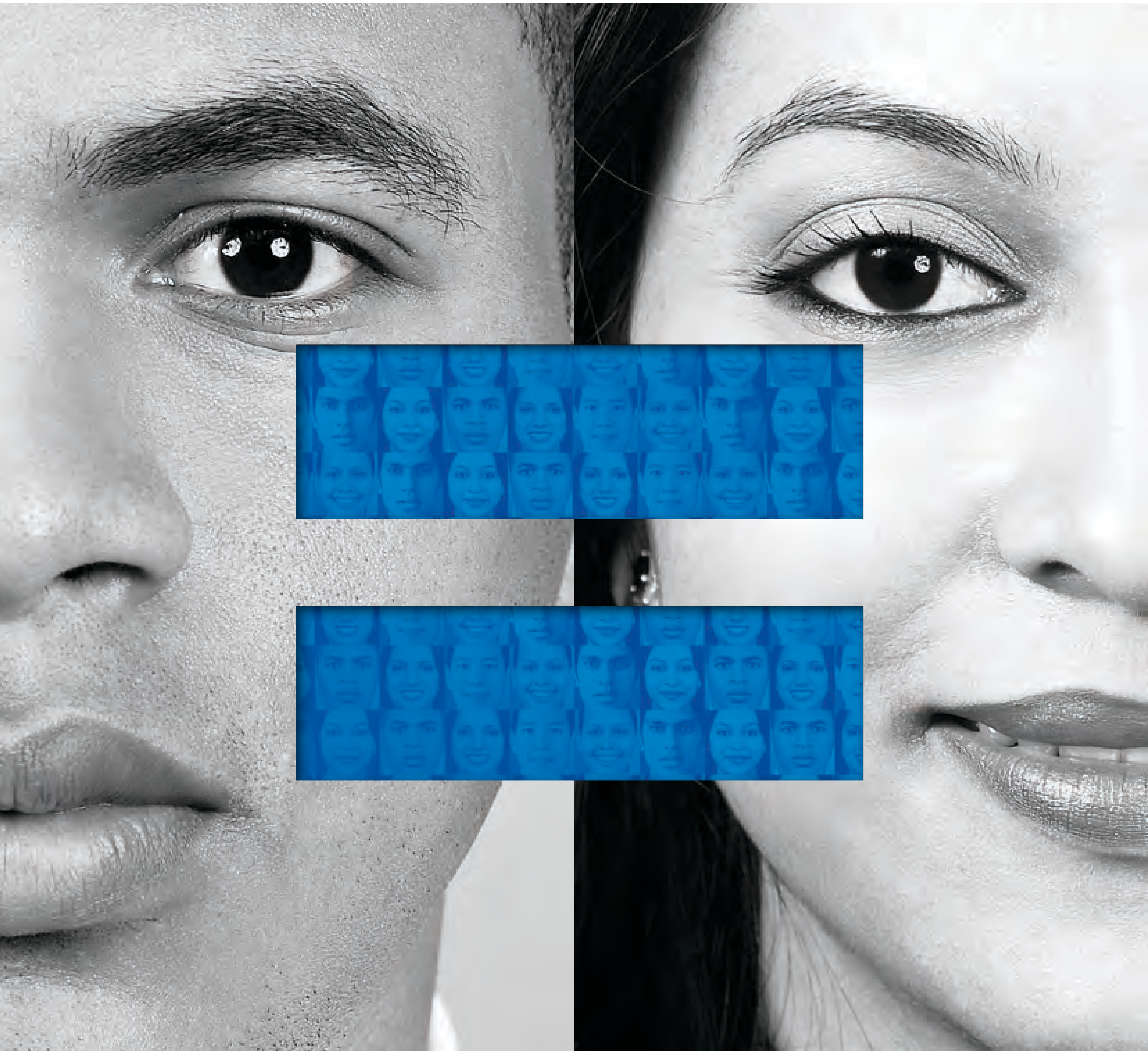
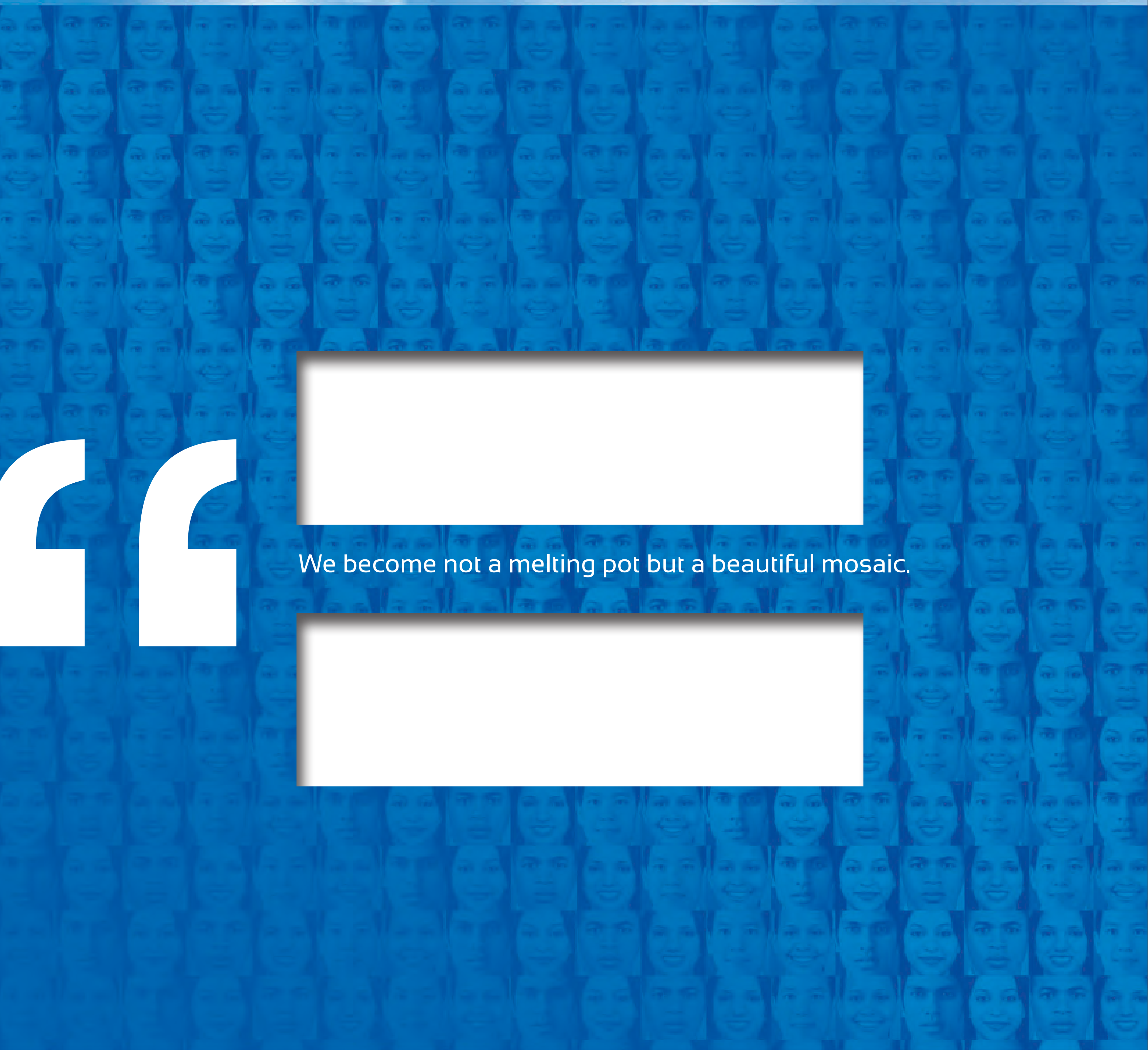
ANNUAL REPORT 2010



SBM



We become not a melting pot but a beautiful mosaic.

Different people, different beliefs, different yearnings, different hopes, different dreams."

Jimmy Carter

SBM


SO BEAUTIFULLY MAURITIUS

## VISION

*To be the leading provider of premier integrated financial services in the region through a dedicated and competent professional team.*

## MISSION

*Value creation for all stakeholders by achieving consistent improvement in returns and continued enhancement in service levels.*

## GOAL

*To continuously improve and innovate the Group's lines of business and achieve strong and sustained returns for the shareholders. SBM aims to achieve its goals by continuously enhancing customer service, competencies, delivery channels and operating efficiency as well as maintaining a balanced, acceptable and quality risk profile while effectively managing its balance sheet.*

# CONTENTS

## Key financial highlights

| | 2010 | 2009 | 2008[a] | 2007[a] | 2006[a] |
|---|---|---|---|---|---|
| Shareholders' equity (Rs m) | **14,656** | 12,943 | 10,974 | 9,515 | 7,816 |
| Capital adequacy ratio (%)[b] | **26.49** | 24.04 | 21.61 | 20.58 | 20.77 |
| Earnings per share (cents) | **720** | 784 | 819[c] | 503 | 406 |
| Economic value added (Rs m) | **398** | 482 | 432 | 478 | 392 |
| Profit before income tax (Rs m) | **2,212** | 2,345 | 2,397 | 1,740 | 1,524 |
| Profit attributable to equity holders of the parent (Rs m) | **1,859** | 2,025 | 2,114 | 1,506 | 1,319 |
| Return on average assets (%)[d] | **2.41** | 2.83 | 3.47 | 2.74 | 2.61 |
| Return on average risk-weighted assets (%)[e] | **4.10** | 4.62 | 5.12 | 4.25 | 4.22 |
| Return on average shareholders' equity (%)[d] | **14.75** | 17.24 | 21.43 | 17.73 | 15.62 |
| Return on average Tier 1 capital (%)[d] | **20.41** | 25.48 | 30.85 | 27.81 | 22.36 |
| Credit deposit ratio (%) | **72.83** | 64.17 | 66.03 | 62.87 | 67.78 |
| Cost to income (%) | **39.03** | 38.43 | 37.08[f] | 40.06[f] | 41.11[f] |
| Cost to income before net impairment loss on financial assets (%) | **35.79** | 35.74 | 33.54[f] | 36.19[f] | 37.75[f] |
| Gross impaired advances to gross advances (%) | **1.87** | 2.00 | 2.42 | 2.79 | 2.34 |
| Dividend payout ratio (%) | **38.20** | 35.06 | 31.14 | 36.00 | 49.24 |
| Electronic to gross transactions (%) | **85** | 84 | 82 | 85 | 83 |

a Restated for comparative purposes

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

c EPS, excluding the increase in dividend receipt in 2008, would have been Rs 6.05.

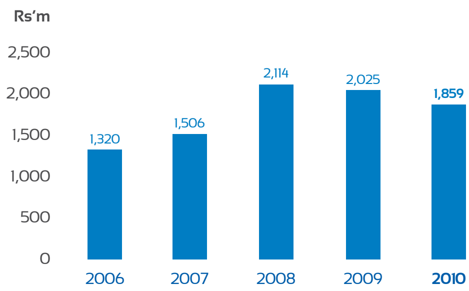
d Averages are based on daily and monthly average balances where applicable.

e Average risk-weighted assets are calculated using year-end balances.

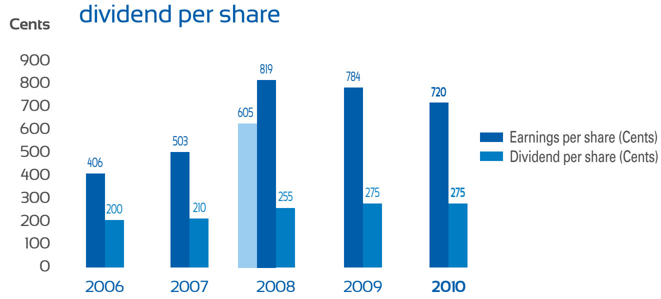
f Grossed up for tax-exempt debenture interest income.

# Key financial charts

## Profit for the year

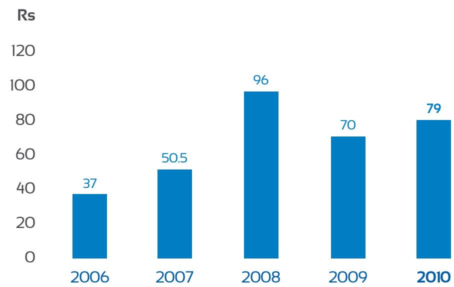



## Earnings per share and dividend per share

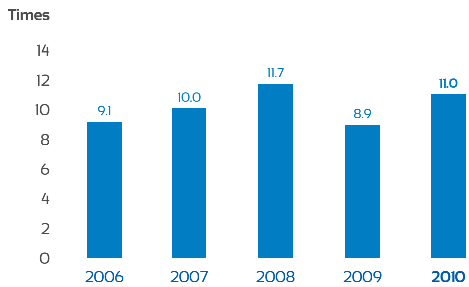



EPS, excluding the increase in dividend receipt in 2008, would have been Rs 6.05

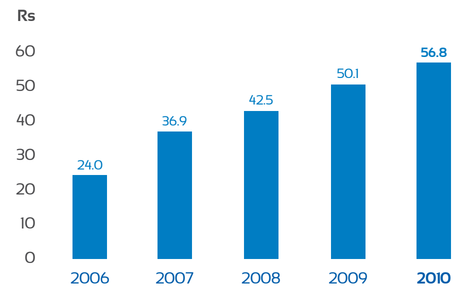
## Market price per share



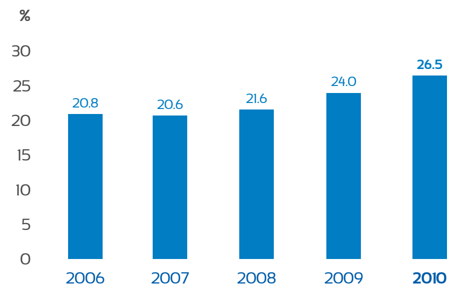

## Price earnings ratio



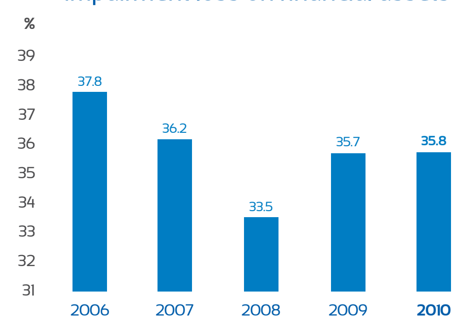

## Net asset value per share



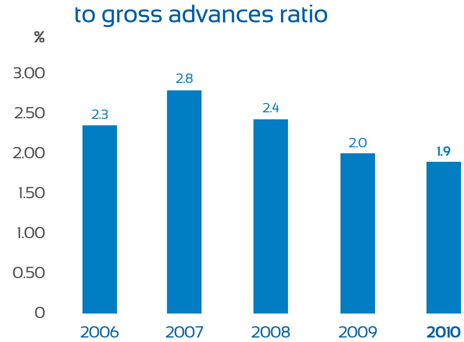

## Capital adequacy ratio




## Cost to income ratio, before net impairment loss on financial assets




## Gross impaired advances to gross advances ratio



# CORPORATE PROFILE

The State Bank of Mauritius Group (SBM/the Group) is a leading financial services group in Mauritius with a growing international presence. It provides all services of a universal bank within a diversified business model. The lines of business include: Retail Banking, SMEs, Private Banking and Wealth Management; Corporate, International and Investment Banking; Treasury services; and eBusiness. SBM started operations in 1973 and was listed on the Stock Exchange of Mauritius in 1995. It is the second largest company listed on the Stock Exchange of Mauritius, with a market capitalisation of Rs 26 Bn (USD 830 m) as at August 2010.

Innovation, flexibility, accessibility and reliability are the key attributes that have contributed to the Group's reputation and trustworthiness. Owned by nearly 17,000 domestic and international shareholders, SBM has more than 1,100 employees and services over 375,000 customers through its network of 48 service units and counters in Mauritius, India and Madagascar. Going forward, we are laying greater emphasis on international as well as non-banking activities. We are always mindful that the quality of our human resources and service delivery makes the difference and, hence, continuously invest in people, infrastructure and technology.

SBM is the second largest listed company in Mauritius offering universal banking services in Mauritius, India and Madagascar, and is the highest rated Mauritian bank by Moody's Investors Service. Besides diversifying its revenue lines, the Group continuously invests in people, infrastructure and technology.

## Retail Banking, SMEs, Private Banking and Wealth Management

SBM is well entrenched in the domestic banking landscape with a diversified and loyal customer base, serviced through a large branch network by employees who are increasingly responsive to evolving client needs. Besides a broad range of savings, investment and financing products, in both local and foreign currency, we offer a large portfolio of cards, designed to suit the needs of specific customer segments. Innovation and market insights continue to drive product development. In line with the Group's diversification strategy and in view of market trends, we are now looking to further develop our Small and Medium Enterprise business as well as our Private Banking and Wealth Management services.

## Corporate, International and Investment Banking

Our growing team of professionals provides comprehensive financial solutions to business customers across geographical borders and portfolios. These include traditional commercial loans, project finance, working capital finance and trade finance facilities in both local and foreign currencies. Structured facilities are also offered to clients and are customised to their specific requirements. In addition to international activities through the Group's presence in India and Madagascar, SBM is involved in cross-border transactions in a number of other countries. The share of international business has steadily risen over the past few years and, in line with our strategic objectives, is set to increase further over the medium term.

## Treasury

Treasury activities at SBM encompass different financial products including foreign exchange, money market, fixed income and commodities trading. Our professional and dynamic treasury team offers an array of services to customers, from up-to-date market information and advice to timely execution of deals. Products offered to customers range from basic spot, forward and swap transactions to currency options and structured deposits, tailored to the requirements of our customers. In addition to our core Mauritian operations, treasury services are also provided in India and Madagascar.

## eBusiness

In line with our spirit of innovation, we have invested in state-of-the-art technology to put multiple reliable and sophisticated electronic delivery channels at the service of our customers for convenient banking from anywhere on a 24/7 basis. These channels include an e-commerce portal, mobile banking services as well as an extensive network of Point Of Sale machines. The eBusiness team is also responsible for card issuing and merchant acquiring. Capitalising on superior technology, SBM has pioneered a number of innovative products in the eBusiness segment.

## Risk management and portfolio

SBM has a well-diversified credit portfolio, whether by line of business or by industry group. International business expansion is also helping us to further spread the risk in our books. Our risk management structure is independent from the business-generating areas to avoid conflicts of interest, and is overseen by the Board of Directors. The Risk Management Unit ensures adherence to regulatory norms and the risk appetite limits, and recommends changes to the set risk parameters and limits. The risk management capabilities are supported by good management information systems, a solid internal rating system and robust policies. Testifying to the robustness of our risk management framework, our asset quality metrics compare very favourably with the industry.

## Human resources

Our people strategy is at the heart of our growth objectives. SBM employs more than 1,100 staff in Mauritius, India and Madagascar. These employees are core to the organisation in providing quality service to customers, thus generating sustainable business and building the brand. As a key source of competitive advantage, human capital has gained increasing importance notably through a clear programme of retention, motivation, training and reward, as well as staff welfare.

SBM is an Equal Opportunity Employer and strives to become the Employer of Choice through various HR initiatives. We are also positioned to become an Equality & Diversity champion.

## Market firsts

True to our philosophy of being close to our customers, we were the first bank to establish branches in the rural areas, thereby establishing a national branch network. SBM is also rightly recognised for its lead in technology. We were the first bank in Mauritius to set up an e-commerce platform and introduce the Europay-MasterCard-Visa (EMV) chip debit card technology, TopUp (mobile phone recharge) and Mobile Banking. We have also introduced, under our brand name "SBM eSecure", enhanced security standards for internet transactions through the implementation of "Verified by Visa" and MasterCard "SecureCode" services. Besides, SBM is the preferred Visa partner in Mauritius. Using market insights and critical thinking, the Group aims to continuously offer innovative products and services to meet the needs of its growing customer base.

## International recognition and ratings

SBM has been awarded "Bank of the Year, Mauritius" three times since its launch by The Banker, Financial Times Group, in London. Moreover, the inaugural "Best Bank in Mauritius" by Euromoney was awarded to SBM for three consecutive years from 2004 to 2006. SBM was also awarded "Best Bank Mauritius" by emea finance in 2009 as part of the African Banking Awards and was the first runner up in the 2009 Africa investor Index Series Awards, in the Best Performing Ai40 Company category.

Moody's Investors Service continues to rate SBM the highest amongst its peers in Mauritius: Baa1 for global local currency deposits, Baa2/P-2 for foreign currency deposits, Baa1 for foreign currency issuer rating and C- for Bank Financial Strength ratings.

## Corporate social responsibility

We firmly believe that, to carve a sustainable future, corporate profitability and development must be integrated within a broader framework of public interest. Hence, we are set on ploughing back part of our profit as investment in the wider community. The Group's new corporate social responsibility (CSR) policy focuses on economic empowerment and combating poverty through education. All our initiatives, be it in the field of sports, health or the environment, revolve around the education theme. We are also fostering a culture of volunteering among staff through awareness, opportunities and company support. We contributed some Rs 30 m to CSR during the year.

## Equality and diversity programme

Equality translates our recognition of the close interlink between all economic agents, in whatever role they may be, and of the importance to ensure that people are treated justly and given fair chances. In addition to our internal policies which promote equality at all levels, our CSR programme is aimed at improving opportunities and participation within the community at large. Diversity, for its part, challenges established practices and, hence, pushes us to strive for the best in everything we do. Whether in terms of customers, employees, business segments, revenue streams, risks or ideas, diversity generates self-reinforcing dynamics, which helps us grow into a stronger and more balanced organisation.

## Caution regarding forward-looking statements

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

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

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

## SBM Group Structure

**SBM Ltd**

**100%** SBM Global Investments Limited

- **100%** Banque SBM Madagascar SA
- **100%** SBM International Investments Limited
- **100%** SBM Asset Management Limited
- **100%** SBM Capital Management Limited

**100%** SBM Investments Limited

- **100%** SBM Mauritius Asset Managers Ltd
- **100%** SBM Financials Limited
- **100%** SBM Securities Ltd

**20%** State Insurance Company of Mauritius Ltd

Subsidiary

Associate


## Geerja Shankar Ramdaursingh

MBA, FCA, CF
**Chairman**

Mr Ramdaursingh attended United World College of the Atlantic, Université de Paris II, Warwick Business School, and qualified as a Chartered Accountant at KPMG in London. He has wide experience in the local and international financial sectors having worked for some fifteen years in London and emerging markets in corporate finance, project finance, private and listed equity investment, corporate recovery, accountancy and taxation. He was previously Director of Corporate Finance at the Commonwealth Development Corporation (CDC – now Actis) in London. He was also the General Manager and Director of a fund listed on the London and Mauritius Stock Exchanges. During his time at CDC he also helped set up the first dedicated private equity funds in Mauritius and in the region, as well as regional investment funds in Asia and Central America. Upon his return to Mauritius in 2000, in conjunction with the leading accountancy and financial advisory firm, he set up and ran a company providing corporate finance and transaction advisory services to clients in the region. Mr Ramdaursingh is a keen participant in the economic and financial debate in Mauritius. He joined the Board of SBM since September 2007 and is an independent director.

## Kalindee Bhanji

BA (Hons) Economics, MSc Public Sector Management

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

## Azim Fakhruddin Currimjee

BA (Mathematics), MBA

Mr Currimjee is currently the CEO and Managing Director of Quality Beverages Ltd, Vital Water Bottling Co Ltd and Margarine Industries Ltd, and is a director of various companies in the Currimjee Group. He was previously President of the Mauritius Chamber of Commerce and Industry. He joined the Board in December 2008 and is an independent director.

## Dheerendra Kumar Dabee

SC, LLB (Hons)

Mr Dabee, a Birmingham University graduate in Law and Political Science, Barrister at Law of Middle Temple since 1981 and a Senior Counsel, is currently the Solicitor-General in the Attorney General's Office. He is a director of Air Mauritius Ltd and Mauritius Telecom and acts as Legal Adviser to a number of public organisations. He joined the Board in May 2008 and is a non-executive director.

## George John Dumbell

ACIB

Mr Dumbell has extensive financial and commercial experience, having worked 34 years for the HSBC Group in senior management positions in nine countries across Asia, the Middle East, Europe and the Bahamas. He is currently the Chairman of the Constance Group, which is listed on the Stock Exchange of Mauritius, and sits on the board of the Mauritius Institute of Directors. Mr Dumbell is also a director of various listed companies and the Chrys Capital Group of Companies. In 2003, he undertook a two-year consultancy contract with a leading local bank in the field of risk management. He joined the Board in February 2008 and is an independent director.

## Ali Michael Mansoor

MSc (Mathematical Economics and Econometrics),
Master in Public Policy

Mr Mansoor has wide-ranging technical and managerial experience at the World Bank, the European Commission, the COMESA Clearing House and the International Monetary Fund. He was a lead economist at the World Bank with a geographical focus on Eastern Europe and sector attention in public finance, banking and finance, trade and private sector. He is currently the Financial Secretary at the Ministry of Finance and a director of various companies. He joined the Board in December 2006 and is a non-executive director.

## Soopaya Parianen

BA (Hons) Economics

Mr Parianen has 33 years experience in banking out of which 26 years at senior management level. He has served as Group Divisional Leader for Corporate Banking and Group Divisional Leader Retail Banking and Credit Management Support Services, as well as Acting Chief Executive between November 2008 and April 2009. Mr Parianen is currently Chief Operating Officer and, since February 2010, he also heads the Retail Banking Division. He was director between December 2004 and December 2006 and again joined the Board in December 2009. Mr Parianen is an executive director.

## Rohit Ramnawaz

FCCA, LLB

Mr Ramnawaz is a Fellow of the Association of Chartered Certified Accountants and also holds a law degree. He has over 24 years experience in the fields of banking, finance, accounting, tax advisory and financial services. He is currently the Managing Director of African Links Ltd, a consultancy firm principally engaged in providing value-added services to clients and multinationals in the Global Business sector. He has previously been a freelance country notesender for Mauritius for the Economist Intelligence Unit. Mr Ramnawaz joined the Board in December 2006 and is an independent director.

## Alfred Joseph Gerard Robert Alain Rey

BSC (Hons) Economics, ACA

Mr Rey is a graduate in Economics from the London School of Economics and qualified as a Chartered Accountant in 1985. He is currently Project Director as well as a director of various companies. Mr Rey has wide-ranging experience, having served as Chief Financial Officer of a NASDAQ listed company as well as Regional Corporate Director of a leading bank in Mauritius. He joined the Board in December 2009 and is an independent director.

## Professor Andrew Scott

BA, MSc, D Phil

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

## Gautam Vir

BA (Hons), MBA

Mr Vir joined SBM as Chief Executive in May 2009. He has over 32 years of banking experience and has worked in India, Asia Pacific, the Middle East, North America and Europe. Mr Vir has previously worked for Citibank, Bank of America and Standard Chartered, and was Chief Executive of Hebros Bank in Bulgaria. From 2005 to 2009, he served as Managing Director and Chief Executive Officer of the Development Credit Bank Ltd, India, a bank listed on the Bombay Stock Exchange. Mr Vir is an executive director.

# BOARD COMMITTEES

## Audit Committee

Alain Rey (Chairman)
Azim Fakhruddin Currimjee
Dheerendra Kumar Dabee, SC
George Dumbell
Rohit Ramnawaz

## Corporate Governance & Conduct Review Committee

Dheerendra Kumar Dabee, SC (Chairman)
Kalindee Bhanji
Azim Fakhruddin Currimjee
George Dumbell
Geerja Shankar Ramdaursingh
Rohit Ramnawaz

## Risk Management Committee

George Dumbell (Chairman)
Ali Michael Mansoor
Geerja Shankar Ramdaursingh
Rohit Ramnawaz
Andrew Scott
Pauline Seeyave*
Gautam Vir

## Credit Committee

Geerja Shankar Ramdaursingh (Chairman)
Dheerendra Kumar Dabee, SC
Daniel Ng Tseung*
Soopaya Parianen
Rohit Ramnawaz
Alain Rey
Gautam Vir

## Nomination & Remuneration Committee

Geerja Shankar Ramdaursingh (Chairman)
Kalindee Bhanji
Azim Fakhruddin Currimjee
Dheerendra Kumar Dabee, SC
Alain Rey

## Strategic Planning Committee

Geerja Shankar Ramdaursingh (Chairman)
Kalindee Bhanji
Ali Michael Mansoor
Soopaya Parianen
Moonesar Ramgobin*
Andrew Scott
Gautam Vir

*Executives co-opted as members

# DIRECTORS OF SUBSIDIARIES

## SBM Asset Management Limited
Gautam Vir (Chairman)
Veronique Lim Hoye Yee
Daniel Ng Tseung
Soopaya Parianen
Moonesar Ramgobin

## SBM Financials Limited
Gautam Vir (Chairman)
Chaya Devi Dawonauth
Moonesar Ramgobin
Pauline Seeyave

## SBM International Investments Limited
Gautam Vir (Chairman)
Soopaya Parianen
Moonesar Ramgobin
Pauline Seeyave

## SBM Mauritius Asset Managers Ltd
Geerja Shankar Ramdaursingh (Chairman)
Vishal Joyram
Anil Kundan
Veronique Lim Hoye Yee
Soopaya Parianen
Gautam Vir

## Banque SBM Madagascar SA
Geerja Shankar Ramdaursingh (Chairman)
Chaya Devi Dawonauth
Veronique Lim Hoye Yee
Soopaya Parianen
Moonesar Ramgobin
Pauline Seeyave
Gautam Vir

## SBM Capital Management Limited
Gautam Vir (Chairman)
Chandradev Appadoo
Soopaya Parianen
Moonesar Ramgobin
Pauline Seeyave

## SBM Global Investments Limited
Gautam Vir (Chairman)
Soopaya Parianen
Pauline Seeyave

## SBM Investments Limited
Geerja Shankar Ramdaursingh (Chairman)
Chandradev Appadoo
Soopaya Parianen
Pauline Seeyave
Gautam Vir

## SBM Securities Ltd
Geerja Shankar Ramdaursingh (Chairman)
Vishal Joyram
Daniel Ng Tseung
Soopaya Parianen
Gautam Vir

# REPORT OF THE DIRECTORS

## To our shareholders:

After a very good performance in FY 2009, with profit after tax, excluding dividend income, increasing by 35.3%, the Group faced a more challenging year ended 30 June 2010 (FY 2010), as gauged by a drop of 3.6% in profit excluding dividend. Taking into consideration lower dividend income received in FY 2010, overall profit declined by 8.2% to reach Rs 1,859 m (2009: Rs 2,025 m). In view of the volatile environment, an additional portfolio provision of Rs 170 m over and above the minimum level required by the Bank of Mauritius has been made in the statement of income. Excluding the one-off dividend income received in FY 2009 as well as the impact of this additional provisioning, profit for the year would, in fact, have increased by 3.6%.

The Group's performance has been affected by heightened pressures within the environment. In particular, trade volume was subdued, credit demand slowed down in line with lingering uncertainty regarding the economic outlook as a result of the global slowdown particularly in Europe, yields on treasury bills came down amidst high liquidity and credit spreads came under pressure amidst heightened competition and dampened demand. Despite the challenging operating conditions, we focused on maintaining a high-quality asset portfolio backed by an acceptable risk-reward profile and on improving our internal capabilities, as we pursued our medium term strategy.

While overall financial results are lower than last year, Group fundamentals remain solid, with liquidity and capital maintained at very comfortable levels, the cost to income ratio contained to below 40%, and the non-performing advances ratio stood at a very commendable 1.9%. Besides, we have successfully pursued our diversification strategy as gauged by the noteworthy performance of some of the strategic growth areas, setting the scene for stronger future performance. In effect, our international business continues to expand at a significant pace, with international advances increasing by 48% and now representing 32% of total advances (2008: 18%). As a result, overall advances grew by 9.8%. Volumes have also risen appreciably in respect of the cards business and assets under management, in line with our objective of promoting fee-based income. As importantly, in addition to the broadening of the revenue base, significant capacity building initiatives continue to be rolled out to support growth in the areas of human resource, customer service, information technology, risk management and internal audit. Several enhancements were underpinned by the ongoing consolidation of the management team, another key performance driver *per se*.

Going forward, the expansion of the revenue base will be pursued, especially in international business, with focus on India and Global Business activities, as well as in the domestic Small and Medium Enterprises (SME) sector and in respect of activities generating fee-based income. Furthermore, the Group will continue to sharpen its internal capabilities through sustained investment in technology and a comprehensive review of processes to enhance efficiency and improve customer service. Conscious that people make the difference, human resource management will be further enhanced to make human capital a key differentiating factor in providing superior service to our customers, alongside measures to foster a performance culture. Besides, the risk management framework will be upgraded to align it to the evolving environment and to a broader business base.

> The Group faced a more challenging year, as gauged by a drop of 3.6% in profit excluding dividend. Taking into consideration lower dividend income received in FY 2010, overall profit declined by 8.2% to reach Rs 1,859 m (2009: Rs 2,025 m). Excluding the one-off dividend income received in FY 2009 as well as the impact of this additional provisioning, profit for the year would, in fact, have increased by 3.6%.

> Despite a challenging operating environment, we have maintained strategic focus. Our solid fundamentals, good governance and clear strategy of revenue diversification and improved customer service quality have enabled us to focus on reinforcing our internal capacity, be it people, process, technology or risk management, to benefit from an eventual upturn.

## A challenging operating environment

Over the past financial year, the global economy has gone through a rollercoaster ride. As we entered FY 2010, most advanced economies were still in recession, albeit at a diminishing pace, and visibility on the outlook was blurred with some important downside risks dominating. On the other hand, commodity prices and financial markets had bounced back from the exceptional lows witnessed in early 2009. By the end of 2009, a global upturn appeared to be underway as confidence rebounded and the impact of unprecedented monetary and fiscal stimulus measures implemented by a number of countries started to increasingly show in terms of improved economic performance. However, recovery was uneven across countries, with emerging economies, especially in Asia, leading the upturn and, among advanced economies, the United States faring better than Europe and Japan. The divergences in the recovery paths became more prominent with the onset of the euro crisis in the first half of 2010. A number of European countries that had entered the economic downturn from a relatively weak fiscal position found themselves with unsustainable public debt levels as a result, amongst others, of increased budget outlays related to stimulus packages and low revenue buoyancy arising from below trend economic growth. The ensuing rise in sovereign default risk contributed to a return of relatively high degrees of uncertainty within financial markets.

Broadly reflecting developments on the international scene, the Mauritian economy started to pick up at the beginning of FY 2010, after a severe slowdown in the first half of 2009, although export-oriented enterprises remained in negative territory, dragged down by sharp year-on-year contractions in the tourism and textiles sectors. The upturn was supported by the business and financial services sector, which maintained appreciable growth momentum, as well as general public services and construction, the latter being buoyed by increased Government expenditure on infrastructure projects, partly linked to the stimulus package implemented to counter the downturn. On the other hand, private sector investment and large-scale real estate projects slowed down considerably. The economy accelerated in the second quarter of FY 2010 as export-oriented sectors recovered year-on-year, albeit with activity remaining below pre-crisis levels. In the latter half of the financial year, though, the growth impetus was



tempered by the onset of the euro crisis, the Mauritian economy being highly dependent on the European market for its exports.

Economic prospects in the period ahead will, to a large extent, hinge on the speed and strength of recovery in activity and confidence levels, mainly in our European markets. The textile, tourism and real estate sectors remain particularly vulnerable to these international developments. While baseline forecasts suggest a gradual recovery, a setback in performance, particularly in export-oriented sectors, cannot be discounted. After faring relatively well so far, domestic-oriented industries, including the financial sector, could become less resilient to the effects of such a setback.

Amidst a volatile economic outlook, private sector investment has remained subdued and is not expected to pick up strongly in the foreseeable future, translating into continued lacklustre credit demand. Besides putting pressure on credit margins, the resulting excess liquidity has also adversely impacted the yields on Government securities. Indeed, the Bank rate – which is the weighted yield on treasury bills of maturity of up to 1 year – declined by 80 basis points over FY 2010, although the reference Repo rate was kept on hold. Banking sector performance has also suffered, amongst others, from tepid trade volumes emanating from subdued economic activity.

Volatility in the international economy has also translated into a more challenging foreign currency funding environment. Conscious that this may become a constraint to the Group's plans of expanding its financing activities in terms of higher cost or reduced availability of finance, we have been actively engaged in securing credit lines to enable us to pursue our objective. Regarding our overseas operations, the delicate political situation in Madagascar warrants continued caution. On a brighter note, solid and broad-based prospects in the Indian economy, supported by a strong upturn in the current financial year and sound growth drivers, should provide sustained business opportunities therein.

## Maintaining strategic focus

Within the context of a difficult operating environment, it may be tempting to sacrifice stability and sustainability to protect shorter term gains. Conscious that such practices can rapidly lead to a deterioration in financial fundamentals – and may eventually also have a detrimental impact on the overall economy, as has come to the fore during the current global crisis – we are more than ever committed to acting responsibly. We thus aim to continuously uphold a high-quality portfolio by supporting good businesses, whatever their size, and keeping away from speculative deals while maintaining an appropriate risk-reward balance. Moreover, as discussed in broader details in the Corporate Governance Report at pages 31 to 45 of the Annual Report, we are committed to sound business ethics and corporate governance principles.

In plain terms, we are driven by the mission to enable all individuals to prosper in their lives and businesses to flourish by facilitating their economic activities, thus contributing to the national development. We aim to proactively understand and fulfil the financial needs of our customers by diligently studying the market to look for opportunities and by building the right competency base to service these needs. Offering the right products and outstanding customer service quality will enable us to build a sustainable competitive edge, thus providing attractive returns to


our shareholders and employees while contributing to the overall development of the economy and the community at large. At the same time, we remain ever mindful that banking involves different types of risk and we endeavour to correctly price and manage these risks.

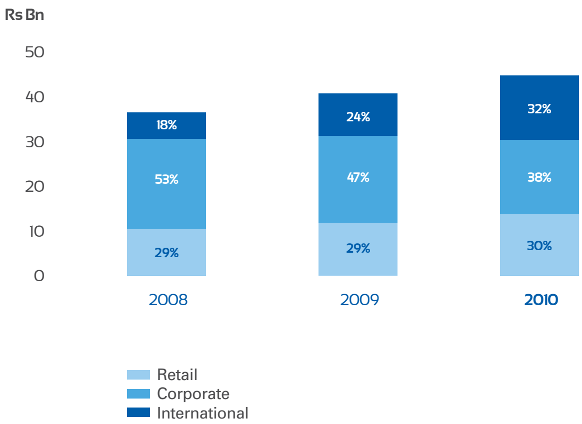
It is true that the operating environment has not been favourable to growth during the year under review, thus impacting on our results. However, our solid fundamentals and clear strategy have enabled us to take advantage of the leeway provided thereby to build our businesses and reinforce internal capacity so that we can markedly benefit from an eventual upturn.

## Diversification of the revenue base

In view of the small size of the Mauritian market and heightened competition in the domestic banking industry, one of the key strategic orientations of the Group continues to be the expansion of the revenue base, notably through diversification into international markets, exploitation of under-penetrated areas in banking and development of non-bank financial services.

During the year under review, segment B advances – that is those that give rise to foreign-sourced income – grew by 48% and now account for some 32% of total advances, compared to 18% in FY 2008. Besides, a new Chief Executive with solid experience in the banking sector in India now leads our India Operations. Under her leadership, the contribution to Group revenue from the promising Indian market is expected to increase significantly over the coming years. As regards Madagascar, after stabilising the operations during FY 2010, increased focus will be laid upon expanding business therein through a review of the environment and a targeted service offering, supported by the appointment, in July 2010, of a new Chief Executive for Banque SBM Madagascar.

### Growing share of international advances




The card issuing business, which has been identified as a high growth area, delivered an excellent performance with increases of above 20% in the credit card base and in card spending. We have now enhanced our position in the domestic card market, supported by a solid card platform and high visibility on the market through innovative offers and a revamped card portfolio. Going forward, in view of our customer reach and superior platform, performance can be improved even further without compromising on the quality of our portfolio.

Following the review of the Wealth Management structure last year that allows more synergy between the high net worth customer base and investment services, some promising results are emerging with, for instance, total assets under management increasing by 38%. In the coming period, the Group will increasingly reach out to Wealth Management opportunities in the region, capitalising on our presence in Madagascar and India.

As indicated in last year's report, SMEs represent an important avenue of growth in the Group's strategy. This sector has over the past few years outperformed the overall economy in respect of both employment and output, displaying a striking degree of resilience. Yet, it has remained underserved by the banking industry. Alongside helping to contribute to overall economic growth – considering that SMEs form the backbone of the economy – expanding our SME portfolio thus also makes sense from the organisation's financial perspective, particularly considering the Group's unique positioning in this area. During the year under review, performance in this area has not been commensurate with expectations. However, the implementation of a new business model that would engage SMEs in a win-win partnership through a range of offerings and support services, coupled with the recruitment of a seasoned Head of SME in July 2010, should provide fresh impetus to this portfolio and underpin the Group's firm intention to make significant headway in this sector in the period ahead.

### Differentiation through superior service

Our objective of achieving superior returns over the long term – as opposed to fragile short term gains – is buttressed by the endeavour to proactively respond to client needs and continuously improve our service quality. In line with the Group's mindset that customers are at the centre of our business as well as the strategic objective of making service quality a key differentiator for the organisation, the Group appointed a Head of Quality and Customer Services to drive this objective. This was followed by the launch of a series of service improvement measures, including the development of an in-house customer service training programme, more customer-friendly procedures and initatives to enable branches to be more responsive to customer requests. Furthermore, the programme of infrastructure upgrade within the branch network was pursued to enhance customer experience and ensure a standard look and feel.

Conscious that service excellence is a journey instead of a destination, the Group intends to further improve delivery time, service quality and customer convenience, among others, through a review of key processes, investment in technology and service-related performance targets for all staff. This should enable further progress towards our goal of making the organisation fully customer-centric.

### Building the talent base

In line with our steadfast conviction that the success of our strategy relies on the quality of our people, we have, during the year, pursued the consolidation of the management team with the recruitment of high calibre professionals in all key areas of our business. We are confident that the strengthened management team will in turn enhance and motivate their teams to drive the Group to higher levels of performance over the years to come.

Moreover, in order to better attract, retain and develop talent across the organisation, the human resource set-up is being significantly enhanced. Hence, a revamped performance management system, which more closely aligns individual incentives to organisational objectives, is now in place. Appreciable progress has also been achieved in terms of human capital development, with the number of training hours more than doubling in the past financial year. This momentum should be maintained this year, alongside other talent management initiatives. In the same vein, a major project relating to job evaluation and grading is currently underway while a number of schemes relating to employee welfare, performance culture and career development are being rolled out.

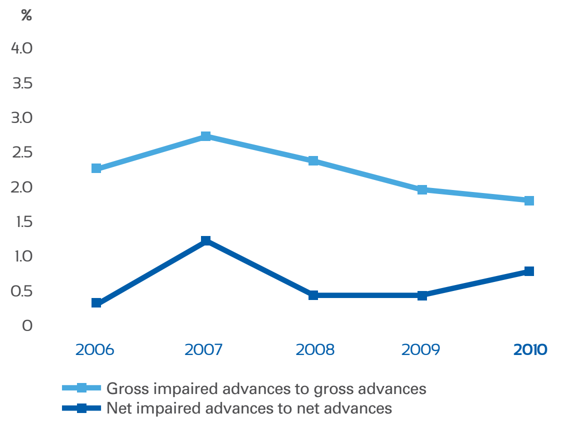
## Improving operating efficiency levels

As gauged by a cost to income ratio of 39.0%, we currently operate at strong efficiency levels by local or indeed international standards. The lag effect will adversely impact on this ratio in the short term as capacity building initiatives put pressure on cost while ensuing revenues take time to materialise, weighed down by subdued activity. Nonetheless, we are confident that we can maintain excellent efficiency levels over the medium term, as we modernise the physical and technological infrastructure of the Group. In the current financial year, we will invest in the upgrading of our processes to enhance operating efficiency and improve customer service. We will invest further in maintaining our edge in technology, viewed as a lever for more efficient and cost-effective processes and for disseminating relevant information quickly across the Group to enable faster and more effective decision making.

## Sound risk management principles

Despite a delicate economic environment, asset quality metrics have remained sound hitherto, thanks largely to prudent risk management practices employed by the Group. Indeed, gross impaired advances to gross advances stood at 1.9% as at June 2010, improving from 2.0% one year earlier while the coverage of NPAs by provisions well exceeded 100%. In fact, provisions for the year were increased by Rs 170 m above the minimum level of 1% of standard assets required by the Bank of Mauritius. The substantially increased provisioning level, in the context of a fragile economic outlook, testifies to our prudent approach in managing potential risks, particularly in export-oriented sectors given the difficulties currently faced by some of the country's main markets, notably in Europe.

### Gross and net impaired advances




Cognisant of the fact that the frailty of current economic and financial conditions as well as diversification into new business areas and environments imply different and possibly more complex types of risks, we will be looking in the current financial year to thoroughly review and further consolidate our risk management set-up. A more detailed discussion on our risk management framework and related performance indicators may be found in the Risk Management Report, contained at pages 47 to 65 of the Annual Report.

## Consolidating the brand

The SBM brand is now more than ever a household name in Mauritius. We are confident that our initiatives to diversify our revenue base and provide outstanding service based on the right competencies, seamless processes and enabling technology, as well as sound dissemination strategies and the development of a standard corporate identity manual, will contribute to strengthening the brand in line with our ratings.

Our ratings by Moody's Investors Service remain the highest in the local market, with a higher Financial Strength Rating than the other rated local peer and our long term foreign currency issuer and deposit ratings at the country ceilings of Baa1 and Baa2 respectively. These ratings were upheld in the latest assessment in spite of challenging operating conditions.

### Giving back to the community

Our brand is also reflected in our contribution to society, with our expenditure on CSR increasing substantially to some Rs 30 m during the year under review. Investing in sustainable, high impact, programmes is at the heart of our CSR strategy. Our guiding principle is that sustainable growth can only be achieved in partnership with the community in which we operate. In this respect, we have during FY 2010 developed our CSR policy focusing on economic empowerment and combating poverty through education, sports, health and the environment. All our initiatives revolve around the education theme.

We firmly believe that education is the cornerstone of development, both at individual and country levels as it empowers children and adults to become active participants in the transformation of their societies. We thus view education as an essential element in breaking the vicious circle of poverty, epitomising the essence of the Equality and Diversity principle that we espouse. Our focus is on providing tools and opportunities to vulnerable groups so that they can acquire the required skills to become economically independent through enhanced employability.

Our CSR philosophy and initiatives are discussed in more details at pages 39 to 41 in the Corporate Governance Report.

## Results

Profit for the year reached Rs 1,859 m in FY 2010, representing an 8.2% decline from the previous year (2009: Rs 2,025 m, when profit after tax, excluding dividend income, grew by a remarkable 35.3%). It is worth highlighting, though, that the previous year's income was boosted by the receipt of dividend of a one-off nature while the results for the year under review have been adversely affected by an additional provision of Rs 170 m above the minimum level required by the Bank of Mauritius. If we exclude the one-off dividend, as well as the impact of the enhanced provisioning, and related tax effects, profit for the year would have risen by 3.6% in FY 2010.

Despite the challenging environment, total advances grew by an appreciable rate of 9.8% to Rs 44.8 Bn, driven by the international business. Indeed, segment B advances went up by 48% and now represent 32% of total advances from 24% in FY 2009 and 18% in FY 2008. On the other hand, domestic advances decreased amidst subdued credit demand and aggressive pricing by some competitors, especially in the corporate space, while we focused on maintaining a quality portfolio and striking an appropriate risk-return balance. Investment in Government securities increased significantly, from Rs 15.2 Bn in FY 2009 to Rs 20.2 Bn in FY 2010.

Within a highly liquid environment, SBM was purposefully not active in pursuing high cost deposit growth, as evidenced by a 3.3% drop in the level of deposits to Rs 61.5 Bn, in spite of a rise of 2.0% in demand and savings deposits and a notable increase in the number of current and savings accounts opened. This strategy somewhat helped support net interest margin (NIM), which nonetheless dropped by 15 basis points to 3.76%

against the backdrop of competitive pressures on yields, a sharp decline in the Bank rate and a shift towards lower-spread international financing.

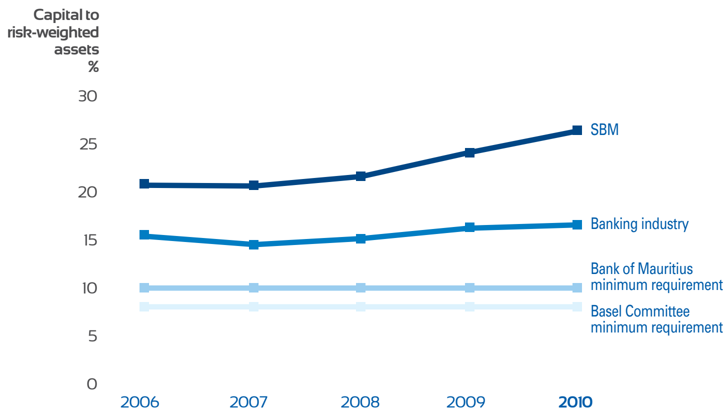
Overall, net interest income increased slightly, by 3.9% to Rs 2,493 m, while non interest income declined by 15.0% to Rs 1,344 m mainly due to a poor performance in respect of exchange income on the back of tepid external trade volumes and the drop in dividend income. Operating income in FY 2010 thus stood at Rs 3,837 m, that is, 3.6% lower than in the preceding financial year. Taking into account a slight drop in non interest expenses, pre-provision profit in FY 2010 lagged the previous year's outcome by 3.7%.

Notwithstanding the decrease in profitability, financial fundamentals remain sound and compare favourably with industry averages. Return on average shareholders' equity stood at a solid 14.75%, albeit lower than in FY 2009. Reflective of the quality of our asset portfolio, the gross impaired advances to gross advances ratio has pursued a downward trend to stand at 1.9%. We also continue to operate at sound efficiency levels, as gauged by a cost to income ratio of 39.0%. Liquidity has been maintained at comfortable levels and capital remains strong with a capital adequacy ratio of 26.5%. Our results are analysed in more detail in the Management Discussion and Analysis section at pages 71 to 101 of the Annual Report.

## Capital and dividends

Despite the drop in profit after tax, a final dividend per share of Rs 2.75 was approved in respect of FY 2010, similar as in the previous financial year. Total dividends payable for the year thus amount to Rs 710 m. Total equity attributable to shareholders rose by 13.2% to reach Rs 14.7 Bn as at June 2010 while Tier 1 capital was further strengthened, increasing from Rs 8.7 Bn as at June 2009 to Rs 9.9 Bn as at June 2010. The capital adequacy ratio improved by 2.5%.

### Strong capital levels

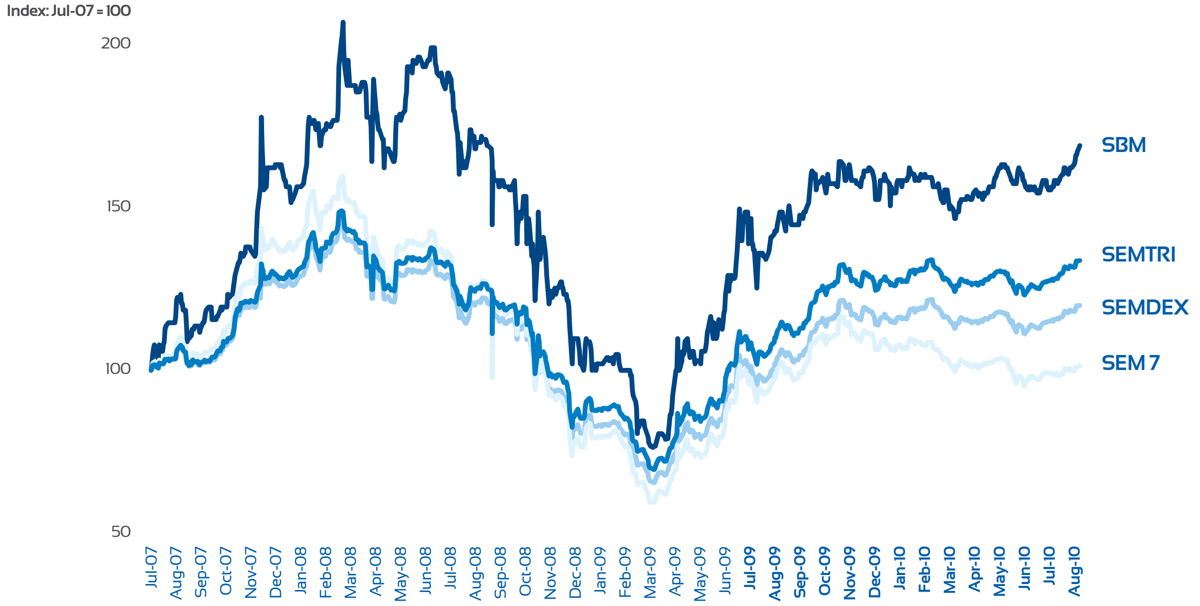



Note: figures as at June, except banking industry for 2010 as at March 2010

## Share performance

The SBM share price opened FY 2010 at Rs 70, having already recovered 85.2% from the low of Rs 37.80 reached on 2 March 2009 amidst high degrees of risk aversion and uncharacteristic volatility in financial markets worldwide. Comparatively, the market index, SEMDEX, was up by 53.6% over the same period of March to June 2009. The rally was sustained in the early months of the financial year, with a further 15.7% rise by September 2009 as it became clear that the fundamentals of the SBM Group remained solid. The share price has remained more or less stable since till the end of the financial year. Overall, the SBM share price went up by 12.9% over FY 2010 as opposed to a rise of 16.7% in the SEMDEX, the lower performance of the SBM share being largely compensated by the sharper rally between March and June 2009. The SBM share price started FY 2011 buoyantly, gaining 10.1% in the first two months on a point-to-point basis, as compared to a corresponding rise of 4.0% for the SEMDEX.

Evolution of SBM, SEMDEX, SEM7, SEMTRI




## Looking ahead

Rises and falls in economic activity are a fact of life. The current downturn has been particularly pronounced and the recovery phase is sluggish by historical standards, particularly in economies that matter most to the Mauritian economy. While the fragile credit environment has undoubtedly slowed down our growth momentum, it has also given us an opportunity to build a solid base internally, which will enable the Group to vigorously take advantage at the turn of the economic cycle. Indeed, our solid fundamentals, good governance and clear strategy of revenue diversification and improved customer service quality have enabled us to focus on reinforcing our internal capacity, be it people, process, technology or risk management, to benefit from an eventual upturn. Initiatives put in place, and forthcoming, to consolidate the Group's fundamental drivers include the following:

- The revenue base is being significantly broadened, supported by market insights and competency building. As aforementioned, positive growth results are already being observed in a number of areas. Our strong financial fundamentals – whether in terms of profitability, efficiency, asset quality, liquidity or capital position – as well as sound risk management approach, are an advantage to us as compared to many market players as we engage in exploiting new areas for expansion;

- In line with the diversification of the business, we are considering a possible restructuring of the group holding structure to improve strategic focus and governance;

- The management team has been considerably strengthened and should, through leadership of their teams, drive improvements in various areas, including business expansion, human resource development, service quality, risk management, innovation and CSR;

- The human resource management framework has been enhanced to take human capital development to the next level through an overhaul of the training set-up, alongside initiatives to motivate and engage employees with a view to attracting and retaining the best talents in a culture favouring performance;

- We are aligning our processes to migrate to a fully customer-centric organisation, conscious that superior service is a key differentiator;

- The Group has continued to invest in the future. A number of projects are being rolled out to further improve technology, processes and risk management;

- We have remained prudent in our policies and have already made provision for potential setbacks linked to a fragile operating environment.

