ANNUAL REPORT 2018

Forward and upward
for a sustainable tomorrow

MCB GROUP

The colourful and original spacers peppered throughout this Annual Report, will no doubt catch your attention. They have been designed and created to do just that. They illustrate the different themes that have been at the centre of our action this year. To this end, we've used recycled materials and a lot of imagination to demonstrate something that's very close to our heart; sustainability can be achieved when we reuse resources, rethink boundaries and redefine our purpose.

This Annual Report is printed on chlorine free recycled paper produced from 100% recovered fibre.

Dear Shareholder,

The Directors of MCB Group Limited are pleased to present its Annual Report for the year ended 30 June 2018.

The Annual Report was approved by the Board of Directors on 27 September 2018.

M G Didier HAREL
Chairperson

Pierre Guy NOEL
Chief Executive

MCB Group at a glance

MCB Group Limited (referred to as ‘MCB Group Ltd’, ‘Group’ or ‘Company’) is an integrated financial services provider.

MCB Group Ltd is the holding company of MCB Group, which consists of banking and non-banking subsidiaries and associates. Through its main subsidiary, i.e. The Mauritius Commercial Bank Limited (denoted as ‘MCB Ltd’, ‘MCB’ or ‘Bank’), MCB Group acts as the leading bank in Mauritius. The Group is also recognised as a prominent financial services provider in the region.

Sustainable prosperity is embedded in our DNA

This year, MCB is celebrating 180 years of existence. During our eventful journey, we have, alongside pursuing our business growth, taken several initiatives that have enabled Mauritius to spearhead its economy to new heights and its society to progress significantly. We also contributed to helping other countries where we are involved to advance.

We now aim to give a new dimension to our raison d’être, while further enriching the actions that we embrace towards meeting the evolving needs of our multiple stakeholders, locally and abroad. As a key endeavour, the organisation is launching an ambitious Sustainable Development Programme. The latter should allow us to better position ourselves vis-à-vis our stakeholders and strengthen the MCB brand. Importantly, the project will, in the periods ahead, accompany the Group in its commitment to contribute to the development of a vibrant and sustainable local economy, the protection and valorisation of the country’s cultural and environmental heritage, and the promotion of individual and collective well-being.

Our stakeholder engagement has been extensively illustrated and quantified throughout this report. By this means, we aim to reflect its notable and increasingly influential role in shaping our thinking and decision-making processes.

Financial summary

	Jun-18	Jun-17	Jun-16	Jun-15	Jun-14
Income statement (Rs m)					
Operating income	16,951	15,506	14,404	13,214	12,275
Operating profit	8,819	8,054	7,607	6,526	4,946
Profit before tax	9,126	8,392	8,342	6,900	5,486
Profit attributable to ordinary equity holders of the parent	7,221	6,702	6,626	5,722	4,365
Statement of financial position (Rs m)					
Total assets	386,370	345,210	317,705	280,013	240,886
Total loans (net)	204,236	171,887	166,697	168,222	154,471
Investment securities	88,747	74,730	62,735	50,689	35,435
Total deposits	297,719	274,863	255,262	221,140	186,088
Subordinated liabilities	5,592	5,587	5,620	5,596	5,409
Other borrowed funds	14,373	5,968	5,193	7,806	8,879
Shareholders' funds	51,306	45,949	40,730	35,933	30,968
Performance ratios (%)					
Return on average total assets	2.0	2.0	2.2	2.2	1.9
Return on average equity	14.8	15.5	17.3	17.1	14.7
Loans to deposits ratio	70.9	64.8	68.1	79.6	86.4
Cost to income ratio	40.1	41.2	40.1	41.8	43.1
Capital adequacy ratios (%)					
Capital & reserves/Total assets	13.3	13.3	12.8	12.8	12.9
BIS risk adjusted ratio	17.3	18.9	18.3	17.1	16.1
of which Tier 1	*15.3*	*16.5*	*15.3*	*14.1*	*12.8*
Asset quality					
Non-performing loans (Rs m)	9,734	10,882	10,704	10,755	11,711
NPL ratio (%)	4.5	6.2	6.2	6.2	7.3
Provision coverage ratio (%)	47.3	38.3	47.0	54.9	53.1

Notes:
(i) For 2014, proforma figures have been used in respect of the income statement to give a proper understanding and comparative view of the Group performance over time.
(ii) Capital adequacy ratios are based on Basel III

Board of Directors

Independent Non-Executive Directors

Didier HAREL *(Chairperson)*

Sunil BANYMANDHUB

Karuna BHOOJEDHUR-OBEEGADOO

Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE

Jean-Louis MATTEI

Alain REY

Non-Executive Directors

Navin HOOLOOMANN, C.S.K.

Jean-Pierre MONTOCCHIO

Jean Michel NG TSEUNG

Margaret WONG PING LUN

Executive Directors

Pierre Guy NOEL

Gilbert GNANY

Secretary to the Board

MCB Group Corporate Services 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

Didier HAREL

Pierre Guy NOEL

Secretary: Jean Michel NG TSEUNG

Audit Committee

Sunil BANYMANDHUB *(Chairperson)*

Alain REY

Margaret WONG PING LUN

Secretary: MCB Group Corporate Services Ltd (represented by Marivonne OXENHAM)

Supervisory and Monitoring Committee

Didier HAREL *(Chairperson)*

Jean Michel NG TSEUNG *(also acts as Secretary)*

Pierre Guy NOEL

Strategy Committee

Didier HAREL *(Chairperson)*

Sunil BANYMANDHUB

Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE

Gilbert GNANY *(also acts as Secretary)*

Jean-Louis MATTEI

Pierre Guy NOEL

Remuneration, Corporate Governance and Ethics Committee

Didier HAREL *(Chairperson)*

Karuna BHOOJEDHUR-OBEEGADOO

Navin HOOLOOMANN, C.S.K.

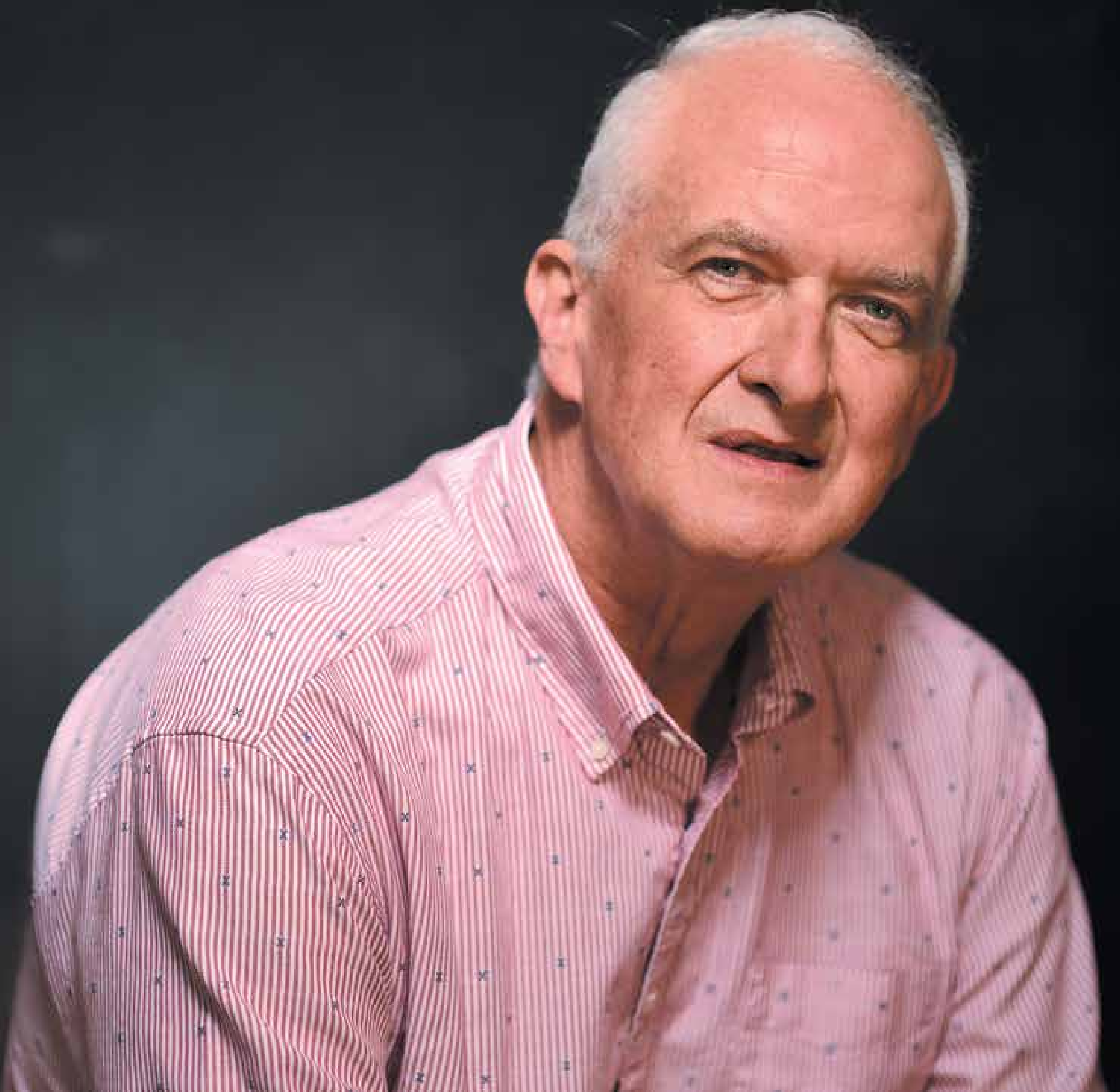
Jean-Pierre MONTOCCHIO

Pierre Guy NOEL

Secretary: MCB Group Corporate Services Ltd (represented by Marivonne OXENHAM)

Reflections from the Chairman

I am confident that the Group will succeed in uncovering the necessary pathways to rise up to the occasion, while creating sustainable returns for shareholders and long-term value for all stakeholders.



What are the key highlights of the year?

It has been a positive and eventful year for us, with progress made on several fronts. We delivered on our strategic objectives, while reinforcing our brand image and franchise. Along the way, we pursued our journey of creating sustainable value for our shareholders and other stakeholders.

The Group further strengthened its balance sheet and delivered another strong set of financial numbers, in spite of a persistently challenging operating environment across markets. Profit attributable to shareholders expanded by 7.7% to reach around Rs 7.2 billion in FY 2017/18, uplifted by further headway made at the level of both our banking and non-banking entities. Another key source of satisfaction is that we preserved our financial soundness in support of our growth strategy. As a major achievement, our cost to income ratio declined to reach 40.1% and our asset quality improved as gauged by a significant fall in the non-performing loans ratio. We have also maintained relatively strong funding and liquidity positions alongside being well capitalised, with a consolidated BIS and Tier I ratio of 17.3% and 15.3% respectively as at 30 June 2018.

Alongside acknowledging the commitment and hard work of our people, our solid performance is founded on the soundness and resilience of our business model. It reflects the success of our endeavours to broaden and diversify our revenue base, alongside testifying to our ability to keep pace with the dynamic economic, regulatory, social and technological environment. Our performance has shown, if need be, that our businesses are being well managed and run, supported by a robust corporate governance framework and a disciplined market development approach. As underlying objectives, we have remained intent on creating the best customer experiences, by notably pursuing our journey to becoming even simpler and more efficient in the conduct of our everyday operations. In addition, we have strengthened our foundations for building future growth, as gauged by the launch of key projects having important ramifications.

What are the main business development achievements of the Group?

In a nutshell, I am pleased to note that our business growth continued to be anchored on broad-based foundations. In fact, Group entities across different clusters have maintained their momentum in implementing their growth agenda. While being ambitious and innovative in their approach, they pursued their business expansion strategy in a carefully thought-out and cautious way, in light of the evolving context. As regard the banking cluster, whilst consolidating its leadership position in Mauritius on the basis of its continuously enriched value proposition and upgraded channel capabilities, MCB Ltd effectively entrenched its diversification strategy with a focus on the African continent. As a key success, we witnessed a significant expansion in activities linked to Energy and Commodities financing, backed by a sound business model which is also being leveraged to broaden our structured project finance undertakings in Africa and beyond. In our foreign presence countries, whereas the operating environment has remained particularly difficult in Maldives and Mozambique, MCB Seychelles and MCB Madagascar pursued their balance sheet growth after capitalising on specific initiatives earmarked to increase their market shares across the retail and corporate segments. The Group has also further broadened its involvement in the non-banking field. In addition to improving our footprint across established areas such as capital markets, factoring and leasing, we have gradually widened our footprint across new and emerging segments. Amongst key achievements, MCB Microfinance further developed its relationships with micro-enterprises and self-employed individuals. Besides, the Group has embarked upon implementing its strategy of acquiring high-yielding real assets, with the establishment of MCB Real Assets Ltd being a key move in this direction. Furthermore, it is interesting to note that International Card Processing Services and MCB Consulting Services have tapped into their expertise and strategic partnerships with leading international solution providers to further diversify activities across countries. In fact, spanning the organisation as a whole, further progress was made in showcasing our 'Bank of Banks' initiative aimed at positioning the Group as a regional hub for meeting the outsourcing needs of financial service providers, especially those in Africa. Before ending, I wish to rapidly go through a key business initiative that we are working upon. While the exact naming and mandates remained to be finalised, the Group will soon launch a business school in collaboration with key local and international stakeholders. In addition to consolidating our position as an integrated financial services group and promoting our brand, this initiative will help us contribute to the national 'Knowledge Hub' initiative and tap into new source of talents to underpin our own international expansion, particularly in Africa.

"As underlying objectives, we have remained intent on creating the best customer experiences, by notably pursuing our journey to becoming even simpler and more efficient in the conduct of our everyday operations."

Reflections from the Chairman

How has the organisation stood out?

The appreciable financial performance and solid credentials of the Group have been acknowledged in several ways. 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. Further reflecting our sound and sustained achievements, we were rated as the top banking institution in East Africa, while improving our positioning to stand at the 644th spot worldwide as per the July 2018 edition of the Top 1000 World Banks of The Banker magazine. With regard to its corporate reporting, MCB Group Ltd has been the recipient of the 'Best Risk Management Disclosures' award at the PricewaterhouseCoopers Corporate Reporting Awards this year. This recognition further testifies to the robustness of our risk management frameworks and policies, alongside reflecting our commitment to promote transparency vis-à-vis our stakeholders. On this note, additional improvements have been brought about with regard to the contents and layout of this Annual Report, as part of our endeavour to undertake an increasingly comprehensive and coherent display and appraisal of our strategic orientations as well as our ability to create sustainable stakeholder value. As regard MCB Ltd, it was, last year, named as 'Bank of the Year for Mauritius' by The Banker/FT Magazine. Importantly and, indeed, encouragingly so, the Bank's sound fundamentals have paved the way for Moody's Investors Service to upgrade its credit outlook from stable to positive. Building on this interesting development, the Bank remains committed to deploying the necessary efforts and upholding its sound credentials with a view to creating favourable grounds that will help it eventually attain an upgrade in its credit rating going forward, though this will also depend on developments in the economy, in general, and in the banking and financial services sector, in particular.

> *"Our performance has shown, if need be, that our businesses are being well managed and run, supported by a robust corporate governance framework and a disciplined market development approach."*

In line with its commitment to promoting sustainability principles, the Group remains dedicated to fulfilling its engagement as a responsible and caring corporate citizen, while pursuing its mission of exerting a positive impact on the advancement and well-being of the communities in which it operates. Whilst the availability of financial resources has been curtailed pursuant to the Government measure to retain a notable part of our assigned CSR funds, MCB Forward Foundation, our dedicated vehicle for the implementation of CSR activities, took several initiatives in favour of community empowerment, youth development and sports, education as well as arts and culture. Besides, we actively adopted environment-conscious practices in our operations and activities, alongside encouraging the recourse to environment-friendly and energy-saving investments by internal and external stakeholders. Moving forward, we have decided to give a new dimension to our stakeholder engagement amidst this changing world environment. As such, we are launching an ambitious Sustainable Development Programme. The aim of the latter is to accompany the Group in rethinking and renewing its engagements in respect of sustainable development principles, alongside better positioning the organisation vis-à-vis its stakeholders and further strengthening MCB's brand.

What does the future hold for the Group?

As I look to the future, I am fully aware that there is much more that the Group can do to pursue and strengthen its growth momentum as it faces up to rapidly changing market and regulatory environments. At the same time, there is a lot of work ahead for us to create and consolidate the necessary building blocks for achieving sound, diversified and sustained business growth and, thus, creating distinctive long-term value for our stakeholders. To start with, we will uphold the sound funding and capital adequacy profiles of relevant entities of the Group in support of their growth aspirations, alongside standing ready to take the necessary strategic decisions to preserve the soundness of our positioning. On the operational front, we will remain innovative and purpose-driven in what we do, with due focus laid on the prompt and disciplined execution of our business initiatives. We will ensure that we are fully equipped to opportunely and effectively identify, manage and mitigate the risks and uncertainties inherent in today's operating landscape. Amongst key focus areas, we will ensure that the regional diversification strategies of our entities unfold in a sound and balanced way, backed by a robust risk management infrastructure, clearly-defined risk appetite as well as the judicious structuring and rigorous monitoring of deals and activities. As our bedrock, the Group is committed to anchoring a well-defined and transparent corporate governance framework which provides stability and effective oversight.

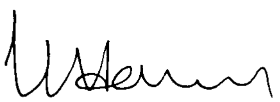
"In line with its commitment to promoting sustainability principles, the Group remains dedicated to fulfilling its engagement as a responsible and caring corporate citizen…"

As a major enabler towards bolstering our operational efficiency, better capitalising on growth avenues and reshaping our future, I would like to shed light on some landmark projects that the Group has been engaged upon. We recently launched our Digital Transformation Programme, which will help us reinforce our focus on using automation and technology to deliver a more efficient and exciting banking experience that better reflects the changing ways our customers now wish to bank. Importantly also, we boarded onto a bold HR Transformation Programme to upgrade our human capital and better support ongoing growth strategies. The project should essentially enable our employees and HR processes to be adequately aligned in order to build talent capabilities, through *inter alia* the progressive optimisation of our internal talent cycle spanning from needs planning and recruitment to succession planning, as well as customer connectivity and innovation across the organisation. I wish to add that both projects mentioned above are closely intertwined and mutually reinforcing. Basically, they should enable our organisation to become increasingly agile in its mode of operation and instill new ways of working, backed by the entrenchment of innovative skill and mindsets amongst our employees. In turn, this should allow us to improve our adaptability and speed of change, alongside instilling a bottom-up innovation and client-centric culture across the organisation, thus delivering digital customer journeys in a nimble and cross-functional way.

Some final words before we end...

I wish to express my deepest appreciation and gratitude to our customers and shareholders for their loyalty and confidence in the organisation. The Management and staff deserve special recognition for their commitment and hard work towards enabling the Group navigate safely through the complex and increasingly challenging operating context and sustain its growth pattern. I also wish to express my gratitude to my fellow directors for their wise counsel and collaboration for steering the Group in the right direction.

