

# The Perfect Blend for Creating Solutions.

**Innovation** is our unique, creative approach. **Technology** gives us the ideal tools. **Service** is how we put both into practice.





## Mission

Value creation for stakeholders by achieving consistent improved returns and continued enhancement.

## Vision

To be the leading provider of premier integrated financial services in the region through dedicated and competent professional teams and to create value for stakeholders.

## Goal

To continuously add value to the Group's lines of business and to achieve consistent improved returns for its shareholders. SBM aims to achieve its goals by continuously improving operating efficiencies; maintaining a balanced, acceptable and quality risk profile; effectively managing its balance sheet, customer services and delivery channels as well as motivating its people.



# SBM An Innovative Group

State Bank of Mauritius Ltd (SBM), formerly known as The State Commercial Bank Ltd, started operations in 1973 and was listed on the Stock Exchange of Mauritius (SEM) on June 30, 1995.

SBM's share is widely held and is one of the most liquid and best performing shares in Mauritius.



State Bank of Mauritius Ltd (SBM) Group is an integrated banking group with an impressive track record, especially over the last decade. Total assets and shareholders' funds increased from Rs18,297m and Rs1,310m in 1994 to Rs57,008m and Rs6,135m respectively in 2004. Post tax profits increased 4 times from Rs281m to Rs1,130m over the same period. SBM won the "Bank of the Year, Mauritius" award three times since the launch of this award in London four years back by the Banker, Financial Times Group. SBM also won the "Best Bank in Mauritius" by Euromoney for their first African Awards for Excellence 2004.

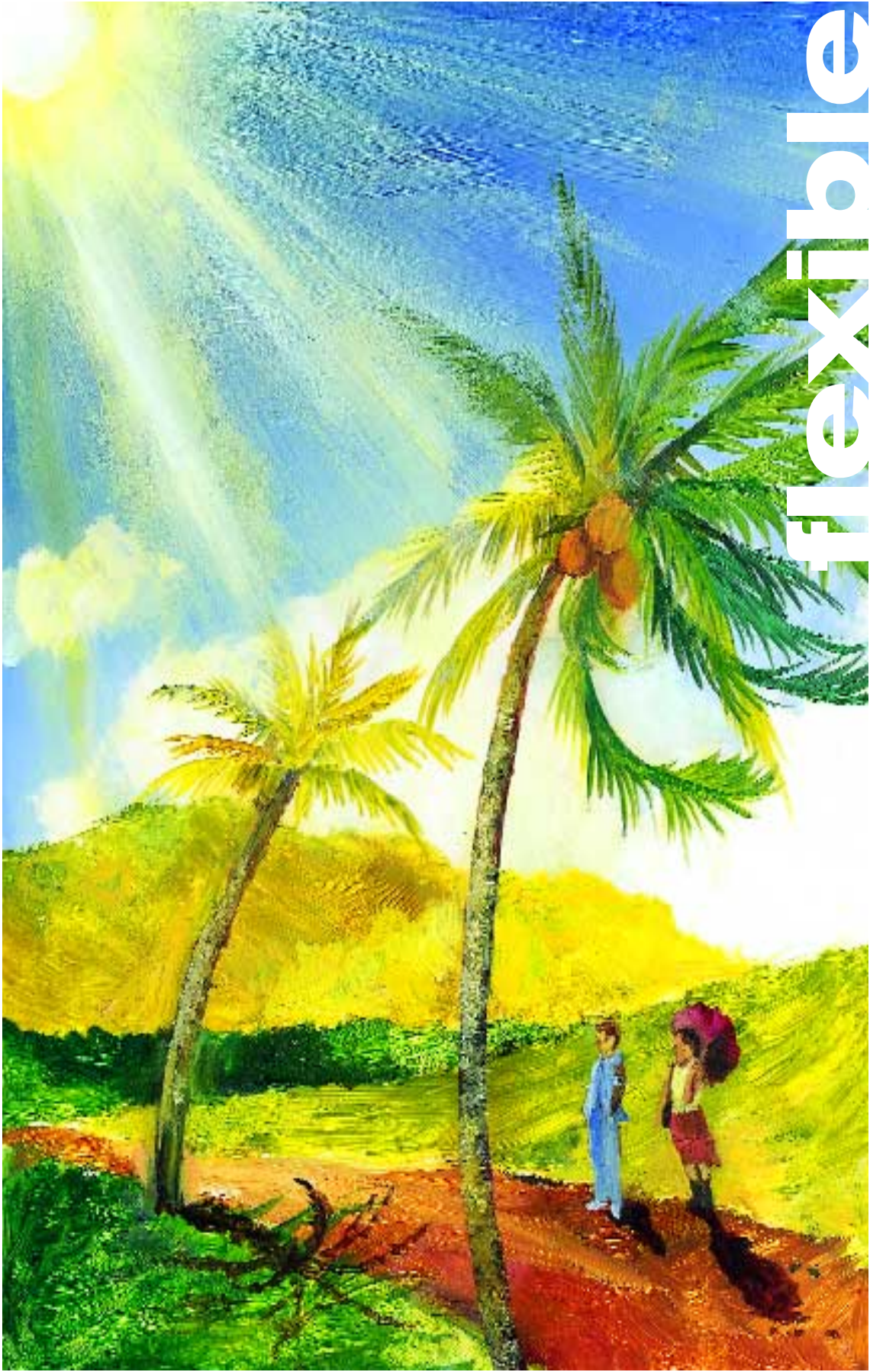
"The Banker", in its July 2004 issue, ranked SBM 989 among the "Top 1000 World Banks" in terms of Tier 1 capital. SBM is ranked 54 in terms of return on assets and 96 in terms of soundness among "Top 1000 World Banks", based on 2003 operating results with a cost to income ratio of under 40%. SBM enjoys a rating of Baa2/P2 for long and short term foreign currency deposits and D+ for financial strength from Moody's Investors Service.

SBM has continuously improved its operating efficiencies through business process reengineering, new conducive business models, investment in technology and people and is today recognised as a dynamic, sound and innovative Group. SBM has a modern information technology structure coupled with a flexible but flat structure and with a customer-friendly business model that enables it

to be most efficient, with the lowest cost to income ratio in the Mauritian Banking industry. The Group has replaced its technology platform with a 21st century technology platform, providing more user friendly systems with 90% of its eligible transactions conducted through electronic channels. Our state-of-the-art technology supports performance measurement, including RAROC by line of business, customer, product and delivery channel.

At apex level, SBM has three lines of business: Personal Banking, Business Banking and Treasury which it services through a network of 38 domestic Service Centres, 96 Bank's ATMs, coupled with Internet Banking, PC banking, E-Commerce and over 1,200 Bank's POS terminals. SBM enjoys large market share in most banking segments, with particular emphasis in retail banking. SBM was the first bank to establish branches in the rural areas and offers banking services to all segments, allowing the Bank to build a strong customer base. The Group has overseas operations in India at Mumbai, Chennai and Hyderabad and has a subsidiary bank in Antananarivo, Madagascar.

The Group has eight subsidiaries and four associates. SBM also holds 19% equity in Mauritius Telecom. SBM Group, in a joint venture with Nedcor Group operates an offshore bank in Mauritius and through Nedcor Group, has equity holdings in banking operations in Malawi. SBM commands a market share of around 24% in domestic commercial banking assets in Mauritius.



flexible

## **Flexible**

Just what is Innovation?  
It is a flexible approach.  
The flexibility to adapt to ever  
changing customer needs.

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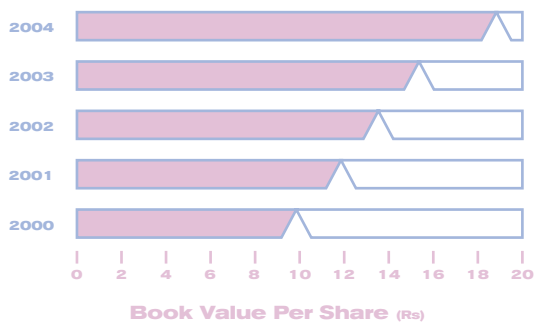
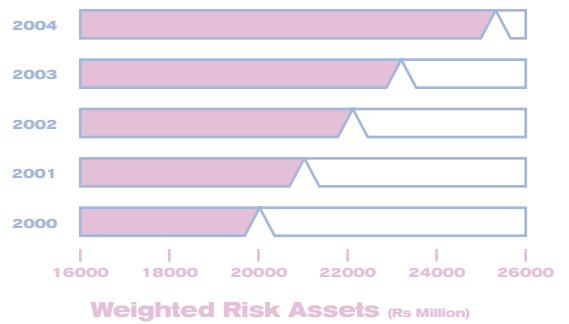
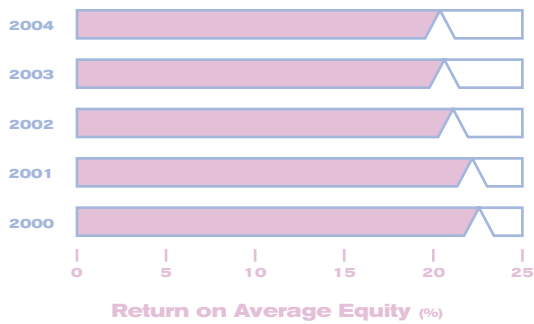
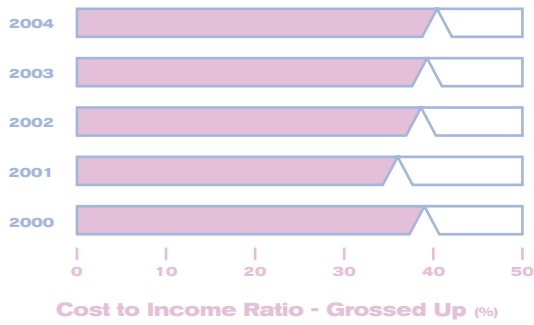
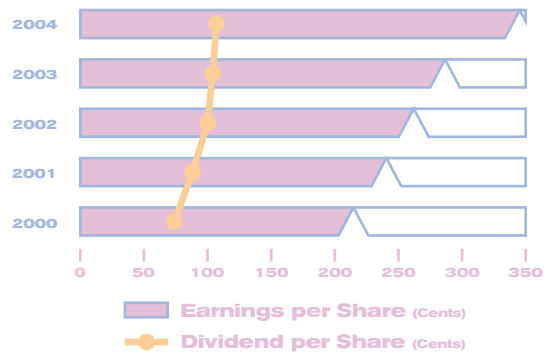
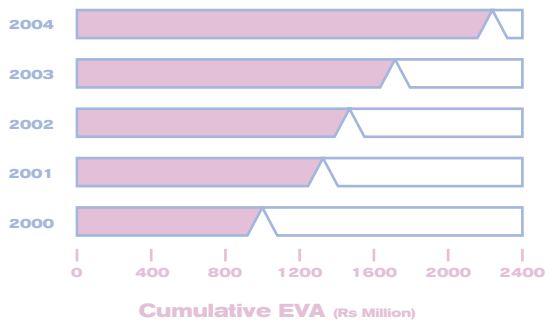
## Key Financial Indicators

	2004	Restated			
		2003	2002	2001	2000
Earnings per Share (cents)	346	284	262	240	214
Risk Adjusted Return on Capital (RAROC) (%)	33.08	29.10	N.A	N.A	N.A
Cumulative Economic Value Added (RsM)	2,198	1,751	1,434	1,261	993
Pre-tax Earnings (RsM)	1,366	1,186	1,029	991	858
Profit attributable to Shareholders (RsM)	1,127	1,018	952	871	778
Cost to Income* (%)	40.15	39.17	38.24	35.73	38.56
Cost to Income before depreciation* (%)	31.55	28.88	27.01	26.61	27.51
Capital to Weighted Risk Assets (%)	19.92	20.51	20.58	18.70	16.93
Return on Average Weighted Risk Assets (%)	4.63	4.52	4.46	4.29	3.96
Return on Average Assets (%)	2.80	2.81	2.93	2.94	2.90
Return on Average Tier 1 Capital (%)	23.02	20.59	21.17	22.54	22.73
Electronic to Gross Transactions (%)	80.00	76.00	72.00	68.00	64.28

N.A = Not Available

\*Grossed up for tax exempt debenture interest

## Key Financial Charts





## Directors' Report to the Shareholders

The Board of Directors of State Bank of Mauritius Ltd (SBM) is pleased to submit its thirty-second Annual Report for the Group and the Bank for the year ended June 30, 2004.

### Operating Results

SBM achieved a good performance. Earnings per share (EPS) increased by 22.1% from 284 cents last year to 346 cents for 2004. SBM Group's profit before tax increased from Rs1,186.4m to Rs1,365.5m for 2004, a growth of 15.1%. The above operating results were achieved despite excess liquidity coupled with low demand for credit. However, the profit attributable to the shareholders recorded a growth of 10.6% over the same period due to a higher tax charge resulting from a lower investment allowance. The higher level of increase in the EPS growth compared to the growth in profit is because of the decrease in the weighted average number of outstanding shares by 9.4%, arising from our share buy back programme. The Board is pleased to report that the Group improved its key measures of performance, namely Risk Adjusted Return on Capital (RAROC) and Economic Value Added (EVA). RAROC improved from 29% for 2003 to 33% for 2004 and EVA improved from Rs317m to Rs447m for the same periods. Return on average weighted risk assets improved from 4.52% for 2003 to 4.63% for 2004 and return on average Tier 1 Capital improved from 20.59% to 23.02% over the same period. Total assets increased to Rs57,088m as at 2004 from Rs52,687m last year, an increase of 8.4%.

The cost to income ratio went up from 39.17% for 2003 to 40.15% for 2004. The ratio is 28.43% for 2004

compared to 27.4% for 2003 excluding depreciation charge and exceptional items. SBM's cost to income ratio continues to be the lowest among the Mauritian banks and remains one of the best in the region, as well as in the world.

### Dividend and Capital Resources

The Board recommends an increase in payment of dividends from 110 cents to 120 cents per share for the financial year 2004. The proposed dividend for the financial year 2004 amounts to Rs390.1m. The balance of undistributed profits of Rs736.5m was transferred to revenue reserves. Shareholders' funds reached Rs6,134.7m at June 30, 2004 from Rs5,138.9m at June 30, 2003. The increase in shareholders' funds resulting from retained profits and the gains arising from measurement of equity investments at fair value following the adoption of IAS39 in the period under review, were partly offset by higher provisions on impaired credit required under IAS39, the share buy back programme and translation losses.

### Growth of Business

SBM's customer-centric business model organised its business activities around 3 main lines of business across both its domestic and international operations. These lines of business are: Personal Banking, Business Banking and Treasury. In line with our strategy to focus on the retail sector, Personal Banking witnessed an impressive growth in 2004; its deposits and advances increased by 16% and 30% respectively. Reliability, innovations coupled with the convenience of a large network of Service Centres (branches) and a variety of electronic service delivery

## Directors' Report to the Shareholders (cont'd)

channels, together with a full range of products and services, form the backbone of SBM's position as a leading premier personal bank in Mauritius. SBM is at the forefront of the domestic banking industry in developing and marketing innovative value-added retail products and solutions that meet the dynamic needs of customers. The Board is pleased to note that SBM was the first Bank in Mauritius to introduce 'TopUp' in November 2003. 'TopUp' allows SBM and non SBM customers to conveniently recharge their prepaid mobile phones with any bank's debit or credit card through SBM's ATM network. Leveraging on its technology, SBM has further enhanced the 'TopUp' facilities to allow all prepaid mobile phone subscribers to recharge their credits any-time anywhere through 'Short Message Service' (SMS).

Business Banking includes mainly our corporate customers both from domestic and overseas operations. Gross advances and deposits witnessed a growth of 2% and 8% respectively in 2004 over 2003. Business Banking is managed by portfolios and the portfolio growth is driven by our appetite for credit risk, taking into consideration the opportunities.

During the year Banque SBM Madagascar entered into an agreement with SBM for the implementation of the "Flexcube" front-end system and for outsourcing its data processing. SBM also implemented a new improved system in its subsidiary, SBM Lease Ltd, which is integrated with the back-end operating systems of SBM.

Treasury encompasses money market activities, managing the funding centre, foreign exchange and securities market activities including trading. SBM Treasury continues to be a leading market-maker in the

secondary market for Mauritian Government treasury bills and bonds. The Board is pleased to note that SBM is currently gearing up to commence an international bond trading activity in October 2004. In fact, SBM will be the first Bank in Mauritius to start such operations.

SBM considers Treasury operations as one of the key contributors to its earnings and to service its customers' needs. During the period under review, Treasury contributed 31% to the pre-tax profits with a RAROC of 47%.

### Investing in Value Based Performance Management

SBM makes judicious investments proactively to obtain leadership in core competencies and competitive edge to stay ahead of competitors. SBM has moved from the traditional financial profitability measure to a value creation measure. SBM has, therefore, implemented a risk adjusted performance framework to motivate and measure for value and further enhance quality, productivity and profitability. SBM uses RAROC and EVA as performance measures for its lines of business, customers, portfolios, products and delivery channels, thus providing input for sound decision making to further identify and add value. The three pillars of this framework are: strategic planning/operating budgets, value creation initiatives and value based performance measurement.

SBM's planning and forecasting models provide enhanced analytical capabilities and forecast economic profit capabilities. Further, the system is capable of providing actual results against budgets, favorable or unfavorable trends and to manage resources (workforce, funds and capital) in a most effective and efficient manner.

## **Directors' Report** to the Shareholders (cont'd)

SBM's Integrated Risk and Value Based Performance Management System includes Funds Transfer Pricing (FTP), Activity Based Costing (ABC) and Capital Allocation based on levels of risk. The above sophisticated system enables us to calculate realistic and meaningful economic profit and RAROC.

RAROC is a standard metric used for assessing risk and return. SBM's quarterly rolling forecasting system ensures that lines of business are responsive to the market environment and is driven by RAROC measurement.

Value adding initiatives continuously target the creation and adding of value by achieving higher efficiency and effectiveness from SBM's current capabilities in order to optimise and focus SBM's time, resources and future investments.

### **Investing in Risk Management Practices**

The Board recognises that banking business and operations are exposed to a variety of risks including credit, market, liquidity and operational risks which are being exacerbated with increased financial deregulation, globalisation, technology and innovative financial instruments. In view of the importance of risk management in the business of banking, SBM has made substantial investment in information technology, sophisticated modern risk management tools and organisational design to build an Enterprise-wide Risk Management (ERM) framework that will enable it to protect, create and enhance shareholder value in the ever changing market environment. The ultimate integration of the credit, market and operational risks for ERM is a challenging task which SBM has embarked on since 2002 and the methodologies and processes have since been

continuously reviewed and refined. Risk Management is an integral part of SBM's overall management philosophy whereby the risks of the Bank/Group are identified, measured, controlled, reported and periodically reviewed by executive management and the Board to ensure acceptable and targeted risk-profile of the entity.

### **Investing in Information Technology**

SBM places a high priority on continuing to maintain leadership in information technology as an essential part of its business strategy. The Bank is pleased to report that its core banking solution named "Flexcube" which was implemented in 2002 has been awarded 'Application of the year 2004' and 'Core Banking Solution in 2004' by "The Banker", a publication of the Financial Times Group.

During the period under review the Bank implemented Base 24 System, an integrated payment engine used by 50 of the top 100 world banks. Base 24 is a robust and versatile system enabling authentication, routing and authorisation of financial transactions across multiple channels, including ATMS and POS. New modules can be added to the Base 24 platform to provide value added services such as recharging prepaid mobile phones and processing of cards issued by other banks through our ATM and POS network. During the year SBM also implemented Proactive Risk Manager (PRM) tool, rules based software, to minimise card fraud using the Base 24 platform.

The implementation of the chip card system is progressing satisfactorily and is expected to be fully operational by the end of the year. Our ATM and POS networks are already EMV compliant for chip card acquiring. EMV represents Europay, Mastercard and Visa, a joint venture that developed the ISO common specification of the

## Directors' Report to the Shareholders (cont'd)

chip/smart card and that of its ATM/POS infrastructure. SBM aims to eventually replace its magnetic stripe cards with chip cards, which are more reliable.

SBM fully operationalised the 'Experian' credit scoring software for processing on-line personal loan applications, portfolio management tools to further enhance the Bank's risk management practices and data warehouse for improved strategic decision making. Information technology is central to providing round the clock, 24 x 7 service and to supporting our innovative products/solutions and risk management framework/practices.

### Investing in People

Our people are an important resource in the value creation chain. SBM provides the requisite tools, conducive working environment, hands-on training and leisure facilities to its employees to enable them to excel. Senior and middle management personnel attend residential overseas executive education programmes. In-house training is conducted at SBM Park, the Bank's learning and leisure centre. SBM is the only company in Mauritius providing an integrated sports, leisure and private learning facility of high standard for its employees and their families. SBM offers subsidised meals at SBM Tower, preferential interest rates for housing, personal and car loans, pension benefits, medical benefits, 24 hour accident insurance cover and a productivity linked bonus payment scheme.

### Investing in other Core Competencies

SBM leverages its core competencies in the areas of its unique business model, viz innovation, operating efficiencies, service distribution channels and customer relationship management to add value to its customers. SBM will use its

market leadership, strong retail franchise, robust risk management practices and value-based performance framework to continue to create shareholder value.

### Share Buy Back Programme

At the Annual Meeting held on October 28, 2003 the shareholders approved the buy back of an additional 40,000,000 own shares for cancellation, to be implemented over a period of 18 months with effect from November 17, 2003. As at June 30, 2004, SBM has bought back 72,700 shares out of the 40,000,000 for a total cost of Rs1.5m.

### Corporate Governance Practices

Good corporate governance in line with international best practices has been entrenched at SBM. SBM was the first listed company in Mauritius to adopt good corporate governance practices. These practices/framework are constantly reviewed to keep in line with international best practices, besides compliance with the Central Bank guidelines and the Mauritian Code of Corporate Governance. In line with the Code, the directors recommend election of two executive directors at the upcoming Annual Meeting of the shareholders. The Board set up a Corporate Governance Committee during the year to review and ensure observance of good corporate governance and also to strike the right balance between conformance and performance.

SBM emphasises conducting its business in accordance with the best standards of business ethics. The Board reaffirms its commitment to the highest level of integrity and corporate governance.

## **Directors' Report** to the Shareholders (cont'd)

### **Corporate Citizenship Practices**

SBM has achieved positive recognition for its contribution towards community welfare, conservation of wild life and protection of the environment. SBM sponsors social, cultural, educational and sports activities on an on-going basis. During the year SBM donated Rs150,000/- to "Le Réduit Appeal Fund", a Fund managed by the Office of the President providing financial assistance to the poor and the needy. The Board of Directors is pleased to recommend to the shareholders the setting up of three charitable trusts whose objectives would be to promote education and sports in Mauritius to coincide with thirty successful years of operation of the Bank. The Bank will set aside a capital sum of Rs100m to this end and the investment income earned thereon shall be used only for the above two purposes. These trusts will be managed by independent trustees.

### **Awards, Ranking and Ratings**

The Board is pleased to report that SBM has been awarded 'Best Bank in Mauritius' by Euromoney, a leading global financial business magazine for their first African Awards for Excellence 2004. SBM also won "The Banker" award for 'Bank of the Year 2004 Mauritius' for the third time since the launch of this award four years back.

The "Banker" ranked SBM 54 and 96 among the Top 1000 World Banks in terms of return on assets and soundness respectively based on a survey of "Top 1000 World Banks" by 'The Banker' and published in their July 2004 issue. Moody's Investors Service continues to rank

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

### **Challenges for the Future**

Disintermediation, deregulation, globalisation and rapid revolution in information technology, together with customer sophistication, are changing the landscape of banking. Customers are demanding more and more sophisticated products and services at competitive prices. Big corporates are setting up in-house logistics to tap captive financial services businesses. Declining interest margins in a small market characterised by excess liquidity and escalating operating expenses are exerting pressure on the profitability of banks, particularly in Mauritius.

The Board is confident that SBM will continue to create shareholder value by leveraging its core competencies and its state-of-the-art capabilities and implementing appropriate strategies.

The Board believes that to sustain a balanced growth in the medium to long term, regional expansion is essential. SBM is actively exploring expansion opportunities in the region.

### **Auditors**

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

## Directors' Report to the Shareholders (cont'd)

### Acknowledgements

The Board records its appreciation for the valued contribution of the late Sir Dewoonarain Dookun, Kt., who retired from the Board in October 2003. The Board welcomes Messrs. Richard M C Laubscher, José Poncini and Chaitlall Guinness who were elected as directors at the last Annual Meeting of the Company.

The Board wishes to thank all employees for their invaluable contribution, loyalty, dedication and commitment to make SBM Group thrive and achieve greater heights.

The Board also wishes to express its appreciation to its customers and shareholders for their continued trust, confidence and support.



Chaitlall Guinness  
Group Chief Executive  
Date: September 27, 2004



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

### Certificate from the Company Secretary

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



Group Company Secretary  
Chandradev Appadoo, F.C.C.A., A.C.I.B.

## 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 1988 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 who are not officers and employees of the Bank, oversees management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

The Bank's Internal Auditor, who has full and free access to the Audit Committee, conducts a well designed program of internal audits in coordination with the Bank's external auditors.

Pursuant to the provisions of the Banking Act 1988, the Bank of Mauritius makes such examination and inquiry into the operations and affairs of the Bank as it deems necessary.

The Bank's external auditors, Kemp Chatteris Deloitte, have full and free access to the Board of Directors and its committees to discuss the audit and matters arising therefrom, such as their observations on the fairness of financial reporting and the adequacy of internal controls.



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



P.R. de Chasteigner du Mée, CBE  
Director



C. Guinness  
Group Chief Executive

Date: September 27, 2004



**inspiring**





**Inspiring**

Just what is Innovation?

It is inspiration.

Finding creative solutions to  
today's challenges.

## Report of the Auditors to the Shareholders of State Bank of Mauritius Ltd.

We have audited the financial statements of the Group and of the Bank for the year ended 30 June 2004 set out on pages 20 to 62.

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

### Respective responsibilities of directors and auditors

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and of the Bank. The directors are responsible for the preparation of financial statements which give a true and fair view of the financial position, financial performance and cash flows of the Group and of the Bank, and comply with the provisions of the Banking Act 1988 and of the Companies Act 2001 applicable to banks. They are also responsible for safeguarding the assets of the Group and of the Bank and hence for taking steps for the prevention and detection of fraud and other irregularities. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

### Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

### Opinion

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

- proper accounting records have been kept by the Group and the Bank as far as appears from our examination of those records; and
- the financial statements give a true and fair view of the financial position of the Group and of the Bank as at 30 June 2004 and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and comply with the provisions of the Banking Act 1988 and of the Companies Act 2001 applicable to banks, as well as the regulations and guidelines of Bank of Mauritius.



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



S. R. Konfortion, FCA  
Signing Partner

Date: September 27, 2004

## Balance Sheets

at 30 June 2004

	Note	Group			Bank		
		2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
<b>ASSETS</b>							
<b>Cash Resources</b>							
Cash and Balances with Central Banks		2,040,409	1,924,269	1,659,326	2,012,529	1,844,978	1,501,548
Balances with Category 1 Banks and Interbank Loans	3	103,870	104,117	31,081	94,726	103,733	29,253
Balances with Category 2 Banks in Mauritius and Banks Abroad	4	1,986,309	2,260,586	2,296,133	1,694,072	1,997,854	2,053,711
		<u>4,130,588</u>	<u>4,288,972</u>	<u>3,986,540</u>	<u>3,801,327</u>	<u>3,946,565</u>	<u>3,584,512</u>
<b>Securities, Placements and Other Investments</b>							
Investment Securities	5						
- Equity Investments in Subsidiaries		-	-	-	726,228	806,290	928,269
- Equity Investments in Associates		616,340	559,155	554,705	616,340	558,925	546,889
- Other Investment Securities		12,349,585	7,554,453	5,150,921	11,430,982	7,078,506	4,216,552
		<u>12,965,925</u>	<u>8,113,608</u>	<u>5,705,626</u>	<u>12,773,550</u>	<u>8,443,721</u>	<u>5,691,710</u>
Trading Securities		254,791	1,926,995	1,035,935	244,937	1,918,476	1,028,934
Placements		40,390	41,643	99,450	40,390	41,643	99,450
Other Investments		8,849	9,156	22,575	-	-	36,878
		<u>13,269,955</u>	<u>10,091,402</u>	<u>6,863,586</u>	<u>13,058,877</u>	<u>10,403,840</u>	<u>6,856,972</u>
<b>Loans and Advances</b>							
Personal and Credit Cards	8	4,934,304	3,734,440	3,872,468	4,927,436	3,726,285	3,865,309
Business		13,130,212	12,259,927	11,887,418	12,782,732	11,767,131	11,851,712
Governments		2,665,791	2,787,772	2,760,519	2,665,791	2,787,772	2,760,519
Entities outside Mauritius		652,239	1,214,670	1,309,081	652,239	1,214,670	1,309,081
Overseas Operations		2,155,137	2,047,713	1,826,460	1,595,079	1,162,074	1,089,184
		<u>23,537,683</u>	<u>22,044,522</u>	<u>21,655,946</u>	<u>22,623,277</u>	<u>20,657,932</u>	<u>20,875,805</u>
Less: Allowance for Credit Losses	8	(865,500)	(479,020)	(377,407)	(809,842)	(434,936)	(348,961)
		<u>22,672,183</u>	<u>21,565,502</u>	<u>21,278,539</u>	<u>21,813,435</u>	<u>20,222,996</u>	<u>20,526,844</u>
<b>Other</b>							
Tangible Fixed Assets	9	1,759,106	1,837,978	1,710,191	1,754,805	1,832,563	1,702,652
Other Assets	10	425,889	634,248	406,345	410,671	570,833	391,098
		<u>2,184,995</u>	<u>2,472,226</u>	<u>2,116,536</u>	<u>2,165,476</u>	<u>2,403,396</u>	<u>2,093,750</u>
<b>TOTAL</b>		<u>42,257,721</u>	<u>38,418,102</u>	<u>34,245,201</u>	<u>40,839,115</u>	<u>36,976,797</u>	<u>33,062,078</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
Deposits	12						
Personal		19,425,906	16,837,117	15,168,462	17,999,420	15,349,558	14,332,568
Business		8,911,278	8,333,610	6,721,173	8,466,462	8,057,565	6,401,436
Governments		4,458,426	4,011,408	4,260,742	4,232,998	3,588,070	3,861,558
Banks		76,643	-	-	80,135	49,725	35,541
		<u>32,872,253</u>	<u>29,182,135</u>	<u>26,150,377</u>	<u>30,779,015</u>	<u>27,044,918</u>	<u>24,631,103</u>
Borrowings							
Central Banks	13	342,698	397,449	475,377	341,531	393,664	389,792
Category 1 and Other Local Banks	14	298,330	773,935	305,371	298,040	773,935	305,371
Category 2 Banks in Mauritius and Banks Abroad	15	1,593,512	1,779,234	1,511,848	1,593,512	1,779,234	1,511,848
Debentures	16	-	-	9,609	-	-	-
		<u>2,234,540</u>	<u>2,950,618</u>	<u>2,302,205</u>	<u>2,233,083</u>	<u>2,946,833</u>	<u>2,207,011</u>

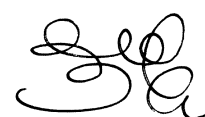
## Balance Sheets

at 30 June 2004 (cont'd)

	Note	Group			Bank		
		2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
<b>Other</b>							
Current Tax Liability	17A	56,519	78,433	45,841	39,113	60,633	27,705
Deferred Tax Liability	17B	51,411	134,179	70,135	51,393	133,790	69,470
Obligations under Finance Leases	18	-	-	-	743,960	760,361	501,606
Other Liabilities	19	889,871	905,652	757,565	857,886	891,370	738,308
		997,801	1,118,264	873,541	1,692,352	1,846,154	1,337,089
<b>Minority Interest in Subsidiaries</b>							
		18,462	28,193	32,203	-	-	-
<b>Shareholders' Equity</b>							
Ordinary Share Capital	20	325,052	336,203	363,375	325,052	336,203	363,375
Reserves and Surplus	21	5,809,613	4,802,689	4,523,500	5,809,613	4,802,689	4,523,500
		6,134,665	5,138,892	4,886,875	6,134,665	5,138,892	4,886,875
<b>TOTAL</b>							
		42,257,721	38,418,102	34,245,201	40,839,115	36,976,797	33,062,078
<b>US\$/MRs Mid Exchange Rate as at Balance sheet date</b>							
		28.15	29.25	30.01	28.15	29.25	30.01
<b>CONTINGENT LIABILITIES AND COMMITMENTS</b>							
22							
Acceptances, Guarantees, Letters of Credit, Endorsements and Other Obligations on Account of Customers							
		4,612,736	3,992,326	3,278,025	4,312,376	3,787,964	3,190,641
Credit Commitments		3,465,270	3,962,171	2,514,400	3,203,172	3,506,747	2,504,600
Financial Derivatives		5,787,782	5,774,880	5,955,301	5,787,782	5,774,880	5,955,301
Inward Bills held for Collection		277,156	325,557	320,509	251,163	315,176	316,164
Outward Bills sent for Collection		687,454	213,547	506,348	687,454	213,547	505,381
		14,830,398	14,268,481	12,574,583	14,241,947	13,598,314	12,472,087



C. Guinness  
Group Chief Executive



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



P.R. de Chasteigner du Mée, CBE  
Director (Chairman, Audit Committee)



R. Rossouw  
Director

Dated: September 27, 2004

## Statements of Income

for the year ended 30 June 2004

	Note	Group			Bank		
		2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
<b>Interest Income</b>	23						
Loans and Advances		2,132,163	2,212,493	2,385,499	1,979,785	2,058,268	2,248,462
Securities		778,709	716,162	493,598	715,624	656,615	385,502
Placements with Banks		71,251	74,888	96,972	68,581	71,555	91,498
		<u>2,982,123</u>	<u>3,003,543</u>	<u>2,976,069</u>	<u>2,763,990</u>	<u>2,786,438</u>	<u>2,725,462</u>
<b>Interest Expense</b>							
Deposits		(1,400,570)	(1,533,350)	(1,565,951)	(1,214,069)	(1,373,007)	(1,444,606)
Deposits and Borrowings from Banks		(100,870)	(104,636)	(127,135)	(100,688)	(103,421)	(118,972)
Lease Finance Charges		-	-	-	(82,534)	(56,022)	(10,370)
Debentures		-	(328)	(961)	-	-	-
		<u>(1,501,440)</u>	<u>(1,638,314)</u>	<u>(1,694,047)</u>	<u>(1,397,291)</u>	<u>(1,532,450)</u>	<u>(1,573,948)</u>
<b>Net Interest Income</b>		<u>1,480,683</u>	<u>1,365,229</u>	<u>1,282,022</u>	<u>1,366,699</u>	<u>1,253,988</u>	<u>1,151,514</u>
Provisions and Adjustments to Income for Credit Losses	24	(164,401)	(143,617)	(168,652)	(127,898)	(128,198)	(151,266)
<b>Net Interest Income after Provisions for Credit Losses</b>		<u>1,316,282</u>	<u>1,221,612</u>	<u>1,113,370</u>	<u>1,238,801</u>	<u>1,125,790</u>	<u>1,000,248</u>
<b>Other Income</b>							
Net Fee and Commission Income	25	320,121	252,981	218,115	284,347	222,863	190,958
Net Gain from Dealings in Foreign Currencies		331,105	238,845	186,757	320,460	253,582	177,804
Share of Profit of Subsidiaries and Associates		65,900	68,868	53,353	216,487	163,322	201,070
Dividend Income		72,114	80,527	76,160	66,798	70,641	67,316
Net Gain from Dealings in Trading Securities		89,576	79,105	31,936	87,343	75,943	31,632
Net Gain on Disposal of Investment Securities		63,796	531	25,840	18,905	61	-
Net Gain on Disposal of Tangible Fixed Assets		11,620	12,806	1,407	11,616	12,806	1,407
Other		-	-	2,619	-	-	-
		<u>954,232</u>	<u>733,663</u>	<u>596,187</u>	<u>1,005,956</u>	<u>799,218</u>	<u>670,187</u>
<b>Net Interest and Other Income</b>		<u>2,270,514</u>	<u>1,955,275</u>	<u>1,709,557</u>	<u>2,244,757</u>	<u>1,925,008</u>	<u>1,670,435</u>
<b>Non-Interest Expense</b>	26						
Salaries and Human Resource Development		(314,044)	(277,609)	(238,300)	(306,624)	(269,760)	(230,307)
Pension Contributions and Other Staff Benefits		(136,258)	(55,751)	(37,047)	(136,009)	(54,385)	(35,921)
Depreciation		(193,867)	(201,921)	(200,026)	(192,609)	(199,221)	(196,722)
Other		(260,832)	(233,581)	(205,275)	(249,082)	(218,730)	(191,138)
		<u>(905,001)</u>	<u>(768,862)</u>	<u>(680,648)</u>	<u>(884,324)</u>	<u>(742,096)</u>	<u>(654,088)</u>
<b>Net Income before Income Taxes</b>		<u>1,365,513</u>	<u>1,186,413</u>	<u>1,028,909</u>	<u>1,360,433</u>	<u>1,182,912</u>	<u>1,016,347</u>
Provision for Income Taxes	17C	(235,341)	(165,614)	(69,556)	(233,913)	(164,695)	(64,699)
<b>Net Income after Income Taxes</b>	27	<u>1,130,172</u>	<u>1,020,799</u>	<u>959,353</u>	<u>1,126,520</u>	<u>1,018,217</u>	<u>951,648</u>
Minority Interest		(3,652)	(2,582)	(7,705)	-	-	-
<b>Net Income available to Shareholders</b>		<u>1,126,520</u>	<u>1,018,217</u>	<u>951,648</u>	<u>1,126,520</u>	<u>1,018,217</u>	<u>951,648</u>
Weighted Average Number of Outstanding Shares (thousands)		<u>325,282</u>	<u>358,899</u>	<u>363,375</u>	<u>325,282</u>	<u>358,899</u>	<u>363,375</u>
<b>Earnings Per Share (Cents)</b>	29	<u>346</u>	<u>284</u>	<u>262</u>	<u>346</u>	<u>284</u>	<u>262</u>