With a disciplined approach and resolute focus on our strategic objectives, we will continue to provide value for money, innovative and quality services to our customers and ensure that our employees are properly trained and motivated to deliver value while contributing to the overall development of the economy and the community at large. In so doing, although the challenging environment is likely to impact our performance in the coming year, we firmly believe that we will provide you, our shareholders, with superior and sustained returns over time.

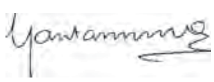
## Acknowledgements

We wish to thank our retiring directors, Anurag Bhargava, Louis Lai Fat Fur (GOSK) and Daniel Ng Tseung, for their valued contribution and insights, and have the pleasure to welcome Soopaya Parianen, Alain Rey and Andrew Scott as new members of the Board. We are also pleased to welcome in the SBM team, four new Divisional Leaders who joined during the year, namely Suvalaxmi Chakraborty, Anil Kundan, Vishwanee Lingachetti and Bishwajit Mazumder, in the areas of SBM India Operations, corporate credit, human resource management and internal audit respectively.

Our customers are an inspiration to us for continuous improvement. We are grateful to them for giving us the opportunity to serve them and take pride in our increasing client base. We also thank the regulators as well as all other external stakeholders for their support to the Group. Last but not least, our acknowledgements go to all the staff of SBM for their relentless effort and dedication to the Group.

Dear shareholders, your Board thanks you for your trust and continued loyalty.

**Geerja Shankar Ramdaursingh**
*Chairman*



**Gautam Vir**
*Chief Executive*

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors confirm that (i) an effective system of internal controls and risk management has been maintained to safeguard the assets and for the prevention and detection of fraud, (ii) there is no reason to believe that the business will not be a going concern in the year ahead and the financial statements have been prepared on this basis, and in accordance with and in compliance with the International Financial Reporting Standards, the Banking Act 2004, applicable Bank of Mauritius guidelines, and appropriate accounting policies. These were supported by reasonable and prudent judgements, and estimates have been used consistently, (iii) the financial statements fairly present the financial position of the Company and the Group as at the end of the financial year ending 30 June 2010 and the financial performance and cash flows for FY 2010, (iv) proper accounting records have been kept, in accordance with the Companies Act 2001, disclosing with reasonable accuracy at any time the financial position of the Company and the Group. The external auditors, Kemp Chatteris Deloitte Chartered Accountants have independently reported on whether the financial statements are fairly presented.

**Geerja Shankar Ramdaursingh**
*Chairman*

**Dheerendra Kumar Dabee, SC**
*Chairman, Corporate Governance and Conduct Review Committee*

## 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*

# CORPORATE GOVERNANCE REPORT

## Statement on Corporate Governance

Corporate governance refers to the system by which companies are directed and controlled. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The Board of Directors is responsible for the governance of the organisation. The Board's actions are subject to laws, regulations and the shareholders in General Meeting.

Corporate governance involves managing and controlling relations shared among different stakeholders, including shareholders, the Board of Directors, employees, customers, suppliers and the community at large. Corporate governance is also about commitment to values and ethical business conduct.

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

## The Code of Corporate Governance for Mauritius

The Code of Corporate Governance for Mauritius (the Code) was published in October 2003 and revised in April 2004. The adoption of the Code was then recommended as best practice and was not mandatory. It aimed at improving ethical conduct of directors and senior staff members in the management of companies. Following the amendments to the Financial Reporting Act, public interest entities are required, as from July 2009, to comply with the Code and are required to provide justification for not adopting any of the provisions of the Code in their financial statements or reports.

## SBM corporate governance framework

SBM was among the first companies in Mauritius and the first listed one to comply with international best practices in corporate governance as far back as 1997, well ahead of the Bank of Mauritius Guideline on Corporate Governance issued in 2001 and the introduction of the Code of Corporate Governance.

SBM's Corporate Governance framework comprises its Board of Directors, Board Committees, management, management forums, employees, internal and external auditors, and other stakeholders. It follows industry best practices as well as established policies and procedures. SBM is highly committed to and embraces the highest standards of effective good governance practices throughout its operations. This framework is crucial in developing and sustaining a successful business and SBM requires all its employees to adopt the highest standard of business integrity, transparency, professionalism and ethical behaviour, and monitors compliance with policies and with the best practices, laws, rules and standards while conducting business.

SBM's Corporate Governance & Conduct Review Board Committee reviews the corporate governance framework and compliance thereof. This Committee reviews the Board Charter and policies on matters such as management or disclosure of conflict of interests and related party transactions on an on-going basis. At least once annually, it reviews and, if appropriate, recommends new policies to enhance the governance framework and/or comply with new regulations or laws. The Committee also recommends measures to the Board for promoting CSR.

## Directors' statement of compliance

The directors confirm that the Company has complied in all material respects with the principles of the Code.

> SBM was the first listed company in Mauritius to comply with international best practices in corporate governance well ahead of regulatory guidelines and the Code of Corporate Governance for Mauritius.

## Board of Directors

The Board of Directors comprises a body of elected non-executive and executive directors. The Board oversees the activities of the Group and remains the focal point of contact between shareholders and the Company. SBM's Board is fully committed to ensuring that the highest standards of corporate governance are observed throughout the Group so that the affairs of the Group are conducted with integrity and professionalism with the objective of safeguarding and enhancing the value of shareholders' investments.

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

SBM's Board has a unitary structure currently comprised of 11 directors of which 6 are independent directors, 3 non-executive directors and 2 executive directors. Following approval at the annual meeting in 2009, the independent directors and non-executive directors are elected or re-elected annually at the meeting of the shareholders by a separate resolution upon recommendation of the Board following assessment by the Nomination & Remuneration Committee. The profiles of the directors standing for election or re-election are circulated to the shareholders along with the notice of the annual meeting. The executive directors are appointed by the Board. The Board is responsible for the overall governance of the Group and discharges this responsibility through ensuring compliance with applicable laws, rules and regulations, the Code, directives and guidelines. The members of the Board provide the Group with a wealth of expertise and experience in banking, finance, law, commerce and industry at both local and international levels. The profiles of the current directors are given at pages 14 to 15.

The SBM's Board Charter sets out the roles and responsibilities of the Board, which are reviewed on a yearly basis. The main responsibilities of the Board are to:

- Formulate strategic objectives of the Group, and set its corporate objectives and budget;
- Delegate authority to management to implement strategies, policies and plans approved by the Board;
- Monitor and evaluate management's implementation of strategies, policies and plans;
- Ensure that policies, procedures and a robust risk management framework and system of internal controls are in place to protect the Group's assets and reputation;
- Identify key risk areas and key performance indicators of the business;
- Ensure that the Company and its subsidiaries comply with all relevant laws, rules, regulations, policies, the Code and best business practice, and establish mechanisms by which breaches of policies, laws, controls and good corporate governance practices are reported and acted upon;
- Ensure succession planning for senior management;
- Ensure effective communication with shareholders and relevant stakeholders.

Important matters including changes to the Bank's constitution, acquisition and disposal of major assets/ investments and raising capital require the approval of the shareholders upon recommendation of the Board. The Board meets at least once quarterly, and additional meetings, including those for approval of budget/policies, are held as and when required. The executive management team is invited to Board and Board Committee meetings.

In line with its objectives, the directors, together with the executive management team, met for a whole day strategy seminar session in March 2010, to discuss the strategic orientations of the Group over the medium term, taking into consideration the challenges and opportunities in the internal and external environments. The seminar shaped the direction for establishing the organisation's strategic plan. This was subsequently discussed and approved by the Board and then cascaded down to the different units and, eventually, at individual level for alignment to the Group's strategic goals.

## Board Committees

The Board has established Board Committees as well as various management committees/ forums to assist it in the discharge of its duties and responsibilities.

The current Board Committees are as follows:
- Audit Committee
- Corporate Governance & Conduct Review Committee
- Credit Committee
- Nomination & Remuneration Committee
- Risk Management Committee
- Strategic Planning Committee

Each Board Committee operates under approved terms of reference in line with the Code and international best practices. The terms of references of the Board Committees are reviewed by the Board annually. The main terms of reference of the Board Committees are as follows:

### Audit Committee

- Critically review the financial performance, the audited financial statements and interim financial reports, prospectus and other financial circulars/documents;
- Consider the appropriateness of the accounting policies applied and whether they are prudent, consistent with prior practice and comply with regulations and legal requirements;
- Review and monitor the adequacy of provisions including provision for credit impairment losses;
- Consider any difference of opinion between auditors and management on the level of provisions, on accounting treatment or on disclosure;
- Make recommendations for the appointment of the external auditors;
- Review and discuss the scope of internal and external audit and of the audit plan, including for the subsidiaries;
- Review the system of internal controls to ascertain its adequacy and effectiveness.

### Corporate Governance & Conduct Review Committee

- Recommend the adoption of best practices to the Board on all aspects of corporate governance and CSR;
- Determine, agree and develop the Group's general policy on corporate governance in accordance with the Bank of Mauritius guidelines and the Code of Corporate Governance for Mauritius;
- Approve the Corporate Governance Report to be published in the Group's Annual Report;
- Review the Board Charter on an annual basis;
- Ascertain from management that all reporting requirements and disclosures made in the Annual Report and on an ongoing basis are in compliance with the disclosure provisions in the Code of Corporate Governance;
- Ensure that adequate policies and procedures are in place for the conduct of business with related parties, and for monitoring the flow of business and exposure to such related parties, in the light of regulatory requirements and best practices.

### Credit Committee

- Ensure that concentration of risks is within the risk tolerance of the Group;
- Review and approve all facilities exceeding the delegated authority of the Management Credit Forum as set out in the Credit Policy;
- Review and approve the restructure of credit facilities as per the Credit Policy;
- Review and recommend all non strategic equity investments to the Board/Board of subsidiaries for approval;
- Approve appropriate country exposure limits;
- Approve appropriate bank limits in accordance with the risk management framework.

### Nomination & Remuneration Committee

- Review the reward policy to ensure that the Company's executives are fairly rewarded for their contribution to the Group's overall performance;
- Review and recommend to the Board the Group's plan for orderly succession of management;
- Review and approve policy on staff welfare and benefits;

- Review and recommend to the Board for approval the recruitment, and promotion to the position of senior executives and their remuneration, benefits and other terms and conditions of the service contracts of such officers;

- Approve overall conditions of other employees of the Bank/Group, taking into consideration proposals of trade unions;

- Determine the level of Board fees for directors to be recommended to the shareholders;

- Review and recommend to the Board the terms and conditions of the service contracts of other directors both executive and non-executive if any, including compensation benefits for those services;

- Review and recommend nomination of directors to the Board based on a proper director selection process.

### Risk Management Committee

- Identify, evaluate, measure and monitor major risks;

- Review policy for management of risks particularly in the areas of credit, market and operational risks, namely:
  - ensuring adequate credit policies and procedures are in place;
  - ensuring adequate market risk management policies and procedures are in place;
  - ensuring appropriate methodologies and systems are in place to identify and adequately assess and manage operational and other risks.

- Monitor enterprise-wide risk, portfolio risk profile and the portfolio management plan;

- Review major cases of fraud, irregularities and any legal matters that could have a significant impact on the company's business, together with the legal advisor if necessary;

- Review and approve the methodologies for assessing country risks and bank risks;

- Ensure adequate controls and information systems are in place to implement the Group's policies;

- Review and approve the Risk Management Report to be published in the Group's Annual Report.

### Strategic Planning Committee

- Review the effectiveness of Group strategies;

- Review strategic plans;

- Review the issues of fundamental importance to the Group and proposals from management that are material to the Group's objectives;

- Recommend large projects to the Board and monitor their implementation.

## Separation of powers between Chairman and Chief Executive

In accordance with the Code and the Bank of Mauritius Guideline on Corporate Governance, there is a clearly accepted division of responsibility between the Chairman and the Chief Executive to ensure balance of power and authority.

The SBM's Board is led by its Chairman whilst the Chief Executive leads the executive management team responsible for the day-to-day running of the business and affairs of the Group.

## Directors' orientation

At the time of joining the Board, new directors are apprised on the Group and its operations as well as their responsibilities as directors through an induction course. Directors are provided with a pack containing relevant documents and changes/updates thereto are provided on an ongoing basis.

## Evaluation of the Board/Board Committees

An annual self-evaluation by the directors is conducted after the financial year-end to assess the effectiveness of the Board and Board Committees. The scores given by the individual directors for each of the parameter being assessed are consolidated and these results are presented to the Board and the respective Board Committees. Appropriate measures are taken to refine the governance structure and responsibilities following the feedback and comments received from the members on these results.

## Board and Board Committee attendance for FY 2010

The attendance by each member of the Board/Board Committees for FY 2010 is as follows:

| | Board | Audit[(i)] | Credit[(ii)] | Nomination & Remuneration | Risk[(iii)] Management | Corporate Governance & Conduct Review | Strategic Planning |
|---|---|---|---|---|---|---|---|
| **No of meetings held** | 7 | 4 | 13 | 14 | 5 | 4 | 2 |
| **Directors:** | | | | | | | |
| Ramdaursingh G S | 7 | - | 13 | 14 | 5 | 4 | 2 |
| Bhanji K | 5 | - | - | 6 | - | 1 | 1 |
| Bhargava A[1] | 2 | - | - | - | 1 | - | 1 |
| Currimjee A F | 5 | 4 | - | 10 | - | 1 | - |
| Dabee D K, SC | 7 | 4 | 9 | 14 | - | 4 | - |
| Dumbell G | 7 | 4 | - | - | 5 | 4 | - |
| Lai Fat Fur L, GOSK[1] | 2 | 2 | - | - | - | - | - |
| Mansoor A M | 3 | - | - | - | 1 | - | 1 |
| Ng Tseung D[1] | 5 | - | 6 | - | - | | 1 |
| Parianen S[2] | 2 | - | 6 | - | - | - | 1 |
| in attendance | 4 | 2 | 7 | 9 | 3 | 3 | 1 |
| Ramnawaz R | 5 | 4 | 9 | 6 | 4 | 4 | - |
| Rey A J G R[2] | 1 | 2 | 7 | 4 | - | - | - |
| Scott A[2] | 2 | - | - | - | 2 | - | 1 |
| Vir G | 7 | - | 13 | - | 5 | - | 2 |
| in attendance | - | 4 | - | 12 | - | 4 | - |
| **Co-opted executives[3]** | | | | | | | |
| Ng Tseung D | - | - | 7 | - | - | - | - |
| Ramgobin M | - | - | - | - | - | - | 1 |
| Seeyave P | - | - | - | - | 2 | - | - |

[1] Retired on 18.12.09 [2] Appointed on 18.12.09 [3] Executives co-opted on 17.12.09 as members of Board Committees

**Notes:**
(i) The external auditors and the internal audit team are in attendance at the Audit Committee
(ii) The Corporate Credit and Corporate, International and Investment Banking teams are in attendance at the Credit Committee
(iii) The Risk Management team is in attendance at the Risk Management Committee

## Disclosures

### Directors' interest and dealings in SBM shares

The directors of SBM follow the principles of the model code on securities transaction as detailed in Appendix 6 of the Mauritius Stock Exchange Listing Rules. The table below outlines the interests of the directors of the company in the share capital of SBM as at 30 June 2010.

| | Direct shareholding | Indirect shareholding | Phantom shares options outstanding |
|---|---|---|---|
| **Directors:** | | | |
| Mr Gautam Vir | NIL | NIL | 150,000 |
| Mr Soopaya Parianen | 11,500 | NIL | 196,750 |
| Mr Daniel Ng Tseung (up to 18 Dec 2009) | NIL | NIL | 208,750 |

The phantom shares options have been granted to Mr Gautam Vir on the date he joined the Group. The phantom shares options held by Mr Soopaya Parianen and Mr Daniel Ng Tseung represent the cumulative options granted to them each year based on their performance and the performance of the Group.

Apart from the above mentioned directors, no other director had an equity stake in the company either direct or indirect as at 30 June 2010.

During FY 2010, Mr Azim Fakhruddin Currimjee, one of the directors, disposed of his 300 shares of SBM.

### Directors' emoluments

During FY 2010, the executive and non-executive directors received emoluments amounting to Rs 21,244,461 (2009: Rs 25,716,618) and Rs 19,251,690 (2009: Rs 18,956,502) respectively. Remuneration of directors has not been disclosed on an individual basis due to commercial sensitivity.

None of the executive directors and non-executive directors serving on the board of the subsidiaries/ associated/ related companies obtained any emoluments from the subsidiaries/ associated/ related companies.

The Group's policy requires that any earnings derived by the executive directors of the Group serving on the board of another company in which the Group has an equity stake has to be reported and credited to the income account of the Bank.

### Service contracts

Mr Geerja Shankar Ramdaursingh has a service contract of three years with the Company starting on 31 December 2007 and in the event of early termination by the Company for any reason other than gross misconduct, he shall be paid the fees and benefits for the unexpired contract period. Mr Ramdaursingh provides amongst others, advice and guidance on strategic direction, good corporate governance, risk management practices and succession planning. Mr Vir has an employment contract of three years with the Company starting from May 2009 whilst Mr Parianen's employment contract with the Company is for five years starting from September 2009.

### Significant contracts

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

### Directors and officers liability insurance

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

### Donations

The Group donated Rs 2 m to the Staff Children Education Fund and MGA 150,000 to "Save the Youth International" of Madagascar during the period under review.

## Executive management

The Board has delegated the day to day running of the business and affairs of the Group to the executive management. Issues are debated and decisions in management forums are taken unanimously. In the event of differences, the issues are escalated to next higher level for decision making. All the main forums are chaired by the Chief Executive and they are as follows:

- Executive Forum
  - It meets once a week to review and take decision on the day to day business and affairs of the Group with the exception of credit approvals.

- Management Credit Forum & Credit Forum of Banque SBM Madagascar SA
  - It meets twice a week to review and sanction credit proposals.

- Performance Review Forum
  - It meets monthly to review and monitor performance and achievement against budgets/ targets of the various lines of business.

- Portfolio & Credit Risk Forum
  - It meets at least quarterly to review portfolio risk profiles and makes suitable recommendations to the Risk Management Committee.

- Market Risk Forum
  - It meets monthly or as often as required to oversee the management of the Group's liquidity risk, interest rate risk and foreign exchange risk.

- Operational Risk Forum
  - It meets monthly to review, *inter-alia*, the reports of the internal auditors and external auditors, flaws in credit documentation, operational policies, standards and practices, and IT related issues.

The profiles of the management team are given at pages 66 to 69.

## Related party transactions

The Corporate Governance & Conduct Review Committee meets on a quarterly basis to review all related party transactions conducted during the previous quarter under review in accordance with the Bank of Mauritius guidelines. After each meeting, the matters reviewed by the Corporate Governance & Conduct Review Committee are reported to the Board of Directors.

*Note 34* to the financial statements outlines the on and off-balance sheet items and other related party transactions for the past years. None of the advances to related parties were impaired as at 30 June 2010. Exposure to major related parties are given at page 54.

## External auditors' fees

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

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | Audit Rs '000 | Other Rs '000 | Audit Rs '000 | Other Rs '000 | Audit Rs '000 | Other Rs '000 |
| **Kemp Chatteris Deloitte** | | | | | | |
| State Bank of Mauritius Ltd | 4,244 | 72 | 4,174 | - | 4,001 | - |
| Other Local Subsidiaries | 367 | - | 437 | - | 391 | - |
| **Other auditors** | | | | | | |
| State Bank of Mauritius Ltd | | | | | | |
| India Operations: | | | | | | |
| **- G D Apte & Co** | - | - | - | - | 307 | - |
| **- Ms Devdhar Joglekar/Srinivasan** | - | - | 338 | - | - | - |
| **- Haribhakti & Co** | 301 | - | - | - | - | - |
| Banque SBM Madagascar SA | | | | | | |
| **- Delta Audit Deloitte** | 219 | - | 250 | - | 329 | - |

## Remuneration, health and safety

### Statement of remuneration philosophy

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

The Nomination & Remuneration Committee is responsible for the remuneration strategy of the Group. Remuneration is reviewed after taking into cognisance market rates and practices as well as the responsibilities assumed by the non-executive directors, executive management and employees. The remuneration of the non-executive directors is approved by the shareholders whereas the Board and the Nomination and Remuneration Committee approve the remuneration of the senior officers.

The remuneration package of the executive management comprises a basic salary and performance related reward consistent with the Group's policy to promote a reward system linked to Group's results. The performance related reward is dependent on the overall performance of the executive in terms of Key Performance Indicators (KPIs) approved at start of the financial year and the performance of the Group for the financial year under review. It constitutes of cash bonuses and phantom shares options and/or deferred cash to reconcile management's commitment to achieve both operating targets and longer term objectives. *Note 35* to the financial statements outlines the Phantom Shares Scheme as well as the number of options granted and exercised during the financial year and the number of outstanding options as at 30 June 2010.

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

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

### Health and safety

SBM is committed to providing a healthy, safe and secure working environment for all its employees, customers and visitors. The Group has put in place policies and practices that in all material aspects comply with regulatory guidelines and requirements.

> SBM's remuneration philosophy is to encourage sustainable long term performance and at all times align performance with the strategic direction and specific value drivers of the business as well as with the creation of shareholders' wealth.
>
> At SBM, it is our firm belief that sustainable growth can only be achieved in partnership with the community in which we operate.

## Corporate Social Responsibility

### Our values

At SBM, it is our firm belief that sustainable growth can only be achieved in partnership with the community in which we operate. Hence, the Group ploughs back a considerable amount of funds annually in the community through CSR initiatives. CSR at SBM is the way the Group integrates social, environmental and economic concerns into its culture and decision making process in a transparent and accountable manner so as to better the lives of stakeholders both within the organisation and in the community at large.

## Our areas of intervention

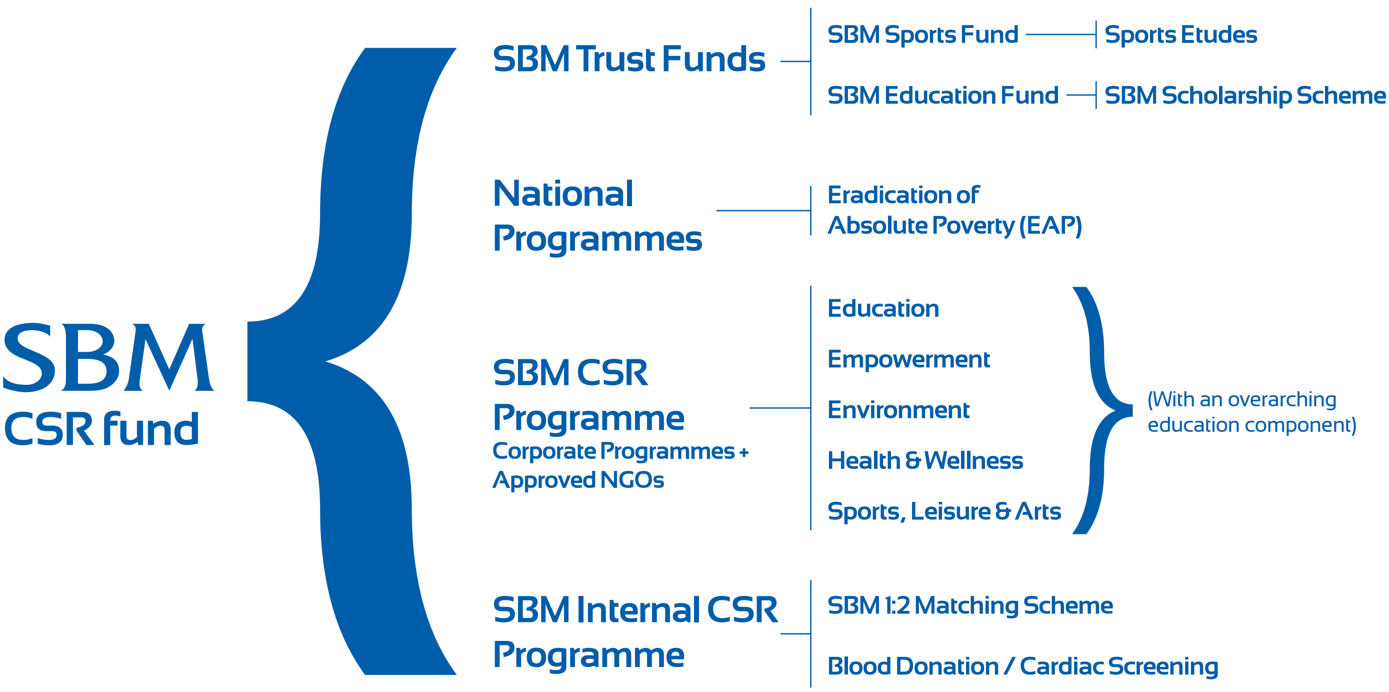
Our CSR initiatives are targeted to those who are deprived, and we support projects with an overarching educational dimension in the fields of:

- Education of school drop-outs and/or low achievers
- Empowerment of vulnerable populations
- Environment awareness raising
- Health and non-communicable diseases prevention
- Sport, leisure and arts

We are convinced that education is instrumental in achieving our goals - to combat social ills and alleviate poverty. We believe that education and training are the best means to empower those most in need and thus help them move up the social ladder, thereby breaking the vicious circle of poverty. Hence, most of our projects focus on providing tools and opportunities to vulnerable groups so that they acquire the required skills to enhance their employability and thus become economically independent.

## Our CSR architecture

During FY 2010, to better reflect our new CSR policy and the obligations cast upon the Group pursuant to the Income Tax Act, we have reengineered our CSR architecture, as represented below:




## Our CSR programmes

### SBM Trust Funds

Under its CSR structure, SBM has 2 Trust Funds, namely the SBM Sports Fund and the SBM Education Fund. These are in operation since 2004 and are targeted towards the promotion of excellence in sports and education respectively. The SBM Sports Fund provides funding for the education and training of young and needy Mauritian sportspersons based on the successful "sport-études" scholarship concept. Under the SBM Education Fund, the Group launched a unique Scholarship Scheme for bright and needy students in FY 2010 in line with our CSR strategy of providing skills through education to combat poverty. The SBM Scholarship Scheme will be an annual feature. Some 57 scholarships have been offered in 2010.

### National programmes - Eradication of Absolute Poverty (EAP)

SBM supports the EAP Programme and is the main partner in 2 clusters: Pamplemousses / Mon Gout / d'Epinay and Argy / Flacq. This is a multi-faceted and holistic approach to combat poverty. Areas of intervention range from pre-primary education to tertiary education inclusive of vocational and informal training, from health to leisure and sports, and from improving housing conditions to uplifting the environment.

### SBM CSR programme - partnership with NGOs

Over and above setting up its own CSR programmes, SBM also partners with several NGOs to empower the community. The main projects are described below:

*ABAIM*

Since 2008, SBM is the official partner of ABAIM, a full-fledged NGO well known for its contribution in the fields of music and culture mostly to disabled persons and children in need.

*Association Kinouété*

Through our partnership with Association Kinouété, a training programme has been set up for 40 women ex-detainees in the fields of hairdressing, beauty care, massage and IT with the objective of facilitating their reintegration in society.

*Gandhian Basic School (GBS)*

SBM is supporting the construction of a hydroponics agricultural project and its required tools to provide underprivileged students with in-depth training about the modern techniques in this area. The partnership also covers the supply of a daily balanced meal for some 120 students attending GBS.

*IT Project with e-Inclusion Foundation*

In line with our strategy of providing tools and opportunities to vulnerable groups so that they acquire the required skills to enhance their employability and thus become economically independent, this project would provide free refurbished PCs, including MS Office and internet access, to around 3,000 needy students.

### SBM Internal CSR

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

## Shareholder information and communication

The Group recognises the importance of maintaining accountability and transparency to its shareholders through proper communication with them. Apart from press communiqués and letters to shareholders, the website, hosted at www.sbmgroup.mu, is regularly updated with share information, interim and audited financial statements and corporate events. A presentation on the Group results for the period under review is made to the shareholders at the Annual Meeting.

### Material clauses of the constitution of the Company

#### Shareholding

The Bank's constitution requires that no shareholder shall hold more than 3%, either direct or indirect, of the Company's issued share capital less treasury shares of the Company without previous authorisation of the Board of Directors of the Company. No authorisation shall be given to that effect unless a Special Notice has been sent to the directors specifying that such a question is included in the Agenda of a Meeting of the said Board. Shareholders holding more than 3% of the issued share capital prior to adoption of the new constitution are entitled to continue to hold their existing shareholdings.

### Shareholders' agreement

There is currently no shareholders' agreement.

### Share capital

| | | |
|---|---|---|
| Register Date | : | 30 June 2010 |
| Authorised Share Capital | : | 1,000,000,000 shares |
| Issued Shared Capital | : | 303,740,223 shares |

## Large shareholders

The below table shows the top 10 shareholders of SBM as at 30 June 2010:

| Name of shareholder | No. of shares held |
|---|---|
| National Pensions Fund | 49,191,527 |
| State Bank of Mauritius Ltd -Treasury Shares | 45,561,033 |
| State Insurance Company of Mauritius Ltd (Pension And Life Funds) | 44,108,421 |
| Government of Mauritius | 14,952,615 |
| SSLN c/o SSB Boston Old Mutual Life Assurance Co | 10,002,858 |
| State Street Bank And Trust Co A/C The Africa Emerging Markets Fund | 9,653,289 |
| Pictet & Cie A/C Blakeney LP | 7,583,136 |
| The Anglo-Mauritius Assurance Society Limited | 6,648,528 |
| Development Bank of Mauritius Ltd | 5,779,500 |
| State Investment Corporation Ltd | 5,023,471 |

## Shareholders spread

| Number of shares | Number of shareholders | | Number of shares | % of shares |
|---|---|---|---|---|
| 1 - 500 | 6,249 | 36.93 | 1,503,601 | 0.50 |
| 501 - 1,000 | 5,153 | 30.46 | 4,543,916 | 1.50 |
| 1,001 - 5,000 | 3,951 | 23.35 | 9,755,025 | 3.21 |
| 5,001 - 10,000 | 720 | 4.26 | 5,423,030 | 1.79 |
| 10,001 - 50,000 | 646 | 3.82 | 13,286,440 | 4.37 |
| 50,001 - 100,000 | 84 | 0.50 | 5,988,879 | 1.97 |
| 100,001 - 250,000 | 52 | 0.31 | 7,710,689 | 2.54 |
| 250,001 - 500,000 | 19 | 0.11 | 7,029,384 | 2.31 |
| 500,001 - 1,000,000 | 16 | 0.09 | 11,888,229 | 3.91 |
| >10,000,000* | 29 | 0.17 | 236,611,030 | 77.90 |
| **Total** | **16,919** | **100** | **303,740,223** | **100** |

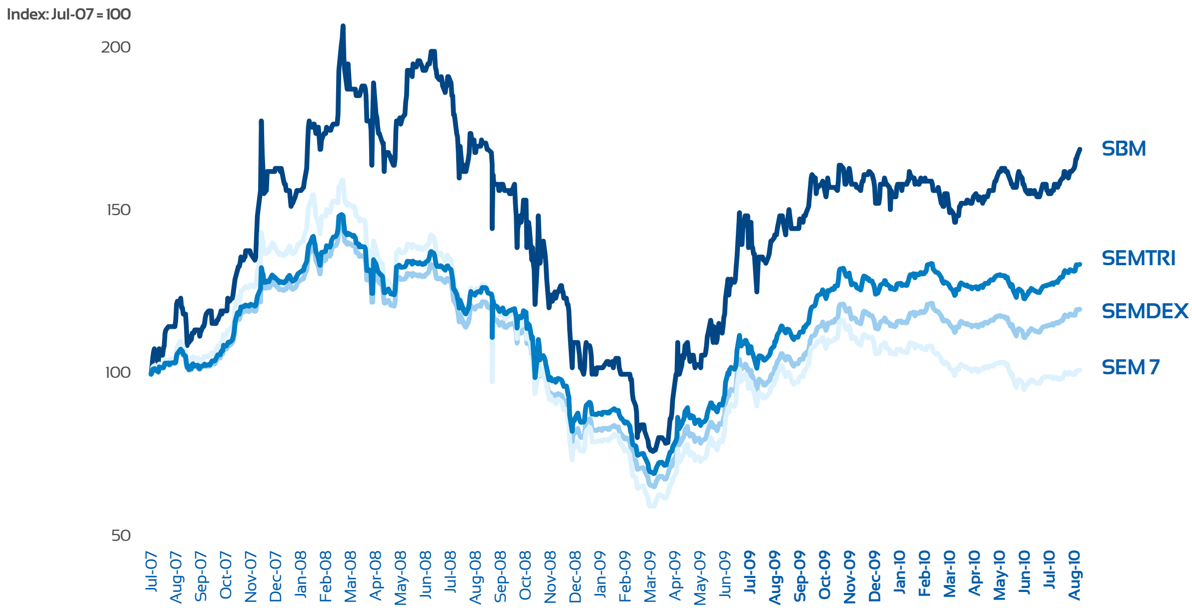
*Includes Treasury Shares*

## Local and foreign shareholders as at 30 June 2010

| Category | Number of shareholders | Number of shares held | % of shares |
|---|---|---|---|
| Foreign shareholders | 249 | 64,322,455 | 21.18% |
| Local shareholders | 16,669 | 239,417,768 | 63.82% |
| Treasury shares | 1 | 45,561,033 | 15.00% |
| **Total** | **16,919** | **303,740,223** | **100%** |

### SBM's share performance

Evolution of SBM, SEMDEX, SEM7, SEMTRI




Characterising confidence in the Group's strong fundamentals, the SBM share price appreciated by 109.0% (SEMDEX: 79.2%) from a crisis-low of Rs 37.80 in March 2009 to the end of FY 2010. As at 30 June 2010, the SBM share price gained 12.9% year-on-year to trade at Rs 79.00. The market index, SEMDEX, rose by a relatively higher 16.7% to close at 1,654.16. The recovery was more pronounced in the first half of the financial year, both for SBM and the SEMDEX, with little difference in their path evolution. Thereafter, the performance of the SBM share as well as that of the market was relatively flat given that significant correction of share prices had already taken place and the euro crisis gave way to renewed uncertainty. During the course of the year, the SBM share price hit a low of Rs 63.00 on 6 July 2009, losing 10.0% over its June 2009 value (SEMDEX: -4.5%), before recovering strongly to a high of Rs 83.00 on 14 October 2009, gaining 31.7% from the bottom-point. The SBM share price lost 2.5% of its value (SEMDEX: -1.3%) on a point-to-point basis between December 2009 and March 2010 but outperformed the market thereafter, with a positive excess return on a daily average basis.

## Share price information

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Earnings per share (Rs) | **7.20** | 7.84 | 8.19 | 5.03 | 4.06 |
| Share price (Rs) | | | | | |
| Financial year-end | **79.00** | 70.00 | 96.00 | 50.50 | 37.00 |
| Highest | **83.00** | 94.00 | 105.00 | 52.50 | 37.50 |
| Lowest | **63.00** | 37.80 | 50.00 | 36.90 | 26.20 |
| Average | **77.97** | 62.09 | 77.50 | 44.70 | 31.31 |
| Value of shares traded (Rs m) | **1,172.00** | 1,706.94 | 1,768.85 | 3,852.10 | 298.60 |
| Value of share traded as a percentage of market (%) | **9.91** | 17.30 | 14.98 | 35.83 | 6.54 |
| Price to book (times) | **1.39** | 1.40 | 2.26 | 1.37 | 1.54 |
| Dividend (Rs) | **2.75** | 2.75 | 2.55 | 2.10 | 2.00 |
| Dividend yield (%) | **3.48** | 3.93 | 2.66 | 4.16 | 5.41 |
| Total yield (Rs) | **11.75** | (23.25) | 48.05 | 15.60 | 11.70 |
| Total yield to average price (%) | **15.07** | (37.45) | 60.95 | 34.92 | 37.38 |
| Dividend cover | **2.62** | 2.85 | 3.21 | 2.78 | 2.03 |
| Cumulative yield (Rs) | **91.95** | 80.20 | 103.45 | 55.40 | 39.80 |
| Price earnings ratio (times) | **10.97** | 8.92 | 11.72 | 10.05 | 9.12 |

### Dividend policy

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

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

The Board authorised a final dividend of Rs 2.75 per ordinary share for FY 2010, the same level as for the previous year, payable on 1 October 2010. The dividend payout ratio increased from 35.1% to 38.2%.

### Shareholder diary

**Financial year 2009/10**

| | | |
|---|---|---|
| Financial year-end | : | 30 June 2010 |
| Final dividend payment | : | 01 October 2010 |
| Annual meeting | : | 17 December 2010 |

**Financial year 2010/11**

| | | |
|---|---|---|
| Unaudited quarterly earnings report | : | within 45 days from the quarter ending September, December and March |
| Audited financial statement for the year ending 30 June 2011 | : | within three months from end of June 2011 |
| Final dividend payment | : | during October 2011 |
| Annual meeting | : | during December 2011 |

## SBM Credit Rating

| Category | Moody's rating: (December 2009) |
|---|---|
| Bank deposits – foreign currency | : Baa2/P-2 |
| Bank deposits – local currency deposits | : Baa1/P-2 |
| Bank financial strength | : C- * |
| Issuer rating | : Baa1 |

**the highest rating assigned by Moody's to a domestic bank in Mauritius.*

**Geerja Shankar Ramdaursingh**
*Chairman*

**Dheerendra Kumar Dabee, SC**
*Chairman, Corporate Governance & Conduct Review Committee*

# RISK MANAGEMENT REPORT

## Risk management

SBM has an enterprise-wide approach to the identification, measurement, monitoring and mitigation of risk. It has adopted the Basel II recommendations for stronger risk management practices and more risk-sensitive capital requirement. The Group is compliant with the Bank of Mauritius guidelines. It has adopted the Basel II Standardised approach for regulatory reporting and has also developed some internal risk measurement based on the Internal Ratings Based Approach.

We are proud of our risk management framework which underpins robust asset quality and other risk metrics. Cognisant of the fact that the frailty of current economic and financial conditions, as well as diversification into new business areas and environments, imply different and possibly more complex types of risks, we will be looking in FY 2011 to thoroughly review and further consolidate our risk management set-up.

SBM's risk management framework sets out, amongst others, the risk appetite of the organisation. It enables the Group to better manage the uncertainties that may impact its operation and to plan its strategies accordingly, while taking into account the acceptable risk-return trade-offs, the risk appetite of the Group and the established controls in place. The risk management capabilities are supported by a solid management structure and information system, an effective ratings system and robust policies.

The Board of Directors is ultimately responsible for the risk management process within the Group. As such, it approves the risk management policies, and sets risk appetite limits to guide risk-taking across business areas. The formulation of the risk management policies are approved by the Board/ Board Risk Management Committee and delegated to management for implementation. In line with regulatory guidelines, these policies are reviewed at least on an annual basis to ensure effective guidance for the governance of our risk taking activities. In addition, the Board Risk Management Committee monitors and reviews the significant risks and the effectiveness of processes which are reported to the Board.

The Board Risk Management Committee oversees the risk management function of the Group by establishing its risk appetite and monitoring its risk portfolios against the set limits approved by the Board. It also ensures that a solid and effective risk management infrastructure is in place in terms of people, systems, policies, procedures, controls and compliance and recommends to the Board changes as may be appropriate, in the light of evolving market and business circumstances.

The Risk Management Division is centralised and independent from the Group's other business divisions. It develops methodologies to identify, measure, mitigate and monitor the risks faced by the Group and reports to the Risk Management forums and to the Board Risk Management Committee and ultimately to the Board in a structured manner as described below on credit, market and operational risk matters. The Risk Management Division has the responsibility to track and report the key risk indicators as well as deviations from internal policies, prudential limits, and regulatory limits, as per the guidelines issued by the Bank of Mauritius. In the same vein, the Risk Management Division recommends changes to the existing risk parameters and limits. Moreover, the Risk Management Division ensures that risks are identified and are adequately addressed prior to the launch of a new product or service.

Cognisant of the fact that the frailty of current economic and financial conditions, as well as diversification into new business areas and environments, imply different and possibly more complex types of risks, we will be looking in the current financial year to thoroughly review and further consolidate our risk management set-up.

## Risk management governance framework

# Board of Directors

## Risk Management Committee

- Determines risk tolerance and appetite for credit, market and operational risks;
- Monitors risk portfolios against agreed limits;
- Ensures an effective risk management structure is in place;
- Sets out management responsibilities.

## Risk Management Forums

- **Portfolio and Credit Risk Forum**
- **Market Risk Forum**
- **Operational Risk Forum**

- Formulates and implements the business strategy, credit, market and operational risk policies and operational plans;
- Recommends changes to policies, processes and parameters.

## Risk Management Division

- **Portfolio Mgt Team (Credit Risk)**
- **Market Risk Mgt Team**
- **Operational Risk Mgt Team**

- Plans, guides and monitors the accumulation of assets;
- Monitors prudential limits and Group risk profile;
- Ensures compliance with regulatory norms;
- Reports to Risk Management Forums and to Board Risk Committee on credit, market, operational risks and compliance matters.

## Corporate Governance & Conduct Review Committee

- Monitors and makes recommendations to the Board to enhance the effectiveness of corporate governance;
- Ensures that procedures are established to comply with regulatory requirements on related party transactions;
- Reviews all proposed material transactions with related parties that may have a material effect on the stability and solvency of the Group.

## Compliance Unit

- **Compliance Team**
- **AML Team**

- Ensures compliance with laws, regulations and policies to minimize risk of legal or regulatory sanction, material financial loss and reputation risk, etc.
- Conducts in depth ongoing review of areas where compliance with laws/regulations is critical;
- Monitors transactions on a daily basis and report suspicious transaction to FIU.
- Conducts staff training and raises awareness;
- Reports to Operational Risk Forum/Risk Management Committee on compliance issues.

## Audit Committee

- Provides assurance that financial disclosures made by management reasonably portray the Company and its subsidiaries financial conditions, results of operations and long term commitments;
- Reviews the scope of internal audit and the annual audit plan;
- Reviews significant matters reported by the internal and external auditors;
- Reviews, evaluates and approves accounting, internal control and financial disclosure procedures implemented and maintained by management.

## Audit Unit

- **Systems Control Audit Team**
- **IT Audit Team**

- Provides assurance to the Board and senior management through testing the adequacy and effectiveness of internal controls;
- Provides practical and cost-effective recommendations to cover the control gaps;
- Provides value addition to the business through strengthening of governance, risk and control processes.


## Credit risk management

Credit risk is defined as the risk of financial loss arising from the failure of a borrower or counterparty to meet a financial/contractual obligation to the Group as and when it falls due. It arises from direct lending, trade finance activities, and also from off-balance sheet transactions. Amongst the risks faced by the Group, credit risk generates the largest regulatory capital requirement, accounting for approximately 90% of the Group's economic capital.

The management of the Group's credit risk exposure is based on a well-defined portfolio management approach with a strong adherence to risk diversification across various geographical boundaries, sectors, borrower groups and products with the main objective of maximising shareholder value. SBM's Credit Risk Policy sets out the diverse standards by which assets throughout the Group are prudently managed. It is reviewed at least once a year by the Board Risk Management Committee with required changes recommended to the Board for approval. A risk report is submitted to the Portfolio and Credit Risk Forum at least on a quarterly basis and to the Board Risk Management Committee on a quarterly basis to assess the credit risk profile of the Group.

As from January 2010, the credit underwriting function is handled by two separate teams - the Retail Credit team and the Corporate Credit team. This has enabled more focus on the two client segments, particularly on the retail credit cycle right from approval, collection to MIS and policy review. Certain changes to the credit policy were made during the year to facilitate the management of the loan book while maintaining the delinquency rate at an acceptable level, particularly in relation to the unsecured retail credit portfolio.

### Credit approval process

In order to maintain the independence and integrity of credit decision making, the credit approval process is segregated from loan origination. The credit approval authority is formulated by the Board Risk Management Committee, approved by the Board and delegated to management within a structure that is based on the borrower rating, exposure, credit risk and facility type. Key parameters are periodically reviewed to improve turnaround time from origination to disbursement, without compromising on the quality of credit.

### Internal risk rating tools

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

## Internal Rating Tools used within SBM Group

### Corporate Banking

- **A corporate customer Risk Rating is derived from the Moody's Risk Advisor Tool.** The risk rating is based on borrower's financial condition, as well as outlook, industry and economic conditions, access to capital and management strength.

### Small & Medium Enterprises

- SME customers are risk rated using the **Small Business Underwriting Matrix**. The risk rating is based on the borrower's financial position and collateral strength.

### Retail Banking

- **The Experian-Transact Scoring Tool** is used to assess consumer credit risk on an individual basis.

These risk rating tools also enable the Bank to quantify its expected losses (EL) to ensure that enough capital is available to guarantee that the risk tolerance is within approved limits and also to sustain future growth.

Expected loss is defined as a measurement of loss that is anticipated within a one-year period as of the respective reporting date. Expected loss is a function of three key components where:

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

(i) Probability of Default (PD): the likelihood that the borrower will not be able to meet scheduled repayments;
(ii) Exposure at Default (EAD): the total amount outstanding at the time of default;
(iii) Loss Given Default (LGD): the measure of likely loss when a borrower defaults, expressed as a percentage of EAD.

The Bank is currently building its own default and loss database to adhere with Basel II's Internal Ratings Based Approach (IRB) for capital allocation calculation.

### Stress testing

The prevailing global economic conditions have accentuated the importance of stress testing in the financial markets. Stress tests are performed to measure the impact of changes in general economic conditions or specific parameters on our credit exposures as well as the impact on the creditworthiness of our portfolios. These stress tests help management to evaluate the amount of economic capital that will be needed to cover the credit risk exposure under the scenarios of extreme market conditions. As per the Bank of Mauritius Guideline on Credit Concentration Risk, financial institutions are required to stress their portfolios with respect to factors that would impact on their earnings, asset value and capital base. The Bank's portfolios are stress tested with the following scenarios, as a minimum, to forecast and measure the Bank's weaknesses to these exceptional but plausible events:

- 30% of three export-oriented portfolios become impaired
- Top five and ten single customers become impaired

Stress testing results are provided in the Credit Risk Quality section, at page 54.

### Credit risk mitigation

The Group uses a wide variety of techniques to mitigate credit risk on its lending book. Assessment is primarily based on the ability of the borrowers to service their loans. Adequate security is taken to further mitigate the risk.

The amount and type of collateral taken depend on the counterparty credit quality and repayment capacity. Collaterals taken by the Bank are documented in policies and procedures. Netting agreements as well as financial guarantees are used to offset balances with customers, in certain circumstances, to minimise the exposure at default.

The Group has a set of prudential limits approved by the Board to address concentration of risk by counterparties, e.g. country, sovereign, bank and corporate customer. These allow higher exposures to better rated customers and lower exposures to lower rated customers. Excesses are considered on a case by case basis at the time of credit sanctioning, and are reported quarterly to the Board Risk Management Committee.

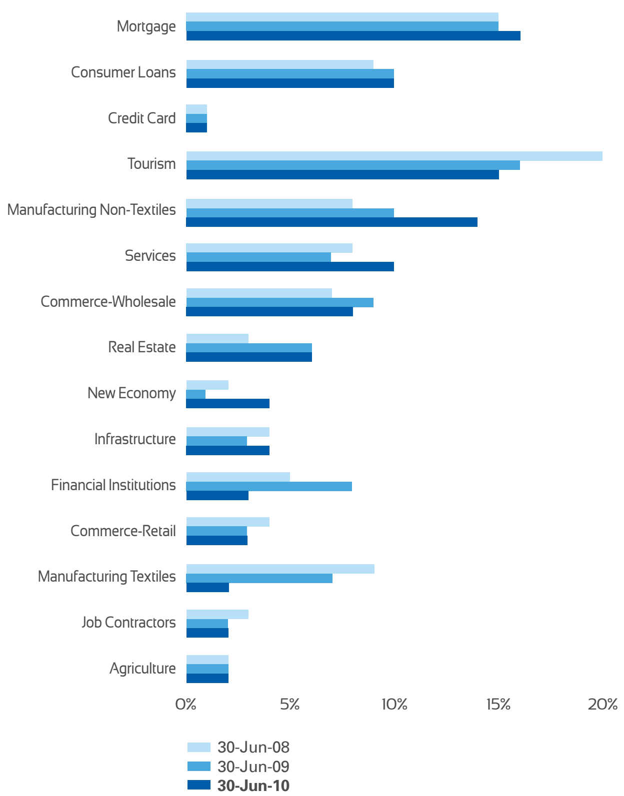
## Credit risk exposure

The Group regularly reviews the diversification of its credit portfolio, taking into consideration changes to the economic and financial environment.

The majority of the Group's exposure is to Mauritius Operations, with 67.6% of the exposures being to Segment A and 25.2% being to Segment B. The remaining Group exposure is to India (5.4%) and Madagascar (1.8%).

The Group enjoys a well-diversified credit portfolio, whereby its credit risk is spread across extensive range of portfolios as shown in Figure 1.

**Figure 1: Group credit exposure by portfolio (including Segment A, B, India & Madagascar)**




During the year, all the portfolios at Group level were within their respective internal prudential limits approved by the Board.

## Credit risk concentration

The Group seeks to diversify its credit risk while managing exposures to countries and sectors within set limits approved by the Board so as to achieve a more balanced portfolio. Deteriorations in ratings and the risk profile provide early warning signals for weak assets, which are actively monitored and managed. Exposures showing signs of deterioration are categorised and placed on a watchlist for closer monitoring.

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

Bank of Mauritius guidelines also require banks to report concentration limits on (a) a stand-alone basis and (b) as a Banking Group. The Bank of Mauritius regulatory limits are set out below:

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

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

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

The Bank complies with the Bank of Mauritius guidelines with respect to (a) and (b) above. In addition, with respect to (c) above, the Bank has laid down a more stringent prudential limit of 400% of capital base for the Bank entity on a stand-alone basis and Banking Group to ensure diversification of risks.

As at 30 June 2010, no regulatory limit was exceeded in respect of credit concentration risk.

The following table provides a breakdown of the Bank's top credit exposures that are over 10% of the Bank's capital base after netting off deposits. The main credit exposures include credit advances, guarantees, acceptances and other similar commitments extended by the Bank.

| Customer Group | Gross exposure (Rs m) | Set-off (Rs m) | Net exposure (Rs m) | % of Aggregate amount of exposures after set-off to Bank's capital base |
|---|---|---|---|---|
| A | 2,037 | - | 2,037 | 20.3% |
| B | 1,624 | - | 1,624 | 16.2% |
| C | 2,353 | 876 | 1,477 | 14.7% |
| D | 1,372 | - | 1,372 | 13.7% |
| E | 1,312 | - | 1,312 | 13.1% |
| F | 1,253 | - | 1,253 | 12.5% |
| G | 1,028 | - | 1,028 | 10.2% |
| H | 1,010 | - | 1,010 | 10.1% |
| I | 1,002 | - | 1,002 | 10.0% |

If the Bank's capital base, on a stand-alone basis, were reduced by 25% at 30 June 2010, it would have six single customers or groups of closely related customers with exposures of above 15% of the capital base, aggregating to 120.6% of the Bank's capital base. This would still be well within the regulatory limit of 800% and SBM's prudential limit of 400% of the capital base.

Similarly, for the Banking Group, if the capital base were reduced by 25%, three single customer/groups of closely related customers would have exposures of above 15% of the Group's capital base, aggregating to 56.2% of the capital base, thus remaining well within regulatory limits.

Our portfolio has remained adequately diversified with the top twenty credit risk-weighted exposures now accounting for 31% of our total Group credit exposures as at 30 June 2010, (2009: 28%) and representing 151% of the Group's Tier 1 capital as at 30 June 2010 (2009: 147%)

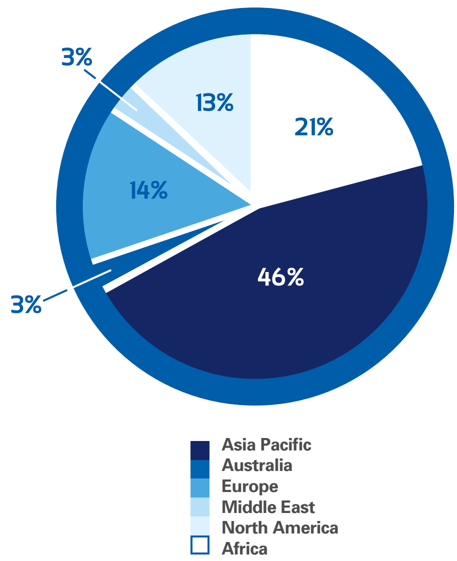
### Country risk exposure

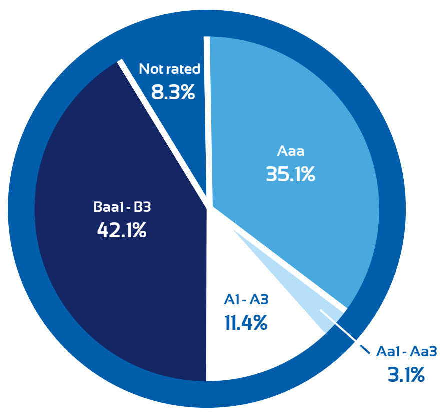
Country risk is defined as the risk that a counterparty is unable to honour its credit obligations due to political, social, economic or other events in that country even though the creditworthiness of the counterparty might not be impaired.

Country limits which are based on the country ratings established by the international rating agencies and the Group's risk appetite, are continuously monitored by management and reviewed by the Board Risk Management Committee on a quarterly basis with changes, if any, recommended to the Board for approval.

As at 30 June 2010, 49.6% of the Group's overseas exposure was concentrated in countries with ratings grade A (Aaa-A3), 42.1% was to countries with ratings grade B (Baa-B3) and 8.3% was to unrated countries. The bulk of the Group's overseas exposures to countries with rating grade B were to India, inclusive of direct and indirect exposures.

The charts below show the country risk exposures of the Group outside Mauritius by regions and ratings in relation to loans and advances, investment in equity, balances as well as placements with banks and off-balance sheet funds.



## Sovereign risk exposure

The Bank has a high exposure in Government of Mauritius securities that carry a zero risk weight for capital allocation purposes under the Bank of Mauritius guidelines, in line with Basel II.

