

# key financial indicators

	2005	2004	2003	Restated*	
				2002	2001
Earnings per Share (cents)	366	346	284	262	240
Net Income before Income Taxes (Rs M)	1,501	1,366	1,186	1,029	991
Net Income available to Shareholders (Rs M)	1,191	1,127	1,018	952	871
Economic Value Added (Rs M)**	304	338	286	247	300
Risk Adjusted Return on Capital (RAROC) (%)**	38.09	39.08	N/A	N/A	N/A
Capital to Weighted Risk Assets (%)***	21.78	17.79	18.16	20.55	18.70
Return on Average Weighted Risk Assets (%)****	4.01	4.11	4.23	4.46	4.29
Return on Average Assets (%)*****	2.64	2.90	2.93	2.94	3.01
Return on Average Tier 1 Capital (%)*****	22.41	24.13	20.29	21.34	22.28
Cost to Income***** (%)	38.91	40.15	39.17	38.24	35.73
Cost to Income excluding depreciation***** (%)	28.55	31.55	28.88	27.01	26.61
Electronic to Gross Transactions (%)	82.00	80.00	76.00	72.00	68.00

\* Restated wherever applicable.

\*\* Restated for comparative purposes arising of refinements in methodology.

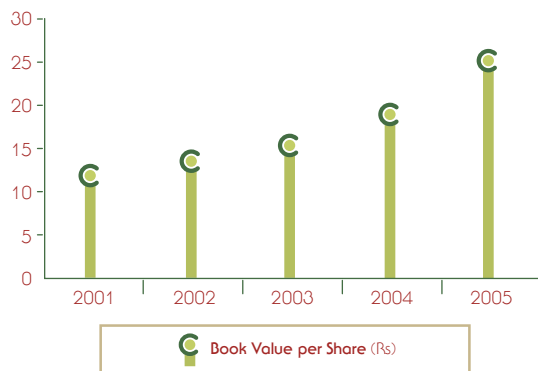
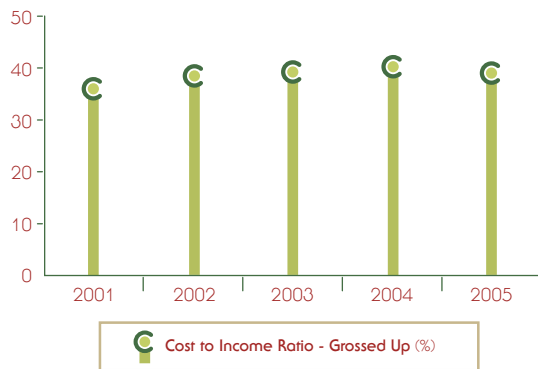
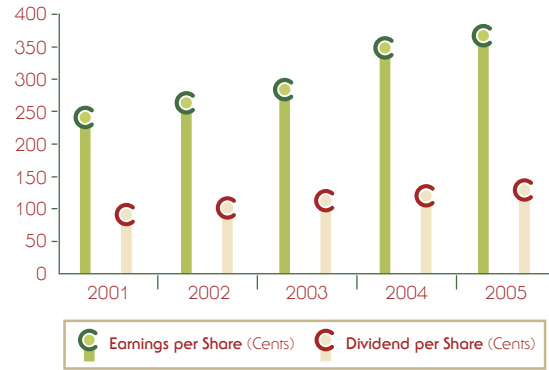
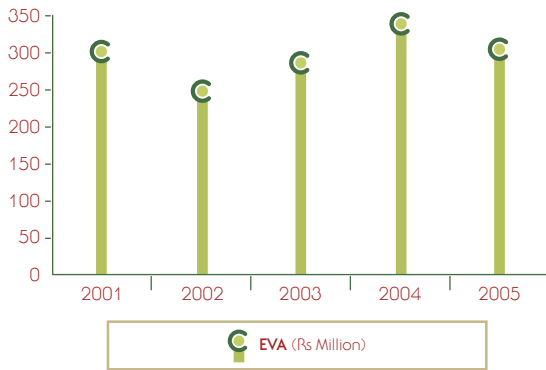
\*\*\* Capital adequacy is computed as per regulatory requirement, since 2005, based on credit as well as operational risks of the Group.

\*\*\*\* Average Weighted Risk Assets are calculated using year end balances.

\*\*\*\*\* Averages are based on daily balances as from 2003. Prior two years are based on monthly balances.

\*\*\*\*\* Grossed up for tax exempt debenture interest Income.

# key financial charts



The Board of Directors of State Bank of Mauritius Ltd (SBM) is pleased to submit its thirty-third Annual Report for the Group and the Bank for the year ended June 30, 2005.

#### OPERATING RESULTS

The Group's Net Income before Income Taxes registered a growth of 9.94% from Rs1,365.5M for 2004 to Rs1,501.3M for 2005. Net Income available to shareholders grew at a lower rate of 5.74% due to a higher effective tax rate. During the period under review, the Group changed its depreciation policy with respect to Land and Buildings which are now stated at recent open market value basis. The depreciation rate on the Core Banking IT System has been revised from 10% p.a. to 20% p.a. The Board is pleased to note that the subsidiaries and associates made satisfactory contributions to the Group's profits.

The Group's cost to income ratio improved marginally from 40.15% for 2004 to 38.91% for 2005. The Board is pleased to report that its cost to income ratio continues to be the lowest among the Mauritian banks and remains one of the best in the region as well as in the world.

## directors' report to the shareholders

The Board of Directors is also happy to report that despite the difficult market environment, the Group added economic value to the tune of Rs304M for the year ended June 30, 2005.

#### DIVIDENDS AND CAPITAL RESOURCES

The Board of Directors declared a final dividend of Rs1.30 per share amounting to Rs422.6M for the financial year 2004/2005 which was paid on August 31, 2005. It reflects an increase of 8.33% from last year and a payout ratio of 2.8 times. The undistributed profits of Rs768.6M were transferred to Reserves. A net amount of Rs1,197.8M arising from the valuation of properties and equity investments was also transferred to Reserves. Thus, Shareholders' Funds increased from Rs6,134.7M at June 30, 2004 to Rs8,182.8M at June 30, 2005.

The buyback of shares approved by the shareholders at the Annual Meeting held on October 28, 2003 lapsed on May 17, 2005. The Bank bought back only 72,700 shares out of the 40,000,000 approved for a total cost of Rs1.5M.

## REVIEW OF LINES OF BUSINESS

The Bank's main lines of business across both its domestic and international operations are Personal Banking, Business Banking and Treasury. The Group pursued its aggressive strategy to increase its market share in the retail sector. During the year the Bank launched additional innovative value-added retail products and solutions designed to meet specific needs across different client segments, coupled with a focused approach of service excellence which contributed to the growth in Personal Banking.

Business Banking caters for the business needs of customers. The Bank's customer-centric approach coupled with industry specialised skills ensure world class business banking relationships. The lack of demand for credit from the private sector and excess liquidity in the domestic market are exerting continued pressure on banks to compromise on asset quality and lower pricing.

Treasury encompasses both money and foreign currency market operations as well as securities trading. During the year, the Bank introduced trading in international bonds at Mauritius and trading in equities at its Indian Operations. Illiquid local foreign exchange market conditions coupled with narrowing margins resulted in lesser exchange income in 2005. Dealings in securities trading in 2005 registered a small loss mostly due to our Indian Operations fair valuing of securities in an increasing interest rate environment. Malagasy Treasury Operations recorded an increase in profits of 20% in 2005, due to higher foreign exchange volumes.

The Group generated satisfactory fee income from its e-commerce activities and rechargeable prepaid mobile phones.

The Group provides broader financial services through its subsidiaries such as finance leasing, stock broking services, assets/funds management and share registry services.

## BUSINESS EXPANSION

The prospects in Madagascar look promising especially in the context of closer regional cooperation and increasing trade flows with Mauritius. The Board is pleased to report that Banque SBM Madagascar, the Bank's Subsidiary, will open a second branch in Taomasina, Madagascar by the end of the year.

The Bank continues to explore opportunities to expand in India.

## CUSTOMERS

The Bank recognises the need for retaining customer loyalty, expanding services to a broader customer base and continuing to improve customer service.

To this end, client research is undertaken to gain a better understanding of the individual and business needs of customers and tailor-made products are proposed to satisfy those needs. Systems functionalities are continuously improved to ensure that products are client-focused. During the year the Bank launched "SBM Structured Finance", a product to assist corporates to smooth their cash flows and "Credit lines in Foreign Currencies". Cross selling is systematically done to ensure that the Bank is providing a full portfolio of services to its customers.

The Bank continues to invest in electronic delivery channels, including the issue of chip cards, upgrading of Internet banking, installation of new ATMs and POS devices for the enhanced security and convenience of its customers. Dedicated Relationship Officers attend to the needs of corporates and high net worth individuals.

The Bank's Health and Learning Centre is made accessible to Bank's customers and their spouses, satisfying eligible criteria as a measure of adding value to its privileged customers.

Customer care will always remain paramount. The Bank will continue to enhance its Service Units to provide a better banking experience and improve staff training and motivation to ensure that every encounter with the Bank, through whatever channel, is a delight.

## HUMAN CAPITAL, TECHNOLOGY AND INFRASTRUCTURE

The Bank has invested significant amounts in recent years to improve the working conditions and benefits of its employees, in addition to continuously upgrading their skills. Senior and middle management personnel attend overseas executive education programmes. In-house training is conducted at SBM Park, the Bank's Learning centre, in addition to on-the-job training to enable employees to part and to upgrade their skills. The Bank takes pride and pleasure to report that during the year the Bank set up "The SBM Staff Children Education Trust" into which it donated the income accruing on the capital sum of Rs25M set aside to this end. The objective of the Trust is to sponsor the children of the Group's employees to pursue higher education. The Bank is a pioneer in this direction, being the first to provide such benefits.

The investments in state-of-the-art technology, data warehouse and application tools are instrumental in supporting our customers' business needs. The Bank's risk and value based performance management practices and tools include Fund Transfer Pricing, Activity Based Costing, provisions for losses and capital allocation based on levels of risk. This system calculates economic profit and Risk Adjusted Return on Capital (RAROC) by lines of business, portfolio, customer, product and delivery channels. The process enables identification of profitable and unprofitable customers, products and customer segments, thus assisting in enhancing the quality of decision making capabilities.

Integrated risk management tools and organisational design geared towards enterprise wide risk management enable the Bank to protect, create and enhance shareholders' value. Risk policies and methodologies are continuously reviewed and refined to adapt to an ever-changing market environments and regulatory requirements.

The Bank's leadership in Information Technology gives the Group a significant competitive edge and advantage. A versatile Core System enables the Bank to provide sophisticated solutions such as flexible mortgages, effecting payments at POS in currencies of the client's choice and the offer of value added services such as the charging of prepaid mobile phones through its electronic channels. The Board is pleased to report that the Proactive Risk Manager (PRM) tool implemented during the year assisted the Mauritian Police to proactively uncover a massive fraud on credit cards issued by overseas banks.

The Bank implemented the Flexcube Core Banking solution at its subsidiary bank in Madagascar which went live in January 2005. The Bank is now embarking on the implementation of a similar Core Banking Solution for its Indian Operations. The Board is pleased to report that in addition to the Core IT System, the Group

has already put in place capabilities/systems geared for Basel II Accord compliance. Further, in accordance with the Central Bank guideline which came into effect on April 01, 2005, capital has been allocated for Operational Risk in compliance with the regulatory requirements and the capital adequacy ratio, accordingly, was 21.78% as at June 30, 2005.

The Bank embarked on an upliftment programme of its strategic Service Units to project a modern image of the Bank. The Bank renovated its Curepipe Service Unit in 2004 and Rose Hill Service Unit in 2005. Renovation works at other selected Service Units are in progress.

### **CORPORATE GOVERNANCE PRACTICES**

The Bank embraced best corporate governance practices in the mid 1990's, well before the promulgation of the Code and regulatory Guidelines in 2004. The Board leads by example. A full assessment of the effectiveness of the Board and Board committees as well as evaluation of the directors was undertaken at the end of 2004 to elicit feedback from board members with a view to enhancing performance of the board and its committees. The Board has a formal written charter which is updated at least annually to reflect legislative and local/international codes of conduct and best practice requirements. During the year, the Group implemented a code of business ethics for directors and employees.

The Bank has complied with the Mauritian Code of Corporate Governance, except for disclosure of remuneration of directors on an individual basis. The Board believes that it is not desirable in the local context to do so and shall comply at an appropriate time. The Committee/Board will review this on an annual basis.

The Group's Internal Audit plays an important role in ensuring that the system of internal controls, policies and procedures are followed and complied with.

The Board reaffirms its commitment to the highest level of integrity and compliance with good corporate governance.

### **CORPORATE CITIZENSHIP**

The Bank earmarks an annual budget for sponsorship of social, cultural, sports and educational events/activities on an on-going basis, besides assistance for the welfare of the community in need. The Bank donated Rs1.0M to the Tsunami Solidarity Relief Fund during the year for the benefit of the victims of the Tsunami.

The shareholders at the last Annual Meeting approved the setting up of the SBM Education Trust, SBM Sport Trust and the SBM Staff Children Education Trust.

The Board is pleased to report that these trusts are now operational. The Independent Trustees and the Advisory Committees had several working sessions and have finalised the modalities to fulfill the objectives of the Trusts. The Bank donated the income earned on the capital sum of Rs100M set aside for this purpose to the above Trusts.

#### **AWARDS, RATINGS AND ACHIEVEMENTS**

The Board is pleased to share that Euromoney, a leading global financial magazine, has for the second consecutive year awarded SBM "Best Bank in Mauritius" for 2005. The Bank was awarded Best Bank in Mauritius for Euromoney's first African Awards for Excellence 2004.

Moody's Investors Service rates the Bank Baa2/P2 for long and short term foreign currency deposits, the highest rating any Mauritian entity can be rated. Further, Moody's adjudicated a D+ for Financial strength to SBM.

During the year, the Bank launched a fully operational Europay-MasterCard-Visa (EMV) Chip Card. SBM is the first Bank in the Sub-Saharan African region to implement EMV Chip Card.

The Bank obtained a ten year loan facility of Euro 20M from the European Investment Bank at favourable terms. The Board is pleased to report that this is the first global loan agreement that the European Investment Bank has entered into with a commercial bank in Mauritius.

#### **CHALLENGES FOR THE FUTURE**

The Banking Act 2004 which was promulgated on November 10, 2004 eliminated separate licencing for Category 1 (onshore) and Category 2 (offshore) banks and provided for a single banking licence. All banks in Mauritius can now uniformly target all the markets. With a single banking licencing in Mauritius, there will be stiffer competition for business and further narrowing in interest margin and foreign exchange margin. On the other hand, the Bank can take advantage of the favourable treatment enjoyed by former offshore banks, namely the lower tax rate and opportunity to tap new customers.

The changed regulatory and economic environment will undoubtedly influence the landscape of banking in Mauritius in the years to come.

The dismantling of the Multifibre Agreement which came into effect as from January 01, 2005, coupled with the proposed reduction in the sugar price enjoyed by Mauritius from the European Union as from next year, pose the greatest challenges for the Mauritian economy.

The Board believes that the Bank needs to position itself to further leverage its superior service delivery channels to generate transactional fees and explore new services and geographical markets, besides reducing its cost of operations through migration to cheaper electronic delivery channels.

The Board is confident in the committed management team members to translate its core competencies and strategies into economic value added results.

#### AUDITORS

The auditors, Messrs Kemp Chatteris Deloitte, have expressed their willingness to continue in office and a resolution proposing their reappointment is recommended to the members.

#### ACKNOWLEDGMENTS

The Board records its appreciation for the valued contribution of Mr Paul René De Chasaigner Du Mée, C.B.E. who retired from the Board in December 2004. The Board welcomes Mr Soopaya Parianen who was elected as a director at the last Annual Meeting.

The Board also records its appreciation to the regulators for their support and cooperation in timeously addressing the issues affecting the Financial Service Industry.

The Board thanks the Management Team and all the employees for their commitment and dedication for the advancement of the SBM Group.

And, finally, the Board expresses its deep appreciation to its customers and shareholders for their continued trust and support.



Chaitlall Guinness  
Chief Executive



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.



Chandradev Appadoo  
Company Secretary



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.

## statement of management's responsibility for financial reporting

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 who are not officers and employees of the Bank, 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.

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, Kemp Chatteris 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.



M.K.T. Reddy, G.O.S.K.  
Chairman



A. L. Harel  
Director (Chairman, Audit Committee)



C. Guinness  
Chief Executive

Date: September 28, 2005

We have audited the financial statements of the Group and of the Bank for the year ended 30 June 2005 set out on pages 26 to 73.

This report is made solely to the company's shareholders, as a body, in accordance with section 205 of the Companies Act 2001. Our audit work has been undertaken so that we might state to the company'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 company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

comply with the provisions of the Banking Act 2004 and of the Companies Act 2001 applicable to banks. They are also responsible for safeguarding the assets of the Group and of the Bank and hence for taking steps for the prevention and detection of fraud and other irregularities. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

## report of the auditors to the shareholders of state bank of mauritius ltd.

### **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements. In forming

other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and of the Bank. The directors are responsible for the preparation of financial statements which give a true and fair view of the financial position, financial performance and cash flows of the Group and of the Bank, and

our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

### Opinion

The information and explanations called for and given to us by the officers or agents of the Group and of the Bank were satisfactory. In our opinion:

- proper accounting records have been kept by the Group and the Bank as far as appears from our examination of those records; and

- the financial statements give a true and fair view of the financial position of the Group and of the Bank as at 30 June 2005 and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and comply with the provisions of the Banking Act 2004 and of the Companies Act 2001 applicable to banks, as well as the regulations and guidelines of Bank of Mauritius.



Kemp Chatteris Deloitte  
Chartered Accountants  
3rd Floor, Cerné House  
La Chaussée  
Port Louis, Mauritius.



Chandra K. Gujadhur, FCA  
Signing Partner


Date: September 28, 2005

## Balance Sheets at 30 June 2005

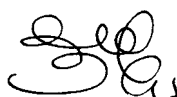
		GROUP			BANK		
	Note	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
<b>Assets</b>							
<b>Cash Resources</b>							
Cash and Balances with Central Banks		1,894,720	2,040,409	1,924,269	1,672,411	2,012,529	1,844,978
Balances with Other Banks	3	6,378,422	2,090,179	2,364,703	6,360,702	1,788,798	2,101,587
		<b>8,273,142</b>	<b>4,130,588</b>	<b>4,288,972</b>	<b>8,033,113</b>	<b>3,801,327</b>	<b>3,946,565</b>
<b>Securities, Placements and Other Investments</b>							
Investment Securities	4						
- Equity Investments in Subsidiaries		-	-	-	453,546	726,228	806,290
- Equity Investments in Associates		666,502	616,340	559,155	666,502	616,340	558,925
- Other Investment Securities		10,906,042	12,349,585	7,554,453	10,302,746	11,430,982	7,078,506
		<b>11,572,544</b>	<b>12,965,925</b>	<b>8,113,608</b>	<b>11,422,794</b>	<b>12,773,550</b>	<b>8,443,721</b>
Trading Securities		144,338	254,791	1,926,995	144,338	244,937	1,918,476
Placements		466,261	40,390	41,643	466,261	40,390	41,643
Other Investments		9,263	8,849	9,156	-	-	-
		<b>12,192,406</b>	<b>13,269,955</b>	<b>10,091,402</b>	<b>12,033,393</b>	<b>13,058,877</b>	<b>10,403,840</b>
<b>Loans and Advances</b>							
Personal and Credit Cards	7	5,753,721	4,934,304	3,734,440	5,744,203	4,927,436	3,726,285
Business		13,621,537	13,130,212	12,259,927	13,290,570	12,782,732	11,767,131
Governments		2,665,379	2,665,791	2,787,772	2,650,114	2,665,791	2,787,772
Entities outside Mauritius		768,346	652,239	1,214,670	768,346	652,239	1,214,670
Overseas Operations		2,319,098	2,155,137	2,047,713	1,480,406	1,595,079	1,162,074
		<b>25,128,081</b>	<b>23,537,683</b>	<b>22,044,522</b>	<b>23,933,639</b>	<b>22,623,277</b>	<b>20,657,932</b>
<u>Less: Allowance for Credit Losses</u>		<b>(626,505)</b>	<b>(865,500)</b>	<b>(479,020)</b>	<b>(541,864)</b>	<b>(809,842)</b>	<b>(434,936)</b>
		<b>24,501,576</b>	<b>22,672,183</b>	<b>21,565,502</b>	<b>23,391,775</b>	<b>21,813,435</b>	<b>20,222,996</b>
<b>Other</b>							
Tangible Fixed Assets	8	2,993,990	1,759,106	1,837,978	2,959,146	1,754,805	1,832,563
Other Assets	9	645,926	425,889	634,248	620,300	410,671	570,833
		<b>3,639,916</b>	<b>2,184,995</b>	<b>2,472,226</b>	<b>3,579,446</b>	<b>2,165,476</b>	<b>2,403,396</b>
<b>TOTAL</b>		<b>48,607,040</b>	<b>42,257,721</b>	<b>38,418,102</b>	<b>47,037,727</b>	<b>40,839,115</b>	<b>36,976,797</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
<b>Deposits</b>							
Personal	11	20,668,106	19,425,906	16,837,117	19,200,585	17,999,420	15,349,558
Business		11,044,220	8,911,278	8,333,610	10,694,070	8,466,462	8,057,565
Governments		3,188,265	4,458,426	4,011,408	2,935,542	4,232,998	3,588,070
Banks		100,216	76,643	-	100,739	80,135	49,725
		<b>35,000,807</b>	<b>32,872,253</b>	<b>29,182,135</b>	<b>32,930,936</b>	<b>30,779,015</b>	<b>27,044,918</b>
<b>Borrowings</b>							
Central Banks	12	247,829	342,698	397,449	247,829	341,531	393,664
Other Banks	13	3,283,684	1,891,842	2,553,169	3,278,232	1,891,552	2,553,169
Other		67,697	-	-	67,697	-	-
		<b>3,599,210</b>	<b>2,234,540</b>	<b>2,950,618</b>	<b>3,593,758</b>	<b>2,233,083</b>	<b>2,946,833</b>

**Balance Sheets at 30 June 2005 (cont'd)**

	Note	GROUP			BANK		
		2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
<b>Other</b>							
Current Tax Liability	14A	185,088	56,519	78,433	161,699	39,113	60,633
Deferred Tax Liability	14B	483,324	51,411	134,179	484,900	51,393	133,790
Obligations under Finance Leases	15	-	-	-	621,404	743,960	760,361
Other Liabilities	16	1,134,782	889,871	905,652	1,062,209	857,886	891,370
		<b>1,803,194</b>	<b>997,801</b>	<b>1,118,264</b>	<b>2,330,212</b>	<b>1,692,352</b>	<b>1,846,154</b>
<b>Minority Interest in Subsidiaries</b>		<b>21,008</b>	<b>18,462</b>	<b>28,193</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Shareholders' Equity</b>							
Ordinary Share Capital	17	325,052	325,052	336,203	325,052	325,052	336,203
Reserves and Surplus	18	7,857,769	5,809,613	4,802,689	7,857,769	5,809,613	4,802,689
		<b>8,182,821</b>	<b>6,134,665</b>	<b>5,138,892</b>	<b>8,182,821</b>	<b>6,134,665</b>	<b>5,138,892</b>
<b>TOTAL</b>		<b>48,607,040</b>	<b>42,257,721</b>	<b>38,418,102</b>	<b>47,037,727</b>	<b>40,839,115</b>	<b>36,976,797</b>
<b>US\$/MRs Mid Exchange Rate as at Balance sheet date</b>		<b>29.47</b>	<b>28.15</b>	<b>29.25</b>	<b>29.47</b>	<b>28.15</b>	<b>29.25</b>
<b>CONTINGENT LIABILITIES AND COMMITMENTS</b>	19						
Acceptances, Guarantees, Letters of Credit, Endorsements and Other Obligations on Account of Customers		5,014,389	4,612,736	3,992,326	4,769,808	4,312,376	3,787,964
Credit Commitments		2,772,432	3,465,270	3,962,171	2,499,278	3,203,172	3,506,747
Inward Bills held for Collection		335,561	277,156	325,557	229,757	251,163	315,176
Outward Bills sent for Collection		616,699	687,454	213,547	480,669	687,454	213,547
		<b>8,739,081</b>	<b>9,042,616</b>	<b>8,493,601</b>	<b>7,979,512</b>	<b>8,454,165</b>	<b>7,823,434</b>



**C. Guinness**  
Chief Executive



**M.K.T. Reddy, G.O.S.K.**  
Chairman



**A.L. Harel**  
Director (Chairman, Audit Committee)



**A.J. Poncini, G.O.S.K.**  
Director

## Statements of Income for the year ended 30 June 2005

		GROUP			BANK		
	Note	2005	2004	2003	2005	2004	2003
		MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000
<b>Interest Income</b>	21						
Loans and Advances		2,300,563	2,132,163	2,212,493	2,145,708	1,979,785	2,058,268
Securities		617,760	778,709	716,162	569,679	715,624	656,615
Placements with Banks		152,880	71,251	74,888	145,028	68,581	71,555
		<b>3,071,203</b>	<b>2,982,123</b>	<b>3,003,543</b>	<b>2,860,415</b>	<b>2,763,990</b>	<b>2,786,438</b>
<b>Interest Expense</b>							
Deposits		(1,324,486)	(1,400,570)	(1,533,350)	(1,182,264)	(1,214,069)	(1,373,007)
Deposits and Borrowings from Banks		(118,446)	(100,870)	(104,636)	(116,695)	(100,688)	(103,421)
Lease Finance Charges		-	-	-	(77,258)	(82,534)	(56,022)
Other		(3,575)	-	(328)	(3,575)	-	-
		<b>(1,446,507)</b>	<b>(1,501,440)</b>	<b>(1,638,314)</b>	<b>(1,379,792)</b>	<b>(1,397,291)</b>	<b>(1,532,450)</b>
<b>Net Interest Income</b>		<b>1,624,696</b>	<b>1,480,683</b>	<b>1,365,229</b>	<b>1,480,623</b>	<b>1,366,699</b>	<b>1,253,988</b>
Provisions and Adjustments to Income for Credit Losses	22	(78,613)	(164,401)	(143,617)	(51,397)	(127,898)	(128,198)
<b>Net Interest Income after Provisions for Credit Losses</b>		<b>1,546,083</b>	<b>1,316,282</b>	<b>1,221,612</b>	<b>1,429,226</b>	<b>1,238,801</b>	<b>1,125,790</b>
<b>Other Income</b>							
Net Fee and Commission Income	23	400,889	320,121	252,981	354,607	284,347	222,863
Net Gain from Dealings in Foreign Currencies		288,288	331,105	238,845	275,263	320,460	253,582
Share of Profit of Subsidiaries and Associates		88,248	65,900	68,868	232,252	216,487	163,322
Dividend Income		69,032	72,114	80,527	65,352	66,798	70,641
Net (Loss)/Gain from Dealings in Trading Securities and Derivatives		(14,877)	89,576	79,105	(15,448)	87,343	75,943
Net Gain on Investment Securities		40,257	63,796	531	38,121	18,905	61
Net Gain on Disposal of Tangible Fixed Assets		5,175	11,620	12,806	5,175	11,616	12,806
		<b>877,012</b>	<b>954,232</b>	<b>733,663</b>	<b>955,322</b>	<b>1,005,956</b>	<b>799,218</b>
<b>Net Interest and Other Income</b>		<b>2,423,095</b>	<b>2,270,514</b>	<b>1,955,275</b>	<b>2,384,548</b>	<b>2,244,757</b>	<b>1,925,008</b>
<b>Non-Interest Expense</b>	24						
Salaries and Human Resource Development		(285,680)	(314,044)	(277,609)	(279,126)	(306,624)	(269,760)
Pension Contributions and Other Staff Benefits		(77,535)	(136,258)	(55,751)	(76,165)	(136,009)	(54,385)
Depreciation		(245,298)	(193,867)	(201,921)	(241,180)	(192,609)	(199,221)
Other		(313,283)	(260,832)	(233,581)	(294,145)	(249,082)	(218,730)
		<b>(921,796)</b>	<b>(905,001)</b>	<b>(768,862)</b>	<b>(890,616)</b>	<b>(884,324)</b>	<b>(742,096)</b>
<b>Net Income before Income Taxes</b>		<b>1,501,299</b>	<b>1,365,513</b>	<b>1,186,413</b>	<b>1,493,932</b>	<b>1,360,433</b>	<b>1,182,912</b>
Provision for Income Taxes	14C	(304,866)	(235,341)	(165,614)	(302,718)	(233,913)	(164,695)
<b>Net Income after Income Taxes</b>	25	<b>1,196,433</b>	<b>1,130,172</b>	<b>1,020,799</b>	<b>1,191,214</b>	<b>1,126,520</b>	<b>1,018,217</b>
Minority Interest		(5,219)	(3,652)	(2,582)	-	-	-
<b>Net Income available to Shareholders</b>		<b>1,191,214</b>	<b>1,126,520</b>	<b>1,018,217</b>	<b>1,191,214</b>	<b>1,126,520</b>	<b>1,018,217</b>
Weighted Average Number of Outstanding Shares (thousands)		325,052	325,282	358,899	325,052	325,282	358,899
<b>Earnings Per Share (Cents)</b>	27	<b>366</b>	<b>346</b>	<b>284</b>	<b>366</b>	<b>346</b>	<b>284</b>

## Statement of Changes in Equity for the year ended 30 June 2005

	Note	Share Capital MRS'000	Share Premium MRS'000	Statutory Reserve MRS'000	Revenue Reserve MRS'000	Unrealised Investment					Other Reserve MRS'000	Total MRS'000
						Fair Value Reserve MRS'000	Investment Fluctuation Reserve MRS'000	Property Revaluation Reserve MRS'000	Translation Reserve MRS'000			
<b>GROUP &amp; BANK</b>												
At 1 July 2002		363,375	280,552	440,619	3,561,884	(7,033)	17,090	-	175,922	54,466	4,886,875	
Net Profit for the Year		-	-	-	1,018,217	-	-	-	-	-	1,018,217	
Dividend	26	-	-	-	(357,533)	-	-	-	-	-	(357,533)	
Transfer		-	-	15,246	(35,094)	-	19,848	-	-	-	-	
Buy Back of Treasury Shares		(27,172)	(280,552)	-	(109,820)	-	-	-	-	-	(417,544)	
Increase in Value of Available-for-sale Investments		-	-	-	-	8,878	-	-	-	-	8,878	
Share of Increase in Reserves of Associates		-	-	-	-	-	-	-	-	4,964	4,964	
Translation Difference		-	-	-	-	-	-	(4,965)	-	-	(4,965)	
At 30 June 2003		336,203	-	455,865	4,077,654	1,845	36,938	-	170,957	59,430	5,138,892	
At 1 July 2003		336,203	-	455,865	4,077,654	1,845	36,938	-	170,957	59,430	5,138,892	
- As Previously Stated		-	-	-	(714,978)	1,126,838	-	-	-	-	411,860	
- Effect of applying IAS 39		-	-	-	3,362,676	1,128,683	36,938	-	170,957	59,430	5,550,752	
- As Restated		336,203	-	455,865	3,362,676	1,128,683	36,938	-	170,957	59,430	5,550,752	
Net Profit for the Year		-	-	-	1,126,520	-	-	-	-	-	1,126,520	
Dividend	26	-	-	-	(389,983)	-	-	-	-	-	(389,983)	
Transfer		-	-	9,960	(26,890)	-	16,930	-	-	-	-	
Buy Back of Treasury Shares		(11,078)	-	-	(175,672)	-	-	-	-	-	(186,750)	
Shares Bought Back and Cancelled		(73)	-	-	(1,393)	-	-	-	-	-	(1,466)	
Increase in Value of Available-for-Sale Investments		-	-	-	-	151,720	-	-	-	-	151,720	
Net Gain Released on Disposal of Available-for-Sale Investments		-	-	-	-	(33,730)	-	-	-	-	(33,730)	
Share of Increase in Reserves of Associates		-	-	-	-	-	-	-	-	11,658	11,658	
Translation Difference		-	-	-	-	-	-	(94,056)	-	-	(94,056)	
At 30 June 2004		325,052	-	465,825	3,895,258	1,246,673	53,868	-	76,901	71,088	6,134,665	
At 1 July 2004		325,052	-	465,825	3,895,258	1,246,673	53,868	-	76,901	71,088	6,134,665	
Net Profit for the Year		-	-	-	1,191,214	-	-	-	-	-	1,191,214	
Dividend	26	-	-	-	(422,568)	-	-	-	-	-	(422,568)	
Transfer		-	-	9,192	(13,680)	-	4,488	-	-	-	-	
Surplus on Revaluation of Tangible Fixed Assets		-	-	-	-	-	-	1,282,643	-	-	1,282,643	
Deferred Tax on Revaluation Surplus of Buildings		-	-	-	-	-	-	(298,639)	-	-	(298,639)	
Realisation of Revaluation Surplus of Buildings		-	-	-	21,994	-	-	(21,994)	-	-	-	
Increase in Value of Available-for-Sale Investments		-	-	-	-	213,234	-	-	-	-	213,234	
Net Loss Released on Disposal of Available-for-Sale Investments		-	-	-	-	-	-	-	-	-	-	
Share of Increase in Reserves of Associates		-	-	-	-	587	-	-	-	-	587	
Transfer made by Associates		-	-	-	-	-	-	-	-	4,954	4,954	
Translation Difference		-	-	5,232	-	-	-	-	-	(5,232)	-	
At 30 June 2005		325,052	-	480,249	4,672,218	1,460,494	58,356	962,010	153,632	70,810	8,182,821	