## Statement of Changes in Equity

for the year ended 30 June 2004

	Share Capital MRS'000	Share Premium MRS'000	Statutory Reserve MRS'000	Revenue Reserve MRS'000	Unrealised Investment Fair Value Reserve MRS'000	Investment Fluctuation Reserve MRS'000	Other Reserve MRS'000	Translation Reserve MRS'000	Total MRS'000
<b>Group &amp; Bank</b>									
At 1 July 2001 (as Previously Restated)	363,375	280,552	428,493	3,002,827	2,557	-	54,466	148,408	4,280,678
Net Profit for the Year	-	-	-	951,648	-	-	-	-	951,648
Dividend	-	-	-	(363,375)	-	-	-	-	(363,375)
Transfer	-	-	12,126	(29,216)	-	17,090	-	-	-
Decrease in Value of Available-for-sale Investments	-	-	-	-	(9,590)	-	-	-	(9,590)
Translation Difference	-	-	-	-	-	-	-	275,14	275,14
<b>At 30 June 2002</b>	363,375	280,552	440,619	3,561,884	(7,033)	17,090	54,466	175,922	4,886,875
At 1 July 2002	363,375	280,552	440,619	3,561,884	(7,033)	17,090	54,466	175,922	4,886,875
Net Profit for the Year	-	-	-	1,018,217	-	-	-	-	1,018,217
Dividend	-	-	-	(357,533)	-	-	-	-	(357,533)
Transfer	-	-	15,246	(35,094)	-	19,848	-	-	-
Buy Back of Treasury Shares	(27,172)	(280,552)	-	(109,820)	-	-	-	-	(417,544)
Increase in Value of Available-for-sale Investments	-	-	-	-	8,878	-	-	-	8,878
Share of Increase in Reserves of Associates	-	-	-	-	-	-	4,964	-	4,964
Translation Difference	-	-	-	-	-	-	-	(4,965)	(4,965)
<b>At 30 June 2003</b>	336,203	-	455,865	4,077,654	1,845	36,938	59,430	170,957	5,138,892
At 1 July 2003	336,203	-	455,865	4,077,654	1,845	36,938	59,430	170,957	5,138,892
- As Previously Stated	-	-	-	(714,978)	1,126,838	-	-	-	411,860
- Effect of applying IAS 39	-	-	-	-	-	-	-	-	-
- As Restated	336,203	-	455,865	3,362,676	1,128,683	36,938	59,430	170,957	5,550,752
Net Profit for the Year	-	-	-	1,126,520	-	-	-	-	1,126,520
Dividend	-	-	-	(389,988)	-	-	-	-	(389,988)
Transfer	-	-	9,960	(26,890)	-	16,930	-	-	-
Buy Back of Treasury Shares	(11,078)	-	-	(175,672)	-	-	-	-	(186,750)
Shares bought back and cancelled	(73)	-	-	(1,398)	-	-	-	-	(1,466)
Increase in Value of Available-for-sale Investments	-	-	-	-	151,720	-	-	-	151,720
Net Gain released on Disposal of Available-for-Sale Investments	-	-	-	-	(33,730)	-	-	-	(33,730)
Share of Increase in Reserves of Associates	-	-	-	-	-	-	11,658	-	11,658
Translation Difference	-	-	-	-	-	-	-	(94,056)	(94,056)
<b>At 30 June 2004</b>	325,052	-	465,825	3,895,258	1,246,673	53,888	71,088	76,901	6,134,665

## Cash Flow Statements

for the year ended 30 June 2004

Note	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
<b>Cash Flows from Operating Activities</b>						
Net Income before Income Taxes	1,365,513	1,186,413	1,028,909	1,360,433	1,182,912	1,016,347
Income Tax Paid	(105,549)	(55,923)	(116,816)	(91,373)	(38,473)	(94,027)
<b>Adjustments to Determine Net Cash Flows:</b>						
Depreciation	193,867	201,921	200,026	192,609	199,220	196,722
Amortisation of Negative Goodwill	-	-	(2,619)	-	-	-
Pension Expense	11 21,401	15,936	10,237	21,401	14,701	9,111
Provisions and Adjustments to Income for Credit Losses	24 164,401	143,617	168,652	127,898	128,198	151,266
Exchange Difference	(118,522)	12,878	26,487	(21,116)	20,574	(5,658)
Net Gain on Disposal of Investment Securities	(63,796)	(531)	(25,840)	(18,905)	(61)	-
Net Gain from dealing in Trading Securities	(89,576)	(79,105)	(31,936)	(87,343)	(75,943)	(31,632)
Net Gain on Disposal of Tangible Fixed Assets	(11,620)	(12,806)	(1,407)	(11,616)	(12,806)	(1,407)
Dividend Income	(72,114)	(80,527)	(76,160)	(66,798)	(70,641)	(67,316)
Share of Profit of Subsidiaries and Associates	(65,900)	(68,868)	(53,353)	(216,487)	(163,322)	(201,070)
<b>Operating Profit before Working Capital Changes</b>	<b>1,218,105</b>	<b>1,263,005</b>	<b>1,126,180</b>	<b>1,188,703</b>	<b>1,184,359</b>	<b>972,336</b>
<b>Change in Operating Assets and Liabilities</b>						
Increase in Other Liabilities	24,646	175,027	149,698	7,211	180,027	20,198
(Increase)/Decrease in Loans and Advances	(2,196,674)	(437,495)	(746,742)	(2,668,860)	169,831	(432,133)
Decrease/(Increase) in Trading Securities	1,762,151	(811,955)	(765,988)	1,761,253	(813,599)	(759,292)
Decrease/(Increase) in Other Assets	126,471	(267,295)	7,649	78,275	(217,889)	(5,289)
Increase in Deposits	3,690,118	3,031,758	1,677,082	3,734,097	2,413,815	1,247,181
Decrease/(Increase) in Placements	1,253	57,807	(99,450)	1,253	57,807	(99,450)
<b>Net Cash Provided by Operating Activities</b>	<b>4,626,070</b>	<b>3,010,852</b>	<b>1,348,429</b>	<b>4,101,932</b>	<b>2,974,351</b>	<b>943,551</b>
<b>Cash Flows (used in)/from Financing Activities</b>						
Net (Decrease)/Increase in Obligations under Finance Leases	-	-	-	(16,401)	258,755	414,642
(Decrease)/Increase in Other Borrowings	(54,751)	(77,928)	269,251	(52,133)	3,872	322,398
Repurchase of Ordinary Shares	(188,215)	(417,544)	-	(188,215)	(417,544)	-
Debentures Repaid	-	(9,609)	-	-	-	-
Dividend Paid on Ordinary Shares	(357,558)	(363,270)	(327,038)	(357,558)	(363,270)	(327,038)
Dividend Paid to Minority Interest	(1,802)	(6,836)	(5,108)	-	-	-
<b>Net Cash (used in)/from Financing Activities</b>	<b>(602,326)</b>	<b>(875,187)</b>	<b>(62,895)</b>	<b>(614,307)</b>	<b>(518,187)</b>	<b>410,002</b>
<b>Cash Flows (used in)/from Investing Activities</b>						
Acquisition of Tangible Fixed Assets	(147,419)	(327,382)	(632,139)	(145,422)	(326,636)	(631,330)
Disposal of Tangible Fixed Assets	38,923	12,852	8,271	38,919	12,852	8,271
Dividend Received from Subsidiaries and Associates	3,250	46,097	2,250	148,250	238,097	4,250
Other Dividend Received	72,114	80,527	76,160	66,798	70,641	67,316
Acquisition of Subsidiary	-	-	(815)	-	-	-
Disposal of Associate	-	-	400	-	-	-
Transfer of Investments in Subsidiaries and Associates	-	-	-	-	-	(30,100)
Acquisition of Other Equity Investments	(39,999)	(8,428)	(13,999)	-	-	-
Disposal of Other Equity Investments	131,201	15,670	35,305	24,850	5,011	31,000
Increase in Gilt-edged Investment Securities	(3,578,871)	(2,401,938)	(1,337,235)	(3,104,641)	(2,866,904)	(1,421,653)
Loans Repaid by Subsidiaries and Associates	-	13,419	190	-	36,878	-
<b>Net Cash used in Investing Activities</b>	<b>(3,520,801)</b>	<b>(2,569,183)</b>	<b>(1,861,612)</b>	<b>(2,971,246)</b>	<b>(2,830,061)</b>	<b>(1,972,246)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>502,943</b>	<b>(433,518)</b>	<b>(576,078)</b>	<b>516,379</b>	<b>(373,897)</b>	<b>(618,693)</b>
<b>Cash and Cash Equivalents at 1 July</b>	<b>1,735,803</b>	<b>2,169,321</b>	<b>2,745,399</b>	<b>1,393,396</b>	<b>1,767,293</b>	<b>2,385,986</b>
<b>Cash and Cash Equivalents at 30 June</b>	<b>2,238,746</b>	<b>1,735,803</b>	<b>2,169,321</b>	<b>1,909,775</b>	<b>1,393,396</b>	<b>1,767,293</b>

## Notes to the Accounts for the year ended 30 June 2004

### 1. GENERAL INFORMATION

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

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

### 2. ACCOUNTING POLICIES

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

#### (a) Basis of Accounting

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments, and in accordance with International Financial Reporting Standards ("IFRSs") for the first time in the financial year under review, and the guidelines of Bank of Mauritius.

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

While most International Accounting Standards ("IASs") had already been applied in previous years, the following IASs have been applied for the first time by the Bank and by the Group in the financial year under review:

IAS 32 (r 1998) - Financial Instruments: Disclosure and Presentation

IAS 39 (r 2000) - Financial Instruments: Recognition and Measurement

Their application has resulted in the recognition of an adjustment to reserves as at 1 July 2003 in accordance with the transitional provisions of IAS 39. Accordingly, comparative figures have not been restated in this respect.

#### (b) Basis of Consolidation

The consolidated financial statements include the state of affairs and results of the Bank and those of its subsidiaries and its associates. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Income from the date of their acquisition or up to the date of their disposal. Intragroup transactions are eliminated on consolidation.

Goodwill or negative goodwill arising on acquisition of a subsidiary, measured as the difference between the cost of acquisition and the fair value of the share of net assets acquired, is capitalised and amortised over its useful life. If the amount of goodwill or negative goodwill is not material, it is written off/back immediately in the Statement of Income.

Investments in associates are dealt with in the consolidated financial statements under the equity method and reported under Investment Securities on the Balance Sheet. The Group's share of profit of associates and gains and losses arising from disposal of investments in associates are recorded as Other Income in the Statement of Income.

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

#### (c) Revenue Recognition

Revenue is generally recognised on an accrual basis.

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

The accrual of interest income is suspended when the associated asset becomes non-performing (See Note 2(g)).

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



## Notes to the Accounts (cont'd) for the year ended 30 June 2004

### (d) Foreign Currency Translation

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

- (i) The assets and liabilities of the overseas branches, subsidiaries and associates denominated in foreign currencies are translated into Mauritian Rupees at the rates of exchange ruling at the end of the financial year. Their results for the period are translated into Mauritian Rupees at average rates. Any translation differences arising are taken to translation reserve.
- (ii) Transactions denominated in foreign currency are converted at the rate prevailing at the date of the transactions.
- (iii) Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated into Mauritian Rupees at the rates of exchange ruling at that date. All resulting gains and losses are accounted for in the Statement of Income.
- (iv) Non-monetary assets and liabilities denominated in foreign currency are reported using the exchange rates at the date of the transactions, if carried at cost, or the exchange rates that existed when the fair values were determined, if carried at fair value.

### (e) Investment Securities

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

Investments in gilt-edged securities reported under Investment Securities are classified in the following categories: Originated-Loans-and-Receivables ("OLR"), Held-to-maturity ("HTM") and Available-for-sale ("AFS"). Gilt-edged securities that are purchased directly from the issuer and that are not held for trading purposes are classified as OLR. Those gilt-edged securities that are purchased on the secondary market and that are not held for trading purposes are classified as HTM where management has the intent and ability to hold the securities to their maturity, otherwise they are classified as AFS.

Investments in gilt-edged securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, securities classified as OLR or HTM are measured at amortised cost, less any impairment loss. Securities classified as AFS are subsequently measured at fair value and the unrealised gains and losses on revaluation are recognised directly in equity (Unrealised Investment Fair Value Reserve), until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity in respect of that security is included in the Statement of Income as Other Income.

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

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

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

#### (iii) Other Equity Investments

Other equity investments reported under Investment Securities are classified as AFS. They are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, they are measured at fair value and the unrealised gains and losses are recognised directly in equity (Unrealised Investment Fair Value Reserve), until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity in respect of that investment is included in the Statement of Income as Other Income.

## Notes to the Accounts (cont'd)

### for the year ended 30 June 2004

#### (f) Trading Securities

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

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

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

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

Specific provisions are made on impaired advances and are calculated as the shortfall between the carrying amount of the advances and their recoverable amounts. As from the current year, the recoverable amount is the present value of expected future cash flows discounted at the original effective interest rate of the advance. This represents a change in accounting policy brought about by IAS 39. The additional specific provisions and the related deferred tax impact have been accounted for as an adjustment as at 1 July 2003.

(ii) A portfolio provision for credit losses is maintained on the aggregate amount of all loans and advances to allow for potential losses not specifically identified but which experience indicates are present in the portfolio of loans and advances in line with IAS 30. The portfolio provision is estimated based upon historical patterns of losses in each component of the portfolio of loans and advances. The charge for portfolio provision is recognised in the Statement of Income.

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

(iv) Non-performing Advances ("NPAs") include assets where, in case of a loan, instalments of principal and/or interest are due and remain unpaid for 90 days or more, or such unpaid amount has been capitalised, refinanced or rolled-over; and in the case of an overdraft:

- the advance exceeds the customer's approved limit continuously for 90 days or more;
- the customer's approved limit has expired for 90 days or more;
- interest on the advance is due and remains unpaid for 90 days or more; or
- the account has been dormant for 90 days or more and deposits are insufficient to cover the interest capitalised during the period.

NPAs also include advances overdue by less than 90 days where the Bank considers that weaknesses in such advances warrant such classification.

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

(vi) Accrual of interest income is suspended when the associated advance becomes non-performing. All previously accrued but uncollected interest is reversed against income in the accounting period in which the advance becomes non-performing. On such an NPA, interest income is recognised after impairment based on the recoverable amount and the rate of interest used to discount the future cash flows to determine the recoverable amount. Such interest income represents a reversal of the specific provision for that NPA and is therefore recognised accordingly in the Statement of Income.

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

## Notes to the Accounts (cont'd) for the year ended 30 June 2004

### (h) Placements

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

### (i) Borrowings

Borrowings are measured at amortised cost.

### (j) Deposits

Deposits are measured at amortised cost.

### (k) Derivative Financial Instruments

Derivative financial instruments are initially recorded at cost and are measured at fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Statement of Income as Other Income.

### (l) Acceptances

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

### (m) Sale and Repurchase Agreements

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

### (n) Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation, less any impairment loss.

Depreciation is calculated to write off the cost of tangible fixed assets over their estimated useful lives on a straight line basis.

No depreciation is provided on freehold land.

The principal rates are:

Leasehold Land	- 1.67% p.a
Buildings	- 2% p.a
Plant, Machinery, Furniture, Fittings and Computer Equipment	- 10% to 33.33% p.a
Motor Vehicles	- 20% p.a

Depreciation is calculated from the month the asset is capitalised.

Gains and losses on disposal of tangible fixed assets are included within Other Income in the Statement of Income.

### (o) Leasing

#### (i) The Group as lessor

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

#### (ii) The Group and Bank as lessee

Assets held under finance leases are recognised as assets at their fair value at the date of acquisition and are depreciated over their estimated useful lives. The corresponding liability to the lessor is included in the Balance Sheet

## Notes to the Accounts (cont'd)

### for the year ended 30 June 2004

as Obligations under Finance Leases. Lease finance charges are charged to the Statement of Income over the term of the leases so as to produce a constant periodic rate of interest on the outstanding obligations under finance leases.

#### (p) Borrowing Costs

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

#### (q) Deferred Taxation

Deferred taxation is provided on the comprehensive basis using the liability method. Deferred tax liabilities are recognised on all 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.

#### (r) Employee Benefits

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

Eligible participating employees are entitled to retirement pensions under the SBM Group Pension Fund, a final salary defined benefit scheme. The normal retirement age is 60. The cost of providing benefits is determined using the projected unit credit method.

The net total of the present value of funded obligations, the fair value of plan assets, any unrecognised actuarial gains and losses and any unrecognised past service cost is recognised in the Balance Sheet either as a liability (if there is a deficit) or as an asset (if there is a surplus).

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

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

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

##### (ii) Pension Benefits for Employees appointed under Term Contracts

Certain employees appointed under term contracts are entitled to defined contribution personal pension arrangements. Employer contributions are expensed in the Statement of Income.

##### (iii) Travel Tickets/Allowances

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

##### (iv) Equity Compensation Benefits for Senior Executives

The Group does not recognise any liability or expense in respect of Phantom share options before they are exercised (Note 32).

#### (s) Impairment

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

## Notes to the Accounts (cont'd)

### for the year ended 30 June 2004

#### (t) Provisions

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

#### (u) Dividends

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

#### (v) Related Parties

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

#### (w) Segmental Reporting

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

#### (x) Comparative Figures

Comparative figures have been restated or reclassified, as necessary, to conform to the current year's presentation, with the exception of those specifically not so required under the IAS 39 transitional provisions (Note 2(a)).

### 3. BALANCES WITH CATEGORY 1 BANKS AND INTERBANK LOANS

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Balances due within 3 months	103,870	104,117	31,081	94,726	103,733	29,253

### 4. BALANCES WITH CATEGORY 2 BANKS IN MAURITIUS AND BANKS ABROAD

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Balances due within 3 months	1,986,309	2,260,586	2,296,133	1,694,072	1,997,854	2,053,711

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

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 5. SECURITIES, PLACEMENTS AND OTHER INVESTMENTS

#### Remaining Term to Maturity

Group	Within 3 Months MRs'000	3-6 Months MRs'000	6-12 Months MRs'000	1-2 Years MRs'000	2-5 Years MRs'000	No Specific Maturity MRs'000	2004 Total MRs'000	2003 Total MRs'000	2002 Total MRs'000
<b>(i) Investment Securities</b>									
Government Bonds - OLR	-	-	10,403	20,408	-	-	30,811	83,025	270,572
Treasury Bills - OLR	2,641,640	3,497,669	3,536,755	560,142	-	-	10,236,206	7,130,892	4,531,617
Treasury Bills - HTM	-	148,230	27,187	354,224	-	-	529,641	-	-
Securities of Government Bodies - OLR	-	4,832	-	12,232	30,580	-	47,644	51,514	61,304
Equity Shares of Companies - Associates (Note 6)	-	-	-	-	-	616,340	616,340	559,155	554,705
- Other - AFS (Note 7)	-	-	-	-	-	1,505,283	1,505,283	289,022	287,428
	2,641,640	3,650,731	3,574,345	947,006	30,580	2,121,623	12,965,925	8,113,608	5,705,626
<b>(ii) Trading Securities - HFT</b>									
Government Bonds	-	-	-	-	-	-	-	772,313	217,097
Treasury Bills	38,255	73,113	107,583	25,986	-	-	244,937	1,146,163	792,782
Securities of Government Bodies	-	-	-	-	-	-	-	-	19,055
Equity Shares of Companies (Note 7)	-	-	-	-	-	9,854	9,854	8,519	7,001
	38,255	73,113	107,583	25,986	-	9,854	254,791	1,926,995	1,035,935
<b>(iii) Placements - OLR</b>									
Category 1 Banks	-	-	39,754	-	-	-	39,754	40,983	-
Category 2 Banks and Banks Abroad	-	636	-	-	-	-	636	660	99,450
	-	636	39,754	-	-	-	40,390	41,643	99,450
<b>(iv) Other Investments</b>									
Loan to Associate (Note 6)	-	-	-	-	-	8,849	8,849	9,156	22,575
	-	-	-	-	-	8,849	8,849	9,156	22,575
<b>Total</b>	2,679,895	3,724,480	3,721,682	972,992	30,580	2,140,326	13,269,955	10,091,402	6,863,586

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 5. SECURITIES, PLACEMENTS AND OTHER INVESTMENTS (cont'd)

#### Remaining Term to Maturity (cont'd)

Bank	Within 3 Months MRs'000	3-6 Months MRs'000	6-12 Months MRs'000	1-2 Years MRs'000	2-5 Years MRs'000	No Specific Maturity MRs'000	2004 Total MRs'000	2003 Total MRs'000	2002 Total MRs'000
<b>(i) Investment Securities</b>									
Government Bonds - OLR	-	-	10,403	20,408	-	-	30,811	83,025	270,572
Treasury Bills - OLR	2,583,083	3,468,796	3,428,285	560,142	-	-	10,040,306	6,879,581	3,815,340
Securities of Government Bodies - OLR	-	4,832	-	12,232	30,580	-	47,644	51,514	61,304
Equity Shares of Companies									
- Subsidiaries (Note 6)	-	-	-	-	-	726,228	726,228	806,290	928,269
- Associates (Note 6)	-	-	-	-	-	616,340	616,340	558,925	546,889
- Other - AFS (Note 7)	-	-	-	-	-	1,312,221	1,312,221	64,386	69,336
	2,583,083	3,473,628	3,438,688	592,782	30,580	2,654,789	12,773,550	8,443,721	5,691,710
<b>(ii) Trading Securities - HFT</b>									
Government Bonds	-	-	-	-	-	-	-	772,312	217,097
Treasury Bills	38,255	73,113	107,583	25,986	-	-	244,937	1,146,164	792,782
Securities of Government Bodies	-	-	-	-	-	-	-	-	19,055
	38,255	73,113	107,583	25,986	-	-	244,937	1,918,476	1,028,934
<b>(iii) Placements - OLR</b>									
Category 1 Banks	-	-	39,754	-	-	-	39,754	40,983	-
Category 2 Banks and Banks Abroad	-	636	-	-	-	-	636	660	99,450
	-	636	39,754	-	-	-	40,390	41,643	99,450
<b>(iv) Other Investments</b>									
Loans to Subsidiaries (Note 6)	-	-	-	-	-	-	-	-	36,878
	-	-	-	-	-	-	-	-	36,878
<b>Total</b>	<b>2,621,338</b>	<b>3,547,377</b>	<b>3,586,025</b>	<b>618,768</b>	<b>30,580</b>	<b>2,654,789</b>	<b>13,058,877</b>	<b>10,403,840</b>	<b>6,856,972</b>

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

### 6. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (UNQUOTED)

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Equity Investments in Subsidiaries	-	-	-	726,228	806,290	928,269
Equity Investments in Associates	616,340	559,155	554,705	616,340	558,925	546,889
	616,340	559,155	554,705	1,342,568	1,365,215	1,475,158
Loans to Subsidiaries	-	-	-	-	-	36,878
Loan to Associate	8,849	9,156	22,575	-	-	-
	8,849	9,156	22,575	-	-	36,878
	625,189	568,311	577,280	1,342,568	1,365,215	1,512,036

The loans to subsidiaries by the Bank and the loan to associate by the Group do not bear interest and do not have fixed terms of repayment.

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

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

Details of Subsidiaries and Associates are as follows:

	Country of Incorporation and Operation	Business Activity	2004	Effective % Holding 2003	2002
<b>Subsidiaries</b>					
Banque SBM Madagascar	Madagascar	Banking	79.99	79.99	79.99
SBM Lease Ltd	Mauritius	Leasing	100	100	100
SBM Mauritius Asset Managers Ltd	Mauritius	Asset Management	100	100	100
SBM Securities Ltd	Mauritius	Stockbroking	90	90	90
SBM Financials Ltd	Mauritius	Fiduciary Services	100	100	100
SBM Investments Ltd	Mauritius	Mauritian Rupee Investments	100	100	100
SBM Global Investments Ltd	Mauritius	Foreign Currency Investments	100	100	100
SBM IT Ltd	Mauritius	Technology	100	100	100
<b>Associates</b>					
SBM Nedbank International Ltd	Mauritius	Offshore Banking	50	50	50
NetMauritius.Com Ltd (in voluntary winding up)	Mauritius	Internet Business Provider	21.05	21.05	21.05
SBM Nedcor Holdings Ltd	Mauritius	Investment	20.10	20.10	20.10
State Insurance Company of Mauritius Ltd	Mauritius	Insurance	20	20	20

### 7. EQUITY INVESTMENTS

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
AFS Investment Securities - Quoted	52,578	119,925	109,603	-	-	-
- Unquoted (at Fair Value)	1,272,785	-	-	1,272,785	-	-
- Unquoted (at Cost)	179,920	169,097	177,825	39,436	64,386	69,336
	1,505,283	289,022	287,428	1,312,221	64,386	69,336
HFT Trading Securities - Quoted	9,854	8,519	7,001	-	-	-
	1,515,137	297,541	294,429	1,312,221	64,386	69,336

The unquoted shares measured at cost are shares for which reliable fair values cannot be obtained. The unquoted shares measured at fair value are Mauritius Telecom Ltd and Overseas Telecommunications Ltd shares, which in previous years were measured at a cost of MRs20 million. At 1 July 2003, they were remeasured to their fair values in the Balance Sheet, which were conservatively determined using their net asset value as per their latest available audited financial statements for the year ended 31 December 2002. Their fair values at 30 June 2004 have been similarly determined using their audited financial statements for the year ended 31 December 2003. The change in fair value has been recognised in Investment Fair Value Reserve.



## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 8A. LOANS AND ADVANCES

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Inland Bills purchased and discounted						
- Current	221,506	126,830	308,971	180,118	62,700	291,030
Foreign Bills purchased and discounted						
- Current	184,969	247,361	265,903	178,277	226,490	230,083
Overdrafts, Term Loans, Debentures and Other Advances repayable within 1 year	6,719,229	6,808,563	7,575,810	6,133,940	5,889,345	7,352,672
Term Loans, Debentures and Other Advances repayable after 1 year	16,411,979	14,861,768	13,505,262	16,130,942	14,479,397	13,002,020
	23,537,683	22,044,522	21,655,946	22,623,277	20,657,932	20,875,805
Less: Allowance for Credit Losses (Note 8D)	(865,500)	(479,020)	(377,407)	(809,842)	(434,936)	(348,961)
	22,672,183	21,565,502	21,278,539	21,813,435	20,222,996	20,526,844

The amounts of debentures included above are:

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Quoted	28,233	106,240	705,944	28,233	106,240	705,944
Unquoted	1,272,608	1,758,468	2,009,114	1,272,608	1,758,468	2,574,505
	1,300,841	1,864,708	2,715,058	1,300,841	1,864,708	3,280,449

Unquoted debentures held by the Bank in 2002 include MRs565.391 million in SBM Lease Ltd which matured in October 2002.

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

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Market Value of Quoted Debentures	26,144	113,120	703,800	26,144	113,120	703,800

## Notes to the Accounts (cont'd)

### for the year ended 30 June 2004

#### 8A. LOANS AND ADVANCES (cont'd)

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

	<b>Group</b>			Total MRs'000
	Within one year MRs'000	After one year and before five years MRs'000	After five years MRs'000	
<b>2004</b>				
Gross Investment in Finance Leases	186,915	515,923	-	702,838
Less: Unearned Finance Income	(63,596)	(97,520)	-	(161,116)
	123,319	418,403	-	541,722
Allowances for Credit Losses				(20,077)
				521,645
<b>2003</b>				
Gross Investment in Finance Leases	241,712	364,671	28,469	634,852
Less: Unearned Finance Income	(53,221)	(71,231)	(3,830)	(128,282)
	188,491	293,440	24,639	506,570
Allowance for Credit Losses				(14,669)
				491,901
<b>2002</b>				
Gross Investment in Finance Leases	267,613	468,026	29,107	764,746
Less: Unearned Finance Income	(68,980)	(87,954)	(5,013)	(161,947)
	198,633	380,072	24,094	602,799
Allowance for Credit Losses				(11,094)
				591,705

#### 8B. REMAINING TERM TO MATURITY OF LOANS AND ADVANCES (EXCLUDING ALLOWANCE FOR CREDIT LOSSES)

	<b>Group</b>			<b>Bank</b>		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Within 3 months	2,900,806	3,760,951	4,437,255	2,704,312	3,445,241	4,354,237
Over 3 to 6 months	1,744,644	1,449,556	2,287,703	1,565,637	1,170,197	2,222,578
Over 6 to 12 months	2,480,253	1,966,265	1,419,895	2,222,386	1,557,116	1,291,139
Over 1 to 2 years	1,142,587	1,136,145	1,081,818	1,169,320	882,791	933,400
Over 2 to 5 years	5,749,552	5,219,030	4,036,735	5,448,654	5,138,353	3,739,131
Over 5 years	9,519,841	8,512,575	8,392,540	9,512,968	8,464,234	8,335,320
	23,537,683	22,044,522	21,655,946	22,623,277	20,657,932	20,875,805

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 8C. CREDIT CONCENTRATION OF RISK BY INDUSTRY SECTORS

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

	2004 MRs'000	2003 MRs'000	2002 MRs'000
<b>Name of Sector</b>			
Agriculture and Fishing	-	-	-
EPZ	1,331,591	1,576,278	877,278
Other Manufacturing	-	-	-
Total Manufacturing	1,331,591	1,576,278	877,278
Tourism	3,502,693	3,238,266	3,245,983
Transport	-	-	-
Construction	-	787,984	-
Financial and Business Services	-	-	-
Traders	-	-	-
Personal	-	-	-
Professional	-	-	-
Entities outside Mauritius	-	-	-
Other	-	1,964,725	1,208,893
<b>TOTAL</b>	<b>4,834,284</b>	<b>7,567,253</b>	<b>5,332,154</b>

### 8D. ALLOWANCE FOR CREDIT LOSSES

Group	Specific Provision MRs'000	Portfolio Provision MRs'000	2004 Total MRs'000	2003 Total MRs'000	2002 Total MRs'000
At 1 July					
- As Previously Stated	276,337	202,683	479,020	377,407	257,456
- Effect of applying IAS 39	953,304	-	953,304	-	-
- As Restated	1,229,641	202,683	1,432,324	377,407	257,456
Exchange Difference	(22,290)	(5,419)	(27,709)	6,915	1,329
Loans written off out of Allowance	(692,746)	-	(692,746)	-	(9,806)
Interest accrued on Impaired Advances (Note 24)	(26,103)	-	(26,103)	-	-
Provisions made during the year (Note 24)	162,102	17,632	179,734	94,698	128,428
At 30 June	650,604	214,896	865,500	479,020	377,407

Bank	Specific Provision MRs'000	Portfolio Provision MRs'000	2004 Total MRs'000	2003 Total MRs'000	2002 Total MRs'000
At 1 July					
- As Previously Stated	257,173	177,763	434,936	348,961	248,052
- Effect of applying IAS 39	953,304	-	953,304	-	-
- As Restated	1,210,477	177,763	1,388,240	348,961	248,052
Exchange Difference	(2,679)	(101)	(2,780)	5,819	(327)
Loans written off out of Allowance	(692,746)	-	(692,746)	-	(9,806)
Interest accrued on Impaired Advances (Note 24)	(26,103)	-	(26,103)	-	-
Provisions made during the year (Note 24)	125,599	17,632	143,231	80,156	111,042
At 30 June	614,548	195,294	809,842	434,936	348,961

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 8E. PROVISION FOR CREDIT LOSSES BY INDUSTRY SECTORS

Group	Gross Amount of Loans MRs'000	Non Performing Loans MRs'000	Specific Provision MRs'000	Portfolio Provision MRs'000	2004 Total Provision MRs'000	2003 Total Provision MRs'000	2002 Total Provision MRs'000
Agriculture and Fishing	721,893	49,638	15,935	4,892	20,827	5,671	9,250
EPZ	1,347,998	28,611	23,195	9,136	32,331	67,211	64,335
Other Manufacturing	2,572,249	195,282	112,027	23,008	135,035	126,514	92,626
Total Manufacturing	3,920,247	223,893	135,222	32,144	167,366	193,725	156,961
Tourism	4,541,367	30,210	12,643	33,418	46,061	54,915	42,286
Transport	222,422	12,197	8,323	3,933	12,256	4,328	4,017
Construction	1,448,908	204,366	147,491	61,945	209,436	24,953	19,209
Financial and Business Services	1,284,196	1,565	1,149	10,945	12,094	27,340	31,523
Traders	3,978,567	236,116	165,438	23,839	189,277	102,020	58,489
Credit Cards	221,365	13,259	13,259	1,290	14,549	3,318	5,323
Other Personal	4,724,709	180,033	130,338	28,295	158,633	39,452	33,995
Total Personal	4,946,074	193,292	143,597	29,585	173,182	42,770	39,318
Professional	277,598	-	-	2,082	2,082	2,975	2,318
New Economy	908,452	1,327	1,040	1,815	2,855	12,023	4,752
Infrastructure	529,479	205	-	3,110	3,110	5,521	6,473
Other	758,480	29,266	19,766	7,188	26,954	2,779	2,811
Total	23,537,683	982,075	650,604	214,896	865,500	479,020	377,407

Bank	Gross Amount of Loans MRs'000	Non Performing Loans MRs'000	Specific Provision MRs'000	Portfolio Provision MRs'000	2004 Total Provision MRs'000	2003 Total Provision MRs'000	2002 Total Provision MRs'000
Agriculture and Fishing	662,474	7,242	4,899	4,842	9,741	4,705	8,286
EPZ	1,189,184	28,611	23,195	7,196	30,391	67,211	79,532
Other Manufacturing	2,350,122	194,040	110,784	13,316	124,100	121,968	73,680
Total Manufacturing	3,539,306	222,651	133,979	20,512	154,491	189,179	153,212
Tourism	4,481,171	30,210	12,643	33,237	45,880	54,562	41,971
Transport	178,504	12,197	8,323	3,801	12,124	3,941	3,683
Construction	1,408,460	198,712	141,837	61,392	203,229	22,290	17,817
Financial and Business Services	1,406,721	1,565	1,149	8,498	9,647	18,419	23,602
Traders	3,619,347	190,632	147,826	19,691	167,517	76,815	45,352
Credit Cards	221,365	13,259	13,259	1,290	14,549	3,318	1,973
Other Personal	4,706,734	180,033	130,338	28,061	158,399	39,404	37,297
Total Personal	4,928,099	193,292	143,597	29,351	172,948	42,722	39,270
Professional	277,598	-	-	2,082	2,082	2,780	2,052
New Economy	908,121	1,327	1,040	1,815	2,855	12,023	4,745
Infrastructure	475,751	-	-	2,950	2,950	5,521	6,372
Other	737,725	28,754	19,255	7,123	26,378	1,979	2,599
Total	22,623,277	886,582	614,548	195,294	809,842	434,936	348,961

## Notes to the Accounts (cont'd)

### for the year ended 30 June 2004

Total non-performing loans for 2003 for the Group and the Bank were MRs1,811 million (2002: MRs1,471 million) and MRs1,698 million (2002: MRs1,428 million) respectively.

