildings on leasehold land in Mauritius were revalued in June 2010 by an independent Chartered Valuation Surveyor, on an open market value basis. The freehold land and building in India were revalued in March 2010 by independent Chartered Valuation Surveyors, on an open market basis.

11. Intangible assets

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Cost						
At 1 July	**851,562**	843,494	849,654	**867,151**	859,083	859,017
Transferred on amalgamation with SBM Lease Limited	**-**	-	-	**-**	-	6,226
Exchange adjustment	**(2,379)**	(1,150)	309	**(2,379)**	(1,150)	309
Additions	**35,555**	10,289	11,564	**35,284**	10,289	11,564
Disposals	**(858)**	(1,071)	(9,740)	**-**	(1,071)	(9,740)
Transfer to property and equipment	**-**	-	(2,805)	**-**	-	(2,805)
Write off	**-**	-	(5,488)	**-**	-	(5,488)
At 30 June	**883,880**	851,562	843,494	**900,056**	867,151	859,083
Accumulated amortisation						
At 1 July	**810,663**	785,724	771,379	**824,241**	796,185	772,111
Transferred on amalgamation with SBM Lease Limited	**-**	-	-	**-**	-	4,969
Exchange adjustment	**(1,813)**	(925)	308	**(1,813)**	(935)	308
Disposals	**(586)**	(1,044)	(9,740)	**-**	(1,044)	(9,740)
Transfer to property and equipment	**-**	-	(1,068)	**-**	-	(1,068)
Write off	**-**	-	(5,488)	**-**	-	(5,488)
Charge for the year	**23,140**	26,908	30,333	**26,267**	30,035	35,093
At 30 June	**831,404**	810,663	785,724	**848,695**	824,241	796,185
Net book value	**52,476**	40,899	57,770	**51,361**	42,909	62,898
Progress payments on software	**34,389**	13,249	19,603	**34,076**	12,937	19,291
	86,865	54,148	77,373	**85,437**	55,846	82,189

Intangible assets disclosed above consist of acquired computer software.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

12. Other assets

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Accounts receivable[1]	**119,257**	202,713	84,956	**103,221**	181,967	67,571
Balances due in clearing	**236,022**	160,504	142,792	**233,627**	158,617	142,094
Tax paid in advance[2]	**73,878**	138,305	175,751	**53,699**	104,132	121,934
Pension asset *(Note 13)*	**958**	1,828	649	**958**	1,828	649
Balances with Clearing Corporation in India	**19,968**	18,804	20,955	**19,968**	18,804	20,955
Non-banking assets acquired in satisfaction of debts[3]	**366**	320	202	**366**	320	202
Others	**101,697**	38,115	48,248	**99,787**	35,445	44,515
	552,146	560,589	473,553	**511,626**	501,113	397,920

[1] Amounts receivable from other parties included in other assets are generally receivable within three months.
[2] The tax paid in advance is incurred by the Indian Operations. The amount is shown net of current tax payable.
[3] The Group's policy is to dispose of such assets as rapidly as the market permits.

13. Pension asset

	Group and Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Amount recognised in the Statement of financial position:			
Present value of funded obligations	**656,449**	589,557	512,959
Fair value of plan assets	**(601,575)**	(615,839)	(549,626)
	54,874	(26,282)	(36,667)
Unrecognised actuarial gain	**(55,832)**	24,454	36,018
Asset recognised in the Statement of financial position *(Note 12)*	**(958)**	(1,828)	(649)

At 30 June 2012, 7.1% (2011: 7.6% and 2010: 10.6%) of the total assets of the SBM Group Pension Fund were invested in shares of State Bank of Mauritius Ltd.

	Group and Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Amount recognised in the Statement of income:			
Current service cost	**20,932**	19,379	26,162
Interest cost	**58,351**	54,736	46,913
Expected return on plan assets	**(61,790)**	(58,162)	(51,108)
Total, included in staff costs	**17,493**	15,953	21,967

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

13. Pension asset (Cont'd)

	Group and Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Movements in the asset recognised in the Statement of financial position:			
At 1 July	(1,828)	(649)	(7,324)
Contributions and direct benefits paid	(16,623)	(17,132)	(15,292)
Total expense as above	17,493	15,953	21,967
At 30 June	(958)	(1,828)	(649)
Actual return on plan assets	(18,496)	57,397	41,145
Reconciliation of the present value of defined benefit obligation:			
Present value of obligation at start of year	589,557	512,959	479,064
Current service cost	20,932	19,379	26,162
Interest cost	58,351	54,736	46,913
Benefits paid	(12,391)	(8,316)	(20,361)
Liability loss / (gain)	-	10,799	(18,819)
Present value of obligation at end of year	656,449	589,557	512,959
Reconciliation of fair value of plan assets:			
Fair value of plan assets at start of year	615,839	549,626	513,550
Expected return on plan assets	61,790	58,162	51,108
Employer contributions	16,623	17,132	15,292
Benefits paid	(12,391)	(8,316)	(20,361)
Asset loss	(80,286)	(765)	(9,963)
Fair value of plan assets at end of year	601,575	615,839	549,626

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

13. Pension asset (Cont'd)

	Group and Bank		
	2012 %	2011 %	2010 %
Distribution of plan assets at end of year:			
Local equities	38	38	38
Local bonds	26	24	26
Foreign securities	28	33	33
Cash and other	8	5	3
	100	100	100
Expected return on plan assets at end of year:			
Local equities	12	12	12
Local bonds	12	10	11
Overseas equities	10	12	12
Overseas bonds	10	10	11
Loans and fixed deposits	10	10	11
Property	11	11	11
Cash and other	6	6	6

The history of experience adjustments is as follows:

	Group and Bank				
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	2009 Rs' 000	2008 Rs' 000
Fair value of plan assets	601,575	615,839	549,626	513,550	572,488
Present value of defined benefit obligation	(656,449)	(589,557)	(512,959)	(479,064)	(385,352)
Surplus	(54,874)	26,282	36,667	34,486	187,136
Asset experience (loss) / gain during the year	(80,286)	(765)	(9,963)	(108,187)	12,368
Liability experience gain during the year	-	-	48,916	-	-

The Group expects to make a contribution of around Rs 18.1M to the SBM Group Pension Fund during the next financial year.

The principal actuarial assumptions used for accounting purposes were:

	Group and Bank		
	2012 %	2011 %	2010 %
Discount rate	10.0	10.0	10.5
Expected rate of return on plan assets	10.0	10.0	10.5
Future salary increases	9.0	9.0	9.5
Future pension increases	3.0	3.0	3.5

The overall expected rate of return on plan assets at the end of each year has been based on the expected distribution of plan assets and the corresponding expected return on each class of asset.

Pension amounts and disclosures have been based on the report dated 7 August 2012 submitted by an independent firm of Actuaries and Consultants.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

14. Deposits from banks

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Demand deposits	115,946	218,252	195,628	214,657	262,531	253,073

15. Deposits from non-bank customers

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
(i) Retail customers						
Current accounts	8,781,776	7,270,198	6,352,198	8,718,022	7,196,780	6,267,924
Savings accounts	26,685,467	24,000,327	22,044,555	26,488,646	23,922,088	21,975,778
Time deposits with remaining term to maturity:						
Up to 3 months	1,447,555	1,919,794	2,110,773	1,415,778	1,622,541	1,889,957
Over 3 months and up to 6 months	1,057,747	1,396,639	1,798,020	991,298	1,214,444	1,648,132
Over 6 months and up to 12 months	2,340,101	3,270,844	3,174,913	2,248,941	3,126,114	2,987,751
Over 1 year and up to 5 years	4,424,375	3,252,092	4,373,142	4,275,890	3,252,092	4,373,142
Over 5 years	9,781	472	-	9,781	472	-
Total time deposits	9,279,559	9,839,841	11,456,848	8,941,688	9,215,663	10,898,982
	44,746,802	41,110,366	39,853,601	44,148,356	40,334,531	39,142,684
(ii) Corporate customers						
Current accounts	11,717,958	11,918,567	7,648,356	12,872,824	11,712,079	7,331,673
Savings accounts	4,858,970	4,577,507	4,869,986	4,255,266	4,525,254	4,816,682
Time deposits with remaining term to maturity:						
Up to 3 months	8,033,566	2,635,886	2,749,138	7,969,132	2,330,007	2,692,660
Over 3 months and up to 6 months	1,148,103	1,797,499	880,769	1,029,517	2,502,843	858,089
Over 6 months and up to 12 months	699,529	2,303,305	264,596	535,198	2,446,164	256,807
Over 1 year and up to 5 years	798,232	3,583,401	1,614,397	567,404	3,583,401	3,013,857
Over 5 years	169,972	-	-	169,972	-	-
Total time deposits	10,849,402	10,320,091	5,508,900	10,271,223	10,862,415	6,821,413
	27,426,330	26,816,165	18,027,242	27,399,313	27,099,748	18,969,768
(iii) Government						
Current accounts	2,194,523	1,444,318	1,291,955	2,194,523	1,444,318	1,154,297
Savings accounts	1,784,196	1,506,476	1,661,155	1,784,196	1,506,476	1,625,925
Time deposits with remaining term to maturity:						
Up to 3 months	2,306	2,305	273,021	2,306	2,305	1,558
Over 3 months and up to 6 months	333	4,364	356,909	333	4,364	334
Over 6 months and up to 12 months	4,125	4,237	34,222	4,125	4,237	16,123
Over 1 year and up to 5 years	-	102	4,221	-	102	4,221
Total time deposits	6,764	11,008	668,373	6,764	11,008	22,236
	3,985,483	2,961,802	3,621,483	3,985,483	2,961,802	2,802,458
	76,158,615	70,888,333	61,502,326	75,533,152	70,396,081	60,914,910

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

16. Other borrowed funds

	Group and Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Borrowings from central banks	24,875	417,007	242,923
Borrowings from banks			
in Mauritius	-	-	615,070
abroad	391	690,278	441,299
Other financial institutions	2,899,529	6,017,389	783,997
	2,924,795	7,124,674	2,083,289
Up to 3 months	7,826	595,104	1,054,257
Over 3 months and up to 6 months	17,049	393,495	139,532
Over 1 year and up to 5 years	2,233,643	2,140,886	301,503
Over 5 years	666,276	3,995,189	587,997
	2,924,795	7,124,674	2,083,289

17. Taxation

The applicable tax rate in Mauritius is 15% for the year ended 30 June 2012 (2011 and 2010: 15%). An additional charge of 2% of book profit of the preceeding year is applicable for all profitable companies in Mauritius in respect of Corporate Social Responsibility. Banks in Mauritius are also subject to a special levy of 3.4% of book profit (2011 and 2010: 3.4%), and 1% of operating income (2011 and 2010: 1%). The applicable tax rate for India is 42.23% (2011 and 2010: 42.23%), whereas that of Madagascar is 21% (2011: 22% and 2010: 23%).

17a. Tax expense

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Accounting profit	3,230,420	2,474,662	2,212,248	4,576,466	2,244,330	2,103,204
Tax on accounting profit at 15%	484,563	371,199	331,837	686,470	336,649	315,481
Net tax effect of non-taxable and other items	(100,358)	(49,545)	(42,869)	(326,474)	(31,469)	(30,055)
Current tax provision for the year	384,205	321,654	288,968	359,996	305,180	285,426
Exchange adjustment	2,698	585	504	2,477	783	(46)
Corporate Social Responsibility fund	27,410	26,791	29,684	26,815	26,463	27,034
Special levy on banks	219,036	115,266	107,241	219,036	115,266	107,241
Under / (Over) provision in previous years	38,835	6,454	(18,020)	20,752	(21,119)	(18,024)
Withholding tax	7,559	-	-	-	-	-
Current tax expense	679,743	470,750	408,377	629,077	426,573	401,631
Deferred tax income	(66,820)	(9,183)	(54,969)	(66,754)	(9,159)	(54,939)
Total tax expense	612,923	461,567	353,408	562,323	417,414	346,692

The total tax expense can also be analysed as being incurred as follows:

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
In Mauritius	482,106	368,914	340,248	475,852	363,488	334,622
Overseas	130,817	92,653	13,160	86,471	53,926	12,070
Total tax expense	612,923	461,567	353,408	562,323	417,414	346,692

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

17b. Deferred tax liabilities

	Group			Bank		
	2012	2011	2010	**2012**	2011	2010
	Rs' 000	Rs' 000	Rs' 000	**Rs' 000**	Rs' 000	Rs' 000
At 1 July	**177,349**	178,705	133,817	**177,246**	178,578	133,124
Transferred on amalgamation of SBM Lease Limited	**-**	-	-	**-**	-	514
Exchange adjustment	**(8,754)**	(5,657)	1,756	**(8,754)**	(5,657)	1,778
Deferred tax income *(Note 17a)*	**(66,820)**	(9,183)	(54,969)	**(66,754)**	(9,159)	(54,939)
Deferred tax on revaluation of property	**(13,484)**	13,484	98,101	**(13,484)**	13,484	98,101
At 30 June	**88,291**	177,349	178,705	**88,254**	177,246	178,578
Analysed as resulting from:						
Accelerated capital allowances	**49,677**	54,527	52,755	**49,640**	54,424	52,628
Pension asset and other employee benefits	**(3,605)**	(3,108)	(2,769)	**(3,605)**	(3,108)	(2,769)
Allowances for credit impairment	**(218,832)**	(159,143)	(160,219)	**(218,832)**	(159,143)	(160,219)
Revaluation of property	**262,953**	290,792	289,476	**262,953**	290,792	289,476
Other provisions	**(1,902)**	(5,719)	(538)	**(1,902)**	(5,719)	(538)
	88,291	177,349	178,705	**88,254**	177,246	178,578

18. Other liabilities

	Group			Bank		
	2012	2011	2010	**2012**	2011	2010
	Rs' 000	Rs' 000	Rs' 000	**Rs' 000**	Rs' 000	Rs' 000
Bills payable	**167,594**	167,538	119,739	**162,127**	161,050	108,704
Accruals for expenses	**320,905**	274,846	241,023	**302,686**	267,421	234,398
Accounts payable	**206,118**	118,744	95,471	**175,683**	99,636	80,844
Deferred income	**45,339**	42,395	68,050	**45,313**	42,364	68,217
Balance due in clearing	**229,596**	230,402	191,902	**184,855**	173,590	154,574
Balances in transit	**54,117**	167,689	165,552	**54,117**	167,689	165,552
Allowance on off balance sheet exposure	**-**	16,405	-	**-**	16,405	-
Others	**35,704**	13,307	11,339	**35,679**	13,298	11,260
	1,059,373	1,031,326	893,076	**960,460**	941,453	823,549

19. Dividend declared

	Dividend per share			Dividend payable		
	2012	2011	2010	**2012**	2011	2010
	Rs	Rs	Rs	**Rs' 000**	Rs' 000	Rs' 000
Bank						
Dividend declared after the reporting date	**3.50**	3.00	2.75	**903,627**	774,538	709,993

Dividend declared after the reporting date is not included as a liability in the financial statements.

20. Share capital

	2012		2011		2010	
	Number	**Rs' 000**	Number	Rs' 000	Number	Rs' 000
Group and Bank						
Issued, subscribed and paid up share capital						
At 1 July and 30 June	**303,740,223**	**303,740**	303,740,223	303,740	303,740,223	303,740
Treasury shares held						
At 1 July and 30 June	**45,561,033**	**45,561**	45,561,033	45,561	45,561,033	45,561

The number of shares relates to ordinary shares of Re 1 each. Fully paid ordinary shares carry one vote per share and the right to dividend, except for treasury shares which have no such rights.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

21. Contingent liabilities

	Group			Bank		
	2012	2011	2010	**2012**	2011	2010
	Rs' 000	Rs' 000	Rs' 000	**Rs' 000**	Rs' 000	Rs' 000
Acceptances, guarantees, letters of credit, endorsements, other obligations on account of customers and spot foreign exchange contracts	**13,000,969**	12,917,916	5,911,337	**12,944,760**	12,870,306	5,831,206
Commitments	**10,475,808**	8,390,626	8,215,445	**10,331,384**	8,109,428	8,205,434
Inward bills held for collection	**120,181**	197,404	340,271	**116,015**	197,131	241,689
Outward bills sent for collection	**1,111,004**	712,945	243,530	**1,105,806**	705,111	232,484
	24,707,962	22,218,891	14,710,583	**24,497,965**	21,881,976	14,510,813

a. Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers, and spot foreign exchange contracts

	Group			Bank		
	2012	2011	2010	**2012**	2011	2010
	Rs' 000	Rs' 000	Rs' 000	**Rs' 000**	Rs' 000	Rs' 000
Acceptances on account of customers	**244,742**	686,147	106,799	**238,339**	686,147	106,799
Guarantees on account of customers	**7,289,876**	8,944,385	2,708,033	**7,277,379**	8,923,807	2,677,198
Letters of credit and other obligations on account of customers	**777,555**	1,420,664	749,074	**769,122**	1,405,608	721,671
Spot foreign exchange contracts	**4,688,796**	1,866,720	2,347,431	**4,659,920**	1,854,744	2,325,538
	13,000,969	12,917,916	5,911,337	**12,944,760**	12,870,306	5,831,206

b. Commitments

	Group			Bank		
	2012	2011	2010	**2012**	2011	2010
	Rs' 000	Rs' 000	Rs' 000	**Rs' 000**	Rs' 000	Rs' 000
Undrawn credit facilities:						
Loans	**3,912,448**	1,470,490	285,526	**3,912,448**	1,470,490	285,526
Overdrafts	**5,139,265**	5,454,708	6,168,950	**4,994,841**	5,173,510	6,158,939
Credit cards	**934,391**	826,070	718,812	**934,391**	826,070	718,812
Leasing	**378,467**	122,467	174,107	**378,467**	122,467	174,107
Other	**111,237**	492,742	868,050	**111,237**	492,742	868,050
Undisbursed commitments in equities	**-**	24,149	-	**-**	24,149	-
	10,475,808	8,390,626	8,215,445	**10,331,384**	8,109,428	8,205,434

22. Assets pledged

The aggregate carrying amount of assets that have been pledged to secure the credit facilities of the Group and the Bank with Central Banks and with Clearing Corporation of India Limited are as follows:

	Group and Bank		
	2012	2011	2010
	Rs' 000	Rs' 000	Rs' 000
Treasury bills / government bonds	**833,816**	368,445	199,230
Deposits	**561,530**	-	-
	1,395,346	368,445	199,230

The Group and the Bank are not allowed to trade in the assets that have been pledged. Interest earned on these assets continues to accrue to the Group and the Bank. On maturity of these assets, other similar type of assets may be substituted.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

23. Capital commitments

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Approved and contracted for	**681,942**	44,597	44,431	**681,942**	44,597	44,431
Approved and not contracted for	**7,150**	9,196	38,058	**7,150**	9,196	38,058

24. Operating lease

Leasing arrangements - The Group as lessee

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Operating lease expense	**43,967**	41,469	32,321	**31,955**	29,260	20,593

Operating lease payments represent rentals payable for property and equipment and motor vehicles. Operating lease contracts contain renewal clauses in the event that the Group exercises its option to renew the contracts. The Group does not have an option to purchase the assets at the expiry of the lease period.

The future minimum lease payments under non-cancellable operating leases are as follows:

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Up to 1 year	**29,234**	20,715	25,307	**17,675**	16,237	14,728
After 1 year and before 5 years	**74,996**	16,971	15,313	**31,217**	15,628	12,602
After 5 years and up to 25 years	**41,474**	12,021	9,369	**12,003**	12,021	9,369
	145,704	49,707	49,989	**60,895**	43,886	36,699

Leasing arrangements - The Group as lessor

The Group disposed of its operating lease contracts in 2010. The future minimum lease payments receivable under non-cancellable operating leases in prior periods were as follows:

	Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Up to 1 year	**-**	-	-
After 1 year and before 5 years	**-**	-	-
After 5 years	**-**	-	-
	-	-	-
Operating lease income	**-**	-	2,496

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

25. Net interest income

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Interest income						
Cash and cash equivalents	**44,221**	49,791	61,074	**43,330**	48,496	55,964
Loans to and placements with banks	**59,303**	6,636	15,305	**59,303**	6,636	15,305
Loans and advances to customers	**4,725,433**	3,765,594	3,535,238	**4,651,480**	3,698,688	3,459,481
Investment securities	**1,028,460**	1,054,025	1,174,125	**893,461**	948,791	1,094,930
Trading assets	**40,360**	20,158	68,968	**40,360**	20,158	68,968
Other	**23**	4,986	12,774	**22**	4,851	12,720
Total interest income	**5,897,800**	4,901,190	4,867,484	**5,687,956**	4,727,620	4,707,368
Interest expense						
Deposits from banks	**(21)**	(314)	(329)	**(350)**	(314)	(329)
Deposits from non-bank customers	**(2,447,028)**	(2,234,488)	(2,347,498)	**(2,348,344)**	(2,150,020)	(2,272,360)
Other borrowed funds	**(252,058)**	(151,571)	(25,529)	**(245,248)**	(150,625)	(25,579)
Other	**-**	(16,288)	(971)	**-**	(16,288)	(971)
Total interest expense	**(2,699,107)**	(2,402,661)	(2,374,327)	**(2,593,942)**	(2,317,247)	(2,299,239)
Net interest income	**3,198,693**	2,498,529	2,493,157	**3,094,014**	2,410,373	2,408,129

26. Net fee and commission income

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Fee and commission income						
Retail banking customer fees	**332,329**	284,980	230,151	**323,515**	271,407	218,315
Corporate banking customer fees	**273,350**	234,201	183,304	**278,869**	227,137	175,458
Investment banking fees	**339**	-	-	**-**	-	-
Brokerage	**9,278**	8,615	8,596	**-**	-	-
Asset management fees	**53,016**	31,188	20,961	**-**	-	-
Card income	**519,112**	360,766	217,461	**519,112**	360,766	217,461
Total fee and commission income	**1,187,424**	919,750	660,473	**1,121,496**	859,310	611,234
Fee and commission expense						
Interbank transaction fees	**(10,419)**	(13,262)	(11,814)	**(10,284)**	(13,059)	(11,343)
Other	**(22,106)**	(26,140)	(658)	**(20,521)**	(24,410)	(658)
Total fee and commission expense	**(32,525)**	(39,402)	(12,472)	**(30,805)**	(37,469)	(12,001)
Net fee and commission income	**1,154,899**	880,348	648,001	**1,090,691**	821,841	599,233

27. Dividend income

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Available-for-sale securities	**230,520**	219,724	205,370	**1,699,577**	221,004	204,773
Trading securities	**194**	97	212	**194**	97	212
	230,714	219,821	205,582	**1,699,771**	221,101	204,985

28. Net trading income

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Fixed income securities	**634**	1,814	(6,689)	**300**	1,814	(6,689)
Equities	**110**	(3,236)	920	**133**	(3,236)	920
Foreign exchange gain	**459,172**	495,232	487,411	**456,961**	446,319	446,542
Other	**(10,106)**	(3,524)	8,979	**(10,106)**	(3,524)	8,979
	449,810	490,286	490,621	**447,288**	441,373	449,752

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

29. Other operating income

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Gain on sale of available-for-sale securities:						
Investment securities	**8,301**	4,734	-	**4,806**	4,734	-
Equity investments	**25,071**	114,357	-	**6,278**	-	-
Other	**722**	(3,565)	66	**722**	(3,565)	(182)
	34,094	115,526	66	**11,806**	1,169	(182)

30. Personnel expenses

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Wages and salaries	**721,718**	663,945	575,357	**702,559**	647,389	559,454
Other social security obligations	**10,002**	9,476	9,251	**9,817**	9,310	9,082
Contributions to defined contribution plans	**55,758**	47,205	39,586	**53,600**	45,219	37,669
Cash-settled share-based payments	**15,266**	19,934	9,763	**15,266**	19,934	9,763
Increase in liability for defined benefit plans *(Note 13)*	**17,493**	15,953	21,967	**17,493**	15,953	21,967
Other personnel expenses	**171,896**	152,851	128,209	**165,310**	146,925	123,470
	992,133	909,364	784,133	**964,045**	884,730	761,405

31. Other expenses

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Software licensing and other information technology cost	**154,596**	118,720	127,274	**148,600**	112,873	122,257
Auditors' remuneration (audit fee):						
- Principal auditors	**5,095**	4,857	4,610	**4,691**	4,548	4,244
- Other auditors	**677**	824	520	**451**	465	301
Other	**336,717**	280,144	290,494	**297,683**	244,934	255,123
	497,085	404,545	422,898	**451,425**	362,820	381,925

32. Net impairment loss on financial assets

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Portfolio and specific provisions:						
- On-balance sheet advances *(Note 8c)*	**239,905**	252,594	339,126	**205,044**	214,179	268,858
- Off-balance sheet exposure	**(16,287)**	16,405	-	**(16,287)**	16,405	-
Interest accrued on impaired advances	**-**	-	(24,017)	**-**	-	(24,017)
Bad debts written off for which no provisions were made	**331**	2	-	**331**	2	-
Recoveries of advances written off	**(21,400)**	(22,068)	(10,792)	**(21,189)**	(14,943)	(9,918)
Other loss	**51,011**	72,322	14,108	**5,998**	4,747	14,005
	253,560	319,255	318,425	**173,897**	220,390	248,928
Of which:						
Credit exposure	**202,549**	246,933	304,317	**167,899**	215,643	234,923
Other financial assets	**51,011**	72,322	14,108	**5,998**	4,747	14,005
	253,560	319,255	318,425	**173,897**	220,390	248,928

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

33. Earnings per share

Earnings per share is calculated by dividing profit attributable to equity holders of the parent by the number of shares outstanding during the year, excluding treasury shares.

	Group		
	2012	2011	2010
Profit attributable to equity holders of the parent (Rs' 000)	**2,617,497**	2,013,095	1,858,840
Number of shares entitled to dividend (thousands)	**258,179**	258,179	258,179
Earnings per share (Rs)	**10.14**	7.80	7.20

34. Related party transactions

	Key management personnel including directors			Associates and other entities in which the Group has significant influence			Entities in which directors, key management personnel and their close family members have significant influence		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Group									
(a) Credit facilities									
(i) *Loans*									
Balance at beginning of year	**11,173**	12,167	3,352	**-**	-	-	**-**	-	1,637,502
Loans of directors / entities who ceased to be related parties during the year	**(11,121)**	(2,657)	-	**-**	-	-	**-**	-	(1,637,502)
Existing loans of new related parties	**4,690**	1	3,257	**-**	-	-	**-**	-	-
Other net movements	**343**	1,662	5,558	**-**	-	-	**-**	-	-
Balance at end of year	**5,085**	11,173	12,167	**-**	-	-	**-**	-	-
(ii) *Off-balance sheet obligations*									
Balance at end of year	**60**	-	-	**1,083**	-	3,344	**-**	-	-
(b) Deposits at end of year	**26,563**	21,740	48,695	**1,827,484**	807,580	718,429	**36,485**	3,756	2,197
(c) Interest income	**522**	726	1,066	**-**	-	-	**-**	-	93,361
(d) Interest expense	**1,158**	1,245	1,130	**39,885**	35,344	28,062	**623**	6	161
(e) Other income	**112**	73	73	**1,472**	2,811	2,783	**61**	11	20,931
(f) Purchase of goods and services	**-**	-	-	**2,768**	2,489	9,605	**-**	-	-
(g) Emoluments	**135,871**	57,050	40,496	**-**	-	-	**-**	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

34. Related party transactions (Cont'd)

Related party transactions in relation to Post Employment Benefit plans are as follows:

	Group		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Deposits at end of year	8,297	29,965	18,819
Interest expense	656	755	877
Other income	5	24	35
Contributions paid	60,834	53,124	52,756

In addition to the amounts disclosed for the Group, transactions with subsidiaries of the Group are disclosed below:

	Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Loans and advances	303,034	-	-
Deposits	237,042	1,697,031	1,474,159
Interest income	4,999	34	-
Interest expense	5,334	8,287	7,480
Non interest income	75	53	289
Non interest expense	1,852	2,824	280

Credit facilities to key management personnel and executive directors are as per their contract of employment. All other transactions with key management personnel and directors, whether credit facilities, deposits or purchase of goods and services, are at market terms and conditions and will be settled in cash. Credit facilities are secured except for credit card advances and some personal loans which are granted under an unsecured loan scheme in the normal course of business.

Investments with a carrying amount of Rs 3.46 bn have been transferred by the Bank at cost to other group's companies in line with the group reorganisation of its investment portfolio between banking and non operating banking cluster, non bank financial cluster and non financial cluster.

35. Phantom share options

The Group has in place a ''Compensation based on Performance Scheme'' for senior executives including an element of at-risk pay. The at-risk pay is in the form of options for phantom shares. Under this scheme, senior executives are allocated a number of phantom share options based on individual, team and Group performance. The option price is the price at which the option has been issued. Options lapse if they are not exercised before their expiry date or on the date an option holder ceases to be an employee of the Group, except in certain specific circumstances and at the discretion of the Board. On the exercise of an option for a phantom share, applicants receive in cash the increase in value of a notional share, based on the difference between the Bank's quoted share price at the time of exercise and the option price.

Other terms of the phantom share options outstanding as at 30 June 2012 for the Group and Bank:

Grant date	Earliest exercisable date	Maximum exercisable rate per year	Outstanding number	Option price (Rs)	Lapse date
August 2002	August 2005	15%	1,500	10.00	August 2012
August 2004	August 2007	15%	37,000	20.00	August 2014
October 2005	October 2008	15%	118,500	25.00	October 2015
August 2006	August 2009	15%	206,750	37.60	August 2016
August 2007	August 2009	25%	226,250	55.90	August 2014
August 2008	August 2010	25%	678,750	85.00	August 2015
May 2009	May 2010	50%	75,000	80.00	November 2012
February 2010	February 2012	50%	26,150	80.00	February 2013
October 2010	October 2013	100% in October 2013	40,000	50.00	October 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

35. Phantom share options (Cont'd)

Movements in the number of phantom share options:

	Group			Bank		
	2012 Number	2011 Number	2010 Number	2012 Number	2011 Number	2010 Number
Outstanding at beginning of the year	1,862,025	2,469,400	3,185,300	1,862,025	2,469,400	3,061,800
Allocated during the year	-	60,000	133,300	-	60,000	143,300
Lapsed during the year	-	(78,250)	(500,350)	-	(78,250)	(405,600)
Exercised during the year	(452,125)	(589,125)	(348,850)	(452,125)	(589,125)	(330,100)
Outstanding at end of the year	1,409,900	1,862,025	2,469,400	1,409,900	1,862,025	2,469,400

As at 30 June 2012, the potential liability relating to the phantom share options was Rs 17.3m (2011: Rs 34.2m and 2010: Rs 23.5m).

36. Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern and maximise returns to shareholders. It also ensures that adequate capital is maintained to support its growth strategies, its risk appetite and depositors' confidence, while complying with statutory and regulatory requirements. The capital resources of the Group are disclosed in the Statement of Changes in Equity.

All entities within the Group have met the respective minimum capital requirements set out by the relevant regulatory body and, where applicable, appropriate transfers have also been made to statutory reserves, ranging from 10% to 25% of yearly profits.

All banking entities within the Group have also met their respective minimum capital adequacy ratio requirements. Banks in Mauritius are required to maintain a ratio of eligible capital to risk weighted assets of at least 10%, whereas for India and Madagascar, the minimum ratio is set at 9% and 8% respectively. As from March 2009, capital adequacy ratio was calculated based on Basel II methodology, as advocated by the Bank of Mauritius.

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Tier 1 capital	12,464,897	11,197,809	9,869,807	10,862,659	8,591,503	7,406,716
Eligible capital base	15,186,664	13,472,200	12,248,068	11,762,907	11,290,367	10,017,507
Risk weighted assets	69,886,322	60,095,379	46,237,888	65,472,698	58,627,870	44,652,824
Capital adequacy ratio (%)	21.73	22.42	26.49	17.97	19.26	22.43

37. Change in accounting date

On 29 December 2011, the Board of Directors resolved to change the Group's financial year end from 30 June to 31 December. The next financial statement period will cover the period from 1 July 2012 to 31 December 2013.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

38. Risk management

The Board of Directors is ultimately responsible for risk management. It approves the risk policies and sets prudential limits and risk tolerance limits, besides regulatory limits, within which the Group operates.

The principal risks arising from financial instruments to which the Group is exposed include:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

a (i) Financial assets and liabilities

Financial assets and liabilities of the Group and Bank are shown in the tables below, grouped by categories.

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Financial assets						
Loans and receivables	**86,689,412**	83,929,869	71,345,052	**84,779,386**	81,710,111	69,259,511
Held-to-maturity	**1,274,346**	1,919,300	1,172,353	**1,274,346**	1,919,300	1,172,353
Available-for-sale	**6,861,471**	6,050,854	3,448,634	**4,533,990**	6,237,476	3,245,351
Fair value through profit or loss	**269,828**	146,113	148,224	**269,829**	146,113	148,224
	95,095,057	92,046,136	76,114,263	**90,857,551**	90,013,000	73,825,439
Financial liabilities						
Measured at amortised cost	**80,301,527**	79,268,040	64,606,269	**79,675,888**	78,730,228	64,006,604
Fair value through profit or loss	**182,723**	141,077	84,964	**182,723**	141,077	84,964
	80,484,250	79,409,117	64,691,233	**79,858,611**	78,871,305	64,091,568

a (ii) Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments held at the reporting date.

