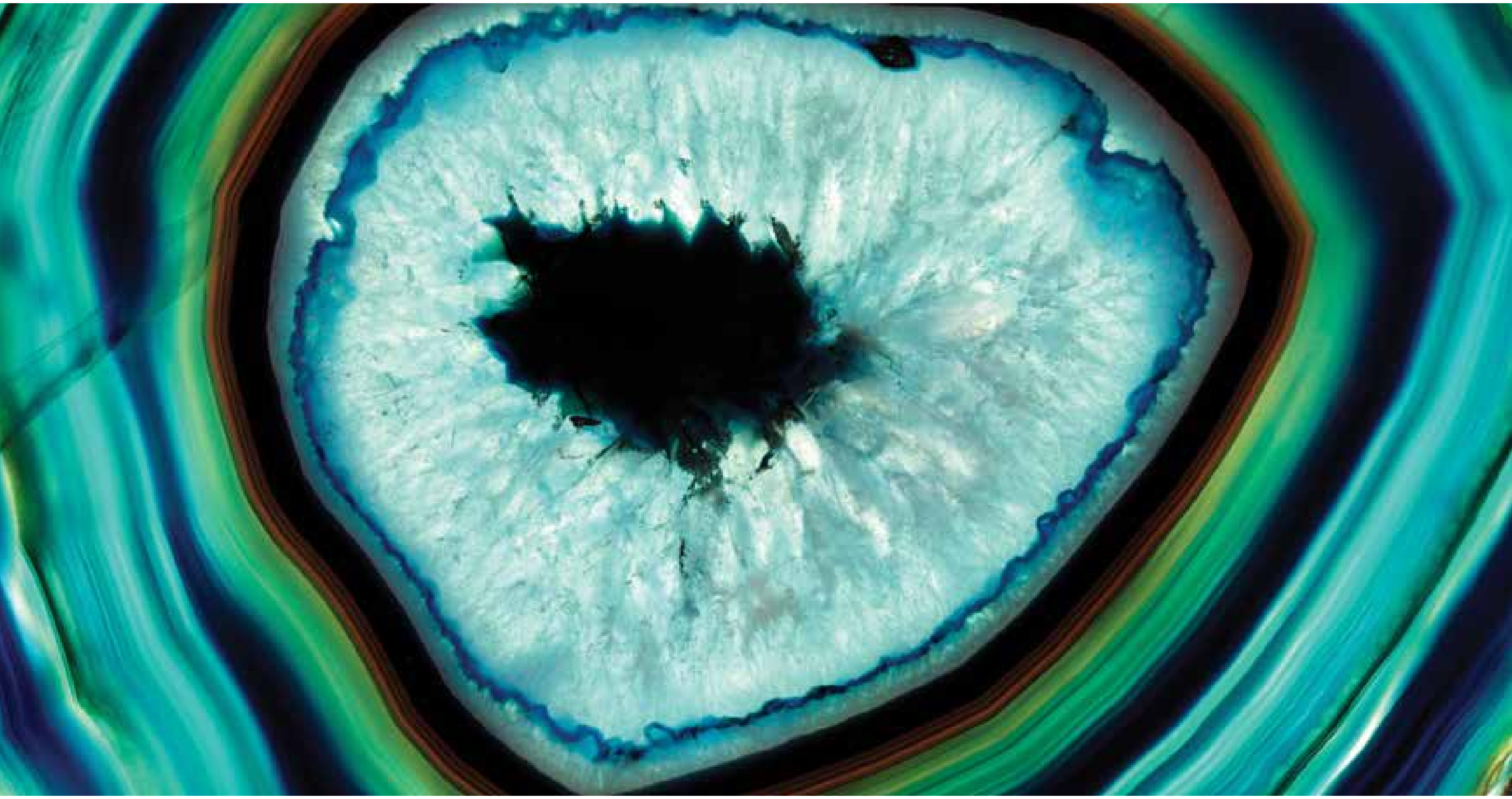
Annual Report 2017



MCB GROUP

This report has been prepared to assist relevant stakeholders to assess the strategies of MCB Group Limited and their potential of success. The statements contained herein may include declarations of future expectations and other forward-looking statements that are based on our current views and assumptions.

Readers are advised not to place undue reliance on forward-looking statements relating to the Group's business strategy, plans, objectives and financial positions as these statements rely on assumptions and hypotheses which inherently represent an accuracy risk. Actual results, performance and events may differ from those described in such statements due to unexpected changes in the economic, market, industry political, interest rate and currency market conditions as well as developments in relation to laws and regulations. The MCB Group Limited does not undertake to update any forward-looking statement that may be made from time to time by the organisation or on its behalf.

Dear Shareholder,

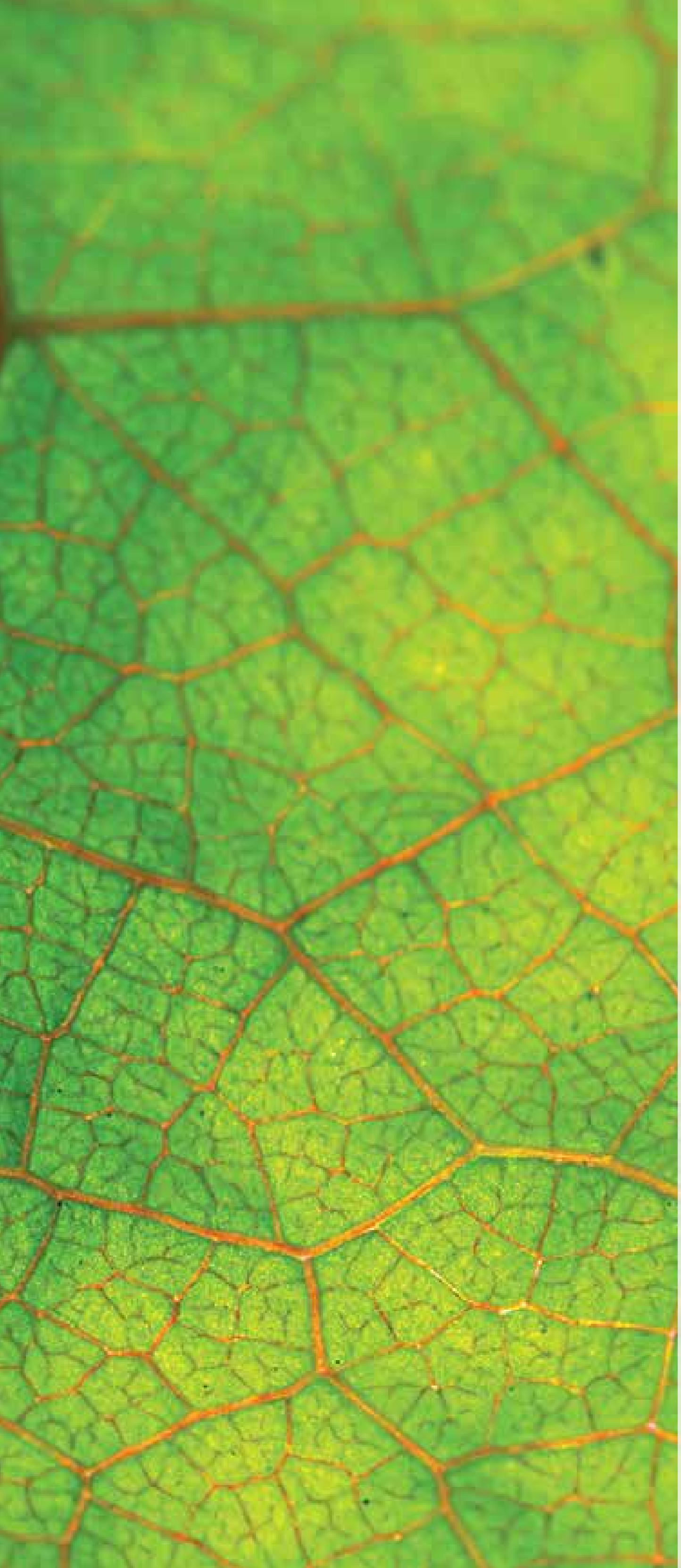
The Directors of MCB Group Limited are pleased to present its Annual Report for the year ended 30 June 2017.

The Annual Report was approved by the Board of Directors on 29 September 2017.

**M G Didier HAREL**
Chairperson

**Pierre Guy NOEL**
Chief Executive

# Navigating this Annual Report



# About us

MCB Group Limited (hereinafter referred to as 'MCB Group Ltd', 'Group' or 'Company') is the holding company of MCB Group. The Group, through its banking and non-banking subsidiaries and associates, is an integrated financial services provider. Its mainstay is The Mauritius Commercial Bank Limited (denoted as 'MCB Ltd', 'MCB' or 'Bank').

We believe that the well-being of our stakeholders contributes to the sustainability of the Group. In this Annual Report, we provide a transparent, balanced and relatable outline of who we are, what we have achieved for our various stakeholders, and what we intend to undertake for them in the future in order to foster our business growth and realise their interests. In a nutshell, we are dedicated to executing our strategy with discipline and creating sustainable value for our stakeholders.

# Our integrated reporting

## Philosophy of the Annual Report

**About this report**

While focusing on our material matters, the report informs stakeholders about the governance, performance and strategy of the Group. It also provides a forward-looking view on how we manage challenges and opportunities in order to achieve our ambitions in the fast-changing context. As a result, shareholders and other stakeholders can formulate a reasonable view on the long-term returns and sustainability of the Group.

## Embracing integrated reporting

MCB Group is committed to adhering to integrated reporting principles. Its pledge to sustainable value creation is aligned with the latter principles. It has, therefore, adequately positioned itself to providing a clear, concise and integrated overview of how it leverages resources to create sustainable value for stakeholders. In this report, the Group sought to further improve the quality and pertinence of information available to stakeholders to foster better appreciation thereof and informed decision-making. Towards this end, it seeks to depict a holistic picture of the following:

- Connectivity/ interdependencies of factors impacting our ability to perform
- The capacity of our organisation to respond to stakeholder needs
- The customisation of our strategies to external risks and opportunities
- The continuous refinement of our strategy to remain competitive
- The trade-offs to be coped with during strategy execution

# Scope and boundary of reporting

**Reporting period**

The report covers the period spanning 1 July 2016 to 30 June 2017. Material events taking place after this date and until approval by the Board of Directors of MCB Group Ltd on 29 September 2017 have also been communicated. Furthermore, the report contains relevant insights pertaining to the Group's financial and strategic outlook and objectives for the short to medium term.

**Operating businesses**

The report sheds light on the Group's local as well as foreign subsidiaries and associates. The nature and extent of information delivered in this report depend on their materiality and the relative significance of each entity.

**Reporting requirements**

The contents of the report comply with the obligations and requirements falling under relevant laws and regulations as well as local and international codes and standards of good practices. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and relevant regulatory requirements.

**Assurance and independent assessment**

Our external auditors state that in their opinion the financial statements give a true and fair view of the financial position and performance of MCB Group Ltd and that the corporate governance report is consistent with the requirements of the applicable National Code of Corporate Governance.

**Targeted readers**

The report is our primary tool for communicating with stakeholders who affect and are affected by our business. In addition to connecting with our shareholders, we provide information that is relevant to stakeholders such as our regulators, clients, staff and our rating agencies as well as the societies in which we operate.

## How to go through and read this report

### Contents

Insights on our business model, value proposition, performance and strategic positioning are elicited across the following sections:



Furthermore, while browsing through the report, the reader is referred to additional information that is found in other related sections of the document and/or on our various websites.

### Additional information for our stakeholders

Our Integrated Report is supplemented by our full suite of online publications, which caters for the diverse needs of our stakeholders.

These can be accessed on our Group website: **www.mcbgroup.com**

**Icons used in this report**

Read more
*(i.e. in this Annual Report)*

Find out more online
*(i.e. across MCB websites)*

# Essential factors underpinning our value creation

## Introduction

Our capitals represent the stores of value that can be built up and transformed through the conduct of our business operations in our attempt to deliver a sound financial performance and create sustainable stakeholder value. Our value creation process – which is embedded in our business model – is the notion of how we apply these capitals to achieve our objectives. In this Annual Report, the interactions, activities and relationships that are essential for value creation are elaborated across several sections.

The nature and depth of information contained in this report have been shaped up by the factors that are deemed as essential in determining our strategic directions and operations. These essential factors, which are also referred to as our material matters, are those that have the most impact on our value creation ability. They act as key ingredients in impacting the Group's strategic direction and performance. They are arrived at after carefully ascertaining their known or potential effect on the organisation's strategies, performance and prospects. Our commonly identified material matters, whose relative significance and underpinnings evolve over time, typically revolve around the following themes:


## Describing our forms of capital

The definitions of capitals, as formulated by the International Integrated Reporting Council, are shown below.

FORMS OF CAPITAL

### Financial capital

The pool of funds that is available to an organisation for the use in the production of goods or the provision of services obtained through financing, such as debt, equity, grants or generated through operations as well as investments

### Social and relationship capital

The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being

### Human capital

People's competencies, experience and motivations to innovate

### Natural capital

All renewable and non-renewable environmental resources and processes which provide goods or services that support the past, current or future prosperity of an organisation

### Intellectual capital

Knowledge-based intangibles, including intellectual property and 'organisational capital' such as tacit knowledge, systems, procedures and protocols

### Manufactured capital

Manufactured physical objects that are available to an organisation for use in the production of goods or the provision of services

## Determining our material matters

The key stages of the methodological approach adopted by the Group for determining its material matters are depicted in the illustration below.

**Identify**

A list of matters is identified by selecting those that have the potential to impact the generation of revenue and our ability to create value. This is achieved by means *inter alia* of internal deliberations and multi-dimensional stakeholder engagement and a systematic scanning of the context, with the objective being to uncover signals designating business risks and opportunities.

**Prioritise**

From issues identified, a list of most-significantly important material matters is established by selecting those that have the greatest bearing on our strategy execution, the viability of our business and our relationships with key stakeholders. Notably, our material matters are determined after considering those that (i) are related to the inherent nature of our businesses; (ii) influence the realisation of the organisation's underlying ambitions; (iii) are most pertinent to foster our market development and help stakeholders effectively achieve their needs; and (iv) are closely aligned to our risk and capital management framework, standards and policies.

**Integrate**

The matters that are most important to value creation are integrated in our strategic planning process with a view to formulating our short to medium term business plans and strategic targets.

**Monitor**

The Group ensures that the impact of material matters and their relevance to its operations are regularly evaluated, with their significance being regularly reassessed.

# Contents

# Highlights and Corporate Information

# Highlights

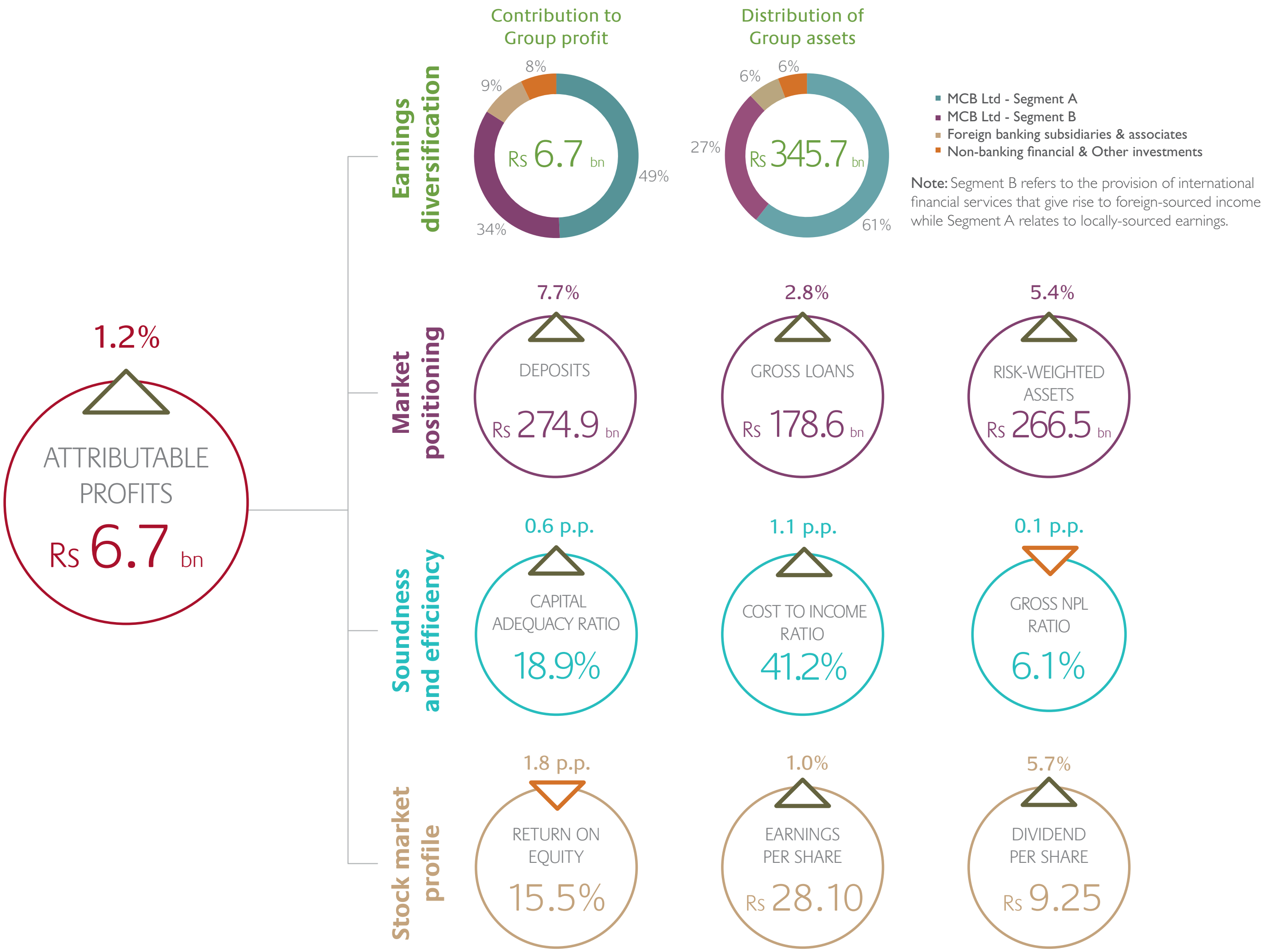
## Group Financial Summary

| | Jun-17 | Jun-16 | Jun-15 | Jun-14 | Jun-13 |
|---|---|---|---|---|---|
| **Income statement (Rs m)** | | | | | |
| Operating income | 15,506 | 14,404 | 13,214 | 12,275 | 11,023 |
| Operating profit | 8,054 | 7,607 | 6,526 | 4,946 | 5,040 |
| Profit before tax | 8,392 | 8,342 | 6,900 | 5,486 | 5,297 |
| Profit attributable to ordinary equity holders of the parent | 6,702 | 6,626 | 5,722 | 4,365 | 4,345 |
| **Statements of financial position (Rs m)** | | | | | |
| Total assets | 345,677 | 317,705 | 280,013 | 240,886 | 216,528 |
| Total loans (net) | 172,331 | 166,697 | 168,222 | 154,471 | 150,604 |
| Investment securities | 74,730 | 62,735 | 50,689 | 35,435 | 22,447 |
| Total deposits | 274,863 | 255,262 | 221,140 | 186,088 | 166,113 |
| Subordinated liabilities | 5,587 | 5,620 | 5,596 | 5,409 | - |
| Other borrowed funds | 5,968 | 5,193 | 7,806 | 8,879 | 13,393 |
| Shareholders' funds | 45,949 | 40,730 | 35,933 | 30,968 | 28,506 |
| **Performance ratios (%)** | | | | | |
| Return on average total assets | 2.0 | 2.2 | 2.2 | 1.9 | 2.1 |
| Return on average equity | 15.5 | 17.3 | 17.1 | 14.7 | 16.1 |
| Loans to deposits ratio | 65.0 | 68.1 | 79.6 | 86.4 | 93.2 |
| Cost to income ratio | 41.2 | 40.1 | 41.8 | 43.1 | 44.5 |
| **Capital adequacy ratios (%)** | | | | | |
| Capital & reserves/Total assets | 13.3 | 12.8 | 12.8 | 12.9 | 13.2 |
| BIS risk adjusted ratio | 18.9 | 18.3 | 17.1 | 16.1 | 12.9 |
| *of which Tier 1* | 16.5 | *15.3* | *14.1* | *12.8* | *11.8* |
| **Asset quality** | | | | | |
| Non-performing loans (Rs m) | 10,882 | 10,704 | 10,755 | 11,711 | 7,779 |
| NPL ratio (%) | 6.1 | 6.2 | 6.2 | 7.3 | 5.0 |
| Provision coverage ratio (%) | 38.3 | 47.0 | 54.9 | 53.1 | 54.4 |

*Notes:*
*(i) Proforma figures have been used in respect of the income statement prior to 2015 and the financial positions before 2014 in order to give a proper understanding and comparative view of the Group performance over time.*
*(ii) Capital adequacy ratios since June 2014 are based on Basel III*

## Our Strategic and Financial Progress

During FY 2016/17, the Group consolidated its leading local banking position, bolstered its non-bank activities and pursued its international market diversification strategy. Initiatives were adopted to strengthen foundations for market expansion, promote superior customer relationships and experiences, reinforce growth enablers and improve operational excellence, with effective channel management and technological innovation being at the forefront of various undertakings. Subsequently and in spite of the challenging operating context, the Group posted a resilient financial performance.



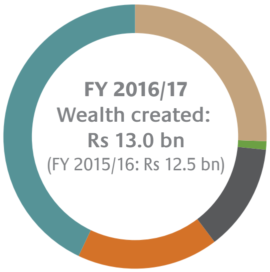

*Read more on our financial performance in the 'Group Financial Review' section on pages 128 to 155*

# Highlights

## Attending to the Needs of Stakeholders

Supported by its sound financial performance and committed approach, the Group has, in FY 2016/17, continued to provide the necessary means for its stakeholders found in Mauritius and abroad to realise their needs and aspirations.

### Wealth created by MCB Group




**Expansion and growth, 41.5%**

Wealth is retained to fund our strategy and grow our business.

**Employees, 27.2%**

Our value proposition comprises competitive rewards and benefits, with emphasis laid on the personal and career development of our staff.

**Corporate Social Responsibility, 0.8%**

We promote the welfare of the society and the communities in which we live and work.

**Government, 13.6%**

Through our tax payments, we assist the Government in funding national projects with positive socio-economic ramifications.

**Providers of capital, 16.9%**

We aim to provide our shareholders with sustainable returns through adequate dividend payout.

*Note: Figures relate to the mix of wealth created*

### Support to Stakeholders

**Helping productive sectors**

**Rs 103 billion**

representing our corporate loan book as at 30 June 2017, towards enabling industries to achieve their ambitions

**Helping debt issuance**

**Rs 25 billion**

raised by corporates on local capital markets following advice delivered by our corporate finance arm in recent years

**Helping banks and financial institutions**

**116 entities**

serviced in the context of our 'Bank of Banks' initiative during the year to support growth endeavours of clients

**Helping homebuyers**

**Rs 25 billion**

representing our mortgage loan book as at 30 June 2017, towards supporting households in moving up the housing ladder

**Helping communities**

**Rs 86.3 million**

entrusted to MCB Forward Foundation for the period under review to underpin social development and empowerment initiatives

**Helping to build a Digital Mauritius**

**~132,350 subscribers**

registered as at end-August 2017 for the mobile banking application of MCB Ltd, in support of an innovative society

*Read more on our support to stakeholders in the 'Delivering value to our stakeholders' section on pages 30 to 61*

## Recognition and Accolades

### World

**The Banker Top 1000 World Banks**
*(July 2017)*

669th Among the Top 1000 Banks *(in terms of Tier I capital)*

Financial soundness

Return on assets: 59th
Return on capital: 133rd
Capital assets ratio: 141st

### Africa

17th In Africa in terms of Tier I Capital *(The Banker Top 1000 World Banks, July 2017)*

1st In East Africa

83rd in Africa in terms of market capitalisation *(African Business Top 250 Companies, June 2017)*

Best Regional Bank in Southern Africa *(African Banker Awards 2017)*

**Leading Regional Bank**
in terms of operating income and profitability
*(L'Eco Austral, Top 500 Regional, Edition 2017)*

40th in Africa in terms of assets *(Jeune Afrique Top 200 Banks, The Africa Report 2017)*

### Mauritius

- Bank of the Year for Mauritius

  *(The Banker Bank of the Year Awards 2016)*

- Best Bank in Mauritius

  *(Euromoney Awards for Excellence 2017)*

- Best Bank in Mauritius

  *(EMEA Finance 2016)*

- Best Private Bank in Mauritius

  *(PWM/The Banker 2016)*

- Performance Excellence Award *attributed by Citibank and JP Morgan Chase for MCB's straight-through processing rate for payments and transfers 2016*

- Best Distributor Award Mauritius attributed to MCB Capital Markets Ltd

  *(Structured Retail Products – Euromoney Global, November 2016)*

- Best Corporate Governance Disclosures

  *(PwC Corporate Reporting Awards 2017)*

## Our Vision

# Everyday, we will help make something happen

## Our Mission

We will keep finding ways to meet the needs of our customers

We will listen to them and help them achieve their goals

We will help people with ideas to be entrepreneurs

We will be worthy of our shareholders' confidence

We will do what we can to make the world a better, greener place

And we will never go away

## OUR CORE VALUES

### Integrity

Honest and trustworthy at all times

### Customer care

Delivering unrivalled service

### Teamwork

Working together towards a common goal

### Innovation

Proactively seeking out new opportunities

### Knowledge

Believing in lifelong learning

### Excellence

Being the best we possibly can

# Corporate profile

## Overview of the Group

MCB Group is an integrated banking and financial services player, offering tailored and innovative solutions through its local and foreign subsidiaries and associates. Its shares are listed on the Official Market of the Stock Exchange of Mauritius since 1989, with the Group having a broad and diversified shareholder base. It also has the largest market capitalisation thereon, with a share of some 25%[1].

Building on its sound business model, the Group actively assists in the advancement of individuals and corporates. Through MCB Ltd which was established in 1838, the Group has cemented its position as the leading banking sector player locally, in the process playing a key role in promoting the socio-economic development of Mauritius. Moreover, underpinned by its market diversification strategy, the Group has carved out an increasingly prominent position in the region and expanded beyond, while broadening its footprint in the non-banking field.

As a responsible corporate citizen, the Group also promotes social welfare and natural resource protection.

### OUR OPERATIONS[2]

| Total assets | Branches |
|---|---|
| Rs 345.7 bn | 54 |
| **Customers** | **ATMs** |
| ~ 1,010,700 | 198 |
| **Employees** | **Correspondent banks** |
| ~ 3,400 | ~ 1,470 (of which 200 in Africa) |

### OUR STOCK PROFILE

| Market capitalisation[3] | Shareholder base |
|---|---|
| Rs 68.4 billion | > 18,500 investors |

### OUR INVESTMENT-GRADE RATINGS (MCB LTD)

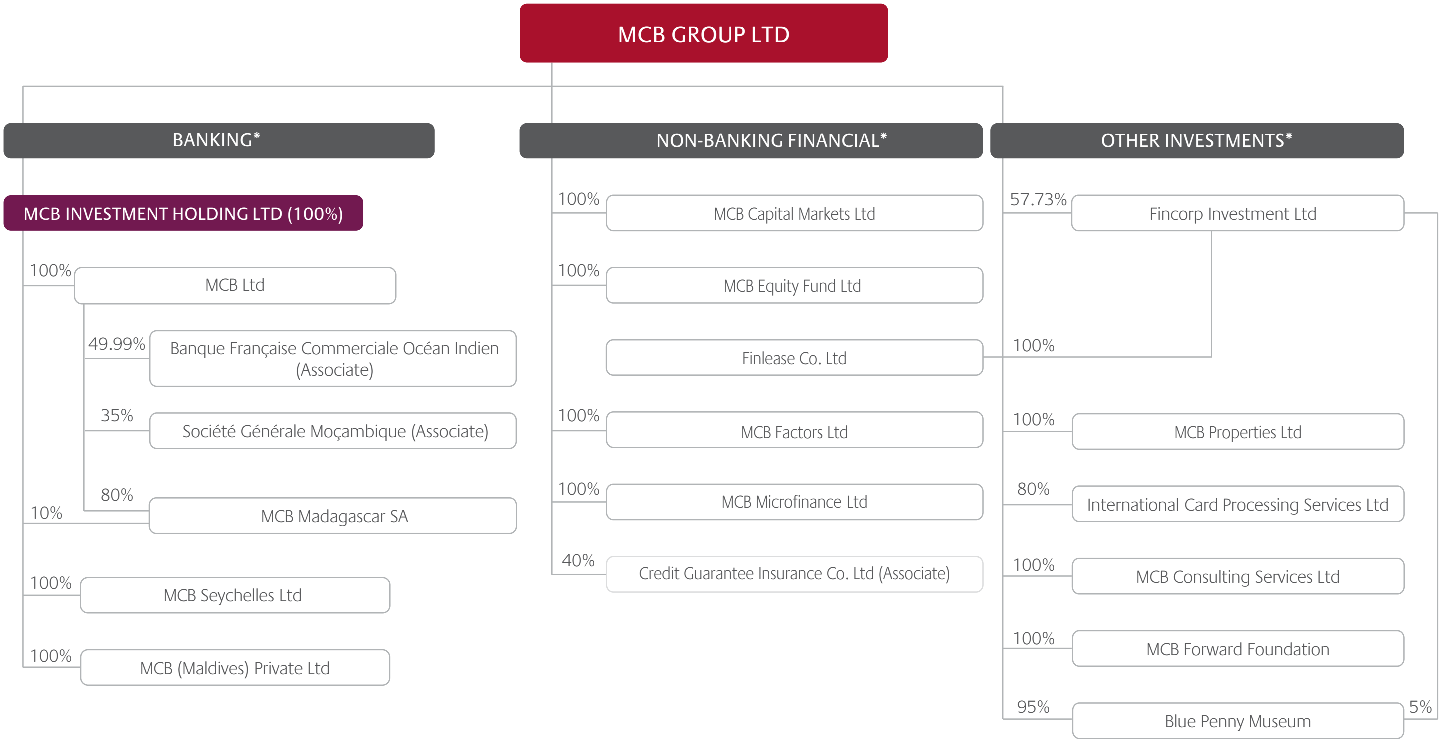
| Moody's | |
|---|---|
| **Outlook** | **Stable** |
| Bank Deposits | Baa3/P-3 |
| Baseline Credit Assessment | ba1 |
| Adjusted Baseline Credit Assessment | ba1 |
| Issuer Rating | Baa3 |
| Counterparty Risk Assessment | Baa2/P-2 |

| FitchRatings | |
|---|---|
| **Outlook** | **Stable** |
| Long-Term Issuer Default Rating | BBB- |
| Short-Term Issuer Default Rating | F3 |
| Viability Rating | bbb- |
| Support Rating | 3 |
| Support Rating Floor | BB+ |

*Notes:*
*[1] Excluding foreign-currency denominated (USD, EURO, GBP and ZAR), GBC 1 and international companies*
*[2] Figures do not make allowance for the Group's associates*
*[3] Figure provided is as at 29 Sep 2017*

## Group Structure

Our strategy execution is enabled by key operating pillars, which comprise entities, business lines and supporting functions. Common frameworks and policies, where appropriate, contribute to the accomplishment of our strategic objectives with a view to ensuring that the Group works in an integrated way. MCB Group Ltd acts as the ultimate holding company of the Group. The subsidiaries and associates thereof operate under three business clusters, i.e. 'Banking', 'Non-banking financial', and 'Other investments'. MCB Investment Holding Ltd, a wholly-owned subsidiary of MCB Group Ltd, is the holding company of all the banking investments of the Group, namely MCB Ltd and the foreign banking subsidiaries and associates.




** Relate to clusters*

## Geographical Presence


While being headquartered in Mauritius, the Group has a notable involvement in the Indian Ocean and sub-Saharan African regions.

**Legend**

- Overseas banking subsidiaries of the Group
- Representative offices of the Bank
- Group associate through BFCOI
- Group associate through Société Générale Moçambique

## Zoom on our Regional Diversification Journey

Whilst consolidating its position as the leading banking sector player in Mauritius, the Group has gradually embarked on a regional diversification journey since the early 1990s, by notably, accompanying the international growth and delocalisation endeavours of some large corporate clients which had projects in Africa and the Indian Ocean region. In 1991, MCB established physical foothold outside local shores for the first time in its history, through the opening of a representative office in Madagascar. From then on, building gradually on its expertise and experience as well as partnerships forged with regional peers, the Group broadened its physical presence and involvement in the Indian Ocean and sub-Saharan African regions mainly, whilst also venturing beyond.

**1991**

- Opening of Representative Office in Antananarivo, Madagascar
- Opening of Representative Office in Paris, France

**1992**

- Creation of International division
- Acquisition of a majority stake in Banque Française Commerciale Océan Indien (BFCOI), which operated in Réunion Island, Mayotte & Seychelles
- Establishment of Union Commercial Bank in Madagascar (subsidiary) and opening of 1st branch in Antsahavola

**1999**

- Establishment of União Comercial De Bancos (subsidiary) in Mozambique

**2000**

- First-time participation in LC issuance & financing of importation of petroleum products

**2003**

- MCB Seychelles Ltd locally incorporated, after taking over the assets & liabilities of the Seychelles branch of BFCOI
- BFCOI becomes an associate of MCB following a 50:50 partnership with Société Générale
- Creation of Cross-Border as well as Bank Relations and Subsidiaries business units

**2006**

- 1st Master Risk Participation Agreement (MRPA) signed

**2007**

- Creation of Subsidiaries Desk to steadily grow the international footprint of MCB Ltd
- Initiation of the 'Bank of Banks' strategy
- Subsidiaries in Madagascar and Mozambique renamed under MCB brand (MCB Madagascar SA and MCB Moçambique SA)
- 1st syndication as Mandated Lead Arranger

**2008**

- Opening of Representative Office in Johannesburg, South Africa
- Launch of SWIFT Member Concentrator
- Opening of an MCB branch (Malé) in Maldives
- Set up of International Card Processing Services (ICPS) Ltd
- Set up of Global Business Desk

**2009**

- 1st edition of 'Africa Forward Together' seminar
- Inception of Structured Trade Finance & Commodities Desk
- Inception of Structured Project Finance desk

**2010**

- Local incorporation of Maldives activities in a fully-owned subsidiary, The MCB (Maldives) Private Ltd

**2014**

- Opening of Representative Office in Nairobi, Kenya
- Launch of MCB Consulting Services Ltd
- First-time launch of Africa-focused funds by MCB Capital Markets Ltd, with the MCB Africa Bond Fund which invests primarily in African local currency fixed income securities

**2015**

- Strategic partnership with Société Générale which acquired a majority stake in MCB Moçambique by way of subscription to an increase in its share capital, with the re-branded Société Générale Moçambique becoming an associate of MCB Group Ltd
- Elaboration of Medium Term Growth Strategy to notably underpin the materialisation of its foreign business development aspirations, with key pillars relating to building Energy & Commodities hub, developing project finance and expanding private banking into Africa
- Launch of the MCB India Sovereign Bond Exchange Traded Fund (ETF), which is viewed as the world's first ETF to provide international investors access to the Indian Sovereign Bond market
- Launch of MCB Swift Service Bureau

## 2016/17: Overview of key Group accomplishments

- Official Go-Live of the Corporate and Institutional Banking line of business of MCB Ltd, aiming at implementing a more coordinated international market strategy
- MCB Ltd widening its E&C financing in the upstream oil and gas business in Africa
- MCB Ltd making inroads in international project finance
- MCB Ltd expanding its foreign high net worth client base and network of External Asset Managers
- Revamping of Representative Office in South Africa to foster judicious regional market development
- MCB Capital Markets Ltd advising two international clients on landmark cross-border M&A transactions in the Mauritian fiduciary sector; the company expanding its range of investment solutions with launch of a USD Cash Management Fund
- African Development Bank appointing MCB Investment Management as Fund Manager for its first Fixed Income Exchange Traded Fund in Africa
- MCB Consulting Services Ltd undertaking important strategic assignments globally
- Broadened involvement of International Card Processing Services Ltd across 11 African countries
- Organisation of and participation in regional and international conferences, seminars and other events

# Our Value Creation Story

## Introduction

We are committed to creating and embedding a strong, stable and sustainable organisation, while adhering to regulatory rules and good governance practices.

## Our Strategic Priorities

### *Overview*

Based on robust and sustainable growth targets and a continuous leveraging of intra-Group synergies, our strategy is embedded on a thorough understanding of the needs of our clients, with a view to providing them with convenient, tailored and digitalised solutions for achieving their goals. This enables us to strengthen and optimise our balance sheet, whilst delivering strong, consistent, high-quality financial results.

### *Our strategic orientations*


Alongside nurturing our values and upholding our brand image, we are actively engaged in fostering well thought-out market diversification programmes across segments and geographies.

Reflective of our disciplined strategy execution, we aim to grow our business and expand our frontiers in a prudent and gradual way, with the Group mainly venturing in areas where it has harnessed strategic competencies.

### *Our key objectives*

- Maximise long-term value creation for shareholders
- Preserve the image, reputation and franchise of the Group
- Foster the positioning of the Group as a leading player in financial services locally
- Position the Group as a financial hub, with a strong regional involvement
- Further increase the Group's share of foreign-sourced income
- Maintain the Group's status as a sustainable organisation

## Our Strategic Drivers and Building Blocks

**Managing the economic, market, regulatory and technological environment**

**Capitalising on our key enablers**

- Strong brand image and solid franchise
- Diversified market positioning
- Rigorous risk management
- Innovative and tailored products and services
- Modern and extensive channel capabilities
- Continuous investment in cutting-edge technologies
- Reinforced human capacity building
- Robust intra-Group synergies

**Achieving high-quality customer relationships and experiences**

### *Zooming on our customer promise*

We aim to serve our customers in a fair, simple and responsive way, alongside helping them to meet their aspirations as well as create, grow and protect their income and wealth in a sustainable way.

| | | | |
|---|---|---|---|
| To enrich customer experience at all touchpoints | To be coherent and simple in our approach | To stay innovative and differentiated in our offerings | To empower customers in realising their aspirations |

## Our Value Creation Model

Our business model is encapsulated within our value creation model, with the latter showing how the Group allocates, modifies and makes use of its various forms of capital before transforming them to create value for our stakeholders.

### Key stakeholders

- Shareholders
- Clients
- Employees
- Societies and communities
- Governments and regulators
- Credit rating agencies

*Read more on our value creation model in the 'Delivering value to our stakeholders' section on pages 30 to 61*

**VALUE IN**

**Inputs**

### Availing forms of capitals

**Financial capital**

Funds are leveraged to support our activities and invest in pillars of our strategic orientations

Key components:
- Funds internally generated through our productive operations
- Financing obtained from external sources

**Social and relationship capital**

We forge and maintain close-knit and cooperative relationships and linkages with clients and other stakeholders as well as with communities in which we operate

Key components:
- Shared norms, behaviours and values
- Trust and willingness to build and strengthen engagement with external parties
- Our organisation's social engagement

**Human capital**

We nurture talented and engaged employees, while harnessing their collective knowledge and expertise

Key components:
- Skills, capabilities, knowledge and experience of employees
- Our people's alignment with, and support for, the organisation's operating framework and values
- Ability to understand and implement the strategic orientations of the Group
- Drive to steadfastly improve and streamline the operating processes, functioning and value proposition of the organisation

**Natural capital**

We consider the direct and indirect impact of our operations on natural resources, while sensitising our staff and the general public on key issues

Key components:
- Environment resources
- Biodiversity and eco-system

**Intellectual capital**

We optimally develop our assets such as our brand and reputation, innovation capabilities, etc.

Key components:
- Brand image, reputation, and franchise value
- Customer loyalty
- Intellectual property, e.g. patents, copyright, rights and licences
- 'Organisational capital' e.g. knowledge, systems and procedures, and protocols
- Competencies of our staff
- Research and development as well as innovation capabilities
- IT capabilities and organisational technology

**Manufactured capital**

We maintain and develop our infrastructure, plant and equipment for more productive activities

Key components:
- Branches and buildings
- Plant and equipment
- Remote and digital channels

## VALUE OUT

### Outputs

### Outcomes

#### Enabling value-creating activities

| Income statement | Key sources of business activity shaping up our on- and off-balance sheet positions | What this means for our stakeholders... |
|---|---|---|
| **Income after credit impairments** | | |
| Interest income and credit impairment charges | We provide lending/leasing/factoring facilities to clients by considering customer's credit-worthiness, regulatory requirements and industry economic dynamics. Furthermore, investments are made in treasury securities and funds are placed with banks. | Individual, corporate and institutional clients borrow to create and/or grow income and wealth, thus eventually helping to achieve economic and societal progress |
| Interest expense | We source funding from deposits placed by individual and corporate customers. We leverage wholesale funding markets when required, including capital and debt markets, and international financial organisations. | Depositors leverage funding sources that enable them to manage and expand their income and revenue over the short and longer runs |
| Non-interest income = (Net fee and commission revenue + Trading revenue + Other revenue) | In addition to retail and corporate loans, our offerings include transactional, trade-related and risk mitigation facilities, investor-related and corporate finance advisory solutions, portfolio and wealth management services as well as cards outsourcing, and consulting services to financial institutions. Income is also derived from profit arising from dealing in foreign currencies and gains/returns on investments. | Businesses and investors benefit from strategic and risk-mitigation opportunities to diversify and protect their resources as well as channel the latter to proper destinations, thus supporting economic activity levels |
| **– Expenses** | | |
| Staff costs | We invest in developing and retaining our employees to create a solid foundation to execute our strategic objectives and foster customer service excellence. | While enhancing the employability and skills-base of our staff, we contribute to employment creation in the countries where we operate |
| Other operating expenses | We invest in modernising our functioning and operational systems and infrastructure to underpin the smooth and effective running of our activities, with costs incurred relating notably to information technology systems and physical infrastructures. | Investing in innovative and modern processes and systems allow us to meet client needs and foster sustainable economic activity generation |

\+ Share of profits of associates

– Income tax expense

= Net profit

– Dividends to shareholders

= Retained earnings

#### Witnessing the impact on forms of capital

**Financial capital**

Revenue generated helps to reward investors, pave the way for future business growth, and generate favourable socio-economic outcomes

**Social and relationship capital**

We promote the well-being of communities, economies, clients and other stakeholders, while addressing relevant requirements and queries

**Human capital**

We allow employees to prosper, in support of better client experiences and business growth

**Natural capital**

We help to safeguard the quality of the natural environment, alongside helping to preserve the availability of non-renewable sources of energy

**Intellectual capital**

Our intangible assets and conversion of information into knowledge provide the Group with a competitive advantage that contributes to reinforce our brand and image

**Manufactured capital**

Our robust and resilient operational mode allows us to be more innovative and competitive on the marketplace as well as better serve our stakeholders

# Our Market Operations by Cluster

## Banking

### *Local*

Under the aegis of MCB Ltd, the Group provides corporate and institutional clients in Mauritius – including global business companies, funds, trusts and foundations – with flexible and innovative financial solutions as well as dedicated advice to meet their business development and inherent capacity-building ambitions. Moreover, backed by its enriched solutions and the quality of its service, the Bank caters for the day-to-day needs of its individual customers and helps them meet their aspirations, alongside accompanying small and medium enterprises (SMEs) throughout their business development cycle. Besides, clients can avail of alternative ways to undertake payments, with the quality of service being underpinned by the Bank's comprehensive offerings, including convenient cards, merchant and mobile banking solutions, backed by the recourse to advanced technology, global partnerships and human-centred innovations. Also, the Bank undertakes the delivery of bespoke wealth management and investment solutions geared towards the safeguard, growth and transmission of the assets of its affluent client base.

### *Foreign*

MCB Ltd seeks to widen its footprint across the corporate, institutional and high-net-worth customer segments in sub-Saharan Africa and beyond by means of its customised solutions. Besides, it is an active promoter of the Group's 'Bank of Banks' initiative, which consists of providing adapted solutions to financial institution counterparts. To further its development, the Bank leverages its representative offices in Johannesburg, Paris and Nairobi and a network of around 1,470 correspondent banks worldwide, including some 200 in Africa. Beyond, the Group's foreign banking subsidiaries in Madagascar, Maldives and Seychelles and its overseas associates, i.e. Société Générale Moçambique and Banque Française Commerciale Océan Indien (BFCOI) – operating in Réunion Island, Mayotte and Paris – provide clients with banking solutions that are adapted to local market realities, while capitalising on synergies within the Group.

## Non-Banking Financial

The Group has entrenched its participation in the non-banking financial services field. Through MCB Capital Markets, its investment banking arm, the Group provides a broad range of advisory and investment services under one roof, including corporate finance, asset management, stockbroking, private equity, structured products, registry and collective investment funds. Based in Mauritius, the team also works with clients wishing to start or grow their operations in Africa and helps them develop solutions that meet their financing, strategic and investment objectives. Furthermore, the Group has continued to grow its non-banking financial cluster with the recent launch of MCB Microfinance, which notably aims to give small entrepreneurs and self-employed individuals access to unsecured loans of up to Rs 600,000. In addition, MCB Group is, since many years now, engaged in the provision of leasing and factoring services.

## Other Investments

Beyond the direct banking and non-banking financial services spheres, the Group is engaged in consulting services, cards outsourcing operations as well as investment and ancillary undertakings.

Of note, over 20 regional clients are being serviced by International Card Processing Services Ltd in respect of their cards outsourcing needs, while MCB Consulting Services Ltd provides expert business solutions in 24 countries. Our subsidiary, Fincorp Investment Ltd, which is listed on the local stock exchange, is engaged in investing activities and has diversified interests. The Group also has dedicated structures to promote its actions in the corporate social responsibility and philanthropic fields. In FY 2016/17, Rs 86.3 million was entrusted to MCB Forward Foundation which undertook some 77 CSR projects.

*Read more on clusters in the 'Business and financial review' section on pages 114 to 155*

*More information on our market operations by cluster is available on the website*

## Our Extensive and Customised Financial Solutions

The Group delivers innovative financial solutions through its banking and non-banking entities. Offerings are undertaken via multiple channels that aim to simplify customer experiences and interactions. Intra-Group synergies are tapped into to provide clients with adapted solutions, with examples relating to the provision of investor-related services and the pursuance of the 'Bank of Banks' initiative. Indeed, the Group positions itself as a regional hub in handling trade finance, payments and cards operations outsourcing services amongst others, while also providing business solutions to financial service providers in Africa and Asia.

The palette of products and services offered by the Group is illustrated in the following diagrams.

*Read more on our multiple channels in the 'Operational Excellence and Innovation Report' on pages 140 to 146*


Personal
Financial
Services
Savings &
Investment
Education plan
Retirement plan
Local & international stockbroking
Portfolio & wealth management
Capital-guaranteed products
Investment funds
Exchange traded funds
Custodian services
Fixed deposits
Distribution of life insurance plans,
treasury bills & government bonds
Everyday
Banking
Deposit accounts (current & savings)
Multi-currency accounts
Forex transactions
Overdrafts
Debit, credit & pre-paid cards
Safe deposit lockers
Distribution of general insurance cover
Financing
Solutions
Housing loans
Personal loans
Education loans
Car loans & car lease
Green loans
Microfinance
Banking
Channels
Branch network
ATM
Internet banking
Mobile banking
SMS banking
Payment
Services
Local & international money transfers
Mobile refill & payments
Standing instructions & direct debits
Bank drafts & travellers cheques
Book transfers
Bill payments


*More information on our financial solutions is available on the website*

# Delivering value to our stakeholders

# Introduction

## Our Philosophy

Stakeholder engagement and collaboration are deeply entrenched into our business model and help to improve our decision-making and relationships, towards achieving our goals and creating transformational change.

As a responsible corporate citizen, the Group strives to make a sound and sustained contribution to the economies, environments and communities in which it is involved. It is committed to nurturing clearly-defined, close-knit, fair, transparent, impactful and lasting relationships with internal and external stakeholders towards delivering mutual benefits over the short and longer runs.

## Engagement and Interactions with Stakeholders

While adhering to regulatory rules, the Group has a well-established governance and operational framework to ensure that engagement with its stakeholders is optimally managed, in alignment with good international practices. Stakeholders are kept informed about the Group's business and strategy on a regular basis through various channels. Their views and concerns, notably gathered through ongoing dialogues, meetings and surveys, are considered in the Group's decisions, with material issues escalated to the Board.

Our stakeholder engagement is guided by the resources and relationships that are leveraged and affected by the Group. The following sections show how the organisation interacts with various forms of capital on which its operations and activities depend. Emphasis is laid on the strategic orientations of the Group and initiatives deployed to create value for its stakeholders. Information disclosed relate to the Group's subsidiaries, unless otherwise stated, with the performance of MCB Ltd underlined in some instances by virtue of its positioning as the mainstay of the Group.

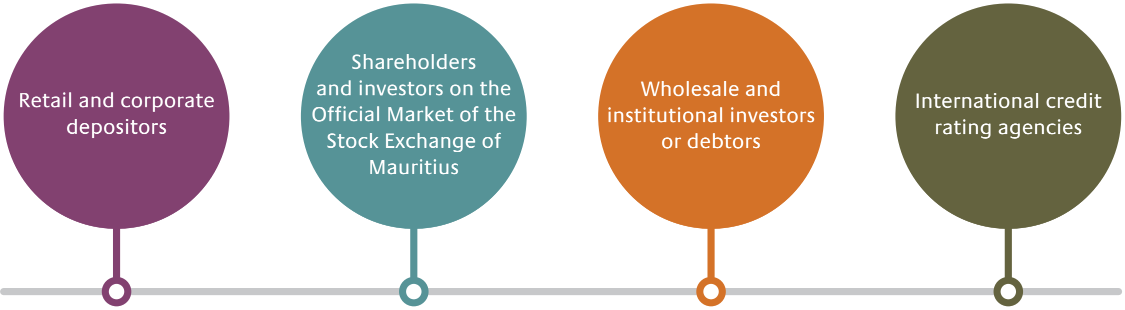
With a view to ensuring that the organisation's activities underlying its stakeholder value creation are anchored on sound foundations and levers, it can, amongst others, be highlighted that employees of MCB Ltd abide by the Bank's Code of Conduct and the national Code of Banking Practice. In addition, we do not support or fund political parties or candidates or any groups that promote party interests. Also, the Bank adheres to the United Nations Global Compact, the world's largest voluntary corporate responsibility initiative for businesses committed to aligning their operations and strategies with universally accepted principles in the areas of human rights, labour, environment and anti-corruption. Additionally, MCB Group Ltd is one of the constituents of the sustainability index of the Stock Exchange of Mauritius which tracks the market price-performance of listed companies which demonstrate strong sustainability practices.


*Read more on our value creation model in the 'Corporate Profile' section on pages 17 to 29*

# Delivering value to our stakeholders

## Financial capital

### Our main stakeholders




### What do our stakeholders expect from us…

- Protection and growth of wealth and investment over time
- Adequate dividends and attractive returns on investment
- Availability of timely, concise and detailed information in relation to the strategic positioning as well as the financial performance and prospects of the Group as a whole

### Our underlying ambitions

To generate adequate earnings to reward investors, pave the way for future business growth and generate favourable socio-economic outcomes; to achieve sound financial metrics with a view to supporting sustainable revenue growth

To optimise the level and quality of externally-sourced funds and the management of retained earnings to effectively run our businesses, undertake strategic investments and preserve our sound financials

To preserve the image and reputation of the Group as a strategically important industry player as well as an institution which is bestowed with a wide and diversified ownership base

To regularly engage with rating agencies; to closely monitor the rating opinions to help (i) preserve the investment-grade rating of MCB Ltd; and (ii) ensure that its credit strength allows it to access global financial markets

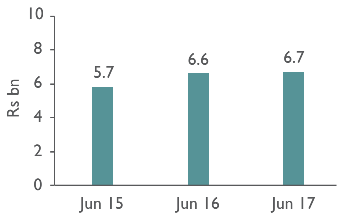
## How we have engaged with our stakeholders...

### Main undertakings

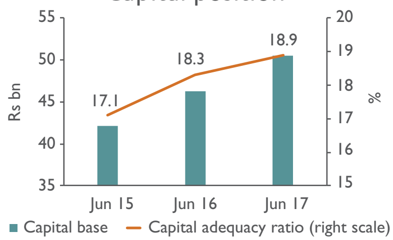
- The organisation has continuously strengthened its core customer deposit base, while remaining alert to the need to tap into wholesale markets if ever required
- The Group's revenue generating capacity has been enhanced through market diversification and customer service quality, while a prudent business development approach was adopted in view of the difficult operating context
- Interactions with shareholders have been strengthened, while ensuring an appropriate return on investment
- Open, constructive and regular dialogues have been held with international rating agencies to report on the performance and prospects of the Group as well as its strategic orientations

**Our strong financial position**

Attributable profits

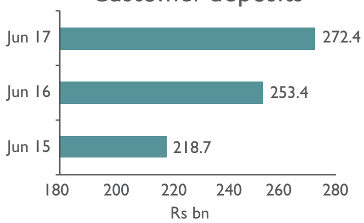



Capital position

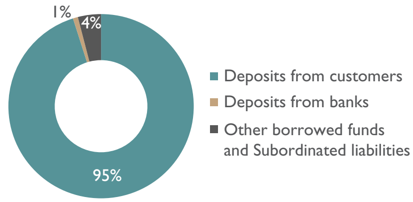



**Overview of funding sources**

Customer deposits

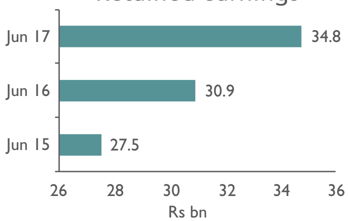



Funding mix as at June 2017

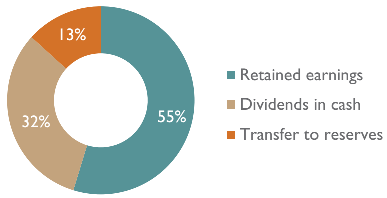



**Income available for further business development**

Retained earnings

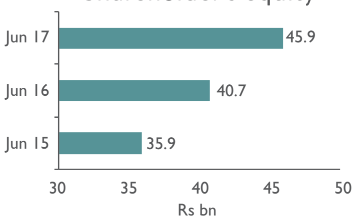



Profit distribution in FY 2016/17

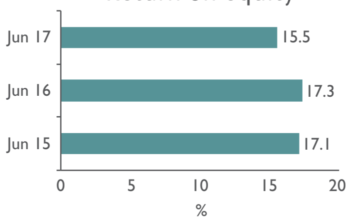



**Evolution of equity and return generated**

Shareholder's equity




Return on equity



# Delivering value to our stakeholders

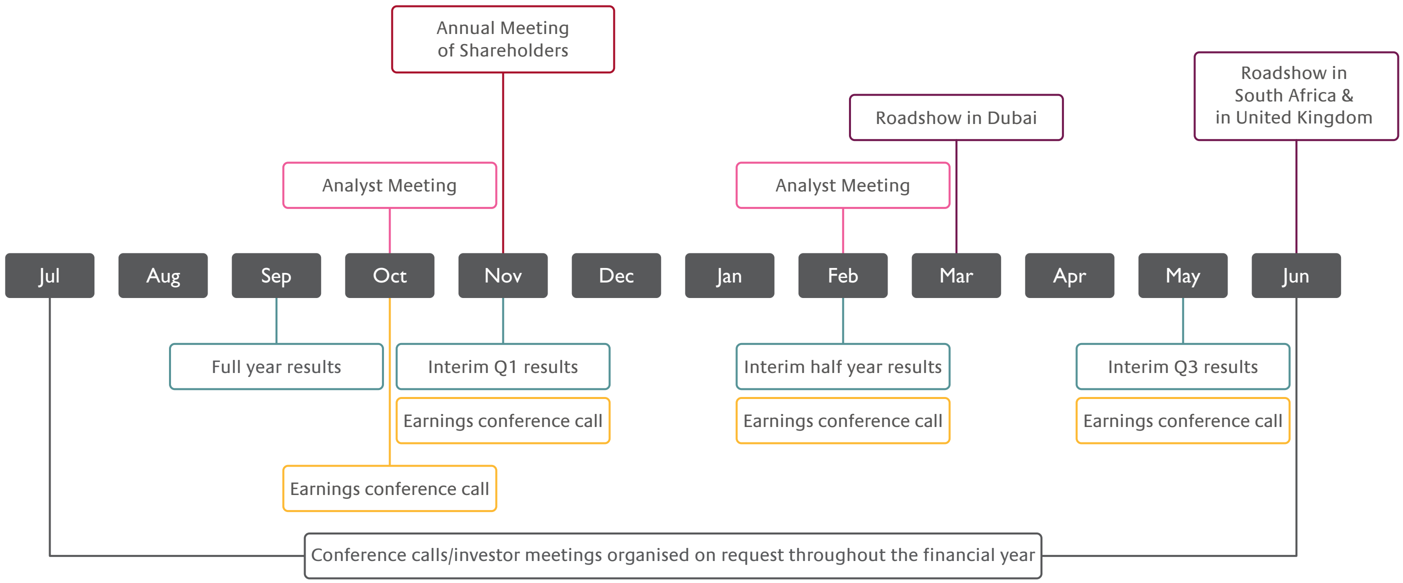
## Shareholder relations and communication

- The Group promotes open and productive dialogue with shareholders with a view to providing them with the opportunity to share their views, while ensuring that their information needs are promptly attended to. Shareholders are kept abreast of all material developments of MCB Group – e.g. relating to its strategic intents, corporate accomplishments, dates for release of financial results and dividend payment, the Group’s financial and stock market performance – through appropriate communication channels such as official press communiqués, occasional letters, and the Group’s website. Our shareholders are encouraged to attend the Annual Meeting to express their views and receive feedback directly from Board members on the Group's financial performance and strategic directions. Shareholders can vote on key items on agenda and, in case they cannot attend, they can complete the proxy form to cast votes.

- The ‘Investor Centre’ section of the Group’s website, which allows for an adapted and comprehensive self-service interface, is an important communication channel that enables an effective distribution of information to the market in a clear and consistent manner. For instance, it allows investors to keep abreast of all material developments impacting the Group and, also, provides updates on the evolution of MCB Group share price. Besides, the website enables shareholders to post their queries online and also enables access to documents and communications as soon as they are published - e.g. latest results announcements, earnings call presentations and transcripts, investor and roadshow presentations, amongst others. Moreover, enhancements are continuously brought to improve its user friendliness and content, in line with international best practices and regulatory requirements. As such, the website has lately been reviewed to accommodate the disclosure requirements of the new National Code of Corporate Governance for Mauritius.

- During FY 2016/17, the reporting of the Group’s quarterly financial results on the Stock Exchange of Mauritius website and in newspapers has been enhanced. The layout has been revamped, with illustrations leveraged to increase readability and appeal to the investment community. Moreover, the Group engaged with investors through its quarterly earnings call following its results announcements and outside the reporting cycle. The Group’s executives attended three international roadshows, notably in Dubai, South Africa, and UK alongside undertaking various one-on-one meetings and conference calls with institutional investors. An outline of the Investor Relations programme carried out during the last financial year is set out below.

**Investor relations programme FY 2016/17**

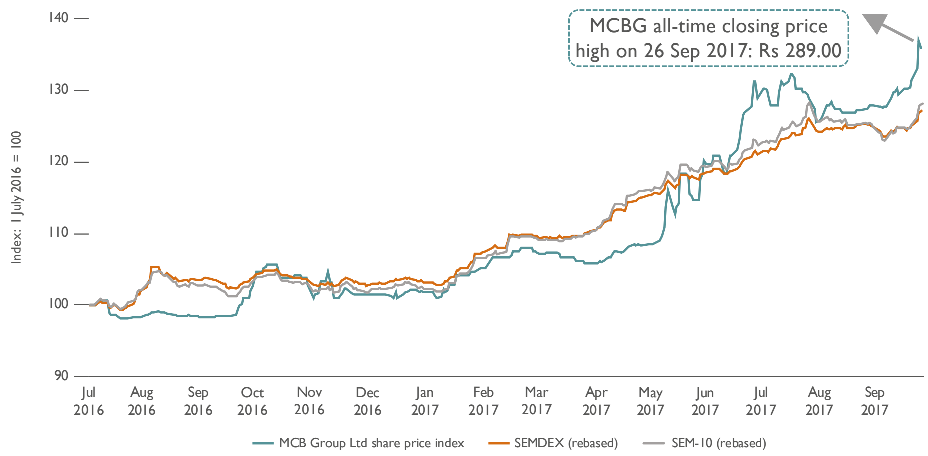


## Return on investment

- An interim dividend of Rs 4.25 per share was paid in July 2017, while a final dividend of Rs 5.00 per share was declared in September 2017 and will be paid in December 2017. Dividend per share for the year under review stood at Rs 9.25, representing a rise of 5.7% as compared to FY 2015/16. As such, dividend yield stood at 3.4% while dividend cover was 3.0 times for the period ending 30 June 2017. On another note, the total value traded of the Floating Rate Subordinated Notes on the Official Market of the Stock Exchange of Mauritius for FY 2016/17 amounted to Rs 155 million with an average effective yield to maturity of 4.8%.

## Key stock market indicators

### Performance of MCB Group Ltd against the market




**MCBG share price - Year ending 30 June 2017**

- High: Rs 277.00
- Low: Rs 207.00
- Average: Rs 222.66
- Closing: Rs 272.00

**Market capitalisation as at 30 June 2017**

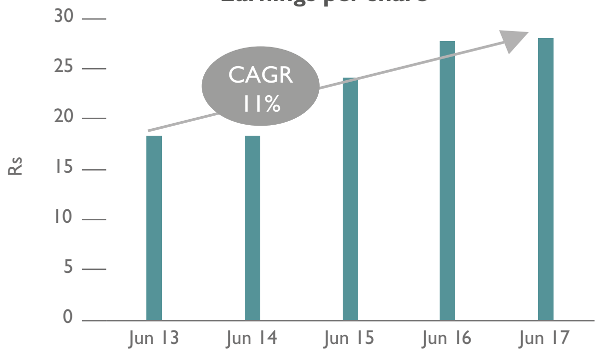
- Rs 64.9 billion, representing 25.6% of the local bourse*

**Value of shares traded for MCBG for the year ending 30 June 2017**

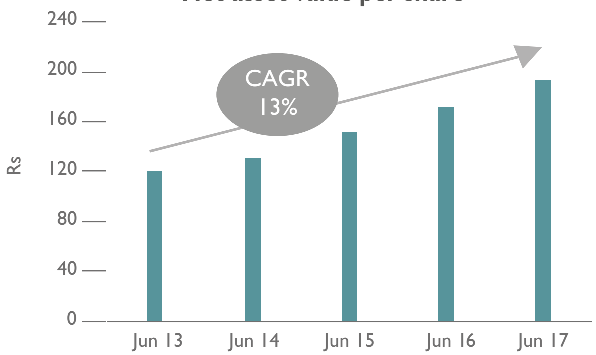
- 4,418 million, representing some 44% of market (excluding one-off transactions)

** Excludes foreign-currency denominated (USD, EURO, GBP and ZAR), GBC 1 and international companies*

### Earnings per share




### Net asset value per share



# Delivering value to our stakeholders

## Social and relationship capital

### Our main stakeholders


### What do our stakeholders expect from us…

#### Regulators

- Preserving the soundness and efficiency of relevant industries
- Strict adherence to relevant laws, codes and guidelines
- Meaningful interactions for proper monitoring of activities

#### Customers

- Availability of innovative, customised and simple-to-access financial solutions
- Transparent and timely advice and information on offerings
- Effective processes for dealing with complaints
- Security and privacy of transactions

#### Institutions and economic agents

- Provision of tailored support that will contribute to the advancement of entrepreneurs and businesses
- Contribution to economic progress of countries where the Group is involved
- Understanding and appraisal of the Group's operating environment for informed decision-taking by foreign counterparts
- Participation in discussions on topical, regulatory and economic issues

#### Societies, communities and civil society organisations

- Proper understanding of aspirations and exigencies of NGOs, as well as on-the-ground challenges faced by them
- Availing NGOs with human, technical and financial resources to support them in their projects

## Our underlying ambitions

To safeguard the perennity and soundness of our operations, alongside fully understanding and coping with specificities and implications of evolving mandatory provisions and requirements

To build life-long relationships with our clients, thus accompanying them in good and bad times, upholding their trust in the organisation and helping them achieve their goals

To onboard ‘clean’ business amidst strict adherence to KYC and Anti-Money Laundering procedures and requirements

To help foster financial inclusion and literacy in the countries where the Group is present

To help promote the socio-economic development and modernisation of our presence countries, while supporting trade and investment activities on the regional front

To continuously reinforce our linkages and partnerships with external business parties, both locally and internationally

To uphold the Group’s social commitment through support to the development and execution of initiatives for the well-being and social benefit of the communities in which we live and work

## How we have engaged with our stakeholders…

### Regulators

- Group entities have ensured strict compliance with relevant regulatory limits and stipulations relating to business operations, product development, market development, risk management, etc.
- Reports have been submitted in a timely manner to the regulatory bodies, while transparent and open relationships have been forged with the latter to promote adequate monitoring of our activities and pave the way for informed discussions about relevant issues and matters.

### Customers

- The Group places its customers at the centre of everything that it does. It provides increasingly adapted and simplified experiences to its clients as well as solutions that are tailored to their needs. It invests in digital channels, with the Bank’s ‘Juice’ mobile banking platform being a key example
- By means of its customised solutions, the geographical positioning of its branches and the modernisation of its remote channels, the Group strives to empower its clients and foster financial inclusion, notably vis-à-vis the low-income customer groups as well as micro-enterprises and self-employed individuals
- The Group adopts a carefully-designed segmentation strategy to better meet the needs of various customer groups

# Delivering value to our stakeholders

- The Group has upheld and strengthened client relationships and market visibility, mainly through (i) its appealing websites and social media presence; and (ii) the organisation of and participation in various promotional and commercial initiatives, business meetings, especially with SMEs, as well as international seminars, conferences and roadshows. Furthermore, the Group regularly seeks customer feedback on its products and services, notably via surveys, with a view to improving its value proposition. For instance, MCB Ltd has recourse to Voice of the Customer and Net Promoter Score programmes
- The Group adopted appropriate and carefully-designed communication and reporting channels vis-à-vis customers to provide them with detailed information about our offerings and effectively deal with their complaints

## Organisation of and participation in key events

### Africa Forward Together Seminar

MCB Ltd organised the 8th edition of its 'Africa Forward Together' seminar between the 17th and 22nd September 2017, which welcomed 31 banks from 14 countries. This annual seminar offers bankers a privileged platform to network with industry leaders as well as share views on trends and business developments shaping financial services on the continent. Through this event, MCB Ltd also provides its African institutional partners with avenues for forging or strengthening business relationships as well as leveraging fresh collaboration opportunities.

### 'Club des Dirigeants' Forum

The 'Club des Dirigeants de Banques et Etablissements de Crédit d'Afrique francophone', in partnership with the MCB Group, held its annual summer forum in Mauritius from the 21st to the 23rd July 2017. CEOs and high-ranking executives of 20 financial institutions from 11 countries participated in the event, that served to scale our relationship with Africa to new heights.

### Africa CEO Forum

The Group has, for the third consecutive year, been the Diamond Sponsor of the Africa CEO Forum, held on 20th and 21st March 2017, in Geneva. The Forum brought together over 1,000 African and international personalities, (including representatives of some 20 Mauritian companies), key decision-makers in industry, finance and politics from more than 60 countries. It served as a platform for constructive dialogue to shape Africa's future and identify business opportunities on the continent.

### Wealth Africa 2017

The very first Wealth Africa Seminar, organised by MCB Group, in partnership with EY and Temenos, was held on 9th and 10th March at the Maritim Resorts, Balaclava. The seminar paved the way to constructive exchanges about wealth and asset management in Africa. Bankers, asset managers, investment advisors, lawyers and tax advisors, amidst others, converged to discuss the opportunities and challenges centered on wealth management in Africa.

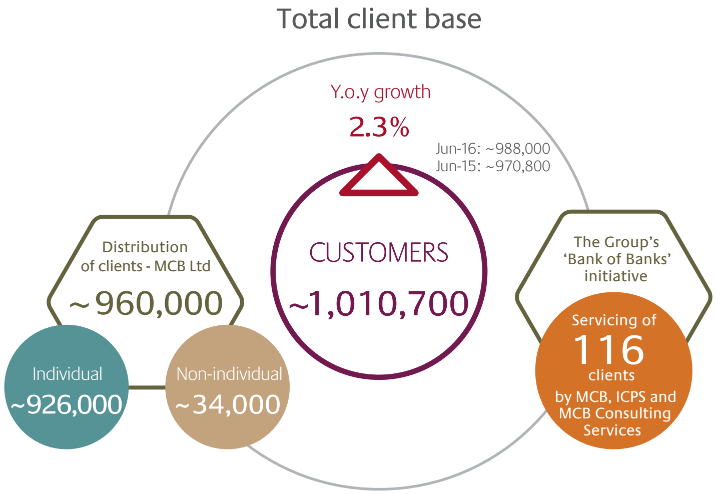
### Temenos Community Forum 2017

For the third consecutive year, MCB Consulting Services Ltd has participated at the Temenos Community Forum . This year's event took place on the 26th and 27th April 2017 in Lisbon. The seminar which had 'Real World Fintech' as main theme, provided further strategic opportunities to us and greatly broadened the entity's networking prospects.

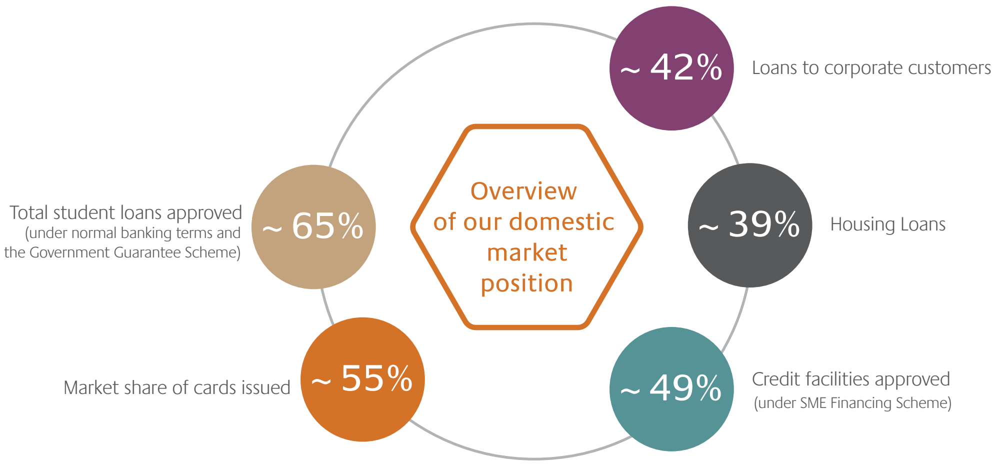
### Breakfast Meetings

The Business Banking segment of MCB Ltd hosted Breakfast Meetings, involving entrepreneurs and MCB staff, during the last financial year. In April 2017, the meetings held were aimed at making entrepreneurs grasp the importance of a proper financing structure for successful imports. Around 40 customers attended these events, with the theme being 'Your imports made simpler'.

## Customer base as at 30 June 2017




## Market shares of MCB Ltd as at 30 June 2017




*Read more in the 'Analysis by Cluster' section on pages 132 to 155*

# Delivering value to our stakeholders

### Institutions and other economic agents

- The Group financed key projects shaping the economic landscape of its presence countries. In Mauritius, MCB Ltd contributed to foster the inclusive socio-economic development of the country and helped to position it as an international financial centre of substance and good repute
- Regular meetings have been held with multilateral organisations and overseas financial institutions, with insights provided on the positioning of the organisation and the operating context of countries in which business is conducted
- Dedicated insights and reviews with respect to the market and economic environment have been provided by the Group to enable external parties to better comprehend our positioning and performance. Discussions were held on topical issues of significance to the Group – notably upcoming legislations and regulations – towards finding out ways to ensure that developments taking place are in our long-term mutual interest

## Direct contribution of MCB Ltd to the Mauritian economy*

**Year ending 30 June 2017**

| | Share of total | |
|---|---|---|
| Gross Domestic Product | ~ 3% Of the total value added generated by the economy | ~ 45% Of the total value added by the banking sector |
| Employment | ~ 20% Of total employment in the financial and insurance activities | > 30% Of employment in the banking sector |
| Income Tax | 12% Of the total corporate tax paid across the economy | ~ 60% Of special levy paid by banks |

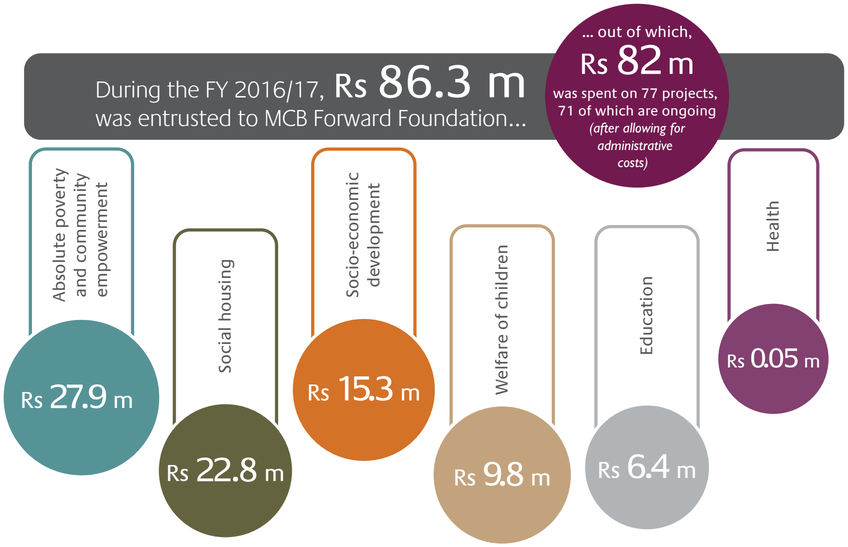
** Figures displayed are based on officially-reported data and MCB staff estimates*

## Societies, communities and civil society organisation

- The Group remained committed to promoting sustainable socio-economic development principles and continues to live up to its engagement as a socially responsible and caring corporate entity
- The Corporate Social Responsibility (CSR) activities of the Group are channelled via the MCB Forward Foundation. The latter is the dedicated vehicle responsible for the efficient and effective design, implementation and management of initiatives which contribute to embed the Group's engagement with the communities in which it operates. Since its creation in January 2010, MCB Forward Foundation has significantly evolved in its commitment vis-à-vis the society and its people by means of carefully-designed programmes and wide-ranging stakeholder interactions
- Consistent with the authorities' requirement for companies to set up an annual CSR Fund representing 2% of their chargeable income derived during the preceding year, an aggregate amount of around Rs 86.3 million was, as illustrated hereafter, entrusted by the Group's local subsidiaries to MCB Forward Foundation in FY 2016/17. Of note, no political donations were made during the year under review

*More information on our social engagement is available on the website*

## Our social engagement




The five largest projects financed by the MCB Forward Foundation in FY 2016/17 are:

| Projects | Rs m |
|---|---|
| Integrated housing project *(Social Housing Cité Tôle)* | 22.8 |
| MCB Football Academy | 17.9 |
| Technical Training to students *(Action for Economic and Social Development)* | 3.9 |
| Therapeutic & Legal Services for victims of Domestic Violence *(SOS Femmes)* | 3.4 |
| Support to primary school children out of mainstream system of education *(Oasis de Paix)* | 2.3 |

# Delivering value to our stakeholders

## Specific CSR projects funded by MCB Forward Foundation

### Absolute poverty and community empowerment

- *MCB Rodrigues Scholarship:* Award of scholarship to 2 students to enable them to pursue tertiary studies at the University of Mauritius
- *Caritas Rivière Noire:* Organisation of the Black River Dance Academy, which aims at enhancing the development and socialisation of vulnerable children through dance and music
- *MCB Football Academy (MCBFA):*
  - o Strengthened support provided to address the medical and academic needs of children involved in the academy towards reinforcing their social integration and quality of life - 52 families benefited a total of 183 psychological sessions and 59 children were channeled to 3 Special Needs schools
  - o Setting up of a dedicated programme for talented children aged over 11 years old and above

### Welfare of children

- *Oasis de Paix:* Support provided to primary school children who are out of the mainstream educational system
- *Mahebourg Espoir:* Provision of educational facilities to vulnerable children living on the south eastern coast of Mauritius
- *Association des Parents d'Enfants aux Besoins Spéciaux:* Provision of educational assistance to children with special needs

### Socio-economic development

- *I CAN Special Need School:* Financing of paramedical services for children with special needs
- *Association Des Parents De Déficients Auditifs:* Provision of educational support to children with cochlear implants
- *Lizié Dan La Main/Union des Aveugles de L'Ile Maurice:* Provision of educational facilities for visually impaired children
- *La Fraternité Mauricienne des Malades et Handicapés:* Financing of paramedical services and provision of dedicated equipment
- *SOS Femmes:* Provision of therapeutic and legal services for victims of domestic violence
- *Chrysalide:* Financing of treatment and rehabilitation services for women suffering from substance abuse in the society
- *Association des Parents pour la Réhabilitation des Infirmes Moteurs:* Financing of rehabilitative services to assist in improving quality of life of disabled children
- *Fondation Georges Charles:* Support to disabled children through occupational therapy and psychological intervention

### Education

- *Action for Economic and Social Development:* Financing of technical training to students
- *Vent D'un Rêve:* Provision of musical and literacy classes for vulnerable children
- *St Joseph's College:* Delivery of equipment for the upgrading of Design & Technology Workshop
- *Labourdonnais College:* Provision of equipment to enhance the well-being of students

### Social housing

- *Integrated Social Housing Project at Cité Tole, Mahebourg:* 6 vulnerable families benefiting from psychological, psychosocial and educational support
- *Community of Cité Tole and Cité La Chaux:* Families benefiting from the implementation of an inland Aquaculture Project at Barachois Rochecouste

### Health

- *Espoir Revivre Barkly:* Implementation of a Harm Reduction Program for Substance Abusers

## Sponsorships

The organisation provided extensive support for the promotion of education, culture, youth and sports through sponsorship activities, as illustrated below.