#### 8F. LOANS TO ENTITIES OUTSIDE MAURITIUS (BY MAURITIUS OPERATIONS)

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Banks	-	73,125	-	-	73,125	-
Other Entities	652,239	1,141,545	1,309,081	652,239	1,141,545	1,309,081
	<u>652,239</u>	<u>1,214,670</u>	<u>1,309,081</u>	<u>652,239</u>	<u>1,214,670</u>	<u>1,309,081</u>

#### 8G. LOANS BY OVERSEAS OPERATIONS

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Government	-	13,823	-	-	-	-
Other Entities	2,155,137	2,033,890	1,826,460	1,595,079	1,162,074	1,089,184
	<u>2,155,137</u>	<u>2,047,713</u>	<u>1,826,460</u>	<u>1,595,079</u>	<u>1,162,074</u>	<u>1,089,184</u>

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 9. TANGIBLE FIXED ASSETS

Group	Land and Buildings		Other Tangible Fixed Assets MRs'000	Motor Vehicles MRs'000	Total MRs'000
	Freehold MRs'000	Leasehold MRs'000			
<b>Cost</b>					
At 1 July 2003	330,752	585,229	2,054,924	14,578	2,985,483
Exchange Difference	(3,692)	-	(7,078)	(903)	(11,673)
Additions	14,282	31,673	186,364	5,911	238,230
Disposals	(8,641)	-	(178,631)	(4,722)	(191,994)
At 30 June 2004	332,701	616,902	2,055,579	14,864	3,020,046
<b>Accumulated Depreciation</b>					
At 1 July 2003	39,227	92,690	1,150,317	12,435	1,294,669
Exchange Difference	(607)	-	(5,096)	(849)	(6,552)
Disposals	(340)	-	(160,229)	(4,122)	(164,691)
Charge for the Year	4,669	11,818	176,009	1,369	193,865
At 30 June 2004	42,949	104,508	1,161,001	8,833	1,317,291
<b>Net Book Value</b>					
At 30 June 2004	289,752	512,394	894,578	6,031	1,702,755
Progress Payments on Tangible Fixed Assets					56,351
					1,759,106
At 30 June 2003	291,525	492,539	904,607	2,143	1,690,814
Progress Payments on Tangible Fixed Assets					147,164
					1,837,978
At 30 June 2002	293,670	490,984	684,975	4,049	1,473,678
Progress Payments on Tangible Fixed Assets					236,513
					1,710,191

Bank	Land and Buildings		Other Tangible Fixed Assets MRs'000	Motor Vehicles MRs'000	Total MRs'000
	Freehold MRs'000	Leasehold MRs'000			
<b>Cost</b>					
At 1 July 2003	330,752	585,229	2,034,356	12,550	2,962,887
Exchange Difference	(3,692)	-	(660)	(25)	(4,377)
Additions	14,282	31,673	185,465	5,911	237,331
Disposals	(8,641)	-	(178,631)	(4,722)	(191,994)
At 30 June 2004	332,701	616,902	2,040,530	13,714	3,003,847
<b>Accumulated Depreciation</b>					
At 1 July 2003	39,227	92,690	1,134,906	10,665	1,277,488
Exchange Difference	(607)	-	(487)	(18)	(1,112)
Disposals	(340)	-	(160,229)	(4,122)	(164,691)
Charge for the Year	4,669	11,818	174,927	1,193	192,607
At 30 June 2004	42,949	104,508	1,149,117	7,718	1,304,292
<b>Net Book Value</b>					
At 30 June 2004	289,752	512,394	891,413	5,996	1,699,555
Progress Payments on Tangible Fixed Assets					55,250
					1,754,805
At 30 June 2003	291,525	492,539	899,450	1,885	1,685,399
Progress Payments on Tangible Fixed Assets					147,164
					1,832,563
At 30 June 2002	293,670	490,984	678,078	3,407	1,466,139
Progress Payments on Tangible Fixed Assets					236,513
					1,702,652

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

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

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

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

	Group and Bank		
	2004	2003	2002
	MRs'000	MRs'000	MRs'000
Computer Equipment	759,421	726,643	455,498
Plant & Machinery	4,254	14,428	16,446
Motor Vehicles	453	866	1,805
	<u>764,128</u>	<u>741,937</u>	<u>473,749</u>

### 10. OTHER ASSETS

	Group			Bank		
	2004	2003	2002	2004	2003	2002
	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000
Accounts Receivable	47,806	34,484	23,650	37,489	28,051	16,917
Balances due in Clearing	116,435	270,601	175,906	113,235	217,830	173,599
Tax Paid in Advance	113,662	100,391	90,859	113,662	100,391	90,859
Financial Derivative Asset (Note 22C)	90,398	142,333	53,516	90,398	142,333	53,516
Pension Asset (Note 11)	1,694	23,095	39,031	1,694	21,338	36,039
Balance with Clearing Corporation in India	16,722	36,416	-	16,722	36,416	-
Printing, Stationery and Others	39,172	26,928	23,383	37,471	24,474	20,168
	<u>425,889</u>	<u>634,248</u>	<u>406,345</u>	<u>410,671</u>	<u>570,833</u>	<u>391,098</u>

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

### 11. PENSION ASSET

Amount recognised in the Balance Sheet:

	Group			Bank		
	2004	2003	2002	2004	2003	2002
	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000
Present Value of Funded Obligations	321,197	330,523	273,521	321,197	310,327	257,226
Fair Value of Plan Assets	(309,386)	(295,840)	(273,573)	(309,386)	(277,320)	(255,820)
	<u>11,811</u>	<u>34,683</u>	<u>(52)</u>	<u>11,811</u>	<u>33,007</u>	<u>1,406</u>
Unrecognised Actuarial Losses	(13,505)	(57,778)	(38,979)	(13,505)	(54,345)	(37,445)
(Asset)/Liability in the Balance Sheet	<u>(1,694)</u>	<u>(23,095)</u>	<u>(39,031)</u>	<u>(1,694)</u>	<u>(21,338)</u>	<u>(36,039)</u>

At 30 June 2004, about 0.40% (2003: 1.24%) (2002: 1.47%) of the total assets of the SBM Group Pension Fund were invested in shares of State Bank of Mauritius Ltd.

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

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

Amount recognised in the Statement of Income:

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Current Service Cost	16,593	16,749	15,021	16,593	15,258	13,493
Interest Cost	34,476	31,390	26,721	34,476	29,518	25,176
Expected Return on Plan Assets	(30,835)	(32,761)	(31,505)	(30,835)	(30,633)	(29,558)
Actuarial Loss/(Gain) recognised	1,167	558	-	1,167	558	-
Total included in Staff Costs (Note 26)	21,401	15,936	10,237	21,401	14,701	9,111
Actual Return on Plan Assets	16,078	26,320	11,547	16,078	25,514	9,999

Movements in the assets recognised in the Balance Sheet:

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
At 1 July	(23,095)	(39,031)	(49,268)	(21,338)	(36,039)	(45,150)
Transfer from SBM IT Ltd	-	-	-	(1,757)	-	-
Total Expense as above	21,401	15,936	10,237	21,401	14,701	9,111
At 30 June	(1,694)	(23,095)	(39,031)	(1,694)	(21,338)	(36,039)

The principal actuarial assumptions used for accounting purposes were:

	Group and Bank		
	2004 %	2003 %	2002 %
Discount Rate	9.5	10.5	11.5
Expected Rate of Return on Plan Assets	9.5	10.5	12.0
Future Salary Cost Increases	8.0	9.0	10.0
Future Pension Increases	-	-	-

Pension amounts and disclosures have been based on the report dated 12 July 2004 submitted by Bacon Woodrow & Legris Ltd, Actuaries and Consultants.

### 12. DEPOSITS

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
<b>Personal, Business and Governments</b>						
Demand Deposits	2,525,102	2,468,540	2,360,696	2,363,702	2,212,324	2,194,916
Savings Deposits	18,444,208	15,483,145	14,027,271	18,442,693	15,567,749	14,025,590
Time Deposits with remaining Term to Maturity:						
- Within 3 months	3,835,598	3,764,163	2,159,270	3,126,857	3,354,833	1,955,775
- Over 3 months and up to 6 months	1,722,364	1,647,364	1,866,655	1,475,647	1,255,826	1,675,882
- Over 6 months and up to 12 months	2,924,718	2,454,789	2,206,740	2,520,156	2,052,354	1,778,990
- Over 1 year and up to 2 years	2,432,586	2,606,355	2,652,992	1,974,908	1,871,132	2,231,803
- Over 2 years and up to 5 years	905,630	752,463	865,240	789,513	675,659	725,086
- Over 5 years	5,404	5,316	11,513	5,404	5,316	7,520
	32,795,610	29,182,135	26,150,377	30,698,880	26,995,193	24,595,562
<b>Banks</b>						
Demand Deposits	76,643	-	-	80,135	49,725	35,541
Total	32,872,253	29,182,135	26,150,377	30,779,015	27,044,918	24,631,103



## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 13. BORROWINGS FROM CENTRAL BANKS

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Borrowings under Refinance Scheme from Bank of Mauritius under Special Line of Credit by SBM Lease Ltd	1,167	3,785	85,585	-	-	-
Other Special Refinance Schemes from Bank of Mauritius	341,531	393,664	389,792	341,531	393,664	389,792
	<u>342,698</u>	<u>397,449</u>	<u>475,377</u>	<u>341,531</u>	<u>393,664</u>	<u>389,792</u>

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
<b>Remaining Term to Maturity</b>						
Within 3 months	30,670	5,837	3,691	30,670	4,624	1,714
Over 3 months and up to 6 months	30,776	12,191	3,952	29,609	11,729	-
Over 6 months and up to 12 months	60,648	38,469	3,952	60,648	37,517	-
Over 1 year and up to 2 years	127,256	122,780	42,298	127,256	121,622	-
Over 2 years and up to 5 years	93,348	218,172	403,627	93,348	218,172	370,221
Over 5 years	-	-	17,857	-	-	17,857
	<u>342,698</u>	<u>397,449</u>	<u>475,377</u>	<u>341,531</u>	<u>393,664</u>	<u>389,792</u>

### 14. BORROWINGS FROM CATEGORY 1 AND OTHER LOCAL BANKS

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Balances due within 3 months	298,330	773,935	305,371	298,040	773,935	305,371

### 15. BORROWINGS FROM CATEGORY 2 BANKS IN MAURITIUS AND BANKS ABROAD

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
<b>Remaining Term to Maturity</b>						
Within 3 months	1,514,692	1,573,311	1,243,373	1,514,692	1,573,311	1,243,373
Over 3 months and up to 6 months	78,820	205,923	265,076	78,820	205,923	265,076
Over 6 months and up to 12 months	-	-	3,399	-	-	3,399
	<u>1,593,512</u>	<u>1,779,234</u>	<u>1,511,848</u>	<u>1,593,512</u>	<u>1,779,234</u>	<u>1,511,848</u>

### 16. DEBENTURES

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
3-5 Year Debentures (issued by SBM Lease Ltd)	-	-	9,609	-	-	-

The debentures issued by SBM Lease Ltd were redeemed in October 2002.

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 17. TAXATION

#### 17A. CURRENT TAXATION

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Accounting Profit	1,365,513	1,186,413	1,028,909	1,360,433	1,182,912	1,016,347
Tax on Accounting Profit at the applicable Tax Rate	341,378	296,603	257,227	340,108	295,728	254,087
Net Tax Effect of Non-taxable and Other Items	(284,513)	(201,675)	(196,251)	(300,004)	(215,549)	(217,176)
Current Tax Provision for the Year	56,865	94,928	60,976	40,104	80,179	36,911
Current Tax Liability	56,519	78,433	45,841	39,113	60,633	27,705

The current tax liability is stated after deducting the current tax payable by the Indian Operations which is set off against tax paid in advance.  
The applicable tax rate for the Bank in Mauritius is 25%.

#### 17B. DEFERRED TAXATION LIABILITY

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
<b>Deferred Tax Liability</b>						
At 1 July						
- As Previously Stated	134,179	70,135	62,174	133,790	69,470	61,399
- Effect of applying IAS 39	(238,326)	-	-	(238,326)	-	-
- As Restated	(104,147)	70,135	62,174	(104,536)	69,470	61,399
Exchange Difference	(65)	81	(63)	(65)	81	(63)
Transfer from SBM IT Ltd in respect of Pension Asset	-	-	-	264	-	-
Deferred Tax Expense	155,623	63,963	8,024	155,730	64,239	8,134
At 30 June	51,411	134,179	70,135	51,393	133,790	69,470
Analysed as resulting from:						
Accelerated Capital Allowances	196,223	145,805	61,214	196,205	145,679	61,120
Pension Asset and Other Employee Benefits	(2,057)	1,869	6,374	(2,057)	1,606	5,803
Specific Provision for Credit Losses	(143,345)	-	-	(143,345)	-	-
Portfolio Provision for Credit Losses	(47,868)	(59,642)	(43,600)	(47,868)	(59,642)	(43,600)
Tax Deduction for Advances to Tax Incentive Companies	48,458	46,147	46,147	48,458	46,147	46,147
	51,411	134,179	70,135	51,393	133,790	69,470

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 17C. TAX EXPENSE

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Current Tax Provision for the Year	56,865	94,928	60,976	40,104	80,179	36,911
Exchange Difference	1,647	(2,270)	(509)	262	(1,714)	341
Under/(Over)provision in Previous Year	15,385	(4,219)	(8,052)	15,363	(4,221)	(8,045)
Withholding Tax on Dividend	653	2,368	2,215	-	-	-
Share of Tax of Subsidiaries and Associates	5,168	10,844	6,902	22,454	26,212	27,358
Current Tax Expense	79,718	101,651	61,532	78,183	100,456	56,565
Deferred Tax Expense	155,623	63,963	8,024	155,730	64,239	8,134
<b>Total Tax Expense</b>	<b>235,341</b>	<b>165,614</b>	<b>69,556</b>	<b>233,913</b>	<b>164,695</b>	<b>64,699</b>

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

	Group		
	2004 MRs'000	2003 MRs'000	2002 MRs'000
In Mauritius, excluding Share of Tax of Associates	211,080	128,469	29,382
Overseas	19,093	26,301	33,272
Share of Tax of Associates	5,168	10,844	6,902
<b>Total Tax Expense</b>	<b>235,341</b>	<b>165,614</b>	<b>69,556</b>

### 18. OBLIGATIONS UNDER FINANCE LEASES

Bank	Within 3 months	3-6 months	6-12 months	1-2 years	2-5 years	After 5 years	Total
	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000
<b>2004</b>							
Minimum Lease Payments	62,239	62,239	124,479	248,880	425,735	-	923,572
Less: Future Finance Charges	(21,172)	(19,958)	(36,129)	(56,035)	(46,318)	-	(179,612)
<b>Capital Element - due to SBM Lease Ltd</b>	<b>41,067</b>	<b>42,281</b>	<b>88,350</b>	<b>192,845</b>	<b>379,417</b>	<b>-</b>	<b>743,960</b>
<b>2003</b>							
Minimum Lease Payments	58,231	58,231	126,686	212,241	525,049	-	980,438
Less: Future Finance Charges	(22,412)	(21,308)	(38,875)	(63,323)	(74,159)	-	(220,077)
<b>Capital Element - due to SBM Lease Ltd</b>	<b>35,819</b>	<b>36,923</b>	<b>87,811</b>	<b>148,918</b>	<b>450,890</b>	<b>-</b>	<b>760,361</b>
<b>2002</b>							
Minimum Lease Payments	37,760	38,159	71,274	150,849	364,258	459	662,759
Less: Future Finance Charges	(15,129)	(14,403)	(26,651)	(44,509)	(60,412)	(49)	(161,153)
<b>Capital Element - due to SBM Lease Ltd</b>	<b>22,631</b>	<b>23,756</b>	<b>44,623</b>	<b>106,340</b>	<b>303,846</b>	<b>410</b>	<b>501,606</b>

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 19. OTHER LIABILITIES

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Bills Payable	100,217	86,253	54,000	95,586	84,391	51,339
Accruals for Operating and Non-Operating Expenses	90,983	50,351	46,731	90,786	50,102	46,566
Dividend Payable (Note 28)	390,063	357,638	363,375	390,063	357,638	363,375
Settlements on Debit Cards	4,328	6,981	3,598	4,328	6,981	3,598
Accounts Payable						
- Subsidiaries	-	-	-	-	21,195	-
- Others	53,218	67,417	59,897	26,177	32,412	43,908
Deferred Income	14,713	12,645	17,875	14,597	14,284	17,450
Balance due in Clearing	133,786	174,017	169,633	133,786	174,017	169,633
Salary Credit Transition Accounts	38,409	65,553	-	38,409	65,553	-
Financial Derivative Liability (Note 22C)	45,758	72,852	30,482	45,758	72,852	30,482
Others	18,396	11,945	11,974	18,396	11,945	11,957
	<u>889,871</u>	<u>905,652</u>	<u>757,565</u>	<u>857,886</u>	<u>891,370</u>	<u>738,308</u>

### 20. SHARE CAPITAL

	Group and Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000
<b>Authorised Capital</b>			
1,000,000,000 Ordinary Shares of MRe1 each	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>

	Group and Bank					
	2004		2003		2002	
	Number*	MRs'000	Number*	MRs'000	Number*	MRs'000
<b>Issued, Subscribed and Paid up Share Capital</b>						
At 1 July	382,500,000	382,500	382,500,000	382,500	382,500,000	382,500
Shares bought back and cancelled	(72,700)	(73)	-	-	-	-
Treasury Shares cancelled	(12,830)	(13)	-	-	-	-
At 30 June	<u>382,414,470</u>	<u>382,414</u>	<u>382,500,000</u>	<u>382,500</u>	<u>382,500,000</u>	<u>382,500</u>
<b>Treasury Shares held</b>						
At 1 July	46,296,999	46,297	19,125,000	19,125	19,125,000	19,125
Shares bought back and held as Treasury Shares	11,078,001	11,078	27,171,999	27,172	-	-
Treasury Shares cancelled	(12,830)	(13)	-	-	-	-
At 30 June	<u>57,362,170</u>	<u>57,362</u>	<u>46,296,999</u>	<u>46,297</u>	<u>19,125,000</u>	<u>19,125</u>
<b>Outstanding Share Capital</b>						
At 1 July	336,203,001	336,203	363,375,000	363,375	363,375,000	363,375
Shares bought back and held as Treasury Shares	(11,078,001)	(11,078)	(27,171,999)	(27,172)	-	-
Shares bought back and cancelled	(72,700)	(73)	-	-	-	-
At 30 June	<u>325,052,300</u>	<u>325,052</u>	<u>336,203,001</u>	<u>336,203</u>	<u>363,375,000</u>	<u>363,375</u>

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

## Notes to the Accounts (cont'd) for the year ended 30 June 2004

### 20. SHARE CAPITAL (cont'd)

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

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

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

### 21. RESERVES AND SURPLUS

	Group and Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000
Share Premium	-	-	280,552
Statutory Reserve	465,825	455,865	440,619
Revenue Reserve	3,895,258	4,077,654	3,561,884
Unrealised Investment Fair Value Reserve	1,246,673	1,845	(7,033)
Investment Fluctuation Reserve	53,868	36,938	17,090
Other Reserve	71,088	59,430	54,466
Translation Reserve	76,901	170,957	175,922
	<b>5,809,613</b>	<b>4,802,689</b>	<b>4,523,500</b>

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

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

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

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 22. CONTINGENT LIABILITIES AND COMMITMENTS

#### 22A. ACCEPTANCES, GUARANTEES, LETTERS OF CREDIT, ENDORSEMENTS AND OTHER OBLIGATIONS ON ACCOUNT OF CUSTOMERS

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Letters of Credit	872,747	882,781	542,573	745,363	744,807	513,864
Guarantees	2,928,224	2,706,896	2,356,415	2,772,940	2,669,328	2,321,947
Acceptances and Endorsements	811,765	347,957	298,965	794,073	319,137	274,758
	<u>4,612,736</u>	<u>3,937,634</u>	<u>3,197,953</u>	<u>4,312,376</u>	<u>3,733,272</u>	<u>3,110,569</u>
Money-market Contracts not yet executed	-	-	80,072	-	-	80,072
Other	-	54,692	-	-	54,692	-
	<u>4,612,736</u>	<u>3,992,326</u>	<u>3,278,025</u>	<u>4,312,376</u>	<u>3,787,964</u>	<u>3,190,641</u>

#### 22B. CREDIT COMMITMENTS

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Undrawn Credit Facilities	<u>3,465,270</u>	<u>3,962,171</u>	<u>2,514,400</u>	<u>3,203,172</u>	<u>3,506,747</u>	<u>2,504,600</u>

#### 22C. FINANCIAL DERIVATIVES

	Group and Bank			
	Notional Principal Amount MRs'000	Fair Values		
		Positive MRs'000	Negative MRs'000	Net MRs'000
<b>2004</b>				
Forward Foreign Exchange Contracts	5,142,417	89,413	(44,967)	44,446
Spot Foreign Exchange Contracts not yet delivered	245,807	905	(341)	564
Interest Rate Swap Contracts	399,558	80	(450)	(370)
	<u>5,787,782</u>	<u>90,398</u>	<u>(45,758)</u>	<u>44,640</u>
<b>2003</b>				
Forward Foreign Exchange Contracts	4,711,097	136,433	(67,080)	69,353
Spot Foreign Exchange Contracts not yet delivered	937,683	5,900	(5,772)	128
Interest Rate Swap Contracts	126,100	*	*	*
	<u>5,774,880</u>	<u>142,333</u>	<u>(72,852)</u>	<u>69,481</u>
<b>2002</b>				
Forward Foreign Exchange Contracts	3,466,290	52,283	(29,279)	23,004
Spot Foreign Exchange Contracts not yet delivered	2,489,011	1,233	(1,203)	30
	<u>5,955,301</u>	<u>53,516</u>	<u>(30,482)</u>	<u>23,034</u>

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

## Notes to the Accounts (cont'd)

### for the year ended 30 June 2004

#### 22D. LITIGATION

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

#### 22E. ASSETS PLEDGED

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

	Group and Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000
Treasury Bills	1,105,828	903,000	752,194

#### 22F. CAPITAL COMMITMENTS

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Approved and contracted for	21,500	137,860	152,240	21,500	137,860	141,540
Approved and not contracted for	17,570	29,495	291,300	15,823	29,495	267,300

#### 22G. OPERATING LEASE COMMITMENTS

##### GROUP AND BANK

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

	Group and Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000
Within 1 Year	7,746	8,211	6,755
After 1 Year and before 5 Years	8,491	12,341	11,121
After 5 Years	320	400	480
	16,557	20,952	18,356

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 23. INTEREST INCOME

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Loans and Advances	2,132,163	2,212,493	2,385,499	1,979,785	2,058,268	2,248,462
Investment Securities	716,048	630,689	487,505	652,963	571,142	379,409
Trading Securities	62,661	85,473	6,093	62,661	85,473	6,093
Gilt-edged Securities	778,709	716,162	493,598	715,624	656,615	385,502
Placements with Banks	71,251	74,888	96,972	68,581	71,555	91,498
	2,982,123	3,003,543	2,976,069	2,763,990	2,786,438	2,725,462

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

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

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Interest accrued on Impaired Advances	(26,103)	-	-	(26,103)	-	-
Portfolio and Specific Provisions	179,734	94,698	128,428	143,231	80,156	111,042
Bad Debts written off for which no Provisions were made	12,968	49,772	41,463	12,968	48,895	41,463
Recoveries of Advances written off	(2,198)	(853)	(1,239)	(2,198)	(853)	(1,239)
	164,401	143,617	168,652	127,898	128,198	151,266

### 25. NET FEE AND COMMISSION INCOME

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Loan-related						
- Letters of Credit and Acceptances	54,117	42,784	29,032	35,759	27,339	23,595
- Others	8,460	6,812	10,200	8,460	6,812	10,200
Credit Cards	100,603	71,372	68,256	100,603	71,372	68,256
Guarantees	19,642	19,580	18,586	19,642	19,580	18,586
Service Charges	147,376	115,723	72,831	144,112	110,699	69,944
Other	48,960	47,621	65,742	33,941	36,844	44,051
Total Fee and Commission Income	379,158	303,892	264,647	342,517	272,646	234,632
Fee and Commission Expense	(59,037)	(50,911)	(46,532)	(58,170)	(49,783)	(43,674)
	320,121	252,981	218,115	284,347	222,863	190,958

### 26. NON-INTEREST EXPENSE

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Staff Costs	483,739	367,913	298,521	477,940	360,422	291,477
Property Costs	140,535	165,593	163,474	131,488	156,366	154,846
System Costs	199,993	167,671	164,121	197,683	163,343	159,502
Other	80,734	67,685	54,532	77,213	61,965	48,263
	905,001	768,862	680,648	884,324	742,096	654,088
Number of Employees at Balance Sheet Date, including Trainees	887	877	839	745	745	714

For both the Group and the Bank, staff costs include a defined contribution pension expense of MRs4.164 million (2003: MRs4.804 million) (2002: MRs4.225 million). Staff costs for 2004 include National Pensions Fund/levy contribution arrears of MRs56.6 million.



## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 27. NET INCOME AFTER INCOME TAXES

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Net Income after Income Taxes is arrived at after charging:						
Operating Lease Rentals	23,801	22,272	19,976	17,858	17,131	16,486
Auditors' Remuneration (Audit Fee)						
- Principal Auditors	3,310	3,020	3,557	3,131	2,846	3,406
- Other Auditors	406	433	450	127	112	141

### 28. DIVIDEND PAYABLE

	Group and Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000
Balance at Beginning of Year	357,638	363,375	327,038
Dividend Paid	(357,558)	(363,270)	(327,038)
Amount Written Back	(80)	(105)	-
Dividend declared during the Year: 120 Cents (2003: 110 Cents) (2002: 100 Cents) per Share	390,063	357,638	363,375
Net Amount of Change in Equity	389,983	357,533	363,375
Balance at End of Year	390,063	357,638	363,375

The amount of dividend written back relates to a portion of the dividend previously declared which was no longer payable following the buy back of its own shares by the Bank.

### 29. EARNINGS PER SHARE

	Group and Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000
Net Income available to Shareholders	1,126,520	1,018,217	951,648
Weighted Average Number of Outstanding Shares entitled to Dividends (thousands)	325,282	358,899	363,375
Earnings per Share (Cents)	346	284	262

### 30. ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

	Group			Bank		
	2004 MRs'000	2003 MRs'000	2002 MRs'000	2004 MRs'000	2003 MRs'000	2002 MRs'000
Cash and Balances with Central Banks	2,040,409	1,924,269	1,659,326	2,012,529	1,844,978	1,501,548
Balances with Category 1 Banks and Interbank Loans	103,870	104,117	31,081	94,726	103,733	29,253
Balances with Category 2 Banks in Mauritius and Banks Abroad	1,986,309	2,260,586	2,296,133	1,694,072	1,997,854	2,053,711
Borrowings from Category 1 and Other Local Banks	4,130,588	4,288,972	3,986,540	3,801,327	3,946,565	3,584,512
Borrowings from Category 2 Banks in Mauritius and Banks Abroad	(298,330)	(773,935)	(305,371)	(298,040)	(773,935)	(305,371)
	(1,593,512)	(1,779,234)	(1,511,848)	(1,593,512)	(1,779,234)	(1,511,848)
	2,238,746	1,735,803	2,169,321	1,909,775	1,393,396	1,767,293

**Notes to the Accounts (cont'd)**  
for the year ended 30 June 2004

**31. RELATED PARTY TRANSACTIONS**

	Key Management Personnel				Associates and other Entities in which the Group has Significant influence**				Entities (including their Subsidiaries) which have Significant influence** in the Group				Entities in which Directors, other Key Management Personnel and their Close Family Members have Significant influence			
	2004	2003	2002	2001	2004	2003	2002	2001	2004	2003	2002	2001	2004	2003	2002	2001
	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000	MRS'000
<b>(a) Credit Facilities</b>																
<b>(i) Loans to directors</b>																
Balance at beginning of year	163	179	212	-												
Loans to directors who resigned during the year	-	(179)	-	-												
Loans granted during the year	125	-	-	-												
Existing loans of newly appointed directors	2,089	221	-	-												
Repayments	(431)	(58)	(33)	-												
Balance at end of year	1,946	163	179	-												
<b>(ii) Loans to other related parties</b>																
Balance at beginning of year					780,000											
Loans of Key management personnel who resigned during the year				(2,285)												
Loans to entities in which directors who resigned during the year have significant influence				-												
Loans granted during the year		3,793	n/a	-		780,000										
Existing loans of newly appointed key management personnel		400	n/a	-												
Existing loans of new related parties		-	n/a	-												
Repayments		(3,624)	n/a	(111,429)												
Balance at end of year	23,478	22,918	22,249	668,571	780,000											
<b>(iii) Other advances</b>																
Balance at end of year	132	50	7	969	1	1	60	1,145,075	1,069,621	1,225,019	231,255	184,522	90,985			
<b>(iv) Off-balance sheet items</b>																
Balance at end of year	-	-	-	-	204	300	263,355	127,666	33,871	773,253	649,919	75,926	93,104	75,044		

**Notes to the Accounts (cont'd)**  
for the year ended 30 June 2004

**31. RELATED PARTY TRANSACTIONS (cont'd)**

	Key Management Personnel				Associates and other Entities in which the Group has Significant influence**				Entities (including their Subsidiaries) which have Significant influence** in the Group				Entities in which Directors, other Key Management Personnel and their Close Family Members have Significant influence				
	Directors*		Others*		2003		2002		2003		2004		2003		2002		
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2002
MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000	MRs'000
<b>(b) Placements</b>																	
Balance at end of year	-	-	-	-	762	-	-	-	282,241	786,917	466,348	-	-	-	-	-	-
<b>(c) Borrowings</b>																	
Balance at end of year	-	-	-	-	61,482	59,050	94,291	276,813	364,716	457,347	-	-	-	-	-	-	-
<b>(d) Deposits</b>																	
Balance at end of year	371,47	59,742	48,929	18,560	18,830	32,936	111,919	144,343	103,895	3,789,237	4,006,400	3,901,032	80,052	11,431	7,287	-	-
<b>(e) Interest income</b>																	
Loans and advances	191	70	32	1,825	1,987	n/a	69,196	142	14	222,845	195,799	n/a	36,131	24,285	18,105	-	-
Placements	-	-	-	-	-	-	-	36,236	-	13,043	16,211	-	-	-	-	-	-
	191	70	32	1,825	1,987	-	69,196	142	14	259,081	208,842	16,211	36,131	24,285	18,105	-	-
<b>(f) Interest expense</b>																	
Deposits	1,229	2,137	1,628	583	814	n/a	8,438	6,215	966	197,303	175,647	n/a	705	3,945	378	-	-
Borrowings	-	-	-	-	-	-	2,559	1,299	2,820	30,579	11,777	14,848	-	-	-	-	-
	1,229	2,137	1,628	583	814	-	10,997	7,514	3,776	227,882	187,424	14,848	705	3,945	378	-	-
<b>(g) Other income</b>																	
	-	-	-	51	71	n/a	5,006	3,312	73	68,437	53,247	n/a	9,816	7,267	1,469	-	-
<b>(h) Purchase of goods &amp; services</b>																	
	-	500	-	-	-	-	19,521	18,583	16,670	36,621	36,154	46,124	24,791	32,344	167,877	-	-
<b>(i) Buy back of own shares</b>																	
	-	-	-	-	-	-	-	48,955	-	121,376	-	-	-	-	-	-	-
<b>(j) Emoluments</b>																	
Emoluments including benefits of key management personnel (including directors) for the year amounted to MRs116.6 Million (2003: MRs98.5 million) (2002: MRs73.4 million).																	

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

\* Including close family members.

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

n/a Comparative information not practicable.

## Notes to the Accounts (cont'd)

### for the year ended 30 June 2004

#### 32. PHANTOM SHARE OPTIONS

The Bank has in place a "Compensation based on Performance Scheme" for senior executives including an element of at-risk pay. The at-risk pay is in the form of options for Phantom shares. Under this scheme, senior executives are allocated a number of Phantom share options based on individual, team and Bank performance. The option price is the market price of the share at a discount. Options are exercisable after three years and within ten years of the date of allocation of the options subject to certain conditions including the following:

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

On the exercise of an option for a Phantom share, applicants receive in cash the increase in value, based on the difference between the Bank's quoted share price at the time of exercise and the option price of the allocated number of notional shares.

Movements in the number of Phantom share options:

	Group and Bank		
	2004	2003	2002
Outstanding at beginning of the year	776,605	918,330	684,200
Allocated during the year	279,000	-	250,000
Lapsed during the year	(84,435)	(31,725)	(15,870)
Exercised during the year	(69,575)	(110,000)	-
Outstanding at end of the year	<u>901,595</u>	<u>776,605</u>	<u>918,330</u>

Included in staff costs (Note 26) is an amount of MRs494,775 (2003: MRs402,000) (2002: Nil) paid on the exercise of Phantom share options during the year.

Terms of the phantom share options outstanding as at 30 June 2004:

	Group and Bank	
	Number	Option Price MRs
Expiry Date		
June 30, 2008	71,220	18.00
June 30, 2009	62,250	13.00
June 30, 2010	104,125	10.00
June 30, 2011	180,000	10.00
June 30, 2012	205,000	10.00
June 30, 2014	<u>279,000</u>	<u>20.00</u>
	<u>901,595</u>	

As at 30 June 2004, the potential liability was not significant.