	2012		2011		2010	
	Carrying Value Rs' 000	**Fair Value Rs' 000**	Carrying Value Rs' 000	Fair Value Rs' 000	Carrying Value Rs' 000	Fair Value Rs' 000
Group						
Financial assets						
Cash and cash equivalents	**6,993,395**	**6,993,395**	6,744,422	6,744,422	5,501,822	5,501,822
Mandatory balances with Central Banks	**4,966,156**	**4,966,156**	4,180,104	4,180,104	2,892,794	2,892,794
Loans to and placements with banks	**1,511,936**	**1,511,936**	943,359	943,359	-	-
Trading assets	**254,168**	**254,168**	146,113	146,113	148,224	148,224
Loans and advances to customers	**62,273,473**	**62,307,169**	56,741,302	56,750,861	43,731,741	43,763,388
Investment securities	**18,683,038**	**18,770,142**	22,903,047	22,887,216	23,572,721	23,805,680
Other assets	**412,890**	**412,890**	387,789	387,789	266,961	266,961
	95,095,057	**95,215,856**	92,046,136	92,039,864	76,114,263	76,378,869
Financial liabilities						
Deposits from banks	**115,946**	**115,946**	218,252	218,252	195,628	195,628
Deposits from non-bank customers	**76,158,615**	**76,130,883**	70,888,333	70,938,697	61,502,326	61,611,287
Other borrowed funds	**3,012,931**	**3,012,931**	7,172,525	7,172,525	2,083,289	2,083,289
Trading liabilities	**164,353**	**164,353**	141,077	141,077	84,964	84,964
Derivative liabilities held for risk management	**18,371**	**18,371**	-	-	-	-
Other liabilities	**1,014,034**	**1,014,034**	988,930	988,930	825,026	825,026
	80,484,250	**80,456,518**	79,409,117	79,459,481	64,691,233	64,800,194

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

38. Risk management (Cont'd)

a (ii) Fair values (Cont'd)

	2012		2011		2010	
	Carrying Value Rs' 000	**Fair Value Rs' 000**	Carrying Value Rs' 000	Fair Value Rs' 000	Carrying Value Rs' 000	Fair Value Rs' 000
Bank						
Financial assets						
Cash and cash equivalents	**6,964,275**	**6,964,275**	6,502,047	6,502,047	5,195,931	5,195,931
Mandatory balances with Central Banks	**4,671,915**	**4,671,915**	3,866,714	3,866,714	2,586,145	2,586,145
Loans to and placements with banks	**1,511,936**	**1,511,936**	943,359	943,359	-	-
Trading assets	**254,168**	**254,168**	146,113	146,113	148,224	148,224
Loans and advances to customers	**62,017,430**	**62,051,125**	56,052,338	56,061,898	43,094,855	43,126,502
Investment securities	**15,041,923**	**15,129,027**	22,138,012	22,122,181	22,552,019	22,784,978
Other assets	**395,903**	**395,903**	364,417	364,417	248,265	248,265
	90,857,551	**90,978,349**	90,013,000	90,006,729	73,825,439	74,090,045
Financial liabilities						
Deposits from banks	**214,657**	**214,657**	262,531	262,531	253,073	253,073
Deposits from non-bank customers	**75,533,152**	**75,505,420**	70,396,081	70,446,445	60,914,910	61,023,871
Other borrowed funds	**3,012,931**	**3,012,931**	7,172,525	7,172,525	2,083,289	2,083,289
Trading liabilities	**164,353**	**164,353**	141,077	141,077	84,964	84,964
Derivative liabilities held for risk management	**18,371**	**18,371**	-	-	-	-
Other liabilities	**915,147**	**915,147**	899,091	899,091	755,332	755,332
	79,858,611	**79,830,879**	78,871,305	78,921,669	64,091,568	64,200,529

a (iii) Fair value measurement hierarchy

Fair value measurements of financial instruments can be grouped into level 1 to 3 based on the degree to which the fair value is observable, namely:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

38. Risk management (Cont'd)

a (iii) Fair value measurement hierarchy (Cont'd)

The table below analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised, based on the lowest level input for the entire class of asset or liability.

	Level 1 Rs' 000	Level 2 Rs' 000	Level 3 Rs' 000	Total Rs' 000
Group				
2012				
Trading assets	**12,324**	**241,844**	**-**	**254,168**
Loans and advances at fair value	**-**	**-**	**15,661**	**15,661**
Investment securities - available-for-sale	**1,000,481**	**2,439,581**	**3,326,497**	**6,766,559**
Total	**1,012,805**	**2,681,425**	**3,342,158**	**7,036,388**
Trading liabilities	**-**	**164,353**	**-**	**164,353**
Derivative liabilities held for risk management	**-**	**18,371**	**-**	**18,371**
	-	**182,724**	**-**	**182,724**
2011				
Trading assets	985	145,128	-	146,113
Investment securities - available-for-sale	390,336	2,501,382	3,128,378	6,020,096
Total	391,321	2,646,510	3,128,378	6,166,209
Trading liabilities	-	141,077	-	141,077
2010				
Trading assets	-	148,224	-	148,224
Investment securities - available-for-sale	112,262	-	3,300,613	3,412,875
Total	112,262	148,224	3,300,613	3,561,099
Trading liabilities	-	84,964	-	84,964
Bank				
2012				
Trading assets	**12,324**	**241,844**	**-**	**254,168**
Loans and advances at fair value	**-**	**-**	**15,661**	**15,661**
Investment securities - available-for-sale	**888,219**	**2,147,765**	**-**	**3,035,984**
Total	**900,543**	**2,389,609**	**15,661**	**3,305,813**
Trading liabilities	**-**	**164,353**	**-**	**164,353**
Derivative liabilities held for risk management	**-**	**18,371**	**-**	**18,371**
	-	**182,724**	**-**	**182,724**
2011				
Trading assets	985	145,128	-	146,113
Investment securities - available-for-sale	278,072	2,501,382	3,432,651	6,212,105
Total	279,057	2,646,510	3,432,651	6,358,218
Trading liabilities	-	141,077	-	141,077
2010				
Trading assets	-	148,224	-	148,224
Investment securities - available-for-sale	-	-	3,214,982	3,214,982
Total	-	148,224	3,214,982	3,363,206
Trading liabilities	-	84,964	-	84,964

There was no transfer between Level 1 and 2 during the year.
Reconciliation for Level 3 fair value measurements:

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Balance at 01 July	**3,128,378**	3,300,613	3,267,244	**3,432,651**	3,214,982	2,925,967
Additions	**23,201**	-	6,849	**15,661**	-	-
Disposals	**(51,509)**	(163,340)	-	**(3,432,651)**	-	-
Transfer to Level 1	**-**	(236,727)	-	**-**	(236,727)	-
Translation	**6,049**	(28,744)	(2,112)	**-**	-	-
Increase in fair value	**236,039**	256,576	28,632	**-**	454,396	289,015
Balance at 30 June	**3,342,158**	3,128,378	3,300,613	**15,661**	3,432,651	3,214,982

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

38. Risk management (Cont'd)

b. Credit risk

The Group is exposed to credit risk through its lending, trade finance, treasury and leasing activities. Credit risk is the risk of loss arising from the failure of a counterparty to fulfil its contractual or financial obligations to the Group as and when they fall due. The Group's credit risk is managed through a portfolio approach with prudential limits set across country, bank, industry, group and individual exposures. The Credit Underwriting team, independent of the origination process, ensures the accumulation of assets within acceptable risk norms using internal and external rating systems for the standardisation of credit assessment. The Group has a tiered credit sanctioning process depending on the credit quality, exposure type and amount. Credit exposures and risk profile are monitored by the Credit Risk Management unit and reported regularly to the Board Risk Committee.

(i) Maximum credit exposure

The maximum exposure to credit risk at the reporting date without taking account of any collateral held and other credit enhancements is as disclosed below:

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Fund-based exposures:						
Cash and cash equivalents	**6,112,112**	5,823,240	4,796,705	**6,115,534**	5,608,594	4,490,814
Mandatory balances with Central Banks	**4,966,156**	4,180,104	2,892,794	**4,671,915**	3,866,714	2,586,145
Loans to and placements with banks	**1,511,936**	943,359	-	**1,511,936**	943,359	-
Trading assets	**59,228**	14,450	86,724	**59,228**	14,450	86,723
Loans and advances to customers	**63,245,854**	57,892,340	44,658,493	**62,913,204**	56,998,683	43,852,962
Investment securities	**19,430,791**	23,570,849	24,160,809	**15,042,044**	22,138,108	22,552,091
	95,326,077	92,424,342	76,595,525	**90,313,861**	89,569,908	73,568,735
Non-fund based exposures:						
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	**7,646,394**	11,051,196	3,563,906	**7,619,061**	11,015,562	3,505,668
Credit commitments	**10,475,808**	8,366,477	8,215,445	**10,331,384**	8,085,279	8,205,434
	18,122,202	19,417,673	11,779,351	**17,950,445**	19,100,841	11,711,102

(ii) Collateral and other credit enhancements

The use of credit risk mitigants is an integral part of the credit risk management process and is documented in the Group Credit Risk policy. The amount and type of collateral required depend on the counterparty's credit quality and repayment capacity. The principal collateral types taken include:

- Fixed / floating charge on assets of borrowers
- Pledge of deposits / securities / life insurance policy / shares
- Government guarantee / bank guarantee / corporate guarantee / personal guarantee
- Lien on vehicle
- Letter of comfort

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

38. Risk management (Cont'd)

b. Credit risk (Cont'd)

(iii) Credit quality

Corporate borrowers are assigned a Customer Risk Rating using Moody's Risk Advisor which is based on the borrower's financial condition and outlook, industry and economic conditions, access to capital and management strength. For the small and medium enterprises, the rating is derived from the Small Business Underwriting Matrix which is primarily based on the customer's financial position and quality of collateral. Individuals are rated using Experian-Transact tool based on a set of personal attributes including income and repayment capacity.

An analysis of credit exposures, including non-fund based facilities, for advances to customers that are neither past due nor impaired using the Group's credit grading system is given below:

	Group			Bank		
	2012	2011	2010	**2012**	2011	2010
	Rs' 000	Rs' 000	Rs' 000	**Rs' 000**	Rs' 000	Rs' 000
Grades:						
1 to 3 - Strong	**40,925,548**	47,322,260	30,232,064	**41,140,088**	46,400,802	29,648,778
4 to 6 - Satisfactory	**24,304,244**	18,174,513	14,706,983	**24,204,809**	18,174,514	14,665,867
7 to 10 (including unrated) - weak	**14,895,753**	10,764,092	10,274,183	**14,373,302**	10,719,179	10,267,074
	80,125,545	76,260,865	55,213,230	**79,718,199**	75,294,495	54,581,719

Grade 1 includes customers with low credit risk factors, strong financial conditions and excellent repayment capacities whereas grade 10 includes unrated customers which have been defaulted to 10 on a prudent basis.

The carrying amount of loans and advances whose terms have been re-negotiated during the year amounted to Rs 3,162.2m (2011: Rs 3,103.1m and 2010: Rs 1,199.6m) for the Group and Rs 3,154.5m (2011: Rs 3,096.3m and 2010: Rs 1,197.7m) for the Bank.

(iv) Credit exposure by portfolio

Advances that are neither past due nor impaired:

	Group			Bank		
	2012	2011	2010	**2012**	2011	2010
	Rs' 000	Rs' 000	Rs' 000	**Rs' 000**	Rs' 000	Rs' 000
Portfolio						
Agriculture	**4,138,656**	2,300,951	880,483	**4,113,233**	2,290,165	871,445
Commerce	**8,260,357**	12,189,078	6,337,225	**8,063,921**	11,935,050	6,070,122
Consumer	**21,978,384**	17,766,566	13,617,762	**21,961,361**	17,750,256	13,607,747
Infrastructure	**5,260,892**	5,653,654	3,476,824	**5,260,150**	5,652,209	3,476,824
Job Contractors	**2,273,455**	1,394,433	889,001	**2,261,553**	1,353,770	885,822
Manufacturing	**9,059,600**	12,332,313	8,655,217	**8,980,437**	12,202,922	8,613,228
New Economy	**686,945**	1,250,919	1,753,553	**678,721**	1,250,919	1,753,553
Real Estate	**5,201,092**	2,732,534	2,983,886	**5,164,286**	2,582,039	2,861,512
Services	**11,052,998**	11,668,812	8,854,516	**11,025,088**	11,309,714	8,679,919
Tourism	**12,213,166**	8,971,605	7,764,763	**12,209,449**	8,967,451	7,761,547
	80,125,545	76,260,865	55,213,230	**79,718,199**	75,294,495	54,581,719

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

38. Risk management (Cont'd)

b. Credit risk (Cont'd)

(v) Ageing of receivables that are past due but not impaired:

	Group			Bank		
	2012	2011	2010	**2012**	2011	2010
	Rs' 000	Rs' 000	Rs' 000	**Rs' 000**	Rs' 000	Rs' 000
Up to 1 month	**523,463**	192,321	341,397	**523,379**	190,684	338,385
Over 1 month and up to 3 months	**40,454**	43,221	31,600	**40,454**	43,220	31,355
Over 3 months	**183**	2,569	12,393	**-**	-	-
	564,100	238,111	385,390	**563,833**	233,904	369,740

(vi) Impaired financial assets

Loans and advances are assessed for impairment when objective evidence, such as default or delinquency in interest or principal payments, significant financial difficulty of the counterparty or evidence that the borrower will enter bankruptcy or financial re-organisation, indicate that the account may be impaired. A financial asset is considered to be impaired if the present value of estimated future cash flows discounted at the asset's original effective rate is less than the asset's carrying amount.

The carrying amount of impaired financial assets and specific allowance held are shown below:

	Group			Bank		
	2012	2011	2010	**2012**	2011	2010
	Rs' 000	Rs' 000	Rs' 000	**Rs' 000**	Rs' 000	Rs' 000
Loans and advances	**678,406**	811,037	839,224	**581,615**	571,125	612,605
Specific allowance held in respect of impaired advances	**455,000**	549,289	482,261	**404,262**	375,061	338,957
Fair value of collaterals of impaired advances	**221,403**	373,596	407,907	**172,906**	296,679	324,592

(vii) Credit concentration of risk by industry sectors

Total outstanding credit facilities, net of deposits where there is a right of set off, including guarantees, acceptances, and other similar commitments extended by the Bank to any one customer or group of closely-related customers for amounts aggregating more than 15% of its capital base, classified by industry sectors:

	Group			Bank		
	2012	2011	2010	**2012**	2011	2010
	Rs' 000	Rs' 000	Rs' 000	**Rs' 000**	Rs' 000	Rs' 000
Portfolio						
Agriculture	**-**	-	-	**2,249,858**	-	-
Commerce	**4,310,766**	3,754,068	-	**4,310,766**	3,679,068	-
Infrastructure	**-**	-	-	**-**	1,810,968	-
Job Contractors	**2,539,293**	-	-	**2,128,151**	-	-
Manufacturing	**-**	2,184,444	2,064,863	**1,996,698**	2,184,444	2,036,812
Real Estate	**-**	-	-	**1,917,250**	-	-
Services	**-**	-	-	**2,241,768**	1,760,914	-
Tourism	**6,250,678**	2,329,216	-	**6,250,678**	2,329,216	1,623,612
	13,101,737	8,267,728	2,064,863	**21,096,169**	11,764,610	3,660,424

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

38. Risk management (Cont'd)

c. Liquidity risk

Liquidity risk is the potential earnings volatility arising from being unable to fund assets at reasonable rates over required maturities. The Group ensures that sufficient liquidity is maintained to fund its day-to-day operations, meet deposit withdrawals and loan disbursements. Liquidity risk is managed by setting prudential limits on maturity mismatches, liquid assets ratios, concentration of deposits by type and by entity. Liquidity gap analysis is used to measure and monitor the mismatches by time bucket and currency under realistic and stress scenarios.

The tables below show the maturity analysis of contractual undiscounted cash flows for financial liabilities of the Group and the Bank. Although demand deposits are contractually repayable on demand, the Group's past experience indicates that these deposit balances remain stable over the long-term. In practice, the Group manages its liquidity risks based on expected cash outflows instead of contractual maturities.

	On Demand Rs'000	Up to 3 months Rs'000	3-6 months Rs'000	6-12 months Rs'000	1-2 years Rs'000	2-5 years Rs'000	Over 5 years Rs'000	Total Rs'000
Group								
Financial liabilities								
Deposits	56,176,418	9,739,921	2,851,923	3,735,789	4,572,086	2,127,726	232,721	79,436,584
Trading liabilities	-	-	-	-	-	-	176,938	176,938
Other borrowed funds	-	-	11,920	23,841	35,761	2,400,403	691,153	3,163,078
Other liabilities	-	1,014,034	-	-	-	-	-	1,014,034
30 June 2012	56,176,418	10,753,955	2,863,843	3,759,630	4,607,847	4,528,129	1,100,812	83,790,634
30 June 2011	48,061,415	9,913,815	6,114,330	6,863,963	5,972,537	3,892,506	3,817,012	84,635,578
30 June 2010	43,810,439	7,216,098	3,084,570	3,627,355	5,158,743	1,797,744	254,223	64,949,172
Bank								
Financial liabilities								
Deposits	56,467,005	9,643,709	2,666,889	3,480,298	4,192,774	2,127,726	232,721	78,811,122
Trading liabilities	-	-	-	-	-	-	176,938	176,938
Other borrowed funds	-	-	11,920	23,841	35,761	2,400,403	691,153	3,163,078
Other liabilities	-	915,147	-	-	-	-	-	915,147
30 June 2012	56,467,005	10,558,856	2,678,809	3,504,139	4,228,535	4,528,129	1,100,812	83,066,285
30 June 2011	49,583,133	9,101,337	5,625,472	6,248,276	5,953,384	3,769,180	3,817,012	84,097,794
30 June 2010	43,171,956	6,595,757	2,543,545	3,401,911	6,529,008	1,797,744	254,223	64,294,144

d. Market risk

Market risk is the risk of loss resulting from adverse movement in market rates or prices such as interest rates, foreign exchange rates and equity prices. The Group's market risks are monitored by the Market Risk Team and reported to the Market Risk Forum and Board Risk Committee on a regular basis.

(i) (a) Interest rate risk

The Group's interest rate risk arises mostly from mismatches in the repricing of its assets and liabilities. The Group uses an interest rate gap analysis to measure and monitor the interest rate risk. Prudential limits for the gap, expressed as a percentage of assets, have been set for specific time buckets and earnings at risk is calculated based on different shock scenarios across major currencies.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

38. Risk management (Cont'd)

d. Market risk (Cont'd)

(i) (a) Interest rate risk (Cont'd)

The table below analyses the Group's and the Bank's interest rate risk exposure in terms of the remaining period to the next contractual repricing date or to the maturity date, whichever is the earlier. The 'up to 3 months' column include the financial assets and liabilities which have floating rates of interest that do not reprice at set dates, but rather reprice whenever the underlying interest rate index changes.

	Up to 3 months Rs'000	3-6 months Rs'000	6-12 months Rs'000	1-2 years Rs'000	2-5 years Rs'000	Over 5 years Rs'000	Non-Interest Sensitive Rs'000	Total Rs'000
Group								
2012								
Assets								
Cash and cash equivalents	3,933,470	-	-	-	-	-	3,059,925	6,993,395
Mandatory balances with Central Banks	-	-	-	-	-	-	4,966,156	4,966,156
Loans to and placements with banks	111,152	700,171	390,295	310,318	-	-	-	1,511,936
Loans and advances to customers	57,187,535	3,240,574	1,063,444	45,138	419,980	687,533	(370,731)	62,273,473
Trading assets	5,092	4,911	2,234	-	-	28,882	213,049	254,168
Investment securities	3,620,963	888,460	2,650,203	612,533	6,313,609	634,961	3,962,310	18,683,039
Other assets	-	-	-	-	-	-	412,890	412,890
Total assets	64,858,212	4,834,116	4,106,176	967,989	6,733,589	1,351,376	12,243,599	95,095,057
Liabilities								
Deposits from banks	115,946	-	-	-	-	-	-	115,946
Deposits from non-bank customers	63,587,090	2,240,870	1,656,746	492,507	866,091	165,718	7,149,593	76,158,615
Other borrowed funds	3,012,931	-	-	-	-	-	-	3,012,931
Trading liabilities	-	-	-	-	-	-	164,353	164,353
Derivative liabilities held for risk management	-	-	-	-	-	-	18,371	18,371
Other liabilities	-	-	-	-	-	-	1,014,034	1,014,034
Total liabilities	66,715,967	2,240,870	1,656,746	492,507	866,091	165,718	8,346,351	80,484,250
On balance sheet interest rate repricing gap	(1,857,755)	2,593,246	2,449,430	475,482	5,867,498	1,185,658		
Off balance sheet interest rate repricing gap	561,205	342,568	-	-	(903,773)	-		
	(1,296,550)	2,935,814	2,449,430	475,482	4,963,725	1,185,658		
2011								
Total assets	62,538,549	8,461,528	5,097,030	1,563,245	3,283,152	1,648,507	9,454,125	92,046,136
Total liabilities	63,183,080	2,454,203	4,233,919	2,918,152	195,178	-	6,424,585	79,409,117
On balance sheet interest rate repricing gap	(644,531)	6,007,325	863,111	(1,354,907)	3,087,974	1,648,507		
Off balance sheet interest rate repricing gap	(1,917,568)	85,745	362,677	1,611,594	(142,448)	-		
	(2,562,099)	6,093,070	1,225,788	256,687	2,945,526	1,648,507		
2010								
Total assets	53,178,249	4,066,307	6,365,685	3,052,006	897,547	694,643	7,859,826	76,114,263
Total liabilities	50,217,780	2,709,725	2,047,254	2,912,942	795,924	-	6,007,608	64,691,233
On balance sheet interest rate repricing gap	2,960,469	1,356,582	4,318,431	139,064	101,623	694,643		
Off balance sheet interest rate repricing gap	(1,043,357)	-	-	1,253,187	(209,830)	-		
	1,917,112	1,356,582	4,318,431	1,392,251	(108,207)	694,643		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

38. Risk management (Cont'd)

d. Market risk (Cont'd)

(i) (a) Interest rate risk (Cont'd)

	Up to 3 months Rs'000	3-6 months Rs'000	6-12 months Rs'000	1-2 years Rs'000	2-5 years Rs'000	Over 5 years Rs'000	Non-Interest Sensitive Rs'000	Total Rs'000
Bank								
2012								
Assets								
Cash and cash equivalents	3,937,764	-	-	-	-	-	3,026,511	6,964,275
Mandatory balances with Central Banks	-	-	-	-	-	-	4,671,915	4,671,915
Loans to and placements with banks	111,152	700,171	390,295	310,318	-	-	-	1,511,936
Loans and advances to customers	57,015,191	3,240,574	1,063,444	45,138	419,980	687,533	(454,430)	62,017,430
Trading assets	5,092	4,911	2,234	-	-	28,882	213,049	254,168
Investment securities	2,390,981	688,504	1,745,066	1,460,010	6,195,757	634,961	1,926,645	15,041,924
Other assets	-	-	-	-	-	-	395,903	395,903
Total assets	63,460,180	4,634,160	3,201,039	1,815,466	6,615,737	1,351,376	9,779,593	90,857,551
Liabilities								
Deposits from banks	214,657	-	-	-	-	-	-	214,657
Deposits from non-bank customers	64,314,786	1,733,766	1,155,041	264,582	767,114	165,718	7,132,145	75,533,152
Other borrowed funds	3,012,931	-	-	-	-	-	-	3,012,931
Trading liabilities	-	-	-	-	-	-	164,353	164,353
Derivative liabilities held for risk management	-	-	-	-	-	-	18,371	18,371
Other liabilities	-	-	-	-	-	-	915,147	915,147
Total liabilities	67,542,374	1,733,766	1,155,041	264,582	767,114	165,718	8,230,015	79,858,611
On balance sheet interest rate repricing gap	(4,082,194)	2,900,394	2,045,998	1,550,884	5,848,623	1,185,658		
Off balance sheet interest rate repricing gap	561,205	342,568	-	-	(903,773)	-		
	(3,520,989)	3,242,962	2,045,998	1,550,884	4,944,850	1,185,658		
2011								
Total assets	61,067,702	8,263,003	4,933,054	1,563,245	3,283,152	1,648,507	9,254,337	90,013,000
Total liabilities	62,688,363	3,047,225	3,992,818	2,914,974	195,178	-	6,032,747	78,871,305
On balance sheet interest rate repricing gap	(1,620,661)	5,215,778	940,236	(1,351,729)	3,087,974	1,648,507		
Off balance sheet interest rate repricing gap	(1,917,568)	85,745	362,677	1,611,594	(142,448)	-		
	(3,538,229)	5,301,523	1,302,913	259,865	2,945,526	1,648,507		
2010								
Total assets	52,156,357	3,968,419	5,822,523	3,052,006	897,547	694,643	7,233,944	73,825,439
Total liabilities	51,171,603	2,073,937	1,717,742	2,912,942	795,924	-	5,419,420	64,091,568
On balance sheet interest rate repricing gap	984,754	1,894,482	4,104,781	139,064	101,623	694,643		
Off balance sheet interest rate repricing gap	(1,043,357)	-	-	1,253,187	(209,830)	-		
	(58,603)	1,894,482	4,104,781	1,392,251	(108,207)	694,643		

(i) (b) Interest rate sensitivity

In order to measure the Group's and the Bank's vulnerability to interest rate movements, Gap Analysis is used. The Group assesses the impact of various interest rate shocks on net interest income over a 12-month period assuming a static position.

A 2% parallel shift in the yield curve while keeping all other variables constant would affect the Group's and Bank's profit and loss as follows:

	Group			Bank		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000	**2012 Rs' 000**	2011 Rs' 000	2010 Rs' 000
Increase in profit	**25,445**	35,854	44,589	**13,051**	8,653	10,545

(i) (c) Fair value hedges

The Group establishes fair value hedge accounting relationships for interest rate risk on some of its fixed rate customer loans. At 30 June 2012, the aggregate notional principal of interest rate swaps designated as fair value hedges was Rs 794.5m (2011 and 2010: nil) with a net fair value liability of Rs 18.4m (2011 and 2010: nil). The hedge was more than 85% effective in hedging the fair value exposure to interest rates movements and as a result the carrying amount of the loans being hedged was adjusted by Rs 15.7m, which was included in the income statement at the same time that the fair value of the interest rate swap was included.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

38. Risk management (Cont'd)

d. Market risk (Cont'd)

(ii) Currency risk

Foreign exchange risk arises from open and imperfectly offset or hedged positions. Imperfect correlations across currencies and international interest rate markets pose particular challenges to the effectiveness of foreign currency hedging strategies. The Bank exercises strict control over its foreign currency exposures.

The Bank reports on foreign currency positions to the Central Bank and has set up conservative internal limits in order to mitigate foreign exchange risk. To manage their foreign currency exposures, dealers operate within prudential limits approved by the Board including intraday/overnight open exposures, stop loss and authorized currencies. These trading limits for Mauritius, Madagascar and Indian Operations are reviewed at least once annually by the Board / Board Risk Management Committee. The Middle Office closely monitors the Front Office and reports any excesses and deviations from approved limits to the Market Risk Forum and to the Board Risk Management Committee.

The tables below show the carrying amounts of the Non-Mauritian Rupee denominated monetary assets and liabilities at the reporting date.

	USD Rs'000	GBP Rs'000	EURO Rs'000	INR Rs'000	OTHER Rs'000
Group					
2012					
Total assets	**14,737,569**	**765,378**	**5,924,474**	**5,483,407**	**2,936,025**
Total liabilities	**11,765,696**	**2,658,999**	**5,124,123**	**3,700,582**	**3,557,997**
Net assets	**2,971,873**	**(1,893,621)**	**800,351**	**1,782,825**	**(621,972)**
Off-balance sheet net notional position	**(3,091,492)**	**1,863,951**	**(801,367)**	**1,571,946**	**659,358**
2011					
Total assets	20,113,083	1,070,793	3,444,979	7,236,630	2,512,589
Total liabilities	10,835,180	4,443,976	7,425,101	5,268,721	3,652,827
Net assets	9,277,903	(3,373,183)	(3,980,122)	1,967,909	(1,140,238)
Off-balance sheet net notional position	(7,909,245)	3,390,175	3,900,218	-	1,206,028
2010					
Total assets	11,266,583	2,572,144	3,186,971	3,702,436	2,173,018
Total liabilities	6,024,568	3,878,785	4,035,544	2,971,438	2,490,168
Net assets	5,242,015	(1,306,641)	(848,573)	730,998	(317,150)
Off-balance sheet net notional position	(3,676,577)	1,360,927	943,987	-	382,596

'USD' includes the assets and liabilities of the subsidiaries holding Global Business Licences and whose functional currency, including their capital and reserves, is US dollars.
'INR' includes the assets and liabilities of the Indian operations. 'Other' shows the Mauritian rupee equivalent of all other non-Mauritian currencies than those shown separately and include the assets and liabilities of the subsidiary in Madagascar.

	USD Rs'000	GBP Rs'000	EURO Rs'000	INR Rs'000	OTHER Rs'000
Bank					
2012					
Total assets	**15,036,011**	**765,378**	**5,922,336**	**5,190,913**	**789,080**
Total liabilities	**11,805,948**	**2,659,064**	**5,117,765**	**5,091,976**	**1,434,696**
Net assets	**3,230,063**	**(1,893,686)**	**804,571**	**98,937**	**(645,616)**
Off-balance sheet net notional position	**(3,091,492)**	**1,863,951**	**(801,367)**	**1,571,946**	**659,358**
2011					
Total assets	20,102,295	1,070,764	3,438,482	7,236,630	333,938
Total liabilities	12,341,905	4,443,976	7,409,269	5,268,721	1,571,342
Net assets	7,760,390	(3,373,212)	(3,970,787)	1,967,909	(1,237,404)
Off-balance sheet net notional position	(7,909,245)	3,390,175	3,893,985	-	1,206,028
2009					
Total assets	11,163,229	2,572,135	3,158,466	3,702,436	193,354
Total liabilities	7,336,943	3,879,051	3,996,832	2,971,438	550,360
Net assets	3,826,286	(1,306,916)	(838,366)	730,998	(357,006)
Off-balance sheet net notional position	(3,669,398)	1,360,927	933,234	-	382,596

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

38. Risk management (Cont'd)

d. Market risk (Cont'd)

(ii) Currency risk (Cont'd)

Value-at-Risk Analysis

The Group uses Value-at-Risk (VAR) to estimate the potential foreign exchange loss arising from adverse movements in an ordinary market environment. To calculate VAR, SBM uses the historical method which assumes that historical changes in market values are representative of future changes. The VAR is based on the previous 12 months data. SBM calculates VAR using 10 days holding period and an expected tail-loss methodology, which approximates a 99% confidence level. This would mean that only once in every 100 trading days, SBM would expect to incur losses greater than the VAR estimates, or about two to three times a year. The use of 10 days holding period and a one-year historical observation period are in line with the Basel II recommendation.

The Group's and the Bank's VAR amounted to:

	Group			Bank		
	2012	2011	2010	**2012**	2011	2010
	Rs' 000	Rs' 000	Rs' 000	**Rs' 000**	Rs' 000	Rs' 000
Minimum for the year	**158**	172	116	**156**	169	115
Maximum for the year	**7,686**	8,690	9,293	**7,432**	8,289	9,067
Year - End	**3,013**	639	342	**2,916**	634	328

(iii) Equity price sentivity analysis

The Group is exposed to equity price risks arising from equity investments. Available-for-sale equity investments are held for strategic rather than for trading purposes and the Group does not actively trade in these investments. Changes in prices / valuation of these investments are reflected in the statement of comprehensive income, except for impairment losses which are reported in the statement of income. Changes in prices of held-for-trading investments are reflected in the statement of income.

A 5% increase in the price of equities held at the reporting date would have resulted in an unrealised gain to the statement of comprehensive income or statement of income as reflected below. A 5% decrease would have resulted in an equivalent loss being booked.

	Group			Bank		
	2012	2011	2010	**2012**	2011	2010
	Rs' 000	Rs' 000	Rs' 000	**Rs' 000**	Rs' 000	Rs' 000
Statement of comprehensive income	**230,330**	184,547	170,644	**23,597**	185,536	160,749
Statement of income	**616**	49	51	**616**	49	51
	230,946	184,597	170,695	**24,213**	185,585	160,800

e. Accounting policies

Details of the accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability and equity instruments are disclosed in *Note 3* to the financial statements (accounting policies).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

39. Segment information - Group

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The Group has only one reportable operating segment based on its business activities, which is the Banking segment. Its revenues mainly arise from advances to customers and banks, investment in gilt-edged securities and equity instruments, bank placements, services provided on deposit products, provision of card and other electronic channel services, trade finance facilities, trading activities and foreign currency operations.

The accounting policies of the operating segment are the same as those described in *Note 3*.