At 30 June 2010, the exposure to Government related entities (excluding investments in Government of Mauritius securities) amounted to Rs 2.7 Bn representing 6.6% of the Bank's total loans and advances and 36.3% of Bank's Tier 1 Capital (2009: Rs 1.9 Bn, 5.3% of total loans and advances, 32% of Bank's Tier 1 Capital). Total investments in Government securities aggregated to Rs 18.2 Bn, representing 43% of the Bank's total Mauritian rupee-denominated deposits (2009: Rs 14 Bn, 37%)

At 30 June 2010, SBM also had exposures in India and Madagascar Government Securities (India: Rs 1.2 Bn, Madagascar: Rs 817 m) representing 12.6% and 8.3% of Group's Tier 1 Capital respectively.

## Related party transactions

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

A "related party" means:

(i) A person who has significant interest in the financial institution or a financial institution which has significant interest in the person

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

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

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

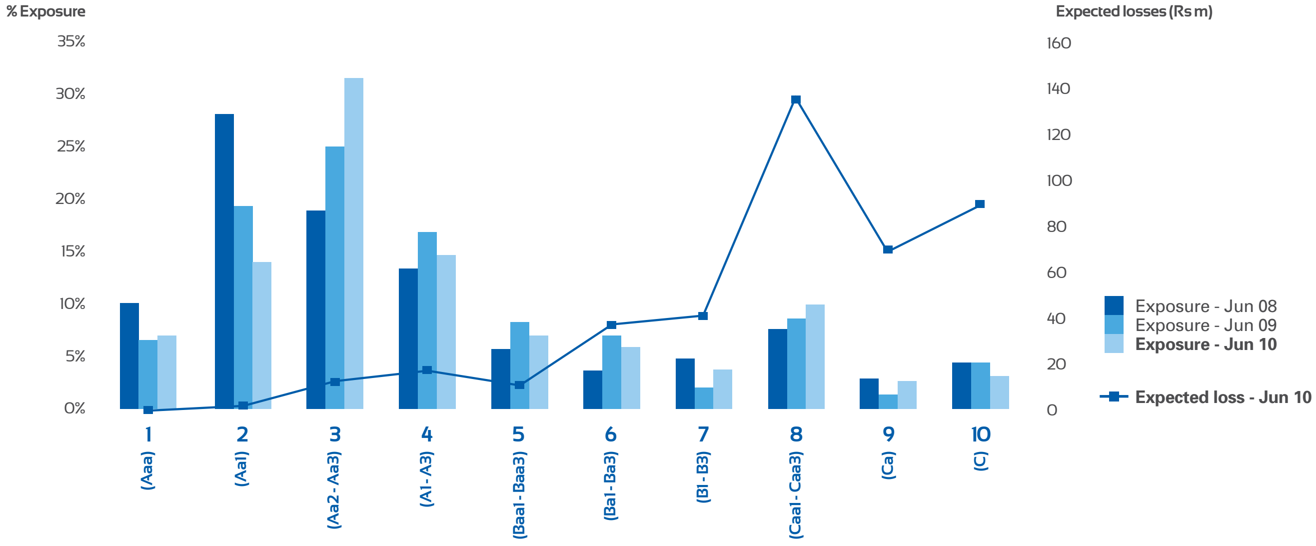
(v) A person or class of persons who has been designated by the Central Bank as a related party.

The Group adheres to the guideline and as at 30 June 2010, the Group's four non-exempted exposures to related parties were 7.1%, 3.7%, 2.5% and 2.3% of the Group's Tier 1 Capital respectively. As at 30 June 2010, none of the facilities granted to related parties was impaired. The Corporate Governance and Conduct Review Committee reviews and approves the related party interest aspect of the exposure to related parties.

## Credit risk quality

The Group weighted average internal Customer Risk Rating stood at 4.15 as at 30 June 2010 compared to 4.28 as at 30 June 2009, which denotes an improvement in the credit quality during the year under review. The risk profile curve below is skewed to the left, depicting a concentration to well-rated customers.

### Group risk profile



Gross impaired advances as a percentage of total gross advances stood at 1.9% as at 30 June 2010 compared to 2.0% as at 30 June 2009, while for net of suspended interest and specific allowance, the impaired advances to total advances ratio increased from 0.47% as at 30 June 2009 to 0.81% as at 30 June 2010. Further details on the impaired advances can be found in *Note 8d* to the financial statements.

The 'Expected loss' as at 30 June 2010 was estimated at Rs 413 m based on the Group's total portfolio exposure of Rs 44.7 Bn, which was well within the buffer of capital allocated for credit risk. In a stress scenario, should the top five customers default, the 'Expected loss' would increase to Rs 754 m for the Group while the failure of the top ten customers would entail an 'Expected loss' of Rs 996 m. Moreover, if 30% of three export-oriented portfolios (Agriculture, Textile and Tourism) became impaired, the 'Expected loss' would increase from Rs 413 m to Rs 576 m. All these figures under the above stress scenarios remain well within the capital buffer allocated for credit risk.

## Market risk management

Market risk is the potential for loss resulting from adverse movements in prices or market rates, in particular, changes in interest and foreign exchange rates. The Group has market risk policies and practices, including market risk limits, risk models and methodologies. Market risk issues are identified and adequately addressed prior to the launch of a new product or service. The market risk policies and limits are reviewed at least once a year by the Board Risk Management Committee taking into account the Group's risk appetite approved by the Board and to be in line with regulatory guidelines and international best practices.

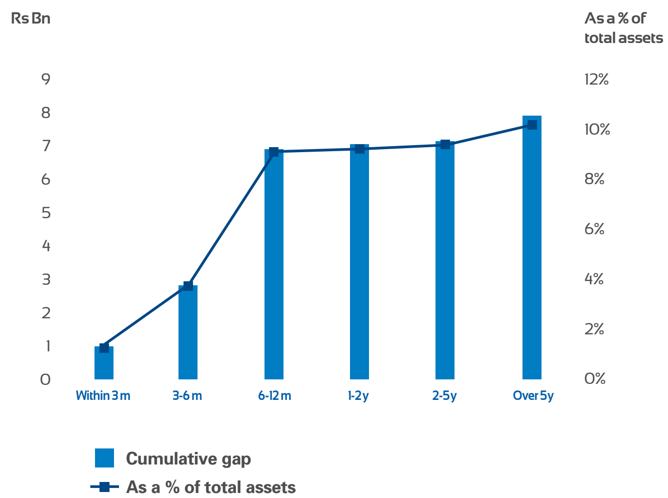
### Interest rate risk

The Group is exposed to interest rate movements arising from repricing and/or maturity mismatches, changes in underlying rates and other characteristics of assets and liabilities in the course of normal business. In managing interest rate risk, the Bank strives to achieve a desired profile taking into account strategic considerations and market conditions. To assess and manage the impact of market interest rates on the assets, liabilities and off-balance sheet items, the Group uses a combination of gap analysis, sensitivity analysis, simulated modelling of earnings at risk and hedging instruments. In line with the Bank of Mauritius Guideline on Measurement and Management of Market Risk, the Group prepares separate repricing schedules for each currency accounting for 5% or more of the Bank's banking book total assets or liabilities.

As at 30 June 2010, the two major currencies, namely the Mauritian rupee and US dollar accounted for 75.85% and 15.44% respectively of the Bank's banking book total assets. The interest rate risk gaps for both currencies were well within the prudential limits set by the Board.

Earnings at Risk measures the sensitivity of net interest income over the next 12 months, and highlights exposures to various rate sensitive factors such as changes in the Repo rate, and changes in pricing strategies on deposits. The interest rate risk was well managed, with Earnings at Risk based on a 200 basis points change in interest rates estimated at Rs 28.8 m, equal to 0.39% of the Bank's Tier 1 Capital at 30 June 2010 compared to Rs 42.9 m (0.70% of Bank's Tier 1 Capital) at 30 June 2009.

**MUR interest rate risk gap as at 30 June 2010**




### Foreign exchange risk

Foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in other currencies. Imperfect correlations across currencies and international interest rate markets pose particular challenges to the effectiveness of foreign currency hedging strategies. The Group exercises strict control over its foreign currency exposures by setting conservative internal limits in order to mitigate foreign exchange risk. The Treasury Division monitors open positions by currency to gauge foreign exchange risk as well as liquidity gaps.

To manage their foreign currency exposures, dealers operate within prudential limits approved by the Board including intraday/overnight open exposures and stop loss. These trading limits for Mauritius, Madagascar and India Operations are reviewed annually by the Board Risk Management Committee and recommended changes are approved by the Board. The Middle Office closely monitors the Front Office and reports any excesses and deviations from approved limits to the Chief Executive and on a periodic basis to the Market Risk Forum and to the Board Risk Management Committee.

The Bank also uses Value-at-Risk (VaR) to measure the potential loss arising from adverse foreign exchange movements under normal market conditions. Given that foreign exchange positions are also subject to exceptional market movements, crisis situations and worst case scenarios are used as part of the stress testing exercise. Stress testing captures the Bank's exposure to unlikely but plausible events in abnormal market conditions, while VaR reflects the potential losses in a normal market environment. To calculate VaR, we use the historical method which assumes that historical changes in market values are representative of future changes. The VaR is based on data for the previous twelve months. We calculate VaR using a ten days holding period and an expected tail-loss methodology, which approximates a 99% confidence level. This would mean that only once in every 100 trading days, we would expect to incur losses greater than the VaR estimates, or about two to three times a year. The use of ten days holding period and a one year historical observation period are in line with Basel II recommendations. The average VaR for the Group was Rs 1.77 m for the year ended 30 June 2010 (2009: Rs 1.4 m), which is insignificant with respect to the capital of the Bank and of the Group.

The table below shows the minimum, maximum and year-end VaR values for the last three years.

| | 2010 | | | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|---|---|---|
| Rs '000 | Min | Max | June | Min | Max | June | Min | Max | June |
| Bank | 115 | 9,067 | 328 | 120 | 6,352 | 930 | 115 | 3,202 | 575 |
| Group | 116 | 9,293 | 342 | 121 | 6,434 | 955 | 120 | 3,215 | 588 |

We also simulate for a one-day time horizon at 99% confidence level that best reflects the market environment.

### Price risk

To further diversify its earnings streams and meet customers' demands and preferences for products with different structures, the Bank trades on the international bonds, commodities and future markets, and in shares quoted on the Stock Exchange of Mauritius. All positions are marked-to-market on a daily basis and stress tested. The Middle Office closely monitors the dealers within a framework of trading limits set in accordance with the risk appetite of the Bank, dealers' experience and market volatilities. Any excesses and deviations from approved limits are reported to the Chief Executive and, on a periodic basis, to the Market Risk Forum and to the Board Risk Management Committee. At 30 June 2010, the Bank had no major open positions that would give ground for concern.

### Liquidity risk

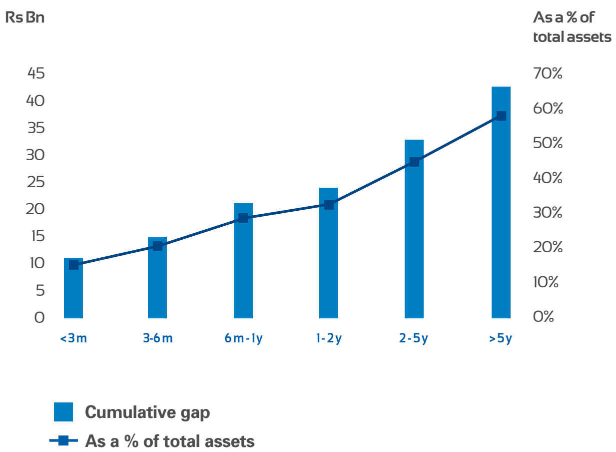
Liquidity risk arises when funds required to meet repayments, withdrawals and other commitments cannot be obtained on time due to lack of liquidity in the market, which prevents quick or effective liquidation of positions or portfolios. The Bank has a liquidity risk management policy and a set of limits approved by the Board on the recommendation of the Board Risk Management Committee to manage unplanned decreases or changes in funding sources. These include minimising excessive funding concentrations by diversifying sources and terms of funding as well as maintaining a portfolio of high quality and marketable debt securities.

The Liquidity Risk Management Policy approved by the Board is in line with the revised Guideline on Liquidity Risk Management issued by the Bank of Mauritius in October 2009.

The management of liquidity is under the responsibility of the Treasurer and the Treasury Middle Office actively monitors the management of cash flows in accordance with the approved liquidity risk management policies and limits set by the Board. Overseas banking operations of branches and subsidiaries are required to comply with their local regulatory liquidity requirements and to be self-sufficient for their local currency funding needs.

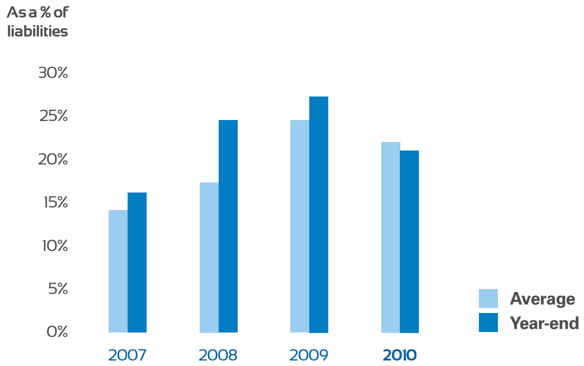
Various liquidity gap scenarios are performed encompassing a range of specific events, which are examined and reported monthly to the Market Risk Forum and quarterly to the Board Risk Management Committee. The Bank has in place a contingency plan in the event of a liquidity crisis to ensure that adequate funds continue to be available. It has a positive liquidity gap and has the ability to meet future expected cash flows, as shown in the chart below.

**Consolidated liquidity gap as at 30 June 2010**




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

**Liquid assets ratio**




*methodology revised in 2010

It should be noted that the Bank has revised its methodology for computing the liquid asset ratio following the release of the revised Guideline on Liquidity Risk Management by the Bank of Mauritius in October 2009. As recommended, a more conservative approach has been adopted, to include as liquid assets only Securities with residual maturity of 91 days or less, instead of the whole Securities book that is held for trading and available for sale. As a result, the liquid asset ratio for the year ended 30 June 2010 was lower at 20.9% of the Bank's total liabilities as opposed to 27.3% as at 30 June 2009.

The Bank's liquid asset ratio reflects a strong liquidity position, sufficient to absorb the impact of a stressed funding environment. In addition, the Bank has a large base of customer deposits and at 30 June 2010 deposits represented 141% of total credit (2009: 158%). The top 20 customers accounted for 18.1% of total deposits at 30 June 2010 as compared to 22.7% in the previous year.

In order to tackle the prevailing excess liquidity and to maintain stability in the money market, the Bank of Mauritius raised the fortnight Cash Reserve Ratio (CRR) requirement from 4.5% to 5% on banks' deposits, with effect from 18 June 2010. The Bank maintained on average a CRR of 5.49% for the year under review. For the last fortnight of its financial year, the Bank's CRR was at 5.72% whilst the average CRR maintained by banks in Mauritius during the same period was at 6.53%.

A more detailed maturity analysis of the financial liabilities can be found in *Note 37c* to the financial statements.

## Operational risk management

Operational risk is inherent to all business activities and has been defined by the Basel Committee on Banking Supervision as 'the risk of loss resulting from inadequate or failed internal processes, people, systems or external events'. These diverse risks are explained as follows:

- **Processing risk** - The risk related to the execution and maintenance of transactions, and the various aspects of running a business, including products and services.

- **People risk** - The risk of a loss intentionally or unintentionally caused by an employee – i.e. employee error, employee misdeeds – or involving employees, such as in the area of employment disputes.

- **Systems risk** - The risk of loss caused by a piracy, theft, failure, breakdown or other disruption in technology, data or information; also includes technology that fails to meet business needs.

- **External risk** - The risk of loss due to damage to physical property or assets from natural or non–natural causes. This category also includes the risk presented by actions of external parties, such as the perpetration of fraud, or in the case of regulators, the execution of change that would alter the bank's ability to continue operating in certain markets.

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

The Group has set up a framework for sound operational risk management to ensure that operational risks within the Group are properly identified, monitored, managed and reported in a structured, systematic and consistent manner. The framework is fully implemented across all banking businesses in compliance with Bank of Mauritius guidelines, in line with Basel II requirements. For the effective and efficient identification and management of operational risks, the following techniques are used:

- ***Loss events and incidents database:*** since 2004, the Group has continuously collated loss data, including causal information. The operational risk team monitors the quality and completeness of the information. The loss data is reported and major incidents are reviewed and evaluated monthly at the Operational Risk Forum and quarterly at the Board Risk Management Committee.

The operational risk events during the year under review had no material financial impact on the Bank. An analysis of operational loss events by count for the year ended 30 June 2010 highlights the fact that the highest frequency of events occurred in business disruption and system failures (46%) followed by execution, delivery and process risk (26%). In terms of loss events by value, external fraud accounted for 75% of total operational losses followed by execution, delivery and process risk (20%).

| Event type | % of loss events by value 2010 | 2009 | % of loss events by count 2010 | 2009 |
|---|---|---|---|---|
| External fraud | 75 | 49 | 23 | 14 |
| Execution, delivery and process risk | 20 | 40 | 26 | 33 |
| Business disruption and system failures | 4 | 2 | 46 | 36 |
| Damage to physical assets | 1 | 5 | 5 | 8 |
| Clients, products and business practices | 0 | 4 | 0 | 6 |
| Internal fraud | 0 | 0 | 0 | 3 |

- ***Key Risk Indicators :*** are set and tracked by the Operational Risk team to provide potential early warning of increased risk associated with non-attainment of control objectives. These are reported monthly to the Operational Risk Forum and quarterly at the Board Risk Management Committee.

- ***Risk Assessment*** of the businesses and support functions are conducted periodically to ensure a forward-looking view on the operational risk profile. The businesses are required to conduct self risk assessments and report their respective highest perceived risks on a monthly basis to the Operational Risk team. The Operational Risk team ensures the objectivity and comprehensiveness of the risk assessments and recommends corrective measures.

Other methods used by the Group to mitigate operational risks include: (i) Insurance policies to cover potential financial loss (ii) Outsourcing of non-key processes (iii) Business Continuity Management.

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

Processes and procedures are continuously updated with the introduction of new products and services as well as changing regulations. Staff are kept abreast of developments in their areas of operation through continuous training. In addition, training such as on anti-money laundering and combating the financing of terrorism, as recommended by the Bank of Mauritius in its guidance notes has been undertaken by all staff, who have been subsequently assessed by way of written test.

Quarterly appraisals are carried out to ensure that performance standards are met and corrective measures are taken where necessary. In addition, the Group has an established Code of Ethics and Business Conduct, a Conflict of Interest Policy and a Fit and Proper Person Policy to ensure that staff comply with best practice.

Information is critically important and must be appropriately and continually protected against a wide range of threats. The Group is aligned to existing best practices such as ISO 27001 and ISO 27002 and has an Information Security Policy, which defines the framework, management and staff responsibilities, as well as the security directives that apply to it.

The internet and eBusiness are well recognised enablers for improved service and new business opportunities. As these activities continue to grow, the Bank is aware of the rising threats linked with innovation and the risks of fraudulent transactions especially with the use of plastic cards. The Bank has taken measures to mitigate these risks and is using a Proactive Risk Manager tool to monitor transaction patterns displaying unusual behaviour on a 24-hour basis, thus reducing greatly card related losses.

The Group acknowledges the importance of Business Continuity Management, as an integral part of the strategy to mitigate risks and to manage the impact of unforeseen events. It has a Business Continuity Plan with a dedicated Business Continuity Management team to update and test the plan across the Bank's activities.

In line with the Bank of Mauritius regulations and local legislation, the compliance work and anti-money laundering tasks are carried out by an independent Compliance team. The independent Anti-Money Laundering Reporting Officers track transactions on a daily basis and all identified suspicious transactions are reported to the appropriate authorities. The Compliance officers monitor compliance with laws, regulations, Group's policies, procedures and central banks' guidelines. The team conducts in-depth ongoing review of areas where compliance with laws/regulations is critical and makes recommendations for enhancement in processes and controls. The Compliance team also provides guidance and acts as a contact point within the Group for compliance queries from staff members. Compliance matters are reported monthly to the Operational Risk Forum and quarterly to the Board Risk Management Committee.

## Internal audit

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

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

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

As outlined in its charter, the internal audit function covers various types of audits, notably process, system, IT and compliance audits, and others, such as product and continuous analytical audits. The work performed by internal audit is taken into consideration by the statutory auditors for the purpose of forming an opinion on the financial statements of the Bank.

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

## Basel II

The Group manages its capital and maintains sound capital ratios to support business growth, uphold depositors' confidence and provide a cushion to sustain unexpected losses in uncertain economic times. The Bank of Mauritius has adopted the Basel II recommendations for the measurement and management of credit, market and operational risks, thus ensuring that adequate capital is maintained to support banks' risk appetite and encouraging better risk management practices to improve the risk-return trade-off. In addition to meeting the Bank of Mauritius requirements in respect of the Standardised approach for regulatory reporting, the Group has developed certain internal risk measurements under the Internal Ratings Based Approach.

### Scope of application of Basel II

The Basel II framework recognizes that different entities within a group carry varying degrees of risks, which may impact on the overall risk profile of a banking group. Following revised guidelines developed by the Basel Committee on Banking Supervision (the Basel Committee), the Bank of Mauritius has issued a Guideline on the Scope of Application of Basel II which requires a local banking group to adhere to capital adequacy requirements on a consolidated basis and on a stand-alone basis for each significant majority owned entity.

The regulatory framework of Basel II is based on three mutually reinforcing pillars.

- Pillar 1 focuses on the calculation of minimum regulatory capital requirements as regards credit, market and operational risks. Banks have the flexibility to choose from various approaches subject to the approval of the regulatory authorities.

- Pillar 2 sets out the procedures through which supervisors ensure that banks have sound internal processes in place to assess their overall capital


adequacy in relation to all the risks within their business. Banks are also encouraged to develop and use better management techniques in monitoring and managing risks that are either not adequately covered or excluded from Pillar 1. It also gives discretion to Supervisors to apply certain minimum requirements to banks depending on their risk profiles.

- Pillar 3 relates to market discipline and transparency. It sets out the minimum disclosure standards on a bank's capital structure, risk exposures and capital adequacy, thereby ensuring that more knowledge and information is available to the markets and analysis companies. Disclosures are required at the consolidated level of the banking group and at each significant entity.

SBM Group is therefore subject to minimum capital requirements imposed by the Bank of Mauritius at both the consolidated Group level and at the Bank level. Its overseas operations in India and Madagascar must also adhere to rules and regulations as stipulated by their respective host country regulators, namely Reserve Bank of India and Banque Centrale de Madagascar. Disclosures under Pillar III are also being made as required under Basel II at the Group consolidated level, with additional information provided at the Bank level.

## Capital structure and capital adequacy

The Bank of Mauritius Guideline on Eligible Capital defines instruments that are eligible for inclusion in regulatory capital and they are grouped under two tiers. Tier 1 refers to core capital and it includes ordinary share capital and retained earnings after the deduction of intangible assets and 50% of investment in associates. Tier 2 capital includes 45% of revaluation reserves, undisclosed reserves, general banking reserves, portfolio provisions capped at 1.25% of total risk-weighted assets, subordinated long-term debts and excludes remaining 50% of investment in associates. The ability of the Group to meet its obligations relative to its exposure to risk is gauged by the capital adequacy ratios, measured as Tier 1 and Eligible capital as a percentage of risk-weighted assets. Whereas the Basel Committee has recommended a minimum capital adequacy ratio of 8%, supervisory authorities are given the flexibility to impose more stringent requirements. Hence, banks in Mauritius are required to maintain, at all times, a minimum capital adequacy ratio of 10% while for India and Madagascar, the ratio is set at 9% and 8% respectively.

The Group's Tier 1 capital was Rs 9.87 Bn for the financial year 2010 (2009: Rs 8.7 Bn) and total eligible capital stood at Rs 12.2 Bn (2009: Rs 10.7 Bn). SBM Group capital adequacy ratio increased to 26.5% in 2010 compared to 24.0% in 2009. The increase of Rs 1.6 Bn in its capital base in the year 2010 is mainly due to the contribution of the current year profit while the increase of Rs 1.8 Bn in risk-weighted assets reflects the expansion of its business.

The table below shows the components of capital base for the Group and the Bank as required under the Guideline on the Scope of application of Basel II and Guideline on Public Disclosure of Information. The Tier 1 and the eligible capital adequacy ratios under the Basel II framework for the last three years are provided.


| | 2010 | 2009 | 2008 |
|---|---|---|---|
| | Rs m | Rs m | Rs m |
| **I. CAPITAL BASE** | | | |
| Core Capital (Tier 1 capital) | | | |
| Share Capital | **304** | 304 | 304 |
| Statutory reserve | **486** | 504 | 489 |
| Other reserves | **11,785** | 10,590 | 9,212 |
| Less treasury (own) shares | **(2,333)** | (2,333) | (2,333) |
| Intangible assets | **(77)** | (79) | (196) |
| 50% of investment in associates | **(294)** | (262) | (239) |
| **Net Core Capital** | 9,870 | 8,724 | 7,237 |
| **Supplementary Capital (Tier 2 capital)** | | | |
| Other reserves | **2,094** | 1,851 | 1,420 |
| Provision for performing loans | **578** | 370 | 313 |
| Less 50% of investment in associates | **(294)** | (262) | (239) |
| **Net Supplementary Capital** | 2,378 | 1,959 | 1,494 |
| **GROUP CAPITAL BASE** | 12,248 | 10,683 | 8,730 |
| **BANK CAPITAL BASE** | 10,018 | 8,116 | 6,596 |
| **II. RISK-WEIGHTED ASSETS** | | | |
| Credit risk - On-balance sheet assets | **39,802** | 38,193 | 35,408 |
| Credit risk - Off-balance sheet assets | **1,616** | 1,739 | 2,040 |
| Market risk - Foreign exchange risk | **93** | 57 | 344 |
| Operational risk | **4,727** | 4,448 | 3,692 |
| **GROUP TOTAL RISK-WEIGHTED ASSETS** | 46,238 | 44,437 | 41,485 |
| **BANK TOTAL RISK-WEIGHTED ASSETS** | 44,653 | 41,526 | 38,994 |
| **III. CAPITAL ADEQUACY RATIO (%)** | | | |
| **GROUP** | 26.49 | 24.04 | 21.04 |
| *Of which Group Tier 1* | ***21.35*** | *19.63* | *17.44* |
| **BANK** | 22.43 | 19.54 | 16.91 |
| *Of which Bank Tier 1* | ***16.59*** | *14.64* | *12.40* |

The Group is fully compliant with the requirements of the Bank of Mauritius, in line with Basel II, and it maintains capital at a comfortable level, adequate to support its risk appetite and growth objectives going forward. The recent crisis has heightened the need for banks to keep adequate capital to absorb shocks arising from sudden adverse events. In that respect, and as previously reported, several stress scenarios are simulated as part of the risk management process and regular reports are sent to the Management Forum and Risk Management Committee for decision making.

### Credit risk capital

For credit risk regulatory reporting, banks in Mauritius have to adhere to the Standardised Approach as stipulated by the Guideline on Standardised Approach to Credit Risk issued by Bank of Mauritius, effective as from March 2009. This guideline provides a framework for banks to apply a uniform approach to the measurement of risks relating to their on and off-balance sheet credit exposures.

Under this approach, banks may use the credit ratings of External Credit Assessment Institutions (ECAIs) to determine the risk weights applicable to claims on sovereign, central banks, banks and rated corporates. SBM uses ratings assigned by the following recognized agencies: Standard & Poors, Moody's Investors Service and Fitch to determine the relevant risk weights to be applied. Risk weights may range from 0% to 150% depending on the type of claim.

Other asset types including retail, corporate, mortgage and past due exposures are assigned standard risk weights applicable under the Standardised Approach as prescribed by the Bank of Mauritius in line with the Basel II Accord and based on the discretionary power of the Bank of Mauritius.

**Applicable risk weights are as follows:**

| | |
|---|---|
| Exposures up to Rs 5 m secured by residential property with loan to value not exceeding 80% | 35% |
| Exposures to Retail portfolio up to Rs 12 m | 75% |
| Exposures to unrated Corporates and other assets | 100% |
| Past due claims | 50-150% |

A two-step approach is used to derive the risk-weighted amounts of off-balance sheet items. Firstly, the nominal principal amounts of off-balance sheet items are multiplied by credit conversion factors (CCFs) depending on the category of items and the resulting credit equivalent amounts are then multiplied by the risk weights applicable to the counterparty.

SBM uses a number of techniques to mitigate the credit risks to which it is exposed when evaluating risk-weighted assets and this is in line with the Guideline on Standardised Approach to Credit Risk. Using the simple Credit Risk Mitigation (CRM) techniques as proposed in the guideline, both SBM's on-balance sheet and off-balance sheet exposures have been adjusted for eligible collaterals such as cash, treasury bills and third party guarantee. Where a claim on a counterparty is secured against eligible collateral, the secured portion of the claim is weighted according to the risk weight appropriate to the collateral while the unsecured portion is weighted based on the risk weight applicable to the original counterparty.

The table below sets out the exposure amounts after risk mitigation under the Standardised Approach for the Group on a consolidated basis as at 30 June 2008, 2009 and 2010.

**Credit risk-weighted assets**

| | 2010 | | | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Risk-weighted on-balance sheet assets** | **Exposures after CRM (Rs m)** | **Weight %** | **Weighted assets (Rs m)** | Exposures after CRM (Rs m) | Weight % | Weighted assets (Rs m) | Exposures after CRM (Rs m) | Weight % | Weighted assets (Rs m) |
| Cash items | 949 | 0-20 | 29 | 835 | 0-20 | 29 | 848 | 0-20 | 44 |
| Claims on sovereigns | 21,052 | 0-20 | 9,345 | 16,486 | 0 | 0 | 12,632 | 0 | 11 |
| Claims on central banks and international institutions | 3,607 | 0 | 0 | 4,137 | 0 | 0 | 5,458 | 0 | 0 |
| Claims on banks | 8,401 | 20-50 | 1,890 | 13,469 | 20-50 | 3,495 | 8,494 | 20-100 | 2,460 |
| Claims on non-central government public sector entities | 1,052 | 0-100 | 596 | 1,754 | 0-100 | 935 | 618 | 0-100 | 240 |
| Claims on corporates | 23,356 | 100 | 23,356 | 21,037 | 100 | 21,037 | 21,734 | 100 | 21,734 |
| Claims included in the regulatory retail portfolio | 5,893 | 75 | 4,420 | 5,256 | 75 | 3,942 | 4,125 | 75 | 3,094 |
| Claims secured by residential property | 6,664 | 35-100 | 2,538 | 5,821 | 35-100 | 2,196 | 5,152 | 35-100 | 1,887 |
| Past due claims | 359 | 50-150 | 390 | 186 | 50-150 | 182 | 164 | 50-150 | 145 |
| Other assets | 6,574 | 100 | 6,574 | 6,377 | 100 | 6,377 | 5,792 | 100 | 5,792 |
| Total on-balance sheet credit risk-weighted exposures | 77,907 | | 39,802 | 75,358 | | 38,193 | 65,017 | | 35,408 |

| | | 2010 | | | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Risk-weighted off-balance sheet assets** | Credit Conversion Factor (%) | **Exposures after CRM (Rs m)** | **Weight %** | **Weighted assets (Rs m)** | Exposures after CRM (Rs m) | Weight % | Weighted assets (Rs m) | Exposures after CRM (Rs m) | Weight % | Weighted assets (Rs m) |
| Direct credit substitutes | 100 | 167 | 50-100 | 156 | 278 | 50-100 | 245 | 535 | 50-100 | 516 |
| Transaction-related contingent items | 50 | 2,509 | 20-100 | 1,142 | 2,515 | 20-100 | 1,155 | 2,507 | 20-100 | 1,181 |
| Trade-related contingencies | 20 | 765 | 20-100 | 147 | 508 | 20-100 | 92 | 606 | 20-100 | 111 |
| Other commitments | 0 - 50 | 8,175 | 0-100 | 131 | 5,044 | 0-100 | 217 | 3,803 | 0-100 | 168 |
| Total non-market-related risk-weighted credit exposures | | | | 1,576 | | | 1,709 | | | 1,976 |
| Total market-related risk-weighted credit exposures | | | | 40 | | | 30 | | | 64 |
| Total off-balance sheet risk-weighted credit exposures | | | | 1,616 | | | 1,739 | | | 2,040 |

## Market risk capital

Under the Basel II Capital Adequacy Framework, banks have the option to choose from two broad methodologies for the computation of capital charge for market risk. These are the Standardised Measurement Method (SMM) which provides a framework for measuring the different categories of market risks in a standardised manner and the Alternative Advanced Methodology which permits banks to apply risk measures derived from their own internal risk management models.

For regulatory purpose, SBM has adopted the Standardised Measurement Approach and it complies with the Guideline on Measurement and Management of Market Risk issued by the Bank of Mauritius. The table below provides the comparative figures for the aggregate net open foreign exchange position together with the capital required for the Group.

| Group | 2010 Rs m | 2009 Rs m | 2008 Rs m |
|---|---|---|---|
| Aggregate net open foreign exchange position | 92.5 | 56.7 | 344.3 |
| Capital requirement | 9.3 | 5.7 | 34.4 |

## Operational risk capital

In the Guideline on Operational Risk Management and Capital Adequacy Determination, the Bank of Mauritius permits the use of three main methods for calculating operational risk capital charge: the Basic Indicator Approach, the Standardised Approach / Alternative Standardised Approach and the Advanced Measurement Approach. Following approval of the Bank of Mauritius, SBM has adopted the Alternative Standardised Approach.

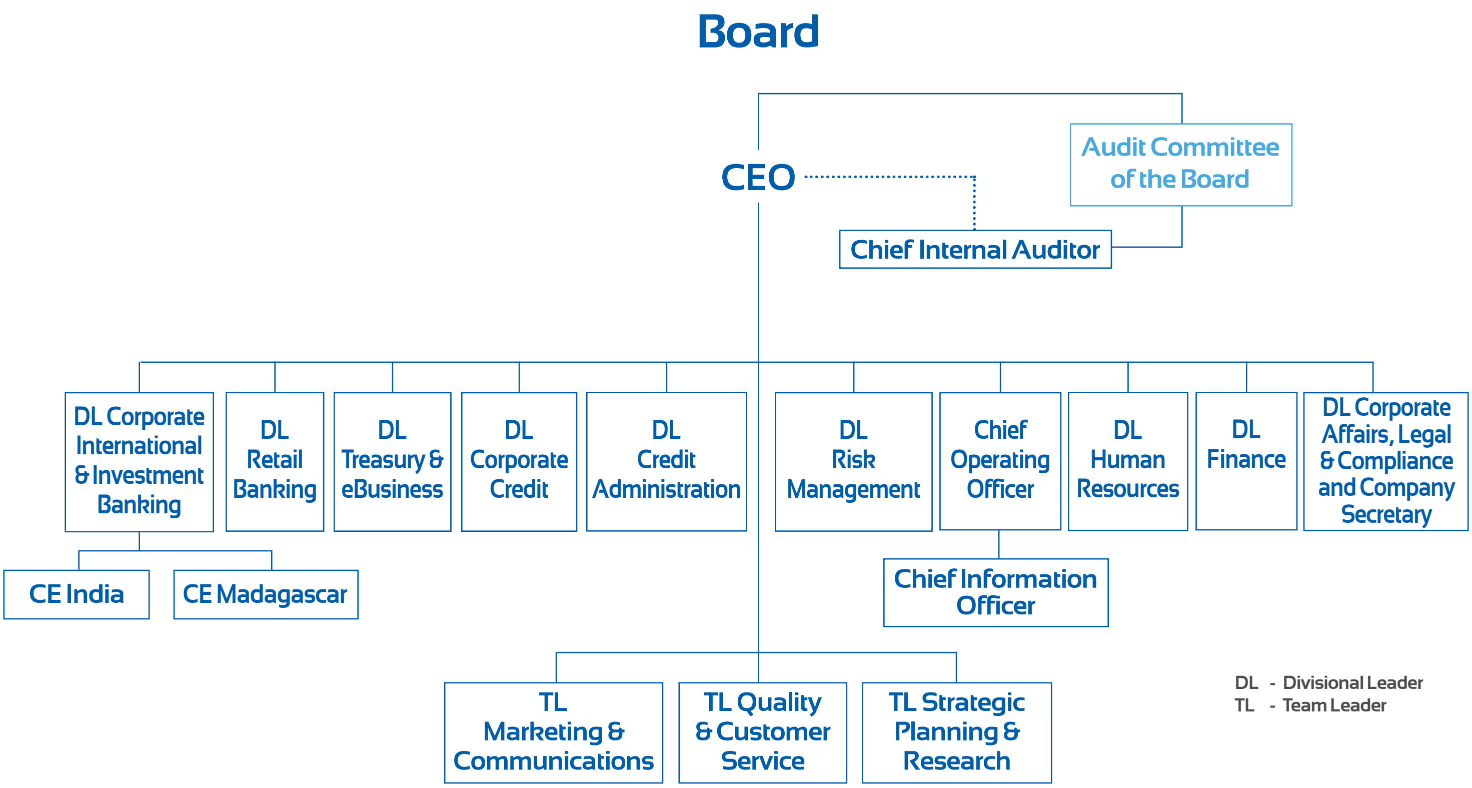
The activities of the Group have hence been mapped to different lines of business as described by the Basel II Accord, namely Retail Banking, Commercial (Corporate) Banking, Trading & Sales and Payments & Settlements. The capital charge for retail and commercial banking is calculated by applying a beta factor of 12% and 15% respectively to the three-year average outstanding loan balances for the respective portfolio multiplied by a factor of 0.035% as prescribed by the Bank of Mauritius. For the other two lines of business, a beta factor of 18% is applied to the respective three-year average gross income to arrive at the capital charge. The total capital charge for operational risk is the simple summation of the regulatory capital charges across each of the business lines in each year. The Group Operational Risk capital for the financial year 2010 stood at Rs 473 m (2009: Rs 445 m, 2008: Rs 369 m). As part of our preparation for Advanced Measurement Approach, SBM has built an internal loss database. The potential loss and incurred loss are significantly below the capital charge for the year.

## Beyond Basel II

In response to the global financial and economic crisis and in order to address the challenges relating to regulation, supervision and risk management of global banks, the Basel Committee on Banking Supervision has issued two consultative proposals in December 2009, namely "Strengthening the resilience of the Banking Sector" and "International Framework for liquidity risk measurement, standards and monitoring", commonly referred to as Basel III. The aim of these papers is to build a sounder banking and financial system by proposing changes in the following key areas: (i) raising the quality, consistency and transparency of Capital with stricter criteria for Tier 1 capital and removal of Tier 3 capital as eligible capital (ii) strengthening the risk coverage of the capital framework especially in relation to derivatives, repos and securities financing activities (iii) introducing global minimum liquidity standards and monitoring metrics for supervisors to analyse risk trends (iv) introducing counter cyclical measures to build capital buffers in good times that can be used in times of stress, including forward-looking provisions (v) introducing a leverage ratio as a supplementary measure of risk with a view to contain build up of excessive leverage and to introduce safeguards against model and measurement risks. These standards will be calibrated based on feedback from banks, with full implemention by 2012.

**Geerja Shankar Ramdaursingh**
*Chairman*

**George John Dumbell**
*Chairman, Risk Management Committee*




## Chief Executive Officer

**Gautam Vir, BA (Hons), MBA**

The profile of Mr Gautam Vir is found at page 15.

## Chief Operating Officer and Divisional Leader Retail Banking

**Soopaya Parianen, BA (Hons) Economics**

The profile of Mr Soopaya Parianen is found at page 15.

## Divisional Leaders

**Chandradev Appadoo, FCCA, ACIB**

*Corporate Affairs, Legal & Compliance and Company Secretary*

Has worked for 25 years in the Bank at various levels including branches, Corporate Banking, Finance and Risk Management. Currently the Company Secretary and also Head of Corporate Affairs, Legal & Compliance. Reports to the Chairman and the Chief Executive.

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

Has 24 years of work experience, out of which 21 have been spent in the banking and financial sector. Worked for ICICI Bank in various senior positions and was Commercial Banking Director of the Indian operations of Barclays Bank plc before joining SBM. Reports to the Divisional Leader - Corporate, International and Investment Banking.

**Anil Kumar Kundan, BA (Humanities)**
*Corporate Credit*

Has worked in various positions in the credit department of the State Bank of India for 22 years in India as well as in Mauritius as Chief Credit Officer for 4 years. Currently provides leadership to the credit function including training to staff and assessment of credit proposals with primary focus on corporate, international loans and syndications, and SME sector. Reports to the Chief Executive.

**Veronique Lim Hoye Yee, BSc (Hons) Economics & Accounting, MSc Economics and Finance, CFA**
*Risk Management*

Has 13 years of work experience, including 12 years within SBM Group. Was previously Head of Credit Underwriting Division and Head of Intensive Care Unit and Research Department of SBM. Currently, Divisional Leader in charge of Risk Management and Retail Credit. Reports to the Chief Executive.

**Vishwanee Lingachetti, MSc Human Resources Management**
*Human Resources*

Has over 20 years of experience including some 15 years at senior management level in human resources at the British American Tobacco group. Joined the Group in 2009 and is responsible for driving the HR strategy to position SBM as the Employer of Choice to deliver the company strategy and business objectives. Reports to the Chief Executive.

**Louis Nallet, Diplôme d'Etudes Supérieures - l'Institut Technique de Banque au Conservatoire National des Arts et Métiers**
(Appointed July 2010)
*Directeur Général Banque SBM Madagascar SA*

Has over 45 years of banking experience and has held senior positions in major international financial institutions, including Citibank and Standard Bank. Before joining the Group in 2010 he was Director of Stanbic Africa, a member of the Standard Bank Group, and Managing Director of Stanbic in the Democratic Republic of Congo. Reports to the Divisional Leader - Corporate, International and Investment Banking.

**Daniel Ng Tseung, BSc Economics**
*Treasury and eBusiness*

Has worked for 9 years at HSBC as Treasurer before joining SBM in 2000. Currently the Group Treasurer and also oversees the eBusiness activities. Has been a member of the Board and is currently member of the Board Credit Committee. Reports to the Chief Executive.

**Moonesar Ramgobin, Maitrise en Droit des Affaires - Ecole Superieure des Affaires**
*Corporate, International and Investment Banking*

Has 17 years of experience in the banking sector having worked for BNP Paribas, Barclays Bank plc, Standard Bank & Al Rajhi Bank. Joined the Group in 2008 and is responsible for Corporate, International and Investment Banking. Member of the Strategic Planning Committee. Reports to the Chief Executive.

**Pauline Seeyave, MA (Cantab), ACA**
*Finance*

Has 6 years experience in Audit and Business Assurance in an international firm of Chartered Accountants in London before joining the Group in 2002. Previously headed the Risk Management function and currently in charge of Finance and Value Based Performance Management. Member of the Risk Management Committee. Reports to the Chief Executive.

## Chief Internal Auditor

**Bishwajit Mazumder, CA, LLB, MBA, CIA, CISA, CISSP, CFE, CAIIB, ISSMP**

Has worked for 27 years in the banking sector in different jurisdictions before joining the Group in 2010. Has worked as Chief Audit Executive for ING Vysya Bank in India and as Chief Internal Auditor for Central Bank of Oman for five years. Held various positions, including Assistant Vice President and head, in front office, back office, branch, corporate office and Information Technology processes in Indian banks. Reports to the Audit Committee and administratively to the Chief Executive.

## Team Leaders

**Eshan Amiran**
*IT Governance*

**Vikash Bheem Singh**
*Quality & Customer Services*

**Anand Bhugun**
*Operations Centre*

**Chaya Devi Dawonauth**
*Corporate Banking*

**Stephanie Domingue**
*Corporate Finance*

**Hemant Kumar Dursun**
*Facilities Management*

**Kanand Gooly**
*Retail Banking*

**Rita Persand-Gujadhur**
*Value Based Performance Management*

**Bhuvanesh Hingoraney**
*IT Production Support*

**Geneviève Anne Ho Shun**
*Internal Audit*

**Vishal Joyram**
*Private Banking & Wealth Management*

**Liliane Li Chiu Lim**
*Finance*

**Kwon Li Pak Man**
*Risk Management*

**Grant Mackenzie**
*eBusiness Acquiring*

**Nandrajen Mooneesawmy**
*Credit Services*

**Rajan Mooroogan**
*IT Infrastructure*

**Soopaya Pareathumby**
*IT Architecture*

**Suren Ramchurn**
*Card Issuing*

**Poorunduth Ramgoolam**
*Retail Banking*

**Amaresh Ramlugan**
*Marketing & Communications*

**Satyamurti Ravikumar**
*Senior Vice President -*
*India Operations*

**Geerish Santokhee**
*Small & Medium Enterprises*
*(Appointed in July 2010)*

**Shailen Sreekeessoon**
*Strategic Planning and Research*

**Aslam Mohamud Hassim Taher**
*Corporate Banking*

## Senior Officers

**Avinash Asheesh Autar**
*Corporate Banking*

**Anand Babbea**
*eBusiness Acquiring*

**Shailendra Bheeka**
*Internal Audit*

**Ashvin Bhuruth**
*Database Development*

**Sudhir Dabeedooal**
*Retail Credit*

**Shyam Damree**
*Corporate Credit*

**Bye Samah Ghoorah**
*Currency Unit*

**Deochand Gonpot**
*Human Resources*

**Ravi Guness**
*Recovery & Workout*

**Dharmendranath Hurkoo**
*Corporate Banking*

**Balkrishna Jhurry**
*Global Business*

**Rajnish Lutchmah**
*Corporate Banking*

**Rishy Raj Lutchman**
*Treasury*

**Veeren Manikion**
*eBusiness Acquiring*

**Ravindranath Ramdhan**
*eBusiness Acquiring*

**Malinee Devi Ramlagun**
*Corporate Credit*

**Hemraj Rubee**
*Asset Finance*

**Leena Seetamonee**
*Human Resources*

**Chrisnen Vythilingum**
*Human Resources*

# MANAGEMENT DISCUSSION AND ANALYSIS

## Highlights

The Group's performance in FY 2010 has been below the previous year's outturn, with a 3.6% drop in operating income to Rs 3,837 m (2009: Rs 3,982 m) and an 8.2% decline in profit for the year to Rs 1,859 m (2009: Rs 2,025 m). The performance should be viewed within the context of difficult operating conditions which affected our advances portfolio, namely in respect of the domestic corporate sector, as well as exchange income. Given persisting uncertainty in the outlook, notably relating to export-oriented sectors, we have also increased our provisioning charge above the minimum Bank of Mauritius requirements. Besides, performance in FY 2009 – when profit after tax excluding dividend income increased by 35.3% - had benefited from a one-off dividend income of Rs 97 m. Excluding the one-off dividend income as well as the enhanced provisioning, profit after tax in FY 2010 would have increased by 3.6%.

Financial indicators remain overall sound with an improvement in the gross impaired advances to gross advances ratio from 2.0% to 1.9%, cost to income ratio maintained at below 40% and capital and liquidity at comfortable levels. Building on solid fundamentals, the Group continues to diversify its revenue base and invest in capacity building initiatives in people, processes and technology. While the increased outlays can lead to subdued profitability growth in the short term, particularly if the operating environment remains challenging, these are viewed as an investment for the future as the Group maintains a medium to long term perspective.

The performance should be viewed within the context of difficult operating conditions which affected our advances portfolio, namely in respect of the domestic corporate sector, as well as exchange income. Given persisting uncertainty in the outlook, notably relating to export-oriented sectors, we have also increased our provisioning charge by Rs 170 m above the minimum amount required by the Bank of Mauritius. This reflects a prudent stance in view of the possible adverse impact of economic conditions prevailing at the year-end on our credit portfolio.

**Economic uncertainty persists**

The performance of the Group should be viewed within the context of an uncharacteristic external environment, marked by important swings in consumer and investor confidence. Whereas there has been a pickup in both the global economy and the domestic economy in terms of growth rates, partly driven by monetary and fiscal stimuli, uncertainty has been prevalent throughout the financial year. This has adversely impacted domestic private sector investment, especially regarding large-scale projects in export-oriented sectors. Consequently, a slowdown was recorded in banking sector credit, notably at the corporate level. The ensuing excess liquidity situation, coupled with heightened competition for prime business, has exerted pressures on credit spreads as well as yields on treasury bills, which were also depressed by low supply. Growth in the total trade volume was subdued, driven down by a year-on-year decline in both imports and exports in the first half of the financial year.

As it stands, whereas economic performance across the globe in recent quarters has mainly surprised on the upside, visibility on the outlook is still impaired, given the prevalence of important downside risk factors, notably relating to difficulties in Europe, which can spill over to the domestic economy.

**The Group pursues diversification and capacity building initiatives**

Amidst a difficult economic context, the Group was mindful to manage risks properly. Despite competitive pressures, we focused on maintaining a quality portfolio and on achieving an appropriate risk-return balance. As a result, the loan book for the domestic corporate sector contracted. Commendably, this was more than compensated by a healthy rise in the retail portfolio and, particularly, in international advances, including overseas business generated from Mauritius, which grew by 48%. Besides the international portfolio, the diversification of our revenue base was pursued through notable expansion in the card issuing and wealth management businesses. In view of a difficult economic context, we have also reviewed our e-commerce framework to provide a platform for more robust growth ahead.

Testifying to our confidence in the future, we have pursued our initiatives to build capacity for service


differentiation as we firmly believe that the quality of service that we offer to our customers should be the key sustainable differentiator. Primarily, our human capital has been notably upgraded with the recruitment of high calibre professionals in various fields while the training set-up has been revamped and a performance culture fostered. The organisation structure has also been reviewed to more closely align it to the strategy of the Group, be it at business, risk management or support level. Notwithstanding the tepid economic environment, initiatives to upgrade the infrastructure, support the brand and enhance customer service have also been deployed in line with our medium-term goal of achieving sustained and superior returns through differentiation.

Going forward, growth should continue to be driven by the international and fee earning businesses including high potential and/or underpenetrated markets such as India, SMEs and e-commerce. Regarding SMEs in particular, we will capitalise on our unique positioning and revamp our proposition to grow the portfolio. We will also seek to leverage our strong brand to consolidate our position in the retail market. Business expansion will be supported over the medium term by major improvements in technology and processes as well as in the risk management framework, which will be revamped in the light of a broader business reach and increased complexity in the environment.

**Financial health remains sound despite drop in profitability**

Despite the uncharacteristic economic conditions, gross advances grew by 9.8% to Rs 44.8 Bn, driven by the international and, to some extent, the retail portfolios while investment in Government securities went up by 33.2% to Rs 20.2 Bn. On the other hand, deposits dropped by 3.3% to Rs 61.5 Bn as we deliberately did not pursue growth in rupee funding amidst excess liquidity, focusing instead on low cost deposits. In spite of a fall in net interest margin on the basis of declining yields on Government securities and an increasing share of lower yielding international advances, net interest income increased by 3.9% to reach Rs 2,493 m in FY 2010. Conversely, non interest income declined by a considerable 15.0% as pressures emanated from various fronts. Trading income went down as a result of tepid external trade volumes, especially in the first half of the financial year, while dividend income from our investments also dropped, in view of a large one-off receipt in FY 2009, linked to the winding up of a company in which the Group invested. Moreover, the review of our e-commerce business resulted in a drop in income in FY 2010, but the improved set-up to contain risks and broaden our base should contribute to more robust growth going forward. On the positive side, fee-based income was supported by strong performances in respect of card spending and wealth management activities. Overall, operating income decreased by 3.6%, while profit for the year declined by 8.2% to Rs 1,859 m (2009: Rs 2,025 m).

The reduced bottom-line takes into consideration a provision of Rs 170 m charged to the statement of income above the minimum amount required by the Bank of Mauritius. This reflects a prudent stance in view of the possible adverse impact of economic conditions prevailing at the year-end on our credit portfolio. Should this additional amount not have been provided, profit for the year would have stood at Rs 1,998 m, that is only 1.4% below the previous year's performance. Besides, a major rise was recorded in staff costs in line with our capacity building initiatives for growth. Another factor explaining the reduction in profit is the substantial contribution of Rs 30 m to CSR.

Notwithstanding the decline in overall profitability, financial indicators remain healthy. Indeed, profitability metrics have been maintained at relatively sound levels while cost to income ratio has been contained to below 40%. Regarding asset quality, the gross

impaired advances to gross advances ratio has improved to a commendable 1.9% - which compares favourably with the industry average - in spite of difficulties in the economic environment. Moreover, capital and liquidity remain well above regulatory and prudential levels, with a capital adequacy ratio of 26.5% and a liquid assets ratio of 20.9% as at 30 June 2010. Continued strong financial indicators will not only help us withstand any potential stress in the environment, but also provide a sound foundation for continued investment so that the Group may benefit from an eventual upturn.

## Review of the operating environment

### Economic review and outlook

#### The international context

After contracting significantly in 4Q 08 and 1Q 09, the world economy underwent a healing process as from 2Q 09, spurred by concerted and massive Government intervention, notably in the major advanced countries, to support financial markets and boost their economies. A quick return to strong growth by large emerging markets, especially in Asia, also helped revive the world economy.

Among advanced economies, the general wisdom was that France and Germany were already showing positive growth as we entered FY 2010 and the US was about to exit the recession, followed by the UK one quarter later. Market confidence was starting to come back as it became increasingly apparent that Government support had kept financial markets working and avoided the collapse of systemically important financial institutions while the various fiscal stimulus packages were translating into improved growth performance without creating concerns regarding inflation in view of the considerable slack in the economies. As a result, equity and commodity markets bounced back strongly from the significant lows experienced in early 2009 and credit spreads narrowed substantially. An upturn in global trade was also supportive of growth.

By the end of 2009 and into the first quarter of 2010, global activity was starting to gather momentum, and economic expansion was stronger than earlier anticipated by many observers. However, the recovery remained uneven across regions; emerging economies were leading the upturn, notably with China and India already returning to a high growth path while, among advanced economies, the US was performing better than Europe and Japan, partly thanks to a larger fiscal stimulus.