While our organisation's 180-year history has been written, the future is ours to shape. I think that our future is going to be very exciting, but it will also contain numerous daunting challenges that we need to make sense of and adequately respond to. Nonetheless, I am confident that the Group will succeed in uncovering the necessary pathways to rise up to the occasion, while creating sustainable returns for shareholders and long-term value for all stakeholders. Importantly, we shall, more than ever, require a strong and unified Group corporate culture that will contribute towards encompassing and strengthening our consistent and solid set of values, attracting and retaining talent at large, and millennial talent in particular, and also continuing to add to our brand identity. Over and above being a *sine qua non* condition for remaining highly competitive in the near term, our Group corporate culture will play a decisive role in guiding us in our journey ahead.



M G Didier HAREL
Chairperson

Review by the Chief Executive

What is your appreciation of the Group's performance for the year?

The year under review has been positive for the Group. We made good progress on our business development agenda across market segments while reaping the benefits of past initiatives undertaken to support our growth strategy. Importantly, we continued to invest for the future with ambitious projects launched to reinforce internal capabilities.

Operating within a still difficult context, the Group posted a growth of 7.7% in profit attributable to equity holders which reached Rs 7,221 million. Backed by the effective execution of our diversification strategy, operating income sustained its growth momentum to increase by 9.3% to Rs 16,951 million. This performance was supported by a rise of 12.3% in net interest income which benefited from a notable pick up in loans and advances, mainly driven by the international activities of MCB Ltd, and from improved margins on foreign currency lending and the favourable evolution in yields on T-Bills. Net fee and commission income recorded an appreciable growth of 7.1%, underpinned by higher receipts from regional trade finance linked to the Energy & Commodities business, cards activities and inroads made by MCB Capital Markets Ltd. Whilst profit on exchange grew by 4.0%, 'other income' edged up by only 1.6%, due to lower contribution from disposal of investment at the level of MCB Equity Fund Ltd.

Despite our continued investment in capacity building initiatives, operating expenses growth was contained to 6.5%, resulting in an improvement of 107 basis points in our cost to income ratio which reached 40.1%. Impairment charges, however, were up by Rs 266 million and represented some 61 basis points of loans and advances, of which 9 basis points related to portfolio provisions, whilst asset quality improved with the gross NPL ratio declining from 6.2% to 4.5%. Furthermore, growth in overall results was impacted by a reduction of Rs 32 million in share of profit of associates with the loss at the level of PAD group offsetting enhanced contribution from BFCOI. Our tax charge was also impacted by a one-off charge of Rs 258 million relating to prior years and resulting from the Mauritius Revenue Authority reassessing the allocation of expenses between the local and foreign sourced activities of MCB Ltd.

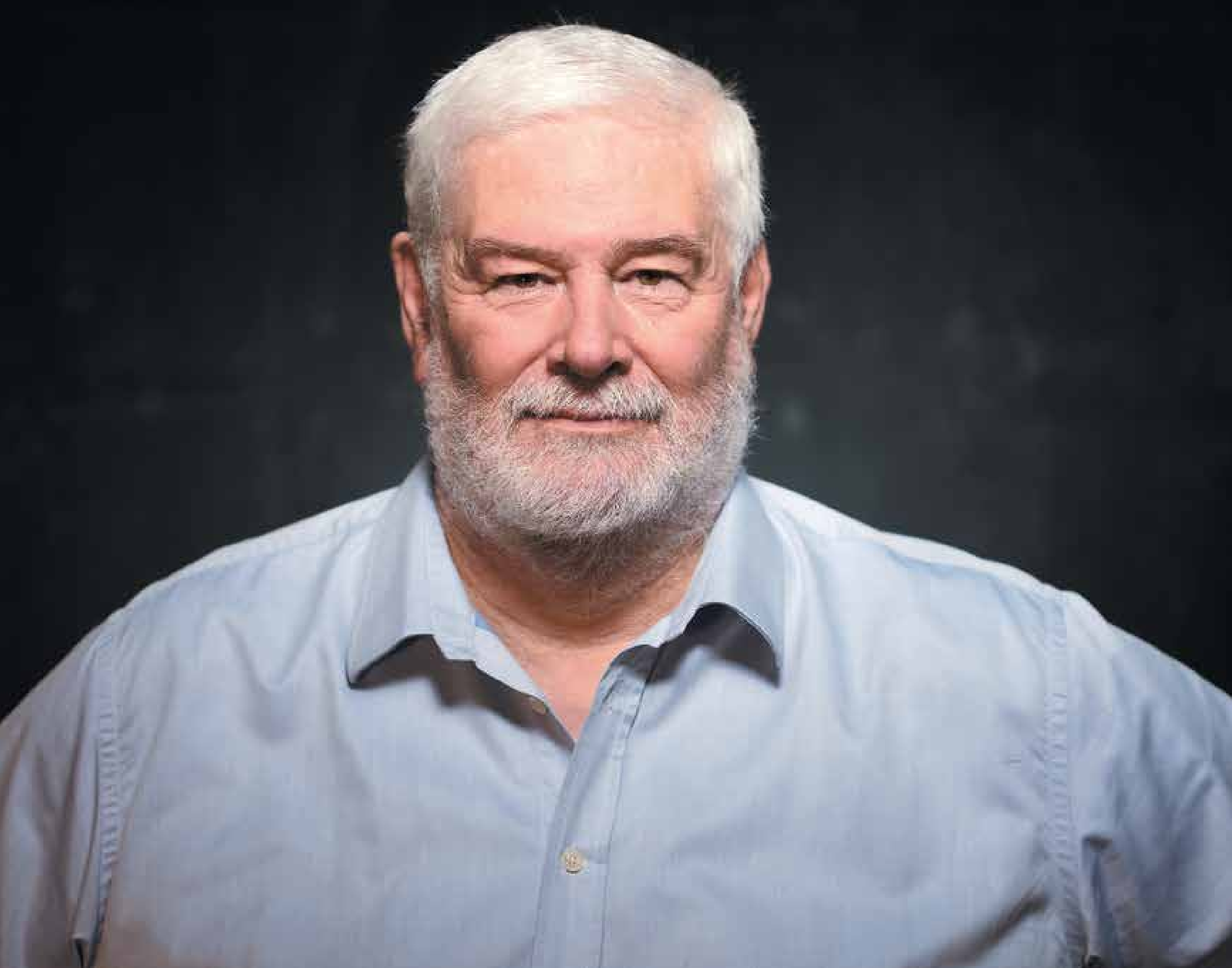
> *"We made good progress on our business development agenda across market segments while reaping the benefits of past initiatives undertaken to support our growth strategy."*

The development of our activities remained anchored on sound business practices. Despite the sizeable growth in our portfolio, we have remained well-capitalised and have maintained relatively strong liquidity and funding positions. Furthermore, we enhanced the resilience of our business model notably by widening our revenue base with the combined contribution of foreign-sourced income and non-banking activities now accounting for 57% of the profits for the year, an improvement of some 6 percentage points over the previous year.

What are the main business development realisations of the Group?

On the local front, we consolidated our leadership position in both individual and corporate segments, alongside extending our private banking and wealth management proposition. Importantly, the Group maintained its diversification agenda and sharpened its regional market development impetus. MCB Ltd extended its frontiers and broadened its footprint on the African continent, being mainly involved in niche segments where it displays strategic competencies. The Bank witnessed a significant expansion in respect of its Energy and Commodities financing and widened its involvement in regional project finance. With regard to our foreign banking subsidiaries, they extended their business development activities and pursued their diversification strategy by targeting new market segments, alongside improving their value proposition and customer experience. As for our non-banking entities, they expanded their activities and were increasingly involved beyond our local shores. In addition to completing landmark structured finance and capital raising transactions locally, MCB Capital Markets is becoming increasingly active in

"We will continue to build on our achievements, adapting to the ever changing operating environment to take the MCB Group to the next stage of its development…"



Review by the Chief Executive

accompanying clients on the African continent and has, on the asset management side, witnessed a strong investment performance and a robust growth in assets under management. As a recent key initiative, the African Development Bank and MCB Group launched the African Domestic Bond Fund, the first multijurisdictional fixed income Exchange Traded Fund on the continent and listed on the Stock Exchange of Mauritius. It aims at encouraging bond issuances in local currencies by giving investors access to local African fixed income markets through a publicly listed and cost effective vehicle. Further testifying to the diversification of our business, the Group widened its activities to real estate investment management, with the setting up of MCB Real Assets Ltd as an initial step to providing our customers with the opportunity of accessing yielding assets backed by prime real estate. Moreover, MCB Microfinance has, after only two years of existence, posted a significant expansion in its loan portfolio, boosted by enhanced customer proximity. For its part, MCB Consulting Services undertook more than 160 assignments during the last financial year and has now intervened in 28 different countries. While the majority of the activity was centered around the African continent, inroads were made in Asia. As for International Card Processing Services (ICPS), further progress was made in providing multi-channel card and payment solutions to clients across some 15 African markets.

What are the key success factors that underpin the Group's progress?

As a key focus area, the Group has continued to reinforce its foundations to underpin sound and balanced business growth. Alongside adhering to applicable regulatory requirements, entities of the Group anchored their business strategies on their robust risk management infrastructure and clearly-defined risk appetite. In another light, the Group continues to streamline its operations to foster increased agility in its functioning, with the use of technology contributing to improve customer experience. Recognising that our people constitute the backbone of the organisation, the Group is consistently striving to enhance the quality of its human capital to support its business aspiration, with due emphasis being laid on attracting, developing and retaining our staff with a view to creating differentiated customer experiences and shaping up the future of the Group. In another respect, due attention is being laid on further improving our brand visibility through sponsorships as well as the organisation of and participation in specific events, seminars and roadshows, with the latest Africa Forward Together seminar, which welcomed 24 banks from 11 African countries, once again proving to be very successful. At the wider organisation level, focus is being laid on tapping into intra-Group synergies, especially with respect to the execution of our regional diversification strategy. Notably, the Group continues to deploy its 'Bank of Banks' proposal to reinforce its positioning as a regional platform for providing tailored solutions to financial institution counterparts, notably those in Africa. All in all, we seek to continuously strengthen our inherent capabilities in order to foster a consistent expansion in our balance sheet and revenue streams. In fact, in the wake of progress realised on those fronts and our steadily sound fundamentals, it is encouraging to note that Moody's Investors Service has upgraded the investment-grade credit rating outlook of MCB Ltd from stable to positive.

"Recognising that our people constitute the backbone of the organisation, the Group is consistently striving to enhance the quality of its human capital to support its business aspiration…"

What is your outlook for the Group?

As it stands, the operating context is displaying some encouraging signs. Notably, while money market conditions have improved, economic growth in Mauritius is anticipated to pick up slightly on the back of major infrastructure projects. In addition, the African continent is marked by a progressive improvement in its macroeconomic fundamentals. However, conscious of the downside risks to economic activities in Mauritius and abroad, the Group continues to adopt a prudent and thoughtful approach in pursuing its business agenda, while paying close attention to certain country-specific vulnerabilities. The Group will, in line with its set risk appetite, maintain its disciplined approach for the execution of its strategic plan and forge ahead with its expansion initiatives. The latter will continue to be centred around the consolidation of our positioning in established markets and the further diversification of our operations, with Africa staying a key focus area for the Group. Against this backdrop, we expect results to improve further in FY 2018/19 with the Group benefiting from the full-year impact of the growth in the loan portfolio that occurred in the latter part of last year.

The Group will continue to invest in consolidating foundations for future growth and adequately meet the expectations of our stakeholders within a dynamic operating environment. In this context, we will ensure that recently launched projects unfold in an effective and timely manner. Especially, our Digital Transformation Programme should help to foster improved operational agility, while delivering a more convenient and appealing banking experience to our clients. Through our HR Transformation Programme, we will further reinforce HR processes, thus allowing us to better support our ongoing growth strategies across entities.

Moreover, the Group will maintain its support to the societies and communities in which it is involved. We are conscious that financial resources to be devoted thereto are being significantly reduced in the wake of the Government measure to retain a significant portion of our assigned CSR funds. We remain however committed to adhering to sustainability principles and making a difference to the environments in which we operate. In this context and building on our past achievements, the Group is launching a Sustainable Development Programme. This is an important undertaking which will hopefully enhance our brand image and give a new dimension to the scale and significance of our stakeholder interactions. More specifically, the project should provide us with the means to better contribute to the development of a vibrant and sustainable local economy, the protection and valorisation of the country's cultural and environmental heritage, as well as the promotion of individual and collective well-being.

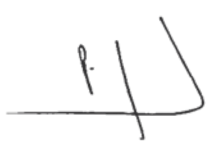
"The Group will, in line with its set risk appetite, maintain its disciplined approach for the execution of its strategic plan and forge ahead with its expansion initiatives."

Any concluding remarks?

The progress realised by the Group would not have been possible without the unflinching support and involvement of all our stakeholders. I would thus like to extend my gratitude to our valued customers for partnering with us and to our shareholders for their faith in our ability to create sustainable value for them. I also wish to thank the members of the various Boards of the Group for their contribution and guidance in helping the organisation pursue its market development and achieve its objectives.

Furthermore, my appreciation goes to all our staff members and Management teams for their hard work and dedication to execute our strategy and for their commitment to our shared values. Whilst preparing this Annual Report, I cannot but have a special thought for Mr Ryan Coopamah, the former Head of Communication at MCB Ltd, who deceased in December last.

For 180 years, we have continuously boosted the resilience, dynamism and reputation of our organisation. We will continue to build on our achievements, adapting to the ever changing operating environment to take the MCB Group to the next stage of its development, while creating sustainable value for the welfare of all its stakeholders.



Pierre Guy NOEL
Chief Executive

About this report

Philosophy of the annual report

As our primary report, this annual report provides a concise and transparent overview and assessment of the ability of our organisation to achieve sustainable business growth and generate revenue.

At the same time, the report demonstrates our commitment as well as the key strategies and initiatives that we adopt in order to create value for the benefit and well-being of our numerous stakeholders. While inroads have been made to foster comprehensive adhering thereto, this report has strived to adopt the integrated reporting principles as determined by the Integrated Reporting Council.

Introduction to key concepts

Our stakeholder engagement

The report demonstrates our approach in building and promoting stakeholder engagement activities and relationships that enable us to achieve our purpose, create value and make a difference to the world in which we operate. By means of information contained in the report, our stakeholders can formulate a reasonable view on how we manage the challenges and opportunities that impact the long-term returns and the sustainability of the Group amidst an evolving operating context.

Our key stakeholders

Shareholders and investors

Customers

Societies and communities

Authorities and economic agents

Employees

Our materiality review

We apply the concept of materiality in deciding about which information is to be included in this report. We consider any theme as being material if it has the capacity to significantly impact revenue generation, value creation and the Group corporate culture. In a nutshell, our commonly identified material matters, whose relative significance may change over time, revolve around the following themes:

- Upholding ethical and good governance standards in our operations
- Preserving the trust of our stakeholders
- Providing customers with their preferred choices of financial services
- Promoting the welfare of societies, communities and preserving the natural environment
- Managing external challenges and opportunities
- Promoting the competence, empowerment and welfare of our staff
- Fostering operational excellence, innovation and the digitalisation of our operations

Scope and boundary of reporting

Reporting period

The report covers the period spanning 1 July 2017 to 30 June 2018. Material events taking place after this date and until approval by the Board of Directors of MCB Group Ltd on 27 September 2018 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 business

The report sheds light on activities undertaken across the Group's local and foreign subsidiaries and associates. The nature and extent of information delivered depend on their materiality and relative significance to the Group and its stakeholders.

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.

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:

1. Our Corporate Profile
2. Our Corporate Strategy
3. Our Performance
4. Corporate Governance Report
5. Risk and Capital Management Report

Icons used in this report

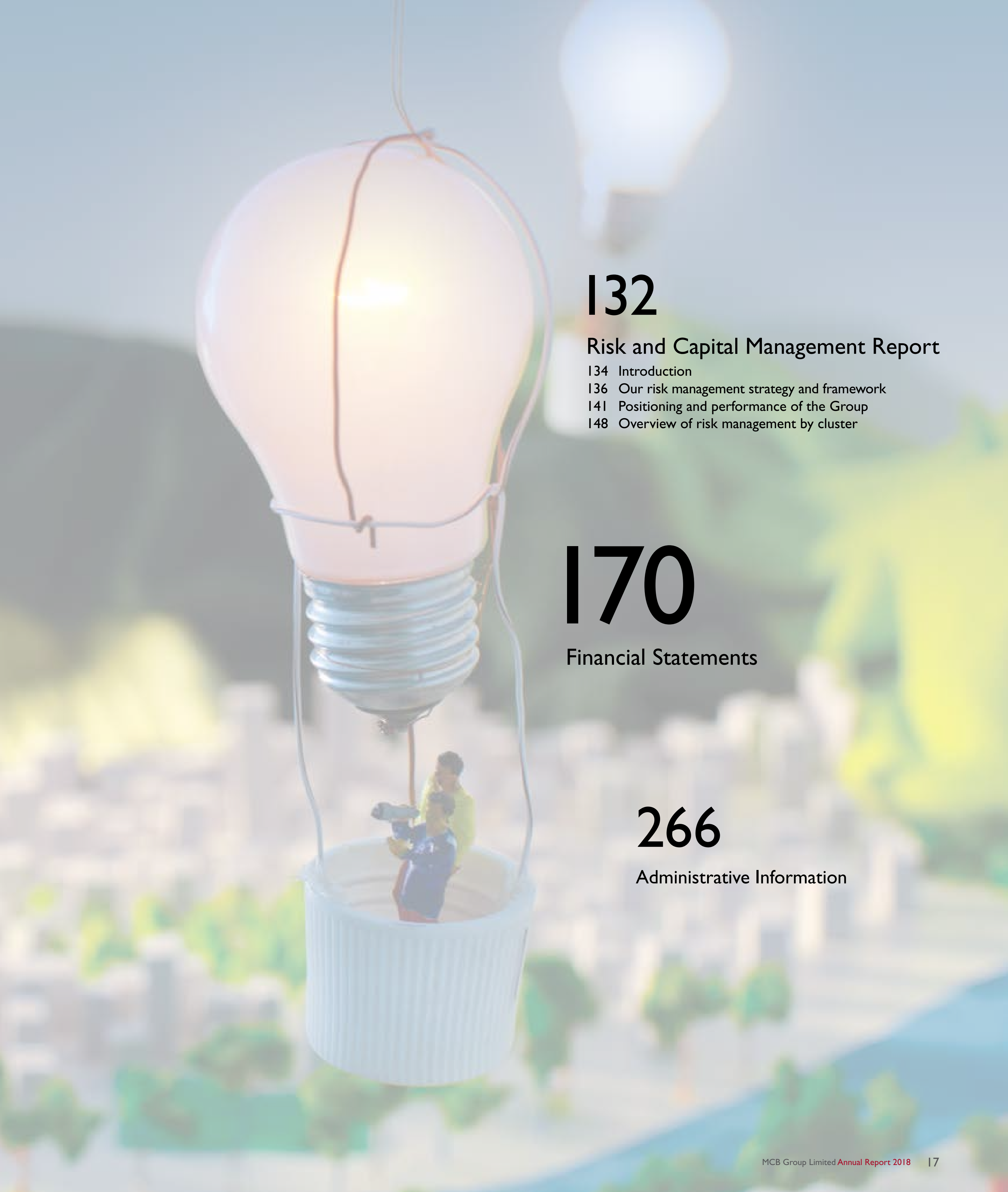
Read more
(i.e. in this Annual Report)