### Education and innovation

- *MCB Foundation Scholarship:* It is awarded to the student ranked next in line to those eligible for the State of Mauritius scholarships on the Economics side at the national Higher School Certificate examinations for studying abroad
- *Stock Exchange of Mauritius Young Investor Award 2016:* The competition, which aims at inculcating an investment culture amongst college students by giving them a hands-on experience of real time market prices in real share-market conditions attracted around 1,000 students split across 220 teams
- *OVEC Education Fair:* Annual Education Fair, which attracts tertiary institutions from all over the world
- *National Spelling Bee Competition:* This event was carried out both in Mauritius and in Rodrigues, in collaboration with English Speaking Union
- *Rodrigues Story Telling Competition:* Organised by the English Speaking Union with a view to ecouraging students to use imagination and creativity, as well as master confidence in English speaking from a young age
- *Science Quest 2017:* The competition organised by the Rajiv Gandhi Science Centre with a view to promoting science among secondary students, attracted around 400 college students

### Culture

- *Kozer Fam:* In line with its Lifestyle Banking concept and while at the same time promoting its 'Juice' mobile platform, MCB Ltd was amongst the sponsors of this concert, which aimed at promoting female artists
- *The Voice:* MCB 'Juice' was the main sponsor of this concert
- PORLWI by Light: The Group was amongst the official sponsors of this annual festival held in the capital city of Port Louis to promote cultural heritage through street art, lights and music. The event welcomed some 600,000 visitors over a weekend
- *HUMAN:* Special movie preview of HUMAN by Yann Arthus Bertrand for MCB customers, as well as members of the public at Star Bagatelle. The movie depicts testimonies from over 60 countries confronting the realities and diversity of human conditions
- *Other cultural events:* MCB Ltd was a sponsor for the A.R. Rahman concert, a theatre play titled 'Stationnement Alterné' and Cassiya 25th anniversary concert

### Sports competitions

- *Golf competitions:* MCB Tour Championship 2016, which is the most prestigious golf contest held in Mauritius with European Senior Tour champions; other events include MCB Constance Lemuria, which attracted 80 participants in Seychelles, MCB Invitational tournaments held in Madagascar, Mauritius Ladies Open, organised by the Ladies Golf Union, MCB Ladies Trophy and MCB Indian Ocean Amateur Golf Open
- *MCB Youth Championship Rodrigues:* Athletics championships for Rodrigues youth with around 300 participants
- *Cycling competition:* MCB Group was the main sponsor of the national cyclist team competing under the name of 'Team MCB' - since its launch, Team MCB has competed in a few competitions outside Mauritius, registering its first victories in France
- *Royal Raid:* MCB Ltd amongst the main sponsors for the Royal Raid, organised by Lux Resorts at Bel Ombre
- *Necker Pro Squash Open:* MCB Ltd as one of the sponsors of this competition which is a first in Mauritius and was organised by the Mauritius Squash Federation at Grand Baie La Croisette
- *Ultra-Trail Des Ô Plateaux (UTOP) 2017:* MCB Madagascar was one of the main sponsors in the 65 km trail event
- *Yonex Mauritius International 2017 Tournament:* MCB Maldives sponsored the Maldives badminton team

### Community engagement

- *Civil Society Organisation Festival:* MCB Seychelles was the main sponsor of the first Civil Society Organisation Festival in November 2016 in partnership with CEPS (Citizens Engagement Platform). During this event, the public was sensitised on the contribution of the civil society in achieving sustainable development in the country
- *CEPS Award:* MCB Seychelles sponsored the first edition of the CEPS Volunteer Award which was held in December 2016 to honour the most outstanding volunteers in Seychelles
- *Cancer Concern Association:* In November 2016, a new minibus was offered by MCB Seychelles to the Cancer Concern Association to help patients travel to and from the Victoria Hospital Oncology Unit on Mahé Island
- *Care Society Maldives:* MCB Maldives made a donation to the Care Society organisation, which focuses mainly on promoting the rights of people living with disabilities

# Delivering value to our stakeholders

## Human capital

### Our main stakeholders


### What do our stakeholders expect from us…

- Continuous reinforcement of employability and work efficiency
- Reasonable reward and career advancement structures and avenues
- Fair treatment and strict adherence to meritocracy principles
- Safe, positive and inspiring working conditions and operations

## Our underlying ambitions

- To uphold the Group's status as an employer of choice
- To attract, develop and retain talents alongside enabling employees to prosper and shape their future
- To foster the collective skills, knowledge and experience of staff to create differentiated customer experiences
- To avail of a diversified employee base in terms of gender, age group and experience in order to tap into a wide range of knowledge, skills, and specialist competencies to achieve our strategies
- To foster general staff welfare, health and safety amidst a stimulating work environment

## How we have engaged with our stakeholders…

### General strategic orientations

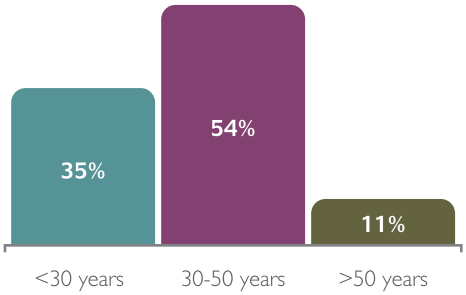
- The Group adopted a more value-adding and increasingly forward-looking perspective as regards the identification and execution of strategic intents for the attention of its employees. To continuously strengthen the skill level of the organisation, the main focus areas of the Group include the following: talent sourcing, development and retention, workforce planning, management of employee performance, fostering of culture alignment as well as nurturing of the employer brand to appeal to young talents on the market. Towards those ends, the Group has continued to engage with staff at different levels with a view to understanding and responding to their needs, alongside improving their working environments
- The Group continued to foster the availability of a diversified employee base by striking a good balance in terms of gender, academic and professional qualifications, as well as age and years of service

# Delivering value to our stakeholders

## Our employee base as at 30 June 2017

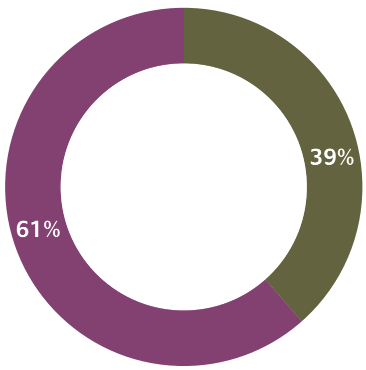
### Number of employees


### Age



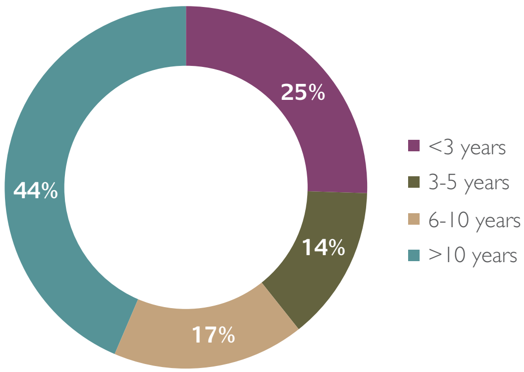

### Gender


### Qualifications*




**Relates to local subsidiaries*

### Length of service



## Remuneration philosophy

- With human capital viewed as critical to the sustainability of the business, the Group lays significant emphasis on employing the right people with the right skills and behaviours while rewarding them adequately, in line with market conditions. The remuneration philosophy for employees of the Group is based on meritocracy and ensures that:
  - Full protection is provided, at the lower end of the income ladder, against cost of living increases
  - Fairness and equity are promoted throughout the organisation
  - Opportunity is given to employees to benefit from the financial results and development of the Group. Indeed, staff members of the Group receive an annual bonus based on the performance of the Group as well as an assessment of their contribution thereto. Furthermore, staff members have the added possibility to be incentivised further through a share option scheme
- Generally, the finalisation of remuneration packages is anchored on a range of factors including qualifications, skills scarcity, past performance, personal potential, market norms, responsibilities shouldered and experience. With a view to attaining appropriate remuneration levels, the Group is guided by the following considerations:
  - General market conditions are regularly surveyed in order to ensure that remuneration packages are motivating and competitive
  - Superior team performance is stimulated and rewarded with strong incentives
  - Remuneration practices are regularly reviewed and restructured where necessary, providing clear differentiation between individuals' contribution and team performance
- The Group provides a range of fringe benefits to its employees to help them in their personal life. Examples of such benefits at the level of MCB Ltd are as follows:
  - The Bank currently contributes 18.1% of employees' basic salaries to an in-house pension scheme to provide for a retirement pension at the end of their professional career
  - The Bank also provides a medical coverage for all employees and their dependents to assist them in hard times. The Bank organises annual free health checks for its staff for an early screening of potential diseases
  - To help employees meet their endeavours, the Bank provides them with loans under preferential conditions
  - The Bank has established a Flexible Working Arrangement (FWA) initiative to support its staff. Employees are offered the flexibility of the start and end hours of work, provided that they adhere to the rules of the FWA policy
- The employee share option scheme in place provides eligible employees with the opportunity to partake in the growth and prosperity of the Group through the acquisition of shares in the Company, thereby acting as an additional lever to promote a performance culture alongside upholding motivation and commitment across the organisation. Under the scheme, employees are granted non-transferable options to buy MCB Group Ltd shares with up to a maximum of 25% of their annual performance bonus. The options, which can be exercised over a period of one year through four specific windows, carry a retention period of three years. The option price is based on the average of the share price over the quarter prior to the date on which the options are granted, to which a discount of 10% is applied. Members of Management are, however, not entitled to such discount. Once issued, the shares rank *pari passu* as to dividend, capital, voting rights and in all other respects with the existing shares of MCB Group Ltd. The following table gives details of the options granted to and exercised by employees of the Group in the last financial year.

# Delivering value to our stakeholders

| | Management | Other employees | Total |
|---|---|---|---|
| **Number of options granted in October 2016** | **148,008** | **611,436** | **759,444** |
| Initial option price (Rs) | 209.25 | 188.50 | - |
| Number of options exercised to date | 84,868 | 192,040 | **276,908** |
| Value (Rs '000)* | 17,758,629 | 36,199,540 | **53,958,169** |
| Percentage exercised | 57.3 | 31.4 | **36.5** |
| Number of employees | 13 | 642 | **655** |
| **Available for the 4th window and expiring in mid-October 2017** | **63,140** | **419,396** | **482,536** |

** Based on initial option price*

## Employee engagement and talent management

- The Group holds strongly to the belief that an engaged workforce is a prerequisite to achieving a company's sustainable growth. An MCB-wide Employee Engagement Survey, branded 'PULSE', is carried out. It enables us to obtain the perception of employees about the Bank's leadership, its organisational processes and policies, job satisfaction displayed by staff as well as prevailing working relationships. Subsequently, interactive sessions are held with business units to develop necessary action plans

- The Group has conducted dedicated programmes to step up the quality of its human capital, including the conduct of training courses and lectures held by international experts at its Learning and Development Centre. Employees benefit from technical training as well as training geared towards the development of soft skills

- In 2015, the Bank initiated a Management Development Programme in partnership with the University of Stellenbosch Executive Education (USB-ED), which targeted some 100 high potential employees aspiring to leadership positions. Two batches of participants graduated in 2016, while a third batch, enrolled in 2017, will complete the programme in September. In the same spirit, a programme for supervisors was developed, targeting 60 colleagues. Furthermore, the Bank has initiated, for the first time, a Workers' Empowerment Programme for manual employees, with more than 350 employees having benefited therefrom

## Our learning engagement for FY 2016/17

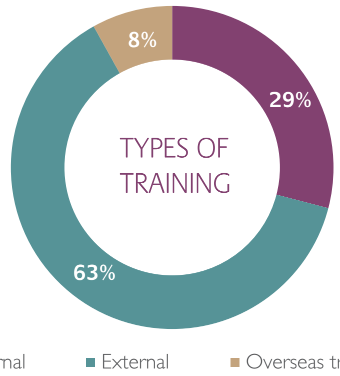
### Key statistics

TOTAL TRAINING COST — **Rs 63.8m***

E-LEARNING INVOLVEMENT — **13 knowledge tests** performed with a participation rate of nearly **80%** out of a target audience of **6,953**

** Including refund by Human Resource Development Council*

### Training courses




TOTAL NUMBER OF TRAINING COURSES — **338**

### Promotion of staff welfare and safety

- In line with legal and regulatory requirements, the Group is committed to providing the highest standards of safety and health throughout its business activities as far as it is reasonable. The Occupational Health and Safety Policy of MCB Ltd aims to ensure a safe and healthy working environment, system of work and equipment for employees
- The Management of MCB Ltd is responsible to ensure the protection of workers' safety and health by setting up strategies to effectively manage matters encountered. The Management has a critical role in providing adequate resources to achieve standards and practices required for risk management and compliance with legal obligations. Each Head of Strategic Business Unit (SBU) and Business Unit (BU) manager is responsible for ensuring that operations do not constitute a hazard to the safety and health of employees. The Human Resource SBU is responsible to ensure the coordination of initiatives undertaken to achieve health and safety objectives
- Moreover, the organisation has further deployed its wellness programme with the aim of promoting a healthy balance of the mind, body and spirit among its employees. The main activities conducted include counselling, Zumba and Body Combat, Kung Fu and Self Defense, Yoga and Tai chi. Recently, MCB Consulting Services Ltd opened a gym to provide its employees with state-of-the-art fitness equipment with a view to promoting health consciousness

# Delivering value to our stakeholders

## Natural capital

### Our main stakeholders


### Our underlying ambitions

To promote awareness amongst staff and the general public about the prudent management of natural resources and the scarce sources of energy

To adopt environment-friendly practices in our operations and activities, while reducing the potentially adverse implications of serving our customers

To aim towards developing eco-financial solutions and encourage adoption of eco-friendly practices by clients

To adhere to environmental regulations and international best practices for ‘clean’ operations

To influence and engage our employees, stakeholders, and suppliers by concentrating our resources on managing our direct carbon footprint, driving eco-efficiency performance and greening the supply chain

## How we have engaged with our stakeholders…

### Adoption of environment-conscious and energy-saving practices in our operations and activities

- Since 15 May 2012, MCB Ltd has, adopted the Equator Principles, which is a voluntary and internationally recognised risk management framework, espoused by many financial institutions worldwide, for determining, appraising and managing environmental and social risks in project financing. This framework stands as the foundation and guiding principle of the Bank's Environmental and Social Policy, which articulates the principles, policies, roles and responsibilities through which the Bank ensures the environmental and social risks management of its lending activities, in particular regarding any project or undertaking entailing loans of an aggregate amount greater than or equal to USD 2 million and with a maturity of at least 24 months

- From another angle, MCB Ltd is intent on ensuring that all suppliers comply with its Procurement Charter. The latter essentially defines sustainable procurement as encompassing the social and environmental aspects of the products the Bank procures as well as the attitude of the supplier towards sustainability. By engaging with suppliers on the topic of sustainability, the Bank is able to work towards identifying and implementing sustainable business solutions

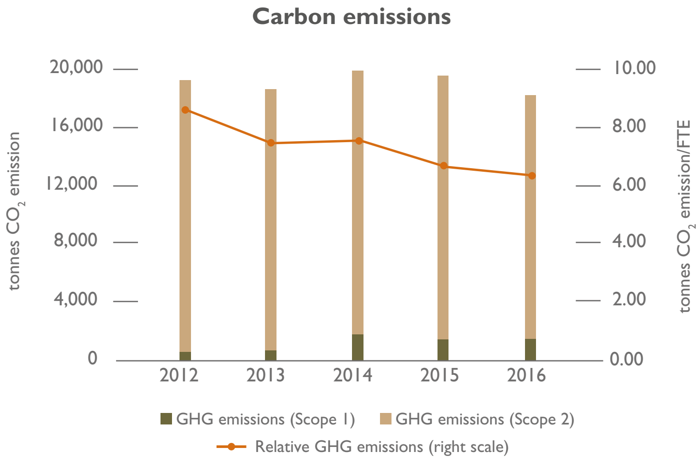
- Specific initiatives have been undertaken to sensitise the staff on environment issues. The Bank conducted courses and conferences in relation to the theme of sustainable development so as to educate new staff on the initiatives deployed in this respect and explain how employees can contribute to that effect

- With a view to minimising the impact of its activities on the environment, MCB Ltd has established a set of environment targets spanning until 2025 and covering water, paper and waste. It is committed to influence and engage its employees, stakeholders and suppliers by concentrating its resources towards notably (i) managing its direct carbon footprint; (ii) driving eco-efficiency performance; and (iii) greening the supply chain. To date, appreciable progress has been made in respect of the set goals and targets, principally a result of efficiency initiatives delivered across property sites and branches

*Managing direct carbon footprint*

- Towards improving its environmental impact, MCB Ltd has, since 2009, initiated the carbon footprint measuring programme and started reporting on its carbon emissions a year later. In fact, Bank-wide energy audits are regularly conducted to pave the way for increased energy efficiency. In 2016, following the Blue Carbon certification received from Rexizon Consulting by all its branches and sites during the previous year, MCB Ltd successfully renewed such certification after passing the relevant validation and mitigation assessments. Reflecting the commitment to minimising its operational environmental impact, emissions of carbon dioxide of MCB Ltd were further reduced by 5.4% in 2016

# Delivering value to our stakeholders




*Notes*

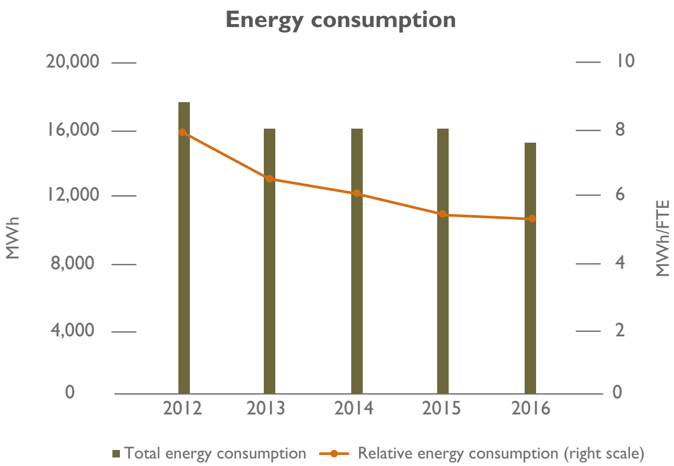
*(i) FTE stands for Full Time Employee*

*(iii) Scope 1: Emissions from fluorinated gas loss and fuel combustion in premises and vehicles*

*(iii) Scope 2: Emissions from electricity, district heating and district cooling used in MCB premises*

***Minimising energy use***

- MCB Ltd is committed to purchasing electricity from renewable sources where available, feasible and reasonably affordable. The Bank's consumption of renewable energy has risen from 394.8 MWh in 2012 to reach 676.7 MWh in 2016. During the same time period, the Bank's total energy consumption fell by some 14%

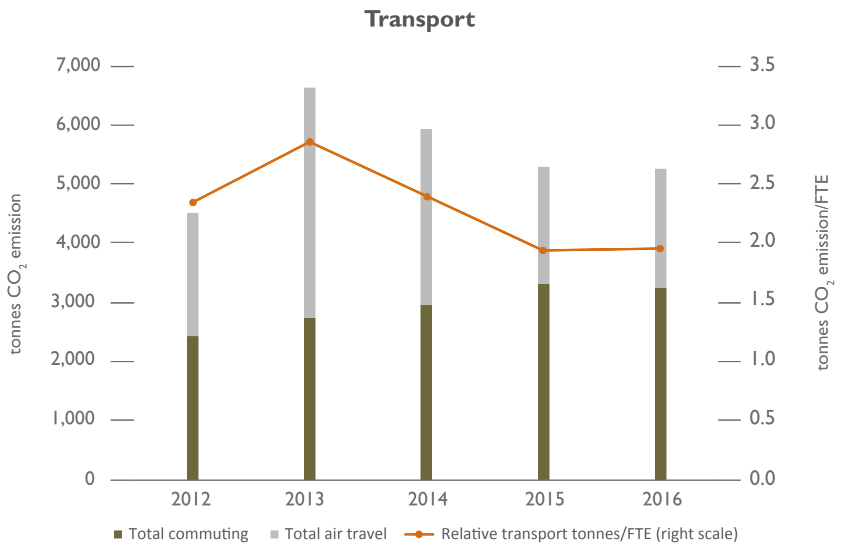



***Driving eco-efficiency performance***

- Efforts are being continuously made to improve the energy efficiency of offices and premises of MCB Ltd. Equipment is replaced or upgraded regularly to support energy-efficient technologies, particularly those related to computers, air-conditioning, motion sensors, lighting and printers. Additionally, the Bank's Facilities Data Centre focuses on further improving power consumption and energy efficiency, by notably leveraging features that gain green certifications

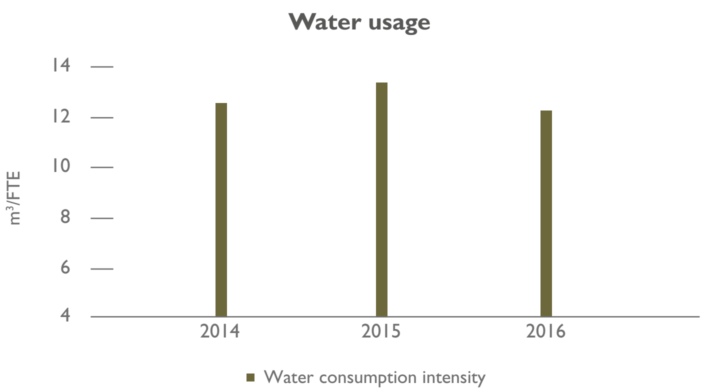
*Reducing travel expenses*

- MCB Ltd has further leveraged its use of video and audio conferencing to reduce unnecessary business travel, costs and carbon emissions. The Bank has invested in a range of solutions from personal video units to small and large video rooms and high-end teleconferencing facilities. In addition, the Bank is committed to eliminating unnecessary travel and to making necessary business travel as energy-efficient as possible. Following the introduction of an electric car to MCB's lease fleet, a dedicated charging station connected to the PV farm has been installed at MCB St Jean to encourage employees to opt for greener and energy efficient cars




*Scaling down water consumption*

- MCB Ltd actively monitors its water usage and seeks to reduce the consumption thereof. In 2016, its water consumption intensity dropped to 12.2 $m^3$ per full time employee, compared to 13.3 $m^3$ per full time employee in 2015

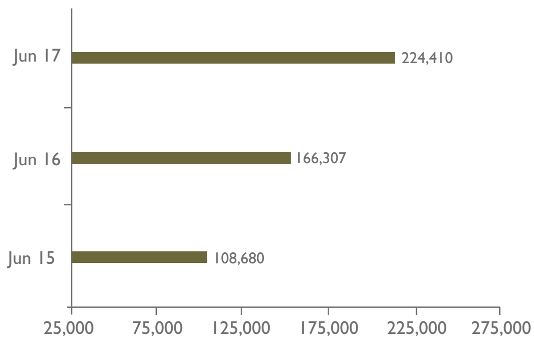


# Delivering value to our stakeholders

## Promoting the eco-friendly awareness of our stakeholders

- MCB Ltd actively promotes the use of e-statements by customers. The total number of customers subscribing thereto increased by nearly 35% during the year ending June 2017. In the same vein, an electronic communication campaign was launched in June 2017 to encourage shareholders and bondholders to choose to receive corporate communications such as notices of meetings, credit advices, and annual reports from MCB Group by email. An appreciable response was received from shareholders and bondholders. Besides, employees and clients are encouraged to print less, both through installed software and awareness campaigns. In a number of offices, standalone desktop printers have been replaced with central printers on each floor. MCB Ltd has proactively sought sustainable disposal solutions for IT hardware at the end-of-use phase. Multiple pilot schemes have been conducted to identify the most secure and sustainable options

**E-statements subscriptions for active customer accounts**



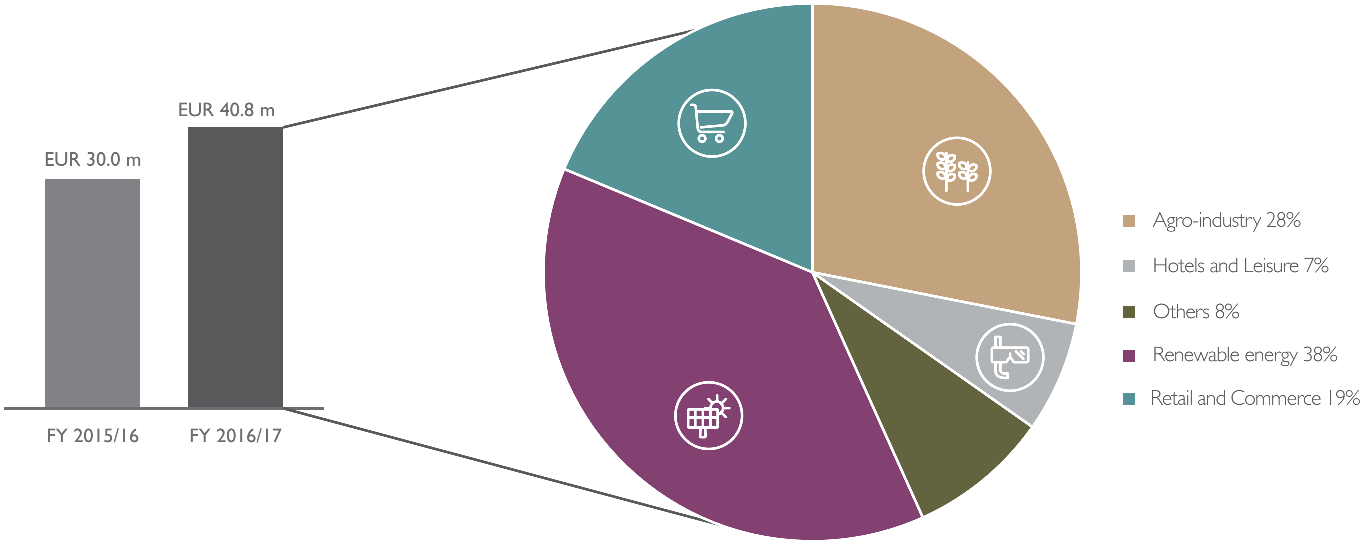

- Through the CSR Programme which also promotes eco-friendly initiatives and sustainable environment, MCB Seychelles donated SCR 50,000 to Anse Etoile School, in March 2017, to fund a 5kW photovoltaic (PV) system in Seychelles. The school, which has been rewarded for being one of the best eco-schools in Mahé, has become the first state school to launch such an initiative which aims at reducing schools' monthly electricity consumption and utility bills

## Encouraging environment-friendly and energy-saving investments

- The Bank widened its involvement in respect of the provision of the second edition of its preferential credit facilities named as 'Green Loans', pursuant to the lending facility availed from Agence Française de Développement to stimulate the deployment of renewable energy and energy efficient technologies, save energy and reduce carbon emissions. In respect of this financing product, an investment grant of 8% of the loan amount is offered to the client for investments in 'green' projects that can be 100% financed by the Bank. The solution has also been extended to customers located in some of the Group's regional presence countries with a view to financing projects therein

## Provision of 'greens loans' by MCB Ltd

### Exposures by sector as at 30 June 2017




### Estimated environmental benefits of projects financed

FY 2016/17

| | |
|---|---|
| LIQUEFIED PETROLEUM GAS SAVED | 383,206 Kg |
| ELECTRICITY SAVED | 62,294,395 kWh |
| DIESEL SAVED | 7,000 Litres |
| HEAVY FUEL OIL SAVED | 3,805,551 Litres |
| CLEAN WATER SAVED | 929,502 $M^3$ |
| WASTE WATER REDUCED | 18,514 $M^3$ |
| $CO_2$ EMISSION REDUCTIONS | 82,141 MT |
| FLY ASH RECYCLED | 57,600 T |
| GRATE ASH RECYCLED | 14,400 T |
| IMPORT OF POZOLLANIC CONSTRUCTION MATERIAL | 57,000 T |

# Delivering value to our stakeholders

## Intellectual capital

### Our underlying ambitions

To provide the Group with a competitive advantage, we optimally convert our knowledge-based assets into information, while concomitantly developing our organisational assets as well as promoting our brand and reputation

### What are our strategies that enabled value creation…

- Notable investment has been incurred to build and regularly upgrade our technological capabilities
- Our adherence to innovative practices and human resource capabilities are continuously geared up to enable the Group to live up to its values as well as preserve its reputation
- The brand image of the Group has been consolidated by *inter alia* the adoption of digital channels in tune with customers' contemporary lifestyles, its appealing website, and active presence on social media. Support also emanated from the undertaking of dedicated publications such as the Annual Report and MCB Focus (a periodic and reputed economic report pertaining to Mauritius), as well as participation in and sponsorship of carefully-selected conferences, seminars, and other events
- In order to keep track of ongoing market developments internationally and further promote business networking efforts, the Group subscribes to and is a member of various organisations and publications. For instance, as a member of EFMA, MCB Ltd benefits from exclusive access to a multitude of resources, database and publications, while being given the opportunity to attend numerous networking forums such as work groups, online communities and international meetings
- The preservation of its investment-grade ratings helped to underpin the realisation of the Bank's growth ambitions
- In support of its strategic intents, the Group continues to adopt advocated standards and processes (e.g. International Cards Processing Services Ltd has enhanced its certifications in respect of the Payment Card Industry Data Security Standard as well as ISO 27001; the MCB Swift Service Bureau is certified as Standard Operational Practice)
- The Group also taps into partnerships forged with several high-calibre business partners (e.g. MCB Consulting Services Ltd is an accredited service partner of Graphical Intelligent Electronic Operational Management and Temenos). Additionally, partnerships and Application Programming Interfaces (APIs) are in place with Paypal, Visa Direct, MoneyGram and fintechs. Partnership has been forged with a local telecommunication company to host MCB's Disaster Recovery (DR) Data Centre
- Continous training and development programmes are provided to managers and supervisors
- At the level of MCB Ltd, staffs are provided with relevant certifications towards fostering operational excellence (for instance, SWIFT bureau certified staffs, Six-Sigma/Lean certified process optimisation teams)

*Read more in the 'Operational Excellence and Innovation Report' on pages 140 to 146*

## Our followers on the social media as at 30 June 2017

**158,682 fans**
(Jun-16: 147,824)

**2,297 followers**
(Jun-16: 2,046)

**4,298 followers**
(Jun-16: 1,918)

**1,630,695 views**
(Jun-16: 1,820,433)

**2,048 followers**
(Jun-16: 663)

## Credentials underscoring our brand image

Best Bank in Mauritius (MCB Ltd)
6 times in 9 years
*(The Banker)*

Only Mauritian Banking Group in Africa's
Top 25
*(The Banker Top 1000 World Banks, July 2017)*

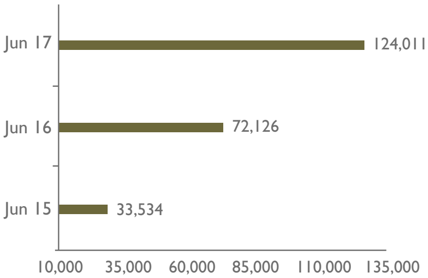
Best Regional Bank in Southern Africa
For the 2nd consecutive year
*(African Banker Awards, 2017)*

Recognised as one of the
Top 10 Brands in Mauritius
*(Mind Initiatives and Kantar TNS, 2017)*

## Activities on our digital platforms

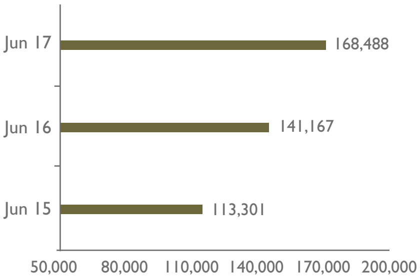
**Mobile payments***

*Number of 'Juice' subscribers*



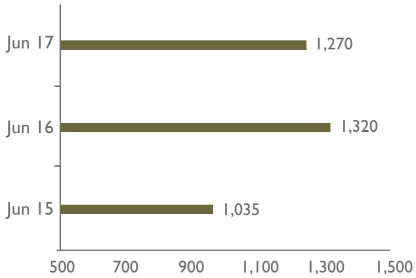

**Internet Banking**

*Number of registrations*




**Website**

*Number of views ('000)*




*Figures relate to MCB Ltd

Delivering value to our stakeholders

# Manufactured capital

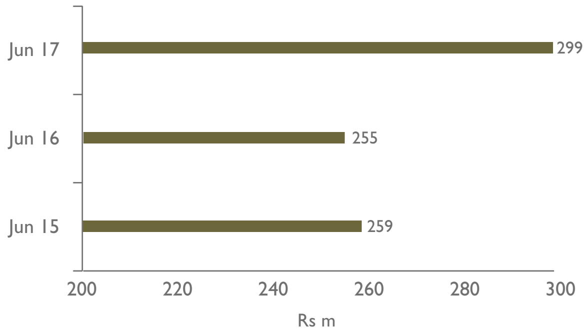
## Our underlying ambitions

We continuously develop and refine our operational processes and platforms to provide a solid and innovative footing for running our businesses in a more efficient manner and attaining our strategic targets.

## What are our strategies that enabled value creation…

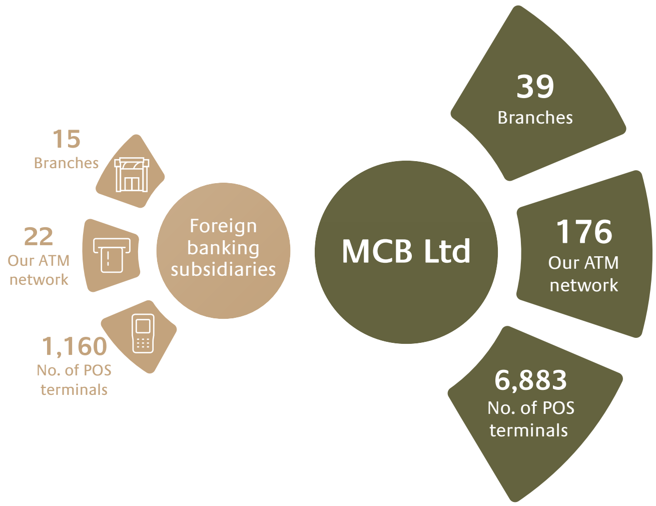
- The Group adheres to best-in-class infrastructure, plant and equipment to improve the ability of business units and entities to foster process automation and improve productivity levels for the benefit of our customers. In addition to buildings and offices housing its business and support operations, the Bank operates a dedicated data centre whose aim is to host all systems of the Group while ensuring the continuity of technological operations and hence of its business activities with a third party data center
- In another respect, the MCB SWIFT Service Bureau provides and manages SWIFT connectivity and related products to subsidiaries of the Group as well as other local and foreign banks. Additionally, to foster continuous learning amongst its staff, the MCB Development Centre provides state-of-the-art facilities, including various training rooms as well as an auditorium and a library, backed by recourse to the latest technologies to facilitate the learning process
- Further, proven operational platforms and innovative processes are being replicated across entities of the Group, while ensuring appropriate customisation to the intricacies of their operations
- Functionalities and appeal of physical channels (e.g. ATMs, branches) have also been enhanced

### Software licensing and other information technology cost incurred



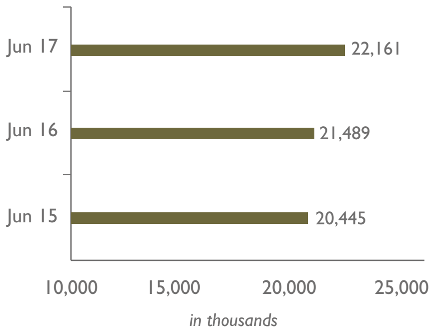

*Read more in the 'Operational Excellence and Innovation Report' on pages 140 to 146*

## Scale of our channels as at 30 June 2017

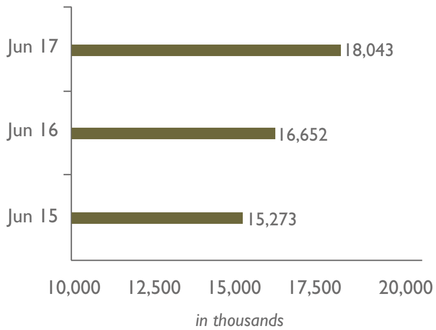



## Annual number of transactions across channels/platforms – MCB Ltd

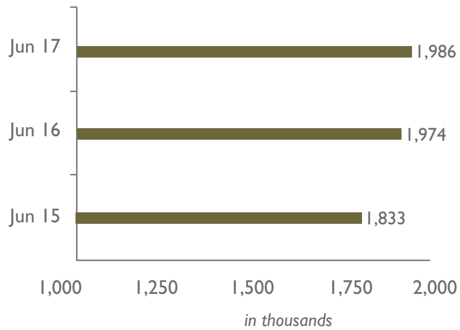
### Automated Teller Machines[1] (Withdrawals)



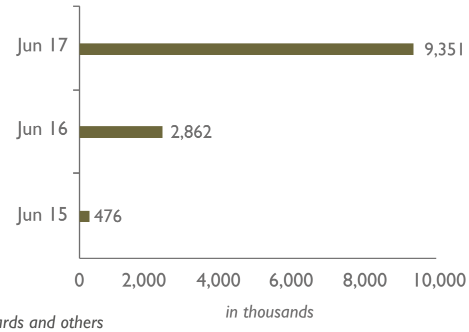

### Merchant Point of Sale



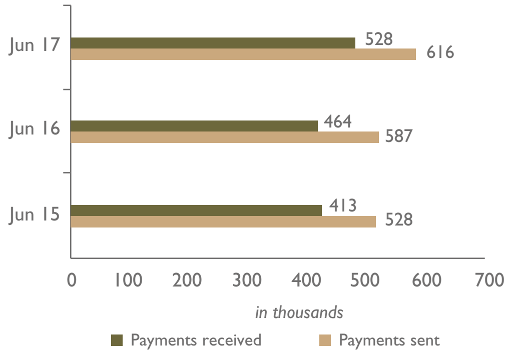

### Internet banking[2]




### 'Juice' logins




### SWIFT transfers




*Notes:*
*[1] Debit cards, credit cards and others*
*[2] Debit transactions*

# Board of Directors and Committees of the Board

# Board of Directors and Committees of the Board

## Board of Directors

### Independent Non-Executive Directors

Didier HAREL *(Chairperson - as from September 2016)*

Gérard HARDY *(Chairperson - until September 2016)*

Sunil BANYMANDHUB

Karuna BHOOJEDHUR-OBEEGADOO

Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE

Navin HOOLOOMANN, C.S.K.

Jean-Louis MATTEI

Jean-Pierre MONTOCCHIO

Alain REY

Margaret WONG PING LUN

### Non-Executive Director

Jean Michel NG TSEUNG *(as from November 2016)*

### Executive Directors

Pierre Guy NOEL

Gilbert GNANY

### *Secretary to the Board*

MCB Registry & Securities Ltd

*(represented by Marivonne OXENHAM)*

# Committees of the Board

## Risk Monitoring Committee

Jean-Louis MATTEI *(Chairperson)*

Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE

Gilbert GNANY

Gérard HARDY *(until September 2016)*

Didier HAREL

Pierre Guy NOEL

## Audit Committee

Sunil BANYMANDHUB *(Chairperson)*

Alain REY

Margaret WONG PING LUN

## Remuneration, Corporate Governance and Ethics Committee

Didier HAREL *(Chairperson - as from September 2016)*

Gérard HARDY *(Chairperson - until September 2016)*

Karuna BHOOJEDHUR-OBEEGADOO

Navin HOOLOOMANN, C.S.K.

Jean-Pierre MONTOCCHIO

Pierre Guy NOEL

## Strategy Committee

Didier HAREL *(Chairperson)*

Sunil BANYMANDHUB

Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE

Gilbert GNANY

Jean-Louis MATTEI

Pierre Guy NOEL

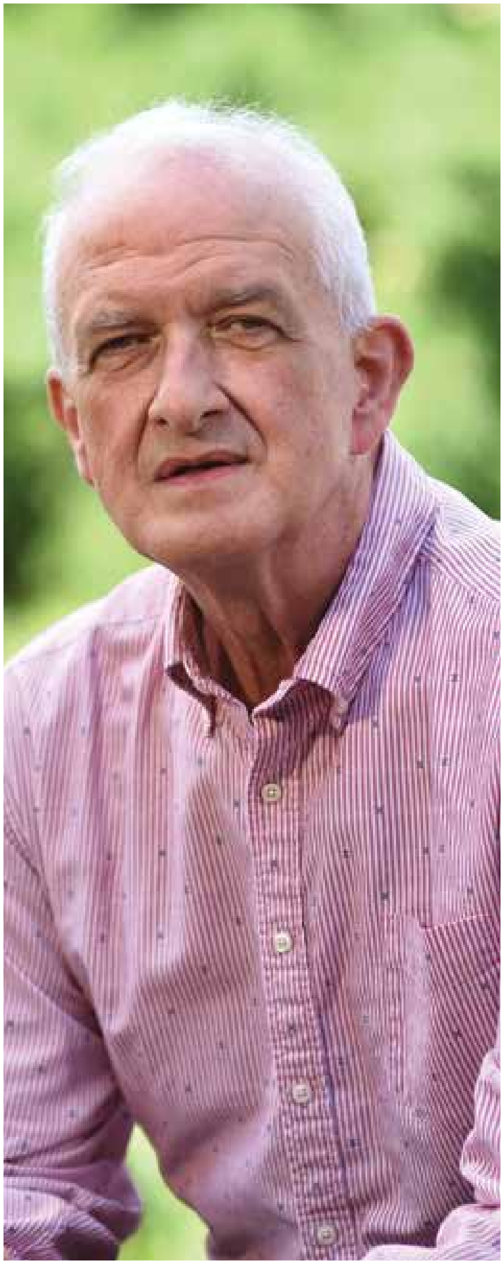
## Supervisory and Monitoring Committee

Didier HAREL *(Chairperson)*

Pierre Guy NOEL

Jean Michel NG TSEUNG

# Chairperson Statement



*Since I took office as Chairman of the Board of Directors of MCB Group Ltd on 29 September 2016, it has been an honour for me to engage with stakeholders across different layers of the oganisation in our common attempt to sustain the business growth of the Group.*

*I am pleased to report that the Group posted a resilient financial performance in FY 2016/17 in spite of the prevailing difficult operating environment across countries where we are involved. It has indeed been another significant year for the Group, which made good progress on its strategy, strengthened its balance sheet and delivered quite satisfactory returns. Whilst highlighting the commitment and hard work of our people, this achievement illustrates the fact that our strategy is working and demonstrates that we have the suitable business model to deliver sustained value for our shareholders as well as other stakeholders.*

### Our Performance

Notwithstanding soft economic conditions, persisting high liquidity conditions, especially in Mauritius, and stiff competitive pressures in some segments, the Group expanded its core earnings on the back of further headway in implementing its business development strategy across markets. Operating income thus increased by 7.6% to reach Rs 15.5 billion in FY 2016/17. On the other hand, operating expenses grew by a higher rate of some 10.6%, reflecting the implementation of capacity building measures to strengthen growth foundations, while the share of profit of associates declined significantly, given that the performance of the preceding financial year was boosted by exceptional results at the level of PAD Group. Yet, attributable profits of the Group stood at Rs 6,702 million, which represents a marginally higher figure than last year. Some 92% of Group profits was sourced from the banking cluster, with the share of foreign-sourced income standing at around 43% in spite of dampened performances of foreign banking entities. Moreover, the Group maintained high financial soundness ratios, notably in terms of capitalisation, funding and liquidity, in support of our organic growth strategy. Particularly, our Tier I and capital adequacy ratios stood at 16.5% and 18.9% respectively as at 30 June 2017, with the ratios posted by relevant entities having comfortably exceeded the regulatory rules applicable in their respective presence countries. Besides, our asset quality, as measured by the evolution of our Non-Performing Loans (NPL) ratio, stayed within relatively manageable levels.

The Group continued to anchor its expansion drive on the diversification of its operations and the consolidation of its involvement within established markets. As such, the Group has retained its leadership banking position in Mauritius, alongside maintaining its market position on the regional banking front and developing its presence in the non-banking financial services field. Amongst key achievements, several entities across the banking and non-banking clusters of the Group have made noteworthy headway in accelerating business growth across emerging growth pillars. This contributed to an increase in their client base and created increased market visibility for a further expansion in activities, going forward.

Overall, market development has been anchored on key enablers. While implementing their strategic plans – notably on the regional front – in a prudent way in view of the testing economic landscape, the entities of the Group have supported their business initiatives by means of a continued refinement of their value proposition with the objectives of improving service quality and addressing the growing needs of clients in increasingly sophisticated markets. In parallel, with a view to ensuring that its growth strategy unfolds in a sustainable manner, the Group achieved greater operational efficiency, notably through the consolidation of key business segments and the reinforcement and realignment of certain functional business units. It also pursued measures aimed at broadening competencies of its talent pool and maintained a sustained level of investment in technology, in line notably with actions undertaken to further digitalise the operations and solutions offered by relevant entities. With regard to our international involvement, a key axis of which remains the 'Bank of Banks' initiative, it has been sustained by strengthened business partnerships and correspondent banking relationships, as well as by internal initiatives aimed at increasing intra-Group collaboration and by stepping up our efforts and initiatives towards increasing our market visibility internationally. Also, we have reinforced our risk management framework so as to better align the latter with our business strategies and market developments, while keeping abreast of industry best practices to foster compliance with evolving local and international regulations, laws, codes and standards. Above all, activities of the Group were guided by adherence to sound governance standards and practices, which are inherent in the organisation's values and processes. Importantly, our governance framework was further strengthened during the last financial year. A Supervisory and Monitoring Committee was set up to provide structured direction and guidance on major internal policy matters, alongside monitoring and measuring the Group's performance against set objectives. Moreover, a Strategy Committee was created to assist the Board of MCB Group Ltd in overseeing its business strategy and that of its subsidiaries, while ensuring that capital allocation is appropriate.

## Our Accolades

On the back of the sound fundamentals of the organisation and strong investor confidence therein, MCB Group Ltd has remained the strongest blue-chip company on the Official Market of the Stock Exchange of Mauritius during the last financial year, as substantiated by its market capitalisation of around Rs 64.9 billion as at 30 June 2017, representing a market position of some 26% based on total corporate capitalisation on the SEMDEX. While outstripping the market index, our share price witnessed a notable year-on-year increase of around 29% during the period. It achieved an all-time high closing price of Rs 289.00 in September 2017. Further reflecting our performance, the Group is ranked 669$^{th}$ worldwide and is positioned at the 17$^{th}$ spot within Africa while being the top banking institution in East Africa as per latest world rankings displayed in the July 2017 edition of The Banker magazine. With regard to its corporate reporting, MCB Group Ltd has been recipient of the 'Best Corporate Governance Disclosures' award at the PricewaterhouseCoopers Corporate Reporting Awards, which testifies to our commitment for promoting transparency vis-à-vis our multiple stakeholders. With regard specifically to MCB Ltd, it has upheld investment-grade credit ratings assigned to it by Moody's and Fitch. As another form of recognition, it was, last year, named the 'Bank of the Year for Mauritius' by The Banker/FT Magazine. Beyond Mauritius, the Bank was awarded the 'Best Regional Bank in Southern Africa' in the context of the African Banker Awards 2017.

## Our Stakeholder Engagement

Adherence to sustainability principles remains an integral component of our business strategy. In addition to ongoing efforts to promote employee engagement in line with its philosophy to be an employer of choice, the Group has remained committed to pursuing its mission of exerting a positive impact on the well-being of the community, notably through specific actions geared towards the promotion of social progress and environment protection. Via our dedicated entity, namely the MCB Forward Foundation, we have pursued numerous corporate social responsibility initiatives. We provided support to vulnerable groups, alongside promoting education, health and the welfare of children amongst others. Of note, in FY 2016/17, an amount of around Rs 86 million was entrusted to MCB Forward Foundation to invest in our CSR activities. Concurrently, the Group is actively striving at embedding sustainable business activities by integrating environment-friendly and energy-saving practices in its operations. In addition to upholding awareness amongst staff and the public about the judicious management of scarce natural resources and encouraging recourse to renewable sources of energy, the Group aims to promote the implementation of energy-saving investments by its clients.

## The Way Forward

Looking ahead, in spite of the gradual recovery of global economic conditions, Group entities are likely to remain exposed to a challenging environment in the markets where they are involved. In particular, while continuing to address the prevailing excess liquidity conditions, which remains a daunting challenge in the short-term, we shall closely monitor macroeconomic trends on the domestic front and the extent to which demand for bank credit could be re-ignited in case national infrastructural investments gather pace. On another note, the increasingly demanding regulatory and compliance requirements across presence countries warrant timely and adapted responses as regards the operations and functioning of relevant entities.

The Group will remain attentive to ongoing developments and will pursue its selective growth strategy. We will seek to consolidate our positioning within existing businesses while pursuing meaningful inroads in emerging and niche market segments, aided by the systematic leveraging of intra-Group synergies and improvement of our brand visibility. With a view to enhancing the implementation of their strategic objectives, Group entities will take a close look at their business model and mobilise the necessary resources to effectively and opportunely transform intents into actions for the benefit of the organisation. In support of the implementation of our corporate strategy, the Group will, in addition to further simplifying processes and adopting cutting-edge technologies, place added emphasis on substantially consolidating our human resource management framework. In line with market demands and the strategic ambitions pursued by the Group, bold measures will be deployed in order to continually broaden the competency base and strengthen the employability of our human resources, while relentlessly improving the quality of our talent pool through attracting and retaining key resources.

## Concluding Note

On behalf of the Board, I would like to express my appreciation and gratitude to our customers and shareholders for their continued trust in our organisation. I would also want to thank my fellow directors as well as the Management teams and staff across different areas of the organisation for their dedication and hard work in helping the Group confront the difficult operating context and transform its strategic intents into concrete plans.

As we celebrate our 180th anniversary next year, we are well poised to uphold the growth momentum of the Group, thus creating sustainable returns for our shareholders and creating long-term value for all stakeholders. There is no doubt that FY 2017/18 will be another exciting year for the Group as we steer through challenges and reinforce our ability to tap into market development avenues. Essentially, alongside preserving the image, reputation and franchise of the Group, we are dedicated to pursuing our growth strategy in a responsible way, backed by the continuous upholding of our corporate values, our team-work driven culture, our quest for excellence and our permanent efforts aimed at further improving the quality of our customer relationships.

**M G Didier HAREL**
Chairperson

# Chief Executive Statement

*During the year under review, the Group posted a resilient performance in the face of the challenging context. While continuing to fulfill its promises and commitments vis-à-vis its shareholders and multiple stakeholders, the Group stayed focused on the execution of its local and foreign business strategy. The latter was anchored on the Group's sound fundamentals, improved value proposition, reinforced capabilities, continued market vigilance and the unflinching support of its people.*

## Context and Performance

In FY 2016/17, Group entities were exposed to the difficult business environment that prevailed both locally and abroad. While our activities on the foreign front were confronted with volatile operating conditions, the Mauritian economy was marked by a restrained growth trajectory and the persisting sluggishness of investment. This, coupled with large corporates having growing recourse to the bond market, contributed to dampen the demand for bank credit. The persistence of excess liquidity conditions, both in rupee and foreign currency terms, remains a key source of concern for the local banking system and has translated into a further contraction in the share of net loans in the Group's balance sheet which reached an unprecedented low of 50% as at June 2017. This excess liquidity situation continues to fuel competitive pressures and to weigh down on margins.

Despite a drop of Rs 397 million in our share of profit from associates, on account of lesser contributions from PAD Group, which had registered significant non-recurring revenues in the previous year, and BFCOI, whose performance was impacted by a major rise in impairment charges during the last semester, profit attributable to equity holders of the Group edged up marginally to reach Rs 6,702 million, representing an earnings per share of Rs 28.10.

Our results were supported by a healthy growth of 7.6% in operating income in line with the expansion achieved across clusters. Net interest income upheld its upward trend achieving a 5.9% growth to Rs 9.4 billion, albeit being primarily driven by the rise in income from low yielding liquid assets as a result of deposits growing at a much higher rate than loans and advances. Indeed, our deposits increased by 7.7% % to reach Rs 274.9 billion whilst our lending portfolio rose at a moderate pace of 2.8%, with the drop of some Rs 3.8 billion in our corporate portfolio being compensated by healthy growth in foreign lending and retail advances. Net fee and commission income recovered from the previous year's low, growing by 5.2% to Rs 3.3 billion, supported by higher receipts at both banking and non-banking levels. Group revenue was also boosted by a strong growth in 'other income' driven primarily by higher profit on exchange. Despite a slowdown in the last quarter of the year as a result of excess supply of foreign currencies on the market prompting an appreciation of the rupee, profit from dealing in foreign exchange grew by an impressive 21.3% to reach Rs 1.9 billion for the year.

On the other hand, our ongoing investments in people, infrastructure and technologies led to an expansion of 10.6% in operating expenses with our cost to income ratio increasing to 41.2%. Impairment charges posted a contained growth of 4.1% to stand at just above Rs 1 billion, representing 0.59% of our loans and advances, while our asset quality ratios have remained within manageable levels, with the gross NPL ratio declining from 6.2% to 6.1%.

As such, operating profit grew by almost 6% to reach Rs 8,054 million.

In line with the successful execution of the Group's diversification strategy, the foreign-sourced income of the banking cluster accounted for 43% of total profits despite being pinned down by the dampened performances at the level of our overseas banking entities, further exacerbated by the impact of rupee appreciation. Besides, business inroads made within non-banking operations led to the latter making up for an appreciable 8% of results notwithstanding the lower contribution from PAD Group. As another source of satisfaction, the Group maintained solid foundations for the achievement of its growth ambitions. Indeed, supported by its healthy business model, the Group posted a robust funding and liquidity situation, alongside upholding its sound capital position. While ratios posted by banking entities comfortably exceeded applicable regulatory stipulations, the Group's capital adequacy ratio has further improved to attain 18.9%, of which 16.5% in terms of Tier 1.

## Our Business Development

During the last financial year, the entities across clusters made good progress in the implementation of their growth initiatives. In the banking cluster, MCB Ltd consolidated its leadership position in Mauritius, helped by its refined value proposition and upgraded channel capabilities, with emphasis laid on its digital transformation. Notably, it supported corporate projects in spite of the difficult context and posted an appreciable rise in mortgage loans, alongside consolidating its positioning across other segments such as SMEs and high net worth customers. Furthermore, the Bank established a widening market position beyond local shores. A major achievement relates to the broadened market coverage of our Energy and Commodities business. Inroads have been made in the field of structured project finance as well as private banking and wealth management, with the Bank being also engaged in partnering with and operationally supporting banks in Africa to support their growth ambitions. As for our foreign banking entities, while they have pursued their business development, emphasis was laid on strengthening their operational platforms and reinforcing capabilities to create favourable conditions for sustained market development. In our non-banking financial cluster, MCB Capital Markets Ltd continued to build on its credentials in the local debt capital markets and advised two international clients on landmark cross-border M&A transactions in the Mauritian fiduciary sector. It posted a rise in assets under management and expanded its range of investment solutions, while prospecting regional markets. As a key achievement, MCB Investment Management was selected as Fund Manager by the African Development Bank, following a tender process for the first sovereign Fixed Income Exchange Traded Fund (ETF) in Africa, namely the African Domestic Bond Fund. Besides, since its launch in July 2016, MCB Microfinance Ltd has started off very well, with more than 1,000 loans being granted to small entrepreneurs during the year. In the 'other investments' cluster, MCB Consulting Services Ltd further broadened its involvement, with more than 200 assignments having now been undertaken in more than 20 different countries across the world, notably in Africa. As for International Card Processing Services (ICPS) Ltd, it made further progress in positioning itself as a prominent regional player in the provision of multi-channel card and payment solutions across the value chain of issuing, acquiring, switching, Point of Sales and ATMs. It broadened its market involvement which has now been extended to some 11 African countries.

Overall, Group entities have been actively engaged in strengthening and refining their capabilities in order to better execute their strategies. Notably, the operational set-up was strengthened, while technological platforms were upgraded and our human capital and risk management frameworks were reinforced. At the wider organisation level, due focus has been laid on tapping into intra-Group synergies, notably with respect to the execution of our regional diversification strategy. Additionally, we have broadened our market visibility and strengthened our brand image through our participation in and organisation of major events. In particular, we have organised the 8th edition of our 'Africa Forward Together' seminar in September 2017, which welcomed 31 banks from 14 countries. Additionally, we organised a Wealth Africa Seminar which showcased Mauritius as a financial hub and shared the value proposition of MCB Group in this area. We organised the 'Forum d'Été du Club des Dirigeants de Banques et d'Institutions d'Afrique francophone', with Chief Executive Officers and high-ranking executives of 20 financial institutions from 11 countries attending the event.

## The Way Forward

While the global economic recovery process is anticipated to progressively strengthen, challenging times lie ahead, considering that difficult market conditions prevail in countries where the Group is involved. In Mauritius, growth is likely to pick up only gradually on account of delays observed in the implementation of several large scale infrastructure projects. The prevailing excess liquidity conditions are likely to persist, the more so that some of the large public sector projects are being financed exclusively from abroad. Against this backdrop, we expect continued pressures on demand for bank credit and interest margins while the relatively strong rupee is likely to exert pressures on our profit from dealing in foreign exchange and adversely affect our foreign-sourced income. On another note, ongoing developments on the regulatory, compliance and technological fronts are reshaping the banking landscape and leading to added challenges in the way we operate.

Notwithstanding the difficult context, our business pipeline is encouraging with our international operations and non-banking activities expected to grow further. In fact, the Group will maintain its business development initiatives across segments and geographies, in line with its risk appetite. Alongside consolidating its position locally, the Group will pursue its diversification strategy, with emphasis laid on sub-Saharan Africa. In addition to strengthening partnerships with correspondent banks as well as local and regional industry players, the Group will anchor its endeavours on its reinforced capabilities, heightened market visibility, and the broadening and further customisation of its financial solutions. This would notably help to further promote our 'Bank of Banks initiative which seeks to entrench our position as a hub that handles trade finance, payments and cards operations outsourcing services on behalf of financial services providers in the region.

As a responsible corporate citizen and while adhering to sustainability principles, the Group will remain intent on supporting societies and communities in which it is involved. However, for FY 2017/18, it will be subject to new regulations warranting that 50% of the amount assigned for domestic corporate social responsibility activities be delivered to the Mauritius Revenue Authority. This measure will significantly reduce the leeway for engaging with its NGOs and social partners, while jeopardizing the execution of long term ventures that the Group has been engaging into with a view to promoting the execution of its social welfare and empowerment initiatives.

## Appreciation

The achievement of our financial performance would not have been possible without the unwavering support of all our stakeholders. I would like to convey my appreciation to the staff and Management of all Group entities for their hard work and dedication. I also extend my gratitude to our customers for their loyalty and trust as well as to stakeholders in believing in our ability to create sustainable value for them. Furthermore, I would like to thank the members of the various Boards of the Group for their competent and effective insights, guidance and oversight in helping the Group to move forward, achieve its objectives and harness conditions for sustained market development across segments.

As we move on to another year, we look at the future with confidence. The Group remains committed to be a strong, innovative and successful organisation, alongside striving to create long-term value for the benefit of its shareholders and multiple stakeholders. While remaining focused on executing a disciplined growth strategy, the Group will preserve its image and reputation, alongside positioning itself as a financial hub with a strong regional involvement.

**Pierre Guy NOEL**
Chief Executive

# Corporate Governance Report

# Corporate governance report

## Our Philosophy

Robust corporate governance represents a key pillar of the organisation and is inherent to the Group's values, culture, processes and operating structures that sustain the pursuit of its strategic orientations aimed at building stakeholder value over the long term. The Board of MCB Group Ltd is committed to upholding the highest standards of corporate governance, by setting the tone from the top in the way it conducts itself and oversees the affairs of the Company and its subsidiaries. In their engagement with stakeholders, directors and employees are required to consistently demonstrate professional and ethical conduct in accordance with the principles of integrity, accountability and transparency, thus promoting and maintaining trust throughout the organisation.

The Group's approach to governance is underpinned by its adherence to advocated norms, rules and relevant regulatory requirements. As such, all subsidiaries comply with the provisions of relevant legislations and rules of countries where they operate. Entities in Mauritius have also subscribed to the National Code of Corporate Governance (2004) which was applicable in the last financial year. Furthermore, the Board has assessed the implications of the new National Code of Corporate Governance for Mauritius (Code) launched in February 2017 which adopts an 'apply and explain' methodology based on eight governance principles and is applicable as from the reporting year ending 30 June 2018 (i.e. companies should apply the principles of this Code from July 2017 onward). The Board has thus satisfied itself that the Group's current practices and disclosures are in compliance with most of the related requirements. Specific areas in connection with the principles and implementation guidance are currently being examined to gauge their applicability and ensure adherence thereto as applicable. Already, the Board has reviewed and approved the Board and Board Committee Charters while developing and endorsing other key governance documents, which have all been posted on the Group's website since July 2017.

The Group's perspective of good governance goes beyond regulatory compliance. The Board encourages a corporate culture that promotes ethical and responsible decision-making throughout the organisation by way of group-wide awareness of its operating beliefs and principles. In this respect, the Group has established a 'Code of Ethics', endorsed by the Board, with the latter regularly monitoring adherence thereto. Sound governance standards and practices at the Group are anchored on key building blocks as highlighted in the following diagram.

# Governance Structure

## Governance Framework

MCB Group Ltd is led by a committed and unitary Board, which is collectively accountable and responsible for the long-term success of the organisation. The Group operates within a clearly defined governance framework which provides for delegation of authority and clear lines of responsibility while enabling the Board to retain effective control. As such, the Board is ultimately accountable and responsible for the performance and affairs of the Group. While the Board has reserved certain matters for its approval, it has created five Committees tasked to provide specialist guidance to the Board to help it carry out its duties and responsibilities. A reporting mechanism is in place to ensure that matters affecting the affairs and reputation of the Group are escalated to the Board by the Chairpersons of these Committees and the Boards of subsidiaries. In this way, the Board maintains an effective oversight process within a flexible and autonomous structure that allows for adequate ring-fencing of activities, as gauged by the segregation of banking and non-banking operations. The Board has delegated the day-to-day running of the business to the Management Executives and regularly monitors their performance in relation to set objectives and policies.

**Role of the Board**

The Board provides effective leadership and strategic guidance towards the achievement of the Group's strategy within a framework of effective controls and risk management, alongside ensuring adherence of the Company and its subsidiaries to relevant legislations and policies.

**Role of Board Committees**

Board Committees facilitate the discharge of Board's responsibilities and provide in-depth focus on specific areas. In fulfilling their role of providing oversight and guidance, Chairpersons of Board Committees escalate all significant matters impacting the Group to the Board.

**Role of Management**

Management Executives are responsible for the day-to-day running of the business, with well-defined accountabilities as endorsed by the Board. They regularly report to the Board on the operational and financial performance of the Group.


*More information on Board and Committee Charters is available on the website*

# Corporate governance report

The Board Charter as well as the Position Statements, which have been approved by the Board, provides for a clear definition of the roles and responsibilities of the Chairperson, executive and non-executive directors as well as the Company Secretary. The role of the Chairperson is distinct and separate from that of the Chief Executive and there is a clear division of responsibilities with the Chairperson leading the Board and the Chief Executive managing the Group's business on a day-to-day basis.

### Key roles and responsibilities

| Chairperson | Chief Executive | Directors |
|---|---|---|
| • Provides overall leadership to the Board<br>• Ensures that the Board is effective in its duties of setting out and implementing the Group's strategy<br>• Ensures that committees are properly structured with appropriate terms of reference<br>• Presides and conducts meetings effectively<br>• Advises and provides support and supervision to the Chief Executive<br>• Ensures that directors receive accurate, timely and clear information<br>• Ensures that development needs of the directors are identified and that appropriate training is provided to continuously update the skills and knowledge of the directors<br>• Maintains sound relations with shareholders | • Manages the day-to-day operations<br>• Develops and executes the plans and strategy of the business in line with the policies set by the Board<br>• Consults regularly with the Chairperson and Board on matters which may have a material impact on the Group<br>• Acts as a liaison between Management and the Board<br>• Provides leadership and direction to senior management<br>• Builds, protects and enhances the Group's brand value<br>• Ensures the Group has implemented the necessary frameworks and structures to identify, assess and mitigate risks | • Contribute to the development of Group strategy<br>• Analyse and monitor the performance of Management against the set objectives<br>• Ensure that the Group has adequate and proper financial controls and systems of risk management<br>• Ensure that financial information released to markets and shareholders is accurate<br>• Actively participate in Board decision-making and constructively challenge, if necessary, proposals presented by Management<br>• Provide specialist knowledge and experience to the Board<br>• Remain permanently bound by fiduciary duties and duties of care and skill |

**Company Secretary**

- Ensures compliance with all relevant statutory and regulatory requirements
- Develops and circulates the agenda for Board meetings
- Ensures good information flows as well as provides comprehensive practical support to directors
- Facilitates proper induction of directors and provides guidance to them in terms of their roles and responsibilities
- Assists the Chairperson in governance processes such as Board and Committee evaluation
- Ensures effective communication with shareholders and guarantees that shareholders' interests are duly taken care of

*More information on the key roles is available on the website*

## Constitution of MCB Group Limited

The salient features of the Constitution are highlighted below:

- the Board may, subject to the Companies Act 2001 ("Act") and its Constitution and the terms of issue of any existing shares, issue shares of any Class at any time, to any person and in such numbers as the Board may approve. The Board shall not issue further shares unless such issue has been approved by ordinary resolution;
- fully paid-up shares are freely transferable;
- the shareholders shall approve any issue of shares that are not pro-rata to existing shareholding;
- the Company may purchase or otherwise acquire its own shares in accordance with, and subject to, sections 68 to 74, and 108 to 110 of the Act and may hold the acquired shares in accordance with section 72 of the Act;
- the Board may authorise a distribution by the Company, if it is satisfied on reasonable grounds that the Company will satisfy the Solvency Test immediately after the distribution;
- the quorum for a meeting of the Board is a majority of the directors;
- the Board shall consist of a minimum of five (5) directors and a maximum of twelve (12) directors;
- a director who has declared his interest in a transaction or proposed transaction with the Company, shall not be counted in a quorum present at the meeting;
- the directors have the power at any time to appoint any person to be a director either to fill a casual vacancy or as an addition to the existing directors but so that the total number of directors shall not at any time exceed the number fixed in accordance with the Constitution. The directors appointed shall hold office only until the next Annual Meeting of Shareholders and shall then be eligible for re-election;
- the Board shall not vote on a shareholders' resolution of The Mauritius Commercial Bank Ltd which would trigger shareholders' rights under sections 105, 108 or 114 of the Act without prior consent of the shareholders of MCB Group Limited. Such shareholders' resolution includes:
    - adoption of a Constitution or the alteration or revocation of the Constitution;
    - reduction of the stated capital of the Company under section 62 of the Act;
    - approval of a major transaction;
    - approval of an amalgamation of the Company under section 246 of the Act;
    - putting the Company into liquidation; and
    - variation of rights attached to a class of shares.
- the quorum for shareholders' meeting is twelve (12) shareholders present or represented;
- the Chairperson of a Meeting of Shareholders shall be entitled to a casting vote;
- at each Annual Meeting, one-third of the directors for the time being, or if their number is not a multiple of three, then the number nearest to, but not exceeding one-third, shall retire from office and shall be eligible for re-election. The directors to retire every year shall be those who have been longest in the office since their last election.

*More information on the Constitution is available on the website*

# Corporate governance report

## The Board

### Mandate

The Board defines the Group's purpose, strategy and value and determines all matters relating to the directions, policies, practices, management and operations of the Company and all its subsidiaries locally and abroad. The Board thereafter ensures that the Group is being managed in accordance with its directions and delegations.

### Responsibilities

The methods through which the Board exercises its powers and discharges its responsibilities are set out in the Board Charter of MCB Group Ltd, which provides, *inter alia*, for the following:

- the composition of the Board with an appropriate balance of executive, non-executive and independent directors;
- the Chairperson of the Board who may be an independent non-executive director;
- the creation of Committees;
- the adherence to the Group's 'Code of Ethics';
- the approval of strategic objectives, policies and corporate values as well as their communication throughout the organisation;
- the monitoring of management in respect of the implementation of Board plans and strategies, and compliance with set policies;
- the existence of clear lines of responsibility and accountability throughout the organisation and compliance with all relevant laws, regulations and codes of business practice;
- a formal and transparent directors' remuneration policy;
- the review of procedures and practices to ensure effectiveness of the Group's internal control systems;
- the setting of principal policies in respect of risk and conduct of business for the Company; and
- the provision of timely and accurate information to shareholders, relevant authorities and the public.

Approval of the Board is specifically required for, amongst other important matters, modifying the Company's Constitution, issuing fresh capital or buying back its own shares, declaring dividends, acquiring or divesting sizeable stakes in subsidiaries or associated companies, making appointments of senior officers, and establishing the remuneration of directors and chief executives.

## Composition and Meetings

### *Composition*

As per the Board Charter, the Board shall comprise an appropriate balance of executive, non-executive and independent directors and shall consist of a minimum of five and a maximum of twelve directors, of which at least two executive and two independent directors. The Chairperson of the Board may be independent.

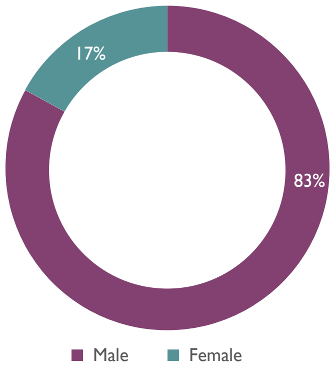
The Board comprised 12 members as at 30 June 2017 with average age of around 60 years. Board members have a diverse mix of skills and experience and are distinguished by their professional ability, integrity and independence of opinion. The Board composition for the year under review is shown hereafter.

**Independence**

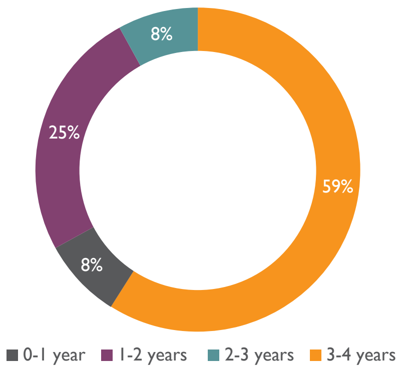
| | |
|---|---|
| Independent non-executive (Including Chairperson) | 9 |
| Executive | 2 |
| Non-executive | 1 |
| **Total** | **12** |

75% of Board members are independent

**Gender**

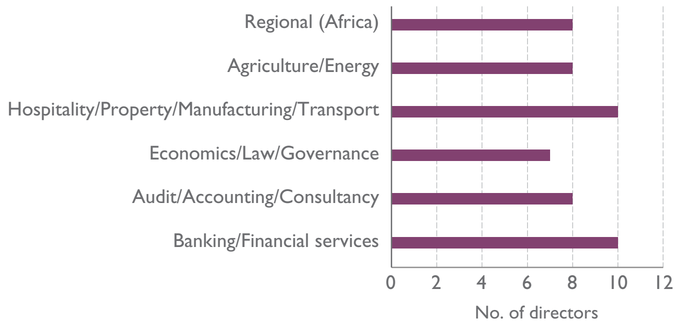



**Length of tenure**




*Note : MCB Group Ltd has been incorporated since April 2014*

**Mix of skills and experience**



### *Meetings*

The Board determines the frequency of Board meetings, which shall be undertaken at least on a quarterly basis. Meetings are convened so that all directors are able to attend and participate in person. In case personal attendance by some or all the directors is not possible, meetings are conducted by means of audio and/or video conferences. Board meetings are structured in such a way to facilitate open discussions, debates and challenges. The Chairperson and the Company Secretary ensure that directors receive the right information in a timely manner to enable them to make informed business decisions. As for the agenda of Board meetings, it is set according to the process described in the diagram below.