**Selected global economic indicators**

| | | | | | | Change from Apr-10 forecasts | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | **2010*** | **2011*** | **2010** | **2011** |
| **Advanced economies** | **2.7** | **0.5** | **(3.2)** | **2.6** | **2.4** | **0.3** | **0.0** |
| US | 2.1 | 0.4 | (2.4) | 3.3 | 2.9 | 0.2 | 0.3 |
| Germany | 2.5 | 1.2 | (4.9) | 1.4 | 1.6 | 0.2 | (0.1) |
| France | 2.3 | 0.1 | (2.5) | 1.4 | 1.6 | (0.1) | (0.2) |
| UK | 2.6 | 0.5 | (4.9) | 1.2 | 2.1 | (0.1) | (0.4) |
| **Emerging & developing economies** | **8.3** | **6.1** | **2.5** | **6.8** | **6.4** | **0.5** | **(0.1)** |
| Sub Saharan Africa | 7.0 | 5.6 | 2.2 | 5.0 | 5.9 | 0.3 | 0.0 |
| China | 13 | 9.6 | 9.1 | 10.5 | 9.6 | 0.5 | (0.3) |
| India | 9.4 | 6.4 | 5.7 | 9.4 | 8.4 | 0.6 | 0.0 |
| Middle East and North Africa | 6.2 | 5.3 | 2.4 | 4.5 | 4.9 | 0.0 | 0.1 |
| **World output** | **5.2** | **3.0** | **(0.6)** | **4.6** | **4.3** | **0.4** | **0.0** |
| **Oil** | **10.7** | **36.4** | **(36.3)** | **21.8** | **3.0** | **(7.7)** | **(0.8)** |
| **Inflation (%)** | | | | | | | |
| Advanced economies | 2.2 | 3.4 | 0.1 | 1.4 | 1.3 | (0.1) | (0.1) |
| Emerging & developing economies | 6.4 | 9.3 | 5.2 | 6.3 | 5.0 | 0.1 | 0.3 |

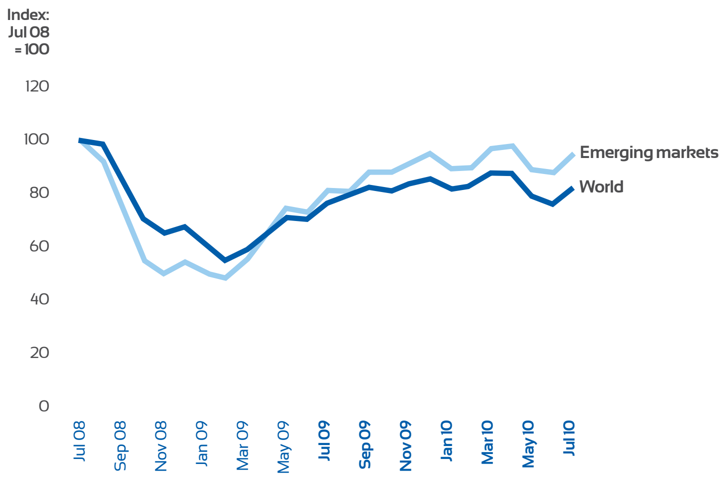
* Forecast
Source: World Economic Outlook, July 2010 Update
Note: data for Mauritius is available at page 77

Notwithstanding the upgrade in growth forecasts, risks have also increased as important concerns remain about the health of the global economy.

Firstly, the rebound in activity, notably in advanced economies, is less strong than observed after a typical recession, given the depth of the current downturn as well as its linkages with the housing market and the financial sector in particular. In the US, for instance, the impact of the fiscal stimulus package seems to be waning, as evidenced by a slowdown in the pace of recovery, and there is little evidence that private consumption and investment are taking the relay for driving growth, the more so considering soft housing and labour market conditions as well as a continued de-leveraging process in the private sector. In China, authorities are deliberately trying to slow down the economy to prevent overheating and restrict the build-up of bubbles.

A stronger level of private sector activity is also marred by a return of relatively high levels of uncertainty in financial markets in the wake of the euro crisis, whose origin lies in the high budget deficits and public debt positions run by some of the smaller countries of the eurozone, even prior to the global financial and economic crisis. The combined effect, during the downturn, of automatic de-stabilisers - as revenues bore the brunt of subdued activity levels and increased welfare-related outlays - and discretionary fiscal spending to stimulate flagging economies intensified pressures on public finances in these economies and undermined market confidence therein. This was reflected, among others, by a significantly higher risk premium being charged for sovereign bonds, especially in respect of the Greek economy. Besides, banks in Europe, and even in the US, became more wary to lend, including to each other, thus increasing the cost of funding and constraining credit availability. Encouragingly, the establishment of the EUR 440 Bn European Financial Stability Facility, along with the hitherto satisfactory implementation of much needed structural reforms in public finances of European countries, helped stabilise markets somewhat. On the flipside, fiscal tightening measures, while positive for long-term growth, may derail the recovery process and the pace of consolidation required by markets may not be sustainable in the face of opposition (as in Greece) by special interest lobbies.

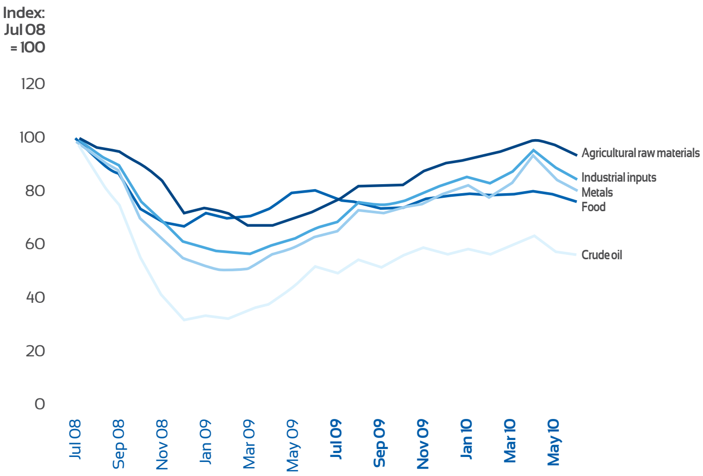
**Evolution of MSCI Indexes**




The dire situation of public finances in some countries is part of a larger problem of lingering global imbalances. An area of particular concern is the fact that some major countries running sizeable current account surpluses are still relying, to a large extent, on export-led growth, with a suspicion of misaligned exchange rates, and are funding deficits in other economies through bond purchases, thus depressing interest rates therein, and preventing a global rebalancing. In the same breath, little tangible progress has been achieved in the implementation of reforms to bolster the financial sector on a global scale, which adds to the uncertainty in the environment.

Moreover, despite considerable slack in major economies, commodity prices have risen back to relatively elevated levels by historical standards, suggesting a possible permanent shift in demand-supply balance. The recent adverse weather conditions in various parts of the world will not help in the short term. To the extent that these developments reflect the negative impact of global warming, there could be both a permanent negative impact on supply just as demand begins to expand due to rapid economic growth in emerging economies. Whilst it is too early to know if the developments are cyclical or secular, the risks of a permanent shift towards higher commodity prices remain real. In any case, in the short run uncertainty over the nature of these price fluctuations means increased volatility in commodity prices. All economies including emerging markets are likely to be adversely affected by the volatility whilst the impact of higher prices (if they prove permanent) will depend on whether they are resource-rich or import-dependent. In fact, price pressures have already been building up in some emerging economies, notably India.

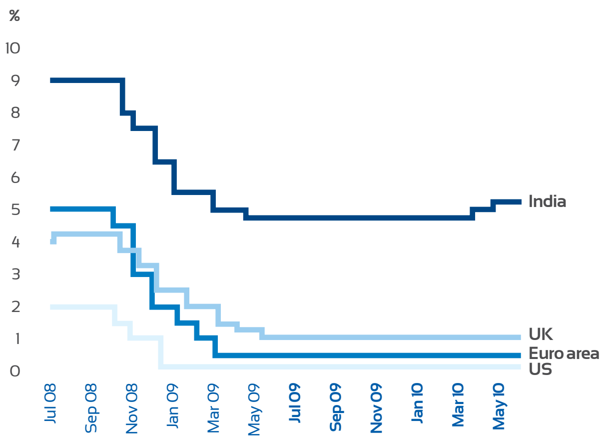
**Evolution of international commodity prices**




Exchange rates also depicted uncharacteristic volatility in line with periodic shifts in risk aversion and reflecting the contradictory and rapidly changing information on the state of the world economy and relative performance of the major economies. The euro and pound sterling, which were under significant pressure between July 2008 and March 2009, when dollar liquidity was valued at a premium, were in the middle of a consolidation phase at the onset of FY 2010, which saw these two currencies gain some 20% against the greenback between March and November 2009. With market confidence getting battered by the Greek crisis towards year-end, a sharp and prolonged reversal in trend kicked off, which saw the dollar recoup most of its losses by May 2010. The European currencies went up again thereafter following agreement on the European Financial Stability Facility. Further volatility could lie ahead if events do not evolve as per expectations.

The prevalence of important risk factors, as described above, lends credence to the possibility of a double-dip recession foreseen by many economists. However, growth figures have so far surprised on the upside, notably in Europe – helped by the depreciation of the euro and stronger global trade - and Japan, and a weak and patchy recovery in the second half of 2010 and onto 2011 appears a more likely scenario than an outright contraction. This is consistent with the IMF's latest World Economic Outlook Update in July 2010, wherein the institution has upgraded growth forecasts while pointing to an increase in risks. In this context, monetary policy is likely to remain accommodative for an extended period in the major advanced economies. However, in view of the origins of this crisis in the financial sector, historical experience suggests a slow and sluggish recovery over an extended period of time.

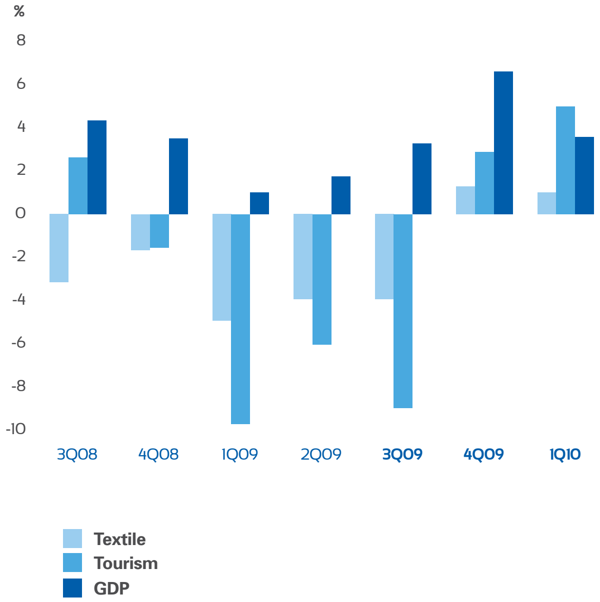
**Evolution of key international interest rates**




## Mauritius

As we entered FY 2010, the textile and tourism sectors were still feeling the impact of the crisis, posting large year-on-year contractions. However, the spill-over effects on most of the other sectors had been relatively contained and, after a subdued performance of the economy in the last semester of FY 2009, a recovery was underway. Growth gathered momentum in the second quarter of FY 2010 as export-oriented sectors recorded a strong positive expansion rate in line with the better performance in some of the country's main markets and construction activity accelerated sharply, fuelled by the implementation of some large public sector infrastructure projects. The thrust was not carried into 2010 though, with problems starting to emerge in Europe and the recovery in the US losing steam.

**Selected growth rates**




While, commendably, growth in the textile and tourism sectors remained positive in the latter part of FY 2010 despite difficulties in European economies in particular, earnings were affected by the weakness of the euro and the pound sterling. Revenue in the sugar sector was also impacted by unfavourable exchange rate dynamics but notable progress was realised in the transformation of the industry, with refined sugar being exported for the first time. A slowdown was also recorded in construction activity as well as in financial intermediation as private sector investment remained tepid in view of lingering uncertainty on the outlook. On a brighter note, the communications and business activities segments remained buoyant, fuelled by a solid performance of the Business Process Outsourcing sector as well as an upturn in the Global Business segment.

Overall, the economy picked up from 2.7% in FY 2009 but activity remained below potential with an estimated growth rate of 4.6% in FY 2010. Most major sectors recorded a recovery in activity, the real estate and financial intermediation sectors being notable exceptions. These areas were impacted upon with a lag as new investment projects slowed down considerably within the context of a sluggish and patchy recovery in key markets. Looking ahead, this 'wait and see' approach could be a significant drag on future economic performance. Moreover, while export-oriented sectors such as textiles and tourism have been relatively resilient so far, the balance sheets of some players within these industries have deteriorated quite significantly and may also weigh down heavily on prospects, particularly if a sustained recovery in key markets is further delayed. Prolonged weakness of European currencies is also a key risk factor. Against this background, economic performance is expected to remain subdued in FY 2011.

The domestic economy has slowed down in the context of a difficult external environment characterised by important risk factors. Subdued demand, excess liquidity and heightened competition are putting pressure on business growth and margins.

**Selected macroeconomic indicators**

| | | Year ending June | | | |
|---|---|---|---|---|---|
| | | 2008 | 2009 | 2010(e) | 2011(f) |
| Real GDP growth | % | 5.8 | 2.7 | 4.6 | 4.2 |
| Inflation (headline) | % | 8.7 | 6.9 | 1.7 | 3.6 |
| Budget deficit | % of GDP | 2.7 | 3.1 | 4.1[a] | 4.5[b] |
| Public sector debt (end of period) | % of GDP | 56.6 | 59.1 | 59.1 | 61.0 |
| Balance of trade | Rs Bn | 63.0 | (56.4) | (62.9) | (75.9) |
| Balance of trade | USD Bn | (2.1) | (1.8) | (2.0) | (2.3) |
| Current account | % of GDP | (8.8) | (9.2) | (8.3) | (10.9) |
| Balance of payments | Rs Bn | 9.1 | 2.5 | 9.7 | (1.9) |
| Balance of payments | USD m | 308.0 | 78.0 | 313 | (59) |
| Unemployment | % | 7.8 | 7.4 | 7.4 | 7.7 |

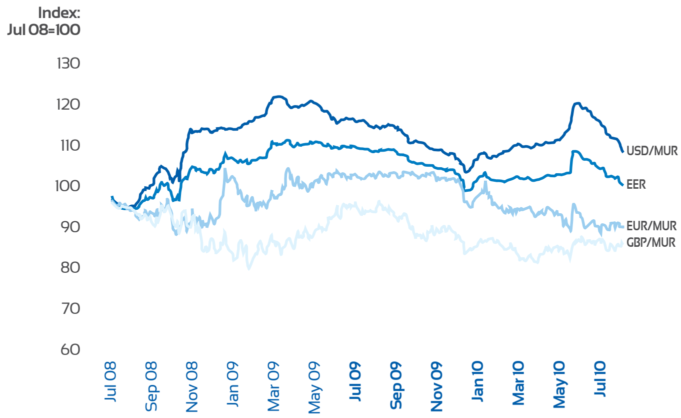
Source: Central Statistics Office, Bank of Mauritius, Ministry of Finance, SBM staff estimates
(e): SBM estimates (f): SBM forecasts
[a] six months ending December 2009
[b] calendar year 2010

Uncertainty in the economic environment is putting stress on the labour market. The unemployment rate, which was on a declining trend since 2005, edged up last year, albeit slightly. Soft conditions are expected to persist going forward. On a brighter note, the inflation rate has come down significantly from a high of 9.9% in October 2008 to 6.9% in June 2009 and further to 1.7% in June 2010, a twenty-two year low. This situation has enabled the authorities to maintain an accommodative monetary policy stance throughout the financial year by holding the Repo rate at 5.75%. Such leeway will gradually erode as inflation is expected to rise back in FY 2011, partly reflecting the pass-through of a rise, on average, of commodity prices in international markets.

Fiscal consolidation undertaken since the mid-2000s had also given the Government some room to manoeuvre in trying to boost the economy during the crisis. Despite a large stimulus package announced, budget deficit and public sector debt remained at highly manageable rates of 3.1% of GDP and 59.1% of GDP respectively in FY 2009. While the authorities may still use the fiscal option to boost the economy, particularly in case of deterioration in the external environment, the need to also maintain sound public finances would be carefully balanced. Moreover, the correct approach to a temporary shock as the Great Recession is to let automatic fiscal stabilisers operate and to supplement these with a stimulus package. In contrast, the permanent structural shocks hitting the economy through the crisis in the UK and the eurozone crisis require fiscal consolidation and structural measures to unlock a supply side response. The fiscal space created by the reforms of 2005-2006 has largely been used up in responding to the Great Recession. Failure to consolidate public finances and put debt back on a downward path risks the ratings being downgraded with negative implications for the economy.

As regards external balances, despite a notable improvement in exports of services, driven by a good performance of the BPO and Global Business sectors as compared to a small rise of 1.3% in tourism earnings, the current account deficit remained high at 8.3% in FY 2010. Tepid merchandise exports, in line with euro weakness and difficult market conditions, and rising cost of imports - as commodity prices, particularly metals and petroleum products, picked up on an annual average basis - contributed to this deterioration. Nonetheless, the overall balance of payments recorded another surplus thanks to still strong FDI inflows and precautionary borrowings made by the Government. This provided support to the rupee, which gained 13.3% and 9.2% against the euro and the pound sterling respectively over FY 2010, while remaining stable against the dollar on a point-to-point basis. The persistence of a strong rupee coupled with a large current account deficit poses a risk to the outlook given its detrimental impact on export sectors. Besides, the increasing dependence on capital inflows, notably in the context of a large domestic resource gap, may be a source of volatility in the future.

**Evolution of the Mauritian rupee**

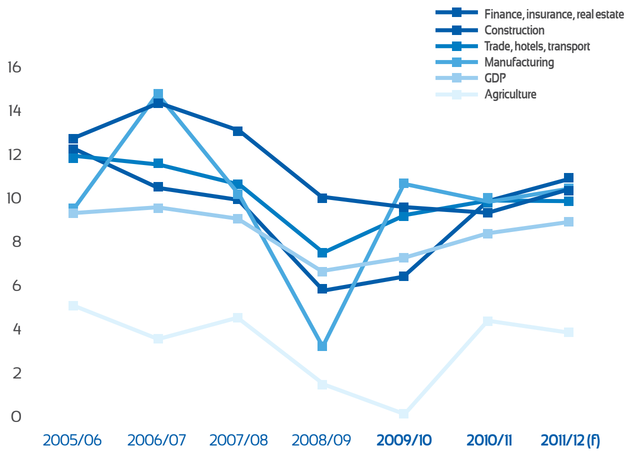



## India

India continues to be a positive outlier on the world scene, with a growth rate of 7.4% in FY 2009/10 (financial year ended March 2010), up from 6.7% in the previous financial year. The performance was mainly driven by strong industrial output (+9.3%), particularly in mining and manufacturing, where double-digit expansion rates were recorded. Although slowing down from the previous year, the services sector also posted a robust outturn (+8.5%), boosted by a solid upturn in trade, hotels, transport, storage and communications. Even the agricultural sector, which was projected to contract, performed better than expected, albeit with a marginal expansion of 0.2%. Regarding structural factors, it is encouraging to note that the savings and investment rates, which came down in FY 2008/09, increased to 33.4% and 36.0% respectively in FY 2009/10, and are expected to rise further going forward, supported by growing confidence in the outlook and consolidation of Government finances.

Against this background, whereas agricultural output – which still accounts for more than 15% of GDP – will be largely weather-dependent, the pace of growth should accelerate across non-farm sectors to some 9.2% in FY 2009/10. Investment in physical infrastructure, including housing, durable consumer goods demand and, to a lesser extent, mining output will continue to fuel industrial production while a solid upturn in business process outsourcing activity and continued strong activity in other services segments should underpin more robust growth in the tertiary sector.

**India sectoral growth rates (%)**




In spite of the strong prospects for the Indian economy, some important concerns remain. Primarily, prices have been rising at an alarming rate. Indeed, headline inflation surged from a mere 0.5% in September 2009 to 11.0% in March 2010, fuelled by fast rising food prices and delayed adjustment in petroleum prices. Against this backdrop, the Reserve Bank of India has raised its benchmark rate by 75 basis points between March and June 2010. Inflation is expected to decline in coming months, albeit remaining high. Weather conditions pose a non-negligible downside risk. Hence, important reforms of the agricultural sector are warranted to reduce the impact of climate on prices and, by extension, interest rates and activity levels.

The fiscal position of the country represents another major area of challenge. Within the context of the implementation of a stimulus package to weather the effects of the global crisis, the fiscal deficit to GDP ratio for the Central Government rose sharply from 2.6% in FY 2007/08 to 6.1% in FY 2008/09 and 6.7% in FY 2009/10 while the debt level increased to 54.2% of GDP. At consolidated level, the deficit and debt ratios reached 10.2% and 82% respectively, raising concerns about the sustainability of public finances. On a brighter note, the stronger than expected upturn in the economy provides a sound basis for pursuing fiscal consolidation and, commendably, the authorities have taken steps to bring down the Central Government deficit to 5.5% of GDP in FY 2010/11. Based on initial estimates, the deficit may fall even further.

As regards external balances, the merchandise deficit as a proportion of GDP narrowed from 9.7% in FY 2008/09 to 8.9% in FY 2009/10 as imports contracted by a higher proportion than exports. Nonetheless, the current account deficit deteriorated from 2.4% of GDP to 2.9% of GDP in line with a decline in exports of IT Enabled Services. Still, the surplus on the balance of payments improved from USD 8.7 m to USD 53.6 m in FY 2009/10, spurred by a robust turnaround in capital inflows, which had declined in the preceding financial year. Looking ahead, the current account deficit should be contained to below 3% of GDP while strong FDI and portfolio inflows should continue to support a surplus on the balance of payments. The rupee is thus expected to remain strong and relatively stable as the excess funds should be easily absorbed in a rapidly expanding economy.

Overall, while risks prevail, the Indian economy is set to record robust and improving performances going forward.

The economic slowdown led to deceleration in the growth of the balance sheet of the banking system. Stress tests carried out for the period ended December 2009, nevertheless, suggest that the banking sector remained broadly healthy, with well capitalised banks, namely in terms of adequate capital adequacy ratios, higher core capital and sustainable financial leverage.

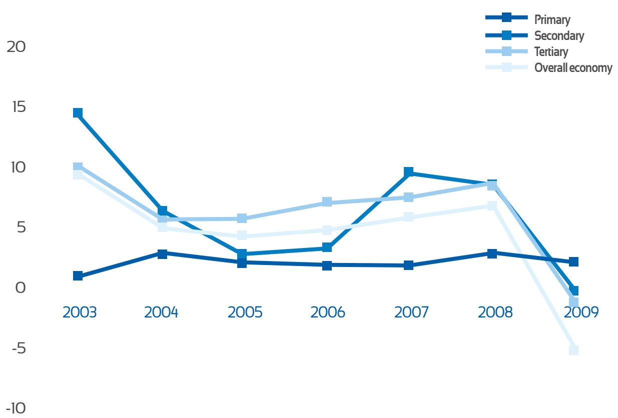
Based on lessons from the global crisis and the review of international standards and practices, FY 2009/10 witnessed several regulatory initiatives which aimed at strengthening the financial stability framework. They included, *inter alia*, enhanced focus on systemic stability issues and the release of the first Financial Stability Report, the announcement of the timeframe for implementation of the advanced approaches to capital adequacy, the implementation of the supervisory review and evaluation process under Pillar 2 of Basel II, progress on cross-border supervision and supervisory cooperation, prevention of frauds and strengthened surveillance system for off-site monitoring based on an online returns filing system.

As part of financial reforms, the central bank is now contemplating to deregulate interest rates, including the savings deposit rate, in a move to stimulate greater competition among banks, yield better returns for depositors and generate higher savings.

## Madagascar

The Malagasy economy bore the brunt of the political crisis that erupted in early 2009, with export-oriented sectors being the main casualties. Tourism suffered in particular, with arrivals estimated to have declined by more than 50% year-on-year in the first half of FY 2010, but there are indications that the pace of contraction has been slowing down. Textiles exports also recorded double-digit contraction, weighed down by uncertainty, reduced demand from key markets and Madagascar's loss of preferences, mainly duty-free access, granted by the US under the Africa Growth and Opportunities Act. The construction sector also experienced a setback as public infrastructure projects decelerated considerably in line with lower fiscal revenue, notably due to a slowdown in trade and official aid flows. Within a difficult and volatile environment, private sector credit declined markedly in the second semester of the financial year.

**Growth rates by sector (%)**




Nevertheless, the underperformance of the Malagasy economy has been much less pronounced than predicted by a number of observers, particularly considering that no permanent solution for the crisis has yet been arrived at. In fact, with a halt in violence in the latter half of FY 2010, some private sector activities have picked up slightly, albeit remaining well below pre-crisis levels. The informal economy is also deemed to have performed well, notably in the primary sector. Record breaking rice harvests have also contributed to output and employment while, crucially, keeping a lid on poverty and related unrest.

Despite a fall in prices of basic necessities towards the end of the financial year, inflation has remained relatively high. For its part, the trade balance improved in FY 2010 as lower imports, linked to reduced activity levels, more than compensated for a drop in exports.

Overall, the already weak economy of Madagascar has been negatively impacted by the lingering political crisis, but not as acutely as many had feared. This indicates that the outlook may not be all gloom and doom. However, important risk factors subsist, including a fragile fiscal position and dependence on exogenous factors, notably weather conditions.

## The institutional environment

Following general recognition that the global financial crisis partly occurred because of excesses, greed and poor regulation, much effort has been put into reforming the financial regulation framework. Hence, governments and relevant regulatory authorities across the globe have been revising the standards and norms that frame the institutional environment within which financial sector players operate. Attention remained focused on banks in light of their systemic importance in the global financial intermediation process. In December 2009, the Basel Committee on Banking Supervision proposed to strengthen the framework for measuring and monitoring liquidity risk and to review the guidance on capital adequacy in order to improve the banking sector's ability to absorb shocks arising from financial and economic stress and to lower the risk of spill-over from the financial sector to the broader economy. In the same vein, the International Accounting Standards Board and the US Financial Accounting Standards Board have come up with important accounting reforms encompassing reporting, public disclosure and control processes around the measurement of fair values with the objective of creating improved and harmonised global accounting standards.

Laudably, the domestic banking sector was not faced with liquidity or capital adequacy issues thanks to a sound regulatory framework and the generally prudent risk management approach of the local banking sector. As part of its effort to constantly improve the operational efficiency and risk management framework of banks, the Bank of Mauritius continued to strengthen the regulatory framework in tune with developments on the overseas front and international best practices. In

July 2009, the Bank of Mauritius issued a Guideline on Measurement and Management of Market Risk which outlines a standardised methodology to be observed by banks for the computation of capital charge pertaining to the different categories of market risk. Besides, in view of increasing international operations by banks based in Mauritius, the central bank issued a Guideline on Country Risk Management requiring banks to put in place a framework for identifying, measuring and managing country exposure and making provisions thereon. This should ensure that sufficient capital buffer is being provided for the possibility that a sovereign and/or other borrowers are unable to fulfil their financial obligations for reasons beyond the usual credit risk related to all lending transactions. Effective October 2010, the guideline also requires banks to disclose their exposures and country risk management policies and controls in their annual reports. These guidelines are discussed in more details in the Risk Management Report at pages 47 to 65 of the Annual Report. The central bank also held consultations with banks on Supervisory Review Process and Fair Valuation of Financial Instruments.

Moreover, in response to changes in IAS1, the Guideline on Public Disclosure of Information was revised. The capital adequacy framework was also revised and now requires non-bank deposit-taking institutions to also take into consideration the credit risks which form part of their balance sheet assets and maintain a minimum risk-weighted capital adequacy ratio of 10%. On a different note, the Guidance Notes on Anti Money Laundering and Financing of Terrorism was amended over the past financial year while the Banking (Processing and Licence) Fees Regulations 2007 were reviewed and amended in order to further improve the determination of the fixed fee component of the annual licence fee payable by financial institutions. A new Competition Commission was also set up to promote fair trade practices and encourage healthy competition for the benefit of consumers and the economy at large.

In line with our objective of pursuing sound and sustainable business growth, we welcome changes in the regulatory environment that are intended to reinforce the framework within which financial institutions operate and to proactively prevent the occurrence of crises, including those of systemic nature. Although the upshot of financial supervisory and regulatory changes on the international scene would guide the direction of domestic legislation, no major impact is foreseen in terms of SBM operations, given the generally broader, and even more stringent, internal risk and compliance policies already observed by the Group. Indeed, developments relating to the regulatory framework validate our prudent business and risk management approach.

As announced last year, companies are now required to contribute 2% of previous year's profit as CSR levy. SBM made a contribution of Rs 30 m to CSR in FY 2010. More details on our CSR philosophy and initiatives can be found in the Corporate Governance Report. On a different note, the solidarity levy on banks, which was doubled to 1% of turnover and 3.4% of book profit for two years as from FY 2009, is expected to go back to its initial level with effect from FY 2011.

In response to the euro crisis, which is dampening the outlook of the domestic economy, an Economic Restructuring and Competitiveness Programme (ERCP) has been announced by the Government to revamp activity, especially in key export sectors like textiles and tourism as well as to enhance competitiveness over the medium to long term. Banks are expected to contribute in various ways including:

- Contribution of Rs 150 m, equally with the Government, to a new Private Equity Fund. The Fund is projected to start with an initial seed capital of Rs 300 m to be raised in 2010. The contribution from the banking sector would be raised through a special one off charge on Segment A operations of banks consisting of 0.5% of turnover plus 1.25% of profits. Each bank subscribing to the Fund will be able to offset the amount subscribed against the charge payable;

- Support to firms under the ERCP subject to the bank's willingness to contribute fresh financing to the firm's restructuring plan and the shareholder's willingness to increase his equity significantly;

- Restructuring of debt and debt servicing of SMEs, with the interest rate of participating banks being at most 300 basis points above the key Repo rate. The Government will increase its guarantee of banks' fresh financing from 50% to 75%;

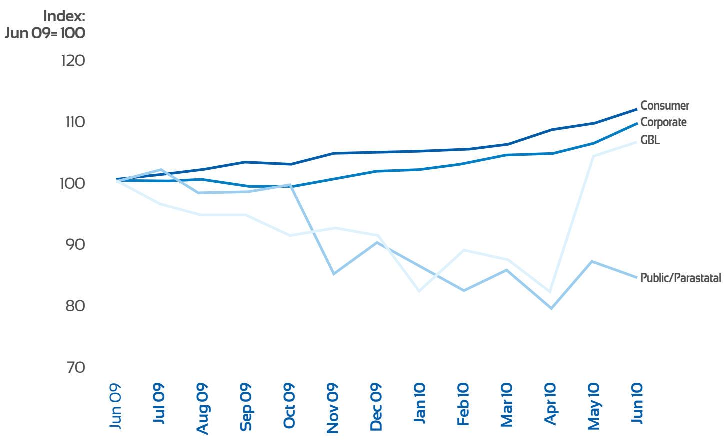
- Reduction of interest rate on overdrafts/working capital facilities to small and medium hotels by 2 percentage points for 50% of the amount outstanding and maximum interest rate of 2% above the prime lending rate. The Government will guarantee 25% of the outstanding loans.

The ERCP also offers banks an opportunity to participate in economic restructuring on the basis of higher risk and higher potential returns.

### The domestic banking sector

After showing a fair degree of resilience in the wake of the global financial crisis, growth in the domestic banking sector has decelerated markedly in FY 2010, partly on account of dampened demand for credit brought about by lingering uncertainty on the outlook. The impact was more pronounced during the first six months of the financial year, as private sector corporate credit stalled, while a decline was recorded in respect of public sector/parastatal companies and Global Business Licence holders (GBL). Credit to the GBL sector recovered strongly in the final two months of FY 2010 to post an overall increase of 6.4% in FY 2010, while credit to the public/parastatal sector maintained a downward trend throughout the financial year, contracting by 15.8% year-on-year to reach Rs 10.3 Bn as at June 2010. In contrast, the corporate sector – which accounts for some 85% of credit to the domestic economy, at Rs 167.6 Bn - fared better during the second semester, contributing to an overall growth of 9.4% for the financial year. For its part, consumer credit depicted a more steady and solid growth pattern, rising by 11.9% over the financial year.

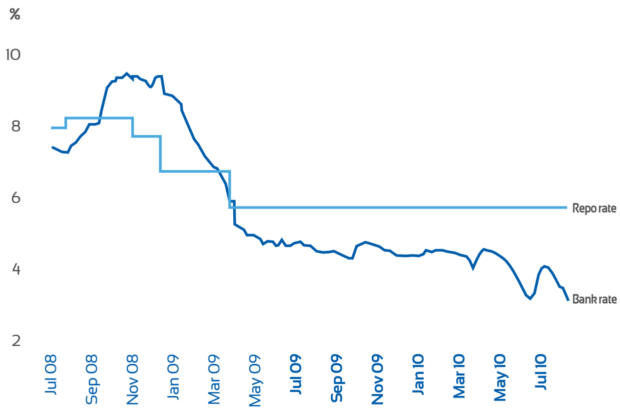
**Relative evolution of credit**




Source: Bank of Mauritius, SBM Research

Amidst limited prospects to expand lending and despite low rates of return, investment in Government securities remained strong, increasing by 2.1% year-on-year to reach Rs 59.6 Bn as at June 2010. Yields on Government securities maintained a downtrend, as evidenced by a decline in the Bank rate – which is the average yield on treasury bills with maturity of up to one year – to 3.96% as at end June 2010 from 4.76% a year ago, while the reference Repo rate was maintained at 5.75% throughout the financial year. Against the backdrop of high liquidity, the Cash Reserve Ratio was increased by 50 basis points on 18 June 2010.

**Evolution of domestic interest rates**




Source: Bank of Mauritius

Overall, total domestic assets of the banking sector rose by only 5.8% to Rs 332.5 Bn as at June 2010. On the other hand, foreign assets, which make up some 60.6% of the total, went up by 19.0%, driving a 13.4% increase in total assets over the financial year to Rs 843.2 Bn.

Against the backdrop of a decline in yields, banks have been trying to diversify towards lower-cost funding sources. Hence, rupee-denominated demand and savings deposits grew by a relatively higher proportion, namely 12.1% and 13.5% respectively, than time deposits, which increased by only 4.9%. Savings deposits accounted for more than half (51.9%) of rupee-denominated deposits as at June 2010. Rupee-denominated deposits went up by 10.2% over FY 2010 while foreign currency deposits, which account for some 65% of total deposits, increased by a higher 15.1%. Overall, total deposits stood at Rs 619.8 Bn as at June 2010, representing a 13.3% rise from June 2009. The domestic banking sector remains essentially deposit-funded, although borrowings from banks increased significantly from Rs 87.6 Bn in June 2009 to Rs 107.6 Bn as at June 2010. Borrowings from banks are likely to increase further in the period ahead as banks seek foreign currency funding to diversify internationally.

The dearth of private investment projects, especially large-scale ones has generated a high liquidity situation in the banking sector which, together with intensified competition, resulted in significant pressures on margins. Subdued trade volumes also impacted negatively on fee income. Nonetheless, the domestic financial sector, essentially shielded from direct spillovers from the global crisis, has so far maintained relatively good levels of financial soundness.

Indeed, capital within the banking sector remained above minimum required levels, with a capital adequacy ratio of 16.5% as at March 2010. The liquidity position of banks, after suffering in the first quarter of the financial year, improved with the liquid assets to total assets ratio rising from 26.3% in September 2009 to 27.5% in March 2010. Asset quality remained good, although the nonperforming loan ratio inched up from 2.5% to 2.7% between March 2009 and March 2010. This ratio may come under additional pressure going forward as some casualties are likely in FY 2011 given the challenging economic conditions. On another note, while the sector enjoyed relatively high profitability ratios, growth rates have slowed down markedly. Additional players that have joined the banking sector in recent years as well as a new entrant expected to start operations in FY 2011 are likely to continue exerting downward pressure on margins and profitability going forward.

## Business review

The global banking industry is at a crossroads. Globally, banks are faced with a combination of various kinds of pressure, including subdued credit demand, lack of long term funding, increase in impairment levels, more stringent regulatory requirements and public outcry on their internal policies and practices, among others. Whilst relatively spared from the global financial crisis, the Mauritian banking industry has been facing a marked slowdown and, with an outlook characterised by high uncertainty levels - particularly in respect of the European market – that is likely to constrain local investment, growth in the industry may be subdued for some more time.

Within such a context, getting fundamentals right becomes critically important. We are focused on conducting effectively our core function, which is financial intermediation, bearing in mind the complexities that it entails in a volatile environment. In particular, given that risk is an integral part of the value creation process in banking, the necessity to properly identify and manage that risk should not be underemphasised. In that way, we will at all times protect depositors' money and maintain their confidence. Hence, despite the current pressures on the Group's bottom-line, including moves by some competitors intent on aggressively acquiring market share, the onus has been and will remain on diversifying risk and upholding sound portfolio quality as well as an acceptable risk-return profile, in line with our objective of delivering value to shareholders and other stakeholders on a sustained basis.

Bearing in mind the above, the Group's strategy revolves around two major axes, namely diversification of our revenue base and differentiation of our service offering, underpinned by considerably strengthened internal capabilities. As discussed in the review of the different lines of business below, our expansion strategy is based on solid insights on market growth potential, underserved segments, gaps in the current offering and prospects in new markets. Thus, in addition to our focus on growing the international portfolio, we have during the year revamped our wealth management, card issuing and, slowly but surely, our SME businesses. As regards differentiation, we have embarked on a far-reaching programme to shift gear in terms of service quality, and hence our brand, covering physical and technological infrastructure, processes and, crucially, human capital. This should help us consolidate and improve our position in both mature and emerging areas of our business. Very importantly, we have also maintained our approach of doing business in an ethical and sustainable manner.

On a different note, as the legislation now allows leasing activities to be carried out through a banking institution, SBM Lease Ltd, previously our leasing subsidiary, was amalgamated with the holding company. This will help better leverage the Bank's large funding base and improve synergies within the Group. Moreover, SBM IT Limited, which did not have separate activities attached to it, was amalgamated with SBM Investments Limited, which holds the domestic investments of the Group - including three fully-owned subsidiaries, namely SBM Securities Ltd, SBM Mauritius Asset Managers Ltd (SBM MAM) and SBM Financials Limited. The first two offer brokerage and asset management services for the Group and play an important part in the Group's wealth management strategy while the third subsidiary provides share registry, debenture holder's representative and other fiduciary services and, by itself, does not contribute significantly to Group results. The SBM holding structure is set out at page 13. During the year, we will look at further restructuring of the Group in order to improve our governance and better align the structure to our strategic objectives.

The organisation structure was also modified with the creation of Retail Credit as a separate unit. Moreover, a Chief Information Officer and a Chief Internal Auditor positions were set up to give more focus to the use of technology for furthering business needs and for better monitoring potential risks to the business and addressing them proactively.

## Review of lines of business

### Corporate, Investment and International Banking

Operating conditions were particularly challenging within the domestic corporate sphere, with a drying up of opportunities in the market as large projects were put on hold amidst lack of visibility and increased uncertainty. Moreover, within a high liquidity environment, competitive pressures, including from relatively new players in the industry, resulted in pressures being felt on margins and business volumes. Indeed, credit to domestic corporates dropped by 12% during FY 2010 while fee income in the corporate sector declined by 12%, driven down by the domestic business, as we focused on maintaining a quality portfolio with an acceptable risk-return profile.

Against this background, the Group has focused on customer proximity, to proactively address financing needs of clients within acceptable risk parameters, and on differentiating its offer on the market. We were successful in entering into some major projects in the refinery and infrastructure sectors and reviewed some sectoral portfolios with the objective of mitigating risks. Hence, despite the tough external environment, we have been able to add some quality business to our asset book. Importantly, we maintained customer proximity taking into consideration the possible adverse impact of uncertainty in the economic outlook on credit portfolio.

Asset finance operations have also been revamped further to the amalgamation of SBM and SBM Lease Ltd. The resulting synergies created across the Group as well as the encouraging response from the campaigns run on our asset finance offering confirm positive prospects in this area. The ERCP also contains measures to help grow the asset finance business.

While the credit environment is expected to remain challenging going forward, the domestic corporate portfolio is projected to expand, albeit moderately, on the strength of initiatives being taken to diversify revenue streams. In particular, the Group aims to selectively tap financing opportunities in the infrastructure and real estate sectors and focus on offering differentiated, comprehensive and customised financial solutions to existing and new customers. Challenges in various economic sectors will lead to the restructuring of some companies financing profiles. SBM will be actively looking at how to seize related opportunities, including through the development of new instruments.

Regarding our Segment B activities – that is, those that give rise to foreign-sourced income - despite a relatively dry and volatile credit market, limited availability of foreign currency funding and shrinking credit spreads on international markets, a significant growth of 48% in advances was recorded in FY 2010, in line with the diversification strategy of the Group, driving an overall increase of 8.4% in the loan portfolio of the Corporate, International and Investment Banking function. Besides, an attractive margin was maintained on the book. Segment B credit now represents 46% of the corporate book compared to 21% in 2008. Corporate deposits went down by 19% as we deliberately did not pursue growth in rupee funding given a high liquidity situation.

During the year under review, SBM further raised its profile on the international market through the successful completion of a number of specialised transactions, including one ECA aircraft transaction and a sale and leaseback transaction for two aircrafts. With an increasing participation in cross-border syndicated deals, SBM is being viewed as a trusted partner by many investment banks. Besides, SBM has become a participant in the IFC Global Trade Finance Program, as a confirming bank. Whilst most transactions have been conducted in India, the Group's business deals also span Europe, the Middle East, Africa as well as other Asian countries.

Building on the momentum generated in recent years, further headway is expected in the segment B market in the period ahead, particularly if the nascent global recovery gathers strength. In this respect, new lines of credit in foreign currency are being established.


SBM
values
• Commitment to service excellence
• Ethics
• Fairness
• Integrity
• Performance driven
• Recognition
• Team spirit
SBM
goal
To continuously improve and innovate the Group's lines of business and achieve strong and sustained returns for the shareholders. SBM aims to achieve its goals by continuously enhancing customer service, competencies, delivery channels and operating efficiency as well as maintaining a balanced, acceptable and quality risk profile while effectively managing its balance sheet

One specific targeted area of growth relates to the fast-growing Indian market, where the Group is present since 1994. Asset growth at the India Operations level has been disappointing in FY 2010 but growth prospects appear encouraging as the Indian economy gathers momentum, especially with the Group planning to inject capital into the India Operations and implementing a series of initiatives to enhance its operational capabilities, aimed at capturing a larger number of business opportunities on a niche basis in this market. The appointment of a high calibre Chief Executive, in March 2010, to head our India Operations has already provided a fresh drive in this area. The strategy for the India Operations has been revamped and will be rolled out in FY 2011.

As regards our subsidiary in Madagascar, asset growth, portfolio quality and operating income have been adversely affected by the subdued economic conditions in the country, induced by the political crisis that erupted in early 2009. The underperformance of Banque SBM Madagascar (BSBMM) impacted on the results of SBM Global Investments Limited, which is the Group's vehicle for international equity investments. Whilst prospects in the Madagascar market will depend on a turnaround in the political situation, we are using this period of dampened activity levels to restructure our operations therein so as to be in a better position to tap opportunities when the economy eventually recovers. The appointment of a seasoned professional as Chief Executive for BSBMM in July 2010 should help enhance the capacity of this subsidiary, in line with our objective of increasing its contribution to the Group's bottom-line over time.

The Corporate, International and Investment Banking team has been considerably strengthened over the last two years, with a more robust management team now overseeing the function under the leadership of the Divisional Leader – Corporate, International and Investment Banking. The structure within the team has been revamped with four Team Leaders responsible for large domestic corporates, mid-sized domestic corporates, corporate finance and Global Business respectively, as well as two new Divisional Leaders responsible for our operations in Madagascar and India. They are supported by a revamped and restructured underwriting team headed by an experienced Divisional Leader – Corporate Credit.

### Retail Banking, SMEs and Wealth Management

The retail market has witnessed heightened competitive pressures in FY 2010 as players, including non-bank financial institutions, were aggressive in capturing market share and, to some extent, countering the adverse impact of a tepid corporate sector on their books. Nonetheless, we upheld our position in the retail sphere, thanks to a solid franchise as well as proactive measures to improve the service offering and quality while enhancing visibility and promoting customer proximity.

Indeed, the product portfolio was enhanced, with the launch of new products as well as the revamping of existing ones spanning home loan, consumer loan, current and savings accounts and junior savings products. Efforts made to strengthen our brand will also impact positively on the performance of Retail Banking. Retail credit went up by 13%, with appreciable performances in respect of both mortgage and consumer loans. Retail deposits increased by 9%, mainly driven by current and savings account deposits as we focused on low cost funding given the high liquidity environment.

We reinforced proximity with our customers, amongst others, through open days, explaining our offering to customers and gathering valuable feedback from them towards better meeting their needs. Our branch design enhancement programme was also pursued to further enhance the customer experience. In the same vein and in line with the Group's philosophy of making the difference through people, particular attention was placed on staff training. Besides improving service quality, this has enabled employees to more effectively explore customer needs and provide tailored solutions, taking advantage of the Group's wide offering, particularly in the areas of cards, asset finance and investment products. The setting up of a separate Retail Credit team as well as a revamped Retail Credit Collections team helped improve the retail performance and the quality of the retail portfolio.

Regarding Private Banking and Wealth Management, the customer segmentation was reviewed to provide more focused services to private banking clients. Moreover, the function was restructured to better exploit synergies with the securities and investment arms of the Group and early results are already positive. Indeed, assets under management of SBM Mauritius Asset Managers Ltd, our asset management subsidiary, increased by a significant 38% in FY 2010, contributing to a profit after tax of Rs 11.1 m in FY 2010 (2009: Rs 8.9 m). As regards SBM Securities Ltd, our stockbroking subsidiary, turnover increased by 74.5% to Rs 8.6 m in FY 2010, compared to a 6.7% growth in market turnover, contributing to profit for the year of Rs 5.3 m (2009: Rs 2.9 m), its highest level for the past five years. We have improved our positioning in the domestic sphere and expect to become a significant player in this domain as we build on the strong foundation laid down to service our client base and develop innovative products and services, and exploit new customer markets, especially by capitalising on our presence in India and Madagascar.

> Within a difficult environment, getting fundamentals right becomes critically important. The Group's strategy revolves around two major axes, namely diversification of our revenue base and differentiation of our service offering, underpinned by considerably strengthened internal capabilities.
>
> The Group has continued to diversify its credit portfolio, with focus on international business. It has also fared well in other strategic focus areas, notably cards and wealth management.

A key area of focus for the Group remains the SME sector. Addressing the financing needs of SMEs is viewed as part of the Equality and Diversity principle espoused by the Group as it enables individuals and businesses to move up the socio-economic ladder, it rewards effort and enterprise, and it covers a complexly large variety of sectors, sub-sectors of activity and employment profiles. Crucially, financing SMEs also makes business sense as this sector – which constitutes the backbone of the economy – has outperformed the overall economy both in terms of output and employment and has displayed a remarkable level of resilience to economic shocks. The Group intends to capitalise on its unique positioning to grow its SME business, particularly given that the sector remains underserved by the banking industry.

Further to the recruitment, in July 2010, of a new Head of SME, the set-up related to this line of business is being reengineered through enhanced products and services, reinforcement of the competency base and a review of processes and procedures. On the basis of these developments, our exposure within this sector is expected to grow significantly in the years ahead.

The Retail team has been considerably strengthened over the last two years with a more robust management team under the leadership of the Divisional Leader – Retail Banking. The structure within the team has been revamped with four Team Leaders responsible for Urban network, Rural network, Private Banking and Wealth Management (including asset management and brokerage activities) and SMEs, supported in the areas of process and credit by a new Retail Credit team and in the area of service quality by a new Head of Quality and Customer Services.

### eBusiness

Our eBusiness activities include card issuing, e-commerce merchant acquiring, merchant acquiring at point of sales (POS) and mobile banking services. SBM has pioneered a number of developments in the eBusiness field, including the introduction of chip cards in sub-Saharan Africa. We are the preferred Visa partner in Mauritius. Notwithstanding intense competition on the card market, with competitors actively marketing their card products and facilities, SBM achieved a healthy performance, as evidenced by an increase of over 20% in the credit card base and in card spending, both debit and credit, in FY 2010, while impairment was contained to a very low level. We have thus consolidated our position as the second largest player on the domestic card market. The excellent outturn was underpinned by a series of initiatives, driven by the reorganisation of the card issuing function under a new Head of Card Products. These include the implementation of the innovative Cashpaké programme, which is the first cash rebate scheme on the island rewarding retail spending on debit and credit cards, as well as the revamping of the Merchant Discount Programme. Moreover, new card designs were launched and the card quality was upgraded in addition to the introduction of branch sales collaterals for our cards and the review of our policies, processes and systems relating to this area. An improved collections infrastructure also helped enhance the quality of the card portfolio. We expect to build on the momentum gathered to fully exploit the significant potential of this business.

As for the card acquiring business, which includes POS and e-commerce, among others, performance was relatively less robust in view of important challenges in the operating environment. While turnover on POS achieved satisfactory growth, margins were impacted by heightened competition in the market with a new entrant in the business. New services are being envisaged on POS to increase related revenue flows. The e-commerce business also became more competitive due to new association rules as well as new acquirers entering the market. This has contributed to a 32% decline in card income despite the good performance on the issuing side. Bearing in mind the relatively high level of risk in this area, which is compounded by a difficult economic and financial environment, the focus during FY 2010 has been on reviewing the model and reinforcing the internal set-up under the leadership of a new Head of eBusiness (Acquiring). With a more solid framework now in place, we will be looking to grow the e-commerce business significantly in FY 2011, notably through diversification of the portfolio, while managing risks as well as capturing epayment opportunities. On a separate note, true to our spirit of innovation in the eBusiness area, a new mobile commerce platform is also being developed and should contribute to business growth in the period ahead.

### Treasury

Group Treasury serves a wide range of customers through our operations in India, Madagascar and Mauritius. Market specialists offer tailor-made solutions with in-depth market knowledge, strategic advice and an extensive suite of financial instruments for clients to manage their exposure to currencies, interest rates and commodities. The Group also has equity trading desks in both Mauritius and India.

Despite a rising contribution from our overseas operations, Mauritius remains the major contributor to the gross income of the Group. The economic slowdown, particularly subdued external trade volume, has impacted directly on our corporate clients, resulting in a drop of some 10% in exchange income and an overall decline in Treasury income.

The Treasury operation in Mauritius remains the leading primary dealer in Mauritius and is one of the biggest players on the local currency market through its competitive pricing, broad client base and ability to trade large size tickets. Despite the political uncertainty in Madagascar, foreign exchange income has increased by nearly 18% this year. On the other hand, India has not contributed significantly to the total profit of the Group due to unfavourable market conditions.

Group Treasury is expected to expand its income streams from a growing client base in India and Madagascar as the Group expands internationally. Given limited growth opportunities in Mauritius, and taking into consideration our expansion strategy in India and Madagascar, we expect a more significant contribution from our overseas operations to the bottom-line in the forthcoming year.

## Drivers of sustainable and superior growth

### Customer service

In line with the objective of creating a sustainable differentiation through a high quality and customised level of service to our clients, greater emphasis has been put on customer service. Whilst this effort has to be organisation-wide, its focal point remains the Quality and Customer Services function, under the leadership of a new Head of Quality and Customer Services, recruited during FY 2010. A key focus during the financial year has been to improve the customer experience at SBM through enhancement at all stages of the chain. In this respect, besides continuous


enhancements being made at the level of the physical infrastructure, to foster a standard look and feel, significant efforts were made at improving the technical and interpersonal skills of frontline employees through focused training. Moreover, procedures have been reviewed and made more customer-friendly. The centralisation of all calls to the customer service centre has enabled staff at branches to devote more time to customers. The company website, hosted at http://www.sbmgroup.mu, is also being completely relooked, making it more informative, user-friendly and responsive to customer needs.

The new Complaints Handling Policy across the Group will also help improve customer satisfaction over time and enable quicker resolution of complaints. Going forward, increasing use of feedback from customers will enhance customer experience and bring innovation to the market. Internally, the introduction of service level agreements will foster a quality-centric and customer-centric approach across the organisation. More importantly, we intend to comprehensively review our internal processes, among others, to improve the level of service offered to customers. We recognise that excellence in customer service is a journey and not a destination. Whilst challenging, as it would require an organisation-wide culture change, amongst others, the Group considers this objective as key to its strategy and is highly committed to its achievement.

### Human capital

A superior level of service can only be sustained by a motivated and trained staff. As highlighted in our last annual reports, our human resource strategy is central to the Group's ambitions. In line with our aim of becoming the Employer of Choice, we have brought significant improvements to the employment conditions of staff, including at the level of welfare. Moreover, despite a difficult operating environment, we have maintained our recruitment drive in all areas of our business based on our HR plan. Following on the previous year's strategic recruitments – including the position of Chief Executive and within the areas of corporate, international and investment banking; private banking and wealth management; marketing and communications; and strategic management – we have taken on board several professionals in senior management positions during FY 2010, notably in: India Operations; corporate finance; eBusiness acquiring; card issuing; corporate credit; quality and customer services; information technology; human resource management; and internal audit. Internal promotions were also made for senior positions to recognise good performance and motivate talent. A Head of SME and a Chief Executive for BSBMM also joined the Group in July 2010, while two other senior managers, namely a Chief Information Officer and a Head of Global Business, will soon join the Group.

In addition to the strengthening of the management team, represented in the organisation chart at page 66, the organisation structure has been reviewed to provide more focus to strategy execution. Hence, the credit underwriting team has been split between retail credit and corporate credit, which encompasses domestic and international corporates, including SMEs. The responsibility for risk management has been split from the compliance and company secretary function while the credit administration function has also been reorganised and is temporarily under the Head of Corporate Credit. Currently, both the retail banking and back office operations are under the responsibility of the Chief Operations Officer until suitable candidates are recruited.

Competency building has also been pursued through a revamp of the learning set-up. Cascading to lower levels, the number of training hours more than doubled during FY 2010 and is set to increase further in the coming financial year as learning and growth targets gather increasing prominence.

Efforts have also been geared up to better motivate and, thus, retain employees, bearing in mind toughened

competition for skilled human resources in the market. In this vein, the performance management and reward system has been reviewed to more closely align individual incentives to organisational goals while fostering a performance culture. As part of the new approach, the revised framework was presented to the employees at the first staff rally, which is itself an important sharing exercise within the organisation.

Furthermore, the company has engaged in a major job evaluation and grading exercise which would lead to a revised grade structure and help towards internal equity in compensation management and recognition through appropriate titles, and also in giving employees better visibility for career progression.

### Brand

Our initiatives to enhance customer service, together with our strategy to expand our revenue base, should contribute to a reinforced brand, which is a prized asset in a context of intense competition. To further strengthen the brand perception, we have deployed initiatives to enhance visibility and are developing an enhanced and standard feel to our branches. Moreover, a new visual identity guideline has been developed and will be applied to all communication of the Group to ensure brand consistency. SBM employees play an important role in the company's branding and much emphasis is put onto staff welfare. Moreover, we are an Equal Opportunity Employer and aim to become the Employer of Choice. We also champion the Equality and Diversity philosophy. We are committed to ploughing back part of our profit to the community, which should also reflect in our brand value. Overall, our efforts to develop our unique brand proposition have gathered momentum and we are more than ever a unique household name.

### Technology, processes and infrastructure

Our strategic objective of differentiation through superior service and brand is supported by appropriate measures to upgrade the physical and technological infrastructure, including the branches and the ATM network. Regarding the latter in particular, we intend to build on the efforts undertaken in the past to maintain our leadership position in technology, for the benefit of our business. A new Chief Information Officer will soon join the Group to drive the IT strategy recently approved by the Board.

A major project scheduled to start in FY 2011 relates to the upgrade of the core banking system. Together with other IT initiatives, this should enable us to better serve our customers both operationally and in terms of improved product features. Improvements are also being implemented in our technology set-up to better disseminate relevant information throughout the organisation and to facilitate prompt and effective decision making.

Alongside the implementation of technology tools, we will also undertake a major process review exercise to garner efficiency gains and provide enhanced service and products to our customers.