(a) Information about the reportable segment profit, assets and liabilities

Information about the reportable segment and the reconciliation of the reportable segment information to Group total is shown below:

	Banking Rs'000	Non-bank financial institutions Rs'000	Non-financial institutions Rs'000	Intersegment adjustments Rs'000	Group Total Rs'000
2012					
Interest income from external customers	5,863,668	34,132	-	-	5,897,800
Non interest income from external customers	1,627,279	64,231	210,532	-	1,902,042
Revenue from external customers	7,490,947	98,363	210,532	-	7,799,842
Interest income from internal customers	3,758	3,606	-	(7,364)	-
Non interest income from internal customers	6,951	115,125	-	(122,076)	-
Revenue from other segments of the entity	10,709	118,731	-	(129,440)	-
Total gross revenue	7,501,656	217,094	210,532	(129,440)	7,799,842
Interest and commission expense to external customers	(2,731,591)	(41)	-	-	(2,731,632)
Interest expense to internal customers	(3,563)	(3,758)	-	7,321	-
	(2,735,154)	(3,799)	-	7,321	(2,731,632)
Operating income	4,766,502	213,295	210,532	(122,119)	5,068,210
Depreciation and amortisation	(179,512)	(862)	-	3,847	(176,527)
Other non interest expenses	(1,472,163)	(19,006)	(45)	1,996	(1,489,218)
Net impairment loss on financial assets	(208,607)	(44,953)	-	-	(253,560)
Operating profit	2,906,220	148,474	210,487	(116,276)	3,148,905
Share of profit of associates	81,515	-	-	-	81,515
Profit before income tax	2,987,735	148,474	210,487	(116,276)	3,230,420
Tax expense	(599,110)	(13,813)	-	-	(612,923)
Profit for the year attributable to equity holders of the parent	2,388,625	134,661	210,487	(116,276)	2,617,497
Segment assets	96,263,559	2,627,813	3,424,939	(3,574,496)	98,741,815
Segment liabilities	82,299,774	1,734,951	(7,576)	(3,209,475)	80,817,675
Additions to tangible and intangible assets	121,521	-	313	-	121,833

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

39. Segment information - Group (Cont'd)

	Banking Rs'000	Non-bank financial institutions Rs'000	Non-financial institutions Rs'000	Intersegment adjustments Rs'000	Group Total Rs'000
2011					
Interest income from external customers	4,901,167	23	-	-	4,901,190
Non interest income from external customers	1,701,297	44,086	-	-	1,745,383
Revenue from external customers	6,602,464	44,109	-	-	6,646,573
Interest income from internal customers	-	2,104	-	(2,104)	-
Non interest income from internal customers	23	2,824	-	(2,847)	-
Revenue from other segments of the entity	23	4,928	-	(4,951)	-
Total gross revenue	6,602,487	49,037	-	(4,951)	6,646,573
Interest and commission expense to external customers	(2,442,062)	(1)	-	-	(2,442,063)
Interest expense to internal customers	(2,104)	-	-	2,104	-
	(2,444,166)	(1)	-	2,104	(2,442,063)
Operating income	4,158,321	49,036	-	(2,847)	4,204,510
Depreciation and amortisation	(182,847)	(864)	-	-	(183,711)
Other non interest expenses	(1,303,017)	(13,739)	-	2,847	(1,313,909)
Net impairment loss on financial assets	(251,695)	(67,560)	-	-	(319,255)
Operating profit	2,420,762	(33,127)	-	-	2,387,635
Share of profit of associates	87,027	-	-	-	87,027
Profit before income tax	2,507,789	(33,127)	-	-	2,474,662
Tax expense	(456,219)	(5,348)	-	-	(461,567)
Profit for the year attributable to equity holders of the parent	2,051,570	(38,475)	-	-	2,013,095
Segment assets	97,088,254	363,912	-	(1,724,360)	95,727,806
Segment liabilities	81,318,246	24,192	-	(1,585,135)	79,757,303
Additions to tangible and intangible assets	115,557	348	-	-	115,905
2010					
Interest income from external customers	4,867,080	404	-	-	4,867,484
Non interest income from external customers	1,322,653	34,089	-	-	1,356,742
Revenue from external customers	6,189,733	34,493	-	-	6,224,226
Interest income from internal customers	-	1,226	-	(1,226)	-
Non interest income from internal customers	28	280	-	(308)	-
Revenue from other segments of the entity	28	1,506	-	(1,534)	-
Total gross revenue	6,189,761	35,999	-	(1,534)	6,224,226
Interest and commission expense to external customers	(2,386,797)	(2)	-	-	(2,386,799)
Interest expense to internal customers	(1,226)	-	-	1,226	-
	(2,388,023)	(2)	-	1,226	(2,386,799)
Operating income	3,801,738	35,997	-	(308)	3,837,427
Depreciation and amortisation	(165,477)	(868)	-	-	(166,345)
Other non interest expenses	(1,191,877)	(15,462)	-	308	(1,207,031)
Net impairment loss on financial assets	(318,322)	(103)	-	-	(318,425)
Operating profit	2,126,062	19,564	-	-	2,145,626
Share of profit of associates	66,622	-	-	-	66,622
Profit before income tax	2,192,684	19,564	-	-	2,212,248
Tax expense	(347,902)	(5,506)	-	-	(353,408)
Profit for the year attributable to equity holders of the parent	1,844,782	14,058	-	-	1,858,840
Segment assets	79,520,974	367,016	-	(48,671)	79,839,319
Segment liabilities	65,209,606	17,450	-	(43,733)	65,183,323
Additions to tangible and intangible assets	125,229	-	-	-	125,229

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

39. Segment information - Group (Cont'd)

(b) Information about the reportable segment revenue from products and services

	Banking		
	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Gross revenue from external customers arising from:			
Loans and advances to customers	**5,042,460**	4,023,525	3,721,849
Loans to and placements with banks	**109,388**	69,152	136,833
Exchange income	**492,647**	495,363	487,307
Card income	**517,314**	350,198	217,461
Trade finance services	**186,292**	144,166	101,187
Deposit and other products /services	**115,707**	99,871	123,870
	6,463,808	5,182,275	4,788,507

(c) Information about revenue of the reportable segment by geographical areas

	Banking		
	Mauritius Rs' 000	Other Countries Rs' 000	Total Rs' 000
2012			
Gross revenue from external customers	**5,588,037**	**1,902,910**	**7,490,947**
Tangible and intangible assets	**2,547,638**	**210,489**	**2,758,127**
2011			
Gross revenue from external customers	4,998,738	1,486,562	6,485,300
Tangible and intangible assets	2,621,231	217,362	2,838,593
2010			
Gross revenue from external customers	5,082,680	1,103,347	6,186,027
Tangible and intangible assets	2,697,337	229,747	2,927,084

(d) Information about major customers of the reportable segment

Gross revenue from the major customer of the Group represents 2.5% (2011: 2.5% and 2010: 2.8%) of the Banking segment's total revenue.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

40. Supplementary information as required by Bank Of Mauritius

The Bank of Mauritius requires the Bank to disclose its assets and liabilities, income and expenditure classified into segments A and B. Segment B activity is essentially directed to the provision of international financial services that give rise to 'foreign source income'. Segment A activity relates to all banking business other than Segment B activity. 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.

a. Statements of financial position

	Note	Segment A 2012 Rs' 000	Segment B 2012 Rs' 000	Bank 2012 Rs' 000	Segment A 2011 Rs' 000	Segment B 2011 Rs' 000	Bank 2011 Rs' 000	Segment A 2010 Rs' 000	Segment B 2010 Rs' 000	Bank 2010 Rs' 000
ASSETS										
Cash and cash equivalents	40l	2,121,925	4,842,350	6,964,275	1,349,552	5,152,495	6,502,047	1,049,980	4,145,951	5,195,931
Mandatory balances with Central Banks		4,523,043	148,872	4,671,915	3,592,800	273,914	3,866,714	2,448,740	137,405	2,586,145
Loans to and placements with banks	40m	-	1,511,936	1,511,936	-	943,359	943,359	-	-	-
Trading assets	40n	68,606	185,562	254,168	31,143	114,970	146,113	63,037	85,187	148,224
Loans and advances to customers	40o	48,631,628	13,385,802	62,017,430	37,488,592	18,563,746	56,052,338	29,527,718	13,567,137	43,094,855
Investment securities	40p	9,267,326	5,774,718	15,042,044	17,438,937	4,699,171	22,138,108	21,142,595	1,409,496	22,552,091
Property and equipment	40q	2,490,896	173,549	2,664,445	2,574,245	205,487	2,779,732	2,626,269	220,660	2,846,929
Intangible assets	40r	56,741	28,696	85,437	50,833	5,013	55,846	78,762	3,427	82,189
Other assets	40s	346,834	164,792	511,626	316,226	184,887	501,113	229,469	168,451	397,920
Total assets		67,506,998	26,216,278	93,723,276	62,842,328	30,143,042	92,985,370	57,166,570	19,737,714	76,904,284
LIABILITIES										
Deposits from banks	40t	67,603	147,054	214,657	12,272	250,259	262,531	50,644	202,429	253,073
Deposits from non-bank customers	40u	61,025,418	14,507,734	75,533,152	57,781,633	12,614,448	70,396,081	50,826,124	10,088,786	60,914,910
Other borrowed funds	40v	24,875	2,899,920	2,924,795	66,035	7,058,639	7,124,674	720,573	1,362,716	2,083,289
Trading liabilities	40n	23,726	140,627	164,353	9,426	131,651	141,077	26,341	58,623	84,964
Derivative liabilities held for risk management	40n	-	18,371	18,371	-	-	-	-	-	-
Current tax liabilities		242,276	45,282	287,558	148,485	23,216	171,701	227,332	18,227	245,559
Deferred tax liabilities		59,964	28,290	88,254	104,370	72,876	177,246	99,619	78,959	178,578
Other liabilities	40w	876,007	84,453	960,460	866,049	75,404	941,453	751,841	71,708	823,549
Total liabilities		62,319,869	17,871,731	80,191,600	58,988,270	20,226,493	79,214,763	52,702,474	11,881,448	64,583,922
SHAREHOLDERS' EQUITY										
Share capital				303,740			303,740			303,740
Retained earnings				13,453,336			10,187,914			9,041,522
Other reserves				2,107,886			5,612,239			5,308,386
				15,864,962			16,103,894			14,653,648
Less treasury shares				(2,333,286)			(2,333,286)			(2,333,286)
Total equity attributable to equity holders of the parent				13,531,676			13,770,607			12,320,362
Total equity and liabilities				93,723,276			92,985,370			76,904,284
Contingent liabilities	40x	17,068,806	7,429,159	24,497,965	15,781,121	6,100,855	21,881,976	10,043,692	4,467,121	14,510,813

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

40. Supplementary information as required by Bank Of Mauritius (Cont'd)

	Note	Segment A 2012 Rs' 000	Segment B 2012 Rs' 000	Bank 2012 Rs' 000	Segment A 2011 Rs' 000	Segment B 2011 Rs' 000	Bank 2011 Rs' 000	Segment A 2010 Rs' 000	Segment B 2010 Rs' 000	Bank 2010 Rs' 000
b. Statements of income										
Interest income		4,384,745	1,303,211	5,687,956	3,833,192	894,428	4,727,620	3,963,506	743,862	4,707,368
Interest expense		(1,908,310)	(685,632)	(2,593,942)	(1,857,103)	(460,144)	(2,317,247)	(1,975,856)	(323,383)	(2,299,239)
Net interest income	40c	2,476,435	617,579	3,094,014	1,976,089	434,284	2,410,373	1,987,650	420,479	2,408,129
Fee and commission income		551,823	569,673	1,121,496	580,513	278,797	859,310	457,176	154,058	611,234
Fee and commission expense		(19,276)	(11,529)	(30,805)	(22,131)	(15,338)	(37,469)	-	(12,001)	(12,001)
Net fee and commission income	40d	532,547	558,144	1,090,691	558,382	263,459	821,841	457,176	142,057	599,233
Dividend income	40e	230,440	1,469,331	1,699,771	220,028	1,073	221,101	203,811	1,174	204,985
Net trading income	40f	255,841	191,447	447,288	280,809	160,564	441,373	334,989	114,763	449,752
Other operating income	40g	10,807	999	11,806	(424)	1,593	1,169	(182)	-	(182)
Non interest income		1,029,635	2,219,921	3,249,556	1,058,795	426,689	1,485,484	995,794	257,994	1,253,788
Operating income		3,506,070	2,837,500	6,343,570	3,034,884	860,973	3,895,857	2,983,444	678,473	3,661,917
Personnel expenses	40h	(802,379)	(161,666)	(964,045)	(740,909)	(143,821)	(884,730)	(671,094)	(90,311)	(761,405)
Depreciation and amortisation		(153,228)	(24,509)	(177,737)	(156,938)	(26,649)	(183,587)	(145,057)	(21,398)	(166,455)
Other expenses	40i	(371,863)	(79,562)	(451,425)	(313,472)	(49,348)	(362,820)	(319,813)	(62,112)	(381,925)
Non interest expense		(1,327,470)	(265,737)	(1,593,207)	(1,211,319)	(219,818)	(1,431,137)	(1,135,964)	(173,821)	(1,309,785)
Profit before net impairment loss on financial assets		2,178,600	2,571,763	4,750,363	1,823,565	641,155	2,464,720	1,847,480	504,652	2,352,132
Net impairment loss on financial assets	40j	(144,045)	(29,852)	(173,897)	(128,136)	(92,254)	(220,390)	(166,822)	(82,106)	(248,928)
Operating profit		2,034,555	2,541,911	4,576,466	1,695,429	548,901	2,244,330	1,680,658	422,546	2,103,204
Tax expense	40k	(430,571)	(131,752)	(562,323)	(338,215)	(79,199)	(417,414)	(317,271)	(29,421)	(346,692)
Profit for the year		1,603,984	2,410,159	4,014,143	1,357,214	469,702	1,826,916	1,363,387	393,125	1,756,512
c. Net interest income										
Interest income										
Cash and cash equivalents		8,663	34,667	43,330	6,589	41,907	48,496	7,797	48,167	55,964
Loans to and placements with banks		-	59,303	59,303	-	6,636	6,636	-	15,305	15,305
Loans and advances to customers		3,780,955	870,525	4,651,480	3,003,896	694,792	3,698,688	2,892,452	567,029	3,459,481
Investment securities		594,325	299,136	893,461	814,246	134,545	948,791	1,062,806	32,124	1,094,930
Trading assets		800	39,560	40,360	3,758	16,400	20,158	451	68,517	68,968
Other		2	20	22	4,703	148	4,851	-	12,720	12,720
Total interest income		4,384,745	1,303,211	5,687,956	3,833,192	894,428	4,727,620	3,963,506	743,862	4,707,368
Interest expense										
Deposits from banks		-	(350)	(350)	-	(314)	(314)	-	(329)	(329)
Deposits from non-bank customers		(1,887,216)	(461,128)	(2,348,344)	(1,848,133)	(301,887)	(2,150,020)	(1,969,611)	(302,749)	(2,272,360)
Other borrowed funds		(21,094)	(224,154)	(245,248)	(8,970)	(141,655)	(150,625)	(6,245)	(19,334)	(25,579)
Other		-	-	-	-	(16,288)	(16,288)	-	(971)	(971)
Total interest expense		(1,908,310)	(685,632)	(2,593,942)	(1,857,103)	(460,144)	(2,317,247)	(1,975,856)	(323,383)	(2,299,239)
Net interest income		2,476,435	617,579	3,094,014	1,976,089	434,284	2,410,373	1,987,650	420,479	2,408,129

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

40. Supplementary information as required by Bank Of Mauritius (Cont'd)

	Segment A 2012 Rs' 000	Segment B 2012 Rs' 000	Bank 2012 Rs' 000	Segment A 2011 Rs' 000	Segment B 2011 Rs' 000	Bank 2011 Rs' 000	Segment A 2010 Rs' 000	Segment B 2010 Rs' 000	Bank 2010 Rs' 000
d. Net fee and commission income									
Fee and commission income									
Retail banking customer fees	316,134	7,381	323,515	267,025	4,382	271,407	214,784	3,531	218,315
Corporate banking customer fees	137,157	141,712	278,869	105,341	121,796	227,137	111,530	63,928	175,458
Card Income	98,532	420,580	519,112	208,147	152,619	360,766	130,862	86,599	217,461
Total fee and commission income	551,823	569,673	1,121,496	580,513	278,797	859,310	457,176	154,058	611,234
Fee and commission expense									
Interbank transaction fees	-	(10,284)	(10,284)	-	(13,059)	(13,059)	-	(11,343)	(11,343)
Other	(19,276)	(1,245)	(20,521)	(22,131)	(2,279)	(24,410)	-	(658)	(658)
Total fee and commission expense	(19,276)	(11,529)	(30,805)	(22,131)	(15,338)	(37,469)	-	(12,001)	(12,001)
Net fee and commission income	532,547	558,144	1,090,691	558,382	263,459	821,841	457,176	142,057	599,233
e. Dividend income									
Available-for-sale securities	230,246	1,469,331	1,699,577	219,931	1,073	221,004	203,811	962	204,773
Trading securities	194	-	194	97	-	97	-	212	212
	230,440	1,469,331	1,699,771	220,028	1,073	221,101	203,811	1,174	204,985
f. Net trading income									
Fixed income securities	37	263	300	(7)	1,821	1,814	90	(6,779)	(6,689)
Equities	(68)	201	133	450	(3,686)	(3,236)	537	383	920
Foreign exchange	256,360	200,601	456,961	280,365	165,954	446,319	320,361	126,181	446,542
Other	(488)	(9,618)	(10,106)	1	(3,525)	(3,524)	14,001	(5,022)	8,979
	255,841	191,447	447,288	280,809	160,564	441,373	334,989	114,763	449,752
g. Other operating income									
Gain on sale of available-for-sale securities:									
Investment securities	3,766	1,040	4,806	3,254	1,480	4,734	-	-	-
Equity investments	6,278	-	6,278	-	-	-	-	-	-
Other	763	(41)	722	(3,678)	113	(3,565)	(182)	-	(182)
	10,807	999	11,806	(424)	1,593	1,169	(182)	-	(182)
h. Personnel expenses									
Wages and salaries	574,180	128,379	702,559	532,135	115,254	647,389	487,173	72,281	559,454
Other social security obligations	8,741	1,076	9,817	8,347	963	9,310	8,269	813	9,082
Contributions to defined contribution plans	43,601	9,999	53,600	38,735	6,484	45,219	32,193	5,476	37,669
Cash-settled share-based payments	13,164	2,102	15,266	17,022	2,912	19,934	7,641	2,122	9,763
Increase in liability for defined benefit plans	16,488	1,005	17,493	14,967	986	15,953	21,143	824	21,967
Other personnel expenses	146,205	19,105	165,310	129,703	17,222	146,925	114,675	8,795	123,470
	802,379	161,666	964,045	740,909	143,821	884,730	671,094	90,311	761,405

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

40. Supplementary information as required by Bank Of Mauritius (Cont'd)

	Segment A 2012 Rs' 000	Segment B 2012 Rs' 000	Bank 2012 Rs' 000	Segment A 2011 Rs' 000	Segment B 2011 Rs' 000	Bank 2011 Rs' 000	Segment A 2010 Rs' 000	Segment B 2010 Rs' 000	Bank 2010 Rs' 000
i. Other expenses									
Software licensing and other information technology cost	118,147	30,453	148,600	92,041	20,832	112,873	100,436	21,821	122,257
Auditors' remuneration (audit fee):									
- Principal auditors	4,057	634	4,691	3,935	613	4,548	3,681	563	4,244
- Other auditors	-	451	451	-	465	465	-	301	301
Other	249,659	48,024	297,683	217,496	27,438	244,934	215,696	39,427	255,123
	371,863	79,562	451,425	313,472	49,348	362,820	319,813	62,112	381,925
j. Net impairment loss on financial assets									
Portfolio and specific provisions:									
- On-balance sheet advances	175,675	29,369	205,044	123,291	90,888	214,179	199,666	69,192	268,858
- Off-balance sheet exposure	(15,406)	(881)	(16,287)	15,039	1,366	16,405	-	-	-
Interest accrued on impaired advances	-	-	-	-	-	-	(24,017)	-	(24,017)
Bad debts written off for which no provisions were made	331	-	331	2	-	2	-	-	-
Recoveries of advances written off	(21,189)	-	(21,189)	(14,943)	-	(14,943)	(8,827)	(1,091)	(9,918)
Other loss	4,634	1,364	5,998	4,747	-	4,747	-	14,005	14,005
	144,045	29,852	173,897	128,136	92,254	220,390	166,822	82,106	248,928
Of which:									
Credit exposure	139,411	28,488	167,899	123,389	92,254	215,643	166,822	68,101	234,923
Other financial assets	4,634	1,364	5,998	4,747	-	4,747	-	14,005	14,005
	144,045	29,852	173,897	128,136	92,254	220,390	166,822	82,106	248,928
k. Tax expense									
Income tax expense	461,493	167,584	629,077	346,947	79,626	426,573	366,877	34,754	401,631
Deferred tax income	(30,922)	(35,832)	(66,754)	(8,732)	(427)	(9,159)	(49,606)	(5,333)	(54,939)
	430,571	131,752	562,323	338,215	79,199	417,414	317,271	29,421	346,692
l. Cash and cash equivalents									
Cash in hand	753,531	5	753,536	807,099	-	807,099	705,117	-	705,117
Foreign currency notes and coins	-	95,204	95,204	-	86,354	86,354	-	85,083	85,083
Unrestricted balances with central banks[1]	1,064,189	2,004	1,066,193	-	403,301	403,301	148,761	-	148,761
Loans and placements with banks[2]	304,205	3,631,923	3,936,128	542,453	4,103,487	4,645,940	196,102	3,529,791	3,725,893
Balances with banks	-	1,113,214	1,113,214	-	559,353	559,353	-	531,077	531,077
	2,121,925	4,842,350	6,964,275	1,349,552	5,152,495	6,502,047	1,049,980	4,145,951	5,195,931

[1] Unrestricted balances with central banks represent amounts above the minimum cash reserve requirement.
[2] The balances above include loans and placements with banks having an original maturity of up to three months.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

40. Supplementary information as required by Bank Of Mauritius (Cont'd)

	Segment A 2012 Rs' 000	Segment B 2012 Rs' 000	Bank 2012 Rs' 000	Segment A 2011 Rs' 000	Segment B 2011 Rs' 000	Bank 2011 Rs' 000	Segment A 2010 Rs' 000	Segment B 2010 Rs' 000	Bank 2010 Rs' 000
m. Loans to and placements with banks									
Loans to and placements with banks outside Mauritius	-	1,511,936	1,511,936	-	943,359	943,359	-	-	-
Remaining term to maturity									
Up to 3 months	-	111,152	111,152	-	-	-	-	-	-
Over 3 months and up to 6 months	-	700,171	700,171	-	285,722	285,722	-	-	-
Over 6 months and up to 12 months	-	390,295	390,295	-	371,324	371,324	-	-	-
Over 1 year and up to 2 years	-	310,318	310,318	-	286,313	286,313	-	-	-
	-	1,511,936	1,511,936	-	943,359	943,359	-	-	-
n. Trading assets									
Government securities	12,237	28,882	41,119	13,465	-	13,465	14,368	71,330	85,698
Equities	10,985	1,339	12,324	985	-	985	-	1,026	1,026
Derivative assets	45,384	155,341	200,725	16,693	114,970	131,663	48,669	12,831	61,500
	68,606	185,562	254,168	31,143	114,970	146,113	63,037	85,187	148,224
Trading liabilities									
Derivative liabilities	23,726	140,627	164,353	9,426	131,651	141,077	26,341	58,623	84,964
Derivative liabilities held for risk management									
Interest rate swap contracts designated as fair value hedges	-	18,371	18,371	-	-	-	-	-	-
o. Loans and advances to customers									
Retail customers									
Credit cards	414,595	-	414,595	358,563	-	358,563	303,554	-	303,554
Mortgages	12,616,986	-	12,616,986	9,419,961	-	9,419,961	7,349,260	-	7,349,260
Other retail loans	8,045,760	-	8,045,760	6,736,757	-	6,736,757	5,814,497	-	5,814,497
Corporate customers	28,521,945	2,380,895	30,902,840	21,845,280	1,737,520	23,582,800	16,827,505	2,084,982	18,912,487
Governments	5,985	-	5,985	2,397	-	2,397	1,904	-	1,904
Entities outside Mauritius	-	11,219,197	11,219,197	-	17,030,912	17,030,912	-	11,624,754	11,624,754
	49,605,271	13,600,092	63,205,363	38,362,958	18,768,432	57,131,390	30,296,720	13,709,736	44,006,456
Less allowance for credit impairment	(973,643)	(214,290)	(1,187,933)	(874,366)	(204,686)	(1,079,052)	(769,002)	(142,599)	(911,601)
	48,631,628	13,385,802	62,017,430	37,488,592	18,563,746	56,052,338	29,527,718	13,567,137	43,094,855
Remaining term to maturity									
Up to 3 months	8,571,119	4,624,582	13,195,701	5,957,954	8,243,309	14,201,263	3,762,451	4,976,808	8,739,259
Over 3 months and up to 6 months	2,704,684	1,798,434	4,503,118	2,231,421	4,960,073	7,191,494	1,402,722	520,664	1,923,386
Over 6 months and up to 12 months	2,532,019	507,535	3,039,554	2,449,939	634,394	3,084,333	1,287,570	1,448,339	2,735,909
Over 1 year and up to 2 years	1,352,883	670,694	2,023,577	1,083,386	609,102	1,692,488	847,735	2,565,636	3,413,371
Over 2 years and up to 5 years	8,465,603	3,834,509	12,300,112	7,539,869	2,761,229	10,301,098	5,582,792	1,912,716	7,495,508
Over 5 years	25,978,963	2,164,338	28,143,301	19,100,389	1,560,325	20,660,714	17,413,450	2,285,573	19,699,023
	49,605,271	13,600,092	63,205,363	38,362,958	18,768,432	57,131,390	30,296,720	13,709,736	44,006,456

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

40. Supplementary information as required by Bank Of Mauritius (Cont'd)

o. Loans and advances to customers (Cont'd)

Allowance for credit impairment by industry sectors

	2012					2011	2010
	Gross amount of loans Rs' 000	Impaired loans Rs' 000	Specific allowance for credit impairment Rs' 000	Portfolio allowance for credit impairment Rs' 000	Total allowances for credit impairment Rs' 000	Total allowances for credit impairment Rs' 000	Total allowances for credit impairment Rs' 000
Segment A							
Agriculture and Fishing	3,725,536	-	-	19,277	19,277	16,300	7,671
Manufacturing	2,113,746	12,633	10,361	50,850	61,211	56,436	54,445
of which EPZ	*765,114*	*115*	*40*	*26,190*	*26,230*	*25,712*	*22,250*
Tourism	10,013,847	1,419	1,419	333,027	334,446	312,519	275,259
Transport	1,189,651	1,126	1,126	7,432	8,558	9,289	6,366
Construction	2,087,099	21,562	21,359	37,330	58,689	49,508	43,723
Financial and business services	2,234,596	-	-	12,848	12,848	5,024	3,733
Traders	5,446,937	10,814	8,863	56,814	65,677	59,451	60,905
Personal	19,365,822	298,957	252,334	123,680	376,014	316,378	297,218
of which credit cards	*386,508*	*10,525*	*10,525*	*10,187*	*20,712*	*16,952*	*19,004*
Professional	118,637	-	-	987	987	17,410	17,077
Others	3,309,400	25,518	14,904	21,033	35,937	32,051	28,625
	49,605,271	372,029	310,366	663,278	973,644	874,366	795,022
Segment B							
Agriculture and Fishing	112,337	-	-	928	928	69	-
Manufacturing	4,684,313	92,991	13,949	45,929	59,878	69,859	48,650
of which EPZ	*72,663*	-	-	*363*	*363*	-	-
Tourism	1,173,777	-	-	11,738	11,738	11,439	9,512
Transport	1,267,568	-	-	9,025	9,025	8,842	3,991
Construction	598,399	95,910	67,137	108	67,245	47,709	23,573
Financial and business services	439,063	-	-	15,329	15,329	29,584	2,905
Traders	555,713	-	-	2,043	2,043	11,145	5,173
Personal	780,568	-	-	1,852	1,852	968	1,573
Global Business Licence holders	2,378,456	-	-	18,209	18,209	13,286	10,280
Others	1,609,898	20,685	12,810	15,232	28,042	11,785	10,922
	13,600,092	209,586	93,896	120,393	214,289	204,686	116,579

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

40. Supplementary information as required by Bank Of Mauritius (Cont'd)

p. Investment securities

Remaining term to maturity

	2012										
	Up to 3 months Rs' 000	3-6 months Rs' 000	6-9 months Rs' 000	9-12 months Rs' 000	1-2 years Rs' 000	2-5 years Rs' 000	Over 5 years Rs' 000	No specific maturity Rs' 000	Total Rs' 000	2011 Rs' 000	2010 Rs' 000
Segment A											
Investment securities - loans and receivables											
Government bonds and treasury notes	401,065	100,486	51,455	-	-	4,217,379	-	-	4,770,385	4,855,497	5,449,607
Treasury bills	1,054,045	349,646	1,618,478	847,477	-	-	-	-	3,869,646	7,463,027	12,684,708
Bank of Mauritius bills / notes	467,865	50,952	74,739	-	-	-	-	-	593,556	1,662,712	-
	1,922,975	501,084	1,744,672	847,477	-	4,217,379	-	-	9,233,587	13,981,236	18,134,315
Available-for-sale investment securities											
Equity shares of companies:											
- Investment in subsidiaries	-	-	-	-	-	-	-	75	75	50	25
- Investment in associates	-	-	-	-	-	-	-	-	-	667,803	423,318
- Other equity investments	-	-	-	-	-	-	-	33,664	33,664	2,789,848	2,584,937
	-	-	-	-	-	-	-	33,739	33,739	3,457,701	3,008,280
Total Segment A	1,922,975	501,084	1,744,672	847,477	-	4,217,379	-	33,739	9,267,326	17,438,937	21,142,595
Segment B											
Held-to-maturity investment securities											
Government bonds and treasury notes	-	-	-	-	612,531	249,424	-	-	861,955	687,977	-
Treasury bills	357,392	-	-	-	-	-	-	-	357,392	1,167,500	1,103,628
Securities issued by government bodies	-	53,985	394	-	-	619	-	-	54,998	63,823	68,725
	357,392	53,985	394	-	612,531	250,043	-	-	1,274,345	1,919,300	1,172,353
Available-for-sale investment securities											
Government bonds	-	-	-	-	-	-	451,021	-	451,021	-	-
Equity shares of companies:											
- Investment in subsidiaries	-	-	-	-	-	-	-	47	47	47	47
- Other equity investments	-	-	-	-	-	-	-	1,892,981	1,892,981	278,442	237,096
Bank bonds	-	-	-	-	-	1,728,335	175,381	-	1,903,716	1,623,754	-
Corporate paper and preference shares	110,614	133,435	-	-	-	-	8,559	-	252,608	877,628	-
	110,614	133,435	-	-	-	1,728,335	634,961	1,893,028	4,500,373	2,779,871	237,143
Total Segment B	468,006	187,420	394	-	612,531	1,978,378	634,961	1,893,028	5,774,718	4,699,171	1,409,496
Total Bank	2,390,981	688,504	1,745,066	847,477	612,531	6,195,757	634,961	1,926,767	15,042,044	22,138,108	22,552,091

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

40. Supplementary information as required by Bank Of Mauritius (Cont'd)

q. Property and equipment

	Freehold land and buildings Rs' 000	Leasehold buildings Rs' 000	Other tangible fixed assets Rs' 000	Motor vehicles Rs' 000	Progress payments on tangible fixed assets Rs' 000	Total Rs' 000
Net book value at 30 June 2012						
Segment A	414,786	1,792,412	262,009	12,346	9,343	2,490,896
Segment B	166,568	-	6,241	740	-	173,549
Bank	581,354	1,792,412	268,250	13,086	9,343	2,664,445
Net book value at 30 June 2011						
Segment A	421,648	1,847,000	262,324	11,068	32,205	2,574,245
Segment B	196,903	-	1,882	1,151	5,551	205,487
Bank	618,551	1,847,000	264,206	12,219	37,756	2,779,732
Net book value at 30 June 2010						
Segment A	428,095	1,902,174	274,022	5,946	16,032	2,626,269
Segment B	218,238	-	857	1,565	-	220,660
Bank	646,333	1,902,174	274,879	7,511	16,032	2,846,929

r. Intangible assets

	2012 Rs' 000	2011 Rs' 000	2010 Rs' 000
Software			
Net Book Value			
Segment A	56,741	50,833	78,762
Segment B	28,696	5,013	3,427
Bank	85,437	55,846	82,189

s. Other assets

	Segment A 2012 Rs' 000	Segment B 2012 Rs' 000	Bank 2012 Rs' 000	Segment A 2011 Rs' 000	Segment B 2011 Rs' 000	Bank 2011 Rs' 000	Segment A 2010 Rs' 000	Segment B 2010 Rs' 000	Bank 2010 Rs' 000
Accounts receivable	51,148	52,073	103,221	125,801	56,166	181,967	44,971	22,600	67,571
Balances due in clearing	233,627	-	233,627	158,617	-	158,617	142,094	-	142,094
Tax paid in advance	-	53,699	53,699	-	104,132	104,132	-	121,934	121,934
Pension asset	958	-	958	1,828	-	1,828	649	-	649
Balances with Clearing Corporation in India	-	19,968	19,968	-	18,804	18,804	-	20,955	20,955
Non-banking assets acquired in satisfaction of debts	366	-	366	320	-	320	202	-	202
Others	60,735	39,052	99,787	29,660	5,785	35,445	41,553	2,962	44,515
	346,834	164,792	511,626	316,226	184,887	501,113	229,469	168,451	397,920
t. Deposits from banks									
Demand deposits	67,603	147,054	214,657	12,272	250,259	262,531	50,644	202,429	253,073