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 33. CURRENCY RISK

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

<b>Group</b>	<b>MUR MRs'000</b>	<b>USD MRs'000</b>	<b>GBP MRs'000</b>	<b>EURO MRs'000</b>	<b>INR MRs'000</b>	<b>OTHER MRs'000</b>	<b>TOTAL MRs'000</b>
<b>ASSETS</b>							
Cash and Balances with Central Banks	1,832,583	19,205	6,569	18,363	128,975	34,714	2,040,409
Balances with Category 1 Banks and Interbank Loans	80,176	-	-	-	14,721	8,973	103,870
Balances with Category 2 Banks in Mauritius and Banks Abroad	149,675	1,403,869	84,754	286,946	589	60,476	1,986,309
Investments in Subsidiaries and Associates	274,319	350,870	-	-	-	-	625,189
Other Equity Investments	1,492,041	22,777	-	-	-	319	1,515,137
Placements with Maturity of over 3 months	-	-	-	-	39,754	636	40,390
Investments in Gilt-edged Securities	10,397,335	-	-	-	496,002	195,902	11,089,239
Securities, Placements and Other Investments	12,163,695	373,647	-	-	535,756	196,857	13,269,955
Loans and Advances	18,364,218	1,014,275	3,402	1,321,711	1,484,087	484,490	22,672,183
Tangible Fixed Assets	1,648,771	-	-	-	107,278	3,057	1,759,106
Other Assets	189,040	21,181	13,810	62,135	132,341	7,382	425,889
<b>TOTAL ASSETS</b>	<b>34,428,158</b>	<b>2,832,177</b>	<b>108,535</b>	<b>1,689,155</b>	<b>2,403,747</b>	<b>795,949</b>	<b>42,257,721</b>
<b>LIABILITIES</b>							
Deposits	26,653,708	1,899,068	1,046,410	1,164,871	1,124,707	983,489	32,872,253
Borrowings from Central Banks	342,698	-	-	-	-	-	342,698
Borrowings from Category 1 and Other Local Banks	-	-	-	69,013	229,317	-	298,330
Borrowings from Category 2 Banks in Mauritius and Banks Abroad	-	1,084,791	24,535	468,706	753	14,727	1,593,512
Current Tax Liability	50,338	-	-	-	-	6,181	56,519
Deferred Tax Liability	39,918	-	-	-	11,493	-	51,411
Other Liabilities	796,698	13,303	2,455	25,189	35,659	16,567	889,871
<b>TOTAL LIABILITIES</b>	<b>27,883,360</b>	<b>2,997,162</b>	<b>1,073,400</b>	<b>1,727,779</b>	<b>1,401,929</b>	<b>1,020,964</b>	<b>36,104,594</b>
Net on balance sheet position	6,544,798	(164,985)	(964,865)	(38,624)	1,001,818	(225,015)	6,153,127
Off balance sheet net notional position	-	395,366	948,591	43,789	79	342,283	1,730,108
	6,544,798	230,381	(16,274)	5,165	1,001,897	117,268	7,883,235

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 33. CURRENCY RISK (cont'd)

Bank	MUR MRs'000	USD MRs'000	GBP MRs'000	EURO MRs'000	INR MRs'000	OTHER MRs'000	TOTAL MRs'000
<b>ASSETS</b>							
Cash and Balances with Central Banks	1,832,583	19,205	6,569	18,363	128,975	6,834	2,012,529
Balances with Category 1 Banks and Interbank Loans	80,005	-	-	-	14,721	-	94,726
Balances with Category 2 Banks in Mauritius and Banks Abroad	149,729	1,142,920	84,754	257,492	589	58,588	1,694,072
Investments in Subsidiaries and Associates	655,113	687,455	-	-	-	-	1,342,568
Other Equity Investments	1,311,349	872	-	-	-	-	1,312,221
Placements with Maturity of over 3 months	-	-	-	-	39,754	636	40,390
Investments in Gilt-edged Securities	9,867,694	-	-	-	496,004	-	10,363,698
Securities, Placements and Other Investments	11,834,156	688,327	-	-	535,758	636	13,058,877
Loans and Advances	18,051,100	977,073	3,402	1,285,026	1,484,087	12,747	21,813,435
Tangible Fixed Assets	1,647,527	-	-	-	107,278	-	1,754,805
Other Assets	178,800	21,181	13,810	62,135	132,341	2,404	410,671
<b>TOTAL ASSETS</b>	<b>33,773,900</b>	<b>2,848,706</b>	<b>108,535</b>	<b>1,623,016</b>	<b>2,403,749</b>	<b>81,209</b>	<b>40,839,115</b>
<b>LIABILITIES</b>							
Deposits	25,270,389	1,852,179	1,046,410	1,116,681	1,124,714	368,642	30,779,015
Borrowings from Central Banks	341,531	-	-	-	-	-	341,531
Borrowings from Category 1 and Other Local Banks	-	-	-	68,723	229,317	-	298,040
Borrowings from Category 2 Banks in Mauritius and Banks Abroad	-	1,084,791	24,535	468,706	753	14,727	1,593,512
Current Tax Liability	39,113	-	-	-	-	-	39,113
Deferred Tax Liability	39,900	-	-	-	11,493	-	51,393
Obligations under Finance Leases	743,960	-	-	-	-	-	743,960
Other Liabilities	772,155	13,224	2,455	25,189	35,659	9,204	857,886
<b>TOTAL LIABILITIES</b>	<b>27,207,048</b>	<b>2,950,194</b>	<b>1,073,400</b>	<b>1,679,299</b>	<b>1,401,936</b>	<b>392,573</b>	<b>34,704,450</b>
Net on balance sheet position	6,566,852	(101,488)	(964,865)	(56,283)	1,001,813	(311,364)	6,134,665
Off balance sheet net notional position	-	395,366	948,591	43,789	79	342,283	1,730,108
	6,566,852	293,878	(16,274)	(12,494)	1,001,892	30,919	7,864,773

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

The off balance sheet net notional position represents the difference between the net notional principal amounts of outstanding foreign exchange contracts and their fair values.

## Notes to the Accounts (cont'd)

### for the year ended 30 June 2004

#### 34. INTEREST RATE RISK

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

The floating rate column represents the financial assets and liabilities which have floating rates of interest that do not reprice at set dates, but rather reprice whenever the underlying interest rate index changes.

Group	Floating MRs'000	Within 3 Months MRs'000	3-6 Months MRs'000	6-12 Months MRs'000	1-2 Years MRs'000	2-5 Years MRs'000	Over 5 Years MRs'000	Non- Interest Sensitive MRs'000	Total MRs'000
At 30 June 2004									
<b>ASSETS</b>									
Cash and Balances with Central Banks	-	-	-	-	-	-	-	2,040,409	2,040,409
Balances with Category 1 Banks and Interbank Loans	14	103,276	-	-	-	-	-	580	103,870
Balances with Category 2 Banks in Mauritius and Banks Abroad	-	1,569,061	-	-	-	-	-	417,248	1,986,309
Securities, Placements and Other Investments	-	-	-	-	-	-	-	-	-
Investments in Gilt-edged Securities	-	2,679,896	3,723,843	3,681,927	972,993	30,580	-	-	11,089,239
Equity Investments in Subsidiaries and Associates	-	-	-	-	-	-	-	625,189	625,189
Other Equity Investments	-	-	-	-	-	-	-	1,515,137	1,515,137
Placements	-	-	-	40,390	-	-	-	-	40,390
	-	2,679,896	3,723,843	3,722,317	972,993	30,580	-	2,140,326	13,269,955
Loans and Advances	17,628,267	2,874,915	350,502	764,980	529,649	919,891	385,925	83,554	23,537,683
Less: Allowance for Credit Losses	-	-	-	-	-	-	-	(865,500)	(865,500)
Tangible Fixed Assets	-	-	-	-	-	-	-	1,759,106	1,759,106
Other Assets	-	-	-	-	-	-	-	425,889	425,889
<b>TOTAL ASSETS</b>	<b>17,628,281</b>	<b>7,227,148</b>	<b>4,074,345</b>	<b>4,487,297</b>	<b>1,502,642</b>	<b>950,471</b>	<b>385,925</b>	<b>6,001,612</b>	<b>42,257,721</b>
<b>LIABILITIES</b>									
Deposits	19,242,199	5,056,096	1,308,578	1,860,230	1,581,118	287,882	1,707	3,534,443	32,872,253
Borrowings from Central Banks	-	15,061	32,679	63,039	126,079	77,236	26,888	1,716	342,698
Borrowings from Category 1 and Other Local Banks	-	297,992	-	-	-	-	-	338	298,330
Borrowings from Category 2 Banks in Mauritius and Banks Abroad	-	1,503,015	78,820	-	-	-	-	11,677	1,593,512
<b>Other</b>									
Current Tax Liability	-	-	-	-	-	-	-	56,519	56,519
Deferred Tax Liability	-	-	-	-	-	-	-	51,411	51,411
Other Liabilities	-	-	-	-	-	-	-	889,871	889,871
<b>TOTAL LIABILITIES</b>	<b>19,242,199</b>	<b>6,872,164</b>	<b>1,420,077</b>	<b>1,923,269</b>	<b>1,707,197</b>	<b>365,118</b>	<b>28,595</b>	<b>4,545,975</b>	<b>36,104,594</b>
Interest Rate Repricing Gap	(1,613,918)	354,984	2,654,268	2,564,028	(204,555)	585,353	357,330		
Cumulative Interest Rate Repricing Gap	(1,613,918)	(1,258,934)	1,395,334	3,959,362	3,754,807	4,340,160	4,697,490		

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

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

Bank	Floating MRs'000	Within 3 Months MRs'000	3-6 Months MRs'000	6-12 Months MRs'000	1-2 Years MRs'000	2-5 Years MRs'000	Over 5 Years MRs'000	Non- Interest Sensitive MRs'000	Total MRs'000
At 30 June 2004									
<b>ASSETS</b>									
Cash and Balances with Central Banks	-	-	-	-	-	-	-	2,012,529	2,012,529
Balances with Category 1 Banks and Interbank Loans	-	94,303	-	-	-	-	-	423	94,726
Balances with Category 2 Banks in Mauritius and Banks Abroad	-	1,316,051	-	-	-	-	-	378,021	1,694,072
<b>Securities, Placements and Other Investments</b>									
Investments in Gilt-edged Securities	-	2,621,340	3,546,740	3,546,270	618,768	30,580	-	-	10,363,698
Equity Investments in Subsidiaries and Associates	-	-	-	-	-	-	-	1,342,568	1,342,568
Other Equity Investments	-	-	-	-	-	-	-	1,312,221	1,312,221
Placements	-	-	636	39,754	-	-	-	-	40,390
	-	2,621,340	3,547,376	3,586,024	618,768	30,580	-	2,654,789	13,058,877
Loans and Advances	17,822,666	2,300,863	305,125	679,396	386,678	665,568	385,925	77,056	22,623,277
Less: Allowance for Credit Losses	-	-	-	-	-	-	-	(809,842)	(809,842)
Tangible Fixed Assets	-	-	-	-	-	-	-	1,754,805	1,754,805
Other Assets	-	-	-	-	-	-	-	410,671	410,671
<b>TOTAL ASSETS</b>	<b>17,822,666</b>	<b>6,332,557</b>	<b>3,852,501</b>	<b>4,265,420</b>	<b>1,005,446</b>	<b>696,148</b>	<b>385,925</b>	<b>6,478,452</b>	<b>40,839,115</b>
<b>LIABILITIES</b>									
Deposits	19,279,365	4,374,642	1,103,285	1,480,730	1,132,610	173,493	1,707	3,233,183	30,779,015
Borrowings from Central Banks	-	15,061	31,520	63,039	126,079	77,236	26,888	1,708	341,531
Borrowings from Category 1 and Other Local Banks	-	297,744	-	-	-	-	-	296	298,040
Borrowings from Category 2 Banks in Mauritius and Banks Abroad	-	1,503,015	78,820	-	-	-	-	11,677	1,593,512
<b>Other</b>									
Current Tax Liability	-	-	-	-	-	-	-	39,113	39,113
Deferred Tax Liability	-	-	-	-	-	-	-	51,393	51,393
Obligations under Finance Leases	-	41,067	42,281	88,350	192,845	379,417	-	-	743,960
Other Liabilities	-	-	-	-	-	-	-	857,886	857,886
<b>TOTAL LIABILITIES</b>	<b>19,279,365</b>	<b>6,231,529</b>	<b>1,255,906</b>	<b>1,632,119</b>	<b>1,451,534</b>	<b>630,146</b>	<b>28,595</b>	<b>4,195,256</b>	<b>34,704,450</b>
Interest Rate Repricing Gap	(1,456,699)	101,028	2,596,595	2,633,301	(446,088)	66,002	357,330	-	-
Cumulative Interest Rate Repricing Gap	(1,456,699)	(1,355,671)	1,240,924	3,874,225	3,428,137	3,494,139	3,851,469	-	-



## Notes to the Accounts (cont'd)

### for the year ended 30 June 2004

#### 34. INTEREST RATE RISK (CONT'D)

The table below summarises the range of effective interest rates by major currencies for financial instruments.

Group	MUR		EURO		USD		GBP		OTHER	
	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %
At 30 June 2004										
<b>ASSETS</b>										
Balances with Category 1 Banks and Interbank loans	1.00	1.00	n/a	n/a	n/a	n/a	n/a	n/a	-	12.00
Balances with Category 2 Banks in Mauritius and Banks Abroad	2.50	3.00	0.85	2.12	0.55	6.75	4.73	4.73	1.90	9.50
Investments in Gilt-edged Securities	2.59	11.36	n/a	n/a	n/a	n/a	n/a	n/a	4.25	12.50
Loans and Advances	4.00	24.00	2.34	6.00	1.74	5.34	4.70	7.10	1.01	23.00
<b>LIABILITIES</b>										
Borrowings from Central Banks	5.50	8.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Borrowings from Category 1 and Other Local Banks	n/a	n/a	2.20	2.20	n/a	n/a	n/a	n/a	4.50	4.50
Borrowings from Category 2 Banks in Mauritius and Banks Abroad	n/a	n/a	1.75	2.32	1.00	6.25	4.25	4.25	7.00	8.90
Term Deposits	4.00	11.50	1.21	3.50	0.43	1.89	3.05	6.00	0.11	11.50
Other Deposits	-	4.00	-	0.75	-	-	-	2.50	-	8.00

Bank	MUR		EURO		USD		GBP		OTHER	
	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %
At 30 June 2004										
<b>ASSETS</b>										
Balances with Category 1 Banks and Interbank loans	1.00	1.00	n/a	n/a	n/a	n/a	n/a	n/a	-	6.00
Balances with Category 2 Banks in Mauritius and Banks Abroad	2.50	3.00	0.85	2.12	0.55	6.75	4.73	4.73	1.90	9.50
Investments in Gilt-edged Securities	2.59	11.36	n/a	n/a	n/a	n/a	n/a	n/a	4.25	4.50
Loans and Advances	4.00	24.00	2.34	6.00	1.74	5.34	4.70	7.10	1.01	16.50
<b>LIABILITIES</b>										
Borrowings from Central Banks	5.50	7.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Borrowings from Category 1 and Other Local Banks	n/a	n/a	2.20	2.20	n/a	n/a	n/a	n/a	4.50	4.50
Borrowings from Category 2 Banks in Mauritius and Banks Abroad	n/a	n/a	1.75	2.32	1.00	6.25	4.25	4.25	7.00	8.90
Term Deposits	4.00	11.38	1.21	3.50	0.43	1.89	3.05	6.00	0.11	11.50
Other Deposits	-	4.00	-	0.75	-	-	-	2.50	-	8.00

n/a - not applicable

## Notes to the Accounts (cont'd)

### for the year ended 30 June 2004

#### 35. SEGMENT INFORMATION

(a) Primary reporting format - Business segments

2004	Banking MRs'000	Leasing MRs'000	Others MRs'000	Consolidation Adjustments MRs'000	Group MRs'000
External Gross Income	3,695,411	101,347	73,697	-	3,870,455
Gross Income from Other Segments	1,665	84,350	13,647	(99,662)	-
<b>Total Gross Income</b>	<b>3,697,076</b>	<b>185,697</b>	<b>87,344</b>	<b>(99,662)</b>	<b>3,870,455</b>
Interest Expense and Non-Interest Expenses	(2,370,599)	(131,687)	(3,817)	99,662	(2,406,441)
<b>Profit before Provisions for Credit Losses</b>	<b>1,326,477</b>	<b>54,010</b>	<b>83,527</b>	<b>-</b>	<b>1,464,014</b>
Provisions and Adjustments to Income for Credit Losses	(158,993)	(5,408)	-	-	(164,401)
<b>Profit after Provisions for Credit Losses</b>	<b>1,167,484</b>	<b>48,602</b>	<b>83,527</b>	<b>-</b>	<b>1,299,613</b>
Share of Profit of Associates					65,900
<b>Net Income before Income Taxes</b>					<b>1,365,513</b>
Provision for Income Taxes					(235,341)
Net Income after Income Taxes					1,130,172
Minority Interest					(3,652)
<b>Net Income available to Shareholders</b>					<b>1,126,520</b>
<b>Segment Assets</b>	<b>41,031,483</b>	<b>1,801,642</b>	<b>622,994</b>	<b>(1,823,587)</b>	<b>41,632,532</b>
Investments in Associates					625,189
<b>Total Assets</b>					<b>42,257,721</b>
<b>Segment Liabilities</b>	<b>35,425,318</b>	<b>1,793,511</b>	<b>619,884</b>	<b>(1,842,050)</b>	<b>35,996,663</b>
Unallocated Liabilities					107,931
Minority Interest					18,462
Shareholders' Equity					6,134,665
<b>Total Liabilities and Shareholders' Equity</b>					<b>42,257,721</b>
<b>Capital Expenditure</b>	<b>238,230</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>238,230</b>
<b>Depreciation</b>	<b>193,665</b>	<b>83</b>	<b>117</b>	<b>-</b>	<b>193,865</b>

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

### 35. SEGMENT INFORMATION (cont'd)

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

2003	Banking MRs'000	Leasing MRs'000	Others MRs'000	Consolidation Adjustments MRs'000	Group MRs'000
External Gross Income	3,515,284	117,350	35,704	-	3,668,338
Gross Income from Other Segments	19,702	60,521	14,297	(94,520)	-
<b>Total Gross Income</b>	<b>3,534,986</b>	<b>177,871</b>	<b>50,001</b>	<b>(94,520)</b>	<b>3,668,338</b>
Interest Expense and Non-Interest Expenses	(2,360,211)	(133,790)	(7,695)	94,520	(2,407,176)
<b>Profit before Provisions for Credit Losses</b>	<b>1,174,775</b>	<b>44,081</b>	<b>42,306</b>	<b>-</b>	<b>1,261,162</b>
Provisions and Adjustments to Income for Credit Losses	(139,109)	(4,508)	-	-	(143,617)
<b>Profit after Provisions for Credit Losses</b>	<b>1,035,666</b>	<b>39,573</b>	<b>42,306</b>	<b>-</b>	<b>1,117,545</b>
Share of Profit of Associates					68,868
<b>Net Income before Income Taxes</b>					<b>1,186,413</b>
Provision for Income Taxes					(165,614)
Net Income after Income Taxes					1,020,799
Minority Interest					(2,582)
<b>Net Income available to Shareholders</b>					<b>1,018,217</b>
<b>Segment Assets</b>	<b>37,544,540</b>	<b>1,550,659</b>	<b>751,136</b>	<b>(1,996,544)</b>	<b>37,849,791</b>
Investments in Associates					568,311
<b>Total Assets</b>					<b>38,418,102</b>
<b>Segment Liabilities</b>	<b>32,771,378</b>	<b>1,544,108</b>	<b>747,656</b>	<b>(2,024,737)</b>	<b>33,038,405</b>
Unallocated Liabilities					212,612
Minority Interest					28,193
Shareholders' Equity					5,138,892
<b>Total Liabilities and Shareholders' Equity</b>					<b>38,418,102</b>
<b>Capital Expenditure</b>	<b>416,576</b>	<b>-</b>	<b>155</b>	<b>-</b>	<b>416,731</b>
<b>Depreciation</b>	<b>200,982</b>	<b>788</b>	<b>151</b>	<b>-</b>	<b>201,921</b>

## Notes to the Accounts (cont'd)

### for the year ended 30 June 2004

#### 35. SEGMENT INFORMATION (cont'd)

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

2002	Banking MRs'000	Leasing MRs'000	Others MRs'000	Consolidation Adjustments MRs'000	Group MRs'000
External Gross Income	3,276,430	187,962	51,892	2,619	3,518,903
Gross Income from Other Segments	57,543	14,216	39,611	(111,370)	-
<b>Total Gross Income</b>	<b>3,333,973</b>	<b>202,178</b>	<b>91,503</b>	<b>(108,751)</b>	<b>3,518,903</b>
Interest Expense and Non-Interest Expenses	(2,307,603)	(145,959)	(32,503)	111,370	(2,374,695)
<b>Profit before Provisions for Credit Losses</b>	<b>1,026,370</b>	<b>56,219</b>	<b>59,000</b>	<b>2,619</b>	<b>1,144,208</b>
Provisions and Adjustments to Income for Credit Losses	(157,614)	(11,038)	-	-	(168,652)
<b>Profit after Provisions for Credit Losses</b>	<b>868,756</b>	<b>45,181</b>	<b>59,000</b>	<b>2,619</b>	<b>975,556</b>
Share of Profit of Associates					53,353
<b>Net Income before Income Taxes</b>					<b>1,028,909</b>
Provision for Income Taxes					(69,556)
Net Income after Income Taxes					959,353
Minority Interest					(7,705)
<b>Net Income available to Shareholders</b>					<b>951,648</b>
<b>Segment Assets</b>	<b>34,079,089</b>	<b>1,679,809</b>	<b>824,577</b>	<b>(2,915,554)</b>	<b>33,667,921</b>
Investments in Associates					577,280
<b>Total Assets</b>					<b>34,245,201</b>
<b>Segment Liabilities</b>	<b>29,086,873</b>	<b>1,671,320</b>	<b>822,431</b>	<b>(2,370,477)</b>	<b>29,210,147</b>
Unallocated Liabilities					115,976
Minority Interest					32,203
Shareholders' Equity					4,886,875
<b>Total Liabilities and Shareholders' Equity</b>					<b>34,245,201</b>
<b>Capital Expenditure</b>	<b>627,894</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>627,894</b>
<b>Depreciation</b>	<b>199,046</b>	<b>788</b>	<b>192</b>	<b>-</b>	<b>200,026</b>

## Notes to the Accounts (cont'd)

for the year ended 30 June 2004

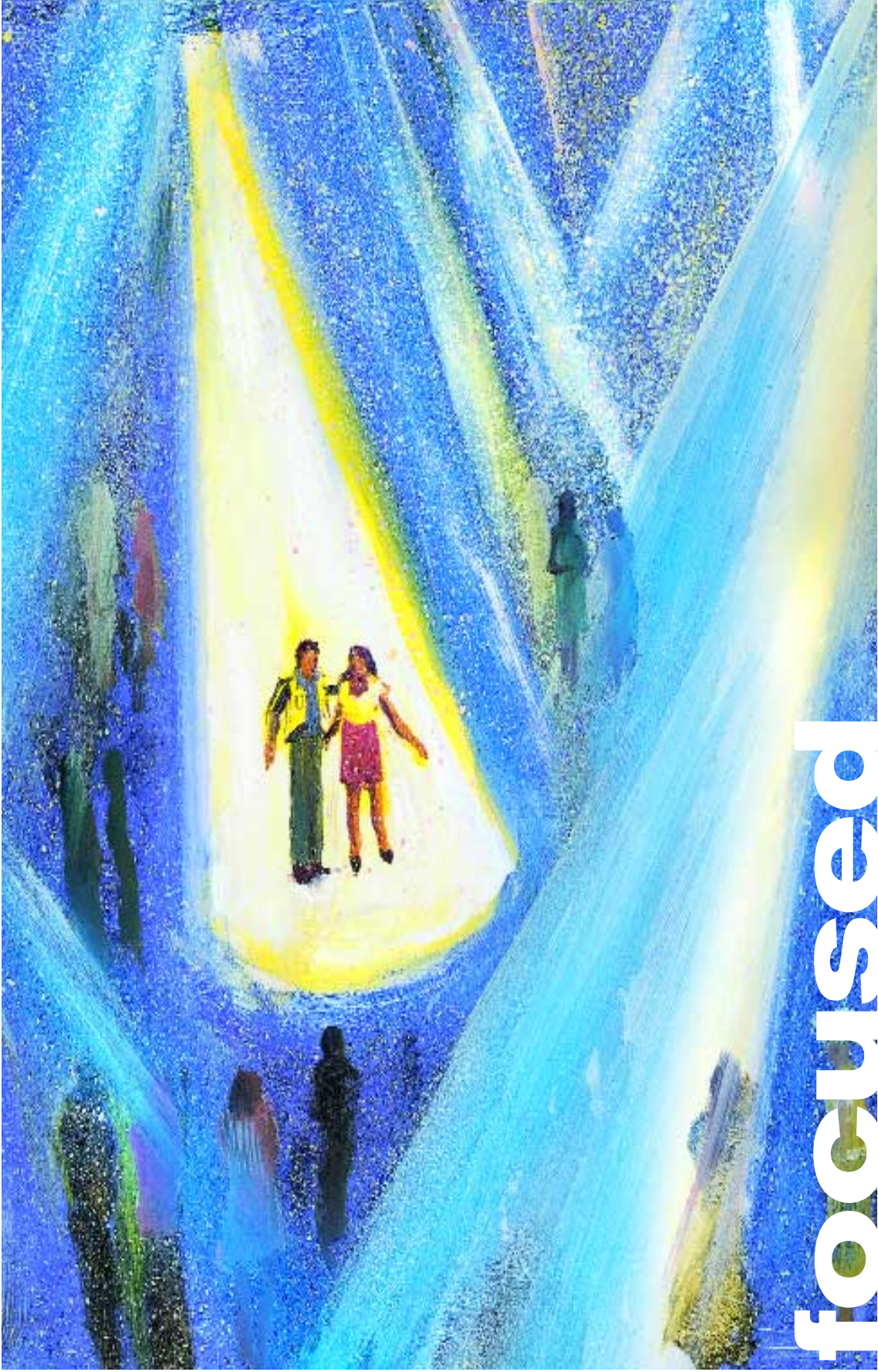
### 35. SEGMENT INFORMATION (cont'd)

(b) Secondary reporting format - Geographical segments

	Mauritius MRs'000	India MRs'000	Madagascar MRs'000	Consolidation Adjustments MRs'000	Group MRs'000
<b>2004</b>					
<b>External Gross Income</b>	3,488,960	238,139	143,356	-	3,870,455
<b>Segment Assets</b>	40,804,595	2,528,437	817,556	(2,518,056)	41,632,532
Investments in Associates					625,189
<b>Total Assets</b>					42,257,721
<b>Capital Expenditure</b>	236,864	467	899	-	238,230
<b>2003</b>					
<b>External Gross Income</b>	3,323,003	232,945	112,390	-	3,668,338
<b>Segment Assets</b>	36,791,899	2,587,047	1,136,056	(2,665,211)	37,849,791
Investments in Associates					568,311
<b>Total Assets</b>					38,418,102
<b>Capital Expenditure</b>	415,796	345	590	-	416,731
<b>2002</b>					
<b>External Gross Income</b>	3,113,006	264,768	138,510	2,619	3,518,903
<b>Segment Assets</b>	33,863,593	2,178,452	1,016,958	(3,391,082)	33,667,921
Investments in Associates					577,280
<b>Total Assets</b>					34,245,201
<b>Capital Expenditure</b>	624,051	3,034	809	-	627,894

### 36. SUBSEQUENT EVENTS

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



**focused**



**Focused**

Just what is Innovation?  
It is about focused attention,  
caring for each customer  
as an individual.

## Management Discussions & Analysis

### Overview

Management Discussion and Analysis (MD&A) encompasses the Operations Review, Financial Review and Corporate Governance.

#### **Operations Review (Pages 66 – 100)**

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

#### **Financial Review (Pages 101 – 112)**

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

#### **Corporate Governance Report (Pages 115 – 124)**

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

#### **Caution regarding forward-looking statements**

SBM has made various forward-looking statements with respect to its financial position, business strategy, plans and objectives of management. Such forward-looking statements are identified by use of the forward-looking words or phrases such as 'expects', 'estimates', 'anticipates', 'believes', 'intends', 'plans' or words or phrases of similar import.

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

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; industry and worldwide economic and political conditions; regulatory and statutory developments; the effects of competition in the geographic and business areas in which we operate; management actions; and technological changes. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to SBM, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. 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.



## Management Discussions & Analysis

### Operations Review

#### Value Based Performance Management

Today, shareholders are sophisticated, powerful and challenging, triggering the need for management to rethink their role as capital managers. Managers now realise that capital has attained a degree of mobility and will go where it is most appreciated. They understand that in order to survive, they must be competitive in terms of operating and administrative costs as well as capital costs.

The concept of shareholder value is paramount in driving business forward and is based on the notion that shareholder wealth is created not only when a company covers operating costs but also the cost of capital.

SBM has already recognised the need to change from the traditional financial management profitability measure to a value creation focused approach. Everyone in the organisation has learned to prioritise decisions based on understanding how those decisions contribute to creating value. It is, therefore, important to measure the value created. SBM has, accordingly, implemented a risk adjusted performance framework to motivate and measure for value, besides enhancing productivity and quality. The three pillars of this framework are: value-based performance measurement, strategic planning/operating budgets and value management initiatives.

#### Value Based Performance Measurement

Improving return is a constant challenge for the Bank and its management and this demands effective performance measures to drive strategy and operational decision-making. To enhance profitability and value creation, SBM has adopted risk adjusted performance measures to link economic risk and return. Profitability is measured by the increase in return using a Risk Adjusted Return On Capital (RAROC) approach as well as Economic Value Added (EVA). The Group has created cumulative Economic Value Added for the shareholders to the extent of Rs2.2bn from 1996 to 2004 and the Group's RAROC has

improved from 29% to 33% for 2004. RAROC is calculated for each line of business, customer, portfolio, product and delivery channel, thus enabling effective decision making to identify further value creating opportunities or value destroying activities.

To evaluate effectively and fairly the performance of the lines of business, customers, portfolios, products and delivery channels, we have adopted methodologies for transfer pricing based on best international practices adapted to our environment to compensate funds providers and charge users of funds. This is commonly known as Funds Transfer Pricing (FTP) and consists of applying funds charges to assets (e.g. loans) and funds credits to liabilities (e.g. deposits) to reflect the current opportunity cost and return so that meaningful measurements of loan and deposit performance can be worked out.

Adequate and proven methodologies for cost allocation are also essential to effectively measure the performance of the lines of business. SBM has implemented Activity Based Costing (ABC) to help its managers think more rationally about the forces that drive the consumption of overhead resources. Through ABC, managers focus their attention on improving activities/processes to make them more cost-effective and efficient and also to ensure that costs are recovered through appropriate fee generation. Matching costs with the associated revenues at every reporting dimension and level helps reflect the "economic reality" with a true measure of profit through the Economic Profit & Loss reporting.

A third element that is essential in measuring performance and value creation is the provision of expected losses and allocation of economic capital for unexpected losses. SBM's expected loss provisions incorporate enhanced credit loss provision measurements and utilise risk-rating methodology. It captures the three components of credit risk in a single measure: exposure, default and recovery rates. All SBM customers are internally rated based on their latest financial statements using

## Management Discussions & Analysis

### Operations Review (cont'd)

internationally recognised credit scoring tools. In the absence of local historical data, probabilities of default are currently matched to Moody's USA norms and guidelines. Where risk ratings are not available, we have adopted a prudent approach by applying the weakest rating.

SBM provides for unexpected losses through Economic Capital Allocation which is fundamental in measuring shareholder value and which caters for the different views of capital beyond legal or regulatory capital. It is the minimum capital that a bank should have to achieve a target standard of risk-based solvency. Economic Capital Allocation incorporates an assessment of three broad risk categories: credit, market and operational risk. Methodologies used for the allocation of capital for credit, market and operational risk are in line with the recommendations of the Basel II framework. For allocation

of credit risk capital, we adopted the foundation Internal Ratings Based approach (IRB) in the absence of more refined data. The IRB approach allows banks to use their own estimates of risk components to determine the capital requirement for a given exposure. Risk components include measures of probability of default, loss given default (a measure of recovery rate), the exposure at default and a maturity adjustment. In the foundation IRB approach, the Bank uses its own probability of default but relies on the supervisory body to determine the others. Allocation of operational risk capital is done through adopting the standardised approach as per Basel II, which determines operational risk capital based on gross income from lines of business as a broad indicator of operational risk exposure. Market risk capital is provided using a simple value at risk methodology.



Today I provided an overview on RAROC and EVA to inculcate a value creation culture. It is fabulous having this venue for conducting training. We can hold small training sessions or meetings for up to 100 people.

Mrs Rita Gujadhur, Value Based Performance Management Team

## Management Discussions & Analysis

### Operations Review (cont'd)

SBM plans to eventually move towards the advanced approaches where the Bank would be allowed to determine its own capital requirements based on its own internal risk measurements. While the systems and methodologies are in place, the Bank requires historical data to meet the conditions for moving to the advanced approaches. Working committees have already been set up to drive various initiatives relating to collecting the Bank's historical data in order to move to the advanced approaches.

Table 1 below shows the performance of our lines of business for the year ended 30 June 2004 after transfer pricing of funds, allocation of costs and capital as described above.

Personal Banking line of business generated a RAROC of 48% mainly due to a less risky portfolio of clients, therefore resulting in lower provisions and capital requirements. The profitability of Personal Banking is somewhat mitigated by high operating costs due to the need to have service delivery channels such as ATMs and Service Units across the island.

Business Banking, including India and Madagascar, generated a RAROC of 27%. Business Banking clients are categorised by portfolios, which carry different inherent risks depending on the industry to which they belong. The higher the risk, the higher the capital required. A well-balanced mix of portfolios and clients will therefore help in hedging the

**Table 1 - RAROC by Lines of Business**

MRs000	Personal Banking	Business Banking	Treasury & Funding CTR	Leasing	Subs & Others	Adjustments	SBM Group	June-03 Restated
Economic Profit and Loss Account								
Net Interest Income	511,710	632,801	185,997	54,326	95,848	-	1,480,683	1,365,229
Non Interest Income	145,713	447,924	131,781	1,047	336,672	(174,804)	888,332	664,795
Gross Operating Income	657,423	1,080,726	317,778	55,373	432,520	(174,804)	2,369,015	2,030,024
Total Expenses	(521,886)	(299,742)	(72,962)	(1,363)	(23,206)	14,157	(905,001)	(768,862)
Provision	(1,986)	(157,007)	-	(5,408)	-	-	(164,401)	(143,617)
Net Contribution	133,551	623,977	244,816	48,601	409,314	(160,647)	1,299,613	1,117,546
Earnings on Capital	15,353	139,422	29,277	8,034	(192,086)	-	-	-
Profit from Subsidiaries and Associates					65,900		65,900	68,868
Profit before Taxation	148,904	763,399	274,093	56,636	283,128	(160,647)	1,365,513	1,186,414
Taxation	(23,485)	(127,732)	(42,415)	(7,897)	(50,698)	16,885	(235,341)	(165,614)
<b>Net Contribution after tax</b>	<b>125,419</b>	<b>635,666</b>	<b>231,679</b>	<b>48,739</b>	<b>232,430</b>	<b>(143,762)</b>	<b>1,130,172</b>	<b>1,020,799</b>
<b>Allocated capital</b>	<b>260,356</b>	<b>2,364,287</b>	<b>496,470</b>	<b>136,244</b>	<b>131,222</b>		<b>3,388,579</b>	<b>3,508,179</b>
<b>* RAROC %</b>	<b>48</b>	<b>27</b>	<b>47</b>	<b>36</b>			<b>33</b>	<b>29</b>
Average - Interest Earning Assets	4,475,663	19,541,021	8,679,193	1,690,318	316,416	(1,090,061)	33,612,550	29,915,408
Average - Interest Bearing Liabilities	12,884,545	10,065,811	8,079,148	1,428,602	-	(399,440)	32,058,668	28,117,016
Net Interest Margin (%)	2.9	2.3	1.2	3.2			4.41	4.56
Cost to Income ratio (%) (Grossed up)	79.62	30.80	22.96	2.73			40.15	39.17

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

## Management Discussions & Analysis

### Operations Review (cont'd)

risks of Business Banking. Chart 1 below shows the portfolio mix of Business Banking for the Mauritius operations, together with their associated RAROC.

#### Strategic Planning and Budgeting

While performance measurement looks at what value has been created in the past, SBM aims to make value

Chart 1 - Business Banking RAROC by Portfolio



Treasury operations results include non-interest income from securities and proprietary trading as well as net interest income from investments in securities. Treasury generated a commendable RAROC of 47% due to substantially lower operating costs, lower risks than the other lines of business and also lower capital requirements.

Leasing business, which represents less than 5% of the Group's operations, contracts mainly with corporates. With an efficient operating structure and adequate margin on its leasing business, RAROC was 36% for the year.

creation a dynamic and forward-looking process which will match shareholders' expectations of future cash flows. In that respect, we have adopted a planning and forecasting model. The model provides enhanced analytical capabilities and up to date information to measure forecasted economic profit against actual results to:

- Identify favourable or unfavourable trends
- Identify the entities with high economic returns (RAROC) to manage workforce resources in an efficient and effective manner

## Management Discussions & Analysis

### Operations Review (cont'd)

- Understand and plan for an effective and efficient management of both costs and capacities
- Identify and prioritise opportunities for efficient use of capital.