### Risk management

As regards risk management processes, we pride ourselves in maintaining a robust platform that has enabled us, for instance, to achieve commendable asset quality metrics even within a difficult economic context. However, we are conscious that the environment, and risks associated to it, are becoming increasingly complex. In this respect, various initiatives are being taken to strengthen the risk management set-up. For instance, the risk management team has been reorganised to provide more focus to this area. The internal audit function has also been reinforced with the recruitment of a seasoned Chief Internal Auditor, while the corporate credit and retail credit functions have been separated to provide greater focus on specific risk areas. Going forward, we intend to upgrade our risk management framework with a view to better managing risks and optimising our risk-return profile over the medium to long term across all functions of the Group.

## Broadening measures of performance and maintaining strategic focus

Events on the international scene over the past two to three recent years have shown that narrow measures of performance can potentially overlook important, even critical, factors of organisational health. Keeping this in mind, our performance management system has been fine-tuned to encompass a broader set of objectives and initiatives. Hence, in addition to traditional financial metrics, including risk-adjusted measures such as RAROC, we track our performance with respect to other less tangible areas like growth and diversity of our market base, customer satisfaction, brand awareness, productivity, risk containment, human capital development, succession planning and organisational culture, amongst others, using the balanced scorecard framework. This approach ensures a balance between achieving short term performance and investing for medium to long term expansion while fostering alignment throughout the Group. As highlighted above, we have remained true to these principles during FY 2010 despite challenges to growth, and will continue to do so going forward, thus laying a solid foundation for superior and sustainable growth of the business.

## Key financial indicators

| | 2010 | 2009 | 2008[a] | 2007[a] | 2006[a] |
|---|---|---|---|---|---|
| **Consolidated statement of income for the year ended 30 June (Rs m)** | | | | | |
| Net interest income | **2,493** | 2,400 | 2,044 | 1,806 | 1,743 |
| Non interest income | **1,344** | 1,582 | 2,061[b] | 1,319 | 961 |
| Non interest expense | **1,373** | 1,423 | 1,378 | 1,134 | 1,031 |
| Depreciation and amortisation | **166** | 310 | 298 | 288 | 255 |
| Profit before income tax and net impairment loss on financial assets | **2,531** | 2,623 | 2,789[b] | 2,042 | 1,748 |
| Profit before income tax | **2,212** | 2,345 | 2,397[b] | 1,740 | 1,524 |
| Profit for the year | **1,859** | 2,025 | 2,114[b] | 1,506 | 1,320 |
| **Consolidated statement of financial position as at 30 June (Rs m)** | | | | | |
| Total assets (including contra items) | **94,550** | 90,042 | 77,089 | 71,756 | 59,302 |
| Total assets (excluding contra items) | **79,839** | 79,234 | 67,557 | 60,230 | 50,902 |
| Gross loans and advances to customers | **44,792** | 40,792 | 36,206 | 30,477 | 27,175 |
| Gilt-edged securities | **20,210** | 15,173 | 11,582 | 8,121 | 9,286 |
| Deposits from customers | **61,502** | 63,569 | 54,835 | 48,475 | 40,067 |
| Shareholders' equity | **14,656** | 12,943 | 10,974 | 9,515 | 7,816 |
| Tier 1 capital | **9,870** | 8,724 | 7,672 | 6,073 | 4,821 |
| Risk-weighted assets[c] | **46,238** | 44,437 | 43,293 | 39,211 | 31,608 |
| **Consolidated statement of financial position (average[d] Rs m)** | | | | | |
| Average assets | **77,097** | 71,581 | 60,845 | 54,927 | 50,557 |
| Average loans and advances to customers | **41,981** | 38,640 | 32,848 | 29,106 | 26,717 |
| Average gilt-edged securities | **16,603** | 13,819 | 8,963 | 7,866 | 8,158 |
| Average deposits from customers | **59,983** | 56,542 | 48,518 | 42,731 | 38,111 |
| Average shareholders' equity | **12,603** | 11,745 | 9,862 | 8,492 | 8,450 |
| Average working funds | **73,643** | 71,316 | 60,643 | 54,584 | 50,365 |
| Average Tier 1 capital | **9,106** | 7,948 | 6,853 | 5,416 | 5,906 |
| Average interest earning assets | **66,352** | 61,343 | 52,282 | 46,630 | 42,615 |
| Average interest bearing liabilities | **61,271** | 57,652 | 49,145 | 44,293 | 40,529 |
| **Share information** | | | | | |
| Earnings per share (Rs) | **7.20** | 7.84 | 8.19[b,g] | 5.03 | 4.06 |
| Dividend per share (Rs)[e] | **2.75** | 2.75 | 2.55 | 2.10 | 2.00 |
| Net asset value per share (Rs) | **56.77** | 50.13 | 42.50 | 36.86 | 24.04 |
| Market price per share (Rs) | **79.00** | 70.00 | 96.00 | 50.50 | 37.00 |
| Dividend yield (%)[e] | **3.48** | 3.93 | 2.66 | 4.16 | 5.41 |
| Earnings yield (%) | **9.11** | 11.21 | 8.53 | 9.95 | 10.97 |
| Price earnings ratio (times) | **10.97** | 8.92 | 11.72 | 10.05 | 9.12 |
| Dividend cover (times) | **2.62** | 2.85 | 3.21 | 2.78 | 2.03 |
| Market capitalisation (Rs m) | **23,995** | 21,262 | 29,159 | 15,339 | 14,149 |

| | 2010 | 2009 | 2008[a] | 2007[a] | 2006[a] |
|---|---|---|---|---|---|
| **Performance ratios (%)** | | | | | |
| Risk adjusted return on capital (RAROC) | **49.83** | 52.50 | 47.56 | 45.36 | 43.13 |
| Capital adequacy ratio[c] | **26.49** | 24.04 | 21.61 | 20.58 | 20.77 |
| Profit before income tax / average risk-weighted assets[f] | **4.88** | 5.35 | 5.82 | 4.93 | 4.95 |
| Profit before income tax / average assets | **2.87** | 3.28 | 3.94 | 3.18 | 3.07 |
| Profit before income tax / average shareholders' equity | **17.55** | 19.96 | 24.32 | 20.57 | 18.35 |
| Profit before income tax / average Tier 1 capital | **24.29** | 29.50 | 35.01 | 32.25 | 26.26 |
| Return on average risk-weighted assets[f] | **4.10** | 4.62 | 5.12 | 4.25 | 4.22 |
| Return on average assets[d] | **2.41** | 2.83 | 3.47 | 2.74 | 2.61 |
| Return on average shareholders' equity[d] | **14.75** | 17.24 | 21.43 | 17.73 | 15.62 |
| Return on average Tier 1 capital[d] | **20.41** | 25.48 | 30.85 | 27.81 | 22.36 |
| **Efficiency ratios (%)** | | | | | |
| Cost to income | **39.03** | 38.43 | 37.08[h] | 40.06[h] | 41.11[h] |
| Cost to income (before net impairment loss on financial assets) | **35.79** | 35.74 | 33.54[h] | 36.19[h] | 37.75[h] |
| **Asset quality ratios (%)** | | | | | |
| Gross impaired advances to gross advances | **1.87** | 2.00 | 2.42 | 2.79 | 2.34 |
| Net impaired advances to net advances | **0.81** | 0.47 | 0.48 | 1.28 | 0.35 |
| **Other key data as at 30 June** | | | | | |
| Number of employees | **1,157** | 1,116 | 1,069 | 973 | 916 |
| Number of employees - (Mauritius) | **1,084** | 1,037 | 1,004 | 900 | 848 |
| Number of employees - (Overseas) | **73** | 79 | 65 | 73 | 68 |
| Number of service units | **48** | 48 | 49 | 49 | 49 |
| Exchange rate (USD : MUR) | **31.90** | 32.06 | 27.15 | 31.60 | 30.93 |

[a] Restated wherever applicable for comparative purposes

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

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

[d] Averages are based on daily and monthly average balances where applicable

[e] Including dividend proposed in July 2010, 2009, 2008 and 2007

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

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

[h] Grossed up for tax-exempt debenture interest income

Profitability has suffered from pressures on margins, subdued trade volumes, lower e-commerce activities amidst restructuring and increased tax and provisioning. However, financial fundamentals remain strong at all levels, namely profitability, efficiency, asset quality, liquidity and capital.

## Performance against objectives by key areas

| | Indicator | Objectives for 2010 | Performance | Target for 2011 |
|---|---|---|---|---|
| 1. | Profit for the year | To grow profit for the year by over 15% year-on-year | Given the difficult operating environment, profit for the year declined by 8.2%. Excluding one-off dividends received in FY 2009 and the additional provision made, profit for the year would have grown by 3.6% | Should the current difficult environment prevail, to improve marginally |
| 2. | Return on average assets | To improve marginally | Dropped slightly from 2.8% to 2.4% as average assets grew by 7.7% | Given that assets are expected to grow at a faster pace than profits, to maintain at above 2% |
| 3. | Return on average Tier 1 capital | To improve marginally | Dropped from 25.5% to 20.4% as average Tier 1 capital grew by 14.6% | To maintain above 18% |
| 4. | Non interest income to average assets | To improve marginally | Non interest income as a percentage of average assets decreased by 0.5% to 1.7% | To improve marginally, with growth of above 15% in non interest income |
| 5. | Cost to income ratio | To maintain at the current level | Maintained at 39%. Before taking into account provisioning, cost to income ratio was maintained at 35.8% | With the continued investment in people, technology, customer service and branding, to keep below 39% before provisioning |
| 6. | Deposits and advances | To grow by 12-15% and further penetrate overseas markets | Given the situation of excess liquidity, the Group allowed deposits to drop by 3.3%. Gross advances grew by 9.8%, with a 48% growth in the international portfolio | To grow advances by above 15% with growth of around 50% in the international portfolio and 25% in SMEs |
| 7. | Asset quality | To maintain net impaired advances to net advances below 0.5% | While the gross impaired advances to gross advances ratio improved slightly to 1.9%, the net impaired advances to net advances ratio stood at 0.8%, due to an increase for the Madagascar Operations | With prolonged difficulties in the external environment, to keep the gross impaired advances to gross advances ratio below 2.5% and the net impaired advances to net advances ratio below 1.5% |

**Note:** An analysis of the Group's financial information and performance against objectives is set out in this section. This should be read in conjunction with the audited financial statements for the Group and the Bank for the year ended 30 June 2010 presented at pages 106 to 169. The financial information given is based on the current year under review and may not necessarily reflect the financial results and conditions of operations of the Group going forward. Readers are also advised to refer to the statement at page 12 relating to forward-looking statements.

## Results

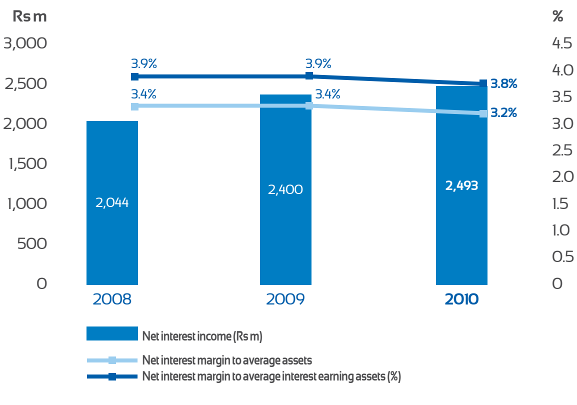
The financial year ended 30 June 2010 has been a challenging year characterised by lingering uncertainty on the global outlook delaying investment projects at the domestic level, heightened competition amongst banks vying for business, high rupee liquidity and low yields on Government securities. Within this context, the Group posted a profit after tax of Rs 1,859 m, a decline of 8.2% compared to the previous year, on the back of increased portfolio provisioning above the minimum required by the Bank of Mauritius, lower dividend income, and substantial expenditure on CSR. Consequently, earnings per share stood at Rs 7.20 for the financial year ended 30 June 2010 (2009: Rs 7.84), while dividend per share remained unchanged at Rs 2.75, representing a payout of 38.2% (2009: 35.1%). Should the increased portfolio provision not be effected, earnings per share would have been Rs 7.74. The Group remained cautious in building its assets book and the capital base remained strong, giving an acceptable return on average assets of 2.4% for the year under review (2009: 2.8%). Gross impaired advances to gross advances and net impaired advances to net advances were also kept at relatively low levels of 1.9% and 0.8% respectively, reflecting the Group's prudent and proactive risk management practices.

## Revenue growth

Group operating income stood at Rs 3.8 Bn as at 30 June 2010, 3.6% lower than in the previous year. Excluding dividend income, Group operating income actually decreased by only 1.1% year-on-year, with growth of 3.9% in net interest income, dampened by a decline of 10.5% in non interest income. In spite of an increase in the overseas credit portfolio, revenue generated from international business declined to around 21.3% of total revenue (2009: 22.9%) in view of reduced income from e-commerce.

## Net interest income and margins

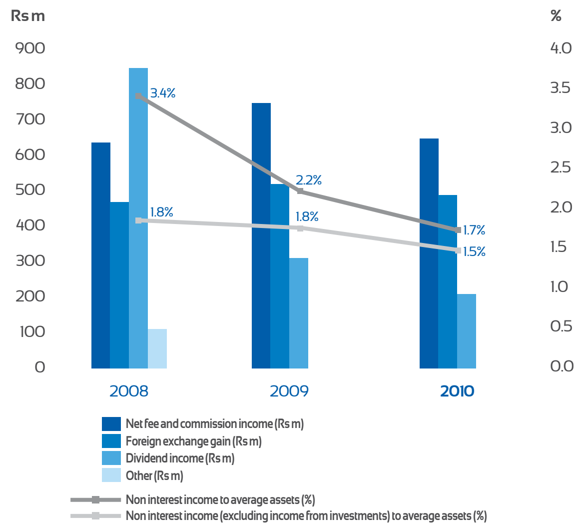
### Net interest margin




Group interest income fell by 8.7% to Rs 4,867 m (2009: Rs 5,333 m). Interest income from advances fell by 6.5%, partly on account of lower interest rates on an annual average basis and an increasing share of overseas credit, in line with the Group's diversification strategy. Yields on gilt-edged securities also dropped during the year given the high level of rupee liquidity that prevailed, resulting in a reduction in interest income on securities by 7.4% despite a 20.1% growth in average balance. Income from bank placements also almost halved on account of lower yields and redeployment of funds into foreign currency advances. In order to mitigate the reduction in interest income, the Group did not actively pursue high cost liabilities, which resulted in a reduction in deposits of 3.3%, without compromising on the Group's liquidity position. Group interest expense hence dropped by 19.1% to Rs 2,374 m (2009: Rs 2,933 m), pushing net interest income up by 3.9%. Net interest income to average assets and average interest earning assets stood at 3.2% and 3.8% (2009: 3.4% and 3.9%) respectively. These ratios are likely to come down further next year as we continue to grow our international portfolio.

## Non interest income

### Non interest income by category

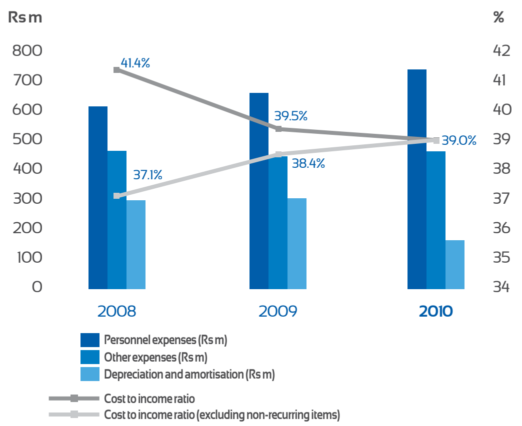



Non interest income amounted to Rs 1,344 m for FY 2010 (2009: Rs 1,582 m), a 15.0% decrease due to less buoyant commercial banking and treasury activities, reduced income from electronic channels, as well as lower dividends. Corporate banking fees and commissions were lower by around 11.7% in the current year, linked to the subdued investment climate. This was however partly mitigated by a growth of 10.0% in income from the retail line of business, which was more resilient to the downturn. Foreign exchange income dropped by 6.1% compared to the previous year on account of dampened trade volumes and increasing pressure on margins. Fees relating to e-commerce also declined as we focused on reviewing risk policies and target markets relating to this area, which resulted in a significant reduction in volumes processed in the first half of the year. On the basis of a more robust framework now in place, the Group is confident to significantly build its business volumes from e-commerce over the coming years. Similarly, with the introduction of the Cards "Cashpake" rewards programme, giving up to 1% cash back to customers on their card purchases, there has been a significant pickup in spending volumes which should translate in higher income generation going forward. New initiatives have also been introduced in Wealth Management and SME which should boost revenue in the coming years. Dividend income went down by 33.7% to Rs 206 m (2009: Rs 310 m) on account of a one-off receipt in FY 2009 on the winding up of a company where the Group invested.

## Cost management

During the year, the Group pursued its initiatives to build capacity to plug gaps and in preparedness for future growth. As such, there has been continued investment in human resources, technology, premises, risk management, customer service and branding. Against this background, the cost to income ratio increased slightly compared to the previous year, but remained at an enviable level in FY 2010 at 39.0% (2009: 38.4%). Whilst the ratio is expected to go up further next year, we see it as an investment for revenue growth.

### Non interest expense by category




Personnel expenses grew as expected by 11.6% mainly on account of an increase in headcount, particularly relating to the recruitment of key people during the year, and the full year effect of the previous year's human capacity building exercise. Growth in other costs, excluding depreciation, was contained at around 3.7% and arose mainly on account of indexed increases on renewal of periodical maintenance contracts, improvements in the branch network and enhanced visibility through marketing and branding initiatives.

On the other hand, depreciation and amortisation costs fell by a significant 46% during the year. At the end of their life cycle, significant amount of key hardware and software are being replaced by more cost effective and productive equipment which should assist in maintaining system costs to an acceptable level. The decreasing trend in amortisation and depreciation is however expected to reverse in the next financial year as major projects undertaken are fully implemented and hence start to attract depreciation charge. Overall, non interest expense decreased by 3.5% year-on-year to reach Rs 1,373 m in 2010 (2009: Rs 1,423 m).

## Net impairment loss on financial assets

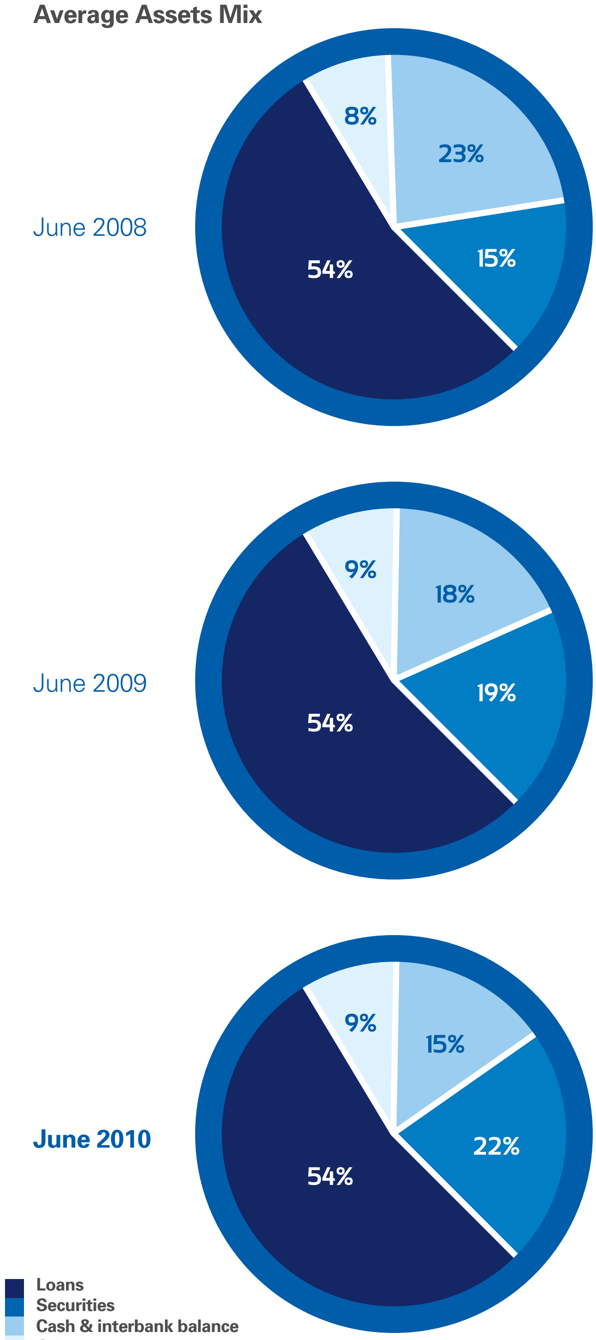
The net impairment loss on advances and other financial assets increased by 14.2% to Rs 318 m for the year ended 30 June 2010 (2009: Rs 279 m). While specific allowance for credit impairment was around the same level as last year, the portfolio allowance has been increased above the level required by the Bank of Mauritius by Rs 170 m on the basis of the uncertain climate in some sectors and ensuing difficult conditions that prevailed at the year-end. Hence portfolio allowance was significantly higher at Rs 209 m for the year (2009: Rs 57 m). In addition, a loss provision of Rs 14 m was booked during the year in respect of e-commerce receivables, which are being pursued for recovery.

## Income tax expense

Group income tax expense was higher at Rs 353 m (2009: Rs 319 m) linked to higher profits generated from domestic operations and the first year charge of Rs 30 m for CSR, representing 2.0% of the previous year's profit from domestic business, in line with the provisions of the Income Tax Act. The effective tax rate stood at 16.5% for the financial year 2010 (2009: 14.0%). With effect from FY 2011, the solidarity levy on banks, included in the above tax charge at 1.0% of turnover and 3.7% of book profit, is expected to halve back to its previous level, as per the Finance Act 2009. On the other hand, the Group may need to contribute to additional levies as part of the ERCP.

## Assets

### Average Assets Mix

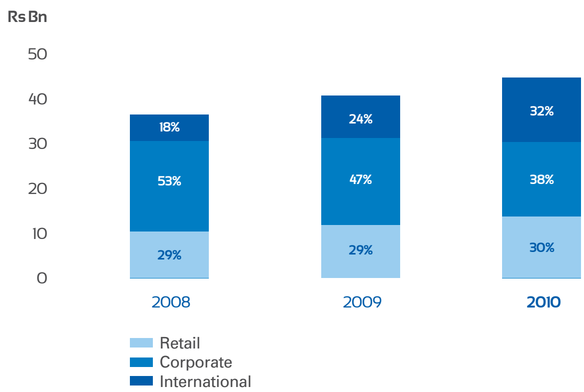



Total assets grew marginally to Rs 79.8 Bn at 30 June 2010 (2009: Rs 79.2 Bn). Sluggish credit demand, linked to weak economic conditions and lingering uncertainty, has created a situation of excess liquidity which, together with heightened competition, is exerting increasing pressures on asset yields. In this context, the Group was careful in pursuing asset growth, ascertaining an acceptable risk-return profile and focusing on the quality of the portfolio. As a result, there was a slight contraction on domestic credit whilst cross border financing increased. Funds were also channelled to more remunerative assets as reflected in the 64.3% (or Rs 8.2 Bn) contraction in low yielding placements with banks and re-investment into higher interest earning non-rupee denominated assets. The portfolio of government securities also grew by Rs 5.1 Bn (33.6%) as all excess rupee funding was invested in short term treasury paper, while waiting for the opportune time to invest in potentially higher yielding assets. In line with the Group policy, the properties within the Group were also revalued in the current year after a five year cycle which generated a net revaluation surplus of Rs 0.5 Bn. As at 30 June 2010, Segment B assets represented 27.8% of total Group assets (2009: 31.4%).

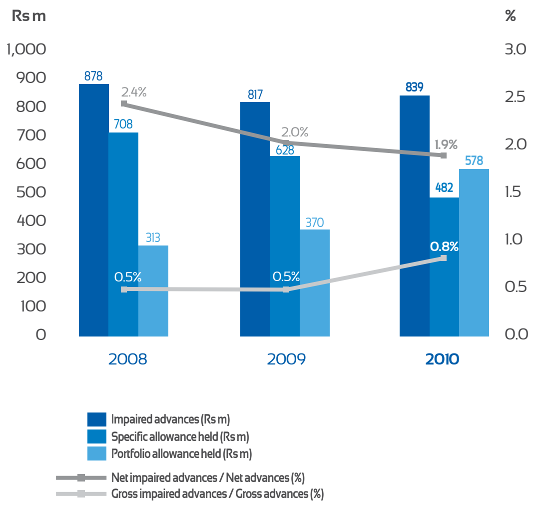
## Loans and advances

Group gross advances amounted to Rs 44.8 Bn, 9.8% higher than at 30 June 2009. The Group pursued its strategy of geographical diversification, which resulted in advances to non-residents and Global Business Licence holders progressing year-on-year by 48.1% to Rs 14.5 Bn (2009: Rs 9.8 Bn). Those advances thus represented 32.4% (2009: 24.0%) of the total advances portfolio, of which 7.2% (2009: 6.9%) was contributed by India and Madagascar operations. The retail portfolio also registered a commendable growth of 13.2%, driven by the mortgage, cards and consumer portfolios. Advances to domestic corporates, on the other hand, decreased by 11.9%, mainly due to early repayments and delays in disbursements as projects are put on hold. Further detailed analysis on the credit portfolio, including a breakdown by economic sectors, can be seen in *Note 8c* to the financial statements.

### Loans and advances by type



### Allowance for credit impairment




Despite the difficult operating environment, the Group continued to focus on maintaining high quality assets. Impaired advances at 30 June 2010, amounting to Rs 0.8 Bn, represented 1.9% (2009: 2.0%) of total gross advances, a slight improvement from the previous year. The ratio of net impaired advances to net advances progressed to 0.8% but was kept within the 1.0% threshold, reflecting the soundness of the advances portfolio. Specific allowance for credit impairment stood at Rs 482 m (2009: Rs 628 m) due to write-offs of Rs 209 m against provision while specific provision charge for the year remained at the same level as at 30 June 2009. Taking into account the potential adverse impact that existing conditions at the year-end - notably continued weak activity and dampened confidence levels, compounded by the crisis affecting the euro area – may have on the credit portfolio, the Group made supplemental portfolio allowance of Rs 170 m above the minimum 1% of standard advances required by the Bank of Mauritius. Portfolio allowance for credit impairment was thus significantly increased to Rs 578 m as at 30 June 2010, including the voluntary supplemental provision of Rs 170 m (2009: Rs 370 m). The total allowance for credit impairment for the year amounted to Rs 1,060 m (2009: Rs 998 m), which more than covers the impaired assets, with a coverage ratio of 126.3% (2009: 122.2%).

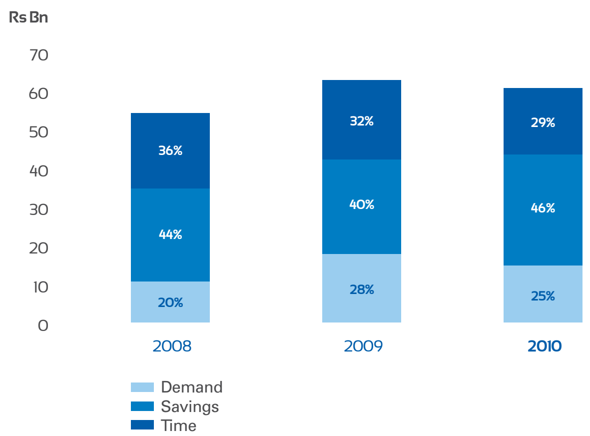
### Impaired advances and allowance for credit impairment

| | 2008 Rs m | 2009 Rs m | 2010 Rs m |
|---|---|---|---|
| Gross advances | 36,206 | 40,792 | 44,792 |
| Impaired advances | 878 | 817 | 839 |
| Net impaired advances | 169 | 189 | 357 |
| Specific allowance held | 708 | 628 | 482 |
| Portfolio allowance held | 313 | 370 | 578 |
| Total allowance for credit impairment | 1,021 | 998 | 1,060 |

## Deposits

Group deposits from customers declined by 3.3% to Rs 61.5 Bn (2009: Rs 63.6 Bn) as the Group did not pursue growth in high cost deposits in a fairly liquid market. While deposits from the retail line of business grew by 8.7% mainly in lower cost demand and savings deposits, deposits from corporates and government entities were not retained due to relative high costs and hence decreased by 18.6% and 24.2% respectively. The change in liability mix has kept the cost of funding at a relatively low level and as at 30 June 2010, time deposits represented a smaller portion of total deposits at 28.7% (2009: 32.4%). Going forward, should the excess rupee liquidity conditions persist, the strategy of garnering low cost deposits will be maintained. The Group will also put emphasis on collecting low cost foreign currency deposits to finance its growing international asset book. Around 29.2% of the total deposits were denominated in foreign currency at the year-end.

### Deposits by type




SBM
SBM

### Borrowings

The Group's gearing was relatively low throughout the year, with borrowings at 30 June 2010 amounting to Rs 2.1 Bn (2009: Rs 1.1 Bn), of which 50.6% were overnight facilities or facilities maturing in less than 3 months. In line with the Group's intent to focus on international business, further lines of credit are being explored with reputed financial institutions to provide funding in the medium to long term and to supplement the Group's own funds.

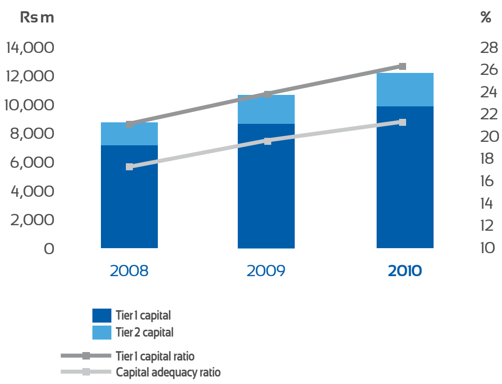
### Memorandum items

Memorandum items, consisting of non-fund based facilities, credit commitments and bills under collection, increased from Rs 10.8 Bn to Rs 14.7 Bn at 30 June 2010. The increase is mainly on account of undisbursed credit facilities which stood at Rs 8.2 Bn at the year-end, representing a growth of 62.9% over the previous year. A notable increase of nearly Rs 1 Bn was recorded in respect of credit commitments to India.

### Shareholders' equity

Group shareholders' equity increased by 13.2% to Rs 14.7 Bn (2009: Rs 12.9 Bn) at the year-end, with the addition of the current year's profit of Rs 1.9 Bn and an increase in reserves of Rs 0.5 Bn arising from revaluation of property, partly offset by dividend payment of Rs 0.7 Bn for the financial year 2009. Net asset value per share thus increased from Rs 50.13 to Rs 56.77 at 30 June 2010, reflecting a price to book ratio of 1.4 times. Return on average shareholders' equity stood at 14.8% (2009: 17.2%), given the relatively high capital base. The Group declared a dividend per share of Rs 2.75, same as last year, in July 2010.

**Capital base and capital adequacy ratio**




The risk-weighted capital adequacy ratio stood at 26.5% for the Group (2009: 24.0%) and at 22.4% for the Bank (2009: 19.5%), well above the minimum regulatory requirement of 10%. The current level of capital is adequate for the Group to pursue its growth strategies. Further analysis on capital adequacy, especially in respect of Basel II requirements, may be obtained in the Risk Management Report at pages 47 to 65.

## Conclusion - consolidating the base for growth

### Banking sector challenges remain

Events on the international scene in recent years have refocused attention on the banking industry. As financial intermediaries and facilitators of payment services, banks bring considerable value to the economy: they reward savers and help deploy funds into more productive investment by those who have the ability and risk appetite to do so. By virtue of the trust that they command, banks also enable trade and other transactions that might otherwise require more complex and costly arrangements.

On the flipside, the banking business is intrinsically tied with risk-taking. Whilst all bankers are aware of this fact, prolonged good times may occasion a gradual decline on vigilance. Besides, incentive structures that favour short term objectives over sustainable strategies can often impair the good functioning of the system. At the end of the day, banks should set their risk appetite bearing in mind the need to protect depositors' money.

For this reason, effective regulation is an important part of banking. Much of the recent discussion on international banking regulation has gone in the right direction, with the scope and coverage of both capital, including leverage, and liquidity measures being broadened and a countercyclical framework being promoted. In other words, buffer will have to be built during years when the environment and company performance are better to be able to withstand shocks in more turbulent times.

Nonetheless, delays in the implementation of new regulations may reduce interest in and commitment to them, particularly if the financial performance of banks picks up. Moreover, it is difficult to imagine that all potential issues will be addressed by tougher regulations, so supervisory bodies will have to remain alert while industry players will have to commit to discipline.

As we stand, the credit process is still impaired in many economies, notably advanced ones, and authorities appear to be keener on restoring the flow of credit to boost flagging economies rather than putting more effort into building a solid foundation. In this context, we can expect issues relating to the broader macroeconomy or to market confidence in general to have faster and potentially disproportionate impact on the financial sector, as was evident during the Greek crisis. Moreover, access to and cost of foreign currency funding could remain problematic for the banking sector for some time.

### Economic challenges persist

Whereas the global economic and financial system has recovered from a situation of near collapse, aided by extraordinary monetary and fiscal stimulus measures passed by authorities, the revival seems to be losing steam. In advanced countries in particular, consumers and firms, that were highly leveraged prior to the financial crisis, are yet to firmly take over from the Government in driving economic activity. This has put authorities in a dilemma of how quickly to withdraw stimulus. A too hasty exit could lead to a relapse into recession while delays in unwinding policy accommodation could entail a further deterioration of public deficit and debt levels, raising issues of sustainability and default, particularly if budget revenue continues to be tepid. Some smaller economies that entered the recession from a relatively weak point have already generated such concerns.

Experts are as yet divided over the future course of the world economy; whereas some are betting on a gradual consolidation of the recovery, as a pickup in growth numbers positively spills over consumer and investor confidence, others are warning about the possibility of a double-dip recession considering the withdrawal of stimuli and concerns on the sustainability of fiscal deficit and debt levels, among others. A broader concern that has been raised is whether the current downturn is part of the normal economic cycles or if it signals a structural break. There are at least two reasons that may point to the latter. Firstly, the level of interconnectivity between economies has been increasing, namely through the trade and investment channels. This portends that difficulties in one part of the world could be amplified more easily. Secondly, the demand-supply balance in commodity markets has tightened over the recent years, as gauged by still high commodity prices by historical standards despite weak economic conditions. With such conditions, the impact of exogenous factors may become jerky. Given the particularly acute impact on inflation, trade balance, exchange rates, growth and even poverty that this can have on some countries, the situation may become tricky to tackle. As a country with an export-led growth strategy and a heavy dependence on imports for basic commodities and raw materials, Mauritius is particularly vulnerable to developments in export markets and shifts in commodity and exchange rate markets.

### Strategic response

It is extremely hard to predict the course of events on the international scene. For certain, it would be unrealistic to aspire for sustained high growth rates in a protracted crisis scenario. On the other hand, we are aware that an upturn will eventually occur, and we are preparing ourselves to make the most of it. Taking into consideration the important challenges that exist in the economy and in the banking sector, the key is to stand prepared for a variety of scenarios and be flexible enough to rapidly shift course if events do not pan out as expected, while keeping a medium term perspective. Here are a few ways that we are doing so:

- **Banking on principles**
  We are committed to doing business in an ethical manner. We seek to fully understand the value and the risks attached to the services we provide and endeavour to correctly price these services, keeping a long term view of the business. We operate on a solid governance framework and are confident that the quality of service that we give to customers is our sustainable differentiating factor.

- **Diversification of the revenue base**
  Recent events on the international scene have shown that diversified and relatively uncorrelated business lines usually generate more resilient outcomes; we have made significant headway in our diversification strategy, with our international portfolio growing by 168% over the last two years, and plan to build further on the progress achieved in cards and wealth management. In addition to the above, we will focus on SMEs, India Operations and e-commerce for growth in FY 2011.

- **Robust risk management and prudence**
  Conscious of the asymmetric risks that banking involves, and the speed with which stress in the operating environment can lead to deterioration on multiple fronts, as witnessed for some banks during the financial crisis, we are committed to underwriting quality loans and striking an acceptable risk-return balance. We also plan to review our framework in line with evolving business needs. Reflective of our prudent approach, we have provided in excess of the minimum level required by the Bank of Mauritius in view of a challenging operating environment.

- **Internal capacity building**
  We believe that people are our main assets and are fundamental to the Group's multi-path growth. We have put together a strong leadership team and will continue to invest in attracting, developing and retaining talent, with a view to maximising value from them in a win-win partnership. We are upgrading our technology set-up to maintain our edge and will engage into a comprehensive review of our processes to improve efficiency and service quality.

- **Preserving our financial health**
  At the same time as we build capacity, we remain focused on maintaining solid and balanced financial fundamentals to support growth and guard against possible setbacks in the environment. In particular, we endeavour to maintain excellent portfolio quality and efficiency levels while ensuring adequate capital and liquidity at all times. Acting on insights, we stress test our performance metrics based on potential adverse scenarios, and take preventive measures where needed.

- **Partnering with stakeholders**
  Our business is sustainable only if it is for the mutual benefit of all stakeholders. In a difficult environment, we remain closer to our customers and employees. Our goal is: to have a world-class talent pool and garner, at all times, the expertise spread across the Group to provide the best financial solutions to individuals and businesses; to have satisfied customers continuously bringing and referring more business to us; to have investors wanting to hold our shares because they believe in our growth potential and prospects; to be recognised as the key contributor to the industry and the community.

**Geerja Shankar Ramdaursingh**
*Chairman*

**Gautam Vir**
*Chief Executive*

# FINANCIAL STATEMENTS

## CONTENTS

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

The Bank's external auditors, 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.

**Geerja Shankar Ramdaursingh**
*Chairman*

**Alain Rey**
*Chairman, Audit Committee*

**Gautam Vir**
*Chief Executive*

21 September 2010

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

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

### Report on the financial statements

We have audited the financial statements of the Group and of the Bank set out on pages 106 to 169 which comprise the statements of financial position as at 30 June 2010 and the statements of income, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory notes.

### Directors' responsibility for the financial statements

The Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritius Companies Act 2001, the Banking Act 2004 and the Financial Reporting Act 2004. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements on pages 106 to 169 give a true and fair view of the financial position of the Group and of the Bank as at 30 June 2010 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the requirements of the Mauritius Companies Act 2001 applicable to banks and the Financial Reporting Act 2004.

## Report on other legal and regulatory requirements

### Mauritius Companies Act 2001

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

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

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

### Banking Act 2004

In our opinion, the financial statements have been prepared on a basis consistent with that of the preceding year and are complete, fair and properly drawn up and comply with the provisions of the Banking Act 2004 and the regulations and guidelines of the Bank of Mauritius.

The explanations or information called for or given to us by the officers or agents of the Bank were satisfactory.

### The Financial Reporting Act 2004

The directors are responsible for preparing the Corporate Governance Report and making the disclosures required by Section 8.4 of the Code of Corporate Governance of Mauritius ("Code"). Our responsibility is to report on these disclosures.

In our opinion, the disclosures in the Corporate Governance Report are consistent with the requirements of the Code.

Kemp Chatteris Deloitte

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

**Mike Burgess, ACA**
*Signing Partner*

21 September 2010

## Statements of financial position as at 30 June 2010

| | Note | Group 2010 Rs '000 | Group 2009 Rs '000 | Group 2008 Rs '000 | Bank 2010 Rs '000 | Bank 2009 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 5 | **5,501,822** | 11,764,439 | 11,534,748 | **5,195,931** | 11,481,860 | 10,093,606 |
| Trading assets | 6 | **148,224** | 196,280 | 136,801 | **148,224** | 196,280 | 136,801 |
| Loans to and placements with banks | 7 | **-** | 2,766,726 | 464,404 | **-** | 2,766,726 | 464,404 |
| Loans and advances to customers | 8 | **43,731,741** | 39,793,808 | 35,185,082 | **43,094,855** | 38,062,324 | 33,882,993 |
| Investment securities | 9 | **24,160,809** | 19,011,409 | 14,905,859 | **22,552,091** | 17,470,368 | 13,265,996 |
| Property and equipment | 10 | **2,853,003** | 2,293,755 | 2,364,729 | **2,846,929** | 2,248,934 | 2,309,732 |
| Intangible assets | 11 | **77,373** | 78,988 | 196,070 | **82,189** | 87,307 | 202,388 |
| Other assets | 12 | **3,366,347** | 3,328,233 | 2,769,201 | **2,984,065** | 2,925,879 | 2,426,288 |
| TOTAL ASSETS | | **79,839,319** | 79,233,638 | 67,556,894 | **76,904,284** | 75,239,678 | 62,782,208 |
| **Liabilities** | | | | | | | |
| Deposits from banks | 14 | **195,628** | 151,725 | 46,758 | **253,073** | 271,771 | 155,910 |
| Deposits from customers | 15 | **61,502,326** | 63,569,375 | 54,835,498 | **60,914,910** | 62,060,356 | 52,124,519 |
| Trading liabilities | 6 | **84,964** | 49,071 | 54,495 | **84,964** | 49,071 | 54,495 |
| Other borrowed funds | 16 | **2,083,289** | 1,057,506 | 366,807 | **2,083,289** | 1,129,568 | 505,937 |
| Current tax liabilities | | **245,335** | 400,615 | 246,624 | **245,559** | 392,220 | 235,448 |
| Deferred tax liabilities | 17b | **178,705** | 133,817 | 199,227 | **178,578** | 133,124 | 198,982 |
| Other liabilities | 18 | **893,076** | 928,855 | 833,976 | **823,549** | 859,082 | 751,971 |
| TOTAL LIABILITIES | | **65,183,323** | 66,290,964 | 56,583,385 | **64,583,922** | 64,895,192 | 54,027,262 |
| **Shareholders' equity** | | | | | | | |
| Share capital | 20 | **303,740** | 303,740 | 303,740 | **303,740** | 303,740 | 303,740 |
| Retained earnings | | **11,514,037** | 10,318,964 | 8,941,255 | **9,041,522** | 7,760,462 | 6,640,520 |
| Other reserves | | **2,838,219** | 2,319,970 | 1,728,514 | **2,975,100** | 2,280,284 | 1,810,686 |
| Total equity attributable to equity holders of the parent | | **14,655,996** | 12,942,674 | 10,973,509 | **12,320,362** | 10,344,486 | 8,754,946 |
| TOTAL EQUITY AND LIABILITIES | | **79,839,319** | 79,233,638 | 67,556,894 | **76,904,284** | 75,239,678 | 62,782,208 |
| **Memorandum items** | | | | | | | |
| Acceptances, guarantees, letters of credit, endorsements, other obligations on account of customers and spot foreign exchange contracts | 21a | **5,911,337** | 5,307,272 | 5,215,439 | **5,831,206** | 5,125,241 | 5,050,897 |
| Credit commitments | 21b | **8,215,445** | 5,043,907 | 3,802,679 | **8,205,434** | 4,919,452 | 3,555,717 |
| Inward bills held for collection | | **340,271** | 296,824 | 191,463 | **241,689** | 215,064 | 167,202 |
| Outward bills sent for collection | | **243,530** | 160,454 | 322,755 | **232,484** | 149,839 | 302,214 |
| | | **14,710,583** | 10,808,457 | 9,532,336 | **14,510,813** | 10,409,596 | 9,076,030 |

Approved by the Board of DIrectors and authorised for issue on 21 September 2010.

**Geerja Shankar Ramdaursingh**
*Chairman*

**Alain Rey**
*Chairman, Audit Committee*

**Gautam Vir**
*Chief Executive*

## Statements of income for the year ended 30 June 2010

| | Note | Group 2010 Rs '000 | Group 2009 Rs '000 | Group 2008 Rs '000 | Bank 2010 Rs '000 | Bank 2009 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|
| Interest income | | 4,867,484 | 5,333,274 | 5,328,702 | 4,707,368 | 5,042,294 | 5,016,977 |
| Interest expense | | (2,374,327) | (2,933,336) | (3,284,535) | (2,299,239) | (2,810,846) | (3,153,611) |
| Net interest income | 25 | 2,493,157 | 2,399,938 | 2,044,167 | 2,408,129 | 2,231,448 | 1,863,366 |
| Fee and commission income | | 660,473 | 756,862 | 646,651 | 611,234 | 700,655 | 587,996 |
| Fee and commission expense | | (12,472) | (9,996) | (7,915) | (12,001) | (9,996) | (7,915) |
| Net fee and commission income | 26 | 648,001 | 746,866 | 638,736 | 599,233 | 690,659 | 580,081 |
| Dividend income | 27 | 205,582 | 310,284 | 846,841 | 204,985 | 209,369 | 822,458 |
| Net trading income | 28 | 3,210 | 1,534 | 18,607 | 3,210 | 1,534 | 18,559 |
| Other operating income | 29 | 487,477 | 523,173 | 557,054 | 446,360 | 483,620 | 527,343 |
| Non interest income | | 1,344,270 | 1,581,857 | 2,061,238 | 1,253,788 | 1,385,182 | 1,948,441 |
| Operating income | | 3,837,427 | 3,981,795 | 4,105,405 | 3,661,917 | 3,616,630 | 3,811,807 |
| Personnel expenses | 30 | (742,617) | (665,436) | (612,801) | (720,741) | (641,870) | (592,315) |
| Depreciation and amortisation | | (166,345) | (309,858) | (298,141) | (166,455) | (295,725) | (287,188) |
| Other expenses | 31 | (464,414) | (447,662) | (466,574) | (422,589) | (407,604) | (435,325) |
| Non interest expense | | (1,373,376) | (1,422,956) | (1,377,516) | (1,309,785) | (1,345,199) | (1,314,828) |
| Profit before net impairment loss on financial assets | | 2,464,051 | 2,558,839 | 2,727,889 | 2,352,132 | 2,271,431 | 2,496,979 |
| Net impairment loss on financial assets | 32 | (318,425) | (278,737) | (391,900) | (248,928) | (199,138) | (235,126) |
| Operating profit | | 2,145,626 | 2,280,102 | 2,335,989 | 2,103,204 | 2,072,293 | 2,261,853 |
| Share of profit of associates | 9 | 66,622 | 64,517 | 61,019 | - | - | - |
| Profit before income tax | | 2,212,248 | 2,344,619 | 2,397,008 | 2,103,204 | 2,072,293 | 2,261,853 |
| Tax expense | 17a | (353,408) | (319,281) | (283,035) | (346,692) | (310,572) | (272,912) |
| Profit for the year attributable to equity holders of the parent | | 1,858,840 | 2,025,338 | 2,113,973 | 1,756,512 | 1,761,721 | 1,988,941 |
| Earnings per share (Rs) | 33 | 7.20 | 7.84 | 8.19 | | | |

## Statements of comprehensive income for the year ended 30 June 2010

| | Group 2010 Rs '000 | Group 2009 Rs '000 | Group 2008 Rs '000 | Bank 2010 Rs '000 | Bank 2009 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|
| Profit for the year attributable to equity holders of the parent | 1,858,840 | 2,025,338 | 2,113,973 | 1,756,512 | 1,761,721 | 1,988,941 |
| Other comprehensive income : | | | | | | |
| Exchange differences on translation of foreign operations | (540) | 326,609 | (467,861) | 27,120 | 56,863 | (221,445) |
| Increase in value of available-for-sale investments | 22,364 | 288,453 | 348,944 | 363,131 | 429,313 | 398,229 |
| Increase in revaluation surplus of property | 637,196 | - | - | 637,196 | - | - |
| Deferred tax on revaluation surplus of property | (98,090) | - | - | (98,090) | - | - |
| Effect of change in deferred tax rate on revaluation surplus of property | - | - | (9,238) | - | - | (9,238) |
| Share of other comprehensive income of associates | 3,545 | (12,878) | 14,486 | - | - | - |
| Other comprehensive income for the year | 564,475 | 602,184 | (113,669) | 929,357 | 486,176 | 167,546 |
| Total comprehensive income attributable to equity holders of the parent | 2,423,315 | 2,627,522 | 2,000,304 | 2,685,869 | 2,247,897 | 2,156,487 |

## Statements of changes in equity for the year ended 30 June 2010

| | Note | Share capital Rs '000 | Treasury shares Rs '000 | Reserve arising on share buy back Rs '000 | Statutory reserve Rs '000 | Revenue reserve Rs '000 | Investment fluctuation reserve Rs '000 | Net unrealised investment fair value reserve Rs '000 | Net property revaluation reserve Rs '000 | Net translation reserve Rs '000 | Net other reserve Rs '000 | Total equity Rs '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | | | | |
| At 01 July 2007 | | 303,740 | (2,333,286) | 236,071 | 437,466 | 7,357,333 | 72,139 | 2,036,500 | 1,072,730 | 264,358 | 68,330 | 9,515,381 |
| Profit for the year | | - | - | - | - | 2,113,973 | - | - | - | - | - | 2,113,973 |
| Other comprehensive income for the year | | - | - | - | - | - | - | 348,944 | (9,238) | (467,861) | 14,486 | (113,669) |
| Transfer to retained earnings | | - | - | - | - | 63,292 | (37,017) | - | (26,275) | - | - | - |
| Transfer to statutory reserve | | - | - | - | 51,167 | (51,167) | - | - | - | - | - | - |
| Dividend | 19 | - | - | - | - | (542,176) | - | - | - | - | - | (542,176) |
| At 30 June 2008 | | 303,740 | (2,333,286) | 236,071 | 488,633 | 8,941,255 | 35,122 | 2,385,444 | 1,037,217 | (203,503) | 82,816 | 10,973,509 |
| At 01 July 2008 | | 303,740 | (2,333,286) | 236,071 | 488,633 | 8,941,255 | 35,122 | 2,385,444 | 1,037,217 | (203,503) | 82,816 | 10,973,509 |
| Profit for the year | | - | - | - | - | 2,025,338 | - | - | - | - | - | 2,025,338 |
| Other comprehensive income for the year | | - | - | - | - | - | - | 288,453 | - | 326,609 | (12,878) | 602,184 |
| Transfer to retained earnings | | - | - | - | - | 26,280 | - | - | (26,280) | - | - | - |
| Transfer to statutory reserve | | - | - | - | 15,552 | (15,552) | - | - | - | - | - | - |
| Dividend | 19 | - | - | - | - | (658,357) | - | - | - | - | - | (658,357) |
| At 30 June 2009 | | 303,740 | (2,333,286) | 236,071 | 504,185 | 10,318,964 | 35,122 | 2,673,897 | 1,010,937 | 123,106 | 69,938 | 12,942,674 |
| At 01 July 2009 | | 303,740 | (2,333,286) | 236,071 | 504,185 | 10,318,964 | 35,122 | 2,673,897 | 1,010,937 | 123,106 | 69,938 | 12,942,674 |
| Profit for the year | | - | - | - | - | 1,858,840 | - | - | - | - | - | 1,858,840 |
| Other comprehensive income for the year | | - | - | - | - | - | - | 22,364 | 539,106 | (540) | 3,545 | 564,475 |
| Transfer to retained earnings | | - | - | - | (21,786) | 49,360 | - | - | (27,574) | - | - | - |
| Transfer to statutory reserve | | - | - | - | 3,134 | (3,134) | - | - | - | - | - | - |
| Dividend | 19 | - | - | - | - | (709,993) | - | - | - | - | - | (709,993) |
| At 30 June 2010 | | 303,740 | (2,333,286) | 236,071 | 485,533 | 11,514,037 | 35,122 | 2,696,261 | 1,522,469 | 122,566 | 73,483 | 14,655,996 |

| | Note | Share capital Rs '000 | Treasury shares Rs '000 | Statutory reserve Rs '000 | Revenue reserve Rs '000 | Investment fluctuation reserve Rs '000 | Net unrealised investment fair value reserve Rs '000 | Net property revaluation reserve Rs '000 | Net translation reserve Rs '000 | Total equity Rs '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Bank** | | | | | | | | | | |
| At 01 July 2007 | | 303,740 | (2,333,286) | 393,796 | 5,175,808 | 72,139 | 2,185,756 | 1,072,730 | 269,952 | 7,140,635 |
| Profit for the year | | - | - | - | 1,988,941 | - | - | - | - | 1,988,941 |
| Other comprehensive income for the year | | - | - | - | - | - | 398,229 | (9,238) | (221,445) | 167,546 |
| Transfer to retained earnings | | - | - | - | 63,292 | (37,017) | - | (26,275) | - | - |
| Transfer to statutory reserve | | - | - | 45,345 | (45,345) | - | - | - | - | - |
| Dividend | 19 | - | - | - | (542,176) | - | - | - | - | (542,176) |
| At 30 June 2008 | | 303,740 | (2,333,286) | 439,141 | 6,640,520 | 35,122 | 2,583,985 | 1,037,217 | 48,507 | 8,754,946 |
| At 01 July 2008 | | 303,740 | (2,333,286) | 439,141 | 6,640,520 | 35,122 | 2,583,985 | 1,037,217 | 48,507 | 8,754,946 |
| Profit for the year | | - | - | - | 1,761,721 | - | - | - | - | 1,761,721 |
| Other comprehensive income for the year | | - | - | - | - | - | 429,313 | - | 56,863 | 486,176 |
| Transfer to retained earnings | | - | - | - | 26,280 | - | - | (26,280) | - | - |
| Transfer to statutory reserve | | - | - | 9,702 | (9,702) | - | - | - | - | - |
| Dividend | 19 | - | - | - | (658,357) | - | - | - | - | (658,357) |
| At 30 June 2009 | | 303,740 | (2,333,286) | 448,843 | 7,760,462 | 35,122 | 3,013,298 | 1,010,937 | 105,370 | 10,344,486 |
| At 01 July 2009 | | 303,740 | (2,333,286) | 448,843 | 7,760,462 | 35,122 | 3,013,298 | 1,010,937 | 105,370 | 10,344,486 |
| Profit for the year | | - | - | - | 1,756,512 | - | - | - | - | 1,756,512 |
| Other comprehensive income for the year | | - | - | - | - | - | 363,131 | 539,106 | 27,120 | 929,357 |
| Amalgamation with subsidiary | | - | - | - | 206,967 | - | (206,967) | - | - | - |
| Transfer to retained earnings | | - | - | - | 27,574 | - | - | (27,574) | - | - |
| Dividend | 19 | - | - | - | (709,993) | - | - | - | - | (709,993) |
| At 30 June 2010 | | 303,740 | (2,333,286) | 448,843 | 9,041,522 | 35,122 | 3,169,462 | 1,522,469 | 132,490 | 12,320,362 |

## Cash flow statements for the year ended 30 June 2010

| | Note | Group 2010 Rs '000 | Group 2009 Rs '000 | Group 2008 Rs '000 | Bank 2010 Rs '000 | Bank 2009 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | | |
| Profit for the year | | 1,858,840 | 2,025,338 | 2,113,973 | 1,756,512 | 1,761,721 | 1,988,941 |
| Adjustments to determine net cash flows: | | | | | | | |
| Depreciation of tangible assets | 10 | 136,012 | 172,387 | 163,979 | 131,362 | 159,799 | 154,202 |
| Amortisation of intangible assets | 11 | 30,333 | 137,471 | 134,162 | 35,093 | 135,926 | 132,986 |
| Pension expense | | 21,967 | 1,211 | 22,635 | 21,967 | 1,211 | 22,635 |
| Net impairment loss on financial assets | | 318,425 | 278,737 | 391,900 | 248,928 | 199,138 | 235,126 |
| Decrease in revaluation of property | | 6,156 | - | - | 6,156 | - | - |
| Exchange difference | | (47,366) | 278,940 | (375,803) | 22,356 | 46,298 | (168,424) |
| Net gain on investment securities | | - | - | (93,552) | - | - | (92,785) |
| Net gain from dealings in trading securities | | (3,210) | (1,534) | (18,607) | (3,210) | (1,534) | (18,559) |
| Net (gain) / loss on disposal of property and equipment | | (66) | (498) | 2,656 | 182 | (398) | 2,656 |
| Tax expense | | 353,408 | 319,281 | 283,035 | 346,692 | 310,572 | 272,912 |
| Share of profit of associate | | (66,622) | (64,517) | (61,019) | - | - | - |
| Dividend income | | (205,582) | (310,284) | (846,841) | (204,985) | (209,369) | (822,458) |
| Operating profit before working capital changes | | 2,402,295 | 2,836,532 | 1,716,518 | 2,361,053 | 2,403,364 | 1,707,232 |
| **Change in operating assets and liabilities** | | | | | | | |
| Decrease / (increase) in trading assets | | 51,266 | (57,945) | 117,900 | 51,266 | (57,945) | 117,852 |
| Increase in loans and advances to customers | | (4,198,363) | (4,759,614) | (5,820,135) | (4,268,187) | (4,259,497) | (5,534,106) |
| Increase in gilt-edged investment securities | | (5,057,835) | (3,515,504) | (3,590,037) | (4,954,661) | (3,775,059) | (3,427,313) |
| Increase in other assets | | (64,423) | (546,417) | (182,545) | (81,169) | (488,284) | (97,489) |
| Increase / (decrease) in trading liabilities | | 35,893 | (5,424) | (49,258) | 35,893 | (5,424) | (49,258) |
| Increase / (decrease) in deposits from banks | | 43,903 | 104,967 | (46,892) | (18,698) | 115,861 | 36,018 |
| (Decrease) / increase in deposits from customers | | (2,067,049) | 8,733,877 | 6,360,318 | (2,067,166) | 9,935,837 | 6,141,217 |
| Decrease / (increase) in loans to and placements with banks | | 2,766,726 | (2,302,322) | (371,693) | 2,766,726 | (2,302,322) | (371,693) |
| (Decrease) / increase in other liabilities | | (49,887) | (25,016) | 313,577 | (51,414) | (12,785) | 290,091 |
| Other dividend received | | 205,582 | 310,284 | 846,841 | 199,235 | 204,119 | 817,708 |
| Income tax paid | | (556,827) | (245,107) | (333,852) | (550,125) | (232,555) | (317,387) |
| Net cash provided by operating activities | | (6,488,719) | 528,311 | (1,039,258) | (6,577,247) | 1,525,310 | (687,128) |
| **Cash flows from / (used in) financing activities** | | | | | | | |
| Increase / (decrease) in other borrowed funds | | 1,025,783 | 690,699 | (615,380) | 953,722 | 623,631 | (772,532) |
| Dividend paid on ordinary shares | | (709,993) | (658,357) | (542,176) | (709,993) | (658,357) | (542,176) |
| Net cash from / (used in) financing activities | | 315,790 | 32,342 | (1,157,556) | 243,729 | (34,726) | (1,314,708) |
| **Cash flows (used in) / from investing activities** | | | | | | | |
| Acquisition of property and equipment | | (94,775) | (94,912) | (132,542) | (91,337) | (92,204) | (86,655) |
| Acquisition of intangible assets | | (30,454) | (20,564) | (26,027) | (30,454) | (21,021) | (21,561) |
| Disposal of property and equipment | | 35,948 | 5,745 | 1,421 | 34,935 | 5,645 | 1,421 |
| Disposal of intangible assets | | 748 | - | - | 748 | - | - |
| Dividend received from associate | | 5,750 | 5,250 | 4,750 | 5,750 | 5,250 | 4,750 |
| Amalgamation with subsidiary | | - | - | - | 127,947 | - | - |
| Acquisition of other equity investments | | (6,905) | (226,481) | - | - | - | - |
| Capital injection in subsidiaries | | - | - | - | - | - | (30,000) |
| Disposal of other equity investments | | - | - | 95,201 | - | - | 93,098 |
| Net cash (used in) / from investing activities | | (89,688) | (330,962) | (57,197) | 47,589 | (102,330) | (38,947) |
| Net change in cash and cash equivalents | | (6,262,617) | 229,691 | (2,254,011) | (6,285,929) | 1,388,254 | (2,040,783) |
| Cash and cash equivalents at 01 July | | 11,764,439 | 11,534,748 | 13,788,759 | 11,481,860 | 10,093,606 | 12,134,389 |
| Cash and cash equivalents at 30 June | | 5,501,822 | 11,764,439 | 11,534,748 | 5,195,931 | 11,481,860 | 10,093,606 |

# NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2010

## 1. General information

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

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

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

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 01 July 2009.