**Agenda setting process**

An agenda is prepared by the Company Secretary to determine the list of key business topics for Board meetings

↓

The Chairperson holds meetings with the Company Secretary to review the draft agenda

↓

The draft agenda is discussed among Chairperson, Chief Executive and Company Secretary

↓

Once agreed, the agenda is sent to the directors prior to the meeting

↓

Matters may be added to the agenda in response to external events, director requests and any relevant topics related to the current operating environment of the Group

## Board Attendance

The directors who served on the Board as well as their attendance at Board meetings during FY 2016/17 are provided in the following table.

| Members | Board member since | Board status | Meeting attendance |
|---|---|---|---|
| **Didier HAREL** ***(Chairperson as from September 2016)*** | **November 2015** | **Independent Non-Executive Director** | **5/5** |
| Sunil BANYMANDHUB | April 2014 | Independent Non-Executive Director | 4/5 |
| Karuna BHOOJEDHUR-OBEEGADOO | November 2015 | Independent Non-Executive Director | 5/5 |
| Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE | November 2014 | Independent Non-Executive Director | 3/5 |
| Navin HOOLOOMANN, C.S.K | April 2014 | Independent Non-Executive Director | 4/5 |
| Jean-Louis MATTEI | April 2014 | Independent Non-Executive Director | 3/5 |
| Jean-Pierre MONTOCCHIO | April 2014 | Independent Non-Executive Director | 4/5 |
| Alain REY | November 2015 | Independent Non-Executive Director | 4/5 |
| Margaret WONG PING LUN | April 2014 | Independent Non-Executive Director | 4/5 |
| Jean Michel NG TSEUNG | November 2016 | Non-Executive Director | 2/2 |
| Gilbert GNANY | April 2014 | Executive Director | 5/5 |
| Pierre Guy NOEL | April 2014 | Executive Director | 5/5 |
| Gérard HARDY *(former Chairperson)* | April 2014 (Retired in September 2016) | Independent Non-Executive Director | 1/2 |

# Corporate governance report

## Board Focus Areas

The main topics discussed at Board level during the year revolved around, but were not limited to the following:

**Strategy and performance**

- Reviewed and endorsed the strategic orientations and budget plans of all the banking and non-banking entities of the Group
- Appraised progress of the medium term growth strategy of MCB Ltd

**Governance and risk**

- Reviewed and approved the Board and Board Committee Charters
- Reviewed and approved the structure, size and composition of the Board and Board Committees
- Approved, upon the recommendation of the Remuneration, Corporate Governance and Ethics Committee the appointment of Mr. Jean Michel Ng Tseung as Board member
- Established two new Committees namely Strategy Committee and the Supervisory and Monitoring Committee and their composition
- Assessed Board effectiveness with the assistance of an external facilitator and reviewed findings of the exercise
- Approved the appointment of PricewaterhouseCoopers Ltd (PwC) as external auditor
- Discussed and assessed the implications of the new National Code of Corporate Governance for Mauritius

**Financial**

- Assessed and monitored the Group's financial performance against budget
- Reviewed reports from the Audit Committee
- Reviewed the evolution of asset quality
- Approved declaration of dividend

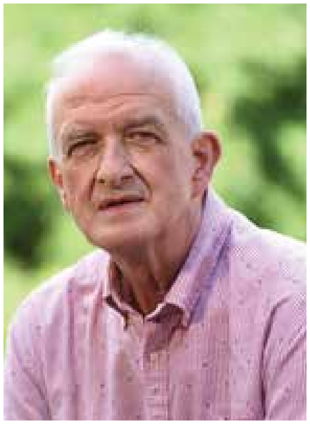
**Recurrent agenda items**

- Reviewed reports from Chairpersons of Committees
- Reviewed and approved the Group's consolidated accounts on a quarterly basis
- Updated on developments in the operating environment
- Annual Meeting of Shareholders briefing

## Directors' Profiles

The Board comprises 12 directors who have a proven track record in various fields. Profiles of directors including their directorships in other listed companies (where applicable) are given hereafter. Unless otherwise stated in their respective profile, directors ordinarily reside in Mauritius.

### Chairperson



**Didier HAREL - Age 65**

*Date of first appointment:* November 2015

*Qualifications:* BSc in Chemical Engineering and Chemical Technology (UK) and MBA (France)

*Skills and experience:* Didier has a track record of over forty years in the downstream sector of the oil industry, having worked for the EXXON and TOTAL Groups. He started his career with Esso in Mauritius in 1974 and was appointed as Managing Director of Esso Reunion in 1982. He joined the TOTAL Group in 1988 where he was entrusted several international assignments, as Managing Director and Chief Executive Officer of major subsidiaries in Europe and southern Africa. He also shouldered an array of senior executive positions at TOTAL's Africa and Middle East Head Office in Paris and within TOTAL France, the home-based marketing and distribution company of the Group. He was seconded in 2012 by TOTAL S.A as Chairman and CEO of Société Anonyme de Gestion des Stocks Stratégiques, the national oil compulsory stock obligation entity for France.

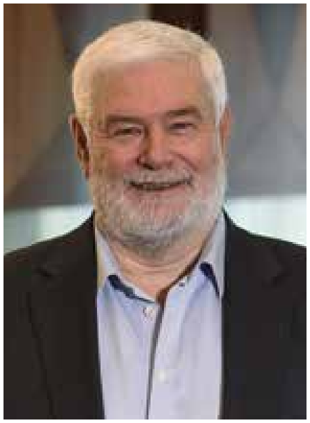
*Board Committee membership(s):* Risk Monitoring Committee; Remuneration, Corporate Governance and Ethics Committee (Chairperson); Strategy Committee (Chairperson); Supervisory and Monitoring Committee (Chairperson)

*Directorship(s) in other listed companies:* Sun Ltd and Terra Mauricia Ltd

# Corporate governance report

## Directors' Profiles (cont'd)

### Executive Directors



**Pierre Guy NOEL - Age 61**
Chief Executive

*Date of first appointment:* April 2014

*Qualifications:* BSc (Honours) in Economics and Chartered Accountant (UK)

*Skills and experience:* From 1981 to 1991, Pierre Guy worked at De Chazal Du Mée & Co. where he became a partner in financial consultancy. He joined MCB in 1992 as Planning and Development Consultant before being appointed General Manager of the Bank in 1996. Following the organisation's restructuring, he became the Chief Executive of MCB Group Ltd in April 2014. He is a Board member of several companies within the Group namely Banque Française Commerciale Océan Indien, MCB Madagascar, MCB Seychelles, MCB Maldives, MCB Investment Holding Ltd, MCB Capital Markets Ltd, MCB Equity Fund, MCB Consulting Services Ltd, MCB Factors Ltd, International Card Processing Services Ltd, Credit Guarantee Insurance Co. Ltd and MCB Microfinance Ltd amongst others, acting either as Chairperson or Director. He was appointed to the Board of MCB Ltd in 2005 and was a Director thereof until March 2014 when he joined the Board of MCB Group Ltd following the Group's restructuring exercise.

*Board Committee membership(s):* Risk Monitoring Committee; Remuneration, Corporate Governance and Ethics Committee; Strategy Committee; Supervisory and Monitoring Committee

**Gilbert GNANY - Age 55**
Chief Strategy Officer

*Date of first appointment:* April 2014

*Qualifications:* 'Licence ès Sciences Economiques (Economie Mathématique)', 'Maîtrise en Econométrie' and 'DESS en Méthodes Scientifiques de Gestion et Calcul Economique Approfondi' (France)

*Skills and experience:* Gilbert previously worked as Senior Advisor on the World Bank Group's Executive Board where he was responsible for issues relating mainly to the International Finance Corporation (IFC) and to the private and financial sectors. Prior to joining the World Bank, he was the MCB Group Chief Economist and Group Head of Strategy, Research & Development after having been the Economic Advisor to the Minister of Finance in Mauritius. During his career, he has been involved in various high-profile boards/committees. Amongst others, he chaired the Stock Exchange of Mauritius Ltd, the Statistics Advisory Council and the Statistics Board as well as having been a director of the Board of Governors of the Mauritius Offshore Business Activities Authority and of the Board of Investment. He was also a member of the IMF Advisory Group for sub-Saharan Africa (AGSA) and a member of the Senate of the University of Mauritius. He is currently a Board member of several companies within the Group namely MCB Capital Markets Ltd, MCB Seychelles, MCB Maldives, MCB Microfinance Ltd and MCB Consulting Services Ltd amongst others. He is an external IMF expert in statistics, in particular on data dissemination standards and strategy and is currently a member of the Advisory Board of Insight2Impact (i2i), a resource centre, which catalyses the provision and use of data to improve financial inclusion in developing and emerging markets. Furthermore, he is the Chairperson of the Economic Commission of Business Mauritius which serves, *inter alia*, as a platform for public-private sector dialogue.

*Board Committee membership(s):* Risk Monitoring Committee; Strategy Committee

*Directorship(s) in other listed companies:* Promotion and Development Ltd; Caudan Development Ltd

## Independent Non-Executive Directors

**Sunil BANYMANDHUB - Age 68**

*Date of first appointment:* April 2014

*Qualifications:* BSc (Honours) in Civil Engineering, Master's degree in Business Studies and Chartered Accountant (UK)

*Skills and experience:* Sunil has occupied senior positions in the private sector in Mauritius prior to launching his own transport company in 1990. In 2001, he joined the CIM Group, a company engaged in financial and international services, from which he retired as Chief Executive Officer in 2008. During his career, he has been involved in various private sector organisations. Amongst others, he was President of the Mauritius Employers' Federation. He was a Member of the Presidential Commission on Judicial Reform, headed by Lord Mackay of Clashfern, a former UK Lord Chancellor. He is currently a director of a number of domestic and global business entities, acting either as Chairperson or Board member, and is also Adjunct Professor at the University of Mauritius.

*Board Committee membership(s):* Audit Committee (Chairperson); Strategy Committee

*Directorship(s) in other listed companies:* Omnicane Ltd; Fincorp Investment Ltd; New Mauritius Hotels; Blue Life Ltd

**Karuna BHOOJEDHUR-OBEEGADOO - Age 56**

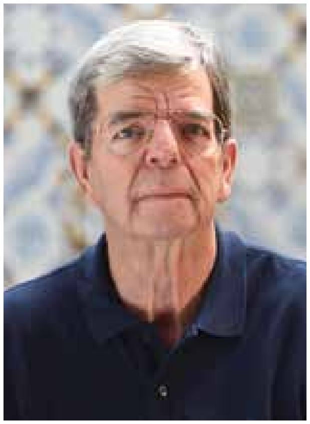
*Date of first appointment:* November 2015

*Qualifications:* BSc (Hons) in Actuarial Science and Fellow of the Institute and Faculty of Actuaries (UK)

*Skills and experience:* Karuna started her career at the M&G Reinsurance Company in London (now Swiss Re) in 1985 prior to joining the State Insurance Company of Mauritius Ltd (SICOM) as Actuary and Manager of the Life, Pensions and Actuarial departments in 1990 when she was also appointed Actuarial Advisor to the National Pensions Fund and member of its Investment Committee.

She is currently the Chief Executive of the SICOM Group, a post she has held since 1996 and is a director of various companies within the group. In the past, she has served as director on the Board of several companies, including State Bank of Mauritius Ltd, National Mutual Fund Ltd, First Republic Fund Ltd, Cyber Properties Investment Ltd, Mauritius Housing Company Ltd, National Housing Development Company Ltd, China Index Fund Ltd and China Actis Ltd. She was also a Founding Member of the National Committee on Corporate Governance and of the Board of Investment.

*Board Committee membership(s):* Remuneration, Corporate Governance and Ethics Committee



**Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE - Age 66**

Non-Resident

*Date of first appointment:* November 2014

*Qualifications:* 'Diplôme de l'Institut d'Etudes Politiques de Paris' (France) and MBA (USA)

*Skills and experience:* Jean-Jacques started his career in 1977 as Financial Advisor at Deep River Beau Champ prior to joining the World Bank Group in 1980 under the Young Professionals Program. He integrated the International Finance Corporation (IFC) where he worked on agro-industrial projects in several countries in West Africa. Since 1987, he acted as Principal Operations Officer within the World Bank successively for Europe, Central Asia, Latin America and the African region, whilst being responsible for the Health, Nutrition and Population (HNP) projects undertaken in various countries therein. Moreover, he was appointed as Cluster Leader of the World Bank's HNP Division for West Africa in 2008 before acting as the Sector Manager for the African region in 2011-2012 when he was also a member of the HNP Sector Board worldwide.

*Board Committee membership(s):* Risk Monitoring Committee; Strategy Committee

# Corporate governance report

## Directors' Profiles (cont'd)

**Navin HOOLOOMANN, C.S.K. - Age 58**
*Date of first appointment:* April 2014

*Qualifications:* Chartered Surveyor FRICS (UK)

*Skills and experience:* Navin has over 30 years of experience in the construction industry internationally. He is the founder and Managing Director of Hooloomann & Associates Ltd, a construction, project management and cost management consultancy firm operating in Mauritius, Seychelles, Maldives, Sri Lanka, India and West Africa. He has served on the Board of MCB Ltd for several years since 2002 and was a director thereof until March 2014, after which he was appointed Director of MCB Group Ltd following the Group's restructuring exercise.

*Board Committee membership(s):* Remuneration, Corporate Governance and Ethics Committee

**Jean-Louis MATTEI - Age 70**
Non-Resident

*Date of first appointment:* April 2014

*Qualifications:* 'Diplôme d'Etudes Supérieures en Droit Privé', 'Diplôme du Centre d'Etudes Supérieures de Banque' and 'Diplôme de l'Institut d'Etudes Politiques de Paris' (France)

*Skills and experience:* Jean-Louis has accumulated wide-ranging experience in the banking sector, having worked for Société Générale Group for some 40 years. Over this period, he has shouldered an array of high-level responsibilities within the group, acting as Chairperson, Director or Chief Executive Officer, in its various offices based worldwide. In 1998, he took charge of Société Générale international retail banking operations and built the group's international network, particularly in northern Africa and in the sub-Saharan region as well as in Eastern Europe. Prior to his retirement in 2013, he was a member of the Executive Committee of Société Générale Group. He is a member of the Board and also acts as Chairperson of the Audit Committee of Agence Française de Développement

*Board Committee membership(s):* Risk Monitoring Committee (Chairperson); Strategy Committee

**Jean-Pierre MONTOCCHIO - Age 54**

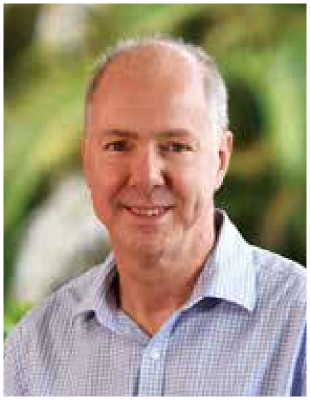
*Date of first appointment:* April 2014

*Qualifications:* Notary Public

*Skills and experience:* Jean-Pierre sits on several boards of companies spanning various sectors of the economy. He has served on the Board of MCB Ltd for several years since 2001 and was a Director thereof until March 2014, after which he was appointed Director of MCB Group Ltd following the Group's restructuring exercise.

*Board Committee membership(s):* Remuneration, Corporate Governance and Ethics Committee

*Directorship(s) in other listed companies:* Fincorp Investment Ltd; Caudan Development Ltd; Promotion and Development Ltd; New Mauritius Hotels Ltd; Rogers & Co. Ltd ; ENL Land Ltd ; Les Moulins de la Concorde Ltée



**Alain REY - Age 58**

*Date of first appointment:* November 2015

*Qualifications:* BSc (Honours) in Economics and Chartered Accountant (UK)

*Skills and experience:* Alain has acquired wide financial experience, having been Manager at Citibank NA (Paris) and Regional Corporate Manager at Barclays Plc in Mauritius. He also has a long experience in the textile industry and was namely Financial Director at Corotex, General Manager at Shape Fabrics Ltd and has served as Senior Vice President and Chief Financial Officer at Novel Denim Holdings Ltd, a NASDAQ listed company. He has also been the Chief Executive Officer at Compagnie de Mont Choisy Ltée, a company involved in agricultural and property development activities. He was previously a director of AfrAsia Bank Ltd, State Bank of Mauritius Ltd and SBM Holdings Ltd.

*Board Committee membership(s):* Audit Committee

*Directorship(s) in other listed companies:* Terra Mauricia Ltd; Ciel Textile Ltd; New Mauritius Hotels Ltd

**Margaret WONG PING LUN - Age 63**

*Date of first appointment:* April 2014

*Qualifications:* BA (Honours) in Business Studies and Chartered Accountant (UK)

*Skills and experience:* Prior to joining the University of Mauritius in 1991 where she is a lecturer in Accounting and Finance, Margaret was a Senior Manager at De Chazal Du Mée's Consultancy Department. She was formerly a member of the Listing Executive Committee of the Stock Exchange of Mauritius Ltd. She was appointed to the Board of MCB Ltd in 2004 and was a Director thereof until March 2014, after which she joined the Board of MCB Group Ltd following the restructuring of the Group. She currently sits on the Board of MCB Factors Ltd, a subsidiary of the Group.

*Board Committee membership(s):* Audit Committee

*Directorship(s) in other listed companies:* Terra Mauricia Ltd

## Non-Executive Director

**Jean Michel NG TSEUNG - Age 49**

*Date of first appointment:* November 2016

*Qualifications:* BSc (Honours) in Mathematics and Chartered Accountant (UK)

*Skills and experience:* Jean Michel joined MCB Ltd in January 2004 and was Head of Corporate of the Bank until July 2015, when he was appointed Chief Executive Officer of MCB Investment Holding Ltd. He trained as a Chartered Accountant with Arthur Andersen in London before becoming Partner and Head of the Audit and Business Advisory Department of De Chazal Du Mée and subsequently of Ernst & Young. Whilst currently being a Board member of several companies within the Group namely MCB Investment Holding Ltd, MCB Ltd, MCB Seychelles, MCB Maldives, MCB Madagascar and Finlease Co. Ltd, he sits on the Risk Monitoring Committee of MCB Ltd. Furthermore, he is a member of the Listing Executive Committee of the Stock Exchange of Mauritius Ltd.

*Board Committee membership(s):* Supervisory and Monitoring Committee

# Corporate governance report

## Directors' Remuneration

With competent directors viewed as critical to the sustainability of the business, the Group lays significant emphasis on appointing the right people with the right skills and behaviours whilst rewarding them adequately, in line with market practices. The Group's remuneration philosophy concerning directors provides that:

- there should be a retainer fee for each individual director reflecting the workload, the size and the complexity (national/international) of the business as well as the responsibility involved;
- the Chairperson, having wider responsibilities and being present on a regular basis, should have consequential remuneration;
- there should be committee fees for non-executive directors, with the fees differing in accordance with the time required for preparation, the frequency and the duration of meetings. Chairpersons of Committees should be paid a higher remuneration than members; and
- no share option or bonus should be granted to non-executive directors.

Apart from a base salary and short-term benefits which reflect their responsibilities and experience, the remuneration for executive directors consists of a variable element in the form of an annual bonus, determined by the performance of both the Group and the individual.

The following table highlights the remuneration and benefits received by the directors during the financial year.

| Remuneration and benefits received (Rs '000) | From the holding company | From subsidiaries | Total |
|---|---|---|---|
| Didier HAREL | 2,170 | - | **2,170** |
| Gérard HARDY *(up to September 2016)* | 405 | - | **405** |
| Sunil BANYMANDHUB | 822 | 38 | **860** |
| Karuna BHOOJEDHUR-OBEEGADOO | 438 | - | **438** |
| Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE | 696 | - | **696** |
| Navin HOOLOOMANN, C.S.K. | 438 | - | **438** |
| Jean-Louis MATTEI | 822 | - | **822** |
| Jean-Pierre MONTOCCHIO | 438 | 110 | **548** |
| Jean Michel NG TSEUNG *(as from November 2016)* | - | 7,474 | **7,474** |
| Alain REY | 564 | 40 | **604** |
| Margaret WONG PING LUN | 564 | 43 | **607** |
| ***Total Non-Executive*** | ***7,357*** | ***7,705*** | ***15,062*** |
| Pierre Guy NOEL | 29,302 | - | **29,302** |
| Gilbert GNANY | 16,388 | - | **16,388** |
| ***Total Executive*** | ***45,690*** | ***-*** | ***45,690*** |
| **Total (Non-Executive and Executive)** | **53,047** | **7,705** | **60,752** |

*Note: The above figures, as from this financial year, include post employment benefits.*

## Directors' Interests and Dealings in Securities

With regard to directors' dealings in the Group's securities, the directors confirm that they have followed the absolute prohibition principles and notification requirements of the model code for securities transactions by directors as detailed in Appendix 6 of the Stock Exchange of Mauritius Listing Rules.

The Company Secretary maintains a Register of Interests which is updated with every transaction entered into by directors and their closely related parties. Such transactions, which have to take place exclusively outside the close periods prescribed by the Stock Exchange Regulations, require the written authorisation of the Board of Directors. In addition, the register is available for consultation to shareholders upon written request to the Company Secretary.

All new directors are required to notify in writing to the Company Secretary their holdings in the Group's securities. This is entered in the Register of Interests, which is subsequently updated with all relevant movements.

The following tables give the interests of the directors in the Group's listed securities as at 30 June 2017 as well as related transactions effected by the directors during the year. None of the directors had any interest in the securities of the subsidiaries of MCB Group Ltd other than in the equity of Fincorp Investment Ltd.

| Interests in MCB Group Ltd shares as at 30 June 2017 | Number of shares | |
|---|---|---|
| | Direct | Indirect |
| Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE | 88 | - |
| Gilbert GNANY | 198,102 | - |
| Navin HOOLOOMANN, C.S.K. | 55,910 | 974,029 |
| Jean-Pierre MONTOCCHIO | 1,000 | 74,533 |
| Jean Michel NG TSEUNG | 7,885 | - |
| Pierre Guy NOEL | 1,145,459 | 28,492 |
| Alain REY | 4,840 | - |
| Margaret WONG PING LUN | 500 | 46,625 |

| Transactions during the year | Number of shares | |
|---|---|---|
| | Purchased | Sold |
| Gilbert GNANY | 42,980 | - |
| Pierre Guy NOEL | 18,064 | - |
| Margaret WONG PING LUN | 4,725 | - |

| Interests in MCB Group Ltd Subordinated Notes as at 30 June 2017 | Number of notes | |
|---|---|---|
| | Direct | Indirect |
| Gilbert GNANY | - | 200 |
| Navin HOOLOOMANN, C.S.K. | - | 2,500 |
| Jean-Pierre MONTOCCHIO | - | 2,195 |

| Interests in Fincorp Investment Ltd as at 30 June 2017 | Number of shares | |
|---|---|---|
| | Direct | Indirect |
| Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE | 550 | - |
| Gilbert GNANY | 69,000 | - |
| Navin HOOLOOMANN, C.S.K. | - | 362,200 |
| Jean-Pierre MONTOCCHIO | - | 12,493 |
| Pierre Guy NOEL | 750,166 | 32,250 |
| Margaret WONG PING LUN | - | 10,000 |

# Corporate governance report

## Directors' Service Contracts

There were no service contracts between the Company and its directors during the year.

## Related Party Transactions

The Board is ultimately responsible for establishing and implementing appropriate policies on conflicts of interests and related party transactions and for administering the process for handling the transactions within the Group. Assisted by the Remuneration, Corporate Governance and Ethics Committee, the Board exercises this responsibility, through:

- monitoring and reporting by Senior Management within the Company and its subsidiaries in respect of related party transactions;
- regular review of related party exposures, including those pertaining to Senior Management at the level of the Company and its subsidiaries; and
- formal review and ratification of the Conflicts of Interest and Related Party Transactions Policy as applicable.

Related party transactions of the Group were conducted in line with relevant internal policies and guidelines. For related party transactions, please refer to Note 36 of the Financial Statements.

*More information on the 'Conflicts of Interest and Related Party Transactions Policy' is available on the website*

# Board Committees

The Board is supported by its Committees which provide in-depth focus on specific areas and make recommendations on matters delegated to them, encompassing, *inter alia*, risk, internal control, financial reporting, strategy and remuneration issues. Through the deliberations and reporting of the various committees, the Board ensures that the Company and its subsidiaries are being managed in line with its objectives.

Considering the evolving and challenging environment in which the Group operates, the Board recognises that governance must be dynamic to meet current and future business requirements. In this respect, two further Board Committees were created namely the Strategy Committee and the Supervisory and Monitoring Committee in November 2016 and July 2017 respectively. They were established to enable members to dedicate additional time to focus on strategic orientations and major policy matters of the Group.

Each committee has its own charter, approved by the Board and reviewed as deemed necessary. The charter sets out the committees' role, responsibility, composition, powers, structure, resources and any other relevant matters. The duties, compositions and main focus areas covered during the year of the five Committees namely Risk Monitoring Committee, Audit Committee, Remuneration, Corporate Governance and Ethics Committee, Strategy Committee and the Supervisory and Monitoring Committee, are set out hereafter.

## Risk Monitoring Committee (RMC)

### *Mandate*

The RMC assists the Board in setting up risk mitigation strategies and in assessing and monitoring the risk management process of MCB Group Ltd and all its subsidiaries. It also advises the Board on risk issues and monitors the risk of the different portfolios against the set risk appetite of the subsidiaries.

### *Role and responsibilities*

The main responsibilities of the Committee include:

- overseeing the development of an effective risk management framework for the Group by implementing rigorous internal processes and controls which identify, monitor, measure and report different types of risks;
- reviewing the principal risks, including credit, market, liquidity and reputational risks as well as the actions taken to mitigate them;
- reviewing regular information on risk exposures and risk management activities, and make appropriate recommendations to the Board;
- setting risk exposure limits, as well as the delegation and authorisation procedures;
- monitoring risk portfolios against set limits with respect to, *inter alia*, risk concentration, asset quality, large and foreign country exposures, in compliance with regulations and internal policies;
- ensuring that senior executives receive appropriate training with regard to the risks facing the Group and the techniques for managing those risks; and
- ensuring that clear lines of responsibility and accountability exist and are enforced throughout the organisation.

*More information on the Risk Monitoring Committee Charter is available on the website*

### *Composition and meetings*

As per its Charter, the RMC shall consist of at least three members, including the Chief Executive, with a majority of non-executive directors. The Chairperson of the Committee should be a non-executive director and shall not be the Chairperson of the Board. The RMC meets at least quarterly and on an ad hoc basis when required.

| Members | Committee member since | Board status | Meeting attendance |
|---|---|---|---|
| **Jean-Louis MATTEI *(Chairperson)*** | **July 2014** | **Independent Non-Executive Director** | **2/4** |
| Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE | February 2015 | Independent Non-Executive Director | 4/4 |
| Didier HAREL | February 2016 | Independent Non-Executive Director | 4/4 |
| Gilbert GNANY | July 2014 | Executive Director | 4/4 |
| Pierre Guy NOEL | July 2014 | Executive Director | 4/4 |
| Gérard HARDY | July 2014 (Retired in September 2016) | Independent Non-Executive Director | 1/1 |

# Corporate governance report

### *Focus areas in FY 2016/17*

| **Key topics** |
| --- |
| • Reviewed the Group's risk appetite<br>• Appraised reports from the Group's banking entities and non-banking subsidiaries that covered the principal risks and reviewed actions taken to mitigate them<br>• Reviewed and assessed the adequacy of capital, funding and liquidity requirements of the Group and of the banking subsidiaries<br>• Monitored risk portfolios of the banking subsidiaries in particular against set limits<br>• Reviewed, discussed, assessed and monitored the key risks of specific non-banking subsidiaries<br>• Assessed the progress of IFRS 9 implementation<br>• Reviewed the asset quality metrics of the Group |

## Audit Committee (AC)

### *Mandate*

The AC assists the Board in overseeing MCB Group Ltd and its subsidiaries in matters relating to the safeguarding of assets, the monitoring of internal control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

### *Role and responsibilities*

The main responsibilities of the Committee include the following:

- reviewing the quarterly results and annual financial statements prior to submission and approval of the Board;
- reviewing the effectiveness of the Group's internal control and reporting systems;
- monitoring the effectiveness of the internal audit function;
- assessing audit matters pertaining to the Company and its subsidiaries;
- overseeing the financial reporting procedures in accordance with prescribed standards and addressing relevant significant issues;
- making recommendations to the Board on the appointment and retention of external auditors;
- evaluating the effectiveness and independence of external auditors and assessing the implications of the supply of non-audit services;
- reviewing the overall scope and deliverables of external auditors as well as their remuneration;
- reviewing the operational risks and actions taken to mitigate them; and
- ensuring compliance by the Company and its subsidiaries, with the requirements of relevant constitutions, legislations and regulations.

*More information on the Audit Committee Charter is available on the website*

### *Composition and meetings*

As per its Charter, the AC shall consist of a minimum of three non-executive members, with a majority of independent directors from whom the Chairperson shall be nominated. The Chairperson of the Board and the Chief Executive should not be a member of the AC. The Committee meets at least four times a year corresponding to the Company's quarterly reporting cycle and on an ad hoc basis when required. Moreover, the Committee also holds consultations with the Chairpersons of Audit Committees of subsidiaries as deemed appropriate.

The directors who served on the AC as well as their attendance at committee meetings during FY 2016/17 are provided in the following table.

| Members | Committee member since | Board status | Meeting attendance |
|---|---|---|---|
| **Sunil BANYMANDHUB *(Chairperson)*** | **July 2014** | **Independent Non-Executive Director** | **8/8** |
| Alain REY | February 2016 | Independent Non-Executive Director | 7/8 |
| Margaret WONG PING LUN | July 2014 | Independent Non-Executive Director | 7/8 |

### *Focus areas in FY 2016/17*

| Key topics |
|---|
| • Examined and reviewed the interim and audited consolidated financial statements published by the Group |
| • Considered reports from internal and external auditors and monitored actions taken accordingly |
| • Reviewed internal audit reports of all subsidiaries |
| • Considered and reviewed the compliance report of all subsidiaries |
| • Reviewed and monitored progress on the implementation of IFRS 9 |
| • Discussed the adequacy of allowance for credit impairment |
| • Reviewed and approved the audit objectives and scope of the external auditor |
| • Approved the audit plan of the external auditor |

# Corporate governance report

## Remuneration, Corporate Governance and Ethics Committee (RCGEC)

### *Mandate*

The RCGEC assists the Board with respect to all remuneration aspects, corporate governance matters and nomination of directors and senior executives of MCB Group Ltd.

### *Role and responsibilities*

The main responsibilities of the Committee include:

- identifying and recommending suitable candidates for the Boards and Committees of the Company and its subsidiaries while ascertaining that potential new directors and senior officers are fit and proper persons;
- establishing formal, clear and transparent criteria for selecting prospective directors and evaluating the performance of current directors;
- assessing Board effectiveness and reviewing the Board structure, size and composition to ensure an appropriate balance of skills and expertise, with a majority of independent non-executive directors;
- conducting Board evaluation on a regular basis;
- setting and developing the Group's general policy concerning the remuneration of directors and reviewing their remuneration, taking into account their responsibilities, workload and attendance at meetings;
- making recommendations to the Board regarding the use of incentive plans and equity-based remuneration for executive directors;
- reviewing the succession plan for both executive and non-executive directors as well as for senior executives and the list of talents;
- ensuring that an induction programme is provided to new directors of the Group and its subsidiaries so that Board members understand their roles, duties and responsibilities;
- guaranteeing that no material conflict of interests exists/arises in conducting business;
- determining and developing the Group's general policy on corporate governance in accordance with the applicable Code of Corporate Governance; and
- reviewing the 'Code of Ethics' of the Group and overseeing compliance thereto while ensuring that core principles are embedded in the Group's corporate culture.

*More information on the Remuneration, Corporate Governance and Ethics Committee Charter is available on the website*

### *Composition and meetings*

As per its Charter, the RCGEC shall consist of at least three members, the majority of whom shall be non-executive directors. The Chairperson should be a non-executive director and shall normally be the Chairperson of the Board. The Chief Executive may be a member of the Committee. The Committee meets at least twice a year and on an ad hoc basis when required.

The directors who served on the RCGEC as well as their attendance at committee meetings during FY 2016/17 are provided in the following table.

| Members | Committee member since | Board status | Meeting attendance |
|---|---|---|---|
| **Didier HAREL *(Chairperson)*** | **September 2016** | **Independent Non-Executive Director** | **3/3** |
| Karuna BHOOJEDHUR-OBEEGADOO | February 2016 | Independent Non-Executive Director | 4/5 |
| Navin HOOLOOMANN,C.S.K | July 2014 | Independent Non-Executive Director | 4/5 |
| Jean-Pierre MONTOCCHIO | July 2014 | Independent Non-Executive Director | 4/5 |
| Pierre Guy NOEL | July 2014 | Executive Director | 5/5 |
| Gérard HARDY | July 2014<br>(Retired in September 2016) | Independent Non-Executive Director | 1/2 |

### *Focus areas in FY 2016/17*

**Key topics**

- Reviewed Board composition and proposed for Board approval the appointment of Mr. Jean Michel Ng Tseung as Board member
- Considered and proposed for approval by the Board the establishment of two new Committees namely the Strategy Committee and the Supervisory and Monitoring Committee as well as their composition
- Reviewed the Group's general remuneration policy
- Reviewed and assessed the effectiveness of the Board and directors with the assistance of an external facilitator
- Discussed and assessed the implications of the new National Code of Corporate Governance for Mauritius
- Considered and proposed for approval the appointment of senior executives at subsidiaries' level

## Strategy Committee (SC)

### *Mandate*

The SC assists the Board in overseeing the business strategy of MCB Group Ltd and its subsidiaries and measures the latter's performance against set objectives whilst ensuring that capital allocation is appropriate. In addition, it helps the Board in assessing major financial and investment plans and other material issues that affect the development of the Group.

### *Role and responsibilities*

The main responsibilities of the Committee include:

- reviewing the Group's strategic direction and recommending to the Board the development strategy to be pursued;
- taking stock of the strategic plans of the main entities of the Group to ensure alignment with the set strategic direction;
- discussing, reviewing and recommending to the Board any such matters or issues which relate to the strategic planning of the Group;

- assessing new business proposals including acquisitions/joint ventures and making appropriate recommendations;
- reviewing and recommending strategic investments or divestments in strategic assets;
- making recommendations regarding strategic capital allocation;
- reviewing proposals for raising of funds as submitted by the Management and making suggestions in that respect to the Board;
- assessing plans for significant restructuring and adjustments of the Group and making recommendations accordingly; and
- reviewing proposals, as appropriate, regarding the organisational structure of MCB Group Ltd with a view to optimising the Group's operational effectiveness.

*More information on the Strategy Committee Charter is available on the website*

### *Composition and meetings*

As per its Charter, the SC shall consist of at least five members, majority of whom shall be non-executive directors. The Chief Executive shall also be a member of the Committee. The Chairperson of the Committee should be a non-executive director and shall normally be the Chairperson of the Board. The Committee meets at least four times in a year and on an ad hoc basis when required. The Chairperson of MCB Ltd and Chief Executives of entities of the Group may be invited to attend SC's meetings as and when required.

The directors who served on the SC as well as their attendance at committee meetings during FY 2016/17 are provided in the following table.

| Members | Committee member since | Board status | Meeting attendance |
|---|---|---|---|
| **Didier HAREL *(Chairperson)*** | **November 2016** | **Independent Non-Executive Director** | **5/5** |
| Sunil BANYMANDHUB | November 2016 | Independent Non-Executive Director | 5/5 |
| Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE | November 2016 | Independent Non-Executive Director | 5/5 |
| Jean-Louis MATTEI | November 2016 | Independent Non-Executive Director | 5/5 |
| Gilbert GNANY | November 2016 | Executive Director | 5/5 |
| Pierre Guy NOEL | November 2016 | Executive Director | 5/5 |

### *Focus areas in FY 2016/17*

| Key topics |
|---|
| • Discussed on the international expansion strategy and orientations of the Group |
| • Reviewed and monitored progress with respect to the medium term growth strategy of MCB Ltd |
| • Examined the strategic orientations of specific non-banking entities |
| • Reviewed and discussed on the Group's Asset Management offerings |
| • Deliberated on the operating model supporting the Group, notably in terms of Shared Services within the Group |

## Supervisory and Monitoring Committee (SMC)

### *Mandate*

The SMC assists the Board in overseeing the overall management of MCB Group Ltd and its subsidiaries as well as in providing direction and guidance on major policy matters. It also monitors and measures the Group's performance against set objectives, in line with the strategic orientations.

### *Role and responsibilities*

The main responsibilities of the Committee include:

- supervising and monitoring the activities of MCB Group Ltd and its subsidiaries while ensuring that the Board is continuously updated on all significant matters that can have a material impact on the Group;
- setting the tone as regards the Group's corporate values, business ethics, brand values and missions and ensuring that these filter down into the work environment of the subsidiaries of MCB Group Ltd;
- monitoring the implementation of the Group's HR policies and ensuring alignment across the subsidiaries of the Group;
- ensuring that clear lines of responsibility and accountability exist throughout the Group;
- monitoring the implementation of the policies with respect to the provision of Shared Group Services to the subsidiaries of the Group;
- proposing the dividend remittance policy to the Board; and
- reviewing capital markets activity, including monitoring changes in the share capital.

The SMC is, subject to any decision which the Board may take from time to time, competent to exercise all or any powers, authorities and discretions vested in or exercisable by the Board with the exception of those set out in the Seventh Schedule of the Companies Act 2001.

*More information on the Supervisory and Monitoring Committee Charter is available on the website*

### *Composition and meetings*

As per its Charter, the SMC shall consist of a minimum of three members, including the Chairperson and the Chief Executive. Chief Executives of the subsidiaries of MCB Group Ltd may be invited to attend SMC's meetings as required. The SMC shall meet regularly and on an ad hoc basis when required.

The directors on the SMC are provided in the following table.

| Members | Committee member since | Board status |
|---|---|---|
| **Didier HAREL *(Chairperson)*** | **July 2017** | **Independent Non-Executive Director** |
| Jean Michel NG TSEUNG | July 2017 | Non-Executive Director |
| Pierre Guy NOEL | July 2017 | Executive Director |

# Corporate governance report

***Focus areas since implementation***

| Key topics |
|---|
| • Monitored the progress of approved strategies and major policies<br>• Monitored the implementation of policies with respect to Shared Group Services<br>• Assessed and discussed major investment decisions<br>• Considered legal, operational and compliance issues<br>• Followed up on recommendations of the various Board Committees |

## Board Effectiveness

### Nomination Process

The mix of competencies, knowledge and experience of directors enriches Board discussions and contributes towards a high performing and effective Board. As such, the size and composition of the Board is so established to ensure an appropriate balance of skills and expertise with the aim of achieving strategic objectives set for the organisation. Whilst seeking to retain a core of directors with long-standing knowledge of the Group, the Board also recognises the importance of rotation to ensure its renewal and continued effectiveness, with due emphasis laid on succession planning. The process and policy for the nomination and appointment of directors for the Group, provided in the opposite diagram, is owned by the Remuneration, Corporate Governance and Ethics Committee (RCGEC), as delegated by the Board. Re-appointment of directors is also based on the recommendations of the RCGEC and is subject to approval of the Board and election by shareholders at the Annual Meeting of Shareholders. It is worth highlighting that, at each Annual Meeting, one third of Board members, notably those who have been longest in office, are required to retire, while being eligible to stand for re-election.

The RCGEC has established a set of criteria for the selection of prospective directors in view of the needs and strategic orientations of the Group, alongside considering gender diversity in its assessment. These, amongst others, relate to their knowledge base, competencies, experience, time commitment, ethics and values which provide the basis for assessing prospective successors for the Board and its Committees. While favouring a majority of independent non-executive directors, the Board seeks to promote diversity in terms of the combination of personalities and experience contributing to a comprehensive range of perspectives, which improves the quality of decision making and avoids undue reliance on any individual(s).

*More information on the nomination and appointment process is available on the website*

**Nomination and appointment process**

The RCGEC identifies potential candidate(s) for the Board of the Company and for its subsidiaries in line with established criteria.

▼

The RCGEC carries out interviews of the potential candidate(s) before selecting appropriate candidate(s).

▼

The RCGEC proposes the selected candidate(s) to the Board of the Company or to the Board of subsidiaries for review and approval, where applicable.

▼

Once the Board has reviewed and is satisfied with the profile of the candidate(s), the Board shall request the approval of the regulatory authorities, where applicable.

▼

Upon approval from regulatory authorities, the Board either (i) appoints the candidate(s) to fill a casual vacancy or as an addition to the existing directors until election at the next Annual Meeting of Shareholders; or (ii) proposes the prospective candidate(s) for election by way of an ordinary resolution in a Special Meeting of Shareholders, with notice duly sent to all shareholders.

▼

A letter of appointment stipulating the terms and conditions is remitted to the new director(s).

▼

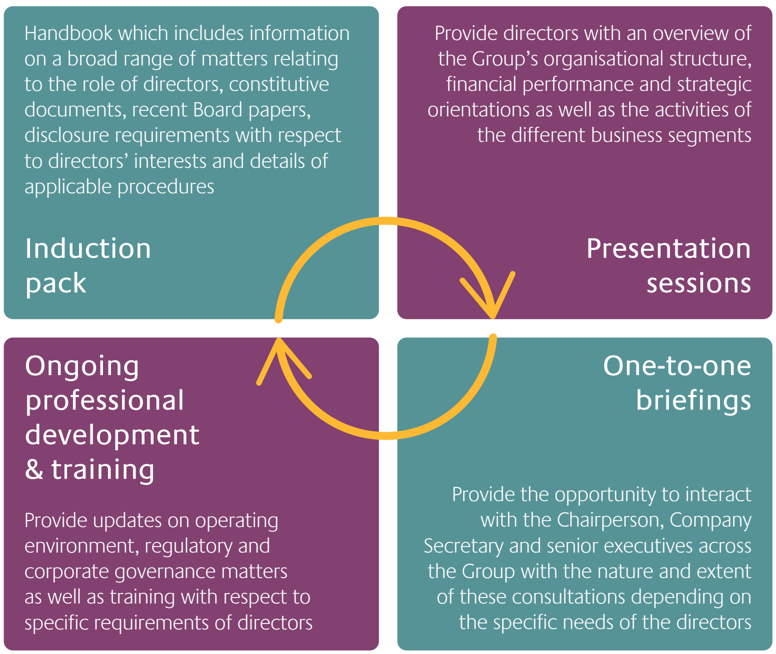
Necessary filing is effected with relevant regulatory authorities.

## Board Induction and Training

On appointment to the Board, all directors receive an extensive, formal and tailored induction programme which is designed to provide them with sufficient knowledge and understanding of the business and markets in which the Group operates to enable them to effectively contribute to strategic discussions and oversight of the Group. They are also made aware of their responsibilities and legal duties.

The Board also recognises the importance of ongoing professional development and training to sustain an effective, well-informed and functional Board. During the last financial year, directors received training, in collaboration with the Mauritius Institute of Directors (MIoD), notably on corporate governance matters, covering the principles and main disclosure requirements of the new Code. Of note, the Company Secretary maintains a training and development log for each director, which is used as a basis for identification of future development opportunities specific to the director's requirements. As such, this helped to put in place a formal development programme for the directors, covering their training requirements. An outline of the induction/training programme is set out in the diagram hereafter.

### Induction/training



## Board/Directors' Performance

The Board recognises the need to undertake a regular review of the performance as well as the effectiveness of the Board and its Committees. The annual review, which falls under the responsibility of the RCGEC, assesses whether directors continue to discharge their respective duties effectively. In this respect, an evaluation exercise was conducted in June 2017 by an external independent consultant, BDO. The results confirmed, amongst others, that the correct structures, processes and procedures are in place and that the composition of the Board is appropriate with the independent directors fulfilling their roles effectively. A few recommendations for improvement were identified and these have been duly considered by the Board. An outline of the evaluation process methodology used in FY 2016/17 is provided in the diagram below.

**Evaluation process methodology**

A detailed online questionnaire was completed by each director

A comprehensive report was thereafter submitted to the RCGEC

The findings were presented by the external facilitators and discussed with Board members in a Board meeting

Action plans were agreed by Board members to address gaps identified

In addition, the Chairperson held one-on-one meetings with individual directors to provide feedback and discussed their performance and development needs

# Risk Governance and Internal Controls

## Risk Management and Internal Control

Being mindful of the risks faced by the entities of the Group in their day-to-day operations and activities, the Board of MCB Group Ltd acknowledges its responsibility for maintaining a robust risk management and internal control system and for reviewing its effectiveness on a regular basis. In this respect, the Board ensures that the necessary structures, processes and methods for identifying, measuring and monitoring such risks are in place and integrated in the Group's overall framework for risk governance. In line with its business development orientations, the Board identifies the main risks and determines the principal strategies in respect of the risk management of the Company and its subsidiaries, while ensuring that all laws, regulations and codes of business practice are adhered to. For the discharge of its duties, the Board is assisted by sub-committees, notably the Risk Monitoring Committee, which enable it to properly formulate, review and approve policies on monitoring and managing risk exposures. In the same vein, respective Risk Committees of the Group's subsidiaries ensure that risk-taking activities stay within set limits, taking into consideration the sector norms and country specific requirements. The Board gains assurance that risks are effectively managed through regular reporting and presentations by the Chairpersons of relevant Committees.

Besides, the Group's internal control framework seeks to ensure the reliability of financial reporting, operations and systems whilst guaranteeing compliance with internal established policies and procedures as well as with laws, regulations, and codes of business practice in order to protect the Group's assets and reputation. The Board is assisted in its responsibilities by the Audit Committee which oversees the effectiveness of the Group's internal control systems. Processes are in place to monitor the effectiveness of internal control, identify and report any significant issues, and ensure that timely and appropriate corrective actions are taken. In carrying out its duties, the Audit Committee receives regular reports from the Internal Audit function of MCB Ltd. The Committee holds frequent meetings with the Chief Executive and the Head of Internal Audit while receiving feedback from Audit

Committees of subsidiaries. In addition, it receives reports from the Company's external auditor and has separate sessions with the latter without Management being present. As such, through the internal control in place, the audit reports, the reviews by Management and the regular reporting from the Chairperson of the Audit Committee, the Board gains assurance that the Group's internal control systems are adequate and effective.

*More information is available in the Risk Management Report on pages 156 to 194*

## Information Governance

The Group lays due emphasis on the confidentiality, integrity, availability and protection of information, backed by an adapted information and information technology (IT) systems. The Board ensures that prudent and reasonable steps are taken in order that the IT governance framework forms an integral part of the overall corporate governance of the Group and are managed according to set policies. For fulfilling this obligation, the Board is supported by the Risk Monitoring Committee for reviewing information risks and actions taken to mitigate them as well as to ensure that the performance of information and information technology systems leads to business benefits and creates value. The oversight and monitoring of the security and performance of information and information technology systems is undertaken by the respective Risk Committees of the Group's subsidiaries which ensure that relevant issues are duly escalated. For its part, Management is responsible for implementing the policies, procedures and practices to protect the Group's information, in line with regulatory and industry norms. The Group ensures that access to information is only available to authorised parties while having physical and logical access controls in place at all times and staff are regularly made aware, through fitting communication channels, of relevant requirements. While the Audit Committee evaluates the effectiveness of related internal control systems, the set-up provides for independent assurance with notably the Internal Audit function which acts as an additional line of defence to assess the suitability of the Group entities' securities policies, standards and related procedures.

*More information is available in the 'Information, Information Technology and Information Security Governance Policy' on the website*

## External Auditors

With a view to ensuring the overall adequacy of the Group's internal control framework, the Audit Committee evaluates the independence and effectiveness of the external auditors on an ongoing basis before making a recommendation to the Board on their appointment and retention. In line with the amendments brought to the Banking Act 2004, which stipulates that an audit firm is not allowed to audit a financial institution for a continuous period of more than five years, the Audit Committee has reviewed the eligibility of external auditors. As such, BDO & Co was de facto not qualified for the renewal of its contract as external auditor at MCB Ltd, the mainstay of the Group, and PricewaterhouseCoopers Ltd (PwC) was subsequently recommended to the Board as single external auditor and reappointed for both MCB Ltd and MCB Group Ltd. Several factors such as PwC's availability of resources and ability to complete the audits in a timely manner were considered, amongst others. The proposal was approved by shareholders at the Annual Meeting of Shareholders held in November 2016. As regards the timeframe, the total duration of the audit assignment is for a period of one year with the possibility of reappointment of the selected firm/s annually, subject to approval at the Annual Meeting of Shareholders of MCB Group Ltd. The latter retains the right to renew and extend the contract following an assessment by the Audit Committee of the external auditor's overall scope, terms of reference and independence.

### *Non-audit services*

MCB Group Ltd, via the Audit Committee, has a process in place to ensure that there is no threat to the objectivity and independence of external auditors in the conduct of the audit, resulting from the provision of non-audit services by them. As such, non-audit services, which are limited to ad hoc advice and other assurance related services, are pre-approved by the Audit Committee.

# Corporate governance report

### *Auditors' fees and fees for other services*

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | The Group | The Company | The Group | The Company |
| | Rs '000 | Rs '000 | Rs '000 | Rs '000 |
| **Audit fees paid to:** | | | | |
| BDO & Co | 2,443 | - | 13,471 | 575 |
| PricewaterhouseCoopers Ltd | 19,855 | 1,024 | 10,810 | 575 |
| Other firms | 2,268 | - | 2,317 | - |
| **Fees for other services provided by:** | | | | |
| BDO & Co | - | - | 1,486 | - |
| PricewaterhouseCoopers Ltd | 3,334 | - | 1,380 | - |

*Note that the fees for other services relate to the annual internal control review, the three quarterly reviews of our abridged financial statements and a specific comfort required by one of our counterparties.*

## Directors of MCB Group Ltd Subsidiaries

The current Board composition of the subsidiaries is given hereafter, with the corresponding Chairpersons as well as Chief Executives or Managing Directors (where applicable) sitting on the respective Boards being mentioned. Changes in the Board composition during the financial year 2016/17 and to date are also highlighted.

### MCB INVESTMENT HOLDING LTD

**Pierre Guy NOEL *(Chairperson)***
Jean-François DESVAUX DE MARIGNY
Jean Michel NG TSEUNG (Chief Executive)

### THE MAURITIUS COMMERCIAL BANK LTD

**Jean-Philippe COULIER *(Chairperson)***
Priscilla BALGOBIN-BHOYRUL
Jonathan CRICHTON
Gilles GUFFLET
Raoul GUFFLET *(Deputy Chief Executive)*
Alain LAW MIN *(Chief Executive)*
Jean Michel NG TSEUNG
Iqbal RAJAHBALEE *(until July 2017)*
Simon Pierre REY
Antony R. WITHERS *(until January 2017)*

### MCB MADAGASCAR SA

**Jean-François DESVAUX DE MARIGNY (Chairperson)**
Marc DE BOLLIVIER *(until October 2016)*
Raoul GUFFLET
Jean MAMET
Jean Michel NG TSEUNG *(as from April 2017)*
Pierre Guy NOEL
Michel PICHON *(until February 2017)*
Rony RADAYLALL (Deputy Managing Director) *(as from December 2016)*
Patrick RAZAFINDRAFITO

### MCB (MALDIVES) PRIVATE LTD

**Pierre Guy NOEL *(Chairperson)***
Jean-François DESVAUX DE MARIGNY
Gilbert GNANY
Raoul GUFFLET
Jean MAMET *(until April 2017)*
Laila MANIK
Gilles MARIE JEANNE *(Managing Director)*
Jean Michel NG TSEUNG *(as from May 2017)*

### MCB SEYCHELLES LTD

**Pierre Guy NOEL *(Chairperson)***
Regis BISTOQUET *(Deputy Managing Director)*
Jean-François DESVAUX DE MARIGNY
Gilbert GNANY
Raoul GUFFLET
Bernard JACKSON *(Managing Director)*
Jean MAMET
Jean Michel NG TSEUNG *(as from March 2017)*

## MCB INTERNATIONAL SERVICES LTD[1]

**Jean-François DESVAUX DE MARIGNY *(Chairperson)***
Regis BISTOQUET
Bernard JACKSON

## MASCAREIGNES PROPERTIES LTD[1]

**Pierre Guy NOEL *(Chairperson)***
Regis BISTOQUET
Jean-François DESVAUX DE MARIGNY
Raoul GUFFLET
Bernard JACKSON
Jean MAMET

## MCB CAPITAL MARKETS LTD

**Pierre Guy NOEL *(Chairperson)***
Bertrand DE CHAZAL
Gilbert GNANY
Rony LAM YAN FOON *(Chief Executive Officer)*
Jean MAMET
Jeremy PAULSON-ELLIS

## MCB INVESTMENT SERVICES LTD2[2]

**Gilbert GNANY *(Chairperson)***
Rony LAM YAN FOON
Akesh UMANEE

## MCB INVESTMENT SERVICES (RWANDA) LTD[2]

**Gilbert GNANY *(Chairperson)***
Rony LAM YAN FOON
Asante TWAGIRA

## MCB REGISTRY & SECURITIES LTD[2]

**Gilbert GNANY *(Chairperson)***
Rony LAM YAN FOON
Marivonne OXENHAM *(Managing Director)*

## MCB REGISTRY & SECURITIES (RWANDA) LTD[2]

**Gilbert GNANY *(Chairperson)***
Rony LAM YAN FOON
Marivonne OXENHAM
Asante TWAGIRA

## MCB STOCKBROKERS LTD[2]

**Gilbert GNANY *(Chairperson)***
Rony LAM YAN FOON
Jeremy PAULSON-ELLIS
Shivraj RANGASAMI (Managing Director)

## MCB CAPITAL PARTNERS LTD[2]

**Gilbert GNANY *(Chairperson)***
Rony LAM YAN FOON
Joël LAMBERT
Bernard YEN

## MCB INVESTMENT MANAGEMENT CO. LTD[2]

**Gilbert GNANY *(Chairperson)***
Ameenah IBRAHIM *(Managing Director)*
Rony LAM YAN FOON
Michaël NAAMEH
Jeremy PAULSON-ELLIS

## MCB STRUCTURED SOLUTIONS LTD[2]

**Gilbert GNANY *(Chairperson)***
Rony LAM YAN FOON
Joël LAMBERT
Vimal ORI

## CM STRUCTURED PRODUCTS (1) LTD[2]

*(Incorporated in November 2016)*
**Gilbert GNANY *(Chairperson)***
Rony LAM YAN FOON
Joël LAMBERT
Vimal ORI

## MCB EQUITY FUND LTD

**Bertrand DE CHAZAL *(Chairperson)***
Jean MAMET
Pierre Guy NOEL

## MCB FINANCIAL ADVISERS[2]

*(Incorporated in March 2017)*

**Gilbert GNANY *(Chairperson)***
Rony LAM YAN FOON
Joël LAMBERT

### MCB FACTORS LTD

**Jean MAMET *(Chairperson)***
Koomaren CUNNOOSAMY
Jean-Mée ERNEST *(Managing Director)*
Pierre Guy NOEL
Margaret WONG PING LUN

### FINLEASE COMPANY LTD [3]

**Bernard D'HOTMAN DE VILLIERS *(Chairperson)***
Sow Man (Claude) AH YUK SHING
Alain CHAMARY *(Managing Director) (until August 2017)*
Raj GUNGAH *(Managing Director) (as from September 2017)*
Alain LAW MIN
François MONTOCCHIO
Jean Michel NG TSEUNG

### MCB MICROFINANCE LTD

**Pierre Guy NOEL *(Chairperson)***
Paul CORSON
Gilbert GNANY
Aurélie LECLEZIO *(Chief Executive Officer)*
Alain REY

### FINCORP INVESTMENT LTD

**Jean-Pierre MONTOCCHIO *(Chairperson)***
Sunil BANYMANDHUB
Herbert COUACAUD, C.M.G.
Bashirali Abdulla CURRIMJEE, G.O.S.K.
Michel DOGER DE SPEVILLE, C.B.E.

### INTERNATIONAL CARD PROCESSING SERVICES LTD

**Pierre Guy NOEL *(Chairperson)***
Jean-Michel FELIX
Mohamed HORANI
Samir KHALLOUQUI
Angelo LETIMIER *(Managing Director)*

### MCB CONSULTING SERVICES LTD

**Pierre Guy NOEL *(Chairperson)***
Jean-Michel FELIX *(Chief Executive Officer)*
Gilbert GNANY
Angelo LETIMIER

### MCB PROPERTIES LTD

**Pierre Guy NOEL *(Chairperson)***
Gilbert GNANY

### MCB REAL ASSETS LTD

*(Incorporated in August 2017)*
**Pierre Guy NOEL *(Chairperson)***
Gilbert GNANY

### BLUE PENNY MUSEUM

**Philippe A. FORGET *(Chairperson)***
Jean-François DESVAUX DE MARIGNY
Raoul GUFFLET
Gérard HARDY *(until October 2016)*
Damien MAMET
Pierre Guy NOEL

### MCB FORWARD FOUNDATION

**Didier HAREL *(Chairperson) (as from October 2016)***
Jean-Philippe COULIER
Gilbert GNANY
Gérard HARDY *(until October 2016)*
Alain LAW MIN *(as from June 2017)*
Madeleine de MARASSE ENOUF
Pierre Guy NOEL
Antony R. WITHERS *(until January 2017)*

[1] *Incorporated in Seychelles*
[2] *A subsidiary of MCB Capital Markets Ltd*
[3] *A subsidiary of Fincorp Investment Ltd*

### Directors of Subsidiaries' Remuneration

The directors of subsidiaries, who did not sit on the Board of MCB Group Ltd during the year, received the following remuneration and benefits.

| Renumeration and benefits received (Rs '000) | 2017 | 2016 |
|---|---|---|
| Executive (Full-time) | 197,424 | 165,547 |
| Non-executive | 9,460 | 8,881 |
| | **206,884** | **174,428** |

*Note: The above figures, as from this financial year, include post employment benefits.*

## Shareholder Relations and Communication

The Board recognises that effective communication plays an important role in building shareholder value and is committed to providing meaningful, transparent, timely and accurate financial and non-financial information to shareholders, in strict compliance with applicable rules and regulations. The Group promotes open and productive dialogues with shareholders with a view to providing them with the opportunity to share their views, while ensuring that their information needs are promptly attended to. Moreover, the Group has a diverse range of shareholders and investors with different communication and engagement needs which are addressed by dedicated teams.

### Relationships with Retail Shareholders

The Company Secretary – supported by the Group's Registrar and Transfer Agent and MCB Registry and Securities Ltd – caters for information needs that range from the sending of relevant correspondences to responding to their queries in a timely manner. The Company Secretary also provides feedback to the Board to ensure that the views of retail shareholders are received and considered.

### Relationships with Institutional Investors

The Group's Investor Relations (IR) Unit acts as the main point of contact and has the day-to-day responsibility for upholding relationships with existing and potential institutional investors in particular. The Group's investor relations activities promote regular, effective and fair communication with institutional equity investors. These relationships with investors helped them to gain perspectives on the Group's longer-term strategic developments and recent financial performance, while enabling the IR Unit to gather feedback on market perception. In addition to direct shareholder engagement, the unit provides regular reports to executives of MCB Group Ltd on key market issues and the shareholding evolutions.

### Shareholding Profile

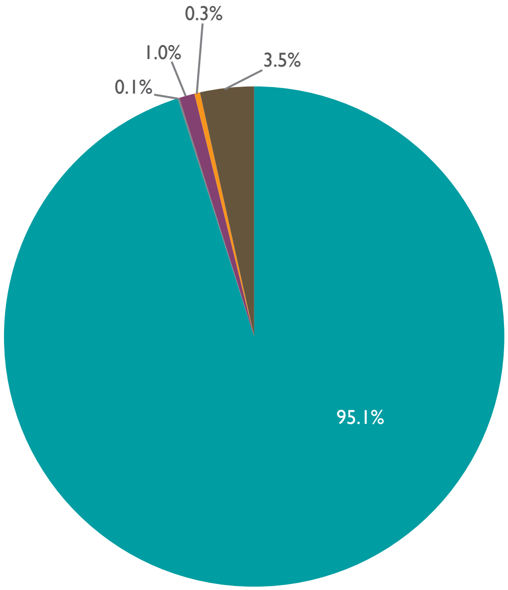
The Group nurtures a wide and diversified ownership base of more than 18,500 shareholders, with foreign shareholding accounting for more than 17% of the total. As at 30 June 2017, outstanding ordinary issued capital of MCB Group Ltd amounted to Rs 2.5 billion, comprising 238.4 million ordinary shares. The following tables set out the 10 largest shareholders and ownership of ordinary share capital by size and type as at 30 June 2017.

# Corporate governance report

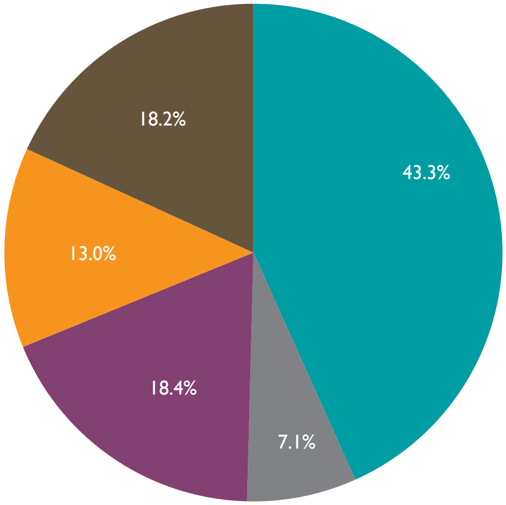
| Largest shareholders | Number of shares owned | *% Holding* |
|---|---|---|
| NATIONAL PENSIONS FUND | 16,483,120 | *6.9* |
| SWAN LIFE LTD | 7,793,227 | *3.3* |
| PROMOTION AND DEVELOPMENT LIMITED | 6,952,200 | *2.9* |
| STATE INSURANCE COMPANY OF MAURITIUS LTD | 3,839,108 | *1.6* |
| LA PRUDENCE (MAURICIENNE) ASSURANCES LIMITEE | 3,540,923 | *1.5* |
| SSL C/O SSB A/C LLOYD GEORGE INVESTMENT COMPANY PLC | 3,323,811 | *1.4* |
| THE BANK OF NEW YORK MELLON | 3,294,016 | *1.4* |
| SSB A/C SQM FRONTIER AFRICA MASTER FUND LTD | 2,625,750 | *1.1* |
| POLICY LTD | 2,523,535 | *1.1* |
| NEW MAURITIUS HOTELS GROUP SUPERANNUATION FUND | 2,264,765 | *0.9* |

| Size of shareholding | Number of shareholders | *% Holding* | Number of shares owned | *% Holding* |
|---|---|---|---|---|
| 1-500 shares | 12,180 | *65.6* | 1,360,577 | *0.6* |
| 501-1,000 shares | 1,375 | *7.4* | 1,031,677 | *0.4* |
| 1,001-5,000 shares | 2,353 | *12.7* | 5,744,110 | *2.4* |
| 5,001-10,000 shares | 791 | *4.3* | 5,667,050 | *2.4* |
| 10,001-50,000 shares | 1,192 | *6.4* | 27,427,761 | *11.5* |
| 50,001-100,000 shares | 279 | *1.5* | 19,881,375 | *8.3* |
| above 100,000 shares | 407 | *2.2* | 177,310,340 | *74.4* |
| **Total** | **18,577** | ***100.0*** | **238,422,890** | ***100.0*** |

Number of shareholders by type




Number of shares owned by type




Individuals
Insurance and Assurance Companies
Investment and Trust Companies
Pension and Provident Funds
Other Corporate Bodies

## Shareholders Agreements

There is currently no shareholders agreement affecting the governance of the Company by the Board.

## Dividend Policy

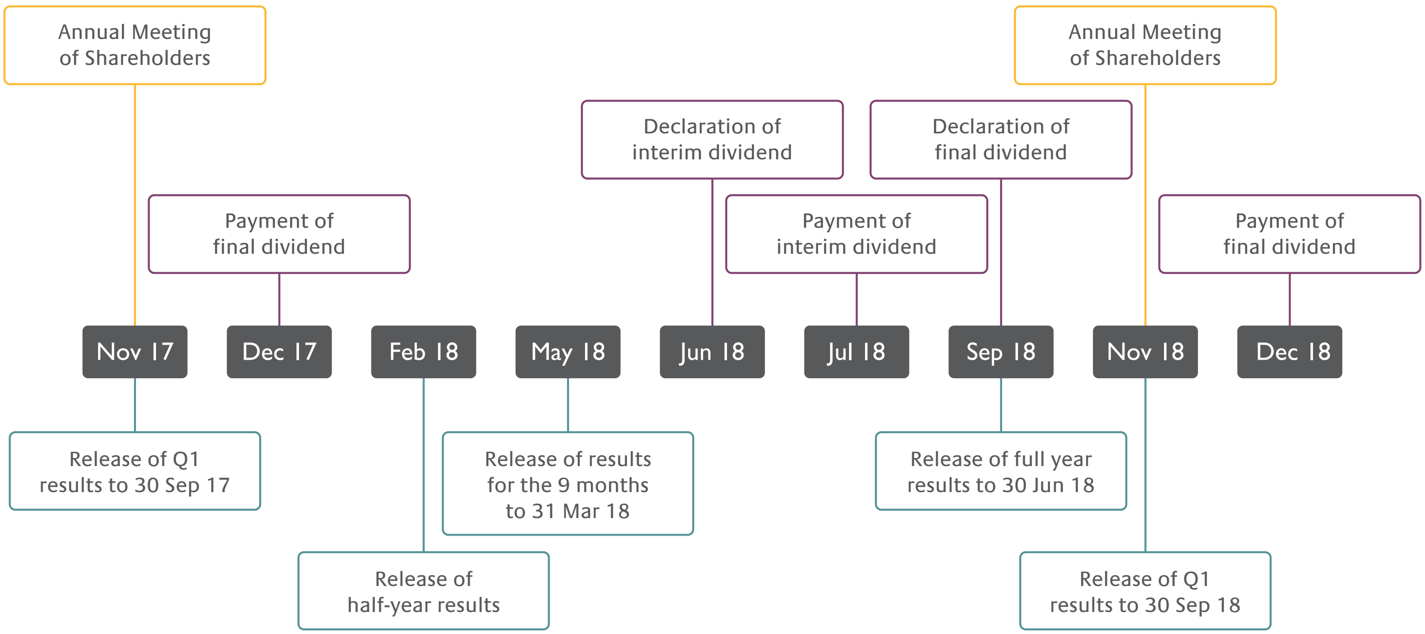
MCB Group Ltd seeks to distribute around 30% of its profits in the form of dividends. An interim dividend is declared in June and paid in July, while a final dividend is declared in September and paid in December.

*Read more on dividend in the 'Delivering value to our stakeholders' section on page 37*

# Corporate governance report

## Shareholders' Diary

FY 2017/2018




## Important Contact Information

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Tel: (230) 202 5000 – Fax: (230) 208 1167
Email: mcbrs@mcbcm.mu
Website: www.capitalmarkets.mu

**INVESTOR RELATIONS UNIT**
12th floor MCB Centre
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5134 / (230) 202 5558
Email: investor.relations@mcbgroup.com
Website: www.mcbgroup.com

## Statement of Directors' Responsibilities

Company law requires the directors to prepare Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Group.

In preparing those Financial Statements, the directors are required to:

- ensure that adequate accounting records and an effective system of internal controls and risk management have been maintained;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business;
- keep proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Group while ensuring that: the Financial Statements fairly present the state of affairs of the Group, as at the financial year end, and the results of its operations and cash flow for that period;
- ensure that the Financial Statements have been prepared in accordance with and comply with International Financial Reporting Standards and the Mauritian Companies Act 2001.

The external auditors are responsible for reporting on whether the Financial Statements are fairly presented. The directors are also responsible for safeguarding the assets of the Group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities. Other main responsibilities of the directors include the assessment of the Management's performance relative to corporate objectives; overseeing the implementation and upholding of the Code of Corporate Governance; and ensuring timely and comprehensive communication to all stakeholders on events significant to the Group.

The directors report that:

- adequate accounting records and an effective system of internal controls and risk management have been maintained;
- appropriate accounting policies supported by reasonable and prudent judgements and estimates have been consistently used;
- International Financial Reporting Standards and the Mauritian Companies Act 2001 have been adhered to.

On behalf of the Board.

**M G Didier HAREL**
Chairperson

**Pierre Guy NOEL**
Chief Executive

# Statement of compliance

*(Section 75(3) of the Financial Reporting Act)*

**Name of Public Interest Entity ('the PIE')**: MCB Group Limited
**Reporting Period**: 1 July 2016 to 30 June 2017

We, the Directors of MCB Group Limited, confirm that, to the best of our knowledge, the Company has complied with the obligations and requirements under the Code of Corporate Governance (2004) in all material aspects.

**M G Didier HAREL**
Chairperson

**Pierre Guy NOEL**
Chief Executive

29 September 2017

# Company Secretary's certificate

In our capacity as Company Secretary, we hereby certify that, to the best of our 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 in terms of section166(d).

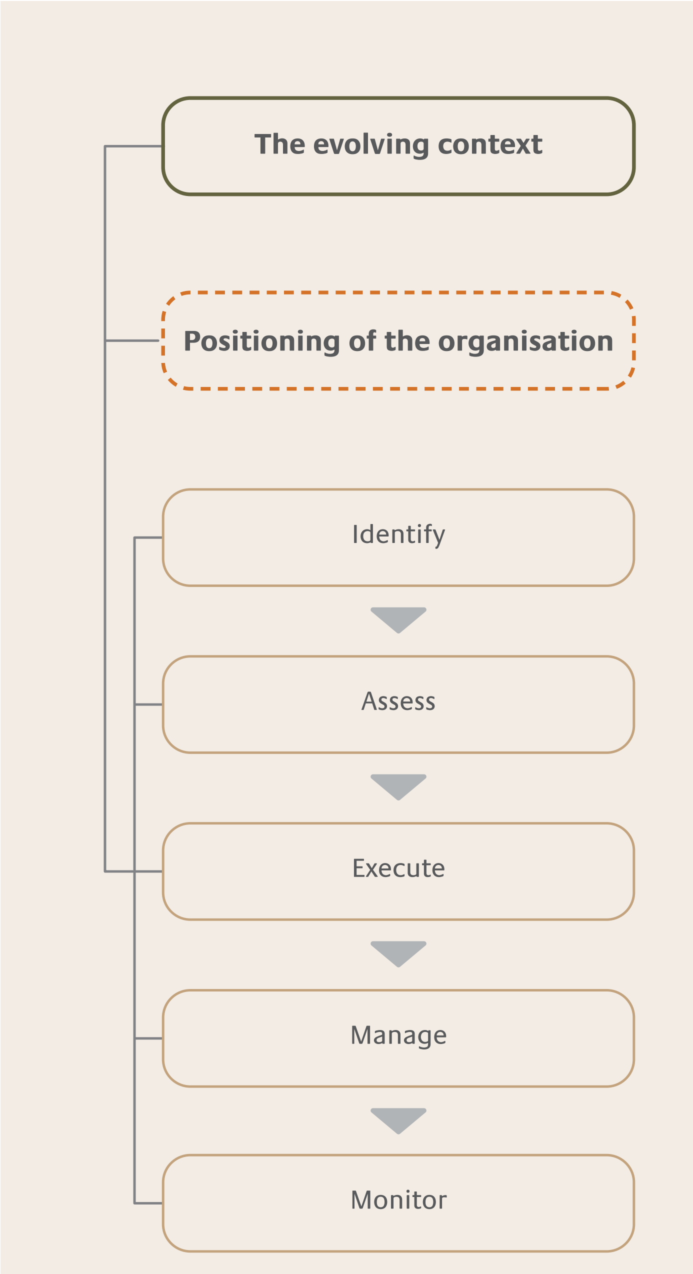
**Marivonne OXENHAM**
Per MCB Registry & Securities Ltd
Company Secretary

29 September 2017

# Business and Financial Review

# Business and financial review

## Our Operating Environment




### THE CONTEXT

Our ability to help our stakeholders in realising their aspirations is influenced by the external and internal environments in which we operate.

In FY 2016/17, the Group continued to face up to a difficult context in the markets where it is involved. Basically, it is operating in an era of perpetual change, which thus warrants consistent vigilance, notably to deal with rapidly-surfacing dynamics and increasingly challenging developments. For instance, the quick pace of digitalisation and the continuous advancement of disruptive technologies call for scrutiny and decisive actions with regard to the way in which we do business and compete across markets.

### OUR POSITIONING

During the last financial year, the Group adopted a dynamic, yet thoughtful, approach that has allowed it to sharpen its resilience and adaptability to change and effectively manage threats to its bottom-line. It stayed watchful of and tapped into avenues for business expansion across markets and geographies. Concomitantly, the Group has ensured that regulatory and compliance requirements as well as international codes and standards are strictly met.

To adequately respond to and act upon the context, the Group has, in the course of the last financial year, continuously upgraded the quality, effectiveness and efficiency of its operational platforms and processes, while fine-tuning its information systems. Additionally, the Group remained engaged in regularly appraising the implications and exigencies of ongoing and expected future developments spanning the operating landscape. This, notably, allowed the organisation to boost its level of preparedness to deal with unfolding dynamics as well as endorse suitable, targeted and flexible operational and strategic decisions that support sound business growth.

## Challenges in Executing Our Strategy

### *Macroeconomic developments*

The economic environment where the Group operates continues to be difficult, with pressures notably exerted on demand for products and services.

### *Legal and regulatory landscape*

Faced with evolving regulatory backgrounds in its presence countries, the Group remains vigilant to new developments in the relevant banking and financial services sectors.

### *Market environment*

The Group is subject to heightened competitive pressures in specific niche market segments and mixed conditions across the markets where it is involved. In particular, it faces up to persistently high liquidity conditions in the Mauritian banking sector, with concerns also prevailing in some foreign countries.

### *Digitalisation and technological innovation*

The spread of new technologies worldwide entails opportunities and challenges for the Group to leverage relevant systems and digital avenues to improve service quality and enhance its competitiveness, while triggering the need to guard against potential cyber-attacks.

### *Society and culture*

The Group is called upon to understand and thoughtfully respond to the changing behaviours, attitudes and modes of life of its customers to offer them the solutions that they demand.

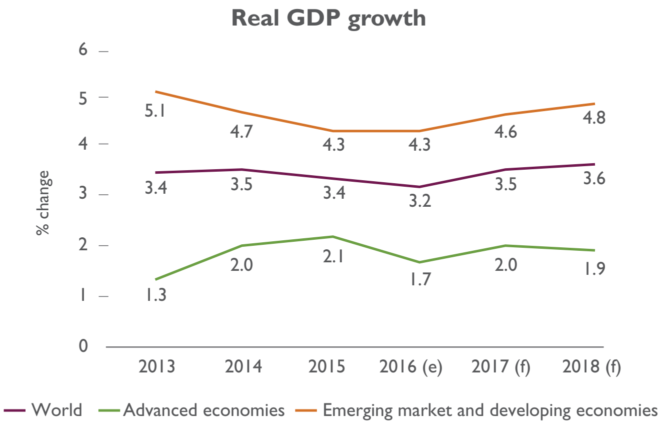
# Business and financial review

## Macroeconomic Developments

In FY 2016/17, generally soft, albeit improving, economic conditions prevailed across geographies where the Group operates.

### *The international context*

- After falling to its weakest pace since the global financial crisis last year, world GDP growth is, as per the World Economic Outlook Update of the IMF, projected to pick up to attain 3.5% this year and 3.6% in 2018, supported notably by a cyclical uptick in investment levels and higher manufacturing and trade activities. Yet, downside risks to world growth still dominate, chiefly linked to an intensification of protectionist trade measures, further policy uncertainties that could possibly trigger financial turbulences, a renewed drop in international commodity prices, as well as mounting geopolitical tensions.




*(e) estimates (f) forecasts*

*Sources: IMF, World Economic Outlook Update, July 2017 & IMF World Economic Outlook Database*

- Of relevance to our Energy and Commodities business, oil prices have, after registering a general recovery from the lows observed in 2016, receded since March last, before averaging around USD 46 per barrel in June 2017, reflecting notably strong inventory levels in the United States. As per the latest IMF observations, oil prices would stay in a volatile zone and relatively subdued in the periods ahead, though an anticipated pick-up is contemplated in 2018.

### *The Mauritian economy*

- In 2016, a relative pick-up was registered in real GDP growth, which, however remained generally restrained against the backdrop of the testing global context and domestic structural constraints. In fact, marred notably by the dampened performances of key sectors, including export oriented manufacturing industries such as textile and seafood, GDP growth is estimated at 3.8% when measured at market prices, in spite of benefiting from the good showing of the tourism, financial and business services and ICT sectors. After four consecutive years of contraction, private investment recorded an upturn last year. On the other hand, public investment levels were subdued given delays noticed in the implementation of earmarked infrastructure projects. Overall, such trends have led to nationwide capital formation growing by a relatively tempered pace last year, thus causing its share to GDP to remain under the 20% mark, which is well below the target for meeting the country's socio-economic ambitions.