Planning starts with the Budget Working Forum consisting of members of the management team who undertake:

- A review of the current performance of the Bank/Group to assess:
  - Performance compared to our targets
  - Lines of business, products, portfolios, and channels that have delivered the most value during the year
  - Strengths and weaknesses
- Research on macro and micro economic policies, changes in legislation, opportunities in the market, global trends in the banking industry and peer bank performance ratios
- Research on market share information as well as a list of potential new products, which are likely to create value for the Bank/Group
- An analysis of the current risk profile of the Bank/Group and the desired risk appetite based on available capital and opportunities in the market.

This information gathering process drives the formulation of financial objectives such as asset growth, earnings growth, EVA, RAROC, cost to income ratio, net interest margin and also sets the direction for growth in the various portfolios, as well as the setting of non-financial objectives.

The Strategic Planning Committee consisting of members of the Board of Directors approves the strategic direction and the long term plans for the Group and also approves the risk appetite.

The time horizon for strategic planning is three years, with the first year being the operational budget of the Bank. Lines of business build up the detailed annual budgets month by month to match the Group's objectives as closely

as possible. The planning model incorporates Activity Based Budgeting (ABB), which enables Business and Service Units to have a better understanding of the business volumes driving costs in the future. ABB is the process of planning and controlling along the lines of value added activities and processes that are necessary to generate expected revenues. From the sales volume plan, Unit Heads estimate workload and resources required.

Methodologies for FTP, ABC and capital allocation are then applied to arrive at the budgeted RAROC and EVA for each line of business and eventually consolidated to arrive at the Group budgeted RAROC and EVA. For the coming year 2005, we are targeting to further improve our RAROC by 3 to 4% and to drive cumulative EVA up to Rs2.5bn from Rs2.2bn at June 30, 2004.

SBM has adopted a quarterly rolling forecast approach to make planning a continuous process. The quarterly forecasting includes dropping one quarter of actual results and adding another quarter of forecast such that the Bank always has a twelve-month forward plan.

Quarterly rolling forecasts serve as an update to the annual budget, which remains static, to enable lines of business to plan ahead, be responsive to changes in the business environment and thus ensure that value creation remains the focus of the Group.

#### Data warehouse

All the capabilities described above would not have been possible had the Bank not invested in the latest state-of-the-art technology infrastructure including a data warehouse, an end user information delivery and reporting tool. The data warehouse acts as the central source of data for analysis, thereby ensuring consistency in the utilisation and interpretation of data as well as minimising disruption to the core systems, as all management reports are extracted from the warehouse. To enrich the data through applying methodologies for FTP, ABC and capital allocation,

## Management Discussions & Analysis

### Operations Review (cont'd)

investment has been made in Oracle Financial Services Application (OFSA), which provides an integrated system for performance management and reporting as well as a budget and planning tool.

#### Value Management initiatives

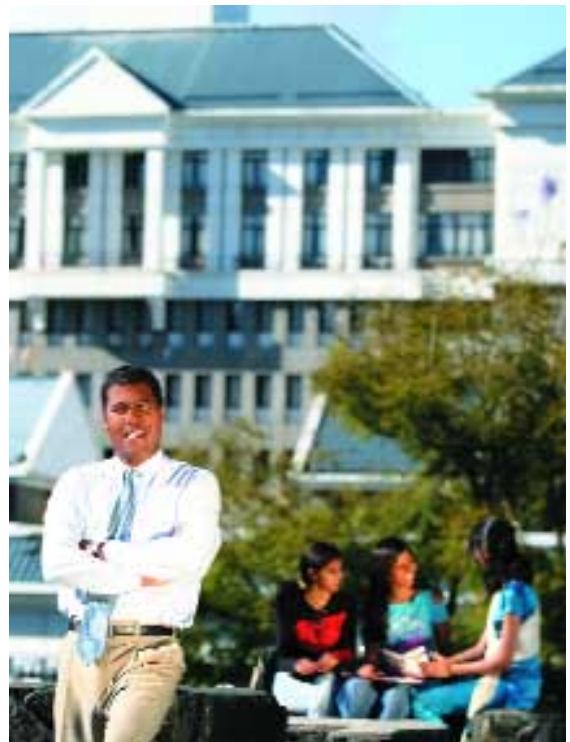
As part of planning for continuously creating value, we have set up a value management team whose objectives are to:

- Achieve higher value from SBM's current capabilities
- Optimise and focus SBM's time, resources and future investments
- Apply appropriate rigour and controls over the commitment of capital and other finite resources to specific value initiatives.

At the start of every financial year a list of potential value creating initiatives are proposed by every division. Initiatives are then ranked to determine implementation priority. Criteria used for ranking comprise: (1) Assessment of Value Creation; (2) Feasibility (NPV and Payback Period); (3) Success rate; (4) Dependencies; and (5) Score from Ranking.

A series of initiatives ranging from sales through processes review and credit management were undertaken during the year, all with the common objectives of securing world class performance and productivity growth, developing new market opportunities and new products, pricing strategy for competitiveness and profitability and identifying major market trends and customer needs. Sales initiatives involved revisiting the roles and responsibilities of the Sales and Service teams to ensure a customer focused approach. The highlight of the sales initiatives was without doubt the development of new products unseen in this market and which were extremely successful in terms of value creation. Processes were reviewed in the light of speed of delivery and quality service to our customers. Refinements to our business model were made accordingly without impeding on control and risk management

procedures. Credit management initiatives looked at the processes regarding monitoring and recovery of accounts to highlight early warning signs of the weak accounts and/or potentially bad accounts. A specialised team called the 'Intensive Care Team' has the role of identifying and nurturing those weak accounts back on track. This proved to be an enriching experience for the customer as well as for the Bank as it created a strong notion of partnership, both having the same objective, the well-being of the customer.



Selling SBM Achiever Educational Loan gives me great pleasure as it really makes education more affordable for our customers. I would like to think that I am making a difference by helping the next generation of leaders.

**Mr Gilbert Lagaille, Head of Mobile Sales Team**

## Management Discussions & Analysis

### Operations Review (cont'd)

Moving forward, the Bank aims to continuously refine its database and methodologies to avail of better analysis of information for business decisions. As we look forward to the future, the value management team will continue to contribute by developing the capabilities and competencies to drive an aggressive, innovative, value-adding organisation. Value driving initiatives already in progress include: analysing historical data to provide an advanced internal ratings approach for credit risk and the advanced measurement approach for operational risk; continuing marketing enhancements to maintain brand and product superiority; overhead value analysis to maintain our competitive advantage and continuing investment in human capital development initiatives.

#### Risk Management Practices

##### Risk Management Objectives

SBM's goal is to continuously add value to the Group's lines of business and to achieve consistent improved returns for its shareholders. In order to achieve this objective, SBM has taken steps to build an Enterprise-wide Risk Management (ERM) framework that will enable it to protect, create and enhance shareholder value amidst the ever-changing business and economic environment. The ultimate integration of the credit, market and operational risk for

ERM is a challenging task which SBM has embarked on since 2002 and the methodologies and processes have since been continuously reviewed and refined. Risk management is an integral part of SBM's overall management system whereby the risks of the Bank are identified, measured, controlled, reported and periodically reviewed by management and the Board and corrective action initiated wherever necessary.

#### Enterprise-wide Risk Management

ERM is a coordinated and focused approach to identify and manage the risks of the Group. This process is a value added tool which enables SBM to manage the uncertainties that could have a positive or negative impact on the performance of the Group and plan its strategies accordingly, taking into account the acceptable risk/return trade offs, the risk appetite of the Group and the available capital. SBM has also implemented alongside ERM, a value based performance management system which can influence profitability and growth, whereby the RAROC becomes the key measure of return and value creation.

The development of ERM is an ongoing process with continuous refinement of methodologies and processes and its successful implementation requires good technological capabilities, which SBM has already invested in, and the

## Amicado Programme

Children can qualify for wonderful gifts and unique benefits such as IT and Sports Coaching just by saving and earning Amicado points in their Amigos children's account.



## Management Discussions & Analysis

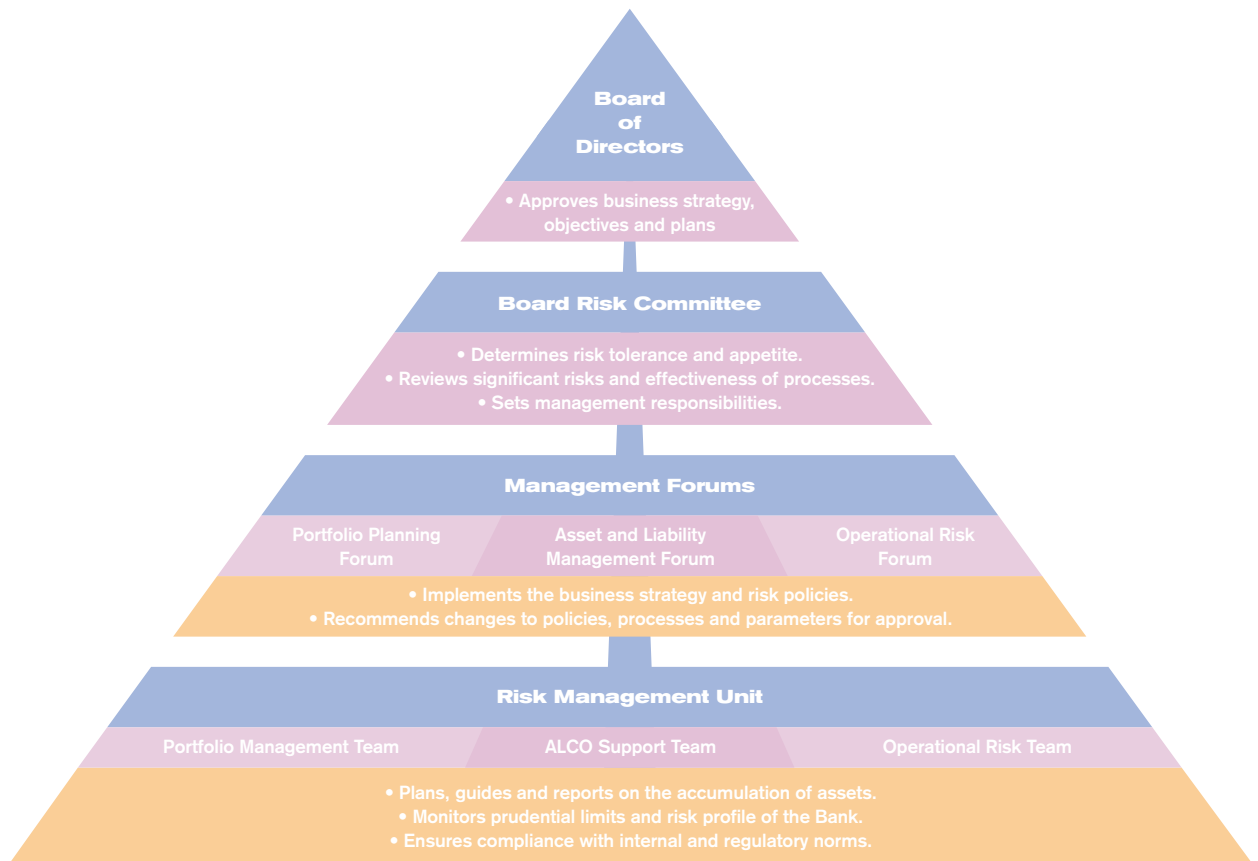
### Operations Review (cont'd)

involvement of all the employees, whose roles and responsibilities have to be clearly defined and understood by all concerned.

The Board is ultimately responsible for the risk management process across the enterprise and approves the Group risk strategy, risk policies and prudential limits within which operations have to be carried out. The Board has also set up the Board Risk Committee to which it has delegated some of its functions and its main responsibility to monitor and ensure the effectiveness of the risk

management process. The implementation of the policies is delegated to Management and the Risk Management Unit, a centralised unit, independent of sales and operations. Risk Management Unit ensures compliance with internal and regulatory norms, recommends changes to the set risk parameters and reports to the Forums/Committees/Board on credit, market and operational risk areas. The Risk Management Unit also develops methodologies to identify, measure, mitigate and monitor the risks faced by the Bank.

Chart 2 - Risk Management Process Framework





## Management Discussions & Analysis

### Operations Review (cont'd)

#### Credit Risk

Credit risk is the most important risk category for the SBM Group and its main components are:

- Exposure (credit amount at risk)
- Probability of default (the likelihood that customers fail to meet their obligations towards the Bank/Group which can result in major loss to the Bank/Group)
- Loss given default (the amount of credit which will not be recovered given the shortfall in the realisable value of the security/collaterals given to the Bank for the facility granted)

#### Credit Policies and Processes

In line with the Bank of Mauritius Guidelines on Credit Risk Management Framework and for good corporate governance, the roles and responsibilities of the Board and Chief Executive Officer have been clearly defined.

The roles and responsibilities of the Board which are in part delegated to the Board Risk Committee are to:

- Approve the risk policies including credit risk
- Review the policies and ensure their adequacy and effectiveness at least once a year
- Ensure the selection and appointment of qualified management to administer the credit risk management function
- Review comprehensive reports on the management of exposures to risks, particularly credit risk
- Set prudential limits and policies that will regulate the risk management process
- Review significant credit exposures including concentration and quality
- Review delinquent credit and management actions taken for recovery
- Delegate the appropriate level of authority and responsibilities to sub committees, management teams and individuals.

The roles and responsibilities of the Chief Executive Officer are to:

- Develop a sound credit policy for approval by the Board of Directors/Board Risk Committee
- Ensure that the credit policy is implemented in its true spirit
- Ensure that the credit approval process is sound
- Establish an effective credit management information system to monitor and control the nature, composition and quality of the credit portfolio.

The Credit Risk Policy for SBM is reviewed and approved by the Board on a yearly basis and sets out the following:

- The credit risk framework
- The roles and responsibilities of the Board of Directors, Management and key employees involved in the credit process
- The delegation of sanctioning levels of authorities to designated individuals, credit forums and credit committees
- The prudential limits to be observed such as concentration by entity, group of entities, group of related parties, industries and portfolios
- The key parameters and benchmarks to be used to assess and approve credit such as required debt servicing, gearing, liquidity and profitability ratios
- The risk premiums to be applied to price credit facilities depending on their credit rating and portfolio
- The monitoring and management of high risk accounts
- The reporting and disclosure requirements to ensure transparency.

The Portfolio Planning Forum reviews SBM's credit risk profile on a monthly basis, based on information supplied by the Portfolio Management Unit (PMU). PMU is also responsible for ongoing monitoring, review and maintenance of the parameters in credit decision support tools. Changes to key parameters and processes are discussed and

## Management Discussions & Analysis

### Operations Review (cont'd)

endorsed by the Portfolio Planning Forum for onward submission to the Risk Committee for review and approval to cater for new products and activities. The key credit processes such as origination, assessment, approval, documentation, disbursement, monitoring and recovery, which are independent of each other, are also continuously reviewed to improve turnaround time between origination and disbursement, without compromising on the quality of credit being granted.

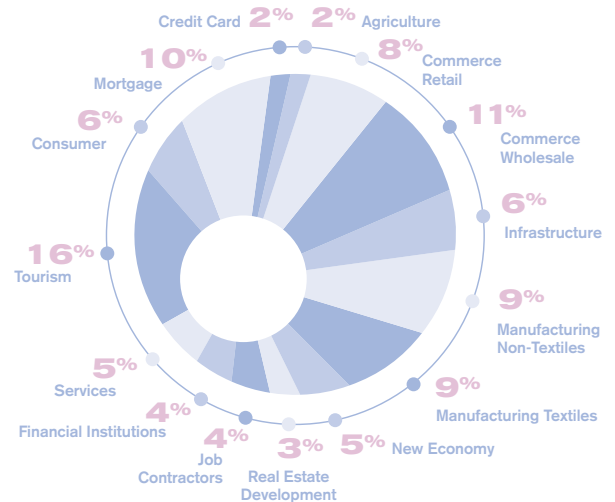
#### Portfolio Management

The exposure risks are managed at SBM through a portfolio management approach, which guides the Group in diversifying its risks across geographical borders, industries, business segments and products to maximise shareholders' wealth. The portfolio prudential limits are determined by the Board based on the risk strategy of the Bank, the opportunities existing in the market, the prevailing economic conditions and the acceptable risk-return trade off to be achieved. In order to guide and monitor the accumulation of assets to achieve the optimum portfolio size and returns, the Bank has invested in credit rating tools, decision support and decision making technologies which have in-built capability to price facilities commensurate with the level of risk taken. The systems have also been customised to include the key parameters set out in the credit policy. This enables an objective and standardised approach to assessing credit proposals before a decision is reached. In addition, SBM has invested in a sophisticated data warehousing system, which facilitates reporting and monitoring of exposures by entity, group of related entities, products, business segments and industries as well as the risk profile of the Bank across lines of business. Month on month analysis of exposures and risk profiles are carried out and monitored against target. Comprehensive credit reports are submitted monthly by the Portfolio Management Unit to the Portfolio Planning Forum for discussion and review and

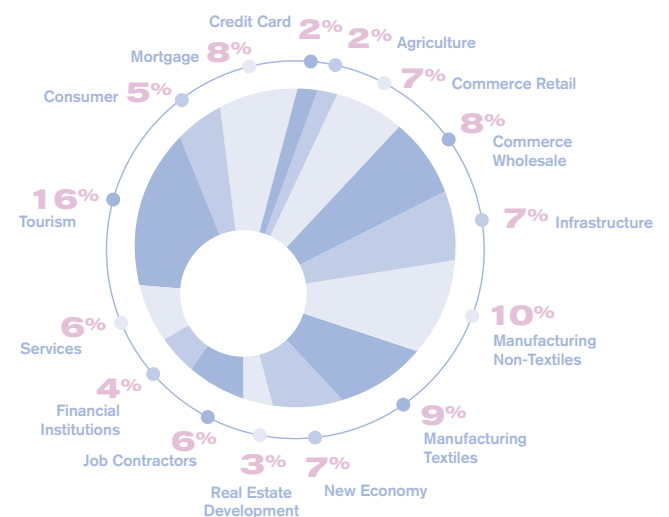
on a quarterly basis to the Board Risk Committee as per the guidelines of the Central Bank.

**Chart 3**  
**Non Banks' Group Portfolio Exposure**

as at June 30, 2004



as at June 30, 2003



## Management Discussions & Analysis

### Operations Review (cont'd)

#### Prudential Management

With a view to reducing the risk of asset concentration, the following Central Bank regulations on concentration limits were adopted as part of the credit policy:

- The aggregate credit exposure of a bank, together with the subsidiaries, associated and related companies to any entity should not exceed 25% of the total capital base.
- All credits of a bank that are individually over 15% of the bank's capital base should not in aggregate exceed 600% of its capital base.
- Related party exposure to a single entity may not exceed 2% of Tier 1 capital without prior approval of the Central Bank. Aggregate exposure to related parties may not exceed 25% of Tier 1 capital. Exposures fully secured by government securities, cash deposits or guaranteed by government are excluded from this limit.

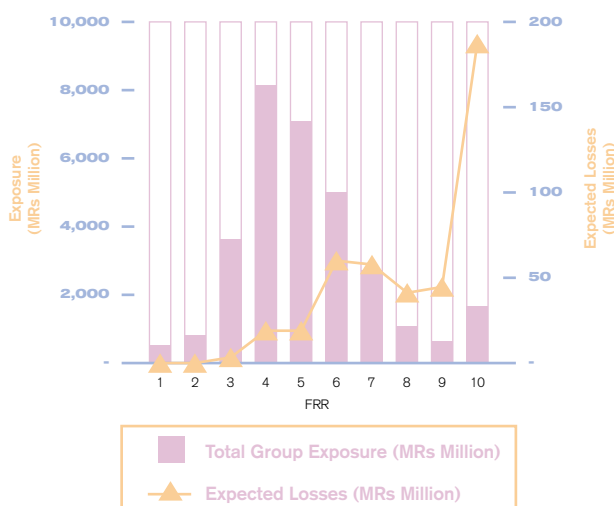
During the year, SBM has reported to the Bank of Mauritius all group exposures exceeding 15% of its capital base. As at 30 June 2004, the aggregate large credits exceeding 15% of capital base stood at 105% of capital base compared to 153% as at 30 June 2003, which are both well within the 600% limit set by the Central Bank. The Bank's concentration of credit has been decreasing over the past two years given the significant increase in the capital base of the Group and the Group's continued strategy to diversify portfolio and Group risks. All related party exposures are reviewed by the Conduct Review Committee and reported to the Bank of Mauritius. Approval from Bank of Mauritius has been sought and obtained where aggregate exposures have exceeded the set limit.

SBM has set more conservative limits on concentration of exposures by portfolio, group of related entities and entity within a country and these limits are approved and reviewed by the Board Risk Committee. Exposure caps have also been set for new products and are regularly reviewed against actual exposure.

#### Credit Risk Profile

Credit Risk Rating is the key indicator of the likelihood of default and is used in the calculation of expected losses, a proxy for portfolio provisioning of standard assets. In order to standardise the credit assessment process, SBM is using "Moody's Financial Analyst" (MFA) to rate its Macro Business Banking customers, "Small Business Underwriting Matrix" (SBUM) for Micro Business Banking customers and "Transact" for its Personal Banking customers. An indicative price is also being set based on the riskiness of the customer, the industry and type of facility, which indicates the minimum price that needs to be charged to the client in order to achieve the required return on capital. On a crude aggregation basis, by using the basic weighted average method to map the risk rating of micro business banking and personal banking portfolio onto the Moody's probability of default matrix, the overall risk rating of the Group at 5 is acceptable. All unrated companies and net exposure of non performing accounts have been defaulted to the weakest rating.

Chart 4 - Group exposure with Expected Losses



## Management Discussions & Analysis

### Operations Review (cont'd)

The Group's credit exposure grew by 8% year on year and Business Banking represented 82% of total exposure as at 30 June 2004 compared to almost 86% as at 30 June 2003. The decrease is attributable mostly to the growth in the Personal Banking segment. The risk profile of the Macro Business Banking portfolio has improved by approximately 44 basis points year on year as:

- Some companies with significant credit exposures have improved credit risk ratings,
- The non performing accounts fully provided for have been written off, and
- Some of the unrated companies, previously defaulted to a credit rating of 10, are currently being rated.

Given the non-availability of historical data in Mauritius and at the Bank, SBM has been using Moody's data and probability of default based on North American companies in order to calculate expected losses, which amounted to Rs220m for Mauritius Operations, taking into consideration the increased Moody's probability of default percentages for companies rated 6 and above as compared to the previous year. An exercise is also currently being carried out to build a database on the Bank's historical probability of default and recovery rates, as recommended by Basel II.

For Micro Business Banking, the main factors being considered before giving credit are the debt repayment

capacity, gearing ratio and the adequacy of collateral. Companies have also been rated 10, the weakest rating, where financials are not available.

During the year, the Bank has introduced a range of new products for the Personal Banking segment. Personal Banking exposure has grown by 35% year on year, increasing its share of the credit portfolio by 4%. "Transact", a credit scoring and decision support tool, was introduced in August 2002 and the risk profile for the Group has been built on the assumption that the sample rated is a fair representation of the total Personal Banking portfolio risk.

The Bank has developed a process to review its high risk accounts. Depending on the risk rating of the customer, the size of the exposure, the industry in which it operates and the credit arrears status, accounts demonstrating early signs of weakness are identified and separately monitored through a watch list at the Credit Forum or are eventually transferred to an Intensive Care list if the account status cannot be improved. In such a situation, the Intensive Care team, under the responsibility of Credit Underwriting, will determine the viability of restructure and manage the account until nurtured back to health at which time the account goes back under the management of the Sales Team.

## Investment Loan

SBM provides capital for investments to customers serious about tax efficient strategies.



## Management Discussions & Analysis

### Operations Review (cont'd)

"Optimist", an analytical tool used by Credit Underwriters to determine the key drivers for current performance and to create financial projections based on current data, is useful in assisting customers to address their financial weaknesses.

Accounts which cannot be reviewed or restructured are sent to Recovery and Work Out to initiate exit and recovery action, such as negotiation/compromise with debtors for quick settlement, appointment of receiver managers and liquidators, besides realisation of collateral securing debts. Non performing assets are classified as per the Bank of Mauritius/Reserve Bank of India guidelines as the case may be into sub standard, doubtful or loss depending on the

number of days the account is non performing and past due. Specific provision is provided on the irrecoverable amounts in line with IAS39 and Central Bank requirements.

#### Market Risks

Market risk is defined as the risk of losses that may be incurred in on and off-balance sheet positions as a result of movements in market prices. It includes changes in interest rates, foreign exchange rates, stock prices and commodity prices, and arises from trading or holding portfolios of financial instruments that are subject to revaluation by the marketplace, throughout its holding period.



Our objective is to monitor and recover non-performing advances. We have introduced new tools that help us recognise early signs of sickness. We discuss the repayment plans with our customers and assist them in providing solutions for management of their debts wherever feasible.

Mr Nandrajen Moonesawmy, Team Leader Recovery and Work Out

## Management Discussions & Analysis

### Operations Review (cont'd)

The Board Risk Committee is responsible for management of market risks and should ensure that there is adequate segregation of duties in key elements of the risk management process to avoid potential conflicts of interest. Final authority and responsibility for all aspects of conduct that expose SBM to market risks rest with the Risk Committee. Liquidity risk monitoring and management activities are delegated to Asset/Liability Management (ALCO) Forum.

Market risks in SBM include the following components:

- Interest rate risk – the risk due to adverse effects of movements in interest rates
- Foreign currency risk – the risk due to adverse effects of movements in currency exchange rates
- Liquidity risk – the risk that arises when funds required to meet repayments, withdrawals and other commitments cannot be obtained on time due to lack of market liquidity which prevents quick or effective liquidation of positions or portfolios.

#### Interest Rate Risk

Interest rate risk is the exposure of a bank's financial position to adverse movements in interest rates. Accepting this risk is a normal part of banking and can be an important source of profitability and shareholder value. However, excessive interest rate risk can pose a significant volatility to a bank's earnings and capital base. Changes in interest rates affect a bank's earnings by changing its net interest income and also affect the underlying value of the bank's assets, liabilities and off-balance sheet instruments. Interest rate risk can be further classified into the following components:

- Re-pricing risk – often called Mismatch Risk, a primary source of interest risk which arises from timing differences in the maturity of fixed rate and re-pricing of floating rate bank assets, liabilities and off balance sheet positions.
- Basis risk – another source of interest risk arises from imperfect correlation in the adjustment of the rates

earned and paid on different instruments with otherwise similar re-pricing characteristics. When interest changes, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and off-balance sheet instruments of similar maturities or re-pricing frequencies.

- Yield Curve risk – short term rates change more or less than long term rates. Re-pricing mismatches can also expose a bank to changes in the slope and shape of the yield curve. Yield curve risk arises when anticipated shifts of the yield curve have adverse effects on a bank's income or underlying economic value.

SBM applies funds transfer pricing to portfolios, products, customers, delivery channels and lines of business. Consequently the interest rate risk is not passed on to the business unit, but is rather transferred to the Funding Centre and is managed by the Treasurer. The Funding Centre is monitored by Treasury as it reflects the mismatch in maturities which Treasury hedges and monitors.

A combination of gap analysis, earnings-at-risk and simulation models are used for interest rate risk measurement. Gap analysis measures the difference between the amount of interest earning assets and interest bearing liabilities that re-price in a particular period and a limit is set at a percentage of assets over a period of time to assess reasonableness of mismatches. Simulation is used to measure interest rate risk by estimating what effect changes in interest rates will have on net interest income and interest rate risk positions. As at 30 June 2004, SBM Mauritius operations were within the prudential limits set by the Board for the interest rate gap for the Mauritian Rupee and US Dollar denominated assets and liabilities. Earnings at Risk are estimated at Rs16m as at 30 June 2004. Similarly for trading exposures, limits have been set for dealers, intraday and overnight positions and stop losses. Trading exposures are calculated and reported on a daily basis and the trading book positions are marked to market daily.

## Management Discussions & Analysis

### Operations Review (cont'd)

Chart 5 - MUR Interest Rate Gap as at June 30, 2004

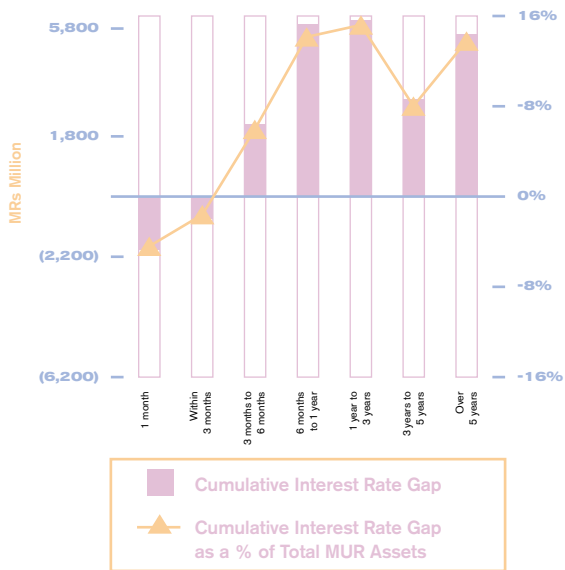


Chart 7 - INR Interest Rate Gap as at June 30, 2004

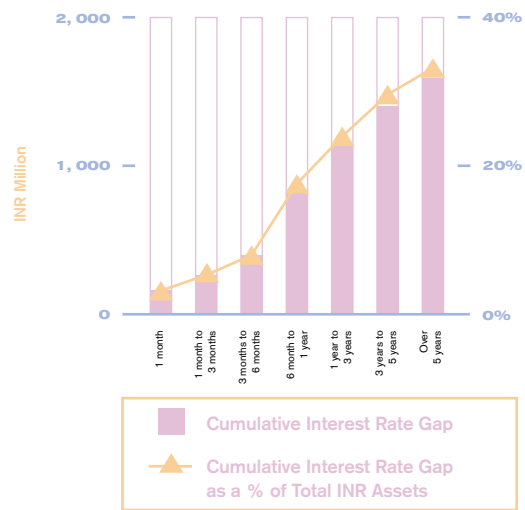
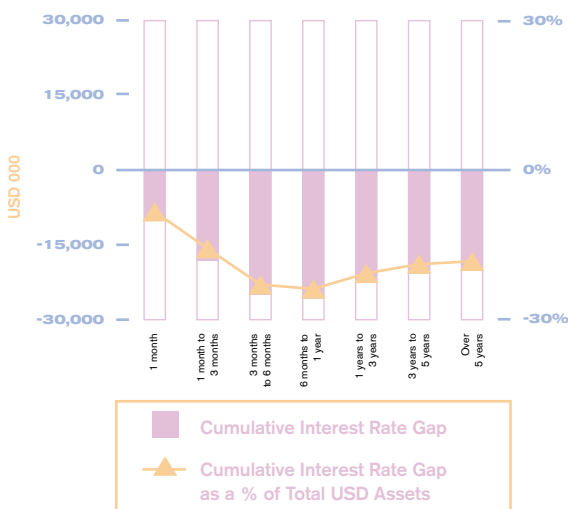


Chart 6 - USD Interest Rate Gap as at June 30, 2004



In the current year, a bond trading desk will be set up to take advantage of the buoyant international market and business opportunities. Limits will be set taking into account the risk appetite of the bank and the experience of the dealers. Processes and reporting systems will be put in place to adequately measure and manage the risk inherent in bond trading.

#### Foreign Exchange Risk

Foreign exchange risk is the potential that movements in exchange rates may adversely affect the value of an institution's holdings and, thus, its financial condition. Foreign exchange rates can be subject to large and sudden swings, and understanding and managing the risk associated with exchange rate volatility can be especially complex.

Foreign exchange risk arises from both open and imperfectly offset or hedged positions. Imperfect correlations across currencies and international interest rate markets pose particular challenges to the effectiveness of foreign currency hedging strategies. Treasury monitors open positions by currency to gauge foreign currency risk as well as the liquidity gaps.

## Management Discussions & Analysis

### Operations Review (cont'd)

The Treasury trading limits for Mauritius and Indian Operations are reviewed annually. The limits approved by the Risk Committee are allocated to the dealers and are monitored by the Middle Office, independent of the Front Office. Ceilings are also set for intraday, overnight, stop loss, aggregate and currency gaps and are reported to the ALCO Forum and to the Risk Committee. SBM reports on foreign currency exposures to the Bank of Mauritius and has set up conservative internal prudential limits in order to mitigate foreign exchange risk. The foreign exchange exposures are reported on a daily basis and open positions are marked to market daily. SBM also uses a simple Value-at-Risk (VAR) approach to measure the potential loss arising out of foreign exchange.

VAR on the Bank's foreign exchange trading positions for the year to 30 June 2004 were:

**Table 2 - Value-at-Risk**

	At 30 June		Lowest		Highest		Average	
	MRU	INDIA	MRU	INDIA	MRU	INDIA	MRU	INDIA
2004 (MRs Million)	2.63	0.76	0.22	0.08	4.10	1.73	1.29	0.72
2003 (MRs Million)	0.77	0.59	0.41	0.12	3.58	1.00	1.66	0.44

#### Liquidity Risk

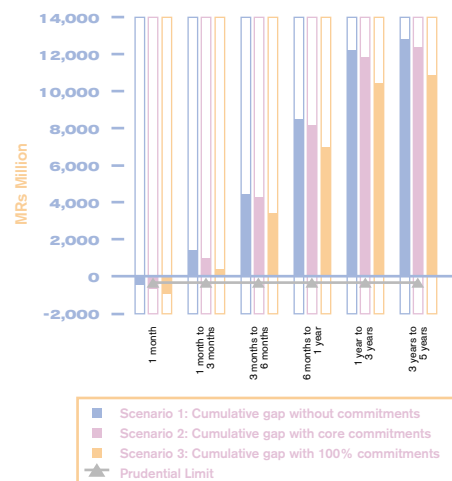
Liquidity Risk arises when funds required to meet repayments, withdrawals and other commitments cannot be obtained on time due to lack of market liquidity which prevents quick or effective liquidation of positions or portfolios. Therefore liquidity risk is concerned with ensuring that the Bank has enough cash on hand or in the pipeline to meet current and future demands.

The Treasurer is responsible to manage the liquidity in the Bank and the Middle Office and reports daily on the cash ratio. Liquidity gaps are monitored by the ALCO Support Team in the Risk Management Unit and reported monthly to the ALCO Forum, which provides oversight of

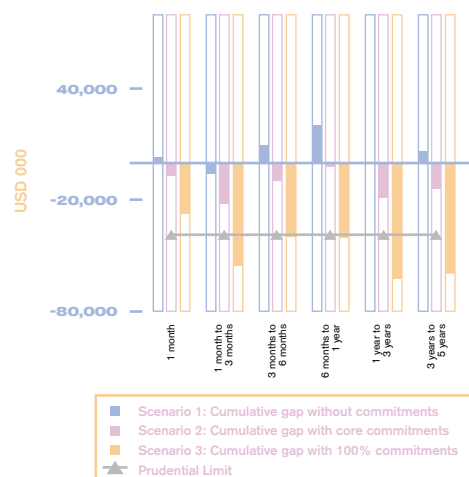
liquidity management. Each month, three different scenarios of liquidity gap are reported to ALCO taking into consideration various levels of commitments of the Bank.

SBM liquid assets as at 30 June 2004 represented 32% of total balance sheet assets. Liquid assets include cash, balance with central bank and tradeable securities. SBM adhered to the regulatory limits set by the Bank of Mauritius.

**Chart 8 - MR Liquidity Gap as at June 30, 2004**



**Chart 9 - USD Liquidity Gap as at June 30, 2004**





## Management Discussions & Analysis

### Operations Review (cont'd)

#### Operational Risks

Banks have, in the past, placed more importance on the management of traditional risks such as credit and market risks. In recent years, as banks became more sophisticated and complex in terms of technology, products, processing and business practices, managing risks relating to operations, other than credit or market, inherent in all bank transactions and activities, have become increasingly important.