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

40. Supplementary information as required by Bank Of Mauritius (Cont'd)

u. Deposits from non-bank customers

	Segment A 2012 Rs' 000	Segment B 2012 Rs' 000	Bank 2012 Rs' 000	Segment A 2011 Rs' 000	Segment B 2011 Rs' 000	Bank 2011 Rs' 000	Segment A 2010 Rs' 000	Segment B 2010 Rs' 000	Bank 2010 Rs' 000
(i) Retail customers									
Current accounts	7,247,647	1,470,375	8,718,022	6,047,026	1,149,754	7,196,780	5,133,094	1,134,830	6,267,924
Savings accounts	25,351,868	1,136,778	26,488,646	23,022,666	899,422	23,922,088	21,227,018	748,760	21,975,778
Time deposits with remaining term to maturity:									
Up to 3 months	935,111	480,667	1,415,778	1,109,528	513,013	1,622,541	1,292,525	597,432	1,889,957
Over 3 months and up to 6 months	647,660	343,638	991,298	1,002,934	211,510	1,214,444	869,789	778,343	1,648,132
Over 6 months and up to 12 months	1,656,254	592,687	2,248,941	2,284,656	841,458	3,126,114	2,469,937	517,814	2,987,751
Over 1 year and up to 5 years	2,974,108	1,301,782	4,275,890	2,382,923	869,169	3,252,092	3,435,334	937,808	4,373,142
Over 5 years	-	9,781	9,781	-	472	472	-	-	-
Total time deposits	6,213,133	2,728,555	8,941,688	6,780,042	2,435,622	9,215,663	8,067,586	2,831,397	10,898,982
	38,812,648	5,335,708	44,148,356	35,849,733	4,484,798	40,334,531	34,427,697	4,714,988	39,142,684
(ii) Corporate customers									
Current accounts	7,358,504	5,514,320	12,872,824	8,520,679	3,191,400	11,712,079	5,030,575	2,301,098	7,331,673
Savings accounts	4,255,266	-	4,255,266	4,525,254	-	4,525,254	4,816,630	52	4,816,682
Time deposits with remaining term to maturity:									
Up to 3 months	5,023,708	2,945,424	7,969,132	1,104,927	1,225,080	2,330,007	1,577,655	1,115,005	2,692,660
Over 3 months and up to 6 months	895,760	133,757	1,029,517	1,089,293	1,413,550	2,502,843	511,092	346,997	858,089
Over 6 months and up to 12 months	116,322	418,876	535,198	863,025	1,583,139	2,446,164	46,147	210,660	256,807
Over 1 year and up to 5 years	407,763	159,641	567,404	2,866,920	716,481	3,583,401	1,613,870	1,399,987	3,013,857
Over 5 years	169,964	8	169,972	-	-	-	-	-	-
Total time deposits	6,613,517	3,657,706	10,271,223	5,924,164	4,938,250	10,862,414	3,748,765	3,072,650	6,821,413
	18,227,287	9,172,026	27,399,313	18,970,097	8,129,650	27,099,747	13,595,970	5,373,800	18,969,768
(iii) Government									
Current accounts	2,194,523	-	2,194,523	1,444,318	-	1,444,318	1,154,297	-	1,154,297
Savings accounts	1,784,196	-	1,784,196	1,506,476	-	1,506,476	1,625,925	-	1,625,925
Time deposits with remaining term to maturity:									
Up to 3 months	2,306	-	2,306	2,305	-	2,305	1,558	-	1,558
Over 3 months and up to 6 months	333	-	333	4,364	-	4,364	334	-	334
Over 6 months and up to 12 months	4,125	-	4,125	4,237	-	4,237	16,123	-	16,123
Over 1 year and up to 5 years	-	-	-	102	-	102	4,221	-	4,221
Total time deposits	6,764	-	6,764	11,008	-	11,008	18,015	-	18,015
	3,985,483	-	3,985,483	2,961,802	-	2,961,802	2,798,237	-	2,798,237
	61,025,418	14,507,734	75,533,152	57,781,633	12,614,448	70,396,081	50,821,904	10,088,788	60,910,689

v. Other borrowed funds

	Segment A 2012 Rs' 000	Segment B 2012 Rs' 000	Bank 2012 Rs' 000	Segment A 2011 Rs' 000	Segment B 2011 Rs' 000	Bank 2011 Rs' 000	Segment A 2010 Rs' 000	Segment B 2010 Rs' 000	Bank 2010 Rs' 000
Borrowings from central banks	24,875	-	24,875	66,035	350,972	417,007	105,503	137,420	242,923
Borrowings from banks									
in Mauritius	-	-	-	-	-	-	615,070	-	615,070
abroad	-	391	391	-	690,278	690,278	-	441,299	441,299
Other financial institutions	-	2,899,529	2,899,529	-	6,017,389	6,017,389	-	783,997	783,997
	24,875	2,899,920	2,924,795	66,035	7,058,639	7,124,674	720,573	1,362,716	2,083,289

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

40. Supplementary information as required by Bank Of Mauritius (Cont'd)

w. Other liabilities

	Segment A 2012 Rs' 000	Segment B 2012 Rs' 000	Bank 2012 Rs' 000	Segment A 2011 Rs' 000	Segment B 2011 Rs' 000	Bank 2011 Rs' 000	Segment A 2010 Rs' 000	Segment B 2010 Rs' 000	Bank 2010 Rs' 000
Bills payable	154,396	7,731	162,127	155,998	5,052	161,050	107,310	1,394	108,704
Accruals for expenses	285,402	17,284	302,686	256,508	10,913	267,421	230,313	4,085	234,398
Accounts payable	135,806	39,877	175,683	66,524	33,112	99,636	69,758	11,086	80,844
Deferred income	31,388	13,925	45,313	18,596	23,768	42,364	14,364	53,853	68,217
Balance due in clearing	184,855	-	184,855	173,590	-	173,590	154,567	7	154,574
Balances in transit	54,117	-	54,117	167,689	-	167,689	165,552	-	165,552
Allowance on off-balance sheet exposure	-	-	-	15,039	1,366	16,405	-	-	-
Others	30,043	5,636	35,679	12,105	1,193	13,298	9,977	1,283	11,260
	876,007	84,453	960,460	866,049	75,404	941,453	751,841	71,708	823,549

x. Contingent liabilities

	Segment A 2012 Rs' 000	Segment B 2012 Rs' 000	Bank 2012 Rs' 000	Segment A 2011 Rs' 000	Segment B 2011 Rs' 000	Bank 2011 Rs' 000	Segment A 2010 Rs' 000	Segment B 2010 Rs' 000	Bank 2010 Rs' 000
Acceptances, guarantees, letters of credit, endorsements, other obligations on account of customers and spot foreign exchange contracts	6,941,358	6,003,402	12,944,760	8,241,797	4,628,509	12,870,306	3,242,733	2,588,473	5,831,206
Commitments	9,867,359	464,025	10,331,384	7,252,114	857,314	8,109,428	6,519,924	1,685,510	8,205,434
Inward bills held for collection	113,079	2,936	116,015	182,561	14,570	197,131	215,397	26,292	241,689
Outward bills sent for collection	147,010	958,796	1,105,806	104,649	600,462	705,111	65,638	166,846	232,484
	17,068,806	7,429,159	24,497,965	15,781,121	6,100,855	21,881,976	10,043,692	4,467,121	14,510,813
a. Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers, and spot foreign exchange contracts									
Acceptances on account of customers	232,528	5,811	238,339	203,147	483,000	686,147	106,799	-	106,799
Guarantees on account of customers	6,101,720	1,175,659	7,277,379	7,383,254	1,540,553	8,923,807	2,472,179	205,019	2,677,198
Letters of credit and other obligations on account of customers	515,786	253,336	769,122	639,197	766,411	1,405,608	425,931	295,740	721,671
Spot foreign exchange contracts	91,324	4,568,596	4,659,920	16,199	1,838,545	1,854,744	237,824	2,087,714	2,325,538
	6,941,358	6,003,402	12,944,760	8,241,797	4,628,509	12,870,306	3,242,733	2,588,473	5,831,206
b. Commitments									
Undrawn credit facilities	9,867,359	464,025	10,331,384	7,227,965	857,314	8,085,279	6,519,924	1,685,510	8,205,434
Undisbursed commitments in equities	-	-	-	24,149	-	24,149	-	-	-
	9,867,359	464,025	10,331,384	7,252,114	857,314	8,109,428	6,519,924	1,685,510	8,205,434

Shaping the opportunities in promising markets

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Cautionary note: The analysis of the Group's financial information should be read in conjunction with the Audited Financial Statements for the Group and the Bank for the year ended 30 June 2012 presented on pages 20 to 87. The financial information given is based on the year under review and may not necessarily reflect the financial results and conditions of operations of the Group going forward. Readers are also advised to refer to the statement on page 4 relating to forward-looking statements.

Key financial indicators

SBM GROUP	2012	2011[a]	2010[a]	2009[a]	2008[a]
Consolidated statements of income for the year ended 30 June (Rs m)					
Net interest income	**3,199**	2,499	2,493	2,400	2,044
Non interest income	**1,870**	1,706	1,344	1,582	2,061
Non interest expense	**1,666**	1,498	1,373	1,423	1,378
Depreciation and amortization	**177**	184	166	310	298
Profit before income tax and net impairment loss on financial assets	**3,484**	2,794	2,531	2,623	2,789
Profit before income tax	**3,230**	2,475	2,212	2,345	2,397
Profit for the year	**2,617**	2,013	1,859	2,025	2,114
Consolidated statements of financial position as at 30 June (Rs m)					
Total assets (including contra items)	**123,450**	117,947	94,550	90,042	77,089
Total assets (excluding contra items)	**98,742**	95,728	79,839	79,234	67,557
Gross loans and advances to customers	**63,532**	58,005	44,792	40,792	36,206
Gilt-edged securities	**12,314**	16,866	20,210	15,173	11,582
Deposits from non-bank customers	**76,159**	70,888	61,502	63,569	54,835
Shareholders' equity	**17,924**	15,971	14,656	12,943	10,974
Tier 1 capital	**12,465**	11,198	9,870	8,724	7,672
Risk-weighted assets[c]	**69,886**	60,095	46,238	44,437	43,293
Consolidated statements of financial position (average[d] Rs m)					
Average assets	**97,235**	87,784	79,536	73,395	63,893
Average loans and advances to customers	**60,768**	51,398	42,792	38,499	33,341
Average gilt-edged securities	**14,590**	18,538	17,691	13,377	9,851
Average deposits from non-bank customers	**73,523**	66,195	62,536	59,202	51,655
Average shareholders' equity	**16,947**	15,313	13,799	11,958	10,244
Average working funds	**96,420**	86,793	78,729	72,278	62,000
Average Tier 1 capital	**11,831**	10,534	9,297	8,198	6,873
Average interest earning assets	**83,679**	76,104	68,933	62,090	53,185
Average interest bearing liabilities	**78,092**	70,145	63,409	27,315	51,870

SBM GROUP	2012	2011[a]	2010[a]	2009[a]	2008[a]
Share information					
Earnings per share (Rs)	**10.14**	7.80	7.20	7.84	8.19[b,e]
Dividend per share (Rs)	**3.50**	3.00	2.75	2.75	2.55
Net asset value per share (Rs)	**69.43**	61.86	56.77	50.13	42.50
Market price per share (Rs)	**82.00**	96.00	79.00	70.00	96.00
Dividend yield (%)	**4.27**	3.13	3.48	3.93	2.66
Earnings yield (%)	**12.36**	8.12	9.11	11.21	8.53
Price earnings ratio (times)	**8.09**	12.31	10.97	8.92	11.72
Dividend cover (times)	**2.90**	2.60	2.62	2.85	3.21
Market Capitalisation (Rs m)	**24,907**	29,159	23,995	21,262	29,159
Performance ratios (%)					
Risk adjusted return on capital (RAROC)	**54.35**	49.22	49.83	52.50	47.56
Capital adequacy ratio[c]	**21.73**	22.42	26.49	24.04	21.61
Profit before income tax/ average risk-weighted assets[f]	**4.97**	4.65	4.88	5.35	5.82
Profit before income tax/ average assets	**3.32**	2.82	2.78	3.19	3.75
Profit before income tax/ average shareholders' equity	**19.06**	16.16	16.03	19.61	23.42
Profit before income tax/ average Tier 1 capital	**27.30**	23.49	23.80	28.6	34.91
Return on average risk-weighted assets[d]	**4.03**	3.79	4.10	4.62	5.12
Return on average assets[d]	**2.69**	2.29	2.34	2.76	3.31
Return on average shareholders' equity[d]	**15.44**	13.15	13.47	16.94	20.64
Return on average Tier 1 capital[d]	**22.12**	19.11	19.99	24.71	30.76
Efficiency ratios (%)					
Cost to income	**34.60**	38.55	39.03	38.43	37.08
Cost to income (before depreciation)	**30.93**	33.82	34.30	30.06	29.05
Asset quality ratios (%)					
Gross impaired advances to gross advances	**1.07**	1.40	1.87	2.00	2.42
Net impaired advances to net advances	**0.36**	0.46	0.81	0.47	0.48
Other key data as at 30 June					
Number of employees	**1,194**	1,229	1,157	1,116	1,069
Number of employees (Mauritius)	**1,100**	1,138	1,084	1,037	1,004
Number of employees (Overseas)	**94**	91	73	79	65
Number of service units	**48**	48	48	48	49
Exchange rate (USD: MUR)	**30.93**	28.52	31.90	32.06	27.15
Exchange rate (INR: MUR)	**0.556**	0.638	0.687	0.669	0.631
Exchange rate (100 MGA: MUR)	**1.426**	1.478	1.421	1.672	1.733

[a]Restated wherever applicable for comparative purposes

[b]Including a substantial increase in dividend of Rs 552 m in FY 2008, arising mostly from a one-off receipt

[c]Risk-weighted assets are computed as per the prevailing guidelines existing at the year-ends. The 2009, 2010, 2011 and 2012 ratios are computed based on the Basel II methodology advocated by the Bank of Mauritius.

[d]Averages are calculated using year-end balances.

[e]Excluding the one-off increase in dividend in FY 2008, EPS would have been Rs 6.05.

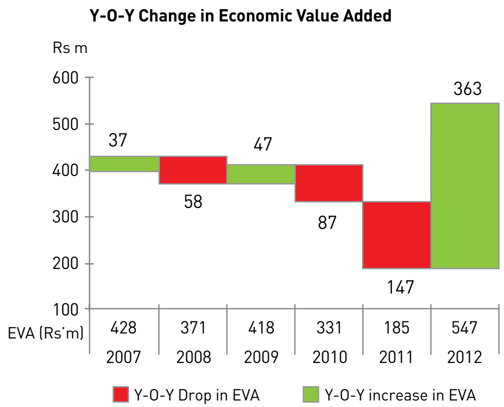
[f]Average risk-weighted assets are calculated using year-end balances.

Performance against objectives

Indicator	Objectives for 2012	Performance 2012
1. Profit for the Year	To grow operating profit by more than 12%	Achieved a growth of 32%
2. Return on Average Assets (ROA)	To improve by at least 2 bps	Improved by 40 bps
3. Return on Average Tier 1 Capital	To improve return by 100 bps to 20.5%	Achieved 301 bps to reach 22.12%
4. Cost to Income Ratio	To continue to maintain cost to income ratio below 40%	Cost to income ratio improved by 3.9% from 38.5% to 34.6%
5. Advances and Deposits	To grow average advances and deposits by more than 15%	Advances and deposits increased by 18.2% and 11.1% respectively
6. Asset Quality	To continue to have net impaired assets ratio below 1%	Gross impaired assets ratio improved from 1.40% to 1.07% while net impaired assets ratio improved from 0.46% to 0.36%

Results

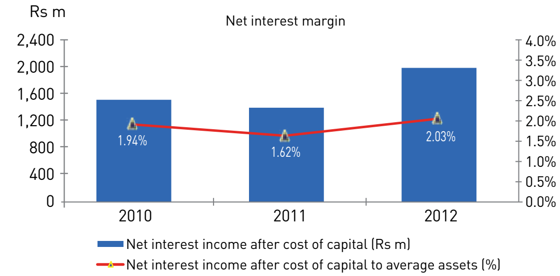
Despite the difficult operating environment, heightened competition including from non-bank financial institution and drop in yields in Government securities, SBM achieved a remarkable performance for FY 2012. The Group achieved significant growth in its advances and deposits portfolios particularly in Mauritian rupees besides significant change in asset mix resulting into significantly higher net interest income. Profit after tax increased by Rs 604 m, representing a growth of 30.0% compared to FY 2011. Excluding one time profit on disposal of equity investments of Rs 114 m in FY 2011, the growth in profit after tax on like to like basis amounted to 37.8%. Besides net interest income, fees and commissions mostly from cross border transactions contributed to the growth in profit. Non interest expenses increased by 11.2% against increase in operating income by 20.5%. Net impairment loss on financial assets were lower at Rs 254 m in FY 2012 compared to Rs 319 m last year. Tax expense was higher by Rs 151 m reaching Rs 613 m in FY 2012, mostly due to higher profits. Earnings per share for the period under review stood at Rs 10.14 against Rs 7.80 in FY 2011 while Economic Value Added increased by 197% to Rs 547 m for FY 2012 from Rs 185 m, reflecting improved value creation for shareholders.



As at 30 June 2012, the Group capital adequacy ratio stood at 21.7% well above the minimum 10% required by Bank of Mauritius. Return on average assets as also average equity improved to 2.69% (2011: 2.29%) and 15.44% (2011: 13.15%) respectively. Gross impaired advances to gross advances ratio improved from 1.40% as at end of June 2011 to 1.07% as at end of June 2012 and net impaired advances to net advances improved from 0.46% to 0.36% at the same time.

Revenue growth

Group operating income in FY 2012 was Rs 5,068 m against Rs 4,205 m in FY 2011, a growth of 20.5%. The main drivers of revenue were Net Interest Income and Non Interest Income. Net Interest Income increased by Rs 700 m or 28.0% while Non Interest Income increased by Rs 164 m or 9.6%. Revenue generated from International Business represented around 30% of total revenue (2011: 27%).



Net Interest Income

Group Interest Income increased from Rs 4,901 m in FY 2011 to Rs 5,898 m in FY 2012, a notable growth of Rs 997 m or 20.3% against an increase of Rs 34 m in the previous year. Balance sheet management and focus on Mauritian rupee advances were key to the higher interest income and margins, even as Mauritian rupee spreads came down. Mauritian rupee advances grew by 27.8% and accounted for 46.5% of average assets in FY 2012 compared to 40.3% in FY 2011. Mauritian rupee Government securities portfolio, with average yield of 5.5%, accounted for 9.5% of average total assets compared to 15.9% in 2011.

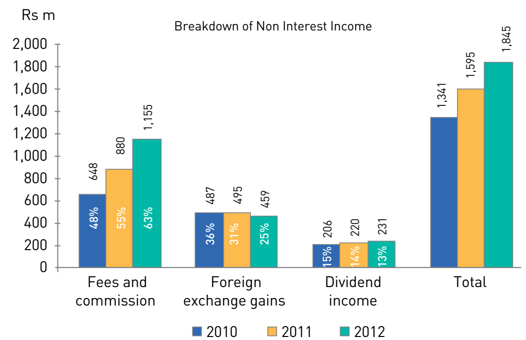
Lower cost demand and savings deposits increased from Rs 50,717 m at 30 June 2011 to Rs 56,023 m as at 30 June 2012. Interest expenses increased from Rs 2,403 m in FY 2011 to Rs 2,699 m in FY 2012, representing an increase of Rs 296 m or 12.3% due to higher composition of demand and savings deposits and non renewal of high cost FCY term deposits as well as prepayment of high cost FCY borrowings.

Net Interest Income to Average Assets taking into account cost of capital assuming a rate of 10% per annum and mapping to average ten-year Government of Mauritius Bonds improved from 1.62% in FY 2011 to 2.03% in FY 2012.

Non Interest Income

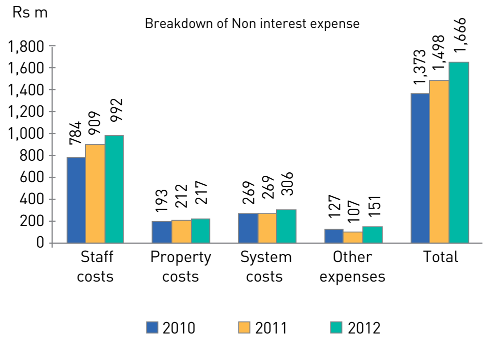
Excluding one time gain on disposal of equity investments of Rs 114 m in 2011, Non Interest Income increased by 17.5% to reach Rs 1,870 m. The growth was driven mostly by an increase in card income from Rs 361 m to Rs 519 m of which cross border accounted for Rs 421 m and fees and commissions increased by Rs 87 m partly offset by a decrease of Rs 30 m in exchange income. Fees from asset management activities were up by 70.0% to reach Rs 53 m in 2012. Commissions from bancassurance vertical and prepaid cards introduced during the year were encouraging.

Non Interest Income as a percentage of gross income stood at 36.9% in FY 2012. Non Interest Income excluding one off items to Average Assets improved from 1.81% in FY 2011 to 1.90% in FY 2012.



Non Interest Income excluding investment income to average assets improved from 1.56% in 2011 to 1.65% in 2012.

Cost Management



Non interest expenses increased by 11.2% year on year to reach Rs 1,666 m in FY 2012. Non interest expenses have been classified in 3 broad categories namely personnel expenses, depreciation and amortisation and other expenses. The increase in personnel expenses of Rs 83 m in FY 2012 was mostly due to annual increase, increase in pension costs and provisions for salary increase of staff on permanent establishment from 1 January 2012 in view of the expiry of collective bargaining agreement on 31 December 2011 and negotiations are ongoing to finalise new agreement. Other expenses increased by 22.9% to reach Rs 497 m in FY 2012, mostly due to higher maintenance cost on sunset legacy platforms contracted with third party for applications de-supported by the original vendors.

Implementation of the technology transformation is under way and is expected to be completed in all the three jurisdictions where SBM is presently operating by March 2014 (Core systems in October/November 2013). Technology costs will increase going forward significantly as there was no depreciation charge on existing core banking systems and major hardware which have been fully depreciated by end of June 2010.

Cost to income ratio improved from 38.55% to 34.60% in FY 2012 from FY 2011, in line with higher growth in income than expenses and lower impairment loss.

Net Impairment Loss on Financial Assets

Net impairment loss on advances and other financial assets stood at Rs 254 m in FY 2012, a decrease of 20.6% (2011: Rs 319 m) over last year mostly due to a decrease of Rs 94 m in specific provision. On the other hand, portfolio provision increased from Rs 714 m to Rs 803 m due to the increase in advances.

Income Tax Expense

Group income tax expense was higher at Rs 613 m (2011: Rs 462 m), due to a combination of factors including higher pre tax profits by Rs 756 m, under provision/charge for previous years Rs 32 m, higher profit before tax and impairment in India for FY 2012 of Rs 194 m compared to Rs 67 m for FY 2011 taxed at 42.2%. The effective tax for FY 2012 was 19.5% compared to 19.3% for FY 2011.

Assets

Total assets grew marginally by 3.1% or Rs 3,014 m to Rs 98,742 m in FY 2012 (2011: Rs 95,728 m) in line with SBM's strategy to focus on balance sheet management to maximise shareholders' value. Growth in Mauritian rupee advances of Rs 9.8 Bn in FY 2012 was financed from increase in Mauritian rupee deposits of Rs 5.8 Bn, comprising mostly lower cost current account and savings account and disinvestment of lower yielding gilt edged securities, which decreased from Rs 16,852 m to Rs 12,273 m as at end of June 2012. High cost borrowings in FCY from financial institutions and FCY term deposits from non bank customers were pre-paid/ not renewed as a strategy to maximise interest margins.

Loans and Advances

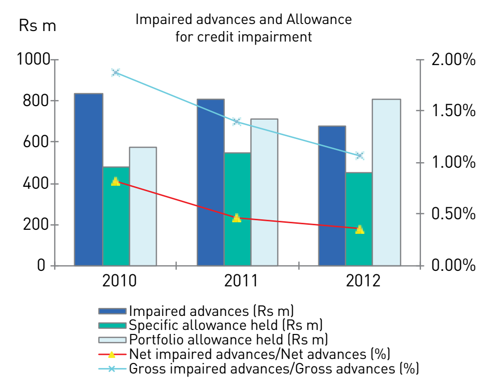
Group Gross Advances increased by 9.5% to reach Rs 63.5 Bn in FY 2012 (2011: Rs 58.0 Bn), driven mostly by growth in Mauritius Operations. Advances to domestic corporates excluding Global Business Licence holders (GBL) grew significantly by 30.56% to reach Rs 28,522 m while personal banking increased from Rs 16.6 Bn to Rs 21.1 Bn in 2012 as the Group focused on recouping lost market share in the domestic market. SBM enjoys a market share of more than 20% in advances excluding Global Business Licence as at end of June 2012. Mauritius operations increased its advances to non-residents and GBL by 37% compared to FY 2011 while Indian operations loan book decreased by 14% or Rs 685 m mainly due to exchange rate difference between the reporting dates of 2012 and 2011. Thus, total advances to GBLs and entities outside Mauritius, aggregating Rs 14,229 m at 30 June 2012, represented 22.4% (2011: 33.9%) of the total advances portfolio. Further detailed analysis on the credit portfolio, including a breakdown by economic portfolios, has been provided in Note 8 to the Financial Statements.

Allowance for Credit Impairment

Group gross impaired advances to gross advances ratio improved further from 1.40% in FY 2011 to 1.07% as at end of June 2012. The Group also ensured that sufficient provisions were maintained to cover losses in its advances portfolio and that portfolio provisions, which are computed based on SBM's historical loss experience and are adjusted for current market conditions, are in line with BoM Guideline on Credit Impairment Measurement and Income Recognition. The specific provision charge in FY 2012 decreased by Rs 94 m, mainly because one time higher provision was made in the previous financial year to comply with Reserve Bank of India requirement for Provision Coverage ratio of 70% and represented a coverage of 67.11% (2011: 67.69%). Increase in portfolio provision is proportionate to growth in advances. The net impaired advances represented 0.36% of net advances (2011: 0.46%).

Impaired Advances and Allowance for Credit Impairment

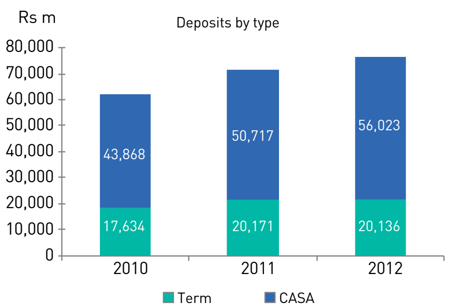
	2012 Rs m	2011 Rs m	2010 Rs m
Gross Advances	63,532	58,005	44,792
Impaired Advances	678	811	839
Specific Provision held	455	549	482
Net Impaired Advances	223	262	357
Provision coverage ratio	67.11%	67.69%	57.45%
Portfolio Provision held	803	714	577
Net impaired advances/ Net advances	0.36%	0.46%	0.82%
Gross impaired advances/ Gross advances	1.07%	1.40%	1.87%



Sources of Funding

Deposits

Group deposits from customers increased by 7.4% to reach Rs 76,159 m (2011: Rs 70,888 m) driven mostly by growth in lower cost Mauritian rupee deposits as the Group focused on mobilising demand and savings deposits in an environment characterised by excess liquidity, lower yields on government securities and low demand for credit. As at 30 June 2012, CASA represented 74% of total deposits (2011: 72%). As at end of June 2012, 31% of the total deposits were denominated in foreign currencies (2011: 34%) and time deposits accounted for 26% of total deposits (2011: 28%). Time deposits from retail line of business mostly high cost time deposits and from Government entities decreased by 5.7% and 38.6% year on year respectively while time deposits from corporate customers increased by 5.1%.



Borrowings

SBM Group borrowings decreased by 58.9% to Rs 2,925 m (2011: Rs 7,125 m) mostly due to pre-payment of high cost foreign currency borrowing from international financial institutions; 76% of the total borrowings have maturity dates of over 1 year and up to 5 years.

Shareholders' Equity

SBM Group Shareholders' equity increased by 12.2% to reach Rs 17,924 m (2011: Rs 15,971 m) in view of the addition of the current year's profit of Rs 2,617 m, partly offset by dividend for FY 2011 of Rs 775 m paid in October 2011. Net asset value per share thus increased from Rs 61.86 at 30 June 2011 to Rs 69.43 at 30 June 2012 and a price to book ratio of 1.18 times. Return on average shareholders' equity improved to 15.44% on the back of higher proportionate increase in profits to equity (2011: 13.15%).

Objectives for 18 months ending December 2013

Indicator	Objectives / Target for 2013
1. Net Revenue Growth	Not less than 15%
2. Return on Equity	Not less than 17%
3. Advances and Deposits Growth	Growth of 15% and 12% respectively
4. Asset Quality	To maintain net impaired assets ratio below 1%
5. Cost to Income Ratio	Not to exceed 40%

BUSINESS REVIEW

SBM Group advances by lines of business as at 30 June

	Amount (Rs Bn)			Growth (%)	
	2012	2011	2010	2012	2011
1. Mauritius Ops	58.7	52.3	41.6	12	26
1a. Personal Banking	19.9	15.5	12.6	28	23
1b. Corporate Segment A	28.6	22.4	17.1	28	30
1c. Cross Border Financing	8.6	13.2	10.8	(35)	23
1d. Small and Medium Enterprise	1.6	1.3	1.1	30	12
2. India Ops	4.2	4.8	2.4	(14)	99
3. Madagascar Ops	0.6	0.9	0.8	(28)	11
TOTAL	63.5	58.0	44.8	10	29

Personal Banking

SBM continued to make headway in the Personal Banking segment despite the highly competitive environment, as gauged by a fast growing customer base as well as increases in market share in both consumer and mortgage lending. Deposit growth was also healthy, outpacing the banking sector average. This commendable performance was achieved on the strength of continued initiatives to build and grow customer relationships, competitive offers and value added tie-ups with third party providers. New products launched during the year were well received by the market. For instance, SBM ECOLOAN enabled a number of customers to successfully install photovoltaic devices leading to important energy savings. Bancassurance also performed above expectations in its first full year of operations, particularly the micro segment.

Going forward, SBM will continue to build on these achievements to bring new and innovative solutions to customers, and improve the robustness of the Personal Banking business line. Another challenge will be to replicate this successful business model in the overseas markets where SBM intends to further penetrate.

Small and Medium Enterprise

Conscious of the underlying potential of small and medium enterprises (SMEs) in Mauritius, SBM has launched a number of initiatives to give a boost to this business segment. These include: decentralisation of SME services to branches for greater proximity; streamlining of internal processes and review of policies for faster turnaround; development of product bundles; skills enhancement for both employees and customers through tie-ups with well known international agencies; and enhanced relationship building. Besides, SBM participated fully in the Government initiative of providing lower interest rate credit facilities to SMEs in the context of the "SME Loan Guarantee Scheme" announced in the National Budget and even achieved its quota well ahead of the due date of November 2012.

As a result, growth in business volumes was commendable, with advances going up by some 29% and deposits increasing by 13% year on year. SBM looks to build on this momentum – namely through proximity, flexibility, innovative products and further training – to further grow the SME portfolio and become the preferred partner within the SME space.

Domestic Corporate Banking

The operating environment for corporate banking remained challenging with tepid demand for credit, particularly in relation to large scale projects, as investor confidence was impaired by weaknesses in domestic and export markets as well as persisting uncertainty regarding the outlook. Nonetheless, a significant increase in Mauritius corporate advances – and, by extension, in targeted market share – was achieved in FY 2012. Mauritian rupee deposits also increased substantially, more than making up for the reduction in FCY deposits, as planned. The increased business volumes bore the fruit of a series of initiatives undertaken during the year, including winning back trust in leadership and SBM brand, increased proximity with clients, re-building, competitive pricing, continued dialogue, networking, continuous improvement in service levels, new/improved products, enhanced Group synergy, leveraging the extensive product suite of the Group and human capital development. Despite the difficult environment, the quality of the asset book remained good, reflecting good credit practices. On the other hand, spreads were somewhat squeezed due to aggressive competition and excess liquidity in Mauritian rupees.

The outlook remains subdued, particularly for export-oriented sectors such as textiles, tourism and aviation, given weak demand and unfavourable exchange rate dynamics linked to the continued difficulties in Europe, a key export market. On the other hand, the special credit line put in place by the Bank of Mauritius to help such companies better manage their FCY exposures could provide some welcome relief. Sectors such as domestic manufacturing and commercial real estate could also face difficulties in view of lower consumer confidence and excess supply. SBM will continue to monitor the environment and remain close to its customers so as to understand their specific and evolving needs and provide adapted solutions, and targets to maintain the upward trend in Mauritian rupee advances and deposits.

Cross Border Banking

The challenges in international banking have increased over the years, particularly after the euro zone crisis. The business environment in India is also challenging with a slowdown of the traditional investment flow thereto due to a dampened investment climate. SBM remains cautious in its approach to cross border business but primarily driven by the need to build relationship to support our business in these countries' operations instead of transaction-based participation in cross border syndications. Future growth in this business line will depend largely upon SBM's ability to raise FCY funding at competitive interest costs, which remains a challenge. Going forward, the operations in India and Madagascar are expected to play a greater role in the growth of the cross border banking business.

Treasury

Due to the difficult economic environment and the increasingly competitive landscape, Treasury income stood marginally lower than in the previous financial year. Foreign exchange income remains the main revenue driver in the Treasury line of business and Mauritius continues to contribute over 85% of the total profits of the Group. As opportunities are limited on the domestic market, SBM is attempting to capitalise on its overseas operations to increasingly contribute towards the Group income.

Economic uncertainty presents broad reaching implications both for clients and for SBM's operations locally and internationally. Despite slow growth in the overseas operations this year, higher contribution to the income of Group is expected in the future with the market expecting a nascent recovery in 2013. The forthcoming state of the art information system should also better help SBM's customers sail through the periods of volatility with solutions that will assist them in managing their risk more efficiently.

E-Business

The e-business segment has been a star performer with related income more than doubling, on the back of renewed customer focus on good quality business accompanied by proper risk management tools and human capital development. This line of business, which has in the past accounted for a series of market firsts, has continued to innovate with the launch of bill payment through SMS in partnership with a major mobile phone provider.