## Cash Flow Statements for the year ended 30 June 2005

	Note	GROUP			BANK		
		2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
<b>Cash Flows from Operating Activities</b>							
Net Income before Income Taxes		1,501,299	1,365,513	1,186,413	1,493,932	1,360,433	1,182,912
Income Tax Paid		(36,869)	(105,549)	(55,923)	(18,964)	(91,373)	(38,473)
<b>Adjustments to Determine Net Cash Flows:</b>							
Depreciation		245,298	193,867	201,921	241,180	192,609	199,220
Pension	10	(13,058)	21,401	15,936	(13,058)	21,401	14,701
Provisions and Adjustments to Income for Credit Losses		78,613	164,401	143,617	51,397	127,898	128,198
Exchange Difference		84,062	(118,522)	12,878	71,180	(21,116)	20,574
Net Gain on Disposal of Investment Securities		(40,257)	(63,796)	(531)	(38,121)	(18,905)	(61)
Net Loss/(Gain) from dealing in Trading Securities and Derivatives		14,877	(89,576)	(79,105)	15,448	(87,343)	(75,943)
Net Gain on Disposal of Tangible Fixed Assets		(5,175)	(11,620)	(12,806)	(5,175)	(11,616)	(12,806)
Dividend Income		(69,032)	(72,114)	(80,527)	(65,352)	(66,798)	(70,641)
Share of Profit of Subsidiaries and Associates		(88,248)	(65,900)	(68,868)	(232,252)	(216,487)	(163,322)
<b>Operating Profit before Working Capital Changes</b>		<b>1,671,510</b>	<b>1,218,105</b>	<b>1,263,005</b>	<b>1,500,215</b>	<b>1,188,703</b>	<b>1,184,359</b>
<b>Change in Operating Assets and Liabilities</b>							
Increase in Other Liabilities		212,406	24,646	175,027	171,818	7,211	180,027
(Increase)/Decrease in Loans and Advances		(1,914,685)	(2,196,674)	(437,495)	(1,634,648)	(2,668,860)	169,831
Decrease/(Increase) in Trading Securities		110,494	1,762,151	(811,955)	100,640	1,761,253	(813,599)
(Increase)/Decrease in Other Assets		(193,473)	126,471	(267,295)	(183,065)	78,275	(217,889)
Increase in Deposits		2,128,554	3,690,118	3,031,758	2,151,921	3,734,097	2,413,815
(Increase)/Decrease in Placements		(425,871)	1,253	57,807	(425,871)	1,253	57,807
<b>Net Cash Provided by Operating Activities</b>		<b>1,588,935</b>	<b>4,626,070</b>	<b>3,010,852</b>	<b>1,681,010</b>	<b>4,101,932</b>	<b>2,974,351</b>
<b>Cash Flows from/(used in) Financing Activities</b>							
Net (Decrease)/Increase in Obligations under Finance Leases		-	-	-	(122,556)	(16,401)	258,755
Increase/(Decrease) in Other Borrowings		412,092	(181,853)	(140,480)	413,259	(179,235)	(58,680)
Repurchase of Ordinary Shares		-	(188,215)	(417,544)	-	(188,215)	(417,544)
Debentures Repaid		-	-	(9,609)	-	-	-
Dividend Paid on Ordinary Shares		(390,063)	(357,558)	(363,270)	(390,063)	(357,558)	(363,270)
Dividend Paid to Minority Interest		(2,837)	(1,802)	(6,836)	-	-	-
<b>Net Cash from/(used in) Financing Activities</b>		<b>19,192</b>	<b>(729,428)</b>	<b>(937,739)</b>	<b>(99,360)</b>	<b>(741,409)</b>	<b>(580,739)</b>
<b>Cash Flows from/(used in) Investing Activities</b>							
Acquisition of Tangible Fixed Assets		(186,902)	(147,419)	(327,382)	(152,514)	(145,422)	(326,636)
Disposal of Tangible Fixed Assets		5,316	38,923	12,852	5,314	38,919	12,852
Dividend Received from Subsidiaries and Associates		45,673	3,250	46,097	277,023	148,250	238,097
Other Dividend Received		69,032	72,114	80,527	65,352	66,798	70,641
Capital Reduction in Subsidiaries		-	-	-	185,231	-	-
Acquisition of Other Equity Investments		1,336	(39,999)	(8,428)	-	-	-
Disposal of Other Equity Investments		70,666	131,201	15,670	3,614	24,850	5,011
Decrease/(Increase) in Gilt-edged Investment Securities		1,576,728	(3,578,871)	(2,401,938)	1,318,700	(3,104,641)	(2,866,904)
Loans Repaid by Subsidiaries and Associates		-	-	13,419	-	-	36,878
<b>Net Cash from/(used in) Investing Activities</b>		<b>1,581,849</b>	<b>(3,520,801)</b>	<b>(2,569,183)</b>	<b>1,702,720</b>	<b>(2,971,246)</b>	<b>(2,830,061)</b>
<b>Net Change in Cash and Cash Equivalents</b>		<b>3,189,976</b>	<b>375,841</b>	<b>(496,070)</b>	<b>3,284,370</b>	<b>389,277</b>	<b>(436,449)</b>
<b>Cash and Cash Equivalents at 1 July</b>		<b>2,317,566</b>	<b>1,941,725</b>	<b>2,437,795</b>	<b>1,988,595</b>	<b>1,599,318</b>	<b>2,035,767</b>
<b>Cash and Cash Equivalents at 30 June</b>	28	<b>5,507,542</b>	<b>2,317,566</b>	<b>1,941,725</b>	<b>5,272,965</b>	<b>1,988,595</b>	<b>1,599,318</b>

## Notes to the Accounts for the year ended 30 June 2005

### 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. Its registered office is situated at State Bank Tower, 1 Queen Elizabeth II Avenue, Port Louis, Mauritius.

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

### 2. ACCOUNTING POLICIES

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

#### (a) Basis of Accounting

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.

The measurement of certain tangible fixed assets at revalued amounts represents a change in accounting policy. The revaluation has been accounted for in accordance with IAS 16 (Property, Plant and Equipment).

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses for the year. Actual results could differ from those estimates.

#### (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. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Income from the date of their acquisition or up to the date of their disposal. Intragroup transactions are eliminated on consolidation.

Goodwill or negative goodwill arising on an acquisition of a subsidiary, measured as the difference between the cost of acquisition and the fair value of the share of net assets acquired is written off/back immediately in the Statement of Income where it is not material.

Investments in associates are dealt with in the consolidated financial statements under the equity method and reported under Investment Securities on the Balance Sheet. The Group's share of profit of associates and gains and losses arising from disposal of investments in associates are recorded as Other 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 accounts drawn up to correspond with the financial year end of the holding company.

#### (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. The accrual of interest income is suspended when the associated asset becomes impaired (See Note 2(g)).

Dividend income from equity investments, other than subsidiaries and associates, are accounted for in the Statement of Income as Other Income when the right to receive payment is established.

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

### (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 end of the financial year. Their results for the period are translated into Mauritian Rupees at average rates. Any translation differences arising are taken to translation reserve.
- (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 balance sheet date are translated into Mauritian Rupees at the rates of exchange ruling at that date. All resulting gains and losses are accounted for in the Statement of Income.
- (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.

### (e) Investment Securities

#### (i) Investments in Gilt-edged Securities

Investments in gilt-edged securities reported under Investment Securities are classified in the following categories: Originated-Loans-and-Receivables ("OLR"), Held-to-maturity ("HTM") and Available-for-sale ("AFS"). Gilt-edged securities that are purchased directly from the issuer and that are not held for trading purposes are classified as OLR. 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 cost. At subsequent reporting dates, securities classified as OLR or HTM are measured at amortised cost, less any impairment loss. Securities classified as AFS are subsequently measured at fair value and the unrealised gains and losses on revaluation are recognised directly in equity (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 Income.

The interest accrued is recorded as Interest Income in the Statement of Income and any gains or losses on disposal are recorded as Other Income.

#### (ii) Investments in Subsidiaries and Associates

In the Bank's separate accounts, the equity investments in subsidiaries and associates are accounted for using the equity method and reported under Investment Securities in the Balance Sheet. Dividends received from subsidiaries and associates are accounted for as a reduction in the carrying amounts of the investments in subsidiaries and associates.

#### (iii) Other Equity Investments

Other equity investments reported under Investment Securities are classified as AFS. They are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, they are measured at fair value and the unrealised gains and losses are recognised directly in equity (Unrealised Investment Fair Value Reserve), until the investment 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 investment is included in the Statement of Income as Other Income.

However, AFS equity investments which do not have a quoted market price and whose fair value cannot be reliably measured subsequently remain measured at cost.

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

### (f) Trading Securities

Investments in gilt-edged securities and equity investments that are held for trading purposes are classified as Held-for-trading ("HFT"). They are recognised on a trade-date basis and are initially measured at cost. Subsequently, they are measured at fair value. The unrealised gains and losses on revaluation and the realised gains and losses on disposal are included in the Statement of Income as Other Income.

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

### (g) Loans and Advances and Allowance for Credit Losses

(i) Loans and advances are classified as OLR and are measured at amortised cost, less allowance for credit losses. Allowance for credit losses consists of specific and portfolio provisions.

Specific provisions are made on impaired advances and are calculated as the shortfall between the carrying amount 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.

(ii) A portfolio provision for credit losses 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 in line with IAS 30. The portfolio provision is estimated based upon historical patterns of losses in each component of the portfolio of loans and advances as well as current economic and other relevant conditions. The Bank of Mauritius Guideline on Credit Impairment Measurement and Income Recognition prescribes that the portfolio provision should be no less than 1 per cent of the aggregate amount of the loan portfolio 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. The charge for portfolio provision is recognised in the Statement of Income.

(iii) Allowance for credit losses in respect of on-balance sheet items is deducted from the applicable asset whereas the allowance for credit losses in respect of off-balance sheet items is included in Other Liabilities in the Balance Sheet.

(iv) When restructuring occurs after a loan has been impaired, the restructured loan continues to be classified as an impaired loan until the repayments have been received by the Bank, in amount and timing, for a continuous period of six months, in accordance with the terms and conditions of the restructured loan.

(v) When an advance is impaired, all previously accrued but uncollected interest is clawed back against income in the accounting period in which the advance is impaired. On such an impaired advance, 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. Such interest income represents a reversal of the specific provision for that impaired advance and is therefore recognised accordingly in the Statement of Income.

(vi) Credit card balances are treated as personal loans and accounted for accordingly.

### (h) Placements

Placements are measured at amortised cost, less any impairment loss.

### (i) Borrowings

Borrowings are measured at amortised cost.

### (j) Deposits

Deposits are measured at amortised cost.

**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****(k) Derivative Financial Instruments**

Derivative financial instruments are initially recorded at cost and are measured at 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 Other Income.

**(l) Acceptances**

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

**(m) Sale and Repurchase Agreements**

Gilt-edged securities sold subject to linked repurchase agreements ("repos") are retained in the Balance Sheet and the counterparty liability is included in Borrowings. 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.

**(n) Tangible Fixed Assets**

Tangible fixed assets are stated at cost (except for freehold land and buildings) less accumulated depreciation, less any impairment loss. Freehold land is stated at revalued amounts and buildings are stated at revalued amounts less accumulated depreciation, less any impairment loss.

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

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.

No depreciation is provided on freehold land.

The principal rates are:

Buildings	Over 50 years
Plant, Machinery, Furniture, Fittings and Computer Equipment	Over 3 - 10 years
Motor Vehicles	Over 5 years

Depreciation is calculated from the month the asset is capitalised.

Gains and losses on disposal of tangible fixed assets are included within Other 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 income statement) and the depreciation based on the asset's original cost is transferred from Property Revaluation Reserve to Revenue Reserve.

**(o) Leasing****(i) The Group as lessor**

Amounts due from lessees under finance leases are recorded as loans and advances in the Group Balance Sheet at the amount of the 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 Group's net investment outstanding in respect of the leases.

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

### (o) Leasing (cont'd)

#### (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 the Balance Sheet as Obligations under Finance Leases. 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.

### (p) Borrowing Costs

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

### (q) 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 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.

### (r) Employee Benefits

#### (i) Pension Benefits for eligible participating employees

Eligible participating employees are entitled to retirement pensions under the SBM Group Pension Fund, a final salary defined benefit scheme. The normal 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 Balance Sheet either as a liability (if there is a deficit) or as an asset (if there is a surplus).

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 appointed under Term Contracts

Certain employees appointed under term contracts are entitled to defined contribution personal 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 does not recognise any liability or expense in respect of Phantom share options before they are exercised (Note 30).

**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****(s) Impairment**

The carrying amounts of assets are assessed at each balance sheet 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.

**(t) 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.

**(u) Dividends**

Dividends are recognised as a liability in the year in which they are declared.

**(v) 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.

**(w) Segmental Reporting**

The Group considers that segmentation of its business is primarily a function of product or services rather than geography. Accordingly, the Group uses its different lines of businesses as primary basis of segmentation and geographical segmentation as secondary basis.

**(x) Comparative Figures**

Comparative figures have been restated or reclassified, as necessary, to conform to the current year's presentation.

**3. BALANCES WITH OTHER BANKS**

	<b>2005</b> <b>MRs'000</b>	<b>GROUP</b> <b>2004</b> <b>MRs'000</b>	<b>2003</b> <b>MRs'000</b>	<b>2005</b> <b>MRs'000</b>	<b>BANK</b> <b>2004</b> <b>MRs'000</b>	<b>2003</b> <b>MRs'000</b>
Balances due within 3 months	<b>6,378,422</b>	2,090,179	2,364,703	<b>6,360,702</b>	1,788,798	2,101,587

The balances above include bank placements with a maturity of within 3 months.

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 4. SECURITIES, PLACEMENTS AND OTHER INVESTMENTS

Remaining Term to Maturity

## GROUP

	Within 3 months MRs'000	3-6 months MRs'000	6-12 months MRs'000	1-2 years MRs'000	2-5 years MRs'000	Over 5 years MRs'000	No Specific Maturity MRs'000	2005 Total MRs'000	2004 Total MRs'000	2003 Total MRs'000
<b>(i) Investment Securities</b>										
Government Bonds - OLR	51,623	4,831	239,759	-	176,331	301,106	-	773,650	30,811	83,025
Treasury Bills - OLR	952,391	979,071	4,185,761	1,825,433	-	-	-	7,942,656	10,236,206	7,130,892
Treasury Bills - HTM	129,101	166,506	83,515	40,451	-	-	-	419,573	529,641	-
Securities of Government Bodies - OLR	-	-	-	13,915	103,300	-	-	117,215	47,644	51,514
Equity Shares of Companies - Associates (Note 5)	-	-	-	-	-	-	666,502	666,502	616,340	559,155
- Other - AFS (Note 6)	-	-	-	-	-	-	1,652,948	1,652,948	1,505,283	289,022
	1,133,115	1,150,408	4,509,035	1,879,799	279,631	301,106	2,319,450	11,572,544	12,965,925	8,113,608
<b>(ii) Trading Securities - HFT</b>										
Government Bonds	-	-	-	-	-	-	-	-	-	772,313
Treasury Bills	77,908	-	31,168	35,262	-	-	-	144,338	244,937	1,146,163
Equity Shares of Companies (Note 6)	-	-	-	-	-	-	-	-	9,854	8,519
	77,908	-	31,168	35,262	-	-	-	144,338	254,791	1,926,995
<b>(iii) Placements - OLR</b>										
Banks	-	466,261	-	-	-	-	-	466,261	40,390	41,643
	-	466,261	-	-	-	-	-	466,261	40,390	41,643
<b>(iv) Other Investments</b>										
Loan to Associate (Note 5)	-	-	-	-	-	-	9,263	9,263	8,849	9,156
	-	-	-	-	-	-	9,263	9,263	8,849	9,156
<b>Total</b>	1,211,023	1,616,669	4,540,203	1,915,061	279,631	301,106	2,328,713	12,192,406	13,269,955	10,091,402



**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****4. SECURITIES, PLACEMENTS AND OTHER INVESTMENTS (cont'd)**

Remaining Term to Maturity (Cont'd)

**BANK**

	Within 3 months MRs'000	3-6 months MRs'000	6-12 months MRs'000	1-2 years MRs'000	2-5 years MRs'000	Over 5 years MRs'000	No Specific Maturity MRs'000	2005 Total MRs'000	2004 Total MRs'000	2003 Total MRs'000
<b>(i) Investment Securities</b>										
Government Bonds - OLR	51,623	4,831	239,759	-	176,331	301,106	-	773,650	30,811	83,025
Treasury Bills - OLR	918,740	979,071	4,173,545	1,825,433	-	-	-	7,896,789	10,040,306	6,879,581
Securities of Government										
Bodies - OLR	-	-	-	13,915	103,300	-	-	117,215	47,644	51,514
Equity Shares of Companies										
- Subsidiaries (Note 5)	-	-	-	-	-	-	453,546	453,546	726,228	806,290
- Associates (Note 5)	-	-	-	-	-	-	666,502	666,502	616,340	558,925
- Other - AFS (Note 6)	-	-	-	-	-	-	1,515,092	1,515,092	1,312,221	64,386
	970,363	983,902	4,413,304	1,839,348	279,631	301,106	2,635,140	11,422,794	12,773,550	8,443,721
<b>(ii) Trading Securities - HFT</b>										
Government Bonds	-	-	-	-	-	-	-	-	-	772,313
Treasury Bills	77,908	-	31,168	35,262	-	-	-	144,338	244,937	1,146,163
	77,908	-	31,168	35,262	-	-	-	144,338	244,937	1,918,476
<b>(iii) Placements - OLR</b>										
Banks	-	466,261	-	-	-	-	-	466,261	40,390	41,643
	-	466,261	-	-	-	-	-	466,261	40,390	41,643
<b>Total</b>	<b>1,048,271</b>	<b>1,450,163</b>	<b>4,444,472</b>	<b>1,874,610</b>	<b>279,631</b>	<b>301,106</b>	<b>2,635,140</b>	<b>12,033,393</b>	<b>13,058,877</b>	<b>10,403,840</b>

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Bank placements with a maturity of over 3 months are classified within Securities, Placements and Other Investments.

Included in Investment Securities for the Group and the Bank is an amount of MRs100 million maturing within 2-5 years representing a capital sum earmarked by SBM and invested in Investment Securities, on which all income to be earned has been committed to be donated to three newly set-up trusts.

**5. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (UNQUOTED)**

	<b>GROUP</b>			<b>BANK</b>		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Equity Investments in Subsidiaries	-	-	-	453,546	726,228	806,290
Equity Investments in Associates	666,502	616,340	559,155	666,502	616,340	558,925
Loan to Associate	9,263	8,849	9,156	-	-	-
	675,765	625,189	568,311	1,120,048	1,342,568	1,365,215

The loan to associate by the Group does not bear interest and does not have fixed terms of repayment.

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

### 5. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (UNQUOTED) (cont'd)

Details of subsidiaries and associates are as follows:

Subsidiaries	Country of Incorporation and Operation	Business Activity	2005	Effective % Holding	
				2004	2003
<b>Subsidiaries</b>					
Banque SBM Madagascar	Madagascar	Banking	79.99	79.99	79.99
SBM Lease Ltd	Mauritius	Leasing	100	100	100
SBM Mauritius Asset Managers Ltd	Mauritius	Asset Management	100	100	100
SBM Securities Ltd	Mauritius	Stockbroking	90	90	90
SBM Financials Ltd	Mauritius	Fiduciary Services	100	100	100
SBM Investments Ltd	Mauritius	Mauritian Rupee Investments	100	100	100
SBM Global Investments Ltd	Mauritius	Foreign Currency Investments	100	100	100
SBM IT Ltd	Mauritius	Technology	100	100	100
<b>Associates</b>					
SBM Nedbank International Ltd	Mauritius	Offshore Banking	50	50	50
SBM Nedcor Holdings Ltd	Mauritius	Investment	20.10	20.10	20.10
State Insurance Company of Mauritius Ltd	Mauritius	Insurance	20	20	20

During the year, the voluntary winding up of NetMauritius.Com Ltd, an associate, was completed.

### 6. EQUITY INVESTMENTS

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
AFS Investment Securities - Quoted	22,643	52,578	119,925	19,833	-	-
- Unquoted (at Fair Value)	1,475,595	1,272,785	-	1,475,595	1,272,785	-
- Unquoted (at Cost)	154,710	179,920	169,097	19,664	39,436	64,386
	1,652,948	1,505,283	289,022	1,515,092	1,312,221	64,386
HFT Trading Securities - Quoted	-	9,854	8,519	-	-	-
	1,652,948	1,515,137	297,541	1,515,092	1,312,221	64,386

The unquoted shares measured at cost are shares for which reliable fair values cannot be obtained. The unquoted shares measured at fair value include Mauritius Telecom Ltd shares, which in previous years were measured at a cost of MRs19 million. As from 1 July 2003, they were remeasured to fair value in the Balance Sheet, which was conservatively determined using net asset value as per the latest available audited financial statements. The fair value at 30 June 2005 has been similarly determined using the audited financial statements for the year ended 31 December 2004. The change in fair value has been recognised in Unrealised Investment Fair Value Reserve.

**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****7A. LOANS AND ADVANCES**

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Inland Bills purchased and discounted						
- Current	<b>430,745</b>	221,506	126,830	<b>368,966</b>	180,118	62,700
Foreign Bills purchased and discounted						
- Current	<b>583,487</b>	184,969	247,361	<b>577,506</b>	178,277	226,490
Overdrafts, Term Loans, Debentures and Other Advances repayable within 1 year	<b>7,431,690</b>	6,719,229	6,808,563	<b>6,741,332</b>	6,133,940	5,889,345
Term Loans, Debentures and Other Advances repayable after 1 year	<b>16,682,159</b>	16,411,979	14,861,768	<b>16,245,835</b>	16,130,942	14,479,397
	<b>25,128,081</b>	23,537,683	22,044,522	<b>23,933,639</b>	22,623,277	20,657,932
<u>Less: Allowance for Credit Losses (Note 7D)</u>	<b>(626,505)</b>	(865,500)	(479,020)	<b>(541,864)</b>	(809,842)	(434,936)
	<b>24,501,576</b>	22,672,183	21,565,502	<b>23,391,775</b>	21,813,435	20,222,996

The amounts of debentures included above are:

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Quoted	<b>18,822</b>	28,233	106,240	<b>18,822</b>	28,233	106,240
Unquoted	<b>930,696</b>	1,272,608	1,758,468	<b>930,696</b>	1,272,608	1,758,468
	<b>949,518</b>	1,300,841	1,864,708	<b>949,518</b>	1,300,841	1,864,708

The market value of the above quoted debentures at the balance sheet date were as follows:

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Market Value of Quoted Debentures	<b>17,801</b>	26,144	113,120	<b>17,801</b>	26,144	113,120

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

	GROUP			
	Within one year MRs'000	After one year and before five years MRs'000	After five years MRs'000	Total MRs'000
<b>2005</b>				
Gross Investment in Finance Leases		203,394	401,157	<b>604,551</b>
<u>Less: Unearned Finance Income</u>		(44,820)	(57,293)	<b>(102,113)</b>
		<b>158,574</b>	<b>343,864</b>	<b>502,438</b>
Allowance for Credit Losses				<b>(18,078)</b>
				<b>484,360</b>
<b>2004</b>				
Gross Investment in Finance Leases		186,915	515,923	<b>702,838</b>
<u>Less: Unearned Finance Income</u>		(63,596)	(97,520)	<b>(161,116)</b>
		<b>123,319</b>	<b>418,403</b>	<b>541,722</b>
Allowances for Credit Losses				<b>(20,077)</b>
				<b>521,645</b>
<b>2003</b>				
Gross Investment in Finance Leases		241,712	364,671	<b>606,383</b>
<u>Less: Unearned Finance Income</u>		(53,221)	(71,231)	<b>(124,452)</b>
		<b>188,491</b>	<b>293,440</b>	<b>481,931</b>
Allowance for Credit Losses				<b>(14,669)</b>
				<b>491,901</b>

**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****7B. REMAINING TERM TO MATURITY OF LOANS AND ADVANCES  
(EXCLUDING ALLOWANCE FOR CREDIT LOSSES)**

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Within 3 months	4,388,330	2,900,806	3,760,951	3,848,545	2,704,312	3,445,241
Over 3 to 6 months	1,897,259	1,744,644	1,449,556	1,687,983	1,565,637	1,170,197
Over 6 to 12 months	2,160,333	2,480,254	1,966,265	2,151,276	2,222,386	1,557,116
Over 1 to 2 years	1,180,507	1,142,586	1,136,145	1,030,051	1,169,320	882,791
Over 2 to 5 years	5,024,625	5,749,552	5,219,030	4,779,416	5,448,654	5,138,353
Over 5 years	10,477,027	9,519,841	8,512,575	10,436,368	9,512,968	8,464,234
	<b>25,128,081</b>	<b>23,537,683</b>	<b>22,044,522</b>	<b>23,933,639</b>	<b>22,623,277</b>	<b>20,657,932</b>

**7C. CREDIT CONCENTRATION OF RISK BY INDUSTRY SECTORS**

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

Name of Sector	2005 MRs'000	2004 MRs'000	2003 MRs'000
Agriculture and Fishing	-	-	-
EPZ	1,660,479	1,331,591	1,576,278
Other Manufacturing	-	-	-
Total Manufacturing	1,660,479	1,331,591	1,576,278
Tourism	1,367,938	3,502,693	3,238,266
Transport	-	-	-
Construction	-	-	787,984
Financial and Business Services	-	-	-
Traders	-	-	-
Personal	-	-	-
Professional	-	-	-
Entities outside Mauritius	-	-	-
Other	-	-	1,964,725
<b>Total</b>	<b>3,028,417</b>	<b>4,834,284</b>	<b>7,567,253</b>

**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****7D. ALLOWANCE FOR CREDIT LOSSES****GROUP**

	Specific Provision MRs'000	Portfolio Provision MRs'000	2005 Total MRs'000	2004 Total MRs'000	2003 Total MRs'000
At 1 July					
- As Previously Stated	650,604	214,896	865,500	479,020	377,407
- Effect of applying IAS 39	-	-	-	953,304	-
- As Restated	650,604	214,896	865,500	1,432,324	377,407
Exchange Difference	6,029	650	6,679	(27,709)	6,915
Loans written off out of Allowance	(291,372)	-	(291,372)	(692,746)	-
Interest accrued on Impaired Advances (Note 22)	(26,387)	-	(26,387)	(26,103)	-
Provisions made during the year (Note 22)	71,177	908	72,085	179,734	94,698
At 30 June	410,051	216,454	626,505	865,500	479,020

**BANK**

	Specific Provision MRs'000	Portfolio Provision MRs'000	2005 Total MRs'000	2004 Total MRs'000	2003 Total MRs'000
At 1 July					
- As Previously Stated	614,548	195,294	809,842	434,936	348,961
- Effect of applying IAS 39	-	-	-	953,304	-
- As Restated	614,548	195,294	809,842	1,388,240	348,961
Exchange Difference	4,501	410	4,911	(2,780)	5,819
Loans written off out of Allowance	(291,372)	-	(291,372)	(692,746)	-
Interest accrued on Impaired Advances (Note 22)	(26,387)	-	(26,387)	(26,103)	-
Provisions made during the year (Note 22)	43,070	1,800	44,870	143,231	80,156
At 30 June	344,360	197,504	541,864	809,842	434,936

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 7E. PROVISION FOR CREDIT LOSSES BY INDUSTRY SECTORS

GROUP	Gross				2005 Total Provision MRs'000	2004 Total Provision MRs'000	2003 Total Provision MRs'000
	Amount of Loans MRs'000	Impaired Loans MRs'000	Specific Provision MRs'000	Portfolio Provision MRs'000			
Agriculture and Fishing	677,167	53,073	24,783	1,412	26,195	20,827	5,671
EPZ	1,931,181	572	290	76,667	76,957	32,331	67,211
Other Manufacturing	2,412,060	134,274	76,950	45,004	121,954	135,035	126,514
Total Manufacturing	4,343,241	134,846	77,240	121,671	198,911	167,366	193,725
Tourism	4,527,615	23,132	7,439	5,822	13,261	46,061	54,915
Transport	385,428	16,327	11,652	1,074	12,726	12,256	4,328
Construction	1,380,065	95,522	57,227	20,882	78,109	209,436	24,953
Financial and Business Services	1,290,782	1,390	452	11,276	11,728	12,094	27,340
Traders	4,059,230	150,922	99,917	39,718	139,635	189,277	102,020
Credit Cards	218,060	13,961	13,882	5,556	19,438	14,549	3,318
Other Personal	5,600,875	167,422	104,528	5,109	109,637	158,633	39,452
Total Personal	5,818,935	181,383	118,410	10,665	129,075	173,182	42,770
Professional	429,459	-	-	128	128	2,082	2,975
New Economy	714,902	1,254	845	190	1,035	2,855	12,023
Infrastructure	882,307	-	-	61	61	3,110	5,521
Other	618,950	26,462	12,086	3,555	15,641	26,954	2,779
Total	25,128,081	684,311	410,051	216,454	626,505	865,500	479,020
<b>BANK</b>	<b>Gross</b>	<b>Impaired</b>	<b>Specific</b>	<b>Portfolio</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>Amount of</b>	<b>Loans</b>	<b>Provision</b>	<b>Provision</b>	<b>Total</b>	<b>Total</b>	<b>Total</b>
	<b>Loans</b>	<b>Loans</b>	<b>Provision</b>	<b>Provision</b>	<b>Provision</b>	<b>Provision</b>	<b>Provision</b>
	<b>MRs'000</b>	<b>MRs'000</b>	<b>MRs'000</b>	<b>MRs'000</b>	<b>MRs'000</b>	<b>MRs'000</b>	<b>MRs'000</b>
Agriculture and Fishing	606,730	8,953	6,085	809	6,894	9,741	4,705
EPZ	1,875,949	572	290	76,115	76,405	30,391	67,211
Other Manufacturing	2,011,737	125,794	69,666	41,366	111,032	124,100	121,968
Total Manufacturing	3,887,686	126,366	69,956	117,481	187,437	154,491	189,179
Tourism	4,438,581	23,132	7,439	4,946	12,385	45,880	54,562
Transport	297,552	16,327	11,652	309	11,961	12,124	3,941
Construction	1,316,200	90,167	52,028	19,813	71,841	203,229	22,290
Financial and Business Services	1,419,139	1,390	452	4,805	5,257	9,647	18,419
Traders	3,629,588	94,748	65,800	35,898	101,698	167,517	76,815
Credit Cards	218,060	13,961	13,882	5,556	19,438	14,549	3,318
Other Personal	5,543,610	167,422	104,528	4,608	109,136	158,399	39,404
Total Personal	5,761,670	181,383	118,410	10,164	128,574	172,948	42,722
Professional	415,136	-	-	-	-	2,082	2,780
New Economy	709,528	1,254	845	190	1,035	2,855	12,023
Infrastructure	866,732	-	-	61	61	2,950	5,521
Other	585,097	26,070	11,693	3,028	14,721	26,378	1,979
Total	23,933,639	569,790	344,360	197,504	541,864	809,842	434,936

Total impaired loans for 2004 for the Group and the Bank were MRs982 million (2003: MRs1,811 million) and MRs887 million (2003: MRs1,698 million) respectively.