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

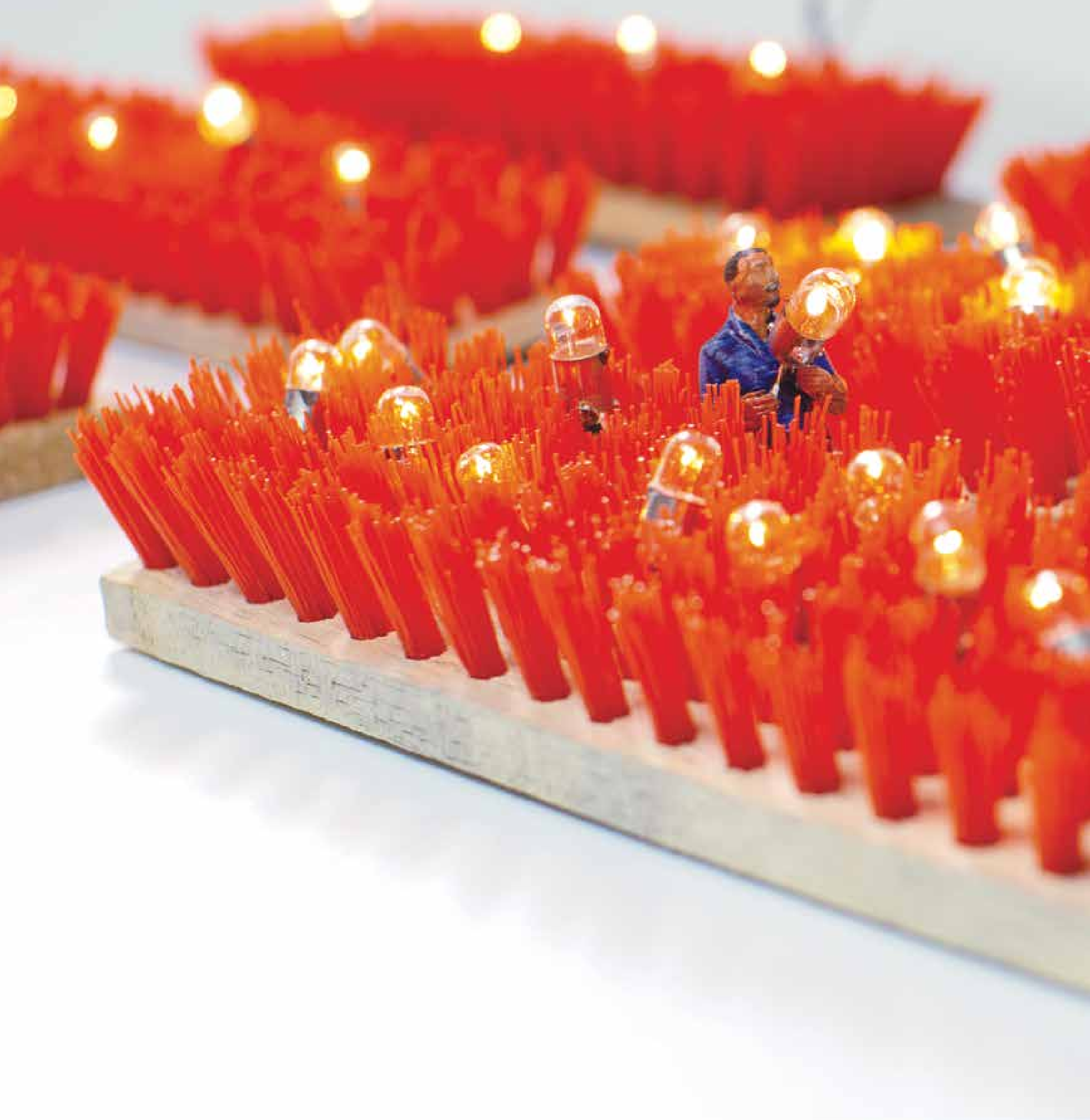
You can access our annual report at **www.mcbgroup.com**

For a more comprehensive understanding of MCB Group's strategy, business, performance as well as approach to corporate governance, our websites provide a full suite of publications, which cater for the diverse needs of our stakeholders.

Contents



Our Corporate Profile



Local Economy

FOR THE LOVE OF GREAT IDEAS

Aren't good ideas a clever thing? Of course they are! The problem is – as great as an idea is, it's worth nothing if it can't be implemented. Entrepreneurs know this all too well. Those people have to fight every day for a place in the sun with notably less advantages than bigger and better established companies.

The good news is – when you're a bank, you can do something about it and this is exactly what MCB did last year with the Verde Scale Up competition; the contest targeted local SMEs and start-ups and rewarded the one considered to have the most potential for scaling up.

And this is by no means a one-off because MCB believes and will invest in small local businesses. For when they make it, the country wins. And so do we.

Our corporate profile

Who we are

Overview of the Group

MCB Group serves a wide range of clients by means of its local and foreign subsidiaries and associates. Through MCB Ltd which was established in 1838, the Group cemented its position as the leading banking sector player locally. The Group has diversified its activities across geographies, notably in the region, and broadened its footprint in the non-banking field.

The shares of MCB Group are listed on the Official Market of the Stock Exchange of Mauritius since its inception in 1989. The Group has a broad and diversified shareholder base. It also has the largest market capitalisation thereon, with a share of some 25%[1]. Moreover, MCB Group shares are the most traded stocks on the market, representing some 44% of market turnover[2] in FY 2017/18.

Our brand

The Group has a strong franchise and stands out for its long track record of solid profitability and healthy balance sheet. Its main subsidiary, i.e. MCB Ltd, is investment-grade rated. We actively assist in the advancement and prosperity of our clients, while helping the societies, communities and economies in which we are actively involved to progress and thrive. As part of our sustainable approach to business, we adopt dedicated initiatives that are aimed to promote social welfare and natural resource protection.

Credit ratings of MCB Ltd

Agency	Outlook	Long Term	Short Term
Moody's Investors Service	Positive	Baa3	P-3
Fitch Ratings	Stable	BBB-	F3

Our expertise

Our operating model is based on innovation and excellence. We provide a wide range of adapted and flexible financial services that seek to meet the evolving needs of our individual, corporate and institutional clients, backed by a thorough knowledge of the markets we serve and high quality customer service. We embrace digital technology to enhance our efficiencies and enrich client experiences. Furthermore, comprehensive and robust risk management allows us to grow our business in a sound, balanced and sustainable way.

Our financial strength

We have a strong balance sheet, capital position and funding profile, which inspire the trust of our shareholders and customers.

[1] *Excluding foreign-currency denominated, Global Business and international companies*
[2] *Excluding one-off transactions*

Our general positioning

~1,028,300
Clients

3,409
Employees

55
Branches

201
ATMs

~1,300
Correspondent banks

Our key financials

Rs **7.2** bn
Net profit
(2017: Rs 6.7 bn)

Rs **386** bn
Total assets
(2017: Rs 345 bn)

Rs **206** bn
Customer loans
(2017: Rs 177 bn)

Rs **295** bn
Customer deposits
(2017: Rs 272 bn)

17.3 %
Capital adequacy ratio
(2017: 18.9%)

Our stock profile

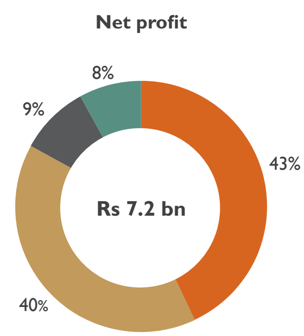
Rs **65.9** bn
Market capitalisation

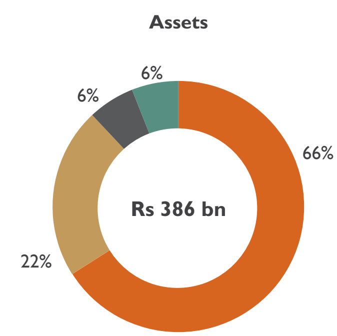
>19,000 investors
Shareholder base

Rs **30.26**
Earnings per share

Rs **10.00**
Dividend per share

Contribution to Group performance





■ MCB Ltd - Domestic
■ Foreign banking subsidiaries & associates
■ MCB Ltd - Foreign-sourced
■ Non-banking finacial & Other investments

Read more on our financial performance in the 'Financial Review' section on pages 75 to 79

Our corporate profile

Accolades and recognition

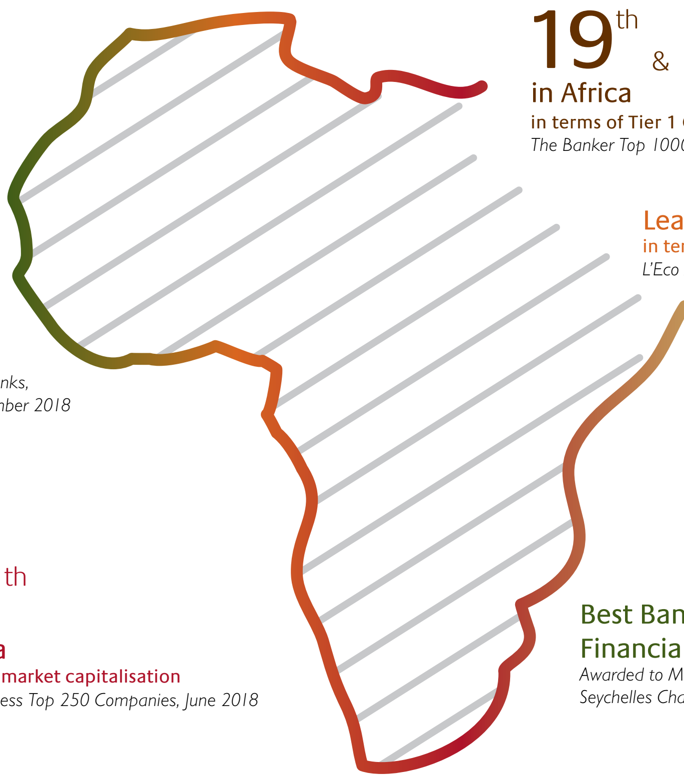
World

644th in the world

in terms of Tier I capital

The Banker Top 1000 World Banks, July 2018

Africa



19th & 1st

in Africa & in East Africa

in terms of Tier 1 Capital

The Banker Top 1000 World Banks, July 2018

Leading Regional Bank

in terms of operating income and profitability

L'Eco Austral, Top 500 Regional, Edition 2017

33rd

in Africa

in terms of assets

Jeune Afrique Top 200 Banks,
The Africa Report, September 2018

Best Banking and Financial Services Award 2017

Awarded to MCB Seychelles Ltd by Seychelles Chamber of Commerce & Industry

86th

in Africa

in terms of market capitalisation

African Business Top 250 Companies, June 2018

Mauritius

Bank of the Year for Mauritius

The Banker Bank of the Year Awards 2017

Best Bank in Mauritius

Euromoney Awards for Excellence 2018

Performance Excellence Award 2017

attributed by JP Morgan Chase for MCB's straight-through processing rate for payments and transfers

Best Private Bank in Mauritius

PWM/The Banker 2017

Best Risk Management Disclosures

PwC Corporate Reporting Awards 2018

Our transparent and integrated business model

Our purpose

Our business model defines who we are, what we do and how we do it. It is driven by our purpose. The latter reflects our commitment to uphold the success of our brand, while creating sustainable value for our shareholders and maintaining their trust over the long run.

What we stand for

With a view to achieving our mission and vision …

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

… we set out to execute our three-pronged strategic objectives …

Sharpen our domestic position

Expand our non-bank activities

Grow our international footprint

… underpinned by the firm adherence to 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

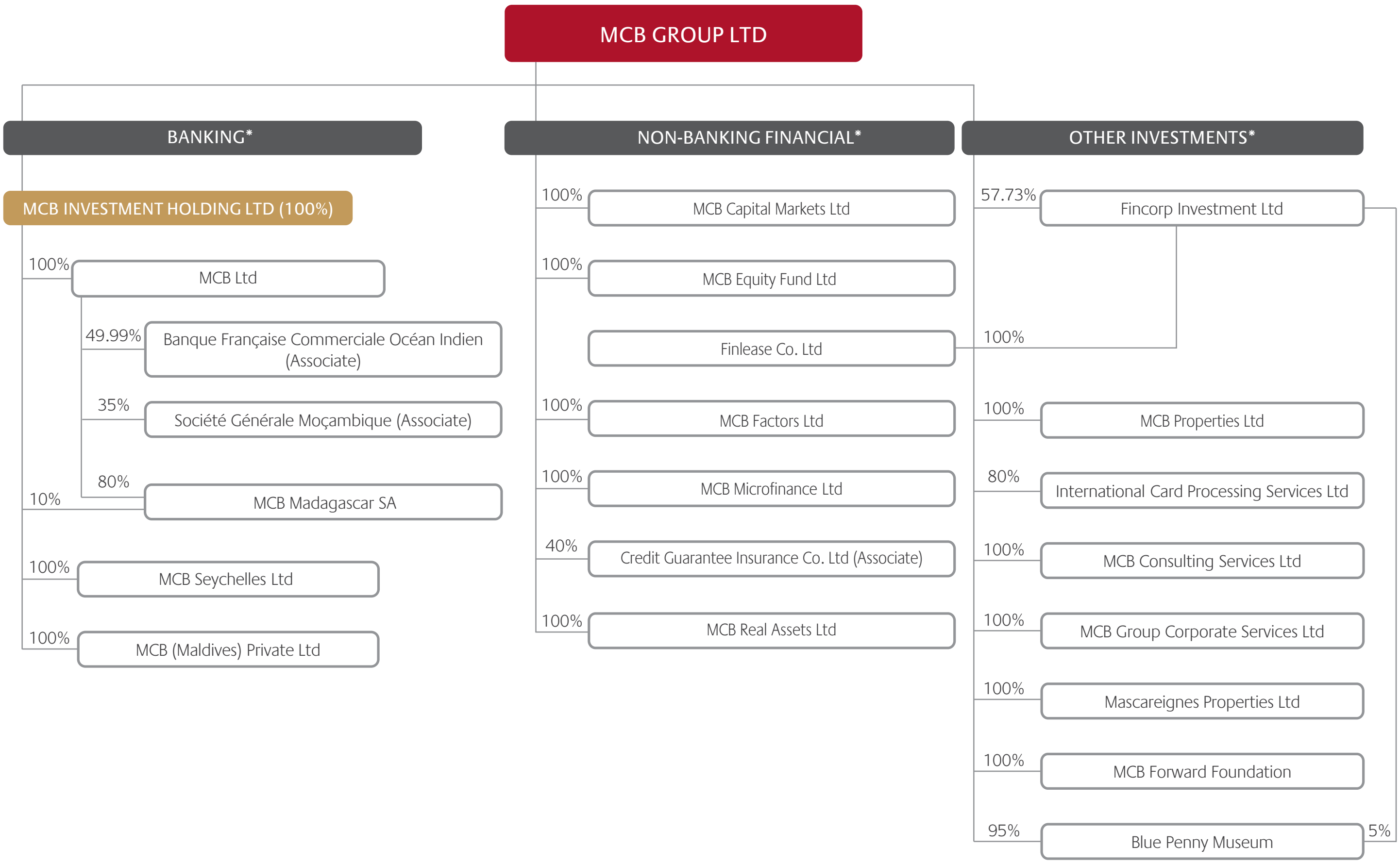
Excellence
Being the best we possibly can

Our corporate profile

How we operate

Our strategy execution is enabled by key operating pillars, which comprise entities, business lines as well as coverage and support functions. Common frameworks and policies shape up the execution of our strategic intents towards ensuring that the Group works in an integrated way.

Our Group structure



** Relate to clusters*

MCB Group Ltd is the ultimate holding company of the Group.

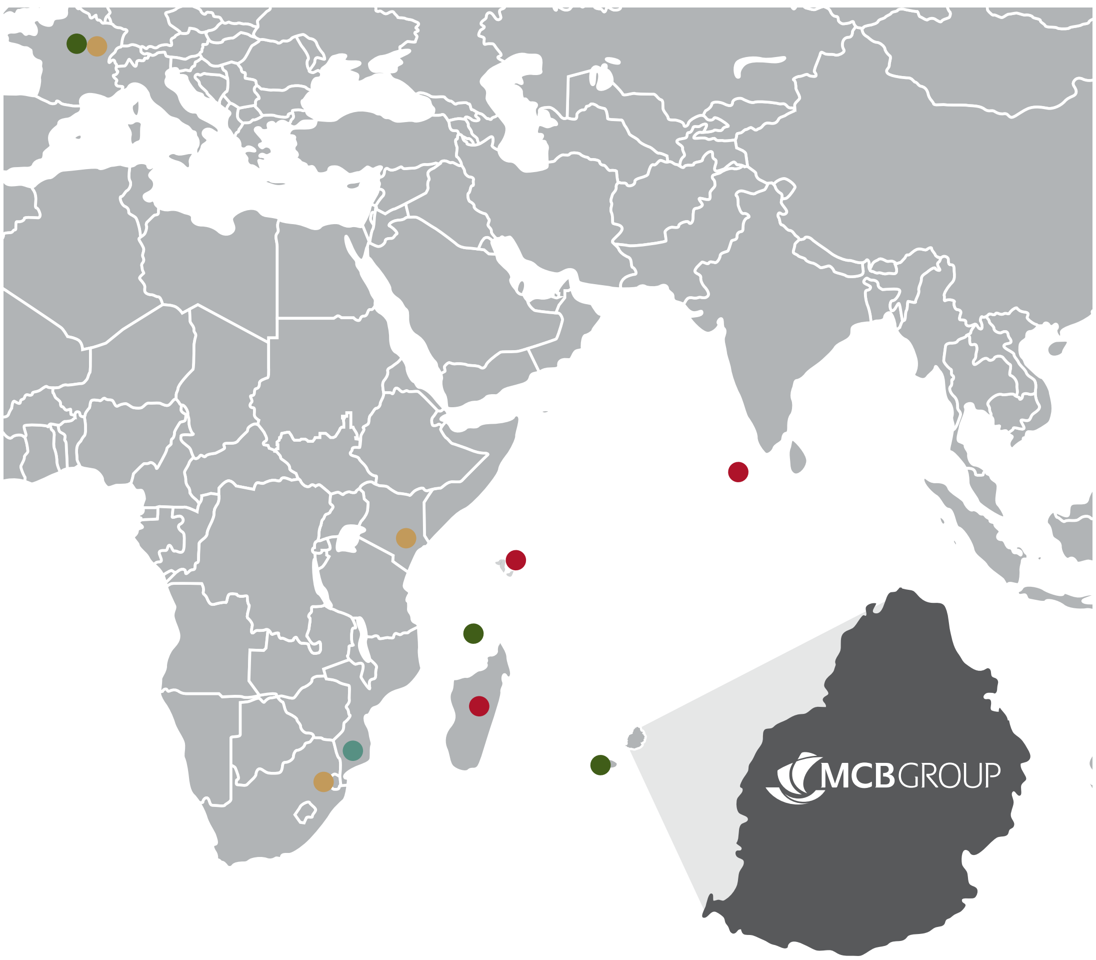
The subsidiaries and associates of the Group operate under three clusters, i.e. 'Banking', 'Non-banking financial', and 'Other investments'. **MCB Investment Holding Ltd**, a wholly-owned subsidiary of MCB Group Ltd, is the holding company of all the banking investments of the Group, namely MCB Ltd and overseas banking subsidiaries and associates. In FY 2017/18, MCB Real Assets Ltd ('MCBRA') was set up as a wholly owned subsidiary of MCB Group Ltd as part of the initiative of implementing a Real Estate Investment ('REI') strategy whereby MCB Group will, through MCBRA or another subsidiary, act as seed investor for the acquisition of yielding real estate assets. The REI activity will initially be focused on originating and acquiring prime income generating real estate assets in Mauritius. Depending on market opportunities, the REI activity may be extended to other countries. These assets are to be held through dedicated investment vehicles in which investors will be given the opportunity to invest.