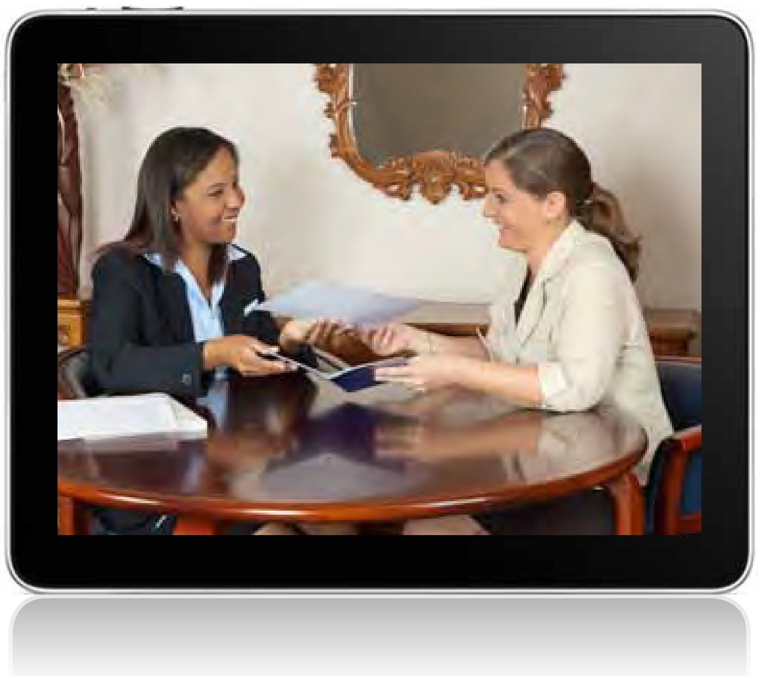
SBM further improved its market share on the basis of a series of initiatives with a view to increase 'cardholder' segment. Indeed, SBM launched the first prepaid cards in the market, which now complement credit and debit cards. In addition, mutually beneficial partnerships with merchants, third party providers and the global payments company, VISA, were developed or strengthened during the year to further promote SBM's card offering. SBM's Cashpaké programme, the only cards cash rebate offer in Mauritius, was also revamped. As a result, notable increases were achieved in the number of cards in force as well as card spending, while fraud and impairment were largely contained.

On a different note, SBM continues to promote electronic delivery channels for greater convenience – place and time – to customers as well as greater operational efficiency. Hence, usage at electronic delivery channels has remained strong, with electronic transactions accounting for 87% of total transactions.

Looking ahead, SBM expects to leverage its investments in technology to further promote the e-business segment, notably through enhanced products, services and user experience for the benefit of the customer.

Non-Bank Financial Services

Whereas the slowdown and persisting uncertainty characterising the economic environment, both locally and internationally, have not been very conducive to investment banking, SBM Mauritius Asset Managers – the asset management arm of SBM – performed well, with notable increases in assets under management as well as fee income. Some of the initiatives undertaken during the financial year that helped boost activity were the launch of an India focus fund, partnership with 'Fidelity Worldwide Investments' and the introduction of a USD capital guaranteed product. As regards the brokerage business, a decline in local commission was recorded on the back of depressed domestic market turnover. On the other hand, the international trading platform, which was introduced in June 2011, outperformed expectations during FY 2012. The year under review also saw the launch of SBM Fund Services Ltd to provide fund administration and NAV calculation as well as Registry and Transfer Agent services to external parties. While the operating environment is expected to remain difficult in the coming period, SBM will strive to boost performance, namely by responding to the evolving needs of customers through new products and by improving service levels.



India Operations

SBM India Operations refocused its operations with emphasis on balance sheet restructuring to improve margins and business volumes. Hence, the customer base was broadened and greater focus was given to retail current and savings deposits to bring down the cost of funds, particularly by tapping the Non-Resident Indian and People of Indian Origin segments. At the same time, new products and services, such as cross-border trade finance and plain vanilla treasury derivatives were launched during the financial year to enrich the offer while emphasis was laid on credit quality and portfolio diversification. Besides, the strengthening of human capital was pursued, notably through judicious recruitment and training. On the back of these initiatives, the results for SBM India Operations improved significantly, with a healthy increase in operating income, a reduction in the cost to income ratio and a near tripling of profit after tax, albeit from a low base. Going forward, notwithstanding the economic slowdown in India, SBM India Operations will maintain the restructuring process, and will look to expand physical presence with a view to growing the customer base and building a solid and low cost funding structure. Significant benefits are also expected to accrue, over a longer time period, with the implementation of the technology transformation.

Madagascar Operations

In view of the difficult operating environment in Madagascar, SBM remains cautious in expanding business, laying emphasis on lower risk exposures. Pending a decisive turnaround in the socio-political crisis and a return of the Madagascar economy to sustainable growth, the contribution of Banque SBM Madagascar to the Group's results is not expected to show significant improvement.

TECHNOLOGY TRANSFORMATION INITIATIVE

In its bid to sharpen its competitive position to continue to add value to shareholders, SBM has embarked on a major technology transformation initiative. The new technology set-up is expected to add value to stakeholders by improving time-to-market, streamlining business processes/ operations and better leveraging customer intelligence across geographies where SBM is, and plans to be, present. HP Enterprise Services, one of the largest service companies on the Fortune 500 list, have been selected as a strategic partner for providing the selected technology solutions.

Under the terms of the agreement, HP Enterprise Services will implement core and enterprise-support applications in an integrated multi-country, multi-enterprise, multi-currency, multi-lingual model and maintain them during the contract period to provide uninterrupted service, thus allowing SBM to shift, from the financial perspective, from a 'capex' model to an 'opex' model and, that too, in a more cost-efficient manner. HP will implement the new IT platform and host the solutions in its state-of-the art data centres (level 3 data centres) as well as provide disaster recovery services to the Bank, in line with practices prevalent in major global banks and in compliance with banking and regulatory stipulations. The strategy and directions for this technology transformation program will be fully directed by SBM.

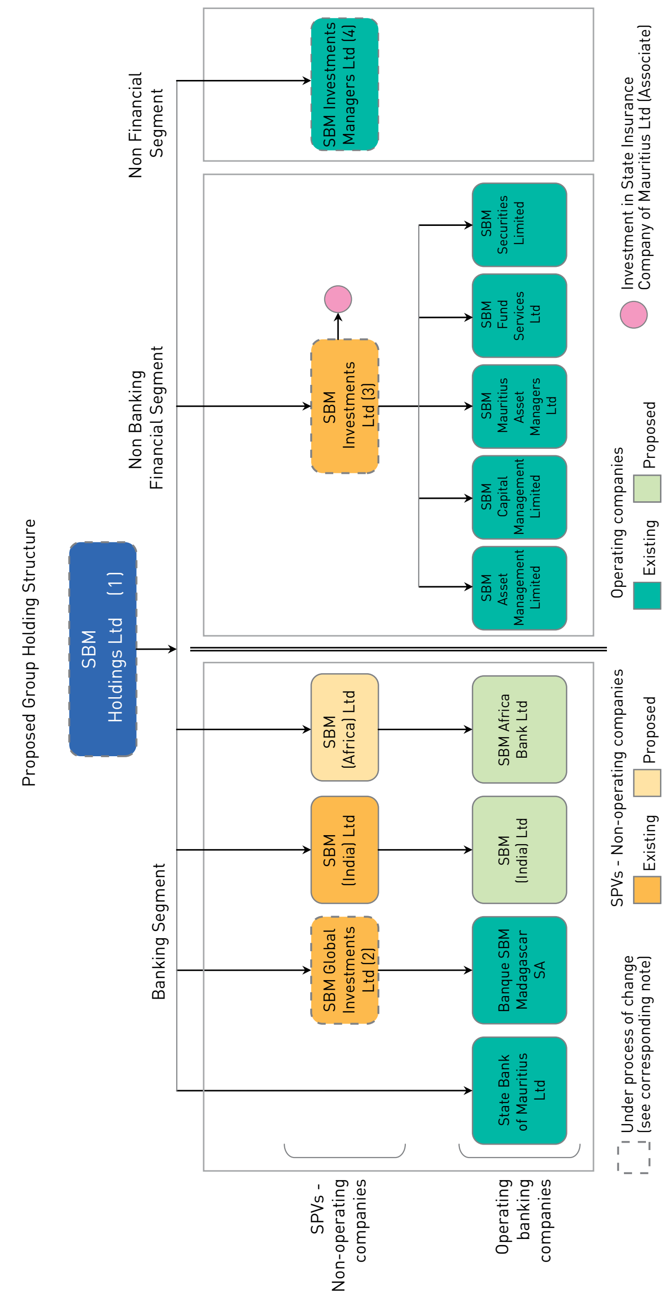
The new integrated IT platform at SBM is primarily aimed at helping customers benefit from innovative technology, superior quality and value of service. The platform will also allow SBM to roll out new products and services faster across the world, supported by on-demand decision support, real-time analytics and best-in-class risk management practices. Customers of the Bank will thus be served more intelligently and efficiently. SBM will also be able to offer its investors with an attractive return through sustainable global growth and continuously enhancing customer service, competencies, delivery channels and operating efficiency. The technology will also support SBM's expansion into new and existing markets.

REORGANISATION OF THE BUSINESS STRUCTURE

In line with best international practice and to comply with regulatory guideline mapping to its expansion plans, SBM has engaged into the reorganisation of its business structure whereby it aims at segregating the banking, non-banking financial and non-financial segments into distinct clusters, with Chinese walls between the banking and non-banking businesses. Among others, this structure aims at reinforcing the ring-fence between retail banking businesses and wholesale/investment banking businesses – which is already operational at SBM – along the lines recommended, for instance, by the Independent Commission on Banking in the UK. This should enable SBM to pursue its expansion strategy on a sound footing.

Moreover, within the banking cluster, the reorganisation aims at further segregating the banking operations of each different geography where SBM plans to be present through holding entity by non-operating SPVs/companies, so that depositors in one geographic area are not exposed to risks occurring in other regions, to the extent of the capital dedicated to that area. With the reorganisation, SBM will thus adhere to the concept of dedicated capital. The Bank of Mauritius agreed to the proposed reorganisation. Subject to approval from the Bank of Mauritius and the Government of Mauritius, SBM Holdings Ltd will emerge as the ultimate holding company, which is once more in line with the international trend for banking/financial services groups.

The chart below illustrates the proposed group structure, detailing the extent of reorganisation already achieved.



Notes:
1. SBM Holdings Ltd will be fully operational subject to Bank of Mauritius and Government of Mauritius approval
2. Name is being changed to SBM (Madagascar) Ltd
3. Name is being changed to SBM NBFC Investments Ltd
4. Name is being changed to SBM NFC Investments Ltd

Achieving
the right balance in
your life


RISK MANAGEMENT

SBM risk management framework

Sound, robust and effective enterprise risk management parameters, coupled with international best practices, is recognised as a necessity and is the prime responsibility of senior management of the Bank/Group. These also represent effective tools for sound management of capital, as well as a source of competitive edge, for the Bank and the Group. The approach to risk is founded on strong corporate governance practices that are intended to strengthen the enterprise risk management of SBM, whilst also positioning SBM to manage the changing regulatory environment in an effective and efficient manner.

SBM is committed to the highest standards of ethical behaviour. Strong independent oversight is in place at all levels within the group. Numerous committees, which are integral to the SBM's risk governance structure, allow executive management and the Board to evaluate the risks inherent in the business and to manage them effectively.

The Board, assisted by the Risk Management Committee, approves the overall risk management framework and oversees periodically the risk management function of SBM. The Risk Management Division is centralised and independent of SBM's other operations. It develops methodologies to identify, measure, evaluate, mitigate and monitor the risks faced by SBM at acceptable levels and reports to the Risk Management forums and to the Board Risk Management Committee and ultimately to the Board in a structured manner as described below on credit, market, operational and other risks.

The risk management framework is based on transparency, management accountability and independent oversight. It expresses the maximum level of risk that SBM would accept as it meets its business objectives while taking into account the risk-return trade-offs. It sets clear guidance on acceptable limits for all material types of risk within the organisation and ensures that they are aligned with its strategies, customer needs, shareholder expectations and regulatory requirements. The main objective of the Board Risk Management Committee is to establish a solid and effective risk management framework in terms of people, property, systems, policies, procedures, controls and reporting; and to recommend changes to the Board as may be appropriate in the light of evolving market and business environment.

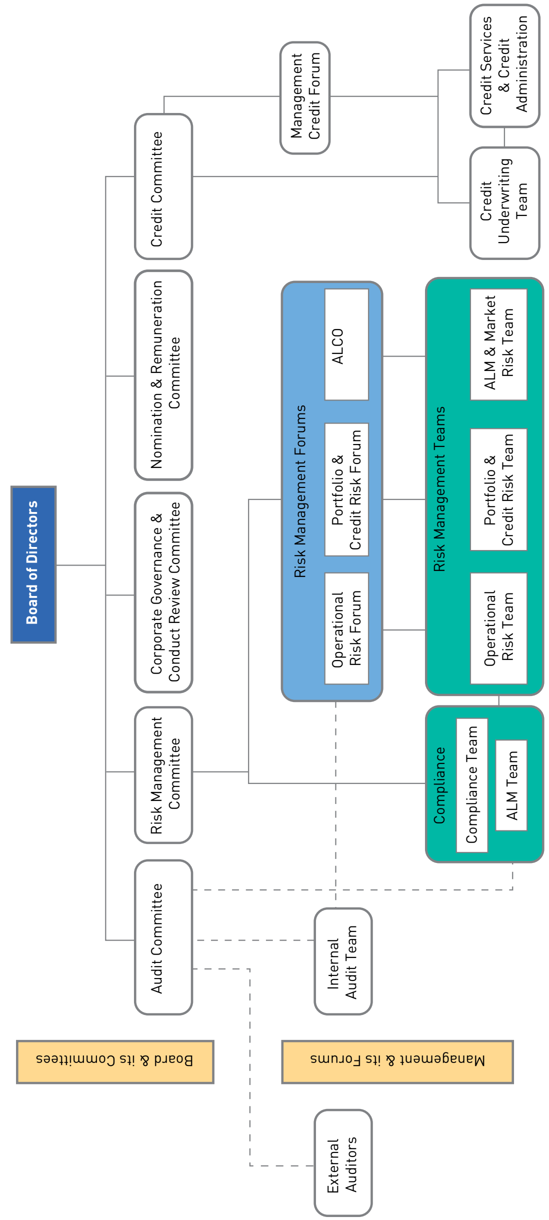
SBM's risk management capabilities are supported by a strong management structure and information system, an effective risk rating system and robust policies. The primary objectives of risk management are to protect SBM's financial strength and reputation, while ensuring that capital is well deployed to support business activities and grow shareholder value.

Effective risk management coupled with adoption of Basel II recommendations, benefit SBM by providing more efficient capitalisation and lower costs to risk and funding. SBM will be geared to implement the Basel III requirements when it is introduced by the Bank of Mauritius, which would further strengthen SBM's risk management practices.

Risk Governance Structures

The Board, assisted by its committees – (a) the Corporate Governance & Conduct Review Committee, (b) the Audit Committee, (c) the Risk Management Committee, and (d) the Nomination and Remuneration Committee – has oversight responsibilities in relation to risk management, adherence to internal policies and compliance with the prudential, regulatory and legal requirements. The Board also reviews SBM's aggregate risk exposures and concentrations of risk to seek to ensure that these are consistent with the Bank's risk appetite. The roles of the Board and its committees are described in detail in the Corporate Governance section on pages 87 to 115 of the Annual Report.

The Risk Management forums are chaired by the Chief Executive and comprise members of the executive management. The aggregate group-wide risk profile and portfolio appetite are discussed at the respective risk management forums. These forums are supported by the Head of Risk Management who reports to the Chief Executive with direct access to the Group Chairman and the Risk Management Committee.



Key Developments in FY 2012

In FY 2012, SBM continued to prudently manage its risk profile and strengthened its risk management function to meet the challenges of a volatile market environment and changing regulatory framework and by strengthening risk management function. Areas of progress included:

- improving risk management approaches and methodologies;
- refining the understanding of the risks faced by SBM and their scale against capital allocation which was detailed in the ICAAP document submitted to the Bank of Mauritius;
- establishing new policies and enhancing the existing ones including procedures and continuing assurance;
- working towards compliance with Basel III;
- introducing new set of prudential ratios and limits including ratios as recommended under Basel III;
- improving the quality of data, including forward-looking measures;
- improving stress-testing capabilities and embedding them across the Group; and
- investing significantly in the IT infrastructure and enhancing skills of staff by providing training on an ongoing basis.

SBM continued to review its risk appetite to ensure an appropriate balance between return and assumed risk, stability of earnings and capital levels SBM seeks to maintain. While many of the processes, roles and responsibilities continue to evolve and mature, SBM will continue to enhance its risk management process with a focus on clarity of roles and accountabilities, escalation of issues, aggregation of risk and data across the organisation, and effective governance.

Risk Types

SBM defines risk as the levels of potential losses or profits foregone due to internal or external factors. SBM distinguishes between quantifiable risks – those to which a value can normally be attached in financial statements or in regulatory capital requirements – and non-quantifiable types of risk such as strategic/business, reputational, legal and compliance risk.

Adequacy of Risk Management Processes

SBM has well established processes for management of all material risks that are associated with its business activities. SBM's policy is to maintain a strong core capital and to utilise it efficiently throughout its activities with the objective of optimising the return to shareholders while maintaining a prudent balance between the core capital and the underlying risks of the business.

The capital management process ensures that each entity/segment maintains sufficient capital levels for legal/regulatory compliance purposes and to meet Basel II requirements, besides holding a cushion for uncertainties and supporting depositors' confidence.

It is acknowledged that not all risks can be fully mitigated through capital, and therefore rigorous managerial oversight and strong governance practices will support effective risk mitigation.

Stress Testing

SBM complements its regular standardised risk reporting process with stress tests to capture the effect of exceptional but plausible events on the capital and liquidity position of the Bank. Also, it provides insights on the degree of vulnerability of various business lines and portfolios to given scenarios. Key scenarios include significant movements in credit ratings, interest rates, foreign exchange rates, as well as adverse changes in counterparty default and recovery rates.

Several stress tests are applied, whether scheduled or ad hoc, both in the form of sensitivity and scenario analysis, either for a specific risk type or for SBM as a whole. The stress test can represent various economic situations from mild recession to extreme shock. In addition to regulatory required stress tests, several ad hoc tests have been conducted, which help to offset the impact of higher loan loss provisions, additional impairments across the securities portfolios and increased risk-weighted assets.

Stress testing is a fundamental element of SBM's risk control framework. Stress testing results are monitored against limits, used in risk appetite parameters/prudential limits and strategic business planning, and support the internal capital adequacy assessment.

Credit risk management

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to SBM as and when they are due on demand. Credit risk arises when funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on- or off- balance sheet. Amongst the risks contracted by SBM, credit risk generates the largest regulatory capital requirement.

Credit including counterparty risk arises primarily from:

- Lending transactions, giving rise to a direct exposure. The risk is that an obligor will be unable or unwilling to repay capital and/or interest on advances and loans granted to it. This category includes bank placements, where the bank has placed funds with other financial institutions.
- Issuer risk on financial instruments, where payments due from the issuer of a financial instrument will not be received.
- Settlement risk, which is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Credit, including counterparty, risk can manifest as country risk as a result of geopolitical and transfer risk associated with exposures arising from transactions with borrowers who are resident/domiciled in a foreign country or dependent on that country's economy, laws, regulations and/or social and political environment.

Credit Approval Process

SBM's credit processes are designed with the aim of combining an appropriate level of authority in its credit approval processes with timely and responsive decision-making and customer services. The process for each division is tailored to the risk profile and service requirements of its customers and product portfolio. Key parameters, associated with credit structuring and approval, are periodically reviewed to ensure their continued relevance.

The credit appraisal and measurement process, leading to approval/rejection, is segregated from loan origination in order to maintain the independence and integrity of credit decision making. SBM has multiple levels of credit approval authority depending on the size of the proposed credit exposure, expected cash flows, credit worthiness of the borrower and security offered. The credit limit, which is proposed in the credit application, will serve as a basis to determine appropriate credit risk approval levels. All assigned credit authorities are reviewed on a periodic basis with a minimum cycle of at least once a year to ensure that they are adequate to the individual performance of the authority holder.

Credit Risk Measurement

SBM's main objective of credit risk measurement is to use various tools to support quantitative risk assessment from the level of individual facilities up to the total portfolio, including element of the credit approval process, ongoing credit risk management, monitoring and reporting and portfolio analysis.

Ongoing active monitoring and management of credit risk positions is an integral part of the credit risk management activities. SBM has procedures in place intended to identify at an early stage credit exposures for which there may be increased levels of loss. In instances where high risk counterparties have been identified, the respective exposure is generally placed on a watchlist. SBM aims to identify counterparties that demonstrate the likelihood of problems well in advance, on the basis of the application of the risk management tools in order to effectively manage the credit exposure and maximise the recovery.

Measurement tools include credit rating systems, which are used in the calculation of regulatory and economic capital, expected/unexpected loss and stress testing. SBM considers that determination of numerous robust parameters is of paramount importance for sound and experienced judgement, which is the most effective risk mitigation against any risk, and avoids over reliance on quantitative risk methodologies and models.

Internal Rating System

Internal ratings are based on the analysis and evaluation of both quantitative and qualitative factors. The specific factors analysed are dependent on the type of counterparty. The analysis emphasises a forward looking approach, concentrating on economic trends and financial fundamentals. Credit officers make use of peer analysis, industry comparisons, external ratings, research and the judgment of credit specialists.

At the time of initial credit approval and review, relevant quantitative data (such as financial statements and financial projections) and qualitative factors relating to the counterparty are used in the measurement tools and result in the assignment of a credit rating or probability of default, which measures the counterparty's risk of default over a one-year period.

SBM has different internal rating tools to assess the credit risk on Corporate Banking clients, SME clients and Retail Banking clients. SBM's default risk management is characterised by a well calibrated risk rating scale. SBM uses a rating scale ranging from 1–10 whereby the 1–6 risk rates are tagged as acceptable risks whilst 7–10 risk rates are considered as high risk.

Credit Risk Management

A key focus of SBM's credit risk management approach is to avoid any undue concentrations in its credit portfolio, whether in terms of counterparty, sovereign, group, sector, portfolio, product, country or currency. Significant concentrations of credit risk may be derived from having material exposures to a number of counterparties with similar economic characteristics, or who are engaged in comparable activities, where these similarities can affect their ability to meet their contractual obligations, as could changes in economic or industry conditions. A concentration of credit risk may also exist at an individual counter party/group/portfolio/country level.

SBM's portfolio management supports a comprehensive assessment of concentrations within its credit risk portfolio for provision of subsequent risk mitigating actions and diversification across various geographical boundaries, sectors, borrower groups and products, with the main objective of maximising shareholder value.

SBM has grouped its counterparties into various industry, main and sub-portfolios, to better manage industry risk. The industry risk profiles of the credit portfolios are closely monitored and analysed. The analysis is used to determine strategies for both portfolio and individual counterparties within the portfolio, based on their risk/reward profile and potential.

Credit Risk Mitigation

SBM employs various credit risk mitigation techniques to optimise credit exposure and reduce credit losses. These techniques are used in a consistent manner and are acceptable types of mitigation that are reviewed periodically to meet operational management risk requirements for their legal, practical and timely enforceability.

The use and approach to credit risk mitigation varies by product type, customer and business strategy. Mitigation techniques used are:

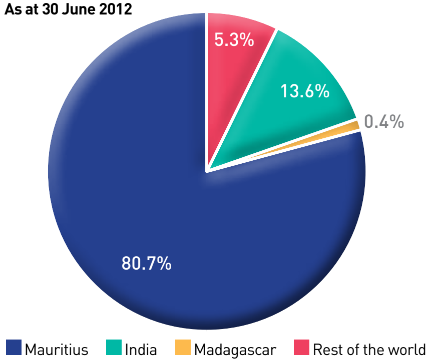
Credit Limits (Individual & Group)	SBM has a set of prudential limits approved by the Board to address concentration of risk by counterparties, e.g. country, sovereign, bank and corporate customer. These allow higher exposures to better rated customers and lower exposures to lower rated customers. Excesses beyond tolerance limits are considered on a case by case basis at the time of credit sanctioning, and are reported quarterly to the Board.
Sustainable Cash Flow	An important aspect of the SBM' credit review is focus on the asset to be financed and the expected cash flow, in order, to minimize the probability that SBM will experience losses from late and delinquent payment. Therefore, the creditworthiness of the borrower is determined based on its reliability and ability to pay. Measures of reliability include credit payment history, references from current and past suppliers, and the qualitative character of the management or owners; Projected cash flows are used to demonstrate that the applicant can generate enough revenue and consistent cash flow to pay payments within terms. This includes evidence that the business has been and continues to be operating successfully and paying its bills on time.
Collateral	Collateral is security in the form of an asset or third-party obligation that serves to mitigate the inherent risk of credit loss in an exposure, by either substituting the borrower default risk or improving recoveries in the event of a default. The main types of collateral taken comprise cash and cash equivalent instruments, properties (residential, commercial and industrial), capital funds, plant and equipment. Realizable value of collateral is computed on a conservative view of current market prices, suitably discounted for price volatility and the lack of ready market for assets. All realization costs are taken into account. Collaterals taken by SBM are well documented to ensure that credit risk mitigation is legally effective and enforceable.
Risk Transfer	SBM in some cases holds guarantees, letters of credit and similar instruments from third parties which enable it to claim settlement from them in the event of default on the part of the counterparty. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. Creditworthiness is established for the guarantor for counterparty credit approvals.
Netting agreements	Netting agreements are used to offset balances with customers, in certain circumstances, to minimise the exposure at default. They are utilised in accordance with relevant regulatory and internal policies and require a formal agreement with the customer to net the balances.

SBM's Credit Risk Profile

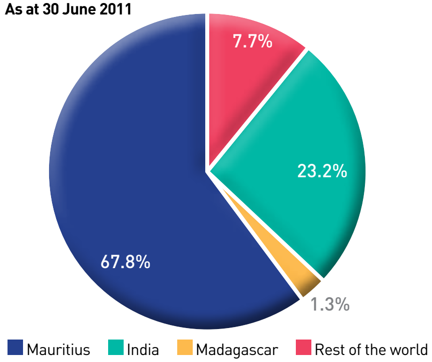
SBM enjoys a well diversified credit portfolio of the economy whereby the credit risk is spread across different portfolios of the economy as detailed below. It is also to be noted that as at 30 June 2012, all the sectors were within their internal prudential limits approved by the Board.

Credit Exposure (excluding exposures to banks and sovereign risk)

As at 30 June 2012



As at 30 June 2011



SBM PORTFOLIO	MAURITIUS		INDIA						MADAGASCAR		REST OF THE WORLD	
	Total Exposure		Disbursed from Mtius		Branches of India Exposure		Total Exposure		Total Exposure		Disbursed from Mtius	
	JUN'12	JUN'11	JUN'12	JUN'11	JUN'12	JUN'11	JUN'12	JUN'11	JUN'12	JUN'11	JUN'12	JUN'11
BUSINESS BANKING	53.1%	44.6%	7.6%	12.9%	6.0%	10.0%	13.6%	22.9%	0.4%	1.3%	5.3%	7.7%
Agriculture	5.1%	3.2%	0.0%	0.0%	0.2%	0.0%	0.2%	0.0%	0.0%	0.1%	0.0%	0.0%
Building Contractors	2.9%	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
Commerce-Retail	3.3%	1.9%	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
Commerce-Wholesale	5.2%	7.3%	0.6%	3.6%	0.0%	2.4%	0.6%	6.0%	0.1%	0.4%	0.2%	0.2%
Non-BankFinancial Ins.	3.1%	2.0%	0.0%	0.4%	0.9%	3.2%	0.9%	3.6%	0.0%	0.0%	0.4%	1.2%
ICT	0.8%	0.9%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.8%
Infrastructure	3.4%	5.9%	0.1%	0.4%	1.1%	0.1%	1.2%	0.5%	0.0%	0.0%	0.0%	0.0%
Manufacturing Non-Textiles	2.8%	3.3%	4.3%	5.8%	2.4%	3.7%	6.6%	9.5%	0.1%	0.1%	0.5%	1.4%
Manufacturing Textiles	1.8%	1.5%	0.2%	0.1%	0.3%	0.0%	0.5%	0.1%	0.0%	0.0%	0.0%	0.0%
Real Estate	5.5%	1.3%	1.4%	1.3%	0.1%	0.2%	1.5%	1.5%	0.0%	0.2%	0.0%	0.8%
Services	5.1%	4.3%	0.7%	1.1%	0.6%	0.3%	1.3%	1.4%	0.1%	0.4%	3.0%	2.1%
Tourism	14.0%	11.3%	0.3%	0.0%	0.2%	0.1%	0.4%	0.1%	0.0%	0.0%	1.2%	1.1%
PERSONAL BANKING	27.6%	23.1%	-	-	0.0%	0.2%	0.0%	0.2%	0.0%	0.0%	-	-
Consumer Credit	10.0%	9.4%	-	-	0.0%	0.2%	0.0%	0.2%	0.0%	0.0%	-	-
Home Mortgage	17.6%	13.7%	-	-	0.0%	-	0.0%	-	-	-	-	-
Total	80.7%	67.8%	7.6%	12.9%	6.0%	10.2%	13.6%	23.2%	0.4%	1.3%	5.3%	7.7%

MAURITIUS SEGMENT A | MAURITIUS SEGMENT B | MAURITIUS SEGMENT B

As at 30 June 2012, the majority of the exposures is in Mauritius Operations with 80.7%, 13.6% in India (disbursed from Mauritius: 7.6% and India Operations: 6%), 5.3% in Rest of the World (disbursed from Mauritius) and 0.4% in Madagascar.

Credit Risk Concentration Limits for Large Credit Exposures

Large credit concentrations, notably concentrations over 15% of the Bank's capital base, as governed by the BoM Guideline on Credit Concentration Risk, are reported (i) monthly to the Portfolio and Credit Risk Forum members (ii) quarterly to the Board Risk Management Committee and (iii) quarterly to the Bank of Mauritius, the Central Bank.

BoM guideline also requires banks to report concentration limits on (a) a stand-alone basis and (b) as a banking operating group.

The BoM regulatory limits are set out below:

a) Credit exposure to a single customer shall not exceed 25% of the Bank's capital base.

b) Credit exposure to any group of closely related customers shall not exceed 40% of the Bank's capital base.

c) Aggregate of all exposures to a single customer or a group of closely-related customers which are over 15% of the Bank's capital base shall not exceed 800% of the Bank's capital base.

SBM complies with the BoM guideline with regards to the above limits. With respect to (c) above, the Bank has laid down a more stringent prudential limit of 400% of capital base for the Bank entity on a stand-alone basis and banking operating group to ensure diversification of risks.

As at 30 June 2012, no regulatory limit and prudential limit were exceeded in respect of credit concentration risk.

The following table provides a breakdown of the SBM's top credit exposures that are over 15% of the Bank's capital base after netting off of deposits with SBM. The main credit exposures include credit advances, guarantees, acceptances and other similar commitments extended by the Bank.

Customer Group	Gross Exp (Rs 'M)	Set-off (Rs 'M)	Net Exp (Rs 'M)	% of Aggregate exposures after set-off to Bank's Capital Base	% of Aggregate risk weighted exposures after set-off to Bank's Capital Base
A	4,311	-	4,311	36.6%	26.0%
B	3,311	-	3,311	28.2%	24.0%
C	2,939	-	2,939	25.0%	19.7%
D	2,250	-	2,250	19.1%	15.5%
E	2,242	-	2,242	19.1%	11.4%
F	2,418	290	2,128	18.1%	8.2%
G	2,312	315	1,997	17.0%	2.1%
H	1,917	-	1,917	16.3%	8.3%

If the Bank's capital base, on a stand-alone basis, was reduced by 25% at 30 June 2012, it would have only eight single customers or groups of closely related customers with exposures of above 15% of the capital base, aggregating to 247% of the Bank's capital base. This would still be well within the regulatory limit of 800% and SBM's prudential limit of 400% of its capital base.

Similarly, for the banking operating group, if the capital base was reduced by 25%, even then only eight single customer/groups of closely related customers would have exposures of above 15% of the SBM Group's capital base, aggregating to 231% of the capital base, thus remaining well within the regulatory limit and prudential limit.

SBM's portfolio has remained adequately diversified with the top twenty credit risk weighted exposures accounting for 32% of its total credit exposures as at 30 June 2012 (2011: 27%), and representing 178% of its core capital as at 30 June 2012 (2011: 168%).

Related Party Transactions

The Bank of Mauritius establishes limits within which a bank or non-bank deposit taking institution may grant credit to a related party and provides guidelines governing related party transactions of such institution.

A "related party" means:

(i) A person who has significant interest (i.e. 10% direct and indirect shareholding) in the financial institution or a financial institution which has significant interest in the person.

(ii) A director or senior officer of the financial institution or of a body corporate that controls the financial institution.

(iii) The spouse, a child or a parent of a natural person covered in (i) and (ii)

(iv) An entity that is controlled by a person described in (i), (ii) and (iii).

(v) A person or class of persons who has been designated by the Central Bank as a related party.

As at 30 June 2012, SBM's three non-exempted exposures to related parties were 4.7%, 3.0% and 2.5% of the Group's core capital respectively. The aggregate of which is 10.2% of the Group's core capital, within the regulatory limit of 150%. None of the facilities granted to related parties were impaired. The Corporate Governance & Conduct Review Committee reviews and approves/ratifies the terms of all related party exposures.

Country Risk

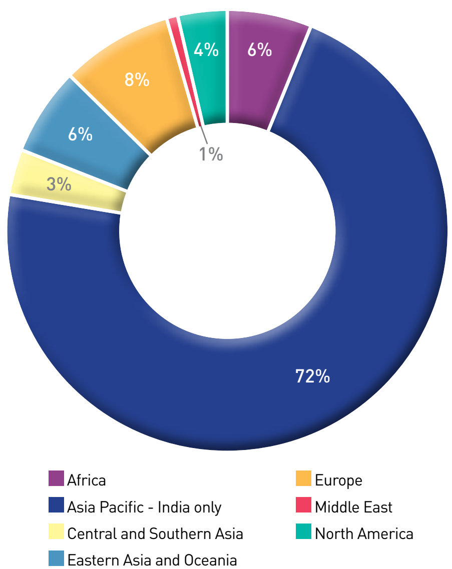
Country Risk is defined as the loss that may arise in any given country, due to worsening economic conditions, political and social instability, nationalisation and confiscation of assets, government repudiation of external indebtedness, exchange controls and currency depreciation or devaluation.