- As per latest indications, real GDP growth is, in 2017, expected to remain close to last year's level, with risks to the outlook being on the downside. From a sectorial perspective, notwithstanding measures earmarked by the authorities to boost activity levels, the expected moderate expansion of the domestic oriented sector and the inhibited performance of the export oriented manufacturing sector would contribute to temper the country's growth path, with textile noticeably staying in a difficult zone, partly explained by restrained private demand from main trading partners, adverse currency dynamics and market access challenges. Conversely, in addition to being supported by the expected notable performances of the financial and business services, ICT and tourism industries on the back of their market and competitive breakthroughs, nationwide activity levels are likely to benefit from an appreciable growth in construction. In fact, the country is likely to witness an upturn in national investment levels, especially in the second half of the year, following the line-up of several undertakings, notably linked to the Public Sector Investment Programme. Thus, in spite of factoring in execution lead times, a solid expansion is foreseen in public investment. For its part, after the pick-up registered in 2016, private investment is likely to post a resilient outcome, mainly underpinned by the execution of identified ventures by operators, principally related to tourism and residential segments.

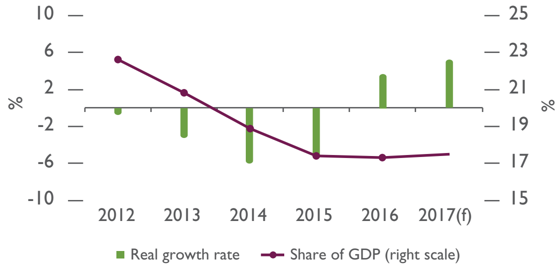
*More information on our outlook for the Mauritian economy is available on the website*

# Economic dashboard

In spite of a relative upturn in investment, economic growth remains sub-par, thus exerting pressures on nationwide employment creation.

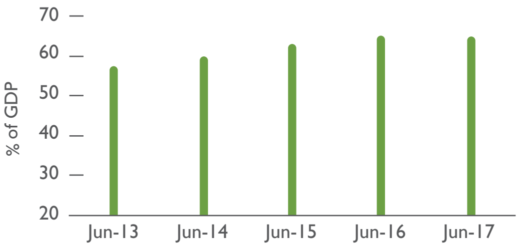
## Real GDP growth rate and unemployment


## Total investment



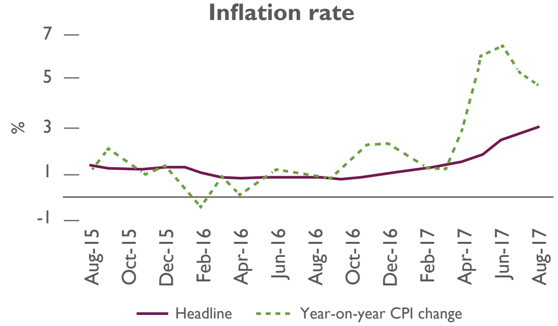

Fiscal and debt metrics continue to warrant attention given the subdued economic context and major infrastructure projects planned for realisation. On another note, whilst remaining manageable, headline inflation pursued an uptrend lately, on account essentially of increases in the prices of vegetables, cigarettes and alcoholic drinks as well as gasolene and diesel.

## Public sector debt*




* *based on international definition*

## Inflation rate



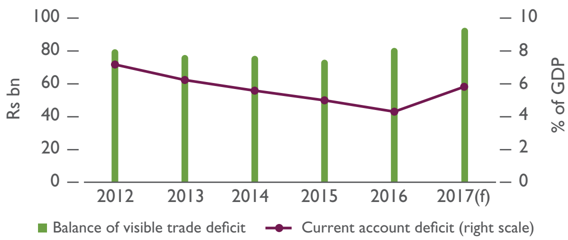

Reflecting liquidity in the forex markets, the rupee has, on a point-to-point basis, appreciated against the US dollar, the euro and the pound sterling during the year ending June 2017. Despite the anticipated worsening of external balances, compounded by exports being hit by rupee strengthening, the balance of payments is likely to remain in a surplus position in 2017.

## Currency dynamics

**Selling rates of main currencies vis-à-vis the rupee**

| | Value as at | | Annual average | |
|---|---|---|---|---|
| | 30-Jun-16 | 30-Jun-17 | FY 2015/16 | FY 2016/17 |
| USD | 36.7 | 35.4 | 36.3 | 36.4 |
| EUR | 40.8 | 40.5 | 40.3 | 39.7 |
| GBP | 49.3 | 46.1 | 53.9 | 46.2 |

## External front




*(f) MCB forecasts*

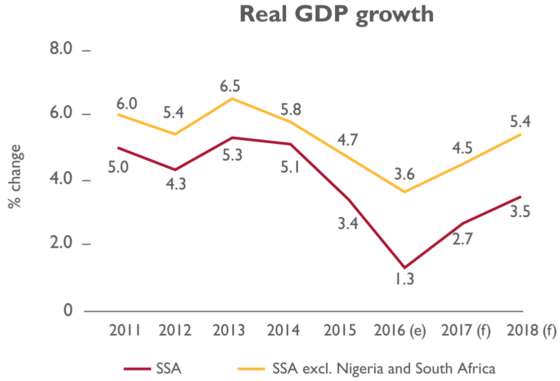
*Sources: Statistics Mauritius, Bank of Mauritius, Ministry of Finance & Economic Development and MCB staff estimates*

# Business and financial review

## Other key markets where the Group is involved

### Regional scene

- With regard to the sub-Saharan African region, economic growth reached a two-decade low last year on account, notably, of the ramifications of the marked decline in oil prices, as well as country-specific headwinds. As per the IMF, growth is projected to recover modestly and stand at 2.7% in 2017 and 3.5% for next year, principally reflecting a relative pick-up in oil and commodity prices and supportive domestic conditions. That said, although disparities exist among countries, with varying growth outturns being anticipated for the short to medium term, a more favourable outturn is observed when excluding South Africa and Nigeria.




*(e) estimates (f) forecasts*
*Sources: IMF World Economic Outlook Update, July 2017 and MCB staff estimates & IMF World Economic Outlook Database*

### Foreign presence countries

Real GDP growth (%)

| | 2016 (f) | 2017(f) | |
|---|---|---|---|
| **Madagascar** | 4.2 | 4.1 | • Following a long history of weak growth outturns amid recurrent political instability, real GDP growth reached 4.2% in 2016 – the highest level since 2008 – driven, notably by strong growth in public investment, increasing textile exports and accelerating activity in the agro-industry. In addition, appreciable headway was made in respect of the implementation of structural reforms backed, in particular, by the IMF Extended Credit Facility arrangement.<br>• Real GDP growth is projected at 4.1% in 2017. As per the IMF, this is lower than expected, partly due to the impact of cyclone and drought on agriculture and hydropower. |
| **Maldives** | 3.9 | > 4.5 | • After registering a marked slowdown during the year before, real GDP growth attained 3.9% in 2016, helped by a slight upturn in tourism, expansionary fiscal policy and reduced policy uncertainty.<br>• As per the IMF in its July 2017 assessment, real GDP growth is forecast to reach above 4.5% this year, underpinned by the unfolding of large investments notably in housing, health and airport facilities, as well as efforts to diversify the economy. |
| **Seychelles** | 4.5 | ~ 4 | • In Seychelles, economic growth stood at 4.5% in 2016, backed by increased tourist arrivals mainly from major European markets and the UAE and continued expansion in water and electricity production, as well as the appreciable performances of the information and communication, transportation and financial services sectors.<br>• In 2017, economic growth is forecast to stand at around 4%, reflecting, to a large extent, strong tourist arrivals and sustained foreign investments. |

*(f) forecasts*
*Sources: IMF World Economic Outlook database & various IMF Article IV Consultation Reports*

## Legal and regulatory environment

The legal, regulatory and compliance landscapes to which the Group is exposed have been subject to several developments. While they are aimed at reinforcing the oversight of operators and preserving the financial soundness and competitiveness of industries, such developments demonstrate the increasingly exigent environment facing financial institutions, thereby calling for due attention and the deployment of appropriate initiatives to ensure that stipulations are adhered to, alongside furthering business growth.

### *Local banking sector*

- In line with recent trends, the last financial year saw amendments made to several guidelines, with implications for the activities of banks. In particular, the Guideline on Credit Impairment Measurement and Income Recognition was revised, with definitions for 'large credit' changed and new sections brought about in relation to the classification and assessment of credit impairment, application of prudential norms in credit classification and provision for credit losses, and restructured loans. The Guideline on the Computation of Loan-to-Value (LTV) Ratio for Residential and Commercial Property Loans was revised in July 2017, notably to grant a maximum LTV of 100% of the value of the residential property for credit facilities up to an amount of Rs 5 million as regards the purchase/construction of a first housing unit. The Guideline for banks licensed to carry on private banking business was revised in July 2017, with banks not exclusively offering private banking services being now also subject to its provisions.

- Effective March 2017, the Central Bank established new operational frameworks for primary dealers and foreign exchange market makers. The aim is to develop the secondary market in Government papers and improve liquidity levels, while creating well-functioning money and foreign exchange markets. Four banks (including MCB Ltd) were appointed as Primary Dealers and Market Makers.

- Amendments were brought to the Banking Act 2004 and Bank of Mauritius Act 2004. The Bank of Mauritius has been empowered to request information from any financial entity for financial stability purposes and conduct effective conglomerate and consolidated supervision. Besides, the Mauritius Revenue Authority (MRA) has been empowered to request any deposit-taking institution a statement of financial transactions effected by an individual/société/succession that made a deposit exceeding Rs 500,000 or above Rs 4 million in aggregate in the preceding year, with money changers and foreign exchange dealers also having to submit such returns to the MRA with regard to the sales, purchases or transfers of foreign currency worth at least Rs 200,000 in a single transaction. Moreover, the Borrowers Protection Act 2007 was amended, whereby all credit facilities of up to Rs 3 million (compared to a limit of Rs 2 million before) now fall under the purview of the legislation.

- Looking ahead, the Bank of Mauritius announced the establishment of a crisis management and resolution framework for the industry, while the creation of an asset management company towards assisting in strengthening the balance sheets of banks is also in the pipeline. Furthermore, in addition to the earmarked introduction of a national payments system legislation, the Central Bank finalised a Deposit Insurance Scheme Bill seeking to protect depositors and guarantee repayment of their deposits to such extent as may be feasible, in case of failure of a bank or non-bank deposit-taking institution. Also, new guidelines will be unveiled after consultations with banks, notably one on liquidity risk, after factoring in the Basel Framework for Liquidity Coverage Ratio.

### *Overall local financial services sector*

- In FY 2016/17, the financial services sector, especially the global business industry, continued to face up to an evolving context, with implications for their activities, strategic orientations and business models. In addition to the revised Double Taxation Avoidance Agreement between Mauritius and India, a key development occurred in July last, when Mauritius signed OECD's Multilateral Convention to implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS). The Convention will, initially, cover 23 of existing Double Taxation Avoidance Agreements of Mauritius. For the remaining ones that will not be covered, Mauritius has planned to discuss bilaterally with the respective treaty partners in order to implement the BEPS minimum standards at latest by end of 2018. On a positive note however, Mauritius was lately upgraded to 'Compliant' status by the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes, to some extent reflecting efforts made to strengthen the legal and regulatory framework.

# Business and financial review

- The compliance environment is becoming more demanding. Relevant entities are called upon to undertake the necessary moves to ensure adherence to the International Financial Reporting Standard (IFRS 9), notably the adoption of an 'Expected Credit Loss' model to determine provision levels. The standard, which replaces earlier standards for financial instruments, i.e. IAS 39, will be effective as from 1 January 2018, with financial reporting to be drafted under the new standard as from the financial year beginning after this date. Moreover, following the signature, by Mauritius, of the Multilateral Competent Authority Agreement, banks and other financial institutions are required to implement OECD's Common Reporting Standards (CRS). As from January 2017, they are required to collect information on account holders who are not resident for tax purposes in Mauritius and report, by July 2018, such information to the MRA for the eventual exchange of information with other countries which have signed up to implement the CRS. On another note, mention can be made of the new Code of Corporate Governance for Mauritius, which was launched in February 2017. It comprises a set of principles aimed at improving the governance practices of organisations. While earlier compliance is encouraged, the application of the Code is as from the year ending 30 June 2018. As per the amended Financial Reporting Act 2004, wholly owned subsidiaries regulated by the Bank of Mauritius or the Financial Services Commission shall, as compared to other equivalent entities, still report on corporate governance even though their ultimate holding company already complies with the Code.

- With respect to capital markets, a key development is that the Financial Services Act 2007 was amended whereby, as from September 2016, giving advice on corporate finance matters concerning securities transactions (including raising of funds through issue of securities and advising on mergers and acquisitions) became a licensable activity. Service providers, thus, have to avail themselves of the Investment Adviser (Corporate Finance) Licence. Moreover, following the introduction of the Financial Services (Investment Banking) Rules 2016 by the Financial Services Commission, holders of the Investment Banking Licence may, in lieu of applying for separate distinct licences, conduct *inter alia* the activities of Investment Dealer, Investment Adviser (Unrestricted), Investment Adviser (Corporate Finance Advisory), Asset Management as well as the Distribution of Financial Products. Also, the Banking Act 2004 was amended, with the Bank of Mauritius being empowered to grant licences to issuers of commercial papers, the objective being to create relatively more conducive conditions for corporate borrowers to diversify the source of their short-term borrowings and provide an additional instrument for investment. In the same vein, draft guidelines to govern the issuance of commercial papers were released by the Bank of Mauritius in September 2017.

- Stipulations relating to Prevention of Money Laundering and Terrorist Financing were reviewed. In addition to the update of the relevant Guidance Notes by the Bank of Mauritius, the Financial Services Commission has, in July last, amended its Code, whereby licensees are required to, as far as possible, adopt an appropriate risk-based approach to ensure that measures put into place correspond to identified risks.

*Financial services sectors of our foreign presence countries*

| | |
|---|---|
| **Madagascar** | • The establishment of a new central bank law in November 2016 seeks to improve the functioning and independence of the organisation. As per the IMF, reforms are underway to promote the development and soundness of the financial sector. They, notably, pertain to the reinforcement of the supervisory function and the legal set-up, while a new anti-money laundering law is deemed to be at an advanced stage of preparation. It can, also, be noted that the laws on banking and microfinance are being redrafted, with access to banking sector loans likely to improve with the establishment of better functioning credit and collateral registries. |
| **Maldives** | • In addition to endorsing measures to foster consumer education and prevent financial crimes, the Maldives Monetary Authority (MMA) pursued its drive to strengthen the regulatory framework to ensure financial stability in the country, while standing ready to deal with any system vulnerabilities. In this respect, the IMF highlighted that stress testing and the oversight capacity of the banking sector should continue to be reinforced. In a different light, it can be noted that the MMA issued the 'Regulation on Mobile Payment Services' in July 2016, with the aim being to regulate and supervise mobile service providers. |
| **Seychelles** | • The year under review has seen the Bank of Seychelles further strengthening its supervisory activities and framework, alongside adopting financial education and consumer empowerment measures. As per the IMF, the authorities are currently working on an action plan to reduce financial sector risks, with the draft strategy seeking to ensure that the banks' AML/CFT risk management and mitigation framework is in line with international standards as well as helps to improve entity transparency in the offshore sector. |

# Business and financial review

## Market Environment

In FY 2016/17, the markets in which the Group operated continued to be impacted by a challenging set-up against the backdrop notably of delicate economic conditions as well as country-specific strains and vulnerabilities across specific areas.

### *Mauritian banking system*

- During the last financial year, the banking system was characterised by mixed fortunes in terms of market trends and dynamics. In addition to facing up to external operational threats in the form notably of cyber-attacks, which have been well-managed, the banking operators faced up to competitive pressures across some segments. Especially, prominent endeavours were displayed by operators to provide increasingly digitalised and diversified offerings. Furthermore, banking players mobilised resources with a view to pursuing their international expansion thrusts. As a key challenge facing the industry, the local demand for credit has remained under pressure. Indeed, while total gross loans edged up to reach Rs 612 billion as at 30 June 2017, its expansion over the year was still quite moderate. Essentially, slow-moving national investment levels, ongoing recourse to other financial instruments by some large corporates and Government favouring foreign borrowing to finance infrastructure projects are contributing to dampen overall demand for credit in the Mauritian banking sector. In spite noticeably of a significant expansion being posted in respect of the financial and business services sector, total domestic loans rose by 1.8% during FY 2016/17, attributable to subdued evolutions across several economic sectors. In the retail field, while credit allocated to the 'personal and professional segment' declined again, housing loans posted a resilient growth of 7.6%. For its part, despite a major increase in credit to the global business sector, segment B loans – i.e. facilities giving rise to foreign-sourced income – were nearly flat owing to the dimmed performance by foreign currency loans extended outside Mauritius amidst economic conditions prevailing abroad.

- On another note, total deposits in the banking industry rose by 7.6% over the year ending 30 June 2017 to attain Rs 952 billion. In spite of the soft economic climate and the low interest environment, appreciable increases were posted by both rupee and foreign currency deposits. Against the backdrop of trends characterising loans and deposits, high liquidity levels have prevailed in the banking system during the last financial year, thus exerting downward pressures on short-term interest rates, notably yields on treasury bills. In particular, the Bank of Mauritius highlighted that banks' reserves accumulated significantly at the end of 2016 and early 2017, reflecting in part the usual end-of-year build-up as a result of the payment of bonuses, net maturing securities and the institution's unsterilised intervention. Nonetheless, it is worth observing that, during the course of FY 2016/17, the Bank of Mauritius has been active in trying to remedy imbalances in the money market. In fact, the Central Bank has had recourse to the issue of its own papers and conduct of sterilised foreign exchange intervention. It re-iterated its commitment to bring down banks' excess reserves to a more tolerable level prior to the implementation of the proposed new monetary policy framework. Regarding the latter, the Central Bank stressed that it will maintain its efforts to achieve the necessary monetary conditions prior to its application. The aim is to lay appropriate grounds that will help to foster an effective transmission of monetary policy to the real sector of the economy.

- In the wake of contained inflationary pressures and growth-related challenges, monetary policy remained in an accommodative zone. Of note, the Key Repo Rate of the Bank of Mauritius was cut by 40 basis points to 4.0% in July 2016, which led to a decline in weighted average rupee lending and deposit rates of banks. While the benchmark rate has, until recently, been kept unchanged by the Monetary Policy Committee, market interest rates have, over time and in several instances, been subject to further downward pressures amidst excess liquidity conditions. Lately, though the decision surprised market players when considering the upward trend in headline inflation, the Bank of Mauritius has, in September 2017, cut the Key Repo Rate by 50 basis points to support economic growth, with several banks reacting by reducing their market interest rates.

- All in all, with challenges being relatively well-managed, the banking sector upheld its sound financial fundamentals, helped by the generally healthy business model adopted by operators and the country's regulatory set-up. The Monetary Policy and Financial Stability Report of the Bank of Mauritius noted that the profitability of the banking industry improved during the year ended December 2016. Besides, whilst asset quality levels somewhat worsened, they remained within manageable levels. Banks stayed well-capitalised, with the capital adequacy ratio standing at 17.5% as at end-December 2016, of which 15.9% by way of Tier 1 ratio.

# Main banking sector metrics

## Loans and deposits

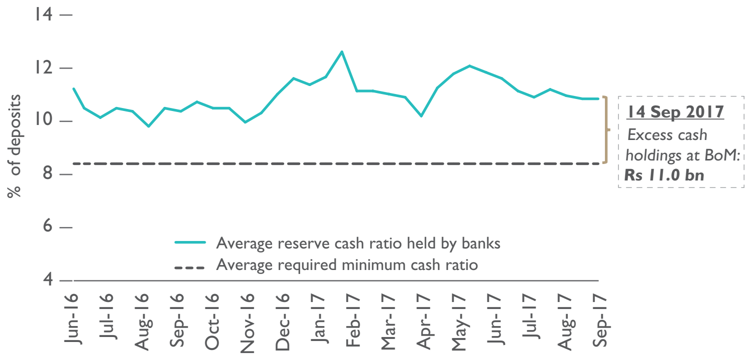
| Loans (June 2017) | | | |
|---|---|---|---|
| **By segment** | **Rs m** | **Mix (%)** | **Y.o.y. change (%)** |
| Segment A | 286,373 | 46.8 | 1.8 |
| Segment B | 325,829 | 53.2 | 0.9 |
| **Total** | 612,202 | 100.0 | 1.3 |

| Deposits (June 2017) | | | |
|---|---|---|---|
| **By type** | **Rs m** | **Mix (%)** | **Y.o.y. change (%)** |
| Rupee | 370,544 | 38.9 | 8.6 |
| *Savings* | *229,868* | *24.1* | *10.1* |
| *Demand* | *65,602* | *6.9* | *14.6* |
| *Time* | *75,074* | *7.9* | *(0.3)* |
| Foreign currency | 581,650 | 61.1 | 7.0 |
| **Total** | 952,194 | 100.0 | 7.6 |

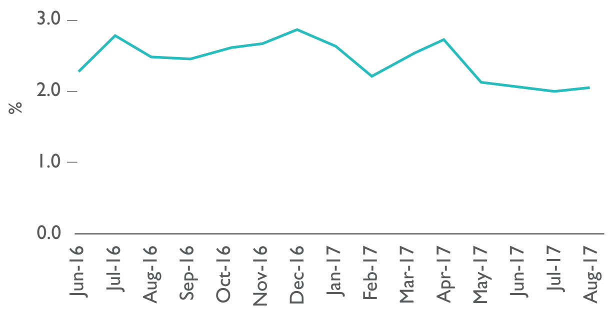
| Credit to the economy (June 2017) | | | |
|---|---|---|---|
| **Sectors** | **Rs m** | **Mix (%)** | **Y.o.y. change (%)** |
| Agriculture and fishing | 20,064 | 5.8 | 2.6 |
| Export oriented industry | 6,789 | 2.0 | 6.1 |
| Domestic oriented industry | 15,776 | 4.6 | 4.5 |
| Tourism | 40,745 | 11.8 | (14.2) |
| Transport | 3,930 | 1.1 | (10.5) |
| Construction | 89,928 | 26.1 | 4.1 |
| *Housing* | *59,900* | *17.4* | *7.6* |
| *Others* | *30,027* | *8.7* | *(2.3)* |
| Traders | 31,695 | 9.2 | 2.0 |
| Information & Comm. Technology | 1,781 | 0.5 | (3.9) |
| Financial & business services | 34,739 | 10.1 | 30.6 |
| Infrastructure | 4,542 | 1.3 | (0.9) |
| Global Business Licence holders | 53,982 | 15.7 | 16.8 |
| Personal & professional | 29,945 | 8.7 | (0.2) |
| Public nonfinancial corporations | 2,332 | 0.7 | 15.3 |
| Others | 7,814 | 2.3 | (6.1) |
| **Total** | 344,062 | 100.0 | 4.3 |

## Money market indicators

### Average cash reserve ratio




### Average weighted yield – Government of Mauritius Treasury bills



# Business and financial review

***Local non-bank financial services sector***

- In the wake of the excess liquidity environment prevailing in the local banking system, corporate clients took advantage of the low rates available in the capital markets to refinance part of their bank loans during the period under review.

- Local equities had a better year after a weak performance in FY 2015/16, with stock market indices, i.e. SEMDEX and DEMEX, gaining 21% and 10% respectively during the period under review. This, partly, reflected the gradual return of foreign investors, who withdrew from emerging and frontier markets amidst falling commodity prices in early 2016. African equities, also, recovered some ground, with the MSCI Frontier Africa Total Return Index gaining around 20% in FY 2016/17. This has had a generally positive impact on the equity portfolios, which paved the way for the generation of generally solid returns for clients. On the private equity side, it can be observed that competition among major funds for large transactions in Africa have continued to drive up valuation as the market featured plenty of liquidity chasing relatively few targets. Nevertheless, prospects for private equity investment on the continent remain exciting, where long term economic and demographic fundamentals are favourable.

***Financial services sectors of our foreign presence countries***

| | |
|---|---|
| **Madagascar** | • The 2016 Financial Sector Assessment Program of the World Bank observed that the banking sector is sound and resilient, but also identified major gaps in financial oversight and significant risks warranting remedial measures. On another note, the reference rate of the Central Bank was, in a context of inflationary pressures, raised from 8.3% to 9.0% in May 2017 so as to create a sound macroeconomic and financial environment. As per the IMF, the authorities are working closely with the World Bank on a new financial inclusion project that will focus on the digitalisation of transactions and access to credit. |
| **Maldives** | • As per the Maldives Monetary Authority (MMA), the financial performance and soundness of the financial sector remained strong lately. The institution added that it took major steps to identify challenges to the financial system and foster its development. This included taking part in the Financial Sector Assessment Program of the World Bank to identify areas of growth and adopting initiatives to ease access to finance. Given the need for credit expansion and contained inflationary pressures, the MMA preserved its accommodative monetary policy. In August 2016, it launched a Credit Guarantee Scheme to facilitate collateral-free financing for SMEs, while a cheque clearing system was introduced towards the end of the year through the Automated Clearing House system. |
| **Seychelles** | • The banking sector is viewed as being adequately capitalised and liquid. A relatively tight monetary policy was adopted by the Central Bank during the last financial year in line with the assessment of short to medium term inflationary risks, amidst, notably, the overall increase in aggregate demand following the announced upward revision in minimum wage and retirement pensions. Some commercial banks raised interest rates on deposits and reduced their lending rates in December, which they attributed to their positive performances and the endeavour to set more customer-friendly interest rates. In July 2017, the Central Bank introduced an interest rate corridor, whereby short-term rates are to be firmly established within appropriate policy rates (with the Standing Credit Facility and Standing Deposit Facility rates being the ceiling and the floor respectively). This framework is expected to provide guidance for other short-term interest rates and reduce their volatility, anchor long term rates, enhance development of interbank and money markets, and strengthen monetary policy transmission. |

| Key banking indicators | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Year-on-year growth** | **Madagascar** | | | **Maldives** | | | **Seychelles** | | |
| **As at June (%)** | **2015** | **2016** | **2017** | **2015** | **2016** | **2017** | **2015** | **2016** | **2017** |
| Credit to the private sector | 16.0 | 13.5 | 11.4 | 0.8 | 20.1 | 12.0 | 20.6 | 7.7 | 11.2 |
| Deposits | 15.9 | 12.6 | 14.4 | 9.6 | 9.6 | -0.1 | 3.8 | 9.7 | 13.7 |

| Financial soundness indicators | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Madagascar** | | | **Maldives** | | | **Seychelles** | | |
| **As at December (%)** | **2014** | **2015** | **2016** | **2014** | **2015** | **2016** | **2014** | **2015** | **2016** |
| **Capital-based** | | | | | | | | | |
| Regulatory capital to risk-weighted assets | 13.3 | 12.4 | 12.7 | 44.5 | 42.0 | 44.5 | 21.7 | 25.5 | 26.6 |
| **Asset quality and liquidity** | | | | | | | | | |
| Non-performing loans to total gross loans | 12.0 | 10.6 | 9.7 | 17.4 | 15.3 | 10.6 | 8.2 | 7.6 | 6.8 |
| Liquid assets to total assets | 39.9 | 37.7 | 41.1 | 43.4 | 45.2 | 48.4 | 54.2 | 49.1 | 47.9 |
| **Earnings and profitability** | | | | | | | | | |
| Return on assets | 3.1 | 3.8 | 3.1 | 4.6 | 3.3 | 4.7 | 3.3 | 3.8 | 3.8 |
| Return on equity | 38.1 | 47.8 | 38.1 | 20.3 | 14.8 | 19.6 | 38.2 | 34.7 | 32.7 |

*Note: For Madagascar, credit to the private sector is captured by credit to the economy*
*Sources: IMF country reports & FSIs database, Banque Centrale de Madagascar, Maldives Monetary Authority and Central Bank of Seychelles*

# Business and financial review

## Group Financial Review

### Overview of Results

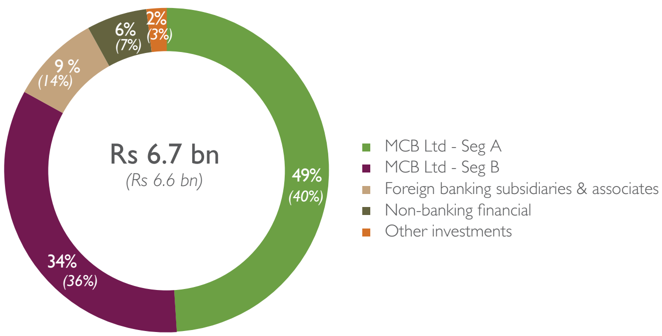
MCB Group continued to operate within a difficult context across markets, having to face up to testing economic conditions and generally low demand for bank credit, high liquidity situation notably in Mauritius and competitive pressures amongst others. Nonetheless, the Group managed to grow its revenue base as gauged by an increase of 7.6% in operating income which reached Rs 15,506 million. This was underpinned by a further rise in net interest income and a recovery in net fee and commission income whilst 'other income' was boosted by a strong growth in profit on exchange and increased revenues from non-banking business entities. With operating expenses growing by 10.6% amidst capacity-building initiatives and net impairment charges increasing by 4.1%, operating profit went up by 5.9% to reach Rs 8,054 million. Our results were, however, impacted by lower share of profit of associates which fell by Rs 397 million on account of reduced contributions from PAD Group, which had registered significant non-recurring revenues in the previous year, and BFCOI, whose performance was impacted by a surge in impairment charges during the last semester. On the whole, after accounting for income tax expense of Rs 1,644 million, attributable profits to equity holders of the Group rose marginally by 1.2% to reach Rs 6,702 million. The vast majority of Group profits was sourced from the banking cluster, with the share of foreign-sourced income standing at around 43% in spite of dampened performances of foreign banking entities, further exacerbated by the strength of the rupee. The non-banking activities accounted for some 8% of the results, representing a drop from the preceding year mainly due to the decline in contribution from PAD Group.

The Group has sustained generally sound financial indicators in FY 2016/17, as evidenced by further improvement of its capital adequacy ratios as well as the maintenance of strong funding and liquidity positions. Asset quality metrics remained at satisfactory levels in spite of the challenging operating environment.

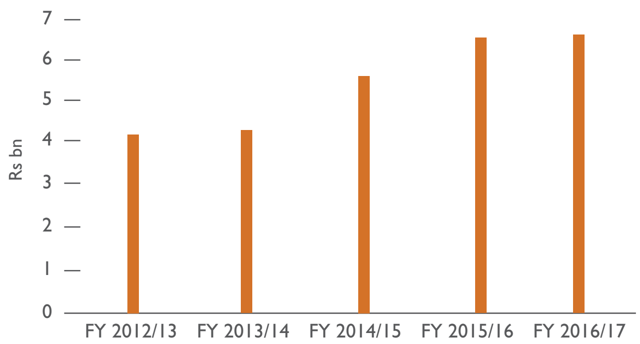
*Read more in the 'Risk Management Report' on pages 156 to 194*

**Contribution to Group profit**

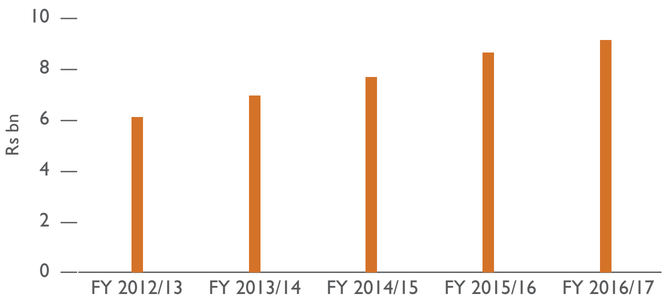
*(Figures in brackets relate to 2016)*




**Profit attributable to shareholders**




**Operating profit before provisions**



At Company level, MCB Group Ltd received a dividend income of Rs 2,841 million for the period under review. After allowing for operating expenses of Rs 114 million and interests expense of Rs 246 million essentially linked to the Subordinated Notes, profit for the Company stood at Rs 2,481 million for the period ending 30 June 2017. Overall total assets of the Company amounted to Rs 11,097 million as at June 2017, with investment in subsidiaries and associates standing at Rs 9,496 million.

## Outlook for FY 2017/18

While the anticipated improvement in the economic environment globally is encouraging, we anticipate market conditions to remain challenging. In Mauritius, economic growth is likely to pick up only gradually with delays being observed in the implementation of large scale infrastructure projects. There is little sign of the excess liquidity situation abating, the more so that certain large public sector projects are being financed from abroad. Against this backdrop, we expect continued pressures on demand for bank credit and interest margins while the relative strength of the rupee amidst excess supply of foreign currencies is exerting pressures on our profit on exchange and adversely affecting foreign-sourced income. Our business pipeline is, however, encouraging with our international operations and non-banking activities expected to grow further.

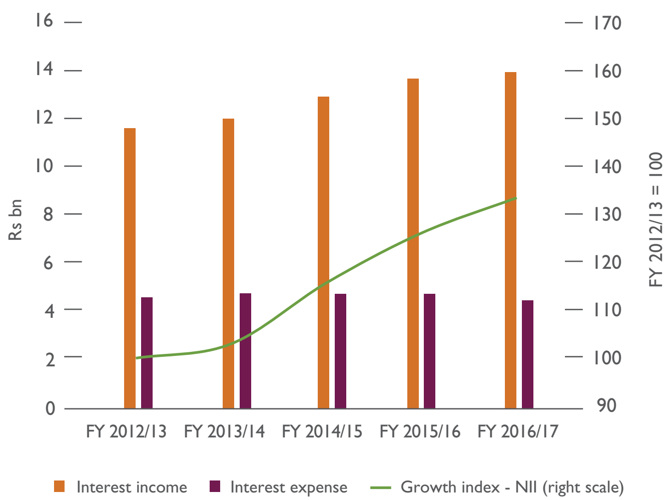
## Income Statement Analysis

### *Net interest income*

Notwithstanding the challenging economic conditions faced by our subsidiaries and pressures on margins notably linked to the excess liquidity situation in Mauritius, in both rupee and foreign currency terms, net interest income for the Group rose by 5.9% to reach Rs 9,411 million in FY 2016/17. Interest income edged up by some 2% with continued growth being observed with respect to low yielding liquid assets on the back of deposits growing at a higher rate than loans and advances. Indeed, whilst picking up, the lending portfolio rose at a moderate pace with appreciable increases in foreign lending and retail advances more than offsetting a drop in corporate loans. Conversely, interest expense dropped by 5.8% to Rs 4,478 million on account of lower interest rates on average.

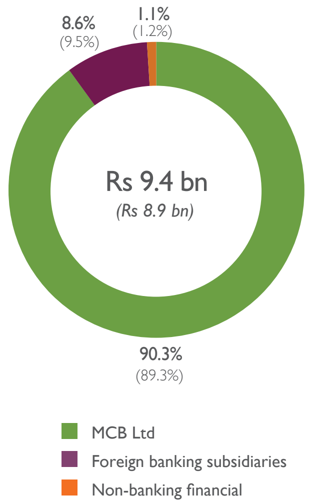
In view of the high proportion of low yielding liquid assets on our balance sheet, net interest income to average earnings assets declined to 3.3% compared to 3.4% last year.

**Net interest income**




**Net interest income by cluster**

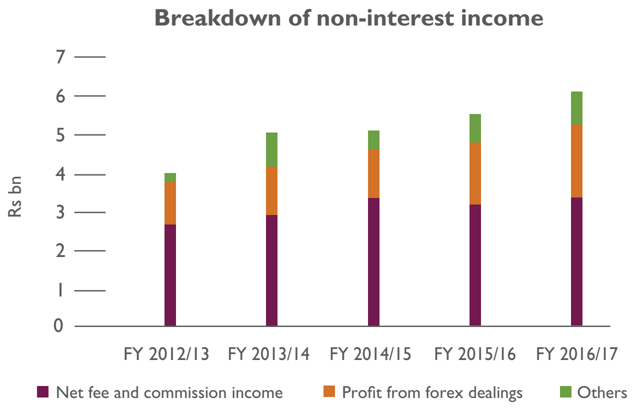
*(Figures in brackets relate to 2016)*



# Business and financial review

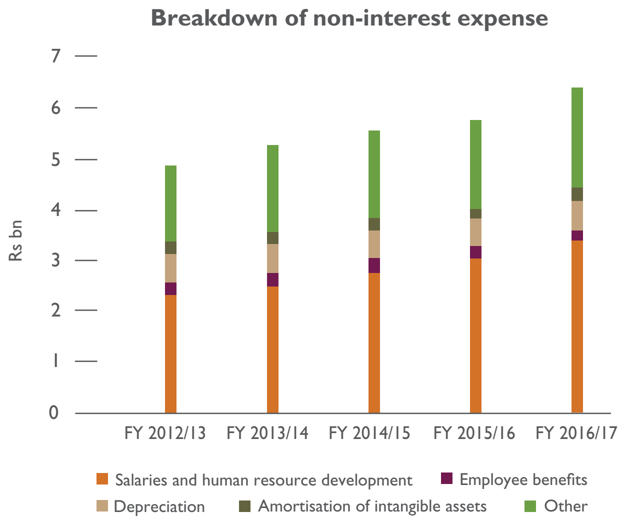
### *Non-interest income*

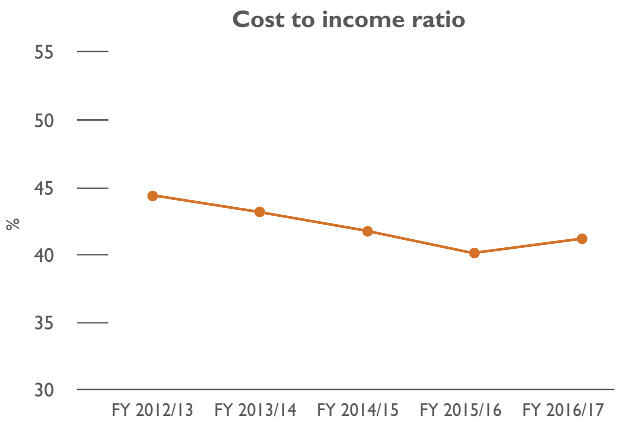
Non-interest income of the Group grew by 10.5% to reach Rs 6,095 million in FY 2016/17. In spite of lower revenues from regional trade financing, an upturn was observed in net fee and commission income which rose by 5.2% to reach Rs 3,350 million. This performance was supported by increased income from payment and financing activities while the contribution from MCB Capital Markets Ltd and our leasing arm continued to rise. Besides, 'other income' recorded a growth of 17.8% mainly driven by a rise in profit on exchange amidst increased volume of transactions, although growth therein was impacted in the fourth quarter of the financial year by excess supply of foreign currencies that resulted in rupee appreciation. Higher revenues from non-bank entities were also recorded on the back of the successful exit from an investment by MCB Equity Fund Ltd and business inroads made by International Card Processing Services Ltd and MCB Consulting Services Ltd.




### *Operating expenses*

Operating expenses went up by 10.6% to reach Rs 6,388 million in FY 2016/17 in line with capacity-building initiatives being undertaken by the Group's subsidiaries across clusters to support their business strategies. Reinforcement of the human capital contributed to a rise of 9.1% in staff costs, which represented some 57% of the cost base over the last financial year. Moreover, further investment in technology and infrastructure prompted an increase in depreciation and amortisation costs. As a result, the cost to income ratio for MCB Group rose from 40.1% to 41.2% in FY 2016/17.




### *Impairment charges*

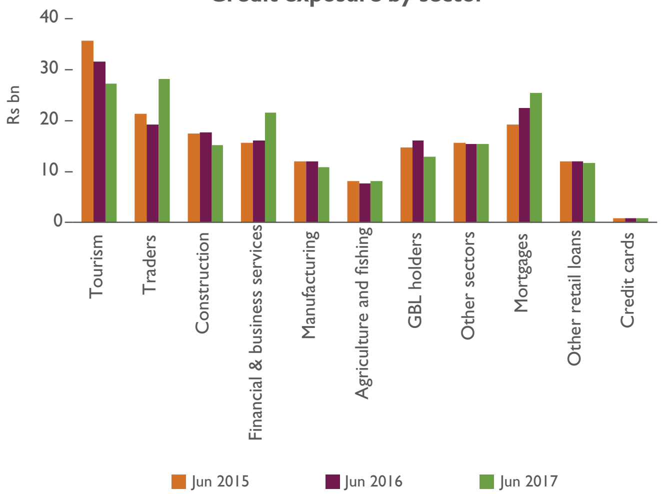
Net impairment charges rose by 4.1% to stand at Rs 1,064 million, mainly linked to our international operations and leasing activities. Impairment charges thus represented 0.59% of the loan and advances portfolio for the year ending June 2017. In spite of difficult market conditions, the non-performing loan ratio declined to 6.1% in gross terms while the corresponding ratio in net terms stood at 4.6%.

## Financial Position Statement Analysis

### *Loans and advances*

Whilst demand for credit within most of our subsidiaries remained subject to the still soft economic climate, gross loans of the Group expanded by 2.8% to stand at Rs 178.6 billion as at 30 June 2017 on the back of a recovery at the level of MCB Ltd. Indeed, the latter experienced a rise of 3.0% in gross loans which stood at Rs 167.4 billion. This performance was driven mainly by its international activities with associated credit to customers increasing by 17.4% as a result of the growth in foreign currency loans outside Mauritius more than offsetting a reduction in advances to 'Global Business Licence holders'. On the domestic front, credit to customers of MCB Ltd remained relatively flat in line with the sluggish evolution of demand for bank credit amidst the still subdued investment levels and the recourse to other financing instruments by some operators. Within the corporate segment, whereas advances to the financial and business services as well as the primary sector went up, a drop was recorded in credit to the tourism, manufacturing and the construction sectors. On the other hand, the retail segment sustained an appreciable growth with credit thereto rising by nearly 8% on a point-to-point basis, supported by an expansion in housing loans.

**Credit exposure by sector**




| Loans and advances as at June 2017 | Rs m | Growth (%) | Mix (%) |
|---|---|---|---|
| Retail customers | 39,398 | 7.4 | 22.1 |
| *Credit cards* | *700* | *1.5* | *0.4* |
| *Mortgages* | *25,302* | *12.8* | *14.2* |
| *Other retail loans* | *13,397* | *(1.2)* | *7.5* |
| Corporate customers | 103,016 | (3.5) | 57.7 |
| Entities outside Mauritius | 33,679 | 28.2 | 18.9 |
| Government | 1,377 | 14.3 | 0.8 |
| Banks | 1,113 | (61.4) | 0.6 |
| **Total loans** | **178,584** | **2.8** | **100.0** |

### *Funding*

Total deposits, which remain the main source of funding for the Group, went up by 7.7% to reach Rs 274.9 billion as at 30 June 2017. This was principally attributable to a growth of 8.6% achieved by MCB Ltd following a rise of 11.8% in rupee-denominated deposits and an increase of 3.4% in foreign currency deposits. Total savings deposits of the Group posted a growth of 13.3% while demand deposits increased by 6.5%. Besides, 'Other borrowed funds' stood at Rs 6.0 billion, representing an expansion of around 15% compared to the previous year, following the recourse to the lending facility from Agence Française de Développement for the provision of 'Green Loans'.

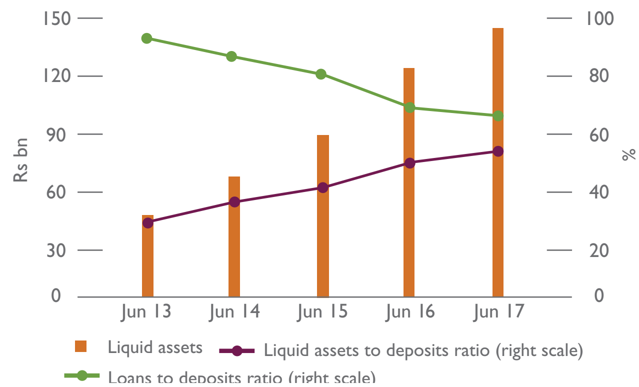
| Sources of funds as at June 2017 | Rs m | Growth (%) | Mix (%) |
|---|---|---|---|
| **Total deposits** | **274,863** | **7.7** | **96.0** |
| Deposits from customers | 272,374 | 7.5 | 95.1 |
| MUR | 170,076 | 11.7 | 59.4 |
| *Demand* | *27,737* | *10.5* | *9.7* |
| *Savings* | *115,265* | *13.2* | *40.2* |
| *Time* | *27,074* | *7.1* | *9.5* |
| Non-MUR | 102,298 | 1.1 | 35.7 |
| Deposits from banks | 2,490 | 35.5 | 0.9 |
| **Other borrowed funds** | **5,968** | **14.9** | **2.1** |
| **Subordinated liabilities** | **5,587** | **(0.6)** | **1.9** |

# Business and financial review

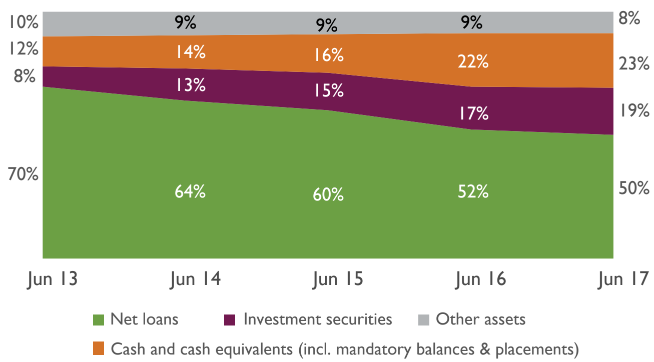
### *Investment securities and cash & cash equivalents*

Reflecting the excess liquidity situation both in rupee and foreign currency terms notably in the Mauritian money market, liquid assets of the Group increased further over the period under review. This was characterised by: (i) a rise of 14.1% in cash and cash equivalents including placements, mainly through money market instruments; (ii) an increase of 20.0% in investment securities (excluding available-for-sale securities and Corporate notes); and (iii) a growth of 10.8% in mandatory balances at Central Banks. Overall, the share of liquid assets, including placements, in total assets reached 41.6% as at June 2017, with the corresponding ratio as a percentage of deposits standing at 52.3%.

**Liquidity position**




**Evolution of assets mix**

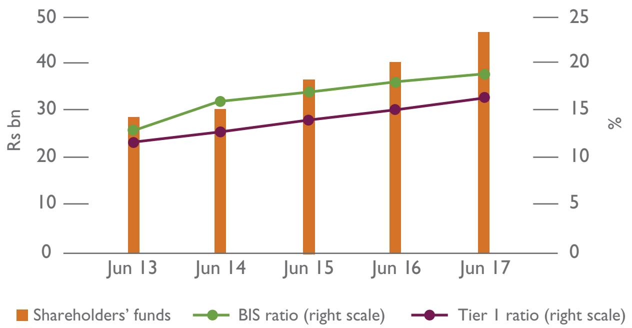



### *Capital resources*

Shareholders' funds of the Group reached Rs 45.9 billion, representing an increase of Rs 5.2 billion, of which Rs 3.9 billion in the form of retained earnings for the year. After an interim dividend of Rs 4.25 per share paid in July, a final dividend of Rs 5.00 was declared in September to be payable in December 2017, bringing the total dividend per share to Rs 9.25 for the period under review. This resulted in a dividend payout of some 33%, with diluted earnings per share standing at Rs 28.10.

The Group continues to ensure that adequate buffers are kept to withstand potential shocks and to effectively support its business expansion strategy. As such, comfortable capitalisation levels were maintained, as gauged by the overall capital adequacy ratio and Tier I ratio rising to 18.9% and 16.5% respectively.

**Shareholder's fund and capital adequacy**




*Note: Capital adequacy figures since June 2014 are based on Basel III.*

## Analysis by Cluster

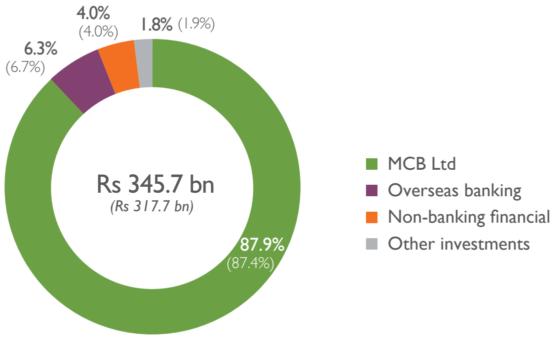
### *Overview*

During FY 2016/17, entities of the Group pursued their business development in the face of an exigent context. In addition to reinforcing its leadership position in servicing individual and corporate clients within the Mauritian banking sector, the Group preserved its prominent regional involvement, while making headway in the provision of non-bank financial services. Overall, alongside exercising market vigilance and catering for sensible risk management, the Group laid emphasis on the diversification of its exposures across markets, while upgrading internal capabilities in support of sustained market development. Concomitantly, intra-Group synergies have been leveraged for broadening the scope of business development opportunities that can be availed of across the organisation, with due focus laid on (i) tapping into need-based cross-selling avenues; (ii) the replication of offerings across geographies; and (iii) the provision of bundled solutions emanating from various business lines, pertaining particularly to investor-related services and the Group's 'Bank of Banks' value proposition. Noticeably, further headway has been made during the year in positioning the Group as a regional platform for handling trade finance, cards outsourcing and undertaking consulting assignments for banking and financial services counterparts, operating notably in Africa.

*Read more on the initiatives and achievements of the Group's entities and business segments in respect of risk management and compliance in the 'Risk Management Report' on pages 156 to 194*

**Asset - Breakdown by cluster**

*(Figures in brackets relate to 2016)*

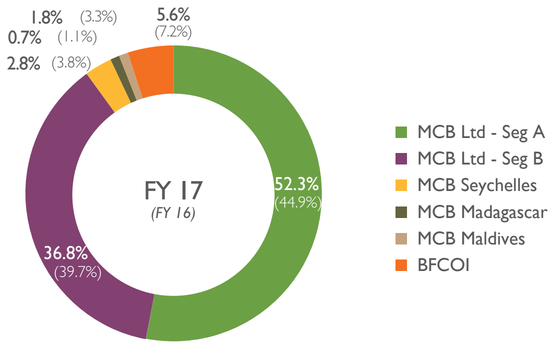



## *Banking cluster*

Despite a dampened performance by foreign banking subsidiaries and associates, consolidated results of the banking cluster increased by some 2% underpinned by the performance of MCB Ltd, notably on the domestic front. This contributed to the share of the banking cluster in Group profits rising from 90% in FY 2015/16 to 92% for the year under review.

**Contribution to profit within the cluster**

*(Figures in brackets relate to 2016)*




*Note: In FY 17 and FY 16, contribution from our associate, Société Générale Moçambique, was negative.*

### *MCB Ltd*

*Financial performance*

In spite of the challenging operating environment prevailing locally and abroad, the Bank recorded a satisfactory financial performance. Indeed, results for the year grew by 11.0% to reach Rs 6,237 million. Net interest income increased further against the backdrop of the continued growth in investment securities and improved yields thereon as well as a rise in the foreign currency loan portfolio. Furthermore, non-interest income was boosted by a major rise in profit arising from dealing in foreign currencies, while net fee and commission income recovered from the preceding year's decline to grow by 3.8%. On the other hand, operating expenses rose by 8.2%, reflecting ongoing initiatives to strengthen the Bank's physical and human capabilities as well as notable technology investments undertaken, while a rise in impairment charges was recorded essentially linked to its international operations.

*Recent headway*

The financial performance registered by the Bank for the year under review was underpinned by sustained and thoughtful efforts to deploy its business expansion strategy aimed at diversifying its operations towards emerging and niche market segments, alongside strengthening its positioning within established markets. Concurrently, further strides were made in enhancing customer service quality, reinforcing risk management and bolstering internal capacity in terms of people, processes and systems. As an important undertaking, the year under review witnessed the formulation of a new operational structure for the Cards SBU, with a clearer segregation of front and back office activities. Improvements have been made in respect of the delineation of tasks, while more structured reporting lines have been established to minimise operational risk and foster an independent oversight of activities. Risk management policies have been reinforced, while processes, notably for customer onboarding and acquisition, have been enhanced and further clarified. Besides, alongside engaging into the replacement of its core treasury system/platform, the Bank has initiated a Treasury Realignment project to define a new target treasury operating model for supporting business growth, while deriving maximum value to develop treasury activities. In fact, the Treasury function is having to face up to a demanding operating context. While having to cope with a significant increase in liquid assets, in both local and foreign currencies, and the increased level of available-for-sale instruments linked to the Bank's status as Primary Dealer and Market Maker, the function has set out to widen its products offerings in order to meet the evolving requirements of its clients.

*Strategic orientations and targets*

Looking ahead, the Bank intends to pursue its business development strategies. Its strategic focus areas are as follows: (i) sharpen its positioning on established segments; (ii) broaden its frontiers, including the execution of related pillars of its Medium Term Growth Strategy; (iii) build a Digital Bank with a human touch; and (iv) nurture its values and deliver on its brand promise.

With a view to underpinning the effective materialisation of its endeavours, the Bank will adopt a thoughtful and prudent approach in putting its market initiatives in place, with a view to promoting quality business growth over the short and longer term and preserving financial soundness. Besides, it will anchor its undertakings on fitting enablers, with the Bank remaining engaged in strengthening the quality of customer experiences, reinforcing its operational capabilities, as well as adopting innovative and technology-based practices.

## Medium term strategic targets of MCB Ltd

To provide clarity and guidance for underpinning the smooth deployment of set initiatives, the Board of MCB Ltd has defined medium term priorities for the Bank. It communicated a set of specific performance targets for the coming three years, as described below. In addition, the Bank has defined a set of financial key performance indicators for its strategic business units notably spanning areas such as business growth and profitability, operational efficiency, customer service quality, risk management and compliance, etc.

| | Recent performance (%) | | | Medium term targets |
|---|---|---|---|---|
| | FY 2014/15 | FY 2015/16 | FY 2016/17 | |
| Profit before tax (% growth rate) | 30.9 | 15.9 | 10.3 | Growth of around 10% |
| Cost to income ratio | 39.4 | 37.2 | 36.9 | ≤ 38% |
| Capital adequacy ratio | 14.9 | 16.1 | 16.8 | ≥ 16% |
| Gross non performing loan ratio | 5.9 | 5.9 | 5.8 | ≤ 5% |

*Corporate and Institutional Banking*

*Performance*

- During FY 2016/17, the Bank faced up to a testing context on the corporate and institutional banking front. Domestically, the demand for bank credit remained sluggish amidst high liquidity levels in the industry. Beyond Mauritius, market conditions across the sub-Saharan region remained under pressure, in the wake, particularly, of the prevalence of macroeconomic challenges, market access strains and the generally restrained evolution of commodity prices. In spite of this conjuncture, the Bank remained on the look-out for appealing business growth avenues and pursued market development strategies by leveraging its competencies, adherence to good practices and its investment-grade ratings. Thus, the Bank posted a resilient improvement in its financial performance within this segment, while preserving its asset quality.

***Main initiatives and achievements***

- Since the Corporate and Institutional Banking Strategic Business Unit (CIB SBU) went live on 1st July 2016 following the merger of the Bank's former corporate and international banking segments, the Bank has mobilised the necessary resources to ensure that its new organisation structure is operationalised in a smooth way, without adversely impacting the quality of the customer service. The CIB SBU succeeded in nurturing the right platform in a bid to better accompany clients in their growth endeavours, while devoting efforts to enhance file management and asset quality levels. In support of such achievements, the CIB SBU bolstered the way it does business by reviewing its internal processes and mechanisms with a view to maximising efficiency and enhancing the ability to attend to customer requests and cater for a proper follow-up of their respective files.
- Locally, market activities have, as highlighted before, been marred by soft economic conditions. However, leveraging its unique selling propositions and offerings, MCB continued to provide support to corporates and institutions across sectors, notably by accompanying companies in their restructuring initiatives. Besides, the Bank pursued its financing in relation to the 2nd edition of its 'Green loans', after availing the lending facility provided by Agence Française de Développement to help firms save energy and reduce carbon emissions. On another note, tapping into the positioning of Mauritius as an International Financial Centre, the Bank widened its exposures vis-à-vis global business entities, trusts and foundations. Initiatives were underpinned by the delivery of customised solutions and intensive client onboarding which helped to boost revenue generation. As underpinnings, the Bank anchored its domestic market endeavours on the reinforcement of its capabilities, including a more coherent articulation, segmentation and allocation of customer portfolios; a better monitoring of customer files; enhanced leveraging of synergies amongst various segments and functions; the strengthening of human capital, notably by means of equipping teams with new skill sets and deployment of training programmes; and the review and upgrade of process workflows and information systems. With regard to relationship-building, the Bank launched its 'Leading Edge' newsletter which is a dedicated publication providing insights on latest market news, industry trends, and updates on our products and services, in a digest form, right to the customer's inbox.
- MCB has ambitiously, yet cautiously, pursued its regional market diversification strategy, while prospecting attractive business opportunities observed beyond the African continent. It moved forward by (i) increasingly partnering and operationally assisting banks in Africa, allowing them access to state-of-the-art systems and expertise towards supporting their sustained growth; (ii) diversifying its involvement in international project finance portfolio by adding new industries and targeting new markets; and (iii) widening its market coverage in terms of its Energy & Commodities business, notably buttressed by enlarged product offerings to expand into upstream and medium term financing across the value chain as well as an increased collaboration with leading players in the oil and gas space across the African continent and beyond. In support of its foreign business development aspirations, the Bank also tapped into Group synergies and its Representative Offices in Kenya and South Africa, with the latter recently witnessing an upgrade of its strategic positioning. Besides, the Bank was helped by

# Business and financial review

increased on-the-field visibility and intelligence-building, enhanced and meaningful business relationship management with carefully-chosen market players, the gearing up of the quality of human capital, and strict adherence to regulatory and compliance requirements. Moreover, the Bank pursued its promotional activities, as gauged by the sponsoring of Trade Finance Conferences held in Mauritius and Egypt, the organisation of the 8th edition of its 'Africa Forward Together' seminar in September 2017, which welcomed 31 banks from 14 countries, and the hosting of and participation in several foreign events and forums with the objective of showcasing its capabilities and value proposition.

*Pierre Guy Noël, Chief Executive of MCB Group, addressing African bankers at the opening of the 2017 edition of Africa Forward Together (AFT), on 18 September*

***Strategic orientations going forward***

- Looking ahead, the Bank will adapt to the ultra-pacy and dynamic economic, market and regulatory environments facing its operations. It will forge meaningful relationships with carefully-selected market players and pursue its ambition of widening its market activities across market segments and geographies, backed by continuously reinforced customer centricity, strict adherence to solid KYC, customer onboarding and compliance procedures, and the generation of more adaptive human and operational capabilities. Furthermore, the Bank will maintain its involvement in local, regional and international seminars and forums to broaden its visibility, foster its brand image and uncover ways and means to judiciously pursue its strategic intents.
- Locally, backed by its customised and increasingly digitalised and innovative solutions and greater operational efficiency, MCB will consolidate its status as the premier business partner of industries. It remains ready to tap into interesting business growth avenues that may emerge, notably in case national investment levels are materially boosted. Furthermore, aided by the continuous monitoring of the evolving operating landscape, the Bank will seek to further position itself as the go-to banking solutions provider for entities in the global business field, after leveraging Mauritius as an International Financial Centre.
- Beyond Mauritius, regional activities will continue to be an important part in the Bank's diversification ambition. Alongside coping with economic and market access challenges across countries, the Bank is intent on tapping into opportunities for business growth in view of the continent's generally appreciable medium to long-term economic, social and demographic trends. Yet, it will remain guided by involvement in areas where it developed and nurtured strategic competencies.

*Retail Banking*

*Performance*

- During FY 2016/17, the Bank was confronted by a challenging operating environment on account of soft economic conditions and the heightened competitive landscape in specific areas. Yet, the Bank pursued its strategic endeavours and maintained its market lead, especially in the mortgage as well as the cards businesses, supported by its sound business development trajectories, strengthened operational capabilities, innovative technologies, active on-the-field presence, and continuously refined value proposition. This, noticeably, led to an appreciable growth in business activities and an enhancement of the segment's financial performance. Concomitantly, the quality of assets was duly catered for, with reinforced risk management enabling a suitable risk-return profile.

*Main initiatives and achievements*

- Backed by its wide-ranging branches and electronic channels, the Bank continued to service individual customers across age groups and geographies in Mauritius by means of its everyday and adapted solutions, while distributing the Group's products, particularly relating to leasing and investment. It remained active on the payments scene by allowing clients to make and accept payments through multiple channels. To realise its strategic thrusts, the Bank further refined and streamlined its operational set-up as well as sharpened its customer segmentation initiatives, alongside bolstering the quality of its human capital and making increased use of innovative technologies.

- The Bank capitalised on its tailored offerings and account packages, with the latter being recently enriched with the creation of a Neo Bundle for mass affluent customers in order to give them a better banking experience by bundling together several products and services. As a key achievement, the Bank has, aided by the conduct of active promotional campaigns, further bolstered its leadership position in the mortgage market, backed by a growth of 13% in its housing loan balance over the year ended June 2017. Leveraging advanced technologies and strategic partnerships, the Bank further enriched its suite of card and mobile payment offerings. In respect of the 'Juice' mobile application, the number of registered users continued to rise during the period under review. The appeal of the service was further enhanced, with customers now benefiting from the convenience of accessing PayPal services directly from their 'Juice' app. Of note also, the Bank has initiated the upgrade of its 675,000 debit cards to the convenient and safe contactless payment solution. The aim is to offer customers higher level of security, notably through the latest generation chip technology. The project of migrating debit cards to contactless MasterCard Debit Chip cards, Platinum Debit cards and World Debit cards is underway, with more than 70% of contactless cards being delivered so far.

- In alignment with the Bank's endeavours to embrace omni-channel management and foster the digitalisation of its operations, the Bank accelerated the migration of customers to remote channels, while gearing up customer acquisition and retention moves. Towards moving in this direction, MCB improved the convenience of its digital channels and enhanced its sales efficiency levels. Main accomplishments include the following: (i) the Contact Centre being equipped with better capabilities for improved customer service, with high calls response rate; (ii) Kiosk deployment with superior capabilities and services; (iii) roll-out of revamped Internet Banking service, with increased number of billers on the platform enabling more offerings to customers; (iv) enriched website offering online account opening option and possibility to apply for an educational loan; (v) undertaking of proactive customer calls to better understand customers' needs across life stages and as per their lifestyles; (vi) deployment of new Customer Relationship Management system to consolidate ties with the customers; and (vii) process simplification with the ability to instantly generate PIN on Internet Banking. Furthermore, the Bank deployed cost efficiency initiatives, with examples including the unremitting improvement in processes and the promotion of e-statements by customers.

- The Bank maintained its engagement in servicing and accompanying small and medium enterprises (SMEs) in their activities and growth initiatives. It ranked 1st among the 13 participating banks in respect of credit facilities outstanding under the Government–backed SME Financing Scheme, with a market share of 42% during the December 2011 – August 2017 period. Basically, backed by a thorough understanding of business requirements and active relationship-building (e.g. organisation of webinar sessions and Breakfast Meetings with SMEs), the Bank provided personalised solutions to assist clients. The value proposition was refined, with the creation of two distinct SME Account packages for medium enterprises and small businesses, the provision of a Business Deposit Card for free cheque and cash deposits at the Bank's ATMs, and the introduction of a working capital loan and unsecured overdraft, so as to help clients ease cash flow management by paying for operational expenses such as rent and payroll.

*Read more on our innovative approach and digital footprint in the 'Operational Excellence and Innovation Report' on pages 140 to 146*

# Business and financial review

***Strategic orientations going forward***

- Moving ahead, the Bank will pursue its strategies amidst key operational challenges. The latter include the following: (i) the evolving socio-economic and market dynamics, with competitive pressures in the mortgage market and cards businesses warranting attention; and (ii) the heightened sophistication and complexity of needs and aspirations of customers, notably those who are fast developing marked preferences for the utilisation of technological tools as well as hassle-free products and services. Besides, the Bank will pay heed to unfolding regulatory developments impacting its activities as well as fast-paced changes in the payments landscape. In the latter context, a key consideration relates to the disruption phase to which the cards industry and all its actors are currently being exposed to in the wake of the unleashing and dissemination of new technologies on the marketplace.

- Against the demanding backdrop, the Bank will leverage its reinforced capabilities towards pursuing clearly-calibrated growth strategies and deepening the customer share of wallet. It will enrich the quality of its customer service as well as the range and attractiveness of its client solutions. It will further its digitalisation initiatives from both internal and customer perspectives, in line with its quest to bring about a more meaningful shift towards non-cash transactions. While tapping into synergies within MCB Group, assistance will be provided to Group entities, for instance by replicating the 'Juice' mobile service in the Group's foreign banking subsidiaries.

- Also, the Bank will cement its position as the foremost service provider for SMEs in Mauritius, helped by a further improvement of its value proposition, while providing a service which will allow the Bank to better connect and engage with its clients.

<u>*Private Banking and Wealth Management*</u>

*Performance*

- While private banking activities were hitherto conducted under the aegis of the Retail SBU, a segregated Private Banking and Wealth Management SBU was created as part of the new organisation structure at MCB Ltd to enable the Bank in developing this line of business in a more focused manner.

- During FY 2016/17, this segment achieved a commendable financial performance in spite of its activities being pressurised by a challenging economic and compliance landscape. Notably, the Bank posted an appreciable rise in its assets under management. While this performance was, to some extent, underpinned by a widening of the foreign client base, the Bank reinforced its positioning vis-à-vis External Asset Managers looking for investment solutions.

***Main initiatives and achievements***

- Supported by its dependable business model and adherence to international norms and standards, the Bank pursued business activities targeting high net worth customers based locally and abroad by means, notably, of its convenient everyday banking and financial services as well as its high-quality investment and wealth management solutions, alongside capitalising on its ambitious client acquisition initiatives. The Bank, also, remained active in meeting the requirements of professionals, managers and executives. It has further positioned itself to enhance the quality and richness of client relationships and interactions, with such moves, notably, enabling the Bank to implement wide-ranging foreign market diversification initiatives.

*MCB participated in the Wealth Africa Forum*

- The Bank broadened its value proposition, with (i) the Lombard loan enabling clients to utilise a wide spectrum of credit products which are secured against their existing investment portfolios; and (ii) the Private Banking Fund – a 100% equities fund investing on international stock markets – addressing, as the only one of its kind in Mauritius, the needs of customers who do not have a lump sum to invest in a portfolio management mandate, but would like to have monthly plans set aside. As a key enabler to allowing strategic moves succeed, the Bank launched a new Wealth Management System towards the end of 2016. It provides an integrated set of wealth management features to more effectively serve the needs of high net worth clients, while helping to enhance client interactions in relation to custody and portfolio/wealth management. Furthermore, the Bank continued to be engaged into brand and relationship-building events. Noticeably, the MCB Tour Championship, an annual tournament organised in December 2016, is the last competition of the European Senior Tour and is the most prestigious golf contest held in Mauritius. The Wealth Africa Forum was hosted by the Group in March 2017, bringing together bankers, wealth managers, lawyers and tax advisors, amongst others, to discuss opportunities and challenges specific to wealth management in Africa and how Mauritius acts as a reliable International Financial Centre for investment flows into the continent. Of note, the Bank's website pertaining to its private banking and wealth management business line was recently upgraded and enriched to provide more concise and comprehensive information on its offerings and contact details. Additionally, the segment capitalised on (i) the ongoing reinforcement of staffing and upgrading of team competencies (e.g. by means of the recruitment of employees with specialised talents); (ii) a more focused identification and control of risk areas and an optimisation of operations in light of the increased complexity and volume of activities; and (iii) the forging of synergies with other segments and entities of MCB Group, alongside tapping into privileged relationships nurtured with leading international investment and fund management specialists.

***Strategic orientations going forward***

- In addition to consolidating its local affluent client base, the Bank will strive to expand its reach across markets and geographies, aided by its dependable value proposition, active market presence, and investment-grade status. The Bank will continue to ensure that clients obtain the service they expect as distinguished members and will work closely with customers to identify their financial objectives and develop strategies to achieve them. As a major undertaking, due attention will be devoted to the realisation of a major axis of the Medium Term Growth Strategy of the Bank, namely 'Expand Private Banking into Africa'. In addition, the Bank is intent on expanding its market foothold across Europe as well as carefully-selected countries and regions. As a key thrust, the Bank aspires to act as the wealth management hub of the region, underpinned by the adoption of key moves that are in alignment with the positioning of Mauritius as an International Financial Centre of repute and substance.

# MCB Ltd: Operational Excellence and Innovation Report

## Introduction

Throughout its history, the Bank has remained committed to embedding operational excellence and innovation as a key enabler of its business model and strategic orientations, in support of sustainable revenue generation. As a notable leap forward, it has embarked on a multichannel strategy with the aim of uplifting customer experience. In fact, the Bank has, amidst a fast-paced operating context, boarded onto a transformational journey to move from transactional to relationship banking in tune with the changing needs of its clients. It broadened its digital footprint, which enabled it to enhance the speed and flexibility with which it delivers value to customers.

The Bank has made inroads in (i) improving the appeal of its physical channels; (ii) migrating clients towards online channels; and (iii) fostering seamless multichannel integration. The engagement of the Bank has been backed by continuous investment in human capacity building, endorsement of adequate risk management, recourse to extensive data analytics, sustained customer education and a conducive shift in the organisational culture. In FY 2016/17, a key achievement relates to the setting up of an Innovation Lab in order to help to sparkle innovations within the organisation and contribute to the Mauritian digital eco-system.

## Our strategic positioning

Fundamentally, the Bank seeks to adopt innovative practices and platforms to better connect with its customers and improve internal productivity levels, as gauged by the recourse to cutting-edge technologies across the value chain and the sustained streamlining of processes and workflows to achieve increasingly agile operations. Essentially the Bank aims to continuously (i) improve sales efficiency levels after automating and rationalising relevant processes towards providing services in a faster and less costly way; (ii) launch tailored, sophisticated and a broader array of solutions, while reaching out further to the younger generation; and (iii) enhance and enrich the quality of customer service, thus simplifying banking and making the latter an intuitive and enjoyable journey for the customer. Such achievements contributed to preserve the Bank's brand image and foster sustainable business growth.

Presently, the Bank is working on the transformation of the banking landscape in Mauritius by moving in sync with the population's contemporary lifestyles and promoting the emergence of a 'cashlight' or 'cashless' society. In this respect, the Bank is further embarking on an ambitious Digital Transformation Programme in order to improve its operational flexibility and preserve its market competitiveness. Towards this end, it is mobilising resources to ensure that the strategic focus area of fostering the creation of a 'Digital Bank with a Human Touch' is catered for, while engaging internal stakeholders to making things work.

## Innovation is at the heart of our strategy

### Our ambitions

- Accelerate the digital transformation of MCB
- Continuously streamline operations
- Leap from multichannel to omnichannel management
- Become a centre of operational excellence

### Our guiding principles

| | |
|---|---|
| **Customer centricity** | We adopt a customer-centric approach to innovation, which enables the provision of state-of-the-art and convenient solutions delivered in a simple and engaging manner |
| **Strong human capital** | We leverage our flexible and productive human capital to modernise our operations and develop specialist skills |
| **System upgrade & process automation** | We achieve cost efficiencies through the automation and streamlining of processes as well as upgraded information systems |
| **Compliance** | The Bank complies consistently with regulatory requirements and international practices |

### Our framework

The Bank avails clearly-defined governance and operational arrangements, policies and standards to guide and oversee the identification/ideation, prioritisation, implementation and monitoring of projects and changes geared towards innovation, technological improvements, process reviews as well as the ongoing launch of products and services for our customers. While strategic directions are set by the Board and Management, the Chief Operating Officer's office is involved all through the process.

### Selected entities under the aegis of the COO

#### Banking Operations

It is mandated to achieve operational excellence by processing and delivering, in a precise and efficient way, products and services for customers, alongside supporting lines of business in their sales efforts. It is composed of the following business units, namely Payment Operations, Trade Finance Operations, Credit Operations, Customer Onboarding Operations, Treasury Operations, and Business Process and Transformation, while finally being responsible for the SWIFT Service Bureau.

#### Information Technology

Its role is to develop, operate and maintain the core banking, peripheral and enterprise systems, while taking charge of analysis, solutions designs, technical and business solutions evaluation, development and testing, as well as implementation of IT Systems. It also caters for undertakings linked to IT Innovation and Architecture evolution.

#### Digital Transformation Programme & Innovation Lab

The key purpose of the function is to research, analyse, test, advise on as well as deliver the necessary solutions to optimise innovation and design new digitalisation pathways for improving end-to-end customer journeys at the Bank, backed by regular interactions with internal stakeholders and adoption of initiatives to ensure alignment with evolving client expectations and technological trends.

## Overview of innovative solutions adopted over the past few years

### Channel Management

**Our branch network**

- The appeal of our network of 39 branches has been continuously enhanced to improve and simplify the customer experience. All of our branches operate as per world-class 'department store' standards. To effectively reach out to clients from various spheres of the society, our branches are strategically well-situated across regions, with 45% located in rural areas.

- Our differentiated formats cater for different market segments and include full sales branches, counters in shopping malls and flagship branches. Overall, MCB operates 34 full-service branches and 5 kiosk branches, with the latter being conveniently set up in malls and high-traffic areas for express transactions. Our kiosk branches offer fast and simplified banking experiences, with secured card swipe authentication. While doing away with queues, the platform has paved the way for thousands of financial and non-financial transactions to be fulfilled daily in a seamless and straight-through mode, e.g. account transfers, transactions and balance enquiries, application for products and services, standing order set-up/cancellation, request for electronic certified statements and cancellation of direct debits. As for our full-branches, they, also, feature self-service kiosks that are enabled with card-based authentication, whereby multiple non-cash transactions can be easily and safely effected online and real-time by customers of all ages, with eventual assistance from greeters. Customers can, thus, onboard instantly alone or be assisted by a greeter with a view to getting access to multiple services such as Internet Banking, etc.

- MCB operates lounges across five branches, which feature private spaces for high net worth customers to bank in style and comfort. As a key achievement, MCB has, some time back, refurbished its lounge at its Head Office. Named as 'Lounge 1838', the lounge (whose video is accessible at www.mcbprivatebanking.mu/en/solutions/ways-to-bank-with-us/lounge-1838) features a premium and private space for our customers, who can enjoy a bouquet of features with our compliments: a digital corner, WiFi, parking, hot and cold drinks, books and magazines.

- Through our breakthrough 'Instakit' service, in-branch experience is boosted with on-the-spot products and services (e.g. debit cards, Internet Banking, Mobile and SMS Banking) offered for immediate use to customers within just a few minutes. In our branch network, video conferencing is available to interact with customers located in Mauritius and abroad, with advice provided notably on our specialised banking and investment services. While enabling them to be more mobile and efficient in their sales activities, iPads are used by front-liners notably to cross-sell loans and cards and provide specialised financial health check services on-the-go at fairs and commercial events. MCB's value proposition is also promoted across some 250 digital screens across its branch network. In addition, free WiFi service is available to customers in several of our branches across the island.

**Moving towards remote channels**

- Today, more than 70% of retail transactions are conducted at electronic channels instead of branches. The Bank has made further headway in migrating customers from branches to digital channels, with the latter being mainly intended for transactional operations and the former increasingly sought for advisory services. Recent key accomplishments relate to (i) the assignment of dedicated digital champions (i-Connect) in each branch, with the objective being to explain the benefits of digital and remote channels and help customers during the on-boarding and utilisation stages; and (ii) the launch of online personal customer creation and application to products and services via the revamped MCB website, with fulfilment in branch.