Our market operations

Our functioning

To further their business growth, the Group entities capitalise on their competent workforce, cutting-edge technology as well as wide-ranging platforms and channels. These include branches, ATMs, merchant terminals as well as mobile and Internet Banking platforms. In addition to benefiting from organisation-wide collaboration and synergies, the entities capitalise on alliances and partnerships with external stakeholders to shore up their market development. Specifically, MCB Ltd taps into a network of some 1,300 correspondent banks worldwide, including some 225 in Africa.

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



Legend

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

Our corporate profile

Our clusters and entities

Banking

The Group is the market leader in the Mauritian banking sector via its main subsidiary, i.e. MCB Ltd, which is also actively involved in the region. Beyond Mauritius, the Group also leverages its overseas banking subsidiaries and associates.

MCB Ltd

Local

- The Bank attends to the needs of corporate and institutional clients in Mauritius by means of flexible financial solutions as well as dedicated advice to meet their business development and capacity building ambitions.

- We cater for the day-to-day and lifetime needs of our individual customers. In addition to credit facilities, convenient deposit facilities and adapted account packages are offered to individual customers across age groups. Also, we accompany small and medium enterprises (SMEs) throughout their business development cycle.

- The Bank provides services as well as investment and wealth management solutions which are geared towards the safeguard, growth and transmission of the assets of its affluent client base.

- Our individual and non-individual clients can avail of multiple channels and services to carry out their banking transactions. Furthermore, they can benefit from investment solutions which are customised in line with their profiles.

Foreign

- The Bank provides solutions to clients across sub-Saharan Africa, while also venturing beyond. It positions itself to facilitate trade and investment between Africa, Asia and the world. The Bank is involved across the downstream, midstream and upstream Energy and Commodities segments, notably across Africa. We also offer structured project finance to entities investing and doing business in Africa, while also tapping into opportunities surfacing beyond. In another respect, the Bank attends to the needs of foreign high net worth customers and external asset managers.

- The Bank actively promotes the Group's 'Bank of Banks' initiative, by providing adapted solutions to financial institutions.

Overseas entities

- The Group's foreign banking subsidiaries in Madagascar, Maldives and Seychelles as well as its overseas associates, i.e. Banque Française Commerciale Océan Indien (BFCOI) – operating in Réunion Island, Mayotte and Paris – and Société Générale Moçambique, provide clients with banking solutions that are adapted to local market realities.

Non-banking financial

The Group has gradually entrenched its participation in the non-banking financial services field.

Key entities

- **MCB Capital Markets Ltd** is the investment banking and asset management arm of MCB Group. Led by a dedicated and experienced team of specialists, the entity provides a broad range of investor services under one roof, notably including corporate finance advice, asset management, stockbroking, private equity, structured products and registry services. Based in Mauritius, the team 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.

- **MCB Factors Ltd** is viewed as the benchmark in the field of factoring in Mauritius. It offers innovative advisory and counselling solutions, while tailoring its factoring services to suit the business growth and cash flow requirements of its clients.

- **Finlease Co. Ltd** brings in a wealth of experience to position itself as the local market leader. It offers a wide range of finance and operating leasing solutions, alongside offering attractive rates on fixed deposits.

- **MCB Microfinance Ltd**, which was launched a couple of years back, provides dedicated support to micro and small entrepreneurs towards assisting them to unleash their potential as well as implement their ideas and business plans.

Other investments

The Group is involved beyond the traditional financial services field, as gauged by its engagement across several business areas and ancillary undertakings. The Group also has dedicated structures to promote its actions in the CSR and philanthropic fields.

Key entities

- **International Card Processing Services Ltd (ICPS Ltd)** is a joint venture of MCB Group Ltd and Hightech Payment Systems (HPS), a leading payment software company present in more than 85 countries. Leveraging card business and technical specialists, ICPS provides state-of-the-art technology in Switching and Card Management Systems, while enabling banks to achieve economies of scale in outsourcing processing activities. It operates in some 15 countries across the African continent.

- **MCB Consulting Services Ltd** provides companies with sustainable solutions to help them attain their innovation and business development goals. Its areas of specialisation include the provision of advisory services – which range from strategic planning and execution to risk management – business process reviews and organisation reviews, assistance in the selection, implementation and maintenance of the solutions, as well as the delivery of training services. It operates in around 30 countries, notably across Africa and Asia.

- **Fincorp Investment Ltd** is listed on the local stock exchange. It is an investment company with diversified interests.

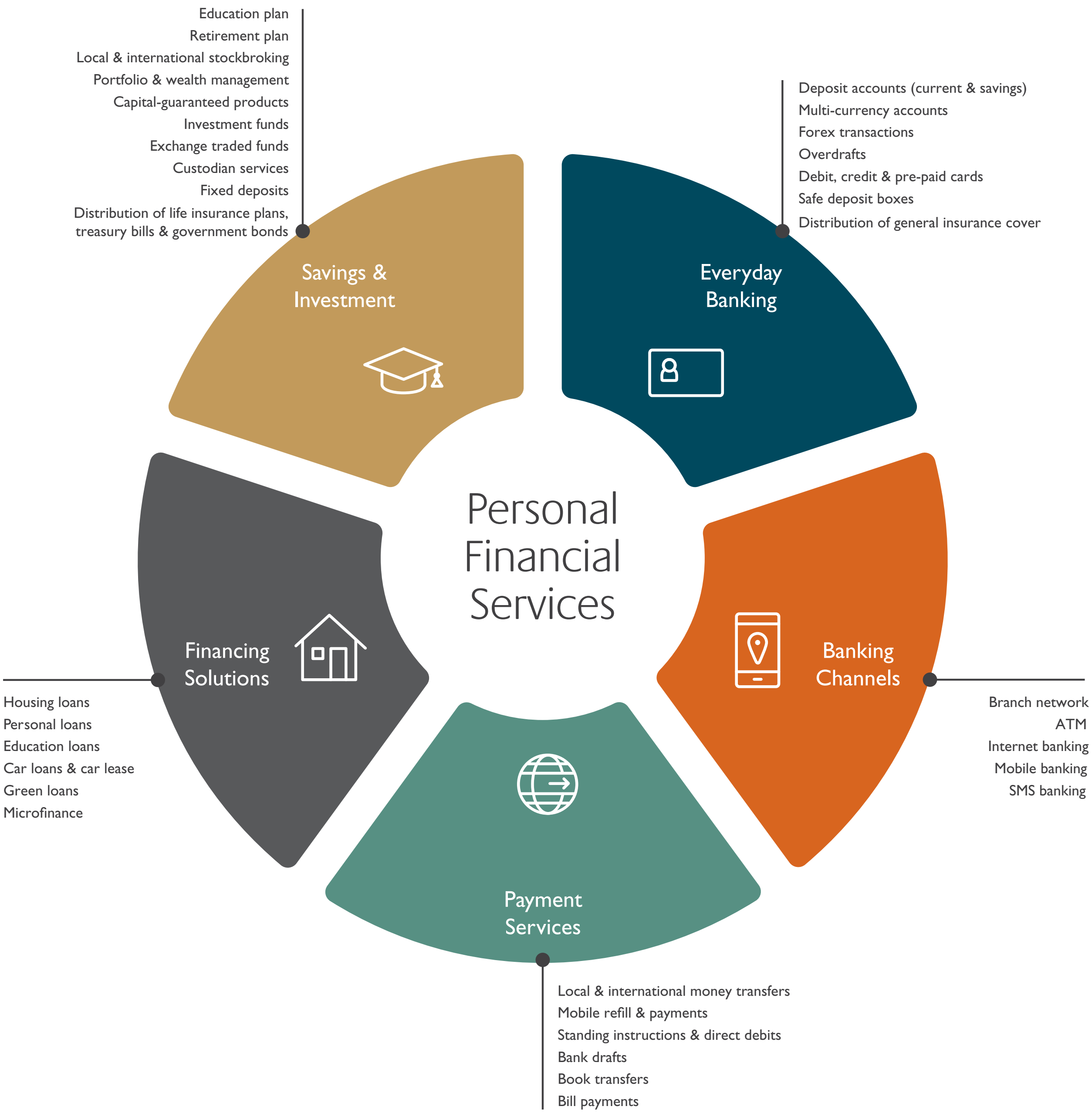
More information on our market operations by cluster is available on the website

Read more on our strategic orientations across clusters and entities in 'Our Corporate Strategy' section on pages 34 to 67

Our corporate profile

Our extensive and customised financial solutions

Through its banking and non-banking entities, the Group provides its clients in Mauritius, regionally and beyond, with customised and innovative financial solutions as well as dedicated advice to meet their ambitions. We work closely alongside customers to understand their imperatives, challenges and priorities, while assisting them to design solutions adapted to their needs.



Intra-Group synergies are tapped into to provide clients with the required solutions, with examples relating to the provision of investor-related services and the pursuance of the 'Bank of Banks' initiative. The Group positions itself as a regional hub in handling trade finance, payments outsourcing services amongst others, while also providing business solutions to financial service providers, notably in Africa.

More information on our financial solutions is available on our website

Our corporate profile

What we deliver

OUR VALUE CREATION MODEL

INPUTS

AVAILING FORMS OF CAPITAL

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
- Adaptative mindsets and skill sets
- Our people's alignment with and support for the organisation's operating framework and values
- Ability to understand and implement strategic orientations
- 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 ecosystem

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
- Competencies of our staff
- 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

PROCESSES

GENERATING VALUE-ADDING ACTIVITIES

- Provide savings and investment solutions to our clients
- Leverage wholesale funding markets if and when required
- Provide lending/leasing/factoring facilities to our clients
- Invest in securities and other assets; place our funds with other banks

- Manage the income and wealth of our affluent clients
- Provide investor-related and advisory solutions to our clients
- Meet the payments, transactional, trade-related and risk-mitigation needs of our clients
- Provide cards outsourcing and consulting services to financial institutions

- Invest in cutting-edge technology and processes
- Attract, develop and retain a skilled and talented workforce
- Engage in philanthropic activities

Our ecosystem
We keep track of market trends, challenges and opportunities

Our strategy
Our strategy provides the basis to ensure that we function in the appropriate and required way

Our clients
Our clients define and shape up the continuous adaptation of our business model

DELIVERING FINANCIAL OUTCOMES

Interest income net of credit impairment charges – Interest expense + Non-interest income = [Net fee and commission revenue + Trading revenue + Other revenue] – Staff costs – Other operating expenses +

Pursue business and revenue growth

Adopt responsible strategic intents

Avail of relevant resources and platforms

OUTPUTS

MEETING OUR TARGETS

TRIPLE BOTTOM LINE

PEOPLE

Social progress and individual well-being

- We help to achieve social well-being and progress, while fostering equality and inclusiveness
- We enable individual customers realise their goals, while fostering their well-being
- We help to valorise and preserve our cultural heritage and promote the diffusion of arts
- We ensure that MCB remains an employer of choice, with due focus on equal opportunities
- We help uphold the well-being, advancement and engagement of our employees

PLANET

Environment preservation

- We encourage the adoption of environment-friendly practices in our operations and activities
- We encourage the adoption of sustainable habits by internal and external stakeholders
- We help to promote and facilitate the transition to circular and sustainable economies

PROFIT

Economic prosperity of stakeholders

- We achieve appreciable financial results and significant return on equity
- We stimulate entrepreneurship
- We contribute towards the development and prosperity of businesses and institutions
- We help clients grow their income and wealth
- We contribute towards the advancement of financial sectors and national economies

Running a responsible business for all our stakeholders

Playing a meaningful and responsible role in the world in which we operate

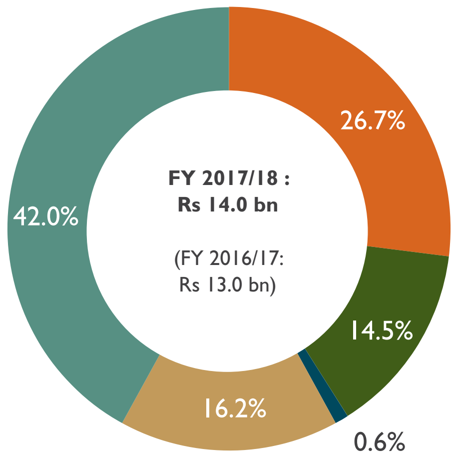
Share of profits of associates – Income tax expense = Net profit – Dividends to shareholders = Retained earnings

Our corporate profile

How we distributed value created

Supported by its sound financial performance and committed approach, the Group has, in FY 2017/18, continued to provide the necessary means for its stakeholders to realise their needs and aspirations.

Wealth created by MCB Group



Retention to support growth

Wealth is allocated to support future business growth via our retained earnings.

Employees

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

Providers of capital

We provide shareholders with adequate dividend payout.

Governments

We assist the Government in funding national projects by means of our direct and indirect tax payments.

Society

We contribute to the welfare of the society in which we live and work via funds assigned for CSR activities and sponsorships.

Read more on our support to stakeholders in the 'Creating value in a sustainable way' section on pages 40 to 67

Our Corporate Strategy

Well-being

HELPING PEOPLE TUNE INTO THEIR VIBE

It is a well-known fact that people need an outlet for their emotions. And when song contest VIBE gave it to some of them, they discovered that their pastime was actually a talent, they found out that this talent could be sharpened into a skill and they realised that with the right support, they could actually start earning a living doing what they do best.

And when people do what they love, they're no longer round pegs in square holes. The kind of fulfillment this brings to the individual but also to the community around them can no longer be minimised. VIBE did just that and not just for those who took part in the contest but for every individual that was part of its organisation. It created an eco-system that may well, in time, turn into a viable economic activity. All of this while proposing a high-quality TV show to Mauritian families every Friday night, spanning over a period of two months.

Our corporate strategy

Positioning ourselves for growth and success

Our strategy

Our strategy is guided by our business model. We aim to broaden and diversify our market involvement across segments and geographies. While coping with the dynamic context, we seek to build on our core competences and raise the level of our game, with focus laid on our digital transformation. Overall, our attempt is to deliver exceptional customer service and tap into the right business development opportunities, while paving the way for sound financial metrics.

Concomitantly, a key objective of the Group is to strengthen its status as a sustainable organisation and responsible corporate citizen.

Our main business development trajectories

Sharpen our domestic position | **Expand our non-bank activities** | **Grow our international footprint**

Our key focus areas

General thrusts

- Maximise long-term value creation for our multiple stakeholders
- Preserve the image, reputation and franchise of the Group

Specific targets

- Position the Group as a strong and competitive regional financial hub, after leveraging the positioning of Mauritius as an International Financial Centre of repute and substance
- Actively, albeit thoughtfully, pursue our Africa Strategy, while exploring business avenues beyond
- Enrich the appeal and adaptability of our value proposition across markets and segments
- Uphold organisation-wide synergies and collaborative partnerships, while pursuing our 'Bank of Banks' initiative

Further increase the Group's share of foreign-sourced income

Key success factors for sound and balanced business growth

- Competent execution
- Strong customer focus
- Operational excellence and agility
- Technical expertise
- Robust risk and compliance framework
- Sound financial strength

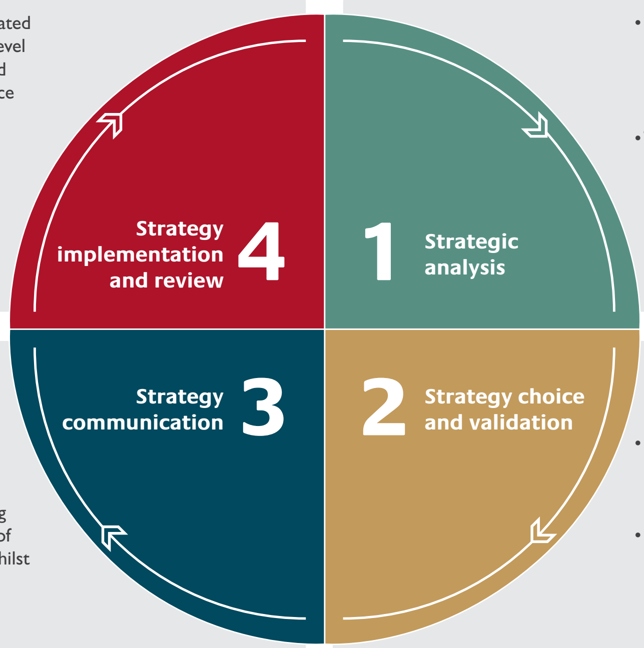
Our governance and processes

MCB Group has a well-defined governance framework as well as coherent processes and practices to facilitate strategy elaboration, execution and review. The Board sets the strategic directions of the Group, approves strategic policies and ensures that they are communicated throughout the organisation. It is assisted by the Strategy Committee which, *inter alia,* makes recommendations on development strategies, assesses strategic opportunities, follows up on Group-wide initiatives and ensures that strategy execution is backed by adequate resources and structures. While ensuring suitable congruence with strategic directions set at Group level, the entities of the organisation formulate their own strategic orientations, which are cast in a 3-year rolling plan and endorsed by the Board at the start of each financial year. Alongside being subject to relevant regulatory and compliance requirements, the entities determine their strategic initiatives after taking on board the inherent specificities and exigencies of the markets in which they operate as well as the relevant challenges and opportunities characterising the businesses they pursue. When contemplating their strategic directions, entities make due allowance for the risk appetite, as formulated across segments, while considering their capital position as well as the scale and proficiency of their physical and human resources. In their functioning, entities capitalise on Group synergies, while the services of external consultants are selectively leveraged to provide entities with competent tools and guidance in order to sustain their thinking and decision-taking process. Of note also, key priorities and performance indicators are formulated with a view to providing for clarity and direction towards supporting the smooth deployment of envisioned initiatives. Entities have their own strategic planning processes. In respect of banking entities, they have a similar planning process, with the one applied by MCB Ltd depicted as follows.

The Board of MCB Ltd sets longer-term objectives and communicates its priorities and expectations to the Executive Team of the Bank.