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 7F. LOANS TO ENTITIES OUTSIDE MAURITIUS (BY MAURITIUS OPERATIONS)

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Banks	-	-	73,125	-	-	73,125
Other Entities	768,346	652,239	1,141,545	768,346	652,239	1,141,545
	<b>768,346</b>	<b>652,239</b>	<b>1,214,670</b>	<b>768,346</b>	<b>652,239</b>	<b>1,214,670</b>

## 7G. LOANS BY OVERSEAS OPERATIONS

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Government	-	-	13,823	-	-	-
Other Entities	2,319,098	2,155,137	2,033,890	1,480,406	1,595,079	1,162,074
	<b>2,319,098</b>	<b>2,155,137</b>	<b>2,047,713</b>	<b>1,480,406</b>	<b>1,595,079</b>	<b>1,162,074</b>

## 8. TANGIBLE FIXED ASSETS

GROUP	Freehold Land and Buildings MRs' 000	Leasehold Buildings MRs' 000	Other Tangible Fixed Assets MRs' 000	Motor Vehicles MRs' 000	Total MRs' 000
<b>Cost or Valuation</b>					
At 1 July 2004	332,701	616,902	2,055,579	14,864	3,020,046
Exchange Difference	12,832	-	2,652	118	15,602
Revaluation	210,352	919,762	-	-	1,130,114
Additions	797	-	96,377	4,136	101,310
Disposals	-	-	(4,003)	(2,854)	(6,857)
<b>At 30 June 2005</b>	<b>556,682</b>	<b>1,536,664</b>	<b>2,150,605</b>	<b>16,264</b>	<b>4,260,215</b>
<b>Accumulated Depreciation</b>					
At 1 July 2004	42,949	104,508	1,161,001	8,833	1,317,291
Exchange Difference	2,561	-	2,153	110	4,824
Revaluation	(48,021)	(104,508)	-	-	(152,529)
Disposals	-	-	(3,956)	(2,760)	(6,716)
Charge for the Year	8,383	38,120	196,608	2,187	245,298
<b>At 30 June 2005</b>	<b>5,872</b>	<b>38,120</b>	<b>1,355,806</b>	<b>8,370</b>	<b>1,408,168</b>
<b>Net Book Value</b>					
<b>At 30 June 2005</b>	<b>550,810</b>	<b>1,498,544</b>	<b>794,799</b>	<b>7,894</b>	<b>2,852,047</b>
Progress Payments on Tangible Fixed Assets					141,943
					<b>2,993,990</b>
At 30 June 2004	289,752	512,394	894,578	6,031	1,702,755
Progress Payments on Tangible Fixed Assets					56,351
					<b>1,759,106</b>
At 30 June 2003	291,525	492,539	904,607	2,143	1,690,814
Progress Payments on Tangible Fixed Assets					147,164
					<b>1,837,978</b>

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 8. TANGIBLE FIXED ASSETS (cont'd)

BANK	Freehold Land and Buildings MRs' 000	Leasehold Buildings MRs' 000	Other Tangible Fixed Assets MRs' 000	Motor Vehicles MRs' 000	Total MRs' 000
<b>Cost or Valuation</b>					
At 1 July 2004	332,701	616,902	2,040,530	13,714	3,003,847
Exchange Difference	12,832	-	2,332	79	15,243
Revaluation	210,352	919,762	-	-	1,130,114
Additions	797	-	61,006	4,136	65,939
Disposals	-	-	(3,939)	(2,854)	(6,793)
<b>At 30 June 2005</b>	<b>556,682</b>	<b>1,536,664</b>	<b>2,099,929</b>	<b>15,075</b>	<b>4,208,350</b>
<b>Accumulated Depreciation</b>					
At 1 July 2004	42,949	104,508	1,149,117	7,718	1,304,292
Exchange Difference	2,561	-	2,107	72	4,740
Revaluation	(48,021)	(104,508)	-	-	(152,529)
Disposals	-	-	(3,894)	(2,760)	(6,654)
Charge for the Year	8,383	38,120	192,526	2,151	241,180
<b>At 30 June 2005</b>	<b>5,872</b>	<b>38,120</b>	<b>1,339,856</b>	<b>7,181</b>	<b>1,391,029</b>
<b>Net Book Value</b>					
<b>At 30 June 2005</b>	<b>550,810</b>	<b>1,498,544</b>	<b>760,073</b>	<b>7,894</b>	<b>2,817,321</b>
<b>Progress Payments on Tangible Fixed Assets</b>					<b>141,825</b>
					<b>2,959,146</b>
At 30 June 2004	289,752	512,394	891,413	5,996	1,699,555
Progress Payments on Tangible Fixed Assets					55,250
					1,754,805
At 30 June 2003	291,525	492,539	899,450	1,885	1,685,399
Progress Payments on Tangible Fixed Assets					147,164
					1,832,563

Other tangible fixed assets include plant, machinery, fixtures, fittings and computer equipment.

For both the Group and the Bank, the net book value of assets held under finance leases is as follows:

	GROUP AND BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000
Computer Equipment	653,109	759,421	726,643
Plant & Machinery	5,884	4,254	14,428
Motor Vehicles	243	453	866
	<b>659,236</b>	<b>764,128</b>	<b>741,937</b>



## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

### 8. TANGIBLE FIXED ASSETS (cont'd)

The carrying amounts of Land and Buildings that would have been included in the financial statements at 30 June 2005 had the assets been carried at cost are as follows:-

	GROUP AND BANK MRs'000
Freehold Land and Buildings	295,980
Leasehold Buildings	500,057
	<u>796,037</u>

The freehold land and buildings and buildings on leasehold land in Mauritius were revalued as at 1 July 2004 by Mr P. Ramrekha M.Sc. F.R.I.C.S, Chartered Valuation Surveyor, on an open market value basis. The freehold land and building in India were valued on 30 June 2005 by the following Chartered Valuation Surveyors on an open market value basis:

- Mr P.R. Seshadri, M.E, F.I.E, F.I.V, C. Eng
- Mr Rajiv Mishra, M.E, F.I.I.A, A.I.T.P, A.I.I.D, F.I.V
- Mr Manohar Rao, M. Tech, F.I.E, F.I.V

### 9. OTHER ASSETS

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Accounts Receivable	172,993	47,806	34,484	167,836	37,489	28,051
Balances due in Clearing	173,339	116,435	270,601	161,202	113,235	217,830
Tax Paid in Advance	130,949	113,662	100,391	130,949	113,662	100,391
Financial Derivative Asset (Note 20)	78,315	90,398	142,333	78,514	90,398	142,333
Pension Asset (Note 10)	14,752	1,694	23,095	14,752	1,694	21,338
Balance with Clearing Corporation in India	15,362	16,722	36,416	15,362	16,722	36,416
Printing, Stationery and Others	60,216	39,172	26,928	51,685	37,471	24,474
	<b>645,926</b>	<b>425,889</b>	<b>634,248</b>	<b>620,300</b>	<b>410,671</b>	<b>570,833</b>

The tax paid in advance is incurred by the Indian Operations and is a requirement under Indian tax regulations. The amount is shown net of the current tax payable by the Indian Operations.

### 10. PENSION ASSET

Amount recognised in the Balance Sheet:

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Present Value of Funded Obligations	319,115	321,197	330,523	319,115	321,197	310,327
Fair Value of Plan Assets	(346,722)	(309,386)	(295,840)	(346,722)	(309,386)	(277,320)
	(27,607)	11,811	34,683	(27,607)	11,811	33,007
Unrecognised Actuarial Gains/(Losses)	12,855	(13,505)	(57,778)	12,855	(13,505)	(54,345)
Asset in the Balance Sheet	(14,752)	(1,694)	(23,095)	(14,752)	(1,694)	(21,338)

At 30 June 2005, about 7.81% (2004: 0.40%) (2003: 1.24%) of the total assets of the SBM Group Pension Fund were invested in shares of State Bank of Mauritius Ltd.

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

### 10. PENSION ASSET (cont'd)

Amount recognised in the Profit and Loss Accounts:

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Current Service Cost	16,096	16,593	16,749	16,096	16,593	15,258
Interest Cost	29,913	34,476	31,390	29,913	34,476	29,518
Expected Return on Plan Assets	(30,126)	(30,835)	(32,761)	(30,126)	(30,835)	(30,633)
Actuarial Loss/(Gain) recognised	-	1,167	558	-	1,167	558
<b>Total included in Staff Costs (Note 24)</b>	<b>15,883</b>	<b>21,401</b>	<b>15,936</b>	<b>15,883</b>	<b>21,401</b>	<b>14,701</b>
Actual Return on Plan Assets	25,122	16,078	26,320	25,122	16,078	25,514

Movements in the asset recognised in the Balance Sheet:

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
At 1 July	(1,694)	(23,095)	(39,031)	(1,694)	(21,338)	(36,039)
Transfer from SBM IT Ltd	-	-	-	-	(1,757)	-
Contributions paid	(28,941)	-	-	(28,941)	-	-
Total Expense as above	15,883	21,401	15,936	15,883	21,401	14,701
<b>At 30 June</b>	<b>(14,752)</b>	<b>(1,694)</b>	<b>(23,095)</b>	<b>(14,752)</b>	<b>(1,694)</b>	<b>(21,338)</b>

The principal actuarial assumptions used for accounting purposes were:

	GROUP AND BANK		
	2005 %	2004 %	2003 %
Discount Rate	9.5	9.5	10.5
Expected Rate of Return on Plan Assets	9.5	9.5	10.5
Future Salary Cost Increases	8.0	8.0	9.0
Future Pension Increases	-	-	-

Pension amounts and disclosures have been based on the report dated 8 August 2005 submitted by Bacon Woodrow & Legris Ltd, Actuaries and Consultants.

### 11. DEPOSITS

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
<b>Personal, Business and Governments</b>						
Demand Deposits	2,494,383	2,525,102	2,468,540	2,333,632	2,363,702	2,212,324
Savings Deposits	21,215,566	18,444,208	15,483,145	21,163,147	18,442,693	15,567,749
Time Deposits with remaining Term to Maturity:						
- Within 3 months	4,050,051	3,835,598	3,764,163	3,706,947	3,126,857	3,354,833
- Over 3 months and up to 6 months	1,741,262	1,722,364	1,647,364	1,258,606	1,475,647	1,255,826
- Over 6 months and up to 1 year	2,419,400	2,924,718	2,454,789	2,091,599	2,520,156	2,052,354
- Over 1 year and up to 2 years	1,923,756	2,432,586	2,606,355	1,342,787	1,974,908	1,871,132
- Over 2 years and up to 5 years	1,051,259	905,630	752,463	928,565	789,513	675,659
- Over 5 years	4,914	5,404	5,316	4,914	5,404	5,316
<b>Total</b>	<b>34,900,591</b>	<b>32,795,610</b>	<b>29,182,135</b>	<b>32,830,197</b>	<b>30,698,880</b>	<b>26,995,193</b>
<b>Banks</b>						
Demand Deposits	100,216	76,643	-	100,739	80,135	49,725
<b>Total</b>	<b>35,000,807</b>	<b>32,872,253</b>	<b>29,182,135</b>	<b>32,930,936</b>	<b>30,779,015</b>	<b>27,044,918</b>

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 12. BORROWINGS FROM CENTRAL BANKS

	2005	GROUP	2003	2005	BANK	2003
	MRs'000	2004	MRs'000	MRs'000	2004	MRs'000
		MRs'000	MRs'000		MRs'000	MRs'000
Borrowings under Refinance Scheme from Bank of Mauritius under Special Line of Credit by SBM Lease Ltd	-	1,167	3,785	-	-	-
Other Special Refinance Schemes from Bank of Mauritius	247,829	341,531	393,664	247,829	341,531	393,664
	<b>247,829</b>	<b>342,698</b>	<b>397,449</b>	<b>247,829</b>	<b>341,531</b>	<b>393,664</b>

	2005	GROUP	2003	2005	BANK	2003
	MRs'000	2004	MRs'000	MRs'000	2004	MRs'000
		MRs'000	MRs'000		MRs'000	MRs'000
<b>Remaining Term to Maturity</b>						
Within 3 months	37,786	30,670	5,837	37,786	30,670	4,624
Over 3 months and up to 6 months	30,148	30,776	12,191	30,148	29,609	11,729
Over 6 months and up to 12 months	61,762	60,648	38,469	61,762	60,648	37,517
Over 1 year and up to 2 years	67,809	127,256	122,780	67,809	127,256	121,622
Over 2 years and up to 5 years	50,324	93,348	218,172	50,324	93,348	218,172
	<b>247,829</b>	<b>342,698</b>	<b>397,449</b>	<b>247,829</b>	<b>341,531</b>	<b>393,664</b>

## 13. BORROWINGS FROM OTHER BANKS

	2005	GROUP	2003	2005	BANK	2003
	MRs'000	2004	MRs'000	MRs'000	2004	MRs'000
		MRs'000	MRs'000		MRs'000	MRs'000
<b>Remaining Term to Maturity</b>						
Within 3 months	2,765,600	1,813,022	2,347,247	2,760,148	1,812,732	2,347,247
Over 3 months and up to 6 months	518,084	78,820	205,922	518,084	78,820	205,922
	<b>3,283,684</b>	<b>1,891,842</b>	<b>2,553,169</b>	<b>3,278,232</b>	<b>1,891,552</b>	<b>2,553,169</b>

**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****14. TAXATION****14A CURRENT TAXATION**

	<b>GROUP</b>			<b>BANK</b>		
	<b>2005</b> MRs'000	<b>2004</b> MRs'000	<b>2003</b> MRs'000	<b>2005</b> MRs'000	<b>2004</b> MRs'000	<b>2003</b> MRs'000
Accounting Profit	<b>1,501,299</b>	1,365,513	1,186,413	<b>1,493,932</b>	1,360,433	1,182,912
Tax on Accounting Profit at the applicable Tax Rate	<b>375,325</b>	341,378	296,603	<b>373,483</b>	340,108	295,728
Net Tax Effect of Non-taxable and Other Items	<b>(175,642)</b>	(284,513)	(201,675)	<b>(197,757)</b>	(300,004)	(215,549)
Current Tax Provision for the Year	<b>199,683</b>	56,865	94,928	<b>175,726</b>	40,104	80,179
Current Tax Liability	<b>185,088</b>	56,519	78,433	<b>161,699</b>	39,113	60,633

The current tax liability is stated after deducting the current tax payable by the Indian Operations which is set off against tax paid in advance.

The applicable tax rate for the Bank in Mauritius is 25%.

**14B DEFERRED TAXATION**

	<b>GROUP</b>			<b>BANK</b>		
	<b>2005</b> MRs'000	<b>2004</b> MRs'000	<b>2003</b> MRs'000	<b>2005</b> MRs'000	<b>2004</b> MRs'000	<b>2003</b> MRs'000
<b>Deferred Tax Liability</b>						
<b>At 1 July</b>						
- As Previously Stated	<b>51,411</b>	134,179	70,135	<b>51,393</b>	133,790	69,470
- Effect of Applying IAS 39	-	(238,326)	-	-	(238,326)	-
- As Restated	<b>51,411</b>	(104,147)	70,135	<b>51,393</b>	(104,536)	69,470
Exchange Difference	<b>1,210</b>	(65)	81	<b>1,210</b>	(65)	81
Transfer from SBM IT Ltd in respect of Pension Asset	-	-	-	-	264	-
Deferred Tax charged to Property Revaluation Reserve	<b>298,639</b>	-	-	<b>298,639</b>	-	-
Deferred Tax Expense	<b>132,064</b>	155,623	63,963	<b>133,658</b>	155,730	64,239
<b>At 30 June</b>	<b>483,324</b>	51,411	134,179	<b>484,900</b>	51,393	133,790
Analysed as resulting from:						
Accelerated Capital Allowances	<b>203,853</b>	196,223	145,805	<b>203,662</b>	196,205	145,679
Pension Asset and Other Employee Benefits	<b>550</b>	(2,057)	1,869	<b>550</b>	(2,057)	1,606
Specific Provision for Credit Losses	<b>(8,675)</b>	(143,345)	-	<b>(8,675)</b>	(143,345)	-
Portfolio Provision for Credit Losses	<b>(51,603)</b>	(47,868)	(59,642)	<b>(49,836)</b>	(47,868)	(59,642)
Tax Deduction for Advances to Tax Incentive Companies	<b>47,891</b>	48,458	46,147	<b>47,891</b>	48,458	46,147
Revaluation Surplus of Buildings	<b>291,308</b>	-	-	<b>291,308</b>	-	-
	<b>483,324</b>	51,411	134,179	<b>484,900</b>	51,393	133,790

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 14C TAX EXPENSE

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Current Tax Provision for the Year	199,683	56,865	94,928	175,726	40,104	80,179
Exchange Difference	(99)	1,647	(2,270)	(891)	262	(1,714)
(Over)/Underprovision in Previous Year	(39,985)	15,385	(4,219)	(39,113)	15,363	(4,221)
Withholding Tax on Dividend	563	653	2,368	-	-	-
Share of Tax of Subsidiaries and Associates	12,640	5,168	10,844	33,338	22,454	26,212
Current Tax Expense	172,802	79,718	101,651	169,060	78,183	100,456
Deferred Tax Expense	132,064	155,623	63,963	133,658	155,730	64,239
Total Tax Expense	304,866	235,341	165,614	302,718	233,913	164,695

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

	GROUP		
	2005 MRs'000	2004 MRs'000	2003 MRs'000
In Mauritius, excluding Share of Tax of Associates	269,379	211,080	128,469
Overseas	22,847	19,093	26,301
Share of Tax of Associates	12,640	5,168	10,844
Total Tax Expense	304,866	235,341	165,614

## 15. OBLIGATIONS UNDER FINANCE LEASES

BANK	Within 3 months MRs'000	3-6 months MRs'000	6-12 months MRs'000	1-2 years MRs'000	2-5 years MRs'000	Total MRs'000
<b>2005</b>						
Minimum Lease Payments	65,430	65,399	130,798	266,097	210,629	738,353
Less: Future Finance Charges	(17,430)	(16,014)	(27,615)	(36,325)	(19,565)	(116,949)
Capital Element – due to SBM Lease Ltd	48,000	49,385	103,183	229,772	191,064	621,404
<b>2004</b>						
Minimum Lease Payments	62,239	62,239	124,479	248,880	425,735	923,572
Less: Future Finance Charges	(21,172)	(19,958)	(36,129)	(56,035)	(46,318)	(179,612)
Capital Element – due to SBM Lease Ltd	41,067	42,281	88,350	192,845	379,417	743,960
<b>2003</b>						
Minimum Lease Payments	58,231	58,231	126,686	212,241	525,049	980,438
Less: Future Finance Charges	(22,412)	(21,308)	(38,875)	(63,323)	(74,159)	(220,077)
Capital Element – due to SBM Lease Ltd	35,819	36,923	87,811	148,918	450,890	760,361

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 16. OTHER LIABILITIES

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Bills Payable	106,981	100,217	86,253	104,706	95,586	84,391
Accruals for Operating and Non-Operating Expenses	58,655	90,983	50,351	58,301	90,786	50,102
Dividend Payable (Note 26)	422,568	390,063	357,638	422,568	390,063	357,638
Settlements on Debit Cards	11,212	4,328	6,981	11,212	4,328	6,981
Accounts Payable						
- Subsidiaries	-	-	-	-	-	21,195
- Others	75,115	53,218	67,417	42,090	26,177	32,412
Deferred Income	18,259	14,713	12,645	17,512	14,597	14,284
Balance due in Clearing	209,225	133,786	174,017	173,982	133,786	174,017
Salary Credit Transition Accounts	97,829	38,409	65,553	97,829	38,409	65,553
Financial Derivative Liability (Note 20)	119,316	45,758	72,852	119,731	45,758	72,852
Others	15,622	18,396	11,945	14,278	18,396	11,945
	<b>1,134,782</b>	<b>889,871</b>	<b>905,652</b>	<b>1,062,209</b>	<b>857,886</b>	<b>891,370</b>

## 17. ORDINARY SHARE CAPITAL

## GROUP AND BANK

	2005 MRs'000	2004 MRs'000	2003 MRs'000
Authorised Capital			
1,000,000,000 Ordinary Shares of MRe1 each	1,000,000	1,000,000	1,000,000

	2005		2004		2003	
	Number*	MRs'000	Number*	MRs'000	Number*	MRs'000
<b>Issued, Subscribed and Paid up Share Capital</b>						
At 1 July	382,414,470	382,414	382,500,000	382,500	382,500,000	382,500
Shares bought back and cancelled	-	-	(72,700)	(73)	-	-
Treasury Shares cancelled	-	-	(12,830)	(13)	-	-
At 30 June	<b>382,414,470</b>	<b>382,414</b>	<b>382,414,470</b>	<b>382,414</b>	<b>382,500,000</b>	<b>382,500</b>
<b>Treasury Shares held</b>						
At 1 July	57,362,170	57,362	46,296,999	46,297	19,125,000	19,125
Shares bought back and held as Treasury Shares	-	-	11,078,001	11,078	27,171,999	27,172
Treasury Shares cancelled	-	-	(12,830)	(13)	-	-
At 30 June	<b>57,362,170</b>	<b>57,362</b>	<b>57,362,170</b>	<b>57,362</b>	<b>46,296,999</b>	<b>46,297</b>
<b>Outstanding Share Capital</b>						
At 1 July	325,052,300	325,052	336,203,001	336,203	363,375,000	363,375
Shares bought back and held as Treasury Shares	-	-	(11,078,001)	(11,078)	(27,171,999)	(27,172)
Shares bought back and cancelled	-	-	(72,700)	(73)	-	-
At 30 June	<b>325,052,300</b>	<b>325,052</b>	<b>325,052,300</b>	<b>325,052</b>	<b>336,203,001</b>	<b>336,203</b>

\* The number of shares relate to ordinary shares of MRe1 each.

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

### 17. ORDINARY SHARE CAPITAL (cont'd)

As at 30 June 2003, the Bank had bought back and held as Treasury shares 46,296,999 of its own shares. A further 11,078,001 shares were bought back during the month of July 2003 at prices ranging from MRs15.60 to MRs17.10 (an average of MRs16.86) per share, bringing total shares bought back and held as Treasury Shares to 57,375,000 at the end of July 2003. Treasury shares are not eligible for voting and dividend.

In November 2003, the Bank started a third Share Buy Back Programme, under which shares purchased were cancelled immediately on acquisition. As at 30 June 2004, 72,700 shares had been purchased at an average of MRs20.16 per share and an additional 12,830 shares had been cancelled from the Treasury Shares Account so as to keep the percentage of Treasury shares to issued shares within the limit of 15% in accordance with the Companies Act 2001.

No shares were bought back during the financial year ended 30 June 2005.

The Share Buy Back programme approved by shareholders lapsed on 17 May 2005.

The total cost of the purchase of shares, including brokerage and other fees, has been deducted from Shareholders' Equity, more specifically from Share Capital, Share Premium and Revenue Reserve.

### 18. RESERVES AND SURPLUS

	GROUP AND BANK		
	2005 MRs' 000	2004 MRs' 000	2003 MRs' 000
Statutory Reserve	480,249	465,825	455,865
Revenue Reserve	4,672,218	3,895,258	4,077,654
Unrealised Investment Fair Value Reserve	1,460,494	1,246,673	1,845
Investment Fluctuation Reserve	58,356	53,868	36,938
Property Revaluation Reserve	962,010	-	-
Translation Reserve	153,632	76,901	170,957
Other Reserve	70,810	71,088	59,430
	<b>7,857,769</b>	<b>5,809,613</b>	<b>4,802,689</b>

Investment Fluctuation Reserve is a reserve created by the appropriation of retained earnings of the Indian Operations required by Indian regulatory authorities.

Other Reserve represents the Group's and the Bank's share of Other Reserve of Associates.

Movements in Reserves and Surplus are shown in the Statement of Changes in Equity.

**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****19. CONTINGENT LIABILITIES AND COMMITMENTS****19A. ACCEPTANCES, GUARANTEES, LETTERS OF CREDIT, ENDORSEMENTS AND OTHER OBLIGATIONS ON ACCOUNT OF CUSTOMERS**

	<b>GROUP</b>			<b>BANK</b>		
	<b>2005</b> <b>MRs'000</b>	<b>2004</b> <b>MRs'000</b>	<b>2003</b> <b>MRs'000</b>	<b>2005</b> <b>MRs'000</b>	<b>2004</b> <b>MRs'000</b>	<b>2003</b> <b>MRs'000</b>
Letters of Credit	<b>1,042,309</b>	872,747	882,781	<b>989,202</b>	745,363	744,807
Guarantees	<b>3,309,218</b>	2,928,224	2,706,896	<b>3,273,299</b>	2,772,940	2,669,328
Acceptances and Endorsements	<b>662,862</b>	811,765	347,957	<b>507,307</b>	794,073	319,137
	<b>5,014,389</b>	4,612,736	3,937,634	<b>4,769,808</b>	4,312,376	3,733,272
Other	-	-	54,692	-	-	54,692
	<b>5,014,389</b>	4,612,736	3,992,326	<b>4,769,808</b>	4,312,376	3,787,964

**19B. CREDIT COMMITMENTS**

	<b>GROUP</b>			<b>BANK</b>		
	<b>2005</b> <b>MRs'000</b>	<b>2004</b> <b>MRs'000</b>	<b>2003</b> <b>MRs'000</b>	<b>2005</b> <b>MRs'000</b>	<b>2004</b> <b>MRs'000</b>	<b>2003</b> <b>MRs'000</b>
Undrawn Credit Facilities	<b>2,772,432</b>	3,465,270	3,962,171	<b>2,499,278</b>	3,203,172	3,506,747

**19C. LITIGATION**

There is since May 2003 a legal action brought about by The Mauritius Commercial Bank Ltd ("MCB") against 38 parties, including SBM and two other local banks, in connection with what is known as the MCB/NPF affair. Based on legal advice, the directors of SBM are of the view that the allegations are unfounded and that no liability is expected to arise therefrom. Accordingly, no provision has been made in the financial statements in this respect.

**19D. ASSETS PLEDGED**

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

	<b>GROUP AND BANK</b>		
	<b>2005</b> <b>MRs' 000</b>	<b>2004</b> <b>MRs' 000</b>	<b>2003</b> <b>MRs' 000</b>
Treasury Bills	<b>1,320,392</b>	1,105,828	903,000



## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 19E. CAPITAL COMMITMENTS

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Approved and contracted for	52,425	21,500	137,860	52,425	21,500	137,860
Approved and not contracted for	28,866	17,570	29,495	28,750	15,823	29,495

## 19F. OPERATING LEASE COMMITMENTS

## GROUP AND BANK

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

	GROUP AND BANK		
	2005 MRs' 000	2004 MRs' 000	2003 MRs' 000
Within 1 Year	10,204	7,746	8,211
After 1 Year and before 5 Years	7,359	8,491	12,341
After 5 Years	667	320	400
	18,230	16,557	20,952

## 20. FINANCIAL DERIVATIVES

2005	GROUP			
	Notional Principal Amount MRs'000	Fair Values		
		Positive MRs'000	Negative MRs'000	Net MRs'000
Forward Foreign Exchange Contracts	4,743,368	76,724	(117,924)	(41,200)
Spot Foreign Exchange Contracts not yet delivered	690,091	431	(514)	(83)
Currency Options and Futures Contracts	43,667	425	-	425
Interest Rate Swap Contracts	1,501,963	735	(878)	(143)
	6,979,089	78,315	(119,316)	(41,001)

	BANK			
	Notional Principal Amount MRs'000	Fair Values		
		Positive MRs'000	Negative MRs'000	Net MRs'000
Forward Foreign Exchange Contracts	4,778,244	76,923	(118,328)	(41,405)
Spot Foreign Exchange Contracts not yet delivered	682,845	431	(525)	(94)
Currency Options and Futures Contracts	43,667	425	-	425
Interest Rate Swap Contracts	1,501,963	735	(878)	(143)
	7,006,719	78,514	(119,731)	(41,217)

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 20. FINANCIAL DERIVATIVES (cont'd)

2004	Notional Principal Amount MRs'000	GROUP AND BANK		
		Positive MRs'000	Fair Values Negative MRs'000	Net MRs'000
Forward Foreign Exchange Contracts	5,142,417	89,413	(44,967)	44,446
Spot Foreign Exchange Contracts not yet delivered	245,807	905	(341)	564
Interest Rate Swap Contracts	399,558	80	(450)	(370)
	<b>5,787,782</b>	<b>90,398</b>	<b>(45,758)</b>	<b>44,640</b>

2003	Notional Principal Amount MRs'000	GROUP AND BANK		
		Positive MRs'000	Fair Values Negative MRs'000	Net MRs'000
Forward Foreign Exchange Contracts	4,711,097	136,433	(67,080)	69,353
Spot Foreign Exchange Contracts not yet delivered	937,683	5,900	(5,772)	128
Interest Rate Swap Contracts	126,100	*	*	*
	<b>5,774,880</b>	<b>142,333</b>	<b>(72,852)</b>	<b>69,481</b>

\* 2003 fair values for interest rate swap contracts not determined.

## 21. INTEREST INCOME

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Loans and Advances	<b>2,300,563</b>	2,132,163	2,212,493	<b>2,145,708</b>	1,979,785	2,058,268
Investment Securities	<b>612,427</b>	716,048	630,689	<b>564,346</b>	652,963	571,142
Trading Securities	<b>5,333</b>	62,661	85,473	<b>5,333</b>	62,661	85,473
Gilt-edged Securities	<b>617,760</b>	778,709	716,162	<b>569,679</b>	715,624	656,615
Placements with Banks	<b>152,880</b>	71,251	74,888	<b>145,028</b>	68,581	71,555
	<b>3,071,203</b>	2,982,123	3,003,543	<b>2,860,415</b>	2,763,990	2,786,438

The interest on Loans and Advances includes interest on debentures to which the Bank has subscribed and which are treated as Loans and Advances by the Bank.

## 22. PROVISIONS AND ADJUSTMENTS TO INCOME FOR CREDIT LOSSES

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Interest accrued on Impaired Advances (Note 7D)	<b>(26,387)</b>	(26,103)	-	<b>(26,387)</b>	(26,103)	-
Portfolio and Specific Provisions (Note 7D)	<b>72,085</b>	179,734	94,698	<b>44,870</b>	143,231	80,156
Bad Debts written off for which no Provisions were made	<b>39,999</b>	12,968	49,772	<b>39,999</b>	12,968	48,895
Recoveries of Advances written off	<b>(7,084)</b>	(2,198)	(853)	<b>(7,085)</b>	(2,198)	(853)
	<b>78,613</b>	164,401	143,617	<b>51,397</b>	127,898	128,198

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

### 23. NET FEE AND COMMISSION INCOME

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Loan-related						
- Letters of Credit and Acceptances	48,474	54,117	42,784	32,555	35,759	27,339
- Others	11,950	8,460	6,812	10,581	8,460	6,812
Credit Cards	86,350	50,979	29,453	86,350	50,979	29,453
Guarantees	28,138	19,642	19,580	27,937	19,642	19,580
Service Charges	161,004	133,448	109,261	152,456	130,185	104,238
Other	73,501	62,888	54,083	52,405	47,868	43,305
Total Fee and Commission Income	409,417	329,534	261,973	362,284	292,893	230,727
Fee and Commission Expense	(8,528)	(9,413)	(8,992)	(7,677)	(8,546)	(7,864)
	400,889	320,121	252,981	354,607	284,347	222,863

### 24. NON-INTEREST EXPENSE

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Staff Costs	403,378	483,739	367,913	397,411	477,940	360,422
Property Costs	142,503	140,535	165,593	131,154	131,488	156,366
System Costs	272,966	199,993	167,671	264,220	197,683	163,343
Other	102,949	80,734	67,685	97,831	77,213	61,965
	921,796	905,001	768,862	890,616	884,324	742,096
Number of Employees at Balance Sheet Date, including Trainees	901	887	877	756	745	745

For both the Group and the Bank, staff costs include a defined contribution pension expense of MRs6.9 million (2004: MRs4.2 million) (2003: MRs4.8 million). Staff costs for 2004 include one-time costs of MRs88 million.