### 2.1 Standards and Interpretations affecting presentation and disclosure reported in the current period

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the presentation and disclosure of these financial statements. Details of other Standards and Interpretations adopted in these financial statements but which had no impact on the amounts reported are set out in Section 2.2.

**Standards affecting presentation and disclosure**

| | |
|---|---|
| IAS 1 (as revised in 2007) Presentation of Financial Statements | IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements |
| IFRS 8 Operating Segments | IFRS 8 expands the disclosures relating to the Group's reportable segment. |
| Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures) | The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments. |

The adoption of these Standards and Interpretations has not affected the reported results or the financial position of the Group and the Bank.

## 2. Adoption of new and revised International Financial Reporting Standards (IFRS) (cont'd...)

### 2.2 Standards and Interpretations adopted with no effect on financial statements

The following relevant new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions or arrangements.

| | |
|---|---|
| IAS 1 | Presentation of Financial Statements - Amendments relating to disclosure of puttable instruments and obligations arising on liquidation |
| IAS 1 | Presentation of Financial Statements - Amendments resulting from May 2008 Annual Improvements to IFRSs |
| IAS 16 | Property, Plant and Equipment - Amendments resulting from May 2008 Annual Improvements to IFRSs |
| IAS 19 | Employee Benefits - Amendments resulting from May 2008 Annual Improvements to IFRSs |
| IAS 27 | Consolidated and Separate Financial Statements - Consequential amendments arising from amendments to IFRS 3 |
| IAS 27 | Consolidated and Separate Financial Statements - Amendment relating to cost of an investment on first time adoption |
| IAS 27 | Consolidated and Separate Financial Statements - Amendments resulting from May 2008 Annual Improvements to IFRSs |
| IAS 28 | Investments in Associates - Consequential amendments arising from amendments to IFRS 3 |
| IAS 28 | Investments in Associates - Amendments resulting from May 2008 Annual improvements to IFRSs |
| IAS 32 | Financial Instruments: Presentation - Amendments relating to puttable instruments and obligations arising on liquidation |
| IAS 36 | Impairment of Assets - Amendments resulting from May 2008 Annual Improvements to IFRSs |
| IAS 38 | Intangible Assets - Amendments resulting from May 2008 Annual Improvements to IFRSs |
| IAS 38 | Intangible Assets - Amendments resulting from April 2009 Annual Improvements to IFRSs |
| IAS 39 | Financial Instruments: Recognition and Measurement - Amendments resulting from May 2008 Annual Improvements to IFRSs |
| IAS 39 | Financial Instruments: Recognition and Measurement - Amendments for eligible hedged items |
| IFRS 2 | Share-based Payment - Amendment relating to vesting conditions and cancellations |
| IFRS 2 | Share-based Payment - Amendment resulting from April 2009 Annual Improvements to IFRSs |
| IFRS 3 | Business Combinations - Comprehensive revision on applying the acquisition method |
| IFRS 5 | Non-current Assets Held for Sale and Discontinued Operations - Amendments resulting from May 2008 Annual Improvements to IFRSs |
| IFRIC 17 | Distribution of non cash assets to owners |
| IFRIC 18 | Transfers of Assets from Customers |

## 2.3 Standards and Interpretations in issue not yet adopted

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

| | |
|---|---|
| IAS 1 | Presentation of Financial Statements - Amendments resulting from April 2009 Annual Improvements to IFRSs (effective 01 January 2010) |
| IAS 1 | Presentation of Financial Statements - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective 01 January 2011) |
| IAS 7 | Statement of Cash Flows - Amendments resulting from April 2009 Annual Improvements to IFRSs (effective 01 January 2010) |
| IAS 17 | Leases - Amendments resulting from April 2009 Annual Improvements to IFRSs (effective 01 January 2010) |
| IAS 24 | Related Party Disclosures - Revised definition of related parties (effective 01 January 2011) |
| IAS 27 | Consolidated and Separate Financial Statements - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective 01 July 2010) |
| IAS 32 | Financial Instruments: Presentation - Amendments relating to classification of rights issues (effective 01 February 2010) |
| IAS 34 | Interim Financial Reporting - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective 01 January 2011) |
| IAS 36 | Impairment of Assets - Amendments resulting from April 2009 Annual Improvements to IFRSs (effective 01 January 2010) |
| IAS 39 | Financial Instruments: Recognition and Measurement - Amendments resulting from April 2009 Annual Improvements to IFRSs (effective 01 January 2010) |
| IFRS 2 | Share-based Payment – Amendments relating to group cash-settled share-based payment transactions (effective 01 January 2010) |
| IFRS 3 | Business Combinations – Amendments resulting from May 2010 Annual Improvements to IFRSs (effective 01 July 2010) |
| IFRS 5 | Non-current Assets Held for Sale and Discontinued Operations - Amendments resulting from April 2009 Annual Improvements to IFRSs (effective 01 January 2010) |
| IFRS 7 | Financial Instruments: Disclosures - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective 01 January 2011) |
| IFRS 8 | Operating segments - Amendments resulting from April 2009 Annual Improvements to IFRSs (effective 01 January 2010) |
| IFRS 9 | Financial Instruments – Classification and Measurement (effective 01 January 2013) |
| IFRIC 13 | Customer Loyalty Programmes – Amendments resulting from May 2010 Annual Improvements to IFRSs (effective 01 January 2011) |
| IFRIC 14 | IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – November 2009 Amendments with respect to voluntary prepaid contribution (effective 01 January 2011) |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments (effective 01 July 2010) |

The directors anticipate that these amendments will be adopted in the financial statements for the annual periods beginning on the respective dates as indicated above. The directors have not yet had an opportunity to consider the potential impact of the adoption of these amendments.

## 3. Accounting policies

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

### a. Basis of preparation

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

### b. Basis of consolidation

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

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

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

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

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

### c. Revenue recognition

Revenue is generally recognised on an accrual basis.

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

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

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

**d. Foreign currency translation**

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

(i) The assets and liabilities of the overseas branches, subsidiaries and associates denominated in foreign currencies are translated into Mauritian Rupees at the rates of exchange ruling at the reporting date. Their statements of income are translated into Mauritian Rupees at weighted average rates. Any translation differences arising are classified as equity and transferred to the *Net translation reserve.* Such translation differences are recognised in the statement of income as part of *Other operating income* in the period in which the foreign entity is disposed of.

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

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

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

(v) Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the statement of income for the period. Exchange differences arising on the translation of non-monetary items carried at fair value are included in the statement of income for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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

**e. Investment securities**

*(i) Investments in gilt-edged securities*

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

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

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

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

## 3. Accounting policies (cont'd...)

### e. Investment securities (cont'd...)

*(ii) Equity investments*

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

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

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

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

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

- it has been acquired principally for the purpose of selling in the near future; or

- it is part of a portfolio of identified financial instruments that is managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated or effective as a hedging instrument.

A financial asset is designated as FVTPL when doing so results in more relevant information, because either:

- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or recognising the gains and losses on them on different bases; or

- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to key management personnel.

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

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

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

## g. Loans and advances and allowance for credit impairment

(i) Loans and advances are classified under L&R and are measured at amortised cost, less allowance for credit impairment. Allowance for credit impairment consists of specific and portfolio allowances.

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

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

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

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

(iv) Interest income is recognised after impairment based on the recoverable amount and the rate of interest used to discount the future cash flows to determine the recoverable amount. Such interest income represents a reversal of the specific allowance for that impaired advance and is therefore recognised accordingly in the statement of income.

## h. Placements and other receivables

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

## i. Borrowings

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

## j. Deposits

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

## k. Derivative financial instruments

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

## l. Acceptances

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

## 3. Accounting policies (cont'd...)

### m. Sale and repurchase agreements

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

### n. Property and equipment

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

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

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

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

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

| | |
|---|---|
| Buildings | Over 50 years |
| Plant, machinery, furniture, fittings and computer equipment | Over 3 to 10 years |
| Motor vehicles | Over 5 to 7 years |

Gains and losses on disposal of tangible fixed assets are included within *Other operating income* in the statement of income.

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

### o. Leasing

*(i) The Group and Bank as lessor*

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

*(ii) The Group and Bank as lessee*

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

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

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

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

### 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 defined benefit scheme. The normal retirement age is 65. The cost of providing benefits is determined using the projected unit credit method. The assets of the scheme are managed presently by the SBM Mauritius Asset Managers Ltd.

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

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

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

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

*(ii) Pension benefits for employees under term contracts*

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

# NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2010 (cont'd...)

## 3. Accounting policies (cont'd...)

### r. Employee benefits (cont'd...)

*(iii) Travel tickets/allowances*

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

*(iv) Equity compensation benefits for senior executives*

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

### s. Intangible assets

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

### t. Impairment

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

### u. 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.

### v. Cash and cash equivalents

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

### w. Share capital

*(i) Share issue costs*

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

*(ii) Dividends on ordinary shares*

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

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

*(iii) Treasury shares*

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

### x. 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.

### y. Segmental reporting

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

### z. Comparative figures

Comparative figures have been restated or reclassified, as necessary, to conform to the current year's presentation and to the changes in accounting policies (see *Note 2*).

### (aa) Non-current assets held for sale

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

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

## 4. Accounting judgments and key sources of estimation uncertainty

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

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

*(i) Fair value of equity investments*

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

## 4. Accounting judgments and key sources of estimation uncertainty (cont'd...)

*(ii) Fair value of other financial assets and liabilities*

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

*(iii) Specific allowance for credit impairment*

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

*(iv) Portfolio allowance for credit impairment*

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

*(v) Defined benefit pension plan*

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

## 5. Cash and cash equivalents

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Cash in hand | **705,117** | 679,015 | 591,322 | **705,117** | 679,015 | 591,322 |
| Foreign currency notes and coins | **100,699** | 140,011 | 128,120 | **85,083** | 94,630 | 92,983 |
| Unrestricted balances with central banks[1] | **156,596** | 999,310 | 3,260,976 | **148,761** | 962,451 | 3,236,030 |
| Loans and placements with banks[2] | **3,995,985** | 8,688,725 | 6,826,776 | **3,725,893** | 8,537,781 | 5,472,964 |
| Balances with banks | **543,425** | 1,257,378 | 727,554 | **531,077** | 1,207,983 | 700,307 |
| | **5,501,822** | 11,764,439 | 11,534,748 | **5,195,931** | 11,481,860 | 10,093,606 |

[1] Unrestricted balances with central banks represent amounts above the minimum cash reserve requirement.

[2] The balances above include loans and placements with banks having an original maturity of up to three months.

## 6. Trading assets

| | Group 2010 Rs '000 | Group 2009 Rs '000 | Group 2008 Rs '000 | Bank 2010 Rs '000 | Bank 2009 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|
| Government bonds / treasury bills / treasury notes | 85,698 | 106,839 | 32,507 | 85,698 | 106,839 | 32,507 |
| Bank of Mauritius bills | - | - | 868 | - | - | 868 |
| Equities | 1,026 | 12,335 | - | 1,026 | 12,335 | - |
| Derivative assets | 61,500 | 77,106 | 103,426 | 61,500 | 77,106 | 103,426 |
| | 148,224 | 196,280 | 136,801 | 148,224 | 196,280 | 136,801 |

## Trading liabilities

| | Group 2010 Rs '000 | Group 2009 Rs '000 | Group 2008 Rs '000 | Bank 2010 Rs '000 | Bank 2009 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|
| Derivative liabilities | 84,964 | 49,071 | 54,495 | 84,964 | 49,071 | 54,495 |

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

| | Group & Bank | | | |
|---|---|---|---|---|
| | Notional Principal Amount Rs '000 | Fair Values Assets Rs '000 | Fair Values Liabilities Rs '000 | Fair Values Net Rs '000 |
| **2010** | | | | |
| Forward foreign exchange contracts | 6,509,244 | 54,273 | (84,964) | (30,691) |
| Interest rate swap contracts | 2,095,289 | 7,227 | - | 7,227 |
| | 8,604,533 | 61,500 | (84,964) | (23,464) |
| **2009** | | | | |
| Forward foreign exchange contracts | 3,419,294 | 69,569 | (35,613) | 33,956 |
| Interest rate swap contracts | 1,934,020 | 7,537 | (13,458) | (5,921) |
| | 5,353,314 | 77,106 | (49,071) | 28,035 |
| **2008** | | | | |
| Forward foreign exchange contracts | 6,895,955 | 88,667 | (41,621) | 47,046 |
| Interest rate swap contracts | 1,190,504 | 14,759 | (12,874) | 1,885 |
| | 8,086,459 | 103,426 | (54,495) | 48,931 |

## 7. Loans to and placements with banks

| | Group & Bank | | |
|---|---|---|---|
| | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
| Loans to and placements with banks outside Mauritius | - | 2,766,726 | 464,404 |

### a. Remaining term to maturity

| | Group & Bank | | |
|---|---|---|---|
| | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
| Up to 3 months | - | 2,086,144 | - |
| Over 3 months and up to 6 months | - | 39,175 | 295,829 |
| Over 6 months and up to 12 months | - | 641,407 | 168,575 |
| | - | 2,766,726 | 464,404 |

## 8. Loans and advances to customers

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
| Retail customers | | | | | | |
| - Credit cards | 303,554 | 271,394 | 265,770 | 303,554 | 271,394 | 265,770 |
| - Mortgages | 7,349,260 | 6,450,892 | 5,845,996 | 7,349,260 | 6,450,892 | 5,845,996 |
| - Other retail loans | 5,814,497 | 5,179,023 | 4,342,281 | 5,814,497 | 5,055,743 | 4,246,929 |
| Corporate customers | 18,912,487 | 21,521,708 | 20,541,040 | 18,912,487 | 20,704,520 | 19,916,919 |
| Governments | 1,904 | 2,203 | 3,506 | 1,904 | 2,203 | 3,506 |
| Entities outside Mauritius | 12,410,134 | 7,366,592 | 5,207,797 | 11,624,754 | 6,285,746 | 4,393,090 |
| | 44,791,836 | 40,791,812 | 36,206,390 | 44,006,456 | 38,770,498 | 34,672,210 |
| Less allowance for credit impairment | (1,060,095) | (998,004) | (1,021,308) | (911,601) | (708,174) | (789,217) |
| | 43,731,741 | 39,793,808 | 35,185,082 | 43,094,855 | 38,062,324 | 33,882,993 |

### a. Remaining term to maturity

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
| Up to 3 months | 9,190,121 | 7,673,482 | 8,825,193 | 8,739,259 | 7,125,551 | 8,566,868 |
| Over 3 months and up to 6 months | 1,931,148 | 2,150,583 | 1,340,941 | 1,923,386 | 2,068,489 | 1,206,265 |
| Over 6 months and up to 12 months | 2,873,375 | 2,882,663 | 2,512,694 | 2,735,909 | 2,542,660 | 2,377,199 |
| Over 1 year and up to 2 years | 3,424,338 | 2,275,495 | 1,567,441 | 3,413,371 | 1,805,593 | 1,148,602 |
| Over 2 years and up to 5 years | 7,673,671 | 8,369,367 | 6,115,384 | 7,495,508 | 7,852,041 | 5,583,858 |
| Over 5 years | 19,699,183 | 17,440,222 | 15,844,737 | 19,699,023 | 17,376,164 | 15,789,418 |
| | 44,791,836 | 40,791,812 | 36,206,390 | 44,006,456 | 38,770,498 | 34,672,210 |

**b. Net investment in finance leases**

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

| | Group & Bank | | | |
|---|---|---|---|---|
| | Up to 1 yr Rs '000 | After 1 yr & up to 5 yrs Rs '000 | After 5 yrs Rs '000 | Total Rs '000 |
| **2010** | | | | |
| Gross investment in finance leases | 396,590 | 767,862 | 44,013 | 1,208,465 |
| Less: Unearned finance income | (109,944) | (103,509) | (3,157) | (216,610) |
| Present value of minimum lease payments | 286,646 | 664,353 | 40,856 | 991,855 |
| Allowance for impairment | | | | (13,114) |
| | | | | 978,741 |

| | Group | | | |
|---|---|---|---|---|
| | Up to 1 yr Rs '000 | After 1 yr & up to 5 yrs Rs '000 | After 5 yrs Rs '000 | Total Rs '000 |
| **2009** | | | | |
| Gross investment in finance leases | 423,262 | 692,015 | 36,655 | 1,151,932 |
| Less: Unearned finance income | (113,108) | (95,835) | (2,521) | (211,464) |
| Present value of minimum lease payments | 310,154 | 596,180 | 34,134 | 940,468 |
| Allowance for impairment | | | | (12,173) |
| | | | | 928,295 |
| **2008** | | | | |
| Gross investment in finance leases | 379,703 | 609,126 | 32,371 | 1,021,200 |
| Less: Unearned finance income | (115,452) | (84,283) | (3,144) | (202,879) |
| Present value of minimum lease payments | 264,251 | 524,843 | 29,227 | 818,321 |
| Allowance for impairment | | | | (24,641) |
| | | | | 793,680 |

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

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

### c. Credit concentration of risk by industry sectors

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Agriculture and fishing | **925,544** | 783,793 | 788,216 | **886,058** | 721,381 | 685,575 |
| Manufacturing | **6,814,234** | 6,667,979 | 6,280,162 | **6,718,190** | 6,160,148 | 5,891,393 |
| *of which EPZ* | ***815,262*** | *2,810,518* | *3,342,898* | ***815,262*** | *2,714,631* | *3,235,146* |
| Tourism | **7,792,072** | 7,144,952 | 7,569,901 | **7,792,072** | 6,997,562 | 7,458,916 |
| Transport | **1,322,926** | 1,006,316 | 444,534 | **1,322,926** | 792,407 | 362,374 |
| Construction | **2,116,563** | 1,761,987 | 1,802,121 | **1,961,719** | 1,584,404 | 1,725,535 |
| Financial and business services | **1,638,175** | 2,647,873 | 2,134,010 | **1,425,747** | 2,636,281 | 2,062,407 |
| Traders | **4,326,649** | 4,416,509 | 3,563,510 | **4,056,447** | 3,900,092 | 3,046,130 |
| Personal | **12,558,878** | 11,111,876 | 9,548,936 | **12,548,152** | 11,023,398 | 9,474,331 |
| *of which credit cards* | ***303,554*** | *271,394* | *265,771* | ***303,554*** | *271,394* | *265,771* |
| Professional | **194,485** | 178,850 | 113,256 | **194,485** | 177,468 | 99,042 |
| Global Business Licence holders | **2,084,981** | 1,637,870 | 208,773 | **2,084,981** | 1,637,870 | 208,773 |
| Others | **5,017,329** | 3,433,807 | 3,752,971 | **5,015,679** | 3,139,487 | 3,657,734 |
| | **44,791,836** | 40,791,812 | 36,206,390 | **44,006,456** | 38,770,498 | 34,672,210 |

### d. Allowance for credit impairment

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | Specific allowance for credit impairment Rs '000 | Portfolio allowance for credit impairment Rs '000 | Total Rs '000 | Specific allowance for credit impairment Rs '000 | Portfolio allowance for credit impairment Rs '000 | Total Rs '000 |
| At 01 July 2007 | 465,283 | 248,835 | 714,118 | 318,183 | 238,891 | 557,074 |
| Exchange difference | 12,954 | (2,290) | 10,664 | (147) | (2,435) | (2,582) |
| Loans written off out of allowance | (105,114) | - | (105,114) | (11,541) | - | (11,541) |
| Interest accrued on impaired advances | (33,993) | - | (33,993) | (33,993) | - | (33,993) |
| Allowance for credit impairment for the year | 369,455 | 66,178 | 435,633 | 217,623 | 62,636 | 280,259 |
| At 30 June 2008 | 708,585 | 312,723 | 1,021,308 | 490,125 | 299,092 | 789,217 |
| Exchange difference | (8,692) | 737 | (7,955) | - | 923 | 923 |
| Loans written off out of allowance | (189,194) | - | (189,194) | (175,765) | - | (175,765) |
| Interest accrued on impaired advances | (17,128) | - | (17,128) | (17,128) | - | (17,128) |
| Allowance for credit impairment for the year | 134,478 | 56,495 | 190,973 | 61,082 | 49,845 | 110,927 |
| At 30 June 2009 | 628,049 | 369,955 | 998,004 | 358,314 | 349,860 | 708,174 |
| Balance transferred on amalgamation | - | - | - | 1,036 | 11,137 | 12,173 |
| Exchange difference | (43,215) | (671) | (43,886) | 638 | 479 | 1,117 |
| Loans written off out of allowance | (209,132) | - | (209,132) | (54,704) | - | (54,704) |
| Interest accrued on impaired advances | (24,017) | - | (24,017) | (24,017) | - | (24,017) |
| Allowance for credit impairment for the year | 130,576 | 208,550 | 339,126 | 57,688 | 211,170 | 268,858 |
| **At 30 June 2010** | 482,261 | 577,834 | 1,060,095 | 338,955 | 572,646 | 911,601 |

### e. Allowance for credit impairment by industry sectors

| | 2010 | | | | | 2009 | 2008 |
|---|---|---|---|---|---|---|---|
| | Gross amount of loans Rs '000 | Impaired loans Rs '000 | Specific allowance for credit impairment Rs '000 | Portfolio allowance for credit impairment Rs '000 | Total allowances for credit impairment Rs '000 | Total allowances for credit impairment Rs '000 | Total allowances for credit impairment Rs '000 |
| **Group** | | | | | | | |
| Agriculture and fishing | 925,544 | 36,833 | 36,598 | 5,324 | 41,922 | 48,098 | 20,938 |
| Manufacturing | 6,814,234 | 75,091 | 13,886 | 92,767 | 106,653 | 124,436 | 288,654 |
| *of which EPZ* | *815,262* | *273* | *33* | *22,217* | *22,250* | *28,989* | *225,378* |
| Tourism | 7,792,072 | 9,188 | 7,698 | 277,073 | 284,771 | 77,876 | 12,315 |
| Transport | 1,322,926 | 5,371 | 4,169 | 6,188 | 10,357 | 114,767 | 11,610 |
| Construction | 2,116,563 | 226,829 | 42,724 | 32,047 | 74,771 | 89,259 | 68,685 |
| Financial and business services | 1,638,175 | 46,492 | 23,703 | 5,573 | 29,276 | 17,650 | 142,238 |
| Traders | 4,326,649 | 109,537 | 91,607 | 40,268 | 131,875 | 169,068 | 100,451 |
| Personal | 12,558,878 | 295,308 | 223,634 | 76,611 | 300,245 | 291,032 | 227,631 |
| *of which credit cards* | *303,554* | *10,951* | *10,951* | *8,053* | *19,004* | *23,073* | *26,813* |
| Professional | 194,485 | 19,088 | 15,601 | 1,476 | 17,077 | 12,885 | 7,400 |
| Global Business Licence holders | 2,084,981 | - | - | 10,280 | 10,280 | 8,028 | - |
| Others | 5,017,329 | 15,726 | 22,641 | 30,227 | 52,868 | 36,059 | 38,213 |
| Additional provision held | | | | - | - | 8,846 | 103,173 |
| | 44,791,836 | 839,463 | 482,261 | 577,834 | 1,060,095 | 998,004 | 1,021,308 |
| **Bank** | | | | | | | |
| Agriculture and fishing | 886,058 | 2,673 | 2,438 | 5,233 | 7,671 | 6,490 | 3,339 |
| Manufacturing | 6,718,190 | 13,512 | 10,384 | 92,711 | 103,095 | 111,696 | 273,481 |
| *of which EPZ* | *815,262* | *273* | *33* | *22,217* | *22,250* | *26,532* | *211,949* |
| Tourism | 7,792,072 | 9,188 | 7,698 | 277,073 | 284,771 | 77,335 | 11,947 |
| Transport | 1,322,926 | 5,371 | 4,169 | 6,188 | 10,357 | 5,729 | 10,930 |
| Construction | 1,961,719 | 206,492 | 36,587 | 30,709 | 67,296 | 72,396 | 56,546 |
| Financial and business services | 1,425,747 | 10,642 | 1,065 | 5,573 | 6,638 | 17,650 | 6,939 |
| Traders | 4,056,447 | 36,238 | 27,778 | 38,300 | 66,078 | 78,299 | 69,335 |
| Personal | 12,548,152 | 293,914 | 222,240 | 76,551 | 298,791 | 287,392 | 227,512 |
| *of which credit cards* | *303,554* | *10,951* | *10,951* | *8,053* | *19,004* | *23,073* | *26,813* |
| Professional | 194,485 | 19,088 | 15,601 | 1,476 | 17,077 | 12,885 | 7,384 |
| Global Business Licence holders | 2,084,981 | - | - | 10,280 | 10,280 | 8,028 | - |
| Others | 5,015,679 | 15,726 | 10,995 | 28,552 | 39,547 | 28,630 | 28,110 |
| Additional provision held | | | | - | - | 1,644 | 93,694 |
| | 44,006,456 | 612,844 | 338,955 | 572,646 | 911,601 | 708,174 | 789,217 |

Total impaired loans for 2009 for the Group and the Bank were Rs 817 m (2008: Rs 878 m) and Rs 529 m (2008: Rs 597 m) respectively.

## 9. Investment securities

**Remaining term to maturity**

| | 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Up to 3 mths Rs '000 | 3-6 mths Rs '000 | 6-9 mths Rs '000 | 9-12 mths Rs '000 | 1-2 yrs Rs '000 | 2-5 yrs Rs '000 | No specific maturity Rs '000 | Total Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
| **Group** | | | | | | | | | | |
| **a. Held-to-maturity investment securities** | | | | | | | | | | |
| Government bonds | - | - | - | - | - | - | - | - | - | 107,212 |
| Treasury bills / notes | 376,616 | 67,678 | 365,531 | 293,803 | - | - | - | 1,103,628 | 746,669 | 122,782 |
| Securities issued by government bodies | 67,488 | - | - | - | - | 1,237 | - | 68,725 | - | - |
| Bank bonds secured by government | - | - | - | - | - | - | - | - | 1,222 | 54,846 |
| | 444,104 | 67,678 | 365,531 | 293,803 | - | 1,237 | - | 1,172,353 | 747,891 | 284,840 |
| **b. Investment securities - loans and receivables** | | | | | | | | | | |
| Government bonds | 123,640 | 213,564 | 1,974,861 | 74,758 | 2,812,363 | 250,421 | - | 5,449,607 | 6,183,351 | 5,479,602 |
| Treasury bills / notes | 7,565,249 | 2,697,907 | 1,898,952 | 1,340,019 | - | - | - | 13,502,127 | 8,135,010 | 4,996,568 |
| | 7,688,889 | 2,911,471 | 3,873,813 | 1,414,777 | 2,812,363 | 250,421 | - | 18,951,734 | 14,318,361 | 10,476,170 |
| **c. Available-for-sale investment securities** | | | | | | | | | | |
| Treasury bills / notes | - | - | - | - | - | - | - | - | - | 787,161 |
| Equity shares of companies: | | | | | | | | | | |
| - Investment in associates | - | - | - | - | - | - | 588,088 | 588,088 | 523,670 | 477,281 |
| - Other equity investments | - | - | - | - | - | - | 3,448,634 | 3,448,634 | 3,421,487 | 2,880,407 |
| | - | - | - | - | - | - | 4,036,722 | 4,036,722 | 3,945,157 | 4,144,849 |
| Total investment securities | 8,132,993 | 2,979,149 | 4,239,344 | 1,708,580 | 2,812,363 | 251,658 | 4,036,722 | 24,160,809 | 19,011,409 | 14,905,859 |
| **Bank** | | | | | | | | | | |
| **a. Held-to-maturity investment securities** | | | | | | | | | | |
| Government bonds | - | - | - | - | - | - | - | - | - | 56,304 |
| Treasury bills / notes | 376,616 | 67,678 | 365,531 | 293,803 | - | - | - | 1,103,628 | 695,771 | - |
| Securities issued by government bodies | 67,488 | - | - | - | - | 1,237 | - | 68,725 | - | - |
| Bank bonds secured by government | - | - | - | - | - | - | - | - | 1,222 | 54,846 |
| | 444,104 | 67,678 | 365,531 | 293,803 | - | 1,237 | - | 1,172,353 | 696,993 | 111,150 |
| **b. Investment securities - loans and receivables** | | | | | | | | | | |
| Government bonds | 123,640 | 213,564 | 1,974,861 | 74,758 | 2,812,363 | 250,421 | - | 5,449,607 | 6,183,351 | 5,479,602 |
| Treasury bills / notes | 7,388,880 | 2,600,019 | 1,550,291 | 1,145,518 | - | - | - | 12,684,708 | 7,420,765 | 4,145,561 |
| | 7,512,520 | 2,813,583 | 3,525,152 | 1,220,276 | 2,812,363 | 250,421 | - | 18,134,315 | 13,604,116 | 9,625,163 |
| **c. Available-for-sale investment securities** | | | | | | | | | | |
| Treasury bills / notes | - | - | - | - | - | - | - | - | - | 787,161 |
| Equity shares of companies: | | | | | | | | | | |
| - Investment in subsidiaries | - | - | - | - | - | - | 72 | 72 | 212,923 | 192,431 |
| - Investment in associates | - | - | - | - | - | - | 423,318 | 423,318 | 288,692 | 282,761 |
| - Other equity investments | - | - | - | - | - | - | 2,822,033 | 2,822,033 | 2,667,644 | 2,267,330 |
| | - | - | - | - | - | - | 3,245,423 | 3,245,423 | 3,169,259 | 3,529,683 |
| Total investment securities | 7,956,624 | 2,881,261 | 3,890,683 | 1,514,079 | 2,812,363 | 251,658 | 3,245,423 | 22,552,091 | 17,470,368 | 13,265,996 |

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

(i) Subsidiaries
Details of subsidiaries and associate are as follows:

| | Country of incorporation & operation | Business activity | Issued capital | Effective % holding 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | | |
| Banque SBM Madagascar SA | Madagascar | Banking | MGA 7.4 Bn | 100 | 100 | 100 |
| SBM Lease Ltd[1] | Mauritius | Leasing | | - | 100 | 100 |
| SBM Mauritius Asset Managers Ltd | Mauritius | Asset Management | Rs 1.6 m | 100 | 100 | 100 |
| SBM Securities Ltd | Mauritius | Stockbroking | Rs 1 m | 100 | 100 | 100 |
| SBM Financials Limited | Mauritius | Fiduciary services | Rs 0.5 m | 100 | 100 | 100 |
| SBM Investments Limited | Mauritius | Investments | Rs 25,000 | 100 | 100 | 100 |
| SBM Global Investments Limited | Mauritius | Investments | USD 2,000 | 100 | 100 | 100 |
| SBM IT Limited[2] | Mauritius | Technology | | - | 100 | 100 |
| SBM International Investments Limited[3] | Mauritius | Asset Management and Advisory | | - | 100 | 100 |
| SBM Asset Management Limited[4] | Mauritius | Asset Management | USD 10,000 | 100 | 100 | 100 |
| SBM Capital Management Limited[4] | Mauritius | Asset Management | USD 10,000 | 100 | 100 | 100 |
| ***Associate*** | | | | | | |
| State Insurance Company of Mauritius Ltd | Mauritius | Insurance | | 20 | 20 | 20 |

The issued share capital of all subsidiaries have remained the same over the 3 years, except for SBM Mauritius Asset Managers Ltd (2009 and 2008: Rs 1 m), and SBM Securities Ltd (2008: Rs 0.5 m).

[1] SBM Lease Ltd, previously a wholly-owned subsidiary, amalgamated with State Bank of Mauritius Ltd (the 'Bank') in December 2009 (*Note 9 (d) (i)*).

[2] SBM IT Limited amalgamated with SBM Investments Limited in June 2010.

[3] SBM International Investments Limited started winding up procedures in June 2010.

[4] These companies have not yet started operations.

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

| | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
|---|---|---|---|
| Total assets | 14,051,927 | 12,535,034 | 11,358,522 |
| Total liabilities | 11,111,488 | 9,895,325 | 9,026,617 |
| Total revenue | 1,340,521 | 1,155,825 | 810,473 |
| Total profit for the year | 333,112 | 307,953 | 294,314 |
| Share of profit | 66,622 | 64,517 | 61,019 |
| Share of net assets | 588,088 | 523,670 | 477,281 |

## 9. Investment securities (cont'd...)

### d. Group restructuring

(i) SBM Lease Ltd, previously a wholly-owned subsidiary of the State Bank of Mauritius Ltd, amalgamated with the Bank on 07 December 2009, with the latter company remaining as the amalgamated company. The statement of financial position of the Bank as at 30 June 2010 thus includes the assets and liabilities of SBM Lease Ltd. The statement of income of the Bank includes the income and expenses of SBM Lease Ltd as from 01 July 2009. Comparative figures for prior years have not been restated. The statement of financial position of SBM Lease Ltd on the date of amalgamation is shown below:

| | 7 December 2009 Rs '000 | 30 June 2009 Rs '000 | 30 June 2008 Rs '000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 164,619 | 127,947 | 104,780 |
| Investment securities | - | 50,898 | 173,690 |
| Net investment in finance leases | 954,466 | 992,540 | 934,498 |
| Intangible assets | 738 | 1,257 | 2,488 |
| Plant and equipment | 64 | 35,840 | 41,457 |
| Deferred tax asset | 1,676 | - | - |
| Other assets | 6,311 | 8,824 | 9,423 |
| **Total assets** | 1,127,874 | 1,217,306 | 1,266,336 |
| **Liabilities** | | | |
| Deposits from customers | 753,547 | 866,915 | 960,143 |
| Current tax liability | 11,210 | 6,209 | 4,919 |
| Deferred tax liability | - | 512 | 237 |
| Other liabilities | 59,709 | 56,702 | 53,085 |
| | 824,466 | 930,338 | 1,018,384 |
| **Shareholders' equity** | | | |
| Share capital | 200,000 | 200,000 | 200,000 |
| Profit for the period / year | 16,441 | 39,016 | 36,806 |
| Reserves | 86,967 | 47,952 | 11,146 |
| | 303,408 | 286,968 | 247,952 |
| **Total equity and liabilities** | 1,127,874 | 1,217,306 | 1,266,336 |

## 10. Property and equipment

| | Freehold land and buildings Rs '000 | Leasehold buildings Rs '000 | Other tangible fixed assets Rs '000 | Motor vehicles Rs '000 | Total Rs '000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Cost or Valuation** | | | | | |
| At 01 July 2007 | 643,090 | 1,574,540 | 1,529,968 | 17,277 | 3,764,875 |
| Exchange difference | (46,403) | - | (6,590) | (117) | (53,110) |
| Additions | 6,961 | - | 97,796 | 16,162 | 120,919 |
| Disposals | - | - | (33,696) | (6,977) | (40,673) |
| At 30 June 2008 | 603,648 | 1,574,540 | 1,587,478 | 26,345 | 3,792,011 |
| Exchange difference | 12,114 | - | 583 | (46) | 12,651 |
| Additions | 4,111 | - | 110,138 | 5,370 | 119,619 |
| Disposals | - | - | (78,228) | (3,864) | (82,092) |
| At 30 June 2009 | 619,873 | 1,574,540 | 1,619,971 | 27,805 | 3,842,189 |
| Exchange difference | 5,768 | - | (4,260) | (419) | 1,089 |
| Revaluation | 24,142 | 328,518 | - | - | 352,660 |
| Additions | 946 | 1,487 | 83,832 | 2,821 | 89,086 |
| Disposals | - | - | (76,712) | (13,041) | (89,753) |
| Write off | - | - | (18) | - | (18) |
| Transfer from intangible assets | - | - | 2,805 | - | 2,805 |
| Transfer | (2,255) | 2,255 | - | - | - |
| **At 30 June 2010** | 648,474 | 1,906,800 | 1,625,618 | 17,166 | 4,198,058 |
| **Accumulated depreciation** | | | | | |
| At 01 July 2007 | 17,625 | 115,217 | 1,199,312 | 9,463 | 1,341,617 |
| Exchange difference | (941) | - | (5,668) | (59) | (6,668) |
| Disposals | - | - | (30,998) | (5,598) | (36,596) |
| Charge for the year | 11,479 | 38,880 | 109,822 | 3,798 | 163,979 |
| At 30 June 2008 | 28,163 | 154,097 | 1,272,468 | 7,604 | 1,462,332 |
| Exchange difference | 514 | - | 711 | (39) | 1,186 |
| Disposals | - | - | (73,494) | (3,634) | (77,128) |
| Charge for the year | 11,179 | 38,880 | 117,584 | 4,744 | 172,387 |
| At 30 June 2009 | 39,856 | 192,977 | 1,317,269 | 8,675 | 1,558,777 |
| Exchange difference | 519 | - | (3,525) | (243) | (3,249) |
| Revaluation | (49,683) | (228,697) | - | - | (278,380) |
| Disposals | - | - | (49,944) | (3,179) | (53,123) |
| Write off | - | - | (18) | - | (18) |
| Transfer from intangible assets | - | - | 1,068 | - | 1,068 |
| Transfer | (76) | 76 | - | - | - |
| Charge for the year | 11,525 | 40,270 | 80,945 | 3,272 | 136,012 |
| **At 30 June 2010** | 2,141 | 4,626 | 1,345,795 | 8,525 | 1,361,087 |
| **Net book value** | | | | | |
| **At 30 June 2010** | 646,333 | 1,902,174 | 279,823 | 8,641 | 2,836,971 |
| Progress payments on tangible fixed assets | | | | | 16,032 |
| | | | | | 2,853,003 |
| At 30 June 2009 | 580,017 | 1,381,563 | 302,702 | 19,130 | 2,283,412 |
| Progress payments on tangible fixed assets | | | | | 10,343 |
| | | | | | 2,293,755 |
| At 30 June 2008 | 575,485 | 1,420,443 | 315,010 | 18,741 | 2,329,679 |
| Progress payments on tangible fixed assets | | | | | 35,050 |
| | | | | | 2,364,729 |

## 10. Property and equipment (cont'd...)

| | Freehold land and buildings Rs '000 | Leasehold buildings Rs '000 | Other tangible fixed assets Rs '000 | Motor vehicles Rs '000 | Total Rs '000 |
|---|---|---|---|---|---|
| **Bank** | | | | | |
| **Cost or Valuation** | | | | | |
| At 01 July 2007 | 643,090 | 1,574,540 | 1,494,778 | 15,033 | 3,727,441 |
| Exchange difference | (46,403) | - | (6,912) | (138) | (53,453) |
| Additions | 6,961 | - | 63,053 | 4,934 | 74,948 |
| Disposals | - | - | (33,696) | (6,977) | (40,673) |
| At 30 June 2008 | 603,648 | 1,574,540 | 1,517,223 | 12,852 | 3,708,263 |
| Exchange difference | 12,114 | - | 1,852 | 36 | 14,002 |
| Additions | 4,111 | - | 109,413 | 3,385 | 116,909 |
| Disposals | - | - | (78,228) | (3,449) | (81,677) |
| At 30 June 2009 | 619,873 | 1,574,540 | 1,550,260 | 12,824 | 3,757,497 |
| Transferred on amalgamation with SBM Lease Ltd | - | - | 34,325 | 12,065 | 46,390 |
| Exchange difference | 5,768 | - | 852 | 17 | 6,637 |
| Revaluation | 24,142 | 328,518 | - | - | 352,660 |
| Additions | 946 | 1,487 | 81,587 | 1,628 | 85,648 |
| Disposals | - | - | (76,712) | (12,065) | (88,777) |
| Write off | - | - | (18) | - | (18) |
| Transfer from intangible assets | - | - | 2,805 | - | 2,805 |
| Transfer | (2,255) | 2,255 | - | - | - |
| **At 30 June 2010** | 648,474 | 1,906,800 | 1,593,099 | 14,469 | 4,162,842 |
| **Accumulated depreciation** | | | | | |
| At 01 July 2007 | 17,625 | 115,217 | 1,181,863 | 8,424 | 1,323,129 |
| Exchange difference | (941) | - | (6,125) | (87) | (7,153) |
| Disposals | - | - | (30,998) | (5,598) | (36,596) |
| Charge for the year | 11,479 | 38,880 | 101,506 | 2,337 | 154,202 |
| At 30 June 2008 | 28,163 | 154,097 | 1,246,246 | 5,076 | 1,433,582 |
| Exchange difference | 514 | - | 1,698 | 29 | 2,241 |
| Disposals | - | - | (73,494) | (3,219) | (76,713) |
| Charge for the year | 11,179 | 38,880 | 107,225 | 2,515 | 159,799 |
| At 30 June 2009 | 39,856 | 192,977 | 1,281,675 | 4,401 | 1,518,909 |
| Transferred on amalgamation with SBM Lease Ltd | - | - | 7,769 | 2,781 | 10,550 |
| Exchange difference | 519 | - | 830 | 17 | 1,366 |
| Revaluation | (49,683) | (228,697) | - | - | (278,380) |
| Disposals | - | - | (49,944) | (2,968) | (52,912) |
| Write off | - | - | (18) | - | (18) |
| Transfer from intangible assets | - | - | 1,068 | - | 1,068 |
| Transfer | (76) | 76 | - | - | - |
| Charge for the year | 11,525 | 40,270 | 76,840 | 2,727 | 131,362 |
| **At 30 June 2010** | 2,141 | 4,626 | 1,318,220 | 6,958 | 1,331,945 |
| **Net book value** | | | | | |
| **At 30 June 2010** | 646,333 | 1,902,174 | 274,879 | 7,511 | 2,830,897 |
| Progress payments on tangible fixed assets | | | | | 16,032 |
| | | | | | 2,846,929 |
| At 30 June 2009 | 580,017 | 1,381,563 | 268,585 | 8,423 | 2,238,588 |
| Progress payments on tangible fixed assets | | | | | 10,346 |
| | | | | | 2,248,934 |
| At 30 June 2008 | 575,485 | 1,420,443 | 270,977 | 7,776 | 2,274,681 |
| Progress payments on tangible fixed assets | | | | | 35,051 |
| | | | | | 2,309,732 |

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

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

| | Group & Bank | | |
|---|---|---|---|
| | 2010<br>Rs '000 | 2009<br>Rs '000 | 2008<br>Rs '000 |
| Freehold land and buildings | 271,981 | 275,659 | 271,315 |
| Leasehold buildings | 476,602 | 486,060 | 499,151 |
| | 748,583 | 761,719 | 770,466 |

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

The net book value of assets held under finance leases included in property and equipment is as follows:

| | Bank | | |
|---|---|---|---|
| | 2010<br>Rs '000 | 2009<br>Rs '000 | 2008<br>Rs '000 |
| Computer equipment | - | 28,449 | 60,074 |
| Plant and equipment | - | 8,497 | 10,736 |
| Motor vehicles | - | 279 | 430 |
| | - | 37,225 | 71,240 |

The net book value of assets subject to operating lease included in property and equipment is as follows:

| | Group | | |
|---|---|---|---|
| | 2010<br>Rs '000 | 2009<br>Rs '000 | 2008<br>Rs '000 |
| Plant and equipment | - | 26,486 | 31,342 |
| Motor vehicles | - | 9,285 | 10,115 |
| | - | 35,771 | 41,457 |

# NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2010 (cont'd...)

## 11. Intangible assets

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| **Cost** | | | | | | |
| At 01 July | **849,654** | 829,762 | 822,494 | **859,017** | 842,724 | 836,045 |
| Transferred on amalgamation with SBM Lease Ltd | **-** | - | - | **6,226** | - | - |
| Exchange difference | **309** | 648 | (2,428) | **309** | 648 | (2,426) |
| Additions | **11,564** | 24,219 | 22,152 | **11,564** | 20,620 | 21,561 |
| Disposals | **(9,740)** | (4,975) | (12,456) | **(9,740)** | (4,975) | (12,456) |
| Transfer to property and equipment | **(2,805)** | - | - | **(2,805)** | - | - |
| Write off | **(5,488)** | - | - | **(5,488)** | - | - |
| At 30 June | **843,494** | 849,654 | 829,762 | **859,083** | 859,017 | 842,724 |
| **Accumulated amortisation** | | | | | | |
| At 01 July | **771,379** | 638,060 | 517,926 | **772,111** | 640,336 | 521,376 |
| Transferred on amalgamation with SBM Lease Ltd | **-** | - | - | **4,969** | - | - |
| Exchange difference | **308** | 540 | (1,572) | **308** | 541 | (1,570) |
| Disposals | **(9,740)** | (4,692) | (12,456) | **(9,740)** | (4,692) | (12,456) |
| Transfer to property and equipment | **(1,068)** | - | - | **(1,068)** | - | - |
| Write off | **(5,488)** | - | - | **(5,488)** | - | - |
| Charge for the year | **30,333** | 137,471 | 134,162 | **35,093** | 135,926 | 132,986 |
| At 30 June | **785,724** | 771,379 | 638,060 | **796,185** | 772,111 | 640,336 |
| Net book value | **57,770** | 78,275 | 191,702 | **62,898** | 86,906 | 202,388 |
| Progress payments on software | **19,603** | 713 | 4,368 | **19,291** | 401 | - |
| | **77,373** | 78,988 | 196,070 | **82,189** | 87,307 | 202,388 |

Intangible assets disclosed above consist of acquired computer software. The net book value of intangible assets held under finance leases by the Bank is nil at 30 June 2010 (2009: Rs 23.4 m and 2008: Rs 55.6 m).

## 12. Other assets

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Mandatory balances with Central Bank[1] | **2,892,794** | 2,822,563 | 2,196,603 | **2,586,145** | 2,499,819 | 1,918,884 |
| Accounts receivable[2] | **84,956** | 75,888 | 163,714 | **67,571** | 62,924 | 147,449 |
| Balances due in clearing | **142,792** | 170,169 | 221,454 | **142,094** | 155,540 | 209,828 |
| Tax paid in advance[3] | **175,751** | 159,231 | 134,218 | **121,934** | 111,366 | 100,991 |
| Pension asset *(Note 13)* | **649** | 7,324 | 6,072 | **649** | 7,324 | 6,072 |
| Balances with Clearing Corporation In India | **20,955** | 20,982 | 14,180 | **20,955** | 20,982 | 14,180 |
| Non-banking assets acquired in satisfaction of debts[4] | **202** | 73 | 32 | **202** | 73 | 32 |
| Others | **48,248** | 72,003 | 32,928 | **44,515** | 67,851 | 28,852 |
| | **3,366,347** | 3,328,233 | 2,769,201 | **2,984,065** | 2,925,879 | 2,426,288 |

[1] Amounts represent balances to be maintained with the central banks as cash reserve requirement.

[2] Amounts receivable from other parties included in other assets are generally receivable within three months.

[3] The tax paid in advance is incurred by the Indian Operations and Banque SBM Madagascar. The amount is shown net of current tax payable.

[4] The Group's policy is to dispose of such assets as rapidly as the market permits.

## 13. Pension asset

**Amount recognised in the statement of financial position:**

| | Group & Bank | | |
|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Present value of funded obligations | **512,959** | 479,064 | 385,352 |
| Fair value of plan assets | **(549,626)** | (513,550) | (572,488) |
| | **(36,667)** | (34,486) | (187,136) |
| Unrecognised actuarial gain | **36,018** | 27,162 | 181,064 |
| Liability recognised in the statement of financial position | **(649)** | (7,324) | (6,072) |

At 30 June 2010, 10.6% (2009: 17.6% and 2008: 19.7%) of the total assets of the SBM Group Pension Fund were invested in shares of State Bank of Mauritius Ltd.

**Amount recognised in the statement of income:**

| | Group & Bank | | |
|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Current service cost | **26,162** | 25,953 | 21,836 |
| Interest cost | **46,913** | 39,655 | 35,269 |
| Expected return on plan assets | **(51,108)** | (59,444) | (53,838) |
| Actuarial gain recognised | **-** | (4,953) | (4,869) |
| Past service cost recognised | **-** | - | 24,237 |
| Total, included in staff costs | **21,967** | 1,211 | 22,635 |

**Movements in the asset recognised in the statement of financial position:**

| | | | |
|---|---|---|---|
| At 01 July | **(7,324)** | (6,072) | (26,211) |
| Contributions and direct benefits paid | **(15,292)** | (2,463) | (2,496) |
| Total expense as above | **21,967** | 1,211 | 22,635 |
| At 30 June | **(649)** | (7,324) | (6,072) |
| Actual return on plan assets | **41,145** | (48,743) | 66,206 |

**Reconciliation of the present value of defined benefit obligation:**

| | | | |
|---|---|---|---|
| Present value of obligation at start of year | **479,064** | 385,352 | 318,494 |
| Current service cost | **26,162** | 25,953 | 21,836 |
| Interest cost | **46,913** | 39,655 | 35,269 |
| Past service cost | **-** | - | 24,237 |
| Benefits paid | **(20,361)** | (12,658) | (14,461) |
| Liability (gain) / loss | **(18,819)** | 40,762 | (23) |
| Present value of obligation at end of year | **512,959** | 479,064 | 385,352 |

## 13. Pension asset (cont'd...)

**Reconciliation of fair value of plan assets:**

| | Group & Bank | | |
|---|---|---|---|
| | 2010<br>Rs '000 | 2009<br>Rs '000 | 2008<br>Rs '000 |
| Fair value of plan assets at start of year | 513,550 | 572,488 | 518,247 |
| Expected return on plan assets | 51,108 | 59,444 | 53,838 |
| Employer contributions | 15,292 | 2,463 | 2,496 |
| Benefits paid | (20,361) | (12,658) | (14,461) |
| Asset (loss) / gain | (9,963) | (108,187) | 12,368 |
| Fair value of plan assets at end of year | 549,626 | 513,550 | 572,488 |

**Distribution of plan assets at end of year:**

| | % | % | % |
|---|---|---|---|
| Local equities | 38 | 43 | 51 |
| Local bonds | 26 | 27 | 22 |
| Foreign securities | 33 | 26 | 26 |
| Cash and other | 3 | 4 | 1 |
| | 100 | 100 | 100 |

**Expected return on plan assets at end of year:**

| | | | |
|---|---|---|---|
| Local equities | 12 | 12 | 12 |
| Local bonds | 11 | 10 | 11 |
| Overseas equities | 12 | 12 | 12 |
| Overseas bonds | 11 | 10 | 11 |
| Loans and fixed deposits | 11 | 10 | 11 |
| Property | 11 | 11 | 11 |
| Cash and other | 6 | 6 | 6 |

**The history of experience adjustments is as follows:**

| | Group & Bank | | | | |
|---|---|---|---|---|---|
| | 2010<br>Rs '000 | 2009<br>Rs '000 | 2008<br>Rs '000 | 2007<br>Rs '000 | 2006<br>Rs '000 |
| Fair value of plan assets | 549,626 | 513,550 | 572,488 | 518,247 | 395,581 |
| Present value of defined benefit obligation | (512,959) | (479,064) | (385,352) | (318,494) | (348,996) |
| Surplus | 36,667 | 34,486 | 187,136 | 199,753 | 46,585 |
| Asset experience (loss) / gain during the year | (9,963) | (108,187) | 12,368 | 79,647 | - |
| Liability experience gain during the year | 48,916 | - | - | 55,201 | - |

The Group expects to make a contribution of around Rs 15.4 m to the SBM Group Pension Fund during the next financial year.