- Strategic organisational objectives are translated through Operational Plans at business unit level using the Balanced Scorecard framework and thereafter split up into individual performance objectives to ensure alignment and focused execution
- Strategy reviews are entrenched within the process to ensure that the validated strategy and financial targets are on track

- A continuous assessment of the internal and external context (including the economic, market, regulatory and technological landscape) is undertaken
- The Strategic Planning and Budgeting Committee, chaired by the Chief Executive Officer (CEO), leverages insights from the above assessment and the strategic directions, as set by the Board, to formulate strategic priorities at the start of the planning cycle



- The validated strategies are communicated to the Leadership Team
- Staff awareness is fostered by communicating validated strategies to keep them informed of key achievements and strategic intentions whilst helping to mobilise change and promote employee buy-in

- The Strategic Planning and Budgeting Committee discusses options with business units to execute strategic priorities
- A consolidated 3-year plan and budget is finalised and presented by the CEO for validation by a joint Board of the Bank and of the Group

Our corporate strategy

Strategic orientations across clusters and entities

Banking

MCB Ltd

Our long-term destination

MCB: A strong and innovative regional financial player within a diversified Group

Our short to medium term strategic orientations

- **Extend our frontiers**
- **Deliver a world-class customer experience through digital**
- **Nurture our values and deliver on our brand promise**

Our key objectives and strategic focus areas

- Consolidate the Bank's leadership position domestically
- Further increase our share of foreign-sourced income, with focus on pursuing our regional agenda
- Help position the Group as a financial hub, after leveraging Mauritius as an International Financial Centre of repute and substance
- Maintain the Bank's status as a sustainable organisation

Key pillars

- Build Energy & Commodities hub
- Expand private banking into Africa
- Development of international project finance
- Facilitate the Group's 'Bank of Banks' proposition

Foreign banking subsidiaries

- Increase market shares across retail and corporate segments, while positioning entities as trusted banking partners
- Expand activities across new and emerging customer segments, with the affluent market a key focus area, while reinforcing proximity with small and medium enterprises
- Lay greater emphasis on the adoption of digitalisation and innovative practices, backed by the implementation of mobile banking service and upgrades to multi-channel payment platforms (e.g. Internet Banking, ATMs, POS)
- Improve customer experiences and widen the range of offerings to enrich the value proposition, notably relating to card solutions, retail loan facilities as well as new offerings to boost the corporate segment, notably structured financing solutions
- Leverage solutions developed by MCB Ltd in the entities' presence countries, backed by service level agreements
- Expand physical footprint for increased market presence, while growing and modernising the branch network

‘Non-banking financial’ and ‘other investment’ clusters

- Reinforce the positioning of the Group as an integrated financial services provider locally and in the region
- Leverage the brand franchise and distribution capacity of the organisation to consolidate our positioning across long-established business areas (notably those relating to the provision of investor, factoring and leasing services), while diversifying our activities (e.g. the further implementation of our real estate investment management strategy)

Zoom on selected entities

MCB Capital Markets Ltd

- Consolidate our domestic positioning and diversify our businesses, while increasing our assets under management
- Further expand our provision of capital market and investor solutions, by notably embedding our positioning as the leading Corporate Finance Advisory team on the island, extending the undertaking of structured finance and capital raising transactions as well as enhancing our market intelligence and relationships in Africa
- Use our advisory and banking capabilities to arrange financing for projects and service blue-chip clients wishing to invest in Africa, while also capitalising on the Mauritius platform to intermediate investment flows into the continent
- Set up Africa-focused investment products and broaden investment management activities to alternative assets
- Consolidate alliances with selected partners to increase our technical capabilities and expand distribution channels

MCB Consulting Services Ltd

- Consolidate footprint in existing markets and probe into new territories, notably in Asia-Pacific region
- Strengthen partnerships with and ongoing operational assistance to financial institutions, particularly in Africa
- Further exploit the potential of existing services and launch new ones (e.g. analytics and business process re-engineering)
- Nurture collaboration with relevant stakeholders in order to more effectively support business growth, while implementing the necessary frameworks and processes to monitor the performance of sealed agreements
- Increase market visibility

International Card Processing Services Ltd

- Look at opportunities in emerging markets and diversify country positioning
- Deploy initiatives in respect of client retention by means of dedicated relationship management, the provision of customised and scalable payment solutions, the development of human capital, and the streamlining of our operations
- Provide solutions to wider customer base (e.g. Europay, MasterCard and Visa (EMV) issuing and acquiring, transaction processing, EMV debit, credit, corporate and prepaid card issuance, EMV card personalisation, Chip-enabled ATM/POS driving, mobile payment solution)
- Expand our reach in Africa by capitalising on our position as a recognised and trusted partner in delivering payment solutions to banks and financial institutions and tapping into synergies with Group entities which are involved on the African continent

MCB Microfinance Ltd

- Consolidate the democratisation of access to credit by micro-entrepreneurs and promote financial inclusion
- Foster economic empowerment of micro-businesses, and contribute to sustainable development

Our corporate strategy

Creating value in a sustainable way

Engagement with stakeholders

The Group ensures that engagement with its stakeholders is optimally managed. 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.

The organisation's activities underlying its stakeholder value creation are anchored on sound foundations and advocated norms. 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. Reflecting its commitment to entrench associated principles in its strategy and operations, the Bank has opted to act as a participant to the United Nations Global Compact. The latter is 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. 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.

Our corporate sustainability strategy

Value beyond numbers

While reflecting on our past and building on achievements displayed through time, we wish to project ourselves in the future with even more determination and make the choices that matter, in alignment with the changing world environment. Looking ahead, a key objective of the Group is to structure, in a more proactive and inspiring way, our socio-economic and environmental engagements. Our belief is that it is important for companies to act as responsible corporate citizens, redefine their roles and accountabilities and ultimately make a meaningful difference to their operating landscape, based on the evolving needs of stakeholders. They are called upon to reshape their strategies to encompass holistic aspirations and reinvent the way they operate. This implies integrating the human aspect at the centre of the value creation model.

Our Sustainable Development Programme

As highlighted earlier in the report, the organisation is embarking on executing an ambitious Sustainable Development Programme to guide its engagements in the years ahead. To guide us through the project, we have leveraged the services of a world-renowned organisation with proven expertise in assisting firms to integrate social and environmental issues into their strategy. So far, a dedicated project architecture and governance set-up has been established to enable efficient project execution and management. Also, following a series of consultations with relevant stakeholders, a current state analysis of MCB's positioning with regard to sustainability principles has been undertaken, including an assessment of initiatives undertaken by MCB to uphold its brand image, mission and vision and philosophy. Importantly, the findings from these studies have paved the way for the elaboration of an initial proposition of a sustainability strategy delineated across three key pillars of action, in respect of which people across the organisation are being tasked to define specific projects for implementation in the periods ahead.

Key tenets of our underlying sustainability model

People

Social progress and individual well-being

Planet

Environment preservation

Profit

Economic prosperity of stakeholders

Overview of our Sustainable Development Programme

Key pillars

- The promotion of individual and collective well-being
- The protection and valorisation of our cultural and environmental heritage
- The development of a vibrant and sustainable local economy

Key stakeholders directly and indirectly impacted

- Shareholders and investors
- Customers
- Societies and communities
- Authorities and economic agents
- Employees

Read more on our value creation model in the 'Corporate Profile' section on pages 30 to 31

Shareholders and investors

We aim to deliver on our strategic priorities and achieve sustainable growth in our revenue. By this means, we seek to achieve appreciable and predictable returns for the benefit of our shareholders and investors.

Our specific objectives and targets

- To generate adequate earnings to reward our shareholders and investors, while delivering adequate dividends and maintaining attractive returns on investment
- To foster the availability of timely, concise and detailed information on the positioning and performance of the Group
- To preserve the investment-grade rating of MCB Ltd and facilitate its access to global financial markets

How we have engaged with and served our stakeholders

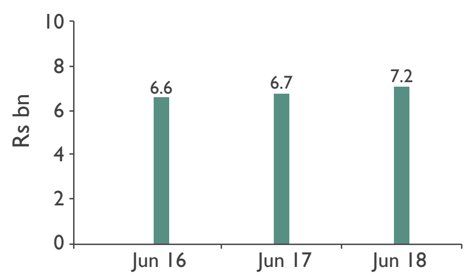
Return on investment

- We have strived to preserve the image and reputation of the Group as a strategically important industry player. 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 challenging operating context. To strengthen its brand image and profile, the Group lays due emphasis on the adoption of innovative practices while adhering to sustainability principles.
- We generated adequate earnings to reward investors. An interim dividend of Rs 4.50 per share was paid in July 2018, while a final dividend of Rs 5.50 per share was declared in September 2018 and will be paid in December 2018. Dividend per share for the year under review stood at Rs 10.00, representing a rise of 8.1% as compared to FY 2016/17. As such, dividend yield stood at 3.6% while dividend cover was 3.0 times for the period ending 30 June 2018. 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 2017/18 amounted to Rs 173 million with an average effective yield to maturity of 4.3%.
- Lately, the Group successfully tapped into wholesale markets by issuing Floating Rate Senior Unsecured Notes, which were over-subscribed by more than 50%, reflecting strong investor confidence in our organisation. These notes enabled the Group to raise Rs 2 billion with the aim being to diversify our non-banking investments and activities. Listed on the Official List of the Stock Exchange of Mauritius, the notes are due in 2023 and carry a floating rate based on the key Repo Rate (currently at 3.50%).

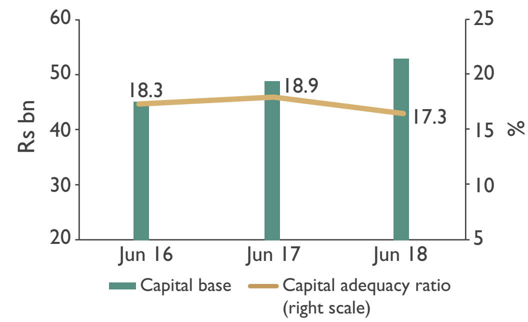
Financial outcomes reflecting our franchise

Our strong financial position

Attributable profits

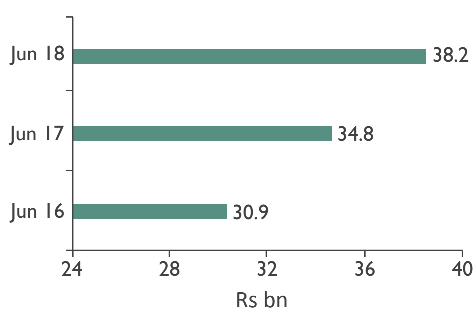


Capital position

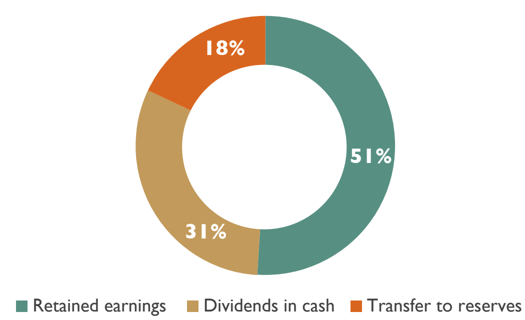


Income available for further business development

Retained earnings

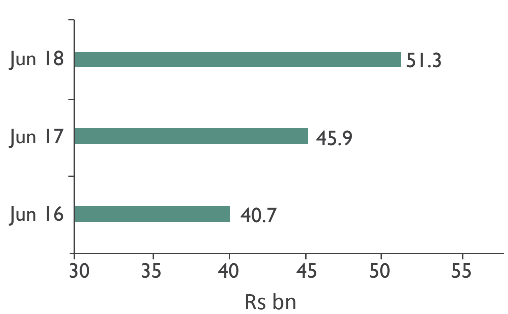


Profit distribution in FY 2017/18

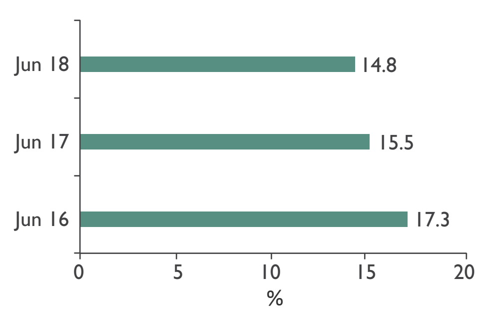


Evolution of equity and return generated

Shareholder's equity



Return on equity



Read more on our financial performance in the 'Financial review' section on pages 75 to 79

Our corporate strategy

Key stock market indicators

Market capitalisation as at 30 June 2018

Rs 65.9 billion

representing

24.5%

of local bourse*

Value of shares traded for MCBG for the year ending 30 June 2018

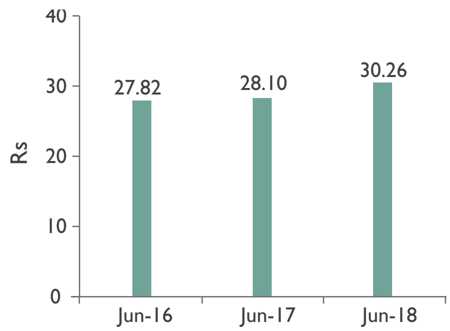
Rs 5,095 million

representing some

44%

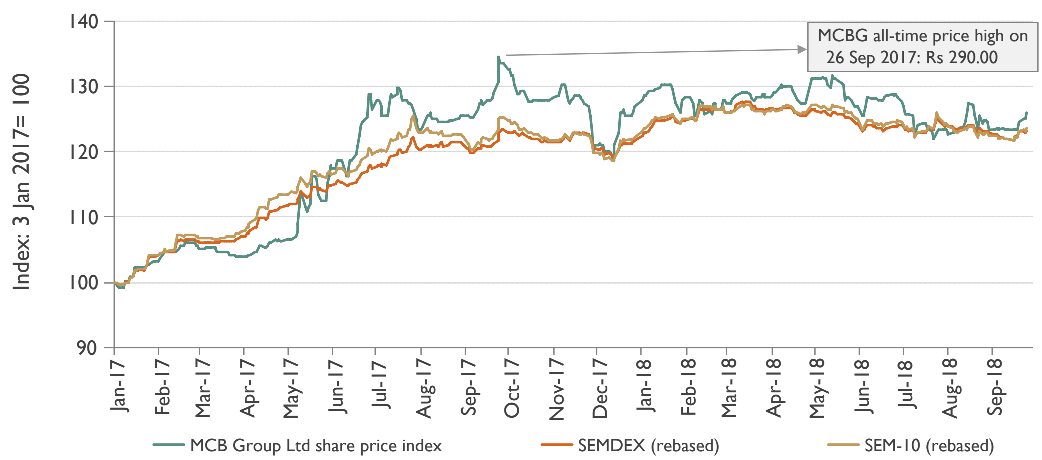
of market turnover
(excluding one-off transactions)

Earnings per share



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

Performance of MCB Group Ltd against the market



Shareholder relations and communication

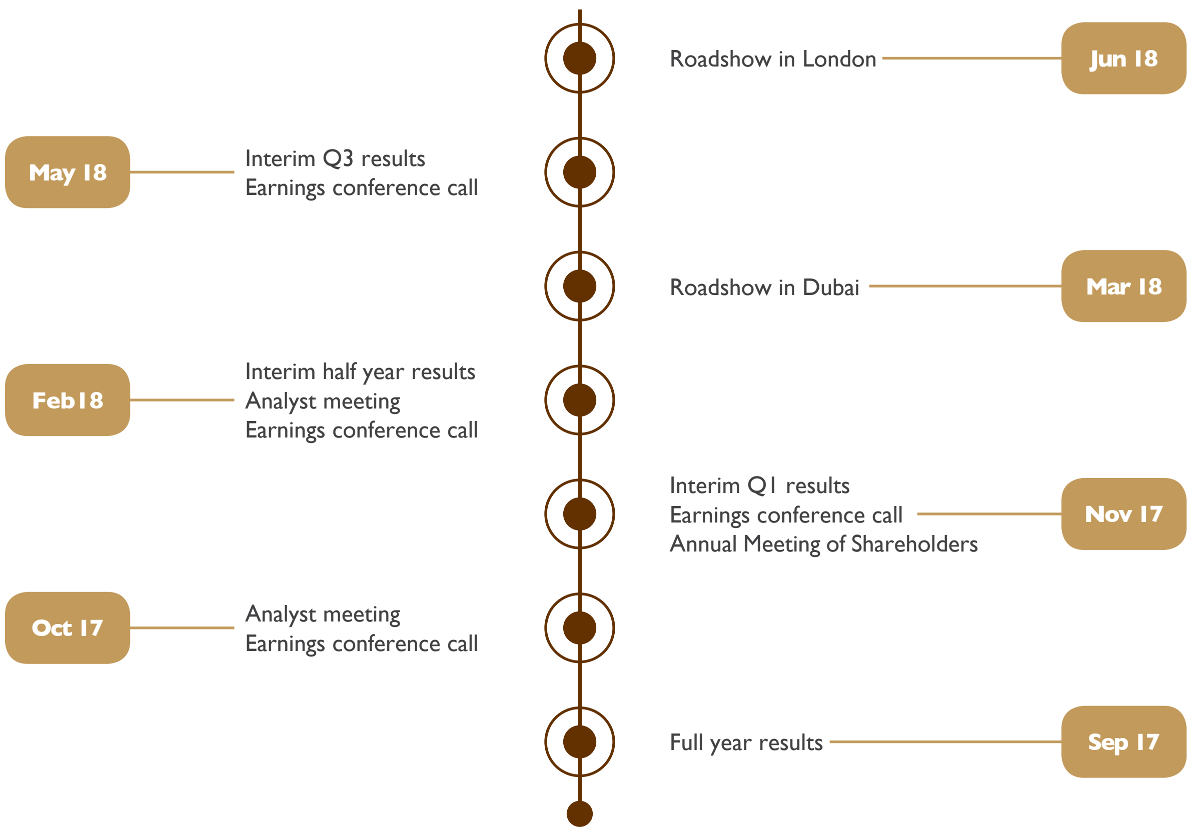
- The Group continues to promote open communication with its shareholders in order to foster relationships with them. It engages regularly with its shareholders to better understand their perspectives as well as to exchange views about the Group's strategy, financial performance and any other matters of importance to the organisation. Shareholders are kept informed of all material business developments that influence the Group in a transparent and timely manner through various communication channels such as official press communiqués, occasional letters and through the Group's website. The 'Investor Centre' section on the Group's website, regarded as the first port of call for investors, enables the latter to have access to documents and publications as soon as they are published in a consistent manner, e.g. latest results announcements, earnings call presentations, analyst meeting and roadshow presentations, amongst others. Besides, shareholders can post their queries online as well as sign up to register for email alerts.

• Besides, the Group engages with shareholders at the Annual Meeting, which provides them with the opportunity to hear directly from Board members on the Group's financial performance and strategic directions and to ask questions. They can also vote on key items on the agenda and, in case they cannot attend, they can complete the proxy form to cast votes. The Group communicates with investors through its quarterly earnings call following its results announcements as well as through other conference calls and one-to-one meetings arranged outside the reporting cycle. During the last financial year, the Group maintained a comprehensive engagement programme with investors through various activities.

The Group's executives attended two international roadshows, notably in Dubai and London. An outline of the Investor Relations programme carried out during the last financial year is set out below.

Outline of our investor relations programme

Key undertakings in FY 2017/2018



Conference calls/investor meetings organised on request throughout the financial year

Engaging with rating agencies

• We hold open, constructive and regular dialogues with international rating agencies in order to report on the performance and prospects of the Bank as well as its strategic orientations. Encouragingly, while affirming the ratings of the Bank, Moody's Investors Service has, in July 2018, changed the outlook on the long-term ratings from stable to positive, citing the improving trends in the underlying financial fundamentals as the key underpinnings.

Customers

The quality of customer experience is a key pillar of our strategy. We do our utmost to deliver exceptional service and appealing digital solutions to our clients, while seeking to exceed their expectations. Alongside placing customers at the centre of our efforts and activities, we provide products and services that they value and trust.

Our specific objectives and targets

- To build life-long relationships with clients, while accompanying them in good and bad times
- To avail customers with financial solutions that meet their needs and aspirations
- To provide transparent and timely advice and information on our offerings
- To provide effective processes for dealing with complaints
- To ensure the security and privacy of transactions, alongside upholding their trust in the organisation

How we have engaged with and served our stakeholders

- We continuously seek to understand what our individual, corporate and institutional customers want with a view to offering them the products and services they need to achieve their goals. We strive to consistently deliver quality customer service and further enrich the quality of our value proposition across segments. By this means, we contribute to enhance the prosperity and financial well-being of our customers across market segments.
- We provide increasingly simplified, personalised and secure solutions to clients across their fields of activity. We pursue the digitalisation of our operations and services, while improving the scale and appeal of our channels. Notably, this made it easier, faster and safer for clients to undertake their payments and transactions.