### 25. NET INCOME AFTER INCOME TAXES

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Net Income after Income Taxes is arrived at after charging:						
Operating Lease Rentals	28,417	23,801	22,272	21,941	17,858	17,131
Auditors' Remuneration (Audit Fee)						
- Principal Auditors	3,331	3,310	3,020	3,131	3,131	2,846
- Other Auditors	422	406	433	185	127	112

**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****26. DIVIDEND PAYABLE**

	GROUP AND BANK		
	2005 MRs' 000	2004 MRs' 000	2003 MRs' 000
Balance at Beginning of Year	390,063	357,638	363,375
Dividend Paid	(390,063)	(357,558)	(363,270)
Amount Written Back	-	(80)	(105)
Dividend declared during the Year: 130 Cents (2004: 120 Cents) (2003: 110 Cents) per Share	422,568	390,063	357,638
Net Amount of Change in Equity	422,568	389,983	357,533
Balance at End of Year	422,568	390,063	357,638

**27. EARNINGS PER SHARE**

	GROUP AND BANK		
	2005 MRs' 000	2004 MRs' 000	2003 MRs' 000
Net Income available to Shareholders	1,191,214	1,126,520	1,018,217
Weighted Average Number of Outstanding Shares entitled to Dividends (thousands)	325,052	325,282	358,899
Earnings per Share (Cents)	366	346	284

**28. ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS**

	GROUP			BANK		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
Cash and Balances with Central Banks	1,894,720	2,040,409	1,924,269	1,672,411	2,012,529	1,844,978
Balances with Banks	6,378,422	2,090,179	2,364,703	6,360,702	1,788,798	2,101,587
	8,273,142	4,130,588	4,288,972	8,033,113	3,801,327	3,946,565
Borrowings from Banks maturing within 3 Months	(2,765,600)	(1,813,022)	(2,347,247)	(2,760,148)	(1,812,732)	(2,347,247)
	5,507,542	2,317,566	1,941,725	5,272,965	1,988,595	1,599,318

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 29. RELATED PARTY TRANSACTIONS

	Key Management Personnel			Associates and other Entities in which the Group has Significant Influence* *			Entities (including their Subsidiaries) which have Significant Influence * *			Entities in which Directors, other Key Management Personnel and their Close Family Members have Significant Influence		
	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000	2005 MRs'000	2004 MRs'000	2003 MRs'000
<b>(a) Credit Facilities</b>												
<b>(i) Loans to directors</b>												
Balance at beginning of year	1,946	163	179									
Loans to directors who resigned during the year	-	-	(179)									
Loans granted during the year	-	125	-									
Existing loans of newly appointed directors	19	2,089	221									
Repayments	(338)	(431)	(58)									
Balance at end of year	1,627	1,946	163									
<b>(ii) Loans to other related parties</b>												
Balance at beginning of year												
Loans of Key management personnel who resigned during the year	(38)	(2,285)	-									
Loans to entities in which directors who resigned during the year have significant influence	-	-	-									
Loans granted during the year	10,225	6,507	3,793									
Existing loans of newly appointed key management personnel	954	-	400									
Loans to entities who ceased to be related parties during the year	-	-	-									
Existing loans of new related parties	(3,454)	(3,662)	(3,524)									
Repayments	31,165	23,478	22,918									
Balance at end of year				668,571	780,000	-	1,451,647	1,039,275	1,051,470	220,196	104,884	61,228
<b>(iii) Other advances</b>												
Balance at end of year	1,157	132	50									
<b>(iv) Off-balance sheet items</b>												
Balance at end of year	-	-	-	260,488	263,355	127,666	979,652	792,209	773,263	88,720	75,926	93,104

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 29. RELATED PARTY TRANSACTIONS (cont'd)

	Key Management Personnel				Associates and other Entities in which the Group has Significant Influence**			Entities (including their Subsidiaries) which have Significant Influence** in the Group			Entities in which Directors, other Key Management Personnel and their Close Family Members have Significant Influence		
	Directors*		Others*		Significant Influence**			Significant Influence**			Significant Influence		
	2005	2004	2005	2004	2005	2004	2003	2005	2004	2003	2005	2004	2003
MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000
<b>(b) Placements</b>													
Balance at end of year	-	-	-	-	762	-	-	458,457	282,241	786,917	-	-	-
<b>(c) Borrowings</b>													
Balance at end of year	-	-	-	-	387,667	61,482	59,050	591,811	276,813	364,716	-	-	-
<b>(d) Deposits</b>													
Balance at end of year	23,797	37,147	59,742	18,830	19,925	18,560	18,830	373,215	111,919	144,343	3,892,474	3,789,237	4,006,400
<b>(e) Interest income</b>													
Loans and advances	150	191	70	1,987	1,968	1,825	1,987	28,414	69,196	142	156,868	222,845	195,799
Placements	-	-	-	-	353	-	-	21,228	36,236	13,043	178,096	259,081	208,842
	150	191	70	1,987	1,968	1,825	1,987	28,767	69,196	142	178,096	259,081	208,842
<b>(f) Interest expense</b>													
Deposits	1,659	1,229	2,137	814	707	583	814	12,492	8,438	6,215	201,761	197,303	175,647
Borrowings	-	-	-	-	-	-	-	10,644	2,559	1,299	38,835	30,579	11,777
	1,659	1,229	2,137	814	707	583	814	23,136	10,997	7,514	240,596	227,882	187,424
<b>(g) Other income</b>													
	14	-	-	71	48	51	71	4,891	5,006	3,312	33,560	68,437	53,247
<b>(h) Purchase of goods &amp; services</b>													
	-	-	500	-	-	-	-	20,561	19,521	18,583	46,691	36,621	36,154
<b>(i) Buy back of own shares</b>													
	-	-	-	-	-	-	-	-	-	48,955	-	-	121,376
<b>(j) Emoluments</b>													
	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-

Emoluments including benefits of key management personnel (including directors) for the year amounted to MRS85.3 Million (2004: MRS118.6 million). (2003: MRS95.5 million)

The above related party transactions were carried at market terms and conditions, with the exception of loans to key management personnel excluding directors, which were at preferential staff interest rates.

\* Including close family members.

\*\* For the purpose of disclosure of credit facilities with related parties and interest income thereon, entities in which the Group has significant influence and entities which have significant influence in the Group include those in which they have at least a 10% shareholding (as required by the Bank of Mauritius Guideline on Related Parties).

**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****30. PHANTOM SHARE OPTIONS**

The Bank 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 Bank performance. The option price is the market price of the share at a discount. Options are exercisable after three years and within ten years of the date of allocation of the options subject to certain conditions including the following:

- (i) At the end of the tenth year, all outstanding options lapse.
- (ii) In any one year, not more than 15% of the options can be exercised.

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.

Movements in the number of Phantom share options:

	GROUP AND BANK		
	2005 MRs' 000	2004 MRs' 000	2003 MRs' 000
Outstanding at beginning of the year	622,595	755,475	668,330
Allocated during the year	279,000	-	250,000
Lapsed during the year	-	(63,305)	(52,855)
Exercised during the year	(75,630)	(69,575)	(110,000)
Outstanding at end of the year	<b>825,965</b>	<b>622,595</b>	<b>755,475</b>

Included in staff costs (Note 24) is an amount of MRs1,027,200 (2004: MRs494,775) (2003: MRs402,000) paid on the exercise of Phantom share options during the year.

Terms of the phantom share options outstanding as at 30 June 2005:

Expiry Date	GROUP AND BANK	
	Number	Option Price (MRs)
June 30, 2008	53,415	18.00
June 30, 2009	49,800	13.00
June 30, 2010	85,750	10.00
June 30, 2011	153,000	10.00
June 30, 2012	205,000	10.00
June 30, 2014	279,000	20.00
	<b>825,965</b>	

As at 30 June 2005, the potential liability was not significant.

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

### 31. CURRENCY RISK

The tables below analyse the Group's and the Bank's currency risk exposure at 30 June 2005 and 30 June 2004.

#### GROUP

At 30 June 2005

	MUR MRs'000	USD MRs'000	GBP MRs'000	EURO MRs'000	INR MRs'000	OTHER MRs'000	TOTAL MRs'000
<b>ASSETS</b>							
Cash and Balances with Central Banks	1,573,053	14,473	5,749	15,498	60,492	225,455	1,894,720
Balances with Other Banks	348,660	2,655,410	1,864,658	1,311,892	7,263	190,539	6,378,422
Investments in Subsidiaries and Associates	314,110	361,655	-	-	-	-	675,765
Other Equity Investments	1,635,290	17,327	-	-	-	331	1,652,948
Placements	-	335,958	60,088	-	70,215	-	466,261
Investments in Gilt-edged Securities	8,424,889	-	-	-	926,676	45,867	9,397,432
Securities, Placements and Other Investments	10,374,289	714,940	60,088	-	996,891	46,198	12,192,406
Loans and Advances	19,962,359	1,551,918	13,703	811,651	1,410,383	751,562	24,501,576
Tangible Fixed Assets	2,825,966	-	-	-	137,848	30,176	2,993,990
Other Assets	257,101	206,148	2,574	4,654	153,601	21,848	645,926
<b>TOTAL ASSETS</b>	<b>35,341,428</b>	<b>5,142,889</b>	<b>1,946,772</b>	<b>2,143,695</b>	<b>2,766,478</b>	<b>1,265,778</b>	<b>48,607,040</b>
<b>LIABILITIES</b>							
Deposits	26,093,385	2,548,785	1,911,497	2,104,828	1,356,091	986,221	35,000,807
Borrowings from Central Banks	247,829	-	-	-	-	-	247,829
Borrowings from Other Banks	-	2,120,567	47,527	690,822	424,768	-	3,283,684
Other Borrowings	-	-	-	-	67,697	-	67,697
Current Tax Liability	174,497	1,332	-	-	-	9,259	185,088
Deferred Tax Liability	464,153	-	-	-	19,171	-	483,324
Other Liabilities	936,003	69,429	2,594	57,624	25,536	43,596	1,134,782
<b>TOTAL LIABILITIES</b>	<b>27,915,867</b>	<b>4,740,113</b>	<b>1,961,618</b>	<b>2,853,274</b>	<b>1,893,263</b>	<b>1,039,076</b>	<b>40,403,211</b>
Net Assets	7,425,561	402,776	(14,846)	(709,579)	873,215	226,702	8,203,829
Shareholders' Equity and Minority Interest	(7,599,613)	(126,885)	-	-	(418,839)	(58,492)	(8,203,829)
Net on balance sheet position	(174,052)	275,891	(14,846)	(709,579)	454,376	168,210	-
Off balance sheet net notional position	-	173,086	22,942	726,054	(54,104)	(30,906)	837,072
	(174,052)	448,977	8,096	16,475	400,272	137,304	837,072



## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 31. CURRENCY RISK (cont'd)

## GROUP

At 30 June 2004

	MUR MRs'000	USD MRs'000	GBP MRs'000	EURO MRs'000	INR MRs'000	OTHER MRs'000	TOTAL MRs'000
<b>ASSETS</b>							
Cash and Balances with Central Banks	1,832,583	19,205	6,569	18,363	128,975	34,714	2,040,409
Balances with Other Banks	229,851	1,403,869	84,754	286,946	15,310	69,449	2,090,179
Investments in Subsidiaries and Associates	274,319	350,870	-	-	-	-	625,189
Other Equity Investments	1,492,041	22,777	-	-	-	319	1,515,137
Placements	-	-	-	-	39,754	636	40,390
Investments in Gilt-edged Securities	10,397,335	-	-	-	496,002	195,902	11,089,239
Securities, Placements and Other Investments	12,163,695	373,647	-	-	535,756	196,857	13,269,955
Loans and Advances	18,364,218	1,014,275	3,402	1,321,711	1,484,087	484,490	22,672,183
Tangible Fixed Assets	1,648,771	-	-	-	107,278	3,057	1,759,106
Other Assets	189,040	21,181	13,810	62,135	132,341	7,382	425,889
<b>TOTAL ASSETS</b>	<b>34,428,158</b>	<b>2,832,177</b>	<b>108,535</b>	<b>1,689,155</b>	<b>2,403,747</b>	<b>795,949</b>	<b>42,257,721</b>
<b>LIABILITIES</b>							
Deposits	26,653,708	1,899,068	1,046,410	1,164,871	1,124,707	983,489	32,872,253
Borrowings from Central Banks	342,698	-	-	-	-	-	342,698
Borrowings from Other Banks	-	1,084,791	24,535	537,719	230,070	14,727	1,891,842
Current Tax Liability	50,338	-	-	-	-	6,181	56,519
Deferred Tax Liability	39,918	-	-	-	11,493	-	51,411
Other Liabilities	796,698	13,303	2,455	25,189	35,659	16,567	889,871
<b>TOTAL LIABILITIES</b>	<b>27,883,360</b>	<b>2,997,162</b>	<b>1,073,400</b>	<b>1,727,779</b>	<b>1,401,929</b>	<b>1,020,964</b>	<b>36,104,594</b>
Net Assets	6,544,798	(164,985)	(964,865)	(38,624)	1,001,818	(225,015)	6,153,127
Shareholders' Equity and Minority Interest	(5,566,608)	(255,048)	-	-	(291,392)	(40,079)	(6,153,127)
Net on balance sheet position	978,190	(420,033)	(964,865)	(38,624)	710,426	(265,094)	-
Off balance sheet net notional position	-	395,366	948,591	43,789	79	342,283	1,730,108
	978,190	(24,667)	(16,274)	5,165	710,505	77,189	1,730,108

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 31. CURRENCY RISK (cont'd)

## BANK

At 30 June 2005

	MUR MRs'000	USD MRs'000	GBP MRs'000	EURO MRs'000	INR MRs'000	OTHER MRs'000	TOTAL MRs'000
<b>ASSETS</b>							
Cash and Balances with Central Banks	1,573,053	14,311	5,749	14,496	60,492	4,310	1,672,411
Balances with Other Banks	341,339	2,649,354	1,864,602	1,309,972	7,263	188,172	6,360,702
Investments in Subsidiaries and Associates	677,400	442,648	-	-	-	-	1,120,048
Other Equity Investments	1,514,219	873	-	-	-	-	1,515,092
Placements	-	335,958	60,088	-	70,215	-	466,261
Investments in Gilt-edged Securities	8,005,316	-	-	-	926,676	-	8,931,992
Securities, Placements and Other Investments	10,196,935	779,479	60,088	-	996,891	-	12,033,393
Loans and Advances	19,625,376	1,503,554	13,703	798,245	1,410,383	40,514	23,391,775
Tangible Fixed Assets	2,821,298	-	-	-	137,848	-	2,959,146
Other Assets	251,999	207,052	2,574	4,654	153,601	420	620,300
<b>TOTAL ASSETS</b>	<b>34,810,000</b>	<b>5,153,750</b>	<b>1,946,716</b>	<b>2,127,367</b>	<b>2,766,478</b>	<b>233,416</b>	<b>47,037,727</b>
<b>LIABILITIES</b>							
Deposits	24,978,336	2,506,175	1,913,148	2,077,705	1,356,091	99,481	32,930,936
Borrowings from Central Banks	247,829	-	-	-	-	-	247,829
Borrowings from Other Banks	-	2,115,112	47,527	690,825	424,768	-	3,278,232
Other Borrowings	-	-	-	-	67,697	-	67,697
Current Tax Liability	161,699	-	-	-	-	-	161,699
Deferred Tax Liability	465,729	-	-	-	19,171	-	484,900
Obligations under Finance Leases	621,404	-	-	-	-	-	621,404
Other Liabilities	914,605	69,696	1,167	50,219	25,536	986	1,062,209
<b>TOTAL LIABILITIES</b>	<b>27,389,602</b>	<b>4,690,983</b>	<b>1,961,842</b>	<b>2,818,749</b>	<b>1,893,263</b>	<b>100,467</b>	<b>38,854,906</b>
Net Assets	7,420,398	462,767	(15,126)	(691,382)	873,215	132,949	8,182,821
Shareholders' Equity	(7,599,198)	(126,885)	-	-	(418,839)	(37,899)	(8,182,821)
Net on balance sheet position	(178,800)	335,882	(15,126)	(691,382)	454,376	95,050	-
Off balance sheet net notional position	-	171,180	22,941	720,340	(54,104)	(23,286)	837,071
	(178,800)	507,062	7,815	28,958	400,272	71,764	837,071

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 31. CURRENCY RISK (cont'd)

## BANK

At 30 June 2004

	MUR MRs'000	USD MRs'000	GBP MRs'000	EURO MRs'000	INR MRs'000	OTHER MRs'000	TOTAL MRs'000
<b>ASSETS</b>							
Cash and Balances with Central Banks	1,832,583	19,205	6,569	18,363	128,975	6,834	2,012,529
Balances with Other Banks	229,734	1,142,920	84,754	257,492	15,310	58,588	1,788,798
Investments in Subsidiaries and Associates	655,113	687,455	-	-	-	-	1,342,568
Other Equity Investments	1,311,349	872	-	-	-	-	1,312,221
Placements	-	-	-	-	39,754	636	40,390
Investments in Gilt-edged Securities	9,867,694	-	-	-	496,004	-	10,363,698
Securities, Placements and Other Investments	11,834,156	688,327	-	-	535,758	636	13,058,877
Loans and Advances	18,051,100	977,073	3,402	1,285,026	1,484,087	12,747	21,813,435
Tangible Fixed Assets	1,647,527	-	-	-	107,278	-	1,754,805
Other Assets	178,800	21,181	13,810	62,135	132,341	2,404	410,671
<b>TOTAL ASSETS</b>	<b>33,773,900</b>	<b>2,848,706</b>	<b>108,535</b>	<b>1,623,016</b>	<b>2,403,749</b>	<b>81,209</b>	<b>40,839,115</b>
<b>LIABILITIES</b>							
Deposits	25,270,389	1,852,179	1,046,410	1,116,681	1,124,714	368,642	30,779,015
Borrowings from Central Banks	341,531	-	-	-	-	-	341,531
Borrowing from Other Banks	-	1,084,791	24,535	537,429	230,070	14,727	1,891,552
Current Tax Liability	39,113	-	-	-	-	-	39,113
Deferred Tax Liability	39,900	-	-	-	11,493	-	51,393
Obligations under Finance Leases	743,960	-	-	-	-	-	743,960
Other Liabilities	772,155	13,224	2,455	25,189	35,659	9,204	857,886
<b>TOTAL LIABILITIES</b>	<b>27,207,048</b>	<b>2,950,194</b>	<b>1,073,400</b>	<b>1,679,299</b>	<b>1,401,936</b>	<b>392,573</b>	<b>34,704,450</b>
Net Assets	6,566,852	(101,488)	(964,865)	(56,283)	1,001,813	(311,364)	6,134,665
Shareholders' Equity	(5,565,053)	(255,048)	-	-	(291,392)	(23,172)	(6,134,665)
Net on balance sheet position	1,001,799	(356,536)	(964,865)	(56,283)	710,421	(334,536)	-
Off balance sheet net notional position	-	395,366	948,591	43,789	79	342,283	1,730,108
	1,001,799	38,830	(16,274)	(12,494)	710,500	7,747	1,730,108

The exposure in INR represents mainly the Bank's Indian Operations' assets and liabilities which are denominated in their local currency.

**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****32. INTEREST RATE RISK**

The table below analyses the Group's and Bank's interest rate risk exposure at 30 June 2005 and 30 June 2004 in terms of the remaining period to the next contractual repricing date or to the maturity date, whichever is the earlier.

The floating rate column represents 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.

**GROUP****At 30 June 2005**

	Floating MRs'000	Within 3 Months MRs'000	3-6 Months MRs'000	6-12 Months MRs'000	1-2 Years MRs'000	2-5 Years MRs'000	Over 5 Years MRs'000	Non-interest Sensitive MRs'000	Total MRs'000
<b>ASSETS</b>									
Cash and Balances with Central Banks	-	-	-	-	-	-	-	1,894,720	1,894,720
Balances with Other Banks	4,064,594	1,880,466	-	-	-	-	-	433,362	6,378,422
Equity Investments in Subsidiaries and Associates	-	-	-	-	-	-	-	666,502	666,502
Other Equity Investments Placements	-	-	466,261	-	-	-	-	1,652,948	1,652,948
Loan to Associates	-	-	-	-	-	-	-	9,263	9,263
Investments in Gilt-edged Securities	-	1,211,023	1,150,408	4,540,203	1,914,692	280,000	301,106	-	9,397,432
Securities, Placements and Other Investments	-	1,211,023	1,616,669	4,540,203	1,914,692	280,000	301,106	2,328,713	12,192,406
Loans and Advances	20,384,299	2,797,118	342,945	454,642	369,592	413,699	274,865	90,921	25,128,081
Less: Allowance for Credit Losses	-	-	-	-	-	-	-	(626,505)	(626,505)
Tangible Fixed Assets	-	-	-	-	-	-	-	2,993,990	2,993,990
Other Assets	-	-	-	-	-	-	-	645,926	645,926
<b>TOTAL ASSETS</b>	<b>24,448,893</b>	<b>5,888,607</b>	<b>1,959,614</b>	<b>4,994,845</b>	<b>2,284,284</b>	<b>693,699</b>	<b>575,971</b>	<b>7,761,127</b>	<b>48,607,040</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>									
Deposits	24,069,255	4,017,495	1,344,445	1,505,377	651,588	158,684	187	3,253,776	35,000,807
Borrowings from Central Banks	-	37,786	30,148	61,762	67,809	50,324	-	-	247,829
Borrowings from Other Banks	-	2,765,600	518,084	-	-	-	-	-	3,283,684
Other Borrowings	-	67,686	-	-	-	-	-	11	67,697
Current Tax Liability	-	-	-	-	-	-	-	185,088	185,088
Deferred Tax Liability	-	-	-	-	-	-	-	483,324	483,324
Other Liabilities	-	-	-	-	-	-	-	1,134,782	1,134,782
Shareholders' Equity and Minority Interest	-	-	-	-	-	-	-	8,203,829	8,203,829
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>24,069,255</b>	<b>6,888,567</b>	<b>1,892,677</b>	<b>1,567,139</b>	<b>719,397</b>	<b>209,008</b>	<b>187</b>	<b>13,260,810</b>	<b>48,607,040</b>
Interest Rate Repricing Gap	379,638	(999,960)	66,937	3,427,706	1,564,887	484,691	575,784	(5,499,683)	
Cumulative Interest Rate Repricing Gap	379,638	(620,322)	(553,385)	2,874,321	4,439,208	4,923,899	5,499,683	-	

### Notes to the Accounts for the year ended 30 June 2005 (cont'd)

#### 32. INTEREST RATE RISK (cont'd)

##### GROUP

At 30 June 2004

	Floating MRs'000	Within 3 Months MRs'000	3-6 Months MRs'000	6-12 Months MRs'000	1-2 Years MRs'000	2-5 Years MRs'000	Over 5 Years MRs'000	Non-interest Sensitive MRs'000	Total MRs'000
<b>ASSETS</b>									
Cash and Balances with Central Banks	-	-	-	-	-	-	-	2,040,409	2,040,409
Balances with Other Banks	14	1,672,337	-	-	-	-	-	417,828	2,090,179
Equity Investments in Subsidiaries and Associates	-	-	-	-	-	-	-	616,340	616,340
Other Equity Investments Placements	-	-	-	40,390	-	-	-	1,515,137	40,390
Investments in Gilt-edged Securities	-	2,679,896	3,723,843	3,681,927	972,993	30,580	-	-	11,089,239
Loan to Associates	-	-	-	-	-	-	-	8,849	8,849
Securities, Placements and Other Investments	-	2,679,896	3,723,843	3,722,317	972,993	30,580	-	2,140,326	13,269,955
Loans and Advances	17,628,267	2,874,915	350,502	764,980	529,649	919,891	385,925	83,554	23,537,683
Less: Allowance for Credit Losses	-	-	-	-	-	-	-	(865,500)	(865,500)
Tangible Fixed Assets	-	-	-	-	-	-	-	1,759,106	1,759,106
Other Assets	-	-	-	-	-	-	-	425,889	425,889
<b>TOTAL ASSETS</b>	<b>17,628,281</b>	<b>7,227,148</b>	<b>4,074,345</b>	<b>4,487,297</b>	<b>1,502,642</b>	<b>950,471</b>	<b>385,925</b>	<b>6,001,612</b>	<b>42,257,721</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>									
Deposits	19,242,199	5,056,096	1,308,578	1,860,230	1,581,118	287,882	1,707	3,534,443	32,872,253
Borrowings from Central Banks	-	15,061	32,679	63,039	126,079	77,236	26,888	1,716	342,698
Borrowings from Other Banks	-	1,801,007	78,820	-	-	-	-	12,015	1,891,842
Current Tax Liability	-	-	-	-	-	-	-	56,519	56,519
Deferred Tax Liability	-	-	-	-	-	-	-	51,411	51,411
Other Liabilities	-	-	-	-	-	-	-	889,871	889,871
Shareholders' Equity and Minority Interest	-	-	-	-	-	-	-	6,153,127	6,153,127
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>19,242,199</b>	<b>6,872,164</b>	<b>1,420,077</b>	<b>1,923,269</b>	<b>1,707,197</b>	<b>365,118</b>	<b>28,595</b>	<b>10,699,102</b>	<b>42,257,721</b>
Interest Rate Repricing Gap	(1,613,918)	354,984	2,654,268	2,564,028	(204,555)	585,353	357,330	(4,697,490)	
Cumulative Interest Rate Repricing Gap	(1,613,918)	(1,258,934)	1,395,334	3,959,362	3,754,807	4,340,160	4,697,490	-	

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

## 32. INTEREST RATE RISK (cont'd)

## BANK

At 30 June 2005

	Floating MRs'000	Within 3 Months MRs'000	3-6 Months MRs'000	6-12 Months MRs'000	1-2 Years MRs'000	2-5 Years MRs'000	Over 5 Years MRs'000	Non-interest Bearing MRs'000	Total MRs'000
<b>ASSETS</b>									
Cash and Balances with Central Banks	-	-	-	-	-	-	-	1,672,411	1,672,411
Balances with Other Banks	4,064,594	1,869,878	-	-	-	-	-	426,230	6,360,702
Equity Investments in Subsidiaries and Associates	-	-	-	-	-	-	-	1,120,048	1,120,048
Other Equity Investments	-	-	-	-	-	-	-	1,515,092	1,515,092
Placements	-	-	466,261	-	-	-	-	-	466,261
Investments in Gilt-edged Securities	-	1,048,271	983,902	4,444,472	1,874,241	280,000	301,106	-	8,931,992
Securities, Placements and Other Investments	-	1,048,271	1,450,163	4,444,472	1,874,241	280,000	301,106	2,635,140	12,033,393
Loans and Advances	19,264,210	2,781,585	338,430	446,975	355,878	383,993	274,865	87,703	23,933,639
Less: Allowance for Credit Losses	-	-	-	-	-	-	-	(541,864)	(541,864)
Tangible Fixed Assets	-	-	-	-	-	-	-	2,959,146	2,959,146
Other Assets	-	-	-	-	-	-	-	620,300	620,300
<b>TOTAL ASSETS</b>	<b>23,328,804</b>	<b>5,699,734</b>	<b>1,788,593</b>	<b>4,891,447</b>	<b>2,230,119</b>	<b>663,993</b>	<b>575,971</b>	<b>7,859,066</b>	<b>47,037,727</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>									
Deposits	24,132,523	3,435,183	869,449	1,182,118	66,619	35,990	187	3,208,867	32,930,936
Borrowings from Central Banks	-	37,786	30,148	61,762	67,809	50,324	-	-	247,829
Borrowings from Other Banks	-	2,760,148	518,084	-	-	-	-	-	3,278,232
Other Borrowings	-	67,686	-	-	-	-	-	11	67,697
Current Tax Liability	-	-	-	-	-	-	-	161,699	161,699
Deferred Tax Liability	-	-	-	-	-	-	-	484,900	484,900
Obligations under Finance Leases	621,404	-	-	-	-	-	-	-	621,404
Other Liabilities	-	-	-	-	-	-	-	1,062,209	1,062,209
Shareholders' Equity	-	-	-	-	-	-	-	8,182,821	8,182,821
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>24,753,927</b>	<b>6,300,803</b>	<b>1,417,681</b>	<b>1,243,880</b>	<b>134,428</b>	<b>86,314</b>	<b>187</b>	<b>13,100,507</b>	<b>47,037,727</b>
Interest Rate Repricing Gap	(1,425,123)	(601,069)	370,912	3,647,567	2,095,691	577,679	575,784	(5,241,441)	
Cumulative Interest Rate Repricing Gap	(1,425,123)	(2,026,192)	(1,655,280)	1,992,287	4,087,978	4,665,657	5,241,441	-	

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

### 32. INTEREST RATE RISK (cont'd)

#### BANK

At 30 June 2004

	Floating MRs'000	Within 3 Months MRs'000	3-6 Months MRs'000	6-12 Months MRs'000	1-2 Years MRs'000	2-5 Years MRs'000	Over 5 Years MRs'000	Non-interest Sensitive MRs'000	Total MRs'000
<b>ASSETS</b>									
Cash and Balances with Central Banks	-	-	-	-	-	-	-	2,012,529	2,012,529
Balances with Other Banks	-	1,410,354	-	-	-	-	-	378,444	1,788,798
Equity Investments in Subsidiaries and Associates	-	-	-	-	-	-	-	1,342,568	1,342,568
Other Equity Investments Placements	-	-	636	39,754	-	-	-	1,312,221	1,312,221
Investments in Gilt-edged Securities	-	2,621,340	3,546,740	3,546,270	618,768	30,580	-	-	10,363,698
Securities, Placements and Other Investments	-	2,621,340	3,547,376	3,586,024	618,768	30,580	-	2,654,789	13,058,877
Loans and advances	17,822,666	2,300,863	305,125	679,396	386,678	665,568	385,925	77,056	22,623,277
Less: Allowance for Credit Losses	-	-	-	-	-	-	-	(809,842)	(809,842)
Tangible Fixed Assets	-	-	-	-	-	-	-	1,754,805	1,754,805
Other Assets	-	-	-	-	-	-	-	410,671	410,671
<b>TOTAL ASSETS</b>	<b>17,822,666</b>	<b>6,332,557</b>	<b>3,852,501</b>	<b>4,265,420</b>	<b>1,005,446</b>	<b>696,148</b>	<b>385,925</b>	<b>6,478,452</b>	<b>40,839,115</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>									
Deposits	19,279,365	4,374,642	1,103,285	1,480,730	1,132,610	173,493	1,707	3,233,183	30,779,015
Borrowings from Central Banks	-	15,061	31,520	63,039	126,079	77,236	26,888	1,708	341,531
Borrowings from Other Banks	-	1,800,759	78,820	-	-	-	-	11,973	1,891,552
Current Tax Liability	-	-	-	-	-	-	-	39,113	39,113
Deferred Tax Liability	-	-	-	-	-	-	-	51,393	51,393
Obligations under Finance Leases	743,960	-	-	-	-	-	-	-	743,960
Other Liabilities	-	-	-	-	-	-	-	857,886	857,886
Shareholders' Equity	-	-	-	-	-	-	-	6,134,665	6,134,665
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>20,023,325</b>	<b>6,190,462</b>	<b>1,213,625</b>	<b>1,543,769</b>	<b>1,258,689</b>	<b>250,729</b>	<b>28,595</b>	<b>10,329,921</b>	<b>40,839,115</b>
Interest Rate Repricing Gap	(2,200,659)	142,095	2,638,876	2,721,651	(253,243)	445,419	357,330	(3,851,469)	
Cumulative Interest Rate Repricing Gap	(2,200,659)	(2,058,564)	580,312	3,301,963	3,048,720	3,494,139	3,851,469	-	

## Notes to the Accounts for the year ended 30 June 2005 (cont'd)

### 32. INTEREST RATE RISK (cont'd)

The tables below summarise the range of effective interest rates by major currencies for interest sensitive financial instruments.