Operational Risk is hence defined as the risk of direct or indirect loss arising out of inadequate or failed processes, people, systems and external events and arise from the malfunction of information systems, reporting systems, internal risk monitoring rules and internal procedures designed to take timely corrective actions, or the non-compliance with internal risk policy rules.

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

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

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

In order to mitigate the risk of loss arising out of errors in processing, SBM has established procedures manuals across all areas of operation under the responsibility of the relevant manager/supervisor. The processes and procedures have to be continuously updated with the introduction of new products and activities. Segregation of duties is in place between origination, authorisation and execution of transactions to promote better controls and the appropriate level of delegated authority is given to staff based on capability and experience. An independent team of compliance officers/internal auditors carry out sample checks to ensure adherence to the set processes and procedures.

To ensure compliance to laws and regulations and adherence to guidelines issued from time to time by the Stock Exchange of Mauritius, Financial Services Commission and Central Bank, officers of the bank are made aware in a timely manner of new developments in the legal and regulatory environment. The Bank also has in place a team of compliance officers with skills and experience to review and report non-compliance to laws, rules and standards. The compliance officers have access to all the bank records on a need to know basis and have a direct reporting line to Senior Management and the Risk Committee to report on any major findings. The team of internal auditors will be augmented in the coming financial year in order to carry out reviews of processes across the Bank, according to an agreed plan, with a view to identifying weaknesses in internal controls and recommending ways to mitigate the risks arising out of these shortcomings. The Internal Audit Team Leader also liaises with the External Auditors and has direct access to the Chairman of the Audit Committee.

## Management Discussions & Analysis

### Operations Review (cont'd)

IT Risk is the risk resulting from unavailability, inadequacy, malfunction, incorrect use or abuse of computer systems. SBM relies very heavily on its large and diversified network of interconnected computer systems to support its business operations. To ensure the continued availability, confidentiality and integrity of its computer systems, SBM has set up a defence framework in order to manage IT risk and has in place back up systems, service level agreements and procedures to recover data in case of a disaster. All IT related projects are run strictly on a business case basis, and are monitored by Project Steering Committees chaired by senior management. IT systems are designed based on business specifications and are implemented jointly by IT and business representatives. Well-trained IT staff are responsible for supporting the smooth operations and security of the implemented systems.

Well-established methodologies, best practice policies and standards guide project implementation and systems operations, and secure the configuration of our computer systems. Security is assured by the deployment of best of breed technology in line with SBM's security architecture. This consists of a set of policies and tools

such as firewalls, intrusion detection systems, anti-virus software, access controls, etc. All of the above are supported by an in-house IT Security team, which conducts risk assessments on all new initiatives, and which is also responsible for developing new security policies and standards, monitoring of new threats, vulnerabilities and intrusion attempts, conducting security awareness campaigns, and driving security initiatives in the organisation. The IT Audit team, separate from the IT Security team, reviews the physical, environmental and application controls as well as compliance with good IT governance principles in general.

The main challenge for the coming year is to finalise the setting up, documentation and testing of a business continuity plan across all the key areas of the Bank's operations. This will require a major co-ordination effort across all business units, with the assistance of service providers and external auditors.

## SBM GO

The only account in Mauritius designed with young professionals' cashflow and lifestyle requirements in mind, a transaction account requiring no minimum opening balance and easy access to an overdraft and credit card.



## Management Discussions & Analysis

### Operations Review (cont'd)

#### Lines of Business

SBM organises its activities into three lines of business: Personal Banking, Business Banking and Treasury.

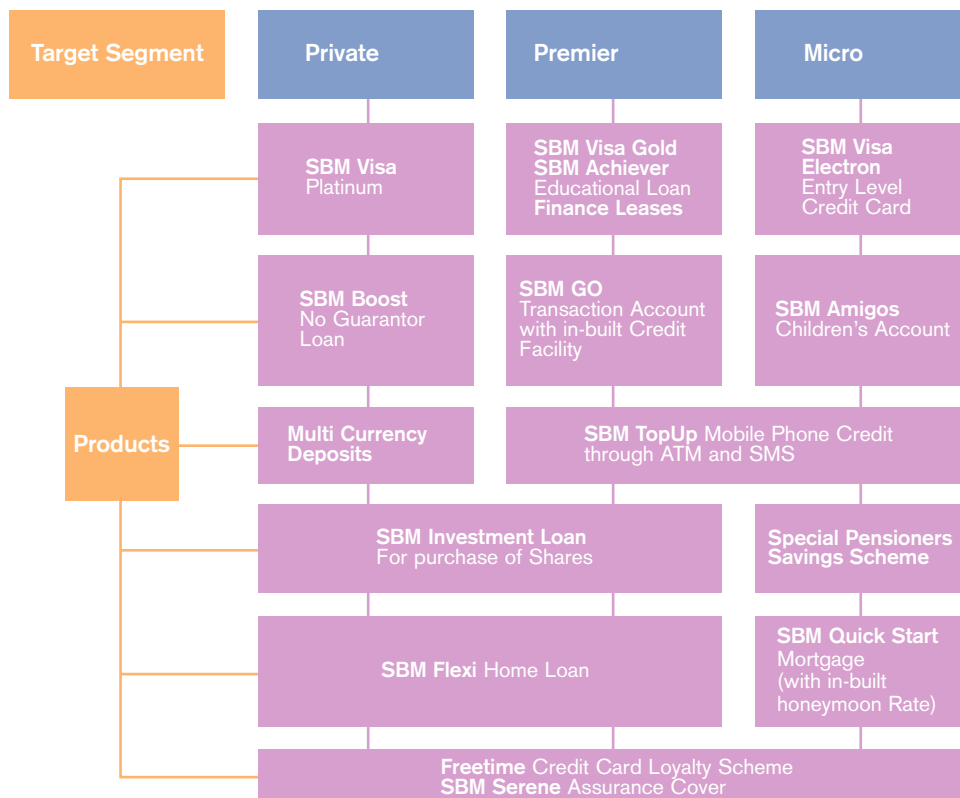
#### Personal Banking

Personal Banking is divided into 3 segments, namely Private, Premier and Micro Banking to enable focused strategies and develop tailor made solutions to meet the needs and aspirations of each segment.

One of the major priorities of the Bank over the coming years is to focus on Personal Banking and grow retail asset and liability portfolios by providing superior innovative financial solutions. During the year, SBM has concentrated much of its efforts in providing such banking solutions for the key segments that it serves, leveraging on its superior technology.

SBM was the first bank in Mauritius to launch the Visa Platinum card, offering to its high net worth clients exclusive travelling, shopping and insurance benefits through Visa's partnerships with international institutions. SBM "Flexi" home loan product, which allows flexible repayments and redraws in line with the customer's requirements, was launched in July 2003 and has delivered a 4% improvement in SBM's market share. During the year, over 1000 children have participated in our "Amigos" Children's account IT training and another 500 have benefited from sports activities, both at SBM Park, our learning and leisure centre. SBM "TopUp", launched in November 2003, allowing both SBM and non-SBM customers to recharge their prepaid mobile phone cards using SBM's ATM network, demonstrates the Bank's ability to leverage off its technology to provide innovative and convenient services to the public.

Chart 10 - Personal Banking Solutions



## Management Discussions & Analysis

### Operations Review (cont'd)



When the Bank built SBM Park as well as providing a great facility for all of us they also wanted to put something back into the community. Here we offer 5 different levels of IT courses to Amigos members of all ages and experience, some leading to internationally recognised qualifications.

Ms Pritee Ombika, SBM Amigos Coordinator

Consequently, the client base of Personal Banking showed a stable growth of 3.5% for the year ended 30 June 2004. The low interest rate environment fuelled demand for consumer and mortgage loans over the past few years and provided much stimulus to this sector. For the financial year ended 30 June 2004, Personal Banking generated a RAROC of 48%, experiencing robust growth of 34% in mortgages and 26% in consumer loans. Despite falling MUR interest rates the total deposits under Personal Banking grew by 16% during the same period. To meet the demand for foreign currency deposits, a suite of foreign currency term deposit tax efficient schemes targeted at high net worth individuals were introduced and have been highly successful. A growing sales and service culture coupled with pioneering financial solutions

have helped the Bank to make a major positive impact amongst our core segments in the Banking community.

In order to better serve its clients, the Bank has streamlined its processes, thus improving response time. SBM's credit-scoring and decision support tool, "Transact", allows the Bank to process personal credit applications on-line and instantly approve the facility when all criteria are met. With the use of "Siebel", a key Customer Relationship Management tool, the Bank is also able to organise the knowledge base of its customers. Each customer is treated individually and an extensive history is built up on the customer, helping the Bank to focus its marketing effort. SBM's team of Mobile Sales Officers and Personal Bankers will also take banking to a Premier Banking client's doorstep, in order to offer a complete and personalised service.

## Management Discussions & Analysis

### Operations Review (cont'd)

SBM has also made many improvements to its service units: automation and streamlining of processes, reducing the complexity of our application forms and training staff, all of which have contributed to a more pleasant customer experience. Our call centre, established in 2003, has helped to improve customer response time to service requests as well as overall satisfaction. Our in-house research shows that over the last 2 years we have been able to improve customer satisfaction by 1.5 points from 6.04 in June 2002 to 7.51 (10 being optimum) in June 2004.

SBM will continue in its efforts to meet and even exceed the market's expectations. The "TopUp" service has been enhanced to enable subscribers to recharge their phone

anytime and anywhere at the touch of a button through "Short Message Service". The Bank is introducing new products such as "SBM GO", the one stop transaction account for young professionals starting their careers, with easy access to an overdraft and Visa Electron credit card, which will allow a larger segment of the community to have access to credit facilities, within acceptable risk thresholds for the Bank, as all authorisations are undertaken online.

#### Key Objectives 2004/2005

- Net Increase in advances of around 30%
- Net Increase in deposits of around 7%
- Improve fee-based income by around 15%



Our high networth segment is one of our most profitable segments within Personal Banking.

We offer these clients an exceptionally high level of personalised service, including visiting them at home outside banking hours to help them manage their personal finances. **Mr Jaysen Nundoosingh, Portfolio Leader Private and Premier Banking**

## Management Discussions & Analysis

### Operations Review (cont'd)



With ever increasing competition it is vital that we offer prompt, efficient and friendly service. Our 'Transact' online credit-scoring tool enables us to give customers immediate approval of their loans and usually disbursement within 24 hours.

**Mr Jairaj Sonoo, Team Leader Personal Banking**

#### **Business Banking**

Business Banking is managed by portfolio and is organised into four segments, namely micro, macro-medium, macro-large and macro-very large, depending on the total turnover of the client's business. This line of business contributed to 56.8% of the Group's profit after tax, 78.8% of the Group's average advances and 57% of the Group's deposits for the year 2003/2004. Given the sluggish market conditions, the few investment opportunities and low demand for corporate loans, advances grew marginally by 2% from last year.

In line with the Group's strategy and risk appetite, the Business Banking risks are spread by holding a diversified portfolio across geographical borders, industries, segments and products. In 2004, despite the increasing competition

from existing and new players, Business Banking capitalised on the opportunities in the growing portfolios like Tourism and New Economy, and strengthened its market share in Commerce/Trade, Agriculture and Infrastructure. On the other hand, a more prudent approach was adopted with respect to other portfolios such as Manufacturing/Textiles and Real Estate, which are perceived to carry higher risks. RAROC for Business Banking for the year was 27% and may be further improved by applying risk-based pricing to achieve returns commensurate with risks taken, identifying customers which are not adding value to the Group and taking corrective action and introducing new business solutions which would contribute to fee based income, whilst also delivering value to customers. Processes have also been established to monitor, track and manage performance on an ongoing basis.

## Management Discussions & Analysis

### Operations Review (cont'd)

Business Banking has pursued its commitment to provide comprehensive financial services and has proactively promoted SBM's innovative banking services to its customers. SBM E-commerce, launched in April 2003, offers corporates a safer and smarter solution to acquire internet shopping business. The best of breed technology used by SBM ("Verified by Visa" and "MasterCard Secure Code") permits only genuine transactions to go through and guarantees payment for goods and services worldwide. In September 2003, SBM became the first bank in Mauritius to offer multiple currency transactions at its Point of Sale (POS) terminals, thus allowing the capture of business in foreign currency and providing our customers with an

automatic hedge against fluctuations in the given currency.

In line with the overall customer-centric strategy of the Bank and in order to reinforce the concept of total relationship management, the roles of both Relationship and Service Officers were revisited, redefined and clarified. With the support of various tools, such as Siebel, MFA and Optimist, Relationship Officers are able to propose financial solutions designed to meet specific customer needs. Alongside this initiative, Business Banking introduced a Sales Incentive Plan geared towards rewarding Relationship and Service Officers who have performed exceptionally well during each quarter.



In the Corporate sector it is key to have an insight into the customer's business as every solution is customised to meet specific needs. I find that spending quality time with our customers helps to build this understanding and leads to a mutually beneficial relationship.

Mr Leckram Dawonauth, Team Leader Business Banking

## Management Discussions & Analysis

### Operations Review (cont'd)



Individual recognition is an important motivator of people. Each quarter we recognise the relationship officer who has made the greatest contribution. This is not just in terms of sales, but also recognising when someone has gone out of his way to tailor-make a solution that meets a customer's requirements.

**Mrs Christine John Chuan, Team Leader Business Banking**

#### Key Objectives 2004/2005

The following key objectives for 2004/2005 were set taking into consideration the Group's risk appetite as laid down in the different guidelines issued, each portfolio exposure against the prudential guideline, each portfolio RAROC and Financial Risk Rating:

- Net Increase in Advances of around 9%
- Net Increase in Deposits of around 7%
- Increase in Non Interest Income by around 12%

#### Treasury

Group Treasury achieved excellent results for the period under review with non-interest income showing an increase of 22% over the previous year.

Mauritius, which houses the Group's main Treasury operations, has registered a growth of 34% in non-interest income over the previous year, and exceeded the budget by 21%. Treasury's foreign exchange income has witnessed a rise of 13% over the previous year. This positive result has been achieved as a result of the increased activity and volatility in the local foreign exchange market.



## Management Discussions & Analysis

### Operations Review (cont'd)



Financial markets can be very unpredictable. With the sophisticated tools and information services at the disposal of our dedicated team of dealers, the latest market information, financial instruments and most competitive rates are just a phone call away.

Mr Viash Sreemuntoo, Treasury Division

Our dedicated customer desk has contributed to a significant increase in customer foreign exchange volume.

SBM is the leading primary dealer in the local secondary securities market. The drop in the local interest rates has contributed to a large increase in our securities trading income, with income showing a healthy 182% growth.

Interest rates in Mauritius seem to have stabilised and we expect the year ahead to present a different set of trading circumstances.

The Bank is currently gearing up to launch an international bond trading desk in October 2004 which will help to compensate for a forecasted drop in the local securities trading income. The international bond trading desk will in the first place concentrate on the Bank's own portfolio and at a later stage, we intend to offer our services to our retail, corporate and institutional customers.

#### Key Objectives 2004/2005

- Increase foreign exchange income by around 20%
- Increase customer foreign exchange volume by around 30%.

#### Indian Operations

Indian Operations focused on Treasury and Business Banking. India had a mixed year where Treasury performed well in the first half of the year on the back of a buoyant local securities market. Interest rates reached their lowest level during the second half of the year thus leaving little scope for trading activities. As a result the total Treasury income for our Indian operations was not as expected.

## Management Discussions & Analysis

### Operations Review (cont'd)

Indian Operations was active in lending mostly on a short term basis to well rated corporate clients. During the year under review, advances increased by 39% from INR1.8bn to INR2.5bn. Deposits correspondingly grew by 43% from INR1.4bn to INR2.0bn. Profits before provisions and tax grew by 3%. More significantly, Net NPA to Net Advances has been brought down to 4.8% at June 30, 2004.

#### Key Objectives 2004/2005

- Focus on low cost deposits mobilisation to reduce cost of funds
- Focus on trading activities in both foreign exchange and securities markets
- Asset Quality: Improve Net NPA to Net Advances to around 4%

#### Banque SBM Madagascar

Banque SBM Madagascar (BSBMM) focused mainly on business banking, trade finance and treasury activities.

Madagascar Treasury operations have recorded a satisfactory performance. Foreign exchange income is 12% over budget and we are forecasting an increase of over 30% in the coming financial year. We expect foreign exchange volume to increase in Madagascar as the foreign exchange market discontinued with the open outcry foreign

exchange trading system on 2nd August 2004. Local foreign exchange trading is now continuous throughout the day and Foreign Exchange volumes should be boosted by this new development.

Total deposits and total advances grew from FMG195bn and FMG178bn at June 30, 2003 to FMG249bn and FMG199bn at June 30, 2004 representing a growth of 27% and 12% respectively.

BSBMM made provisions for credit losses of FMG6.7bn mostly on accounts which continue to suffer from the impact of the political and social crisis of 2002.

Profit after tax registered a satisfactory growth from FMG2.4bn in 2003 to FMG4.7bn in 2004, representing a growth of 96%.

#### Key Objectives 2004/2005

- Growth in Deposits and Advances of around 25%
- Growth in Non Interest Income of around 35%

## VISA Platinum Card

The first bank to offer a Platinum card in Mauritius. Opening a world of benefits in line with the unique, demanding needs of high net worth individuals.



## Management Discussions & Analysis

### Operations Review (cont'd)

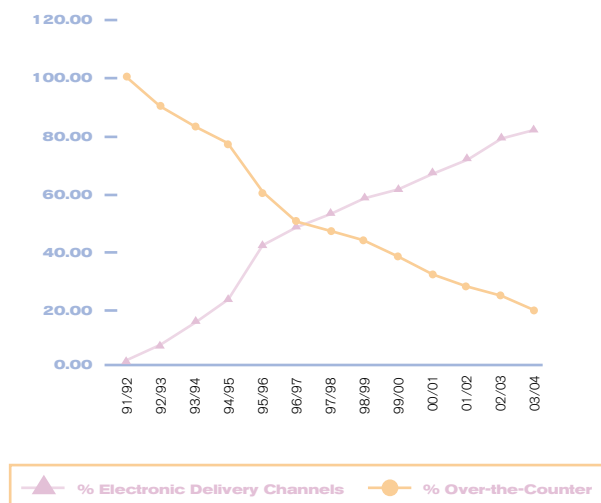
#### Support Services

##### Channel Management

SBM has an extensive distribution network with 42 service units including 3 in India, 1 in Madagascar, 96 ATMs, 1200 POS, Phone banking, Internet banking, and also an e-commerce portal. The volume of sales and service transactions conducted through electronic channels continues to grow but the traditional face-to-face channels remain ever present. 80% of banking transactions are conducted through electronic channels as illustrated in chart 11.

The introduction of "TopUp" in November 2003 is an example of the innovative solutions that SBM is delivering to its customers to enhance the quality of their banking experience. The investment made in state-of-the-art

Chart 11 - Over-the-Counter v/s. Electronic Transactions



Offering TopUp through our ATMs has fused banking and mobile technology to provide customers with everyday facilities at their fingertips.

Mr Sailesh Sewpaul, Team Leader Channel Management

## Management Discussions & Analysis

### Operations Review (cont'd)

technologies and the collaboration with mobile phone operators has allowed SBM to be the first bank to introduce such a service in Mauritius.

The market has embraced this convenient and easy way to use technology and we have captured a significant market share over a short period.

One of our major objectives was to improve our share of merchant acquiring business and income from Point of Sale (POS) electronic transactions. We have been able to register a 42% growth in number of transactions processed

through SBM POS. To further strengthen our position we will make available additional services through POS terminals during 2004 and 2005. Our market share has been further strengthened through a strategic alliance with Banque Des Mascareignes to allow their customers to access our ATMs, POS and Top Up services.

The Bank has witnessed significant growth in the number of internet banking registrations as more and more of our customers embrace "SBMNet", our innovative, convenient and secure internet solution.



Multi-Currency Point of Sale allows our Corporate customers to receive payment in up to 12 international currencies, particularly appealing to the tourist sector.

I demonstrate this great product and explain how we can help our customers grow their businesses.

Ms Vanessa Sapanee, POS Officer Online Services Team

## Management Discussions & Analysis

### Operations Review (cont'd)

#### Key Objectives 2004/2005

- Increase usage of credit cards at POS by around 18%
- Increase acquiring business volume by around 25%
- Increase in fee-based income by around 40%

#### Human Resources

Over the last few years SBM staff have embraced many new tools and competencies required to meet the challenges of maintaining leadership in a competitive market.

SBM's flat operating organisational model ensures swift decision making, taking into account the full value chain, thereby giving Team Leaders an insight into what is

happening in the market. This aids the ongoing efforts in training and mentoring our people.

Employees receive regular feedback on their contribution to the organisation. Performance measures are based upon Key Performance Indicators (KPIs) agreed with every employee at the beginning of each year. The KPIs are made up of both quantitative as well as qualitative variables. The quantitative measures are based on meeting the department's performance targets (actual sales or service performance). The qualitative factors include: leadership, problem solving, knowledge and customer focus.



As a team leader, I meet with my team members and agree performance measures based upon both qualitative and quantitative values, which are reviewed regularly.

This approach has led to effective communication between team members and has fostered a high level of team spirit.

Mr Eshan Amiran, Team Leader Information Technology

## Management Discussions & Analysis

### Operations Review (cont'd)



At SBM Park, our people have access to facilities ranging from Football, Squash, Fitness, Aerobics, Heated Swimming Pool and a fully stocked library amongst others, supported by qualified staff and trainers.

**Mr Kumar Dursun, Team Leader Facilities Management**

Each employee's performance is reviewed on a regular basis and mutually agreed action plans are developed to address skills and competencies gaps. These plans usually include a component of formal training through in-house resources or external providers as well as the more informal workplace coaching and mentoring.

SBM pro-actively promotes a Sales and Service culture. Front Office staff attend monthly sales and service training to familiarise themselves with new products, sales tools, processes and practices. Time spent mentoring staff forms part of each Team Leader's KPIs and all Team Leaders are required to facilitate round table discussion and feedback sessions within their department. Senior and middle management occasionally attend residential executive

education overseas to build their knowledge and understanding of the latest challenges facing our business.

The Bank has also established a Code of Business Conduct and a Policy on Fit and Proper Persons Criteria to ensure that staff with the appropriate skills and qualifications are selected for appropriate positions, avoiding situations where potential conflicts of interest may arise.

SBM is the only bank providing a dedicated sports, leisure and private learning facility for our staff and their families. The Bank also offers subsidised meals at SBM Tower, preferential interest rates, non-contributory pensions, medical benefits (including an in-house doctor) and 24 hour accident insurance cover.

## Management Discussions & Analysis

### Operations Review (cont'd)

Development of a strong corporate culture is a key objective. All new employees participate in an induction programme where they learn about the organisation, its history and products. In addition every new employee receives a copy of the Bank's Code of Conduct to help convey a sense of mutual respect and unity of purpose.

#### Strategic Marketing

Strategic Marketing has supported the lines of business with the development of innovative products and services,

through the use of the Bank's database, market intelligence and research. The Bank has invested in the tools necessary to analyse product, customer and segment performance and profitability. This enables SBM to create value propositions that will build profitable market share through a critical understanding of market drivers, i.e. the unique benefits that will drive a preference for our products over our competitors for each market segment.

Our market is highly competitive and over-banked. This has led to significant pressure on pricing. Margins have



The secret to success is being able to read the market and know when is the best time to invest resources. We have built market forecast models for all our product categories, based on historical sales data. We can now make timely investments and also track eventual sales on the basis of the number and type of leads we are generating.

Mr Patrick O'Grady, Strategic Marketing Head

## Management Discussions & Analysis

### Operations Review (cont'd)

been falling as competitors try and maintain their market share. We have adopted a different strategy, preferring to invest our energies in developing flexible customer solutions with benefits based on innovative features and service quality.

In addition to building market share, we have been increasing the value we derive from each customer relationship. Supporting this, the "Get Connected" programme was launched and it takes our sales teams to the customer. SBM is regularly represented at Shopping Centres, Life Style and Education Exhibitions as well as schools and office visits.

Further to providing our customer segments with a suite of Product Solutions, Marketing also runs usage and activation campaigns. SBM often works with industry partners to improve the reach and effectiveness of these campaigns. During 2004 we received support and partnered with Visa, MasterCard, Cellplus and Emtel (domestic mobile phone operators), ACI (TopUp software vendor), Network Plus (Internet provider), Mauritel (International telecoms provider), across various campaigns to drive business and add value for our customers.

SBM continues to drive product and service innovations through its Product Development Forum and has a substantial pipeline of initiatives for the next 18/24 months.

### Information Technology

SBM has implemented a state-of-the-art information technology infrastructure to support business performance and provide convenient customer services around the clock. Customers can perform banking transactions from anywhere, anytime through multiple delivery channels now made available to them by SBM.

In line with SBM's business model, the Information Technology team has been integrated with the lines of business to ensure that business requirements are translated into effective technological solutions to meet user/customer needs. SBM has the best of breed solutions and the latest banking technology. Our Project teams usually consist of members from IT and business so as to encourage teams to view projects and solutions from both an IT and business perspective, thus ensuring that we arrive at optimum yet practical solutions for our customers.

SBM partners with the most professional and experienced vendors and service providers to support its large IT infrastructure. A pro-active approach to prevent downtime and staff training enables us to achieve levels of reliability which result in an uptime exceeding 99.9%.

## Multi-Currency POS

**SBM launched Point of Sale acquiring in up to twelve different currencies targeted at clients in the travel and entertainment industry, thus ensuring that Cardholders do not suffer losses due to currency conversion.**





## Management Discussions & Analysis

### Operations Review (cont'd)



At SBM, we have implemented a state-of-the-art e-commerce platform to acquire online credit card payments. We were the first bank in sub-Saharan Africa to introduce safer, smarter Internet shopping, joining the ranks of leading banks worldwide.

Mr Anand Babbea, Online Services Team

Data processing is fast and the Bank has sufficient spare capacity to cater for exceptional peak periods such as year-end. Proven and established methodologies are used to ensure adequate controls. Internal and external IT Audit teams provide an additional level of security and comfort.

Issuing of chip cards will start as from the second quarter 2005 in compliance with EuroPay MasterCard VISA standards. This will enhance customer convenience by providing more functionality and at the same time increasing security for both the Customer and the Bank. SBM also plans to optimise the use of its existing IT infrastructure by developing additional third party processing business.

#### Operations Management

Operations Management deals with back office and administration functions in support of the Sales and Services activities, including: customer/account maintenance, reconciliation, card processing, the various payment/settlement systems, trade finance activities, import and export operations, document checking, SWIFT activities, Treasury back office operations and Cash. Proper systems and processes have been designed and implemented to ensure smooth operations.

The performance of each process is regularly measured against preset KPIs through the centrally managed

## Management Discussions & Analysis

### Operations Review (cont'd)

monitoring system, SIEBEL. Corrective measures are then taken to eliminate any gaps.

The Operations Management team adds value by providing speed and reliability to the delivery of the Bank's products and services to our valued customers.

As an effective support tool to the people involved in the Business arena, Operations Management ensures efficient Data Management. Data provided on time, accurately and in the latest version is a powerful tool for any organisation. The Operations Management Team, in capturing, maintaining, storing and retrieving data in general, plays a vital support role to the Bank as a whole.

#### Subsidiaries

##### Lease Business

SBM Lease Ltd is a wholly owned subsidiary of SBM, providing lease facilities for all types of movable assets, equipment and motor vehicles to both the Corporate and Retail sectors.

During the year the Company upgraded its Software systems.

The Company also benefits from the various analytical tools and expertise of the Credit Underwriting Team of the Group.

The net interest margin generated by leasing is relatively low compared to Personal and Business Banking, due to the higher costs of deposits incurred in order to be competitive with other leasing companies.

Gross Earnings improved by 14% from Rs123.93m to Rs141.31m. Pre-tax profits before provision for credit losses amounted to Rs54.0m for the year ended June 30, 2004 compared to Rs44.1m for the previous year. SBM Lease Ltd contributed 3.5% to the Group's profit.

##### Asset Management Business

SBM Asset Managers Ltd is the fund management arm of the SBM Group and as at June 30, 2004 had funds under management of Rs1,551.4m. New funds of some Rs392.1m were raised in 2003/2004. The company manages investments of institutional funds, pension funds and high net worth individuals. The company also cross-sells tax incentive products, namely unit trusts, to the Bank's customers and the public. During the year the Company successfully marketed an investment product of Société Générale.

SBM Mauritius Asset Managers Ltd recorded profits of Rs6.85m for the year ended June 30, 2004 compared to Rs2.71m for the year ended June 30, 2003, an increase of 153%.

## SBM Freetime Rewards Programme

Simply by using an SBM credit card, customers can be rewarded for their loyalty with either free prepaid mobile phone credits or free international call credits or free internet access.



## Management Discussions & Analysis

### Operations Review (cont'd)

#### Securities Business

SBM Securities Ltd is the security broking business arm of SBM Group. It is ranked three amongst the stock broking companies in the market in terms of market share and profitability. SBM Securities assists investors in investment decisions through high levels of personalised service, continuous client contact and proactive advice.

The Company's objective is to build collaborative processes with SBM businesses and third party vendors, across the value chain, to deliver faster solutions to market, as well as to drive operational efficiency. During the year SBM Securities assisted in the launch of the SBM Investment Loan product, which allows customers to borrow funds to buy shares, thereby benefiting from market performance as well as available tax allowances.

#### SBM Investments Ltd

SBM Investments Ltd is the domestic investment arm of SBM and focuses on equity investments for strategic and long term capital gain. The SBM Investment Ltd equity investments in group subsidiaries stood at Rs21.7m at June 30, 2004 and other equity investments amount to Rs167.7m. The company achieved a profit of Rs59.5m in the year under review compared to Rs11.6m last financial year mainly due to an exceptional profit of Rs42.8m on disposal of an equity investment quoted on the OTC market.

#### SBM Global Investments Ltd

SBM Global Investments Ltd is SBM's investment vehicle for non-rupee equity investments. It holds 79.99% of the equity of Banque SBM Madagascar and 20.1% of the equity of SBM Nedcor Holdings Ltd. Profit significantly increased from USD505,000 in 2003 to USD955,000 in 2004, mainly due to higher profit from Banque SBM Madagascar.

#### SBM Financials Ltd

SBM Financials Ltd, a wholly owned subsidiary, provides registry services and acts as a Debenture Holders Representative (DHR).

The company achieved pre-tax profits of Rs2.11m for the year ended June 30, 2004 compared to Rs1.39m last year.

It is expected that there may not be a major improvement in profits in 2004/2005 since companies are no longer issuing debentures as listed debentures no longer enjoy tax exempt status.

#### SBM IT Ltd

SBM IT Ltd is the technology arm of SBM and is not profit driven, but works as a support service provider for the Group.

## SBM TopUp

The first bank to offer ATM and SMS facilities for crediting prepaid mobile phones - any phone, any time, any one, free of charge.



## Management Discussions & Analysis

### Financial Review

#### Financial Indicators

	2004	2003	2002	Restated	
				2001	2000
<b>Consolidated Profit &amp; Loss (MRs Million)</b>					
Net Interest Income	1,481	1,365	1,282	1,198	1,048
Non Interest Income (excluding Profits of Associates)	888	665	543	436	444
Non Interest Expense	905	769	681	594	596
Depreciation	194	202	200	152	171
Pre-Tax Profit before Provision for Credit Losses	1,530	1,330	1,198	1,094	994
Pre-Tax Profit	1,366	1,186	1,029	991	858
Pre-Tax Profit Grossed Up	1,415	1,263	1,154	1,129	994
Profit After Taxation	1,130	1,021	959	879	782
Profit Attributable to Shareholders	1,127	1,018	952	871	778
<b>Consolidated Balance Sheet (MRs Million)</b>					
Total Assets (Including Contra Items)*	57,088	52,687	46,820	37,039	33,246
Total Assets (Excluding Contra Items)	42,258	38,418	34,245	31,283	28,458
Deposits from Non-Banks	32,796	29,182	26,150	24,473	22,116
Loans and Advances to Customers	22,672	21,566	21,279	20,702	19,984
Gilt-Edged Securities	11,089	9,184	5,892	3,764	3,248
Total Shareholders' Funds	6,135	5,139	4,887	4,281	3,624
Average Shareholders' Funds	5,637	5,013	4,584	3,952	3,491
Average Working Funds	39,610	36,277	32,712	29,817	26,951
Average Tier 1 Capital	4,909	4,959	4,532	3,899	3,440
Market Capitalisation	8,910	6,388	4,475	5,355	6,503
Weighted Risk Assets	25,595	23,271	21,943	21,060	19,945
<b>Per Ordinary Share</b>					
Earnings per share (Rs)	3.46	2.84	2.62	2.40	2.14
Dividend (Rs)	1.20	1.10	1.00	0.90	0.80
Book Value (Rs)	18.87	15.29	13.45	11.78	9.97
Market Price (Rs)	23.30	16.70	11.70	14.00	17.00
Dividend Yield (%)	5.15	6.59	8.55	6.43	4.71
Earnings Yield (%)	14.86	16.99	22.38	17.13	12.60
Price Earnings Ratio (times)	6.73	5.89	4.47	5.84	7.94
Dividend Cover (times)	2.89	2.85	2.62	2.66	2.68
<b>Ratios (%)</b>					
Risk Adjusted Return on Capital (RAROC)	33.08	29.10	N/A	N/A	N/A
Capital to Weighted Risk Assets	19.92	20.51	20.55	18.70	16.93
Pre-tax profit**/Average Weighted Risk Assets	5.79	5.59	5.37	5.51	5.04
Pre-tax profit**/ Average Assets	3.51	3.48	3.51	3.78	3.68
Pre-tax profit**/Average Working Funds	3.57	3.49	3.53	3.79	3.69
Pre-tax profit**/ Average Shareholders' Funds	25.10	25.20	25.16	28.56	28.48
Pre-tax profit**/Average Tier 1 Capital	28.82	25.47	25.45	28.96	28.89
Return on Average Weighted Risk Assets	4.63	4.52	4.46	4.29	3.96
Recurring Earning Power	3.63	3.47	3.49	3.48	3.52
Return on Average Assets	2.80	2.81	2.93	2.94	2.90
Return on Average Working Funds	2.85	2.81	2.93	2.94	2.90
Return on Average Shareholders' Funds	20.05	20.36	20.93	22.23	22.40
Return on Average Tier 1 Capital	23.02	20.59	21.17	22.54	22.73
Cost to Income (grossed-up for tax exempt debentures)	40.15	39.17	38.24	35.73	38.56
Cost to Income (Before Depreciation)	31.55	28.88	27.01	26.61	27.51
<b>Other Data</b>					
Number of Employees	887	877	839	799	741
Number of Employees - (Mauritius)	833	818	779	738	685
Number of Employees - (Overseas)	54	59	60	61	56
Exchange Rate (USD: MUR)	28.15	29.25	30.01	29.14	26.05

\* Commitments for 2001 and prior years have not been restated

\*\* Grossed up for tax exempt debentures

## Management Discussions & Analysis

### Financial Review (cont'd)

The following commentary and analysis of the Group's Financial Statements for year ended June 30, 2004 should be read in conjunction with the Financial Statements and notes to the Financial Statements on pages 20 to 62. The financial information discussed below is based on the year under review and may not necessarily reflect the financial condition or results of operations of the Group going forward.

#### Results

SBM Group achieved good performance for the financial year ending June 30, 2004. Earnings per share rose by 22.1% from 284 cents in 2002/2003 to 346 cents. Pre tax profits increased from Rs1,186.4m in 2002/2003 to Rs1,365.5m, representing a growth of 15.1% despite higher liquidity and resultant pressure on interest margins. Profit attributable to shareholders witnessed a lower growth of 10.6% from Rs1,018.2m to Rs1,126.5m because of the higher tax charged in 2003/2004 resulting from lower investment allowances and lower interest income from tax-free debentures which were substantially redeemed during the year under review. The higher increase in EPS compared to the growth in profits is due to the buy back of 10% of the issued share capital, the bulk of which was effected during the period May 2003 to July 2003.