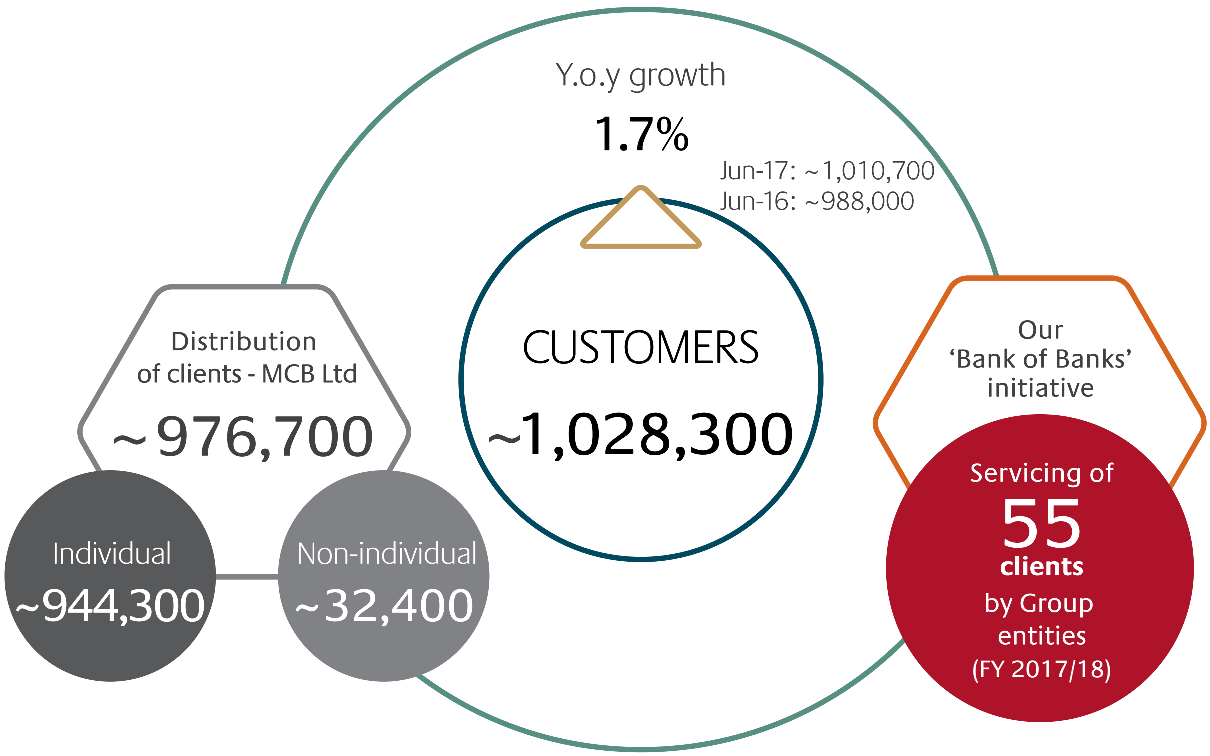
Read more on our business activities across segments and entities in the 'Analysis by cluster' section on pages 80 to 95

• We uphold and strengthen client relationships and market visibility, mainly through (i) our appealing websites and social media presence; and (ii) the organisation of and participation in various promotional and commercial initiatives, as well as international seminars, conferences and roadshows. Furthermore, we regularly seek customer feedback on our products and services, notably via surveys, with a view to improving our value proposition. We adopt appropriate and carefully-designed communication and reporting channels vis-à-vis our customers to provide them with detailed information about our offerings and effectively attend to their queries. We take several initiatives to address customer complaints in an efficient and timely manner, with a key measure relating to the centralisation of grievances across specific platforms.

• We reinforce our internal platforms and processes, including our cyber risk management framework, to ensure the safety of our customers' information, while ensuring that they can use our channels in a trustworthy way.

Serving a strong and diversified customer base

Customer base as at 30 June 2018



Our corporate strategy

Allowing individual customers to undertake transactions in a seamless and convenient way

Deploying digital channels

92% of the number of individual cash withdrawals are on average undertaken via our ATMs

90% of transfers by individuals are on average carried out via digital channels[1]

~180,000 subscribers[2] to our 'Juice' mobile banking platform

+45% y.o.y growth

+75% 3-year annualised growth

~206,000 Internet Banking registrations[2]

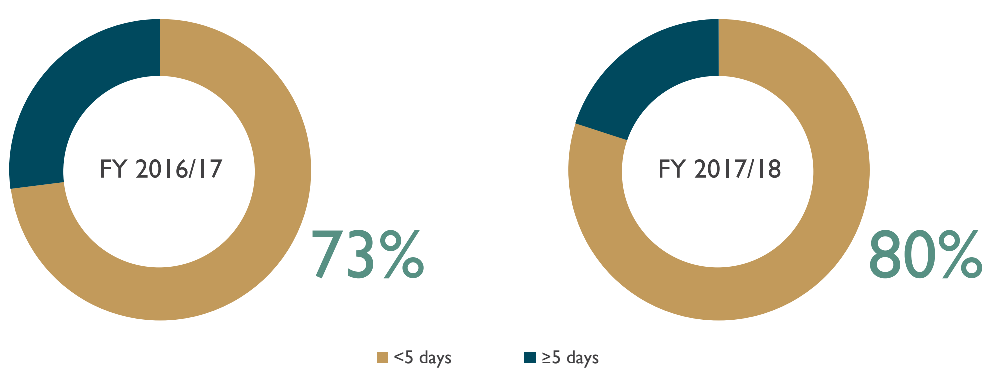
+22% y.o.y growth

+22% 3-year annualised growth

[1] Digital channels include our 'Juice' mobile banking service, Internet Banking solution, Contact Centre, kiosks, contactless Point of Sale terminals, deposits and forex ATMs
[2] Figures are as at 30 June 2018
Note: Figures relate to MCB Ltd except for Internet Banking registrations which refer to MCB Group

Addressing customer grievances in a prompt manner (MCB Ltd)

Estimated average time for resolving customer complaints



Societies and communities

We adopt dedicated initiatives to promote social progress and financial inclusion in the countries where we are involved. At the same time, we acknowledge that the sound management of natural resources is a cornerstone of sustainable development. We carry out our business responsibly, while helping to create thriving societies.

Our specific objectives and targets

- To foster the well-being and progress of the societies and communities in which we live and operate
- To work towards valorising and preserving our cultural heritage, while promoting diffusion of arts
- To adopt environment-friendly practices in our operations and business activities
- To encourage the adoption of sustainable habits by internal and external stakeholders

How we have engaged with and served our stakeholders

Doing good for the society

- The Group continued to live up to its engagement as a socially responsible organisation. We partnered with the relevant stakeholders, such as NGOs and public sector entities, which work towards promoting societal well-being. Our corporate social responsibility activities are channelled via the MCB Forward Foundation. We also provide funding in earmarked fields through our dedicated sponsorship, while our staff offer a meaningful contribution to help realise our initiatives. Overall, the organisation provides extensive support in key focus areas, notably community empowerment and preservation of the natural environment, arts and culture, youth development and sports, as well as education. In respect of the latter, it can, for instance, be noted that our organisation has, so far, awarded 30 scholarships to Mauritian students ranked next in line with those eligible for the State of Mauritius scholarships on the Economics side at the Higher School Certificate examinations, while 32 students from Rodrigues have been awarded scholarships under the MCB Rodrigues Scholarship, enabling them to pursue tertiary studies at the University of Mauritius.

Scan the QR code to find out more about our social engagement

Our corporate strategy

MCBFA

Little champions get ready for another game at one of the MCB Football Academy's 6 schools. The Academy turns 10 in November 2018.

APDA

CEO Alain Law Min with a radiant APDA student, at the launch of the multi-sensory room at the specialist school for children suffering from hearing impairments.

Seychelles Lemuria Golf

One of the most awaited events in Seychelles' sporting calendar, the MCB Lemuria Golf competition, rewarded the winner with an all-expenses paid participation in the Air Mauritius Trophy and the Constance Pro-Am of the MCB Tour Championship!

MCB Foundation Laureate

Heshant Bissessur is this year's recipient of the MCB Foundation Scholarship. He will pursue studies at the University of Warwick to obtain a Bachelor of Science in Mathematics, Operational Research, Statistics and Economics (MORSE).

Chess Open

Smile, you're all winners! Deputy CE Raoul Gufflet poses with winners of the first edition of the MCB Junior Chess Open (5-17 years) held in June this year at MCB St Jean.

MCB Tour Championship

Thaworn Wiratchant's tour de force at the MCB Tour Championship last December at the Constance Hotels' Legend golf course will go down in the annals. The 50 year-old Thai national not only won his first tournament of the European Senior Tour but also broke two records!

Madagascar UTOP

Winners of the Malagasy Ultra Trail des ô Plateaux (UTOP) get the chance to take part in trail events in Mauritius, thanks to MCB Madagascar's sponsorship of the trail; MCB Madagascar staff loved it!

Rodrigues Scholarship

Recipient of the 2018 MCB Rodrigues Scholarship, Louis David Edouard with MCB's Gilbert Gnany and Maddy Enouf, director of MCB Forward Foundation.

SEMYIA

This year's SEM Young Investor Award goes to… Droopnath Ramphul State College! The MCB is the main partner of this annual competition aimed at helping students get a better understanding of the stock exchange.

Maldives Jamaaluddeen School

Hearing-impaired children who attend the Jamaaludeen School in Maldives rejoice thanks to the new frequency modulator system donated by MCB Maldives in collaboration with the MCB Forward foundation in Mauritius.

MCB Seychelles partners with TRASS

MCB Seychelles donated a new Hyundai pick-up truck to NGO Terrestrial Reforestation Action Society of Seychelles (TRASS). This is part of MCB Seychelles' efforts to support reforestation actions on Praslin, the archipelago's second biggest island.

Our corporate strategy

Our engagement via the MCB Forward Foundation

Background

- The MCB Forward Foundation (MCBFF) is the dedicated vehicle responsible for the efficient and effective design, implementation and management of initiatives meant to embed the Group's engagement with the communities in which it operates. As the focal point of our social involvement, the Foundation aims at creating sustainable value for the social, environmental and economic well-being of the community. It assigns relevant human, logistical and financial resources to help initiatives unfold and materialise, alongside developing strategic partnerships with committed stakeholders.

Key initiatives undertaken in FY 2017/18

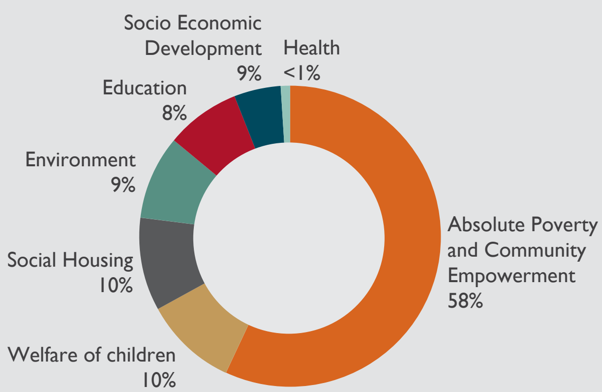
- The MCB Forward Foundation was actively engaged in projects for the promotion of social welfare and empowerment, with focus on support mechanisms within the MCB Football Academy. Of note, the latter aims to promote an environment conducive to child development based on sport and education. Children aged between 6 and 10 years benefit physically, socially and emotionally, alongside learning the qualities of leadership, responsibility, perseverance and teamwork. To respond in a prompt and targeted manner to the social needs of the families of the MCB Football Academy, the MCB Forward Foundation has, during the course of the last financial year, implemented a rehabilitation housing project for Mauritius and Rodrigues, targeting 22 households. This project, which consists of improving, renovating or even rebuilding houses, aims at creating a healthier living environment for the young MCBFA members through a decent dwelling.

- Furthermore, the MCB Forward Foundation has launched the first child psychiatry service in Mauritius. Key objectives are as follows: (i) to provide accurate diagnostic and offer a multidisciplinary therapeutic service for children with psychiatric-related symptoms; and (ii) create partnerships with mental health professionals.

Spending and projects

- 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 99 million was earmarked by the Group's local subsidiaries to MCB Forward Foundation in FY 2017/18. After fostering alignment with the Government measure requiring companies to remit 50% of their CSR Funds to the Mauritius Revenue Authority, an amount of some Rs 49.7 million was entrusted to the MCB Forward Foundation and spent on 32 projects, of which 25 are ongoing. Of note, no political donations were made by the organisation during the year under review.

Distribution of amount spent by MCBFF during FY 2017/18



Largest projects financed by MCBFF in FY 2017/18

	Rs m
MCB Football Academy	23.3
Integrated housing project	4.8
Recycling of glass bottles	4.2
Support to primary school children out of mainstream system of education	2.5
MCB Rodrigues Scholarship	2.5
Service dedicated to children suffering from mental health disorders	2.4

Zoom on MCB Football Academy: Main achievements since 2008

6 **academies** currently in operation, impacting 4 regions in Mauritius and 2 in Rodrigues

3,500 **children reached and supported** *(football training, psychosocial support and/or vocational training)*

3,000 Family visits

74 Children channelled to Special Needs School

2,533 Families counselled by clinical psychologists

150 Parents empowered to assume their responsibilities

Our corporate strategy

Supporting financial inclusion

- We supported and promoted financial inclusion, thus enabling our low-income and vulnerable customers to get access to credit and improve their conditions, while helping to turn their ideas into business opportunities.
  - To effectively reach out to clients from various spheres of the society, the 39 branches of MCB Ltd are strategically well situated across regions, with some 45% being located in rural areas. MCB operates 33 full-service branches and 6 kiosk branches which are conveniently set up in malls and high-traffic areas for express transactions. Our 177 ATMs operate on 24/7 basis, allowing notably free deposits and withdrawals to MCB customers. Our foreign banking subsidiaries furthered initiatives to broaden access to finance, notably through opening of new branches lately.
  - We help individual clients achieve their ambitions, including buying a home/car or paying for personal expenses. With regard specifically to the tailored financial solutions of MCB Ltd: (i) the low minimum balance for account opening and the fact that our savings account bundle bears no cost make the offer extensively accessible; (ii) MCB encourages parents to open Junior accounts to encourage our young generation to be financially responsible and save from a young age; and (iii) our unsecured personal loan offer, which is also available to non-MCB customers, is often sought by low-income customers to cover for education and housing purposes. Furthermore, we provide innovative and personalised solutions to entrepreneurs and SMEs, thus benefiting businesspeople and households.

Attending to the needs of our customers across segments

Helping students

~Rs 1.0 billion
representing total student loans approved (under normal banking terms and the Government Guarantee Scheme), account for
a market share of **66%** (as at June 2018)

Helping small and micro entrepreneurs

Since launch of MCB Microfinance Ltd on 15 July 2016

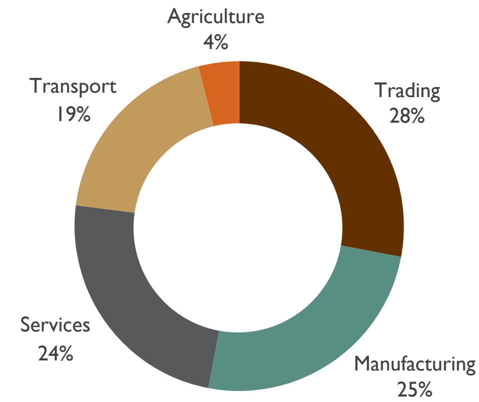
~1,470 clients financed

~1,870 loans disbursed for

~Rs 362 million

(as at June 2018)

Distribution of loans by sectors as at 30 June 2018



Preserving our environmental heritage

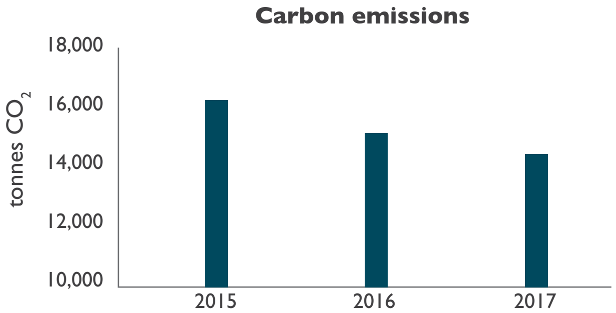
Encouraging environment-friendly and energy-saving practices in our operations and activities

- Since May 2012, MCB Ltd 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 maturity of at least 24 months.

- As a key strategic thrust, the Bank has set out to monitor and assess its direct environment footprint in order to minimise the impact of its activities on the environment. The Bank is committed to influence and engage with its employees and external stakeholders towards managing its direct carbon footprint, driving eco-efficiency performance, and greening the supply chain. On this note, the Bank seeks to ensure that all suppliers comply with sustainable procurement standards. We define sustainable procurement as encompassing the social and environmental aspects of the products that the Bank procures as well as the attitude of the supplier towards sustainability. Also, we have set forward to contribute to the development of the circular economy, which we view as a key future model of procurement.

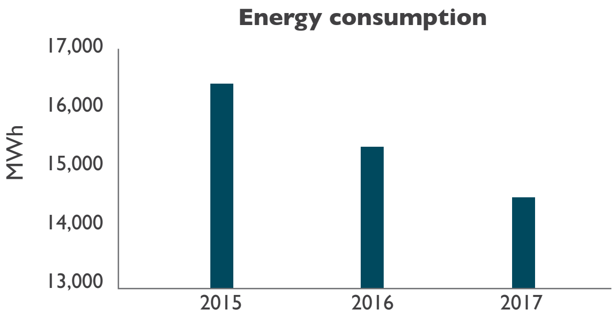
Our corporate strategy

Managing the environmental impact of our operations and activities (MCB Ltd)



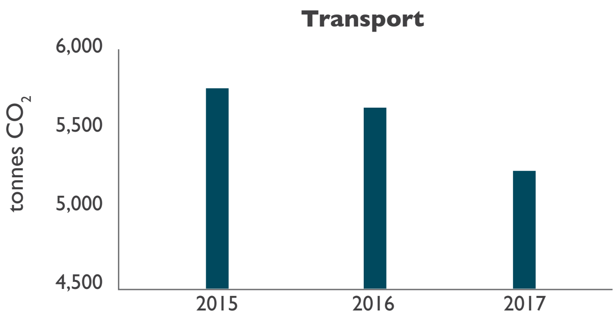
Managing our carbon footprint

In 2017, the Bank has successfully renewed its Blue Carbon Footprint certification received from Rexizon Consulting Ltd by all its branches and sites, after passing the relevant validation and mitigation assessments. Reflecting its commitment to minimise its operational environmental impact, total emissions of carbon dioxide of MCB were reduced by 4.7%.