Country risk also includes cross-border risk, i.e the risk emanating from actions taken by a government that may restrict the transfer and convertibility of funds (local currency into foreign currency). The ability to obtain payment from counterparties for their financial obligations to SBM is thus affected.

The Board, upon the recommendation of the Board Risk Management Committee, reviews and approves, on an annual basis, a framework of limits which is in accord with SBM's risk tolerance, strategy, business environment and stakeholder requirements.

As at 30 June 2012, 72% of risk weighted exposures were concentrated in Baa1 – Baa3 countries, 19% were concentrated in Aaa – Aa3 rated countries and 7% were to unrated countries, which included Madagascar and Maldives. The bulk of SBM's overseas exposures (inclusive of funded and non-funded exposures) to countries with ratings grade B were to India, where it has a physical presence.

Total Risk Weighted Exposures by Country (excluding Mauritius) as at 30 June 2012



INDIA: Exposure by Risk Segment as at 30 June 2012	
Sovereign	6%
Central Bank	1%
Banks with Government of India owning more than 50%	32%
Private Owned Banks	34%
Private Non Bank Financial Institutions	1%
Private Sector	27%

Euro Zone Crisis

SBM's risk weighted exposures in Europe accounted for 8% of the total exposures as at 30 June 2012. Concerns about credit risk (including that of sovereigns) and the euro zone crisis remain very high. The large sovereign debts and/or fiscal deficits of a number of European countries have raised concerns regarding the financial condition of financial institutions, insurers and other corporates (i) located in these countries; (ii) that have direct or indirect exposure to these countries (both to sovereign debt and private sector debt); and/ or (iii) whose banks, counterparties, custodians, customers, service providers, sources of funding and/or suppliers have direct or indirect exposure to these countries.

In order to effectively manage country risk, prior to undertaking any type of international exposure, SBM considers both quantitative and qualitative factors of the country. Management of country risk was strengthened in FY 2012 through a number of risk management measures. SBM limited its exposures to certain European countries, in particular, no exposure to Greece, Ireland, Italy, Portugal and Spain, with a focus to further avoid undue concentrations.

In addition, a country watchlist is in place to proactively monitor countries identified as exhibiting signs of stress and stress testing is used to measure potential risks associated with a downgrading in country rating. The default, or a further decline in the rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system generally. It could also adversely affect the markets in which SBM operates and the businesses, economic conditions and prospects of its counterparties, customers, suppliers or creditors, directly or indirectly, in ways that are difficult to predict.

Sovereign Risk

SBM has a high exposure in Government of Mauritius securities that carry a zero risk weight for capital allocation purposes under Basel II requirements and the BoM guidelines.

At 30 June 2012, the exposure to Government related entities (excluding investments in Government of Mauritius securities, both short term and long term securities) amounted to Rs 1.3 Bn representing 2% of the Bank's total loans (credit) and 12% of Bank's core capital (2011: Rs 1.4 Bn, 2% of total loans and advances, 17% of Bank's core capital).

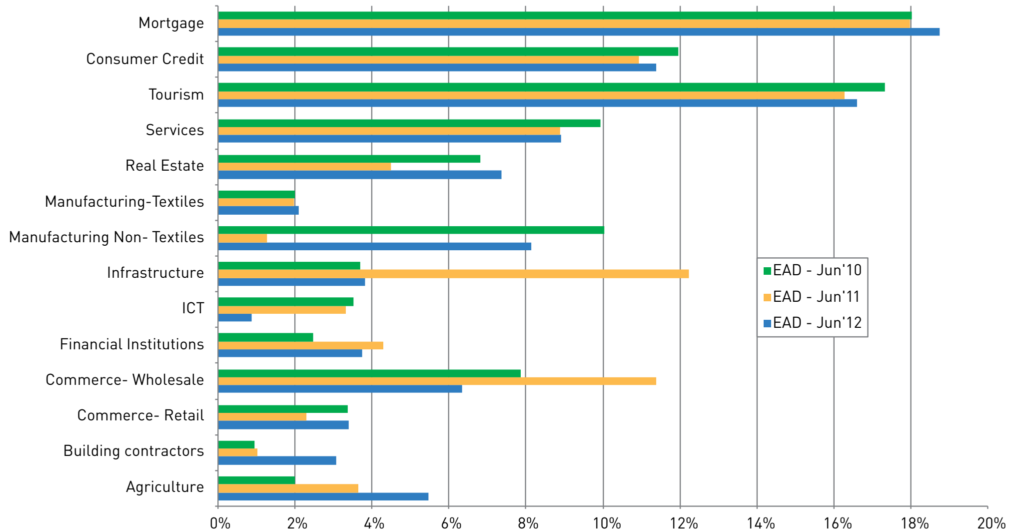
Total investments in Government of Mauritius securities aggregated Rs 9.2 Bn representing 19% of the Bank's total Mauritian rupee-denominated deposits (2011: Rs 15.6 Bn, 37%).

As at 30 June 2012, SBM's exposures in India and Madagascar Government Securities (India: Rs 1.8 Bn, Madagascar: Rs 1.2 Bn) represented 16.1% and 11.3% of SBM's core capital respectively (2011: India: Rs 1.9 Bn, Madagascar: Rs 952 m representing 17% and 8% of SBM's core capital respectively).

Credit Quality

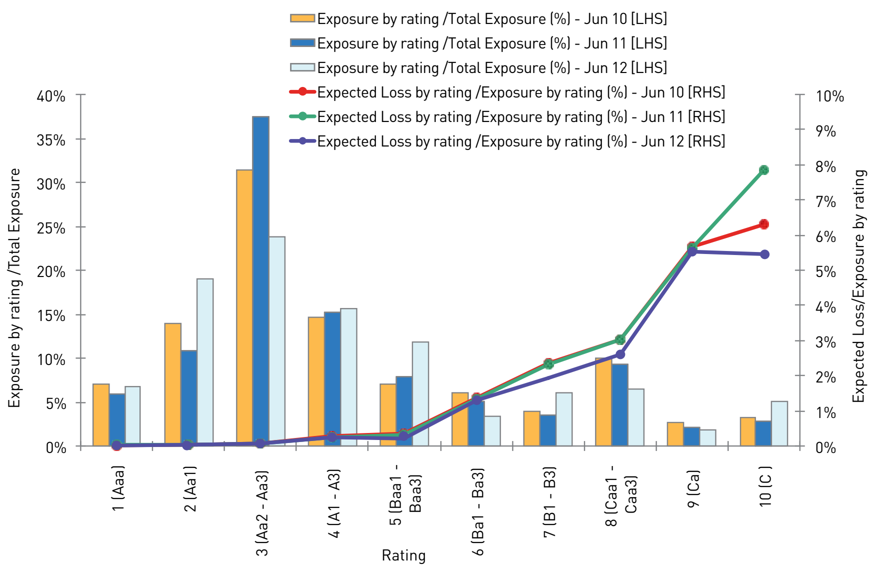
The table below provides an overview of the overall credit risk expressed in terms of Exposure at Default (EAD) and are based on the financial year end figures.

The Exposure at Default is used as a basis to determine the Risk-Weighted Exposures (RWE), which in turn are used to calculate the capital required for the exposure. RWE can be regarded as an exposure weighted according to its level of risk. This level of risk depends on such factors as the amount of collateral or guarantees, the maturity of the exposure and the probability of default (PD) of the obligor.



SBM weighted average internal customer risk rating stood at 4.15 as at 30 June 2012, compared to 4.13 as at 30 June 2011 depicting no major change in rating migration of individual customer. The risk profile curve below is skewed to the left, depicting a concentration to well-rated customers.

Expected Loss as a percentage of Exposure - By Rating



SBM also measures Expected Loss (EL) which is defined as a measurement of loss that is anticipated within a one-year period as of the respective reporting date, based on the historical loss experience. The risk rating tools enable SBM to quantify the Expected Loss in order to ascertain sufficient capital to prolong future growth and, also, to ascertain that risk tolerance is within approved limits. Expected Loss is a function of three key components where:

EL = Probability of Default (PD) * Exposure at Default (EAD) * Loss Given Default (LGD)

Probability of Default (PD)	Exposure at Default (EAD)	Loss Given Default (LGD)
• Quantifies the likelihood of the borrower being unable to repay. • Depends on borrower credit quality	• Quantifies the exposure at risk in case of default. • EAD = Outstanding balance + interest received – specific provision	• Severity of loss • Estimates the amount of EAD that will be lost • Depends on collateral type

Credit Impairment

Gross impaired advances as a percentage of total gross advances stood at 1.07% at 30 June 2012 compared to 1.40% as at 30 June 2011 (June 2010: 1.87%), while net of suspended interest and allowances, the impaired advances to total advances ratio decreased from 0.46% as at 30 June 2011 to 0.36% as at 30 June 2012 (June 2010: 0.81%).

Further details on the impaired advances are found in Note 8 to the Financial Statements.

MARKET RISK MANAGEMENT

Interest Rate Risk

Interest rate risk is the exposure of SBM's financial condition to adverse movements in interest rates arising from repricing and/or maturity mismatches, changes in underlying rates and other characteristics of assets and liabilities in the normal course of business. Excessive interest rate risk can pose a significant threat to a bank's earnings and capital base.

SBM manages pro-actively its mismatched positions in order to control, within set parameters, the impact of changes in interest rates on the institution. SBM has established explicit and prudent interest rate risk limits based on its overall risk profile, which reflect factors such as strategic and market conditions. The positions are reviewed against the prudential limits monthly by the Market Risk Forum and quarterly by the Board Risk Management Committee.

SBM uses interest rate risk measurement techniques in line with the BoM Guideline on the Measurement and Management of Market Risk to assess and manage the impact of interest rates changes on the assets and liabilities of the institution. SBM uses risk management methodologies such as re-pricing gap analysis and sensitivity analysis on earnings and hedging instruments to minimise interest rate risk.

Earnings at Risk measure the sensitivity of net interest income to shocks in market rates over the following 12 months and highlights exposures to various rate sensitive factors such as Repo rate change and pricing strategies on the earnings of SBM. At 30 June 2012, an upward movement of 200 basis point change in interest rate would result in a positive impact equivalent to 0.20% of SBM's core capital.

Foreign Exchange Risk

Foreign exchange risk is the potential that movements in exchange rates might adversely affect the foreign currency holdings in MUR and, thus, its financial condition. SBM can be impacted by changes in both the level and volatility of foreign exchange rates. Foreign exchange rates can be subject to large and sudden swings, and understanding and managing the risk associated with exchange rate volatility can be complex.

SBM is exposed to two sources of foreign exchange risk: Transactional foreign currency exposure and Translational foreign exchange exposure. SBM exercises strict control over its transactional foreign currency exposures by setting conservative prudential limits over its foreign currency exposures. The Treasury Division effectively monitors open positions of individual currencies to gauge foreign exchange risk. In addition, the aggregate forward gap limit is closely monitored with a view to prevent future loss out of foreign exchange, interest rate and liquidity risks.

SBM's investments in overseas operations create capital resources denominated in foreign currency. Changes in the value of the investments due to currency movements are captured in the currency translation reserve, resulting in movement in capital.

In order to manage their foreign currency exposures, the Treasury dealers operate within regulatory limits as prescribed by the Bank of Mauritius and also within more conservative prudential limits approved by the Board including the intraday/overnight open position limits, deal size limit, and stop losses limits. For the financial year under review, the regulatory limit was 15% of the SBM's Tier 1 capital.

Independent of the Treasury Front Office, the Middle Office closely examines foreign exchange exposure taken by the Front Office by robust measurement techniques, limit monitoring, daily reporting and oversight. Excesses and deviations from approved limits are reported to the Head of Risk Management, Chief Executive, monthly to the Market Risk Forum and to the Board Risk Management Committee on quarterly basis.

The Bank also uses Value-at-Risk (VaR) to quantify the potential loss arising from adverse foreign exchange movements under normal market conditions. Given that foreign exchange positions are also subject to exceptional market movements, crisis situations and worst case scenarios are used as part of the stress testing exercise.

Stress testing captures the Bank's exposure to unlikely but plausible events in abnormal market conditions, while VaR reflects the potential losses in a normal market environment. The methodology used to calculate VaR is based on historical data and assumes that historical changes in market values are representative of future movements. The VaR is based on data for the previous twelve months. We calculate VaR using a ten days holding period and based on a 99% one-tailed confidence interval; this implies that only once in every 100 trading days, we would expect to incur losses greater than the VaR estimates, or about two to three times a year. The methodology of using ten days holding period and a one year historical observation period are in line with Basel II recommendations on quantitative standards for market risk measurement.

The average VaR as detailed in the table below was insignificant relative to SBM's core capital, Rs 1.42 m for the year ended 30 June 2012 (2011: Rs 1.58 m, 2010: Rs 1.76 m). The maximum and minimum VaR reported did not necessarily occur on the same day.

	2012				2011				2010			
Rs '000	Min	Max	Avg	30 June	Min	Max	Avg	30 June	Min	Max	Avg	30 June
Bank	156	7,432	1,367	2,916	169	8,289	1,529	634	115	9,067	1,732	328
Group	158	7,686	1,424	3,013	172	8,690	1,578	639	116	9,293	1,763	342

The Bank also simulates for a one-day time horizon at 99% confidence level that best reflects the market environment. This is over and above Basel requirements and the rationale behind this is that open foreign currency positions can be liquidated in the market over one single day.

Price Risk

Price risk is the risk that the movements in the prices of a security or a commodity may adversely impact the value of relevant portfolios. SBM is exposed to both locally and internationally quoted securities. Changes in prices can be caused by factors specific to the individual security or its issuer or factors affecting the market as a whole.

SBM's Investment Policy ensures that exposures are sufficiently diversified and within the Bank's risk appetite. Additionally, the dealers are closely monitored by the Middle Office to ensure that trades are within a framework of trading limits, dealers' experience and prevailing market volatilities. Any excesses and deviations from approved limits are reported on a daily basis as also ongoing basis to the Head of Risk, the Chief Executive and, on a monthly basis to the Market Risk Forum and quarterly to the Board Risk Management Committee. At 30 June 2012, the Bank's trading book exposure was Rs 53.6 m and within the prudential limits set by the Board.

Liquidity Risk

Liquidity risk arises when funds required to meet repayments, withdrawals and other commitments are not readily available due to lack of liquidity in the market, which prevents immediate or effective liquiditation of positions or portfolios. To manage liquidity risk, SBM has devised written policies and procedures which have the threefold objectives of:

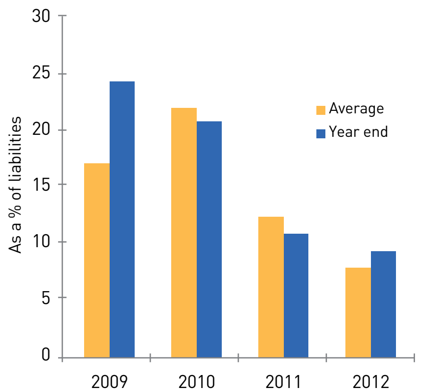
- Elaborating the tactic for administering liquidity;
- Detailing the lines of responsibilities;
- Describing the different frameworks to evaluate, scrutinise and control liquidity.

The policies, coupled with a set of limits approved by the Board on the recommendation of the Risk Management Committee, have as prime purpose, the handling of unanticipated falls or alterations in funding sources availability. These incorporate trimming down surplus funding concentration by diversifying sources and terms of funding in addition to safeguarding a portfolio of superior quality and marketable debt securities.

The daily administration of liquidity falls under the aegis of the Treasurer, while the Treasury Middle Office ensures that the effective management of cash flows conforms to the established liquidity risk management policies and limits laid down by the Board. Overseas banking operations of branches and subsidiaries are required to comply with their local regulatory liquidity requirements and to be self-sufficient for their local currency funding needs. The currency-wise gap analysis is the primary means to assess the disparity between assets and liabilities (both on and off-balance sheet) that mature within a specific interlude. An array of liquidity scenarios, covering a series of explicit events, are developed, analysed, and reported on a monthly basis to the Market Risk Forum and quarterly to the Board Risk Management Committee. SBM has a contingency plan in place to face any unforeseen liquidity crisis, thereby ensuring sufficient funds are readily available. The Bank has a sound, positive liquidity gap and analytic tool and is amply capable of meeting future expected cash flows both in local currency and foreign currencies, currency-wise.

To measure the liquidity and funding risk, SBM employs the liquid asset ratio, the level of core deposits and the customer deposit concentration. The liquid asset ratio provides an assessment of the extent to which assets can be readily converted into cash or cash substitutes to meet financial commitments.

Liquid Assets Ratio



SBM's liquid assets ratio echoes a sound liquidity standing, adequate to counterbalance the impact of a stressed funding environment. SBM is able to utilise its own resources largely and invest in higher yielding assets and in case of unexpected payment, the bank can draw down on its credit line if need be. SBM strives to attain the right balance between liquidity and profitability. The decrease in the liquid assets ratio in FY 2012 is partly as a result of the reduced investment in Government Treasury bills and a more sound and effective liquidity management.

As at 30 June 2012, investment in Government Treasury bills in the banking book stood at less than 10% of the total rupee deposits, largely within the limit of 18% set by the Bank of Mauritius.

SBM's funding and liquidity position is supported by its large and well diversified non-bank customer deposit base, and has been sustained by regular mostly non-volatile low cost funding. Though customers' savings and current accounts are repayable on demand, they have proved to be a stable and core source of funding for SBM, accounting for 82% of the deposit base.

Following the reforms brought by the Basel Committee on Banking Supervision under Basel III, two new liquidity ratios; Liquidity Coverage Ratio and Net Stable Funding Ratio, have been introduced to ensure that banks abide to the basic liquidity management principles and adopt a more prudent approach to liquidity risk management. The Liquidity Coverage Ratio focuses on the Bank's ability to raise enough unencumbered liquid assets in a time of short term liquidity crisis of thirty days, based on a predetermined set of cash inflows and outflows. The Net Stable Funding Ratio, on the other hand, is a longer term measurement of a bank's funding capability over a one year horizon. There is presently no regulatory requirement for these ratios but SBM has taken the appropriate steps in applying these reforms for better liquidity management. As at 30 June 2012, the Liquidity Coverage Ratio of the Bank for Mauritian rupee stood at 140.6% while the Net Stable Funding Ratio stood at 195.0% which is above the Basel III requirement of 100%.

Operational Risk Management

SBM is equipped with a methodical mechanism, which has the fourfold objective of identifying, evaluating, examining and mitigating operational risk. The mechanism is in accordance with the recommendations proposed by the Basel Committee on Banking Supervision and the Bank of Mauritius.

Operational risk is inherent in all business activities and has been defined by the Basel Committee on Banking Supervision as 'the risk of loss resulting from inadequate or failed internal processes, people, systems or external events'.

These diverse risks are explained as follows:

Processing risk	People risk
The risk related to the execution and maintenance of transactions, and the various aspects of running a business, including products and services.	The risk of loss intentionally or unintentionally caused by an employee – e.g. employee error, employee misdeeds – or involving employees, such as in the area of employment disputes.
Systems risk	**External risk**
The risk of loss caused by piracy, theft, failure, breakdown or other disruption in technology, data or information; also includes technology that fails to meet business needs.	The risk of loss due to damage to physical property or assets from natural or non–natural causes. This category also includes the risk presented by actions of external parties, such as the perpetration of fraud, or in the case of regulators, the execution of change that would alter the Bank's ability to continue operating in certain markets.

Other related operational risks are:
- Legal risk
- Reputational risk
- Compliance risk
- Strategic risk

SBM has set up a framework for sound operational risk management to ensure that these risks are properly identified, monitored, managed and reported in a structured, systematic and consistent manner. This framework extends across all banking businesses in compliance with the BoM guidelines and in line with Basel II requirements.

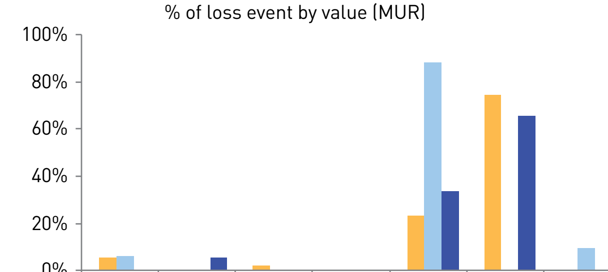
SBM promotes an organisational structure that stresses high ethical behaviour and integrity across all levels of the organisation, whereby each and every employee has a defined level of responsibility and for the management of risk, with additional encumbrance on managers and specialised units, to ensure full adherence to internal policies, procedures, regulations and best practices.

Loss Events and Incidents Database

In accordance with the criteria set out by the Basel Committee on Banking Supervision, the Bank captures and classifies as per Basel II Loss Event Type Classification, operational loss events, near-miss events and incidents in an internal database. Events and incidents are analysed to assess the effectiveness of controls in place within SBM. All significant events are reported monthly to the Operational Risk Forum and quarterly to the Board Risk Management Committee.

As compared to FY 2011, a decrease was noted both in the number of occurrences of incidents and on the financial impact in FY 2012. The operational loss amount was negligible relative to SBM's core capital (less than 0.02% of the core capital as at 30 June 2012). SBM continues to take counter-measures to prevent recurrence of operational risk events.

% of loss event by value (MUR)



	Business Disruption and System	Clients, Products & Business	Damage to Physical Assets	Employment Practices	Execution, Delivery and Process Risk	External Fraud	Internal Fraud
FY 2010	4%	0%	1%	0%	22%	73%	0%
FY 2011	5%	0%	0%	0%	87%	0%	8%
FY 2012	0%	4%	0%	0%	32%	64%	0%

Key Risk Indicators

In addition to loss data collection, key operational risk indicators (KRIs) are continuously tracked and are used to help identify trends, vulnerabilities and issues on a business line level. They allow the monitoring of the Bank's control culture as well as the operational risk profile and trigger risk mitigating actions.

There is a close follow up on the major KRIs by the Operational Risk Management team, and by management through the monthly Operational Risk Forum. Matters of significant importance are reported to the Board Risk Management Committee.

Risk Assessment

In line with Basel requirements and the SBM strategy for managing operational risk, the Risk Control Self Assessment (RCSA) is a cyclical exercise to assess the Bank's processes in terms of the following risk categories, namely process, people, technology, compliance and regulation, reputational and strategic risk.

This tactical exercise devised and driven by the Operational Risk Management team promotes the risk culture at an operational level. It inculcates a sense of ownership at all levels of the hierarchy and promotes the participation of every staff in the identification of new risks as well as the assessment, monitoring and mitigation of existing ones with respect to the operational risk appetite defined by the Board.

Moreover, the existing processes are regularly reviewed to ensure that adequate controls are in place. With the introduction of new products and services as well as changing regulations, the procedures are updated accordingly and vetted by the Operational Risk Management team.

Risk Register

The risk register records the risks identified in a process specifying the type of risk, the likelihood of occurrence, levels of impact on the business and the effectiveness of the controls in place. The aim is to prioritise high risk areas within the organisation and define the appropriate risk mitigation strategies.

Information Technology (IT) risk forms an integral part of operational risk management. SBM has in place an information security management system for managing sensitive and confidential information which defines the framework, management and staff responsibilities as well as the security directives in line with ISO 27001 and ISO 27002. Information Technology KRIs such as systems uptimes, disruptions, incidents, security breaches and adequacy are closely monitored and reported monthly to the Operational Risk Forum and quarterly to the Board Risk Management Committee.

Steps are being taken to strengthen the e-business line of business, which is one of the major income generators for SBM. A Proactive Risk Management team is responsible for detecting suspicious transaction patterns on a 24-hour, seven days a week basis and has contributed to avoid major losses resulting from fraudulent transactions. In addition, an independent e-commerce Middle Office has been set up to closely monitor the e-commerce activities. Daily reporting to senior management and periodical reporting to risk management forums and Board Risk Management Committee are now in place.

In order to protect the Bank against financial consequences of uncertain operational events, despite adoption of best practices and rigorous compliance of the same, certain operational risks can best be mitigated in case the loss happen through:

(i) Insurance policies acquired to mitigate the impact of operational losses when and if they occur;

(ii) Outsourcing of non-key processes; and

(iii) An effective Business Continuity Management, which is an integral part of the Bank's strategy to mitigate risks and to manage the impact of unforeseen events.

In line with regulatory requirements, SBM has an independent Compliance Unit which is also responsible for anti-money laundering.

- The Compliance team assesses compliance with applicable laws & regulations, codes and guidelines, internal procedures and policies. Timely compliance audits are effected where compliance with laws/regulations/guidelines are critical and appropriate recommendations for enhancement in processes and controls are made. Findings are submitted monthly to the Operational Risk Forum and quarterly to the Board Risk Management Committee. The Compliance team also acts as a contact point within SBM and delivers timely advice in relation to compliance queries emanating within the Bank.
- The Anti-Money Laundering (AML) team tracks transactions and reports any suspicious transactions to the local designated authority. It also imparts training on anti-money laundering to staff in order to enable them to mitigate compliance risks as recommended by the local regulators.

Internal Audit

The Internal Audit function at SBM ensures that its operations are conducted according to the highest standards of best practice by providing an independent, objective assurance to the management and to the Board. Through a systematic and disciplined approach, internal audit helps SBM to accomplish its objectives by evaluating and recommending improvements to the effectiveness of risk management, control and governance process. The internal audit department is governed by an internal audit charter approved by the Audit Committee. The department reports to the Audit Committee functionally while reporting to the Chief Executive administratively. It maintains a close working relationship with the Risk Management Division, the Compliance Unit and the external auditors. The Audit Committee reviews and approves Internal Audit's plan and resources, and evaluates the effectiveness of Internal Audit.

The objective of the Internal Audit department is to assist various levels of management in the effective discharge of their responsibilities. Internal Audit undertakes reliable assessments and value adding services relating to systems, internal controls and procedures. It also provides a key independent support service to management by identifying and evaluating potential business risks.

Audits are conducted following the risk-based audit methodology which is in line with global best practices. All businesses of SBM are audited to assess control adequacy and effectiveness from a process perspective. In addition, internal audit has internationally certified information systems auditors to audit the information technology used by SBM.

As outlined in its charter, the Internal Audit function covers various types of audits, notably process, system, IT and compliance audits, and others, such as product and continuous analytical audits. The work performed by internal audit is taken into consideration by the statutory auditors for the purpose of forming an opinion on the Financial Statements of the Bank. As part of their statutory duties, the external auditors also conduct yearly independent process reviews and report directly to the Audit Committee.

An evolving regulatory environment, market pressure to improve operations, and rapidly changing business conditions are creating the need for more timely and ongoing assurance that controls are working effectively and risk is being mitigated. Computer Assisted Audit Tools have been deployed for the analysis of data of key business systems for anomalies up to the transaction level in near real time. In addition, concurrent audits are carried out on an ongoing basis at the overseas operations and reported to management on a monthly basis.

During the year under review, SBM's Internal Audit function completed audits of internal control systems, information systems and governance processes in accordance with its pre-approved audit plan. Material or significant control weaknesses and proposed management corrective actions were reported to the Audit Committee on a quarterly basis.

As per best practice and the requirements of the Institute of Internal Auditors an external assessment of the Internal Audit function needs to be conducted every five years. During the FY 2012, a quality assessment carried out by an internationally recognised audit firm validated the function's adherence to International Standards for the Professional Practice of Internal Audit by awarding a positive report on the Bank's Internal Audit.

CAPITAL RESOURCES

Capital Structure and Management

SBM ensures sufficient capital is available to support current and projected business activities in line with its own internal assessment and regulatory requirements set by the regulator. In managing its capital, the Bank considers a variety of requirements and expectations and its main objectives are:

- To comply with the capital requirements set by the Bank of Mauritius which is in accordance with the Basel II framework of the Basel Committee on Banking Supervision while its overseas operations in India and Madagascar must also adhere to the requirements of their host country regulators;
- To safeguard SBM's ability to continue its business as a going concern;
- To maximise returns to shareholders and optimise the benefits to stakeholders; and
- To maintain a strong capital base to support the development of its future expansion plans.

SBM manages capital by allocating resources effectively in terms of its risk appetite targets in chosen lines of business and in a manner that delivers optimal and sustainable returns to shareholders. Capital ratios appropriate to sustaining its operations are therefore maintained with a particular focus on the quality of capital.

During FY 2012, SBM met all key capital ratios and regulatory requirements. It maintained a well-capitalised position in relation to its risk and strategic objectives.

SBM's Group Tier 1 capital was Rs 12.5 Bn as at 30 June 2012 (2011: Rs 11.2 Bn) and total capital was Rs 15.2 Bn (2011: Rs 13.5 Bn). The increase in capital was mainly due to retained earnings.

Basel II and Regulatory Capital

The Basel Accord, published by the Basel Committee on Banking Supervision, sets a framework on how banks and depository institutions must calculate their capital. In 1988, the Committee introduced a capital measurement system commonly referred to as Basel I which was replaced in 2002 by a significantly more complex capital adequacy framework, Basel II.

SBM has implemented the Basel II Standardised Approach to the measurement of credit, market and operational risks as stipulated in the guidelines issued by Bank of Mauritius in 2008. Whereas the Basel Committee for capital adequacy recommends a minimum capital adequacy ratio of 8%, banks in Mauritius are required, under the Bank of Mauritius guidelines to maintain, at all times, a minimum capital adequacy ratio of 10% (with Tier 2 capital limited to 100% of Tier 1 capital). For its operations in India and Madagascar, the ratios set by the host regulators are 9% and 8% respectively.

SBM, including each of its banking entities, was in compliance with all prescribed capital ratios throughout the financial year under review.

The Basel II framework is based on 'three pillars' which are viewed as mutually reinforcing:

Three Pillars of Basel II		
Pillar 1 Minimum Capital Requirements	Pillar 2 Supervisory review process	Pillar 3 Market Discipline
Deals with maintenance of regulatory capital to cover the three principal risks that a bank faces: - Credit Risk - Operational Risk - Market Risk	Covers regulatory supervision of the first pillar requirements, giving supervisors power to review banks' risk management systems. It also provides a framework (Internal Capital Adequacy Assessment-ICAAP) for dealing with all the other risks a bank may face, such as systemic risk, pension risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk.	Aims to complement the capital adequacy requirements and supervisory review process by setting out the minimum disclosure standards, including governance, practices and risk exposures, that will allow market participants to gauge the risk profile and level of capitalisation of an institution.

The BoM Guideline on the Scope of Application of Basel II issued in 2008 requires a home banking group – one whose centre of economic interest is in Mauritius – to adhere to capital adequacy ratio requirements on a consolidated basis for SBM and on a stand-alone basis for each majority owned entity given that risks in these entities may impact on the overall risk profile of the whole group. SBM's subsidiary and foreign branches are also subject to risk based capital guidelines issued by their host country/regulator.

Regulatory capital adequacy is measured by two risk-based ratios; Tier 1 and total capital, stated as a percentage of risk-weighted assets.

The BoM Guideline on Eligible Capital defines instruments that are eligible for inclusion in regulatory capital and they are grouped under two tiers.

- **Tier 1 capital:** (paid up capital + statutory reserves + disclosed free reserves) less (50% equity investments in subsidiary + intangible assets)
- **Tier 2 capital:** (45% of revaluation reserves + undisclosed reserves + general banking reserves + portfolio allowance for credit losses limited to 1.25% of total risk weighted assets) less (50% equity investments in subsidiary)

SBM has adopted the following approach for computation of total risk-weighted assets for regulatory reporting purpose:

Risk Type	Approach Adopted by SBM for Regulatory Reporting
Credit Risk	Standardised Measurement Approach
Market Risk	Standardised Measurement Approach
Operational Risk	Alternative Standardised Measurement Approach

- **Credit risk capital** – The risk weighted assets for credit risk are principally derived from application of the risk based capital guideline related to the measurement of credit risk issued by the Bank of Mauritius. Pursuant to this guideline, on-balance sheets assets and the credit equivalent amount of off-balance sheet exposures are assigned to one of several prescribed risk-weight categories based upon the perceived credit risk associated with the obligor, or if relevant, the guarantor, the nature of the collateral, or external credit ratings. SBM uses ratings assigned by Standard & Poors, Moody's Investors Service and Fitch which are in the list of External Credit Assessment Institutions (ECAIs) approved by the Bank of Mauritius to determine the relevant risk weights applicable for its claims on banks and overseas sovereigns. As regards other claims, SBM has applied standard risk weights as proposed in the guideline.

The table below sets out the Group exposure amounts after credit risk mitigation under the Standardised Approach for the last three years:

Risk-weighted on-balance sheet assets	Jun 2012 Amount (Rs m)	Jun 2012 Weight %	Jun 2012 Weighted Assets (Rs m)	Jun 2011 Weighted Assets (Rs m)	Jun 2010 Weighted Assets (Rs m)
Cash Items	1,117	0-20	47	32	29
Claims on Sovereigns	13,028	0-20	11	14	9
Claims on central banks and international institutions	6,118	0	0	0	0
Claims on banks	11,670	20-100	4,150	6,119	1,890
Claims on non-central government public sector entities	2,451	0-100	1,567	1,064	596
Claims on Corporates	35,159	100	35,159	28,971	23,356
Claims included in the regulatory retail portfolio	8,480	75	6,360	5,173	4,420
Claims secured by residential property	11,747	35-100	5,081	3,180	2,538
Past due claims	227	50-150	249	271	390
Other assets	7,196	100	7,196	6,639	6,574
Total On Balance Sheet	**97,193**		**59,819**	**51,462**	**39,802**

Risk-weighted off-balance sheet assets	Jun 2012 Credit Conversion Factor (%)	Jun 2012 Nominal Amt (Rs m)	Jun 2012 Credit Equivalent Amt (Rs m)	Jun 2012 Weight %	Jun 2012 Weighted Assets (Rs m)	Jun 2011 Weighted Assets (Rs m)	Jun 2010 Weighted Assets (Rs m)
Direct credit substitutes	100	487	448	0 - 100	428	362	156
Transaction-related contingent items	50	7,041	3,302	0 - 100	2,995	2,621	1,142
Trade-related contingencies	20	784	154	0 - 100	143	196	147
Other commitments	0 - 20	10,476	910	0 - 100	871	341	131
Foreign Exchange and Interest Rate contracts	1 to 5	16,405	330	20 - 100	118	110	40
Total Off Balance Sheet					**4,554**	**3,630**	**1,616**

- **Market Risk Capital** – computed as per Guideline on Measurement and Management of Market Risk issued by the Bank of Mauritius

  Foreign exchange risk is the risk of losses arising due to movements in foreign exchange rates. A bank has net open foreign currency positions and, as such, is exposed to currency risk in its foreign currency positions and foreign investments.