**Our electronic and digital channels**

- Accounting for around 39% of the national network, MCB Ltd has 176 strategically-located ATMs, while our wide platform of some 6,883 merchant terminals include multi-currency and wireless mobile POS terminals. Our 26 Bunch Note Acceptor ATMs allow for deposits on 24/7 basis, which are also instantly credited to the designated accounts. Lately, cash deposit via ATMs has been extended to small and medium enterprises to avoid queues in branches and improve customer service. All MCB ATMs are equipped with anti-skimming protections, thus enhancing security levels for our customers. Additionally, forex notes can be exchanged on our 8 Forex ATMs. Dynamic Currency Conversion has been extended on our ATMs and merchant terminals. As such, a large array of foreign cardholders are able to accurately determine the value of their transactions in their home currency, while knowing exactly which exchange rate is instantly applied instead of having to wait until the transaction is actually cleared.

- The comprehensive mobile payments and banking platform of MCB, titled 'Juice', leads the way in Mauritius by means of its unrivalled features, including the ability to effect card-less ATM transactions, transfer money to any Visa cardholder worldwide, and access selected PayPal services. 'Juice' boasted some 132,350 subscribers as at end August 2017, including around 52,000 over the past year. Of note, the Bank launched its 'Juice' mobile banking and payments service in 2013 to be more attuned to its customers' contemporary lifestyles. MCB Ltd was the first bank on the island to launch a 2-in-1 Banking and Payment Mobile app, downloadable from App Store and Play Store, while also being accessible via the web. The solution provides a comprehensive set of online banking and payment services. Our mobile application, notably, allows customers to self-onboard online, avail of offers at promotional prices when paid via 'Juice' or MCB Cards, and effect their bill payments at finger touch.

- In May 2017, MCB's revamped, English-French, content-rich and mobile device-enabled website was launched. The latter has been continuously overhauled over time, with web content management solutions being noticeably used for dynamically displaying our brand image and boosting our online marketing efforts. Additionally, promotional videos are hosted on MCB's Facebook Page and YouTube channel. Moreover, in August 2016, MCB launched its all-new and feature-rich Internet Banking service, including new platforms for making banking easier, simpler and faster, for example, through (i) improved experiences on mobile and tablets; and (ii) the possibility of self-service onboarding, user unlocking and pin reset for individual customers. Furthermore, as from October 2016, our Securities Investment Portfolios are available online and real-time, while straight-through processing has been enabled for domestic and international fund transfers. Our rich and secured Internet Banking service counts over 163,000 registered users, with a local market share of more than 40%.

**Fostering seamless multichannel integration**

- The Bank promotes cross-channel collaboration, with key examples being as follows: (i) self-service onboarding to our Mobile banking and Internet Banking transactions through a one-time password made available via SMS; (ii) client requests can be initiated through the web and fulfilled in-branch; (iii) increase of daily online funds transfer limits can be done via our Call Centre; and (iv) applications from the Kiosk can be fulfilled in-branch.

- Service levels have been improved at our Contact Centre, with the latter providing information about MCB's offerings on a 24-hour basis. It acts as support to remote channels, offers mass customers the convenience of obtaining information without having to come to a branch, and constitutes a key axis of our strategy of promoting the move to self-service solutions.

*Read more on our remote channels in the 'Delivering value to our stakeholders' section on pages 30 to 61*

## Other Technological Platforms and Innovative Practices

- MCB avails landmark information technology platforms to underpin its operations, with the main examples being as follows: (i) Temenos Core Banking System; (ii) e-forms, optical character recognition as well as documents and Business Process Management (BPM) tools with functionalities for streamlining and automating processes and reaping improved efficiencies, while reducing data capture, paper usage and email exchanges; (iii) full-fledged systems leveraged at the level of specific business functions, notably Treasury (whereby all of the front, middle and back offices are automated), Cards (with the full suite of issuing, acquiring, transactional/authorisation switch, ATM and POS terminals being seamlessly integrated to offer 24 by 7 service) and Risk (e.g. Enterprise Risk Management System used for credit and market risk management); (iv) Teller Cash Recyclers at branches; and (v) software for customer complaints. Moreover, MCB has invested in a software solution providing e-learning training and also Graphical Interface Electronic Operations Manual, an e-learning medium allowing employees to be trained on selective modules on easy-to-use visual interface. Last year, MCB has initiated the upgrade of its 675,000 debit cards to the contactless payment solution, with higher level of security through latest generation chip technology being offered.

- Lately, MCB has implemented an all-in-one Customer Relationship Management (CRM) system across all lines of business and relevant support functions with a view to fostering customer service improvement as well as operational excellence and efficiency gains. The operational objective is to facilitate and enhance customer service by providing the same full 360-degree customer view across all lines of business and the Contact Centre. The system enables and enforces the management of all commercial/marketing campaigns and sales related to MCB products and services on an end-to-end basis, i.e. from leads to fulfilment, while the software has features for the online tracking of key performance indicators. Of note also, as a key enabler towards paving the way for prompt decision-taking and client assistance, customer-facing staff have online and real-time access to all customer accounts, facilities and transactions, investments, archived electronic documents as well as any complaints, requests and suggestions made across branches and electronic channels such as mobile banking and Internet Banking.

- Since October 2016, a state-of-the-art T24 Securities and Asset Management system has been implemented to automate the investment and securities portfolio offer to high net worth customers.

### Key process improvements

- The Bank has made inroads in further improving the effectiveness and dexterity of its credit and payments operations and transactions as well as its customer acquisition and onboarding initiatives. Actions deployed have led to smarter as well as more efficient and smooth-running of back-end activities, while helping to minimise operational errors, reduce turnaround times and contain the cost to serve. Notably, the Bank achieved a gradual elimination of paper work in the wake of a higher propensity for online interventions, posted shorter loan disbursement times, lessened bottlenecks to operations, and reduced dependence on low value-adding operations. It also benefited from the automation, optimisation and digitalisation of processes via workflows, dynamic case management, system integration, as well as the automation of the recovery and debt collection processes.

# Business and financial review

## Looking ahead: Trajectories and undertakings to take MCB Ltd to higher echelons

### Our ambition

**MCB aims to position itself as a Digital Bank with a Human Touch**

### Our strategic focus

The Bank will pursue its voyage towards embracing omni-channel management and transforming itself into a full-fledged Digital Bank. It will further entrench its technological transformation to support its business growth. It will operate an increasingly customer-centric business model and will better collaborate with its customers towards digitally addressing their needs.

### Our key objectives

- Make banking simpler and more convenient to customers
- Provide self-service and straight-through banking services to our clients anywhere, anytime and on any device
- Improve and accelerate customer service

- Expand and diversify revenue generation across customer segments
- Foster cost effectiveness and operational excellence
- Minimise paper use

### Our Digital Transformation Programme

While striking a balance between business-as-usual and business disruption, the Bank aims to accelerate the execution of its Digital Transformation Programme in the periods ahead, backed by reinforced capabilities and the endorsement of cutting-edge technologies.

**Key strategic thrusts**

- Fostering migration towards digital channels
- Promoting accelerated and smarter sales
- Achieving wider process digitalisation

**Challenges to cope with**

- Meeting evolving customer needs and requirements
- Adhering to regulatory and compliance requirements
- Adopting agile and relevant technology

***Foreign banking subsidiaries***

*MCB Madagascar*

*Performance*

- While the economic recovery process is deemed to be gradually gaining speed, the Madagascar economy remained in relatively challenging territories lately, which impacted activity levels in the banking sector.

- During the year ended June 2017, MCB Madagascar witnessed a flat loans and advances portfolio. Coupled with the drop in investment in securities and downward pressures exerted on yields on treasury bills during prolonged periods, this led to net interest income growing marginally. While an appreciable expansion in net fee and commission income was recorded on the back of expanding activities and more favourable pricing dynamics, the results of MCB Madagascar were impacted by a significant decline in profit arising from dealing in foreign currencies. This is to a large extent explained by the exceptionally higher margins registered on foreign currency transactions in FY 2015/16 amidst a volatile foreign exchange market environment and the relative strengthening of the Ariary against the US dollar and the euro during specific periods of the last financial year. Moreover, the results of the bank were adversely impacted by a hike in operating expenses, partly reflecting the first full-year amortisation of the recently-operationalised Core Banking System T24 and payment of corresponding licence fees. Notwithstanding a net recovery in respect of net impairment of financial assets, net profit of MCB Madagascar dropped, with its contribution to Group results standing at Rs 41 million.

*Main initiatives and achievements*

- The bank has revamped its delivery channels and recently deployed a park of 8 brand-new EMV certified ATMs. The bank's cardholders can now proceed to online payments with their debit cards in a safer mode since subscription to the VbV secure mode (Verified by Visa) has been obtained. Furthermore, the bank has introduced new communications channels through the deployment of digital signage in its branches to promote the brand and provide information on its offers. It embarked on a continual journey of marketing and sponsorship initiatives to increase its visibility in the market and promote its products.

- The commercial team has been reorganised to better manage the customer portfolio for the corporate and retail segments. This initiative aims to boost business development strategies and provide due impetus in further improving the sales force of both segments. In the same vein, processes have been reviewed and streamlined in the context of the new commercial structure to relieve front-liners from back-office work. The bank, also, invested in developing its staff to foster customer service excellence and reinforce internal capabilities for improved efficiency in the daily operations. A Head of Projects has been recruited to take care of various initiatives related to business development and marketing. Extensive training courses have been delivered on customer services to the front-liners across all branches, while leadership training was provided to Heads of business units and the Management team. In another respect, the bank leveraged considerably on the synergy with the Group in order to reinforce its internal capabilities and pave the way for an enhancement of business development opportunities in both the retail and corporate segments.


*2017 marks the 25th anniversary of MCB's presence in Madagascar*

*Strategic orientations going forward*

- In spite of exigent operating conditions, MCB Madagascar will remain on the look-out for appealing business opportunities. Notably, while fostering alignment to market dynamics, the bank has implemented a new client segmentation nomenclature for both its corporate and retail customers, which will result into a more focused origination strategy for the different segments. It also devised a market development strategy for its retail network within and outside Antsahavola, through the opening of new branches and a well-defined relocation programme, with the aim of fostering improved visibility. Further ATM deployment is being earmarked in strategically-located areas in order to increase the bank's footprint in Madagascar. Across its branches, the bank, also, aims to set the stage for the creation of a more convivial and modern banking environment, with a view to contributing to foster enhanced customer service levels.

- Furthermore, the bank will strengthen its capabilities, in terms of both its operations and human resources. Particularly, a new HR structure will be designed to ensure that adequate efforts are devoted to foster human resource efficiency and engagement, supported by the implementation of a performance management system and a talent management programme.

*MCB Maldives*

*Performance*

- While the IMF expects a modest growth recovery for the near term, real GDP growth in Maldives has been relatively restrained lately, with fragile fiscal and external positions depicted. Against this backdrop and a challenging market environment, pressures were exerted on the financial results of MCB Maldives.
- In FY 2016/17, the bank registered a decline in net interest income on the back mainly of the narrowing of the customer loans portfolio coupled with an increase in non-performing loans as well as a decrease in investment in securities in view of liquidity management initiatives to cater for market volatilities, especially in respect of the deposits book. As a result, a drop in operating income was noted, in spite of non-interest income being boosted by higher trade and bank guarantee fees, augmented cross-currency transactions, as well as a more efficient management of the bank's foreign exchange position. Furthermore, it is worth highlighting that the operating expenses of the bank hiked considerably on account of significant investments in human capital and information technology as well as additional costs linked to the operationalisation of the new Hulhumalé branch. After factoring in a major surge in allowance for credit impairment, reflecting, notably, an increase in the specific provision coverage on non-performing loans, attributable results for the year stood at MVR 48 million, with the bank contributing around Rs 112 million to Group results.

*Main initiatives and achievements*

- The bank opened a new branch in Hulhumalé in May 2017 to reinforce its presence in Maldives and prospect new business opportunities. This geographical choice for Hulhumalé is explained by the unfolding of major infrastructural projects to meet housing, industrial and commercial development needs. Focus is laid on providing financial services to the retail and corporate segments, including SMEs as well as individuals with middle and higher income. Furthermore, efforts are being devoted to broaden the customer base for Internet Banking, with a notable increase in the total number of subscribers already noted.
- In terms of capacity building, MCB Maldives invested considerably in developing its staff to attain customer service excellence and instill improved effectiveness and efficiency in daily operations. In collaboration with the Group, an anti-money laundering refresher course was delivered to a targeted audience, while all staff benefited from sessions on information security awareness. The bank's staff also underwent KYC training from the Maldives Monetary Authority. On another note, the bank leveraged Group synergies to further enhance its processes and back-office activities, thus enabling it to build greater capacity on sales and foster enhanced customer service. In terms of information technology, the bank continued to invest in new tools to help in enhancing efficiency among staff as well as freeing front-liners from administrative work to lay greater emphasis on customer service and sales. Besides, MCB Maldives took advantage of a new cheque truncation system which offers a faster process of cheque clearing, alongside leading to a significant reduction in the risk of errors. Also, the bank invested in scanning solutions for electronic archiving of all documents and contracts.

*Strategic orientations going forward*

- MCB Maldives will seek to increase its market penetration by increasingly tapping into appealing business avenues across customer segments. Noticeably, alongside seeking to broaden the range of offerings that will meet the needs of its individual customers, the bank has engaged into a market diversification strategy within its retail segment with a view to targeting high net worth individuals, backed by the upgraded operational platforms and deployment of customer acquisition initiatives. Building on recent headway, the Bank will consolidate its risk and compliance functions as well as its internal control systems.

<u>*MCB Seychelles*</u>

*Performance*

- In spite of pressures linked to the challenging external environment and political developments, the macroeconomic fundamentals of Seychelles remained relatively sound during the last financial year. This context, coupled with internal capacity-building measures adopted by the bank, provided an appreciable anchor in support of the sustained business growth of MCB Seychelles.

- Loans and advances to customers grew by 16% to attain SCR 1.8 billion as at 30 June 2017. In addition to an expansion in credit extended to retail customers, the evolution in the bank's loan book was underpinned by notable growth rates at the corporate banking level, especially as regards the construction, agricultural and fishing sectors as well as public sector entities. On the other hand, lower yields on treasury bills amidst high liquidity levels prevailing in the banking system resulted in net interest income growing by 5%. Operating income was relatively flat, partly explained by a drop in net fee and commission income, mainly attributable to a drop in net fees from our card-related operations. Operating expenses edged up due to increased salary costs amidst salary reviews and augmented headcount as well as higher software maintenance and amortisation costs. Results of MCB Seychelles attained SCR 69 million in FY 2016/17, with the entity contributing Rs 181 million to Group profits.


*Axel Andrade (left), winner in Net category, was among the fifty players who participated in the MCB & Constance Lemuria Invitational 2017 held in September in Praslin, Seychelles*

*Main initiatives and achievements*

- The bank launched its new Visa Classic Debit chip cards, whereby more than 10,000 cards are expected to be delivered to individual customers. This new offer will considerably improve card services in terms of convenience and security. As part of this launch, the service delivery will be substantially improved as existing customers replacing a lost card or applying for a new card can now obtain their new cards on the spot. Besides, MCB Seychelles broadened its network of card acceptance by becoming the first bank to enable transactions on its POS and ATMs for UnionPay International card holders, thus capturing an interesting Asian customer base visiting Seychelles. Of note also, with a view to encouraging card usage while promoting its brand, MCB Seychelles launched the Sweet Deals Campaign in December 2016, which consists of partnership agreements with more than 40 merchants. In another light, the newly-relocated Grand Anse Praslin branch was inaugurated in July 2017, portraying a modern MCB-branded setting, while incorporating an improved customer experience and enhanced security features.

- To support its strategic thrusts, MCB Seychelles steadily pursued its HR Transformation journey. In view of its ambition to becoming an employer of choice, MCB Seychelles also organised a Career Day in October 2016 and participated in various job fairs across the country. As another enabler to growing its customer base, MCB Seychelles kicked off the upgrade of its Internet Banking platform, which will help to bolster the knowledge of and the access to the bank's range of products and services.

*Strategic orientations going forward*

- MCB Seychelles continues to invest in its people as well as in new technologies and innovative banking solutions in order to bring a differentiated service offering to its customers.

- MCB Seychelles will seek to further sharpen its market positioning across segments, backed by a close monitoring of the operating context. It will pursue its strategic projects to improve the quality of customer experiences, underpinned by the launch of innovative mobile banking solutions, delivery of value-added services, upgrade of its core banking system and Internet Banking platform and branch refurbishments. These projects will be undertaken alongside further investment in risk management and compliance capabilities as well as the continued implementation of the HR Transformation Programme and the uplifting of operational platforms.

# Business and financial review

***Foreign banking associates***

*Banque Française Commerciale Océan Indien (BFCOI)*

- Lately, a relative improvement in macroeconomic activities has been witnessed in Réunion Island, the main market of BFCOI, spurred notably by the prevalence of low interest rates and deployment of major infrastructure projects. Against this backdrop and while, also, taking into account the competitive environment, loans to customers of BFCOI posted a year-on-year growth of some 4% to reach EUR 1.5 billion, while deposits grew by 8% to reach EUR 1.1 billion. As a result, operating income increased by some 2% to reach EUR 79 million. With operating expenses being contained, the cost to income ratio improved to 59%.

- Nonetheless, results of BFCOI were adversely impacted by a rise in allowance for credit impairment, partly explained by the adoption of a more stringent provisioning policy by the bank. Additionally, the bank was hit by a prominent rise in its effective income tax rate given the rise in general provisions, which are non-deductible for tax purposes. All in all, net profit of BFCOI registered a drop during the last financial year, with its contribution to MCB Group profits down to Rs 353 million. BFCOI remained comfortably capitalised, with its capital adequacy ratio standing at 16.1% as at 30 June 2017, of which 13.0% by way of Tier I capital.

- The profitability of BFCOI is expected to be back on track in the new financial year, with impairment charges returning to normalised levels.

*Société Générale Moçambique*

- The Mozambican economy faced up to key macroeconomic challenges lately, with real GDP growth declining to 3.8% in 2016 as per the IMF. For 2017, a relative improvement in growth is anticipated, but the main economic sectors remain under pressure. Notwithstanding the difficult operating environment, customer deposits rose by some 62% to reach MZN 3,172 million, while the loan book expanded by 68% compared to the preceding year to reach MZN 1,891 million as at 30 June 2017, amidst a high inflationary environment, thus prompting a major expansion in net interest income. As a result, operating income rose significantly, in spite of a slight drop in net fee and commission income as a result of reduced trade activities.

- Nonetheless, results displayed by Société Générale Moçambique were adversely affected by a significant increase in non-interest expense. This increase is largely due to the impact of the significant depreciation of the MZN on the cost base of the bank – to the extent that around 60% of its operating expenses are in foreign currencies – alongside factoring in the unleashing of a number of initiatives to support the growth strategy of the bank, with the latter investing in new infrastructure works, deploying new technological platforms, and expanding its staff base. Consequently, the contribution of Société Générale Moçambique to MCB Group profits in FY 2016/17 was negative at Rs 86 million. The Bank stayed firmly capitalised, with capital adequacy ratio standing at 19.9% as at 30 June 2017, of which 17.8% by way of Tier I capital.

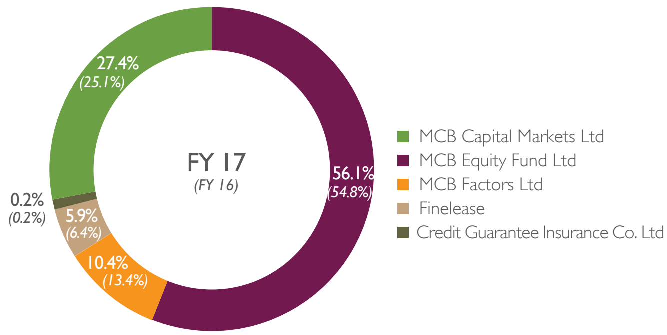
- Going forward, SG Mozambique will reinforce its origination capabilities with the large corporate segment and leverage on the expansion of its branch network to build its deposit base in order to achieve a return to profitability, which is expected in FY 2018/19.

***Non-banking financial cluster***

Notwithstanding improved results from MCB Capital Markets Ltd and the successful exit from an equity investment, the share of this cluster in Group profits fell slightly to 6.4% owing to reduced contribution at the level of MCB Factors Ltd and MCB Finlease Ltd while Microfinance Ltd recorded an operating loss in its first year of existence.

**Contribution to profit within the cluster**

*(Figures in brackets relate to 2016)*



*MCB Capital Markets Ltd and its subsidiaries (MCBCM)*

In FY 2016/17, total income and consolidated profit after tax of MCBCM amounted to Rs 334.6 million (2016: Rs 302.8 million) and Rs 126.3 million (2016: Rs 116.9 million) respectively. The results were driven primarily by the successful completion of corporate finance transactions and an increase in assets under management. The business achieved several important milestones, which greatly enhanced its franchise, affirming its position and reputation as the leading transaction advisor and arranger in the local market. Looking ahead, MCBCM will build on its credentials and consolidate its market presence in Mauritius, alongside diversifying its involvement on the regional front. Towards this end, it will seek to extend its range of products and services. Notably, it will broaden its expertise into corporate finance and the management of alternative investment such as private equity and real estate, while targeting institutional investors and high-net worth individuals.

*MCB Capital Markets advised SANNE on the acquisition of International Financial Services*

Corporate Finance Advisory

During the last financial year, the Corporate Finance Advisory team advised on two landmark M&A transactions, namely:

- SANNE on its USD 127.3 million acquisition of International Financial Services (IFS) and IFS Trustees, the largest provider of fund and corporate administration services to corporates and alternative asset managers in Mauritius. SANNE is a Jersey-based fiduciary company and is listed on the Main Market on the London Stock Exchange; and
- SGG Group on its USD 90.3 million acquisition of CIM Global Business, the second largest fiduciary company in Mauritius. Headquartered in Luxembourg, SGG is majority owned by Astorg, a European private equity firm, and is a leading fiduciary company employing over 550 professionals worldwide.

The above-mentioned transactions attest to MCBCM's ability to orchestrate and execute large and complex cross-border Mergers & Acquisitions transactions, in line with its strategy to advise sophisticated clients that wish to start or grow their operations in Africa.

In the local debt capital markets, our team has been at the centre of developments since 2013, advising on almost 75% of total corporate debt issuances, which amount to approximately Rs 27 billion. In FY 2016/17, MCBCM structured the first rated corporate bond and arranged the largest corporate bond issue (Rs 5 billion) to date. The team also advised on the first structured bond for a commercial real estate fund in Mauritius.

Investment Management

Despite intense competitive pressures and a weak investment environment, assets under management increased from Rs 17 billion to around Rs 23 billion as at 30 June 2017, while income increased from Rs 106.2 million in FY 2015/16 to Rs 117.6 million. MCBIM's results were driven by the recovery of the local equities market, which grew by 21.1% in this financial year compared to a fall of 11.5% in the previous year, and an increase in Fixed Income assets under management.

During the financial year, the team launched a USD Cash Management Fund to improve on the low yields that investors have been obtaining on their short term USD investments.

Investment performances of the MCB range of mutual funds have generally been strong. In particular, the MCB Africa Bond Fund, which invests in local and hard currency African bonds, generated an absolute USD return of 14.8% for the year ended 30 June 2017 against 8.5% for its benchmark. The fund was one of the best-performing USD denominated funds in Mauritius and the top performer in the African fixed income space last year. On the back of this performance, the African Development Bank (AfDB) appointed MCB Investment Management as Fund Manager for its first multi-jurisdictional Fixed Income Exchange Traded Fund (ETF) in Africa, namely the African Domestic Bond Fund (ADBF), following a tender process. The Board of Directors of the AfDB also approved a capital commitment of USD 25 million for the ADBF, the primary objective of which being to encourage

# Business and financial review

sovereign and quasi-sovereign bond issuance in local currencies in Africa. The ETF will be launched during Q4 2017 and will be listed on the Stock Exchange of Mauritius.

For its part, notwithstanding the challenging economic context on the continent, the MCB Africa Equity Fund also performed strongly, returning 19.5% in USD terms against 10.5% for its benchmark. On the domestic front, the MCB Tracker Fund and MCB Domestic Equities Fund returned 24.8% and 22.4% respectively against 22.3% and 21.1% for their respective benchmarks.

In 2016, MCBIM launched the MCB India Sovereign Bond Exchange Traded Fund (ETF), giving investors access to the Indian sovereign bond market. Of note, the Indian rupee appreciated by 4.4 % against the USD over the 12 months to 30 June 2017 and the ETF performed exceptionally well, returning 15.6% in USD over the period, including the payment of half-yearly dividends. The ETF is listed on the Stock Exchange of Mauritius.

Our Structured Solutions team launched and placed Zenith Cross-Asset, the first asset back capital-guaranteed product in Mauritius, taking advantage of high liquidity amongst retail banking customers and offshore clients. The product is a 5-year rupee-denominated solution, providing up to 180% exposure to a cross-asset strategy.

Looking ahead, MCBIM is intent on building its distribution channels and gathering assets for its flagship domestic funds and the ADBF. The firm's long term strategy is to position itself as the go-to Africa focused investment management firm by developing more Africa-related investment themes and strategies.

*Stockbrokers*

FY 2016/17 saw a marginal increase of around 3% in overall trading activity as foreign investors reacted to the fall in oil and commodity prices by keeping away from emerging markets. Foreign funds accounted for approximately 32% of market turnover compared to 40% in FY 2015/16. Although MCB Stockbrokers grew its market share during the year, this was driven by relatively large trades that attracted lower fees, hence revenues from the local brokerage business grew by only 1.7%.

The year also saw the largest corporate debt issue in Mauritius as MCB Stockbrokers successfully placed Rs 5 billion in medium and long term bonds denominated in Rs and EUR on behalf of one of the local hotel groups. Distribution fees were however held back by the issue of a single capital-guaranteed product, a marked decline compared to previous years, due to the low interest rate environment. Underwriting activity was also less buoyant. Overall, MCB Stockbrokers' turnover fell by 24% to Rs 59 million.

Besides, World Market Securities, a joint venture between MCBCM and a European brokerage firm, was established in 2016 with a view to building a leading brokerage business dedicated to clients based outside of Mauritius. The company offers best-in-class execution services on all major markets in equity and fixed income securities. It is licensed as an Investment Dealer by the Financial Services Commission (Mauritius) and has been operational since the last quarter of the financial year.

Looking ahead, trading volumes on the Stock Exchange of Mauritius are expected to improve with the gradual recovery of commodity prices and return of investor confidence in emerging markets. Management has implemented various initiatives to boost the company's share of trading volumes and is confident that brokerage revenues will grow. Meanwhile, the excess liquidity and low yield environment is likely to persist for the foreseeable future, limiting our ability to structure attractive capital guaranteed/protected products.

*Registry & Transfer Agent*

The business posted a satisfactory performance amidst subdued market conditions, with revenue maintained at Rs 33.6 million and profit after tax of Rs 9.1 million for the financial year under review. MCB Registry continued to process a number of corporate events on the back of restructuring exercises and capital raising transactions undertaken by certain corporate clients. Growth in turnover is expected to be moderate but sustained in future years as clients continue to tap the capital markets for financing and new products are listed on the stock exchange.

*Private Equity Management*

The private equity team manages the unlisted investments of MCB Equity Fund Ltd, which is wholly owned by MCB Group Ltd. Total assets under their management, on a fair value basis, stood at Rs 2.2 billion as at 30 June 2017. MCB Equity Fund provides expansion and buy-out capital to small and medium sized established businesses with solid growth prospects, a track record of profitability and a strong management team. The fund is opportunistic in its approach, with much emphasis laid on the sub-Saharan African and Indian Ocean regions for investment opportunities.

### *MCB Equity Fund Ltd*

MCB Equity Fund Ltd's net asset value rose from Rs 3.0 billion in FY 2015/16 to Rs 3.3 billion in FY 2016/17. During the year under review, the fund realised net profits of Rs 259.3 million, including profits on disposal of an investment in the telecommunication industry. Dividend income amounted to Rs 34.3 million in FY 2016/17 compared to Rs 31.0 million in FY 2015/16.

### *MCB Factors Ltd*

MCB Factors Ltd is positioned as a prominent player in the field of factoring in Mauritius. In addition to offering financing solutions to its clients against the assignment of their trade receivables, the entity takes charge of the complete sales ledger administration service and the credit control management of the debtors' books. On the domestic scene, by leveraging its rich business experience and deep market knowledge, the company proposes both recourse and non-recourse factoring services, with the latter offerings providing protection against potential bad debts. On the international front, MCB Factors provides factoring services mainly through the Factors Chain International, which is a Global Representative Body for Factoring and Financing of Open Account Domestic and International Trade Receivables. During FY 2016/17, the net profit of the company stood at Rs 48 million. For the current financial year, emphasis is being laid on improving customer experience, enhancing risk management and diversifying the palette of invoice finance products.

### *Credit Guarantee Insurance Co. Ltd*

This associate, in which MCB has a 40% stake, is a joint venture with La Prudence Holding and provides credit insurance services to its customers by ensuring protection in respect of their trade receivables. For the year to 30 June 2017, its contribution to Group results remained at around Rs 1 million.

## *Other investments cluster*

Contribution from this cluster declined in FY 2016/17, essentially explained by the fact that results of Promotion and Development (PAD) Group in FY 2015/16 included significant non-recurrent gains which boosted profits of Fincorp Ltd.

### *Fincorp Investment Ltd*

Fincorp Investment Ltd is an investment company which is listed on the Official Market of the Stock Exchange of Mauritius. Its financial performance is directly correlated to that of its two main investments, namely Finlease Co Ltd, its 100% owned leasing company and PAD, which is an investment company that is also listed on the local bourse and in which Fincorp Investment Ltd has a 46.4% stake.

During the year under review, Finlease achieved marginal growth in its activities, with Finance Leases contracting by 2.3% to reach Rs 3.8 billion while Operating Leases increased by 27% to stand at Rs 600 million. Overall, total lease portfolio (finance and operating leases altogether) increased by 1% to reach Rs 4.4 billion. Operating Income, after taking into account the depreciation charges relating to the Operating Leases, increased by Rs 18.3 million, up 13% compared to the increase of 1% in the total lease portfolio. This performance is mainly explained by (a) a compensation fee of Rs 14.0 million received from State Investment Corporation in respect of claims for funds not disbursed under the previous Lease Equipment and Modernisation Scheme (of which Rs10.0 million was recognised in this financial year's revenue); and (b) a drop in our cost of funding as some of the more expensive deposits mobilised a few years ago have now matured and been repaid.

At the same time, the Operating Costs of Finlease (excluding the depreciation charges relating to the Operating Leases) increased by some Rs 39.7 million, driven by impairment costs up by Rs 25.7 million. This reflects the increase in Non Performing Loan (NPL) rate from 2.4% as at 30 June 2016 to 2.9% as at 30 June 2017.

In view of the above, profit before tax fell by Rs 15.5 million (from Rs 66.1 million to Rs 50.6 million) whilst profit after tax fell by Rs 5.9 million (from Rs 51.8 million to Rs 45.9 million) after benefiting from the recognition of deferred tax assets relating to the significant increase in specific provisions and impairment charges.

The share of profits from PAD amounting to Rs 66.3 million (2016: Rs 370.2 million) returned to normalised levels during this financial year. PAD benefited from a number of non-recurrent transactions in the last financial year, totalling some Rs 690 million, and contributing some Rs 320 million to the Group results of Fincorp for the year ended 30 June 2016. The non-recurrent revenues generated by PAD in 2016 comprised principally of the profit generated from the disposal of shares of New Mauritius Hotels Limited giving rise to a surplus of Rs 363 million and the fair value revaluation of Medine's investment properties that resulted in PAD's share of profit of associates increasing by an amount of Rs 211 million.

Fincorp's share of profits of PAD for the financial year 2016/17 of Rs 66.3 million improved compared to that generated last year

# Business and financial review

(amounting to Rs50.9 million after excluding the non-recurring items). The better performance reflects the encouraging results of Caudan attributable mainly to the increased occupancy, both with regards to commercial and office units, with Fincorp's share of profits of Caudan increasing from Rs 4.0 million to Rs 27.9 million). On the other hand, Medine generated lower profits as a result of a drop in forecast sugar prices.

In view of the above, consolidated results for the year amounted to Rs 82.0 million compared to Rs 382.4 million achieved last year. The contribution of Fincorp's profits to MCB Group results, after deduction of minority interests of 43%, fell from Rs 220.7 million in FY 2015/16 to Rs 47.3 million in FY 2016/17. The net asset value per share stood at Rs 52.85 as at 30 June 2017, compared to Rs 49.04 a year before.

### *International Card Processing Services Ltd (ICPS)*

Operational since 2008, International Card Processing Services (ICPS) Ltd is an 80:20 joint venture between MCB Group and Hightech Payment Systems (HPS), a cards and payments software Company based in Morocco. Representing the interests of MCB Group in Africa, ICPS has, over the years, positioned itself as a prominent player in the provision of multi-channel card and mobile payment solutions across the value chain of issuing, acquiring, switching, Point of Sales (POS) and ATMs. It has, thus, moved forward with the development of full-fledged payment businesses.

ICPS Ltd acts as an end-to-end enabler for its clients located in Mauritius and key African economies, with the entity leveraging its system features and functionalities including reconciliation, fraud management and chargeback processing. In recent years, ICPS Ltd has also enhanced its capabilities for training deliveries, system implementation and Information security advisory services. The company's footprint now spans 11 African economies i.e. Ghana, Rwanda, Congo, Malawi, Tanzania, Kenya, Swaziland, Namibia, Zimbabwe, Mozambique and Zambia, while support is also provided to all the foreign banking subsidiaries of the Group. Backed by an integrated Card Management System as well as a dedicated team of business and IT professionals with core expertise in the delivery of added value across the card payment lifecycle, ICPS has registered strong business growth over the past years. During FY 2016/17, ICPS has continued to make noteworthy headway in a persistently difficult environment, as gauged by a revenue growth of 9% and a contribution of Rs 17 million to Group profit. A key achievement during this year was the completion of a full-fledged Disaster Recovery facility for member banks.

Going forward, backed by the consolidation and development of its talent pool as well as effective cost management through the streamlining of business activities, ICPS will deploy active efforts in respect of the retention of its client base by way of dedicated relationship management and the provision of customised and scalable card payment solutions. The entity is, also, intent on looking for additional clients for the provision of dedicated products and services, including EMV (chip and contactless technology) issuing and acquiring as well as transaction processing, EMV debit, credit, corporate and prepaid card issuance, EMV card personalisation, Chip-enabled ATM/POS driving, etc. Additionally, ICPS will seek to expand its reach in Africa by capitalising on its position as a recognised and trusted partner in delivering payment solutions for banks and tapping into synergies with MCB Group entities which are involved on the African continent.

### *MCB Consulting Services Ltd*

Established in June 2014 as a fully-owned subsidiary of MCB Group Ltd, MCB Consulting Services Ltd (MCB Consulting) offers consulting services – articulated around the four pillars of any company (i.e. Process, People, Technology and Strategy) – to organisations operating within the financial sector. Over the last 3 years, this now truly international company – manned by 75 employees of different nationalities – has undertaken more than 200 assignments in 24 different countries across the world, with the lion's share being on the main land Africa. In FY 2016/17, the financial performance of MCB Consulting has been satisfactory, as epitomised by a turnover of USD 6.7 million, of which nearly 70% has been derived from outside MCB Group.

During the year under review, it is worth mentioning that, in addition to an appreciable number of consulting contracts won and successfully delivered, MCB Consulting has spearheaded two major events on behalf of the MCB Group. The first event relates to the first Wealth Conference in Mauritius, which regrouped, on top of strategic partners like EY and Temenos, a number of high-calibre Mauritian-based operators and African bankers. The conference had several objectives, including the showcasing of Mauritius as a financial hub and sharing the value proposition of MCB Group in this area. Secondly, it organised the Forum d'Été du Club des Dirigeants de Banques et d'Institutions d'Afrique francophone (CDD). The latter, a non-profit making association composed of Chief Executives of banks and credit lending institutions from sub-Saharan and French-speaking African countries, has 74 members (67 active members and 7 honorary members) from 54 institutions of 19 countries. This Mauritian edition welcomed 25 participants, including 18 CEOs, of 20 financial institutions from 11 countries as well as the distinguished presence of the Governor of the Central Bank of Mauritius, the Managing Director of the Board of Investment, representatives of Mauritian companies operating in the main land and senior officers of MCB Group.

Our astutely crafted business development strategy, our passionate, experienced and competent staff, the uniqueness of our value proposition in this market space and our commitment to be of service to our clients remain the key enablers, despite some typical headwinds, for an even brighter future of our consulting arm.

*MCB Consulting Services hosted the annual forum of the "Club des Dirigeants de Banques et Etablissements de Crédit d'Afrique" in Mauritius*

### MCB Microfinance Ltd

As part of MCB Group's pledge to fostering the financial inclusion and empowerment of small entrepreneurs, MCB Microfinance Ltd was launched in July 2016 as a wholly-owned subsidiary of MCB Group Ltd. Its aim is to facilitate access to business loans for micro-enterprises and self-employed individuals. Clients have access to two types of micro-loans: (i) 'working capital loans', which aim at meeting working capital needs such as raw materials or stock; and (ii) 'investment loans', which are targeted to meet the capital spending requirements of businesses. The entity lays due emphasis on customer proximity, with its relationship officers dedicated to spending adequate time on the field to suitably understand the characteristics and requirements of clients with a view to offering them customised solutions that suit their repayment capacities.

As at 30 June 2017, after almost one year of operations, MCB Microfinance had disbursed 1,060 loans corresponding to a gross amount of some Rs 225 million. 62% of loans disbursed were 'Investment' loans and 38% were 'Working Capital' loans. It is worth highlighting that the performance of MCB Microfinance has been better than what was initially projected with an outstanding gross loan portfolio of around Rs 191 million as at 30 June 2017. In March 2017, MCB Microfinance extended its activities to Rodrigues, with the opening of an office and the recruitment of two Relationship Officers. As at 30 June 2017, 17 micro-loans had been disbursed in Rodrigues.

### MCB Forward Foundation

The MCB Forward Foundation is the Group's dedicated vehicle responsible for fulfilling its engagement as a caring corporate citizen. Essentially, its vision is to be instrumental in the creation of sustainable value for the social, environmental and economic well-being of society through the provision of human, logistical and financial resources in support of specific corporate social responsibility initiatives. For FY 2016/17, the Group's locally-based entities contributed 2% of chargeable income derived from the preceding year to the MCB Forward Foundation, representing a sum of around Rs 86 million. A full report on the Foundation's activities in FY 2016/17 is found in the 'Delivering value to our stakeholders' section on pages 32 to 60. As for FY 2017/18, the new Government policy to channel 50% of companies' CSR contributions to the Mauritius Revenue Authority will significantly reduce the level of financial resources available to MCB Forward Foundation for implementing its ongoing CSR Programme. As such, this measure could jeopardize the execution of long term projects that the Group has been engaging into for the promotion of social welfare and empowerment across areas. Of note, as a result of this regulatory imposition, no full-fledged 'appel à projets' could be initiated by the Group for the current year, the more so given the declared intention of the Government to appropriate a further 25% of the allocated CSR amount as from FY 2018/19.

### Blue Penny Museum

This company manages the museum situated at the Caudan Waterfront and, as such, represents one of the contributions of MCB Group Ltd to the promotion of arts and culture, and, more generally, the protection of the national heritage of Mauritius.

**Pierre Guy NOEL**
Chief Executive

# Risk Management Report

# Risk management report

## Introduction

**Risk is inherent in all of our activities. We actively manage risk to protect and support our businesses.**

MCB Group Ltd adopts a conservative and disciplined approach to risk management. While staying a well-capitalised organisation, it is committed to achieve sustainable financial returns and generate value for its stakeholders.

### Our Risk Culture and Philosophy

Alongside complying with industry best practices, good corporate governance standards and applicable statutory and regulatory requirements, the Group places prudent and informed risk-taking at the centre of each decision. It ensures that risks faced are effectively identified, assessed, monitored and managed within acceptable levels. Thus, it sets out to continuously improve the risk-return profile of its activities, while upholding an environment conducive to the nurturing of market development opportunities.

### Our Integrated Risk Management Approach

While entities are accountable to manage the risks faced at their respective levels, the risk management framework of MCB Group Ltd provides guidance and support for achieving sustainable business growth within the precinct of the Group-wide risk appetite. The risk management framework, which lays emphasis on responsibility, accountability, independence, transparency and reporting, ensures that a holistic, coordinated and systematic approach to risk identification and mitigation is adopted across the organisation.

**Key directions formulated by the Group's risk management framework for its entities**

- Articulation of an overall framework that calibrates and harmonises risk management policies and processes
- Guidance on the adoption of a dependable and coherent approach to identify, mitigate and manage risk
- Promoting the general alignment of methodologies used to identify and cope with risks faced
- Ensuring alignment in terms of the attitudes and behaviours of employees towards assuming and managing risk

# Our Risk Management Strategy and Framework

## Main Risks Faced

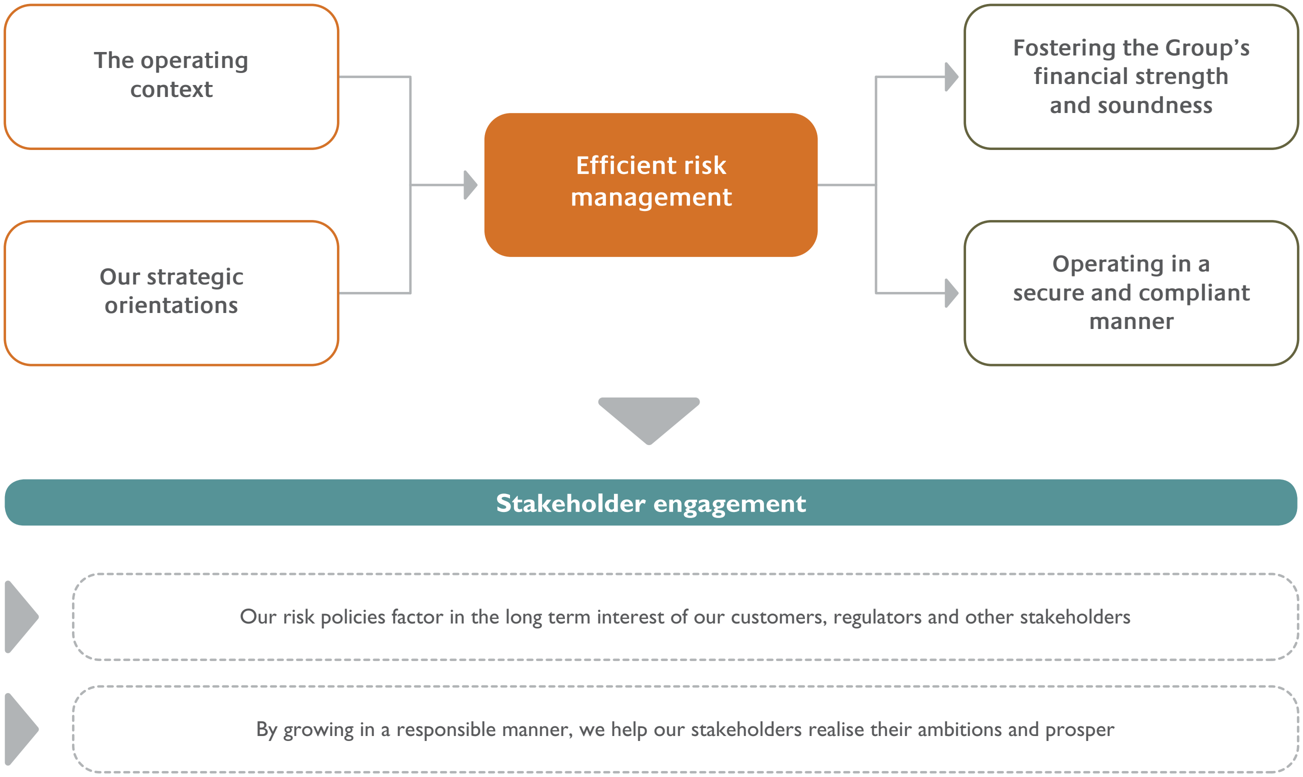
The main risks to which the Group is or could be exposed in its operations are depicted below. The Group ensures that all its material risks are regularly and consistently identified and monitored. Risks are viewed as material when they could threaten the Group's business model, performance, solvency and liquidity.

| | Principal risks | General definitions |
|---|---|---|
| FINANCIAL RISK | Credit risk | The risk of financial loss should borrowers or counterparties fail to fulfill their financial or contractual obligations to the Group as and when they fall due; credit risk typically includes counterparty risk, settlement risk and concentration risk, with the latter referring to the risk that the institution faces from the lack of diversification of its lending portfolio due to the build-up of exposures to a counterparty, industry, market or product amongst others |
| | Country risk | The risk of loss arising when political or economic conditions or events in a particular country inhibit the ability of counterparties in that country to meet their financial obligations |
| | Market risk | The risk arising from a change in the market value of a portfolio of financial instruments caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, etc. |
| | Interest rate risk | The risk arising from changes in interest rates or the prices of interest rate related securities and derivatives, impacting on the Group's earnings or economic value of equity |
| | Funding and liquidity risk | *Funding risk:* The risk arising from not having sufficiently stable and diverse sources of funding or the funding structure being inefficient<br>*Liquidity risk:* The risk that the Group does not have sufficient financial resources to meet its obligations as they fall due or will have to do so at an excessive cost |
| | Equity investment risk | The risk of gain or loss arising from adverse changes in the fair value of an investment in a company, fund or any other financial instrument, whether listed or unlisted |
| NON-FINANCIAL RISK | Operational risk | The risk of loss or costs resulting from human factors, inadequate or failed internal processes and systems or external events. It includes fraud and criminal activity, project risk, business continuity, information and IT risk, etc. |
| | Information risk | The risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources which would compromise the confidentiality, integrity or availability of information |
| | Regulatory and compliance risk | The risk that is primarily linked to the impact of changes in legislations and regulations on the operation and functioning of the organisation. It is the risk of statutory or regulatory sanction and material financial loss or reputational damage, which eventually results in the risk of losses, fines or penalties linked to the failure to comply with any applicable laws, regulations or supervisory requirements |
| TRANSVERSAL RISK | Strategic and business risk | The risk to current or prospective earnings arising from inappropriate business decisions or inadequate future business strategies in relation to the operating environment. The risk is, usually, caused by inflexible cost structures, changes in the business environment, Government or international regulatory decisions, client behaviour and technological progress, and Group-specific factors such as poor choice of strategy; the risk includes strategic risk, business risk, as well as environmental, social and governance risks |
| | Reputation risk | The risk of loss resulting from reputational damage to the Group's image caused by a negative media coverage, compliance failures, pending litigations or underperformance. Such damage may result in a breakdown of trust, confidence and business relationships, which may impair the Group's ability to retain and generate business |

# Risk management report

## Our Business Model

We consider that, in addition to being a threat, risk can turn out to be a real competitive differentiator if it is managed in a thoughtful way. In line with our business aspirations, we manage risk in an open, transparent and disciplined way, after making due allowance for the exigencies of our stakeholders. Our risk management approach and policies are regularly reviewed and updated to account for changes in the Group's business strategies and the external landscape, notably spanning legal and regulatory stipulations.



## Our Key Risk Management Principles

### General orientations

- Ensuring that our risk management principles are anchored on advocated industry norms and good corporate governance principles
- Adherence by entities to sound capitalisation, asset/exposure quality and funding/liquidity management principles
- Establishment of strong governance frameworks, with clearly-defined and segregated authorities, accountabilities and responsibilities for taking on and managing risk
- Establishment of clear risk appetite which sets out the types and levels of risk that the Group is willing to take
- Availing strong, coherent and harmonised risk management processes, policies, limits and targets
- Catering for an adequate balance between risk and reward considerations

### Governance framework

- Ultimate responsibility of the Board of MCB Group Ltd for risk management, with responsibilities delegated to its sub-committees
- Direct oversight exercised by the Boards of entities and their relevant committees
- Effective delegation of authority from the Board of each entity to its management and risk functions, with the scoping of the latter depending on the nature and depth of relevant operations and activities
- Well-defined intra-Group service delivery and collaboration in support of effective risk management, as gauged by MCB Ltd providing *inter alia* internal audit and compliance services to other entities where appropriate

### Overview of other key foundations

- Regular review and update of risk management practices to ensure consistency with business activities and relevance to financial strategies, while catering for changes in the economic and market landscapes
- Adoption of policies and processes that are clear and simple to be understood and executed, alongside ensuring that they are well-documented and disseminated across all layers of the Group
- Adherence to a common set of behaviours, attitudes, skills and guiding courses of action that are integrated throughout the Group in support of coherent decision-taking at all levels of the organisation
- Ensuring that the price charged for solutions is reasonable in relation to the relative riskiness of the exposure

## Our Risk Appetite Framework

A key objective of the Group's risk management strategy is to determine the level and type of risk that the organisation is able and willing to take and deems as being reasonable when executing its business strategies. The purpose of setting risk appetite is not necessarily to limit risk-taking, but to cater for an alignment between the Group's risk profile and its strategic orientations.

The risk appetite is established by means of a complementary set of statements that are determined at Group level and cascaded throughout the entities and the latter's business segments. Qualitative statements seek to make sure that the desired risk culture is adhered to across entities. As for quantitative statements, they aim to shield the organisation from potential adverse events taking place in the operating environment. In this respect, the Group formulates appropriate risk limits, targets and tolerance levels, alongside ensuring that business development ambitions and strategic intents are strictly aligned with set parameters and thresholds. While ensuring congruence with directions established at Group level as well as relevant legal, statutory and regulatory requirements, Group entities set their own risk appetite, control and tolerance levels and mechanisms, which they continuously monitor and, if necessary, update to shape up the optimal level of risk that they are willing to take for the sound execution of their short and medium term business strategies. The limit structure and rating tools used by MCB Ltd for risk identification and quantification are illustrated below.

### Limit structure

**Regulatory**

- Capital adequacy
- Credit concentration
- Macroprudential limits
- Related party lending
- Cash reserve ratio
- Open FX position

**Internal limits and desired risk profile**

- Country limit
- Bank limit
- Sectorial concentration
- Portfolio risk profile
- Product limits
- Counter party credit risk limit; Valuation limit; Daily settlement limit

## Rating tools used by the Bank

| Approach | Applies to | Tool |
| --- | --- | --- |
| Internally-developed model | Country | **Country rating model**<br>The rating monitors social unrest, nationalisation and expropriation of assets, Government repudiation of external indebtedness, foreign exchange controls and currency movements amongst others |
| Internally-developed model | Banks | **Bank scoring model**<br>The credit worthiness is assessed by assigning a score based on the Bank's financial strength, probability of receiving affiliate and/or Government support in case of financial stress as well as the sovereign risk of the country in which the institution operates |
| Internally-developed model | Retail clients | **Credit scoring model**<br>The rating assesses the credit standing, source of repayment and debt service ability of the borrower |
| External rating agencies | Country and banks | Moody's, Fitch, Standard & Poor's, and others as deemed appropriate |
| External rating agencies | Corporate clients | **Moody's Financial Analyst**<br>The rating evaluates the countryparty's financial standing and specific non-quantitive factors such as industry risk, access to funding, market standing and management strength |
| External rating agencies | Corporate clients | **CARE Ratings**<br>Financial obligations subscribed by the Bank in favor of corporate customers can be rated by CARE Ratings, with capital relief being applicable on investment-grade ratings |

## Risk Governance and Oversight

To ensure that the full spectrum of risks facing its entities are properly identified, measured and monitored, the Group adopts a robust governance framework, backed by the articulation of coherent responsibilities, reporting lines and oversight across the organisation. The risk management framework of the Group provides high-level direction for each entity on how to manage risk in a consistent and interactive manner, underpinned by broad synchronisation in respect of the approach and methodology used. The allocation of responsibilities across the Group is structured to ensure that decisions are taken at the most appropriate levels, in alignment with the mandates of internal stakeholders and the strategic orientations pursued by the organisation. Overall, the governance set-up of the Group seeks to provide the organisation with optimal resources to foster a sound financial performance and stakeholder value creation.

# Risk management report

## Risk management framework

**MCB Group Ltd**

**Board**

### Strategy Committee

- Reviews the Group's strategic direction and recommends to the Board the development strategy to be pursued
- Makes recommendations regarding strategic capital allocation
- Helps the Board in assessing major financial and investment plans and other material issues that affect the development of the Group

### Audit Committee

- Caters for the monitoring of control processes and the effectiveness of systems
- Ensures preparation of accurate financial reporting and statements in compliance with applicable legal requirements and accounting standards
- Reviews the operational and compliance risks and the actions taken to mitigate them

### Remuneration, Corporate Governance and Ethics Committee

- Develops the Group's general policy on corporate governance
- Ensures that no material conflict of interest exists/arises in conducting business
- Reviews the 'Code of Ethics' of the Group and oversees compliance thereto while ensuring that core principles are embedded in the Group's corporate culture

### Risk Monitoring Committee

- Implements rigorous internal processes and controls which identify, monitor, measure and report different types of risks
- Reviews risks faced and actions to mitigate them
- Sets risk exposure limits and monitors risk portfolios against the latter
- Assigns relevant responsibilities and accountability lines

In alignment with its business development orientations, the Board of MCB Group Ltd determines the principal strategies in respect of the risk management of the Company and its subsidiaries, while ensuring that all laws, regulations and codes of business practice are adhered to. In the same vein, underpinned by the establishment and enforcement of clear lines of responsibility and accountability throughout the organisation, it ensures that relevant procedures and practices are in place in order to protect the Company's assets and reputation. For the discharge of its duties, the Board is assisted by sub-committees which enable it to properly formulate, review and approve policies on monitoring and managing risk exposures. Specifically, the Risk Monitoring Committee (RMC) advises the Board on risk issues and the monitoring of portfolios against the formulated risk appetite, in particular for the banking subsidiaries. At entity level, each subsidiary is endowed with the autonomy and flexibility to determine and apply its own governance frameworks, in alignment with Group-level orientations, its inherent specificities and prevalent market realities.

*Read more on the key objectives and focus areas of the Board sub-committees of MCB Group Ltd in the 'Corporate Governance Report' on pages 74 to 113*

## Positioning and Performance of the Group

During FY 2016/17 and until recently, the Group continued to embed a strong risk management culture within the organisation. The main initiatives taken by the entities of the Group with regard to their management of risks are described as follows.

### Key Achievements

**General moves**

- During the last financial year, entities of the Group have maintained a diligent approach in executing their strategic thrusts which has helped to underpin their orderly business development amidst a challenging operating context. They have upheld their market vigilance and strengthened their capabilities to identify and mitigate risk. Due focus has been laid on enhanced interactions among relevant entities and functions, the shoring up and ring-fencing of procedures and processes, including for customer on-boarding and KYC matters as well as for the upgrade and optimisation of information systems, especially for risk monitoring. Furthermore, some entities set out to ensure adherence to legal/regulatory stipulations and compliance with applicable codes and standards, with efforts deployed by MCB Ltd and specific entities under MCB Capital Markets Ltd to abide by OECD's Common Reporting Standards (CRS) for the Automatic Exchange of Financial Information. In the same vein, relevant entities of the Group have initiated the necessary measures with a view to assessing the implications of and fostering adherence to IFRS 9.

- Supported by its disciplined risk management and sound deployment of initiatives, the key financial soundness ratios posted by the Group remained generally healthy in FY 2016/17. For its part, MCB Ltd has preserved the investment-grade ratings assigned to it by Moody's and Fitch on the basis of its healthy strategic positioning and financial performance/prospects.

**Specific achievements**

***MCB Ltd***

- In August last, the Board of Directors of MCB Ltd approved a new organisation structure for the Bank to ensure the effective execution of its strategic plan. Notably, while its naming and operational mandates are still being discussed, the creation of a Permanent Control function has been announced. The function, which will encompass Compliance, Operational Risk and Information Risk Management, will report to the Audit Committee, while maintaining a day-to-day reporting line for information and administrative purposes to the Chief Executive of the Bank. In the wake of the increasing breadth and complexity of the Bank's activities, the function is being earmarked as a key move to underpin the organisation's stability and soundness by ensuring that activities that are carried out at an operational level are correctly handled and secured.

- MCB has revised its Country Risk Management Framework in November 2016 to better support its short to medium term strategies while reinforcing its management of country risk. In that respect, the Bank has established an overall international exposure limit based on the allocated proportion of equity thereto while defining sub-limits for its cross-border financing activities. In addition, target risk profile distributions – measured in terms of the mix of exposures across country risk rating buckets – were defined for each portfolio to ensure a balanced approach to country risk management. As a complement to the defined target risk profiles, the Bank formulated target maturity profiles while establishing concentration limits within each country rating bucket to ensure proper country risk diversification. Systems and processes were enhanced to enable the Bank to proactively monitor exposures against targeted risk profiles as defined in the revised country risk framework.

# Risk management report

- As part of the initiative to enhance its management of credit files which was initiated in early 2016, the Bank finalised the setting up of its new Credit Management structure. This *inter alia* involved an enhanced specialisation of teams to better address specificities of the credit portfolio, alongside ensuring that credit teams – as guarantor of an independent credit assessment of files – are on-boarded as early as possible on the structuring of credit facilities. An Account Monitoring Committee, comprising of Heads of business lines and the Head of Credit Management, was set up to review actions being taken to regularise excesses and past dues on an account basis. Other initiatives aiming to reinforce credit portfolio monitoring were also launched and remain work-in-progress. Those initiatives will reinforce independent second-level controls by credit management teams on the quality of the portfolio. They cover insurance contracts monitoring, collaterals perfection, conditions subsequent satisfaction and the ongoing monitoring of covenants linked to banking facilities. The aim is to ensure that breaches are proactively identified, managed and escalated to approving authorities for action.

- During the last financial year, the Bank has made further headway towards adherence to IFRS 9 notably the adoption of 'Expected Credit Loss' (ECL) models to determine allowances for credit impairment. The aim is to ensure MCB's timely implementation of the standard, with reporting under the new framework being targeted as from financial period beginning after 1 January 2018. A dedicated project team was set up in early October 2016 to oversee the project while a well-established international accounting firm was appointed to assist the project team with focus on the development of ECL models used for determining impairment allowances. The project falls under the aegis of the Head of Finance and the Chief Risk Officer, with both chairing the IFRS 9 Steering Committee. A Technical Review Committee comprising independent experts from the Bank's external auditors and the appointed international accounting firm was set up to ensure full compliance with IFRS 9. Progress made at various levels is reported on a regular basis to the Risk Monitoring Committee and the Board.

- In line with the increased pace of cyber-attacks taking place worldwide, the Bank continued to reinforce its cyber risk management capabilities through relevant upgrades of the framework in terms of governance, tools and processes. Main accomplishments observed during the period include: (i) the setting up of a formal Cyber Threat Committee, chaired by the Chief Operating Officer and the Chief Risk Officer and pulling the various actors involved on the matter; (ii) the creation of a dedicated IT Security team within the IT SBU which amongst others is responsible for the direct management of cyber risks while the Information Risk team within the Risk SBU remains in charge of second level controls as well as threats identification and assessment; (iii) the enhancement of the infrastructure and tools, for instance the upgrade of the Bank's data loss prevention tool; (iv) the regular delivery of penetration testing and/or security reviews of our infrastructure and applications as performed by a specialised international firm; and (v) the conduct of large scale awareness sessions to all staff.

***Foreign banking entities***

- The foreign banking subsidiaries of the Group further reinforced their policies and practices for risk management. Notably, the governance structure around the conduct of Board and Board sub-committee meetings has been strengthened and formalised. This has been enabled by (i) the design of adapted reporting packs as well as templates and procedures; and (ii) assistance from dedicated and specialist teams from both MCB Ltd and MCB Investment Holding Ltd in the set-up, restructuring and/or enhancement of legal, compliance, risk and internal audit business units. Moreover, MCB Investment Holding Ltd initiated the development of a permanent control programme in the foreign banking entities, the approach and structure of which has been agreed with the Risk Monitoring Committee of MCB Group Ltd. The initiative involves refreshing all processes and controls per risk area across each bank by mapping them to specific individuals, while getting the latter to attest and sign off on a compliance certificate. The framework in place caters for results and exceptions to be reported to Board sub-committees of the respective entities and, if required, to be escalated to the Audit and Risk Monitoring Committees of MCB Group Ltd. On another note, a business intelligence tool is being rolled out at the foreign banking subsidiaries of the Group with a view to generating comprehensive finance, risk and operational dashboards and reports. The latter – which *inter alia* cover several key aspects of financial, credit and market risks, asset and liability management as well as operational and sales efficiency – are to be used as a basis for discussion and informed decision-taking at relevant management and committee meetings. Additionally, reflecting its increasing importance in view of the mounting volume of activities being handled, our foreign entities are in the process of strengthening their information risk management framework, notably with respect to access rights management and vulnerability against potential cyber-attacks.

- At entity level, MCB Madagascar has operationalised a new application which is integrated with its Core Banking System with a view to compiling and analysing information with regard to retail and corporate credit requests. This entails less manual intervention and enables the credit committee to act faster and more efficiently. To strengthen its internal controls, the entity has set up a new function to handle and manage all the banking procedures. As for MCB Seychelles, in addition to the recruitment of a Risk Officer to pave the way for a dedicated Risk unit, the period under review saw the restructuring and beefing up of the Compliance function to better address KYC/AML risks, with key personnel empowered and further resources recruited to ensure a more effective control environment. In another light, a risk-based approach is currently being implemented to tackle customer due diligence requirements and apply best practices for customer onboarding. Additionally and in line with regulatory requirements, an in-depth review of the Business Continuity Management Framework and Disaster Recovery Plan was initiated in January 2017 with the collaboration of MCB Investment Holding Ltd. It can further be noted that MCB Seychelles also enhanced security devices on its ATMs so as to prevent skimming attacks. For its part, MCB Maldives recruited an in-house Legal and Compliance Officer in February 2017, who will allow the bank to enhance focus on the adequacy and effectiveness of internal controls and make appropriate recommendations to minimise risks, safeguard its assets as well as ensure adherence to relevant policies and procedures in line with prevailing local regulations and industry best practices. Also, relevant bank procedures have been revamped in order to ensure proper controls, based on the '4 eyes' principles, with staff being briefed accordingly.

***Non-banking entities***

- With regard to MCB Capital Markets Ltd (MCBCM), it has further strengthened its risk management and compliance framework. Key initiatives include the (i) formulation of a new policy manual to strengthen access rights management of key IT systems; (ii) improvement of its Anti-Money Laundering framework through the implementation of a dedicated software that enables the automatic screening of clients against sanction lists; and (iii) bolstering of the portfolio risk management framework underpinning the organisation's investment management business. Moves undertaken in reference to the latter include the setting up of an Investment Committee comprising non-executive directors and relevant members of MCBCM's Management to discuss risks faced and make recommendations to the investment management team as well as the reinforcement of continuous risk monitoring via the creation of a financial risk dashboard and use of risk analysis tools. In another light, MCBCM has strived to ensure compliance with updated regulatory requirements in respect of the provision of corporate finance advisory activities. In this context, a new entity, MCB Financial Advisers, was set-up under MCBCM, after obtaining the necessary licence from the regulatory authorities. Furthermore and as highlighted before, MCBCM has, via its Risk and Compliance section, set out to adhere to OECD's Common Reporting Standards (CRS). Main actions that have been put in place include the following: (i) assessing operational implications for the entities operating under its aegis, while identifying those which will have to report relevant data to the Mauritius Revenue Authority; (ii) amending client on-boarding procedures and document for all reporting entities; (iii) evaluating client accounts prevailing as at 31 December 2016 so as to identify reportable accounts; and (iv) offering relevant training to staff.

- MCB Factors has, during the period under review, invested in a risk management software to further improve portfolio risk analysis and promote more systematic risk management while improving operational processes. As for Finlease, it is leveraging its new core leasing system to enhance its credit origination, approval and disbursement process. Besides, the operations of the risk and recovery section are being reinforced, while KYC and AML procedures are being revamped with the consolidation of the compliance function.

- At MCB Consulting Services Ltd (MCBCS), a number of initiatives have been undertaken with the aim of aligning risk management practices with the stated business objectives of the organisation and supporting its sound and sustained growth. Notably, business risk workshops have been carried out, while the entity has maintained its ISO certification. Furthermore, MCBCS has pursued its revenue diversification initiatives across countries, clients and lines of business, underpinned *inter alia* by the recruitment of staff with adequate skills sets. For its part, International Card Processing Services Ltd remained engaged in improving its ability to identify, assess and manage its overall risk environment as well as fostering the alignment of its strategies with the set risk appetite. It implemented an enterprise risk management framework, supported by the development of a risk heat map which is aimed at further embedding risk management in decision-taking processes and day-to-day operations. As such, the entity has made further headway in its continuous quest for effectiveness and efficiency with respect to

# Risk management report

## Main focus areas for FY 2017/18

- Underpinned by the firming up of its risk culture, the Group will keep on monitoring and actively respond to the evolving operating landscape across the markets where it is involved. It will stand ready to judiciously ascertain and manage commonly-faced and emerging risks, notably those linked to technological utilisation. Alongside comfortably exceeding applicable minimum regulatory ratios for capital adequacy and providing appropriate responses to abide by applicable legal and regulatory developments, the aim is to continuously reinforce the management of risks in the Group's operations in order to preserve its business growth and financial performance.

- Leveraging upgraded human capital, technology and synergies across the organisation, the Group will strengthen the management of risk across entities by reviewing and updating, wherever relevant, policies, practices and processes. It will ensure that its risk metrics are managed within acceptable and suitable thresholds. Concurrently, it will strengthen risk awareness levels across all layers of the organisation. On another note, the Group will ensure that key projects unleashed across entities are adequately managed and brought to fruition. Notably, resources will be devoted to foster the smooth introduction of the Permanent Control function of MCB Ltd. As regards IFRS 9, a key priority going forward is to set up the appropriate system architecture to support automated disclosure of related requirements by MCB Ltd, validating the assumptions used in the models by business experts and putting into place a pragmatic governance structure to make the proposed way forward perennial and business-friendly. Other Group entities with substantial financial assets on their balance sheets will pursue the initiatives intended to foster adherence to IFRS 9 through the setting up and/or further refinement of project streams and relevant processes and policies.

## Financial Soundness

### Capitalisation

#### *Philosophy*

While ensuring that applicable and evolving regulatory requirements are met at all times, the capital management approach of the Group is to ensure that its subsidiaries are adequately capitalised to help achieve sound and sustained business growth, alongside protecting and maintaining the trust of shareholders and providers of fund.

Towards this end, the Group aims to leverage internal capital generation through retained earnings, while remaining ready to enter wholesale markets if need be. In addition, it seeks to maintain appropriate discipline over the nature and extent of its market development initiatives and lays due emphasis on optimising the allocation of capital across businesses.

#### *Performance*

Over the period under review, the Group has, on a consolidated basis, further improved its already comfortable capitalisation metrics, as gauged by its capital adequacy and Tier 1 ratios rising to reach 18.9% and 16.5% respectively as at June 2017. The predominant contribution thereto has obviously emanated from the banking entities of the Group, for which the maintenance of adequate capital levels is a key priority by virtue of their business operations and regulatory responsibilities. These entities represent the mainstay of the business activities and primarily make up the risk profile of the Group. Risk-weighted assets of the Group stood at around Rs 267 billion as at 30 June 2017, out of which 84% was accounted for by MCB Ltd and nearly 6% by the foreign banking subsidiaries. For its part, the Group's overseas associates, namely Société Générale Moçambique and Réunion-based BFCOI – whose investments have been risk-weighted at 250% in line with applicable Basel III rules – represented some 3% of its overall risk-weighted assets.

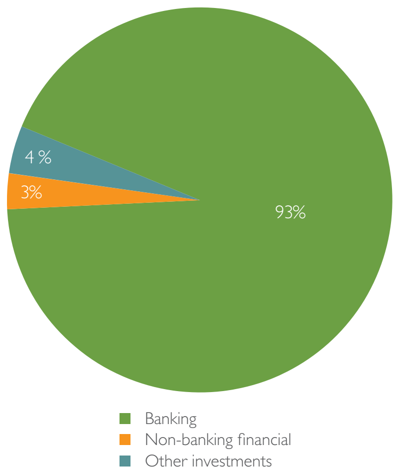
## Components of capital adequacy

| | MCB Group Ltd | |
|---|---|---|
| | Jun 16 | Jun 17 |
| | Rs m | Rs m |
| **Capital base** | **46,273** | **50,375** |
| **Tier I** | | |
| Ordinary shares (paid-up) capital | 2,427 | 2,478 |
| Retained earnings | 32,162 | 37,581 |
| Other reserves (excluding revaluation surpluses on land and building assets) | 5,267 | 5,205 |
| **Common Equity Tier I capital: regulatory adjustments** | | |
| Goodwill and intangible assets | (954) | (1,006) |
| Deferred tax assets | (246) | (229) |
| Defined benefit pension fund assets | | (99) |
| | **38,656** | **43,929** |
| **Tier 2** | | |
| Subordinated debt | 4,496 | 3,352 |
| Provisions or loan-loss reserves | 2,145 | 2,129 |
| 45% of surplus arising from revaluation of land and buildings | 977 | 965 |
| | **7,618** | **6,446** |

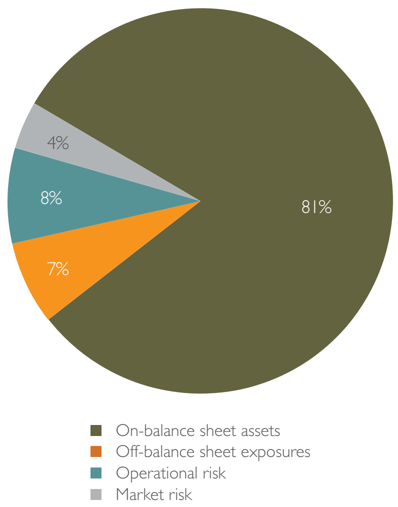
| | Jun 16 | Jun 17 |
|---|---|---|
| **Risk-weighted assets** | **252,578** | **266,526** |
| Credit risk | | |
| Weighted amount of on-balance sheet assets | 214,688 | 215,665 |
| Weighted amount of off-balance sheet exposures | 16,149 | 19,819 |
| Operational risk | | |
| Weighted risk assets for operational risk | 19,386 | 21,092 |
| Market risk | | |
| Aggregate net open foreign exchange position | 2,355 | 4,966 |
| Capital charge for trading book position exceeding 5% or more of its total assets | | 4,984 |
| **Capital adequacy (%)** | **18.3** | **18.9** |
| *of which Tier I* | *15.3* | *16.5* |

### Distribution of risk-weighted assets as at 30 June 2017

#### By cluster




#### By type of risk



# Risk management report

## Asset quality

### *Philosophy*

Backed by continued market vigilance as well as the careful formulation and diversification of its strategic orientations, the Group is committed to preserving the soundness of its exposures.

Emphasis is laid on (i) healthy loan portfolio through strong credit discipline; (ii) prudent market development approach and sensible strategy execution; (iii) cautious loan origination and disbursements; and (iv) active efforts for debt collection and recovery.

### *Performance*

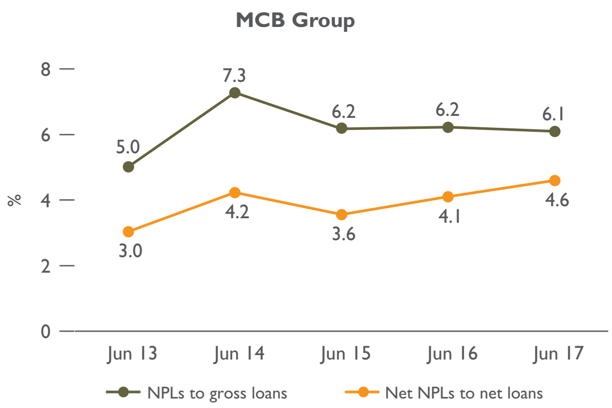
Asset quality was preserved within reasonable levels notwithstanding challenging conditions prevailing across markets, notably at the level of our foreign banking subsidiaries. Gross and net NPL ratios of the Group stood at 6.1% and 4.6% as at 30 June 2017, with the corresponding ratios at the level of MCB Ltd attaining 5.8% and 4.3%. Impairment charges amounted to Rs 1,064 million, which was equivalent to 0.59% of gross loans and advances.

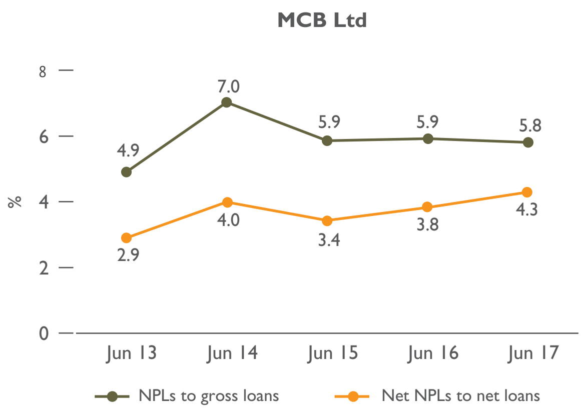
## Asset quality

**Sectorwise distribution**

| June 2017 | Exposures | | Non-performing loans (NPLs) | | Allowances for credit impairment | |
|---|---|---|---|---|---|---|
| **MCB Group Ltd** | **Rs m** | ***Mix (%)*** | **Rs m** | ***% of loans*** | **Specific provision** | **Portfolio provision** |
| **Loans to customers** | **177,471** | ***99.0*** | **10,882** | **6.2** | **5,053** | **1,194** |
| Tourism | 27,104 | *15.1* | 988 | *3.7* | 590 | 78 |
| Traders | 28,214 | *15.7* | 1,205 | *4.3* | 673 | 217 |
| Construction *(including property development)* | 15,170 | *8.5* | 1,766 | *12.0* | 895 | 170 |
| Financial and business services | 21,580 | *12.0* | 289 | *1.3* | 77 | 79 |
| Manufacturing | 10,924 | *6.1* | 621 | *5.7* | 227 | 129 |
| *of which EPZ* | *4,580* | *2.6* | *63* | *1.4* | *36* | *20* |
| Agriculture and fishing | 8,190 | *4.6* | 1,163 | *14.6* | 281 | 9 |
| Transport | 4,713 | *2.6* | 1,491 | *32.4* | 606 | 46 |
| Personal and professional | 37,933 | *21.2* | 2,002 | *5.3* | 1,094 | 237 |
| *of which credit cards* | *784* | *0.4* | *31* | *3.9* | *25* | *14* |
| *of which housing* | *25,302* | *14.1* | *965* | *3.8* | *409* | *115* |
| Global Business Licence holders | 12,881 | *7.2* | 264 | *2.1* | 316 | 181 |
| Others | 10,764 | *6.0* | 1,092 | *10.3* | 294 | 49 |
| **Corporate notes** | **655** | ***0.4*** | **-** | **-** | **-** | **4** |
| **Loans to banks** | **1,113** | ***0.6*** | **-** | **-** | **-** | **6** |
| **Total** | **179,239** | ***100.0*** | **10,882** | ***6.1*** | **5,053** | **1,205** |

### Credit quality




## Funding and liquidity

### *Philosophy*

The Group seeks to keep sound funding and liquidity positions in support of its business development ambitions. While accessing wholesale markets as and when required, the banking entities of the Group maintain cost-efficient, diversified and stable sources of funding which predominantly comprise customer deposits. Furthermore, an appropriate level of liquid assets is kept to ensure that obligations can be met within a reasonable short-term time-frame.