The principal actuarial assumptions used for accounting purposes were:

| | Group & Bank | | |
|---|---|---|---|
| | **2010 %** | 2009 % | 2008 % |
| Discount rate | **10.5** | 10.0 | 10.5 |
| Expected rate of return on plan assets | **10.5** | 10.0 | 10.5 |
| Future salary increases | **9.5** | 9.0 | 9.0 |
| Future pension increases | **3.5** | 3.0 | 3.0 |

Pension amounts and disclosures have been based on the report dated 24 August 2010 submitted by an independent firm of Actuaries and Consultants.

## 14. Deposits from banks

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Demand deposits | **195,628** | 151,725 | 46,758 | **253,073** | 271,771 | 155,910 |

## 15. Deposits from customers

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| **Retail customers** | | | | | | |
| Current accounts | **6,352,198** | 5,359,662 | 4,074,992 | **6,267,924** | 5,227,925 | 3,945,915 |
| Savings accounts | **22,044,555** | 19,850,402 | 17,784,808 | **21,975,778** | 19,779,041 | 17,713,082 |
| Time deposits with remaining term to maturity: | | | | | | |
| Up to 3 months | **2,110,773** | 2,047,465 | 2,297,262 | **1,889,957** | 1,864,732 | 2,087,727 |
| Over 3 months and up to 6 months | **1,798,020** | 1,299,498 | 1,241,024 | **1,648,132** | 1,176,795 | 1,003,574 |
| Over 6 months and up to 12 months | **3,174,913** | 2,704,788 | 2,154,230 | **2,987,751** | 2,398,735 | 1,875,500 |
| Over 1 year and up to 5 years | **4,373,142** | 5,377,453 | 5,731,023 | **4,373,142** | 4,653,330 | 5,181,505 |
| Over 5 years | **-** | 19,430 | - | **-** | - | - |
| **Corporate customers** | | | | | | |
| Current accounts | **7,648,356** | 10,034,199 | 5,728,150 | **7,331,673** | 9,872,346 | 5,556,980 |
| Savings accounts | **4,869,986** | 3,652,535 | 4,855,931 | **4,816,682** | 3,674,330 | 4,856,322 |
| Time deposits with remaining term to maturity: | | | | | | |
| Up to 3 months | **2,749,138** | 3,955,556 | 4,440,913 | **2,692,660** | 3,892,168 | 4,318,863 |
| Over 3 months and up to 6 months | **880,769** | 1,415,058 | 614,226 | **858,089** | 1,375,763 | 493,274 |
| Over 6 months and up to 12 months | **264,596** | 1,705,556 | 1,317,994 | **256,807** | 1,676,684 | 1,181,138 |
| Over 1 year and up to 5 years | **1,614,397** | 1,370,250 | 1,373,509 | **3,013,857** | 2,662,080 | 1,243,309 |
| Over 5 years | **-** | - | 98 | **-** | - | 98 |
| **Government** | | | | | | |
| Current accounts | **1,291,955** | 2,584,613 | 1,045,932 | **1,154,297** | 2,400,322 | 976,632 |
| Savings accounts | **1,661,155** | 1,506,972 | 1,648,881 | **1,625,925** | 1,382,806 | 1,563,208 |
| Time deposits with remaining term to maturity: | | | | | | |
| Up to 3 months | **273,021** | 3,136 | 220,267 | **1,558** | 3,136 | 16,720 |
| Over 3 months and up to 6 months | **356,909** | 146,432 | 186,542 | **334** | 335 | 100,461 |
| Over 6 months and up to 12 months | **34,222** | 127,799 | 113,955 | **16,123** | 5,178 | 4,451 |
| Over 1 year and up to 5 years | **4,221** | 408,571 | 5,761 | **4,221** | 14,650 | 5,760 |
| | **61,502,326** | 63,569,375 | 54,835,498 | **60,914,910** | 62,060,356 | 52,124,519 |

## 16. Other borrowed funds

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Borrowings from central banks | **242,923** | 143,245 | 184,196 | **242,923** | 143,245 | 184,196 |
| Borrowings from banks | | | | | | |
| in Mauritius | **615,070** | 4,648 | 177,019 | **615,070** | 4,648 | 177,019 |
| abroad | **441,299** | 3,118 | 5,592 | **441,299** | 3,118 | 33 |
| Obligation under finance leases | **-** | - | - | **-** | 72,062 | 144,689 |
| Other financial institutions | **783,997** | 906,495 | - | **783,997** | 906,495 | - |
| | **2,083,289** | 1,057,506 | 366,807 | **2,083,289** | 1,129,568 | 505,937 |
| Up to 3 months | **1,054,257** | 8,382 | 182,611 | **1,054,257** | 8,382 | 177,052 |
| Over 3 months and up to 6 months | **139,532** | - | 25,564 | **139,532** | - | 25,564 |
| Over 6 months and up to 12 months | **-** | - | - | **-** | 12,925 | 37,777 |
| Over 1 year and up to 5 years | **301,503** | 369,714 | - | **301,503** | 428,851 | 106,912 |
| Over 5 years | **587,997** | 679,410 | 158,632 | **587,997** | 679,410 | 158,632 |
| | **2,083,289** | 1,057,506 | 366,807 | **2,083,289** | 1,129,568 | 505,937 |

## 17. Taxation

The applicable tax rate in Mauritius is 15% for the year ended 30 June 2010 (2009 and 2008: 15%). An additional charge of 2% of book profit of the preceeding year is applicable for all profitable companies in Mauritius in respect of Corporate Social Responsibility. Banks in Mauritius are also subject to a special levy of 3.4% of book profit (2009: 3.4% and 2008: 1.7%), and 1% of turnover (2009: 1% and 2008: 0.5%). The applicable tax rate for India is 42.23% (2009 and 2008: 42.23%), whereas that of Madagascar is 23% (2009 and 2008: 24%).

### a. Tax expense

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Accounting profit | **2,212,248** | 2,344,619 | 2,397,008 | **2,103,204** | 2,072,293 | 2,261,853 |
| Tax on accounting profit at 15% | **331,837** | 351,693 | 359,551 | **315,481** | 310,844 | 339,278 |
| Net tax effect of non-taxable and other items | **(42,869)** | (56,487) | (143,677) | **(30,055)** | (23,569) | (133,686) |
| Current tax provision for the year | **288,968** | 295,206 | 215,874 | **285,426** | 287,275 | 205,592 |
| Exchange difference | **504** | (564) | 3,453 | **(46)** | (793) | 3,291 |
| Corporate Social Responsibility fund | **29,684** | - | - | **27,034** | - | - |
| Special levy on banks | **107,241** | 106,628 | 57,511 | **107,241** | 106,628 | 57,511 |
| (Over) / Under provision in previous years | **(18,020)** | (12,400) | 43,292 | **(18,024)** | (12,501) | 45,046 |
| Current tax expense | **408,377** | 388,870 | 320,130 | **401,631** | 380,609 | 311,440 |
| Deferred tax income | **(54,969)** | (69,589) | (37,095) | **(54,939)** | (70,037) | (38,528) |
| Total tax expense | **353,408** | 319,281 | 283,035 | **346,692** | 310,572 | 272,912 |

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

| | Group | | |
|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| In Mauritius | **340,248** | 293,736 | 220,440 |
| Overseas | **13,160** | 25,545 | 62,595 |
| Total tax expense | **353,408** | 319,281 | 283,035 |

## b. Deferred tax liabilities

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| At 01 July | **133,817** | 199,227 | 241,102 | **133,124** | 198,982 | 242,290 |
| Transferred on amalgamation of SBM Lease Ltd | **-** | - | - | **514** | - | - |
| Exchange difference | **1,756** | 4,179 | (14,018) | **1,778** | 4,179 | (14,018) |
| Effect of change in deferred tax rate | **-** | - | 9,238 | **-** | - | 9,238 |
| Deferred tax income *(Note 17a)* | **(54,969)** | (69,589) | (37,095) | **(54,939)** | (70,037) | (38,528) |
| Deferred tax element on revaluation of property | **98,101** | - | - | **98,101** | - | - |
| At 30 June | **178,705** | 133,817 | 199,227 | **178,578** | 133,124 | 198,982 |
| Analysed as resulting from: | | | | | | |
| Accelerated capital allowances | **52,755** | 55,208 | 74,718 | **52,628** | 52,742 | 72,845 |
| Pension asset and other employee benefits | **(2,769)** | (2,201) | (2,574) | **(2,769)** | (2,201) | (2,574) |
| Allowances for credit impairment | **(160,219)** | (113,147) | (73,094) | **(160,219)** | (111,374) | (71,466) |
| Revaluation of property | **289,476** | 198,590 | 200,177 | **289,476** | 198,590 | 200,177 |
| Other provisions | **(538)** | (4,633) | - | **(538)** | (4,633) | - |
| | **178,705** | 133,817 | 199,227 | **178,578** | 133,124 | 198,982 |

## 18. Other liabilities

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Bills payable | **119,739** | 96,909 | 154,836 | **108,704** | 84,060 | 150,749 |
| Accruals for operating and non-operating expenses | **241,023** | 214,236 | 138,809 | **234,398** | 232,438 | 136,381 |
| Accounts payable | **95,471** | 71,412 | 76,657 | **80,844** | 56,961 | 104,044 |
| Deferred income | **68,050** | 13,846 | 15,517 | **68,217** | 13,912 | 15,256 |
| Balance due in clearing | **191,902** | 184,317 | 245,330 | **154,574** | 149,758 | 206,649 |
| Balances in transit | **165,552** | 290,812 | 194,491 | **165,552** | 290,812 | 123,909 |
| Specific allowance on off balance sheet exposure | **-** | - | 105 | **-** | - | 105 |
| Others | **11,339** | 57,323 | 8,231 | **11,260** | 31,141 | 14,878 |
| | **893,076** | 928,855 | 833,976 | **823,549** | 859,082 | 751,971 |

## 19. Dividend declared

| | Dividend per share | | | Dividend payable | | |
|---|---|---|---|---|---|---|
| | **2010 Rs** | 2009 Rs | 2008 Rs | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| **Bank** | | | | | | |
| Dividend declared after the reporting date | **2.75** | 2.75 | 2.55 | **709,993** | 709,993 | 658,357 |

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

## 20. Share capital

| | Group & Bank | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2008 | |
| | Number | Rs '000 | Number | Rs '000 | Number | Rs '000 |
| Issued, subscribed and paid up share capital<br>At 01 July and 30 June | 303,740,223 | 303,740 | 303,740,223 | 303,740 | 303,740,223 | 303,740 |
| Treasury shares held<br>At 01 July and 30 June | 45,561,033 | 45,561 | 45,561,033 | 45,561 | 45,561,033 | 45,561 |

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

## 21. Memorandum items

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

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | 2010<br>Rs '000 | 2009<br>Rs '000 | 2008<br>Rs '000 | 2010<br>Rs '000 | 2009<br>Rs '000 | 2008<br>Rs '000 |
| Acceptances on account of customers | 106,799 | 209,233 | 247,687 | 106,799 | 207,280 | 219,234 |
| Guarantees on account of customers | 2,708,033 | 2,730,620 | 2,692,973 | 2,677,198 | 2,699,001 | 2,654,882 |
| Letters of credit and other obligations on account of customers | 749,074 | 495,783 | 829,314 | 721,671 | 401,988 | 770,104 |
| Spot foreign exchange contracts | 2,347,431 | 1,058,274 | 1,445,465 | 2,325,538 | 1,003,610 | 1,406,677 |
| Other contingent items | - | 813,362 | - | - | 813,362 | - |
| | 5,911,337 | 5,307,272 | 5,215,439 | 5,831,206 | 5,125,241 | 5,050,897 |

### b. Credit commitments

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | 2010<br>Rs '000 | 2009<br>Rs '000 | 2008<br>Rs '000 | 2010<br>Rs '000 | 2009<br>Rs '000 | 2008<br>Rs '000 |
| Undrawn credit facilities | 8,215,445 | 5,043,907 | 3,802,679 | 8,205,434 | 4,919,452 | 3,555,717 |

## 22. Assets pledged

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

| | Group & Bank | | |
|---|---|---|---|
| | 2010<br>Rs '000 | 2009<br>Rs '000 | 2008<br>Rs '000 |
| Treasury bills / government bonds | 199,230 | 147,180 | 155,275 |
| Deposits | - | 20,982 | - |
| | 199,230 | 168,162 | 155,275 |

## 23. Capital commitments

| | Group 2010 Rs '000 | Group 2009 Rs '000 | Group 2008 Rs '000 | Bank 2010 Rs '000 | Bank 2009 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|
| Approved and contracted for | 44,431 | 19,898 | 24,331 | 44,431 | 19,898 | 24,331 |
| Approved and not contracted for | 38,058 | 17,250 | 25,646 | 38,058 | 17,250 | 25,646 |

## 24. Operating lease

**Leasing arrangements - The Group as lessee**

| | Group 2010 Rs '000 | Group 2009 Rs '000 | Group 2008 Rs '000 | Bank 2010 Rs '000 | Bank 2009 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|
| Operating lease expense | 32,321 | 29,326 | 26,907 | 20,593 | 17,393 | 15,753 |

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

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

| | Group 2010 Rs '000 | Group 2009 Rs '000 | Group 2008 Rs '000 | Bank 2010 Rs '000 | Bank 2009 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|
| Up to 1 year | 25,307 | 6,585 | 25,452 | 14,728 | 6,585 | 13,702 |
| After 1 year and before 5 years | 15,313 | 16,759 | 40,164 | 12,602 | 16,759 | 13,320 |
| After 5 years and up to 25 years | 9,369 | 4,270 | 188 | 9,369 | 4,270 | 188 |
| | 49,989 | 27,614 | 65,804 | 36,699 | 27,614 | 27,210 |

**Leasing arrangements - The Group as lessor**

The Group's assets subject to operating leases are disclosed in *Note 10.* Since the Bank may not carry operating lease activities, the operating lease contracts held by SBM Lease Ltd were disposed of prior to the amalgamation. The future minimum lease payments receivable under non-cancellable operating leases in prior periods were as follows:

| | Group & Bank 2010 Rs '000 | Group & Bank 2009 Rs '000 | Group & Bank 2008 Rs '000 |
|---|---|---|---|
| Up to 1 year | - | 11,186 | 11,122 |
| After 1 year and before 5 years | - | 28,606 | 38,779 |
| After 5 years | - | - | 790 |
| | - | 39,792 | 50,691 |
| Operating lease income | 2,496 | 11,237 | 6,462 |

## 25. Net interest income

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
| **Interest income** | | | | | | |
| Cash and cash equivalents | 61,074 | 213,894 | 457,143 | 55,964 | 207,416 | 394,547 |
| Loans to and placements with banks | 15,305 | 35,308 | 47,248 | 15,305 | 35,308 | 47,248 |
| Loans and advances to customers | 3,535,238 | 3,782,802 | 3,851,210 | 3,459,481 | 3,600,415 | 3,717,745 |
| Investment securities | 1,174,125 | 1,247,514 | 966,733 | 1,094,930 | 1,145,399 | 851,070 |
| Trading assets | 68,968 | 53,756 | 6,368 | 68,968 | 53,756 | 6,367 |
| Other | 12,774 | - | - | 12,720 | - | - |
| Total interest income | 4,867,484 | 5,333,274 | 5,328,702 | 4,707,368 | 5,042,294 | 5,016,977 |
| **Interest expense** | | | | | | |
| Deposits from banks | (329) | (2,612) | (110) | (329) | (2,612) | (110) |
| Deposits from customers | (2,347,498) | (2,889,179) | (3,263,321) | (2,272,360) | (2,750,166) | (3,098,104) |
| Lease finance charges | - | - | - | - | (14,547) | (32,938) |
| Other borrowed funds | (25,529) | (41,545) | (20,930) | (25,579) | (43,521) | (22,285) |
| Other | (971) | - | (174) | (971) | - | (174) |
| Total interest expense | (2,374,327) | (2,933,336) | (3,284,535) | (2,299,239) | (2,810,846) | (3,153,611) |
| **Net interest income** | 2,493,157 | 2,399,938 | 2,044,167 | 2,408,129 | 2,231,448 | 1,863,366 |

## 26. Net fee and commission income

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
| **Fee and commission income** | | | | | | |
| Retail banking customer fees | 230,151 | 209,165 | 176,052 | 218,315 | 199,080 | 168,691 |
| Corporate banking customer fees | 183,304 | 207,653 | 133,433 | 175,458 | 183,891 | 114,840 |
| Brokerage | 8,596 | 4,962 | 6,042 | - | - | - |
| Asset management fees | 20,961 | 17,398 | 26,659 | - | - | - |
| Card income | 217,461 | 317,684 | 304,465 | 217,461 | 317,684 | 304,465 |
| Total fee and commission income | 660,473 | 756,862 | 646,651 | 611,234 | 700,655 | 587,996 |
| **Fee and commission expense** | | | | | | |
| Interbank transaction fees | (11,814) | (9,205) | (7,512) | (11,343) | (9,205) | (7,512) |
| Other | (658) | (791) | (403) | (658) | (791) | (403) |
| Total fee and commission expense | (12,472) | (9,996) | (7,915) | (12,001) | (9,996) | (7,915) |
| **Net fee and commission income** | 648,001 | 746,866 | 638,736 | 599,233 | 690,659 | 580,081 |

## 27. Dividend income

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
| Available-for-sale securities | 205,370 | 310,245 | 846,796 | 204,773 | 209,330 | 822,413 |
| Trading securities | 212 | 39 | 45 | 212 | 39 | 45 |
| | 205,582 | 310,284 | 846,841 | 204,985 | 209,369 | 822,458 |

## 28. Net trading income

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
| Fixed income securities | (6,689) | 12,366 | 1,680 | (6,689) | 12,366 | 1,632 |
| Equities | 920 | (2,437) | 17,201 | 920 | (2,437) | 17,201 |
| Other | 8,979 | (8,395) | (274) | 8,979 | (8,395) | (274) |
| | 3,210 | 1,534 | 18,607 | 3,210 | 1,534 | 18,559 |

## 29. Other operating income

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
| Gain on sale of available-for-sale securities: | | | | | | |
| Equity shares of companies | - | - | 93,552 | - | - | 92,785 |
| Foreign exchange gain | 487,411 | 519,340 | 466,158 | 446,542 | 479,878 | 437,214 |
| Other | 66 | 3,833 | (2,656) | (182) | 3,742 | (2,656) |
| | 487,477 | 523,173 | 557,054 | 446,360 | 483,620 | 527,343 |

## 30. Personnel expenses

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
| Wages and salaries | 575,357 | 557,162 | 456,462 | 559,454 | 539,676 | 441,389 |
| Other social security obligations | 9,251 | 6,455 | 5,192 | 9,082 | 6,297 | 5,128 |
| Contributions to defined contribution plans | 39,586 | 33,448 | 26,580 | 37,669 | 31,370 | 25,426 |
| Cash-settled share-based payments | 9,763 | (6,420) | 26,256 | 9,763 | (6,495) | 26,256 |
| Increase in liability for defined benefit plans *(Note 13)* | 21,967 | 1,211 | 22,635 | 21,967 | 1,211 | 22,635 |
| Other personnel expenses | 86,693 | 73,580 | 75,676 | 82,806 | 69,811 | 71,481 |
| | 742,617 | 665,436 | 612,801 | 720,741 | 641,870 | 592,315 |

## 31. Other expenses

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
| Software licensing and other information technology cost | 127,274 | 117,088 | 127,554 | 122,257 | 111,218 | 122,287 |
| Auditors' remuneration (audit fee): | | | | | | |
| - Principal auditors | 4,610 | 4,612 | 4,393 | 4,244 | 4,175 | 4,001 |
| - Other auditors | 520 | 588 | 637 | 301 | 338 | 307 |
| Other | 332,010 | 325,374 | 333,990 | 295,787 | 291,873 | 308,730 |
| | 464,414 | 447,662 | 466,574 | 422,589 | 407,604 | 435,325 |

## 32. Net impairment loss on financial assets

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Portfolio and specific provisions: | | | | | | |
| - On balance sheet advances (*Note 8d*) | **339,126** | 190,973 | 435,633 | **268,858** | 110,927 | 280,259 |
| - Off balance sheet exposure | **-** | - | 105 | **-** | - | 105 |
| Interest accrued on impaired advances | **(24,017)** | (17,128) | (33,993) | **(24,017)** | (17,128) | (33,993) |
| Bad debts written off for which no provisions were made | **-** | 5 | 11 | **-** | 5 | 11 |
| Recoveries of advances written off | **(10,792)** | (15,113) | (14,856) | **(9,918)** | (14,666) | (11,256) |
| Other loss | **14,108** | 120,000 | 5,000 | **14,005** | 120,000 | - |
| | **318,425** | 278,737 | 391,900 | **248,928** | 199,138 | 235,126 |
| Of which: | | | | | | |
| - Loans and advances to customers | **304,317** | 158,737 | 386,900 | **234,923** | 79,138 | 235,126 |
| - Other financial assets | **14,108** | 120,000 | 5,000 | **14,005** | 120,000 | - |
| | **318,425** | 278,737 | 391,900 | **248,928** | 199,138 | 235,126 |

## 33. Earnings per share

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

| | Group | | |
|---|---|---|---|
| | **2010** | 2009 | 2008 |
| Profit attributable to equity holders of the parent (Rs' 000) | **1,858,840** | 2,025,338 | 2,113,973 |
| Number of shares entitled to dividend (thousands) | **258,179** | 258,179 | 258,179 |
| Earnings per share (Rs) | **7.20** | 7.84 | 8.19 |

## 34. Related party transactions

| | Key management personnel including directors | | | Associates & other entities in which the Group has significant influence | | | Entities in which directors, key management personnel & their close family members have significant influence | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| **Group** | | | | | | | | | |
| **a. Credit facilities** | | | | | | | | | |
| (i) Loans | | | | | | | | | |
| Balance at beginning of year | **3,352** | 2,268 | 4,582 | **-** | 3 | 2 | **1,637,502** | 1,474,995 | 97,132 |
| Loans of directors/entities who ceased to be related parties during the year | **-** | (1,056) | (2,198) | **-** | - | - | **(1,637,502)** | - | - |
| Existing loans of new related parties | **3,257** | 2,739 | - | **-** | - | - | **-** | - | - |
| Other net movements | **5,558** | (599) | (116) | **-** | (3) | 1 | **-** | 162,507 | 1,377,863 |
| Balance at end of year | **12,167** | 3,352 | 2,268 | **-** | - | 3 | **-** | 1,637,502 | 1,474,995 |
| (ii) Off balance sheet obligations | | | | | | | | | |
| Balance at end of year | **-** | - | - | **3,344** | 1,054 | 1,321 | **-** | 253,899 | 214,129 |
| **b. Deposits at end of year** | **48,695** | 45,417 | 94,678 | **718,429** | 425,824 | 450,597 | **2,197** | 775,107 | 20,059 |
| **c. Interest income** | **1,066** | 295 | 284 | **-** | 3 | - | **93,361** | 214,462 | 189,471 |
| **d. Interest expense** | **1,130** | 1,636 | 5,479 | **28,062** | 17,220 | 47,029 | **161** | 14,081 | 39,571 |
| **e. Other income** | **73** | 42 | 38 | **2,783** | 1,172 | 1,804 | **20,931** | 49,421 | 15,412 |
| **f. Purchase of goods and services** | **-** | - | - | **9,605** | 8,286 | 2,602 | **-** | - | - |
| **g. Emoluments** | **40,496** | 47,504 | 82,006 | **-** | - | - | **-** | - | - |

There is a right of set off between deposits and advances for entities in which directors, key management personnel, and their close family members have significant influence. The advances and deposits for 2008 and 2009 have therefore been disclosed on a net basis above.

Amount netted are shown below:

| | Group | | |
|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Loans | **-** | 1,465,070 | 1,253,382 |
| Other advances | **-** | 711,139 | - |
| Deposits | **-** | 2,176,209 | 1,253,382 |

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

| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
|---|---|---|---|
| Deposits at end of year | **18,819** | 6,747 | 11,617 |
| Interest expense | **877** | 992 | 2,914 |
| Other income | **35** | 11 | 110 |
| Contributions paid | **52,756** | 27,214 | 42,325 |

## 34. Related party transactions (cont'd...)

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

| | Bank | | |
|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Loans and advances | **-** | - | 98,823 |
| Deposits | **1,474,159** | 1,672,020 | 232,518 |
| Obligations under finance leases | **-** | 72,062 | 144,689 |
| Interest income | **-** | 1,543 | 12,323 |
| Interest expense | **7,480** | 49,762 | 42,675 |
| Non interest income | **289** | 1,063 | 21,440 |
| Non interest expense | **280** | 423 | 2,126 |

## 35. Phantom share options

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

Other terms of the phantom share options outstanding as at 30 June 2010 for the Group and Bank:

| Grant date | Earliest exercisable date | Maximum exercisable rate per year | Outstanding number | Option price (Rs) | Lapse date |
|---|---|---|---|---|---|
| July 2001 | July 2004 | 15% | 9,000 | 10.00 | July 2011 |
| August 2002 | August 2005 | 15% | 26,000 | 10.00 | August 2012 |
| August 2004 | August 2007 | 15% | 76,850 | 20.00 | August 2014 |
| October 2005 | October 2008 | 15% | 215,500 | 25.00 | October 2015 |
| August 2006 | August 2009 | 15% | 332,500 | 37.60 | August 2016 |
| August 2007 | August 2009 | 25% | 586,250 | 55.90 | August 2014 |
| August 2008 | August 2010 | 25% | 940,000 | 85.00 | August 2015 |
| May 2009 | May 2010 | 50% | 150,000 | 80.00 | April 2012 |
| February 2010 | February 2011 | 50% | 26,150 | 40.00 | February 2012 |
| February 2010 | February 2012 | 50% | 26,150 | 80.00 | February 2013 |
| March 2010 | September 2010 | 33% | 81,000 | 40.00 | March 2012 |

Movements in the number of phantom share options:

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Outstanding at beginning of the year | **3,185,300** | 2,231,750 | 1,793,205 | **3,061,800** | 2,146,750 | 1,768,205 |
| Allocated during the year | **133,300** | 1,335,000 | 1,020,000 | **143,300** | 1,295,000 | 960,000 |
| Lapsed during the year | **(500,350)** | (249,000) | (450,250) | **(405,600)** | (249,000) | (450,250) |
| Exercised during the year | **(348,850)** | (132,450) | (131,205) | **(330,100)** | (130,950) | (131,205) |
| Outstanding at end of the year | **2,469,400** | 3,185,300 | 2,231,750 | **2,469,400** | 3,061,800 | 2,146,750 |

As at 30 June 2010, the potential liability relating to the phantom share options was Rs 23.5 m (2009: Rs 22.0 m and 2008: Rs 35.4 m).

## 36. Capital management

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

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

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

The eligible capital and capital adequacy ratios for the Group and Bank, computed as per the prevailing Bank of Mauritius guidelines, are shown below:

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Tier 1 capital | **9,869,807** | 8,723,978 | 7,671,539 | **7,406,716** | 6,080,536 | 5,085,236 |
| Eligible capital base | **12,248,068** | 10,683,317 | 9,356,925 | **10,017,507** | 8,116,242 | 7,218,109 |
| Risk weighted assets | **46,237,888** | 44,437,427 | 43,292,404 | **44,652,824** | 41,526,028 | 40,685,575 |
| Capital adequacy ratio (%) | **26.49** | 24.04 | 21.61 | **22.43** | 19.54 | 17.74 |

## 37. Risk management

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

The principal risks arising from financial instruments to which the Group is exposed include:
- Credit risk
- Liquidity risk
- Market risk

**a.** (i) Financial assets and liabilities
Financial assets and liabilities of the Group and Bank are shown in the tables below, grouped by categories.

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| **Financial assets** | | | | | | |
| Loans and receivables | **71,345,052** | 71,768,480 | 60,267,323 | **69,259,511** | 68,689,192 | 56,366,776 |
| Held-to-maturity | **1,172,353** | 747,891 | 284,840 | **1,172,353** | 696,994 | 111,150 |
| Available-for-sale | **3,448,634** | 3,421,487 | 3,667,568 | **3,245,351** | 3,169,187 | 3,529,611 |
| FVTPL - Held-for-trading | **148,224** | 196,280 | 136,801 | **148,224** | 196,280 | 136,801 |
| | **76,114,263** | 76,134,138 | 64,356,532 | **73,825,439** | 72,751,653 | 60,144,338 |
| **Financial liabilities** | | | | | | |
| Measured at amortised cost | **64,606,269** | 65,693,610 | 56,067,417 | **64,006,604** | 64,306,863 | 53,378,287 |
| FVTPL - Held-for-trading | **84,964** | 49,071 | 54,495 | **84,964** | 49,071 | 54,495 |
| | **64,691,233** | 65,742,681 | 56,121,912 | **64,091,568** | 64,355,934 | 53,432,782 |

## 37. Risk management (cont'd...)

**a.** (ii) Fair values

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

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | Carrying value Rs '000 | Fair value Rs '000 | Carrying value Rs '000 | Fair value Rs '000 | Carrying value Rs '000 | Fair value Rs '000 |
| **Group** | | | | | | |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 5,501,822 | 5,501,822 | 11,764,439 | 11,764,439 | 11,534,748 | 11,534,748 |
| Trading assets | 148,224 | 148,224 | 196,280 | 196,280 | 136,801 | 136,801 |
| Loans to and placements with banks | - | - | 2,766,726 | 2,766,726 | 464,404 | 464,404 |
| Loans and advances to customers | 43,731,741 | 43,763,388 | 39,793,808 | 39,943,599 | 35,185,082 | 35,265,667 |
| Investment securities | 23,572,721 | 23,805,680 | 18,487,739 | 18,875,580 | 14,428,578 | 14,487,106 |
| Other assets | 3,159,755 | 3,159,755 | 3,125,146 | 3,125,146 | 2,606,919 | 2,606,919 |
| | 76,114,263 | 76,378,869 | 76,134,138 | 76,671,770 | 64,356,532 | 64,495,645 |
| **Financial liabilities** | | | | | | |
| Deposits from banks | 195,628 | 195,628 | 151,725 | 151,725 | 46,758 | 46,758 |
| Deposits from customers | 61,502,326 | 61,611,287 | 63,569,375 | 64,200,040 | 54,835,498 | 54,894,743 |
| Trading liabilities | 84,964 | 84,964 | 49,071 | 49,071 | 54,495 | 54,495 |
| Other borrowed funds | 2,083,289 | 2,083,289 | 1,057,506 | 1,057,506 | 366,807 | 366,807 |
| Other liabilities | 825,026 | 825,026 | 915,004 | 915,004 | 818,354 | 818,354 |
| | 64,691,233 | 64,800,194 | 65,742,681 | 66,373,346 | 56,121,912 | 56,181,157 |
| **Bank** | | | | | | |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 5,195,931 | 5,195,931 | 11,481,860 | 11,481,860 | 10,093,606 | 10,093,606 |
| Trading assets | 148,224 | 148,224 | 196,280 | 196,280 | 136,801 | 136,801 |
| Loans to and placements with banks | - | - | 2,766,726 | 2,766,726 | 464,404 | 464,404 |
| Loans and advances to customers | 43,094,855 | 43,126,502 | 38,062,324 | 38,202,801 | 33,882,993 | 33,908,650 |
| Investment securities | 22,552,019 | 22,784,978 | 16,968,753 | 17,356,594 | 12,790,804 | 12,848,964 |
| Other assets | 2,834,410 | 2,834,410 | 3,275,710 | 3,275,710 | 2,775,730 | 2,775,730 |
| | 73,825,439 | 74,090,045 | 72,751,653 | 73,279,971 | 60,144,338 | 60,228,155 |
| **Financial liabilities** | | | | | | |
| Deposits from banks | 253,073 | 253,073 | 271,771 | 271,771 | 155,910 | 155,910 |
| Deposits from customers | 60,914,910 | 61,023,871 | 62,060,356 | 62,593,640 | 52,124,519 | 52,165,062 |
| Trading liabilities | 84,964 | 84,964 | 49,071 | 49,071 | 54,495 | 54,495 |
| Other borrowed funds | 2,083,289 | 2,083,289 | 1,129,568 | 1,129,568 | 505,937 | 505,937 |
| Other liabilities | 755,332 | 755,332 | 845,168 | 845,168 | 591,921 | 591,921 |
| | 64,091,568 | 64,200,529 | 64,355,934 | 64,889,218 | 53,432,782 | 53,473,325 |

**a.** (iii) Fair value measurement hierarchy

Fair value measurements of financial instruments can be grouped into level 1 to 3 based on the degree to which the fair value is observable. The fair value hierarchy comprises of the following levels:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data.

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

| | 2010 | | | |
|---|---|---|---|---|
| | Level 1 Rs '000 | Level 2 Rs '000 | Level 3 Rs '000 | Total Rs '000 |
| **Group** | | | | |
| Trading assets | - | 148,224 | - | 148,224 |
| Investment securities - available-for-sale | 112,262 | - | 3,300,613 | 3,412,875 |
| Total | 112,262 | 148,224 | 3,300,613 | 3,561,099 |
| Trading liabilities | - | 84,964 | - | 84,964 |
| **Bank** | | | | |
| Trading assets | - | 148,224 | - | 148,224 |
| Investment securities - available-for-sale | - | - | 3,214,982 | 3,214,982 |
| Total | - | 148,224 | 3,214,982 | 3,363,206 |
| Trading liabilities | - | 84,964 | - | 84,964 |

Reconciliation for Level 3 fair value measurements:

| | 2010 | |
|---|---|---|
| | Group Rs '000 | Bank Rs '000 |
| Balance at 01 July 2009 | 3,267,244 | 2,925,967 |
| Additions | 6,849 | - |
| Translation | (2,112) | - |
| Increase in fair value | 28,632 | 289,015 |
| Balance at 30 June 2010 | 3,300,613 | 3,214,982 |

## 37. Risk management (cont'd...)

**a.** (iv) Profit for the year includes the following:

| | Group 2010 Rs '000 | Group 2009 Rs '000 | Group 2008 Rs '000 | Bank 2010 Rs '000 | Bank 2009 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|
| Net fee income from financial assets or financial liabilities that are not measured at fair value through profit or loss: | | | | | | |
| - Fee income | 633,781 | 714,115 | 627,868 | 598,027 | 682,786 | 587,710 |
| - Fee expense | (12,472) | (9,996) | (7,915) | (12,001) | (9,996) | (7,915) |
| Fees earned on trust and other fiduciary activities where the Group holds or invests assets on behalf of its customers: | | | | | | |
| - Fee income | 11,062 | 13,775 | 18,501 | 73 | 134 | - |
| Net interest income | | | | | | |
| Net interest income for financial assets and liabilities that are not at fair value through profit or loss | | | | | | |
| - Total interest income | 4,798,516 | 5,288,020 | 5,322,999 | 4,638,401 | 5,322,999 | 5,011,275 |
| - Total interest expense | (2,374,327) | (2,933,336) | (3,284,361) | (2,299,239) | (3,284,361) | (3,153,437) |
| Impairment loss on available-for-sale investments | - | - | (5,000) | - | - | - |

**b. Credit risk**

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

(i) Maximum credit exposure

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

| | Group 2010 Rs '000 | Group 2009 Rs '000 | Group 2008 Rs '000 | Bank 2010 Rs '000 | Bank 2009 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|
| **Fund-based exposures:** | | | | | | |
| Cash and cash equivalents | 4,796,705 | 11,225,578 | 11,052,409 | 4,490,814 | 10,988,381 | 9,646,404 |
| Trading assets | 86,724 | 119,174 | 33,375 | 86,723 | 119,174 | 33,375 |
| Loans to and placements with banks | - | 2,766,726 | 464,404 | - | 2,766,726 | 464,404 |
| Loans and advances to customers | 44,658,493 | 40,716,207 | 36,071,379 | 43,852,962 | 38,632,115 | 34,486,278 |
| Investment securities | 24,160,809 | 19,011,409 | 14,905,859 | 22,552,091 | 17,470,368 | 13,265,996 |
| Other assets | 2,892,794 | 2,822,563 | 2,196,603 | 2,586,145 | 2,499,819 | 1,918,884 |
| | 76,595,525 | 76,661,657 | 64,724,029 | 73,568,735 | 72,476,583 | 59,815,341 |
| **Non-fund based exposures** | | | | | | |
| Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers | 3,563,906 | 3,435,636 | 3,769,974 | 3,505,668 | 3,308,269 | 3,644,219 |
| Credit commitments | 8,215,445 | 5,043,907 | 3,802,679 | 8,205,434 | 4,919,452 | 3,555,717 |
| | 11,779,351 | 8,479,543 | 7,572,653 | 11,711,102 | 8,227,721 | 7,199,936 |

(ii) Collateral and other credit enhancements

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

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

(iii) Credit quality

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

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

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| **Grades:** | | | | | | |
| 1 to 3 - Strong | **30,232,064** | 24,854,252 | 24,728,805 | **29,648,778** | 23,586,508 | 23,792,556 |
| 4 to 6 - Satisfactory | **14,706,983** | 15,197,251 | 10,002,208 | **14,665,867** | 14,922,497 | 9,567,955 |
| 7 to 10 (including unrated) - weak | **10,274,183** | 7,366,047 | 7,461,010 | **10,267,074** | 6,933,288 | 7,160,690 |
| | **55,213,230** | 47,417,550 | 42,192,023 | **54,581,719** | 45,442,293 | 40,521,201 |

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

The carrying amount of loans and advances whose terms have been re-negotiated during the year amounted to Rs 1,199.6 m (2009: Rs 173.5 m) for the Group and Rs 1,197.7 m (2009: Rs 164.2 m) for the Bank.

(iv) Credit exposure by portfolio

Advances that are neither past due nor impaired:

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| **Portfolio** | | | | | | |
| Agriculture | **880,483** | 914,020 | 859,218 | **871,445** | 863,265 | 827,167 |
| Commerce | **6,337,225** | 5,831,262 | 4,904,755 | **6,070,122** | 5,298,614 | 4,384,618 |
| Consumer | **13,617,762** | 12,222,790 | 10,267,372 | **13,607,747** | 12,130,728 | 10,119,753 |
| Infrastructure | **3,476,824** | 1,732,453 | 2,050,679 | **3,476,824** | 1,717,104 | 2,008,013 |
| Job Contractors | **889,001** | 839,114 | 1,036,413 | **885,822** | 794,195 | 997,931 |
| Manufacturing | **8,655,217** | 8,218,475 | 7,017,685 | **8,613,228** | 7,681,627 | 6,535,527 |
| New Economy | **1,753,553** | 644,769 | 672,640 | **1,753,553** | 644,562 | 672,336 |
| Real Estate | **2,983,886** | 2,341,516 | 1,128,518 | **2,861,512** | 2,220,017 | 1,091,086 |
| Services | **8,854,516** | 6,805,544 | 5,912,926 | **8,679,919** | 6,358,240 | 5,609,998 |
| Tourism | **7,764,763** | 7,867,607 | 8,341,817 | **7,761,547** | 7,733,941 | 8,274,772 |
| | **55,213,230** | 47,417,550 | 42,192,023 | **54,581,719** | 45,442,293 | 40,521,201 |

## 37. Risk management (cont'd...)

### b. Credit risk (cont'd...)

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

| | Group 2010 Rs '000 | Group 2009 Rs '000 | Group 2008 Rs '000 | Bank 2010 Rs '000 | Bank 2009 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|
| Up to 1 month | 341,397 | 812,650 | 486,580 | 338,385 | 804,994 | 480,594 |
| Over 1 month and up to 3 months | 31,600 | 128,424 | 87,516 | 31,355 | 83,579 | 87,484 |
| Over 3 months | 12,393 | 20,111 | 33 | - | - | 32 |
| | 385,390 | 961,185 | 574,129 | 369,740 | 888,573 | 568,110 |

(vi) Impaired financial assets

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

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

| | Group 2010 Rs '000 | Group 2009 Rs '000 | Group 2008 Rs '000 | Bank 2010 Rs '000 | Bank 2009 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|
| Loans and advances | 839,224 | 817,016 | 877,880 | 612,605 | 528,969 | 596,903 |
| Specific allowance held in respect of impaired advances | 482,261 | 628,049 | 708,690 | 338,957 | 358,314 | 490,230 |
| Fair value of collaterals of impaired advances | 407,907 | 303,045 | 176,956 | 324,592 | 203,136 | 112,569 |

### c. Liquidity risk

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

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

| | On demand Rs '000 | Up to 3 mths Rs '000 | 3-6 mths Rs '000 | 6-12 mths Rs '000 | 1-2 yrs Rs '000 | 2-5 yrs Rs '000 | Over 5 yrs Rs '000 | Total Rs '000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Deposits | 43,810,439 | 5,174,721 | 3,071,761 | 3,601,738 | 4,994,472 | 1,351,075 | - | 62,004,206 |
| Other borrowed funds | - | 1,216,351 | 12,809 | 25,617 | 164,271 | 446,669 | 254,223 | 2,119,940 |
| Other liabilities | - | 825,026 | - | - | - | - | - | 825,026 |
| **30 June 2010** | 43,810,439 | 7,216,098 | 3,084,570 | 3,627,355 | 5,158,743 | 1,797,744 | 254,223 | 64,949,172 |
| 30 June 2009 | 43,139,945 | 7,074,583 | 3,482,444 | 5,227,739 | 5,420,503 | 4,163,982 | 415,390 | 68,924,586 |
| 30 June 2008 | 35,185,453 | 8,211,574 | 2,164,788 | 3,949,652 | 3,907,020 | 4,637,252 | 141 | 58,055,880 |
| **Bank** | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Deposits | 43,171,956 | 4,624,074 | 2,530,736 | 3,376,294 | 6,364,737 | 1,351,075 | - | 61,418,872 |
| Other borrowed funds | - | 1,216,351 | 12,809 | 25,617 | 164,271 | 446,669 | 254,223 | 2,119,940 |
| Other liabilities | - | 755,332 | - | - | - | - | - | 755,332 |
| **30 June 2010** | 43,171,956 | 6,595,757 | 2,543,545 | 3,401,911 | 6,529,008 | 1,797,744 | 254,223 | 64,294,144 |
| 30 June 2009 | 42,608,377 | 6,759,158 | 3,175,272 | 4,766,490 | 4,758,783 | 4,925,727 | 401,224 | 67,395,031 |
| 30 June 2008 | 34,768,050 | 7,443,873 | 1,716,879 | 3,421,219 | 3,548,089 | 4,311,613 | 141 | 55,209,864 |

## d. Market risk

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

(i) (a) Interest rate risk

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

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

# NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2010 (cont'd...)

## 37. Risk management (cont'd...)

### d. Market risk (cont'd...)

(i) (a) Interest rate risk (cont'd...)

| | Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Up to 3 mths Rs '000 | 3-6 mths Rs '000 | 6-12 mths Rs '000 | 1-2 yrs Rs '000 | 2-5 yrs Rs '000 | Over 5 yrs Rs '000 | Non-interest sensitive Rs '000 | Total Rs '000 |
| **2010** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 4,024,358 | - | - | - | - | - | 1,477,464 | 5,501,822 |
| Trading assets | - | 300 | 14,400 | - | - | - | 133,524 | 148,224 |
| Loans and advances to customers | 41,071,524 | 1,048,741 | 379,390 | 301,006 | 579,671 | 694,643 | (343,234) | 43,731,741 |
| Investment securities | 8,082,367 | 3,017,266 | 5,971,895 | 2,751,000 | 317,876 | - | 3,432,317 | 23,572,721 |
| Other assets | - | - | - | - | - | - | 3,159,755 | 3,159,755 |
| **Total assets** | 53,178,249 | 4,066,307 | 6,365,685 | 3,052,006 | 897,547 | 694,643 | 7,859,826 | 76,114,263 |
| **Liabilities** | | | | | | | | |
| Deposits from banks | 50,636 | - | - | - | - | - | 144,992 | 195,628 |
| Deposits from customers | 48,229,850 | 2,572,325 | 2,047,254 | 2,912,942 | 795,924 | - | 4,944,031 | 61,502,326 |
| Trading liabilities | - | - | - | - | - | - | 84,964 | 84,964 |
| Other borrowed funds | 1,937,294 | 137,400 | - | - | - | - | 8,595 | 2,083,289 |
| Other liabilities | - | - | - | - | - | - | 825,026 | 825,026 |
| **Total liabilities** | 50,217,780 | 2,709,725 | 2,047,254 | 2,912,942 | 795,924 | - | 6,007,608 | 64,691,233 |
| On balance sheet interest rate repricing gap | 2,960,469 | 1,356,582 | 4,318,431 | 139,064 | 101,623 | 694,643 | | |
| Off balance sheet interest rate repricing gap | (1,043,357) | - | - | 1,253,187 | (209,831) | - | | |
| | 1,917,112 | 1,356,582 | 4,318,431 | 1,392,251 | (108,208) | 694,643 | | |
| **2009** | | | | | | | | |
| Total assets | 52,158,807 | 4,066,365 | 4,514,384 | 2,630,236 | 3,167,612 | 781,650 | 8,815,084 | 76,134,138 |
| Total liabilities | 47,917,011 | 2,504,231 | 3,671,688 | 2,318,219 | 2,151,546 | - | 7,179,986 | 65,742,681 |
| On balance sheet interest rate repricing gap | 4,241,796 | 1,562,134 | 842,696 | 312,017 | 1,016,066 | 781,650 | | |
| Off balance sheet interest rate repricing gap | (1,398,820) | - | 686,941 | 711,879 | - | - | | |
| | 2,842,976 | 1,562,134 | 1,529,637 | 1,023,896 | 1,016,066 | 781,650 | | |
| **2008** | | | | | | | | |
| Total assets | 42,171,555 | 2,256,733 | 3,769,953 | 1,600,120 | 3,958,903 | 784,237 | 9,815,031 | 64,356,532 |
| Total liabilities | 41,749,135 | 1,636,780 | 2,544,624 | 2,390,030 | 3,054,113 | 94 | 4,747,136 | 56,121,912 |
| On balance sheet interest rate repricing gap | 422,420 | 619,953 | 1,225,329 | (789,910) | 904,790 | 784,143 | | |
| Off balance sheet interest rate repricing gap | (685,544) | - | - | 685,544 | - | - | | |
| | (263,124) | 619,953 | 1,225,329 | (104,366) | 904,790 | 784,143 | | |

| | Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Up to 3 mths Rs '000 | 3-6 mths Rs '000 | 6-12 mths Rs '000 | 1-2 yrs Rs '000 | 2-5 yrs Rs '000 | Over 5 yrs Rs '000 | Non-interest sensitive Rs '000 | Total Rs '000 |
| **2010** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 3,725,349 | - | - | - | - | - | 1,470,582 | 5,195,931 |
| Trading assets | - | 300 | 14,400 | - | - | - | 133,524 | 148,224 |
| Loans and advances to customers | 40,514,592 | 1,048,741 | 379,390 | 301,006 | 579,671 | 694,643 | (423,188) | 43,094,855 |
| Investment securities | 7,916,416 | 2,919,378 | 5,428,733 | 2,751,000 | 317,876 | - | 3,218,616 | 22,552,019 |
| Other assets | - | - | - | - | - | - | 2,834,410 | 2,834,410 |
| **Total assets** | 52,156,357 | 3,968,419 | 5,822,523 | 3,052,006 | 897,547 | 694,643 | 7,233,944 | 73,825,439 |
| **Liabilities** | | | | | | | | |
| Deposits from banks | 97,664 | - | - | - | - | - | 155,409 | 253,073 |
| Deposits from customers | 49,136,645 | 1,936,537 | 1,717,742 | 2,912,942 | 795,924 | - | 4,415,120 | 60,914,910 |
| Trading liabilities | - | - | - | - | - | - | 84,964 | 84,964 |
| Other borrowed funds | 1,937,294 | 137,400 | - | - | - | - | 8,595 | 2,083,289 |
| Other liabilities | - | - | - | - | - | - | 755,332 | 755,332 |
| **Total liabilities** | 51,171,603 | 2,073,937 | 1,717,742 | 2,912,942 | 795,924 | - | 5,419,420 | 64,091,568 |
| On balance sheet interest rate repricing gap | 984,754 | 1,894,482 | 4,104,781 | 139,064 | 101,623 | 694,643 | | |
| Off balance sheet interest rate repricing gap | (1,043,357) | - | - | 1,253,187 | (209,830) | - | | |
| | (58,603) | 1,894,482 | 4,104,781 | 1,392,251 | (108,207) | 694,643 | | |
| **2009** | | | | | | | | |
| Total assets | 50,839,119 | 3,872,370 | 4,040,068 | 2,560,456 | 3,059,782 | 780,948 | 7,598,910 | 72,751,653 |
| Total liabilities | 48,979,332 | 2,083,212 | 3,010,617 | 2,005,308 | 1,944,530 | - | 6,332,935 | 64,355,934 |
| On balance sheet interest rate repricing gap | 1,859,787 | 1,789,158 | 1,029,451 | 555,148 | 1,115,252 | 780,948 | | |
| Off balance sheet interest rate repricing gap | (1,398,820) | - | 686,941 | 711,879 | - | - | | |
| | 460,967 | 1,789,158 | 1,716,392 | 1,267,027 | 1,115,252 | 780,948 | | |
| **2008** | | | | | | | | |
| Total assets | 39,193,448 | 2,063,456 | 3,210,249 | 1,487,345 | 3,839,160 | 758,043 | 9,592,637 | 60,144,338 |
| Total liabilities | 40,944,128 | 1,197,379 | 2,026,974 | 2,037,941 | 2,764,712 | 94 | 4,461,554 | 53,432,782 |
| On balance sheet interest rate repricing gap | (1,750,680) | 866,077 | 1,183,275 | (550,596) | 1,074,448 | 757,949 | | |
| Off balance sheet interest rate repricing gap | (685,544) | - | - | 685,544 | - | - | | |
| | (2,436,224) | 866,077 | 1,183,275 | 134,948 | 1,074,448 | 757,949 | | |

(i) (b) Interest rate sensitivity

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

If interest rates had been 2% higher and all other variables were held constant, the Group's and the Bank's profit would have been increased as follows:

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Increase in profit | **44,589** | 60,737 | (704) | **10,545** | 18,637 | (38,452) |

## 37. Risk management (cont'd...)

### d. Market risk (cont'd...)

(ii) Currency risk

Foreign exchange risk arises from open and imperfectly offset or hedged positions. Imperfect correlations across currencies and international interest rate markets pose particular challenges to the effectiveness of foreign currency hedging strategies. The Bank exercises strict control over its foreign currency exposures. The Bank reports on foreign currency positions to the Central Bank and has set up conservative internal limits in order to mitigate foreign exchange risk. To manage their foreign currency exposures, dealers operate within prudential limits approved by the Board including intraday/overnight open exposures, stop loss and authorised currencies. These trading limits for Mauritius, Madagascar and Indian Operations are reviewed annually by the Board / Board Risk Management Committee. The Middle office closely monitors the Front office and reports any excesses and deviations from approved limits to the Market Risk Forum and to the Board Risk Management Committee.

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

| | USD Rs '000 | GBP Rs '000 | EURO Rs '000 | INR Rs '000 | OTHER Rs '000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2010** | | | | | |
| Total assets | 11,266,583 | 2,572,144 | 3,186,971 | 3,702,436 | 2,173,018 |
| Total liabilities | 6,024,568 | 3,878,785 | 4,035,544 | 2,971,438 | 2,490,168 |
| Net assets | 5,242,015 | (1,306,641) | (848,573) | 730,998 | (317,150) |
| Off balance sheet net notional position | (3,676,577) | 1,360,927 | 943,987 | - | 382,596 |
| **2009** | | | | | |
| Total assets | 10,254,048 | 2,457,242 | 5,701,945 | 3,477,601 | 2,946,597 |
| Total liabilities | 8,794,027 | 2,850,868 | 5,562,324 | 2,689,929 | 2,924,123 |
| Net assets | 1,460,021 | (393,626) | 139,621 | 787,672 | 22,474 |
| Off balance sheet net notional position | (1,436,259) | 393,063 | (152,016) | - | (37,666) |
| **2008** | | | | | |
| Total assets | 7,083,194 | 2,787,180 | 4,081,394 | 2,679,673 | 2,432,069 |
| Total liabilities | 5,229,330 | 2,567,165 | 3,713,517 | 1,793,059 | 2,378,185 |
| Net assets | 1,853,864 | 220,015 | 367,877 | 886,614 | 53,884 |
| Off balance sheet net notional position | (315,995) | (225,172) | (389,752) | - | 27,577 |
| **Bank** | | | | | |
| **2010** | | | | | |
| Total assets | 11,163,229 | 2,572,135 | 3,158,466 | 3,702,436 | 193,354 |
| Total liabilities | 7,336,943 | 3,879,051 | 3,996,832 | 2,971,438 | 550,360 |
| Net assets | 3,826,286 | (1,306,916) | (838,366) | 730,998 | (357,006) |
| Off balance sheet net notional position | (3,669,398) | 1,360,927 | 933,234 | - | 382,596 |
| **2009** | | | | | |
| Total assets | 11,547,520 | 2,457,190 | 5,667,997 | 3,480,480 | 917,739 |
| Total liabilities | 10,100,189 | 2,850,868 | 5,520,669 | 2,689,929 | 958,070 |
| Net assets | 1,447,331 | (393,678) | 147,328 | 790,551 | (40,331) |
| Off balance sheet net notional position | (1,455,004) | 393,063 | (157,998) | - | (37,666) |
| **2008** | | | | | |
| Total assets | 5,780,010 | 2,787,180 | 4,058,007 | 2,706,441 | 664,008 |
| Total liabilities | 5,178,695 | 2,567,363 | 3,682,726 | 1,793,059 | 673,668 |
| Net assets | 601,315 | 219,817 | 375,281 | 913,382 | (9,660) |
| Off balance sheet net notional position | (330,615) | (225,172) | (392,400) | - | 27,577 |

INR include the assets and liabilities of the Indian operations. Others show the Mauritian rupee equivalent of all other non-Mauritian currencies than those shown separately and include the assets and liabilities of the subsidiary in Madagascar.