GROUP	MUR		EURO		USD		GBP		OTHER	
	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %
<b>At 30 June 2005</b>										
<b>ASSETS</b>										
Balances with Other Banks	2.50	6.00	0.85	2.16	2.00	6.75	4.68	4.85	2.12	18.00
Investments in Gilt-edged Securities	3.22	9.50	n/a	n/a	n/a	n/a	n/a	n/a	6.00	19.60
Loans and Advances										
- Credit Card Advances	24.00	24.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- Staff Loans	2.00	12.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- Other Loans and Advances	5.75	21.00	3.61	6.50	4.09	7.07	7.06	9.50	1.05	21.00
<b>LIABILITIES</b>										
Term Deposits	4.13	10.00	1.20	2.45	0.67	3.89	3.75	5.28	1.30	14.00
Other Deposits	-	5.00	-	0.75	-	2.00	-	2.75	-	5.00
Borrowings from Central Banks	5.50	7.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Borrowings from Other Banks	n/a	n/a	1.80	2.30	2.80	6.25	4.50	4.50	5.60	6.38
<b>At 30 June 2004</b>										
<b>ASSETS</b>										
Balances with Other Banks	2.50	3.00	0.85	2.12	0.55	6.75	4.73	4.73	1.90	12.00
Investments in Gilt-edged Securities	2.59	11.36	n/a	n/a	n/a	n/a	n/a	n/a	4.25	12.50
Loans and Advances										
- Credit Card Advances	24.00	24.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- Staff Loans	2.00	12.75	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- Other Loans and Advances	6.61	21.25	2.34	6.00	1.74	5.34	4.70	7.10	1.01	23.00
<b>LIABILITIES</b>										
Term Deposits	4.00	11.50	1.21	3.50	0.43	1.89	3.05	6.00	0.11	11.50
Other Deposits	-	4.00	-	0.75	-	-	-	2.50	-	8.00
Borrowings from Central Banks	5.50	8.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Borrowings from Other Banks	-	-	1.75	2.32	1.00	6.25	4.25	4.25	7.00	8.90
<b>BANK</b>										
	MUR		EURO		USD		GBP		OTHER	
	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %
<b>At 30 June 2005</b>										
<b>ASSETS</b>										
Balances with Other Banks	2.50	6.00	2.12	2.16	2.00	6.75	4.68	4.85	2.12	6.90
Investments in Gilt-edged Securities	3.22	9.50	n/a	n/a	n/a	n/a	n/a	n/a	6.00	6.75
Loans and Advances										
- Credit Card Advances	24.00	24.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- Staff Loans	2.00	12.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- Other Loans and Advances	5.75	21.00	3.61	6.14	4.09	7.07	7.06	9.50	1.05	14.00
<b>LIABILITIES</b>										
Term Deposits	4.13	10.00	1.20	2.45	0.67	3.89	3.75	5.28	1.30	9.00
Other Deposits	-	5.00	-	0.75	-	2.00	-	2.75	-	5.00
Borrowings from Central Banks	5.50	7.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Borrowings from Other Banks	n/a	n/a	1.80	2.30	3.10	6.25	4.50	4.50	5.60	6.38
Obligations under Finance Leases	11.00	13.50	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>At 30 June 2004</b>										
<b>ASSETS</b>										
Balances with Other Banks	2.50	3.00	0.85	2.12	0.55	6.75	4.73	4.73	1.90	9.50
Investments in Gilt-edged Securities	2.59	11.36	n/a	n/a	n/a	n/a	n/a	n/a	4.25	4.50
Loans and Advances										
- Credit Card Advances	24.00	24.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- Staff Loans	2.00	12.75	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- Other Loans and Advances	6.61	21.25	2.34	6.00	1.74	5.34	4.70	7.10	1.01	16.50
<b>LIABILITIES</b>										
Term Deposits	4.00	11.38	1.21	3.50	0.43	1.89	3.05	6.00	0.11	11.50
Other Deposits	-	4.00	-	0.75	-	-	-	2.50	-	8.00
Borrowings from Central Banks	5.50	7.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Borrowings from Other Banks	n/a	n/a	1.75	2.32	1.00	6.25	4.25	4.25	4.50	8.90
Obligations under Finance Leases	11.75	13.50	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

n/a - not applicable



**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****33. SEGMENT INFORMATION**

(a) Primary reporting format - Business segments

**2005**

	Banking MRs' 000	Leasing MRs' 000	Others MRs' 000	Consolidation Adjustments MRs' 000	Group MRs' 000
External Gross Income	3,730,992	92,620	36,355	-	3,859,967
Gross Income from Other Segments	19,163	78,505	14,754	(112,422)	-
<b>Total Gross Income</b>	<b>3,750,155</b>	<b>171,125</b>	<b>51,109</b>	<b>(112,422)</b>	<b>3,859,967</b>
Interest Expense and Non-Interest Expenses	(2,372,178)	(104,564)	(3,983)	112,422	2,368,303
<b>Profit before Provision for Credit Losses</b>	<b>1,377,977</b>	<b>66,561</b>	<b>47,126</b>	-	<b>1,491,664</b>
Provisions and Adjustments to Income for Credit Losses	(80,610)	1,997	-	-	(78,613)
<b>Profit after Provisions for Credit Losses</b>	<b>1,297,367</b>	<b>68,558</b>	<b>47,126</b>	-	<b>1,413,051</b>
Share of Profit of Associates					88,248
<b>Net Income before Income Taxes</b>					<b>1,501,299</b>
Provision for Income Taxes					(304,866)
Net Income after Income Taxes					1,196,433
Minority Interest					(5,219)
<b>Net Income Available to Shareholders</b>					<b>1,191,214</b>
Segment Assets	47,489,382	1,572,631	239,842	(1,370,580)	47,931,275
Investment in Associates					675,765
<b>Total Assets</b>					<b>48,607,040</b>
Segment Liabilities	39,326,471	1,564,414	235,502	(1,391,588)	39,734,799
Unallocated Liabilities					668,412
Minority Interest					21,008
Shareholders' Fund					8,182,821
<b>Total Liabilities and Shareholders' Equity</b>					<b>48,607,040</b>
Capital Expenditure	96,419	4,845	46	-	101,310
Depreciation	244,814	400	84	-	245,298

**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****33. SEGMENT INFORMATION (cont'd)**

(a) Primary reporting format - Business segments (Cont'd)

**2004**

	Banking MRs' 000	Leasing MRs' 000	Others MRs' 000	Consolidation Adjustments MRs' 000	Group MRs' 000
External Gross Income	3,695,411	101,347	73,697	-	3,870,455
Gross Income from Other Segments	1,665	84,350	13,647	(99,662)	-
<b>Total Gross Income</b>	<b>3,697,076</b>	<b>185,697</b>	<b>87,344</b>	<b>(99,662)</b>	<b>3,870,455</b>
Interest Expense and Non-Interest Expenses	(2,370,599)	(131,687)	(3,817)	99,662	(2,406,441)
<b>Profit before Provisions for Credit Losses</b>	<b>1,326,477</b>	<b>54,010</b>	<b>83,527</b>	-	<b>1,464,014</b>
Provisions and Adjustments to Income for Credit Losses	(158,993)	(5,408)	-	-	(164,401)
<b>Profit after Provisions for Credit Losses</b>	<b>1,167,484</b>	<b>48,602</b>	<b>83,527</b>	-	<b>1,299,613</b>
Share of Profit of Associates					65,900
<b>Net Income before Income Taxes</b>					<b>1,365,513</b>
Provision for Income Taxes					(235,341)
Net Income after Income Taxes					1,130,172
Minority Interest					(3,652)
<b>Net Income available to Shareholders</b>					<b>1,126,520</b>
Segment Assets	41,031,483	1,801,642	622,994	(1,823,587)	41,632,532
Investments in Associates					625,189
<b>Total Assets</b>					<b>42,257,721</b>
<b>Segment Liabilities</b>	<b>35,425,318</b>	<b>1,793,511</b>	<b>619,884</b>	<b>(1,842,050)</b>	<b>35,996,663</b>
Unallocated Liabilities					107,931
Minority Interest					18,462
Shareholders' Equity					6,134,665
<b>Total Liabilities and Shareholders' Equity</b>					<b>42,257,721</b>
<b>Capital Expenditure</b>	<b>238,230</b>	-	-	-	<b>238,230</b>
<b>Depreciation</b>	<b>193,667</b>	<b>83</b>	<b>117</b>	-	<b>193,867</b>

**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****33. SEGMENT INFORMATION (cont'd)**

(a) Primary reporting format - Business segments (Cont'd)

**2003**

	Banking MRs' 000	Leasing MRs' 000	Others MRs' 000	Consolidation Adjustments MRs' 000	Group MRs' 000
External Gross Income	3,515,284	117,350	35,704	-	3,668,338
Gross Income from Other Segments	19,702	60,521	14,297	(94,520)	-
<b>Total Gross Income</b>	<b>3,534,986</b>	<b>177,871</b>	<b>50,001</b>	<b>(94,520)</b>	<b>3,668,338</b>
Interest Expense and Non-Interest Expenses	(2,360,211)	(133,790)	(7,695)	94,520	(2,407,176)
<b>Profit before Provisions for Credit Losses</b>	<b>1,174,775</b>	<b>44,081</b>	<b>42,306</b>	-	<b>1,261,162</b>
Provisions and Adjustments to Income for Credit Losses	(139,109)	(4,508)	-	-	(143,617)
<b>Profit after Provisions for Credit Losses</b>	<b>1,035,666</b>	<b>39,573</b>	<b>42,306</b>	-	<b>1,117,545</b>
Share of Profit of Associates					68,868
<b>Net Income before Income Taxes</b>					<b>1,186,413</b>
Provision for Income Taxes					(165,614)
Net Income after Income Taxes					1,020,799
Minority Interest					(2,582)
<b>Net Income available to Shareholders</b>					<b>1,018,217</b>
Segment Assets	37,544,540	1,550,659	751,136	(1,996,544)	37,849,791
Investments in Associates					568,311
<b>Total Assets</b>					<b>38,418,102</b>
<b>Segment Liabilities</b>	<b>32,771,378</b>	<b>1,544,108</b>	<b>747,656</b>	<b>(2,024,737)</b>	<b>33,038,405</b>
Unallocated Liabilities					212,612
Minority Interest					28,193
Shareholders' Equity					5,138,892
<b>Total Liabilities and Shareholders' Equity</b>					<b>38,418,102</b>
Capital Expenditure	416,576	-	155	-	416,731
Depreciation	200,982	788	151	-	201,921

**Notes to the Accounts for the year ended 30 June 2005 (cont'd)****33. SEGMENT INFORMATION (cont'd)**

(b) Secondary reporting format - Geographical segments

<b>2005</b>	Mauritius MRs' 000	India MRs' 000	Madagascar MRs' 000	Consolidation Adjustments MRs' 000	Group MRs' 000
External Gross Income	3,504,464	189,176	166,327	-	3,859,967
Segment Assets	45,787,585	2,889,281	1,127,422	(1,873,013)	47,931,275
Investments in Associates					675,765
Total Assets					48,607,040
Capital Expenditure	42,124	9,474	49,712	-	101,310
<b>2004</b>					
External Gross Income	3,488,960	238,139	143,356	-	3,870,455
Segment Assets	40,804,595	2,528,437	817,556	(2,518,056)	41,632,532
Investments in Associates					625,189
Total Assets					42,257,721
Capital Expenditure	236,864	467	899	-	238,230
<b>2003</b>					
External Gross Income	3,323,003	232,945	112,390	-	3,668,338
Segment Assets	36,791,899	2,587,047	1,136,056	(2,665,211)	37,849,791
Investments in Associates					568,311
Total Assets					38,418,102
Capital Expenditure	415,796	345	590	-	416,731

**34. SUBSEQUENT EVENTS**

There are no events subsequent to the year end which require disclosure.

### Operations Review - Content

- Value Based Performance Management
- Risk Management Practices
- Lines of Business
- Support Services
- Subsidiaries

### Financial Review - Content

- Financial Indicators and Financial Analysis
- Shareholders' Value
- Capital Structure

### Corporate Governance Report - Content

- Roles and Responsibilities of Board of Directors and Management
- Disclosure Requirements
- Related Party Transactions

# management discussions & analysis

### Value Based Performance Management

The Bank recognised the need to change from the traditional financial management profitability measure to a value creation profitability measurement approach. The Value Management Team was set up in 2002 with the objective to drive performance by adopting RAROC (Risk adjusted return on capital) as the key measure and monitors performance by customer, product, line of business for the Bank and the Group as a whole, and also to enhance value creation through specific initiatives to promote productivity, efficiency and quality.

RAROC is the measure of performance used across the Bank whether it is to assess lines of business, products, portfolios or customers. Such a superior performance framework required significant investment in a data warehouse and an end user information delivery and reporting tool, besides skills development. Raw data extracted into the data warehouse is enriched through applying internationally recognised and appropriate methodologies for transfer pricing of funds, cost allocation via an activity based costing framework and capital allocation by applying the Basel II accord to reflect a true measure of economic performance at the various dimensions. These methodologies are reviewed and kept up to date to ensure their continuous applicability to the changing environment.

For the year ended 30 June 2005, the Bank created economic value to the shareholders to the extent of Rs304M (2004:Rs338M). Prior year data has been restated on a comparable basis to reflect the refinements in methodology in calculating the risk adjusted return on capital.

**Table 1 - RAROC**

<b>MRs'000</b>	<b>Personal Banking</b>	<b>Business Banking</b>	<b>Treasury &amp; Funding Centre</b>	<b>Leasing</b>	<b>Subs &amp; Others</b>	<b>Consolidated Adjustments</b>	<b>Jun-05 Group</b>	<b>Jun-04 Group Restated</b>
Net Income before Income Taxes	229,486	810,873	297,771	78,622	431,014	(346,467)	1,501,299	1,365,513
Net Income after Income Taxes	172,114	591,015	217,473	71,233	502,705	(358,107)	1,196,433	1,130,172
Income after Tax after								
Comparative Adjustments	147,056	609,935	236,281	71,233	382,101	(358,107)	1,088,499	1,127,172
Allocated Capital	327,196	1,983,975	238,007	163,840	151,509		2,864,527	2,884,169
RAROC 2005							38	
RAROC 2004								39

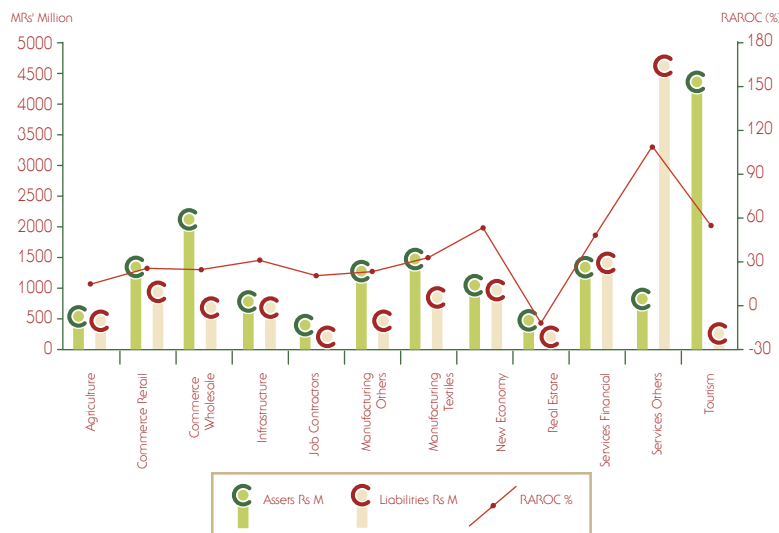
\*RAROC is an indicative performance measure based on current methodologies and available data, which are continuously being refined. As such, refinements for prior periods were made for comparative purpose.

In order to compute RAROC for a meaningful comparative basis, the capital allocated in 2004 has been adjusted to reflect revised risk weights and adjustments for one-time income and expenses and related tax charges from 2004 and 2005 data. Group RAROC has decreased marginally in 2005 to 38%, mitigated mainly by reduction in unrated portfolios thereby requiring lower capital despite an increase of over ten per cent in risk weighted assets.

The credit risk profile of Personal Banking line of business improved year on year, thereby warranting lower provisions and capital. The profitability of Personal Banking is somewhat mitigated by higher operating costs due to the need to have service delivery channels such as ATMs and service units.

Business Banking's clients are categorised by portfolio, which carry different inherent risks depending on the industry. A well-balanced mix of portfolios and clients will therefore help in balancing the risks of Business Banking. Chart 1 shows the portfolio mix of Business Banking for the Mauritius operations only, together with their associated RAROC for 2005.

Chart 1 - RAROC of Business Banking by Portfolio



**Value initiatives**

The logical suite to the performance measurement and planning process are value creation initiatives undertaken with the common objectives of achieving world-class performance and productivity growth. During the year a number of initiatives were undertaken ranging from processes review in the light of speed of delivery and quality service, cost management, review of certain key items of expenditure with the objective of managing expenses through better control procedures as well as need based analysis and credit management review for better quality assets.

Looking forward to next year, some of the key initiatives that will be undertaken will include an in-depth analysis and reflection on our sales and service culture, further managing productivity and efficiency at the bank and building human capital.

While the performance team examines value created in the past, the Bank responds rapidly to changes in the market environment through quarterly rolling budgets so that lines of business are always alert and are able to measure achievement against budgets set by the Board and accordingly adjust their strategies in time, if need be.

## Operation Review (cont'd)

### Risk Management Practices

#### Enterprise-wide Risk Management (ERM)

ERM is a coordinated and focused approach to identify and manage the risks of the Group. This process enables the Bank to better manage the uncertainties that could have a positive or negative impact on the operating results of the Group and plan its strategies accordingly, taking into account the acceptable risk/return trade-offs, the risk appetite of the Group and the available capital.

The Board is ultimately responsible for the risk management process across the enterprise and approves the Group risk strategy, risk policies and prudential limits within which operations have to be carried out. The Board has also set up the Risk Committee to which it has delegated some of its functions and its main responsibility to monitor and ensure the effectiveness of the risk management process. The formulation and implementation of the policies are delegated to management and the Risk Management Team, a centralized unit independent of sales and operations which ensures compliance to the internal, legal and regulatory norms, recommends changes to the set risk parameters and reports to the Forums/Committees/Board on credit, market and operational risk issues. The Risk Management Unit also develops methodologies to identify, measure, mitigate and monitor the risks faced by the Bank. The ultimate responsibility for the management of risks rests with the Risk Committee and the Board.



"The Bank has established a Code of Ethics and Business Conduct, besides a Policy on Fit and Proper Person Criteria to ensure that staff are knowledgeable and capable to assist customers with their requirements. Adoption of internationally accepted business practices ensures that the customer feels confident that his/her interests are being safeguarded"

In line with regulatory guidelines, Board reviews the policy of risk management practices annually and approves them ahead of the start of the financial year.

**Chart 2 - Risk Management Framework**





## CREDIT RISK

### Portfolio Management

The credit exposure risk is managed at the Bank through a portfolio management approach that guides the Group in diversifying its risks across geographical borders, sectors, client segments and products to maximize shareholders' value. The portfolio prudential limits are determined by the Board based on the risk strategy of the Bank, the opportunities existing in the market, the prevailing economic conditions and the acceptable risk-return trade-off to be targeted. The concentration of risk and risk profile of the Group is monitored on a monthly basis and a comprehensive risk report is submitted to the Risk Committee on a quarterly basis as recommended by the Central Bank.

**Table 2 - Exposure : Prudential limits to Non-Bank Portfolios**

<b>Portfolio</b>	<b>30.06.05</b>	<b>30.06.04</b>	<b>30.06.03</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Agriculture	4	2	2
Commerce - Retail	6	8	7
Commerce - Wholesale	12	11	8
Financial Institutions	4	4	4
Infrastructure	6	6	7
Job Contractors	4	4	6
Manufacturing Non-Textiles	10	9	10
Manufacturing Textiles	9	9	8
New Economy	4	5	7
Real Estate Development	2	3	3
Services	5	5	5
Tourism	14	16	16
Credit Card	2	2	2
Consumer Loan	6	6	4
Mortgage	12	10	11
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

### Prudential Management

With a view to reducing the risk of asset concentration, the following Central Bank regulations on concentration (regulatory) limits must be adhered to:

- Prior approval of the Central Bank is required where the aggregate credit exposure of a bank, together with the subsidiaries, associated and related companies to any entity would exceed 25% of the total capital base of a locally incorporated bank. In the case of subsidiaries and branches of foreign banks, the limit is 50% of the bank's capital base.
- All credits of a bank that are individually over 15% of the bank's capital base should not in aggregate exceed 600% of its capital base.

**Operation Review (cont'd)**

- Related party exposure to a single entity is not to exceed 2% of Tier 1 capital without prior approval of the Central Bank, subject to the aggregate exposure to all related parties not to exceed 25% of Tier 1 capital.

During the year, the Bank reported to the Central Bank all group exposures exceeding 15% of its capital base. As at 30 June 2005, the aggregate credits exposures of 15% and above stood at 43% of capital base compared to 105% as at 30 June 2004, mainly driven by the increase in capital base. This is well within the 600% limit set by the Central Bank. The Bank's concentration of credit has been decreasing over the past two years due to the significant increase in its capital base and the Group's continued strategy to diversify its portfolio and risks. All related party exposures are reviewed by the Board Conduct Review Committee every quarter and are reported to the Central Bank. Approval has been sought and obtained from the regulators where aggregate exposures have exceeded the regulatory limits.

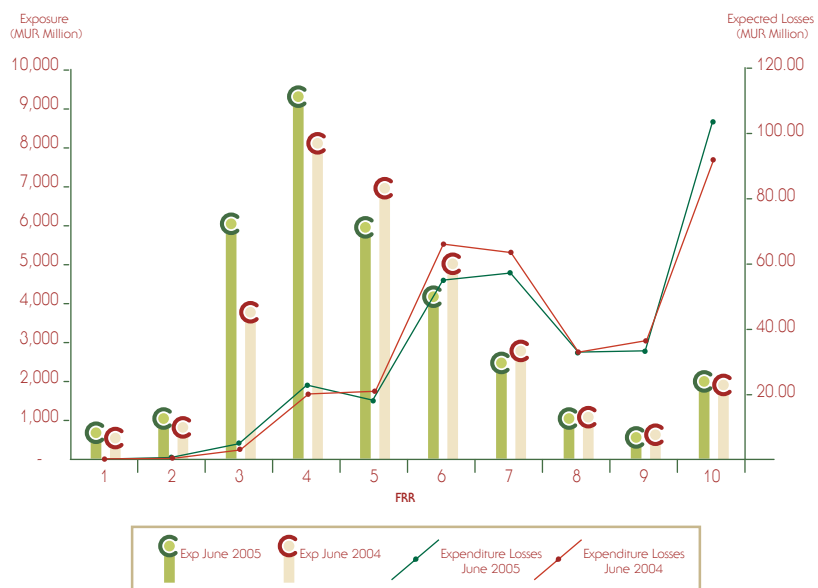
The Bank has set more conservative limits on concentration of exposures by portfolio, group of related entities and entity within a country and these limits are monitored by the Risk Committee every quarter. Exposure ceilings have also been set for new products and are regularly reviewed against actual performance.

Sanction of credit and expenses are approved by the Board Committee, with certain defined authority delegated to management and senior executives.

**Credit Risk Profile**

In order to standardise the credit rating and assessment process, the Bank is using Moody's Financial Analyst to rate its macro business banking customers, Small Business Underwriting Matrix for micro business banking customers and Experian-Transact for its personal banking segment. Indicative prices are being set based on the riskiness of the customer, the industry and type of facility and tenor, which reflect the price that needs to be charged to the client in order to achieve the required return on capital. On a crude aggregation basis, by using the basic weighted average method, the credit risk rating of the Group is on average 5 on a scale of 1 to 10, which is acceptable. All unrated companies and impaired accounts have been defaulted to 10. Currently the Bank is implementing Moody's Risk Advisor to enable a comprehensive assessment of customers, both on financial and non-financial factors, in line with the Basle II Accord.

**Chart 3 - Group Exposures with Expected Losses as at June 30, 2004 and 2005**



The Group's exposure grew by 8% year on year and Business Banking represented 80% of total exposure as at 30 June 2005 compared to almost 82% as at 30 June 2004, the decrease attributable mostly to growth in the personal banking segment.

Personal Banking exposure has grown by 19% year on year, increasing its share of the credit portfolio by 2%. A range of innovative products has been launched during the year, requiring enhancements to be made to Transact, which now caters for 12 products, each with their own specific policy rules to manage the approval decision. Credit scoring in Transact started in August 2002 and the risk profile for the Group has been built on the assumption that the sample rated is a fair representation of the total personal banking risk portfolio. As at June 30, 2005, 41% of personal banking exposures were rated through Experian Transact.

Given the non-availability of historical data in Mauritius and at the Bank, the Bank is using Moody's data and probability of default based on North American parameters in order to calculate expected losses. On a worst case scenario, using actual exposures and with unrated companies defaulted to a risk rating of 10, expected losses amount to Rs358M. However, when using risk weighted exposures and by defaulting unrated companies to the average portfolio financial risk rating, the expected losses are reduced to Rs193M. Historical information on the Bank's own experience of defaults and recovery rates is being collected as recommended by Basel II and adequate portfolio provisions have been made during the year. As at end of 2005, the Group has a portfolio provision of Rs216.5M, which is satisfactory and is also above regulatory requirements.

#### Monitoring, Recovery and Work Out

The Bank continuously monitors its credit portfolios, with particular focus on high-risk accounts. Depending on the credit risk rating of the customer, the size of the exposure and past arrears, accounts demonstrating early signs of weakness are identified and separately monitored through a watch list at the Management Credit Sanction Forum or are eventually transferred to the Intensive Care Unit if the account status cannot be improved. InMatrix Optimist, an analytical tool, is used by Business Analysts in determining the key drivers for the current performance of poor performers and in creating financial projections and forecast based on current data, which is useful in assisting customers to address their financial weaknesses. When accounts cannot be nurtured back to health, they are referred to the Recovery and Work Out team for exit and recovery action.

Assets are classified as impaired as per the Bank of Mauritius guidelines, in line with International Accounting Standards (IAS) 39. Specific provision is provided on the irrecoverable amounts in excess of the net realisable value of collaterals and future cash flows, in accordance with IAS and regulatory directives.

#### MARKET RISKS

Market risks include the following :

- Interest rate risk
- Foreign currency risk
- Liquidity risk
- Price risk

#### Interest Rate Risk

Interest rate risk is a normal part of banking and can be an important source of profitability and shareholder value. However, excessive interest rate risk can pose a significant threat to a bank's earnings and capital base.

A combination of gap analysis, earnings at risk and simulation models are used for interest rate risk measurement. Gap analysis measures the difference between the amount of interest earning assets and interest bearing liabilities that re-price in a particular period and a limit is set at a percentage of assets over a time period to assess reasonableness of mismatches. Simulation is used to measure interest rate risk by estimating the impact that changes in interest rates will have on net interest income. At 30 June 2005, SBM Mauritius operations were within the prudential limits set by the Board for interest rate gap for Mauritian Rupee and US Dollar denominated assets and liabilities. Earnings at Risk are estimated to be Rs2.4M at 30 June 2005 compared to Rs16M at 30 June 2004.

Operation Review (cont'd)

Chart 4 - MUR Interest Rate Gap as at June 30, 2005

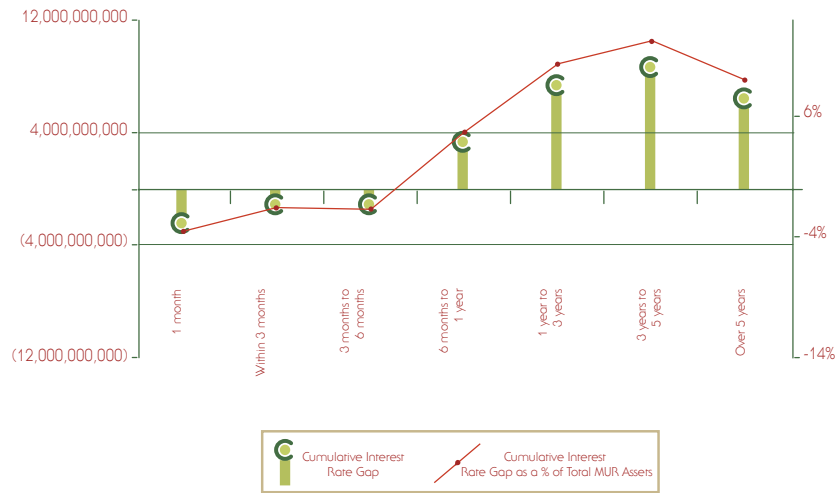
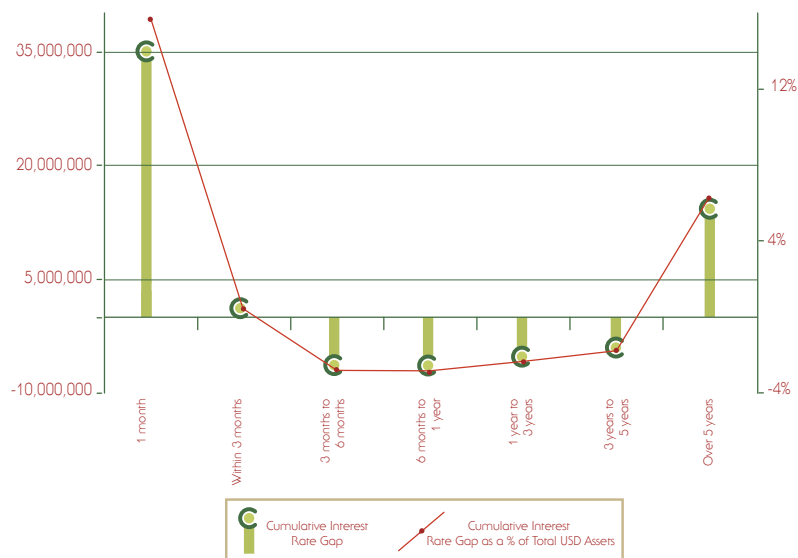


Chart 5 - USD Interest Rate Gap as at June 30, 2005



Foreign-Exchange Risk

Foreign-exchange risk arises from both 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. Treasury monitors open positions by currency to gauge foreign currency risk as well as the liquidity gaps.

The Treasury limits for Mauritius and Indian Operations are reviewed annually. As at 30 June 2005, the Treasury limits were adhered to. The limits approved by the Risk Committee are allocated to the dealers and are monitored by the Middle Office, independent of the Front Office. Ceilings are also set for intraday, overnight, stop loss, aggregate and currency gaps and are reported to the ALM Forum and to the Risk Committee. The Bank reports on foreign currency

exposures to the Central Bank and has set up more conservative internal limits in order to mitigate foreign exchange risk. The foreign exchange exposures are reported on a daily basis and open positions are marked to market daily. The Bank also uses a simple Value-at-Risk (VAR) approach to measure the potential loss arising out of foreign exchange movement and VAR on the Bank's (Mauritius Operations) foreign exchange trading positions for the year to 30 June 2005 was:

**Table 3 - VAR**

	June 30		Lowest		Highest		Average	
	MRU	INDIA	MRU	INDIA	MRU	INDIA	MRU	INDIA
2005 (MR M)	0.48	0.06	0.31	0.06	3.18	1.25	1.51	0.56
2004 (MR M)	2.63	0.76	0.22	0.08	4.10	1.73	1.29	0.72
2003 (MR M)	0.77	0.59	0.41	0.12	3.58	1.00	1.66	0.44

### Liquidity Risk

Liquidity risk is concerned with ensuring that the Bank has enough cash on hand or in the pipeline to meet current and future demands. The Treasurer is responsible to manage the liquidity in the Bank and the Middle Office reports daily on the cash ratio. Liquidity gap limits are monitored by the ALM Support Team in the Risk Management Unit and reported monthly to the ALM Forum. Each month, three different scenarios of liquidity gap are reported to ALM:-

- Scenario 1: Cumulative Gap calculated without taking into consideration commitments by the Bank
- Scenario 2: Most likely scenario where only core commitments are taken into account
- Scenario 3: Worst case scenario where 100% of the commitments are assumed to have been drawn

The Group's Liquid assets as at 30 June 2005 represented 38% of total assets (2004: 32%). Liquid assets include cash, balance with central bank & banks and traded liquid securities. SBM adhered to the prudential limits set by the Board and Central Bank.

Operation Review (cont'd)

Chart 6 - MUR Liquidity Gap as at June 30, 2005

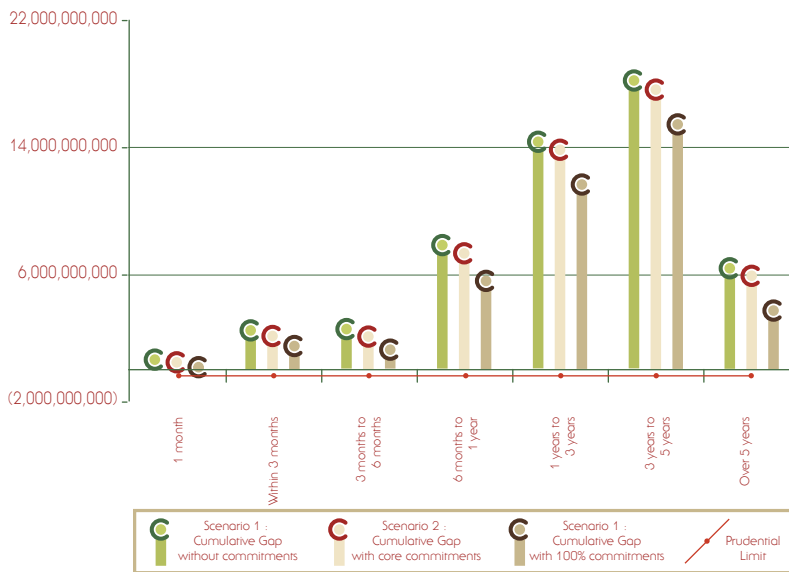
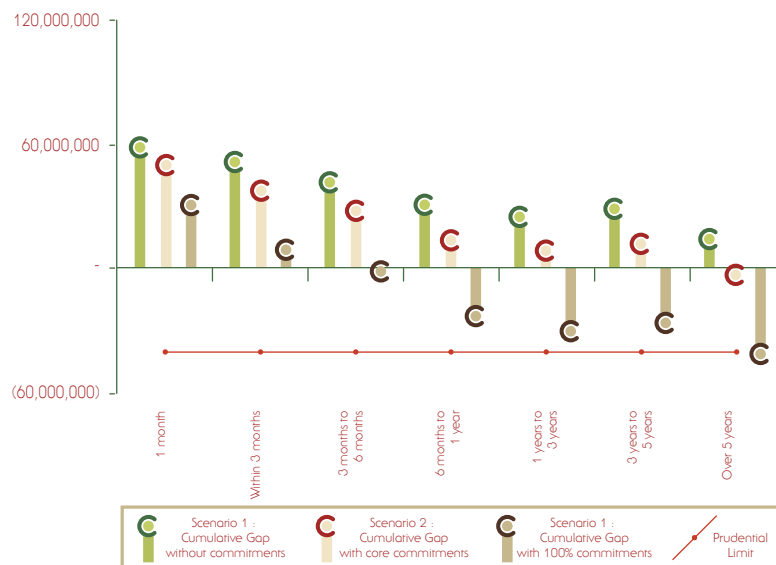


Chart 7 - USD Liquidity Gap as at June 30, 2005



PRICE RISK

Similarly for securities trading exposures, limits have been set for dealers, intraday and overnight positions and stop losses. Trading exposures are calculated and reported on a daily basis and the trading book positions are marked to market.