- **Operational Risk Capital**

  SBM has adopted the Alternative Standardised Approach for the computation of capital for operational risk given that it has well-defined lines of business. The capital charge for the Group is worked out as a summation of the following:

  – For Trading & Sales and Payment & Settlement business lines – a beta factor of 18% is applied to the average gross income over last 3 years

  – For Retail and Commercial banking business lines – a beta factor of 12% and 15% respectively is applied to the last three-year average outstanding balances of advances and securities for the respective line of business multiplied by a factor of 0.035% as prescribed in the BoM Guideline on Operational Risk Management and Capital Adequacy Determination.

The table below shows the operational risk capital charge for the Bank and the Group:

Figures in Rs m	2012	2011	2010
Capital charge for Operational Risk (Bank)	477	443	427
Capital charge for Operational Risk (Group)	506	490	473

The table below shows the components of capital base for the Group together with risk weighted assets and capital adequacy ratios for the Bank and the Group:

Capital Adequacy Ratio under Basel II Approach

	Jun 2012 Rs m	Jun 2011 Rs m	Jun 2010 Rs m
I. CAPITAL BASE			
Core capital (Tier 1 capital)			
Share Capital	304	304	304
Statutory Reserve	520	505	486
Other Reserves	14,435	13,111	11,785
Deduct			
Treasury (own) shares	(2,333)	(2,333)	(2,333)
Other Intangible assets	(87)	(54)	(77)
50% of Investments in Associates	(374)	(334)	(294)
Total Core Capital	**12,465**	**11,198**	**9,870**
Supplementary capital (Tier 2 capital)			
Other Reserves	2,292	1,894	2,094
Portfolio Provision	803	714	578
Deduct			
50% of Investments in Associates	(374)	(334)	(294)
Total Supplementary Capital	**2,722**	**2,274**	**2,378**
GROUP CAPITAL BASE	**15,187**	**13,472**	**12,248**
BANK CAPITAL BASE	**11,763**	**11,290**	**10,018**
II. RISK WEIGHTED ASSETS			
Credit Risk - On balance sheet assets	59,819	51,462	39,802
Credit Risk - Memorandum items	4,554	3,630	1,616
Market Risk - Foreign Exchange & Interest Rate Contracts	448	107	93
Operational Risk	5,065	4,896	4,727
GROUP TOTAL RISK WEIGHTED ASSETS	**69,886**	**60,095**	**46,238**
BANK TOTAL RISK WEIGHTED ASSETS	**65,473**	**58,628**	**44,653**
III. CAPITAL ADEQUACY RATIO (%)			
GROUP	**21.7**	**22.4**	**26.5**
Of which Tier 1	*17.8*	*18.6*	*21.3*
BANK	**18.0**	**19.3**	**22.4**
Of which Tier 1	*16.6*	*14.7*	*16.6*

Future Developments - BASEL III

Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to:

- improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
- improve risk management and governance
- strengthen banks' transparency and disclosures.

The reforms target:

- bank-level, or microprudential, regulation, which will help raise the resilience of individual banking institutions to periods of stress.
- macroprudential, system wide risks that can build up across the banking sector as well as the procyclical amplification of these risks over time.

The two approaches to supervision are complementary as greater resilience at the individual bank level reduces the risk of system wide shocks.

Basel III is an opportunity as well as a challenge for banks. It can provide a solid foundation for future developments in the banking sector, and it can ensure that past excesses are avoided.

Under Basel III, greater focus would be placed on Tier 1 capital to absorb losses. The minimum level for total capital will remain at 8% of risk-weighted assets (RWA) but the proportion accounted for by Tier 1 is being increased. The minimum level for common equity Tier 1 (CET1) will increase in a phased manner starting from January 2013 to reach 4.5% of RWA and Tier 1 to 6% of RWA in 2015 and full compliance of capital levels by January 2019.

Summary of Proposed Changes under Basel III:

1. The quality, consistency, and transparency of the capital will be raised.
2. The introduction of a series of measures to promote the build up of capital buffers in good times that can be drawn upon in periods of stress.
3. Measures to strengthen capital requirements for counterparty credit exposures arising from banks' derivatives, repo and securities financing activities.
4. The introduction of a leverage ratio with the objective to constrain leverage in the banking sector.
5. The introduction of a global minimum liquidity standard for internationally active banks that includes a 30-day liquidity coverage ratio requirement underpinned by a longer term structural liquidity ratio called the Net Stable Funding Ratio.

Implications of Basel III

In general, higher capital and tighter liquidity requirements under Basel III will increase the capital requirements. However, the actual impact will depend on the amount of exposures under Basel III, existing capital structure, that is, the extent of reliance on non-common equity capital elements, existing rules relating to regulatory adjustments, credit growth experienced by the economies and existing credit to GDP ratio. The impact of these requirements on SBM's profitability would depend upon sensitivity of lending rates to capital structure of banks and sensitivity of the credit growth to the lending rates.

The implications of these new measures are still being examined in various countries. The immediate challenge is to ensure consistent implementation of Basel II and Basel III across banks and jurisdictions. Therefore, SBM has taken the decision to set aside the full capital conservation buffer of 2.5% with effect from 01 January 2013.

SBM would ensure that quality of capital as a loss absorbing capacity without any bearing on the insolvency of the Bank (which would cover equity capital and other shareholder's funds) would be maintained at all times at such level as approved by the Board of Directors.

SBM does not foresee any difficulty in complying with the new capital standards of Basel III as and when they become effective. As at 30 June 2012, SBM was in compliance with Basel III requirements in all jurisdictions where it operates, as well as a banking group, as illustrated in the following table:

	Mauritius Operations		India Operations		Madagascar Operations		Group	
	Basel II %	Basel III %	Basel II %	Basel III* %	Basel II %	Basel III %	Basel II %	Basel III %
Capital adequacy ratio	18.5	15.4	40.8	71.8	22.8	22.8	21.7	19.9
Tier 1 ratio	17.2	14.2	39.3	71.3	20.4	20.4	17.8	18.6
Leverage ratio (min 3%)	10.7	8.7	22.2	33.9	6.9	6.9	11.1	11.3

* Computation based on additional INR 2.4 Bn in the process of being capitalised


Framing
your terms and condition
to top up your life


CORPORATE GOVERNANCE

Statement on corporate governance

Corporate governance involves a set of relationships between a broad group of stakeholders, including shareholders, Board of Directors, management, employees, customers, suppliers, regulators and the community, that guides the way companies are directed and controlled. Sound principles of corporate governance are essential to ensure fairness, transparency, integrity and to inspire the stakeholders' trust and confidence in the organisation.

Governments and regulators are increasingly enhancing governance practices to reinforce the stability of the financial systems. Investors and lenders also scrutinise the governance policies adopted by companies in their investment/lending decisions thereby placing a premium on the quality of governance practices.

The Board of Directors of SBM is alive to the importance of good corporate governance and is fully committed to achieving and sustaining the highest standards of corporate governance with the aim of maximising long-term value creation for the shareholders. SBM also fully supports the Government initiative to promote corporate social responsibility and contributes prominently in the implementation thereof.

The Board plays a key role in the setting up of the system of corporate governance within an organisation to assist in safeguarding policies and procedures, and aligning the incentives of managers with those of shareholders. The Board sets the Group's strategy, develops directional policy, provides leadership to put them into effect, appoints and supervises the management, and ensures accountability of the organisation to its owners and relevant authorities.

The code of corporate governance for Mauritius

The Code of Corporate Governance for Mauritius (the Code) published in October 2003 became mandatory as from July 2009. 'The Code' requires all public interest entities including banks, non-bank financial institutions and listed companies to ensure compliance or else to provide explanation for not adopting / adhering to any of the provisions of 'the Code' in their financial statements or reports.

Banks are also required to comply with the Guideline on Corporate Governance issued by the Bank of Mauritius (BoM), the regulator, and in case of conflict between 'the Code' and the BoM guideline, the BoM guideline takes precedence.

Directors' statement of compliance

The Board of Directors continuously reviews the implications of corporate governance best practices, and hereby confirms that SBM has complied in all material respects with the provisions of 'the Code' and/or guidelines from BoM.

SBM corporate governance framework

SBM was one of the first companies in Mauritius, and the first listed company to comply with international best practices in corporate governance as far back as 1997, well ahead of the BoM Guideline on Corporate Governance issued in 2001 – which has now been superseded by the revised guideline issued in August 2012 – and the introduction of 'the Code' in 2003.

SBM's corporate governance framework includes its Board of Directors, Board Committees, management forums, management, employees, regulators, internal and external auditors, risk management team, customers, suppliers and other stakeholders. SBM complies with 'the Code' and regulatory guideline, follows industry and international best practices as well as established policies and procedures. SBM requires all its employees to adopt the highest standard of business integrity, transparency, professionalism and ethical behaviour, as well as compliance with policies, best practices, applicable laws, regulations and rules while conducting business.

SBM's Board Corporate Governance & Conduct Review Committee reviews on an ongoing basis the corporate governance framework, the Board charter and policies dealing with matters/issues such as conflicts of interest and related party transactions and ensures compliance thereof and at least once annually recommends new policies or changes to enhance the governance framework. In addition, the Committee recommends projects/ schemes to the Board for promoting corporate social responsibility.

Board of Directors

'The Code' requires the Board to have an appropriate balance of executive, non-executive and independent non-executive directors under the firm and objective leadership of a chairperson to ensure that the corporate objectives are attained in an efficient, transparent and professional way, and in the best interest of the shareholders and other stakeholders of the Company.

The SBM Board of Directors has a unitary structure comprising a balanced mix of independent non-executive directors, non-executive and executive directors. The independent non-executive directors and non-executive directors are elected by separate resolution by the shareholders, and hold office until the next annual meeting and are eligible for re-election subject to rotation as per the Bank's policy and the requirement of the BoM Guideline on Corporate Governance. The two executive directors including the Chief Executive are appointed by the Board as per the Constitution of the Bank. The profiles of the current directors are given at pages 158 to 159 of the Annual Report.

The members of the Board provide the Group with a wealth of expertise and experience in banking, finance, law, commerce and industry at both local and international levels. The Board of Directors remains the focal point of contact between shareholders and the Company. The Chairman of the Board is the spokesperson for the Board and the Company.

The Board oversees the activities of the Group, focusing more on strategy, performance, and management of risks and is ultimately responsible and accountable for the affairs of the Bank. The roles and responsibilities of the Board include:

- Formulate strategy of the Group, and set its corporate operations objectives, mission, values and operating budget;
- Delegate authority to and empowers executive management to implement strategies, policies and plans approved by the Board ;
- Monitor and evaluate implementation of strategies, policies, value based performance and rewards;
- Ensure that policies, procedures and a healthy and robust risk management framework benchmarking to international best practices appropriate to financial listed institutions and system of internal controls are in place to safeguard the Group's assets and reputation;
- Identify key risk areas and key performance indicators (KPIs) of the business;
- Ensure that the Company and its subsidiaries comply with all relevant laws, rules, regulations, policies, 'the Code' and best business practice, and establish mechanisms by which breaches of policies, laws, controls and good corporate governance practices are reported and acted upon;
- Ensure adequate succession planning for senior management;
- Approve the recruitment or promotion to senior executive and above, as directors; of officers and expatriates proposed by the Chairman and their remuneration, benefits and other terms and conditions of the service contract of such officers;

- Approve the interim and audited financial statements of SBM and its group ;
- Determine the level of Board fees for directors and make recommendation to the shareholders;
- Approve the productivity bonus of top Executive Management based on agreed KPIs;
- Ensure effective communication with shareholders and relevant stakeholders;
- Approve strategic capital investment of the Bank, including new business lines;
- Assess both internal and external auditors' work;
- Exercise leadership, enterprise, integrity and judgment in directing SBM.

The annual calendar of Board/Board Committee meetings is agreed before beginning of each financial year. The Board of Directors meets at least once quarterly, and additional meetings, including those for approval of budget and policies, are held as and when required.

At the start of Board meetings, separate sessions are held among independent non-executive directors only. The non-executive directors then join them for further consultation in the absence of the executive directors. Subsequently, the executive directors are invited. This ensures that important Board decisions are taken with sufficient independence and objectivity, in the best interest of the organisation and its shareholders. Besides, the Audit Committee comprises only independent non-executive directors. At the start of each meeting of the Audit Committee, the members meet separately with the external auditors in the absence of management and internal auditors, followed by a separate meeting with the internal auditors in the absence of management and external auditors. A lead independent director, namely Professor Andrew Scott, has also been appointed for the first time from among the independent directors. He acts as spokesperson at the Board at times on behalf of independent directors. The executive management team is invited to attend Board and Board Committee meetings when required.

The approval of the shareholders is required for crucial matters including changes to the Bank's constitution, disposal of major assets/investments, and raising capital upon recommendation of the Board as required under various laws.

Board Committees

A Board Committee is a mechanism to assist the Board of Directors in discharging its duties and responsibilities effectively through a comprehensive evaluation of technical and/or complex issues.

SBM's Board has established Board Committees namely:

- Strategic Planning Committee,
- Corporate Governance & Conduct Review Committee,
- Risk Management Committee,
- Audit Committee,
- Credit Committee, and
- Nomination & Remuneration Committee

Each Board Committee has a charter or terms of reference which are reviewed and recommended by Corporate Governance & Conduct Review Committee and approved by the Board. The charter is reviewed at least once annually by the Board. The terms of reference of the Board Committees are in line with 'the Code', the BoM guidelines and international best practice, and may be consulted on SBM's website at www.sbmgroup.mu.

Separation of Powers between Chairman and Chief Executive

The SBM's Board is led by the Chairman who is responsible for leadership of the Board whilst the Chief Executive is responsible for leadership and managing the day to day affairs within the delegated authority by the Board. The Chairman devotes considerable time to oversee on an ongoing basis regularly and periodically, exercising carefully not to step into the day-to-day affairs and operations except in exceptional circumstances with the consultation/consent of the Board and to initiate suitable corrective /remedial actions. The Chairman and Chief Executive meet regularly to review issues/ opportunities and take appropriate actions.

Directors' Orientation

Directors, when elected for the first time, are provided an induction programme whereby they are apprised of the functioning of the Board, Board Committees, their duties and responsibilities as director, relevant laws, rules and regulations pertaining to the Bank & Group and the nature of activities and operations of the Company and its subsidiaries. A pack containing the constitution of the Company, its policies and relevant laws, regulations and guidelines are provided to the directors at the time they join the Board. New issues affecting the business as well as changes in the business environment are brought to the attention of directors on an ongoing basis.

Evaluation of the Board/Board Committees

Both 'the Code' and the BoM Guideline on Corporate Governance require that the Board develops an appropriate mechanism for the annual review/ evaluation of its performance, its committees and individual directors.

At SBM, a self-evaluation questionnaire has been designed to evaluate the performance of the Board, Board Committees and individual directors. The questionnaire is reviewed annually by the Corporate Governance & Conduct Review Committee, which should be unanimous, and recommends same with amendments if needed to embrace new rules and best practices to the Board for approval. Each director is requested to give his/ her score in confidence to a set of parameters for the Board, the Board Committees on which he/she serves on an annual basis. The scores for each of the parameters are consolidated for the Board and each Board Committee and these results are presented to the Board and the respective Board Committees. Appropriate measures are taken from this exercise to refine the questionnaire, governance structure and responsibilities based on feedback and comments received from the directors.

Attendance of the Board, Board Committee and Annual Meeting (AM) during FY2012

		Board	Audit(i)	Credit(ii)	Nomination & Remuneration	Risk Management(iii)	Corporate Governance & Conduct Review	Strategic Planning	Annual Meeting 2011
No of meetings held		**10**	**6**	**12**	**8**	**6**	**5**	**5**	**1**
Directors									
Reddy M K T, *G.O.S.K.*	a	10/10	2/2	12/12	8/8	6/6	5/5	5/5	1/1
Appadoo, C[2]	b	5/5	-	-	-	-	-	-	1/1
Bhanji K	c	8/10	-	3/8	6/8	2/3	2/2	2/5	1/1
Currimjee A F[1]	a	4/5	2/3	-	3/5	-	1/2	-	
Dabee D K, *S.C., G.O.S.K.*	c	8/10	3/3	8/12	6/8	3/3	2/2	2/3	1/1
Dumbell G	a	7/10	5/6	-	-	6/6	3/5	-	0/1
Mansoor A M[1]	c	1/5	-	-	-	-	-	-	
Professor Scott A	a	8/10	-	-	-	3/6	-	5/5	0/1
Ramnawaz R	a	9/10	3/6	8/12	2/3	4/6	2/2	-	1/1
Rey A J G R	a	10/10	6/6	9/12	7/8	-	-	-	1/1
Seeyave P S C[1]	b	4/5	-	3/3	-	3/3	-	2/2	
Summun S M A[2]	a	4/5	2/3	-	-	-	3/3	-	
Vir G[3]	b	8/8	-	9/9	-	4/4	-	2/2	1/1
Yat Sin R *C.S.K., G.O.S.K.*[2]	a	4/5	-	6/6	3/3	-	3/3	3/3	
In attendance									
Reddy M K T	a	-	1/1	-	-	-	-	-	-
Seeyave P	b	-	-	9/9	-	-	-	-	-
Vir G	b	-	4/4	-	5/5	-	3/3	1/1	-
Parianen S	-	-	2/2	3/3	2/2	2/2	2/2	2/2	-

a. - Independent non executive director
b. - Executive director
c. – Non executive director

[1] Retired on 30.12.11 [2]Appointed on 30.12.11 [3]Ceased as from 06.04.12

Note:
(i) – The external auditors and the internal audit team are in attendance at the Audit Committee
(ii) – The Corporate Credit team is in attendance at the Credit Committee
(iii) – The Risk Management team is in attendance at the Risk Management Committee

Disclosures

Directors' interest and dealings in SBM shares

The directors of SBM adhere to the principles of the model code on securities transaction as detailed in Appendix 6 of the Mauritius Stock Exchange Listing Rules.

The table below outlines the interests of the directors of the company in the share capital of SBM as at 30 June 2012.

Directors	Direct shareholding	Indirect shareholding	Phantom shares options outstanding
Mr Muni Krishna T Reddy, *G.O.S.K.*	10,000	-	-
Mr Chandradev Appadoo (appointed on 30.12.11)	3,420	1,510	123,500**
Ms Pauline Seeyave (retired on 30.12.11)	5,387	1,000	160,750*
Mr Regis Yat Sin, *C.S.K., G.O.S.K.*	1,354	-	-
Mr Gautam Vir (Ceased as from 06.04.12)	-	-	75,000***

* as at 31 December 2011
** as at 30 June 2012
*** Exercise on/before end of November 2012

The phantom share options held by Mr Chandradev Appadoo and Ms Pauline Seeyave represent the cumulative options granted to them on an annual basis based on their performance and the performance of the Group. The phantom share options held by Mr Gautam Vir were granted to him on the date he joined the Bank.

During the period under review, Mr Muni Krishna T Reddy purchased 10,000 shares of the Company and no other director bought or sold any shares of the Company.

Apart from the above mentioned directors, no other director had an equity stake in the company either direct or indirect as at 30 June 2012.

Directors' Emoluments

During the year under review, the executive directors received emoluments amounting to Rs 22,989,168 (2011: Rs 24,330,588).

The non-executive directors received emoluments, net of taxes where applicable, amounting to Rs 50,016,489 (2011: Rs 38,003,885). The SBM's residence is at the disposal of the Chairman.

The remuneration of directors has not been disclosed on an individual basis due to commercial sensitivity.

Executive directors serving on the board of the subsidiaries are not paid any remuneration. During the period under review, none of the independent non-executive and non-executive directors who served as directors of the subsidiaries received any emoluments from the subsidiaries.

As per the Group's policy, any fees earned by the executive directors serving on the board of related companies in which the Group has an equity stake, are credited to the income account of the Bank.

Service contracts

The Chairman, Mr Muni Krishna T Reddy, *G.O.S.K.*, has a service contract of 3 years as independent non executive director/Chairman, commencing 17 December 2010. In the event of early termination by the Company for any reason other than gross misconduct, he shall be paid a maximum of 50% of the yearly emoluments, net of all taxes, both national and international.

Mr Gautam Vir had an employment contract of 3 years with the Company which ended in May 2012.

Ms Pauline Seeyave, Divisional Leader- Corporate Banking has an employment contract of five years with the Company expiring on 23 December 2012 whilst Mr Chandradev Appadoo's three years' contract with the Company would be expiring on 30 September 2012.

Significant contracts

No contract of significance other than loans and credit facilities granted in the ordinary course of business subsisted during the period under review between the Company or any of its subsidiaries and any director of SBM, either directly or indirectly.

Directors and officers liability insurance

The company has arranged for appropriate insurance cover in respect of legal actions against its directors and officers.

Donations

The Group donated Rs 1.7 m to the SBM Staff Children Educational Fund in FY 2012. It also donated INR25,000 to Reachout on behalf of SBM India Operations in connection to the Kids Carnival 2011 and a total amount of MGA1,032,500 on behalf of Banque SBM Madagascar SA during FY 2012.

The Board confirms that there were no political donations, during the financial year under review, as per the policy.

Executive management

The executive management has been delegated the authority to manage the day to day running of the Bank's business and affairs. Matters are debated and decisions are taken collectively on a unanimous basis. In the event of no unanimity, the issues are escalated to the next higher authority for review and then decisions are made. All the management forums are chaired by the Chief Executive and they are as follows:

- **Executive Forum**
  The Forum meets weekly to review and takes decisions on the day-to-day running of the business and affairs of the bank/the Group with the exception of credit approvals.
- **Management Credit Forum**
  The Forum meets twice weekly to review and sanction credit proposals within its delegated authority. The minutes of this forum are put up to the Board Credit Committee.
- **Value Based Performance Review Forum**
  It reviews, on a monthly basis, and monitors performance and achievement against budgets/targets of the various lines of business.
- **Portfolio & Credit Risk Forum**
  It reviews, on quarterly basis, portfolio risk profiles and makes suitable recommendations to the Risk Management Committee.
- **Market Risk Forum (ALCO)**
  It oversees, on a monthly basis or as often as needed, the management of the Group's liquidity risk, interest rate risk, foreign exchange risk, and other market risks.
- **Operational Risk Forum**
  The Forum meets on a monthly basis to review, *inter-alia*, the reports of the internal auditors and external auditors, flaws in credit documentation, operational policies, standards and practices, and IT related issues, etc.
- **Forum on Disclosure**
  It reviews, on quarterly basis, the adequacy of SBM's disclosures to comply with legal and regulatory requirements and best practices. The minutes of this forum are put up to the Corporate Governance and Conduct Review Committee.

The profiles of the management team are given at pages 162 to 165.

Related party transactions

In accordance with the BoM Guideline on Related Party Transactions and the Bank's policy, the Corporate Governance & Conduct Review Committee reviews all related party transactions above a set threshold on a quarterly basis, and ratifies/approves them. 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 matters reviewed by the Committee are reported to the Board of Directors after each meeting.

Note 34 to the Financial Statements outlines the on and off balance sheet items and other related party transactions for the past years. None of the advances to related parties were impaired as at 30 June 2012. Exposure to related parties are given at page 57.

Shareholder information and communication

The Group lays emphasis on the importance of maintaining accountability and transparency to its shareholders through effective communication with them. In addition to press communiqués and letters to shareholders, the website, hosted at http://www.sbmgroup.mu, is regularly updated with shares-related information, past and present interim and audited financial statements, products and corporate events. The shareholders are apprised on the Group results for the period under review and initiatives/projects at the Annual Meeting.

Material clauses of the constitution of the Company

Shareholding

As per the Bank's constitution, no shareholder is permitted to hold more than 3%, either direct or indirect, of the Company's issued share capital less treasury shares of the Company without previous authorisation of the Board of Directors of the Company. No authorisation shall be given to that effect unless a Special Notice has been sent to the directors specifying that such a question is included in the agenda of a meeting of the said Board. However, shareholders holding more than 3% of the issued share capital prior to adoption of the new constitution are entitled to continue holding their existing shareholdings till the holding is disinvested in part or in full.

Shareholders' agreement

Currently, there is no shareholders' agreement.

Share capital

Register Date : 30 June 2012
Authorised Share Capital : 1,000,000,000 shares
Issued Shared Capital : 303,740,223 shares

Note: A resolution is proposed at the next special meeting of the shareholders to split each SBM share of Re1 nominal value into 100 shares of 1 cent each

Large shareholders

The below tables show the top 10 shareholders, shareholders spread and split between local and foreign shareholders of the Company as at 30 June 2012.

Largest shareholders		No of Shares Held
National Pensions Fund		49,261,527
State Bank of Mauritius Ltd -Treasury Shares		45,561,033
State Insurance Company of Mauritius Ltd		
Pension	38,843,034	
Life	5,265,387	
General	41,933	44,150,354
Government of Mauritius		14,952,615
SSLN C/O SSB Boston Old Mutual Life Assurance Co (South Africa) Ltd. FD56Z9		9,542,858
State Street Bank and Trust Co A/C The Africa Emerging Markets Fund		8,577,394
Pictet et Cie A/C Blakeney LP		7,305,636
Development Bank of Mauritius Ltd		5,779,500
The Anglo-Mauritius Assurance Society Limited		5,209,788
State Investment Corporation Ltd		4,871,671

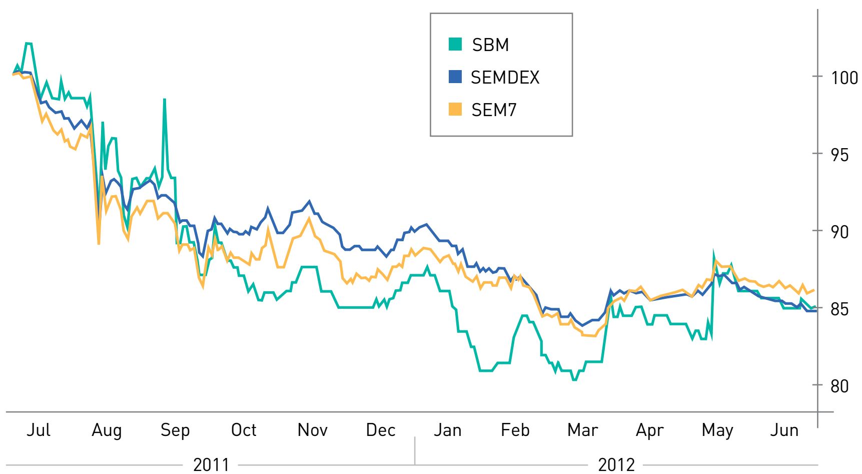
Shareholders spread

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
1-500	6,261	37.78	1,477,349	0.49%
501-1000	4,909	29.62	4,329,236	1.43%
1,001-5,000	3,822	23.06	9,403,448	3.10%
5,001-10,000	710	4.28	5,329,768	1.75%
10,001-50,000	643	3.88	13,439,160	4.42%
> 50,000	228	1.38	269,761,262	88.81%
Total	**16,573**	**100**	**303,740,223**	**100%**

Local and foreign shareholders

	Number of Shareholders	Number of Shares Held	% of total issued shares
Foreign Shareholders	292	61,404,389	20%
Local Shareholders	16,280	196,774,801	65%
Treasury shares	1	45,561,033	15%
TOTAL	**16,573**	**303,740,223**	**100%**

SBM's share performance



Share price information

	2012	2011	2010	2009	2008
Earnings per Share (Rs)	10.14	7.80	7.20	7.84	8.19
Share Price (Rs)					
Financial Year-End	82.00	96.00	79.00	70.00	96.00
Highest	98.50	101.00	83.00	94.00	105.00
Lowest	77.50	79.00	63.00	37.80	50.00
Average	84.28	90.37	77.97	62.09	77.50
Value of Shares Traded (Rs m)	1,120.89	980.24	1,172.00	1,706.94	1,768.85
Value of Share Traded as a Percentage of Market (%)	8.27	8.37	9.91	17.30	14.98
Price to Book (times)	1.18	1.55	1.39	1.40	2.26
Dividend (Rs)	3.50	3.00	2.75	2.75	2.55
Dividend Yield (%)	4.27	3.13	3.48	3.93	2.66
Total Yield (Rs)	(10.50)	20.00	11.75	(23.25)	48.05
Total Yield to Average Price (%)	(12.46)	22.13	15.07	(37.45)	60.95
Dividend Cover	2.90	2.60	2.62	2.85	3.21
Cumulative Yield (Rs)	101.45	111.95	91.95	80.20	103.45
Price Earning Ratio (times)	8.09	12.31	10.97	8.92	11.72

Dividend policy

SBM's dividend policy requires a distribution of a minimum of 25% of its net income available to shareholders for the year subject to approval from Bank of Mauritius and the solvency test under the S61(2) of the Companies Act 2001 being satisfied.

There are no taxes on dividend income and capital gains in Mauritius.

SBM announced in June 2012 that the Board of Directors has approved the change of the financial year-end of the Company from 30 June to 31 December and its next financial year shall cover a period of 18 months from 01 July 2012 to 31 December 2013, and thereafter from 01 January to 31 December.

Shareholder diary

FY 2012

Financial year-end	30 June 2012
Unaudited financial statements for the quarter ending 30 September 2012	On or before 20 November 2012
Dividend payment	November 2012
Annual Meeting	December 2012

FY2013 (18 Months to December 2013)

Unaudited quarterly earnings report:	within 45 days from the quarter ending September, December, March, June and September
Audited Financial Statement for the year ending 31 December 2013:	within three months from end of December 2013
Interim Dividend:	November 2013
Annual Meeting:	August 2013

External auditors' fees

The table below shows the fees paid to the statutory auditors for the last three financial years:

	2012		2011		2010	
Rs000	Audit	Other	Audit	Other	Audit	Other
Deloitte						
State Bank of Mauritius Ltd	4,691	-	4,548	15	4,244	72
Other Local Subsidiaries	404	-	308	-	367	-
Other auditors						
State Bank of Mauritius Ltd India Operations						
- Haribhakti & Co	451	-	465	-	301	-
Banque SBM Madagascar SA						
- Delta Audit	113	-	244	-	219	-
- MAZARS Fivoarana	113	-	116	-	-	-

* Other fees paid to Deloitte represent fees paid for training conducted by the firm and attended by SBM staff

Remuneration, Health and Safety

Statement of Remuneration Philosophy

SBM's remuneration philosophy is to encourage sustainable long term performance and at all times align performance with the strategic direction and specific value drivers of the business as well as with the creation of shareholders' value. It recognises that the Group operates in the services industry and that its human capital is its key asset and, as such, its people need to be properly trained and motivated.

SBM aims to engage people over the long term by providing conducive working environment and facilities, challenging work and development opportunities, and appropriate reward for performance. This people strategy is underpinned by the Group wide values of respect, trust, integrity, responsibility, accountability and teamwork and the commitment to provide sustainable growth and development for both the Company and its employees. The remuneration also is based on complexities and span of responsibilities, need to hold and motivate employee to reward options for Bank shares as per the "Share Option owned (ESOP) Scheme" as also differentiation of competencies among front, middle or back office.

The Nomination & Remuneration Committee is responsible for the remuneration strategy of the Group. Remuneration is reviewed periodically keeping in view the market norms and practices as well as the responsibilities assumed by the non-executive directors, executive management and employees. The Board and the Nomination & Remuneration Committee approve the remuneration of the top executive management.

The remuneration package of the executive management comprises a basic salary and performance related reward taking into account the Group's policy to promote a reward system linked to Group's results and individual/Group KPIs. The performance related reward is dependent on the overall performance of the executive in terms of KPIs approved at start of the financial year and the performance of the Group for the financial year under review. It is constituted of cash bonuses and/or share options and/or deferred cash to reconcile management's commitment to achieve both operating targets and longer term objectives. Note 35 to the Financial Statements outlines the phantom share options scheme as well as the number of options granted and exercised during the financial year and the number of outstanding options as at 30 June 2012. In view of the limitations of the phantom share options scheme, the Bank is in the process of implementing an alternative share option scheme following approval for same at the last annual meeting of the shareholders.

The Group also pays out an annual productivity linked bonus to employees at all levels based on achievement of the Group's objectives as well as Company, line of business, team and personal KPIs.

As an Equal Opportunity Employer, SBM considers individuals for employment or promotion on merit and according to their skills, abilities and experience and strives for equal treatment and respect of all employees at the workplace. In the same vein, SBM pledges not to discriminate against a candidate for a job, or subject him/her to adverse exclusionary criteria, based on race, sex, religion, or national origin. SBM's equal opportunity practices include measures taken to ensure fairness in the recruitment process, talent management related initiatives, retention strategies as well as career path related initiatives. SBM considers diversity as a significant plus as it generates self-reinforcing dynamics which helps it grow into a stronger and more balanced organisation.

Code of Ethics and Business Conduct

SBM has in place a code of ethics and business conduct which is given to each employee and director upon joining the organisation. The code sets out the general principles, obligations and business etiquette employees are required to abide by. The code is reviewed at least once annually by the Board of Directors and is subsequently posted on the Group's website.

Health and Safety

SBM is committed to providing a healthy, sound, safe and secure working environment for all its employees, customers and visitors. The Group has put in place policies and practices that in all material aspects comply with regulatory guidelines and requirements. Occupational risk assessments are carried out on an ongoing basis to further improve the working environment.