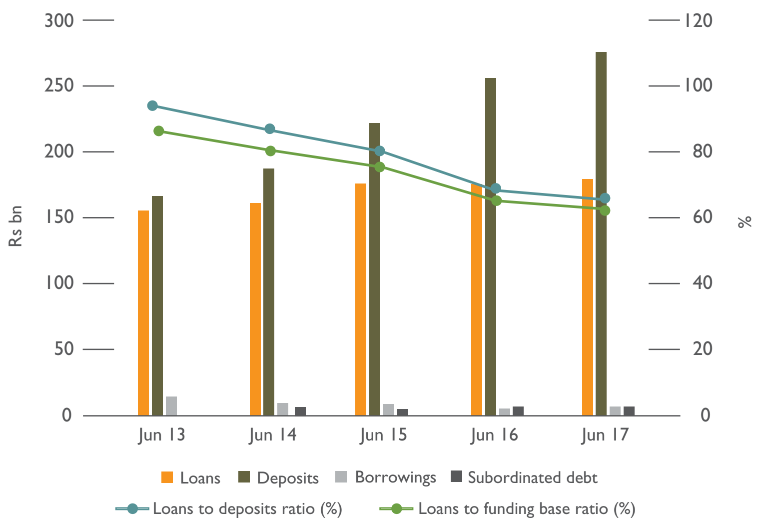
### *Performance*

During FY 2016/17, the Group faced up to the persistence of excess liquidity conditions in the Mauritian banking sector as well as in other presence countries. In this context, it posted elevated liquidity and funding positions, as demonstrated in the following illustrations. Of note, while related rules have not yet been enforced in Mauritius, the liquidity coverage ratio and net stable funding ratio of MCB Ltd stood at 186% and 116% respectively as at 30 June 2017, after being computed in line with Basel III stipulations.

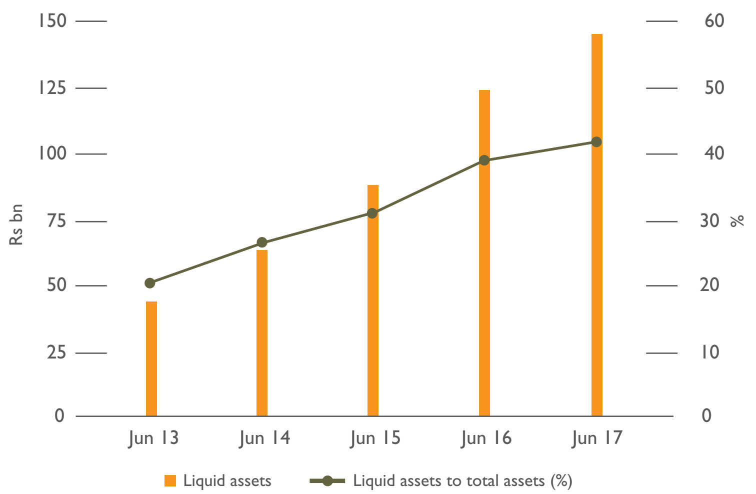
# Risk management report

## Funding and liquidity

### Loan and funding base




### Liquid assets



# Overview of Risk Management by Cluster

## General Approach

| | |
|---|---|
| **Board supervision** | |
| **MCB Group Ltd** | The entities of the Group adhere to the overall risk management principles and frameworks validated by the Board of MCB Group Ltd. They are monitored in this respect by the Risk Monitoring Committee of the latter. |
| **Each Group entity** | The Board of each entity supervises its risk management and acts as the focal point of contact for shaping the relationship with MCB Group Ltd. Indeed, while fostering congruence with Group-level directions and after adapting its controls to inherent realities of the business, the Board of each entity oversees the establishment of its own policies, infrastructures, standards, practices and processes. |
| **Key underpinnings** | |
| **Delegation of duties** | For each entity, risk governance is executed through the delegation of authority and responsibilities from its Board to dedicated committees and/or the management. Control processes and reporting lines have been put into place to foster the segregation of duties regarding risk taking, processing and control. |
| **Control processes** | The types of risk infrastructure and control processes that are adopted by each entity is a function of the nature, size and complexity of the risk involved. The approach and practices embraced by entities to fulfill their risk management obligations are shaped up by the following factors: (i) advocated corporate governance and risk management principles; (ii) the risk-return profiles of markets in which they are involved; (iii) the opportunities and challenges characterising the economic environment; and (iv) relevant legal and regulatory requirements as well as local and international codes and standards impacting the industries and countries in which businesses are carried out. |
| **Intra-Group initiatives** | Entities of the Group leverage the core competences and synergies available throughout the organisation in line with the concept of Group Shared Services. Specific business units of MCB Ltd are engaged in the provision of intra-Group services to the foreign banking subsidiaries as well as the entities operating under the 'non-banking financial' and 'other investments' clusters of the Group, backed by the elaboration of clear guidelines and mandates. Hence, as per the modalities set out in Service Level Agreements, the two business units operating under the aegis of the Internal Audit SBU of the Bank, namely Internal Audit and Anti-Money Laundering and Fraud Prevention, provide technical and advisory assistance in support of the operation and functioning of the Group's local and foreign subsidiaries as per their respective areas of competence. For its part, MCB Investment Holding Ltd seeks to foster more focused and integrated stewardship with regard to the operations and performance of the Group's foreign banking subsidiaries. In particular, its Finance & Risk team supports the conduct of risk management activities, with Risk SBU of MCB Ltd being involved wherever appropriate. The team engages in risk reporting to the Risk Monitoring Committee of the respective foreign banking subsidiaries as well as that of MCB Group Ltd. It also leads or assists foreign subsidiaries in the development and implementation of risk policies and other risk related matters, alongside providing support in the resolution of internal and external auditors' recommendations. Also, it assists overseas banking subsidiaries as regards credit risk management, notably by reviewing credit files with exposure amounts exceeding a specific threshold, helping to structure or restructure complex credit files and monitoring out-of-order customer files. |

# Risk management report

## Banking Cluster

### *Governance*

#### Board of each entity

Functioning as per directions set at Group level, the Board of each banking entity is responsible for strategy formulation in respect of risk-taking, risk appetite and policy setting. The Board ensures that its business strategies are clearly linked to its risk appetite and tolerance level. The aim is to ensure that the organisation manages its capital resources at an optimal level in support of growth-related objectives. In discharging its duties, the Board demonstrates, to the satisfaction of regulatory authorities and other stakeholders, that clear structure of policy and control systems emanating directly from it is adopted to identify and manage the risk inherent in activities.

#### MCB Ltd

The Board of MCB Ltd has the ultimate responsibility of ensuring that risks faced are adequately identified, measured, monitored and managed, in line with embraced corporate governance principles, with key matters being relayed to the Board sub-committees of MCB Group Ltd as appropriate. The Board of MCB Ltd discharges its duty through policies and frameworks as well as specialised committees. The primary Board committee overseeing risk matters at the Bank is the Risk Monitoring Committee (RMC). The latter works towards setting the risk appetite for various countries, sectors and porfolios, after taking into account factors such as prevailing economic conditions and risk profiles, whilst also monitoring the effectiveness of the Bank's risk management structure. The Bank's Management is accountable to the Board for ensuring the effectiveness of risk management and adherence to risk appetite. The Risk SBU, under the aegis of the Chief Risk Officer (CRO), bears the responsibility on a day-to-day basis for providing independent risk control as well as managing key risks, notably credit and market risk, alongside overseeing the credit management and recovery operations. The CRO is accountable to the RMC for the monitoring and management of risk areas. The risk identification and control activities of the Bank will soon be restructured and reinforced by the implementation of the announced Permanent Control function. A strong risk control framework is also fostered through independent teams overseeing the internal audit, legal and physical security functions as well as compliance with laws, regulations, and standards of good practice.

#### Foreign banking subsidiaries

The respective Boards exercise their responsibilities in respect of risk management through: (i) the oversight of the risk governance process, including setting risk appetite in line with Group-level orientations; (ii) regular and comprehensive assessment of risks; (iii) the maintenance of sufficient capital adequacy levels in alignment with the Group's framework, the internally-set risk appetite and regulatory requirements; and (iv) clear delegation of authority to relevant committees and management. Risk management matters are reported to the Board of each foreign entity through their respective sub-committees, namely the Audit Committee and the RMC, while major issues identified are escalated to the corresponding Board sub-committees of MCB Group Ltd. The management teams of the entities are responsible for conducting business within the strategic framework and risk appetite set by their Board, while monitoring risk portfolios through dedicated committees.

## Key responsibilities of Board Committees for the management of risk

### Risk Monitoring Committee

| MCB Ltd | Foreign banking subsidiaries |
|---|---|
| • To review and make recommendations to the Board with respect to the setting of risk appetite;<br>• To monitor the different risks of the Bank comprising credit, market, country, legal, information and reputational risks;<br>• To oversee credit concentration risk and scrutinise the risk profile of large exposures;<br>• To monitor the quality of assets by segment and by product;<br>• To monitor the utilisation of capital to make sure that the Bank has, at any time, a capital adequacy ratio corresponding to at least the regulatory minimum while performing regular stress tests thereon as part of the ICAAP;<br>• To ensure that the Bank's security structure is adequate and that appropriate levels of protection for people and the Bank's assets are established;<br>• To ensure that the confidentiality, integrity, availability and protection of the Bank's information assets are under constant review and that related information systems software and hardware devices are adequate and effective;<br>• To recommend foreign country exposure limits to the Board and monitoring actual exposures against these limits once validated; and<br>• To review the Bank's operational risk tolerance as well as the business continuity plans to ensure that they are up-to-date | • To recommend such changes to the agreed risk appetite as may be appropriate in the light of changing circumstances and conclusions from their reviews;<br>• To review the credit risk portfolio against the agreed credit risk appetite;<br>• To review the market risk portfolio against the agreed market risk appetite;<br>• To monitor the utilisation of capital and current capital adequacy;<br>• To adopt the risk appetite, as set by the Board, in the context of capital adequacy;<br>• To receive and consider recommendations from the business for changes to the Risk Policy Manual or to instigate such changes when they become necessary;<br>• To receive relevant reports from internal and external auditors in respect of specific risk events; and<br>• To receive relevant Compliance reports |

### Audit Committee

| MCB Ltd | Foreign banking subsidiaries |
|---|---|
| • To monitor the quarterly results and annual financial statements before these are approved by the Board;<br>• To review and monitor the effectiveness of the Bank's internal financial control and risk management systems;<br>• To review and monitor the effectiveness of the internal audit function;<br>• To review and monitor the independence of the external auditors and their performance;<br>• To review and monitor the remuneration of the external auditors and their supply of non-audit services;<br>• To review and monitor the Bank's procedures for ensuring compliance with laws and regulations relevant to financial reporting and with the 'Code of Ethics' of its holding Company; and<br>• To monitor issues of concerns reported by employees under the Whistle Blowing procedures | • To review external auditor's report on the bank's financial statements and report Audit Committee's findings to the Board before its approval;<br>• To review reports on operational risk against set tolerance levels;<br>• To review accounting procedures, internal controls regarding financial reporting and risk management, and internal and external audit plans with Board and, thereafter, provide recommendation to the Board;<br>• To provide oversight for bank's internal and external auditors; and<br>• To review report of internal and external auditors and implementation of recommendations;<br>• To monitor bank's compliance with laws and regulations applicable; and<br>• To report, at least annually, to shareholders at the general meetings on its activities |

# Risk management report

## *Management of key risks*

### *Credit risk*

*Key objectives*

- Credit risk represents the main type to which the Group's banking subsidiaries are exposed in view of the nature of their operations and activities.

- The banking entities ensure that sound credit risk management principles are adopted to uphold quality and well-diversified portfolios that are aligned with the set risk appetite and help to meet targeted risk-return considerations. Both counterparty and concentration risks are duly managed, backed by market vigilance, the adoption of effective control mechanisms and the judicious diversification of portfolios across customer and industry groups, product types, maturity levels and geographies. The banking entities strive to adopt a strong culture of responsible lending and debt recovery, while leveraging a robust risk management and control framework. They continuously reassess their risk profiles in the face of the changing operating context and monitor the exposures against regulatory and internal limits and targets.

*Governance and oversight*

- At the level of MCB Ltd, the Board has ultimate control and oversight of credit risk management as well as credit risk policies and their deployment through dedicated committees. The RMC has the authority for setting the overall direction and policy for managing credit risk. The Supervisory and Monitoring Committee sets the principal credit management policies guiding the conduct of businesses. In line with the segregation of duties within the credit risk management architecture, the Executive Credit Committee (ECC) is responsible for the planning, sanctioning, control and monitoring of credit risk. The model governing the Bank's credit risk management approach and principles caters for regulatory requirements. These include the Guideline on Standardised Approach to Credit Risk, the Guideline on Credit Concentration Risk and the Guideline on Credit Impairment Measurement and Income Recognition.

- With regard to the foreign banking subsidiaries, the respective Boards of the entities have the ultimate control and oversight of credit risk management as well as credit risk policies and their deployment. Relevant committees and/or Management are mandated to set the overall strategy for managing credit risk at the enterprise level. In this respect, each entity has a Subsidiary Credit Committee in line with the Group's risk management approach. This committee has the direct responsibility for the planning, sanctioning, controlling and monitoring of credit risk. In addition to approving individual delegated mandates, its role is to sanction or decline credit applications for customers with exposures of up to a certain threshold. Facilities above this level are channelled to the Executive Credit Committee for a final decision.

*Risk measurement and monitoring*

- Credit risk measurement by banking entities consists of appraising the track record of customers as appropriate for the prediction of likely future behaviours of existing accounts. Ultimately, entities assess whether individual business areas provide sufficient contribution to the targeted risk-return profile. The aim is to ensure that capital allocation generates an optimum return. This is achieved by channelling risk capital from low-return to high-return business areas, commensurate with risks shouldered.

- Banking entities measure credit risk capital requirements by applying appropriate risk weights to both on-balance sheet and off-balance sheet exposures in line with regulatory requirements. With respect to MCB Ltd, the capital adequacy indicators and the return on capital levels for the individual risk categories of portfolios are regularly monitored by its RMC against the overall risk-bearing capacity of the Bank. The objective is to ensure that the latter, at all times, maintains adequate capital to provide for its growth and to support a reasonable measure of unexpected losses. The Bank has established a credit rating framework that enables the extensive usage of ratings for its corporate and institutional portfolios, not only in respect of loan approval but also in relation to credit review and monitoring as well as for the purpose of the stress testing and limits determination exercises. In the same vein, at the level of the foreign banking entities, relevant credit risk metrics are measured and reviewed against set limits by the respective Boards on a quarterly basis.

### Evolution of risk-weighted exposures for on and off balance sheet assets

| Banking cluster | Jun 17 | | | Jun 16 |
|---|---|---|---|---|
| | Amount | Weight | Weighted Assets | Weighted Assets |
| **Risk-weighted on-balance sheet assets** | Rs m | % | Rs m | Rs m |
| Cash items | 3,250 | 0 - 20 | 93 | 90 |
| Claims on sovereigns | 54,227 | 0 - 100 | 1,876 | 2,336 |
| Claims on central banks | 30,500 | 0 - 100 | 5,419 | 5,311 |
| Claims on banks | 50,553 | 20 - 100 | 19,638 | 19,084 |
| Claims on non-central government public sector entities | 171 | 100 | 0 | 183 |
| Claims on corporates | 109,476 | 20 - 150 | 107,954 | 96,604 |
| Claims on retail segment | 11,385 | 75 | 7,241 | 7,091 |
| Claims secured by residential property | 26,684 | 35 - 125 | 12,363 | 11,535 |
| Claims secured by commercial real estate | 16,345 | 100 - 125 | 18,974 | 20,144 |
| Fixed assets/other assets | 12,200 | 100 - 250 | 17,606 | 18,687 |
| Past due claims | 7,884 | 50 - 150 | 9,289 | 18,215 |
| **Total** | | | **200,454** | **199,279** |

| Banking cluster | Jun 17 | | | | | Jun 16 |
|---|---|---|---|---|---|---|
| | Nominal Amount | Credit Conversion Factor | Credit Equivalent Amount | Weight | Weighted Amount | Weighted Amount |
| **Non-market related off-balance sheet risk-weighted assets** | Rs m | % | Rs m | % | Rs m | Rs m |
| Direct credit substitutes | 2,029 | 100 | 2,029 | 0 - 100 | 2,015 | 2,515 |
| Transaction-related contingent items | 21,007 | 50 | 10,504 | 0 - 100 | 10,058 | 10,635 |
| Trade related contingencies | 20,097 | 20 | 4,019 | 0 - 100 | 4,065 | 1,376 |
| Outstanding loans commitment | 7,201 | 20 - 50 | 3,601 | 0 - 100 | 3,456 | 1,457 |
| **Total** | | | | | **19,594** | **15,983** |

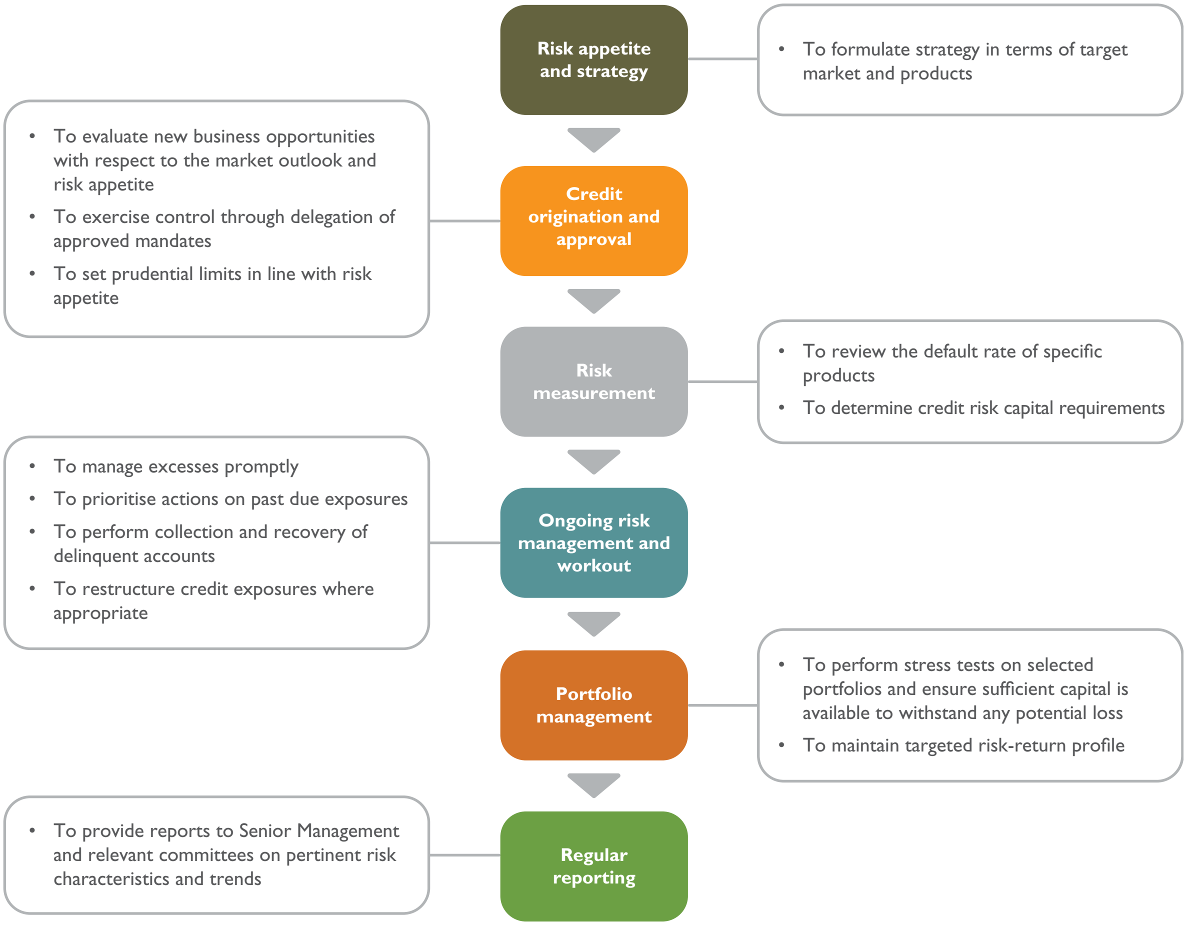
| Banking cluster | Jun 17 | | | | | | Jun 16 |
|---|---|---|---|---|---|---|---|
| | Nominal Amount | Credit Conversion Factor | Potential Future Exposure | Current Exposure | Credit Equivalent Amount | Weighted Assets | Weighted Assets |
| **Market-related off-balance sheet risk-weighted assets** | Rs m | % | Rs m | Rs m | Rs m | Rs m | Rs m |
| Interest rate contracts | 3,657 | 0 - 1.5 | 40 | 48 | 88 | 45 | 11 |
| Foreign exchange contracts | 10,587 | 1 - 7.5 | 149 | 149 | 272 | 181 | 155 |
| **Total** | | | | | | **226** | **166** |

| | Jun 17 | Jun 16 |
|---|---|---|
| | Rs m | Rs m |
| **Total credit risk-weighted assets** | **220,274** | **215,429** |

# Risk management report

### *Risk mitigation and management*

- The credit risk management framework enables the entities to manage credit risk within the limits of their defined risk appetite, to develop risk-response strategies and to optimise risk-taking by anticipating and acting on potential opportunities or threats. This framework encompasses the following: (i) comprehensive credit policies; (ii) clear segregation of the decision-making authority for the approval of loans; (iii) effective identification, measurement and management of credit risk; (iv) portfolio management which ensures that capital is adequate enough to support business growth and reasonable levels of unexpected losses; and (v) regular reporting to management and committees on pertinent risk characteristics/trends. Credit risk exposures are managed through robust credit assessment, structuring and monitoring process. The latter involves the daily monitoring of credit limit excesses as well as the review of all exposures, the frequency of which is increased in accordance to the size and likelihood of potential credit losses to ensure the timely detection of possible problem loans. Exposures showing signs of deterioration are placed on a watch list for closer scrutiny where appropriate. A review of the aggregate loan portfolios is also exercised to manage proactively any delinquency and minimise undue credit concentrations. The credit risk management practices adopted by banking entities cuts across the entire credit cycle as depicted below.

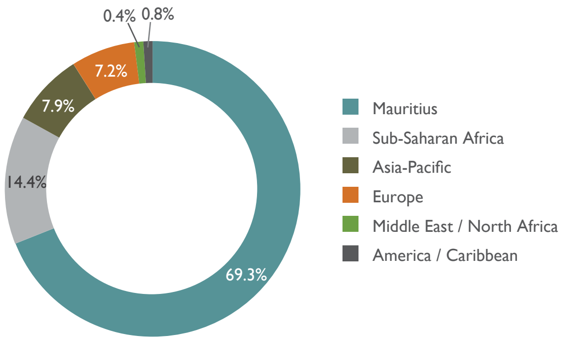


- The banking entities focus on the diversification of their lending portfolios by setting relevant exposures limits to ensure that their performances are not negatively impacted, for instance, by a large sectoral exposure default. It is the policy of the Group's entities to limit credit risk exposures and concentrations within the constraints of their capital base, while complying with regulatory stipulations, notably relating to aggregate large exposures and single borrower limits. Stress tests are, in some instances, performed on portfolios to ensure that sufficient capital is held to withstand any loss arising from significant exposure to a sector, single customer and group of closely-related customers.

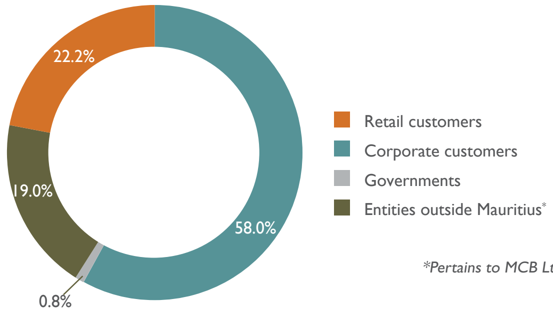
- Credit facilities are granted based on the credit standing, source of repayment and debt servicing ability of the borrower. As a fundamental principle, the entity does not grant credit facilities solely on the basis of the collateral. The latter is taken whenever possible to mitigate the credit risk assumed. Its value is monitored periodically, with the frequency of valuation depending on the type, liquidity and volatility of the collateral.

## Distribution of loans and advances – banking cluster

### Total credit risk-weighted exposures by region




### Loans and advances by customer segment




*Pertains to MCB Ltd

- With regard specifically to the foreign exposures of MCB Ltd, it can be noted that the Bank adopts a well-calibrated framework and related policies and processes in order to effectively manage its country risk. In fact, in the wake of its growing volume of regional and international activities, mitigation and management of country risk continues to be a key priority for the Bank.

# Risk management report

## Country risk management at MCB Ltd

### Key objectives

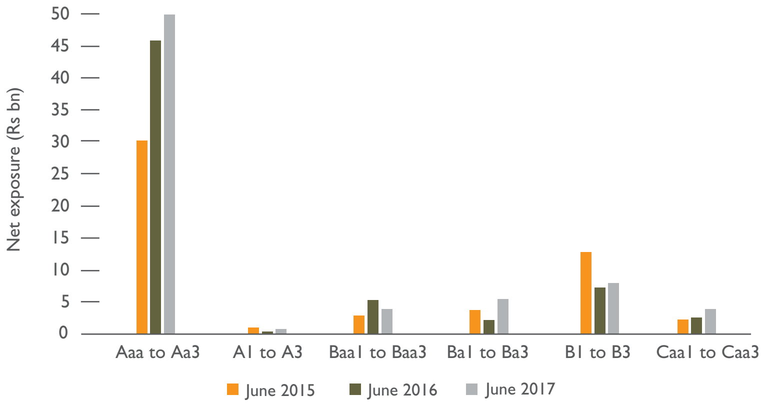
MCB Ltd aims to support the orderly and sustained achievement of its regional and international business development ambitions. It has a comprehensive framework and adequate control processes to assess country risk, formulate related risk tolerance and determine exposures to be assigned across geographies.

### Governance and risk management

- The Board of MCB Ltd sets out and regularly reviews the strategic thrusts, policies and procedures for effective country risk management. It approves country exposure limits on an annual basis. The RMC is mandated to determine the overall international capital allocation and exposure limits while monitoring country exposures against set limits on a quarterly basis. It approves country risk policies and proposed amendments thereto and reviews the country risk framework and risk appetite parameters. Target risk profiles are set at Bank level as well as for each portfolio and are complemented by target maturity profiles. As for the Country Risk Committee, which is chaired by the Chief Executive and comprises the Deputy Chief Executive and Chief Risk Officer as members, it is responsible for setting individual country limits within the validated risk parameters and reporting any excesses observed to the RMC.
- Country risk events that are monitored by MCB Ltd include general economic developments, sovereign credit worthiness, and specific occurrences such as social unrest, nationalisation and expropriation of assets, Government repudiation of external indebtedness, foreign exchange controls and currency depreciation/devaluation amongst others. Alongside making allowance for the BoM Guideline on Country Risk Management, the Bank sets its risk appetite in terms of country risk profile, backed by the recourse to a proven country risk model. Foreign country exposure limits are set by the Bank on the basis of several internal and external considerations.

The following illustration depicts the evolution of the country risk exposures of the Bank.

**Country risk exposure by rating**




*Note: For each country, the worst of the ratings assigned by Moody's, Standard & Poor's and FitchRatings has been selected and converted into a Moody's equivalent rating*

## *Market risk*

### *Key objectives*

- The banking entities of the Group seek to minimise the risk of losses in on- and off-balance sheet positions arising from activities undertaken in or impacted by financial markets. This includes both market price risk and ancillary risks such as liquidity and funding (liability) risks. The entities ensure that an appropriate framework is in place to systematically identify, assess, monitor, report and control, within pre-defined limits, the market risk exposures across their trading and banking books, including market-contingent risks such as counterparty credit risk and profit and loss risks linked to market risk activities.

### *Governance and oversight*

- At the level of MCB Ltd, the Board is responsible for setting risk appetite in respect of market risk, in compliance with the prudential guidelines set by BoM. Within the governance framework of market risk management, the Market Risk Policy, as approved by the RMC and reviewed periodically, establishes a cogent and comprehensive framework of policies, principles and functional responsibilities within which market risk origination, processing and valuation are appropriately segregated and undertaken. The Asset and Liability Committee (ALCO) reviews and takes decisions with regard to the balance sheet structure of MCB Ltd, in terms of domestic and foreign currencies as well as from a consolidated perspective. ALCO sets and reviews all trading book limits and banking book targets in alignment with the diversification and growth of the Bank's balance sheet, especially from a funding, market risk and funds transfer pricing perspective, alongside making allowance for the changing economic and competitive landscape. ALCO, which comprises members of the Bank's Executive Management, meets on a monthly basis under the chairmanship of the Chief Executive. The Market Risk BU of the Risk SBU is primarily focused on exercising overall control and monitoring of market and liquidity risks while assisting with the provision of financial position and risk analysis information to the ALCO and RMC.

- With regard to the foreign banking subsidiaries, after keeping track of regulatory requirements, the respective Boards are entrusted with the duty to determine the market risk governance process and appetite, while delegating market risk sanctioning mandates to management for the conduct and monitoring of relevant day-to-day operations and activities. From an operational angle, the Asset and Liability Committee of each foreign banking subsidiary is responsible to ensure that overall asset and liability allocation decisions are adequately managed within limits/targets set by the Board and in accordance with local regulations. Moreover, the foreign subsidiaries are assisted by the Treasury BU of MCB Ltd in the deployment of their undertakings. The business unit services both their foreign exchange and money market requirements by delivering advisory services through direct access to its traders, with the latter sharing their views about market trends and notifying them of relevant updates.

### *Risk measurement and monitoring*

The main sources of market risk to which banking entities are exposed and their management are set out as follows:

- Interest rate risk: The entities are, mainly, exposed to repricing risk in their banking book due to timing differences between the interest reset dates of the Bank's on- and off-balance sheet exposures and liabilities. Interest rate risk is limited by the fact that the assets and liabilities are generally indexed on the same floating rate.

- Foreign exchange risk (FX risk): It may be incurred both from (i) an on-balance sheet perspective, that is, as a result of imbalances between the foreign currency composition of assets and liabilities; and (ii) an off-balance sheet angle, through the execution of derivatives such as foreign exchange forwards. Exposure to FX risk is monitored against both regulatory stipulations and internal targets, which are, especially, applied to metrics such as the net foreign risk exposure in any single currency and the aggregation of the net foreign exchange risk exposure.

- Funding and liquidity risk: It is defined as the risk that at any time the entity does not have sufficient realisable financial assets to meet its financial obligations as they fall due.

Overall, three mutually supportive lines of defence are established and maintained.

- Cash flow management: The entities actively manage expected inflows and outflows of funds, according to their scheduled maturities while ensuring that maturity concentration risk is limited. In addition to the contractual maturities, the entities also conduct behavioural analysis of their non-maturity deposit base, ensuring that historical stickiness remain within non-volatile ranges.

# Risk management report

- Liquid assets buffer maintenance: The entities hold a stock of high quality and unencumbered assets which they can rapidly dispose of in case of need in order to meet unexpected outflows of funds or to substitute expected inflows of funds, such as loan instalments, that do not materialise.

- Liability base diversification: The entities maintain diversified liability bases across different categories of depositors and fully tap into the funding potential of wholesale markets.

## *Operational risk*

### *Key objectives*

- The banking entities of the Group aim to identify, mitigate and manage operational risks across their activities, processes and systems in line with the defined risk tolerance. The objective is to underpin the continuity of their operations and anchor a solid platform to provide customers with seamless services.

### *Governance and oversight*

- At MCB Ltd, the Board retains the ultimate responsibility for ensuring that operational risk is adequately managed throughout the Bank by providing clear guidance with respect to policies and processes for day-to-day operations. The Risk Monitoring Committee is mandated to oversee operational risk tolerance as well as to regularly review business continuity plans. As described in the Operational Risk Policy, the responsibility for implementing the Operational Risk Management Framework is entrusted to Senior Management. The monitoring of the entire operational cycle is exercised through the Information Risk, Operational Risk and Compliance Committee (IORCC), which is chaired by the Chief Executive. The IORCC acts as the focal point and coordinating committee which ensures that operational risk management conforms to the Operational Risk Policy. Significant operational risks observed are escalated to the IORCC and then, if warranted, to the RMC. The Board, through its RMC, is ultimately responsible for the execution of the Business Continuity Management (BCM) programme of the Bank. The responsibility for the implementation of strategies and the monitoring of BCM is delegated to the IORCC.

- In the same vein, the respective Boards of the foreign banking subsidiaries are called upon, notably through their Audit Committee, to determine the operational risk tolerance levels. In the process, due emphasis is laid on (i) the levels at which they set limits in respect of risk acceptance and mitigation; and (ii) the principal categories of operational risk and management targets in respect of such categories. Moreover, operational risk sanctioning mandates and day-to-day oversight responsibilities are entrusted to management. The latter is responsible for the application and effectiveness of the operational risk policy. The key duties are to (i) ensure compliance with underlying objectives set in terms of the management of such types of risk; and (ii) foster the development, implementation and documentation of internal controls and processes.

### *Risk measurement and monitoring*

- The determination of the risk exposures of the banking entities is anchored on the regular review of the operational risks inherent in their processes and client solutions, with the monitoring thereof performed against acceptable tolerance limits. With respect to MCB Ltd, the Basic Indicator Approach provides a conservative and efficient approach for the calculation and reporting of the operational risk capital charge. Information on risk events is recorded in a centralised database, which enables systematic root cause and trend analysis for corrective actions.

### *Risk mitigation and management*

- At the level of MCB Ltd, the Operational Risk BU of the Risk SBU is responsible for the implementation of policies for the identification, assessment and management of related risks. Operational risk mitigation relies on appropriate policies, processes and systems, backed by the clear segregation of duties, dual control as well as the regular verification and reconciliation of transactions. The control environment is also based on an appropriate risk culture which is fostered through risk awareness sessions targeting relevant audiences. Operational risk is managed in a timely and effective manner through adherence to good practices for the prompt identification of risk incidents, the initiation of appropriate remedial actions and the reporting of such incidents to the Operational Risk function. The Operational Risk Cartography is leveraged not only for the assessment of operational risks and relevant controls but also for the identification and empowerment of Operational Risk Champions within each SBU of the Bank as the first point of contact for escalating risks to the Operational Risk BU. The operational risk management framework of MCB Ltd relies on three primary lines of control as depicted hereafter.

| Risk ownership | Risk control | Independent assurance |
|---|---|---|
| **Business units** | **RMC/IORCC/Operational Risk BU** | **Internal/External Audit** |
| • Implement internal control procedures<br>• Identify inherent risks in products, activities, processes and systems<br>• Initiate actions and apply mitigation strategies<br>• Report risk incidents | • Oversee the conduct of policy<br>• Implement integrated risk framework<br>• Report on inherent and residual risks<br>• Monitor corrective actions<br>• Promote Operational Risk Culture within the Bank | • Verify the effectiveness of the overall operational risk framework |

- As regards the foreign banking entities, they adhere to clearly-defined controls and procedures for controlling and mitigating the effects of operational risks. The management thereof is underpinned by the recourse to specific tools and systems adopted by MCB Ltd, notably the incident reporting system, as tailored to the subsidiaries' specific realities. Staff, also, leverage training courses whereby the IT SBU as well as the Anti-Money Laundering/Fraud Prevention BU from MCB Ltd provide assistance on specific risk management needs.

*Business Continuity Management*

- A comprehensive Business Continuity Management policy is in place at MCB Ltd. The aim is to effectively plan for and respond to incidents and business interruptions in order to maintain availability of the Bank's critical business activities at acceptable pre-defined service levels, thus safeguarding its reputation and the interests of key stakeholders. The Bank's BCM policy outlines the prevailing governance structure as well as the roles and responsibilities of each actor involved in the BCM programme. The BCM strategy is continuously refreshed to reflect changes in the business landscape and ensure that mission critical activities are able to resume in accordance with set recovery objectives and stakeholders' expectations. Workaround procedures and recovery plans are well-established within the Bank and are regularly revised to assist business units to continue with or recover their activities with minimal disruption. During the last financial year, the Bank has further consolidated its business continuity preparedness and resilience. From a holistic perspective, a list of mission critical activities has been defined, while an incident crisis management process has been established in order to ensure an incident or impending crisis is handled in the most efficient manner. This is further enhanced by a series of BCM awareness sessions conducted across the Bank.

- The foreign banking subsidiaries of the Group adopt the underlying principles enshrined in the BCM policy of MCB Ltd while ensuring alignment with the specificities of their operating environments.

### *Information risk*

- The aim of information risk management at the Group's banking entities is to maintain the confidentiality, integrity and availability of information assets stored, processed and transmitted. Risk management implies the regular conduct of information risk assessments so as to identify issues that can potentially harm information assets and recommend adequate mitigating controls. At the level of MCB Ltd, the Information Risk Management (IRM) BU, which operates under the aegis of the Risk SBU is responsible for executing set policies and practices in relation to information security.

# Risk management report

- Lately, the Group's banking entities have geared up their policies and processes to effectively cope with challenges posed by increasing cyber threats. For instance, at the level of MCB Ltd, a cyber-security committee has been set up to define strategies and priorities to tackle potential cyber-attacks. In the same line, several initiatives have been approved and implemented with a view to increasing the Bank's resilience against such attacks, identifying weak points (not only from a technical perspective but also from process and behavioural angles) and taking proactive steps in order to cope with the vulnerabilities identified.

## *Compliance*

### *Key objectives*

- The compliance strategy of the Group seeks to ensure consistency between the conduct of business operations and the observance of relevant laws, rules and standards of good market practices. The aim is to shield the organisation from legal/regulatory sanctions as well as financial/reputation losses.

### *Strategy and guiding principles*

- The Board of each banking entity is responsible to ensure that adequate systems and procedures have been established and that sufficient resources have been put into place to ensure that it is adequately equipped to live up to the increasingly exigent levels of regulation and cope with the exercise of greater scrutiny by regulators and law enforcement authorities. As for the relevant compliance function, its aim is to protect the entity's reputation, ensure fair treatment of customers and identify potential breaches of applicable standards of ethics and behaviour. Regular monitoring exercises are carried out to verify compliance with policies, procedures and controls. Compliance risk management is anchored on the following core principles:
  - o Paying continuous attention to latest developments as regards laws and regulations (including extra territorial laws), accurately understanding their impact and coming up with necessary responses so that the entity can effectively address the risks arising from such changes;
  - o Maintaining close working arrangements and communications with lines of business, notably through the dissemination of compliance-related information and strategic guidance on related matters;
  - o Fostering good relationships with regulatory and supervisory bodies by keeping productive and value-adding dialogue with them to uphold effective two-way communication; and
  - o Assisting employees and members of management to promote a culture of integrity and ensure that both to the letter and spirit of relevant laws, regulations, and codes and standards of good practices are adhered to.

- At the level of MCB Ltd, the Compliance BU is tasked to keep non-compliance incidents at bay. With regard to the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) obligations of the Bank, the Compliance function is duty-bound to ensure that the Bank has adequate processes, systems and controls with a view to rendering its services inaccessible to criminals – including money launderers and terrorists or their financiers – alongside paving the way for suspicious transactions to be effectively tracked down. Of note, MCB Ltd has implemented a Whistleblowing Policy, whereby an alternative reporting process is established for use by all employees in confidence, without risk of subsequent retaliation, victimisation, discrimination or disadvantage. The Whistleblowing Framework at the Bank assists employees who are deemed to have discovered malpractices or impropriety. In this respect, the reporting of undesirable conduct can be made to the Anti-Money Laundering/Fraud Prevention BU (AMLFP BU) by using the Bank's whistleblowing hotline, by email or directly to either: (i) the Manager of the AMLFP BU; (ii) the Head of the Compliance BU; or (iii) the Chief Executive. Depending on the nature of the concern, it will be investigated by either the AMLFP BU or the Compliance BU. The investigation team maintains the confidentiality of anyone reporting a concern, subject to no external legal action following from the disclosure, and provides reasonable feedback to the originator of the concern.

- On another note, backed by clearly-defined mandates and objectives, the Compliance BU of MCB Ltd regularly supports the foreign banking entities of the Group. The assistance provided by the business unit to the latter takes *inter alia* the following forms:
  - o Compliance risk assessments: It extends support to the Compliance Officers of the entities in the performance of compliance risk assessments and through compliance-related training provided to them;

- o Advisory services: It maintains an open line of communication with afore-mentioned Compliance Officers and encourages them to seek advice/guidance whenever they are in need of same;
- o Staff training: It provides AML/CFT training to staff of the entities when called for, in addition to reviewing materials that the Compliance Officers have prepared for the purpose of staff training;
- o Compliance monitoring: It elaborates compliance monitoring programmes whereby the Compliance Officers have to perform compliance tests, prepared at the level of the Compliance BU, to ascertain adherence to procedures;
- o Project execution: It assists entities embarking on the implementation of IT tools to ensure compliance risk management; and
- o Other areas: It reviews operational procedures to ensure that they meet set standards and that all applicable legal and regulatory requirements are incorporated therein. Its services are also solicited where regulatory issues have to be resolved.

### *Internal audit*

#### *Key objectives*

- The aim of internal audit at the Group level is to assess the policies, methods and procedures in place at the organisation in order to cater for their adequate execution. Independent assurance is provided on the quality and effectiveness of internal control systems and processes, thus helping to protect the organisation and its reputation.

#### *Governance, strategy and guiding principles*

- In line with good governance principles, the Internal Audit SBU of MCB Ltd functionally reports to the Audit Committee, which approves and monitors the internal audit plan and recommendations. The established framework of the internal audit activity is risk-based, with the priorities of the internal audit function being aligned with the organisation's goals. The pillars which the function relies upon to roll out a disciplined approach in evaluating and improving the effectiveness of risk management and control processes are as follows: (i) the implementation of regular updated audit work programmes addressing, as far as possible, identified residual audit risks; (ii) increased usage of data analytics through a world-wide recognised audit software; and (iii) automation of tasks namely relating to time sheets, reports preparation, working papers and follow-up of recommendations. Based on its assessments, the Internal Audit function is presently not aware of any significant area of the Bank where there are no internal controls. The function does not believe that there are deficiencies in internal controls that could give rise to risks that could eventually jeopardize the operations of the Bank. As mentioned before, the Internal Audit SBU of MCB Ltd also services the foreign banking subsidiaries. It carries out regular assignments to assist the foreign banking entities in better managing their risks as well as improving the quality of their control systems and processes, with advice being delivered on different aspects as per projects being executed. Internal audit findings are reported to the Audit Committee and Board of relevant subsidiaries, with matters escalated to the Audit Committee of MCB Group Ltd if required. Of note, the Anti-Money Laundering and Fraud Prevention unit of the Internal Audit SBU unit has implemented the Financial Crime Risk Management system for anti-money laundering oversight in all foreign banking entities and continues to act as a point of contact for the latter.

## Capital Management

### *The framework*

In line with regulatory rules, Basel requirements and industry best practices, the capital management objective of the banking cluster, which is aligned with Group-level directions, is to ensure that adequate capital resources are available to operate effectively, foster sustained business growth, preserve or enhance credit ratings and cope with adverse situations. Capital management policies and practices aim to maintain a strong capital position that is consistent with stakeholder expectations and requirements.

Backed by the adoption of a forward-looking approach and a sensible governance framework, banking entities determine the level and composition of capital after making allowance for multiple factors. They include the legal and regulatory landscape across countries, the business environments, the Group's strategic orientations, conditions prevailing across economies and financial markets, etc.

# Risk management report

### *Our capital position*

Commensurate with the strategic orientations, risk appetite and risk management framework approved by the Board of MCB Group Ltd, the entities operating under the banking cluster abide by their internal policies and practices for undertaking their capital management initiatives, including (i) capital planning and allocation across business segments and geographies; (ii) capital reporting, budgeting and analysis; and (iii) management of capital consumption against budgets. For instance, MCB Ltd is guided by its Internal Capital Adequacy Assessment Process (ICAAP) in determining the capital planning exercise and formulating the risk appetite. This provides the framework to ensure that adequate capital is kept beyond core minimum requirements to support business activities.

Concomitantly, the banking subsidiaries of the Group foster strict compliance with mandatory stipulations set by the regulators of their jurisdictions. MCB Ltd adheres to Basel III rules and complies with the BoM Guideline on Scope of Application of Basel III and Eligible Capital, which came into effect as from July 2014. As per the phase-in arrangements, the minimum total capital adequacy ratio applicable to MCB Ltd presently stands at 11.875% of risk-weighted assets. Since 1 January 2017, this includes a capital conservation buffer, which will grow gradually before attaining 2.5% as from 1 January 2019. MCB Ltd also complies with the Guideline for dealing with Domestic-Systemically Important Banks (DSIBs). Under the latter, banks are required to hold a capital surcharge ranging from 1.0% to 2.5% of their risk-weighted assets depending on their systemic importance. The assessment for determining DSIBs is carried out on a yearly basis on end-June figures. As per the assessment that has recently been carried out by the Central Bank, MCB Ltd remains among the five banks that have been determined to be systemically important in our jurisdiction, based on the assessment of five factors, i.e. size, exposure to large groups, interconnectedness, complexity and substitutability. As for the foreign banking subsidiaries and in line with applicable regulatory requirements in the respective countries, MCB Seychelles adheres to Basel II rules, while MCB Madagascar is compliant with Basel I.

## Internal Capital Adequacy Assessment Process of MCB Ltd

### The framework

MCB Ltd is guided by its ICAAP in determining its capital planning and formulating its risk appetite process. The ICAAP sets the stage for the implementation of the BoM Guideline on Supervisory Review Process. The latter's aim is to ensure that banks have adequate capital to support all the risks they are exposed to in their business and to encourage banks to develop and use better risk management techniques in managing their risks. The ICAAP document, which is approved by the Board and the RMC, is reviewed periodically to ensure that the Bank remains well capitalised after considering all material risks.

### The overall purpose

The ICAAP document provides an informative description of the methodology and procedures that the Bank uses to assess and mitigate its risks towards ensuring that adequate capital is kept to support its risks beyond the core minimum requirements. It delineates the process through which the Bank assesses the extent to which it holds sufficient capital in order to duly support its business activities. Specifically, through the ICAAP, the Bank assesses its forecast capital supply and demand relative to its regulatory and internal capital targets under various scenarios. The Bank's capital plan is defined every year during the budgeting and strategic planning exercise whilst financial year risk appetite limits are set by the Board. Exposures are monitored on a quarterly basis against those limits and reported to the RMC. The capital plan also includes a crisis management plan whereby measures to rapidly mobilise additional capital, should the need arise, are discussed at Board level.

### Stress testing

Stress testing is a risk management exercise that forms an integral part of the ICAAP. Enabling conditions have been created at MCB Ltd for the development of sound stress testing practices through robust objectives-setting and oversight, proper scenario selection, and suitable methodologies.

| Process | Relevance of stress testing |
|---|---|
| Risk identification | • To detect and address existing or potential vulnerabilities such as unidentified and Bank-wide risk concentrations or interactions among various types of risk, many of which may be overlooked when relying purely on statistical risk management tools based on historical data |
| Risk assessment | • To promote a deep understanding of organisational vulnerabilities following forward-looking assessments of risk, to make risk more transparent via an estimation of scenario-based losses, and to prevent the development of any false sense of security about the Bank's resilience<br>• To evaluate risk during different phases, notably (i) during periods of favourable economic and financial conditions given a resulting lack of visibility over potentially negative future settings; and (ii) during periods of expansion when innovation leads to new products and services for which no historical data is available for forecasting future trends |
| Risk mitigation | • To facilitate and assess the development of risk mitigation or contingency plans across a range of stressed conditions<br>• To spur debates on and awareness of different risk aspects of banking portfolios among Management on the strength of (i) a well-organised surveying of the operational environment; (ii) an identification of the most important risk factors; and (iii) a scanning of the horizon for potential stressful events |

# Risk management report

During the year under review, the Bank has conducted stress testing under various historical and stress test scenarios to assess the impact of unfavourable scenarios on its capital position. Examples of stress tests conducted lately are provided hereafter. The scenarios are regularly reviewed and fine-tuned to ensure that they remain relevant to the Bank's risk profile, activities and prevailing and forecasted economic conditions. The results of stress tests are reported and discussed at the RMC and the Board prior to being submitted to the BoM. Barring extreme cases, our recent analyses have revealed that the capital adequacy of the Bank does not fall below the regulatory requirements in any of the scenarios below.

| | |
|---|---|
| Scenario 1 | Concentration risk – One customer group impaired |
| Scenario 2 | Concentration risk – Three large single customers impaired |
| Scenario 3 | Strategic risk – A drastic drop in oil prices |
| Scenario 4 | Reputation risk – MCB Ltd becomes non-investment grade |
| Scenario 5 | Credit risk – A crash in the property market in Mauritius |
| Scenario 6 | Credit risk – Collapse of a commodities trading house |
| Scenario 7 | Country risk – Exposures in a specific country turn into non-performing |
| Scenario 8 | Country risk – Coup d'état in a specific country |
| Scenario 9 | Country Risk – Dismantling of the European Union |
| Worst case scenario | Worst case scenario – A combination of scenarios - 1, 2, 3, 7 & 9 |

### Minimum regulatory ratios applicable to MCB Ltd

| Common Equity Tier 1 (CET 1) Capital Adequacy Ratio (CAR) (%) | | Jul 14 | Jan 15 | Jan 16 | Jan 17 | Jan 18 | Jan 19 | Jan 20 |
|---|---|---|---|---|---|---|---|---|
| Minimum CET 1 CAR | (a) | 5.500 | 6.000 | 6.500 | 6.500 | 6.500 | 6.500 | 6.500 |
| Capital Conservation Buffer | (b) | | | | 0.625 | 1.250 | 1.875 | 2.500 |
| **Minimum CET 1 CAR plus Capital Conservation Buffer** | **(c) = (a) + (b)** | **5.500** | **6.000** | **6.500** | **7.125** | **7.750** | **8.375** | **9.000** |

| Tier 1 CAR (%) | | Jul 14 | Jan 15 | Jan 16 | Jan 17 | Jan 18 | Jan 19 | Jan 20 |
|---|---|---|---|---|---|---|---|---|
| Minimum Tier 1 CAR | (d) | 6.500 | 7.500 | 8.000 | 8.000 | 8.000 | 8.000 | 8.000 |
| **Minimum Tier 1 CAR plus Capital Conservation Buffer** | **(e) = (d) + (b)** | **6.500** | **7.500** | **8.000** | **8.625** | **9.250** | **9.875** | **10.500** |

| Total CAR (%) | | Jul 14 | Jan 15 | Jan 16 | Jan 17 | Jan 18 | Jan 19 | Jan 20 |
|---|---|---|---|---|---|---|---|---|
| Minimum Total CAR | (f) | 10.000 | 10.000 | 10.000 | 10.000 | 10.000 | 10.000 | 10.000 |
| **Minimum Total CAR plus Capital Conservation Buffer** | **(g) = (f) + (b)** | **10.000** | **10.000** | **10.000** | **10.625** | **11.250** | **11.875** | **12.500** |

| D-SIB Buffer (%) | | Jul 14 | Jan 15 | Jan 16 | Jan 17 | Jan 18 | Jan 19 | Jan 20 |
|---|---|---|---|---|---|---|---|---|
| Minimum additional loss absorbency (bucket 4) | (h) | | | 0.625 | 1.250 | 1.875 | 2.500 | 2.500 |
| Minimum Tier 1 CAR plus Capital Conservation Buffer plus D-SIB Buffer | (i) = (e) + (h) | 6.500 | 7.500 | 8.625 | 9.875 | 11.125 | 12.375 | 13.000 |
| Minimum Total CAR plus Capital Conservation Buffer plus D-SIB Buffer | (j) = (g) + (h) | 10.000 | 10.000 | 10.625 | 11.875 | 13.125 | 14.375 | 15.000 |

### Minimum regulatory ratios currently applicable to the foreign banking entities

| | **MCB Seychelles** | **MCB Maldives** | **MCB Madagascar** |
|---|---|---|---|
| **As at 30 June 2017** | % | % | % |
| Capital adequacy ratio | 12.0 | 12.0 | 8.0 |
| Tier 1 ratio | 6.0 | 6.0 | 8.0 |

*Note:*
*MCB Ltd adheres to Basel III rules as contained in the Guideline on Scope of Application of Basel III and Eligible Capital while the foreign banking subsidiaries comply with their local regulatory requirements*

# Risk management report

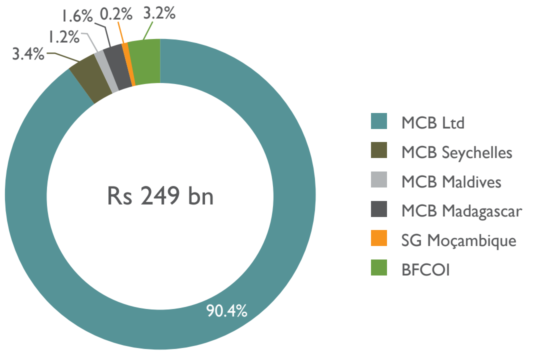
### *Performance of the consolidated banking cluster*

During FY 2016/17, the banking entities have maintained their respective capital adequacy ratios comfortably above the applicable regulatory requirements. The core and total equity capital bases of the banking cluster as a whole increased during the period. The capital adequacy ratio of the banking cluster has – as measured at the level of MCB Investment Holding Ltd on a consolidated basis –risen by around 70 basis points to reach 17.3% as at June 2017 on the back of organic capital accumulation linked to our financial results. The capital base was primarily made up of core capital, with the Tier 1 ratio rising from 15.4% to 16.2%. The following illustrations depict the capital adequacy ratios posted by the banking cluster and shed light on the distribution of risk-weighted assets by entity.

## Distribution of capital metrics

| | Banking cluster | |
|---|---|---|
| | **Jun 16** | **Jun 17** |
| | **Rs m** | **Rs m** |
| **Capital base** | **39,168** | **43,010** |
| Tier 1 | 36,228 | 40,303 |
| Tier 2 | 2,941 | 2,707 |
| **Risk-weighted assets** | **235,419** | **248,665** |
| **Capital adequacy (%)** | **16.6** | **17.3** |
| *of which Tier 1* | *15.4* | *16.2* |

**Risk-weighted assets by entity**




| Capital adequacy | MCB Ltd | MCB Seychelles | MCB Maldives | MCB Madagascar |
|---|---|---|---|---|
| | % | % | % | % |
| **Capital adequacy ratio** | | | | |
| As at 30 June 2016 | 16.1 | 18.1 | 26.8 | 16.0 |
| As at 30 June 2017 | 16.8 | 17.4 | 25.8 | 21.9 |
| **Tier 1 ratio** | | | | |
| As at 30 June 2016 | 14.9 | 14.8 | 23.6 | 16.0 |
| As at 30 June 2017 | 15.8 | 14.9 | 21.4 | 21.9 |

### *Non-banking clusters*

While adhering to good corporate governance principles, entities within the non-banking clusters of the Group adopt robust risk management frameworks that allow for an effective identification and management of risks they face in the course of their respective business activities. Relevant risk indicators are regularly measured and monitored against set targets.

#### *Non-banking financial entities*

MCB Capital Markets Ltd (MCBCM) and some of its subsidiaries are regulated by the Financial Services Commission. MCBCM, which complies with the National Code of Corporate Governance, seeks to implement best practice risk management standards. The ultimate responsibility for managing risks rests with the Board of each subsidiary and significant issues are escalated to the main Board. To ensure strong governance, several sub-committees have been set up to oversee critical areas of MCBCM's operations. An example is the management and administration of Collective Investment Schemes (CIS), where MCBCM has appointed and tasked a CIS Supervisory Committee with the review and assessment of all aspects relating to CIS management, including risk, investment and administration.

MCBCM recognises that financial products are becoming increasingly complex and regulated. Accordingly, it has strengthened its governance framework through the establishment of a Financial Products Supervisory Committee, which oversees all product launches. The portfolio risk management process within MCB Investment Management has been reinforced through the recruitment of a dedicated Risk Analyst within the Risk and Compliance (R&C) section and the setting-up of a quarterly Investment Committee chaired by an external professional. Day-to-day risk management is delegated to the management team of each subsidiary and to MCBCM's R&C section, whose primary responsibilities are as follows:

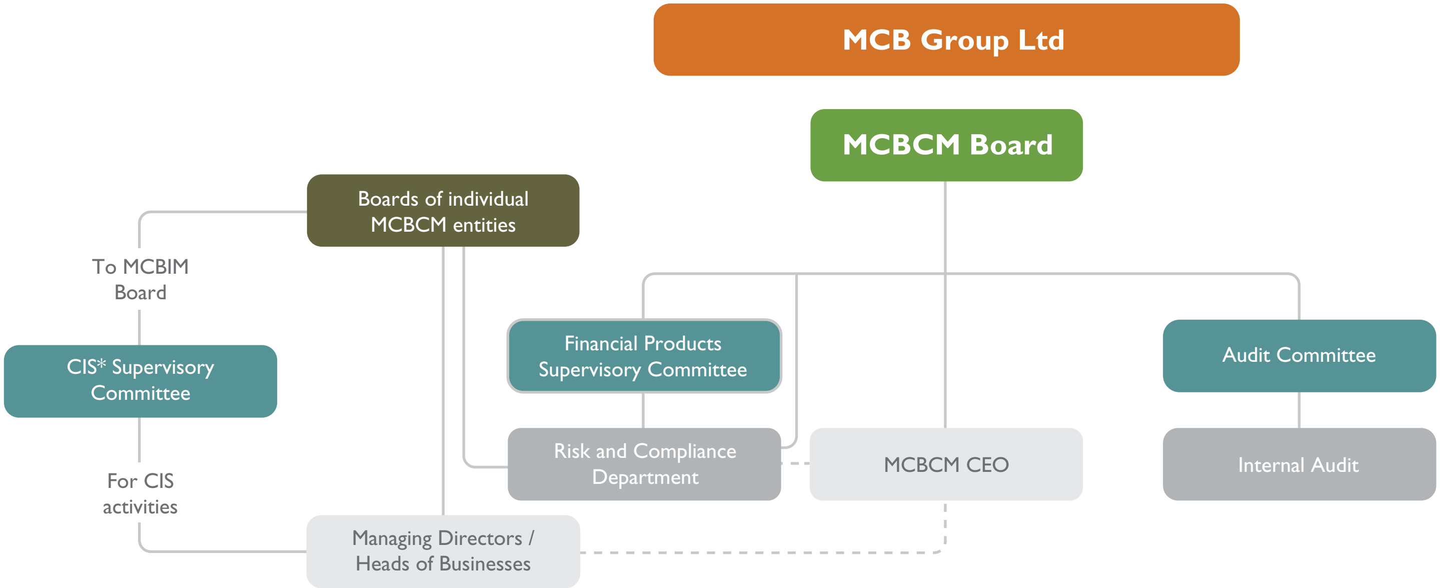
- Assessment of all legal and regulatory obligations of MCBCM's businesses and ensuring compliance with applicable laws, regulations, rules and policies;
- Provision of risk-related advice, recommendations and compliance assurance to members of the Boards and various committees;
- Coordination of all risk management and compliance measures; and
- Investigation of all breaches and violations of MCBCM's risk-related policies and procedures.

The Head of R&C reports administratively to the Chief Executive Officer of MCBCM, while having, in line with best practice, a direct reporting line to the Boards and sub-committees of MCBCM and its subsidiaries, as applicable. R&C submits a compliance report to the Boards of all MCBCM entities every six months, with the possibility of escalating critical issues on a more frequent basis as necessary.

All entities of MCBCM are subject to annual independent internal and external audits. The Audit Committee meets at least twice a year to review *inter alia* audit findings, progress on previously-identified issues and the audited financial statements of all legal entities.

# Risk management report

The MCBCM governance framework is set out below.




** Relates to Collective Investment Schemes*

Risk management within MCBCM targets the following areas:

- Legal and regulatory

  Recognising the need to adhere to international governance codes and standards, MCBCM has put in place a framework to properly manage its legal and regulatory risks, which is summarised below:

  o Regular review of applicable laws and regulations to identify compliance gaps;

  o Active involvement of R&C and MCBCM's legal team in the development of new products and services to ensure that same comply with applicable laws and regulations prior to being launched;

  o Monitoring of changes to the legal and regulatory framework and initiation of corrective actions as relevant; and

  o Bi-annual monitoring exercises undertaken by R&C to assess the level of compliance with laws and regulations particularly with respect to anti-money laundering.

- Operations (people, processes and systems)

  A significant proportion of R&C's resources is employed for the management of operational risks. The methodology, which places particular emphasis on high volume businesses, is set out below.


The initial stage of the above methodology includes *inter alia* formal reviews of procedures and processes, analysis of complaints and incident reports and reviews of new products and services. The output is then used to update MCBCM's risk maps, which address all major risks faced by the business and their pre-control ratings. These risks are eventually re-assessed taking into account existing controls and additional controls that are required to arrive at a post-control rating. Any residual post-control risks deemed material would lead to a re-design of the relevant controls until such risks are eliminated.

- Financial risks

  MCBCM, through its brokerage business, offers underwriting services to corporate clients and is thus subject to financial risks. Such risks are managed by a formal process that involves:

  o A technical assessment of all requests for underwriting by a group comprising MCBCM's Chief Financial Officer, Head of Risk and Compliance, Head of Legal and the Managing Director of MCB Stockbrokers;

  o A two-tiered approval process, with the first level approval being provided jointly by the CEO of MCBCM and the Chairperson of the Board of MCB Stockbrokers, and the second level approval provided by the management of MCB Group.

# Risk management report

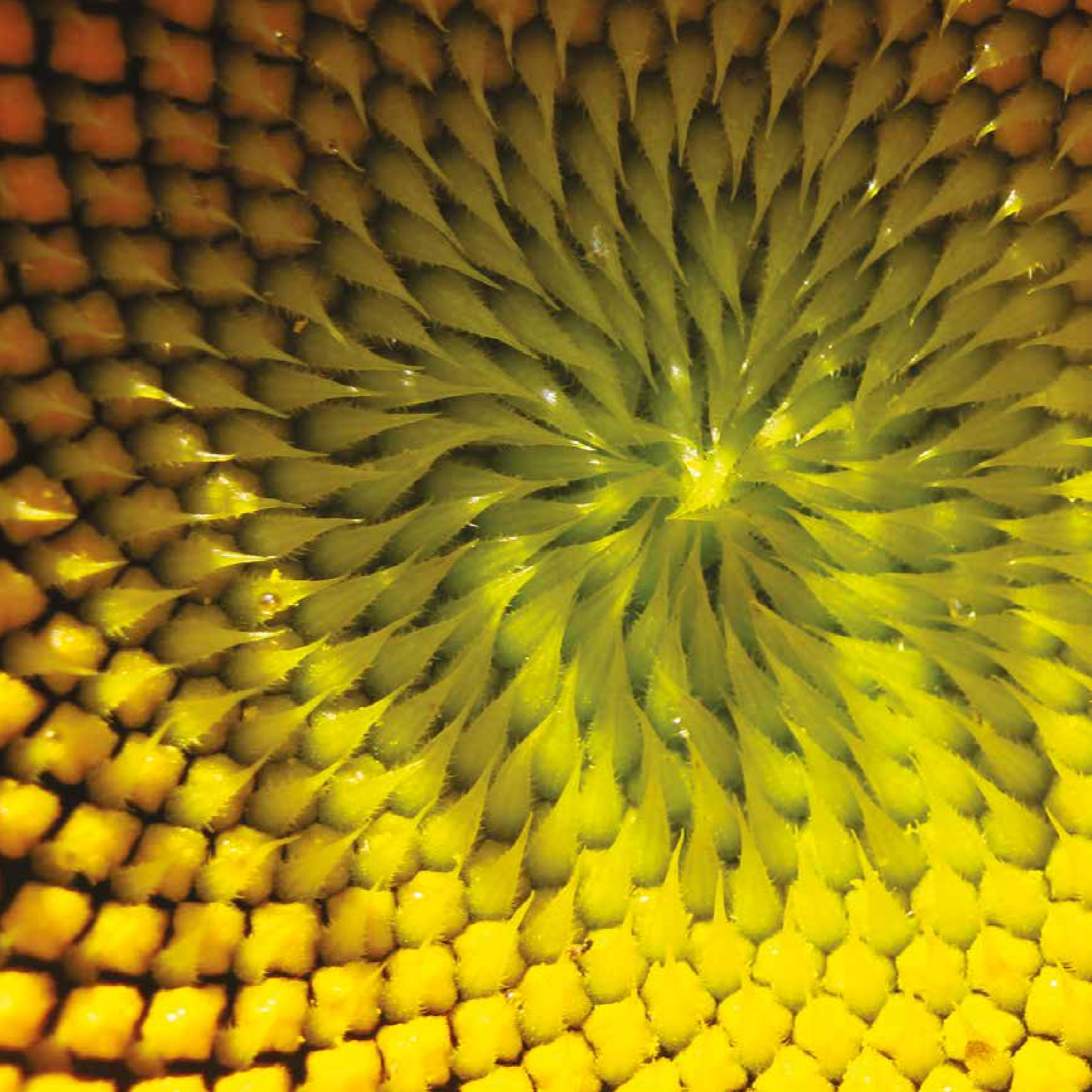
MCBCM, again through its brokerage business, also acts as market-maker in respect of certain securities listed on the Stock Exchange of Mauritius. Relevant safeguards have been implemented to ensure that any risks arising from this activity are properly mitigated. There are no other active material financial risks that are being borne by entities of MCBCM, although MCB Stockbrokers is exposed to certain credit and market risks related to the trade settlement process of the Stock Exchange of Mauritius.

### *Entities within the 'Other Investments' cluster*

Elsewhere, consistent with the underlying principles determined at Group level, risk management policies and structures have, in varying capacities, been designed in order to ensure that business activities are carried out in a sound manner, depending on the types of market undertakings being engaged into as well as the range and depth of risks faced. Fundamentally, the Board of each entity has the ultimate responsibility to ensure that risks are properly identified and managed, with relevant functions being mandated to provide clear and coherent assistance to help it in the fulfillment of its duties. In the process, the entities adhere to coherent and robust control mechanisms that enable them to achieve strategic objectives in a sustained and sound manner, backed by a thorough investigation of clients' risk profiles and the diversification of undertakings where applicable.

**Jean-Louis MATTEI**
Director
Chairperson Risk Monitoring Committee

**Pierre Guy NOEL**
Chief Executive



# Financial Statements

# Independent auditor's report

## To the Shareholders of MCB Group Limited

### Report on the Audit of the Consolidated and Separate Financial Statements

#### *Our Opinion*

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of MCB Group Limited (the "Company") and its subsidiaries (together the "Group") and of the Company standing alone as at 30 June 2017, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001.

### What we have audited

MCB Group Limited's accompanying consolidated and separate financial statements comprise:

- the consolidated and separate statements of financial position as at 30 June 2017;
- the consolidated and separate statements of profit or loss for the year then ended;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes, comprising significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the risk management report, rather than in the notes to the consolidated and separate financial statements. These disclosures are cross-referenced from the consolidated and separate financial statements and are identified as audited.

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements" section of our report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of these financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent auditor's report

## To the Shareholders of MCB Group Limited (Cont'd)

### Report on the Audit of the Consolidated and Separate Financial Statements (cont'd)

| Key audit matters relating to the consolidated financial statements | How our audit addressed the key audit matters relating to the consolidated financial statements |
|---|---|
| **Impairment loss on loans and advances**<br><br>Impairment loss on loans and advances represents management's best estimates of the losses incurred within the loan portfolio at the end of the reporting period. They are calculated on a collective basis for portfolios of loans of a similar nature and on an individual basis for significant loans. The calculation of both collective and individual impairment allowances is inherently judgemental.<br><br>Collective impairment losses are calculated using historical loan loss ratios, adjusted for management estimates relating to the impact of current economic conditions.<br><br>For specific impairments, judgement is required to determine when an impairment event has occurred and then to estimate the amount and timing of expected future cash flows related to that loan.<br><br>The audit was focused on impairment due to the materiality of the balances and the subjective nature of the calculations.<br><br>See Notes 2 and 6 to the financial statements. | • We assessed and tested the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over the identification of which loans and advances were impaired, the granting of forbearance, the data transfer from source systems to impairment models and model output to the general ledger and the calculation of the impairment provisions.<br><br>• We have tested the IT controls for impairment systems and determined that we could rely on these controls for the purposes of our audit.<br><br>• We performed detailed testing on the calculation of the collective and individual impairment. This testing varied by portfolio, but typically included re-performance of the calculation and testing the extraction of data used in the models including the' bucketing' into delinquency bandings.<br><br>• We tested a sample of adjustments made to the actual loan loss ratios, by considering the basis for the adjustments, the logic applied, the source data used, the key assumptions adopted. |

## To the Shareholders of MCB Group Limited (Cont'd)

### Report on the Audit of the Consolidated and Separate Financial Statements (cont'd)

| Key audit matters relating to the consolidated financial statements | How our audit addressed the key audit matters relating to the consolidated financial statements |
|---|---|
| | • Where impairment was individually calculated, we tested controls over the timely identification of potentially impaired loans and concluded that we could rely on these controls for the purposes of our audit.<br><br>• For a sample of loans and advances, we ascertained whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner including, where relevant, how forbearance had been considered. Where impairment had been identified, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment, challenging the assumptions and comparing estimates to external evidence where available. We found no material exceptions in these tests.<br><br>• We examined a sample of loans and advances which had not been identified by management as potentially impaired and formed our own judgements as to whether these were appropriate, using external evidence in respect of the relevant counterparties. We found no material exceptions in these tests.<br><br>• In respect of some impairment provisions, we arrived at a different conclusion than management, but in our view, the differences were within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties disclosed in the financial statements. |

# Independent auditor's report

## To the Shareholders of MCB Group Limited (Cont'd)

### Report on the Audit of the Consolidated and Separate Financial Statements (cont'd)

| Key audit matters relating to the consolidated financial statements | How our audit addressed the key audit matters relating to the consolidated financial statements |
|---|---|
| **Valuation of unquoted financial assets held at fair value**<br><br>The valuation of the Group's unquoted financial assets held at fair value was a key area of audit focus due to their significance.<br><br>The Directors make significant judgements because of the complexity of the techniques and assumptions used in valuing some of the level 3 investment securities given the limited external evidence and unobservable market data available to support the Group's valuations.<br><br>See Notes 2, 3 and 7 to the financial statements. | We assessed the design and operating effectiveness of the Group's key controls supporting the identification, measurement and oversight of valuation risk of financial assets.<br><br>For the more judgemental valuations, which may depend on unobservable inputs, we evaluated the assumptions, methodologies and models used by the Group. We performed an independent valuation of a sample of positions which in some cases resulted in a different valuation compared to management. In our view, the differences were within a reasonable range of outcomes in the context of the inherent uncertainties disclosed in the financial statements.<br><br>We also involved our valuation experts to check the appropriateness of the methodologies used and found that these are reasonable in the context of the relevant investment securities held. |

In connection with the separate financial statements, we have determined that there are no Key Audit Matters to communicate in our report.

***Other information***

The directors are responsible for the other information. The other information comprises the following: navigating this annual report, the highlights, the corporate profile, delivering value to our stakeholders, the board of directors and committees of the board, the chairperson statement, the chief executive statement, the corporate governance report, the statement of compliance, the company secretary's certificate, the business and financial review, the risk management report and the administrative information but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. Our reporting responsibilities regarding the corporate governance report is dealt with in the "Report on Other Legal and Regulatory Requirements" section of this report.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# Independent auditor's report

## To the Shareholders of MCB Group Limited (Cont'd)

### Report on the Audit of the Consolidated and Separate Financial Statements (cont'd)

#### *Responsibilities of the Directors for the Consolidated and Separate Financial Statements*

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's and the Company's financial reporting process.

#### *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such

## To the Shareholders of MCB Group Limited (Cont'd)

### Report on the Audit of the Consolidated and Separate Financial Statements (cont'd)

#### *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (Cont'd)*

disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

# Independent auditor's report

## To the Shareholders of MCB Group Limited (Cont'd)

### Report on the Audit of the Consolidated and Separate Financial Statements (cont'd)

#### *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (Cont'd)*

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### *Report on Other Legal and Regulatory Requirements*

**Mauritian Companies Act 2001**

The Mauritian Companies Act 2001 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

(a) we have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditor of the Company and some of its subsidiaries, tax advisor of one of its subsidiaries and dealings in the ordinary course of business with some of its subsidiaries;
(b) we have obtained all the information and explanations we have required; and
(c) in our opinion, proper accounting records have been kept by the Company as far as appears from our examination of those records.

# Independent auditor's report



## To the Shareholders of MCB Group Limited (Cont'd)

### *Report on Other Legal and Regulatory Requirements (Cont'd)*

**Mauritian Financial Reporting Act 2004**

The directors are responsible for preparing the corporate governance report. Our responsibility is to report on the extent of compliance with the Code of Corporate Governance (the "Code") as disclosed in the annual report and on whether the disclosure is consistent with the requirements of the Code.

In our opinion, the disclosure in the annual report is consistent with the requirements of the Code.

### *Other Matter*

This report, including the opinion, has been prepared for and only for the Company's shareholders, as a body, in accordance with Section 205 of the Mauritian Companies Act 2001 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**PricewaterhouseCoopers**
29th September 2017

Gilles Beesoo
Licensed by FRC

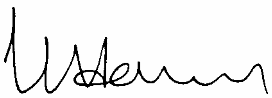
# Statements of financial position

as at 30th June 2017

| | Notes | GROUP 2017 RS'M | GROUP 2016 RS'M | COMPANY 2017 RS'M | COMPANY 2016 RS'M |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | 4 | 35,711.4 | 33,305.6 | - | 49.4 |
| Derivative financial instruments | 5 | 479.7 | 315.4 | - | - |
| Loans to and placements with banks | 6(a) | 25,716.3 | 22,419.1 | - | - |
| Loans and advances to customers | 6(b) | 171,223.7 | 163,827.3 | - | - |
| Investment securities | 7 | 74,729.7 | 62,734.8 | - | - |
| Investments in associates | 8 | 9,552.3 | 9,151.9 | 109.7 | 26.5 |
| Investments in subsidiaries | 9 | - | - | 9,386.4 | 9,253.2 |
| Goodwill and other intangible assets | 10 | 949.4 | 897.4 | - | - |
| Property, plant and equipment | 11 | 6,196.8 | 5,892.8 | 226.8 | 6.9 |
| Deferred tax assets | 12 | 282.2 | 311.3 | - | - |
| Other assets | 13 | 20,835.2 | 18,849.2 | 1,374.5 | 1,071.1 |
| **Total assets** | | 345,676.7 | 317,704.8 | 11,097.4 | 10,407.1 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| Deposits from banks | 14(a) | 2,489.5 | 1,837.7 | - | - |
| Deposits from customers | 14(b) | 272,373.8 | 253,423.9 | - | - |
| Derivative financial instruments | 5 | 401.7 | 307.2 | - | - |
| Other borrowed funds | 15 | 5,968.4 | 5,193.0 | 242.6 | - |
| Subordinated liabilities | 16 | 5,587.0 | 5,619.9 | 4,535.0 | 4,537.6 |
| Current tax liabilities | | 905.9 | 812.1 | - | - |
| Deferred tax liability | 12 | 53.4 | 65.4 | 0.4 | 0.4 |
| Other liabilities | 18 | 9,560.4 | 7,437.0 | 1,063.7 | 1,000.4 |
| **Total liabilities** | | 297,340.1 | 274,696.2 | 5,841.7 | 5,538.4 |
| **Shareholders' equity** | | | | | |
| Stated capital | | 2,477.8 | 2,426.8 | 2,477.8 | 2,426.8 |
| Retained earnings | | 34,761.0 | 30,886.1 | 2,777.9 | 2,441.9 |
| Other components of equity | | 8,710.4 | 7,417.0 | - | - |
| **Equity attributable to the ordinary equity holders of the parent** | | 45,949.2 | 40,729.9 | 5,255.7 | 4,868.7 |
| Non-controlling interests | | 2,387.4 | 2,278.7 | - | - |
| **Total equity** | | 48,336.6 | 43,008.6 | 5,255.7 | 4,868.7 |
| **Total equity and liabilities** | | 345,676.7 | 317,704.8 | 11,097.4 | 10,407.1 |

| **CONTINGENT LIABILITIES** | Notes | GROUP 2017 RS'M | GROUP 2016 RS'M |
|---|---|---|---|
| Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers | | 43,102.9 | 32,130.8 |
| Commitments | | 7,201.2 | 2,913.5 |
| Tax assessments | | 992.6 | 836.9 |
| Other | | 1,360.2 | 1,431.7 |
| | 20 | 52,656.9 | 37,312.9 |

These financial statements were approved for issue by the Board of Directors on the 29th September 2017.