During the year, a bond trading desk has been set up to take advantage of the international market and business opportunities. Limits have been set taking into account the risk appetite of the Bank, volatility of the market and the experience of the dealers. Processes and reporting systems have been put in place to adequately measure and manage the risks inherent in bond trading. It is the intention of the Bank to increase the dealings in bonds and futures in the forthcoming year. The Bank is also considering expanding into equity trading, especially for the Indian market.

OPERATIONAL RISKS

In order to manage operational risks, the Bank is promoting an organisational culture that puts emphasis on high levels of ethical behaviour and integrity across all levels of the Bank whereby each and every employee is responsible for the management of operational risk, with additional encumbrance on managers and specialist units to ensure that there is adherence to operation controls. The major operational risk issues are discussed and reported at the monthly Operational Risk Management Forum.



An historical loss database, in line with the requirements of the Central Bank, has also been built for the past three years to assess the risk areas of the Bank and appropriate insurance cover has been taken where considered necessary.

The main sources of operational risks for the Bank are as follows:

- Processing/internal controls risk
- People risk
- Regulatory/compliance risk
- Legal risk
- Technology risk
- Reputational risk
- Strategic risk

Processes and procedures are continuously updated with the introduction of new products, services and activities. Segregation of duties is in place between origination, authorisation and execution of transactions to promote better controls and appropriate levels of delegated authority are given to staff based on capability and experience. An independent team of internal auditors carries out sample checks to ensure adequacy and robustness of internal controls according to a pre-agreed plan. Reports are submitted regularly to the Audit Committee. The Internal Audit Team also liaises with the External Auditors and has direct access to the Chairman of the Audit Committee/Board.

In line with the Central Bank requirements and local legislation, a Money Laundering Reporting Officer has been appointed to ensure that all identified suspicious transactions are reported to the appropriate authorities. There is in addition an independent team of Compliance Officers who carries out spot inspections to ensure that regulatory requirements are met and internal procedures are being adhered to. Areas of non-compliance are reported to the Risk Committee.

Given the complexities of some of the business transactions, training is an integral part of the SBM culture so that staff are kept abreast of developments in their areas of operation. Quarterly appraisals are carried out to ensure that performance standards are met and corrective action taken where necessary. The Bank has also established a Code of Ethics and Business Conduct and a Policy on Fit and Proper Person Criteria to ensure that staff with the appropriate skills and qualifications are selected for appropriate positions, avoiding situations where potential conflicts of interest may arise.

The Bank recognizes the internet as a tremendous enabler for improved service and communication with its customers. At the same time it is aware of the security/threats posed by the Internet, and constantly monitors new developments in that area. In line therefore with its continued commitment to

## Operation Review (cont'd)

improve service delivery, the bank has taken various measures to improve the protection of its customer assets against attacks from the Internet and to improve operational efficiency through controlled access to the Internet and protection against spam mail. Internal controls have also been improved, and our security standards have been reviewed and improved.

During the year, the Bank has regularly tested its disaster recovery plan. Currently SBM is finalizing the documentation and implementation of a comprehensive business continuity plan across all the key areas of operations.

### Lines of Business

#### • Personal Banking

Personal Banking clients are divided into three segments, namely Private, Premier and Micro to enable focused strategies.

In 2005 the Bank built growth through solution-based products and highly developed service segmentation. New bundled products and services have been introduced, targeted at both traditional customer segments and emerging customer groups such as the educated young professionals who are contributing to the emergence of the new services economy in Mauritius.

By leveraging unique technology and risk management leadership the Bank is able to improve income per customer through innovative product solutions and bundling multiple sales into a single customer experience:-

- Flexi Pro launched in May 2005 allows young professionals to purchase a property in line with their future earnings potential. The bundled solution

consists of a Home loan; Go Transaction account; Electronic banking and life assurance cover.

- SBM Transact, launched in November 2004, is a multi-function low cost Deposit product offering customers greater choice, packaged with a Debit Card; SBM Top Up; Internet or Telephone Banking plus optional credit limit and cheque book facilities.
- SBM Boost launched in February 2005 is the only revolving line of credit personal loan product available in the market, providing customers with greater flexibility in borrowing and repayment capacity. Again, the offer comes bundled with a debit card and a Transact deposit account.
- Visa Electron Card, launched in June 2004, greatly enhances Bank lending security, as authorisation is required on line, as the card is not embossed. It is designed with the large segment



"With innovative products such as SBM Flexi Pro, which allow for up to 65% repayment in relation to income for young professionals, customers can realise their dream of acquiring their own home sooner"



of low income earners in mind so that they can have access to small credit lines and is linked with SMS Top Up and the Freetime loyalty usage programme

- In June 2005 the Bank launched a fuel card targeted at the corporate and high-end personal segments in an exclusive arrangement with Shell Mauritius, the largest fuel retailer in the market.
- Bundling assurance offerings into asset products provides customers with the security of loan protection and the Bank with a new long term, low cost revenue stream. All asset products are now sold bundled with assurance.

Investment in technology has allowed the Bank to acquire a unique single view of each customer. Segmentation is a critical element to maintaining growth and differentiation. Analysis of this data has identified a number of core customer segments based upon value as well as significant sub segments that allow for vastly improved sales targeting and productivity.

The Personal Banking Line of Business is very well positioned to increase its share of income to the Bank and build further on the significant market share improvements made over the last few years.

#### • Business Banking

Business Banking is constantly striving to bring innovative solutions to its business customers to assist in the achievement of their corporate goals.

The Bank's Business Team brings banking services to the customer's doorstep. A team of dedicated Relationship Officers provides personalised services – professional guidance for the best solution to help their businesses grow and advice on the most suitable deposit structure to manage cash flows.

A suite of electronic banking solutions allow customers to attract new clients, provide better service and maintain greater control over cash flows. In addition to the existing products – SBM POS, SBM E-Commerce, SBM Visa Business Credit Card, SBM Fone Direct and SBM Internet Banking, the following new products were launched during the year under review:-

- **SBM Structured Finance** offers flexible contracts that suit the way a business is run, taking into account factors such as the intended usage of the asset, cash flow cycles and tax/accounting implications.
- **Overdrafts in Foreign Currency** – overdraft facilities in USD and EUR with pricing benchmarked against LIBOR.



"A team of dedicated Relationship Officers is on hand to provide our corporate customers with solutions that best meet their business objectives"

**Operation Review (cont'd)****• Treasury****Mauritius**

Margins are narrowing as competition is becoming more and more fierce. Foreign Exchange profits are down by 11% against the previous year, mainly due to the illiquid local foreign exchange market conditions.

Income from dealings in local securities was as expected, lower than last year as the trend in local currency interest rates are on the rise.

An international bond trading desk was successfully launched in December 2004 and provides a further diversification of the income streams of Treasury operations.

**India**

Limited trading opportunities were present in the local securities market as interest rates continued their upward trend and it is envisaged that this will continue into the coming year.

An equities trading desk has recently been set up to take advantage of the buoyant local stock market.

**Madagascar**

Treasury operations had a good year with profits up 20% over the previous year as foreign exchange volumes picked up significantly.

**• Indian Operations**

Indian Operations focused on mobilizing deposits to reduce the cost of funding as well as reliance on Money Market funds. Average deposits have shown a substantial growth of 33%. Cost of funding has been brought down by 89 bps.

Terminal Advances were maintained at more or less the same level as last year. However, average advances grew by 16%. Interest spread also improved by 98 bps.

Profit after Tax registered a growth of 30% against last year. The quality of the loan book has improved with Net impaired advances to Net Advances down from 4.8% last year to 3.5% as at June 30, 2005.

• **Banque SBM Madagascar (BSBMM)**

The financial year under review was a satisfactory year for the Subsidiary Bank. In spite of increased competition and rightened monetary policy, BSBMM continued to build on its increasing profits.

Profit before provisions and tax increased by MGA 1.6 Bn or 60% to MGA 4.3 Bn in 2005. However, profit after tax increased by MGA 0.6 Bn mainly due to higher provisions made over last year. BSBMM's charge for specific and general provisions for bad and doubtful debts increased to MGA 4.1 Bn, up by MGA 2.0 Bn from last year.

The growth in profit is mainly due to an increase in net interest income and non interest income, coupled with better management of costs.

Deposits increased by MGA 14.9 Bn or 30% over last year to reach MGA 64.8 Bn as at June 30 2005. Growth in deposits was satisfactory taking into consideration the competitive rates on the Treasury bills market.

Advances registered a growth of 45% representing an increase from MGA 39.8 Bn to MGA 57.6 Bn at June 30 2005. Growth was particularly high in short term credit. Credit mix remained unchanged.

BSBMM went live in September 2004 with the new core system, Flexcube, and Oracle GL. This enormous change in terms of its hardware



"Our operations in Madagascar are now fully automated with the implementation of the new core IT system."

platform and operating systems occurred in a short span of just 8 months. Key staff were deputed to SBM Mauritius for seven months to be trained on the new system. The Flexcube system was set up to accept the new currency Ariary (MGA) as a base currency for a smooth swap from the existing Malagasy Franc (MGF) currency to Ariary (MGA) on 1st January 2005. With the implementation of Flexcube and Oracle, operations in Madagascar are now fully automated.

## Operation Review (cont'd)

BSBMM also successfully installed Reuters in view of the introduction of the Continuous Foreign Exchange Market.

BSBMM is now using the Moody's Financial Analyst tool for credit risk portfolio management to further enhance its risk management practices.

BSBMM intends to provide training opportunities in specific banking skills with the help of the Centre National de Formation Bancaire (CNFPB) whilst providing additional responsibilities to some bright and deserving young Malagasy staff to enhance staff motivation, increase skills sets and enable appropriate succession and career planning.

### • Support Services

#### ◦ Service Delivery Channels

SBM has an extensive distribution network with 47 Service Units including 3 in India, 1 in Madagascar; 4 counters – one at the airport in Mauritius, 3 in Rodrigues (at the airport, at Mont Lubin and La Ferme); 102 ATMs (63 attached to Service Units and 39 off-site); 1400 POS, Phone banking; Internet banking and also an E-Commerce Portal.

TopUp facilities for prepaid mobile phones (for buying of air time) were introduced at ATMs in November 2003, and this was followed in July 2004 via SMS on mobile phones. To date, the Bank is still the only bank that can offer TopUp via SMS. TopUp facilities were further extended through an internet portal ([www.ropup.mu](http://www.ropup.mu)).

As from June 2005, this service is also available on Point of Sales at various merchant locations.

During May 2005, SBM launched the first fully operational Europay-MasterCard-Visa (EMV) chip card in sub-Saharan Africa. Chip cards offer new payment options and services, greater security and more convenience and choice compared to traditional magnetic stripe cards. Chip cards also provide additional levels of security as they store encrypted data using algorithms.

Roll out of the EMV chip cards commenced in August 2005 and will be completed within the next two years and ATMs have been upgraded to accept the new chip cards.



"SBM is the only bank in Mauritius offering CHIP cards, which comprise new payment options and services, greater security and more convenience and choice compared to traditional magnetic stripe cards"

The Bank installed a Proactive Risk Management System that scores all credit and debit card transactions online before approval. In case of suspicious transactions, alerts are sent to the Fraud Monitoring Team, who then screens the transactions before taking a final decision on whether or not to allow the transaction. It is a state-of-the-art rules-based system, which in April 2005, enabled the bank to identify and crack down on a network of fraudsters who were using counterfeit cards from the UK in Mauritius.

In April 2005, all ATMs were upgraded in order to cater for multimedia possibilities. This enables high-resolution display of advertisements that are viewed by a large percentage of our customers 24/7/365.

#### ◦ Human Resources

The Bank has always considered its people as its most valuable asset. In order to maintain its leadership in a competitive market, much emphasis is laid on training and people development, thereby ensuring increased productivity.

A quarterly and annual performance appraisal is carried out to identify strengths and skills gaps of staff. Top performers are recognized for their contributions and appropriate training programmes are provided through various in-house programmes and external resources to address identified gaps. Training focuses on key areas such as leadership, product knowledge, customer service, work ethics and technical aspects.

The concept of contractual employment is being encouraged in order to reward staff more suitably in line with their yearly performance and more importantly to provide encouragement and motivation to continually enhance their skills and performance. Staff are rewarded based on achievement of their KPI's (Key Performance Indicators).

All recruits are given an Induction Programme that covers a general overview of the working of the Bank and training on the use of the Tools and Systems at the Bank.

All staff follow guidelines as defined in the Code of Ethics and Business Conduct of the Bank and adhere to the principles of good corporate governance.

SBM Park, a combined leisure and learning centre, provides opportunities for staff to participate in various sports, educational and cultural activities and further build the SBM team spirit.



## Operation Review (cont'd)



"Staff are kept abreast of developments in their area of operation. Here staff are pictured undergoing anti-money laundering training at SBM Park's fully equipped training centre in Curepipe"

### ◦ Strategic Marketing

Marketing has continued to build the Bank's competitive advantage through innovation and by being first to market with exciting new products and services. Strategic emphasis has been placed on refining segmentation and providing bundled offerings appropriate to the different market segments.

Optimisation of effective channels has also been a key strategy. Customers benefit from centralized sales and enquiry support from our Hotline, available beyond normal banking hours and Mobile Sales Officers and Personal Bankers call on customers at their home or office to discuss their financial requirements.

During the forthcoming year efforts will be concentrated in growing market share in mortgages and personal loans as well as differentiating our Corporate offering through a range of new structured loans and foreign currency borrowing options.

◦ **Information Technology**

Upgrades undertaken during the year under review include:-

- Migration to Chip based cards, which includes set international standards of operation and provide a safer transaction environment for both the customer and the bank.
- In December 2004 a fully integrated banking solution, Flexcube, was implemented in Banque SBM Madagascar (BSBMM), being the same core business banking solution that is used for SBM's Mauritius operations. Customers' data is located in the SBM Mauritius data centre and BSBMM is connected online real time through a satellite link (VSAT) to Mauritius. The Flexcube solution offers Retail and Corporate (Treasury, Trade Finance) functions and supports the bank's front and back office functions. BSBMM Flexcube also interfaces with Oracle GL.
- Flexcube will also be rolled out to Indian Operations by March 2006, operating on an Application Service Provider (ASP) model. The host database will reside at the ASP, namely Flexcel in Mumbai. SBM India's three branches will be connected on an online real time basis to the host database in Flexcel.

Systems uptime overall exceeds 99.9%.



"SBM's e-commerce portal provides anywhere, anytime, convenient shopping – shops stay open for you 24/7/365"

## Operation Review (cont'd)

### ◦ Operations Management

Operations Management plays a key role in enabling the organization to achieve its business objectives by implementing effective systems and processes. Tight internal control ensures quality of transaction processing and integrity of the data. The Operational Risk Management Framework permits the timely identification, assessment, monitoring and mitigation of operational risks.

Specific performance objectives including the number of error free transactions, timeliness of operations and customer request resolution rate are clearly spelt out, ensuring that the Operations Management team add value by providing quality and timely operational services to its stakeholders.

### • Subsidiaries

#### ◦ SBM Lease Ltd

SBM Lease Limited is a wholly owned subsidiary of State Bank of Mauritius Ltd, providing lease facilities for all types of movable assets to both the corporate and retail sectors of the Mauritian economy. It holds a deposit taking licence issued by the Central Bank.

In June 2004 the Company successfully implemented Finnone, a leasing solution from Nucleus Software. The solution has been interfaced with SBM's core banking systems.

The company benefits from the support of the various specialized units within the SBM Group such as Credit Underwriting, Credit Services, Risk Management and Finance.

SBM Lease achieved a profit of Rs61.2M in 2005, up by 51.5% from Rs40.4M in 2004. The growth was mostly driven by better liability management.



"Customer conducting business in a highly conducive environment at SBM's newly refurbished Curepipe Service Centre"



◦ **SBM Mauritius Asset Managers Ltd**

SBM Mauritius Asset Managers Ltd (SBMMAM) is the fund management arm of SBM Group. The company provides investment solutions to institutional investors, pension funds and private clients and its goal is to deliver superior results through its investment expertise and superior investment platforms. SBMMAM aims to provide the appropriate solutions based on the clients' needs and objectives by continuously putting its clients at the heart of everything it does.

Following SBMMAM's continuous commitment towards its customers, a cooperation agreement was signed with the Union Bank of Switzerland (UBS) at the beginning of 2005. Through the full range of 175 UBS funds, SBMMAM can now offer its clients the opportunity to invest in foreign markets and benefit from professional research, which constantly seeks out attractive securities in the various investment universes.

SBMMAM had Rs1,925M funds under management as at June 30 2005 compared to Rs1,551M at June 30 2004 and recorded a profit of Rs12.2M for the year ended June 2005, compared to Rs6.85M last year an increase of 78%.

◦ **SBM Securities Ltd**

SBM Securities is the stock broking arm of SBM Group. It ranked third amongst the domestic stock broking companies in terms of market share and profitability. SBM Securities assists



"Our clients have the opportunity to invest in foreign markets and benefit from professional research, which constantly seeks out attractive securities in the various investment universes"

## Operation Review (cont'd)

investors in investment decisions through high levels of personalised service, continuous client contact and proactive advice.

The Company's objective is to build collaborative processes with SBM businesses and third party vendors, across the value chain, to deliver faster solutions to market, as well as to drive operational efficiency.

During the period under review, SBM Securities Ltd achieved a turnover of Rs3.2M and a net profit of Rs2.6M.

### ◦ SBM Investments Ltd

SBM Investments Ltd (SIL) is the domestic investment arm of SBM that focuses on equity investments for strategic and long-term capital gain. During the year, SIL disinvested most of its passive quoted equity investment to the tune of Rs57.0M and reduced its issued capital to Rs25,000/- from Rs25.0M. At June 30, 2005 the Company had equity investments worth Rs129.5M against Rs190.6M at June 30, 2004. Profit for the year ended June 30, 2005 from its operations and share of profits of its subsidiaries amounted to Rs18.3M.

### ◦ SBM Global Investments Ltd

SBM Global Investments Ltd (SGI) is the investment arm of SBM Group for non-Mauritian rupee equity investments. It holds 79.99% of the equity of Banque SBM Madagascar and 20.1% of the equity of SBM Nedcor Holdings Ltd. During the year SGI reduced its issued and fully paid up share capital from US\$6,000,002 to US\$2,000. Profits of the Company including the share of profits of its subsidiary and associate increased from US\$955,166 in 2004 to US\$1,987,674 in 2005

### ◦ SBM Financials Ltd

SBM Financials Ltd is a wholly owned subsidiary of the SBM Group. It provides share registry services and debenture holder's representative and other fiduciary services.

The company achieved profits of Rs1.3M for the year ended June 30, 2005 compared to Rs1.8M last year. The Company made a one-time profit of Rs0.9M in 2004 from the processing of share applications for a client listed on the Stock Exchange of Mauritius.

### ◦ SBM IT Ltd

SBM IT Ltd is the technology arm of SBM and is a support service provider for the SBM Group. During the year the Company reduced its issued share capital from Rs10.0M to Rs25,000/-.

## Financial Review

### FINANCIAL INDICATORS

	2005	2004	2003	Restated <sup>1</sup>	
				2002	2001
<b>Consolidated Profit &amp; Loss for the year ended June 30 (MRs million)</b>					
Net Interest Income	1,625	1,481	1,365	1,282	1,198
Non Interest Income (excluding Profits of Associates)	789	888	665	543	436
Non Interest Expense	922	905	769	681	594
Depreciation	245	194	202	200	152
Net Income before Income Taxes & Provision for Credit Losses	1,580	1,530	1,330	1,198	1,094
Net Income before Income Taxes	1,501	1,366	1,186	1,029	991
Net Income before Income Taxes Grossed Up	1,536	1,415	1,263	1,154	1,129
Net Income after Income Taxes	1,196	1,130	1,021	959	879
Net Income available to Shareholders	1,191	1,127	1,018	952	871
<b>Consolidated Balance Sheet as at June 30 (MRs Million)</b>					
Total Assets (including contra items) *	57,346	51,300	46,912	43,353	37,039
Total Assets (excluding contra items)	48,607	42,258	38,418	34,245	31,283
Deposits from Non-Banks	34,901	32,796	29,182	26,150	24,473
Loans and Advances to Customers	24,502	22,672	21,566	21,279	20,702
Gift-Edged Securities	9,397	11,089	9,184	5,892	3,764
Total Shareholders' Funds	8,183	6,135	5,139	4,887	4,281
Total Tier 1 Capital	5,536	4,740	4,907	4,656	4,075
Market Capitalisation	10,440	8,910	6,388	4,475	5,355
Weighted Risk Assets <sup>3</sup>	30,999	28,694	26,276	21,943	21,060
<b>Consolidated Balance Sheet (Average<sup>2</sup> MRs Million)</b>					
Average Assets	45,357	38,928	34,858	32,665	29,235
Average Shareholders' Funds	7,744	5,859	5,194	4,724	4,084
Average Working Funds	42,951	37,753	34,695	32,438	29,095
Average Tier 1 Capital	5,338	4,683	5,031	4,496	3,945
Average Loans and Advances to Non-Banks	24,170	22,241	21,014	21,149	20,306
Average Deposits from Non-Banks	32,885	29,555	26,190	24,876	22,162
Average Gift-Edged Securities	9,395	9,424	7,404	4,690	3,242
Average Interest Earning Assets	37,921	33,613	29,916	28,223	25,477
Average Interest Bearing Liabilities	36,182	32,059	28,571	26,946	24,151
<b>Per Ordinary Share</b>					
Earnings per share (Rs)	3.66	3.46	2.84	2.62	2.40
Dividend (Rs)	1.30	1.20	1.10	1.00	0.90
Book Value (Rs)	25.17	18.87	15.29	13.45	11.78
Market Price (Rs)	27.30	23.30	16.70	11.70	14.00
Dividend Yield (%)	4.76	5.15	6.59	8.55	6.43
Earnings Yield (%)	13.42	14.86	16.99	22.38	17.13
Price Earnings Ratio (times)	7.45	6.73	5.89	4.47	5.84
Dividend Cover (times)	2.82	2.89	2.85	2.62	2.66
<b>Performance Ratios (%)</b>					
Risk Adjusted Return on Capital (RAROC)	38.09	39.08	N/A	N/A	N/A
Capital to Weighted Risk Assets <sup>3</sup>	21.78	17.79	18.16	20.55	18.70
Net Income before Income Taxes** / Average Weighted Risk Assets <sup>4</sup>	5.15	5.15	5.24	5.37	5.51
Net Income before Income Taxes** / Average Assets	3.39	3.63	3.62	3.53	3.86
Net Income before Income Taxes** / Average Working Funds	3.58	3.75	3.64	3.56	3.88
Net Income before Income Taxes** / Average Shareholders' Funds	19.83	24.15	24.32	24.41	27.64
Net Income before Income Taxes** / Average Tier 1 Capital	28.77	30.21	25.11	25.65	28.62
Recurring Earning Power	3.28	3.76	3.62	3.50	3.48
Return on Average Weighted Risk Assets <sup>4</sup>	4.01	4.11	4.23	4.46	4.29
Return on Average Assets	2.64	2.90	2.93	2.94	3.01
Return on Average Working Funds	2.79	2.99	2.94	2.96	2.94
Return on Average Shareholders' Funds	15.45	19.29	19.65	20.31	21.54
Return on Average Tier 1 Capital	22.41	24.13	20.29	21.34	22.28
<b>Efficiency Ratios (%)</b>					
Cost to Income (grossed-up for tax exempt debentures)	38.91	40.15	39.17	38.24	35.73
Cost to Income (Before Depreciation)	28.55	31.55	28.88	27.01	26.61
<b>Other Key Data as at 30 June 2005</b>					
Number of Employees	901	887	877	839	799
Number of Employees - (Mauritius)	842	833	818	779	738
Number of Employees - (Overseas)	59	54	59	60	61
Number of Service Units	47	47	46	46	48
Exchange Rate (US \$: MUR)	29.47	28.15	29.25	30.01	29.14

\* Commitments for 2001 have not been restated.

\*\* Grossed up for tax exempt debentures.

<sup>1</sup> Restated for comparative purposes.

<sup>2</sup> Averages are based on daily balances as from 2003. Prior two years are based on monthly balances.

<sup>3</sup> Risk Assets are computed as per regulatory requirement based on credit as well as operational risks of the Group as from 2003.

<sup>4</sup> Average Weighted risk assets are calculated using year end balances.

## FINANCIAL REVIEW

The audited financial statements for the Group and the Bank for the year ended June 30, 2005 are presented on pages 26 to 73. The following financial analysis is included for the benefit of the stakeholders. It should be noted that in the financial year 2004/05, the Bank revised its depreciation estimates on Core Banking IT systems implemented in 2002 and 2003 from 10% to 20% per annum of their net book value standing at June 30, 2004. Land and buildings are stated at open market value basis in 2005.

**Table 5 - Performance against objectives by key areas**

	<b>Objectives for 2005</b>	<b>Actuals 2005</b>	<b>Objectives for 2006</b>
1.RAROC(%)	To improve by around 500 bp	Decreased by 100 bp	To improve by around 200 bp
2.Return on Average Tier 1 Capital (%)	To maintain/improve marginally	Decreased by 216 bp	To maintain/improve marginally
3. Return on Average Assets (%)	To improve by around 20 bp	Decreased by around 26 bp	To improve by 10 bp
4.Net Income available to Shareholders	To grow by around 10%	Grew by 5.7%	To grow by around 12%
5. Non Interest Income to Average Assets (%)	To improve by 15 bp	Decreased by 41 bp	To improve by 20 bp
6.Cost to Income Ratio excluding one-time items(%)	To improve by around 100 bp	Deteriorated by around 200 bp	To improve by around 300 bp
7.Average Non-Bank Advances	To grow by around 8%	Grew by 3.1%	To grow by around 7%
8.Average Non-Bank Deposits	To grow by around 5%	Grew by 0.8%	To grow by around 5%
9.Assets Quality: Impaired assets to Advances (%) (Net)	To improve to around 0.50	Increased by around 52 bp	To improve to around 0.50

## Results

The Group achieved a satisfactory performance for the year ended June 30, 2005 despite the difficult market environment in Mauritius characterized by excess liquidity and low demand for credit. The average interest rate on Treasury bills portfolio dropped substantially in 2005 compared to the average interest rates on deposits.

Net Income before income taxes registered a growth of 9.94% from Rs1,365.5M for the year ended June 30,2004 to Rs1,501.3M for the year ended June 30, 2005. Net Income available to shareholders grew by 5.74% from Rs1,126.5M to Rs1,191.2M over the same period due to a higher effective tax rate.

### Net Interest Income

The Group's Net Interest Income recorded a growth of 9.73% from Rs1,480.7M for 2004 to Rs1,624.7M for 2005.

**Table 6 - Net Interest Income**

MRs Million	2005	2004	2003
Interest on loans	2,300	2,132	2,212
Interest on gilt-edged Securities	618	779	716
Interest on Placements with Banks	153	71	75
<b>Total Interest Income</b>	<b>3,071</b>	<b>2,982</b>	<b>3,003</b>
Interest Expense - Deposits	(1,324)	(1,400)	(1,534)
- Bank Borrowings	(118)	(101)	(104)
- Other	(4)	-	-
<b>Net Interest Income</b>	<b>1,625</b>	<b>1,481</b>	<b>1,365</b>
Average Interest Earning Assets (IEA)	37,921	33,613	29,916
Return on IEA (%)	8.10	8.87	10.04
Average Interest bearing liabilities (IBL)	36,182	32,059	28,571
Cost of IBL (%)	4.00	4.68	5.73
Net Interest Margin (%)	4.28	4.41	4.56
Spread (%)	4.10	4.19	4.31

Net Interest margin before provision for credit losses dropped by 13 basis points from 4.41% for 2004 to 4.28% for 2005. The decrease is due to a combination of factors, namely a change in the assets mix, drop in average yields of treasury bills by around 2.13%, higher proportion of foreign currency assets yielding lower margins and lower margin on advances. Cash and Interbank balance and loans accounted for 12% and 54% of average assets respectively in 2004 compared to 16% and 52.9% in 2005. The decrease was somewhat mitigated by better liability management.

Net interest income to average assets decreased from 3.80% for 2004 to 3.54% for 2005, a drop of 26 basis points.

### Non Interest Income

Non interest income is analysed under four broad categories, namely currency trading, fees and commissions, securities trading and other income.

**Table 7 - Non Interest Income**

MRs Million	2005	2004	2003
Fees & Commission	401	320	253
Trading of Currencies	288	331	239
Trading of Securities	(15)	90	79
Disposal of Investments Securities	40	64	-
Disposal of Fixed Assets	5	12	13
<b>Total Non Interest Income</b>	<b>719</b>	<b>816</b>	<b>584</b>
Analysed as under			
Domestic (Mauritius)	684	716	501
Overseas	36	100	83
<b>Total</b>	<b>719</b>	<b>816</b>	<b>584</b>

## Financial Review (cont'd)

Non interest income registered a negative growth of 11.89% from Rs816M for 2004 to Rs719M for 2005. Excluding one-time capital gains on disposal of investments of Rs62M in 2004, and Rs35M in 2005, the decrease would be 9.28%. Currency trading income registered a year on year decrease of 13% in 2004 mostly because of lower volumes in a highly competitive environment. Dealings in securities trading registered a net loss of Rs14.9M for 2005 compared to a profit of Rs89.6M for 2004. Indian Operations posted a loss of Rs14.5M on the fair valuation of securities due to the upward movement of interest rates. On the other hand, fees and commissions grew by 25.31% for 2005 over 2004.

The contribution of overseas operations to non interest income decreased from 12.23% for 2004 to 4.99% for 2005. This was largely because of a negative contribution by Indian Operations.

Non interest income to gross operating income before provisions for credit losses accounted for 28.74% in 2005 against 33.51% in 2004. Non interest income excluding one-time items to average assets for 2004 and 2005 stood at 1.92% and 1.49% respectively.

### Non Interest Expense

Non interest expense increased by 1.86% from Rs905.0M for 2004 to Rs921.8M for 2005.

Non interest expenses are grouped under the following broad categories: staff, system, property and other expenses.

**Table 8 - Non Interest Expense**

MRs Million	2005	2004	2003
<b>Staff Costs</b>	<b>403.3</b>	483.8*	367.9
<b>System Costs</b>			
Depreciation	182.0	122.9	106.9
Maintenance	66.9	48.9	37.3
Communication and Others	24.1	28.2	23.5
	<b>273.0</b>	200.0	167.7
<b>Property Costs</b>			
Depreciation	61.1	69.6	92.5
Maintenance/Repairs	19.1	16.0	17.6
Rent, Taxes and Insurance	36.2	29.9	28.0
Utilities and Others	26.1	25.0	27.5
	<b>142.5</b>	140.5	165.6
<b>Other Expenses</b>			
Printing & Stationery	16.9	18.6	23.8
Marketing and Sponsorships	17.4	14.0	11.7
Others	68.7	48.1	32.2
	<b>103.0</b>	80.7	67.7
<b>Total Expenses</b>	<b>921.8</b>	905.0	768.9

\* Includes one-time cost of Rs88M

The decrease in staff costs from Rs483.8M for 2004 to Rs403.4M for 2005 is mostly due to one-time expenses amounting to Rs88M in 2004 coupled with lower provisions for productivity bonus for 2005. System costs increased by 73.0M or 36.49% to reach Rs273.0M for 2005 mostly because of (a) change in the depreciation estimate for Core Banking IT systems resulting in additional depreciation charge (b) increase in hardware and software maintenance due to the lapse of the warranty period. Property costs increased marginally from Rs140.5M for 2004 to Rs142.5M for 2005. Supplementary depreciation amounting to Rs29M on properties now stated at revalued amount was offset by lower depreciation amounting to Rs39M on furniture and equipment which were fully depreciated at June 30, 2004. The increase in other expenses from Rs80.7M for 2004 to Rs103.0M for 2005 was mostly due to higher one-time legal costs.

Adjusting for the one-time staff costs in 2004, higher depreciation arising from the change in the depreciation rate for Core Banking Systems and revaluation of properties and lower depreciation from fully depreciated Plant and Equipment and Furniture, non interest expense increased from Rs817M for 2004 to Rs887.4M for 2005, representing an increase of 8.6%. Non interest expense excluding depreciation and one-time items was Rs678.7M or 1.48% of Average Assets for 2005 against Rs624.5M or 1.58% for 2004.

#### Cost to Income Ratio

Cost to income ratio, a key measure of efficiency in the banking industry is derived by dividing total non interest expense by gross income from operations (adjusted for grossing up of interest on tax free debentures) less provisions for credit losses. Cost to income improved marginally from 40.15% for 2004 to 38.91% for 2005 mostly due to higher staff costs in 2004. Excluding one-time items, cost to income ratio for 2004 and 2005 was 37.27% and 39.49% respectively. The deterioration of this ratio for 2005 was because of lower growth in gross income of 2.4% whereas expenses increased by 8.6% and was mitigated by lower provisions for credit losses for 2005. SBM cost to income ratio continues to be the lowest among the Mauritian local banks and one of the best in terms of global standards.