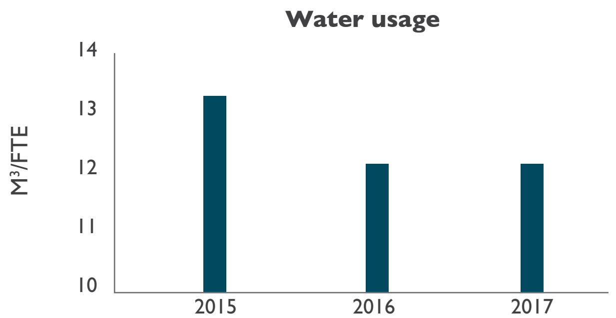
Minimising our energy use and driving eco-efficiency performance

The Bank is committed to purchasing electricity from renewable sources where available, feasible and reasonably affordable. Efforts are being made to improve the energy efficiency of the offices and premises of the organisation. Equipment is replaced or upgraded regularly to support energy-efficient technologies, particularly those related to computers, air conditioning, motion sensors, lighting and printers. In 2017, MCB's total energy consumption fell by 5.5%, while 5% of its electricity consumption came from its own renewable sources.



Reducing our travel carbon emissions

The Bank further leveraged its use of video and audio conferencing to reduce unnecessary business travel, costs and carbon emissions. It invested in a range of solutions from personal video units to small and large video rooms and high-end teleconferencing facilities. The Bank is committed to eliminating unnecessary travel and making necessary business travel as energy-efficient as possible. Our transport emissions figures showed a reduction of 7.1% in 2017.



Scaling down water consumption

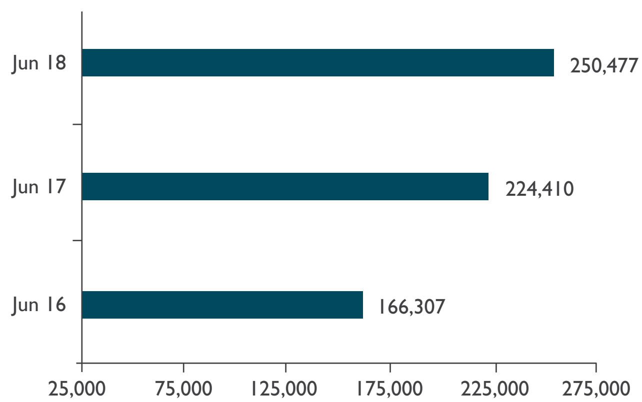
MCB actively monitors its water usage and seeks to reduce the consumption thereof. In 2017, its water footprint intensity stood at 12.2 m^3/FTE, which is similar to the level recorded in 2016 and lower as compared to the 13.3 m^3/FTE that had been registered in 2015.

Notes:
(i) FTE stands for Full Time Employee
(ii) GHG stands for Green House Gas

Promoting the eco-friendly awareness of our stakeholders

• The Group is intent on raising awareness amongst its stakeholders about environment protection. Specific initiatives have been undertaken to sensitise the staff on environment issues. The Group 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. MCB Ltd also actively promotes the use of e-statements by customers. The total number of customers subscribing thereto increased by nearly 12% during the year ended June 2018. 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 are encouraged to print less, both through installed software and awareness campaigns. In a number of offices of the Bank, standalone desktop printers have been replaced with central printers. Additionally, MCB Ltd has sought sustainable disposal solutions for IT hardware at the end-of-use phase, while multiple pilot schemes have been conducted to identify the most secure and sustainable options.

E-statements subscriptions for active MCB Ltd customer accounts



Encouraging environment-friendly and energy-saving investments

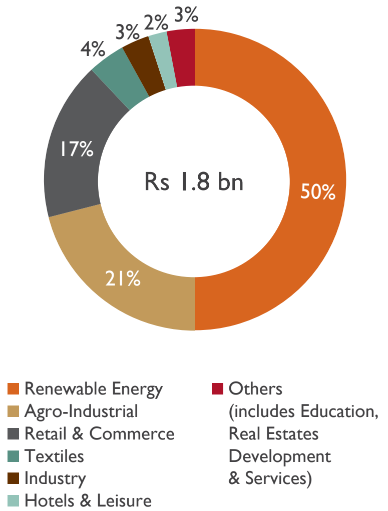
• The Bank widened its involvement in respect of the provision of the second edition of its preferential credit facilities named as ‘Green loans’, pursuant to the lending facility availed from Agence Française de Développement (AFD) to stimulate the deployment of renewable energy and energy-efficient technologies, save energy and reduce carbon emissions. In this respect, 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. Of note, MCB has used around 76% of the second green line assigned by the AFD to banks in Mauritius and amounting to EUR 60 million, while it posted a market share of 70% as regard the first line of EUR 40 million. Our ‘Green loans’ have been extended to customers in some of the Group’s foreign presence countries. Additionally, on the heels of the success of the previous lines, the Bank is on course to sign a third line of credit with AFD.

Our corporate strategy

Green loans – Encouraging environment-friendly and energy-saving investments by MCB Ltd

Distribution of exposures as at June 2018

Exposures by sector



Exposures by segment

94.6 %
Corporate

5.4 %
Individuals and SMEs

Exposures by geography

93 %
Mauritius

7%
Foreign

Estimated environmental benefits of projects financed in FY 2017/18

383,206 Kg of Liquefied Petroleum Gas saved

7,000 Litres of Diesel saved

529,903 M³ of Clean Water saved

51.4 gWh of Electricity saved

3,805,551 Litres of Heavy Fuel Oil saved

57,600 Tonnes of fly ash recycled

93,607 Metric tonnes of CO_2 emission reductions

14,400 Tonnes of grate ash recycled

18,514 M³ of Waste water reduced

57,000 Tonnes of import of pozzolanic construction material

Authorities and economic agents

We forge meaningful relationships with authorities and economic agents, while responding to their requirements. We work together to foster the stability and progress of the financial sector and economy of presence countries.

Our specific objectives and targets

- To contribute to the general economic progress and stability of the countries where we are present
- To adhere strictly to relevant laws as well as applicable regulatory codes and guidelines
- To help preserve the stability and security of the financial sector of countries where we are present

How we have engaged with and served our stakeholders

- By means of dedicated actions, we have assisted our presence countries in their endeavours to promote the socio-economic development and modernisation of their respective jurisdictions.
- We have financed key projects shaping the economic landscape of our presence countries. In Mauritius, MCB Ltd has contributed to foster the sustained growth of the country's businesses and economic sectors. Alongside supporting trade and investment activities on the regional front, the Bank helped to position the Mauritian jurisdiction as an international financial centre of substance and good repute. We have upheld our commitment to accompany small and medium enterprises by means of our tailored and modular solutions, while remaining a dedicated and trusted partner for large businesses and investors.

Our corporate strategy

Helping the economies where we are involved to prosper

Contribution of MCB Ltd to the Mauritian economy (FY2017/18)

Contribution to value added

>3% of the total value added generated by the economy

>50% of total value added by the banking sector

Creating jobs on the nationwide scale

~20% of total employment in the financial and insurance activities

~35% of the employment in the banking sector

Paying taxes in support of Government revenue mobilisation

11% of total corporate tax* paid across the economy

** Including levies charged on income*

~50% of special levy paid by banks

Contribution of MCB Seychelles to the Seychellois economy (year 2017)

~1.5% of the total value added generated by the economy

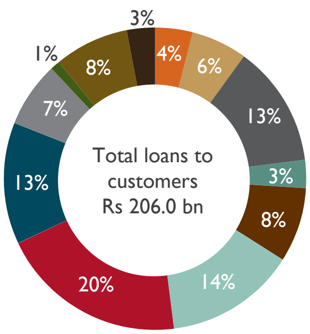
~25% of total value added by the financial sector

~11% of employment in the financial sector

Note: Figures displayed are indicative, based on officially-reported data and MCB staff estimates

Helping businesses and economic sectors to grow

Distribution of our loan book



Helping productive sectors

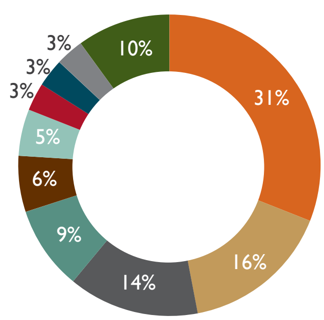
Rs 111 billion representing our corporate loan book as at 30 June 2018, towards enabling industries to achieve their ambitions

Attending to the needs of SMEs across sectors (MCB Ltd)

Helping small and medium enterprises

Rs 940 million relating to outstanding credit facilities by MCB to SMEs under the Government-backed SME Financing Scheme as at end June 2018 to assist these clients in their growth strategies (with a market share of **42%** as at June 2018)

Distribution of loans to SMEs as at June 2018



- We seek to safeguard the perennity and soundness of our operations, alongside fully understanding and coping with specificities and implications of evolving mandatory provisions and requirements. We ensure strict compliance with relevant regulatory limits and stipulations relating notably to business operations, product development, market development and risk management in the jurisdictions within which we operate. As a key move, relevant entities of the Group undertake the necessary measures to ensure adherence to IFRS 9.

Read more on our efforts to IFRS 9 compliance in the 'Risk and Capital Management Report' on page 142

- We help to strengthen the regulatory framework on the basis of our close collaboration with the regulators. We attend to regulatory reviews with notable attention to detail and professionalism, while promptly reacting to matters raised. We submit reports in a timely manner to regulatory bodies, while transparent relationships have been forged to promote adequate monitoring of our activities and informed discussions about relevant issues.

Employees

Our diversified employee base is our most important asset and helps to preserve the trust of our customers. We strive to be an employer of choice and are committed to supporting the development of our staff.

Our specific objectives and targets

- 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 towards creating the right conditions for achieving our business objectives
- To foster general staff welfare, health and safety amidst a stimulating work environment

How we have engaged with and served our stakeholders

General undertakings

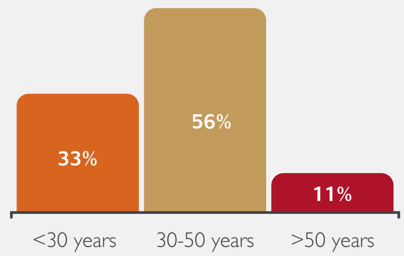
- Judicious human resource management has remained central to the pursuit of the strategic objectives of the Group. We adopted an increasingly forward-looking perspective when undertaking the identification and execution of relevant initiatives for the benefit of our employees. To continuously strengthen the quality of our workforce, the main focus areas of the Group include the following: talent sourcing, human resource development and retention, workforce planning, management of employee performance, fostering of culture alignment, and nurturing of our employer brand to appeal to young talents on the market. Towards those ends, the Group continued to engage with staff at different levels with a view to understanding and responding to their needs, while adopting the necessary remedial measures to foster employee engagement and talent development. As a key recent initiative, the Group has embarked onto an HR Transformation Programme. The aim of the project is to unleash the necessary initiatives that aim to reinforce its human resource framework and processes, in support of enhanced performance deliveries and business growth.

Read more on the HR Transformation Programme in the 'Transforming our organisation' section on page 87

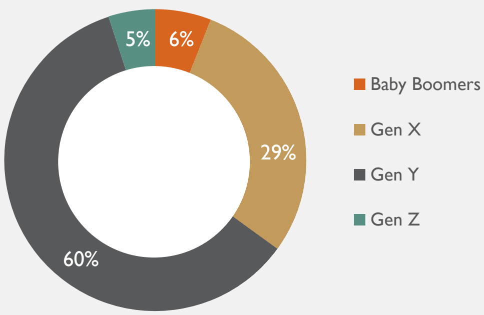
Our diversified and competent workforce (as at 30 June 2018)

Number of employees

Age

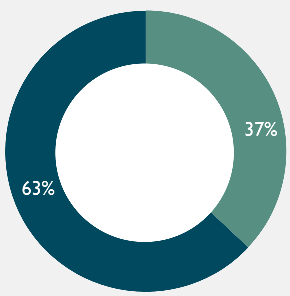


Employees by generation*



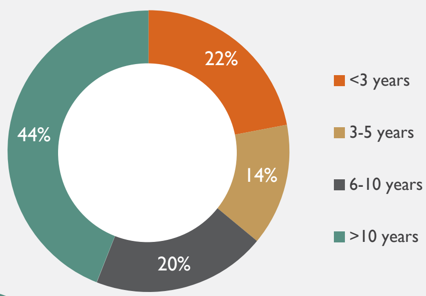
* *Baby Boomers: : Born 1946 to 1964*
Gen X: Born 1965 to 1979
Gen Y: : Born 1980 to 1995
Gen Z: Born 1996 and later

Qualifications



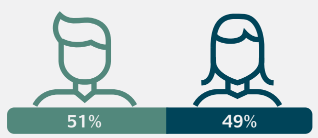
- Up to secondary level
- Post-secondary level (including ongoing courses)

Length of service

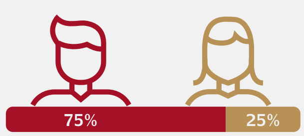


Permanent staff in workforce **91.7%**

Gender distribution



Management position by gender *



* *at senior and middle management level*

General stability of our workforce as at 30 June 2018

Employee retention rate **95.0%**

Employee turnover rate **4.8%**

Notes:
(i) Retention rate is the percentage of employees at the start of the year who are still in the workforce at the end of the same year
(ii) Turnover rate is the ratio of the number of employees that left to the average number of employees during the year

Our corporate strategy

- Amongst other moves, the Group continued to work towards entrenching a balanced workforce in terms of gender, age group and experience in order to tap into a wide range of knowledge, skills and specialist competencies in view of achieving its business strategies. Moreover, the Group has laid due emphasis on the need to nurture our values as well as further strengthen the purpose and role of each employee within and vis-à-vis the organisation and society. In addition, the Group has also sought to foster healthy and secured working environments at various levels.

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, individual potential, market practices, 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 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 they adhere to the rules of the FWA policy
  - The Bank offers its staff the flexibility of saving part of their monthly emoluments for their holidays. Employees can save the equivalent of 6% of their Basic Salary on an annual basis to cater for their holidays expenses, be it abroad or in a resort in Mauritius. This amount is made available at the beginning of each financial year and arrangements can be made to pay directly to our preferred travel agent, or to obtain refund upon presentation of a receipt. Employees also benefit from a tax rebate on this scheme, as prescribed by the Income Tax Act

- 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.

	Management	Other employees	Total
Number of options granted in October 2017	**122,008**	**489,928**	**611,936**
Initial option price (Rs)	273.50	246.25	**-**
Number of options exercised to date	1,737	97,355	**99,092**
Value (Rs)*	475,070	23,973,669	**24,448,738**
Percentage exercised	1.4	19.9	**16.2**
Number of employees	1	407	**408**
Available for the 4th window and expiring in mid-October 2018	**120,271**	**392,573**	**512,844**

** Based on initial option price*

Employee engagement and training

• The Group embarked on a learning journey to equip itself with the means to face up to the constantly-evolving context. In fact, the subject matters to which the organisation and its employees are exposed to are getting more complex, client solutions are turning out to be increasingly sophisticated and several organisational processes are being digitalised. Such developments require constant updates and upgrades to the learning framework towards fostering continuous capacity building of employees at different levels of the organisation. In this spirit, the Group has led 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. The learning facilities can be in terms of in-class deliveries or on-line. Moreover, the Bank has pursued its Management Development Programme in partnership with the University of Stellenbosch Executive Education (USB-ED), targeting high potential employees aspiring to leadership positions. Three batches of participants have completed the programme so far, while a fourth batch, enrolled in 2018, will complete the programme in October. In all, 110 employees have, so far, enrolled for this programme. In addition, a programme for supervisors was also developed.

Our corporate strategy

Our learning engagement for FY 2017/18

Key statistics

Total training cost → **Rs 57.2 m***

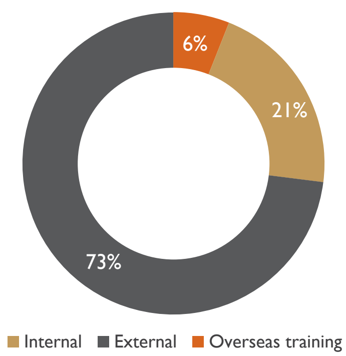
Total number of training courses → **404**

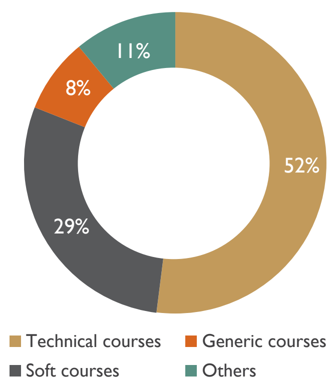
Average number of training per employee → **1.9***
(Figure relates to MCB Ltd)

** Including refund by Human Resource Development Council*

** Excluding e-learning training*

Types of training courses





E-learning involvement → **13 knowledge tests** performed

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 (OHS) Policy of MCB Ltd aims to ensure a safe and healthy working environment, system of work and equipment for employees.

- The Management of Group entities 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 OHS, risk management and compliance with legal obligations. At the level of MCB Ltd, 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 for the coordination of initiatives undertaken to achieve health and safety objectives.

- 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 that were conducted locally and across the Group's foreign subsidiaries include counselling, Zumba, Football, Squash, nature hikes and Body Combat, Kung Fu and Self Defense, Yoga and Tai chi, as well as off-premises fun day experiences. MCB Consulting Services Ltd operates a gym to provide its employees with state-of-the-art fitness equipment with a view to promoting health consciousness.

The World Cup came to MCB earlier in June when…
believe it or not, Mexico won the championship!
The MCB Matriochka World Cup brought fun galore to the troops!

Our Performance

Arts, Culture and Heritage

THE MONEY MUSEUM, A PRICELESS LEGACY

Did you know that once upon a time in Mauritius, the currency in use was the Mauritian dollar? And that when the number of indentured labourers reached 400,000, it was then switched to the rupee?

Fascinating, isn't it? There's so much more where that came from. The MCB has in its possession many priceless artifacts dating back from the very first human activity on the island. Those rarest of pieces, now on loan to the Bank of Mauritius, make up about half of the money museum's collection. There, you'll find out for instance, that playing cards were substituted for money when the Saint Géran went down, taking all our coins with it!

Why does it matter? Because if we don't know the past, we'll have trouble understanding what's coming next. And that's why preserving our heritage matters – because it brings knowledge.

Our performance

The external environment

The general context

Our ability to help our stakeholders in realising their aspirations is influenced by the environment in which we operate.

In FY 2017/18, we continued to face up to a dynamic and challenging landscape prevailing across the segments and geographies in which our entities operate. We endorsed targeted strategic decisions that enabled us to achieve sound and balanced growth across entities. An overview of developments of material relevance to the Group is provided in sections that follow.

The economic climate

Recent trends and developments

- On the back of improving global economic conditions, the Mauritian economy has posted a fairly resilient, albeit restrained, performance in recent times. As per our latest estimates, real GDP growth is forecast to stand at close to 3.8% in 2018 when measured at market prices. Whilst some key sectors such as textiles and sugar remain in a challenging zone, economic growth has been benefitting from the good showing of key pillars, notably tourism, financial and business services, ICT and construction. The latter sector is being supported by an upturn in investment, boosted by the execution of large-scale infrastructure projects. As for headline inflation, it pursued an uptrend until March 2018 when the rate stood at 5.0%, before embarking on a downward trajectory to reach 3.7% as at August 2018. In another respect, the rupee has, in effective terms, remained relatively stable vis-à-vis the currencies of the country's main trading partners amidst a balance of payments surplus, in spite of a high current account deficit in line with a drop in our exports of goods.

- With regard to sub-Saharan Africa, a relative recovery is underway, aided notably by stronger global growth, improved market access and higher commodity prices. Notably, a general major rise in oil prices was witnessed in recent months. On a specific note, economic activity rebounded in West Africa lately, on the back mainly of an improvement in Nigeria, while East Africa continued to grow at a robust pace, backed notably by household consumption and infrastructure investment.