*Value-at-Risk Analysis*

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

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

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Minimum for the year | **116** | 121 | 120 | **115** | 120 | 115 |
| Maximum for the year | **9,293** | 6,434 | 3,215 | **9,067** | 6,352 | 3,202 |
| Year end | **342** | 955 | 588 | **328** | 930 | 575 |

(iii) Equity price sensitivity analysis

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

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

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 | **2010 Rs '000** | 2009 Rs '000 | 2008 Rs '000 |
| Statement of comprehensive income | **170,644** | 149,431 | 130,162 | **160,749** | 156,901 | 134,989 |
| Statement of income | **51** | 617 | - | **51** | 617 | - |
| | **170,695** | 150,048 | 130,162 | **160,800** | 157,518 | 134,989 |

## e. Accounting policies

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

## 38. Segment information - Group

The Group has adopted IFRS 8 *Operating Segments* with effect from 01 July 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Further to the adoption of IFRS 8, the Banking and Leasing segments, previously reported under IAS 14 *Segment Reporting,* have been aggregated into one reportable segment. Thus, the Group has only one reportable operating segment based on its business activities, which is the Banking segment. Its revenues mainly arise from advances to customers and banks, investment in gilt-edged securities and equity instruments, bank placements, services provided on deposit products, provision of card and other electronic channel services, trade finance facilities, trading activities and foreign currency operations.

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

### a. Information about the reportable segment profit, assets and liabilities

| | Banking Rs '000 | Others Rs '000 | Intersegment adjustments Rs '000 | Group Total Rs '000 |
|---|---|---|---|---|
| **2010** | | | | |
| Interest income from external customers | 4,867,080 | 404 | - | 4,867,484 |
| Non interest income from external customers | 1,318,947 | 37,795 | - | 1,356,742 |
| Revenue from external customers | 6,186,027 | 38,199 | - | 6,224,226 |
| Interest income from internal customers | - | 7,480 | (7,480) | - |
| Non interest income from internal customers | 28 | 280 | (308) | - |
| Revenue from other segments of the entity | 28 | 7,760 | (7,788) | - |
| Total gross revenue | 6,186,055 | 45,959 | (7,788) | 6,224,226 |
| Interest and commission expense to external customers | (2,386,797) | (2) | - | (2,386,799) |
| Interest expense to internal customers | (7,480) | - | 7,480 | - |
| | (2,394,277) | (2) | 7,480 | (2,386,799) |
| Operating income | 3,791,778 | 45,957 | (308) | 3,837,427 |
| Depreciation and amortisation | (165,477) | (868) | - | (166,345) |
| Other non interest expenses | (1,191,413) | (15,926) | 308 | (1,207,031) |
| Net impairment loss on financial assets | (318,322) | (103) | - | (318,425) |
| Operating profit | 2,116,566 | 29,060 | - | 2,145,626 |
| Share of profit of associates | 66,622 | - | - | 66,622 |
| Profit before income tax | 2,183,188 | 29,060 | - | 2,212,248 |
| Tax expense | (347,782) | (5,626) | - | (353,408) |
| Profit for the year attributable to equity holders of the parent | 1,835,406 | 23,434 | - | 1,858,840 |
| Segment assets | 79,191,066 | 2,184,344 | (1,536,091) | 79,839,319 |
| Segment liabilities | 66,611,338 | 17,895 | (1,445,910) | 65,183,323 |
| Additions to tangible and intangible assets | 125,229 | - | - | 125,229 |

| | Banking Rs '000 | Others Rs '000 | Intersegment adjustments Rs '000 | Group Total Rs '000 |
|---|---|---|---|---|
| **2009** | | | | |
| Interest income from external customers | 5,326,659 | 6,615 | - | 5,333,274 |
| Non interest income from external customers | 1,461,686 | 130,167 | - | 1,591,853 |
| Revenue from external customers | 6,788,345 | 136,782 | - | 6,925,127 |
| Interest income from internal customers | 1,543 | 30,303 | (31,846) | - |
| Non interest income from internal customers | 30 | 424 | (454) | - |
| Revenue from other segments of the entity | 1,573 | 30,727 | (32,300) | - |
| Total gross revenue | 6,789,918 | 167,509 | (32,300) | 6,925,127 |
| Interest and commission expense to external customers | (2,943,331) | (1) | - | (2,943,332) |
| Interest expense to internal customers | (30,303) | (1,543) | 31,846 | - |
| | (2,973,634) | (1,544) | 31,846 | (2,943,332) |
| Operating income | 3,816,284 | 165,965 | (454) | 3,981,795 |
| Depreciation and amortisation | (309,425) | (433) | - | (309,858) |
| Other non interest expenses | (1,099,866) | (13,686) | 454 | (1,113,098) |
| Net impairment loss on financial assets | (278,737) | - | - | (278,737) |
| Operating profit | 2,128,256 | 151,846 | - | 2,280,102 |
| Share of profit of associates | 64,517 | - | - | 64,517 |
| Profit before income tax | 2,192,773 | 151,846 | - | 2,344,619 |
| Tax expense | (316,786) | (2,495) | - | (319,281) |
| Profit for the year attributable to equity holders of the parent | 1,875,987 | 149,351 | - | 2,025,338 |
| Segment assets | 78,789,295 | 2,306,673 | (1,862,330) | 79,233,638 |
| Segment liabilities | 67,827,472 | 14,938 | (1,551,446) | 66,290,964 |
| Additions to tangible and intangible assets | 111,454 | 4,022 | - | 115,476 |
| **2008** | | | | |
| Interest income from external customers | 5,266,636 | 62,066 | - | 5,328,702 |
| Non interest income from external customers | 1,995,870 | 73,283 | - | 2,069,153 |
| Revenue from external customers | 7,262,506 | 135,349 | - | 7,397,855 |
| Interest income from internal customers | 12,323 | 1,696 | (14,019) | - |
| Non interest income from internal customers | 39 | 2,280 | (2,319) | - |
| Revenue from other segments of the entity | 12,362 | 3,976 | (16,338) | - |
| Total gross revenue | 7,274,868 | 139,325 | (16,338) | 7,397,855 |
| Interest and commission expense to external customers | (3,292,449) | (1) | - | (3,292,450) |
| Interest expense to internal customers | (1,696) | (12,323) | 14,019 | - |
| | (3,294,145) | (12,324) | 14,019 | (3,292,450) |
| Operating income | 3,980,723 | 127,001 | (2,319) | 4,105,405 |
| Depreciation and amortisation | (298,085) | (56) | - | (298,141) |
| Other non interest expenses | (1,071,850) | (9,844) | 2,319 | (1,079,375) |
| Net impairment loss on financial assets | (386,900) | (5,000) | - | (391,900) |
| Operating profit | 2,223,888 | 112,101 | - | 2,335,989 |
| Share of profit of associates | 61,019 | - | - | 61,019 |
| Profit before income tax | 2,284,907 | 112,101 | - | 2,397,008 |
| Tax expense | (278,422) | (4,613) | - | (283,035) |
| Profit for the year attributable to equity holders of the parent | 2,006,485 | 107,488 | - | 2,113,973 |
| Segment assets | 65,966,576 | 2,133,352 | (543,034) | 67,556,894 |
| Segment liabilities | 56,685,040 | 120,660 | (222,315) | 56,583,385 |
| Additions to tangible and intangible assets | 158,365 | 204 | - | 158,569 |

## 38. Segment information - Group (cont'd...)

### b. Information about the reportable segment revenue from products and services

| | Banking 2010 Rs '000 | Banking 2009 Rs '000 | Banking 2008 Rs '000 |
|---|---|---|---|
| Gross revenue from external customers arising from: | | | |
| Loans and advances to customers | 3,721,849 | 3,967,001 | 3,966,117 |
| Loans to and placements with banks | 136,833 | 270,789 | 443,119 |
| Exchange income | 487,307 | 518,959 | 456,636 |
| Card income | 217,461 | 317,684 | 304,465 |
| Trade finance services | 101,187 | 106,265 | 93,755 |
| Deposit and other products /services | 123,870 | 121,377 | 99,673 |
| | 4,788,507 | 5,302,075 | 5,363,765 |

### c. Information about revenue of the reportable segment by geographical areas

| | Banking Mauritius Rs '000 | Banking Other countries Rs '000 | Banking Total Rs '000 |
|---|---|---|---|
| **2010** | | | |
| Gross revenue from external customers | 5,082,680 | 1,103,347 | 6,186,027 |
| Tangible and intangible assets | 2,697,337 | 229,747 | 2,927,084 |
| **2009** | | | |
| Gross revenue from external customers | 5,381,058 | 1,407,287 | 6,788,345 |
| Tangible and intangible assets | 2,119,343 | 212,141 | 2,331,484 |
| **2008** | | | |
| Gross revenue from external customers | 5,695,138 | 1,567,368 | 7,262,506 |
| Tangible and intangible assets | 2,297,066 | 215,161 | 2,512,227 |

### d. Information about major customers of the reportable segment

Gross revenue from the major customer of the Group represents 2.8% (2009 and 2008: 2.8%) of the Group's total revenue.

## 39. Supplementary information as required by Bank of Mauritius

The Bank of Mauritius requires the Bank to disclose its assets and liabilities, income and expenditure classified into segments A and B. Segment B activity is essentially directed to the provision of international financial services that give rise to 'foreign source income'. Segment A activity relates to all banking business other than Segment B activity. Expenditure incurred by the Bank but which is not directly attributable to its income derived from Mauritius or its foreign source income is apportioned in a fair and reasonable manner.

| | Note | Segment A 2010 Rs '000 | Segment B 2010 Rs '000 | Bank 2010 Rs '000 | Segment A 2009 Rs '000 | Segment B 2009 Rs '000 | Bank 2009 Rs '000 | Segment A 2008 Rs '000 | Segment B 2008 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **a. Statements of financial position** | | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and cash equivalents | | 1,049,980 | 4,145,951 | 5,195,931 | 2,183,496 | 9,298,364 | 11,481,860 | 3,800,198 | 6,293,408 | 10,093,606 |
| Trading assets | 39l | 63,037 | 85,187 | 148,224 | 27,290 | 168,990 | 196,280 | 104,199 | 32,602 | 136,801 |
| Loans to and placements with banks | 39m | - | - | - | - | 2,766,726 | 2,766,726 | - | 464,404 | 464,404 |
| Loans and advances to customers | 39n | 29,527,718 | 13,567,137 | 43,094,855 | 29,402,799 | 8,659,525 | 38,062,324 | 28,279,846 | 5,603,147 | 33,882,993 |
| Investment securities | 39o | 21,142,595 | 1,409,496 | 22,552,091 | 16,649,619 | 820,749 | 17,470,368 | 12,217,093 | 1,048,903 | 13,265,996 |
| Property and equipment | 39p | 2,626,269 | 220,660 | 2,846,929 | 2,044,233 | 204,701 | 2,248,934 | 2,108,128 | 201,604 | 2,309,732 |
| Intangible assets | 39q | 78,762 | 3,427 | 82,189 | 84,177 | 3,130 | 87,307 | 194,998 | 7,390 | 202,388 |
| Other assets | 39r | 2,678,209 | 305,856 | 2,984,065 | 2,594,663 | 331,216 | 2,925,879 | 2,128,620 | 297,668 | 2,426,288 |
| **TOTAL ASSETS** | | 57,166,570 | 19,737,714 | 76,904,284 | 52,986,277 | 22,253,401 | 75,239,678 | 48,833,082 | 13,949,126 | 62,782,208 |
| **Liabilities** | | | | | | | | | | |
| Deposits from banks | 39s | 50,644 | 202,429 | 253,073 | 11,795 | 259,976 | 271,771 | 5,387 | 150,523 | 155,910 |
| Deposits from customers | 39t | 50,826,124 | 10,088,786 | 60,914,910 | 50,345,387 | 11,714,969 | 62,060,356 | 45,432,289 | 6,692,230 | 52,124,519 |
| Trading liabilities | 39l | 26,341 | 58,623 | 84,964 | 3,177 | 45,894 | 49,071 | 28,065 | 26,430 | 54,495 |
| Other borrowed funds | | 720,573 | 1,362,716 | 2,083,289 | 219,954 | 909,614 | 1,129,568 | 347,936 | 158,001 | 505,937 |
| Current tax liabilities | | 227,332 | 18,227 | 245,559 | 392,220 | - | 392,220 | 235,448 | - | 235,448 |
| Deferred tax liabilities | | 99,619 | 78,959 | 178,578 | 59,637 | 73,487 | 133,124 | 128,769 | 70,213 | 198,982 |
| Other liabilities | 39u | 751,841 | 71,708 | 823,549 | 786,410 | 72,672 | 859,082 | 728,938 | 23,033 | 751,971 |
| **TOTAL LIABILITIES** | | 52,702,474 | 11,881,448 | 64,583,922 | 51,818,580 | 13,076,612 | 64,895,192 | 46,906,832 | 7,120,430 | 54,027,262 |
| **Shareholders' equity** | | | | | | | | | | |
| Share capital | | | | 303,740 | | | 303,740 | | | 303,740 |
| Retained earnings | | | | 9,041,522 | | | 7,760,462 | | | 6,640,520 |
| Other reserves | | | | 2,975,100 | | | 2,280,284 | | | 1,810,686 |
| Total equity attributable to equity holders of the parent | | | | 12,320,362 | | | 10,344,486 | | | 8,754,946 |
| **TOTAL EQUITY AND LIABILITIES** | | | | 76,904,284 | | | 75,239,678 | | | 62,782,208 |
| **Memorandum items** | | | | | | | | | | |
| Acceptances, guarantees, letters of credit, endorsements, other obligations on account of customers and spot foreign exchange contracts | 39v | 3,242,733 | 2,588,473 | 5,831,206 | 2,730,360 | 2,394,881 | 5,125,241 | 3,061,676 | 1,989,221 | 5,050,897 |
| Credit commitments | | 6,519,924 | 1,685,510 | 8,205,434 | 4,740,013 | 179,439 | 4,919,452 | 3,365,184 | 190,533 | 3,555,717 |
| Inward bills held for collection | | 215,397 | 26,292 | 241,689 | 215,064 | - | 215,064 | 167,202 | - | 167,202 |
| Outward bills sent for collection | | 65,638 | 166,846 | 232,484 | 83,956 | 65,883 | 149,839 | 119,390 | 182,824 | 302,214 |
| | | 10,043,692 | 4,467,121 | 14,510,813 | 7,769,393 | 2,640,203 | 10,409,596 | 6,713,452 | 2,362,578 | 9,076,030 |

## 39. Supplementary information as required by Bank of Mauritius (cont'd...)

| | Note | Segment A 2010 Rs '000 | Segment B 2010 Rs '000 | Bank 2010 Rs '000 | Segment A 2009 Rs '000 | Segment B 2009 Rs '000 | Bank 2009 Rs '000 | Segment A 2008 Rs '000 | Segment B 2008 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **b. Statements of income** | | | | | | | | | | |
| Interest income | | 3,963,506 | 743,862 | 4,707,368 | 4,275,408 | 766,886 | 5,042,294 | 4,172,276 | 844,701 | 5,016,977 |
| Interest expense | | (1,975,856) | (323,383) | (2,299,239) | (2,410,572) | (400,274) | (2,810,846) | (2,772,244) | (381,367) | (3,153,611) |
| **Net interest income** | 39c | 1,987,650 | 420,479 | 2,408,129 | 1,864,836 | 366,612 | 2,231,448 | 1,400,032 | 463,334 | 1,863,366 |
| Fee and commission income | | 457,176 | 154,058 | 611,234 | 415,575 | 285,080 | 700,655 | 349,710 | 238,286 | 587,996 |
| Fee and commission expense | | - | (12,001) | (12,001) | - | (9,996) | (9,996) | - | (7,915) | (7,915) |
| **Net fee and commission income** | 39d | 457,176 | 142,057 | 599,233 | 415,575 | 275,084 | 690,659 | 349,710 | 230,371 | 580,081 |
| Dividend income | 39e | 203,811 | 1,174 | 204,985 | 208,181 | 1,188 | 209,369 | 822,164 | 294 | 822,458 |
| Net trading income | 39f | 14,628 | (11,418) | 3,210 | 10,553 | (9,019) | 1,534 | 1,498 | 17,061 | 18,559 |
| Other operating income | 39g | 320,179 | 126,181 | 446,360 | 364,962 | 118,658 | 483,620 | 321,738 | 205,605 | 527,343 |
| **Non interest income** | | 995,794 | 257,994 | 1,253,788 | 999,271 | 385,911 | 1,385,182 | 1,495,110 | 453,331 | 1,948,441 |
| **Operating income** | | 2,983,444 | 678,473 | 3,661,917 | 2,864,107 | 752,523 | 3,616,630 | 2,895,142 | 916,665 | 3,811,807 |
| Personnel expenses | 39h | (631,811) | (88,930) | (720,741) | (578,648) | (63,222) | (641,870) | (533,372) | (58,943) | (592,315) |
| Depreciation and amortisation | | (145,057) | (21,398) | (166,455) | (263,616) | (32,109) | (295,725) | (256,771) | (30,417) | (287,188) |
| Other expenses | 39i | (359,096) | (63,493) | (422,589) | (358,597) | (49,007) | (407,604) | (389,513) | (45,812) | (435,325) |
| **Non interest expense** | | (1,135,964) | (173,821) | (1,309,785) | (1,200,861) | (144,338) | (1,345,199) | (1,179,656) | (135,172) | (1,314,828) |
| Profit before net impairment loss on financial assets | | 1,847,480 | 504,652 | 2,352,132 | 1,663,246 | 608,185 | 2,271,431 | 1,715,486 | 781,493 | 2,496,979 |
| Net impairment loss on financial assets | 39j | (166,822) | (82,106) | (248,928) | (64,015) | (135,123) | (199,138) | (225,307) | (9,819) | (235,126) |
| **Operating profit** | | 1,680,658 | 422,546 | 2,103,204 | 1,599,231 | 473,062 | 2,072,293 | 1,490,179 | 771,674 | 2,261,853 |
| Tax expense | 39k | (317,271) | (29,421) | (346,692) | (263,232) | (47,340) | (310,572) | (177,828) | (95,084) | (272,912) |
| **Profit for the year** | | 1,363,387 | 393,125 | 1,756,512 | 1,335,999 | 425,722 | 1,761,721 | 1,312,351 | 676,590 | 1,988,941 |

### c. Net interest income

#### (a) Interest income

| | Segment A 2010 Rs '000 | Segment B 2010 Rs '000 | Bank 2010 Rs '000 | Segment A 2009 Rs '000 | Segment B 2009 Rs '000 | Bank 2009 Rs '000 | Segment A 2008 Rs '000 | Segment B 2008 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 7,797 | 48,167 | 55,964 | 14,489 | 192,927 | 207,416 | 12,981 | 381,566 | 394,547 |
| Loans to and placements with banks | - | 15,305 | 15,305 | - | 35,308 | 35,308 | 1,089 | 46,159 | 47,248 |
| Loans and advances to customers | 2,892,452 | 567,029 | 3,459,481 | 3,142,741 | 457,674 | 3,600,415 | 3,366,651 | 351,094 | 3,717,745 |
| Investment securities | 1,062,806 | 32,124 | 1,094,930 | 1,101,721 | 43,678 | 1,145,399 | 787,195 | 63,875 | 851,070 |
| Trading assets | 451 | 68,517 | 68,968 | 16,457 | 37,299 | 53,756 | 4,360 | 2,007 | 6,367 |
| Other | - | 12,720 | 12,720 | - | - | - | - | - | - |
| Total interest income | 3,963,506 | 743,862 | 4,707,368 | 4,275,408 | 766,886 | 5,042,294 | 4,172,276 | 844,701 | 5,016,977 |

#### (b) Interest expense

| | Segment A 2010 Rs '000 | Segment B 2010 Rs '000 | Bank 2010 Rs '000 | Segment A 2009 Rs '000 | Segment B 2009 Rs '000 | Bank 2009 Rs '000 | Segment A 2008 Rs '000 | Segment B 2008 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|---|---|
| Deposits from banks | - | (329) | (329) | - | (2,612) | (2,612) | - | (110) | (110) |
| Deposits from customers | (1,969,611) | (302,749) | (2,272,360) | (2,385,416) | (364,750) | (2,750,166) | (2,722,853) | (375,251) | (3,098,104) |
| Lease finance charges | - | - | - | (14,547) | - | (14,547) | (32,938) | - | (32,938) |
| Other borrowed funds | (6,245) | (19,334) | (25,579) | (10,609) | (32,912) | (43,521) | (16,453) | (5,832) | (22,285) |
| Other | - | (971) | (971) | - | - | - | - | (174) | (174) |
| Total interest expense | (1,975,856) | (323,383) | (2,299,239) | (2,410,572) | (400,274) | (2,810,846) | (2,772,244) | (381,367) | (3,153,611) |
| **Net interest income** | 1,987,650 | 420,479 | 2,408,129 | 1,864,836 | 366,612 | 2,231,448 | 1,400,032 | 463,334 | 1,863,366 |

| | Segment A 2010 Rs '000 | Segment B 2010 Rs '000 | Bank 2010 Rs '000 | Segment A 2009 Rs '000 | Segment B 2009 Rs '000 | Bank 2009 Rs '000 | Segment A 2008 Rs '000 | Segment B 2008 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|---|---|
| **d. Net fee and commission income** | | | | | | | | | |
| **(a) Fee and commission income** | | | | | | | | | |
| Retail banking customer fees | 214,784 | 3,531 | 218,315 | 193,610 | 5,470 | 199,080 | 163,622 | 5,069 | 168,691 |
| Corporate banking customer fees | 111,530 | 63,928 | 175,458 | 83,133 | 100,758 | 183,891 | 95,378 | 19,462 | 114,840 |
| Card income | 130,862 | 86,599 | 217,461 | 138,832 | 178,852 | 317,684 | 90,710 | 213,755 | 304,465 |
| Total fee and commission income | 457,176 | 154,058 | 611,234 | 415,575 | 285,080 | 700,655 | 349,710 | 238,286 | 587,996 |
| **(b) Fee and commission expense** | | | | | | | | | |
| Interbank transaction fees | - | (11,343) | (11,343) | - | (9,205) | (9,205) | - | (7,512) | (7,512) |
| Other | - | (658) | (658) | - | (791) | (791) | - | (403) | (403) |
| Total fee and commission expense | - | (12,001) | (12,001) | - | (9,996) | (9,996) | - | (7,915) | (7,915) |
| **Net fee and commission income** | 457,176 | 142,057 | 599,233 | 415,575 | 275,084 | 690,659 | 349,710 | 230,371 | 580,081 |
| **e. Dividend income** | | | | | | | | | |
| Available-for-sale securities | 203,811 | 962 | 204,773 | 208,181 | 1,149 | 209,330 | 822,164 | 249 | 822,413 |
| Trading securities | - | 212 | 212 | - | 39 | 39 | - | 45 | 45 |
| | 203,811 | 1,174 | 204,985 | 208,181 | 1,188 | 209,369 | 822,164 | 294 | 822,458 |
| **f. Net trading income** | | | | | | | | | |
| Fixed income securities | 90 | (6,779) | (6,689) | 20,109 | (7,743) | 12,366 | 1,498 | 134 | 1,632 |
| Equities | 537 | 383 | 920 | (2,783) | 346 | (2,437) | - | 17,201 | 17,201 |
| Other | 14,001 | (5,022) | 8,979 | (6,773) | (1,622) | (8,395) | - | (274) | (274) |
| | 14,628 | (11,418) | 3,210 | 10,553 | (9,019) | 1,534 | 1,498 | 17,061 | 18,559 |
| **g. Other operating income** | | | | | | | | | |
| Gain on sale of available-for-sale securities: | | | | | | | | | |
| Equity shares of companies | - | - | - | - | - | - | 64 | 92,721 | 92,785 |
| Foreign exchange gain | 320,361 | 126,181 | 446,542 | 361,038 | 118,840 | 479,878 | 324,322 | 112,892 | 437,214 |
| Other | (182) | - | (182) | 3,924 | (182) | 3,742 | (2,648) | (8) | (2,656) |
| | 320,179 | 126,181 | 446,360 | 364,962 | 118,658 | 483,620 | 321,738 | 205,605 | 527,343 |
| **h. Personnel expenses** | | | | | | | | | |
| Wages and salaries | 487,173 | 72,281 | 559,454 | 485,276 | 54,400 | 539,676 | 393,917 | 47,472 | 441,389 |
| Other social security obligations | 8,269 | 813 | 9,082 | 5,832 | 465 | 6,297 | 4,787 | 341 | 5,128 |
| Contributions to defined contribution plans | 32,193 | 5,476 | 37,669 | 28,904 | 2,466 | 31,370 | 23,826 | 1,600 | 25,426 |
| Cash-settled share-based payments | 7,641 | 2,122 | 9,763 | (5,966) | (529) | (6,495) | 24,956 | 1,300 | 26,256 |
| Increase in liability for defined benefit plans | 21,143 | 824 | 21,967 | 1,112 | 99 | 1,211 | 21,217 | 1,418 | 22,635 |
| Other personnel expenses | 75,392 | 7,414 | 82,806 | 63,490 | 6,321 | 69,811 | 64,669 | 6,812 | 71,481 |
| | 631,811 | 88,930 | 720,741 | 578,648 | 63,222 | 641,870 | 533,372 | 58,943 | 592,315 |
| **i. Other expenses** | | | | | | | | | |
| Software licensing and other information technology cost | 100,436 | 21,821 | 122,257 | 92,227 | 18,991 | 111,218 | 98,555 | 23,732 | 122,287 |
| Auditors' remuneration (audit fee): | | | | | | | | | |
| - Principal auditors | 3,681 | 563 | 4,244 | 4,010 | 165 | 4,175 | 3,841 | 160 | 4,001 |
| - Other auditors | - | 301 | 301 | - | 338 | 338 | - | 307 | 307 |
| Other | 254,979 | 40,808 | 295,787 | 262,360 | 29,513 | 291,873 | 287,117 | 21,613 | 308,730 |
| | 359,096 | 63,493 | 422,589 | 358,597 | 49,007 | 407,604 | 389,513 | 45,812 | 435,325 |

# NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2010 (cont'd...)

### 39. Supplementary information as required by Bank of Mauritius (cont'd...)

| | Segment A 2010 Rs '000 | Segment B 2010 Rs '000 | Bank 2010 Rs '000 | Segment A 2009 Rs '000 | Segment B 2009 Rs '000 | Bank 2009 Rs '000 | Segment A 2008 Rs '000 | Segment B 2008 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|---|---|
| **j. Net impairment loss on financial assets** | | | | | | | | | |
| Portfolio and specific provisions: | | | | | | | | | |
| - On balance sheet advances | 199,666 | 69,192 | 268,858 | 88,780 | 22,147 | 110,927 | 268,556 | 11,703 | 280,259 |
| - Off balance sheet exposure | - | - | - | - | - | - | 105 | - | 105 |
| Interest accrued on impaired advances | (24,017) | - | (24,017) | (17,128) | - | (17,128) | (33,993) | - | (33,993) |
| Bad debts written off for which no provisions were made | - | - | - | 5 | - | 5 | 11 | - | 11 |
| Recoveries of advances written off | (8,827) | (1,091) | (9,918) | (7,642) | (7,024) | (14,666) | (9,372) | (1,884) | (11,256) |
| Other loss | - | 14,005 | 14,005 | - | 120,000 | 120,000 | - | - | - |
| | 166,822 | 82,106 | 248,928 | 64,015 | 135,123 | 199,138 | 225,307 | 9,819 | 235,126 |
| **k. Tax expense** | | | | | | | | | |
| Income tax expense | 366,877 | 34,754 | 401,631 | 332,364 | 48,245 | 380,609 | 216,268 | 95,172 | 311,440 |
| Deferred tax expense | (49,606) | (5,333) | (54,939) | (69,132) | (905) | (70,037) | (38,440) | (88) | (38,528) |
| | 317,271 | 29,421 | 346,692 | 263,232 | 47,340 | 310,572 | 177,828 | 95,084 | 272,912 |
| **l. Trading assets** | | | | | | | | | |
| Government bonds / treasury bills / treasury notes | 14,368 | 71,330 | 85,698 | 1,557 | 105,282 | 106,839 | 32,507 | - | 32,507 |
| Bank of Mauritius bills | - | - | - | - | - | - | 868 | - | 868 |
| Equities | - | 1,026 | 1,026 | - | 12,335 | 12,335 | - | - | - |
| Derivative assets | 48,669 | 12,831 | 61,500 | 25,733 | 51,373 | 77,106 | 70,824 | 32,602 | 103,426 |
| | 63,037 | 85,187 | 148,224 | 27,290 | 168,990 | 196,280 | 104,199 | 32,602 | 136,801 |
| **Trading liabilities** | | | | | | | | | |
| Derivative liabilities | 26,341 | 58,623 | 84,964 | 3,177 | 45,894 | 49,071 | 28,065 | 26,430 | 54,495 |
| **m. Loans to and placements with banks** | | | | | | | | | |
| Loans to and placements with banks outside Mauritius | - | - | - | - | 2,766,726 | 2,766,726 | - | 464,404 | 464,404 |
| | - | - | - | - | 2,766,726 | 2,766,726 | - | 464,404 | 464,404 |
| **(a) Remaining term to maturity** | | | | | | | | | |
| Up to 3 months | - | - | - | - | 2,086,144 | 2,086,144 | - | - | - |
| Over 3 months and up to 6 months | - | - | - | - | 39,175 | 39,175 | - | 295,829 | 295,829 |
| Over 6 months and up to 12 months | - | - | - | - | 641,407 | 641,407 | - | 168,575 | 168,575 |
| | - | - | - | - | 2,766,726 | 2,766,726 | - | 464,404 | 464,404 |

| | Segment A 2010 Rs '000 | Segment B 2010 Rs '000 | Bank 2010 Rs '000 | Segment A 2009 Rs '000 | Segment B 2009 Rs '000 | Bank 2009 Rs '000 | Segment A 2008 Rs '000 | Segment B 2008 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|---|---|
| **n. Loans and advances to customers** | | | | | | | | | |
| Retail customers | | | | | | | | | |
| Credit cards | 303,554 | - | 303,554 | 271,394 | - | 271,394 | 265,770 | - | 265,770 |
| Mortgages | 7,349,260 | - | 7,349,260 | 6,450,892 | - | 6,450,892 | 5,845,996 | - | 5,845,996 |
| Other retail loans | 5,814,497 | - | 5,814,497 | 5,055,743 | - | 5,055,743 | 4,246,929 | - | 4,246,929 |
| Corporate customers | 16,827,505 | 2,084,982 | 18,912,487 | 18,284,473 | 2,420,047 | 20,704,520 | 18,683,664 | 1,233,255 | 19,916,919 |
| Governments | 1,904 | - | 1,904 | 2,203 | - | 2,203 | 3,506 | - | 3,506 |
| Entities outside Mauritius | - | 11,624,754 | 11,624,754 | - | 6,285,746 | 6,285,746 | - | 4,393,090 | 4,393,090 |
| | 30,296,720 | 13,709,736 | 44,006,456 | 30,064,705 | 8,705,793 | 38,770,498 | 29,045,865 | 5,626,345 | 34,672,210 |
| Less allowance for credit impairment | (769,002) | (142,599) | (911,601) | (661,906) | (46,268) | (708,174) | (766,019) | (23,198) | (789,217) |
| | 29,527,718 | 13,567,137 | 43,094,855 | 29,402,799 | 8,659,525 | 38,062,324 | 28,279,846 | 5,603,147 | 33,882,993 |
| **(a) Remaining term to maturity** | | | | | | | | | |
| Up to 3 months | 3,762,451 | 4,976,808 | 8,739,259 | 5,035,188 | 2,090,363 | 7,125,551 | 6,236,911 | 2,329,957 | 8,566,868 |
| Over 3 months and up to 6 months | 1,402,722 | 520,664 | 1,923,386 | 997,224 | 1,071,265 | 2,068,489 | 757,439 | 448,826 | 1,206,265 |
| Over 6 months and up to 12 months | 1,287,570 | 1,448,339 | 2,735,909 | 1,727,834 | 814,826 | 2,542,660 | 1,724,413 | 652,786 | 2,377,199 |
| Over 1 year and up to 5 years | 6,430,527 | 4,478,352 | 10,908,879 | 6,704,908 | 2,952,726 | 9,657,634 | 5,808,149 | 924,311 | 6,732,460 |
| Over 5 years | 17,413,450 | 2,285,573 | 19,699,023 | 15,599,551 | 1,776,613 | 17,376,164 | 14,518,953 | 1,270,465 | 15,789,418 |
| | 30,296,720 | 13,709,736 | 44,006,456 | 30,064,705 | 8,705,793 | 38,770,498 | 29,045,865 | 5,626,345 | 34,672,210 |
| **(b) Credit concentration of risk by industry sectors** | | | | | | | | | |
| Agriculture and Fishing | 886,058 | - | 886,058 | 721,381 | - | 721,381 | 685,575 | - | 685,575 |
| Manufacturing | 1,982,499 | 4,735,691 | 6,718,190 | 3,225,459 | 2,934,689 | 6,160,148 | 3,414,843 | 2,476,550 | 5,891,393 |
| *of which EPZ* | *815,262* | - | *815,262* | *1,954,496* | *760,135* | *2,714,631* | *2,243,818* | *991,328* | *3,235,146* |
| Tourism | 6,770,207 | 1,021,865 | 7,792,072 | 6,108,638 | 888,924 | 6,997,562 | 7,019,075 | 439,841 | 7,458,916 |
| Transport | 516,788 | 806,138 | 1,322,926 | 792,407 | - | 792,407 | 362,374 | - | 362,374 |
| Construction | 1,173,681 | 788,038 | 1,961,719 | 1,318,890 | 265,514 | 1,584,404 | 1,499,396 | 226,139 | 1,725,535 |
| Financial and business services | 1,003,762 | 421,985 | 1,425,747 | 1,107,347 | 1,528,934 | 2,636,281 | 1,330,425 | 731,982 | 2,062,407 |
| Traders | 3,009,744 | 1,046,703 | 4,056,447 | 3,731,698 | 168,394 | 3,900,092 | 2,944,717 | 101,413 | 3,046,130 |
| Personal | 12,152,459 | 395,693 | 12,548,152 | 10,546,048 | 477,350 | 11,023,398 | 9,098,755 | 375,576 | 9,474,331 |
| *of which credit cards* | *303,554* | - | *303,554* | *271,394* | - | *271,394* | *265,771* | - | *265,771* |
| Professional | 194,485 | - | 194,485 | 177,446 | 22 | 177,468 | 99,042 | - | 99,042 |
| Global Business Licence holders | - | 2,084,981 | 2,084,981 | - | 1,637,870 | 1,637,870 | - | 208,773 | 208,773 |
| Others | 2,607,037 | 2,408,642 | 5,015,679 | 2,335,391 | 804,096 | 3,139,487 | 2,591,663 | 1,066,071 | 3,657,734 |
| | 30,296,720 | 13,709,736 | 44,006,456 | 30,064,705 | 8,705,793 | 38,770,498 | 29,045,865 | 5,626,345 | 34,672,210 |

## 39. Supplementary information as required by Bank of Mauritius (cont'd...)

### n. Loans and advances to customers (cont'd...)

**(c) Allowance for credit impairment by industry sectors**

| | 2010 | | | | | 2009 | 2008 |
|---|---|---|---|---|---|---|---|
| | Gross amount of loans Rs '000 | Impaired loans Rs '000 | Specific allowance for credit impairment Rs '000 | Portfolio allowance for credit impairment Rs '000 | Total allowances for credit impairment Rs '000 | Total allowances for credit impairment Rs '000 | Total allowances for credit impairment Rs '000 |
| Segment A | | | | | | | |
| Agriculture and Fishing | 886,058 | 2,673 | 2,438 | 5,233 | 7,671 | 6,490 | 3,339 |
| Manufacturing | 1,982,499 | 13,512 | 10,384 | 44,061 | 54,445 | 88,115 | 262,025 |
| *of which EPZ* | *815,262* | *273* | *33* | *22,217* | *22,250* | *26,532* | *211,949* |
| Tourism | 6,770,207 | 9,188 | 7,698 | 267,561 | 275,259 | 77,332 | 11,941 |
| Transport | 516,788 | 5,371 | 4,169 | 2,197 | 6,366 | 5,729 | 10,930 |
| Construction | 1,173,681 | 87,985 | 24,737 | 18,986 | 43,723 | 71,111 | 55,225 |
| Financial and business services | 1,003,762 | - | - | 3,733 | 3,733 | 11,797 | 3,833 |
| Traders | 3,009,744 | 36,238 | 27,778 | 33,127 | 60,905 | 78,299 | 68,335 |
| Personal | 12,152,459 | 293,914 | 222,240 | 74,978 | 297,218 | 285,616 | 226,155 |
| *of which credit cards* | *303,554* | *10,951* | *10,951* | *8,053* | *19,004* | *23,073* | *26,813* |
| Professional | 194,485 | 19,088 | 15,601 | 1,476 | 17,077 | 12,885 | 7,384 |
| Others | 2,607,037 | 15,726 | 10,995 | 17,630 | 28,625 | 24,530 | 23,158 |
| Additional provision held | - | - | - | - | - | - | 93,694 |
| | 30,296,720 | 483,695 | 326,040 | 468,982 | 795,022 | 661,904 | 766,019 |
| Segment B | | | | | | | |
| Manufacturing | 4,735,691 | - | - | 48,650 | 48,650 | 23,581 | 11,456 |
| Tourism | 1,021,865 | - | - | 9,512 | 9,512 | 3 | 6 |
| Transport | 806,138 | - | - | 3,991 | 3,991 | - | - |
| Construction | 788,038 | 118,507 | 11,850 | 11,723 | 23,573 | 1,285 | 1,321 |
| Financial and business services | 421,985 | 10,642 | 1,065 | 1,840 | 2,905 | 5,853 | 3,106 |
| Traders | 1,046,703 | - | - | 5,173 | 5,173 | - | 1,000 |
| Personal | 395,693 | - | - | 1,573 | 1,573 | 1,776 | 1,357 |
| Global Business Licence holders | 2,084,981 | - | - | 10,280 | 10,280 | 8,028 | - |
| Others | 2,408,642 | - | - | 10,922 | 10,922 | 4,100 | 4,952 |
| Additional provision held | - | - | - | - | - | 1,644 | - |
| | 13,709,736 | 129,149 | 12,915 | 103,664 | 116,579 | 46,270 | 23,198 |

## o. Investment securities

| | 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Up to 3 mths Rs '000 | 3-6 mths Rs '000 | 6-9 mths Rs '000 | 9-12 mths Rs '000 | 1-2 yrs Rs '000 | 2-5 yrs Rs '000 | No specific maturity Rs '000 | Total Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
| Remaining term to maturity | | | | | | | | | | |
| Segment A | | | | | | | | | | |
| **(a) Investment securities - loans and receivables** | | | | | | | | | | |
| Government bonds | 123,640 | 213,564 | 1,974,861 | 74,758 | 2,812,363 | 250,421 | - | 5,449,607 | 6,183,351 | 5,479,602 |
| Treasury bills / notes | 7,388,880 | 2,600,019 | 1,550,291 | 1,145,518 | - | - | - | 12,684,708 | 7,420,765 | 4,145,561 |
| | 7,512,520 | 2,813,583 | 3,525,152 | 1,220,276 | 2,812,363 | 250,421 | - | 18,134,315 | 13,604,116 | 9,625,163 |
| **(b) Available-for-sale investment securities** | | | | | | | | | | |
| Equity shares of companies: | | | | | | | | | | |
| - Investment in subsidiaries | - | - | - | - | - | - | 25 | 25 | 212,876 | 192,384 |
| - Investment in associates | - | - | - | - | - | - | 423,318 | 423,318 | 288,692 | 282,761 |
| - Other equity investments | - | - | - | - | - | - | 2,584,937 | 2,584,937 | 2,543,935 | 2,116,785 |
| | - | - | - | - | - | - | 3,008,280 | 3,008,280 | 3,045,503 | 2,591,930 |
| **Total Segment A** | 7,512,520 | 2,813,583 | 3,525,152 | 1,220,276 | 2,812,363 | 250,421 | 3,008,280 | 21,142,595 | 16,649,619 | 12,217,093 |
| Segment B | | | | | | | | | | |
| **(a) Held-to-maturity investment securities** | | | | | | | | | | |
| Government bonds | - | - | - | - | - | - | - | - | - | 56,304 |
| Treasury bills / notes | 376,616 | 67,678 | 365,531 | 293,803 | - | - | - | 1,103,628 | 695,771 | - |
| Securities issued by government bodies | 67,488 | - | - | - | - | 1,237 | - | 68,725 | - | - |
| Bank bonds secured by government | - | - | - | - | - | - | - | - | 1,222 | 54,846 |
| | 444,104 | 67,678 | 365,531 | 293,803 | - | 1,237 | - | 1,172,353 | 696,993 | 111,150 |
| **(b) Available-for-sale investment securities** | | | | | | | | | | |
| Treasury bills / notes | - | - | - | - | - | - | - | - | - | 787,161 |
| Equity shares of companies: | | | | | | | | | | |
| - Investment in subsidiaries | - | - | - | - | - | - | 47 | 47 | 47 | 47 |
| - Other equity investments | - | - | - | - | - | - | 237,096 | 237,096 | 123,709 | 150,545 |
| | - | - | - | - | - | - | 237,143 | 237,143 | 123,756 | 937,753 |
| **Total Segment B** | 444,104 | 67,678 | 365,531 | 293,803 | - | 1,237 | 237,143 | 1,409,496 | 820,749 | 1,048,903 |
| **Total Bank** | 7,956,624 | 2,881,261 | 3,890,683 | 1,514,079 | 2,812,363 | 251,658 | 3,245,423 | 22,552,091 | 17,470,368 | 13,265,996 |

# NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2010 (cont'd...)

## 39. Supplementary information as required by Bank of Mauritius (cont'd...)

### p. Property and equipment

| | Freehold land and buildings Rs '000 | Leasehold buildings Rs '000 | Other tangible fixed assets Rs '000 | Motor vehicles Rs '000 | Progress payments on tangible fixed assets Rs '000 | Total Rs '000 |
|---|---|---|---|---|---|---|
| **Net book value at 30 June 2010** | | | | | | |
| Segment A | 428,095 | 1,902,174 | 274,022 | 5,946 | 16,032 | 2,626,269 |
| Segment B | 218,238 | - | 857 | 1,565 | - | 220,660 |
| **Bank** | 646,333 | 1,902,174 | 274,879 | 7,511 | 16,032 | 2,846,929 |
| **Net book value at 30 June 2009** | | | | | | |
| Segment A | 378,277 | 1,381,563 | 265,667 | 8,380 | 10,346 | 2,044,233 |
| Segment B | 201,740 | - | 2,918 | 43 | - | 204,701 |
| **Bank** | 580,017 | 1,381,563 | 268,585 | 8,423 | 10,346 | 2,248,934 |
| **Net book value at 30 June 2008** | | | | | | |
| Segment A | 379,840 | 1,420,443 | 265,177 | 7,617 | 35,051 | 2,108,128 |
| Segment B | 195,645 | - | 5,800 | 159 | - | 201,604 |
| **Bank** | 575,485 | 1,420,443 | 270,977 | 7,776 | 35,051 | 2,309,732 |

### q. Intangible assets

| | 2010 Rs '000 | 2009 Rs '000 | 2008 Rs '000 |
|---|---|---|---|
| Software | | | |
| **Net book value** | | | |
| Segment A | 78,762 | 84,177 | 194,998 |
| Segment B | 3,427 | 3,130 | 7,390 |
| **Bank** | 82,189 | 87,307 | 202,388 |

### r. Other assets

| | Segment A 2010 Rs '000 | Segment B 2010 Rs '000 | Bank 2010 Rs '000 | Segment A 2009 Rs '000 | Segment B 2009 Rs '000 | Bank 2009 Rs '000 | Segment A 2008 Rs '000 | Segment B 2008 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|---|---|
| Mandatory balances with Central Bank | 2,448,739 | 137,406 | 2,586,145 | 2,358,125 | 141,694 | 2,499,819 | 1,754,761 | 164,123 | 1,918,884 |
| Accounts receivable | 44,971 | 22,600 | 67,571 | 43,690 | 19,234 | 62,924 | 132,108 | 15,341 | 147,449 |
| Balances due in clearing | 142,094 | - | 142,094 | 142,566 | 12,974 | 155,540 | 209,828 | - | 209,828 |
| Tax paid in advance | - | 121,934 | 121,934 | - | 111,366 | 111,366 | - | 100,991 | 100,991 |
| Pension asset | 649 | - | 649 | 7,324 | - | 7,324 | 6,072 | - | 6,072 |
| Balances with Clearing Corporation in India | - | 20,955 | 20,955 | - | 20,982 | 20,982 | - | 14,180 | 14,180 |
| Non-banking assets acquired in satisfaction of debts | 202 | - | 202 | - | - | - | - | - | - |
| Others | 41,554 | 2,961 | 44,515 | 42,958 | 24,966 | 67,924 | 25,851 | 3,033 | 28,884 |
| | 2,678,209 | 305,856 | 2,984,065 | 2,594,663 | 331,216 | 2,925,879 | 2,128,620 | 297,668 | 2,426,288 |

### s. Deposits from banks

| | Segment A 2010 Rs '000 | Segment B 2010 Rs '000 | Bank 2010 Rs '000 | Segment A 2009 Rs '000 | Segment B 2009 Rs '000 | Bank 2009 Rs '000 | Segment A 2008 Rs '000 | Segment B 2008 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|---|---|
| Demand deposits | 50,644 | 202,429 | 253,073 | 11,795 | 259,976 | 271,771 | 5,387 | 150,523 | 155,910 |

## t. Deposits from customers

| | Segment A 2010 Rs '000 | Segment B 2010 Rs '000 | Bank 2010 Rs '000 | Segment A 2009 Rs '000 | Segment B 2009 Rs '000 | Bank 2009 Rs '000 | Segment A 2008 Rs '000 | Segment B 2008 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|---|---|
| Retail customers | | | | | | | | | |
| Current accounts | 5,133,094 | 1,134,830 | 6,267,924 | 4,093,256 | 1,134,669 | 5,227,925 | 3,231,960 | 713,955 | 3,945,915 |
| Savings accounts | 21,227,018 | 748,760 | 21,975,778 | 19,227,496 | 551,545 | 19,779,041 | 17,249,065 | 464,017 | 17,713,082 |
| Time deposits with remaining term to maturity: | | | | | | | | | |
| - Up to 3 months | 1,292,525 | 597,432 | 1,889,957 | 1,304,205 | 560,527 | 1,864,732 | 1,188,343 | 899,384 | 2,087,727 |
| - Over 3 months and up to 6 months | 869,789 | 778,343 | 1,648,132 | 853,343 | 323,452 | 1,176,795 | 776,018 | 227,556 | 1,003,574 |
| - Over 6 months and up to 12 months | 2,469,937 | 517,814 | 2,987,751 | 2,022,828 | 375,907 | 2,398,735 | 1,550,758 | 324,742 | 1,875,500 |
| - Over 1 year and up to 5 years | 3,435,334 | 937,808 | 4,373,142 | 4,080,432 | 572,898 | 4,653,330 | 4,675,651 | 505,854 | 5,181,505 |
| Corporate customers | | | | | | | | | |
| Current accounts | 5,030,575 | 2,301,098 | 7,331,673 | 6,675,859 | 3,196,487 | 9,872,346 | 4,126,168 | 1,430,812 | 5,556,980 |
| Savings accounts | 4,816,630 | 52 | 4,816,682 | 3,674,280 | 50 | 3,674,330 | 4,856,275 | 47 | 4,856,322 |
| Time deposits with remaining term to maturity: | | | | | | | | | |
| - Up to 3 months | 1,577,655 | 1,115,005 | 2,692,660 | 2,597,569 | 1,294,599 | 3,892,168 | 3,583,062 | 735,801 | 4,318,863 |
| - Over 3 months and up to 6 months | 511,092 | 346,997 | 858,089 | 382,067 | 993,696 | 1,375,763 | 367,294 | 125,980 | 493,274 |
| - Over 6 months and up to 12 months | 46,147 | 210,660 | 256,807 | 805,432 | 871,252 | 1,676,684 | 328,256 | 852,882 | 1,181,138 |
| - Over 1 year and up to 5 years | 1,613,870 | 1,399,987 | 3,013,857 | 822,193 | 1,839,887 | 2,662,080 | 832,207 | 411,102 | 1,243,309 |
| - Over 5 years | - | - | - | - | - | - | - | 98 | 98 |
| Government | | | | | | | | | |
| Current accounts | 1,154,297 | - | 1,154,297 | 2,400,322 | - | 2,400,322 | 976,632 | - | 976,632 |
| Savings accounts | 1,625,925 | - | 1,625,925 | 1,382,806 | - | 1,382,806 | 1,563,208 | - | 1,563,208 |
| Time deposits with remaining term to maturity: | | | | | | - | | | |
| - Up to 3 months | 1,558 | - | 1,558 | 3,136 | - | 3,136 | 16,720 | - | 16,720 |
| - Over 3 months and up to 6 months | 334 | - | 334 | 335 | - | 335 | 100,461 | - | 100,461 |
| - Over 6 months and up to 12 months | 16,123 | - | 16,123 | 5,178 | - | 5,178 | 4,451 | - | 4,451 |
| - Over 1 year and up to 5 years | 4,221 | - | 4,221 | 14,650 | - | 14,650 | 5,760 | - | 5,760 |
| | 50,826,124 | 10,088,786 | 60,914,910 | 50,345,387 | 11,714,969 | 62,060,356 | 45,432,289 | 6,692,230 | 52,124,519 |

## u. Other liabilities

| | Segment A 2010 Rs '000 | Segment B 2010 Rs '000 | Bank 2010 Rs '000 | Segment A 2009 Rs '000 | Segment B 2009 Rs '000 | Bank 2009 Rs '000 | Segment A 2008 Rs '000 | Segment B 2008 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|---|---|
| Bills payable | 107,310 | 1,394 | 108,704 | 77,690 | 6,370 | 84,060 | 142,657 | 8,092 | 150,749 |
| Accruals for operating and non-operating expenses | 230,313 | 4,085 | 234,398 | 202,259 | 30,179 | 232,438 | 133,163 | 3,218 | 136,381 |
| Accounts payable | 69,758 | 11,086 | 80,844 | 44,236 | 12,725 | 56,961 | 95,300 | 8,744 | 104,044 |
| Deferred income | 14,364 | 53,853 | 68,217 | 13,734 | 178 | 13,912 | 15,147 | 109 | 15,256 |
| Balance due in clearing | 154,567 | 7 | 154,574 | 149,410 | 348 | 149,758 | 206,461 | 188 | 206,649 |
| Balances in transit | 165,552 | - | 165,552 | 290,812 | - | 290,812 | 123,909 | - | 123,909 |
| Specific allowance on off balance sheet exposure | - | - | - | - | - | - | 105 | - | 105 |
| Others | 9,977 | 1,283 | 11,260 | 8,269 | 22,872 | 31,141 | 12,196 | 2,682 | 14,878 |
| | 751,841 | 71,708 | 823,549 | 786,410 | 72,672 | 859,082 | 728,938 | 23,033 | 751,971 |

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

| | Segment A 2010 Rs '000 | Segment B 2010 Rs '000 | Bank 2010 Rs '000 | Segment A 2009 Rs '000 | Segment B 2009 Rs '000 | Bank 2009 Rs '000 | Segment A 2008 Rs '000 | Segment B 2008 Rs '000 | Bank 2008 Rs '000 |
|---|---|---|---|---|---|---|---|---|---|
| Acceptances on account of customers | 106,799 | - | 106,799 | 191,851 | 15,429 | 207,280 | 215,223 | 4,011 | 219,234 |
| Guarantees on account of customers | 2,472,179 | 205,019 | 2,677,198 | 2,136,739 | 562,262 | 2,699,001 | 2,317,050 | 337,832 | 2,654,882 |
| Letters of credit and other obligations on account of customers | 425,931 | 295,740 | 721,671 | 385,810 | 16,178 | 401,988 | 527,904 | 242,200 | 770,104 |
| Spot foreign exchange contracts | 237,824 | 2,087,714 | 2,325,538 | 15,960 | 987,650 | 1,003,610 | 1,499 | 1,405,178 | 1,406,677 |
| Other contingent items | - | - | - | - | 813,362 | 813,362 | - | - | - |
| | 3,242,733 | 2,588,473 | 5,831,206 | 2,730,360 | 2,394,881 | 5,125,241 | 3,061,676 | 1,989,221 | 5,050,897 |
| Credit commitments | | | | | | | | | |
| Undrawn credit facilities | 6,519,924 | 1,685,510 | 8,205,434 | 4,740,013 | 179,439 | 4,919,452 | 3,365,184 | 190,533 | 3,555,717 |

# GROUP ADDRESSES

## Corporate office

SBM Tower
1, Queen Elizabeth II Avenue
Port Louis, Mauritius
Tel: (230) 202 1111
Fax: (230) 202 1234
Swift: STCBMUMU
Home Page: www.sbmgroup.mu
Email: sbm@sbm.intnet.mu

## India

101, Raheja Centre
Free Press Journal Marg
Nariman Point
Mumbai - 400 021, India
Tel: (91) (22) 4302 8888
Fax: (91) (22) 2284 2966
Swift: STCBINBX
Email: admin@sbm-india.com

## Madagascar

Banque SBM Madagascar SA
(100 % subsidiary)

1, Rue Andrianary Ratianarivo
Antsahavola, 101 Antananarivo
Madagascar
Tel: (261) 20 22 666 07
Fax:(261) 20 22 666 08
Swift: BSBMMGMG
Email: bsbmmtana@sbm.intnet.mu

## Subsidiaries

SBM Asset Management Limited
SBM Capital Management Limited
SBM Global Investments Limited
SBM International Investments Limited
SBM Investments Limited

SBM Tower,
1, Queen Elizabeth II Avenue
Port Louis, Mauritius
Tel: (230) 202 1111
Email: finance@sbm.intnet.mu

SBM Financials Limited

SBM Tower
1, Queen Elizabeth II Avenue
Port Louis, Mauritius
Tel: (230) 202 1111
Email: sbm.financials@sbm.intnet.mu

SBM Mauritius Asset Managers Ltd

SBM Tower
1, Queen Elizabeth II Avenue
Port Louis, Mauritius
Tel : (230) 202 1111
Email: sbm.assetm@sbm.intnet.mu

SBM Securities Ltd

SBM Tower
1, Queen Elizabeth II Avenue
Port Louis, Mauritius
Tel: (230) 202 1111
Home Page: www.sbmsecurities.com
Email: sbmsecurities@sbm.intnet.mu

## Associate

### State Insurance Company of Mauritius Ltd

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

## Contact details for shareholder information

Company Secretary
SBM Tower,
1, Queen Elizabeth II Avenue
Port Louis, Mauritius
Tel: (230) 202 1544
Fax: (230) 202 1234
Email: company.secretary@sbm.intnet.mu

**SBM** - SBM Tower, 1 Queen Elizabeth II Avenue, Port Louis, Republic of Mauritius - Tel: (230) 202 1111 - Fax: (230) 202 1234
Swift: STCBMUMU - Email: sbm@sbm.intnet.mu - website: www.sbmgroup.mu