Risk Management

The risk management framework of SBM is covered in the Risk Management section at pages 109 to 133 of the Annual Report.

Sustainability Reporting

SBM has implemented initiative to reduce paper consumption, introduced emailing statement of accounts to customers and is continuously educating customers to use the internet banking facility to access their statement of account. SBM also introduced the SBM ECOLOAN whereby funding is provided to customers to install solar panels to generate electricity for own use plus selling to the national grid. SBM also availed a line of credit from the Agence Française de Développement to finance green projects.

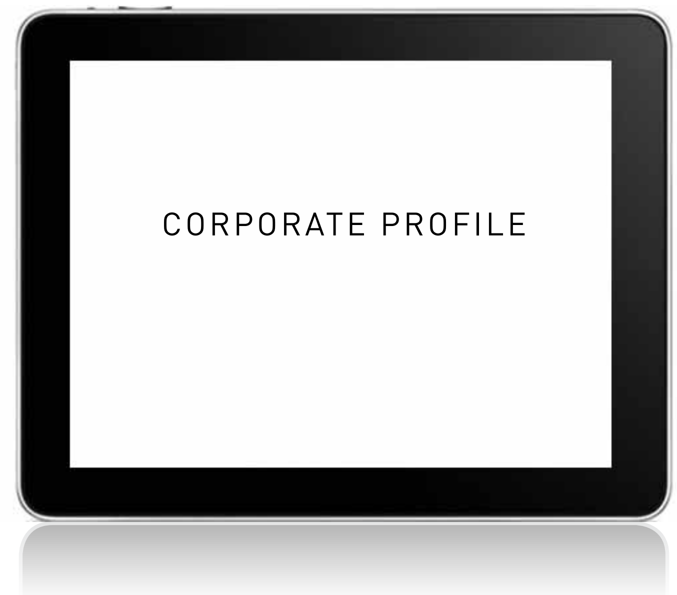
Corporate Social Responsibility

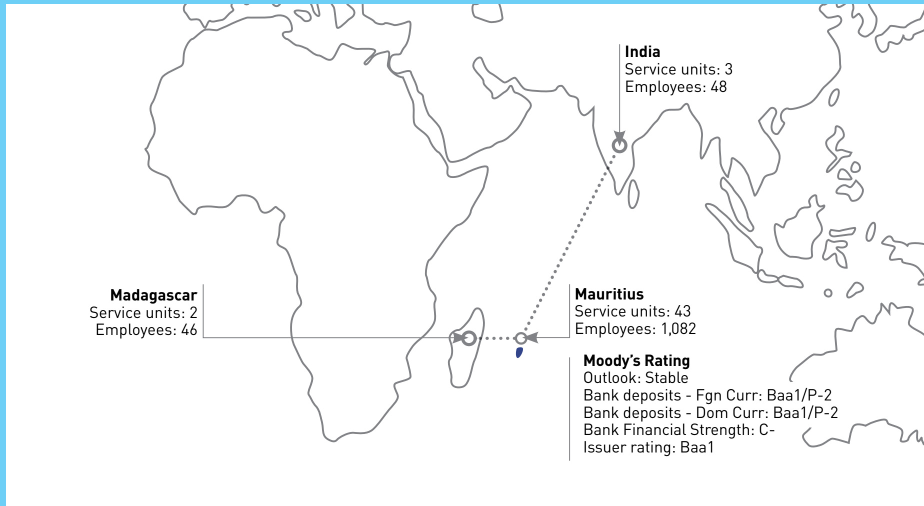
SBM's priority areas of intervention are based on empowerment through education and social housing. In line with the Group's strategy of providing skills through education to combat poverty, a unique scholarship scheme for bright and needy students was launched through the SBM Education Fund in FY 2010. Following the recognition at national level for SBM's CSR initiatives and its commitment to the community through the award of the 'Overall Winner' of the first edition of the BDO CSR Awards 2010 as well as the winner of the 'Education and Sports' category, SBM has moved a step further with the setting up of a special scheme for the Technical Vocational Education Training (TVET) sector in collaboration with the Mauritius Institute of Training and Development (MITD) and scholarships were awarded to a first batch in FY 2012. As at June 2012, 237 scholarships were awarded to the tertiary and TVET sectors (including 9 students from Rodrigues Island) and 200 more scholarships will be awarded soon – 100 each for the tertiary and TVET sectors. In line with Government defined priority areas, SBM is also supporting the social housing project of the National Empowerment Foundation (NEF). Other major projects have been support to ABAIM (acquisition of skills to underprivileged children and youth through music, arts, culture and sports), Gandhian Basic School (extension project to accommodate a multimedia room and library, a fashion and fabrics workshop and a demonstration room as well as the provision of a daily balanced meal for some 120 students), Curepipe Starlight Sports Club (empowerment of youngsters from underprivileged backgrounds through sports), Fondation pour la Formation au Football (empowerment of youngsters from underprivileged backgrounds through football) and the Caroline Women Association (empowerment of unemployed youth and women through training in various fields). Most of SBM's projects focus on providing tools and opportunities to vulnerable groups so that they acquire the required skills to enhance their employability and thus become economically independent. In addition, SBM supports and encourages its employees to support various causes across the island, and several such initiatives were organised including initiatives for disabled persons, vulnerable children and senior citizens.

SBM Internal CSR

SBM staff is encouraged to volunteer their time and talent to support the community. Following its success and request from staff, the SBM 50:50 Matching Scheme has been upgraded to SBM 1:2 Matching Scheme. Under the scheme, staff members are encouraged to organise fund-raising activities in favour of NGOs / community organisations of their choice, with the Company topping up the amount by twice the proceeds raised, subject to a ceiling. Following the launch of the scheme, an increasing number of employees are getting involved in community development initiatives. SBM also brings its contribution to the blood bank by regularly organising blood collections throughout the island. These initiatives are supported by both employees and customers.


Helping
enterprises and businesses
to start their future now


CORPORATE PROFILE



Established in 1973, State Bank of Mauritius Ltd (SBM) is now a leading financial services institution in Mauritius. It is also present in India and Madagascar. SBM adopted a universal financial services provider business model where it operates. SBM is the second largest listing on the Stock Exchange of Mauritius, with a market capitalisation of some USD 800 million as at 30 June 2012.

In Mauritius, SBM has a strong franchise with a market share of over 20% in domestic advances and deposits. It caters for a wide range of customer segments including Personal, SME, Corporate, Cross Border and Financial Institutions. SBM offers an extensive suite of products and services that covers deposits, lending, trade finance, cards, leasing, treasury, insurance and investment products, as well as a range of payment services. It also has multi-channel capabilities including branches, ATMs, POS, internet, mobile and call centre.

SBM also operates 3 branches in India, serving mainly a corporate client base with small share of retail segment clients, especially for deposit products. Besides deposits, services include lending, treasury, and cash and trade transaction services.

SBM's subsidiary in Madagascar operates 2 branches, serving a client base consisting of Mauritian companies having operations in Madagascar, large multinationals, exporters, large reputed local companies and institutional investors. The product range comprises advances, deposits and transactions processing. Basic internet banking services are also available.

Going forward, SBM plans to expand further in Asia and in Africa, two regions that are showing significant potential for growth.

SBM's business operations are supported by sophisticated technology. The technology platform is in the process of being further enhanced to improve customer service and operational efficiency. The risk management framework is also robust and contributes to low impairment levels. SBM is also compliant with Basel II as also Basel III in capital adequacy.

SBM's strong fundamentals have earned it recognition at both local and international levels. Recently, Moody's Investors Service has upgraded SBM's long term foreign currency deposit rating to Baa1 from Baa2. SBM is also the first and only Mauritian bank to attain a Bank Financial Strength Rating of C- as from 2007.

In line with global trend and direction from our regulator, the Group has embarked into a restructuring exercise whereby as a first step we have segregated the non banking activities from the banking activities and reorganized the Group into 3 clusters , namely : Banking entities, Non-bank financial entities and Non financial entities. State Bank of Mauritius Ltd, the existing holding company would continue to be the ultimate holding company after pushing down all its assets and liabilities to a new banking subsidiary. The Bank of Mauritius would support the Group to achieve this objective. State Bank of Mauritius Ltd will change its name into SBM Holdings Ltd which has been incorporated.

Recognition and Awards

Best Published Accounts – Overall by PWC Mauritius, 1999	Best Published Accounts by PWC Mauritius, 2000	Bank of the Year, Mauritius by The Banker, 2001	Best Published Accounts -Banks/ Insurance companies by PWC Mauritius, 2002	Best Published Accounts -Overall by PWC Mauritius, 2002	Bank of the Year, Mauritius by The Banker, 2002
Bank of the Year, Mauritius by The Banker, 2003	Best Bank in Mauritius by Euromoney, 2004	Best Published Accounts - Finance by PWC Mauritius, 2005	Best Bank in Mauritius by Euromoney, 2005	Best Bank in Mauritius by Euromoney, 2006	Best Bank Mauritius by emeafinance, 2009
Overall BDO CSR Awards, 2010	Best Private Bank Mauritius by Euromoney, 2010	Best Local Bank Mauritius by Euromoney Private Banking Survey 2010	PWC Corporate Reporting Awards for Online Reporting by PWC Mauritius, 2011	PWC Corporate Reporting Awards for Risk Management by PWC Mauritius, 2012	Best Bank Mauritius by Capital Finance International 2012

REDDY Muni Krishna T.
G.O.S.K.

Chairman of the Board

Mr Muni Krishna T. Reddy has a master degree in Agricultural Extension Education with over 42 years of experience in the financial services industry. He was the Chief Executive Officer of State Bank of Mauritius Ltd (SBM) for over 16 years until October 2003 when he was elected as Director and Chairman of the Board of SBM. During his tenure as Chief Executive, SBM was listed on the Mauritian Stock Exchange in 1995, implemented for the first time the Bank's automation of its operations and other infrastructure, including State Bank Tower. SBM expanded into other financial services such as asset management, stock broking, fiduciary services besides opening of branches in India and a subsidiary in Madagascar. Over these 16 years' period, the Bank, under his leadership, transformed into a professional financial services group.

Prior to joining SBM, Mr Reddy has worked in the banking sector in India and Singapore for 17 years. He is a director of various boards of large companies both in Mauritius and outside Mauritius, including Arcelor Mittal Point Lisas Limited (Trinidad), Arcelor Mittal Steel USA Inc, Global Capital PLC (Malta) and was a director of Mauritius Telecom, Air Mauritius, National Economic Development Council (Mauritius), India Fund, South Asia Regional Fund, VenturEast Proactive Fund LLC, etc. Mr Reddy resigned from the directorship and chairmanship effective from 1 January 2008 from SBM Board.

Mr Reddy was conferred with the title "Grand Officer of the Star and Key of the Indian Ocean" *(G.O.S.K.)* by the Government of Mauritius coinciding with the first anniversary of the Republic of Mauritius in 1993 for the distinguished services to the banking industry and for significant contribution to the economic development of Mauritius.

Mr Reddy has, once again, been elected as an independent non-executive director on 17th December 2010 and is designated as Chairman of SBM Group by the Board.

APPADOO Chandradev
FCCA, ACIB

Mr Appadoo has 27 years experience having worked at various divisions and levels at SBM including Retail, Corporate Banking, Finance, Legal, Compliance, Risk Management, Operations Management and Group Company Secretary. He is currently heading Finance, Value Based Performance Management, Facilities Management and Corporate Affairs of the Bank. He is a non-executive director of the State Insurance Company of Mauritius Ltd, SME Partnership Fund, Club Mediteranée Albion Resorts Ltd and NRF Equity Investment Ltd. He joined the Board of SBM in December 2011 and is an executive director. Reports to the Chairman and to the Chief Executive.

BHANJI Kalindee
BA (Hons) Economics,
MSc Public Sector Management

Mrs Bhanji has held senior positions in various ministries of the Government of Mauritius and is currently the Permanent Secretary at the Prime Minister's Office. She joined the Board in December 2006 and is a non-executive director.

DABEE Dheerendra Kumar
S.C., G.O.S.K., LLB (Hons),
Barrister at Law

Mr Dabee, a Birmingham University graduate in Law and Political Science, Barrister at Law of Middle Temple since 1981 and a Senior Counsel, is currently the Solicitor-General in the Attorney General's Office. He is a director of Air Mauritius Ltd and Mauritius Telecom and acts as Legal Adviser to a number of public organisations. He is also a Member of the Commonwealth Secretariat Appeal Tribunal. Mr Dabee was conferred with the title Grand Officer of the Star and Key of the Indian Ocean (*G.O.S.K.*) by the Government of Mauritius in 2012 for significant contribution to the economic development of Mauritius. He joined the Board in May 2008 and is a non-executive director.

DUMBELL George John
ACIB (UK)

Mr Dumbell has extensive financial and commercial experience extending over 34 years, having served in senior management positions within the HSBC Group in nine countries across Asia, the Middle East, Europe and the Bahamas. He has been Chairman of the Constance Group of Companies since 2006 and is a Fellow and founding board director of the Mauritius Institute of Directors. Mr Dumbell is also a director of Anglo Mauritius Assurance Society Ltd, Swan Insurance Co Ltd and the Chrys Capital Group of Companies. In 2003, he undertook a two-year contract with the Mauritius Commercial Bank Ltd in the field of Risk Management. He joined the Board in February 2008 and is an independent non-executive director.

RAMNAWAZ Rohit
FCCA, LLB

Mr Ramnawaz is a Fellow of the Association of Chartered Certified Accountants and also holds a degree in law. He has over 26 years' experience in the fields of banking, finance, accounting, tax advisory and financial services. He is currently the Managing Director of African Links Ltd, a consultancy firm principally engaged in providing value-added services to clients and multinationals in the Global Business sector. He also acts as independent director on the board of various companies in the Global Business sector. He has previously been a freelance country note sender for Mauritius for the Economist Intelligence Unit. Mr Ramnawaz joined the Board in December 2006 and is an independent non-executive director.

REY Alfred Joseph Gerard Robert Alain
BSc (Hons) Economics, ACA

Mr Rey is a graduate in Economics from the London School of Economics and qualified as a Chartered Accountant in 1985. He is currently Chief Executive Officer of the Compagnie Sucrière de Mont Choisy Ltee group of companies as well as a director of various companies. Mr Rey has wide financial experience having served as Vice President and Chief Financial Officer of a NASDAQ listed company as well as Regional Corporate Director of a leading bank in Mauritius. He joined the Board in December 2009 and is an independent non-executive director.

Professor SCOTT Andrew
BA, MSc, D Phil

Professor Scott is Professor and Deputy Dean at the London Business School. He holds a Doctorate in Philosophy from Oxford University, was previously a Fellow of All Souls, Oxford and has previously taught at Harvard and Oxford Universities. He is a non-executive director of the UK's Financial Services Authority and Economic Advisor to the Prime Minister of Mauritius. He joined the Board in December 2009 and is an independent non-executive director.

SONOO, Jairaj
C.S.K., M.S.K., MBA

Mr. Sonoo has joined SBM on 14 September 2012 as Chief Executive – Banking (Indian Ocean Islands). He has 34 years experience in banking and has previously spent more than 31 years at SBM in various positions amongst which Executive Vice-President (Indian Operations) before heading the Retail Banking Division. He resigned from the Bank in February 2010 to take up the position of Chief Executive of one of the local commercial banks. Mr Sonoo is an executive director.

SUMMUN Mohammad Shakeel Aboobakar
FCCA

Mr Summun is a fellow of the Association of Chartered Certified Accountants. He has worked at Ernst & Young, Kemp Chatteris Deloitte & Touche and DTOS Ltd before joining BAI Co (Mtius) Ltd in 2003. He is currently the Senior Vice President and Chief Financial Officer of BAI Co (Mtius) Ltd. He joined the Board of SBM in December 2011 and is an independent non-executive director.

YAT SIN Régis
C.S.K., G.O.S.K., BA (Hons)

Mr Yat Sin, former senior civil servant, held the position of Secretary to the Cabinet and Head of Civil Service. He was also Chairman of the Public Service Commission and the Disciplined Forces Service Commission from 2005 to August 2011. He served on various boards, including Bank of Mauritius, Air Mauritius, Development Bank of Mauritius and Airports of Mauritius. He has been the Chairman of the Board of SBM from December 1996 to December 1999. Mr Yat Sin was conferred with the title Grand Officer of the Star and Key of the Indian Ocean (*G.O.S.K.*) by the Government of Mauritius in 2012 for significant contribution to the economic development of Mauritius. He joined the Board of SBM again in December 2011 and is an independent non-executive director.

Audit Committee

Chairperson

Mr Alain A.J.G.R. Rey

Members

Mr George J. Dumbell

Mr Rohit Ramnawaz

Mr Muni Krishna T. Reddy, *G.O.S.K.*

Mr Shakeel M.A. Summun

Credit Committee

Chairperson

Mr Muni Krishna T. Reddy, *G.O.S.K.*

Members

Mrs Kalindee Bhanji

Mr Dheerendra Kumar Dabee, *S.C., G.O.S.K.*

Mr Rohit Ramnawaz

Mr Alain A.J.G.R. Rey

Mr Regis Yat Sin, *C.S.K., G.O.S.K.*

Corporate Governance & Conduct Review Committee

Chairperson

Mr Regis Yat Sin, *C.S.K., G.O.S.K.*

Members

Mr George J. Dumbell

Mr Muni Krishna T. Reddy, *G.O.S.K.*

Mr Shakeel M.A. Summun

Nomination & Remuneration Committee

Chairperson

Mr Muni Krishna T. Reddy, *G.O.S.K.*

Members

Mrs Kalindee Bhanji

Mr Dheerendra Kumar Dabee, *S.C., G.O.S.K.*

Mr Rohit Ramnawaz

Mr Alain A.J.G.R. Rey

Mr Regis Yat Sin, *C.S.K., G.O.S.K.*

Risk Management Committee

Chairperson

Mr George J. Dumbell

Members

Mrs Kalindee Bhanji

Mr Dheerendra Kumar Dabee, *S.C., G.O.S.K.*

Mr Rohit Ramnawaz

Mr Muni Krishna T. Reddy, *G.O.S.K.*

Professor Andrew Scott

Strategic Planning Committee

Chairperson

Mr Muni Krishna T. Reddy, *G.O.S.K.*

Members

Mrs Kalindee Bhanji

Mr Dheerendra Kumar Dabee, *S.C., G.O.S.K.*

Professor Andrew Scott

Mr Regis Yat Sin, *C.S.K., G.O.S.K.*

SBM Asset Management Limited

Mr Chandradev Appadoo

Mr P. Daniel Ng Tseung

SBM Capital Management Limited

Mr Chandradev Appadoo

Mr P. Daniel Ng Tseung

SBM Fund Services Ltd

Mr Soopaya Parianen (Chairman)

Ms Pauline S.C. Seeyave

SBM Global Investments Limited

Mr Chandradev Appadoo (Chairman)

Mr Anil K. Kundan

Mr Shailendrasingh Sreekeessoon

SBM Investments Limited

Mr Chandradev Appadoo (Chairman)

Mr Anil K. Kundan

Mr Shailendrasingh Sreekeessoon

SBM Mauritius Asset Managers Ltd

Mr Soopaya Parianen (Chairman)

Mr Anil K. Kundan

Mrs L.Y. Li Chiu Lim

SBM Securities Ltd

Mr Soopaya Parianen (Chairman)

Mr Vishal K. Joyram

Mr P. Daniel Ng Tseung

Banque SBM Madagascar SA

Mr Muni Krishna T. Reddy, *G.O.S.K.* (Chairman)

Mr Chandradev Appadoo

Mr Soopaya Parianen

Ms Pauline S.C. Seeyave

SBM Holdings Ltd

Mr Soopaya Parianen (Chairman)

Mr Chandradev Appadoo

SBM (India) Ltd

Mr Soopaya Parianen (Chairman)

Mr Chandradev Appadoo

SBM India Holdings Ltd

Mr Soopaya Parianen (Chairman)

Mr Chandradev Appadoo

SBM Investments Managers Ltd

Mr Soopaya Parianen (Chairman)

Mr Chandradev Appadoo

Banking Operations

Front Office

SONOO Jairaj
C.S.K., M.S.K., Masters in Business Administration (MBA)
Chief Executive – Banking (Indian Ocean Islands)

Mr. Sonoo has joined SBM on 14 September 2012 as Chief Executive – Banking (Indian Ocean Islands). He has 34 years experience in banking and has previously spent more than 31 years at SBM in various positions amongst which Executive Vice-President (Indian Operations) before heading the Retail Banking Division. He resigned from the Bank in February 2010 to take up the position of Chief Executive of one of the local commercial banks. Mr Sonoo is an executive director.

NALLET Louis
DES – Institut Technique de Banque / CNAM Paris
Directeur Général, Banque SBM Madagascar SA

Has over 49 years of banking experience and has held senior positions in major international financial institutions, including Citibank and Standard Bank. Before joining the Group in 2010 he was Director of Stanbic Africa, a member of the Standard Bank Group, and Managing Director of Stanbic in the Democratic Republic of Congo. Reports to the Chief Executive.

CHAKRABORTY Suvalaxmi
B.Com (Hons), CA
Chief Executive Officer, SBM India Operations

Has 24 years of work experience, out of which 23 years have been spent in the banking and financial sector. Worked for ICICI Bank in various senior positions (in Corporate Finance, Project Finance, Treasury, General Manager - Corporate Banking and her last assignment in ICICI Bank was Head- Rural and Agri Banking) and was Commercial Banking Director of the Indian Operations of Barclays Bank PLC before joining SBM in March 2010. Reports to the Chief Executive.

NG TSEUNG P. Daniel
BSc Economics
Head, Trading

Has worked for 9 years as Treasurer at HSBC before joining the Bank as Group Treasurer in December 2000. Was also overseeing the e-business operations of the Bank. Has twice been an executive director on the Board, i.e. from December 2006 to August 2007 and from December 2008 to December 2009. Reports to the Chief Executive.

SEEYAVE Pauline S. C.
MA (Cantab), ACA
Head, Corporate Banking

Was previously managing a portfolio of clients in Audit and Business Assurance in an international firm of Chartered Accountants in London before joining the Group in 2002. She is currently in charge of Corporate Banking and has previously headed various functions within the Group including Risk Management, Value Based Performance Management and Finance. Has been an executive director of the Board from December 2010 to December 2011. Reports to the Chief Executive.

AUMEERALLY Feriel Jabeen
Corporate Banking

AUTAR Avinash Asheesh
Small & Medium Enterprise

BABBEA Anand
E-Commerce

BHEEM SINGH Lallsingh
Quality & Customer Service

BHUGUN Anand
Retail Network

GHOORAH Bye Samah
Retail Network

GOOLY Kanand
Small & Medium Enterprise

HURKOO Dharmendranath
Corporate Banking

JHA Arvind Kumar
International Banking & Global Business

JHURRY Balkrishna
Financial Institutions

LUTCHMAH Rajnish
Corporate Banking

LUTCHMAN Rishyraj
Treasury

MACKENZIE Grant Charles
E-Commerce

MANIKION Veeren
Merchant Acquiring

POLIAH Carlo Parmasiven
Bancassurance

RAMCHURN Jadoonath
Card Issuing

RAMGOOLAM Poorunduth
Retail Network

RUBEE Hemraj
Asset Finance

Middle Office

KUNDAN Anil K.
B.A. (Humanities), Diploma in Automobile Engineering
Head Credit Underwriting

Has worked in various positions in the credit department of the largest bank in India for 22 years and also in Mauritius as Chief Credit Officer for 5 years. The experience spans from heading branch operations to credit appraisal, loan syndication and control, supervision and credit approval for overseas operations of the bank in the earlier assignment. Currently, providing leadership to the credit function with primary focus on Corporate, SME and Retail, including training to staff, presentation of proposals to various forums and Board Committees. Reports to the Chief Executive.

DABEEDOOAL Sudhir
Retail Credit

DAMREE Shyam
Corporate Credit

GUNNESS Ravi
Recovery & Workout

LI PAK MAN Kwon Toung
Risk Management & Compliance

MOONEESAWMY Nandrajen
Credit Administration & Legal

RAMLAGUN Malinee Devi
Corporate Credit

Back Office

APPADOO Chandradev
FCCA, ACIB
Chief Financial Officer and Head of Corporate Affairs

The profile of Mr Chandradev Appadoo is found at page 158.

GURU Sridhar
Bachelors Degree in Computer Science Engineering, Executive Masters in International Business Administration
Chief Information Officer

Has held several successful IT roles within banking, insurance, financial services, e-commerce and commercial technology industries. Over 20 years of experience, he has acquired global work exposure in the US, UK, India, Australia and New Zealand. Prior to joining SBM, Sridhar was the Regional CIO (India & Indian Ocean) - Global Retail and Commercial Banking for Barclays Bank PLC where he set up and managed technology to support one of the fastest growing business franchise in the region. Before that, he was, amongst other roles, Senior Vice President & Head of Global IT Delivery Centre of Expertise for Bank of America, Director of Financial Services & Insurance Practice for American Financial Group Inc. and Head of IT Delivery - Institutional and Business Banking for ANZ (Bank). He is a member of The Association of Professional Engineers, Scientists & Managers of Australia and Computer Society of India. He joined the Bank in October 2010, and reports to the Chief Executive.

MAZUMDER Bishwajit
CA, LLB, MBA, CIA, CISA, CISSP, CFE, CAIIB, ISSMP
Head Back Office Operations Management & Trade Finance

Has worked for 29 years in the banking sector in different positions and geographies, before joining the Bank in February 2010 as Chief Internal Auditor. Has worked as Chief Audit Executive for ING Vysya Bank in India, as Chief Internal Auditor for Central Bank of Oman for five years (till 2007) and for IDBI Bank for 4 years (till 2002) as Assistant Vice President. Also, held various positions in front office, back office, branch head and corporate office and Information Technology processes at multiple banks. Currently, Divisional Leader in charge of Operations Management, Currency & Trade Finance and also oversees the Alternative Channels, along with Quality & Customer Service Department. Reports to the Chief Executive.

AMIRAN Mahmad Eshan
BST - E-Business, Alternative Channels & International Markets

BHEEKA Shailendre
IT Audit

BHURUTH Tejbahadoorsingh
BST - Corporate Support Systems & Analytics

CUNDASAWMY Ramon Robin
Internal Audit

DURSUN Hemant Kumar
Facilities Management

GONPOT Deochand
Human Resources

HINGORANEY Bhuvanesh
BST - Banking & Treasury

LI CHIU LIM Lee Yiang
Finance

MOOROOGAN Darrma Rajan
IT Production Platforms & Data Centre

PAREATHUMBY Soopaya
Technology Operations

PERSAND-GUJADHUR Rita Devi
Value Based Performance Management

RAMDHAN Ravindranath
Operations Management

RAMLUGAN Amaresh Singh
Marketing & Communications

SEETAMONEE Beemawtee
Human Resources

SREEKEESSOON Shailendrasingh
Strategic Planning & Research

VYTHILINGUM Chrisnen
Technology Operations

Non Banking Financial Operations

Front Office

PARIANEN Soopaya
BA (Hons) – Economics
Chief Executive, Non Banking Financial Cluster and Head, Retail Banking

Mr Parianen has 35 years experience in banking out of which 28 years at senior management level. He was previously the Group Divisional Leader for Corporate Banking, the Group Divisional Leader Retail Banking, Chief Operating Officer and in charge of Credit Management Support Services and was also overseeing the overall operations management of SBM. He is heading the Retail Banking Division since February 2010 and was also Acting Chief Executive till September 2012 following the expiry of Mr Gautam Vir's contract in April 2012. He was also appointed as Chief Executive, Non Banking Financial Cluster on 14 September 2012.

JOYRAM Vishal Kumar
Wealth Management

Mauritius

After recovering relatively well in FY 2011, with a growth rate of 5.3% on the back of an upturn in its main export markets and successful market diversification by garment exporters in particular, the Mauritian economy bore the brunt of a resurged global slowdown in FY 2012. Export sectors, particularly textiles and tourism, performed below par, notably in respect of European markets. At the same time, household consumption expenditure remained moderate while private sector investment came to a relative standstill on account of dampened consumer and investor confidence. As a result, activity in commerce and domestic oriented manufacturing was also subdued. However, the impact on overall activity has been partly mitigated by sustained strong performances in the financial services, communications and business activities sectors, driven by a resilient outturn in banking and business process outsourcing activities. On the whole, economic growth is estimated to have slowed down markedly to around 3% in FY 2012. In line with dampened activity levels, unemployment has remained relatively high at around 8%. While the headline inflation rate for FY 2012 was similar to that of the previous year at 5.1%, year on year inflation slowed down from 6.6% as at June 2011 to 3.9% as at June 2012. As inflationary pressures subsided while output and employment growth was subject to strong headwinds, the Monetary Policy Committee proceeded to an easing of monetary policy, with cuts in the key Repo rate on two occasions during the financial year totalling 60 basis points. Domestic banks generally followed with similar cuts in their variable lending and deposit rates. On the external front, the current account deficit remained elevated due to persisting difficulties in export-oriented sectors and rising import bill. Nonetheless, the domestic currency was supported by strong capital inflows and, thus, remained relatively stable throughout most of the financial year. In view of international currency movements, this translated into a depreciation of the Mauritian rupee against the US dollar and appreciation against the euro. In June 2012, the Bank of Mauritius embarked on a program to build up its foreign exchange reserves against the backdrop of persisting economic difficulties. This has led to a faster depreciation of the rupee on an effective exchange rate basis towards the end of the financial year. Nonetheless, the exchange rate of the rupee versus the euro as at 30 June 2012 remained stronger than its level of a year earlier, which does not augur well for export-oriented sectors.

Within a context of low growth, low inflation and low interest rates, banking sector deposits in the domestic market increased at a reduced pace of 4.7% (2011: 8.2%), dragged down by a drop in FCY deposits, notably in the time deposits segment, as generally low rates prompted customers to look for alternative sources of investment. Mauritian rupee deposits went up by around 9%. Deposits remained, by far, the main source of funding in the domestic banking market.

On the other hand, despite a slowdown in economic growth during FY 2012, banking sector credit to the Mauritian economy increased by a notable 13.1%, as compared to a rise of 9.3% in the previous financial year. The mortgage and construction sectors were key contributors to the growth, supported by lower interest rates and the ripple effects of past Government incentives to boost real estate development. Significant increases were also recorded in consumer loans and in credit to the commerce sector. On the other hand, credit growth was muted in respect of manufacturing and tourism in line with uncertain prospects in these sectors. Nonetheless, tourism remained the largest recipient of banking sector credit.

Investments in Government paper and Bank of Mauritius bills went down by 3.1% to Rs 57.0 Bn at June 2012 given that continued low yields on these securities, on the back of limited supply, prompted banks to shift their portfolio towards higher risk assets such as advances in pursuit of better spreads. On a point-to-point basis, the Bank rate – which is the weighted average rate on Government paper for a period of up to one year – declined from 4.47% to 3.39% in line with the reductions in the Repo rate. On a daily weighted average basis, however, the Bank rate increased by 70 basis points.

Reflecting heightened competitive pressures in the market, the spread between average rupee lending and rupee deposit rates has been on a downward trend over the financial year. The average spread for FY 2012 hence stood at 4.99% as compared to 5.42% in FY 2011.

Going forward, tepid growth in key export markets would continue to weigh down on the Mauritian economy, putting pressure on output and employment. However, should the situation deteriorate, the authorities can be expected to take bolder actions to boost the economy given some leeway, albeit reduced, both on the fiscal and monetary fronts.

In the banking sector, credit and deposit growth should remain moderate pending a stronger pickup in activity levels and, crucially, consumer and investor confidence.

India

After a strong recovery from the crisis-induced slowdown in 2009, with robust growth of above 8% in two consecutive years, economic expansion slowed to 6.5% in the fiscal year ended 31 March 2012, a 9-year low. The slowdown was mainly driven by the industrial sector in line with soft demand, both internal and external, increasing interest rates and subdued private sector investment amidst lower business confidence levels. Headline inflation declined but remained high at 7.3% as at July 2012 on the back of high increases in food prices and currency depreciation. The depreciation was underpinned by a growing current account deficit – reaching an all-time record of 4.2% of GDP in the fiscal year to March 2012 – against the backdrop of weak export growth and was particularly sharp in the period August to December 2011.

As per the Reserve Bank of India, financial intermediaries remain robust with banks being well capitalised and profitable. Asset quality deteriorated during the fiscal year but remained within control. Credit and deposit in the banking sector grew at a strong, albeit decelerating, pace.

Looking ahead, the growth rate of the Indian economy in the fiscal year to March 2013 is projected to be at similar levels than in the previous fiscal year, which is much lower than the above 9% rates achieved prior to the global financial crisis but still one of the highest country growth rates in the world. The services sector, in particular, is expected to perform strongly. This should continue to support robust growth in the banking sector, although relatively low consumer and investor confidence would somewhat temper increases in credit levels.

Madagascar

The economy of Madagascar remains subject to uncertainty as the country fails to decisively steer away from the socio-political crisis that started in early 2009. Economic growth in 2011 remained meagre at some 1.6%, despite a reduced base. Whilst average annual inflation slowed down from near double-digits in FY 2011, it has remained high at 6.6% for FY 2012. The Madagascar currency depreciated sharply against the Mauritian rupee in the first half of the financial year, but recouped almost all of its losses in the second half. In the banking sector, both deposits and credit to the economy grew, in local currency, at around 10% over the financial year, on a point-to-point basis, which is a slightly faster pace than in the preceding year. Looking forward, significant uncertainty subsists over the political process in Madagascar. The holding of elections as scheduled and in an orderly manner should, if it materialises, give a strong boost to the economy and banking sector.

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SBM (India) Ltd
SBM India Holdings Ltd
c/o Apex Fund Services (Mauritius) Limited,
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