#### Net Interest Margin

The Group's Net Interest Income for the year ended June 30, 2004 amounted to Rs1,480.7m, up by Rs115.5m from Rs1,365.2m last year, representing an increase of 8.5%.

Table 4 - Interest Income

MRs Million	2004	2003	Change	
			MRs Million	%
Interest on Loans	2,132	2,212	(80)	(3.62)
Interest on Securities	779	716	63	8.80
Interest on Placements & with Banks	71	75	(4)	(5.33)
Total Interest Income	2,982	3,003	(21)	(0.70)
Interest Expense	1,501	1,638	(137)	(8.36)
Net Interest Income	1,481	1,365	116	8.50
Average Interest Earning Assets (IEA)	33,613	29,916	3,697	12.36
Return on IEA (%)	8.87	10.04	(1.17)	(11.65)
Average Interest Bearing Liabilities (IBL)	32,059	28,117	3,942	14.02
Cost of IBL (%)	4.68	5.82	(1.14)	(19.59)
Net Interest Margin (%)	4.41	4.56	(0.15)	(3.29)
Spread (%)*	4.19	4.22	(0.03)	(0.71)

\*Spread is defined as the difference between Return on IEA and Cost of IBL

Table 3 - Key Performance Areas

	Objectives 2004	Actual 2004	Objectives 2005
1. Return on Equity (%)	20-22	20	Around 20
2. RAROC (%)	>25	33	Improve around 4%
3. Return on Average Tier 1 Capital (%)	20-23	23	Sustain/improve marginally
4. Return on Average Assets (%)	Around 2.8	2.80	Around 3.0
5. Profit attributable to shareholders	Growth of around 8%	Growth of 10.6%	Growth of around 10%
6. Cost to Income Ratio excluding exceptional items	Around 39	38	To improve by 1%
7. Average Non-Bank Advances	Growth of around 8%	Growth of 5.7%	Growth of around 8%
8. Average Non-Bank Deposits	Growth of around 8%	Growth of 12.6%	Growth of around 8%
9. Assets Quality: Non Performing Loans to Advances (%) (Net)	-	0.4	Around 0.5

## Management Discussions & Analysis

### Financial Review (cont'd)

The drop in Interest Income on loans from Rs2,212m in 2003 to Rs2,132m in 2004 is attributable to a combination of factors, namely (a) four times drop in Prime Lending Rate (PLR) during the year aggregating to 125 bp, (b) declining margin due to excess liquidity in the market (c) low demand for credit. The increase in Interest Income on securities by 8.8% in 2004 over 2003 was due to a volume increase of 27% mitigated by a fall in Treasury Bill yields of more than 130 bp on average.

Likewise, the decrease in Interest Expense is made up of (a) decrease in interest rates (b) increase in average deposits of Rs3,317m and (c) change in deposits mix tilted towards low cost deposits.

Net interest margin dropped slightly from 4.56% in 2002/2003 to 4.41% in 2003/2004. The decrease was mostly because of the big decrease in the average yields on Treasury Bills and higher investments in Treasury Bills.

Table 5 shows Interest income adjusted for income from associates, dividend income, notional interest on tax free debentures and provision for credit losses.

Adjusted Net Interest Income to adjusted average assets decreased from 4.13% in 2003 to 3.94% in 2004 on a like to like basis mainly due to (a) changes in asset mix with higher holding of foreign currency assets and gilt-edged securities that yield lower returns; (b) declining yields on gilt-edged securities following successive decreases in interest rates totaling 125 bp during the financial year 2003/2004; and (c) lower endowment income (i.e income from interest free funds including shareholders' funds and current account balances) due to the low interest environment.

**Table 5 - Adjusted Net Interest Income to Total Assets**

	2004	2003	2002	Change 2003-2004	
	MRs Million	MRs Million	MRs Million	MRs Million	%
Interest Income	2,982	3,003	2,976	(21)	(0.68)
Investment Income	72	81	76	(9)	(10.45)
Share of Profit of Associates	66	69	53	(3)	(4.31)
Notional Interest Income on tax free debentures (grossed up for tax)	49	77	125	(28)	(35.92)
Provision for Credit Losses	164	144	169	20	14.47
Adjusted Interest Income	3,005	3,086	3,061	(81)	(2.63)
Interest Expense	1,501	1,638	1,694	(137)	(8.35)
Adjusted Net Interest Income	1,504	1,448	1,367	55	3.85
Average Loans - FCY	3,877	3,876	3,674	1	0.03
- MUR	17,370	17,235	17,475	135	0.78
Average Gilt-edged Securities	9,424	7,404	4,689	2,020	27.28
Average Placements	2,539	2,107	2,533	432	20.50
Average Fixed and Other Assets	2,134	2,143	1,870	(9)	(0.42)
Average Equity Investments	1,391	290	296	1,101	379.65
Average Total Assets	39,337	35,077	32,665	4,260	12.15
Average Total Assets (excluding the effect of fair value measurement of Equity Investments)	38,198				
Adjusted Net Interest Income to Average Assets (%)	3.82	4.13	4.19	(0.31)	(7.40)
Adjusted Net Interest Income to Average Assets Adjusted for effect of fair value measurement of Equity Investment (%)	3.94				

## Management Discussions & Analysis

### Financial Review (cont'd)

#### Non Interest Income

Non Interest Income which includes all income except for net interest income, share of profit of associates and investment income increased by Rs232m or 40% to Rs816m in 2004.

2004/2005. Card income is expected to increase through optimising of our electronic channels and new products involving the use of cards such as mobile TopUp and Visa Electron. We have budgeted an increase of 15 bp in Non Interest Income to Average Assets for 2004/2005.

**Table 6 - Non Interest Income\***

MRS Million	2004	2003	2002	2001	2000
Net Foreign Exchange Earnings	331	239	187	164	167
Net Fees and Commissions	320	253	218	234	184
	651	492	405	398	351
Net Profit from dealings in securities	90	79	32	15	12
Net Profit on disposal of investments/assets	75	13	30	5	55
Total Net Non-Interest Income	816	584	467	418	418
Analysed as under:					
Domestic	716	501	391	360	362
Overseas	100	83	76	58	56
Total	816	584	467	418	418

\*Excludes Investment Income and Income from Associates

Exceptional Income arising from profit on disposal of equity investments amounted to Rs62m in 2004 compared to exceptional loss on exchange of Rs23m in 2003. The growth in non-interest income on a like to like basis was 24% and was mostly driven by foreign exchange earnings and fees and commissions. Group's fees and commissions increased by Rs67m or 27% over the last year mostly due to increased income from card business and loans disbursement. Foreign exchange earnings grew by Rs92m or 38%.

Non Interest Income excluding exceptional items as a percentage of gross income stood at 36% for 2004 against 34% for 2003.

Overseas operations contributed 12% to total non-interest income in 2004 compared to 14% in 2003.

Non Interest Income excluding exceptional items as a percentage of average assets improved from 1.73% in 2003 to 1.92% in 2004.

Exchange Income, fees and commissions will continue to be the main sources of Non Interest Income in

#### Non Interest Expenses

Non Interest Expenses are classified under four broad categories: staff, system, property and general expenses. Non Interest Expenses witnessed an increase of 18% from Rs769m in 2003 to Rs905m in 2004. The increase was mostly due to higher staff costs and system costs. Staff costs excluding exceptional expenses amounting to Rs88m, of which Rs57m related to one-time national pension/levy arrears for period April 1998 to June 2003, increased from Rs368m in 2003 to Rs396m in 2004, representing an increase of 8%. SBM was removed from the Statutory Bodies Pension Fund in April 1998.

System costs increased from Rs168m in 2003 to Rs200m in 2004, an increase of Rs32m or 19%. The increase was mostly due to maintenance cost for new software acquired during the year, maintenance cost on hardware for which the warranty period expired and higher depreciation charge on additions to hardware and software.

## Management Discussions & Analysis

### Financial Review (cont'd)

The decrease in property costs from Rs166m in 2003 to Rs141m in 2004 was mostly due to lower depreciation charge of Rs23m on plant and equipment which were fully depreciated at June 30, 2003.

The increase in Non Interest Expenses excluding exceptional items amounted to 6.3% from 2003. Non Interest Expenses excluding exceptional items as a percentage of average assets stood at 2.08% in 2004 and is expected to be maintained at the same level for 2004/2005.

compared to 27.4% in 2003. SBM's cost to income ratio continues to be the lowest among Mauritian domestic banks and one of the best in terms of global standards.

### Provisions and Adjustments to Income for Credit Losses

Provisions and adjustments to income for credit losses increased by Rs20.8m from Rs143.6m in 2003 to Rs164.4m in 2004, mainly due to higher provisions made

**Table 7 - Non Interest Expenses**

MRs Million	2004	2003	2002	2001	2000
<b>Staff Costs</b>	483.8	367.9	298.5	282.7	260.0
<b>System Costs</b>					
Depreciation	122.9	106.9	107.5	66.5	67.0
Maintenance	48.9	37.3	35.4	22.8	23.4
Communication and Others	28.2	23.5	21.2	16.9	19.2
	200.0	167.7	164.1	106.2	109.6
<b>Property Costs</b>					
Depreciation	69.6	92.5	89.3	83.0	100.7
Maintenance/Repairs	16.0	17.6	23.0	15.8	14.2
Rent, Taxes and Insurance	29.9	28.0	28.4	21.4	25.6
Utilities and Others	25.0	27.5	22.8	17.1	14.1
	140.5	165.6	163.5	137.3	154.6
<b>General Expenses</b>					
Printing & Stationery	18.6	23.8	13.0	14.2	14.5
Marketing and Sponsorships	14.0	11.7	7.9	6.6	7.5
Others	48.1	32.2	33.6	40.7	37.2
	80.7	67.7	54.5	61.5	59.2
<b>Total Expenses</b>	905.0	768.9	680.6	587.7	583.4

### Cost to Income Ratio

Cost to Income Ratio is a measure of efficiency and represents the non-interest expenses incurred to earn revenue; the lower the ratio, the better the efficiency. Cost to income ratio is derived by dividing total non-interest expenses by gross income (adjusted for grossing up of interest on tax free debentures) less provisions for credit losses.

Cost to income ratio increased marginally from 39.2% in 2003 to 40.2% in 2004. The cost to income ratio excluding depreciation and exceptional items stood at 28.4% in 2004

at our overseas operations. Interest accrued on recoverable amounts of impaired advances amounting to Rs26.1m has been credited in Provisions and adjustments to income for credit losses since the interest accrued for the year represents, in substance, a decrease in specific provision on advances as the recovery is one year closer, i.e. an increase in the net present value of the expected cash flows.



## Management Discussions & Analysis

### Financial Review (cont'd)

#### Allowance for Credit Losses

Specific provision for credit losses relates to identified non performing loans and is calculated as the difference between the outstanding balance of the impaired loans and the present value of estimated future cash flows discounted at the original effective rate in accordance with IAS 39. Portfolio provision is the amount of potential losses not specifically identified but which experience indicates are present in the portfolio of loans and advances. Portfolio provision ranges between 0.2% and 5.7%.

Note 8E to the Financial Statements on page 37 provides data on non-performing advances and allowance for credit losses by industry/portfolio while note 8D shows the movement in the allowance for credit losses during the year. The effect of IAS 39 applied for the first time in 2004 was to recognise an impairment loss of Rs953.3m at July 01, 2003

arising from the discounting of expected future cash flows on non performing advances to present value using the original effective interest rate of the advances (recoverable amount) and comparing this recoverable amount with the carrying amount of the advances to determine impairment loss. Previously, allowance for credit losses were provided based on a percentage, depending on the classification of the non-performing advances between substandard, doubtful and loss, of the shortfall between the outstanding amount of credit and any net realisable value of the applicable security. The recoverable amount of impaired advances were subsequently re-assessed at June 30, 2004.

Specific provisions to non-performing loans increased from 15.26% in 2003 to 66.25% in 2004 due to the higher specific provision due to the application of IAS 39 for the first time and write off of non-performing advances.

**Table 8 - Allowance for Credit Losses by Portfolio**

Portfolio (MRs000)	Specific Provision		Portfolio Provision		Portfolio & Specific Provision	
	30.06.04	30.06.03*	30.06.04	30.06.03*	30.06.04	30.06.03*
Agriculture and Fishing	15,935	803	4,892	4,868	20,827	5,671
Manufacturing	135,222	156,917	32,144	36,808	167,366	193,725
Tourism	12,643	13,678	33,418	41,237	46,061	54,915
Transport	8,323	2,814	3,933	1,514	12,256	4,328
Construction	147,491	12,256	61,945	12,697	209,436	24,953
Financial & Business Services	1,149	12,945	10,945	14,395	12,094	27,340
Traders	165,438	69,126	23,839	32,894	189,277	102,020
Personal	143,597	7,243	29,585	35,527	173,182	42,770
Professional	0	0	2,082	2,975	2,082	2,975
New Economy	1,040	0	1,815	12,023	2,855	12,023
Infrastructure	0	1	3,110	5,520	3,110	5,521
Other	19,766	554	7,188	2,225	26,954	2,779
<b>TOTAL</b>	<b>650,604</b>	<b>276,337</b>	<b>214,896</b>	<b>202,683</b>	<b>865,500</b>	<b>479,020</b>

\* before IAS39 adjustment

## Management Discussions & Analysis

### Financial Review (cont'd)

#### Taxation

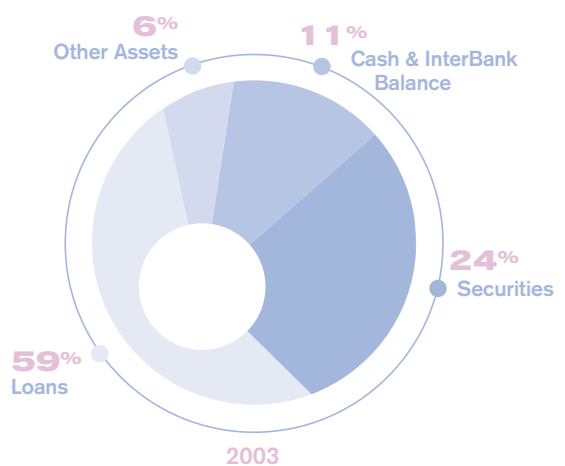
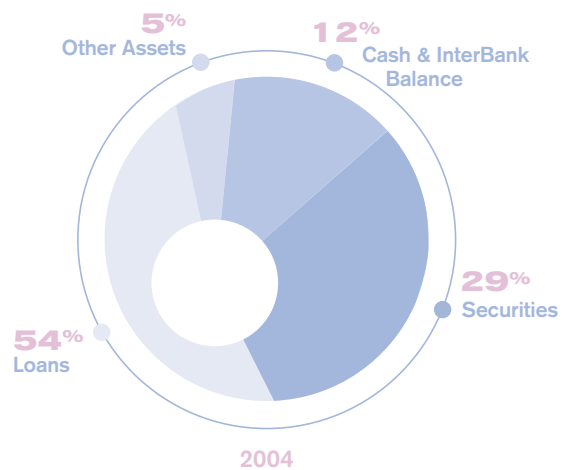
Taxation increased by Rs69.7m from Rs165.6m in 2003 to Rs235.3m in 2004 or 42.1%. The increase in the tax charge is mostly due to increased profits from operations, lower tax free interest income on debentures amounting to Rs83m and lower investment allowances of Rs72m. Investment allowances are tax relief on qualifying capital expenditure amounting to 25% of the expenditure in respect of the year in which the expenditure is incurred. The above impacted on the effective tax rate which increased from 13.96% in 2003 to 17.23% in 2004.

#### Assets

Total assets including contingent assets grew by 8.4% from Rs52,686.6m at June 30, 2003 to Rs57,088.1m at June 30, 2004. Increase in securities and advances were the main drivers of growth. The growth in securities amounting to Rs3,179.8m included increase in Gilt-edged securities of Rs1,905.3m and increase in the fair value of our equity investments by Rs1,274.5m. Increase of Rs1,106.7m in net advances has been mainly generated by the personal banking sector.

Assets of our overseas operations excluding contingent assets amounted to Rs3,346.0m at June 30, 2004 and accounted for 7.9% of total assets. Compared to June 30, 2003 assets of our overseas operations decreased by Rs377.1m mainly due to our strategy to focus on Treasury activities at our Indian operations and also because of the significant depreciation of the Malagasy Franc vis à vis the Mauritian Rupee, by more than 43%.

Chart 12 - Average Assets Mix



## Management Discussions & Analysis

### Financial Review (cont'd)

#### Loans and Advances

Gross advances witnessed a growth of Rs1,493.2m or 6.8% from Rs22,044.5m at June 30, 2003 to Rs23,537.7m at June 30, 2004. The growth in net advances (i.e gross advances less allowance for credit losses) was lower at 5.1% because of the additional provision for credit losses on impaired advances arising from the implementation of IAS 39 in 2003/04.

Gross advances to the domestic market grew by Rs1,948.2m or 10.4% from Rs18,782.1m in 2003 to Rs20,730.3m in 2004 while advances to the international market decreased by Rs455m over the same period. SBM Mauritius operations' advances to the domestic market grew by 11.9% whereas the industry registered a growth of 7.6%. Note 8 to the Financial Statements shows the advances, non-performing advances and allowance for credit

losses by portfolio. The growth in the portfolios reflect the Group's risk appetite and credit policy to build a balanced and diversified loan book. The personal and housing portfolio registered growth of Rs461.2m and Rs726.4m respectively and accounted for 8.1% and 12.9% of our loan portfolio.

Non-performing advances expressed as a percentage of total gross advances stood at 4.17% in 2004 compared to 8.22% in 2003 while net non-performing advances to net advances decreased from 5.54% in 2003 to 1.34% in 2004. Allowance for credit losses to gross loans stood at 3.68% in 2004 compared to 2.17% in 2003. Table 9 shows the trend in advances, non performing advances and allowance for credit losses. The quality of credit is expected to further improve with our enhanced credit assessment and credit recovery capabilities with emphasis on companies with good financial ratings.

**Table 9 - NPA & Allowance for Credit Losses**

	2004 MRs Million	2003 MRs Million	2002 MRs Million
Gross Advances	23,538	22,045	21,656
Non Performing Advances (NPA)	982	1,811	1,471
Specific Provision	651	276	177
Portfolio Provision	215	203	201
Total Allowance for Credit Losses	866	479	377
NPA as a % of Gross Advances	4.17	8.22	6.79
Net NPA to Net Advances (%)	0.40	5.54	4.99
Specific provision as a % of NPA	66.25	15.26	12.02
Total Provision as a % of Gross Advances	3.68	2.17	1.74

## Management Discussions & Analysis

### Financial Review (cont'd)

#### Deposits

Non-Bank Deposits grew by Rs3,613.5m or 12.38% from Rs29,182.1m at June 30, 2003 to Rs32,795.6m at June 30, 2004. The personal and business segments experienced an increase of Rs2,588.8m and Rs577.7m respectively while government deposits increased by Rs447.0m. Deposits for the domestic industry increased by 12.58% over the same period. Domestic deposits accounted for 89.8% of total deposits in 2004.

Average Non Mauritian Rupee deposits increased by 26% from Rs4,290m at June 30, 2003 to Rs5,420m at June 30, 2004 reflecting customers preference to shift to Non Mauritian Rupee deposits as MUR deposits are

becoming less attractive following the successive falls in interest rates coupled with the perceived appreciation of US Dollar, Euro and Pound Sterling. Savings rate dropped from 5.25% p.a. at June 30, 2003 to 4% p.a. at June 30, 2004. Average Mauritian Rupee deposits grew from Rs22,521m to Rs24,708m at June 30, 2004, up by Rs2,187m, or 10% from last year representing 82% of total deposits compared to 84% in 2003.

The Group continued to focus on the mobilisation of low cost deposits during the year. Average savings and term deposits accounted for 56% and 37% of total average deposits as at June 30, 2004 compared to 54% and 39% as at June 30, 2003.

**Table 10 - Average Non Bank Deposits Mix**

	2004		2003		2002	
	MRs Million	%	MRs Million	%	MRs Million	%
<b>Demand</b>						
Mauritian Rupee Deposits	1,711	6	1,587	6	1,175	5
Non Mauritian Rupee Deposits	370	1	332	1	1,167	5
<b>Total Demand</b>	<b>2,081</b>	<b>7</b>	<b>1,919</b>	<b>7</b>	<b>2,342</b>	<b>10</b>
<b>Savings</b>						
Mauritian Rupee Deposits	14,898	50	13,247	49	12,378	50
Non Mauritian Rupee Deposits	1,912	6	1,254	5	81	-
<b>Total Savings</b>	<b>16,810</b>	<b>56</b>	<b>14,501</b>	<b>54</b>	<b>12,459</b>	<b>50</b>
<b>Term</b>						
Mauritian Rupee Deposits	8,099	27	7,687	29	7,225	29
Non Mauritian Rupee Deposits	3,138	10	2,704	10	2,849	11
<b>Total Term</b>	<b>11,237</b>	<b>37</b>	<b>10,391</b>	<b>39</b>	<b>10,074</b>	<b>40</b>
<b>Grand Total</b>	<b>30,128</b>	<b>100</b>	<b>26,811</b>	<b>100</b>	<b>24,875</b>	<b>100</b>
<b>Total Mauritian Rupee Deposits</b>	<b>24,708</b>		<b>22,521</b>		<b>20,778</b>	
<b>Total Non Mauritian Rupee Deposits</b>	<b>5,420</b>		<b>4,290</b>		<b>4,097</b>	

## Management Discussions & Analysis

### Financial Review (cont'd)

#### Shareholders' Funds

The increase in shareholders' funds of Rs995.8m from Rs5,138.9m as at June 30, 2003 to Rs6,134.7m as at June 30, 2004 is attributable to a combination of factors, namely retained profits of Rs736.5m; gains arising from the measurement of equity investments at fair value as per IAS 39 of Rs1,278.6m; specific provisions for credit losses net of deferred tax of Rs715.0m resulting from the first time application of IAS 39; share buy back of Rs188.2m and translation losses of Rs94.1m.

The Group Capital Adequacy ratio of 19.92% at June 30, 2004 is well above the regulatory requirement of 10%. Return on Average Tier 1 Capital improved from 20.59% in 2003 to 23.02% in 2004.

#### Shareholder Value

At SBM we focus on creating value for our shareholders in everything we do. SBM uses Economic Value Added (EVA) analysis to determine whether SBM Group is adding value for its shareholders. EVA measures economic return that is in excess of the cost of invested capital. Value is created if the Group generates a return on invested capital above its cost of invested capital and value is destroyed where the return is below the cost of invested capital. Return is profit attributable to shareholders adjusted for credit losses/write offs and income from equity investments. Invested capital is the shareholders' funds plus provisions for credit losses less equity investments and property revaluation reserves.

Cost of invested capital which was based on the Capital Asset Pricing Model using the average treasury bill rate of 7.7% for risk free return, an equity beta of 1 and market risk premium of 7.0% worked out at 14.7% for 2003/2004 against 16.2% for 2002/2003.

EVA for the SBM Group was derived by applying the spread (difference between the return and cost of invested capital) on the invested equity. SBM's analysis of EVA from an equity perspective indicates that the Group has consistently created economic value. The cumulative EVA from 1996 to 2004 as per our analysis amounted to Rs2,198m and EVA for 2003/2004 was Rs447m.

#### Capital Structure

Under the current Basel Capital Accord I both on-balance sheet assets and off-balance sheet exposures are allocated risk weights according to their perceived level of risk. The sum of risk weighted assets and risk assessed off-balance sheet exposures is related to a bank's capital base and the resulting "Risk Asset Ratio" is used as a measure of capital adequacy. This approach requires banks with a higher risk assets profile to maintain a higher level of capital funds. Capital is split into two tiers: core capital also known as Tier 1 and supplementary capital also called Tier 2.

Tier 1 capital includes paid up capital, share premium, statutory reserves and revenue reserves. Tier 2 capital includes subordinated debt, reserves arising from revaluation of tangible fixed assets and fair valuation of investments, etc. and general provisions against unidentified losses limited to 1.25% of total risk weighted assets. Furthermore, investments in, including loans to subsidiaries/associates and holdings of other banks' capital instruments are deducted from total capital.

The Bank of Mauritius has set a minimum standard ratio of capital to weighted risk assets of 10% compared to Basel norm of 8%.

## Management Discussions & Analysis

### Financial Review (cont'd)

Table 11 shows the components of Tier 1 and Tier 2 capital as at end of June 2004.

**Table 11 - Group Capital Structure**

MRs Million	Jun-04	Jun-03	Jun-02
Paid up capital	382.4	382.5	382.5
Share premium	570.0	570.0	570.0
Statutory reserve	465.8	455.9	440.6
Revenue reserve	4,234.4	4,395.4	3,754.9
Less Treasury shares	(912.7)	(726.1)	(308.6)
<b>Total Tier 1 Capital (A)</b>	<b>4,739.9</b>	<b>5,077.7</b>	<b>4,839.4</b>
Capital Reserves	767.8	61.2	47.4
Portfolio Provision for credit losses	214.9	202.7	200.7
<b>Total Tier 2 supplementary capital (B)</b>	<b>982.7</b>	<b>263.9</b>	<b>248.1</b>
Less Investments in subsidiary &			
Associates (c)	625.2	568.3	577.3
<b>Total (net) capital A+B-C</b>	<b>5,097.4</b>	<b>4,773.3</b>	<b>4,510.2</b>

### Change in Capital Adequacy Ratio

The Group Capital Adequacy ratio at June 30, 2004 stood at 19.92%, well above the regulatory requirement of 10% and Tier 1 capital stood at Rs4.7bn at same date. The change in the Capital Adequacy ratio from 20.51% at June 30, 2003 to 19.92% at June 30, 2004 is mostly due to the effect of the adoption of IAS 39 in the period under review. Provision for credit losses on impaired loans net of deferred tax impacted on retained earnings by Rs715m and the gains of Rs1278.6m arising from the fair value measurement of our equity investments increased our Tier 2 capital by Rs639m as only 50% of the gain is eligible for computation of Tier 2 capital. The lower increase in capital was also due to shares bought back of Rs188m and translation losses of Rs94m. Risk weighted assets increased by Rs2,324m or 10% whereas the growth in net capital amounted to Rs324m or 6.8%.

Table 12 shows the computation of Risk Weighted Assets.

**Table 12 - Group Risk Weighted Assets**

MRs Million	June 2004			June 2003			June 2002		
	Balance	Risk Weight	Risk Weighted Amount	Balance	Risk Weight	Risk Weighted Amount	Balance	Risk Weight	Risk Weighted Amount
Cash in hand and with Central Bank	2,040	0	-	1,924	0	-	1,659	0	-
Balances with Local Banks	144	20	29	145	20	29	31	20	6
Balances & Placements with Offshore Banks & Banks abroad	1,987	20	397	2,261	20	452	2,396	20	479
Gilt-Edged securities	11,089	0-20	138	9,184	0	-	5,892	0	-
Equity Investments	1,515	100	1,515	298	100	298	294	100	294
Fixed/Other assets	2,069	100	2,069	2,202	100	2,202	1,940	100	1,940
Balance due in Clearing	116	20	23	271	20	54	176	20	35
Advances	22,887	0-100	19,077	21,768	0-100	18,469	21,479	0-100	17,723
Off Balance Sheet Exposure		20-100	1,865		20-100	1,523		20-100	1,291
Forex Risk			482			244			175
Total Weighted Risk Assets			25,595			23,271			21,943
<b>Capital Adequacy Ratio (%)</b>			<b>19.92</b>			<b>20.51</b>			<b>20.55</b>

## Management Discussions & Analysis

### Financial Review (cont'd)

Basel I which uses a rudimentary risk-weighting formula is expected to be replaced by Basel II by end of 2006.

Basel II comprises 3 pillars:

Pillar 1 - Existing: Minimum capital requirements

Pillar 2 - New: Supervisory review of capital adequacy

Pillar 3 - New: Market discipline/Public disclosure

Pillar 1 is being enhanced by allowing different risk weightage depending on borrower profiles instead of the current one-size-fits all methodology. SBM is adopting the "Foundation Internal Ratings Based (IRB) approach" for assessment of probability of default and allocation of capital commensurate with the underlying risk of the loan portfolio. Moreover loans considered past due will be risk weighted at 150% instead of the current maximum of 100%. Market risk including interest rate related instruments and foreign exchange remain largely unchanged.

Besides credit risk and market risk, Pillar 1 introduces operational risk as a new element. Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems, or external events. Under the Basic Indicator approach, Capital is linked to a single indicator, namely gross income as a proxy for an institution's overall operational risk exposure. Capital is allocated to protect income against unexpected losses. An amount of 0.15 times average annual gross income over the previous 3 years has been proposed.

Pillar 2 is based on a series of guiding principles, all of which point to the need for banks to assess their capital adequacy positions relative to their overall risks, and for supervisors to review and take appropriate actions in response to these assessments. The supervisory review element provides benefits through its emphasis on the need for strong risk assessment capabilities.

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

Basel II will require wholesale upgrading of bank's risk measurement and management capabilities. The major benefits from Basel II would be more economically rational allocation of capital and more robust risk-based pricing. SBM capital adequacy is likely to improve with the recalibration of risk weights by borrower profile and portfolios.

SBM was ranked 96 in terms of soundness (capital to risk weighted assets ratio) among the Top 1000 World Banks by "The Banker" in their annual survey of Top 1000 World Banks in July 2004.



**connected**



## **Connected**

Just what is Innovation?  
The need to be well connected.  
Having the technology to quickly  
process information.

## Corporate Governance Report

Corporate Governance has become an area of heightened interest for Regulators, investors and other stakeholders. In addition to the guidelines on Corporate Governance issued by the Bank of Mauritius effective from January 01, 2001, the Ministry of Industry, Financial Services and Corporate Affairs issued a code of Corporate Governance for Mauritius in October 2003 which became effective from July 01, 2004. In line with the Bank of Mauritius Guideline on "Fit & Proper Person Criteria" issued in October 2003, SBM has established and implemented a policy to ensure that Directors, Senior Officers and other Officers of the Group and its Shareholders are fit and proper persons and continue to meet the set criteria for fit and proper persons. SBM has developed a code of ethics for its employees.

SBM Group has always taken the lead in good corporate governance and continues to do so. During the year under review, SBM set up a Corporate Governance Committee to ensure proper reporting requirements on Corporate Governance.

### Board of Directors & Management

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

### Responsibilities of the Board of Directors

A strong effective Board of Directors is essential for safeguarding the interests of shareholders, depositors and other stakeholders. The fundamental statutory duties of the Board of Directors are to supervise the management of the business and affairs of SBM. The Board monitors the performance of the Bank and ensures that management

properly safeguards the assets of the Bank. The Board's mandate is to oversee the Bank's strategic direction, its organisational structure, its activities and succession planning of senior executives.

Other broad responsibilities of the Board include:

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

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

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

## Corporate Governance Report (cont'd)

SBM's Board of Directors comprises eleven members, of which ten are non-executive directors, including the Chairman, and one executive director being the SBM Group Chief Executive. The directors recommend election of two executive directors at the upcoming Annual Meeting of the shareholders to comply with the Mauritian Code of Corporate Governance.

These non-executive directors come mainly from the business community and professional bankers. The shareholders elect all directors by separate resolution. The roles of the Chairman and Group Chief Executive are segregated and well defined. The Board is led by the Chairman, Mr M. K. T. Reddy, and the executive management of the Group is the responsibility of the Group Chief Executive, Mr C. Gunness.

The Board has set up eight board committees: Audit, Risk, Conduct Review, Remuneration, Nomination, Corporate Governance, Credit Sanction and Strategic Planning. The terms of references for these committees are in line with the model of the Code of Corporate Governance for Mauritius and international best practices.

### Board Committees

#### Audit Committee

The Audit Committee consists of five non-executive directors and is chaired by a non-executive director. The Chairman of the Board is not a member. The Group Chief Executive, the Internal Auditor and the partners of the statutory audit firm of the Bank are in attendance. The external auditors and the internal auditor have full and unrestricted access to the Audit Committee and its Chairman and/or Chairman of the Board.

The committee meets at least quarterly; additional meetings can be called by the Bank/Chairman of the Audit Committee whenever necessary. The Committee meets with management, internal and external auditors in separate sessions to discuss any matters of concern.

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

#### Risk Management Committee

The Risk Management Committee comprises six directors. The committee meets at least quarterly. The Group Chief Executive and Team Leader Risk Management are in attendance.

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

#### Remuneration Committee

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

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

#### Nomination Committee

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

The Committee recommends nomination of directors to the Board based on a proper director selection process ascertaining potential directors are fit and proper persons and the Board has the right balance of skills, expertise and independence, among others. Also appoints senior officer/position of the Group.

## Corporate Governance Report (cont'd)

### Corporate Governance Committee

The Corporate Governance Committee comprises six non-executive directors. The Group Chief Executive is in attendance. The Committee meets at least once annually.

The Committee determines and develops the policy of good corporate governance and ensures that disclosures made in the Annual Report or on an ongoing basis are in accordance with the principles of the code of corporate governance and international best practices.

### Credit Sanction Committee

The Credit Sanction Committee comprises four non-executive directors and one executive director with banking experience. The committee is chaired by a non-executive director.

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

### Strategic Planning Committee

The Strategic Planning Committee is chaired by a non-executive director and comprises three other non-executive directors and the Chief Executive Officer. The Committee meets at least once annually.

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

### Conduct Review Committee

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

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

The Board reports to the Bank of Mauritius on the proceedings during the year of the Conduct Review Committee in executing its responsibilities under the requirements of the Bank of Mauritius Guidelines on Related Party Transactions.

## Corporate Governance Report (cont'd)

**Table 13 - Record of Attendance at Board and Board Committee meetings for SBM Ltd for 2003/2004**

	Board	Committees							
		Audit	Risk	Remuneration	Nomination	Conduct Review	Corporate Governance	Strategic Planning	
Number of meetings	5	5	5	4	3	4	1	2	
<b>Directors</b>									
	Status								
Dookun D <sup>1</sup>	a	2/2	-	2/2	3/3	1/1	2/2	-	-
Du Mée P R C	a	5/5	5/5	-	4/4	3/3	4/4	1/1	
Ganoo H	c	1/5	-	-	0/4	0/3	-	-	-
Gunness C <sup>2</sup>	b								1/1
Harel A L	a	5/5	5/5	4/5	-	-	4/4	1/1	1/2
Laubscher R C M <sup>2</sup>	a	3/3	-	3/3	-	-	-	-	2/2
Mohamedbhai T G	a	4/5	1/5	-	3/4	3/3	1/4	0/1	-
Nakhuda A H	c	3/5	-	1/5	-	-	-	-	-
Ng Thow Hing M	a	5/5	5/5	5/5	4/4	3/3	4/4	1/1	-
Poncini André J <sup>2</sup>	a	2/3	2/3	-	1/1	1/2	1/2	0/1	-
Reddy M K T <sup>3</sup>	a	5/5	-	3/3	1/1	2/2	2/2	1/1	2/2
Rossouw R	c	5/5	-	5/5	-	-	-	-	1/2
<b>Attendees</b>									
Mr Reddy M K T, CEO (up to 27.10.2003)			2	2	3	1	2		
Mr Gunness C, CEO (as from 28.10.2003)		3	3	3	1	2	2	1	1
Partners of Statutory Audit Firm			5						
Internal Audit Team			5						
Risk Management Team				5					
<b>Invitees</b>									
Pearce C J		1		1					
Ng Thow Hing M									1

<sup>1</sup> Retired - 28.10.03

<sup>2</sup> Appointed - 28.10.03

<sup>3</sup> Appointed Chairman - 28.10.03

a. Non-Executive Independent Director

b. Executive Director

c. Non-Executive Director

## Corporate Governance Report (cont'd)

### Management Forums

The day-to-day running of the Bank's business and affairs is delegated to executive management. Issues are debated and decisions are taken collectively on unanimous basis in management forums. These forums meet regularly and comprise senior executives who cut across all divisions of the Bank. The Executive Forum meets weekly to discuss and take decisions on the day-to-day affairs of the Bank except credit approvals. Credit Sanction Forums meet daily to review and approve credit proposals. The Performance Review Forum meets monthly to review and monitor the performance and achievement against agreed budgets/target of the various lines of business. The Portfolio Planning Forum meets monthly to review the portfolio risk profile and amends the portfolio management plan accordingly. The Assets & Liabilities Management Forum (ALCO) meets monthly to oversee the Bank's liquidity risk, interest rate risk and foreign exchange risk management. The role of ALCO is to set and oversee broad policy for managing the Bank's Balance Sheet based on a detailed analysis of risk return trade-off; develop guidelines and limits for operating units and treasury; monitor that those limits are adhered to and that the strategy of the Bank is in line with the Bank's budget and the Bank's risk management objectives; manage potential risk to earnings and capital from changes in market risks. The Operational Risk Forum reviews the internal controls of the business units and makes suitable recommendations to improve the system of internal controls and business conduct/practices. It also includes the review of the IT security policy. The operational risk team reports to the Chief Executive Officer and the Operational Risk Forum. The IT Forum meets regularly to discuss IT operational issues and monitor progress of all IT related projects and issues. The Facilities Management Forum reviews facilities issues and monitors the progress of all premises and SBM Park.