**Pierre Guy NOEL**
Director
Chief Executive

**Didier HAREL**
Director
Chairperson

**Sunil BANYMANDHUB**
Director
Chairperson Audit Committee

The notes on pages 218 to 292 form part of these financial statements.
Auditor's report on pages 198 to 205.

# Statements of profit or loss
for the year ended 30th June 2017



| | Notes | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M |
| Interest income | 21 | **13,888.9** | 13,643.6 | **-** | - |
| Interest expense | 22 | **(4,478.0)** | (4,753.3) | **(246.2)** | (262.8) |
| **Net interest income** | | **9,410.9** | 8,890.3 | **(246.2)** | (262.8) |
| Fee and commission income | 23 | **4,279.8** | 4,028.6 | **-** | - |
| Fee and commission expense | 24 | **(930.0)** | (845.2) | **-** | - |
| **Net fee and commission income** | | **3,349.8** | 3,183.4 | **-** | - |
| **Other income** | | | | | |
| Profit arising from dealing in foreign currencies | | **1,827.9** | 1,672.6 | **-** | - |
| Net gain/(loss) from financial instruments carried at fair value | 25 | **101.3** | (82.2) | **-** | - |
| | | **1,929.2** | 1,590.4 | **-** | - |
| Dividend income | 26 | **88.8** | 76.4 | **2,841.4** | 2,204.0 |
| Net gain on sale of securities | | **278.8** | 282.8 | **-** | - |
| Other operating income | | **448.5** | 381.0 | **-** | - |
| | | **2,745.3** | 2,330.6 | **2,841.4** | 2,204.0 |
| **Operating income** | | **15,506.0** | 14,404.3 | **2,595.2** | 1,941.2 |
| **Non-interest expense** | | | | | |
| Salaries and human resource development | 27(a) | **(3,611.5)** | (3,311.0) | **(78.6)** | (68.6) |
| Depreciation of property, plant and equipment | | **(551.8)** | (520.6) | **(1.9)** | (1.9) |
| Amortisation of intangible assets | | **(281.6)** | (219.1) | **-** | - |
| Other | 27(b) | **(1,943.3)** | (1,724.8) | **(33.8)** | (29.4) |
| | | **(6,388.2)** | (5,775.5) | **(114.3)** | (99.9) |
| **Operating profit before impairment** | | **9,117.8** | 8,628.8 | **2,480.9** | 1,841.3 |
| Net impairment of financial assets | 28 | **(1,063.8)** | (1,021.9) | **-** | - |
| **Operating profit** | | **8,054.0** | 7,606.9 | **2,480.9** | 1,841.3 |
| Share of profit of associates | | **338.2** | 735.0 | **-** | - |
| **Profit before tax** | | **8,392.2** | 8,341.9 | **2,480.9** | 1,841.3 |
| Income tax expense | 29 | **(1,643.8)** | (1,537.0) | **-** | (0.3) |
| **Profit for the year** | | **6,748.4** | 6,804.9 | **2,480.9** | 1,841.0 |
| **Profit for the year attributable to the non-controlling interests** | | **(46.3)** | (179.4) | **-** | - |
| **Profit for the year attributable to the ordinary equity holders of the parent** | | **6,702.1** | 6,625.5 | **2,480.9** | 1,841.0 |
| **Profit for the year attributable to:** | | | | | |
| Ordinary equity holders of the parent | | **6,702.1** | 6,625.5 | **2,480.9** | 1,841.0 |
| Non-controlling interests | | **46.3** | 179.4 | **-** | - |
| | | **6,748.4** | 6,804.9 | **2,480.9** | 1,841.0 |
| **Earnings per share:** | | | | | |
| Basic (Rs) | 31 | **28.12** | 27.82 | | |
| Diluted (Rs) | 31 | **28.10** | 27.82 | | |

The notes on pages 218 to 292 form part of these financial statements.
Auditor's report on pages 198 to 205.

# Statements of comprehensive income
for the year ended 30th June 2017

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M |
| **Profit for the year** | **6,748.4** | 6,804.9 | **2,480.9** | 1,841.0 |
| **Other comprehensive income:** | | | | |
| **Items that will not be reclassified to profit or loss:** | | | | |
| Remeasurement of defined benefit pension plan, net of deferred tax | **287.1** | (173.7) | **-** | - |
| Share of other comprehensive (expense)/income of associates | **(120.9)** | 664.0 | **-** | - |
| | **166.2** | 490.3 | **-** | - |
| **Items that may be reclassified subsequently to profit or loss:** | | | | |
| Exchange differences on translating foreign operations | **(184.4)** | (129.0) | **-** | - |
| Reclassification adjustments on disposal of available-for-sale investments | **16.4** | (268.5) | **-** | - |
| Net fair value gain on available-for-sale investments | **432.1** | 77.5 | **-** | - |
| Share of other comprehensive income of associates | **242.8** | 382.1 | **-** | - |
| | **506.9** | 62.1 | **-** | - |
| **Other comprehensive income for the year** | **673.1** | 552.4 | **-** | - |
| **Total comprehensive income for the year** | **7,421.5** | 7,357.3 | **2,480.9** | 1,841.0 |
| **Total comprehensive income attributable to:** | | | | |
| Ordinary equity holders of the parent | **7,272.2** | 6,752.1 | **2,480.9** | 1,841.0 |
| Non-controlling interests | **149.3** | 605.2 | **-** | - |
| | **7,421.5** | 7,357.3 | **2,480.9** | 1,841.0 |

The notes on pages 218 to 292 form part of these financial statements.
Auditor's report on pages 198 to 205.

# Statements of changes in equity

for the year ended 30th June 2017

| | Note | Stated Capital RS'M | Retained Earnings RS'M | Capital Reserve RS'M | Translation Reserve RS'M | Statutory Reserve RS'M | General Banking Reserve RS'M | Total RS'M | Non-controlling Interests RS'M | Total Equity RS'M |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to ordinary equity holders of the parent | | | | | | | | |
| **GROUP** | | | | | | | | | | |
| **At 1st July 2015** | | **2,397.2** | **27,501.6** | **2,305.1** | **(223.2)** | **3,171.8** | **780.8** | **35,933.3** | **1,748.9** | **37,682.2** |
| Profit for the year | | - | 6,625.5 | - | - | - | - | 6,625.5 | 179.4 | 6,804.9 |
| Other comprehensive (expense)/income for the year | | - | (175.2) | 428.4 | (126.6) | - | - | 126.6 | 425.8 | 552.4 |
| Total comprehensive income/(expense) for the year | | - | 6,450.3 | 428.4 | (126.6) | - | - | 6,752.1 | 605.2 | 7,357.3 |
| Dividends | 30 | - | (1,964.7) | - | - | - | - | (1,964.7) | (35.1) | (1,999.8) |
| Effect of increase in shareholding in subsidiaries | | - | (20.4) | - | - | - | - | (20.4) | (40.3) | (60.7) |
| Issue of shares following the exercise of Group Employee Share Options Scheme | | 29.6 | - | - | - | - | - | 29.6 | - | 29.6 |
| Transactions with owners in their capacity as owners | | 29.6 | (1,985.1) | - | - | - | - | (1,955.5) | (75.4) | (2,030.9) |
| Share of transfer by associate | | - | (35.1) | 35.1 | - | - | - | - | - | - |
| Share of other movements in reserves of associate | | - | 3.1 | (3.1) | - | - | - | - | - | - |
| Transfer to general banking reserve | | - | (200.2) | - | - | - | 200.2 | - | - | - |
| Transfer to statutory reserve | | - | (848.5) | - | - | 848.5 | - | - | - | - |
| **At 30th June 2016** | | **2,426.8** | **30,886.1** | **2,765.5** | **(349.8)** | **4,020.3** | **981.0** | **40,729.9** | **2,278.7** | **43,008.6** |
| Profit for the year | | **-** | **6,702.1** | **-** | **-** | **-** | **-** | **6,702.1** | **46.3** | **6,748.4** |
| Other comprehensive income/(expense) for the year | | **-** | **164.7** | **589.3** | **(183.9)** | **-** | **-** | **570.1** | **103.0** | **673.1** |
| Total comprehensive income/(expense) for the year | | **-** | **6,866.8** | **589.3** | **(183.9)** | **-** | **-** | **7,272.2** | **149.3** | **7,421.5** |
| Dividends | 30 | **-** | **(2,144.9)** | **-** | **-** | **-** | **-** | **(2,144.9)** | **(40.8)** | **(2,185.7)** |
| Effect of increase in shareholding in subsidiary | | **-** | **2.0** | **-** | **-** | **-** | **-** | **2.0** | **(28.4)** | **(26.4)** |
| Issue of shares following the exercise of Group Employee Share Options Scheme | | **51.0** | **-** | **-** | **-** | **-** | **-** | **51.0** | **-** | **51.0** |
| Transactions with owners in their capacity as owners | | **51.0** | **(2,142.9)** | **-** | **-** | **-** | **-** | **(2,091.9)** | **(69.2)** | **(2,161.1)** |
| Share of transfer by associate | | **-** | **(4.6)** | **4.6** | **-** | **-** | **-** | **-** | **-** | **-** |
| Share of other movements in reserves of associate | | **-** | **44.5** | **(5.5)** | **-** | **-** | **-** | **39.0** | **28.6** | **67.6** |
| Transfer from general banking reserve | | **-** | **51.2** | **-** | **-** | **-** | **(51.2)** | **-** | **-** | **-** |
| Transfer to statutory reserve | | **-** | **(940.1)** | **-** | **-** | **940.1** | **-** | **-** | **-** | **-** |
| **At 30th June 2017** | | **2,477.8** | **34,761.0** | **3,353.9** | **(533.7)** | **4,960.4** | **929.8** | **45,949.2** | **2,387.4** | **48,336.6** |

The notes on pages 218 to 292 form part of these financial statements.
Auditor's report on pages 198 to 205.

# Statements of changes in equity

for the year ended 30th June 2017

| COMPANY | Note | Stated Capital RS'M | Retained Earnings RS'M | Total Equity RS'M |
|---|---|---|---|---|
| **At 1st July 2015** | | **2,397.2** | **2,565.6** | **4,962.8** |
| Profit for the year | | - | 1,841.0 | 1,841.0 |
| Total comprehensive income for the year | | - | 1,841.0 | 1,841.0 |
| Dividends | 30 | - | (1,964.7) | (1,964.7) |
| Issue of shares following the exercise of Group Employee Share Options Scheme | | 29.6 | - | 29.6 |
| Transactions with owners | | 29.6 | (1,964.7) | (1,935.1) |
| **At 30th June 2016** | | **2,426.8** | **2,441.9** | **4,868.7** |
| Profit for the year | | **-** | **2,480.9** | **2,480.9** |
| Total comprehensive income for the year | | **-** | **2,480.9** | **2,480.9** |
| Dividends | 30 | **-** | **(2,144.9)** | **(2,144.9)** |
| Issue of shares following the exercise of Group Employee Share Options Scheme | | **51.0** | **-** | **51.0** |
| Transactions with owners | | **51.0** | **(2,144.9)** | **(2,093.9)** |
| **At 30th June 2017** | | **2,477.8** | **2,777.9** | **5,255.7** |

The notes on pages 218 to 292 form part of these financial statements.
Auditor's report on pages 198 to 205.

# Statements of cash flows

for the year ended 30th June 2017



| | Notes | GROUP Year ended 30th June 2017 RS'M | GROUP Year ended 30th June 2016 RS'M | COMPANY Year ended 30th June 2017 RS'M | COMPANY Year ended 30th June 2016 RS'M |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| **Net cash flows from trading activities** | 33 | **959.6** | 6,717.7 | **2,179.6** | 1,904.3 |
| **Net cash flows from other operating activities** | 34 | **6,040.0** | 7,973.3 | **-** | - |
| Dividends received from associates | | **305.1** | 256.0 | **-** | - |
| Dividends paid | | **(2,084.4)** | (1,904.6) | **(2,084.4)** | (1,904.6) |
| Dividends paid to non-controlling interests in subsidiaries | | **(40.8)** | (35.1) | **-** | - |
| Income tax paid | | **(1,568.1)** | (1,259.4) | **-** | - |
| **Net cash flows from operating activities** | | **3,611.4** | 11,747.9 | **95.2** | (0.3) |
| **Investing activities** | | | | | |
| Purchase of available-for-sale investments | | **(945.4)** | (946.8) | **-** | - |
| Proceeds from sale of available-for-sale investments | | **1,358.1** | 690.8 | **-** | - |
| Investment in associate | | **(136.6)** | (5.9) | **(83.2)** | (5.9) |
| Investment in subsidiaries | | **-** | - | **(83.2)** | (20.2) |
| Cash and cash equivalents of subsidiary upon loss of control | | **-** | (760.6) | **-** | - |
| Purchase of property, plant and equipment | | **(990.9)** | (514.0) | **(221.8)** | (5.6) |
| Purchase of intangible assets | | **(345.0)** | (421.8) | **-** | - |
| Proceeds from sale of property, plant and equipment | | **116.4** | 47.4 | **-** | - |
| **Net cash flows from investing activities** | | **(943.4)** | (1,910.9) | **(388.2)** | (31.7) |
| **Net cash flows before financing activities** | | **2,668.0** | 9,837.0 | **(293.0)** | (32.0) |
| **Financing activities** | | | | | |
| Shares issued/employee share options exercised | | **51.0** | 29.6 | **51.0** | 29.6 |
| Shares bought back and cancelled by subsidiary | | **-** | (21.9) | **-** | - |
| Refund/(Grant) of subordinated loan by associate/to subsidiary | | **-** | 180.3 | **(50.0)** | - |
| Acquisition of non-controlling interest in subsidiary | | **-** | (50.6) | **-** | - |
| **Net cash flows from financing activities** | | **51.0** | 137.4 | **1.0** | 29.6 |
| Increase/(decrease) in cash and cash equivalents | | **2,719.0** | 9,974.4 | **(292.0)** | (2.4) |
| Net cash and cash equivalents at 1st July | | **33,215.1** | 23,287.5 | **49.4** | 51.8 |
| Effect of foreign exchange rate changes | | **(273.4)** | (46.8) | **-** | - |
| **Net cash and cash equivalents at 30th June** | 4 | **35,660.7** | 33,215.1 | **(242.6)** | 49.4 |

The notes on pages 218 to 292 form part of these financial statements.
Auditor's report on pages 198 to 205.

# General information

The MCB Group Limited ("the Company") was incorporated as a public company limited by shares on 5th August 2013. Its registered office is situated at 9-15, Sir William Newton Street, Port-Louis, Mauritius.

The Company is listed on The Stock Exchange of Mauritius Ltd.

The main activities of the Company and those of its subsidiaries ("the Group") consist in providing a whole range of banking and financial services in the Indian Ocean region and beyond.

# Index to notes to the financial statements

# Index to notes to the financial statements
(continued)

# Index to notes to the financial statements
(continued)

# 1. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

## (a) Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the Mauritian Companies Act 2001.

Where necessary, comparative figures have been amended to conform with changes in presentation, or in accounting policies in the current year.

The financial statements include the consolidated financial statements of the parent company MCB Group Limited and its subsidiary companies (The Group) and the separate financial statements of the parent company (The Company).

The financial statements have been prepared under the historical cost convention except for available-for-sale investment securities, financial assets and liabilities held-for-trading, derivative contracts, defined benefit plan, and land held through associates which are stated at fair value.

***Standards, amendments to published Standards and interpretations effective in the reporting period.***

The following standards, amendments to published standards and interpretations were effective and applicable to the Group in the reporting period:

Amendments to published standards (effective as from 1 January 2016):

- Amendments to IAS 16, 'Property, plant and equipment' and IAS 38,'Intangible assets' on depreciation and amortisation;
- Annual Improvements 2012 – 2014 Cycle;
- Amendments to IAS 1, 'Presentation of financial statements' disclosure initiative.
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on applying the consolidation exemption; and
- Amendments to IAS 34, 'Interim financial reporting' regarding disclosure of information.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

***Standards, amendments to published Standards and interpretations issued but not yet effective***

Certain standards, amendments to published standards and interpretations issued are effective for accounting periods beginning after 1 July 2016, but which the Group has not early adopted.

# 1. Significant accounting policies (Cont'd)

## (a) Basis of preparation (Cont'd)

At the reporting date of these financial statements, the following were in issue but not yet effective:

• IFRS 2 Share-based payment Amendment on clarifying share-based payment transactions– effective 1 January 2018;
• IFRS 9 Financial Instruments – effective 1 January 2018;
• IFRS 15 Revenue from Contracts with Customers – effective 1 January 2018;
• IFRS 16 Leases – effective 1 January 2019;
• IFRIC 22 Foreign Currency Transactions and Advance Consideration – effective 1 January 2018;
• IFRIC 23 Uncertainty over Income Tax Treatments – effective 1 January 2019;
• Amendment to IAS 12 on recognition of deferred tax assets for unrealised losses – effective 1 January 2017;
• Amendment to IAS 7 on Disclosure Initiative – effective 1 January 2017; and
• Annual Improvements 2014 – 2016 Cycle - effective 1 January 2018.

Where relevant, the Group is still evaluating the effect of these Standards, amendments to published Standards and interpretations issued but not yet effective, on the financial statements.

***IFRS 9 Financial Instruments - effective 1 January 2018***

IFRS 9 is of particular importance to the Group. In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

*Classification and measurement*

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). In many instances, the classification and measurement outcomes will be similar to IAS 39, although differences will arise. For example, under IFRS 9, embedded derivatives are not separated from host financial assets and equity securities are measured at FVPL or, in limited circumstances, at FVOCI. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged. For certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

*Impairment*

The impairment requirements apply to financial assets measured at amortised cost, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life

# 1. Significant accounting policies (Cont'd)

## (a) Basis of preparation (Cont'd)

***Standards, amendments to published Standards and interpretations issued but not yet effective (Cont'd)***

*Impairment (Cont'd)*

of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of whether credit risk has increased significantly since initial recognition is performed at the end of each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

*Hedge accounting*

The new hedge accounting rules will align the accounting for hedging instruments more closely with the bank's risk management practices. As a general rule, more hedge relationship might be eligible for hedge accounting as the Standard introduces a more principles-based approach.

*Transition*

The classification and measurement, and impairment requirements are applied retrospectively by adjusting the opening retained earnings at the date of initial application, with no requirement to restate comparative periods.

The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date.

# 1. Significant accounting policies (Cont'd)

## (b) Basis of consolidation and equity accounting

### (1) (i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of (a) the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (b) the net of the acquisition-date amounts of identifiable assets acquired and the liabilities and contigent liabilities assumed measured in accordance with IFRS 3 is recorded as goodwill. In the case of a bargain purchase (excess of (b) over (a)), the resulting gain is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (ii) Separate financial statements of the Company

In the separate financial statements of the Company, investments in subsidiary companies are carried at cost. The carrying amount is reduced to recognise any impairment in the value of individual investments.

### (iii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests without loss of control are also recorded in equity.

# 1. Significant accounting policies (Cont'd)

## (b) Basis of consolidation and equity accounting (Cont'd)

***Disposal of subsidiaries***

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

**(2) Associates**

An associate is an entity over which the Group has significant influence but not control, or joint control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method except when classified as held-for-sale (see below). Investments in associates are initially recognised at cost as adjusted by post acquisition changes in the group's share of the net assets of the associate less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities recognised at the date of acquisition is recognised as goodwill, which is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of identifiable assets and liabilities over the cost of acquisition, after assessment, is included as income in the determination of the Group's share of the associate's profit or loss.

When the Group's share of losses exceeds its interest in an associate, the Group discontinues recognising further losses, unless it has incurred legal or constructive obligation or made payments on behalf of the associate.

Unrealised profits and losses are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, appropriate adjustments are made to the financial statements of associates to bring the accounting policies used in line with those adopted by the Group. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

In the separate financial statements of the Company, the investments in associates are carried at cost (which includes transaction costs). The carrying amount is reduced to recognise any impairment in the value of the individual companies.

# 1. Significant accounting policies (Cont'd)

## (c) Foreign currency translation

The foreign subsidiaries' statement of financial position are translated to Mauritian Rupees at the closing rate at the end of the reporting period. Their statements of profit or loss, comprehensive income and cash flows are translated at the average rate for the period unless the average is not a reasonable approximation of the cumulative effects of the rates prevailing at the transaction dates, in which case income and expenses are translated at the rates prevailing on the dates of the transactions. Any resulting exchange differences are recognised in other comprehensive income. On disposal of a foreign entity, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

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

### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using Mauritian Rupee, the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated and separate financial statements are presented in Mauritian Rupees, which is the Company's functional currency. All amounts are in million, rounded to one decimal place except as otherwise stated.

### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when the items are remeasured.

Trading transactions denominated in foreign currencies are accounted for at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities expressed in foreign currencies are reported at the rate of exchange ruling at the end of the reporting date. Differences arising from reporting monetary items are dealt with through profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

## 1. Significant accounting policies (Cont'd)

### (d) Derivative financial instruments

Derivative financial instruments include mainly foreign exchange contracts and currency swaps. These are initially recognised at fair value on the date the derivative contracts are entered into and subsequently remeasured at their fair values. Fair values of derivatives between two external currencies are based on interest rate differential between the two currencies. Fair values of forwards are based on treasury bills rate or LIBOR prevailing at reporting date. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Transaction costs are charged immediately through profit or loss.

The Group's derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in profit or loss.

The fair values of derivative financial instruments held-for-trading are disclosed in note 5.

### (e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### (f) Interest income and expense

Interest income and expense are recognised in profit or loss for all interest bearing instruments using the effective interest method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

### (g) Fees and commissions

Fees and commissions are generally recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with the related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

### (h) Sale and repurchase agreements

Securities sold subject to linked repurchase agreements ("repos") are retained in the statement of financial position as Government securities and Treasury bills and the counterparty liability is included in amount due to other banks or deposits, as appropriate.

Securities purchased under agreements to resell ("reverse repos") are recorded as amount due from other banks or loans and advances, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the repos agreements using the effective interest method.

# 1. Significant accounting policies (Cont'd)

## (i) Investment securities

The Group classifies its investment securities as financial assets at fair value through profit or loss, held-to-maturity or available-for-sale assets. The directors determine the appropriate classification of the investments at the time of the purchase. Investment securities with fixed maturity where the directors have both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale, which may be sold.

Investment securities are initially recognised at fair value plus, in the case of those not at fair value through profit or loss, transaction costs. Available-for-sale financial assets are subsequently remeasured at fair value. Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income and cumulated in a separate reserve, capital reserve.

Financial assets at fair value through profit or loss are financial assets held-for-trading.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any provision for impairment.

If the Group was to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

Interest earned while holding investment securities is reported as interest income. Dividends receivable are included separately in 'dividend income' in profit or loss when the Group's right to receive payment is established.

All regular way purchases and sales of investment securities are recognised at trade date which is the date that the Group commits to purchase or sell the asset.

## (j) Trading securities

Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at fair value (which excludes transaction costs) and measured at subsequent reporting dates at fair value. All related realised and unrealised gains and losses are recognised in profit or loss for the year.

## (k) Loans and advances

Loans originated by the Group by providing money directly to the borrower (at draw-down) are categorised as loans by the Group and are carried at amortised cost which is defined as the fair value of cash consideration given to originate these loans as is determinable by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

# 1. Significant accounting policies (Cont'd)

## (I) Impairment of financial assets

### (i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general banking reserve as an appropriation of retained earnings.

### (ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

# 1. Significant accounting policies (Cont'd)

## (l) Impairment of financial assets (Cont'd)

### (ii) Assets classified as available-for-sale (Cont'd)

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

## (m) Goodwill

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity over the fair value of the net identifiable assets is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the gains and losses on disposal. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

## (n) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation.

Depreciation is calculated to write down the cost of such assets to their residual values on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 50 years |
| Computer and other equipment | 5-10 years |
| Furniture, fittings and vehicles | 5-15 years |

Land is not depreciated.
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.
Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are recognised as income or expense in profit or loss. Repairs and renewals are charged to profit or loss when the expenditure is incurred.

## 1. Significant accounting policies (Cont'd)

### (o) Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly attributable with the design of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- the directors intend to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, but not exceeding a period of eight years.

### (p) Finance leases

Assets acquired under finance leases are accounted for at inception, at fair value, or if lower at the present value of the minimum lease payments and depreciated over their estimated useful lives. A corresponding liability is recorded as outstanding lease obligations.

Lease payments are apportioned between the liability and the finance charge so as to achieve a constant periodic rate of interest on the outstanding lease obligations.

Leased assets are depreciated over the shorter of the useful life of the asset and the lease terms.

### (q) Accounting for leases - where the Subsidiary company is the lessor

**Finance leases**

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable, the amount being equal to the net investment in the leases after specific provision for impairment loss in respect of all identified impaired leases in the light of periodical reviews. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

# 1. Significant accounting policies (Cont'd)

## (q) Accounting for leases - where the Subsidiary company is the lessor (Cont'd)

**Operating leases**

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income is recognised on a straight-line basis over the lease term.

## (r) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and balances with Central Banks and amounts due to and from other banks which are short-term, highly-liquid with original maturities of three months or less. A further breakdown of cash and cash equivalents is given in note 4 to the financial statements.

## (s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

## (t) Deposits from banks and customers

Deposits from banks and customers are classified as financial liabilities at amortised cost. They are initially measured at fair value and subsequently carried at amortised cost.

## (u) Employee benefits

The Group operates a number of defined benefit and defined contribution plans and provides for the requirements under the Employment Rights Act 2008. The defined benefit plan is fully funded. The assets of the funded plan are held independently and administered by The Mauritius Commercial Bank Limited Superannuation Fund.

**(i) Defined contribution plans**

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Payments to defined contribution plans are recognised as an expense when employees have rendered service that entitle them to the contributions.

# 1. Significant accounting policies (Cont'd)

## (u) Employee benefits (Cont'd)

### (ii) Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The main assumptions made in the actuarial valuation of the pension fund are listed in note 17 to the financial statements.

The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset), taking into account any changes in the net defined liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense/(income) is recognised in profit or loss.

Service costs comprising current service cost, past service cost, as well as gains and losses on curtailments and settlements are recognised immediately in profit or loss.

Remeasurement of the net defined benefit liability, which comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), is recognised immediately in other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income shall not be reclassified to profit or loss in subsequent period.

As from 1st July 2015, the Bank has introduced a Defined Contribution Cash Balanced scheme (DCCB) for its employees.
With the introduction of DCCB, new employees automatically join the DCCB scheme, whilst existing employees had a one-time opportunity to choose from one of the options listed below:

Option A: To stay in the Defined Benefit (DB) scheme for all service.

Option B: To keep the accrued past pension benefits until 30th June 2015 in the DB scheme and join the DCCB scheme as from 1st July 2015.

Option C: To join the DCCB scheme as from 1st July 2015 and transfer the total accrued benefits as at 30th June 2015 from the DB scheme into the DCCB scheme.

# 1. Significant accounting policies (Cont'd)

## (v) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

**Current income tax**

The current income tax charge is based on taxable income for the year calculated on the basis of tax laws enacted or substantively enacted by the end of the reporting period and includes the Corporate Social Responsibility charge and Bank levy.

**Deferred income tax**

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the end of the reporting period and are expected to apply in the period when the related deferred income tax asset is realised or the deferred income tax liability is settled.

## (w) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

## (x) Dividend declared and unpaid

Dividend declared and unpaid to the Company's shareholders at reporting date is recognised as a liability in the period in which dividend are declared.

## (y) Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are disclosed as liabilities with corresponding contra-assets.

## 1. Significant accounting policies (Cont'd)

### (z) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Supervisory and Monitoring Committee to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Detailed analysis of segment reporting are shown in note 35 to the financial statements.

### (aa) Stated capital

Ordinary shares are classified as equity.

***(i) Share issue costs***

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

***(ii) Treasury shares***

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

### (ab) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised until such time as the assets are substantially ready for their intended use or sale.
Other borrowing costs are expensed.

### (ac) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

# 1. Significant accounting policies (Cont'd)

## (ad) Share-based payments

Share-based compensation benefits are provided to all employees via the Group Employee Share Option Scheme (GESOS). Information relating to this scheme is set out in note 27 (c).

Employee options

The fair value of options granted under the GESOS is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions,
- excluding the impact of any service and non-market performance vesting conditions, and
- including the impact of any non-vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Social security contributions payable in connection with an option grant are considered an integral part of the grant itself and the charges are treated as cash-settled transactions.

# 2. Critical accounting estimates and judgements

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Critical accounting estimates and judgements**

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

## (a) Held-to-maturity investments

The Group follows the guidance of International Accounting Standard (IAS) 39 - "Recognition and Measurement" on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

## 2. Critical accounting estimates and judgements (Cont'd)

### (a) Held-to-maturity investments (Cont'd)

If the Group fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value; not at amortised cost.

### (b) Impairment of available-for-sale financial assets

The Group follows the guidance of IAS 39 on determining when an available-for-sale investment has had a significant or prolonged decline in the fair value below cost. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost.

### (c) Pension benefits

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of high quality corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

Additional disclosures on Pension benefits are shown in Note 17.

### (d) Fair value of securities not quoted in an active market

The fair value of securities not quoted in an active market may be determined by the Group using valuation techniques including third party transaction values, earnings, net asset value or discounted cash flows, whichever is considered to be appropriate. The Group would exercise judgement and estimates on the quantity and quality of pricing sources used. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

In March 2017, the Group via the Bank was appointed by the Bank of Mauritius (BoM) to act as one of the four primary dealers for the trading of government securities. Per the Guideline on the Operational Framework for Primary Dealers issued by the BoM in the same month, the Bank is required to bid for 30% of the tender amount every time the BoM issues Government Treasury Bills and Bonds. These securities are accounted for as Held-for-trading by the Bank. The Bank considers the market for these government securities to be active since the volume and frequency of trading in these securities provides pricing information. As such at reporting date, the Held-for-trading securities have been fair valued based on the yield prevailing on the market.

Additional disclosures on the Held-for-trading investments are shown in Notes 3(d) and 7.

## 2. Critical accounting estimates and judgements (Cont'd)

### (e) Asset lives and residual values

Property, plant and equipment are depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. Consideration is also given to the extent of current profits and losses on the disposal of similar assets. The directors therefore make estimates based on historical experience and use best judgement to assess the useful lives of assets and to forecast the expected residual values of the assets at the end of their expected useful lives.

### (f) Impairment loss on financial assets

**Specific provisioning**

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements based on any observable data which could indicate an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. Where cash flows for large credits include the realisable value of collateral securing the credit, the value of such collateral is based on the opinion of independent and qualified appraisers discounted as per requirements of the Bank of Mauritius Guidelines on Credit Impairment.

**Portfolio provisioning**

In assessing the portfolio provisioning, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

# 3. Financial risk management

## (a) Strategy in using financial instruments

The use of financial instruments is a major feature of the Group's operations. It has been the policy of the subsidiaries to take deposits from customers at variable rates mostly by investing these funds in a wide range of assets.

The Group also seeks to raise its interest margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. The Group's exposures are not restricted to just on-balance sheet loans and advances but, also, to guarantees and other commitments such as letters of credit, performance and other bonds.

Given that The Mauritius Commercial Bank Limited (the Bank) comprises a significant portion of the Group, the details provided below relate mainly to the Bank.

## (b) Credit risk

Credit risk arises when customers or counterparties are not able to fulfill their contractual obligations. Credit Risk Management at the Bank is under the responsibility of the Credit Risk Business Unit (CRBU). The CRBU has the task of reviewing the Bank's credit policies and guidelines to ensure that best lending practices are upheld at all times. Risk assessments are carried out to assist in portfolio management decisions including exposure levels and the constitution of required provisions.

**Credit related commitments**

The main purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank to pay a third party, on behalf of its customers up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

# 3. Financial risk management (Cont'd)

## (b) Credit risk (Cont'd)

### Credit quality

| | GROUP | |
|---|---|---|
| | **2017 RS'M** | **2016 RS'M** |
| Neither past due nor impaired | **166,208.2** | 156,156.6 |
| Past due but not impaired | **2,149.3** | 7,217.5 |
| Impaired | **10,881.8** | 10,704.1 |
| Gross | **179,239.3** | 174,078.2 |
| Less Allowances for credit impairment | **(6,257.6)** | (7,099.4) |
| Net | **172,981.7** | 166,978.8 |
| Fair Value of collaterals of past due but not impaired loans | **2,522.0** | 8,554.6 |
| Fair Value of collaterals of impaired loans | **12,841.0** | 10,046.2 |

The Bank regards "Past due but not impaired" for amounts due for more than 60 days.

### Credit Quality of Neither past due nor impaired

Large corporate clients are assigned a Borrower Risk Rating which is generated by the Moody's Financial Analyst software which evaluates the borrower's financial position and subjective factors such as management quality, company standing and industry risk. Those ratings are used to monitor the credit quality of the Corporate Banking Segment which consumes a sizeable portion of the Bank's capital resources. Internally built scoring models are used to rate individuals based on borrowers' repayment capacity, track record and personal attributes for specialised lending including the Structured Trade and Commodity Finance portfolio, the risk profile is assessed based on the specificities of the financing structures and the type of borrowers.

### Credit quality

For debt securities and certain other financial instruments, external rating have been aligned to the three quality classifications based upon the mapping of related Customer Risk Rating ("CRR") to external credit rating. The mapping is reviewed on a regular basis.

### Quality classification definitions

"Low risk" exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. The credit rating as per Moody's would be generally in the range Aaa to A3.
"Medium" exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. The credit rating as per Moody's would be generally in the range Ba1 to Baa3.
"High" exposures require varying degrees of special attention and default risk is of greater concern. The credit rating as per Moody's would be generally in the range Caa1 to Caa3.

# Notes to the financial statements

for the year ended 30th June 2017

## 3. Financial risk management (Cont'd)

### (b) Credit risk (Cont'd)

**For cash and cash equivalents and loans and placements with banks, the credit rating is as follows:**

| | Cash and cash equivalents | Loans and placements with banks |
|---|---|---|
| | 2017 RS'M | 2016 RS'M |
| ***Credit rating:*** | | |
| Aaa to Aa3 | 11,802.4 | 1,308.9 |
| A1 to A3 | 10,127.1 | 6,070.3 |
| B1 to B3 | - | 689.8 |
| Ba1 to Ba3 | 1,640.4 | - |
| Baa1 to Baa3 | 6,874.5 | 17,040.1 |
| Caa1 to Caa3 | 172.5 | - |
| Unrated | 876.9 | 809.8 |
| **Total gross amount** | 31,493.8 | 25,918.9 |
| Allowance for impairment (individual and collective) | - | (6.4) |
| **Net carrying amount** | 31,493.8 | 25,912.5 |
| Subsidiaries net of eliminations | 1,434.3 | (196.2) |
| | 32,928.1 | 25,716.3 |

**Age analysis of loans and advances that are past due but not impaired**

| | GROUP | |
|---|---|---|
| | 2017 RS'M | 2016 RS'M |
| Up to 3 months | 1,762.3 | 1,254.5 |
| Over 3 months and up to 6 months | 226.7 | 2,537.1 |
| Over 6 months and up to 1 year | 109.5 | 759.4 |
| Over 1 year | 50.8 | 2,666.5 |
| | 2,149.3 | 7,217.5 |

**Loan and advances restructured**

| | GROUP | |
|---|---|---|
| | 2017 RS'M | 2016 RS'M |
| Loan and advances restructured | 13,390.0 | 13,137.0 |

# 3. Financial risk management (Cont'd)

## (b) Credit risk (Cont'd)

### Collateral and other credit enhancements

Credit mitigation instruments are used to reduce the Bank's lending risk, resulting in security against the majority of exposures. In the event of default of counterparty, the Bank has the ability to call on different type of collaterals which in turn are driven by portfolio, product or counterparty type; fixed and floating charges on properties and other assets, pledge on deposits, lien on vehicle, pledge on securities/ bonds, pledge on deposits held in other financial institutions, pledge on life insurance policies, bank guarantees/corporate guarantee/personal guarantee, 'nantissement de part sociales', government guarantee and lien/gage on equipment.

### Credit risk on other assets

The treasury function, as part of the daily management of the bank's liquidity, places funds with the Bank of Mauritius and other commercial banks and financial institutions. These transactions are mainly money market placements and government securities Held-for-trading on the secondary market. These market counterparties are mainly investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets and internationally. These counterparties are located in the UK, Europe, America and Australia.

### Maximum exposure to credit risk before collateral and other credit risk enhancements :

| | GROUP | |
|---|---|---|
| | 2017<br>RS'M | 2016<br>RS'M |
| **Credit risk exposures relating to on - balance sheet assets are as follows :** | | |
| Cash and cash equivalents | **32,928.1** | 31,101.3 |
| Derivative financial instruments | **479.7** | 315.4 |
| Loans to and placements with banks | **25,716.3** | 22,419.1 |
| Loans and advances to customers | **171,223.7** | 163,827.3 |
| Investment securities | **74,729.7** | 62,734.8 |
| Other financial assets | **16,718.6** | 14,578.1 |
| **Credit risk exposures relating to off - balance sheet assets are as follows :** | | |
| Acceptances, guarantees, letters of credit, | | |
| endorsements and other obligations on account of customers | **43,102.9** | 32,130.8 |
| Commitments | **7,201.2** | 2,913.5 |
| **Total** | **372,100.2** | 330,020.3 |

## 3. Financial risk management (Cont'd)

### (c) Market risk

Market risk arises from activities undertaken in or impacted by financial markets generally. This includes the risk of gain or loss arising from the movement in market price of a financial asset or liability as well as currency or interest rate risk. The market risk management policies at the Bank are set by the Board Risk Monitoring Committee and executive management of this class of risk is delegated to the Asset and Liability Committee (ALCO). The Market Risk Business Unit (MRBU) plays a central role in monitoring and controlling market risk activities. It is the aim of MRBU to ensure that market risk policies and guidelines are being effectively complied with and that limits are being observed.

#### (i) Price risk

The Group is exposed to equity securities price risk because of investments held and classified as available-for-sale financial assets. The table below summarises the impact of increases/decreases in fair value of the investments on the Group's and the Company's equity. The analysis is based on the assumption that the fair value had increased/decreased by 5%.

| | GROUP | |
|---|---|---|
| | 2017<br>RS'M | 2016<br>RS'M |
| Available-for-sale financial assets | **390.7** | 377.4 |

#### (ii) Current risk

Currency risk is defined as the risk that movements in foreign exchange rates adversely affect the value of the Group's foreign currency positions. Exposure resulting from trading activities is monitored through the use of targets and limits. Limits are given to the individual trader and monitored by the Head of Treasury. Such limits include daily, monthly, half-yearly and yearly stop losses. Exposure resulting from non-trading activities is managed through the Asset and Liability Management framework, with reference to guidelines and policies set and approved by ALCO and the Board Risk Monitoring Committee.

The bank uses the Value-at-Risk(VAR) to measure its market price risk. VaR is the statistical representation of financial risk, expressed as a number, based on consistent modelling of past data and/or simulation of possible future movements, applied to a particular risk position, asset, or portfolio.

The VaR model used by the Bank is based upon a 99 percent one-tailed confidence level and assumes a ten-day holding period, with market data taken from the previous one year.

**VaR Analysis - Foreign Exchange Risk**

| | As at 30th June | Average | Maximum | Minimum |
|---|---|---|---|---|
| **2017 (RS'M)** | **(39.0)** | **(29.6)** | **(39.0)** | **(21.6)** |
| 2016 (RS'M) | (12.4) | (28.3) | (38.3) | (12.4) |

# 3. Financial risk management (Cont'd)

## (c) Market risk (Cont'd)

### (ii) Currency risk (Cont'd)

**Concentration of assets, liabilities and off-balance sheet items**

| GROUP<br>**At June 30, 2017**<br>**Financial assets** | **EURO<br>RS'M** | **USD<br>RS'M** | **GBP<br>RS'M** | **MUR<br>RS'M** | **OTHER<br>RS'M** | **TOTAL<br>RS'M** |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 5,264.0 | 18,351.6 | 3,741.1 | 5,628.4 | 1,048.9 | 34,034.0 |
| Derivative financial instruments | 28.0 | - | 7.2 | 191.5 | - | 226.7 |
| Loans to and placements with banks | 7,740.9 | 6,512.4 | 2,518.9 | 7,750.6 | 1,396.0 | 25,918.8 |
| Loans and advances to customers | 12,851.0 | 48,193.0 | 985.4 | 103,978.4 | 59.9 | 166,067.7 |
| Investment securities | 1,494.5 | 1,650.8 | 507.4 | 65,143.6 | 98.5 | 68,894.8 |
| Other financial assets | 762.8 | 965.7 | 455.5 | 14,420.0 | 114.6 | 16,718.6 |
| | 28,141.2 | 75,673.5 | 8,215.5 | 197,112.5 | 2,717.9 | 311,860.6 |
| Less allowances for credit impairment | | | | | | (5,659.9) |
| | | | | | | 306,200.7 |
| Subsidiaries net of eliminations | | | | | | 18,378.7 |
| **Total** | | | | | | 324,579.4 |
| | | | | | | |
| **Financial liabilities** | | | | | | |
| Deposits from banks | 916.7 | 3,819.0 | 227.5 | 266.4 | 73.0 | 5,302.6 |
| Deposits from customers | 23,837.6 | 58,761.4 | 4,182.1 | 166,273.9 | 5,514.8 | 258,569.8 |
| Derivative financial instruments | 8.8 | 5.0 | 12.2 | 71.4 | - | 97.4 |
| Other borrowed funds | 3,131.2 | 2,471.0 | - | 4.7 | - | 5,606.9 |
| Subordinated liabilities | - | 1,052.0 | - | 4,535.0 | - | 5,587.0 |
| Other financial liabilities | 247.7 | 168.8 | 162.4 | 994.6 | 20.8 | 1,594.3 |
| | 28,142.0 | 66,277.2 | 4,584.2 | 172,146.0 | 5,608.6 | 276,758.0 |
| Subsidiaries net of eliminations | | | | | | 15,051.3 |
| **Total** | | | | | | 291,809.3 |
| | | | | | | |
| **Net on-balance sheet position** | (0.8) | 9,396.3 | 3,631.3 | 24,966.5 | (2,890.7) | 35,102.6 |
| Less allowances for credit impairment | | | | | | (5,659.9) |
| Subsidiaries net of eliminations | | | | | | 3,327.4 |
| | | | | | | 32,770.1 |
| | | | | | | |
| **Off balance sheet net notional position** | 7,976.6 | 14,504.4 | 5,197.7 | - | 958.0 | 28,636.7 |
| **Credit commitments** | 4,140.5 | 28,968.7 | 15.9 | 14,134.0 | 583.7 | 47,842.8 |
| Subsidiaries | | | | | | 6,404.2 |
| | | | | | | 82,883.7 |

# 3. Financial risk management (Cont'd)

## (c) Market risk (Cont'd)

### (ii) Currency risk (Cont'd)

**Concentration of assets, liabilities and off-balance sheet items**

**GROUP**

| At June 30, 2016 | EURO RS'M | USD RS'M | GBP RS'M | MUR RS'M | OTHER RS'M | TOTAL RS'M |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 12,117.6 | 10,347.8 | 1,273.3 | 3,201.0 | 5,036.0 | 31,975.7 |
| Derivative financial instruments | 18.2 | - | - | 157.6 | - | 175.8 |
| Loans to and placements with banks | 1,632.0 | 12,220.5 | 1,483.9 | 5,987.3 | 1,179.9 | 22,503.6 |
| Loans and advances to customers | 14,411.7 | 41,033.9 | 793.0 | 103,223.7 | 145.4 | 159,607.7 |
| Investment securities | 595.5 | 1,627.8 | 789.8 | 53,128.6 | 99.5 | 56,241.2 |
| Other financial assets | 722.6 | 1,091.1 | 196.7 | 12,462.6 | 105.1 | 14,578.1 |
| | 29,497.6 | 66,321.1 | 4,536.7 | 178,160.8 | 6,565.9 | 285,082.1 |
| Less allowances for credit impairment | | | | | | (6,623.4) |
| | | | | | | 278,458.7 |
| Subsidiaries net of eliminations | | | | | | 18,721.6 |
| **Total** | | | | | | **297,180.3** |
| **Financial liabilities** | | | | | | |
| Deposits from banks | 884.7 | 3,305.0 | 227.2 | 153.7 | 142.0 | 4,712.6 |
| Deposits from customers | 26,682.2 | 52,482.8 | 3,973.9 | 148,763.7 | 6,408.9 | 238,311.5 |
| Derivative financial instruments | 23.8 | 5.0 | 5.3 | 88.3 | - | 122.4 |
| Other borrowed funds | 3,486.5 | 1,363.8 | - | 9.1 | 6.5 | 4,865.9 |
| Subordinated liabilities | - | 1,082.3 | - | 4,537.6 | - | 5,619.9 |
| Other financial liabilities | 211.2 | 255.2 | 232.5 | 1,460.9 | 23.8 | 2,183.6 |
| | 31,288.4 | 58,494.1 | 4,438.9 | 155,013.3 | 6,581.2 | 255,815.9 |
| Subsidiaries net of eliminations | | | | | | 15,599.4 |
| **Total** | | | | | | **271,415.3** |
| **Net on-balance sheet position** | (1,790.8) | 7,827.0 | 97.8 | 23,147.5 | (15.3) | 29,266.2 |
| Less allowances for credit impairment | | | | | | (6,623.4) |
| Subsidiaries net of eliminations | | | | | | 3,122.2 |
| | | | | | | **25,765.0** |
| **Off balance sheet net notional position** | 3,257.3 | 8,283.7 | 917.5 | - | 591.9 | 13,050.4 |
| **Credit commitments** | 3,789.1 | 15,177.9 | 30.3 | 13,407.9 | 324.7 | 32,729.9 |
| Subsidiaries | | | | | | 7,073.8 |
| | | | | | | **52,854.1** |

# 3. Financial risk management (Cont'd)

## (c) Market risk (Cont'd)

### (iii) Interest rate risk

Interest rate risk refers to the potential variability in the Group's financial condition owing to changes in the level of interest rates. It is the Group's policy to apply variable interest rates to lending and deposit taking. Fixed interest rates are applied to deposits in foreign currencies; however maturities in this regard are only short-term.

**Interest rate risk earnings impact analysis**

The bank incurs interest rate risk (IRR) mainly in the form of repricing risk and uses an interest rate risk gap analysis as shown below to measure and monitor this source of risk. Amongst other methodologies, it applies BOM framework of a 200 basis point parallel shift in interest rates to estimate the one-year earnings impact on a static balance sheet basis as follows:

| | GROUP | |
|---|---|---|
| | 2017<br>RS'M | 2016<br>RS'M |
| Impact on Earnings | **772.6** | 653.8 |

# Notes to the financial statements
for the year ended 30th June 2017

## 3. Financial risk management (Cont'd)

### (c) Market risk (Cont'd)

#### (iii) Interest rate risk (Cont'd)

**Interest sensitivity of assets and liabilities - repricing analysis**

| GROUP<br>At June 30, 2017<br>Financial assets | Up to<br>1 month<br>RS'M | 1-3<br>months<br>RS'M | 3-6<br>months<br>RS'M | 6-12<br>months<br>RS'M | 1-3<br>years<br>RS'M | Over 3<br>years<br>RS'M | Non-interest<br>bearing<br>RS'M | Total<br>RS'M |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 18,584.4 | - | - | - | - | - | 15,449.6 | 34,034.0 |
| Derivative financial instruments | - | - | - | - | - | 12.0 | 214.7 | 226.7 |
| Loans to and placements with banks | 1,991.3 | 9,746.8 | 6,989.5 | 5,861.8 | 1,000.0 | 120.7 | 208.7 | 25,918.8 |
| Loans and advances to customers | 108,345.5 | 32,434.8 | 8,350.5 | 1,132.1 | 1,804.8 | 11,006.1 | 2,993.9 | 166,067.7 |
| Investment securities | 5,818.8 | 6,393.0 | 7,548.5 | 11,240.0 | 14,219.5 | 20,377.0 | 3,298.0 | 68,894.8 |
| Other financial assets | - | - | - | - | 150.6 | 256.1 | 16,311.9 | 16,718.6 |
| | 134,740.0 | 48,574.6 | 22,888.5 | 18,233.9 | 17,174.9 | 31,771.9 | 38,476.8 | 311,860.6 |
| Less allowances for credit impairment | | | | | | | | (5,659.9) |
| | | | | | | | | 306,200.7 |
| Subsidiaries net of eliminations | | | | | | | | 18,378.7 |
| **Total** | | | | | | | | 324,579.4 |
| **Financial liabilities** | | | | | | | | |
| Deposits from banks | 3,353.2 | 762.7 | 734.0 | 119.5 | - | - | 333.2 | 5,302.6 |
| Deposits from customers | 229,007.7 | 2,460.3 | 1,191.1 | 1,238.9 | 1,420.8 | 1,633.4 | 21,617.6 | 258,569.8 |
| Derivative financial instruments | - | - | - | - | - | - | 97.4 | 97.4 |
| Other borrowed funds | 3,592.5 | - | 983.6 | 4.7 | 17.0 | 972.5 | 36.6 | 5,606.9 |
| Subordinated liabilities | 1,034.7 | - | - | - | - | 4,500.0 | 52.3 | 5,587.0 |
| Other financial liabilities | - | - | - | - | - | 255.0 | 1,339.3 | 1,594.3 |
| | 236,988.1 | 3,223.0 | 2,908.7 | 1,363.1 | 1,437.8 | 7,360.9 | 23,476.4 | 276,758.0 |
| Subsidiaries net of eliminations | | | | | | | | 15,051.3 |
| **Total** | | | | | | | | 291,809.3 |
| **On balance sheet interest sensitivity gap** | (102,248.1) | 45,351.6 | 19,979.8 | 16,870.8 | 15,737.1 | 24,411.0 | 15,000.4 | 35,102.6 |
| Less allowances for credit impairment | | | | | | | | (5,659.9) |
| Subsidiaries net of eliminations | | | | | | | | 3,327.4 |
| | | | | | | | | 32,770.1 |

# 3. Financial risk management (Cont'd)

## (c) Market risk (Cont'd)

### (iii) Interest rate risk (Cont'd)

**Interest sensitivity of assets and liabilities - repricing analysis**

| GROUP<br>At June 30, 2016<br>Financial assets | Up to<br>1 month<br>RS'M | 1-3<br>months<br>RS'M | 3-6<br>months<br>RS'M | 6-12<br>months<br>RS'M | 1-3<br>years<br>RS'M | Over 3<br>years<br>RS'M | Non-interest<br>bearing<br>RS'M | Total<br>RS'M |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 10,011.7 | - | - | - | - | - | 21,964.0 | 31,975.7 |
| Derivative financial instruments | - | - | - | - | - | 6.3 | 169.5 | 175.8 |
| Loans to and placements with banks | 5,214.8 | 7,151.2 | 2,677.4 | 6,348.1 | 1,000.0 | - | 112.1 | 22,503.6 |
| Loans and advances to customers | 116,528.3 | 23,621.7 | 6,424.2 | 1,373.4 | 1,854.3 | 7,124.5 | 2,681.3 | 159,607.7 |
| Investment securities | 2,548.9 | 4,851.1 | 4,466.3 | 12,352.6 | 17,288.1 | 11,681.3 | 3,052.9 | 56,241.2 |
| Other financial assets | - | - | - | - | - | 247.4 | 14,330.7 | 14,578.1 |
| | 134,303.7 | 35,624.0 | 13,567.9 | 20,074.1 | 20,142.4 | 19,059.5 | 42,310.5 | 285,082.1 |
| Less allowances for credit impairment | | | | | | | | (6,623.4) |
| | | | | | | | | 278,458.7 |
| Subsidiaries net of eliminations | | | | | | | | 18,721.6 |
| **Total** | | | | | | | | **297,180.3** |
| **Financial liabilities** | | | | | | | | |
| Deposits from banks | 2,773.2 | 483.1 | 938.4 | 24.8 | 280.2 | - | 212.9 | 4,712.6 |
| Deposits from customers | 211,467.5 | 2,597.4 | 767.6 | 1,956.4 | 609.2 | 2,285.9 | 18,627.5 | 238,311.5 |
| Derivative financial instruments | - | - | - | - | - | - | 122.4 | 122.4 |
| Other borrowed funds | 2,320.4 | - | 1,383.3 | 9.0 | - | 1,124.1 | 29.1 | 4,865.9 |
| Subordinated liabilities | 1,064.4 | - | - | - | - | 4,500.0 | 55.5 | 5,619.9 |
| Other financial liabilities | - | - | - | - | - | 326.7 | 1,856.9 | 2,183.6 |
| | 217,625.5 | 3,080.5 | 3,089.3 | 1,990.2 | 889.4 | 8,236.7 | 20,904.3 | 255,815.9 |
| Subsidiaries net of eliminations | | | | | | | | 15,599.4 |
| **Total** | | | | | | | | **271,415.3** |
| **On balance sheet interest sensitivity gap** | (83,321.8) | 32,543.5 | 10,478.6 | 18,083.9 | 19,253.0 | 10,822.8 | 21,406.2 | 29,266.2 |
| Less allowances for credit impairment | | | | | | | | (6,623.4) |
| Subsidiaries net of eliminations | | | | | | | | 3,122.2 |
| | | | | | | | | **25,765.0** |

## 3. Financial risk management (Cont'd)

### (c) Market risk (Cont'd)

#### (iv) Liquidity risk

Liquidity risk can be defined as the risk of a funding crisis, notably a lack of funds to meet immediate or short term obligations in a cost-effective way. There are two aspects of liquidity risk management: (a) cash flow management to ensure a balanced inflow and outflow of funds on any one specific day, (b) the maintenance of a stock of liquid assets to ensure that the Group has a constantly available store of value, which can be utilised in the event of an unexpected outflow of funds. The Mauritius Commercial Bank Limited has a documented liquidity policy compliant with the Bank of Mauritius Guideline on Liquidity. Treasury Strategic Business Unit manages liquidity in accordance with this policy, on a day-to-day basis.

The amounts disclosed in the following table are undiscounted and relates to The Mauritius Commercial Bank Limited (2016: discounted).

**Maturities of assets and liabilities**

| GROUP<br>At June 30, 2017<br>Financial assets | Up to<br>1 month<br>RS'M | 1-3<br>months<br>RS'M | 3-6<br>months<br>RS'M | 6-12<br>months<br>RS'M | 1-3<br>years<br>RS'M | Over 3<br>years<br>RS'M | Non-maturity<br>items<br>RS'M | Total<br>RS'M |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 31,095.5 | 88.3 | 66.8 | 110.4 | 111.0 | - | 2,958.4 | 34,430.4 |
| Derivative financial instruments | 67.3 | 43.1 | 76.6 | 4.1 | - | 12.1 | 18.6 | 221.8 |
| Loans to and placements with banks | 2,284.6 | 9,050.8 | 7,035.7 | 6,262.6 | 1,051.5 | 216.5 | 175.1 | 26,076.8 |
| Loans and advances to customers | 41,583.4 | 13,087.4 | 11,024.6 | 11,262.0 | 42,818.9 | 92,629.0 | 8,713.7 | 221,119.0 |
| Investment securities | 5,156.6 | 5,668.0 | 7,707.8 | 11,889.4 | 14,475.6 | 21,425.3 | 2,333.7 | 68,656.4 |
| Other financial assets | - | - | - | - | 150.6 | 256.1 | 16,311.9 | 16,718.6 |
| | 80,187.4 | 27,937.6 | 25,911.5 | 29,528.5 | 58,607.6 | 114,539.0 | 30,511.4 | 367,223.0 |
| Less allowances for credit impairment | | | | | | | | (5,659.9) |
| | | | | | | | | 361,563.1 |
| Subsidiaries net of eliminations | | | | | | | | 18,378.7 |
| **Total** | | | | | | | | 379,941.8 |
| | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Deposits from banks | 3,681.2 | 767.4 | 739.2 | 121.8 | - | - | - | 5,309.6 |
| Deposits from customers | 224,608.9 | 4,789.8 | 3,635.3 | 6,677.5 | 10,877.3 | 10,221.8 | - | 260,810.6 |
| Derivative financial instruments | 22.9 | 15.2 | 30.0 | 3.3 | - | - | 20.4 | 91.8 |
| Other borrowed funds | - | 450.4 | 205.7 | 711.9 | 2,551.1 | 1,917.1 | - | 5,836.2 |
| Subordinated liabilities | - | 20.9 | - | 24.8 | 403.6 | 5,337.0 | - | 5,786.3 |
| Other financial liabilities | - | - | - | - | - | 255.0 | 1,339.3 | 1,594.3 |
| | 228,313.0 | 6,043.7 | 4,610.2 | 7,539.3 | 13,832.0 | 17,730.9 | 1,359.7 | 279,428.8 |
| Subsidiaries net of eliminations | | | | | | | | 15,051.3 |
| **Total** | | | | | | | | 294,480.1 |
| | | | | | | | | |
| **Net liquidity gap** | (148,125.6) | 21,893.9 | 21,301.3 | 21,989.2 | 44,775.6 | 96,808.1 | 29,151.7 | 87,794.2 |
| Less allowances for credit impairment | | | | | | | | (5,659.9) |
| Subsidiaries net of eliminations | | | | | | | | 3,327.4 |
| | | | | | | | | 85,461.7 |

# 3. Financial risk management (Cont'd)

## (c) Market risk (Cont'd)

### (iv) Liquidity risk (Cont'd)

**Maturities of assets and liabilities**

| GROUP<br>At June 30, 2016<br>Financial assets | Up to<br>1 month<br>RS'M | 1-3<br>months<br>RS'M | 3-6<br>months<br>RS'M | 6-12<br>months<br>RS'M | 1-3<br>years<br>RS'M | Over 3<br>years<br>RS'M | Non-maturity<br>items<br>RS'M | Total<br>RS'M |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 31,525.3 | - | - | - | - | - | 450.4 | 31,975.7 |
| Derivative financial instruments | 112.2 | 21.4 | 14.3 | 9.7 | - | 6.3 | 11.9 | 175.8 |
| Loans to and placements with banks | 5,153.9 | 7,151.2 | 2,703.0 | 6,377.3 | 1,006.0 | - | 112.2 | 22,503.6 |
| Loans and advances to customers | 35,271.3 | 3,223.0 | 4,612.0 | 4,194.4 | 15,926.8 | 93,566.6 | 2,813.6 | 159,607.7 |
| Investment securities | 2,478.1 | 4,528.8 | 4,711.2 | 12,545.5 | 17,536.7 | 12,123.1 | 2,317.8 | 56,241.2 |
| Other financial assets | - | - | - | - | - | 247.4 | 14,330.7 | 14,578.1 |
| | 74,540.8 | 14,924.4 | 12,040.5 | 23,126.9 | 34,469.5 | 105,943.4 | 20,036.6 | 285,082.1 |
| Less allowances for credit impairment | | | | | | | | (6,623.4) |
| | | | | | | | | 278,458.7 |
| Subsidiaries net of eliminations | | | | | | | | 18,721.6 |
| **Total** | | | | | | | | **297,180.3** |
| | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Deposits from banks | 2,975.8 | 376.6 | 1,045.5 | 25.4 | 282.4 | - | 6.9 | 4,712.6 |
| Deposits from customers | 203,047.3 | 4,434.4 | 3,555.3 | 7,446.6 | 8,719.0 | 10,545.5 | 563.4 | 238,311.5 |
| Derivative financial instruments | 41.4 | 22.1 | 14.7 | 10.0 | - | - | 34.2 | 122.4 |
| Other borrowed funds | 6.4 | - | - | 9.0 | - | 4,827.9 | 22.6 | 4,865.9 |
| Subordinated liabilities | - | - | - | - | - | 5,602.0 | 17.9 | 5,619.9 |
| Other financial liabilities | - | - | - | - | - | 326.7 | 1,856.9 | 2,183.6 |
| | 206,070.9 | 4,833.1 | 4,615.5 | 7,491.0 | 9,001.4 | 21,302.1 | 2,501.9 | 255,815.9 |
| Subsidiaries net of eliminations | | | | | | | | 15,599.4 |
| **Total** | | | | | | | | **271,415.3** |
| | | | | | | | | |
| **Net liquidity gap** | (131,530.1) | 10,091.3 | 7,425.0 | 15,635.9 | 25,468.1 | 84,641.3 | 17,534.7 | 29,266.2 |
| Less allowances for credit impairment | | | | | | | | (6,623.4) |
| Subsidiaries net of eliminations | | | | | | | | 3,122.2 |
| | | | | | | | | **25,765.0** |

Other disclosures on financial risk management are available in the Risk Management Report.

## 3. Financial risk management (Cont'd)

### (d) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily quoted equity investments and instruments for which a market, which is considered to be the most representative price, is readily available. These financial assets have been classified as Held-for-trading and Available-for-sale.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on specific estimates. If all significant input required to fair value on instrument is observable, the instrument is included in level 2.

If one or more significant inputs are not based on observable market data, the instrument is included in level 3.

Specific techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest swaps is calculated as the present value of the estimated future cashflows based on observable yield curves;
- The fair value of foreign exchange contracts is determined using foreign exchange rates at the end of the reporting period, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of receivables and payables are assumed to approximate their fair values.

### (e) Capital risk management

Disclosures relating to capital and management are available in the Risk Management Report.

# 3. Financial risk management (Cont'd)

## (f) Financial instruments by category:

| | Held-to-Maturity | Loans and receivables | Available-for-sale | Financial instruments at fair value through profit or loss | | Other financial liabilities at amortised cost | Total |
|---|---|---|---|---|---|---|---|
| | | | | Held-for-trading | At initial recognition | | |
| | RS'M | RS'M | RS'M | RS'M | RS'M | RS'M | RS'M |
| **GROUP** | | | | | | | |
| **At June 30, 2017** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | - | 35,711.4 | - | - | - | - | 35,711.4 |
| Derivative financial instruments | - | - | - | 479.7 | - | - | 479.7 |
| Loans to and placements with banks | - | 25,716.3 | - | - | - | - | 25,716.3 |
| Loans and advances to customers | - | 171,223.7 | - | - | - | - | 171,223.7 |
| Investment securities | 57,345.2 | - | 7,814.3 | 9,568.6 | 1.6 | - | 74,729.7 |
| Other financial assets | - | 16,718.6 | - | - | - | - | 16,718.6 |
| **Total** | 57,345.2 | 249,370.0 | 7,814.3 | 10,048.3 | 1.6 | - | 324,579.4 |
| **Financial liabilities** | | | | | | | |
| Deposits from banks | - | - | - | - | - | 2,489.5 | 2,489.5 |
| Deposits from customers | - | - | - | - | - | 272,373.8 | 272,373.8 |
| Derivative financial instruments | - | - | - | 401.7 | - | - | 401.7 |
| Other borrowed funds | - | - | - | - | - | 5,968.4 | 5,968.4 |
| Subordinated liabilities | - | - | - | - | - | 5,587.0 | 5,587.0 |
| Other financial liabilities | - | - | - | - | - | 4,988.9 | 4,988.9 |
| **Total** | - | - | - | 401.7 | - | 291,407.6 | 291,809.3 |
| **Net on-balance sheet position** | 57,345.2 | 249,370.0 | 7,814.3 | 9,646.6 | 1.6 | (291,407.6) | 32,770.1 |

## 3. Financial risk management (Cont'd)

### (f) Financial instruments by category (Cont'd):

| | Held-to-Maturity | Loans and receivables | Available-for-sale | Financial instruments at fair value through profit or loss | | Other financial liabilities at amortised cost | Total |
|---|---|---|---|---|---|---|---|
| | | | | Held-for-trading | At initial recognition | | |
| | RS'M | RS'M | RS'M | RS'M | RS'M | RS'M | RS'M |
| **GROUP** | | | | | | | |
| **At June 30, 2016** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | - | 33,305.6 | - | - | - | - | 33,305.6 |
| Derivative financial instruments | - | - | - | 315.4 | - | - | 315.4 |
| Loans to and placements with banks | - | 22,419.1 | - | - | - | - | 22,419.1 |
| Loans and advances to customers | - | 163,827.3 | - | - | - | - | 163,827.3 |
| Investment securities | 54,494.6 | - | 7,514.7 | 722.7 | 2.8 | - | 62,734.8 |
| Other financial assets | - | 14,578.1 | - | - | - | - | 14,578.1 |
| **Total** | 54,494.6 | 234,130.1 | 7,514.7 | 1,038.1 | 2.8 | - | 297,180.3 |
| **Financial liabilities** | | | | | | | |
| Deposits from banks | - | - | - | - | - | 1,837.7 | 1,837.7 |
| Deposits from customers | - | - | - | - | - | 253,423.9 | 253,423.9 |
| Derivative financial instruments | - | - | - | 307.2 | - | - | 307.2 |
| Other borrowed funds | - | - | - | - | - | 5,193.0 | 5,193.0 |
| Subordinated liabilities | - | - | - | - | - | 5,619.9 | 5,619.9 |
| Other financial liabilities | - | - | - | - | - | 5,033.6 | 5,033.6 |
| **Total** | - | - | - | 307.2 | - | 271,108.1 | **271,415.3** |
| **Net on-balance sheet position** | 54,494.6 | 234,130.1 | 7,514.7 | 730.9 | 2.8 | (271,108.1) | **25,765.0** |

## 4. Cash and cash equivalents

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2017 RS'M | 2016 RS'M | 2017 RS'M | 2016 RS'M |
| Cash in hand | **2,631.2** | 2,044.6 | **-** | 49.4 |
| Foreign currency notes and coins | **152.1** | 159.7 | **-** | - |
| Unrestricted balances with Central Banks* | **3,764.2** | 1,226.8 | **-** | - |
| Balances due in clearing | **590.9** | 485.2 | **-** | - |
| Balances with local banks | **12.1** | 6.7 | **-** | - |
| Money market placements | **18,816.9** | 10,080.3 | **-** | - |
| Balances with banks abroad | **9,571.4** | 19,012.3 | **-** | - |
| Interbank loans** | **172.6** | 290.0 | **-** | - |
| | **35,711.4** | 33,305.6 | **-** | 49.4 |

* Unrestricted balances with Central Banks represent amounts above the minimum cash reserve requirements.

** Interbank loans represent loans with banks having an original maturity of less than three months.

### Cash and cash equivalents as shown in the statements of cash flows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2017 RS'M | 2016 RS'M | 2017 RS'M | 2016 RS'M |
| Cash and cash equivalents | **35,711.4** | 33,305.6 | **-** | 49.4 |
| Other borrowed funds (note 15(a)) | **(50.7)** | (90.5) | **(242.6)** | - |
| **Net cash and cash equivalents** | **35,660.7** | 33,215.1 | **(242.6)** | 49.4 |
| **Change in year** | **2,445.6** | 9,927.6 | **(292.0)** | (2.4) |

## 5. Derivative financial instruments

The Group utilises the following derivative instruments to manage its exposure to foreign currency risk and interest rate risk:

- Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- Currency swaps and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, or interest rates, or a combination of all these.

Except for certain currency swaps, no exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Warrant is a derivative financial instrument which gives the right, but not the obligation to buy or to sell a specific amount of a given stock, currency, index or debt, at a specified price (the strike price) during a specified period or on a specified date.

The fair values of derivative instruments held are set out below:

| **GROUP** | **Contractual/ Nominal Amount RS'M** | **Fair value assets RS'M** | **Fair value liabilities RS'M** |
|---|---|---|---|
| **Derivative held-for-trading - Level 2** | | | |
| **Year ended 30th June 2017** | | | |
| **Derivative instruments** | | | |
| Currency forwards | **5,167.0** | **71.7** | **51.7** |
| Interest rate swaps | **3,657.0** | **23.1** | **26.0** |
| Currency swaps | **20,199.1** | **131.5** | **19.7** |
| Warrants | **3,942.8** | **252.9** | **304.3** |
| Others | **0.5** | **0.5** | **-** |
| | **32,966.4** | **479.7** | **401.7** |
| Year ended 30th June 2016 | | | |
| **Derivative instruments** | | | |
| Currency forwards | 2,898.5 | 71.0 | 75.9 |
| Interest rate swaps | 1,524.8 | 11.9 | 22.2 |
| Currency swaps | 8,951.2 | 92.8 | 24.2 |
| Warrants | 4,759.6 | 139.7 | 184.9 |
| | 18,134.1 | 315.4 | 307.2 |

# 6. Loans

## (a) Loans to and placements with banks

| | GROUP 2017 RS'M | GROUP 2016 RS'M |
|---|---|---|
| **(i) Loans to and placements with banks** | | |
| in Mauritius | **7,926.3** | 6,277.3 |
| outside Mauritius | **46,369.4** | 45,549.0 |
| | **54,295.7** | 51,826.3 |
| Less: | | |
| Loans and placements with original maturity less than 3 months and included in cash and cash equivalents | **(28,573.0)** | (29,389.3) |
| | **25,722.7** | 22,437.0 |
| Less: | | |
| Allowances for credit impairment | **(6.4)** | (17.9) |
| | **25,716.3** | 22,419.1 |
| **(ii) Remaining term to maturity** | | |
| Up to 3 months | **10,234.6** | 12,350.7 |
| Over 3 months and up to 6 months | **8,204.5** | 2,703.0 |
| Over 6 months and up to 1 year | **6,239.1** | 6,377.3 |
| Over 1 year and up to 5 years | **1,043.0** | 1,006.0 |
| Over 5 years | **1.5** | - |
| | **25,722.7** | 22,437.0 |

### (iii) Allowances for credit impairment

| | GROUP RS'M |
|---|---|
| **Portfolio Provision:** | |
| At 1st July 2015 | 16.6 |
| Provision for credit impairment for the year | 1.3 |
| At 30th June 2016 | **17.9** |
| Provision released during the year | **(11.5)** |
| **At 30th June 2017** | **6.4** |

## 6. Loans (Cont'd)

### (b) Loans and advances to customers

| | GROUP | |
|---|---|---|
| | 2017 RS'M | 2016 RS'M |
| **(i) Loans and advances to customers** | | |
| Retail customers: | | |
| Credit cards | **699.5** | 689.2 |
| Mortgages | **25,301.9** | 22,427.4 |
| Other retail loans | **13,396.8** | 13,555.1 |
| Corporate customers | **103,016.3** | 106,770.4 |
| Governments | **1,377.1** | 1,204.6 |
| Entities outside Mauritius | **33,679.4** | 26,262.1 |
| | **177,471.0** | 170,908.8 |
| Less: | | |
| Allowances for credit impairment | **(6,247.3)** | (7,081.5) |
| | **171,223.7** | 163,827.3 |

Finance lease receivable included in Group loans amounts to Rs 3,802 million as at 30th June 2017 (2016: Rs 3,812 million).

**(ii) Remaining term to maturity**

| | 2017 RS'M | 2016 RS'M |
|---|---|---|
| Up to 3 months | **46,708.6** | 44,618.9 |
| Over 3 months and up to 6 months | **4,860.3** | 5,081.9 |
| Over 6 months and up to 1 year | **3,880.1** | 4,958.8 |
| Over 1 year and up to 5 years | **44,103.6** | 43,812.1 |
| Over 5 years | **77,918.4** | 72,437.1 |
| | **177,471.0** | 170,908.8 |

# 6. Loans (Cont'd)

## (b) Loans and advances to customers (Cont'd)

### (iii) Allowances for credit impairment

| | Specific RS'M | Portfolio RS'M | Total RS'M |
|---|---|---|---|
| **At 1st July 2016** | **2,862.8** | **1,143.4** | **4,006.2** |
| Exchange adjustment | **(19.2)** | **-** | **(19.2)** |
| Provision for credit impairment for the year | **1,323.7** | **50.9** | **1,374.6** |
| Provision released during the year | **(259.7)** | **-** | **(259.7)** |
| Amounts written off | **(1,670.9)** | **-** | **(1,670.9)** |
| **At 30th June 2017** | **2,236.7** | **1,194.3** | **3,431.0** |
| Interest suspense | **2,816.3** | **-** | **2,816.3** |
| **Provision and interest suspense at 30th June 2017** | **5,053.0** | **1,194.3** | **6,247.3** |
| | | | |
| At 1st July 2015 | 3,701.2 | 1,120.1 | 4,821.3 |
| Exchange adjustment | 0.7 | - | 0.7 |
| Provision for credit impairment for the year | 1,635.1 | 23.3 | 1,658.4 |
| Provision released during the year | (681.3) | - | (681.3) |
| Amounts written off | (1,670.7) | - | (1,670.7) |
| Adjustment following loss of control in subsidiary | (122.2) | - | (122.2) |
| At 30th June 2016 | 2,862.8 | 1,143.4 | 4,006.2 |
| Interest suspense | 3,075.3 | - | 3,075.3 |
| Provision and interest suspense at 30th June 2016 | 5,938.1 | 1,143.4 | 7,081.5 |

# 6. Loans (Cont'd)

## (b) Loans and advances to customers (Cont'd)

### (iv) Allowances for credit impairment by industry sectors

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | | | 2016 |
| | Gross amount of loans RS'M | Non performing loans RS'M | Specific provision and Interest suspense RS'M | Portfolio provision RS'M | Total provision RS'M | Total provision RS'M |
| Agriculture and fishing | 8,190.0 | 1,163.3 | 280.7 | 8.8 | 289.5 | 163.4 |
| Manufacturing | 10,923.9 | 620.8 | 227.4 | 128.9 | 356.3 | 535.9 |
| *of which EPZ* | *4,579.7* | *62.7* | *36.2* | *19.5* | *55.7* | *35.9* |
| Tourism | 27,103.7 | 988.4 | 590.2 | 78.0 | 668.2 | 525.5 |
| Transport | 4,712.7 | 1,491.0 | 606.2 | 45.7 | 651.9 | 186.3 |
| Construction | 15,169.6 | 1,766.2 | 894.9 | 169.7 | 1,064.6 | 1,745.4 |
| Financial and business services | 21,579.6 | 289.4 | 76.9 | 79.2 | 156.1 | 140.2 |
| Traders | 28,213.6 | 1,204.7 | 672.6 | 217.4 | 890.0 | 904.1 |
| Personal | 36,863.4 | 1,909.1 | 1,045.4 | 217.2 | 1,262.6 | 1,427.8 |
| *of which credit cards* | *783.6* | *30.5* | *25.0* | *14.4* | *39.4* | *69.8* |
| *of which housing* | *25,301.9* | *965.1* | *409.0* | *115.3* | *524.3* | *474.6* |
| Professional | 1,069.7 | 93.3 | 48.8 | 19.8 | 68.6 | 81.5 |
| Foreign governments | 1,377.1 | - | - | - | - | - |
| Global Business Licence holders | 12,880.9 | 263.9 | 315.6 | 180.9 | 496.5 | 1,035.1 |
| Others | 9,386.8 | 1,091.7 | 294.3 | 48.7 | 343.0 | 336.3 |
| | 177,471.0 | 10,881.8 | 5,053.0 | 1,194.3 | 6,247.3 | 7,081.5 |

# 6. Loans (Cont'd)

## (b) Loans and advances to customers (Cont'd)

### (v) Credit concentration of risk by industry sectors

Corporate notes and credit facilities extended by the Group to any closely-related customers for amounts aggregating more than 15% of its capital base, classified by industry sectors.

| | GROUP | |
|---|---|---|
| | 2017<br>RS'M | 2016<br>RS'M |
| Agriculture and fishing | **2,022.3** | 2,129.7 |
| Manufacturing | **369.7** | 2,528.0 |
| *of which EPZ* | ***81.8*** | *1,695.0* |
| Tourism | **364.0** | 12,061.9 |
| Transport | **70.1** | 62.6 |
| Construction | **4,289.1** | 4,240.4 |
| Financial and business services | **3,420.8** | 3,784.2 |
| Traders | **12,596.6** | 10,621.2 |
| Global Business Licence holders | **14,049.9** | 8,822.2 |
| Others | **45.6** | 68.3 |
| | **37,228.1** | 44,318.5 |

## 7. Investment securities

| | GROUP | |
|---|---|---|
| | 2017 RS'M | 2016 RS'M |
| Held-to-maturity | **57,349.1** | 54,494.6 |
| Held-for-trading | **9,568.6** | 722.7 |
| Available-for-sale | **7,814.3** | 7,548.6 |
| At fair value through profit or loss | **1.6** | 2.8 |
| | **74,733.6** | 62,768.7 |
| Less: | | |
| Allowance for impairment of investment securities | **(3.9)** | (33.9) |
| | **74,729.7** | 62,734.8 |

At fair value through profit or loss comprise financial instruments including investments in unquoted overseas collective investment scheme.