#### Provisions for Credit Losses

Specific and portfolio provisions for credit losses for the period under review amounted to Rs160.6M compared to Rs179.7M last year, representing a decrease of 10.67%. However, the net charge for credit losses to the income statement was Rs78.6M, mostly because of reversal of specific provisions amounting to Rs88.5M. Recoveries of advances written off amounted to Rs7M for 2005 against Rs2M for 2004.

**Financial Review (cont'd)**

**Income Taxes**

Tax expense increased from Rs235.3M for 2004 to Rs304.9M for 2005, representing an increase of 29.54%. Profit before taxation excluding exempt income of Rs196.2M amounted to Rs1,305.1M for 2005 whereas for 2004 profit before taxation net of exempt income of Rs332.5M amounted to Rs1,033.0M. Moreover, investment allowance which is a one-time tax relief of 25% of qualifying capital expenditure in respect of the year in which the capital expenditure is incurred amounted to Rs56.4M for 2004 compared to Rs19.0M in 2005. In view of the above and one time expenses of Rs88M in 2004 the effective tax rate increased from 17.23% for 2004 to 20.31% for 2005.

**Assets**

Total assets excluding contingent assets grew by 15.03% from Rs42,257.7M at June 30, 2004 to Rs48,607.0M at June 30, 2005. The growth was driven mostly from the domestic market, namely increase in placements with foreign banks by Rs4.6Bn, increase in advances by Rs1.7Bn and net increase arising from the valuation of properties and equity investment by Rs1.2Bn. On the other hand, investment in gilt-edged securities, which witnessed a substantial drop in yields, decreased by Rs2.0Bn. Assets of our overseas operations increased by Rs671M from Rs3,345M at June 30, 2004 to Rs4,016M at June 30, 2005 and accounted for 7.92% and 8.26% of total assets at June 30, 2004 and June 30, 2005 respectively. The assets of our Madagascar subsidiary increased by 37.90% from 2004 to 2005 due to higher advances. Focus on treasury activities and low risk advances at Indian Operations led to an increase in assets of 14.27% .

**Chart 8 - Average Assets Mix**

Average Assets Mix 2005

Average Assets Mix 2004

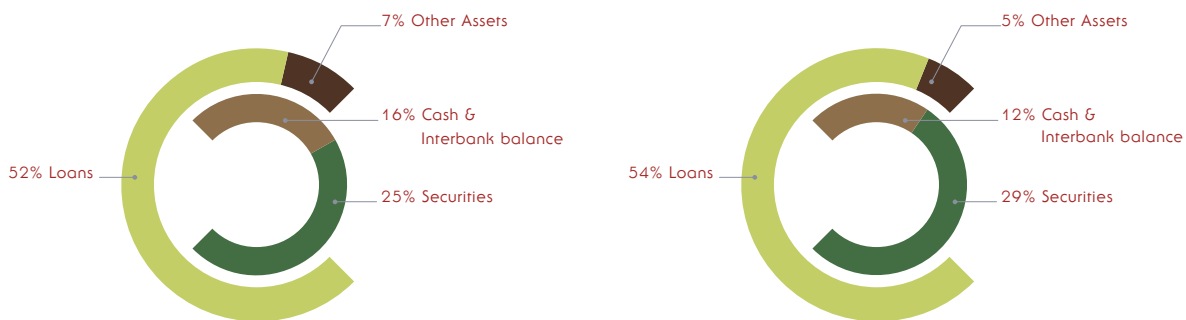


Chart 8 shows average assets mix for the group. Eliminating the effect of the valuation of properties, the proportion of advances and gilt edged securities as a percentage of average assets improved to 53% and 26% respectively for 2005.



### Loans and Advances

Gross advances increased by Rs1,590.4M or 6.76% from Rs23,537.7M as at June 30, 2004 to Rs25,128.1M as at June 30, 2005. With the backdrop of the excess liquidity and limited lending opportunities, the Bank has been cautious in extending credit facilities and has adhered to existing credit policy. Bank's advances to the domestic market grew by a lower rate of 6.37% than the market growth of 9.63% thereby bringing its share of advances in the domestic market from 22.14% as at end of June 2004 to 21.48% as at end of June 2005. Advances to the international markets increased from Rs2,807.4M to Rs3,087.4M over the same period, an increase of Rs280.0M or 9.98%. Note 7E to the Financial Statements shows gross advances, impaired advances and allowances for credit losses by portfolios. The personal and professional segments registered growth of Rs872.9M and Rs151.9M respectively. In line with the Group's risk appetite and credit risk policy, the portfolios reflect a balanced and quality loan book.

Impaired advances to gross advances stood at 2.72% as at end of June 2005 compared to 4.17% as at end of 2004 mostly because of write-offs and/or recovery of impaired advances. Net impaired advances to net advances improved further from 1.34% as at end of 2004 to 1.02% as at end of 2005. Table 9 shows gross advances, impaired advances and allowance for credit losses for 2004 and 2005. The quality of credit is expected to further improve with our enhanced credit assessment, the current implementation of Moody's Risk Advisor tool and emphasis on credit expansion to companies with good ratings.

**Table 9 - Impaired Advances & Allowance for Credit Losses**

MRs Million	2005	2004	2003
Gross Advances	25,128	23,538	22,045
Impaired Advances	684	982	1,811
Specific Provision	410	651	276
Portfolio Provision	216	215	203
<b>Total Provision for credit losses</b>	<b>626</b>	<b>866</b>	<b>479</b>
Impaired Advances as a % of Gross Advances	2.72	4.17	8.22
Net Impaired Advances to Net Advances (%)	1.02	1.34	5.54
Specific Provisions to Impaired Advances (%)	59.94	66.29	15.24

### Allowance for Credit Losses

Specific provision for credit losses relates to identified impaired advances and is calculated as the difference between the carrying amount of the impaired advance and recoverable amount, i.e the present value of estimated future cash flows discounted at the original effective rate in accordance with IAS 39. Furthermore, the Central Bank guideline on credit impairment measurement and income recognition which came into effect on November 01, 2004 requires that the value to be considered in determining the recoverable amount of an

## Financial Review (cont'd)

impaired loan shall not exceed 50% of the appraised value of the collateral (unless the contrary is presented and accepted by the Central Bank), discounted to its present value using the loan effective interest rate. In case the loan is overdue by 360 days and proper legal action in court for realization of the collateral has commenced, the limit shall be 40%. The above limit does not apply to collateral of liquid assets. Portfolio provision is the amount of potential losses not specifically identified but which experience indicates are present in the portfolio of loans. The Central Bank guideline requires a minimum portfolio provision of 1% of the entire performing loans portfolio, excluding loans which are collateralised by liquid assets and credits extended directly to the Government of Mauritius or to public sector enterprises backed by government guarantees. Portfolio provision ranges between 0% to 4.08% based on portfolio credit loss experience at the Bank for the past 4 years.

Table 10 shows specific and portfolio provisions by portfolios.

**Table 10 - Specific & Portfolio Provisions**

PORTFOLIO (MRs'000)	SPECIFIC PROVISION			PORTFOLIO PROVISION			TOTAL PROVISION		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Agriculture and Fishing	24,783	15,935	803	1,412	4,892	4,868	26,195	20,827	5,671
Manufacturing	77,240	135,222	156,917	121,671	32,144	36,808	198,911	167,366	193,725
Tourism	7,439	12,643	13,678	5,822	33,418	41,237	13,261	46,061	54,915
Transport	11,652	8,323	2,814	1,074	3,933	1,514	12,726	12,256	4,328
Construction	57,227	147,491	12,256	20,882	61,945	12,697	78,109	209,436	24,953
Financial & Business Services	452	1,149	12,945	11,276	10,945	14,395	11,728	12,094	27,340
Traders	99,917	165,438	69,126	39,718	23,839	32,894	139,635	189,277	102,020
Personal	118,410	143,597	7,243	10,665	29,585	35,527	129,075	173,182	42,770
Professional	-	-	0	128	2082	2,975	128	2,082	2,975
New Economy	845	1,040	0	190	1,815	12,023	1,035	2,855	12,023
Infrastructure	-	-	1	61	3,110	5,520	61	3,110	5,521
Other	12,086	19,766	554	3,555	7,188	2,225	15,641	26,954	2,779
<b>TOTAL</b>	<b>410,051</b>	<b>650,604</b>	<b>276,337</b>	<b>216,454</b>	<b>214,896</b>	<b>202,683</b>	<b>626,505</b>	<b>865,500</b>	<b>479,020</b>

Note 7D to the Financial Statements shows the movement in the allowances for credit losses during the year.

### Deposits

Group's deposits reached Rs35.0Bn at the end of June 2005 from Rs32.87Bn at end of June 2004, representing an increase of 6.48%. The growth came from the domestic market which contributed 92% of the increase in total deposits for the period under review. Bank's deposits grew by a lower rate of 6.73% than the industry growth of 7.9%. The Bank focused on liability management rather than aggressively mobilising deposits in view of the excess liquidity in industry.

Average MUR term deposits bearing higher interest rates decreased from Rs8,099M at June 30, 2004 to Rs6,575M at June 30, 2005, a decrease of 18.82% whereas MUR savings deposits increased from Rs14,899M to Rs17,223M, or 15.60%, over the same period. Total low cost portfolio deposits increased from 63% at June 30, 2004 to 66% at June 30, 2005.

Deposits from the Personal and Business segments grew by Rs1,242.2M (6.39%) and Rs2,133.9M (23.94%) respectively during the year while deposits from the Government decreased by Rs1,270.2M (28.49%).

Our Malagasy Operations recorded an increase in deposits of 33.5% from June 2004 to June 2005.

Average non Mauritian Rupee deposits increased from Rs5,420M at June 30, 2004 to Rs7,464M at June 30, 2005, an increase of 37.71%.

**Table 11 - Average Non Bank Deposits Mix**

MRs Million	2005		2004		2003	
		%		%		%
Demand						
Mauritian Rupee Deposits	2,069	6	1,711	6	1,587	6
Non Mauritian Rupee Deposits	352	1	370	1	332	1
<b>Total Demand</b>	<b>2,421</b>	<b>7</b>	<b>2,081</b>	<b>7</b>	<b>1,919</b>	<b>7</b>
Savings						
Mauritian Rupee Deposits	17,223	51	14,898	50	13,247	49
Non Mauritian Rupee Deposits	2,518	8	1,912	6	1,254	5
<b>Total Savings</b>	<b>19,741</b>	<b>59</b>	<b>16,810</b>	<b>56</b>	<b>14,501</b>	<b>54</b>
Term						
Mauritian Rupee Deposits	6,575	20	8,099	27	7,687	29
Non Mauritian Rupee Deposits	4,594	14	3,138	10	2,704	10
<b>Total Term</b>	<b>11,169</b>	<b>34</b>	<b>11,237</b>	<b>37</b>	<b>10,391</b>	<b>39</b>
<b>Grand Total</b>	<b>33,332</b>	<b>100</b>	<b>30,128</b>	<b>100</b>	<b>26,811</b>	<b>100</b>
Total MUR Deposits	25,867	78	24,708	82	22,521	84
Total Non MUR Deposits	7,464	22	5,420	18	4,290	16

### Shareholder's Fund

Shareholders' Fund registered a growth of 33.39% from Rs6,134.7M at June 30, 2004 to Rs8,182.8M at June 30, 2005. The increase is attributable to various factors, including:-

- property valuation reserve net of deferred tax of Rs962M
- retained profits for the year of Rs769M
- increase in fair value of equity investments by Rs213M
- translation gains of Rs77M.

## Financial Review (cont'd)

The net asset value per share increased from Rs18.87 at June 30, 2004 to Rs25.17 at June 30, 2005. The Group's capital adequacy ratio at June 30, 2005 stood at 21.78%, up from 17.79% at June 30, 2004. Return on Average Tier 1 Capital decreased from 24.13% at June 30, 2004 to 22.41% at June 30, 2005.

### Capital Structure

Central Bank Guidance Notes on Risk Weighted Capital Adequacy Ratio which is based on the 1988 Basel Capital Accord sets out the regulatory requirements with respect to Banks' capital structure. For the purpose of assessing capital adequacy, capital is divided into 2 tiers: Core capital also known as Tier 1 capital and Supplementary capital also known as Tier 2 capital. Tier 1 capital includes paid up capital, share premium, statutory reserve and revenue reserve. Tier 2 capital includes revaluation reserve and subordinated debt including portfolio reserve, if any. Only 75% of the property revaluation reserve and 50% of the investment revaluation reserve are included under Tier 2 capital.

Capital adequacy of a bank is gauged by the ratio of the sum of the risk weighted assets, risk assessed off-balance sheet exposures and weighted risk assets for operational risk to its capital base. Capital base is the total of Tier 1 and Tier 2 capital less investments in subsidiaries and associates and holdings of other banks' capital instruments. Table 12 shows the calculation of the capital adequacy ratio. Central Bank has set a higher minimum capital adequacy ratio of 10% compared to the Basel Committee minimum level of 8%.

**Table 12 - Group Capital Structure**

MRs Million	June 05	June 04	June 03
<b>I. Capital Base</b>			
Paid up Capital	382.4	382.4	382.5
Share Premium	570.0	570.0	570.0
Statutory Reserve	480.3	465.8	455.9
Revenue Reserve	5,015.9	4,234.4	4,224.4
Less Treasury Shares	(912.7)	(912.7)	(726.1)
<b>Total Tier 1 Capital (A)</b>	<b>5,535.9</b>	<b>4,739.9</b>	<b>4,906.7</b>
Reserves arising from revaluation of properties	721.5	-	-
Reserves arising from fair valuation of equity investments	728.3	626.9	-
Translation & Other Reserve	224.4	147.9	230.3
Portfolio provision for credit losses	216.5	214.9	202.7
<b>Total Tier 2 Capital (B)</b>	<b>1,890.7</b>	<b>989.7</b>	<b>433.0</b>
Less Investments in Associates (C)	(675.8)	(625.2)	(568.3)
<b>Total Capital Base [(A)+(B-C)]</b>	<b>6,750.8</b>	<b>5,104.4</b>	<b>4,771.4</b>
<b>II. Weighted Risk Assets</b>			
Risk Weighted on Balance Sheet Assets	26,017	23,248	21,504
Risk weighted off Balance Sheet Exposure	2,043	1,865	1,523
Aggregate net open Foreign Exchange position	52	482	244
<b>III. Weighted Risk Assets for Operational Risk</b>	<b>2,887</b>	<b>3,099</b>	<b>3,005</b>
<b>Total Weighted Risk Assets</b>	<b>30,999</b>	<b>28,694</b>	<b>26,276</b>
<b>IV. Risk Assets Ratio (%)</b>	<b>21.78</b>	<b>17.79</b>	<b>18.16</b>

Table 13 - Risk Weighted On-Balance Sheet Assets

MRs Million	2005			2004			2003		
	Balance	Risk Weight %	Risk Weighted Amount	Balance	Risk Weight %	Risk Weighted Amount	Balance	Risk Weight %	Risk Weighted Amount
Cash in hand & with Central Bank	1,895	0	0	2,040	0	-	1,924	0	-
Balance with local Banks	87	20	17	144	20	29	145	20	29
Balances & Placement with Offshore Banks and Banks abroad	6,758	20	1,352	1,987	20	397	2,261	20	452
Gift-edged Securities	9,397	0-100	287	11,089	0-20	138	9,184	0	-
Equity Investments	1,653	100	1,653	1,515	100	1,515	298	100	298
Fixed/Other Assets	3,467	100	3,467	2,069	100	2,069	2,202	100	2,202
Balance due in Clearing	173	20	35	116	20	23	271	20	54
Advances	24,718	0-100	19,206	22,887	0-100	19,077	21,768	0-100	18,469
<b>TOTAL</b>	<b>48,148</b>		<b>26,017</b>	<b>41,847</b>		<b>23,248</b>	<b>38,053</b>		<b>21,504</b>

### Basel II Capital Accord

Whereas Basel I focuses on the capital base of banks, Basel II emphasises the measurement and management of key banking risks including credit, market and operational risks. Basel II is founded on three pillars.

**Pillar 1** is essentially an upgrade of Basel I with emphasis on risk sensitive capital requirements depending on borrower profiles rather than the existing flat treatment of credit risk. Besides credit risk and market risk, Pillar 1 introduces a capital charge for operational risk. Operational risk is defined by the Basel Committee as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank is implementing Basel II in a phased manner as directed by the Central Bank. Central Bank issued a guideline on operational risk management and capital adequacy determination which came into effect on April 01, 2005. The guideline prescribes 3 methods as identified by the Basel Committee for calculating operational risk capital charge based on a continuum of increasing complexity and risk sensitivity of a bank's operations. These are (1) Basic Indicator Approach (2) Standardised Approach/Alternative Standardised Approach (3) Advanced Measurement Approach.

Banks are required to implement as a minimum, the Basel Indicator Approach. The Bank has implemented the Alternative Standardised Approach. Under the Alternative Standardised Approach, a bank's activities are divided into eight business lines: Corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management and retail brokerage. The capital charge for each business line

## Financial Review (cont'd)

except for retail banking and commercial banking is calculated by multiplying gross income by a beta factor which varies from 12% to 18%. For retail and commercial banking lines of business, the gross income is replaced by the outstanding balance of loans and advances, multiplied by a fixed factor of 0.035 and multiplied by the beta factor. The total capital charge is calculated as the three year average of the simple summation of the regulatory capital charges across each of the business lines in each year. The risk weighted assets for operational risk are derived by multiplying the capital charge by ten.

**Pillar 2** is based on a series of guiding principles, all of which point to the need for banks to assess their capital adequacy positions relative to their overall risks, and for supervisors to review and take appropriate actions in response to these assessments. In addition to ensuring that banks have adequate capital to support all the risks in their business, the Supervisory review process of Basel II aims at encouraging them to develop and use better risk management techniques. The forward looking approach to capital adequacy supervision advocated by Basel II would facilitate adjustments to the framework to reflect market developments and advances in risk management practices.

**Pillar 3** – Market discipline consists of a set of disclosures that will allow market participants to assess key information about a bank's risk profile and level of capitalisation. Public disclosure is particularly important with respect to the new Accord where reliance on internal methodology will provide banks with greater discretion in determining their capital needs.

The Bank has been working on the implementation of the Basel II accord for over 2 years and is today totally Basel II compliant.

SBM has always embraced good corporate governance. In 1997 SBM was the first listed company in Mauritius to adopt good corporate governance based on international best practices, well before the coming into force of mandatory Guidelines and Codes.

Today, the Bank is required to comply with:-

- (i) Central Bank guidelines on Corporate Governance and Fit and Proper Person criteria.
- (ii) the Code of Corporate Governance enacted in the Financial Reporting Act 2004.

SBM set up a Corporate Governance Committee in 2004 to ensure compliance with the above Code and Guidelines. SBM has also a code of ethics for its directors and employees.

## corporate governance report

### BOARD OF DIRECTORS & MANAGEMENT

SBM's Board of Directors bears the main responsibility for maintaining the continued high standards and encouraging the evolution of the corporate governance program. The Board of Directors is also responsible for continuously reviewing trends and evolving best practices and for adjusting governance practices to ensure they remain at the forefront of world standards.

#### Responsibilities of the Board of Directors

A strong effective Board is essential for safeguarding the interests of shareholders, depositors and other stakeholders. The fundamental statutory duties of the Board of Directors are to supervise the management of the business and affairs of SBM. The Board monitors the performance of the Bank and ensures that management properly safeguards the assets of the Bank. The Board's mandate is to oversee the Bank's strategic direction, its organisational structure, its activities and succession planning of senior executives.

Other broad responsibilities of the Board include:-

- Exercising leadership, enterprise, integrity and judgment in directing the Company
- Appointing and measuring the Chief Executive's effectiveness in achieving corporate objectives
- Ensuring financial statements are true and fair and contain adequate disclosure
- Enforcing robust risk management, internal controls and legal/regulatory compliance
- Ensuring transparent and prompt communication with shareholders and stakeholders on matters that are material to the business of the Group
- Ensuring that an adequate and effective process of corporate governance is established and maintained

The Board fulfills its proper governance responsibilities through various board Committees. The Committees review technical and key, specific issues in detail and make decisions and/or advise/make recommendations to the Board enabling the latter to take considered and informed decisions. The Committees report to the Board after each meeting. The Bank hires the services of independent consultants/specialists to advise the Board and management on certain critical areas such as technology, strategic planning and risk management.

The Board delegates the day-to-day running of the Bank to the Chief Executive, Executive Management and to various forums to implement Board plans and strategies. The Board delegates operational issues to management and is ultimately accountable to the shareholders for the performance of the Bank.

The Bank's Board of Directors comprises eleven members, of which nine are non-executive directors, including the Chairman. These non-executive directors come mainly from the business community and the professional banking field. All directors are elected by separate resolution. The roles of the Chairman and Chief Executive are segregated and well defined.

The Board has set up eight board Committees: Audit, Risk, Conduct Review, Remuneration, Nomination, Corporate Governance, Credit Sanction and Strategic Planning. The terms of references for these Committees are in line with the model of the code of Corporate Governance for Mauritius and international best practices and are described briefly below. The full terms of references may be viewed on our website.



**Audit Committee**

The Audit Committee consists of four non-executive directors. The chairman of the Board is not a member. The chief executive, the internal auditor and the partners of the statutory audit firm of the Bank are in attendance. The external auditors and the internal auditor have full and unrestricted access to the Audit Committee and its chairman and/or chairman of the Board.

The Committee meets at least quarterly. The Committee meets separately with the internal and external auditors in the absence of management to discuss any matters of concern.

The Audit Committee provides assurance that financial disclosures made by management reasonably portray the Group's and Company's financial condition, results of operations and plans and long term commitments amongst others.

**Risk Management Committee**

The Risk Management Committee comprises six directors. The Committee meets at least quarterly.

The Committee ensures that a robust risk management framework is in place. It regularly reviews the policy of management of risk, particularly in the areas of Credit, Market, Interest, Liquidity, Operational and Technological risk.

**Remuneration Committee**

The Remuneration Committee comprises six non-executive directors. The Chief Executive is in attendance. The Committee meets at least three times annually.

The Committee approves the remuneration of senior officers and above, recommends to the Board remuneration packages of the chief executive and approves terms and conditions of service contracts of the other directors.

**Nomination Committee**

The Nomination Committee comprises six non-executive directors. The Chief Executive is in attendance. The Committee meets at least twice annually.

The Committee recommends nomination of directors to the Board based on a proper director selection process, ascertaining that potential directors are fit and proper persons and the Board has the right balance of skills, expertise and independence, amongst others. The Committee also recruits/appoints officers of the grade of group leaders and above.

## Corporate Governance Report (cont'd)

### Corporate Governance Committee

The Corporate Governance Committee comprises six non-executive directors. The Committee meets at least once annually.

The Committee determines and develops the policy of good corporate governance and ensures that disclosures made in the Annual Report and other reports are in accordance with the principles of the code of corporate governance, Central Bank guidelines and international best practices.

### Credit Sanction Committee

The Credit Sanction Committee comprises four non-executive directors with banking experience/background and two executive directors. The Committee is chaired by a non-executive director. The Committee meets at least once monthly.

The Committee reviews the methodologies for assessing country risks and bank risks and establishes exposure limits. The Committee also reviews and approves credit exposures taking into account, amongst others, amounts, new facilities/renewals and financial risk rating of the borrowers.

### Strategic Planning Committee

The Strategic Planning Committee is chaired by a non-executive director and comprises three other non-executive directors and two executive directors. The Committee meets at quarterly intervals.

The Committee reviews issues of fundamental strategic importance including strategic alliance partnerships, strategic plans, annual operating plans and large projects.

### Conduct Review Committee

The Conduct Review Committee comprises five non-executive directors. The Chief Executive is in attendance. The Committee meets at least quarterly.

The Committee reviews transactions with Related Parties to ensure they are carried out on terms and conditions that are at least as favourable as market terms and conditions.

Table 14 - Record of attendance at Board and Board committee meetings for 2004/2005

	Board	Committees							
		Audit	Risk	Remuneration	Nomination	Conduct Review	Corporate Governance	Strategic Planning	Credit Sanction
Number of meetings	10	5	5	5	3	4	2	3	7
<b>Directors</b>	<b>Status</b>								
Reddy M K T	a	10/10	5/5	5/5	3/3	3/4	2/2	3/3	7/7
Du Mée P R C <sup>1</sup>	a	5/5	2/2	2/2	1/1	2/2	1/1		
Ganoo H <sup>2</sup>	c	4/9		2/5	1/3				
Gunness C	b	10/10						3/3	7/7
Harel A L <sup>2</sup>	a	7/9	5/5	4/5		4/4	2/2		
Laubscher R C M	a	10/10	5/5		2/2		1/1	3/3	6/7
Mohamedbhai T G	a	7/10	2/5	2/5	2/3	1/4	1/2		
Nakhuda A H	c	10/10	5/5						
Ng Thow Hing M	a	10/10	5/5	5/5	5/5	3/3	4/4	2/2	3/3
Parianen S <sup>3</sup>	b	4/4						3/3	6/6
Poncini André	a	9/10	5/5	5/5	3/3	3/4	1/1	2/3	
Rossouw R	a	10/10	5/5					3/3	7/7
<b>In attendance</b>									
Mr Gunness C, Chief Executive			4	4	4	2	4		
Partners of Statutory Audit Firm			5						
Internal Audit Team			5						
Risk Management Team				5					
<sup>1</sup> Retired - 21.12.04	a. Non Executive Independent Director								
<sup>2</sup> Retired on 21.12.04 and reappointed - 22.12.2004	b. Executive Director								
<sup>3</sup> Appointed - 21.12.2004	c. Non Executive Director								

## MANAGEMENT FORUMS

The day-to-day running of the Bank's business and affairs is delegated to the executive management team. Issues are debated and decisions are taken collectively on unanimous basis in management forums. These forums meet regularly and comprise senior executives who cut across all divisions of the Bank. The **Executive Forum** meets weekly to discuss and take decisions on the day-to-day affairs of the Bank, with the exception of credit approvals. **Management Credit Sanction Forum** meets at least twice weekly to review and approve credit

## Corporate Governance Report (cont'd)

proposals. The **Performance Review Forum** meets at least monthly to review and monitor the performance and achievement against agreed budgets/target of the various lines of business. The **Portfolio Management Forum** meets at least monthly to review portfolio risk profiles and amends the portfolio management plan accordingly. The **Assets & Liabilities Management Forum (ALM)** meets at least monthly to oversee the Bank's liquidity risk, interest rate risk and foreign exchange risk management. The role of ALM is to set and oversee broad policy for managing the Bank's Balance Sheet based on a detailed analysis of risk return trade-off; develop guidelines and limits for operating units and treasury; monitor that those limits are adhered to and that the strategy of the Bank is in line with the Bank's budget and the Bank's risk management objectives; manage potential risk to earnings and capital from changes in market risks. The **Operational Risk Forum** meets at least monthly to review the internal controls of the business units and makes suitable recommendations to improve the system of internal controls and business conduct/practices. It also includes the review of the IT security policy. The operational risk team reports to the chief executive and the Operational Risk Forum. The **IT Forum** meets regularly to discuss IT operational issues and monitor progress of all IT related projects and issues. The **Facilities Management Forum** meets at least monthly to review facilities issues and monitors the progress of all premises and SBM Park.

### Legal & Regulatory Disclosures

**Table 15 - Substantial Shareholders at June 30, 2005**

NAME OF SHAREHOLDERS	NO OF SHARES	VOTING RIGHTS (%)
NEDBANK AFRICA INVESTMENTS LIMITED	65,335,510	20.1
STATE BANK OF MAURITIUS LTD -TREASURY SHARES	57,362,170	-
NATIONAL PENSIONS FUND	48,518,750	14.93
STATE INSURANCE COMPANY OF MAURITIUS LTD	44,669,050	14.05

### Directors' Share Interest

Directors follow the principles of the model code for securities transactions by directors as detailed in Appendix 6 of the Mauritius Stock Exchange listing rules. The interests of the directors of the Company as at June 30, 2005 were as follows:-

**Table 16 - Directors' Share Interest**

	ORDINARY SHARES	
	DIRECT	INDIRECT
Mr Chaitlall Guinness, (Chief Executive)	600	600
Mr. Antoine Louis Harel (Jr)	11,159	49,868
Prof. Mohamedbhai, Goolamhussen T G., GOSK	6,000	-
Mr Soopaya Parianen	36,500	-
Mr. Muni Krishna T Reddy, GOSK	80,000	-

The other directors have no equity share in the company whether directly or indirectly. None of the directors have a direct or indirect share in the equity or debt securities of the subsidiaries of the Bank.

During the period under review, none of the directors bought or sold SBM's shares.

### 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 the Company, either directly or indirectly.

### Service Contracts

Mr Chaitlall Guinness has a contract of employment with the Bank commencing October 28, 2003 and expiring on October 27, 2006.

Mr M K T Reddy has a contract with the Bank as part-time non-executive Chairman commencing October 28, 2003 and expiring on December 31, 2006. In the event of premature termination of the contract by the Bank, he shall be paid the fees and benefits for the unexpired contract period.

### Statement of Remuneration

#### Philosophy

The remuneration for executive management consists of fixed and variable salary. Variable salary outcomes are determined by a combination of Group performance and the attainment of personal Key Performance Indicators (KPI's) approved at the start of the financial year. Variable salary includes cash bonuses and phantom share options and/or deferred cash. Phantom share options are exercisable within ten years of the date of allocation of the options, with a maximum of 15% in any one year after a lock-in period of 3 years. On the exercise of an option for a phantom share, executives receive in cash the difference between the exercisable price of the option and the ruling Bank's quoted share price. Note 30 of the financial statements gives details on the number of options granted and exercised during the year and the number of outstanding options as at June 30, 2005.

The Bank also pays productivity bonuses to all its employees based on Group, Company, Line of Business and Personal KPI's.

#### Directors' Emoluments

During the year under review, the executive directors received emoluments amounting to Rs11,935,277 and the non executive directors received 281,667 Pound Sterling net of all taxes and Rs3,624,400. For the previous year, the executive directors received emoluments amounting to Rs56,402,911 and the non executive directors received 214,266 Pound Sterling net of taxes and Rs2,748,542.

None of the executive directors and non-executive director serving on the Boards of the subsidiary companies received any emoluments from the subsidiaries. Fees received by representatives of the Bank serving on the Boards of related companies are credited to the account of the Bank.

#### Donations

During the year under review SBM donated an amount of Rs1M to "Tsunami Solidarity Relief Fund". None of SBM's subsidiaries made any donations during the year.

#### Auditors' Fees

Amount paid/payable to Auditors for services rendered to the Group.

**Table 17 - Auditors Fees**

	2005		2004		2003	
	Audit Rs 000	Other Rs 000	Audit Rs 000	Other Rs 000	Audit Rs 000	Other Rs 000
<b>Kemp Chatteris Deloitte</b>						
State Bank of Mauritius Ltd	3,131	169	3,131	130	2,846	83
Other Subsidiaries	200	-	179	-	174	-
<b>Other Auditors</b>						
State Bank of Mauritius Ltd (Indian Operations)	185	-	127	-	112	-
Banque SBM Madagascar	263	-	279	-	321	-

### MATERIAL CLAUSES OF THE COMPANY'S CONSTITUTION

#### Qualification and Appointment of Directors

To qualify for directorship, a person must fulfill the fit and proper person criteria laid down in the Banking Act 2004/Central Bank guideline and must be a degree holder with proven experience and must not be a director or employee of another commercial bank, excluding bank's subsidiaries licensed in Mauritius. Directors shall be elected for a term not exceeding five years. A director elected for a term less than five years initially shall be eligible to be re-elected so long as the total continuous term of tenure shall not exceed 5 years from initial election. A former director who has held office for a consecutive period of five years shall become re-eligible for election as a director after a lapse of 2 years since his last tenure.

## Corporate Governance Report (cont'd)

To qualify for appointment as chief executive, a person must hold a graduate degree from a recognized University or an equivalent professional qualification and have at least ten years experience as a professional banker in a senior executive post. The chief executive is appointed by the Board of Directors.

Directors shall designate one amongst them to be the Chairman of the Board. No director can be designated as Chairman unless he possesses demonstrated expertise and experience in the field of financial services and is knowledgeable in information technology.

### Share Ownership Limitation

In terms of article 2.8.1 of the constitution of the Company, no shareholder other than International Financial Bodies, International Banks, International Institutions/Organisations shall hold directly or indirectly more than 3% of the issued share capital less any treasury shares of the Company without previous authorisation of the Board of Directors of the Company. By derogation the above provisions shall not apply to those shareholders who were holding more than 3% of the issued share capital of the Company before the tenth of March 1995, provided always that each of those shareholders shall at no time hold a higher percentage of the issued share capital of the company than the percentage each said shareholder was holding as at above date.