### Disclosure of information under the Companies Act & Listing Rules

**Table 14 - Substantial Shareholders at June 30, 2004**

NAME OF SHAREHOLDERS	VOTING RIGHTS	
	NO OF SHARES	(%)
NEDBANK AFRICA INVESTMENTS LTD	65,335,510	20.1
STATE BANK OF MAURITIUS LTD -TREASURY SHARES	57,362,170	-
NATIONAL PENSIONS FUND	48,518,750	14.93
STATE INSURANCE COMPANY OF MAURITIUS LTD	45,669,050	14.05

### Directors' Share Interest

Directors follow the principles of the model on securities transactions by directors as detailed in Appendix 6 of the Mauritius Stock Exchange listing rules.

The interests of the Chief Executive and the other Directors of the Company as at June 30, 2004 were as follows:

**Table 15 - Directors' Share Interest**

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

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

## Corporate Governance Report (cont'd)

### Significant Contracts

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

### Service Contracts

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

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

### Statement of Remuneration Philosophy

The remuneration for the executive management consists of fixed and variable salary. Variable salary outcomes are determined by a combination of Group performance and the attainment of personal KPI's approved at the outset of the financial year. Variable salary includes cash bonuses, deferred cash and Phantom share options. Phantom share options are exercisable after a locked in period of three years and within ten years of the date of allocation of the options with a maximum of 15% in any one year. On the exercise of an option for a Phantom share, beneficiaries receive in cash the difference between the exercisable price of the option and the ruling Bank's quoted share price.

### Directors' Emoluments

During the year under review, the non-executive directors received 200,000 Pound Sterling net of taxes and Rs3,426,000 (Rs1,870,000 for 2003). The executive directors received emoluments amounting to Rs43,830,340 (Rs37,970,136 for 2003). An amount of Rs12,572,571 was paid towards income tax on behalf of the executive director. Remuneration and benefits of non-executive directors of subsidiary companies other than those who are also directors of SBM amounted to Rs16,821,141 (Rs18,203,196 for 2003). None of the non-executive directors serving on the Boards of the subsidiary companies received any emoluments from the subsidiaries. Fees received by representatives of the Bank serving on the Board of related companies are credited to the account of the Bank.

### Donations

During the year under review SBM donated an amount of Rs150,000 to "Le Réduit Appeal Fund".

### Auditors' Fees

SBM Ltd paid its auditors Kemp Chatteris Deloitte Rs3,130,875 towards audit fees and Rs130,000 for other non-audit services (2003: Rs2,846,250 and Rs83,000 respectively). SBM's subsidiaries paid audit fees of Rs179,366 to Kemp Chatteris Deloitte (2003: Rs174,426).

SBM Ltd (Indian Operations) paid its auditors, Sundaram & Srinivasan, Rs126,601 for audit fees (2003: Rs111,914).

Banque SBM Madagascar paid its auditors, Delta Audit Deloitte, Rs278,903 for audit fees (2003: Rs321,320).

## Corporate Governance Report (cont'd)

### Articles of Association

#### Qualification and Appointment of Directors

To qualify for directorship, a person must fulfil fit and proper person criteria and be a degree holder and have proven experience and must not be a director or employee of another commercial bank licensed in Mauritius. Directors shall hold office for one year and shall be re-eligible for re-appointment for two consecutive years. A former director shall become re-eligible for re-appointment after a lapse of 2 years since he/she last held office.

#### Share Ownership Limitation

No shareholder other than International Financial Bodies, International Banks, International Institutions/Organisations shall hold directly or indirectly more than 3% of the issued share capital of the Company without previous authorisation of the Board of Directors of the Company. By derogation the above provisions shall not apply to those shareholders who were holding more than 3% of the issued share capital of the Company before the adoption of these Articles of Association, provided always that each of those shareholders shall at no time hold a higher percentage of the issued share capital of the company than the percentage each said shareholder was holding at the time of the adoption of these Articles of Association.

#### Shareholder's Agreement

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

#### Related Party Transactions

Individuals or entities are considered to be related to the Group if they have the ability, directly or indirectly, to control

the Group or exercise significant influence over the Group in making financial and operating decisions or vice versa, or if they and the Group are subject to common control. BOM guidelines on Related Party Transactions are more stringent than IAS in that a Related Party is defined as:

- (a) A person who has significant interest (that is owning directly or indirectly 10% or more of the capital or voting rights of the Bank or exercising a significant influence over the management of the Bank) in the Bank or the Bank has significant interest in the person.
- (b) A director or senior officer of the Bank or of a body corporate that controls the Bank.
- (c) The spouse, child or parent of a natural person covered in (a) and (b).
- (d) An entity that is controlled by a person described in (a) to (c).
- (e) A person or class of persons who have been designated as a Related Party by the Bank of Mauritius.

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

The Guidelines impose limits on exposure to individual Related Parties and to all Related Parties in aggregate. Also, the Bank shall not without the prior written approval of the Bank of Mauritius:-

- engage in transactions with a Related Party if the total value of the transactions with the Bank and its subsidiaries exceeds 2% of its Tier 1 Capital.
- permit the sum total of all transactions to all Related Parties to exceed 25% of its Tier 1 Capital.



## Corporate Governance Report (cont'd)

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

Note 31 to the Financial Statements gives on and off balance sheet credit facilities to Related Parties as at June 30, 2004.

At June 30, 2004, exposure to our top six Related Parties were Rs3,597m, Rs1,500m, Rs701m, Rs352m, Rs103m and Rs70m respectively or 75.9%, 31.6%, 14.8%, 7.4%, 2.2% and 1.5% of the Group Tier 1 Capital respectively.

Based on outstandings at same date, the respective percentage to the Group's Tier 1 Capital were 71.5%, 5.5%, 14.8%, 7.3%, 0.7% and 1.5%.

Total Related Parties' credit exposure to the overall credit exposure at June 30, 2004 amounted to 22.26% and excluding government and government-controlled

entities, same was 10.67% compared to 23.75% and 11.31% respectively as at June 30, 2003.

None of the loans granted to Related Parties were non-performing as at June 30, 2004.

### Risk Management

Risk Management is discussed extensively under the Operations Review on pages 72 to 83.

### Shareholders' Information

#### Listing

Ordinary shares of nominal value of Re1/- of the Bank have been listed on the Stock Exchange of Mauritius (SEM) since June 1995. On June 30, 2004, SBM's market capitalisation stood at Rs8,910bn, accounting for 14.41% of the total market capitalisation. SBM holds 15% (57,362,170 shares) of its total number of shares in issue as Treasury Shares. Treasury Shares are own shares purchased on the Stock Exchange and are not eligible for dividend and voting rights.

#### Dividend

The Board has recommended a dividend of Rs1.20 per ordinary share for the year 2004, an increase of 9.1% from last year. This is a pay out ratio of 34.5% of net profit in line with our dividend policy to distribute at least 25% of net profit. The total yield comprising dividend of Rs1.20 and capital gains of Rs6.60 amounts to 39%.

**Table 16 - Share Performance on Port Louis Stock Exchange**

	2004	2003	2002	2001	2000
Financial Year end (Rs)	23.30	16.70	11.70	14.00	17.00
Highest (Rs)	24.00	16.70	14.00	17.00	18.00
Lowest (Rs)	14.80	10.80	10.30	13.70	14.60
Average (Rs)	19.98	12.95	11.72	15.76	16.40
Value of shares traded (MRs Million)	663.72	736.40	374.80	238.20	637.20
Value of Shares traded as a percentage of Market (%)	21.13	36.14	13.73	7.56	27.53
Price to Book (times)	1.23	1.09	0.87	1.19	1.71

## Corporate Governance Report (cont'd)

**Table 17 - Dividend Yield and Cover**

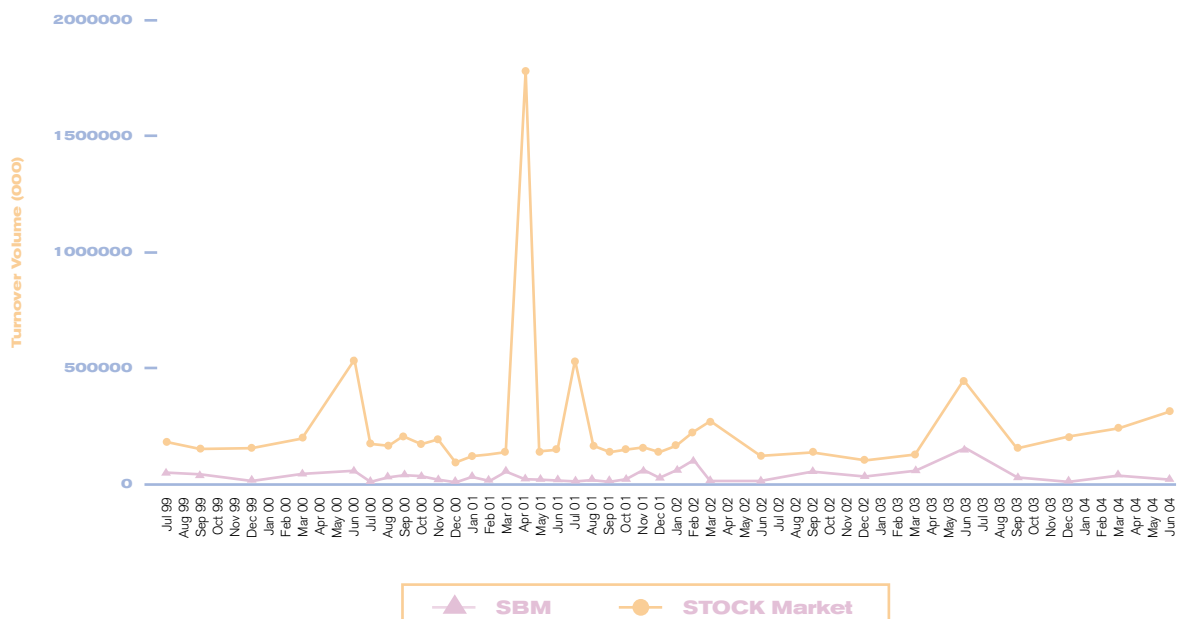
	2004	2003	2002	2001	2000
Earnings per Share (Rs)	3.46	2.84	2.62	2.40	2.14
Market Price - 30 June (Rs)	23.30	16.70	11.70	14.00	17.00
Dividend (Rs)	1.20	1.10	1.00	0.90	0.80
Dividend Yield (%)	5.15	6.59	8.55	6.43	4.71
Yield (Rs)	7.80	6.10	(1.30)	(2.10)	1.30
Yield (%)	39.00	42.96	(10.12)	(13.55)	7.76
Dividend cover (times)	2.89	2.8	2.6	2.7	2.7
Cumulative Yield (Rs)	22.80	15.0	8.90	10.20	12.30
Cumulative Yield (%)	285.0	187.5	111.25	127.50	153.8
Price Earnings Ratio (times)	6.73	5.9	4.5	5.8	7.9

**Dividend Date for 2004:**

Record date: December 31, 2004

Payment date : Around Mid January, 2005

**Chart 13 - SBM v/s Stockmarket Turnover**



## Corporate Governance Report (cont'd)

### Quarterly Earnings Reporting

Unaudited quarterly earnings reports are expected to be released on our website within 45 days from the quarter ending September, December and March and audited accounts for June within 3 months from end of June.

### Future Annual Meeting

The Annual Meeting for the year 2005 is scheduled for December 2005.

### Credit Rating

Moody's rating for the Bank for 2004:

Financial strength	D+
Long-term and	
Short-term foreign currency deposits	Baa2/P2

### Contact Details for Shareholder Relationship

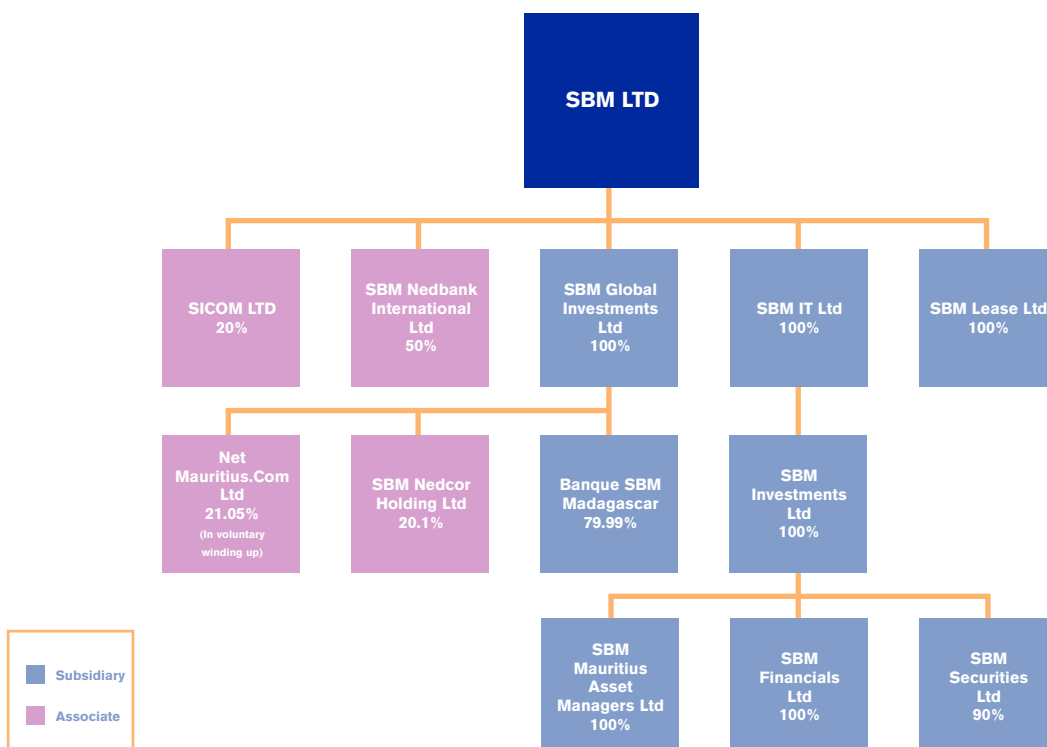
#### For information relating to shareholdings, dividends and lost certificates

Share Registry - SBM Financials Ltd  
State Bank Tower  
1 Queen Elizabeth II Avenue, Port Louis, Mauritius  
Phone: (230) 202-1488, Fax: (230) 202-1234  
Email: sbmfinancials@sbm.intnet.mu

#### For information relating to the Bank and the Group

Company Secretary  
State Bank Tower  
1 Queen Elizabeth II Avenue, Port Louis, Mauritius  
Phone: (230) 202-1454, Fax: (230) 202-1234  
Email: chandradev.ca@sbm.intnet.mu

Chart 14 - SBM Group Structure





**supportive**

### **Supportive**

Just what is Innovation?

Most importantly it is in being supportive.

Believing in people and encouraging them to reach their highest potential.

## Board of Directors

### **Reddy, Muni Krishna T., G.O.S.K, Chairman. MSc (Ag) Age 58**

Was former Group Chief Leader of SBM Group for 16 years. Currently Chairman of State Bank of Mauritius Ltd; SBM Global Investments Ltd; SBM Lease Ltd; SBM Mauritius Asset Managers Ltd; SBM IT Ltd; SBM Securities Ltd; Banque SBM Madagascar Ltd; SBM Nedbank International Ltd and Chairman of various SBM Corporate Governance Committees. Director on the boards of a number of companies both in Mauritius and outside Mauritius, including Air Mauritius; Mauritius Telecom Ltd; Overseas Telecommunication Services and South Asia Regional Fund; British American (Holdings) Ltd, Nassau; British American Insurance Company of the Bahamas Ltd, Nassau; British American International Corporation Ltd, Nassau; British American (UK) Ltd; Caribbean Ispat Ltd, Trinidad; Fidelity Bank & Trust International Ltd., Nassau; Global Financial Services Group Plc. Malta; India Growth Fund Inc, New York; Intercommercial Bank Ltd, Trinidad; Intercommercial Trust & Merchant Bank Ltd, Trinidad; Ispat International N.V., Rotterdam; Ispat Inland Inc, Chicago; is also a member of various board committees.

Prior to his taking over as Chief Executive Officer of SBM Group in 1987, which position he occupied till October 2003, he worked in Singapore and India. In 1993, he was conferred with the title Grand Officer of the Star and Key of the Indian Ocean (GOSK) by the Government of the Republic of Mauritius for distinguished services in banking.

### **Du Mée, Paul R. de Chasteigner, C.B.E., B.Com., F.C.A, Age 78**

Chairman of Mauritius Oil Refineries Ltd; Metal Can Manufacturers Ltd; Flic en Flac Ltd and Superfund Ltd. Also Director of Plastic Industry (Mts) Ltd and Proton Ltd.

### **Ganoo, Harry., G.O.S.K, BA (Hons). Age 57**

Secretary to Cabinet and Head of Civil Service. Director on the Boards of Mauritius Telecom; Telecom Plus; State Investment Corporation Ltd; Development Bank of Mauritius Ltd; State Property Development Co Ltd; Mauritius Broadcasting Corporation Ltd and Mauritius Oceanography Institute.

### **Gunness, Chaitlall, F.C.C.A., Age 52**

Chief Executive Officer of SBM Group. Chairman SBM Financials Ltd. Director of SBM Global Investments Ltd; SBM Investments Ltd; SBM Lease Ltd; SBM Mauritius Asset Managers Ltd; SBM Securities Ltd; SBM IT Ltd; SBM Nedbank International Ltd; Nedbank Malawi Ltd; NetMauritius.Com Ltd; Mauritius Venture Capital Fund Ltd and Telecom Plus.

### **Harel, Antoine L., B.A (Hons), F.C.A., Age 47**

Chief Executive Officer of Harel Mallac & Co Ltd. Chairman of Les Gaz Industriels Ltd; Mauritius Chemical & Fertilizer Industry Ltd; MCFI (Freeport) Ltd; MCFI International Co Ltd; Mauritius Computing Services Ltd; MCS Development Ltd and Standard Continuous Stationery Ltd. Also Director on the boards of Automatic Systems Ltd; Cargo Express Co Ltd; Cie des Magasins Populaires Ltée; Harel Mallac & Co Ltd; Harel Mallac Computers Ltd; Harel Mallac Travel Ltd; HM Training Institute Ltd; Henkel Chemicals (Mauritius) Ltd; HM Communications Ltd; Informatics Business Solutions Ltd; The Mount Sugar Estates Co Ltd; Total Mauritius Ltd; United Docks Ltd.

## **Board of Directors (cont'd)**

### **Laubscher, Richard Charles Montague, Age 53**

Former Chief Executive Officer of Nedbank. Company Director.

### **Mohamedbhai, Goolamhussen T. G., G.O.S.K., BSc PhD CEng MICE FIEM MASCE, Age 59**

Vice-Chancellor, University of Mauritius. President, International Association of Universities. Chairman, Administrative Council, University of the Indian Ocean. Chairman, Association of Commonwealth Universities; Director on the Board of Investment; Member of Mauritius Research Council and Vice-Chairman of Human Resource Development Council.

### **Nakhuda, Ayub Hussein., C.S.K., B.A., Age 61**

Adviser to the Prime Minister. Chairman of Board of Investment; First Republic Fund Ltd. Director on the Boards of Air Mauritius Ltd; State Informatics Ltd and Business Parks of Mauritius Ltd.

### **Ng Thow Hing, Mary, C.A.,A.C.I.S., Age 50**

Was former Chief Financial Officer of SBM Ltd. Has 27 years experience with 22 years at management level in accounting, finance and banking in U.K, Canada, Bermuda and Mauritius. Had worked in Corporate, Retail and International Banking. Company Director.

### **Poncini, André José, G.O.S.K., Age 76**

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

### **Rossouw, Rocco. B.Com., Age 56**

Head of International Division of Nedbank, South Africa. Director on the Boards of SBM Nedbank International Ltd; Chairman of Commercial Bank of Namibia.

## Board Committees

### Audit Committee

Du Mée, Paul R., C.B.E., Chairman  
Harel, Antoine L.  
Prof. Mohamedbhai Goolamhussen T. G., G.O.S.K.  
Ng Thow Hing, Mary  
Poncini, André J., G.O.S.K.

### Risk Committee

Reddy, Muni Krishna T, G.O.S.K., Chairman  
Harel, Antoine, L.  
Laubscher, Richard  
Nakhuda Ayub Hussein., C.S.K  
Ng Thow Hing, Mary  
Rossouw, Rocco

### Strategic Planning Committee

Reddy, Muni Krishna T, G.O.S.K., Chairman  
Gunness, Chaitlall  
Harel, Antoine L  
Laubscher, Richard  
Rossouw, Rocco

### Credit Sanction Committee

Reddy, Muni Krishna T, G.O.S.K., Chairman  
Gunness, Chaitall  
Laubscher, Richard  
Ng Thow Hing, Mary  
Rossouw, Rocco

### Remuneration Committee

Reddy, Muni Krishna T, G.O.S.K., Chairman  
Du Mée, Paul R., C.B.E.  
Ganoo Harry, G.O.S.K.  
Prof. Mohamedbhai Goolamhussen T. G., G.O.S.K.  
Ng Thow Hing, Mary  
Poncini, André J., G.O.S.K.

### Conduct Review Committee

Reddy, Muni Krishna T, G.O.S.K., Chairman  
Du Mée, Paul R., C.B.E.  
Harel, Antoine L.  
Prof. Mohamedbhai, Goolamhussen T. G., G.O.S.K.  
Ng Thow Hing, Mary  
Poncini, André J., G.O.S.K.

### Corporate Governance Committee

Reddy, Muni Krishna T, G.O.S.K., Chairman  
Du Mée, Paul R., C.B.E.  
Harel, Antoine L.  
Prof. Mohamedbhai, Goolamhussen T. G., G.O.S.K.  
Ng Thow Hing, Mary  
Poncini, André J., G.O.S.K.

### Nomination Committee

Reddy, Muni Krishna T, G.O.S.K., Chairman  
Du Mée, Paul R., C.B.E.  
Ganoo, Harry, G.O.S.K.  
Prof. Mohamedbhai, Goolamhussen T. G., G.O.S.K.  
Ng Thow Hing, Mary  
Poncini, André J., G.O.S.K.

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### Group Company Secretary

Appadoo, Chandradev, F.C.C.A, A.C.I.B.



## Directors of Subsidiaries

### SBM INVESTMENTS LTD

**Chairman**

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

**Directors**

Mr Gunness, C  
Mr Parianen, S  
Mrs Ah See, M  
Mrs Lim Hoye Yee, V

**Resignation during the year**

Mr Ng Tseung, D

### SBM MAURITIUS ASSET MANAGERS LTD

**Chairman**

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

**Directors**

Mr Gunness, C  
Mr Parianen, S  
Mr Sonoo, J  
Mrs Ah See, M

**Resignation during the year**

Mr Bhugun, A  
Mr Dawonauth, L  
Mr Thondrayen, P  
Mr Ng Tseung, D  
Mr Mooneesawmy, N

### SBM SECURITIES LTD

**Chairman**

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

**Directors**

Mr Gunness, C  
Mr Parianen, S  
Mr Bhugun, A  
Mrs Lim Hoye Yee, V

**Resignation during the year**

Mrs Ah See, M  
Mr Lallmahomed, E  
Mr Thondrayen, P

### SBM LEASE LTD

**Chairman**

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

**Directors**

Mr Gunness, C  
Mr Parianen, S  
Mrs Ah See, M  
Mrs Lim Hoye Yee, V

**Resignation during the year**

Mr Dawonauth, L  
Mr Mooneesawmy, N

### SBM FINANCIALS LTD

**Chairman**

Mr Gunness, C

**Directors**

Mr Parianen, S  
Mr Bhugun, A  
Mr Mooneesawmy, N

**Resignation during the year**

Mr Dawonauth, L  
Mr Thondrayen, P

### BANQUE SBM MADAGASCAR LTD

**Chairman**

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

**Directors**

Mr Gunness, C  
Mr Parianen, S  
Mr Dawonauth, L  
Mr Drew, C

**Resignation during the year**

Mrs Ah See, M  
Mr Frost, W  
Mr Lallmahomed, E  
Mrs Lim Hoye Yee, V

### SBM GLOBAL INVESTMENTS LTD

**Chairman**

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

**Directors**

Mr Gunness, C  
Mr Parianen, S  
Mr Ng Tseung, D

**Resignation during the year**

Mrs Ah See, M  
Mrs Lim Hoye Yee, V  
Mr Thondrayen, P

### SBM IT LTD

**Chairman**

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

**Directors**

Mr Gunness, C  
Mr Parianen, S  
Mr Bhugun, A

**Resignation during the year**

Mrs Lim Hoye Yee, V

## Executive Management & Senior Officers

### CHIEF EXECUTIVE OFFICER

#### **GUNNESS, Chaitlall F.C.C.A**

Has 27 years work experience with 24 years in the Bank at Senior Management level. Was in Inspection, Retail Banking, Corporate Banking, International Banking and Administrative Divisions. Responsible to implement the Group strategies, plans and budget, oversees International Correspondence Banking and the operations in India and Madagascar. Was also the Deputy Chief Executive Officer. Accountable to the Board and reports to the Chairman.

### CHIEF OPERATING OFFICER

#### **PARIANEN, Soopaya B.A. Hons. (Economics)**

Has 27 years experience in the Bank at different levels and with 20 years at Senior Management level. Had worked at branches, International Division, Corporate and Retail Banking. Currently responsible for Credit Administration, Back Office Operations, Cash Management Services, Legal Cell and Transactions Processing. Was also Head of Credit Management & Operations. Reports to the Chief Executive Officer.

### DIVISIONAL LEADERS/TEAM LEADERS/SENIOR OFFICERS

#### **AH SEE, Michèle**

MA, A.C.A

#### **Value Based Performance Management**

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

#### **AMIRAN, Eshan**

Information Technology

Has 19 years experience in the Bank at different levels in branches and information technology division. Currently in charge of Business Solutions Team – Services & Operations and reports to the Chief Operating Officer.

#### **APPADOO, Chandradev**

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

Finance

Has 20 years experience in the Bank at various levels at branches, Corporate Banking and Finance. Currently in charge of financial accounting and is also the Group Company Secretary. Reports to the Chief Executive Officer.

#### **BHUGUN, Anand**

Operations Management

Has 31 years experience in the Bank at different levels in branches and corporate office. Currently in charge of Operations Management. Reports to the Chief Operating Officer.

#### **CUNDASAWMY, Bala**

B.A (Hons) Economics

Credit Underwriting

Has 5 years experience in Research and Finance. Worked for University of Mauritius as Research Officer for 1 year. Worked 4 years at Kemp Chatteris Deloitte & Touche and Ernst & Young, Mauritius as Senior Consultant - Corporate Finance. Joined the Bank in January 2004. Currently Senior Officer responsible for commerce portfolio at Credit Underwriting Team. Reports to the Team Leader, Credit Underwriting.

## Executive Management & Senior Officers (cont'd)

### DIVISIONAL LEADERS/TEAM LEADERS/SENIOR OFFICERS

#### **DAWONAATH, Leckram**

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

#### **Sales – Business Banking**

Has worked with the FAO of the United Nations as Project Analyst/Credit Specialist. Has 23 years experience in the Bank out of which 17 years at different management/senior management levels in branches and corporate office. Currently driving sales in Business Banking. Reports to the Chief Executive Officer.

#### **DURSUN, Kumar**

B.Tech (Hons) in Electrical and Electronics Engineering

#### **Facilities Management**

Has 13 years experience in engineering. Joined the Bank in 1996. Currently in charge of Facilities Management of the Group. Reports to the Chief Operating Officer.

#### **DUSSOYE, Raj**

A.C.I.B, MBA

#### **Executive Vice President, Indian Operations**

Has 22 years experience with the Bank working at different levels at branches, corporate banking and asset management divisions. Currently in charge of Indian Operations. Reports to the Chief Executive Officer.

#### **GOOLY, Kanand**

MBA

#### **Credit Services**

Has 22 years experience in the Bank and at different levels in branches and Information Technology division. Participated in Core system implementation and enhancement, spearheaded IT Audit and Compliance, was also responsible for Enterprise and Risk BST. Currently leads the Credit Services and Monitoring Division. Reports to the Chief Operating Officer.

#### **HO SHUN, Geneviève**

FCCA

#### **Internal Auditor**

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

#### **IYASAMY, Vijayen S.**

B.Com

#### **Business Banking**

Has 27 years experience in the Bank. Has worked at different levels in branches and corporate office. Currently service head - Business Banking Division. Reports to the Chief Executive Officer.

#### **JHURRY Balkrishna**

Maîtrise-ès-Sciences-Economiques

#### **Group Financial Institutions, Correspondent Banking**

Has 12 years experience in the banking industry, of which 6 years spent with the Bank of Mauritius. Joined the Bank in June 2001, in charge of the Group Financial Institutions. Reports to the Group Treasurer.

#### **JOHN CHUAN, Christine**

MBA

#### **Business Banking**

Has 31 years experience in the Bank at different levels in branches and Corporate Banking. Currently leads portfolios in the Macro Business Banking. Reports to the Chief Executive Officer.

#### **LAGAILLARDE, Gilbert**

#### **Mobile Sales Team**

Has 25 years experience in the Bank at various levels including our subsidiary in Madagascar. Currently leading the Mobile Sales Team. Reports to the Team Leader, Personal Banking.

#### **LIM HOYE YEE, Véronique**

BSc (Hons) in Economics & Accounting, MSc in Economics & Finance; CFA

#### **Credit Underwriting**

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

## Executive Management & Senior Officers (cont'd)

### DIVISIONAL LEADERS/TEAM LEADERS/SENIOR OFFICERS

#### **LIM TIT CHONG, Michael**

B.A Hons, A.C.A.

##### **Business Banking**

Had 25 years of experience in finance, consulting and stock broking before joining SBM in 2000. Former Chairman of The Stock Exchange of Mauritius Ltd. Currently in charge of Business Banking. Reports to the Chief Executive Officer.

#### **MOONEESAWMY Nandrajen**

##### **Recovery & Work Out**

Has 27 years experience in the Bank at various levels. Currently in charge of the Recovery and Work Out unit. Reports to the Chief Executive Officer.

#### **MOOROOGAN, Rajan**

B Tech. Computer studies

##### **Information Technology**

Has 18 years experience in the IT/Banking industry and is currently in charge of IT Operations and Support. Reports to the Chief Operating Officer.

#### **NG TSEUNG, Daniel**

BSc Economics

##### **Treasury**

Has 13 years experience as Treasurer in the banking industry. Joined the Bank in December 2000 as Group Treasurer in charge of the group treasury activities including Mauritius, Indian and Madagascar operations. Manages and monitors all the market risks of the Group. Also member of the Mauritius Financial Markets Committee and Executive Committee of the Financial Markets Association of Mauritius. Reports to the Chief Executive Officer.

#### **NUNDOOSINGH, Jaysen**

B.A (Hons) Economics. EMBA Finance

##### **Personal Banking**

Has 5 years of work experience in the Securities Industry in the U.K. before joining the Bank in April 2003. Currently in charge of Private & Premier Banking. Reports to the Team Leader, Personal Banking.

#### **O'GRADY Patrick Standish**

B.A (Hons) in Business Studies

##### **Marketing**

Has 18 years experience in marketing most recently with Accenture Financial Services in Asia. Joined the Bank in March 2002 from Australia. Responsible for developing proactive customer relationships, new product development and research as well as creating a marketing management culture and capability within the Bank. Reports to the Chief Executive Officer.

#### **PAREATHUMBAY, Dr Soopaya**

PhD (Toulouse), CISA, CISM

##### **IT Risk Management**

Has 20 years experience in IT Consulting both in Mauritius and several countries in Africa. Has 16 years experience in IT, Management, Operations Risk and Audit at SBM. Currently leading the IT Risk Management team of SBM Group. Reports to the Team Leader, Risk Management, Internal Auditor and Chief Executive Officer.

#### **POONYTH, Ajaye**

MA (Cantab)

Has 17 years experience in Telecommunications, Software development and Banking industries in Mauritius, U.K and Germany. Currently leading the Business Solutions team for Sales and Channel Management. Reports to the Chief Operating Officer.

## Executive Management & Senior Officers (cont'd)

### DIVISIONAL LEADERS/TEAM LEADERS/SENIOR OFFICERS

#### **RAMBOJUN, Krishnaduth**

A.C.I.B.

##### **Banque SBM Madagascar**

Has 22 years experience in the Bank at different levels including Branch Manager and Credit Underwriter. Seconded to Banque SBM Madagascar and is currently the Leader/Chief Executive of Banque SBM Madagascar. Reports to the Board of Banque SBM Madagascar.

#### **RAMLAGUN, Malinee**

ACCA

##### **Underwriting**

Has 14 years experience in auditing firms. Was Managing Consultant at PriceWaterhouseCoopers for 3 years before joining the Bank in November 2003. Currently Senior Officer in the Underwriting Division. Reports to the Team Leader, Credit Underwriting.

#### **RAMSAHYE, Dev**

MSc in Computer Science

##### **Information Technology**

Has 15 years experience in the IT/Banking industry. Currently leading the Business Solutions Team for Enterprise and Risk Management. Reports to the Chief Operating Officer.

#### **ROTOO SOBURRUN, Shalini**

ACCA., Stockbroker

##### **SBM Securities**

Has 11 years experience at SBM, 3 years in its operations and 8 years in SBM Securities Ltd. Currently in charge of SBM Securities Ltd. Reports to the Board of SBM Securities Ltd.

#### **SEEVAVE, Pauline**

MA (Cantab), ACA

##### **Risk Management**

Has 6 years experience with international firm of Chartered Accountants in audit and Business Assurance before joining the Bank in July 2002. Currently leads the Risk Management team. Accountable to the Risk Committee and reports to the Chief Executive Officer.

#### **SEWPAUL, Sailesh**

MBA

##### **Channel Management**

Has 17 years experience in the Bank at various levels in IT as well as in International Business. Former Business Adviser for VISA International. Currently in charge of Delivery Channels. Reports to the Chief Executive Officer.

#### **SHAM, Rajendra**

##### **Business Banking**

Has 17 years experience in the Bank at various levels. Has worked for two years at Banque SBM Madagascar, and three years at Indian Operations. Currently in charge of the Manufacturing portfolio at Business Banking. Reports to the Chief Executive Officer.

#### **SONOO, Jairaj**

MBA

##### **Personal Banking**

Has 25 years experience at different levels at Business Units and Corporate Office. Currently in charge of Personal Banking. Reports to the Chief Executive Officer.

#### **WIEHE, Robyn,**

Stellenbosch Graduate School of Business: Strategic Management; Insead Business School: Executive Development Programme

##### **Marketing**

Has 28 years experience in Asset Based Financing with Standard Bank, Nedbank and Natal Building Society in South Africa. Seconded to SBM by Nedbank in August 2002. Heads up Product Development, Marketing Division. Reports to the Strategic Marketing Head.

## Group Addresses

### CORPORATE OFFICE

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

### SUBSIDIARIES

#### SBM Lease Ltd

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#### SBM Global Investments Ltd

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