### (a) (i) Held-to-maturity

| | 2017 | 2016 |
|---|---|---|
| Government of Mauritius and Bank of Mauritius bonds | **41,906.1** | 35,695.9 |
| Treasury bills | **12,947.7** | 17,453.5 |
| Foreign bonds | **1,567.6** | 879.9 |
| Other | **927.7** | 465.3 |
| | **57,349.1** | 54,494.6 |

### (ii) Remaining term to maturity

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 3 months RS'M | 3 - 6 months RS'M | 6 - 12 months RS'M | 1 - 5 years RS'M | Over 5 years RS'M | Total RS'M |
| Government of Mauritius and Bank of Mauritius bonds | **3,380.3** | **2,865.4** | **5,216.6** | **21,027.9** | **9,415.9** | **41,906.1** |
| Treasury bills | **6,610.9** | **2,579.5** | **3,663.5** | **93.8** | **-** | **12,947.7** |
| Foreign bonds | **-** | **69.0** | **119.0** | **1,379.6** | **-** | **1,567.6** |
| Other | **-** | **-** | **-** | **353.9** | **573.8** | **927.7** |
| | **9,991.2** | **5,513.9** | **8,999.1** | **22,855.2** | **9,989.7** | **57,349.1** |

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 3 months RS'M | 3 - 6 months RS'M | 6 - 12 months RS'M | 1 - 5 years RS'M | Over 5 years RS'M | Total RS'M |
| Government of Mauritius and Bank of Mauritius bonds | 1,008.9 | 99.7 | 7,288.0 | 21,040.9 | 6,258.4 | 35,695.9 |
| Treasury bills | 6,966.9 | 4,409.1 | 5,866.6 | 210.9 | - | 17,453.5 |
| Foreign bonds | - | 107.5 | 574.0 | 198.4 | - | 879.9 |
| Other | 30.9 | - | - | 250.8 | 183.6 | 465.3 |
| | 8,006.7 | 4,616.3 | 13,728.6 | 21,701.0 | 6,442.0 | 54,494.6 |

# 7. Investment securities (Cont'd)

## (b) (i) Held-for-trading

| | GROUP | |
|---|---|---|
| | 2017 RS'M | 2016 RS'M |
| Treasury bills | | |
| Less than 3 months | **2,108.0** | - |
| Over 3 months and up to 6 months | **1,949.8** | 57.0 |
| Over 6 months and up to 12 months | **3,312.6** | - |
| Government of Mauritius and Bank of Mauritius bonds | **1,689.0** | - |
| Foreign bonds | **509.2** | 665.7 |
| | **9,568.6** | 722.7 |
| **Quoted - Level 1** | | |
| Foreign bonds | **509.2** | 665.7 |
| **Unquoted - Level 2** | | |
| Government of Mauritius & Bank of Mauritius bonds | **1,689.1** | 57.0 |
| Treasury bills | **7,370.3** | - |
| | **9,059.4** | 57.0 |
| | **9,568.6** | 722.7 |

## (c) (i) Available-for-sale

| | 2017 RS'M | 2016 RS'M |
|---|---|---|
| **Quoted - Level 1** | | |
| Official list : shares | **1,823.3** | 1,637.4 |
| Bonds | **1,480.8** | 1,185.3 |
| Development and Enterprise Market : shares | **570.7** | 550.9 |
| Foreign shares | **967.1** | 779.5 |
| Investment fund | **174.3** | - |
| | **5,016.2** | 4,153.1 |
| **Unquoted - Level 2** | | |
| Investment fund | **514.1** | 618.1 |
| **Unquoted - Level 3** | | |
| Shares | **1,971.1** | 2,248.5 |
| Debts | **104.1** | 104.2 |
| Investment fund | **-** | 215.9 |
| Inflation - indexed Government of Mauritius bonds | **208.8** | 208.8 |
| | **2,284.0** | 2,777.4 |
| | **7,814.3** | 7,548.6 |

## (c) (ii) Reconciliation of level 3 fair value measurement

| | GROUP RS'M |
|---|---|
| **At 1st July 2015** | 2,518.1 |
| Additions | 345.4 |
| Disposals | (93.8) |
| Fair value | 14.9 |
| Adjustment following loss of control in subsidiary | (6.9) |
| Exchange adjustments | (0.3) |
| **At 30th June 2016** | **2,777.4** |
| Additions | **15.0** |
| Disposals | **(265.4)** |
| Fair value | **(26.7)** |
| Transfer | **(205.5)** |
| Exchange adjustments | **(10.8)** |
| **At 30th June 2017** | **2,284.0** |

The book value approximates the fair value at the end of the reporting year.

## 8. Investments in associates

### (a) The Group's interests in its associates are as follows:

| | Nature of business | Principal place of business | Country of incorporation | Holding % | |
|---|---|---|---|---|---|
| | | | | Direct | Indirect |
| **2017** | | | | | |
| Banque Française Commerciale Ocean Indien | **Banking & financial services** | **Réunion** | **France** | **-** | **49.99** |
| Société Générale Moçambique | **Banking & financial services** | **Mozambique** | **Mozambique** | **-** | **35.00** |
| Promotion and Development Ltd | **Investment and Property development** | **Mauritius** | **Mauritius** | **0.13** | **46.35** |
| Caudan Development Ltd | **Property development, investment and provision of security services** | **Mauritius** | **Mauritius** | **4.46** | **38.07** |
| Credit Guarantee Insurance Co Ltd | **Insurance services** | **Mauritius** | **Mauritius** | **40.00** | **-** |
| **2016** | | | | | |
| Banque Française Commerciale Ocean Indien | Banking & financial services | Réunion | France | - | 49.99 |
| Société Générale Moçambique | Banking & financial services | Mozambique | Mozambique | - | 35.00 |
| Promotion and Development Ltd | Investment and Property development | Mauritius | Mauritius | 0.13 | 46.37 |
| Caudan Development Ltd | Property development, investment and provision of security services | Mauritius | Mauritius | 0.61 | 34.51 |
| Credit Guarantee Insurance Co Ltd | Insurance services | Mauritius | Mauritius | 40.00 | - |

(i) The above associates are accounted for using the equity method.

(ii) Except for Credit Guarantee Insurance Co Ltd, the other above associates are held through subsidiaries.

(iii) Banque Française Commerciale Ocean Indien, Société Générale Moçambique and Credit Guarantee Insurance Co Ltd are unquoted. The other associates are quoted and the market value of the quoted associates was based on SEM bid price at 30th June as follows:
Promotion and Development Ltd : Rs 2,161.3M (2016:Rs 1,619.4 M)
Caudan Development Ltd : Rs 213.6 M (2016: Rs 58.0 M)

| | GROUP | |
|---|---|---|
| | **2017 RS'M** | **2016 RS'M** |
| Group's share of net assets | **8,794.4** | 8,390.8 |
| Goodwill | **56.9** | 56.9 |
| Subordinated loans to associate | **701.0** | 704.2 |
| | **9,552.3** | 9,151.9 |

# 8. Investments in associates (Cont'd)

## (b) Summarised financial information in respect of material entities:

| | GROUP | |
|---|---|---|
| | 2017 RS'M | 2016 RS'M |
| **Banque Française Commerciale Ocean Indien** | | |
| **(i) Summarised statement of financial position:** | | |
| Current assets | **9,634.8** | 9,963.2 |
| Non current assets | **60,917.6** | 58,997.9 |
| Current liabilities | **19,625.9** | 21,212.2 |
| Non current liabilities | **44,710.6** | 41,460.5 |
| **(ii) Summarised statement of profit or loss and other comprehensive income:** | | |
| Revenue | **4,099.8** | 4,170.0 |
| Dividend received | **246.3** | 210.8 |
| Profit | **706.1** | 877.6 |
| Other comprehensive expense | **(227.2)** | - |
| Total comprehensive income | **478.9** | 877.6 |
| **Promotion and Development Ltd** | | |
| **(i) Summarised statement of financial position:** | | |
| Current assets | **259.7** | 223.9 |
| Non current assets | **13,130.7** | 12,516.1 |
| Current liabilities | **385.1** | 308.1 |
| Non current liabilities | **841.0** | 1,007.5 |
| Non controlling interest | **1,154.1** | 1,088.5 |
| **(ii) Summarised statement of profit or loss and other comprehensive income:** | | |
| Revenue | **571.1** | 548.7 |
| Dividend received | **58.6** | 45.1 |
| Profit | **143.0** | 798.3 |
| Other comprehensive income | **506.9** | 2,249.6 |
| Total comprehensive income | **649.9** | 3,047.9 |

## 8. Investments in associates (Cont'd)

### (c) Reconciliation of summarised financial information

Reconciliation of the above summarised financial information to the carrying amount recognised in the financial statements:

| | Opening net assets RS'M | Profit RS'M | Other comprehensive (expense)/ income RS'M | Other movements in reserves RS'M | Dividend RS'M | Closing net assets RS'M | Ownership interest % | Interest in associates RS'M | Goodwill RS'M | Subordinated loan RS'M | Carrying value RS'M |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | | | | | |
| **Banque Française Commerciale Ocean Indien** | **6,288.4** | **706.1** | **(227.2)** | **(32.8)** | **(518.6)** | **6,215.9** | **49.99%** | **3,107.3** | **56.9** | **701.0** | **3,865.2** |
| **Promotion and Development Limited** | **10,335.9** | **143.0** | **506.9** | **150.9** | **(126.5)** | **11,010.2** | **46.48%** | **5,117.5** | **-** | **-** | **5,117.5** |
| **2016** | | | | | | | | | | | |
| Banque Française Commerciale Ocean Indien | 5,816.1 | 877.6 | - | 38.6 | (443.9) | 6,288.4 | 49.99% | 3,143.6 | 56.9 | 704.2 | 3,904.7 |
| Promotion and Development Limited | 7,385.3 | 798.3 | 2,249.6 | - | (97.3) | 10,335.9 | 46.50% | 4,806.2 | - | - | 4,806.2 |

### (d) Aggregate information of associates that are not individually material

| | GROUP 2017 RS'M | GROUP 2016 RS'M |
|---|---|---|
| Carrying amount of interests | **569.6** | 441.0 |
| Share of losses | **(81.2)** | (74.9) |
| Share of other comprehensive expense | **(0.1)** | - |

**AT COST**

| | COMPANY 2017 RS'M | COMPANY 2016 RS'M |
|---|---|---|
| **At 1st July** | **26.5** | 20.6 |
| Additions | **83.2** | 5.9 |
| **At 30th June** | **109.7** | 26.5 |

## 9. Investments in subsidiaries

### (a) The Group has the following main subsidiaries:

| | Country of incorporation/ operation | Principal activities | Stated capital | | Effective Holding 2017 % | Proportion of ownership interests held by non-controlling interests 2017 % | Effective Holding 2016 % | Proportion of ownership interests held by non-controlling interests 2016 % | Cost of Investment Company 2017 RS'M | Cost of Investment Company 2016 RS'M |
|---|---|---|---|---|---|---|---|---|---|---|
| **BANKING** | | | | | | | | | | |
| **Direct** | | | | | | | | | | |
| MCB Investment Holding Ltd | Mauritius | Activities of holding companies, without managing | **Rs'M** | **6,879.6** | **100.00** | - | 100.00 | - | **6,879.6** | 6,879.6 |
| **Indirect** | | | | | | | | | | |
| The Mauritius Commercial Bank Limited | Mauritius | Banking & Financial services | **Rs'M** | **6,879.6** | **100.00** | - | 100.00 | - | - | - |
| MCB Seychelles Ltd | Seychelles | Banking & Financial services | **SRS'M** | **20.0** | **100.00** | - | 100.00 | - | - | - |
| MCB Madagascar SA | Madagascar | Banking & Financial services | **MGA'bn** | **12.0** | **90.00** | **10.00** | 85.00 | 15.00 | - | - |
| MCB (Maldives) Private Ltd | Republic of Maldives | Banking & Financial services | **MVR'M** | **150.0** | **100.00** | - | 100.00 | - | - | - |
| **NON-BANKING FINANCIAL** | | | | | | | | | | |
| **Direct** | | | | | | | | | | |
| MCB Equity Fund Ltd | Mauritius | Private Equity Fund | **Rs'M** | **2,084.6** | **100.00** | - | 100.00 | - | **2,084.6** | 2,084.6 |
| MCB Capital Markets Ltd | Mauritius | Investment Holding Company | **Rs'M** | **73.0** | **100.00** | - | 100.00 | - | **73.0** | 73.0 |
| MCB Factors Ltd | Mauritius | Factoring | **Rs'M** | **50.0** | **100.00** | - | 100.00 | - | **50.0** | 50.0 |
| MCB Micro Finance Ltd | Mauritius | Credit Finance | **Rs'M** | **75.0** | **100.00** | - | 100.00 | - | **75.0** | 20.0 |
| **OTHER INVESTMENTS** | | | | | | | | | | |
| **Direct** | | | | | | | | | | |
| International Card Processing Services Ltd | Mauritius | Providing card system facilities, card embossing and encoding services | **Rs'M** | **100.0** | **80.00** | **20.00** | 80.00 | 20.00 | **80.0** | 80.0 |
| Fincorp Investment Ltd | Mauritius | Investment Company | **Rs'M** | **103.4** | **57.73** | **42.27** | 57.73 | 42.27 | **28.7** | 28.7 |
| MCB Properties Ltd | Mauritius | Property ownership & development | **Rs'M** | **14.6** | **100.00** | - | 100.00 | - | **14.6** | 14.6 |
| Blue Penny Museum | Mauritius | Philatelic museum | **Rs'M** | **1.0** | **97.88** | **2.12** | 97.88 | 2.12 | **1.0** | 1.0 |
| MCB Consulting Services Ltd | Mauritius | Consulting, advisory, support and maintenance services | **USD'M** | **1.5** | **100.00** | - | 100.00 | - | **49.7** | 21.5 |
| Others* | Seychelles | Property rental & other financial services | | - | **100.00** | - | 100.00 | - | **0.2** | 0.2 |
| | | | | | | | | | **9,336.4** | 9,253.2 |
| Subordinated loan to subsidiary | | | | | | | | | **50.0** | - |
| | | | | | | | | | **9,386.4** | 9,253.2 |

Except for Fincorp Investment Ltd which is quoted, the other above companies are unquoted.

The fair value of the Company's interest in Fincorp Investment Ltd was Rs 1,473.8 million at 30th June 2017( 2016: Rs 1,157.5 million).

* 'Others' relates to Mascareignes Properties Ltd involved in property rental and MCB International Services Ltd involved in other financial services in which the Group has an effective holding of 100%. The stated capital of both entities are negligible.

## 9. Investments in subsidiaries (Cont'd)

| | | COMPANY | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | RS'M | RS'M |
| (b) | **At 1st July** | **9,253.2** | 9,233.0 |
| | Additions | **83.2** | 20.2 |
| | Subordinated loan to subsidiary | **50.0** | - |
| | **At 30th June** | **9,386.4** | 9,253.2 |

## (c) Details of Fincorp Investment Ltd which has non-controlling interests that are material to the Company.

| | Profit attributable to non-controlling interests RS'M | Net Assets attributable to non-controlling interests RS'M |
|---|---|---|
| **GROUP** | | |
| **2017** | **34.7** | **2,309.0** |
| 2016 | 161.6 | 2,142.4 |

## (d) Summarised financial information for Fincorp Investment Ltd.

| | GROUP | |
|---|---|---|
| | 2017 | 2016 |
| | RS'M | RS'M |
| **(i) Summarised statement of financial position:** | | |
| Current assets | **1,653.7** | 1,502.3 |
| Non current assets | **9,406.1** | 8,993.4 |
| Current liabilities | **1,927.2** | 1,856.0 |
| Non current liabilities | **3,670.0** | 3,571.3 |
| **(ii) Summarised statement of profit or loss and comprehensive income:** | | |
| Revenue | **497.2** | 464.2 |
| Profit | **82.0** | 382.4 |
| Other comprehensive income | **244.9** | 1,009.8 |
| Total comprehensive income | **326.9** | 1,392.2 |
| Dividend paid to non-controlling interests | **26.2** | 26.2 |
| **(iii) Summarised statement of cash flows:** | | |
| Net cash flows from operating activities | **677.9** | 421.7 |
| Investing activities | **(270.7)** | (255.4) |
| *Of which investment in associate* | **(53.4)** | - |
| Financing activities | **(286.8)** | (359.8) |
| Taxation | **(11.9)** | (6.4) |
| Net increase/(decrease) in cash and cash equivalents | **108.5** | (199.9) |

The summarised financial information above is the amount before intra-group eliminations.

# 10. Goodwill and other intangible assets

## (a) Goodwill

| | GROUP | |
|---|---|---|
| | 2017 RS'M | 2016 RS'M |
| **At 1st July** | **6.1** | 52.8 |
| Adjustment following loss of control in subsidiary | **-** | (46.7) |
| **At 30th June** | **6.1** | 6.1 |

## (b) Other intangible assets

| | GROUP | | |
|---|---|---|---|
| | Computer Software RS'M | Work in progress RS'M | Total RS'M |
| **Cost** | | | |
| **At 1st July 2015** | 3,052.9 | 14.0 | 3,066.9 |
| Additions | 204.9 | 216.9 | 421.8 |
| Scrap/Impairment | (55.3) | - | (55.3) |
| Transfer | 36.3 | (36.3) | - |
| Exchange adjustment | (15.4) | - | (15.4) |
| Adjustment following loss of control in subsidiary | (133.4) | - | (133.4) |
| **At 30th June 2016** | **3,090.0** | **194.6** | **3,284.6** |
| Additions | **108.1** | **236.9** | **345.0** |
| Scrap/Impairment | **(0.6)** | - | **(0.6)** |
| Transfer | **323.9** | **(322.1)** | **1.8** |
| Exchange adjustment | **(23.9)** | - | **(23.9)** |
| **At 30th June 2017** | **3,497.5** | **109.4** | **3,606.9** |
| **Amortisation** | | | |
| **At 1st July 2015** | 2,279.3 | - | 2,279.3 |
| Scrap/Impairment | (53.1) | - | (53.1) |
| Charge for the year | 219.1 | - | 219.1 |
| Exchange adjustment | (4.0) | - | (4.0) |
| Adjustment following loss of control in subsidiary | (48.0) | - | (48.0) |
| **At 30th June 2016** | **2,393.3** | **-** | **2,393.3** |
| Scrap/Impairment | **(0.1)** | **-** | **(0.1)** |
| Charge for the year | **281.6** | **-** | **281.6** |
| Exchange adjustment | **(11.2)** | **-** | **(11.2)** |
| **At 30th June 2017** | **2,663.6** | **-** | **2,663.6** |
| **Net book values** | | | |
| **At 30th June 2017** | **833.9** | **109.4** | **943.3** |
| At 30th June 2016 | 696.7 | 194.6 | 891.3 |
| **Total** | | | |
| **At 30th June 2017** | | | **949.4** |
| At 30th June 2016 | | | 897.4 |

The only material intangible assets for the Group are the core banking systems. The remaining useful lives range from 1 year to 5 years.

## 11. Property, plant and equipment

| | Land and buildings RS'M | Computer and other equipment RS'M | Furniture, fittings and vehicles RS'M | Work in progress RS'M | Total RS'M |
|---|---|---|---|---|---|
| **GROUP** | | | | | |
| **Cost** | | | | | |
| **At 1st July 2015** | 4,877.1 | 3,279.7 | 1,605.8 | 25.5 | 9,788.1 |
| Additions | 4.9 | 124.6 | 211.2 | 173.3 | 514.0 |
| Disposals | (0.7) | (170.7) | (139.7) | - | (311.1) |
| Exchange adjustment | (5.3) | (4.2) | (0.3) | - | (9.8) |
| Transfer | - | 60.2 | 3.7 | (63.9) | - |
| Assets written off by subsidiary | - | - | (25.8) | - | (25.8) |
| Adjustment following loss of control in subsidiary | (67.9) | (44.3) | - | - | (112.2) |
| **At 30th June 2016** | **4,808.1** | **3,245.3** | **1,654.9** | **134.9** | **9,843.2** |
| Additions | **243.0** | **137.2** | **403.1** | **207.6** | **990.9** |
| Disposals | **(77.2)** | **(69.8)** | **(116.4)** | **-** | **(263.4)** |
| Exchange adjustment | **(21.2)** | **(12.3)** | **(10.6)** | **-** | **(44.1)** |
| Transfer | **82.7** | **148.4** | **51.1** | **(284.0)** | **(1.8)** |
| **At 30th June 2017** | **5,035.4** | **3,448.8** | **1,982.1** | **58.5** | **10,524.8** |
| **Accumulated depreciation** | | | | | |
| **At 1st July 2015** | 739.7 | 2,322.1 | 692.8 | - | 3,754.6 |
| Charge for the year | 76.3 | 275.7 | 168.6 | - | 520.6 |
| Disposal adjustment | - | (164.9) | (96.1) | - | (261.0) |
| Exchange adjustment | (0.5) | (2.9) | - | - | (3.4) |
| Assets written off by subsidiary | - | - | (15.4) | - | (15.4) |
| Adjustment following loss of control in subsidiary | (8.9) | (36.1) | - | - | (45.0) |
| **At 30th June 2016** | **806.6** | **2,393.9** | **749.9** | **-** | **3,950.4** |
| Charge for the year | **80.8** | **282.1** | **188.9** | **-** | **551.8** |
| Disposal adjustment | **(15.2)** | **(69.2)** | **(73.7)** | **-** | **(158.1)** |
| Exchange adjustment | **(5.8)** | **(7.5)** | **(2.8)** | **-** | **(16.1)** |
| Transfer | **-** | **(4.6)** | **4.6** | **-** | **-** |
| **At 30th June 2017** | **866.4** | **2,594.7** | **866.9** | **-** | **4,328.0** |

## 11. Property, plant and equipment (Cont'd)

| | Land and buildings RS'M | Computer and other equipment RS'M | Furniture, fittings and vehicles RS'M | Work in progress RS'M | Total RS'M |
|---|---|---|---|---|---|
| **GROUP** | | | | | |
| **Net book values** | | | | | |
| **At 30th June 2017** | **4,169.0** | **854.1** | **1,115.2** | **58.5** | **6,196.8** |
| At 30th June 2016 | 4,001.5 | 851.4 | 905.0 | 134.9 | 5,892.8 |
| **COMPANY** | | | | | |
| **Cost** | | | | | |
| **At 1st July 2015** | - | - | 4.0 | - | 4.0 |
| Additions | - | - | 5.6 | - | 5.6 |
| **At 30th June 2016** | **-** | **-** | **9.6** | **-** | **9.6** |
| Additions | **221.8** | **-** | **-** | **-** | **221.8** |
| **At 30th June 2017** | **221.8** | **-** | **9.6** | **-** | **231.4** |
| **Accumulated depreciation** | | | | | |
| **At 1st July 2015** | - | - | 0.8 | - | 0.8 |
| Charge for the year | - | - | 1.9 | - | 1.9 |
| **At 30th June 2016** | **-** | **-** | **2.7** | **-** | **2.7** |
| Charge for the year | **-** | **-** | **1.9** | **-** | **1.9** |
| **At 30th June 2017** | **-** | **-** | **4.6** | **-** | **4.6** |
| **Net book values** | | | | | |
| **At 30th June 2017** | **221.8** | **-** | **5.0** | **-** | **226.8** |
| At 30th June 2016 | - | - | 6.9 | - | 6.9 |

## 12. Deferred tax assets/(liability)

| | Balance as at 1st July RS'M | Exchange adjustments RS'M | Recognised in Statements of profit or loss RS'M | Recognised in Statements of comprehensive income RS'M | Adjustment following loss of control in subsidiary RS'M | Balance as at 30th June RS'M |
|---|---|---|---|---|---|---|
| **GROUP** | | | | | | |
| The movement in the deferred income tax account is as follows :- | | | | | | |
| **Year ended 30th June 2017** | | | | | | |
| **Deferred tax assets:** | | | | | | |
| Provisions and post retirement benefits | **253.9** | **-** | **(16.7)** | **(50.6)** | **-** | **186.6** |
| Provisions for credit impairment | **225.4** | **(9.2)** | **62.0** | **-** | **-** | **278.2** |
| Tax losses carried forward | **2.3** | **-** | **2.4** | **-** | **-** | **4.7** |
| Accelerated tax depreciation | **(170.3)** | **-** | **(17.0)** | **-** | **-** | **(187.3)** |
| | **311.3** | **(9.2)** | **30.7** | **(50.6)** | **-** | **282.2** |
| **Deferred tax liability:** | | | | | | |
| Accelerated tax depreciation | **(65.4)** | **2.1** | **9.9** | **-** | **-** | **(53.4)** |
| **Year ended 30th June 2016** | | | | | | |
| **Deferred tax assets :** | | | | | | |
| Provisions and post retirement benefits | 236.6 | - | (13.4) | 30.7 | - | 253.9 |
| Provisions for credit impairment | 221.2 | (0.1) | 4.3 | - | - | 225.4 |
| Tax losses carried forward | 2.3 | - | - | - | - | 2.3 |
| Accelerated tax depreciation | (173.1) | - | 15.0 | - | (12.2) | (170.3) |
| | 287.0 | (0.1) | 5.9 | 30.7 | (12.2) | 311.3 |
| **Deferred tax liability:** | | | | | | |
| Accelerated tax depreciation | (50.2) | 0.1 | (15.3) | - | - | (65.4) |

## 12. Deferred tax assets/(liability) (Cont'd)

| | Balance as at 1st July RS'M | Exchange adjustments RS'M | Recognised in Statements of profit or loss RS'M | Recognised in Statements of comprehensive income RS'M | Adjustment following loss of control in subsidiary RS'M | Balance as at 30th June RS'M |
|---|---|---|---|---|---|---|
| **COMPANY** | | | | | | |
| Year ended 30th June 2017 | | | | | | |
| **Deferred tax liability:** | | | | | | |
| Accelerated tax depreciation | **(0.4)** | **-** | **-** | **-** | **-** | **(0.4)** |
| Year ended 30th June 2016 | | | | | | |
| **Deferred tax liability:** | | | | | | |
| Accelerated tax depreciation | (0.1) | - | (0.3) | - | - | (0.4) |

## 13. Other assets

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RS'M | RS'M | RS'M | RS'M |
| Mandatory balances with Central Banks | **17,170.7** | 15,498.8 | **-** | - |
| Prepayments & other receivables | **904.7** | 684.9 | **1,374.5** | 1,071.1 |
| Credit Card Clearing | **133.1** | 109.5 | **-** | - |
| Non-banking assets acquired in satisfaction of debts* | **51.8** | 51.9 | **-** | - |
| Post employee benefit asset (note 17) | **99.5** | - | **-** | - |
| Impersonal and other accounts | **2,475.4** | 2,504.1 | **-** | - |
| | **20,835.2** | 18,849.2 | **1,374.5** | 1,071.1 |

*The Group's policy is to dispose of such assets as soon as the market permits.

## 14. Deposits

| | GROUP | |
|---|---|---|
| | 2017 | 2016 |
| | RS'M | RS'M |
| **(a) Deposits from banks** | | |
| Demand deposits | **1,224.3** | 1,283.2 |
| Money market deposits with remaining term to maturity: | | |
| Up to 3 months | **1,259.0** | 192.2 |
| Over 6 months and up to 1 year | **6.2** | 362.3 |
| | **1,265.2** | 554.5 |
| | **2,489.5** | 1,837.7 |

# 14. Deposits (Cont'd)

| | GROUP | |
|---|---|---|
| | 2017 RS'M | 2016 RS'M |
| **(b) Deposits from customers** | | |
| **(i) Retail customers** | | |
| Demand deposits | **27,090.1** | 27,071.0 |
| Savings deposits | **113,192.6** | 99,759.1 |
| Time deposits with remaining term to maturity: | | |
| Up to 3 months | **3,282.4** | 3,785.9 |
| Over 3 months and up to 6 months | **2,207.2** | 2,079.4 |
| Over 6 months and up to 1 year | **4,752.6** | 5,084.2 |
| Over 1 year and up to 5 years | **14,976.0** | 13,783.6 |
| Over 5 years | **12.6** | 7.3 |
| | **25,230.8** | 24,740.4 |
| | **165,513.5** | 151,570.5 |
| **(ii) Corporate customers** | | |
| Demand deposits | **83,041.5** | 76,124.5 |
| Savings deposits | **6,261.9** | 5,709.3 |
| Time deposits with remaining term to maturity: | | |
| Up to 3 months | **5,444.1** | 5,624.6 |
| Over 3 months and up to 6 months | **1,679.1** | 2,077.7 |
| Over 6 months and up to 1 year | **2,320.1** | 3,081.4 |
| Over 1 year and up to 5 years | **7,589.3** | 5,502.5 |
| Over 5 years | **0.1** | 2,791.7 |
| | **17,032.7** | 19,077.9 |
| | **106,336.1** | 100,911.7 |
| **(iii) Government** | | |
| Demand deposits | **435.4** | 509.7 |
| Savings deposits | **61.2** | 52.2 |
| Time deposits with remaining term to maturity: | | |
| Up to 3 months | **25.2** | 379.8 |
| Over 3 months and up to 6 months | **2.4** | - |
| | **27.6** | 379.8 |
| | **524.2** | 941.7 |
| | **272,373.8** | 253,423.9 |

The carrying amounts of deposits are not materially different from their fair values.

## 15. Other borrowed funds

### (a) Other borrowed funds comprise the following:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2017 RS'M | 2016 RS'M | 2017 RS'M | 2016 RS'M |
| Borrowings from banks: | | | | |
| in Mauritius | **4.7** | 9.3 | **242.6** | - |
| abroad | **5,963.7** | 5,183.7 | **-** | - |
| | **5,968.4** | 5,193.0 | **242.6** | - |
| Other borrowed funds include borrowings with original maturity of less than 3 months as shown in note 4 | **50.7** | 90.5 | **242.6** | - |

The carrying amounts of other borrowed funds are not materially different from their fair values.

### (b) Remaining term to maturity:

| | GROUP 2017 RS'M | GROUP 2016 RS'M | COMPANY 2017 RS'M | COMPANY 2016 RS'M |
|---|---|---|---|---|
| On demand or within a period not exceeding 1 year | **193.5** | 165.8 | **242.6** | - |
| Within a period of more than 1 year but not exceeding 2 years | **142.7** | 58.1 | **-** | - |
| Within a period of more than 2 years but not exceeding 3 years | **24.5** | 45.8 | **-** | - |
| Within a period of more than 3 years | **5,607.7** | 4,923.3 | **-** | - |
| | **5,968.4** | 5,193.0 | **242.6** | - |

## 16. Subordinated liabilities

### Subordinated liabilities comprise the following:

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | 2017 RS'M | 2016 RS'M | 2017 RS'M | 2016 RS'M |
| Rs4.5 billion floating rate subordinated note maturing in August 2023 at an average interest rate of 5.4%(2016:5.8%) (Level 1) | (i) | **4,535.0** | 4,537.6 | **4,535.0** | 4,537.6 |
| USD30M subordinated debt maturing in August 2023 at an average interest rate of 4.3% (2016:3.8%) (Level 3) | (ii) | **1,052.0** | 1,082.3 | **-** | - |
| | | **5,587.0** | 5,619.9 | **4,535.0** | 4,537.6 |

The carrying amounts of the subordinated liabilities are not materially different from their fair values.

(i) These notes are quoted on the Official Market of the Stock Exchange of Mauritius Ltd and are presently available to individual and institutional investors for secondary trading.

(ii) The Mauritius Commercial Bank Limited obtained a USD30M 10-year subordinated debt from the African Development Bank. This facility forms part of a wider package of USD150M granted by the latter to allow The Mauritius Commercial Bank Limited to increase its foreign currency lending to clients operating in the region and in mainland Africa.

## 17. Post employee benefit (asset)/liability

### Amounts recognised in the financial statements at end of year

| | GROUP | |
|---|---|---|
| | 2017 RS'M | 2016 RS'M |
| **Reconciliation of net defined benefit (asset)/liability** | | |
| Opening balance | **249.7** | 1,034.2 |
| Amount recognised in statements of profit or loss | **214.1** | 268.0 |
| Amount recognised in statements of comprehensive income | **(337.7)** | 204.4 |
| Less capital injection | **-** | (1,000.0) |
| Less employer contributions | **(225.6)** | (256.9) |
| (Asset)/liability as shown in notes 13 and 18 respectively | **(99.5)** | 249.7 |
| **Reconciliation of fair value of plan assets** | | |
| Opening balance | **6,202.7** | 5,297.9 |
| Interest income | **402.5** | 365.7 |
| Capital injection | **-** | 1,000.0 |
| Employer contributions | **225.6** | 256.9 |
| Benefits paid | **(242.4)** | (317.3) |
| Return on plan assets excluding interest income | **208.0** | (400.5) |
| **Closing balance** | **6,796.4** | 6,202.7 |
| **Reconciliation of present value of defined benefit obligation** | | |
| Opening balance | **6,452.4** | 6,332.1 |
| Current service cost | **205.1** | 201.7 |
| Interest expense | **411.5** | 432.0 |
| Other benefits paid | **(242.4)** | (317.3) |
| Liability experience gain | **-** | (2.7) |
| Liability gain due to change in financial assumptions | **(129.7)** | (193.4) |
| **Closing balance** | **6,696.9** | 6,452.4 |
| **Components of amount recognised in statements of profit or loss** | | |
| Current service cost | **205.1** | 201.7 |
| Net interest on net defined benefit liability | **9.0** | 66.3 |
| **Total** | **214.1** | 268.0 |
| **Components of amount recognised in statements of comprehensive income** | | |
| Return on plan assets (above)/below interest income | **(208.0)** | 400.5 |
| Liability experience gain | **-** | (2.7) |
| Liability gain due to change in financial assumptions | **(129.7)** | (193.4) |
| **Total** | **(337.7)** | 204.4 |

## 17. Post employee benefit (asset)/liability (Cont'd)

| | GROUP | |
|---|---|---|
| | 2017 | 2016 |
| **Allocation of plan assets at end of year** | % | % |
| Equity - Local quoted | 28 | 21 |
| Equity - Local unquoted | 1 | 1 |
| Debt - Overseas quoted | 6 | 9 |
| Debt - Local quoted | 8 | 6 |
| Debt - Local unquoted | 4 | 1 |
| Property - Local | 3 | 3 |
| Investment funds | 32 | 31 |
| Cash and other | 18 | 28 |
| **Total** | 100 | 100 |
| | | |
| **Allocation of plan assets at end of year** | % | % |
| Reporting entity's own transferable financial instruments | 7 | 6 |
| Property occupied by reporting entity | 1 | 1 |
| Other assets used by reporting entity | 13 | 25 |
| | | |
| **Principal assumptions used at end of year** | | |
| Discount rate | 6.5% | 6.5% |
| Rate of salary increases | 4.5% | 4.5% |
| Rate of pension increases | 3.5% | 3.7% |
| Average retirement age (ARA) | 62 | 62 |
| Average life expectancy for: | | |
| Male at ARA | 18.0 years | 18.0 years |
| Female at ARA | 22.5 years | 22.5 years |

| | 2017 RS'M | 2016 RS'M |
|---|---|---|
| **Sensitivity analysis on defined benefit obligation at end of year** | | |
| Increase due to 1% decrease in discount rate | 1,192.0 | 1,222.0 |
| Decrease due to 1% increase in discount rate | 944.3 | 947.2 |

The above sensitivity analysis has been carried out by recalculating the present value of obligation at end of period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation. It has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

There was no change in the methods and assumptions used in preparing that sensitivity analysis from prior years.

## 17. Post employee benefit (asset)/liability (Cont'd)

The Mauritius Commercial Bank Limited sponsors a defined benefit pension plan for its staff which is self-administered and funded separately from the bank .The Mauritius Commercial Bank Limited has recognised a net defined benefit asset of Rs 99.5M as at 30 June 2017 for the plan (2016 : net defined benefit liability of Rs 249.7M).

The Mauritius Commercial Bank Limited operates a final salary defined benefit pension plan for its employees.
The plan exposes the bank to normal risks associated with defined benefit pension plans such as investment, interest, longevity and salary risks.

**Investment risk:** The plan liability is calculated using a discount rate determined by reference to government bond yields; if the return on plan assets is below this rate , it will create a plan deficit and if it is higher, it will create a plan surplus.

**Interest risk:** A decrease in the bond interest rate will increase the plan liability; however, this may be partially offset by an increase in the return on the plan's debt investments and a decrease in inflationary pressures on salary and pension increases.

**Longevity risk:** The plan liability is calculated by reference to the best estimate for the mortality of plan participants both during and after their employment . An increase in life expectancy of the plan participants will increase the plan liability.

**Salary risk:** The plan liability is calculated by reference to the future projected salaries of plan participants. As such, an increase in the salary of the plan participants above the assumed rate will increase the plan liability whereas an increase below the assumed rate will decrease the liability.

There has been no plan amendment, curtailment or settlement during the year.

**Future cash flows**

The funding policy is to pay contributions to an external legal entity at the rate recommended by the entity's actuaries.
Expected employer contribution for the next year: Rs 249.1M
Weighted average duration of the defined benefit obligation: 16 years

As from 1st July 2015, The Mauritius Commercial Bank Limited has introduced a Defined Contribution Cash Balanced Scheme "DCCB" for its employees.
Consequently, all employees joining The Mauritius Commercial Bank Limited as from that date are automatically enrolled in the new scheme. Existing employees have the choice of either remaining in the Defined Benefit Scheme "DCCB" or to join the new scheme.

Note: Employee benefits obligations have been provided for based on the report from Aon Hewitt Ltd., Actuaries and Consultants.

## 18. Other liabilities

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2017 RS'M | 2016 RS'M | 2017 RS'M | 2016 RS'M |
| Proposed dividend | **1,013.3** | 952.8 | **1,013.3** | 952.8 |
| Crescendo notes* | **3,394.6** | 2,850.0 | **-** | - |
| Impersonal & other accounts | **5,152.5** | 3,384.5 | **50.4** | 47.6 |
| Post employee benefits liability (note 17) | **-** | 249.7 | **-** | - |
| | **9,560.4** | 7,437.0 | **1,063.7** | 1,000.4 |

*These notes were issued by one of our subsidiary whereby the capital and/or return are guaranteed.

## 19. Stated capital and reserves

### (a) Stated Capital

| | Number of shares |
|---|---|
| At 1st July 2015 | 238,046,079 |
| Issue of shares following the exercise of Group Employee Share Options Scheme | 141,093 |
| At 30th June 2016 | **238,187,172** |
| Issue of shares following the exercise of Group Employee Share Options Scheme | **235,718** |
| **At 30th June 2017** | **238,422,890** |

Fully paid ordinary shares carry one vote per share and the right to dividend.

The shares have no par value and rank 'pari passu' in all respects with the existing ordinary shares of the company.

### (b) Reserves

**(i) Capital reserve**

The capital reserve represents the cumulative net change in the fair value of:
(a) available-for-sale investment securities until the securities are derecognised or impaired.
(b) land until it is derecognised.

**(ii) Translation reserve**

The translation reserve represents all foreign currency differences arising from the translation of the results and financial position of foreign operations.

**(iii) Statutory reserve**

Statutory reserve represents accumulated transfers from retained earnings in accordance with relevant local banking legislations. These reserves are not distributable.

**(iv) General banking reserve**

The Group makes an appropriation to a General banking reserve for unforeseen risks and future losses.

## 20. Contingent liabilities

| | GROUP | |
|---|---|---|
| | 2017 RS'M | 2016 RS'M |
| **(a) Instruments** | | |
| Acceptances on account of customers | **154.3** | 166.8 |
| Guarantees on account of customers | **19,949.2** | 18,998.1 |
| Letters of credit and other obligations on account of customers | **21,477.4** | 9,269.6 |
| Other contingent items | **1,522.0** | 3,696.3 |
| | **43,102.9** | 32,130.8 |
| **(b) Commitments** | | |
| Loans and other facilities, including undrawn credit facilities | **7,201.2** | 2,913.5 |
| **(c) Tax assessments*** | **992.6** | 836.9 |
| **(d) Other** | | |
| Inward bills held for collection | **357.2** | 428.0 |
| Outward bills sent for collection | **1,003.0** | 1,003.7 |
| | **1,360.2** | 1,431.7 |
| | **52,656.9** | 37,312.9 |

*During the period December 2011 to June 2017, The Mauritius Commercial Bank Limited, one of our subsidiary, received income tax assessments relating to seven consecutive years starting with financial year ended 30th June 2007 to 30th June 2013 against which The Mauritius Commercial Bank Limited has objected.

Moreover, The Mauritius Commercial Bank Limited received several assessments under the Value Added Tax Act for the periods beginning April 2006 to June 2015 against which The Mauritius Commercial Bank Limited has also objected.

The above are pending in front of the Assessment Review Committee. The maximum liability that could arise from these assessments amounts to Rs 992.6 million, including penalties and interests.

## 21. Interest income

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M |
| Loans to and placements with banks | **595.9** | 367.1 | **-** | - |
| Loans and advances to customers | **10,862.6** | 11,313.1 | **-** | - |
| Held-to-maturity investments | **2,297.2** | 1,870.9 | **-** | - |
| Available-for-sale investments | **67.9** | 75.6 | **-** | - |
| Held-for-trading investments | **54.0** | 6.6 | **-** | - |
| Other | **11.3** | 10.3 | **-** | - |
| | **13,888.9** | 13,643.6 | **-** | - |

## 22. Interest expense

| | | | | |
|---|---|---|---|---|
| Deposits from banks | **12.2** | 11.1 | **-** | - |
| Deposits from customers | **4,030.1** | 4,344.4 | **-** | - |
| Subordinated liabilities | **286.3** | 303.8 | **241.7** | 262.8 |
| Other borrowed funds | **149.4** | 94.0 | **4.5** | - |
| | **4,478.0** | 4,753.3 | **246.2** | 262.8 |

## 23. Fee and commission income

| | | | | |
|---|---|---|---|---|
| Retail banking fees | **764.7** | 762.8 | **-** | - |
| Corporate banking fees | **710.4** | 575.3 | **-** | - |
| Guarantee fees | **232.2** | 222.6 | **-** | - |
| Interbank transaction fees | **57.2** | 51.5 | **-** | - |
| Brokerage | **26.0** | 18.1 | **-** | - |
| Asset management fees | **149.7** | 135.1 | **-** | - |
| Rental income | **155.2** | 134.1 | **-** | - |
| Cards and other related fees | **1,626.2** | 1,469.1 | **-** | - |
| Trade finance fees | **353.0** | 498.4 | **-** | - |
| Others | **205.2** | 161.6 | **-** | - |
| | **4,279.8** | 4,028.6 | **-** | - |

## 24. Fee and commission expense

| | | | | |
|---|---|---|---|---|
| Interbank transaction fees | **30.5** | 34.7 | **-** | - |
| Cards and other related fees | **833.9** | 722.2 | **-** | - |
| Others | **65.6** | 88.3 | **-** | - |
| | **930.0** | 845.2 | **-** | - |

## 25. Net gain/(loss) from financial instruments carried at fair value

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M |
| Derivative financial instruments | **180.5** | (232.2) | **-** | - |
| Investment securities at fair value through profit or loss | **(91.2)** | 130.4 | **-** | - |
| Investment securities held-for-trading | **12.0** | 19.6 | **-** | - |
| | **101.3** | (82.2) | **-** | - |

## 26. Dividend income

| | | | | |
|---|---|---|---|---|
| Income from quoted investments: | | | | |
| Subsidiary | **-** | - | **-** | 35.8 |
| Others | **67.0** | 53.4 | **3.7** | 0.1 |
| Income from unquoted investments: | | | | |
| Subsidiary | **-** | - | **2,837.7** | 2,168.1 |
| Others | **21.8** | 23.0 | **-** | - |
| | **88.8** | 76.4 | **2,841.4** | 2,204.0 |

# 27. Non-interest expense

## (a) Salaries and human resource development

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M |
| Wages and salaries | **2,656.8** | 2,373.2 | **78.6** | 68.6 |
| Defined benefit plan | **214.1** | 268.0 | **-** | - |
| Defined contribution plan | **80.4** | 44.3 | **-** | - |
| Compulsory social security obligations | **73.4** | 60.5 | **-** | - |
| Equity settled share-based payments | **3.1** | 1.6 | **-** | - |
| Other personnel expenses | **583.7** | 563.4 | **-** | - |
| | **3,611.5** | 3,311.0 | **78.6** | 68.6 |
| Number of employees at the end of the year | **3,386** | 3,220 | | |

## (b) Other non-interest expense

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| Software licensing and other information technology cost | **298.5** | 254.9 | **-** | - |
| Others | **1,644.8** | 1,469.9 | **33.8** | 29.4 |
| | **1,943.3** | 1,724.8 | **33.8** | 29.4 |

## (c) Share-based payments

During FY 2014, the Group proposed to all employees a Group Employee Share Option Scheme (GESOS).

The Board of Directors has the authority to issue up to 5 million shares to the employees. In October 2016, a further offer of 759,444 options was made on similar terms.

| | GROUP | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Weighted avg exercise price RS | Number of options | Weighted avg exercise price RS | Number of options |
| Outstanding and exercisable at 1st July | **196.40** | **588,263** | 194.24 | 463,778 |
| Expired during the year | **196.13** | **(552,106)** | 193.64 | (409,477) |
| Granted during the year | **192.54** | **759,444** | 195.75 | 675,055 |
| Exercised during the year | **197.52** | **(235,718)** | 194.27 | (141,093) |
| Outstanding and exercisable at 30th June | | **559,883** | | 588,263 |

The options outstanding at 30th June 2017 under GESOS have an exercise price in the range of Rs 191.00 to Rs 217.50 and a weighted average contractual life of 3½ months.

The weighted average share price at the date the share options were exercised under GESOS during F/Y 16/17 was Rs 217.02 (2016:Rs 209.33).

The fair value of services in return for share options granted is based on the fair value of the share options granted measured by the average market price of the share of the last three months, as may be adjusted by the Board of Directors of MCB Group Limited. The fair value at measurement date is Rs 209.25 (2016:Rs 212.75).

## 28. Net impairment of financial assets

### The impairment charge related to the Statements of Profit or Loss:

| | GROUP | |
|---|---|---|
| | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M |
| Allowance for credit impairment: | | |
| Loans and advances | **1,059.9** | 988.0 |
| Investment securities | **3.9** | - |
| Other impairment of investment securities | **-** | 33.9 |
| | **1,063.8** | 1,021.9 |

### Allowance for credit impairment on loans and advances

| | | |
|---|---|---|
| Provision for bad and doubtful debts: | | |
| Loans to and placements with banks | **-** | 1.3 |
| Loans and advances to customers | **1,374.6** | 1,658.4 |
| Bad debts written off for which no provisions were made | **21.0** | 34.8 |
| Provision released during the year: | | |
| Loans to and placements with banks | **(11.5)** | - |
| Loans and advances to customers | **(259.7)** | (681.3) |
| Recoveries of advances written off | **(64.5)** | (25.2) |
| | **1,059.9** | 988.0 |

## 29. Income tax expense

### (a) The tax charge related to statements of profit or loss is as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M |
| Income tax based on the adjusted profit | **1,102.8** | 938.7 | **-** | - |
| Deferred tax | **(40.6)** | 9.4 | **-** | 0.3 |
| Special levy on banks | **511.7** | 428.3 | **-** | - |
| Corporate Social Responsibility contribution | **104.2** | 151.4 | **-** | - |
| (Over)/Under provision in previous years | **(34.3)** | 9.2 | **-** | - |
| Charge for the year | **1,643.8** | 1,537.0 | **-** | 0.3 |

The tax on the profits differs from the theoretical amount that would arise using the basic tax rate as follows:

| | GROUP 2017 | GROUP 2016 | COMPANY 2017 | COMPANY 2016 |
|---|---|---|---|---|
| Profit before tax | **8,392.2** | 8,341.9 | **2,480.9** | 1,841.3 |
| Less share of profit of associates | **(338.2)** | (735.0) | **-** | - |
| | **8,054.0** | 7,606.9 | **2,480.9** | 1,841.3 |
| Tax calculated at a rate of 15% | **1,208.1** | 1,141.0 | **372.1** | 276.2 |
| Effect of different tax rates | **58.8** | 101.6 | **-** | - |
| Impact of: | | | | |
| Income not subject to tax | **(103.8)** | (197.0) | **(426.4)** | (330.6) |
| Expenses not deductible for tax purposes | **215.6** | 144.4 | **54.3** | 54.7 |
| Tax credits | **(316.5)** | (241.9) | **-** | - |
| Special levy on banks | **511.7** | 428.3 | **-** | - |
| Corporate Social Responsibility contribution | **104.2** | 151.4 | **-** | - |
| (Over)/Under provision in previous years | **(34.3)** | 9.2 | **-** | - |
| Tax charge | **1,643.8** | 1,537.0 | **-** | 0.3 |

**Corporate Social Responsibility (CSR) tax**

Corporate Social Responsibility (CSR) tax was legislated by the Government of Mauritius in July 2009. The Group is required, via its local subsidiaries, to allocate a percentage of its chargeable income of the preceding year to government approved CSR Non Governmental Organisations.

**Bank Levy**

The Group, via The Mauritius Commercial Bank Limited, is liable to pay a special levy as a percentage of its chargeable income to the Mauritius Revenue Authority.

### (b) The tax charge/(credit) related to statements of comprehensive income is as follows:

| | GROUP | |
|---|---|---|
| | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M |
| Remeasurement of defined benefits pension plan | **(337.7)** | 204.4 |
| Deferred tax charge/(credit) | **50.6** | (30.7) |
| Remeasurement of defined benefit pension plan, net of deferred tax | **(287.1)** | 173.7 |

## 30. Dividends

| | COMPANY | |
|---|---|---|
| | 2017 RS'M | 2016 RS'M |
| Paid on 16th December 2016 at Rs 4.75 per share ( FY 2016: Rs 4.25 per share) | **1,131.6** | 1,011.9 |
| Paid on 28th July 2017 at Rs 4.25 per share ( FY 2016: Rs 4.00 per share) | **1,013.3** | 952.8 |
| | **2,144.9** | 1,964.7 |

## 31. Earnings per share

### (a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

| | GROUP | |
|---|---|---|
| | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M |
| Profit attributable to the ordinary equity holders of the parent | **6,702.1** | 6,625.5 |
| Weighted average number of ordinary shares (thousands) | **238,309** | 238,125 |
| Basic earnings per share (Rs) | **28.12** | 27.82 |

### (b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after adjustment for the effects of all dilutive potential ordinary shares.

The Company has only one category of dilutive potential ordinary shares which is share options.

For share options, the proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period is treated as an issue of ordinary shares for no consideration.

| | GROUP | |
|---|---|---|
| | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M |
| Profit attributable to the ordinary equity holders of the parent | **6,702.1** | 6,625.5 |
| Weighted average number of ordinary shares basic (thousands) | **238,309** | 238,125 |
| Effect of share options in issue (thousands) | **166** | 42 |
| Weighted average number of ordinary shares diluted (thousands) at year end | **238,475** | 238,167 |
| Diluted earnings per share (Rs) | **28.10** | 27.82 |

# 32. Commitments

## (a) Capital commitments

| | GROUP | |
|---|---|---|
| | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M |
| Expenditure contracted for but not incurred | **119.2** | 217.8 |
| Expenditure approved by the Board but not contracted for | **211.7** | 348.1 |

## (b) Securities pledged

The Group has pledged Government of Mauritius bonds as collateral for the purpose of overnight facility from the Bank of Mauritius:

| | GROUP | |
|---|---|---|
| | 2017 RS'M | 2016 RS'M |
| Government of Mauritius bonds | **3,828.9** | 3,041.0 |

# 33. Net cash flows from trading activities

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M |
| Operating profit | **8,054.0** | 7,606.9 | **2,480.9** | 1,841.3 |
| (Increase)/decrease in other assets | **(2,095.9)** | (1,942.2) | **(303.4)** | 18.1 |
| Increase in other liabilities | **2,385.3** | 1,315.7 | **0.2** | 43.0 |
| Capital injection in MCB Superannuation Fund | **-** | (1,000.0) | **-** | - |
| Net (increase)/decrease in derivative financial instruments | **(69.8)** | 108.3 | **-** | - |
| Increase in investment securities held-for-trading | **(8,845.9)** | (722.7) | **-** | - |
| Decrease/(increase) in investment securities at fair value through profit or loss | **1.2** | (2.1) | **-** | - |
| (Release of)/additional provision for employee benefits | **(11.5)** | 11.1 | **-** | - |
| Charge for credit impairment | **1,378.5** | 1,659.7 | **-** | - |
| Release of provision for credit impairment | **(271.2)** | (681.3) | **-** | - |
| Exchange profit | **(34.4)** | (31.5) | **-** | - |
| Depreciation of property, plant and equipment | **551.8** | 520.6 | **1.9** | 1.9 |
| Amortisation of intangible assets | **281.6** | 219.1 | **-** | - |
| (Profit)/loss on disposal of property, plant and equipment | **(11.1)** | 2.7 | **-** | - |
| Impairment of investments | **-** | 33.9 | **-** | - |
| Impairment of intangible assets | **0.5** | 2.2 | **-** | - |
| Profit on disposal of available-for-sale investments | **(278.7)** | (282.9) | **-** | - |
| Assets written off by subsidiary | **-** | 10.4 | **-** | - |
| Profit following loss of control in former subsidiary | **-** | (98.4) | **-** | - |
| Gain on a bargain purchase | **(74.8)** | (11.8) | **-** | - |
| | **959.6** | 6,717.7 | **2,179.6** | 1,904.3 |

# Notes to the financial statements
for the year ended 30th June 2017

## 34. Net cash flows from other operating activities

| | GROUP | |
|---|---|---|
| | Year ended 30th June 2017 RS'M | Year ended 30th June 2016 RS'M |
| Net increase in deposits | **20,534.0** | 35,856.8 |
| Net increase in loans and advances | **(12,282.4)** | (14,978.3) |
| Increase in held-to-maturity investment securities | **(3,026.8)** | (11,442.5) |
| Net increase/(decrease) in other borrowed funds | **815.2** | (1,462.7) |
| | **6,040.0** | 7,973.3 |

# 35. Operating segments

Operating segments are reported in accordance with the internal reporting provided to the Supervisory and Monitoring Committee, whose responsibility is to allocate capital and resources to the reportable segments and assessing their performance.

All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group's income, expenses, assets and liabilities are derived mainly through its Mauritian operations.

**Year ended 30th June 2017**

| | GROUP RS'M | Banking RS'M | Non-Banking Financial RS'M | Other Investments RS'M | Eliminations RS'M |
|---|---|---|---|---|---|
| **Income:** | | | | | |
| External gross income | **20,914.0** | 20,092.1 | 1,411.9 | 441.7 | (1,031.7) |
| Expenses | **(11,796.2)** | (11,054.5) | (854.2) | (421.5) | 534.0 |
| **Operating profit before impairment** | **9,117.8** | 9,037.6 | 557.7 | 20.2 | (497.7) |
| Net impairment of financial assets | **(1,063.8)** | (998.8) | (65.0) | - | - |
| **Operating profit** | **8,054.0** | 8,038.8 | 492.7 | 20.2 | (497.7) |
| Share of profit of associates | **338.2** | 264.4 | 0.5 | 73.3 | - |
| **Profit before tax** | **8,392.2** | 8,303.2 | 493.2 | 93.5 | (497.7) |
| Income tax expense | **(1,643.8)** | | | | |
| **Profit for the year** | **6,748.4** | | | | |
| **Other segment items:** | | | | | |
| **Segment assets** | **334,892.8** | 335,728.7 | 11,658.9 | 1,089.7 | (13,584.5) |
| Investments in associates | **9,552.3** | 4,038.7 | 16.5 | 5,506.1 | (9.0) |
| Goodwill and other intangible assets | **949.4** | | | | |
| Deferred tax assets | **282.2** | | | | |
| **Total assets** | **345,676.7** | | | | |
| **Segment liabilities** | **289,780.5** | 289,334.2 | 9,331.3 | 1,268.7 | (10,153.7) |
| Unallocated liabilities | **7,559.6** | | | | |
| **Total liabilities** | **297,340.1** | | | | |

## 35. Operating segments (Cont'd)

**Year ended 30th June 2016**

| | GROUP RS'M | Banking RS'M | Non-Banking Financial RS'M | Other Investments RS'M | Eliminations RS'M |
|---|---|---|---|---|---|
| **Income:** | | | | | |
| External gross income | 20,002.8 | 19,131.7 | 1,347.5 | 356.2 | (832.6) |
| Expenses | (11,374.0) | (10,764.3) | (775.9) | (356.8) | 523.0 |
| **Operating profit before impairment** | 8,628.8 | 8,367.4 | 571.6 | (0.6) | (309.6) |
| Net impairment of financial assets | (1,021.9) | (968.8) | (53.1) | - | - |
| **Operating profit** | 7,606.9 | 7,398.6 | 518.5 | (0.6) | (309.6) |
| Share of profit of associates | 735.0 | 362.2 | 0.8 | 372.0 | - |
| **Profit before tax** | 8,341.9 | 7,760.8 | 519.3 | 371.4 | (309.6) |
| Income tax expense | (1,537.0) | | | | |
| **Profit for the year** | 6,804.9 | | | | |
| **Other segment items:** | | | | | |
| **Segment assets** | 307,344.2 | 308,195.8 | 10,178.3 | 1,107.8 | (12,137.7) |
| Investments in associates | 9,151.9 | 4,169.0 | 16.0 | 4,980.8 | (13.9) |
| Goodwill and other intangible assets | 897.4 | | | | |
| Deferred tax assets | 311.3 | | | | |
| **Total assets** | 317,704.8 | | | | |
| **Segment liabilities** | 267,246.0 | 267,130.0 | 8,332.8 | 1,250.3 | (9,467.1) |
| Unallocated liabilities | 7,450.2 | | | | |
| **Total liabilities** | 274,696.2 | | | | |

## 35. Operating segments (Cont'd)

**Year ended 30th June 2017**

| | GROUP RS'M |
|---|---|
| **External gross income:** | |
| Banking | 20,092.1 |
| Non-Banking Financial | 1,411.9 |
| Other Investments | 441.7 |
| Eliminations | (1,031.7) |
| | 20,914.0 |

| | GROUP RS'M | Net interest income/(expense) RS'M | Net fee and commissions RS'M | Dividend income RS'M | Forex profit and others RS'M |
|---|---|---|---|---|---|
| **Operating income:** | | | | | |
| Banking | 14,851.0 | 9,303.6 | 2,968.1 | 597.1 | 1,982.2 |
| Non-Banking Financial | 991.8 | 148.7 | 532.3 | 36.7 | 274.1 |
| Other Investments | 407.0 | (41.4) | 0.7 | 7.2 | 440.5 |
| Eliminations | (743.8) | - | (151.3) | (552.2) | (40.3) |
| | 15,506.0 | 9,410.9 | 3,349.8 | 88.8 | 2,656.5 |
| **Segment assets** | 291,153.8 | 285,821.6 | | 5,332.2 | |
| Investments in associates | 9,552.3 | | | | |
| Goodwill and other intangible assets | 949.4 | | | | |
| Deferred tax assets | 282.2 | | | | |
| Unallocated assets | 43,739.0 | | | | |
| **Total assets** | 345,676.7 | | | | |

## 35. Operating segments (Cont'd)

**Year ended 30th June 2016**

| | GROUP RS'M |
|---|---|
| **External gross income:** | |
| Banking | **19,131.7** |
| Non-Banking Financial | **1,347.5** |
| Other Investments | **356.2** |
| Eliminations | **(832.6)** |
| | **20,002.8** |

| | GROUP RS'M | Net interest income/(expense) RS'M | Net fee and commissions RS'M | Dividend income RS'M | Forex profit and others RS'M |
|---|---|---|---|---|---|
| **Operating income:** | | | | | |
| Banking | **13,727.7** | 8,780.6 | 2,873.6 | 446.5 | 1,627.0 |
| Non-Banking Financial | **937.3** | 145.2 | 458.7 | 34.2 | 299.2 |
| Other Investments | **326.9** | (35.5) | 27.0 | 0.8 | 334.6 |
| Eliminations | **(587.6)** | - | (175.9) | (405.1) | (6.6) |
| | **14,404.3** | 8,890.3 | 3,183.4 | 76.4 | 2,254.2 |
| **Segment assets** | **277,963.2** | 272,746.9 | | 5,216.3 | |
| Investments in associates | **9,151.9** | | | | |
| Goodwill and other intangible assets | **897.4** | | | | |
| Deferred tax assets | **311.3** | | | | |
| Unallocated assets | **29,381.0** | | | | |
| **Total assets** | **317,704.8** | | | | |

# 36. Related party transactions

## (a) The Group

| | Associated companies | Directors and Key Management Personnel | Enterprises in which Directors and Key Management Personnel have significant interest | Defined benefit plan |
|---|---|---|---|---|
| | RS'M | RS'M | RS'M | RS'M |
| **Cash equivalents, Loans and Advances** | | | | |
| Balance at year end: | | | | |
| 30th June 2016 | 3,767.6 | 178.9 | 644.0 | - |
| **30th June 2017** | **2,705.0** | **179.5** | **800.6** | **76.6** |
| **Leases receivable** | | | | |
| Balance at year end: | | | | |
| 30th June 2016 | - | - | 0.5 | - |
| **30th June 2017** | **-** | **-** | **5.2** | **-** |
| **Deposits** | | | | |
| Balance at year end: | | | | |
| 30th June 2016 | 75.1 | 304.5 | 106.1 | 1,614.9 |
| **30th June 2017** | **499.7** | **312.0** | **94.4** | **1,054.1** |
| **Amounts due from/(to)** | | | | |
| Balance at year end: | | | | |
| 30th June 2016 | 3.0 | - | - | - |
| **30th June 2017** | **(43.5)** | **-** | **-** | **-** |
| **Off Balance sheet items** | | | | |
| Balance at year end: | | | | |
| 30th June 2016 | 487.8 | - | - | - |
| **30th June 2017** | **1.6** | **-** | **4.1** | - |
| **Interest income** | | | | |
| For the year ended: | | | | |
| 30th June 2016 | 122.0 | 5.6 | 11.0 | - |
| **30th June 2017** | **68.9** | **4.2** | **38.4** | **-** |
| **Interest expense** | | | | |
| For the year ended: | | | | |
| 30th June 2016 | 3.1 | 3.6 | 0.1 | 15.9 |
| **30th June 2017** | **9.1** | **5.7** | **0.4** | **32.7** |
| **Other income** | | | | |
| For the year ended: | | | | |
| 30th June 2016 | 13.9 | 0.8 | 0.5 | 2.3 |
| **30th June 2017** | **6.3** | **1.0** | **3.8** | **2.7** |

The related party transactions were carried out under market terms and conditions with the exception of loans to Key Management Personnel who benefited from preferential rates as applicable to staff.

Credit facilities granted to related parties are secured except for credit cards, money market lines and facilities provided to related financial institution counterparties in accordance with our policy and are settled from the underlying obligor's operating cash flow.

## 36. Related party transactions (Cont'd)

### (a) The Group (Cont'd)

The figure for "Other income" from Associated Companies includes an annual amount of Rs 3.9 M in respect of management fees charged to Banque Francaise Commerciale Ocean Indien('BFCOI').

The following subsidiaries of MCB Group Ltd claimed fees from SG Moçambique in respect of IT, Systems and Cards services support: USD100,875 (FY2015/2016: USD91,015) by International Cards Processing Services Ltd, USD629,387 (FY2015/2016:USD785,323) by MCB Consulting Services Ltd and USD183,235 (FY2015/2016: USD112,760) by MCB Ltd. These amounts have been recognised as Income in the related entity's statement of profit or loss.

During the year, 96,880 share options were exercised under the Group Employee Share Option scheme by key management personnel, including executive directors amounting to Rs20.4M (FY2015/2016: None).

### (b) The Company

In addition to the amounts disclosed in (a) above, the following information relate to subsidiaries and associate of the Company:

**(i) Balances as at 30th June:**

| **Subsidiaries** | Amount owed by RS'M | Amount owed to RS'M |
|---|---|---|
| 2016 | 1,068.6 | 6.7 |
| **2017** | **1,369.3** | **3.9** |

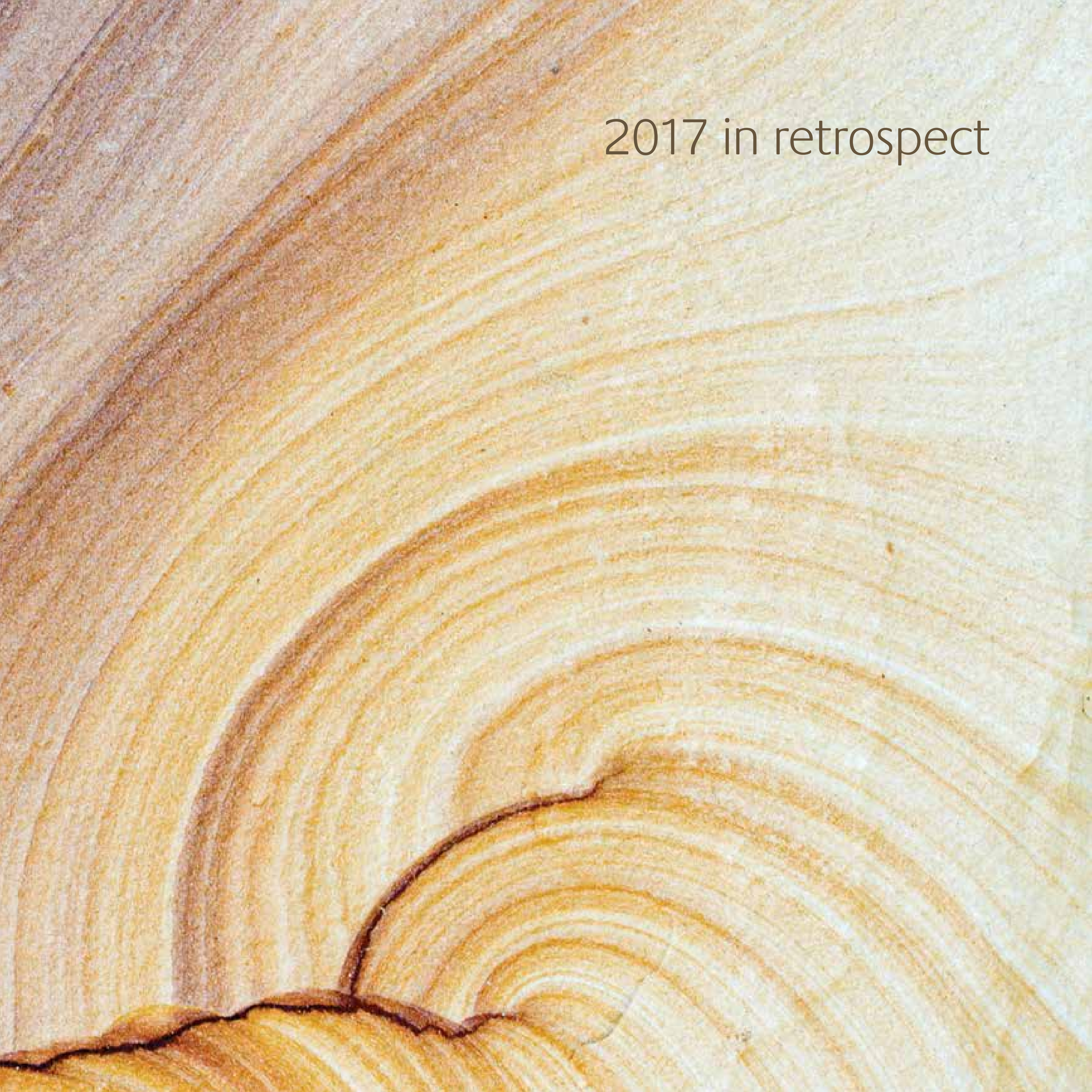
**(ii) Income and expenses for the period ended:**

| **Subsidiaries** | Dividend income RS'M | Other expense RS'M |
|---|---|---|
| 30th June 2016 | 2,203.9 | 8.0 |
| **30th June 2017** | **2,837.7** | **10.2** |
| **Associate** | | |
| 30th June 2016 | 0.2 | - |
| **30th June 2017** | **3.7** | **-** |

### (c) Key Management Personnel compensation

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2017 RS'M | 2016 RS'M | 2017 RS'M | 2016 RS'M |
| Remuneration and other benefits relating to Key Management Personnel, including Directors, were as follows : | | | | |
| Salaries and short term employee benefits | **220.0** | 219.0 | **49.3** | 44.7 |
| Post employment benefits | **14.8** | 18.9 | **3.7** | 4.3 |
| | **234.8** | 237.9 | **53.0** | 49.0 |

# 2017 in retrospect



# 2017 in retrospect

## Spelling Bee

Finals of National Spelling Bee Competition 2017 took place at MCB St Jean

## Cascavelle branch relocated

Cascavelle branch was relocated within the shopping mall's premises



## Science Quest

Royal College Curepipe, Lycée des Mascareignes and Sookdeo Bissoondoyal SSS were the grand winners of Science Quest 2017


## Leading Edge

The Corporate and Institutional Banking SBU launched its e-newsletter, "The Leading Edge"

## Social integration

MCB Forward Foundation financed the construction of a barachois at Cité Tôle, thus promoting aquaculture in the region

## Africa Forward Together

MCB welcomed 47 representatives of African banks and financial institutions at its annual conference

## Game on!

The "Chess in Schools" initiative was introduced on a pilot basis in 11 primary schools

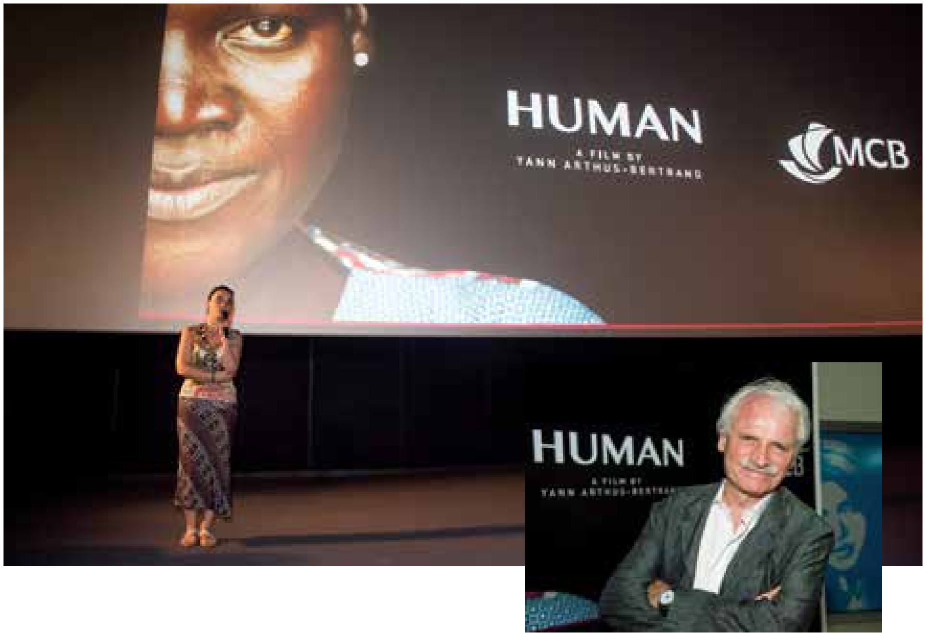
# 2017 in retrospect

## Mobile Payment

PayPal, the world's largest online payment method, is available on JuiceByMCB mobile app


## « HUMAN »

The film "HUMAN", by Yann Arthus-Bertrand, was screened at the cinema Star Bagatelle




## New website

The new design of www.mcb.mu offers customers an easier way to know more about MCB's services

## Environmentalist

"Zero Waste" lifestyle expert, Béa Johnson, held a conference at the Trianon Convention Centre


## Historic Win

Team MCB made history by winning the 2017 Tour de la Réunion


## MCB Tour Championship

Barry Lane won the 2016 edition

## New card

The new MasterCard debit card
has replaced the Maestro card


## SEMYIA

Bel Air SSS won the Stock Exchange
of Mauritius Young Investor Award 2017

## Meeting Shiv Khera

International speaker and leadership guru during a conference at St Jean for MCB Select customers


## Laureate

The 2017 MCB Foundation Scholarship was awarded to Rony Busviah


## Rodrigues Scholarship

Cynthia Lamto and Jonathan Rose have been designated as the 2017 MCB Rodrigues Scholarship laureates

## Golf

Singaporian, Low Wee Jin, won the fifth edition of MCB Indian Ocean Amateur Golf Open 2017

# Administrative information

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Port Louis – Republic of Mauritius
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Email: contact@mcbgroup.com
Website: www.mcbgroup.com

## Banking

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Email: contact@mcbih.mu
Website: www.mcbgroup.com

### THE MAURITIUS COMMERCIAL BANK LTD
***HEAD OFFICE – PORT LOUIS***
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Port Louis – Republic of Mauritius
Tel: (230) 202 5000 – Fax: (230) 208 7054
Swift Code: MCBLMUMU
Email: contact@mcb.mu
Website: www.mcb.mu

***Foreign representative offices***

### PARIS – FRANCE
29 Boulevard Haussmann – 75009 Paris
Tel: (33) 1 41 45 95 95 – Fax: (33) 1 41 45 99 88
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### JOHANNESBURG – SOUTH AFRICA
3rd Floor 'Atrium on 5th'
East Tower, Sandton City
Corner of Maude and 5th Streets
Sandton Central 2146
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Email: michael.shirley@mcb.mu

### NAIROBI – KENYA
Bloom Centre – 7th Floor KMA Centre
Mara Road
Upper Hill – Nairobi
Tel: (254) 20 493 1000
Email: seema.dhanani@mcb.mu

***Foreign banking subsidiaries***

### THE MAURITIUS COMMERCIAL BANK (MADAGASCAR) SA
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Rue Solombavambahoaka Frantsay 77 - Antsahavola
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## Non-Banking Financial

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### MCB INVESTMENT SERVICES LTD

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### MCB STOCKBROKERS LTD

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## MCB CAPITAL PARTNERS LTD

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## MCB INVESTMENT MANAGEMENT CO. LTD

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## MCB STRUCTURED SOLUTIONS LTD

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## CM STRUCTURED PRODUCTS (1) LTD

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## MCB EQUITY FUND LTD

c/o MCB Capital Partners Ltd
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## MCB MICROFINANCE LTD

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## CREDIT GUARANTEE INSURANCE CO. LTD*

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# Other Investments

## FINCORP INVESTMENT LTD

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## PROMOTION AND DEVELOPMENT LTD*

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# Key contact information

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