In terms of Section 19 (b) (i) of the Banking Act 2004 which came into force on November 10, 2004, no person shall hold directly or indirectly 10% or more of the Capital or of the voting rights of the Bank except with the prior approval of the Central Bank.

### SHAREHOLDERS' AGREEMENT

Nedcor Bank Ltd, as our strategic alliance partner, has the right by notice in writing to SBM, to nominate for election two directors to the Board of SBM as long as it holds at least 20.1% of SBM equity.

Nedcor Bank Ltd shall be consulted upon the appointment of the Chief Executive of SBM.

### RELATED PARTY TRANSACTIONS

Individuals or entities 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. The definition of 'control' and 'significant interest' laid down in the Central Bank guideline on Related Party Transactions are more stringent than IAS. The thrust of the Guideline is to promote self regulation and self discipline. As a general rule, all transactions with a Related Party must be at arm's length.

The Guideline imposes limits on exposure/transactions value to individual Related Party which shall not exceed 2% of Tier 1 Capital and 25% of Tier 1 capital to all Related Parties in aggregate. Prior written approval of the Central Bank is required where the above limits are exceeded.

The Bank/Group credit policy and procurement policy require that credit facilities and transactions with Related Parties are captured at source and where the exposure limits and the transactions exceed the materiality limits established by the Board and approved by the Central Bank, the Conduct Review Committee (CRC) approval is sought. In instances where the above limits are exceeded, prior approval from the Central Bank is sought. The CRC, consisting of all independent non-executive directors, meets every quarter and reviews all transactions initiated in the quarter under review. After each meeting, the matters reviewed by the CRC are reported to the Board of Directors. The Bank reports on a yearly basis to the Central Bank on the proceedings of the CRC during the year.

Note 29 to the Financial Statements gives on and off balance sheet credit facilities and other Related Party transactions for the past 3 years.

At June 30, 2005, exposure to the six largest Related Parties were Rs4,444M, Rs1,474M, Rs194M, Rs126.4M, Rs77.0M and Rs70.0M or 80.3%, 26.6%, 3.5%, 2.3%, 1.4% and 1.3% of the Group Tier 1 Capital respectively.

Based on outstandings at the same date, the respective percentages to the Group's Tier 1 Capital were 62.4%, 4.7%, 3.3%, 1.2%, 1.2% and 1.2%.

Total credit exposure of Related Parties to the overall credit exposure at June 30, 2005 amounted to 19.23% and excluding government and government-controlled entities, same was 6.12%. The corresponding figures as at June 30, 2004 were 22.26% and 10.61%.

None of the advances granted to Related Parties were non-performing as at June 30, 2005.

#### RISK MANAGEMENT

Risk Management is discussed extensively under Operations Review on pages 79 to 87.

#### SHAREHOLDERS' INFORMATION

##### Listing

SBM's shares have been listed on the Stock Exchange of Mauritius (SEM) since June 1995. On June 30, 2005, SBM's market capitalisation stood at Rs10.440Bn, accounting for 15.30% of the total market capitalisation, up from 14.41% at June 30, 2004. SBM holds 15% (57,362,170 shares) of its total number of shares in issue as Treasury Shares. Treasury Shares are own shares purchased on the Stock Exchange and are not eligible for dividend and voting rights.

##### Dividend

The Board approved a dividend of Rs1.30 per ordinary share for the financial year 2004/2005, an increase

in 8.3% from last year. The dividend was paid on August 31 2005 and represents a payout ratio of 35.5% of net income available to shareholders.

#### Dividend Policy

SBM's dividend policy is to distribute a minimum 25% of its Net Income after Income Taxes for the year subject to approval from Central Bank and if the solvency test under S61(2) of the Companies Act 2001 is satisfied. The total return for the year ended June 30, 2005 comprising dividend of Rs1.30 and capital gain of Rs4.00 amounted to 21%. There are no taxes on dividend income and capital gains in Mauritius.

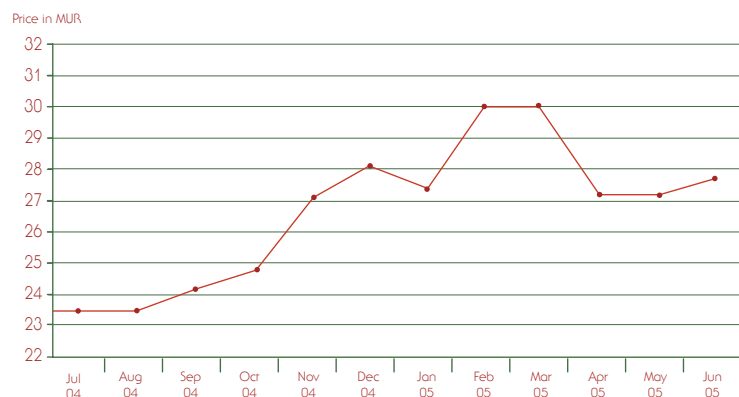
**Table 18 - The Bank's Share Performance**

	2005	2004	2003	2002	2001
Financial Year end (Rs)	27.30	23.30	16.70	11.70	14.00
Highest (Rs)	29.70	24.00	16.70	14.00	17.00
Lowest (Rs)	23.00	14.80	10.80	10.30	13.70
Average (Rs)	26.02	19.98	12.95	11.72	15.76
Value of shares traded (RsM)	401.43	663.72	736.4	374.8	238.2
Value of Shares traded as a percentage of Market (%)	12.85	21.13	36.14	13.73	7.56
Price to Book (times)	1.09	1.23	1.09	0.87	1.19

**Table 19 - Dividend Yield and Cover**

	2005	2004	2003	2002	2001
Earnings per Share (Rs)	3.66	3.46	2.84	2.62	2.4
Market Price - 30 June (Rs)	27.30	23.30	16.70	11.70	14.00
Dividend (Rs)	1.3	1.2	1.1	1	0.9
Dividend Yield (%)	4.76	5.15	6.59	8.55	6.43
Yield (Rs)	5.3	7.8	6.1	(1.3)	(2.1)
Yield (%)	20.95	39.00	42.96	(10.12)	(13.55)
Dividend cover	2.8	2.9	2.9	2.6	2.7
Cumulative Yield (Rs)	28.1	22.8	15	8.9	10.2
Cumulative Yield (%) (Since Listing in 1995)	351.3	285	187.5	111.3	127.5
Price Earnings Ratio (times)	7.5	6.7	5.9	4.5	5.8

**Chart 9 - Movement of share price of SBM for 2004/2005**



**Corporate Governance Report (cont'd)**

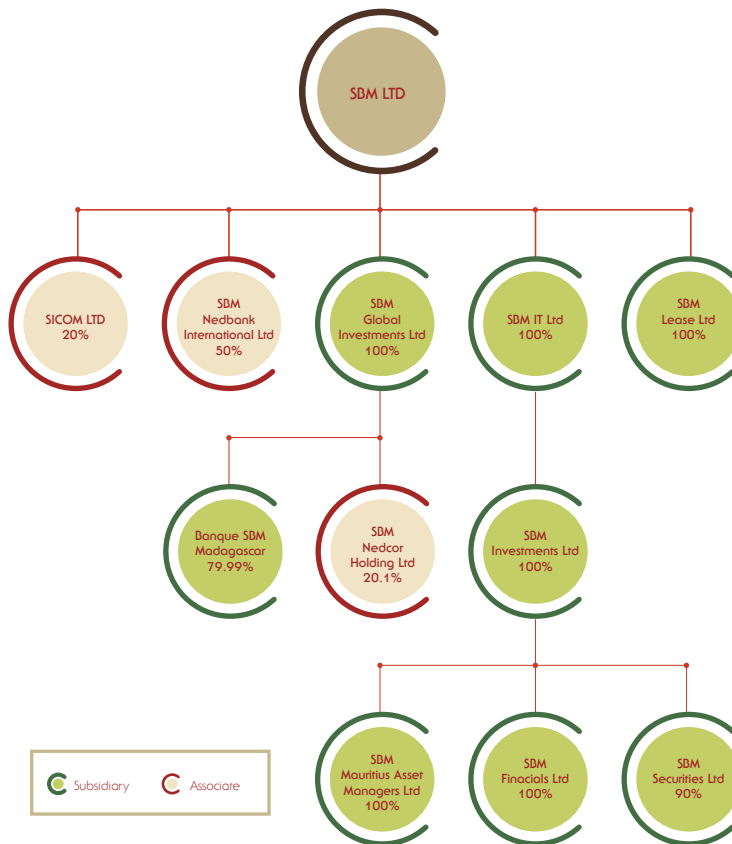
**Table 20 - Number of shareholders**

Value Range	Number of shareholders
1 - 1,000	12,451
1,001 - 5,000	3,000
5,001 - 1,000,000	1,225
1,000,001 - 5,000,000	12
5,000,001 - 10,000,000	5
More than 10 Million	7
<b>Total</b>	<b>16,700</b>

**Table 21 - Local & Foreign shareholders**

	Shareholders		Shares Held		% voting rights
	Number	%	Number	%	
Domestic	16,519	98.9162	199,177,107	52.08	61.30
Overseas	180	1.0778	125,875,193	32.92	38.70
Treasury shares	1	0.0060	57,362,170	15.00	-
	<b>16,700</b>	<b>100.00</b>	<b>382,414,470</b>	<b>100.00</b>	<b>100.00</b>

The chart 10 below shows the SBM Group holding structure.



Dividend Date for 2006:

Record date : Mid July 2006

Payment date : End September 2006

**Quarterly Earnings Reporting**

Unaudited quarterly earnings report are expected to be released on our website within 60 days from the quarter ending September, December and March and audited accounts for June within 3 months from end of June.

**Future Annual Meeting**

The Annual Meeting for the year 2006 is scheduled for December 2006.

**Contact Details for Shareholder Relationship**

**Company Secretary**

State Bank Tower,  
1 Queen Elizabeth II Avenue,  
Port Louis,  
Mauritius

Phone: (230) 202-1560

Fax: (230) 202-1234

Email: [chandradev.ca@sbm.intnet.mu](mailto:chandradev.ca@sbm.intnet.mu)

**Credit Rating**

Moody's rating of the Bank:

Financial strength D+

Long-term and Short-term foreign currency deposits

Baa2/P2



## board of directors

**Reddy, Muni Krishna T., G.O.S.K., Age 59**

**Chairman.**

Mr Reddy has a masters degree in extension education with over 35 years of experience in financial services. He was the Chief Executive of the State Bank of Mauritius (SBM) Group for 16 years until October 2003 when he was elected Chairman of SBM. Prior to joining SBM, Mr Reddy worked in the banking sector in India and Singapore for 17 years. Mr Reddy is currently Chairman of the SBM Group of companies and Chairman and director of various Corporate Governance committees and boards of large listed companies both in Mauritius and outside Mauritius, including Air Mauritius Ltd; Mittal Steel Company L.V., Rotterdam; Mittal Steel USA ING Inc and Vice Chairman of Global Financial Services Plc. Malta. 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 the Republic of Mauritius for distinguished services in the banking industry and for significant contribution to the economic development of Mauritius coinciding with the first anniversary of the Republic of Mauritius in 1993.

**Ganoo, Harry., G.O.S.K, BA (Hons). Age 58.**

Secretary to Cabinet and Head of Civil Service. Chairman of Mauritius Broadcasting Corporation Ltd and Mauritius Oceanography Institute.

**Gunness, Chaitlall, F.C.C.A., Age 53.**

Chief Executive of SBM

Has 28 years work experience with 25 years in the Bank at senior management level. Was in Inspection, Retail Banking, Corporate Banking, International Banking and Administrative divisions. Was also the Chief Operating Officer.

**Harel**, Anroine L., B.A (Hons), F.C.A., Age 48.

Chairman of Harel Mallac & Co Ltd; Mauritius Chemical & Fertilizer Industry Ltd; Director of Automatic Systems Ltd; Cie des Magasins Populaires Ltée; Harel Mallac & Co Ltd ; The Mount Sugar Estates Co Ltd; United Docks Ltd.

**Laubscher**, Richard Charles Montague, Age 54.

Former Chief Executive Officer of Nedbank. Company Director.

**Mohamedbhai**, Goolamhussen, T G, G.O.S.K., BSc PhD CEng MICE FIEM MASCE Age 60.

Prof Mohamedbhai is currently the President of the International Association of Universities, Vice-Chairman of the Human Resource Development Council and Chairman of the Scientific Regional Committee for Africa of the UNESCO Global Forum on Higher Education, Research and Knowledge. Former Vice-Chancellor of the University of Mauritius. Prof. Mohamedbhai has also served as Chairman and member of national boards/councils.

**Nakhuda**, Ayub Hussein., C.S.K, B.A, Age 62

Former Financial Secretary Ministry of Finance. Director of Air Mauritius Ltd.

**Ng Thow Hing**, Mary. C.A.,A.C.I.S., Age 51

Former Chief Financial Officer of SBM Ltd. Prior to appointment as Chief Financial Officer she worked in Corporate, Retail and International Banking. Has 27 years experience with 22 years at management level in Accounting, Finance and Banking in U.K, Canada, Bermuda and Mauritius.

**Parianen**, Soopaya, B.A Hons (Economics), Age 52

Mr Parianen has 28 years experience in Banking, 21 years with SBM at Senior Management level, having been successively Group Divisional Leader Corporate Banking, Group Divisional Leader Retail Banking and Group Divisional Leader for Credit Management Support Services and is presently Chief Operating Officer.

**Poncini**, André José, G.O.S.K, Age 77

Chairman of Poncini Group of Companies. Director on the Board of National Investment Trust; Council and Senate of University of Mauritius.

**Rossouw**, Rocco. B.Com., Age 57

Former Head of International Division of Nedbank, South Africa. Has 40 years experience in the Banking Industry. He held numerous executive positions with Standard Bank and was Managing Director of Stanbic Africa and Managing Director of Nedbank International. Presently the Chief Executive of Quantra Financial Solution Providers (Pty) Ltd.

**Audit Committee**

Chairman

Harel, Anroine L.

Members

Prof. Mohamedbhai Goolamhussen T. G., G.O.S.K.

Ng Thow Hing, Mary

Poncini, André J., G.O.S.K.

**Risk Committee**

Chairman

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

Members

Harel, Anroine, L.

Laubscher, Richard

Nakhuda Ayub Hussein, C.S.K.

Ng Thow Hing, Mary

Rocco, Rossouw

**Strategic Planning Committee**

Chairman

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

Members

Gunness, Chaitlall

Laubscher, Richard

Ng Thow Hing, Mary

Parianen, Soopaya

Poncini, Andre J., G.O.S.K.

Rocco, Rossouw

## board committees

**Credit Sanction Committee**

Chairman

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

Members

Gunness, Chaitlall

Laubscher, Richard

Ng Thow Hing, Mary

Parianen, Soopaya

Rocco, Rossouw

**Remuneration Committee**

Chairman

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

Members

Ganoo Harry, G.O.S.K.

Prof. Mohamedbhai Goolamhussen T. G., G.O.S.K.

Ng Thow Hing, Mary

Poncini, André J., G.O.S.K.

**Conduct Review Committee**

Chairman

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

Members

Harel, Antoine L.

Prof. Mohamedbhai, Goolamhussen T. G., G.O.S.K.

Ng Thow Hing, Mary

Poncini, André J., G.O.S.K.

**Corporate Governance Committee**

Chairman

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

Members

Harel, Antoine L.

Laubscher, Richard

Prof. Mohamedbhai, Goolamhussen T. G., G.O.S.K.

Ng Thow Hing, Mary

**Nomination Committee**

Chairman

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

Members

Ganoo, Harry, G.O.S.K.

Laubscher, Richard

Prof. Mohamedbhai, Goolamhussen T G, G.O.S.K.

Ng Thow Hing, Mary

Poncini, André J., G.O.S.K.



**SBM INVESTMENTS LTD**

**Chairman**

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

**Directors**

Mr Gunness, Chaitlall

Mr Parianen, Soopaya

## directors of subsidiaries

**SBM MAURITIUS ASSET  
MANAGERS LTD**

**Chairman**

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

**Directors**

Mrs Ah See, Michèle

Mr Gunness, Chaitlall

Mr Parianen, Soopaya

**SBM SECURITIES LTD**

**Chairman**

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

**Directors**

Mr Gunness, Chaitlall

Mr Parianen, Soopaya

**SBM LEASE LTD**

**Chairman**

De Chareigner Du Mée, Paul R.,  
C.B.E.

**Directors**

Mr Guinness, Chaitlall  
Mr Parianen, Soopaya  
Mr Reddy, Muni Krishna T, G.O.S.K.

**SBM FINANCIALS LTD**

**Chairman**

Mr Guinness, Chaitlall

**Director**

Mr Parianen, Soopaya

**BANQUE SBM MADAGASCAR LTD**

**Chairman**

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

**Directors**

Mr Dawonauth, Leckram  
Mr Guinness, Chaitlall  
Mr Parianen, Soopaya  
Mr Weilert, H

**SBM GLOBAL INVESTMENTS LTD**

**Chairman**

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

**Directors**

Mr Guinness, Chaitlall  
Mr Parianen, Soopaya

**SBM IT LTD**

**Chairman**

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

**Directors**

Mr Guinness, Chaitlall  
Mr Parianen, Soopaya

**CHIEF EXECUTIVE**

**GUNNESS, Chairlall**

F.C.C.A

Has 28 years work experience with 25 years in the Bank at senior management level. Was in Inspection, Retail Banking, Corporate Banking, International Banking and Administrative divisions. Responsible to implement the Group Strategies, plans and budget, oversees International Correspondence Banking and the operations in India and Madagascar. Was also the Deputy Chief Executive. Accountable to the Board and reports to the Chairman.

**CHIEF OPERATING OFFICER**

**PARIANEN, Soopaya**

B.A. Hons. (Economics)

Has 28 years experience in the Bank at different levels with 21 years at Senior Management level. Had worked at branches, International Division, Corporate and Retail Banking. Currently responsible for Credit Administration, Back office Operations, Cash Management Services, Legal Cell and Transactions Processing. Reports to the Chief Executive.

**TEAM LEADERS and SENIOR OFFICERS**

**AH SEE, Michèle**

MA, A.C.A

**Value Based Performance Management**

Has 8 years experience as auditor in UK and Mauritius. Project leader of strategic initiatives implemented by the Bank which include an integrated risk and performance management system, a data warehouse and the value management office. In charge of the budgetary and strategic planning process, and the value management office. Reports to the Chief Executive.

**AMIRAN, Eshan**

Information Technology

Has 20 years experience in the Bank at different levels in branches and information technology division. Currently in charge of Business Solutions Team – Services & Operations. Reports to the Chief Operating Officer.

**APPADOO, Chandradev**

F.C.C.A., A.C.I.B,

**Finance & Group Company Secretary**

Has 21 years experience in the Bank at various levels at branches, Corporate Banking and Finance. Headed the Financial Accounting Division till June 30, 2005 and is currently the Group Company Secretary. Reports to the Chief Executive.

**BHUGUN, Anand**

Operations Management

Has 32 years experience in the Bank at different levels in branches and corporate office. Currently in charge of the Operations Management. Reports to the Chief Operating Officer.

**BAJEE, Prasram**

Credit Underwriting

Has 20 years experience in the Bank at various levels including 4½ years at our subsidiary in Madagascar. Currently working at Credit Underwriting. Reports to the Team Leader, Credit Underwriting.

# executive management



**CUNDASAWMY, Bala****Bec CFA****Credit Underwriting**

Has 6 years experience in Research and Finance having worked at the University of Mauritius as Research Officer and as part time lecturer at Kemp Chatteris Deloitte & Touche, Mauritius and at Ernst & Young, Mauritius as Senior Consultant – Corporate Finance. Joined the Bank in January 2004. Currently responsible for Commerce Portfolio at Credit Underwriting Team. Reports to the Team Leader, Credit Underwriting.

**DAWONAATH, Leckram**

**Licence des Sciences Economiques, Licence des Sciences de l'Information & Communication, MSc Banking & Finance for Development**

**Business Banking**

Has worked with the FAO of the United Nations as Project Analyst/Credit Specialist. Has 24 years experience in the Bank/Group out of which 18 years at different management/senior management levels in branches and corporate office. Currently driving Business Banking sales. Reports to the Chief Executive.

**DURSUN, Hemant K.****B.Tech (Hons) MBA****Facilities Management**

Had 6 years work experience in multi-disciplined engineering firms before joining the Bank in 1996. Currently in charge of building and other associated shared services of the Group. Reports to the Chief Operating Officer.

**DUSSOYE, Raj****A.C.I.B, MBA****Executive Vice President, Indian Operations**

Has 23 years experience with the Bank including Retail & Corporate Banking and Asset Management. Currently in charge of Indian Operations. Reports to the Chief Executive.

**GOOLY, Kanand****MBA****Credit Services**

Has 23 years experience in the Bank at different levels in branches and Information Technology. Participated in Core system implementation and enhancement, spearheaded IT-Audit and Compliance, was responsible for Enterprise and Risk BST. Currently leads the Credit Services and Monitoring Division. Reports to the Chief Executive.

**HO SHUN, Geneviève,****FCCA****Internal Audit**

Has 9 years experience in Auditing. Has worked for Chartered Accountant firms both in the UK and in Mauritius mainly in Assurance and Business Advisory Departments. Joined the Bank in February 2004 and is currently in charge of the Internal Audit Division. Reports to the Chief Executive and to the Audit Committee/ Chairman of Board.

**IYASAMY, Vijayen S,****B.Com****Business Banking**

Has 28 years experience in the Bank. Has worked as Branch Manager at various branches and Head of different divisions at corporate office. Currently Service Head – Business Banking Division. Reports to the Chief Executive.

**JHURRY Balkrishna,****Maîtrise-des-Sciences-Economiques****Group Financial Institutions, Correspondent Banking**

Has 13 years experience in the banking industry, of which 6 years were spent at the Research Department at the Bank of Mauritius. Joined the Bank in June 2001. Currently in charge of the Correspondent Banking and Group Financial Institutions. Reports to the Group Treasurer.

**JOHN CHUAN, Christine,****MBA****Business Banking**

Has 32 years experience in the Bank at different levels including branches and Corporate Banking. Currently leads portfolios in Macro Business Banking. Reports to the Chief Executive.

**LAGAILLARDE, Gilbert****Mobile Sales Team**

Has 26 years experience in the Bank at various levels including at our subsidiary in Madagascar. Currently leading the Mobile Sales Team. Reports to the Team Leader, Personal Banking.



**LI CHIU LIM Liliane****B.Sc (Hons) Accounting, FCCA****Finance**

Had 4 years experience in Auditing before joining the Bank in April 2000. Currently Senior Officer at Finance Division reporting to the Team Leader Finance and Value Based Performance Management.

**LIM HOYE YEE, Veronique****BSc (Hons) in Economics & Accounting,****MSc in Economics & Finance; CFA****Credit Underwriting**

Has 4 years work experience in stock broking and banking before joining the Bank in 2001. Heads up Credit Underwriting and Intensive Care Unit. Reports to the Chief Executive.

**LIM TIT CHONG, Michael****B.A Hons, A.C.A.****Business Banking**

Had 26 years of experience in finance, consulting and stock broking before joining SBM in 2000. Former Chairman of the Stock Exchange of Mauritius Ltd. Currently in charge of portfolios in Business Banking. Reports to the Chief Executive.

**LI PAK MAN Kwon****B.A (Hons), MSc in Business Finance****Market Risk**

Has 5 years banking experience in Treasury – front and middle office. Joined the Bank in March 2000 and was Project Leader for Treasury business process re-engineering and IT solutions implementation. Currently leads the Market Risk Team and reports to the Team Leader, Risk Management.

**MOONEESAWMY Nandrajen****Recovery & Work Out**

Has 28 years experience in the Bank at various levels. Currently in charge of the Recovery & Workout unit. Reports to the Chief Executive.

**MOOROOGAN, Rajan****B Tech. Computer studies.****Information Technology**

Has 19 years experience in the IT/Banking industry and is currently in charge of IT Operations and Support. Reports to the Chief Operating Officer.

**NG THOW HING Michael****B. Com in Finance, CFA,****SBM Mauritius Asset Managers Ltd**

Has 9 years experience in Canada and Mauritius, of which 6 years have been in the asset management business, before joining the Bank in January 2005 as Fund Manager. Currently in charge of SBM Mauritius Asset Managers Ltd. Reports to the Board of SBM Mauritius Asset Managers Ltd.

**NG TSEUNG, Daniel****BSc Economics****Treasury**

Has 14 years experience as Treasurer in the banking industry. Joined the Bank in December 2000 as Group Treasurer in charge of the group treasury activities including Mauritius, Indian and Madagascar operations. Manages and monitors market risks of the Group. Also a member of the Mauritius Financial Markets Committee and Executive Committee of the Financial Markets Association of Mauritius. Reports to the Chief Executive.

**NUNDOOSINGH, Jaysen.****B.A (Hons) Economics. Executive MBA****Finance****Personal Banking**

Has 8 years working experience. Prior to joining SBM in April 2003, worked in the securities industry in the U.K for a leading Global Investment House. Currently Team Leader of Private & Premier Banking and responsible for managing sales and service across portfolios to acquire and maintain high net worth clients in Mauritius and abroad. Also responsible for business development in the asset management business of the bank. Reports to the Chief Executive.

**PAREATHUMBAY, Dr Soopoya****PhD (Toulouse), CISA, CISM****IT Risk Management**

Has 21 years work experience in IT Consulting both in Mauritius and several countries in Africa. Has 17 years in IT, Management, Operations Risks and audit at SBM. Currently leading the IT Risk Management team. Reports to the Chief Executive.

**POONYTH, Ajaye****MA (Cantab)****Information Technology**

Has 18 years experience in Telecommunications, Software development and Banking in Mauritius, U.K and Germany. Currently leading the Business Solutions team for Sales and Channel Management. Reports to the Chief Operating Officer.

**Executive Management (cont'd)****RAMBOJUN, Krishnaduth****A.C.I.B.****Banque SBM Madagascar**

Has 23 years experience in the Bank at different levels including Branch Manager and Credit Underwriter. Seconded to Banque SBM Madagascar as Leader/Chief Executive. Reports to the Board of Banque SBM Madagascar.

**RAMLAGUN Malinee****FCCA****Underwriting**

Has 10 years post qualification experience in chartered accounting firms in Assurance and Business Advisory Department, Marketing and Economic Studies Department and Consultancy. Joined the Bank in November 2003. Currently Senior Officer in the Underwriting Division. Reports to the Team Leader, Credit Underwriting.

**RAMSAHYE, Dev****MSc in Computer Science****Information Technology**

Has 16 years experience in the IT/Banking industry. Currently leading the Business Solutions Team for Enterprise and Risk Management. Reports to the Chief Operating Officer.

**SEWPAUL, Sailesh****MBA****Channel Management**

Has 18 years experience in the Bank at various levels in IT as well as in International Business. Former Business Adviser for VISA International. Currently in charge of Sales and Service through Electronic Delivery Channels. Reports to the Chief Executive.

**SEERYAVE, Pauline****MA (Cantab), ACA****Finance & Value Based****Performance Management**

Had 6 years experience with international firm of Chartered Accountants in audit and Business Assurance before joining the Bank in July 2002. Led the Risk Management team until June 2005. Currently in charge of Finance & Value Based Performance Management. Reports to the Chief Executive.

**SHAM, Rajendranath,****Business Banking**

Has 18 years experience in the Bank at various levels. Has worked for two years at Banque SBM Madagascar, Madagascar and three years at Indian Operations, India. Currently in charge of the Manufacturing portfolio in Business Banking. Reports to Chief Executive.

**SOBURRUN, Shalini****ACCA., MBA Stockbroker****SBM Securities Ltd**

Has 12 years experience at SBM, 3 years in operations and 9 years in SBM Securities Ltd. President of the Port Louis Stockbroking Association, Director on the Boards of the Stock Exchange of Mauritius and Central Depository Settlement Co Ltd and Chairperson of the Index Management Committee of the Stock Exchange of Mauritius. Currently in charge of SBM Securities Ltd. Reports to the Board of SBM Securities Ltd.

**SONOO, Jairaj****MBA****Personal Banking**

Has 26 years experience at different levels at Business Units and Corporate Office. Currently in charge of Personal Banking. Reports to the Chief Executive.

**WIEHE, Robyn,****Stellenbosch Graduate School of Business; Insead Business School****Marketing**

Has 31 years experience in Banking in both South Africa and Mauritius. Seconded to SBM by Nedbank in August 2002. Heads up Marketing Division. Reports to the Chief Executive.

### CORPORATE OFFICE

State Bank Tower  
1, Queen Elizabeth II Avenue  
Port Louis, MAURITIUS  
Tel: (230) 202 1111;  
Fax: (230) 202 1234;  
Swift: STCBMUMU;  
Home Page: [www.sbmonline.com](http://www.sbmonline.com)  
Email: [sbm@sbm.intnet.mu](mailto:sbm@sbm.intnet.mu)

## group addresses

### INDIA

#### State Bank of Mauritius Ltd

Prince Arcade, 4th Floor  
22A Cathedral Road  
Chennai 600 086, INDIA  
Tel: (91) (44) 2811 0806  
Fax: (91) (44) 2811 6445  
Telex: 41-5028 MURM IN  
Email: [sbml@md2.vsnl.net.in](mailto:sbml@md2.vsnl.net.in)

#### State Bank of Mauritius Ltd

101, Raheja Centre  
Free Press Journal Marg.  
Nariman Point  
Mumbai 400 021, INDIA  
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Fax: (91) (22) 2284 2966  
Telex: 1182229 MAUR IN  
Swift: STCBINBX  
Email: [srbkmaur@bom2.vsnl.net.in](mailto:srbkmaur@bom2.vsnl.net.in)

#### State Bank of Mauritius Ltd

TSR Towers  
Rajbhavan Road, Somajiguda  
Hyderabad 500 082, INDIA  
Tel: (91) (40) 2330 0442  
Fax: (91) (40) 2330 0436  
Email: [sbmlhyd@hd2.vsnl.net.in](mailto:sbmlhyd@hd2.vsnl.net.in)

### SUBSIDIARIES

#### SBM Lease Ltd

State Bank Tower  
1, Queen Elizabeth II Avenue  
Port Louis, MAURITIUS  
Tel: (230) 202 1111, (230) 202 1478  
Email: [sbmlease@sbm.intnet.mu](mailto:sbmlease@sbm.intnet.mu)

#### SBM Mauritius Asset Managers Ltd

State Bank Tower  
1, Queen Elizabeth II Avenue  
Port Louis, MAURITIUS  
Tel: (230) 202 1111, (230) 202 1422  
Email: [sbm.asserm@sbm.intnet.mu](mailto:sbm.asserm@sbm.intnet.mu)

#### SBM Financials Ltd

State Bank Tower  
1, Queen Elizabeth II Avenue  
Port Louis, MAURITIUS  
Tel: (230) 202 1111, (230) 202 1488  
Email: [sbm.financials@sbm.intnet.mu](mailto:sbm.financials@sbm.intnet.mu)

#### SBM Global Investments Ltd

State Bank Tower  
1, Queen Elizabeth II Avenue  
Port Louis, MAURITIUS  
Tel: (230) 202 1111, (230) 202 1560  
Email: [finance@sbm.intnet.mu](mailto:finance@sbm.intnet.mu)

#### SBM Investments Ltd

State Bank Tower  
1, Queen Elizabeth II Avenue  
Port Louis, MAURITIUS  
Tel: (230) 202 1111, (230) 202 1560  
Email: [finance@sbm.intnet.mu](mailto:finance@sbm.intnet.mu)

#### SBM IT Ltd

State Bank Tower  
1, Queen Elizabeth II Avenue  
Port Louis, MAURITIUS  
Tel: (230) 202 1111, (230) 202 1225  
Email: [sbmit@sbm.intnet.mu](mailto:sbmit@sbm.intnet.mu)

#### SBM Securities Ltd

State Bank Tower  
1, Queen Elizabeth II Avenue  
Port Louis, MAURITIUS  
Tel: (230) 202 1111, (230) 202 1437  
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#### Banque SBM Madagascar

1 Rue Andrianary Rarianarivo  
Antsahavola, 101 Antananarivo  
MADAGASCAR  
Tel: (261) (2022) 66607  
Fax: (261) (2022) 66608  
Telex: 22639 SBM MG  
Email: [sbmm@dts.mg](mailto:sbmm@dts.mg)

#### SBM Nedbank International Ltd

State Bank Tower  
1, Queen Elizabeth II Avenue  
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Website: [www.sbmonline.com/sbmnedbank](http://www.sbmonline.com/sbmnedbank)

#### SBM Nedcor Holdings Ltd

State Bank Tower  
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Tel: (230) 202 1111, (230) 202 1560  
Email: [finance@sbm.intnet.mu](mailto:finance@sbm.intnet.mu)

#### State Insurance Company of Mauritius Ltd

SICOM Building,  
Sir Celicourt Antelme Street,  
Port Louis, MAURITIUS  
Tel: (230) 203 8400  
Email: [email@sicom.intnet.mu](mailto:email@sicom.intnet.mu)