- Mixed economic conditions have subsisted across the foreign countries where the Group is present. Although growth has been improving, the operating landscape remained difficult in Maldives, while political and exogenous shocks affected activity levels in Madagascar. On the other hand, whereas economic growth in Seychelles is expected to slow down in 2018, the country's macroeconomic fundamentals are deemed to be generally sound.

Amidst such developments, we have …

- Judiciously and, in some instances, opportunistically positioned our banking and non-banking entities to take advantage of relevant avenues for business expansion across the local and foreign markets, while being mainly engaged in specific niche segments, leveraging our adapted value proposition as well as relevant partnerships and alliances

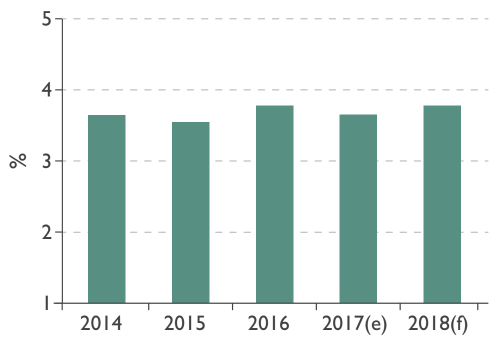
- Posted a noticeable expansion in the loan book growth at the level of MCB Ltd, MCB Madagascar and MCB Seychelles

- Further boosted our regional trade finance activities, while capitalising on the sustained rise in oil prices

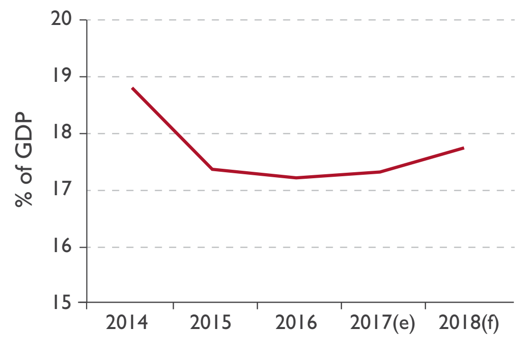
Key economic indicators of relevance to MCB Group

Mauritius

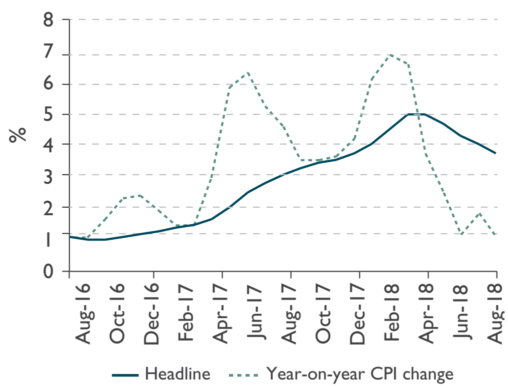
Real GDP growth



National investment



Inflation rate

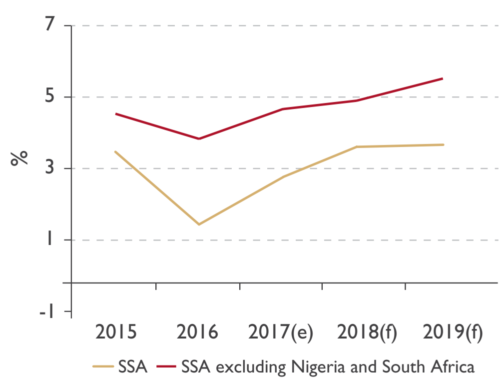


Currency dynamics

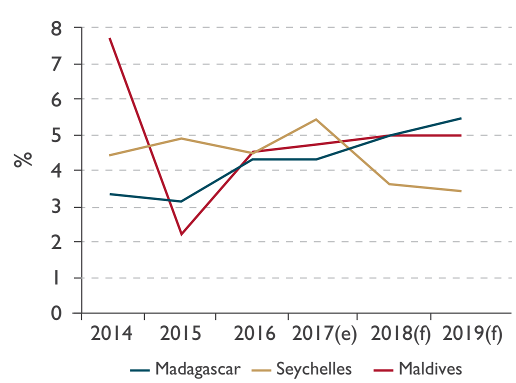
Selling rates of main currencies vis-à-vis the rupee				
	Value as at		Annual average	
	30-Jun-17	30-Jun-18	FY 2016/17	FY 2017/18
USD	35.4	35.3	36.4	**34.5**
EUR	40.5	41.1	39.7	41.1
GBP	46.1	46.3	46.2	46.4

Other markets – Real GDP growth

Sub-Saharan Africa



Our foreign presence countries



(e) estimates (f) forecasts
Sources: IMF, Statistics Mauritius, MCB Staff estimates

Our performance

The market landscape

Recent trends and developments

General market conditions

- Generally high liquidity levels prevail in the Mauritian banking system, even though a relative decline was registered in excess rupee reserves held by banks at the Central Bank during specific periods, aided by remedial measures taken by the Central Bank through the conduct of open market operations and the issue of Bank of Mauritius securities. Against this backdrop, a generally marked uptrend in yields on short-term securities was noted. Excess liquidity conditions have also warranted attention in Seychelles and Madagascar.
- Partly linked to high liquidity conditions, corporate clients in Mauritius continued to take advantage of relatively low rates in the capital markets to refinance part of their bank loans. In the same vein, competitive pressures remained high in some markets, thus impacting banking and non-banking entities across geographies. In Mauritius, such challenges have mainly subsisted in the mortgage and cards segments, while financial institutions enriched their digital and wealth management solutions. Furthermore, banks pursued their regional diversification strategies, with a key axis relating to trade finance.

Demand for credit

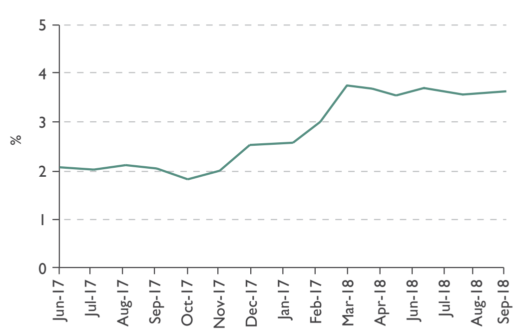
- In Mauritius, partly attributable to the relative upturn in investment, relatively favourable outcomes at the level of some economic sectors and an accommodative monetary policy with the Key Repo rate cut to 3.5% in September 2017, a non-negligible recovery is being noticed in respect of domestic credit to the economy. Likewise, credit to the private sector has evolved at an encouraging pace in our foreign presence countries. Nonetheless, asset quality levels within banking industries in Mauritius and our foreign presence countries continued to be subject to pressures.

In light of the afore-described trends, the Group has set out to …

- Pursue judicious asset-liability management, widen its loan book and foster the sound diversification of portfolios
- Further improve the quality of its value proposition and achieve closer proximity with clients

Key banking sector metrics

Average weighted yield - Government of Mauritius Treasury bills



Loans & advances and NPL

	Loans and advances Y.o.y. growth (%)		NPL ratio (%)	
	Jun-17	**Jun-18**	**Mar-17**	**Mar-18**
Local banking sector				
Mauritius	1.3	6.7	6.9	6.7
Domestic	1.8	6.2	n.a.	n.a.
Foreign-sourced	0.9	7.0	n.a.	n.a.
Foreign presence countries				
Madagascar	10.2	19.2	8.2	7.9
Maldives	12.0	13.1	11.1	9.0
Seychelles	11.2	17.1	7.3	6.7

Sources: Bank of Mauritius, IMF country reports & FSIs database, Banque Centrale de Madagascar, Maldives Monetary Authority and Central Bank of Seychelles

The legal and regulatory environment

Recent trends and developments

- Notable revisions brought to Bank of Mauritius Guidelines during the year include: (i) rules and standards for the computation and regulatory reporting of the liquidity coverage ratio by banking operators were formulated, in alignment with transitional arrangements and Basel III rules; and (ii) the credit conversion factor for trade-related contingent liabilities changed from flat rate of 20% to a range of 20 – 100%, thus implying a higher risk-weighted assets in respect of related transactions. Besides, all restrictions on commercial banks as regard limits applicable on loans were removed, with loan-to-value ratios no longer applicable as from July last.

- The revised Data Protection Act 2017 is effective since January 2018. While aiming to strengthen the control and personal autonomy of data subjects over their personal data, the new provisions intend to bring the Mauritius data protection framework in line with the General Data Protection Regulation, which was enforced by the European Union in May last.

- In the wake of the Finance (Miscellaneous Provisions) Act 2018, some major fiscal developments are as follows:

  - Effective as from year of assessment 1st July 2020, a new tax system will be applied to banks, with no distinction made with regard to locally and foreign-sourced income. While the precise requirements have yet to be determined in some respects, applicable rates for the Bank will be as follows: (i) a tax rate of 5% on the first Rs 1.5 billion of chargeable income; (ii) 15% for amount exceeding Rs 1.5 billion; and (iii) a reduced tax rate of 5% on the amount of the current year chargeable income exceeding that of the base year if the specified conditions are met. Additionally, effective as from accounting period ending on or after 1 January 2019, the special levy applicable to banks will be administered under the Value Added Tax Act, with net interest income and other income from banking transactions derived from domestic operations charged at (i) 5.5% for income less than Rs 1.2 billion; and (ii) 4% of income exceeding Rs 1.2 billion.

  - The proportion of Corporate Social Responsibility funds to be remitted to the Mauritius Revenue Authority, will, as from January 2019, go up to 75% from the current rate of 50%. However, the revised proportion may be reduced by an amount not exceeding 25% of the CSR Fund set up on or after 1 January 2019 where the company intends to use such an amount to finance a CSR programme which has started before 1 January 2019, subject to prescribed conditions being met.

- Amongst the key amendments made to the Banking Act, provisions were introduced to reinforce the confidentiality of information pertaining to a customer or financial institution, while every financial institution, including its branches and subsidiaries, is called upon to implement programmes against money laundering and terrorism financing.

- The Financial Services Commission has established the Securities (Preferential Offer) Rules 2017. These Rules provide a clear definition of private placements and specify the obligations of the issuer making the private placement.

- In our foreign presence countries, Central Banks adopted several initiatives to consolidate banking industries, alongside fostering compliance with international norms and codes. Due emphasis was also laid on combating anti-money laundering and terrorist financing. With regard specifically to Seychelles, the Central Bank issued a consultation paper and Quantitative Impact Study with a view to reviewing the calculation of risk weighted assets under the Basel II standardised approach.

In light of observed trends and developments, the Group has strived to …

- Appropriately measure and ascertain the significance of developments, while proactively engaging with regulators

- Enhance risk management and compliance capabilities to ensure strict adherence to regulatory rules and advocated norms

- Revise dedicated processes and procedures, upgrade information systems and train employees in targeted areas

Our performance

Technology and society

Recent trends and developments

- The spread of new technologies and digitalisation practices worldwide implies new opportunities for the Group to upgrade its information systems and processes in order to improve customer service quality and enhance its competitiveness. Such developments also come with attendant risks, particularly when making allowance for increasing instances of cyber threats.
- The life styles, behaviours, attitudes and aspirations of customers are changing at a rapid pace, with increasing focus on digital platforms in line with the need for financial solutions to be rapidly accessible and conveniently delivered. Against this backdrop, heightened competitive pressures are being instigated across various markets, with banks called to continuously innovate.

To effectively respond to observed dynamics, the Group has set out to...

- Provide increasingly adapted products and services, while innovating and capitalising on digital channels
- Forge meaningful collaboration with stakeholders toward contributing to the creation of relevant ecosystems
- Reinforce emphasis on dedicated risk controls, towards tackling cyber threats and protecting consumer data

Looking ahead ...

While the economic climate in markets where we operate is likely to improve gradually, downside risks prevail. Also, high liquidity conditions in Mauritius and some foreign presence countries would continue to call for scrutiny. As for the legal and compliance landscape, it should, particularly amidst international trends, become more exigent in the periods ahead. Moreover, we should face up to ever more demanding needs of customers, as they become increasingly 'digital' in their behaviours.

Against this backdrop, the Group will further strengthen its capabilities to adapt to evolving dynamics, while pursuing its strategic thrusts. We will adopt a proactive approach to anticipate key developments, take opportune decisions and step ahead of market trends.

Financial Review

Overview of results

Profit

Rs 7,221 million (+519 million)

Operating within a difficult, albeit somewhat improving operating context, the Group achieved a very satisfactory performance. Underpinned by the successful execution of the Group's diversification strategy, operating income sustained its growth momentum to rise by 9.3% to reach Rs 16,951 million. This contributed to an increase of 7.7% in attributable profits, amounting to Rs 7,221 million, with the combined share of foreign-sourced income and non-banking operations standing at 57% thereof.

The Group sustained generally sound financial indicators in FY 2017/18, as gauged by a notable improvement in asset quality and the maintenance of relatively strong funding and liquidity positions, while capital adequacy ratios remained at comfortable levels.

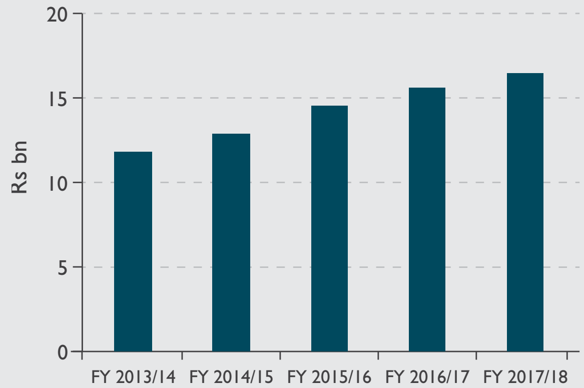
More information on financial soundness is available in the 'Risk and Capital Management Report' on pages 132 to 169

At Company level, dividend income received amounted to Rs 2,923 million for the period under review. After allowing for operating expenses of Rs 137 million, profit for the Company stood at Rs 2,519 million for the period ending 30 June 2018. Overall, total assets of the Company amounted to Rs 13,252 million as at 30 June 2018, with investments in subsidiaries and associates standing at Rs 10,917 million.

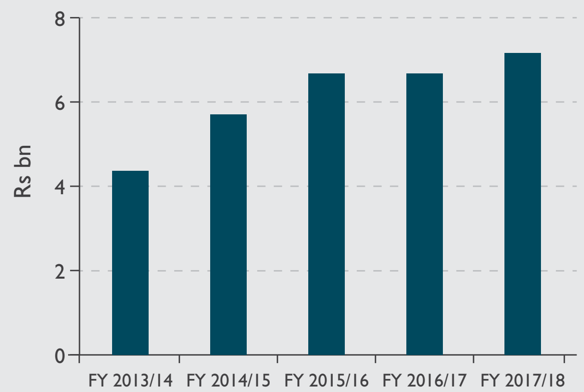
Outlook for FY 2018/19

Prospects going forward look encouraging. Whilst projected to remain challenging, the operating context is conveying some positive signs. In Mauritius, in addition to a relative improvement in the money market conditions, economic growth is likely to pick up slightly on the back of investment in large infrastructure projects. Furthermore, leveraging the opportunities notably on the African continent, our international activities are projected to maintain a significant growth amidst a healthy business pipeline. Against this backdrop, results should improve further in FY 2018/19 with the Group benefiting from the full impact of the loan portfolio growth that occurred in the latter part of the last financial year.

Operating income

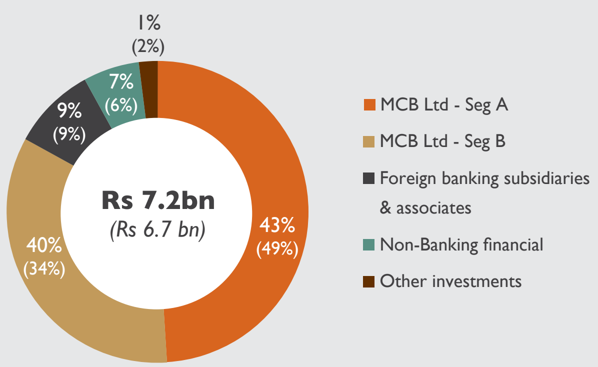


Profit attributable to shareholders



Contribution to Group profit

(Figures in brackets relate to 2017)



Note: Segment B refers to the provision of international financial services that give rise to foreign-sourced income while Segment A relates to locally-sourced earnings.

Our performance

Income statement analysis

Net interest income	As a % of average earnings assets	
Rs 10,729 million (+1,173 million)	**FY 2016/17** 3.3%	**FY 2017/18** 3.5 %

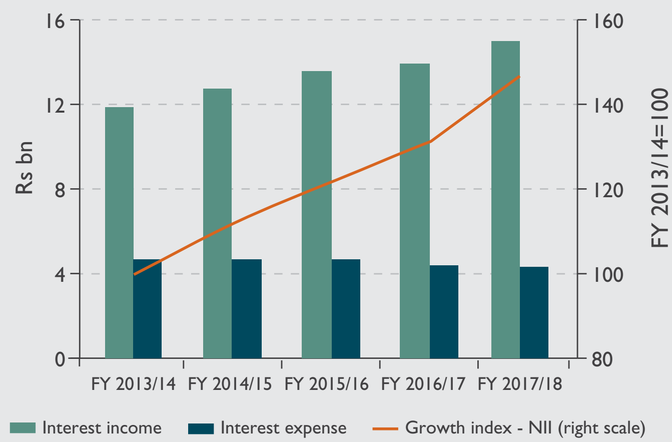
Net interest income grew by 12.3% following an expansion of some 12% in average loans and advances to customers (including corporate notes), notably driven by the international activities of MCB Ltd, and improved margins reflecting higher rates on foreign currency loans and the favourable evolution of yields on T-Bills.

Non-interest income	As a % of operating income	
Rs 6,222 million (+272 million)	**FY 2016/17** 38.4%	**FY 2017/18** 36.7 %

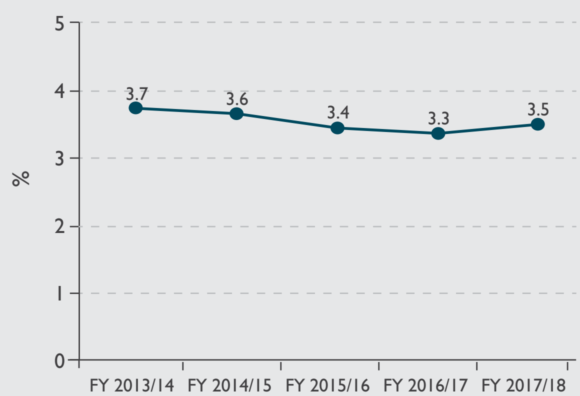
Non-interest income improved by 4.6% with the key drivers being:

- A growth of 7.1% in net fee and commission income to reach Rs 3,433 million, driven by higher revenues generated from cards activities and regional trade finance, notably linked to the Energy and Commodities business of MCB Ltd as well as higher contribution from MCB Capital Markets Ltd and foreign banking subsidiaries.
- A growth of 1.6% in 'other income' reflecting:
  - A rise of 4.0% in profit on exchange, supported by an increase across most subsidiaries with the growth at Bank level, however, being lower, partly linked to the appreciation of the rupee against the dollar on average amidst excess forex supply.
  - A relative drop in the non-banking segment, largely explained by lower contribution from disposal of investment at the level of MCB Equity Fund Ltd.

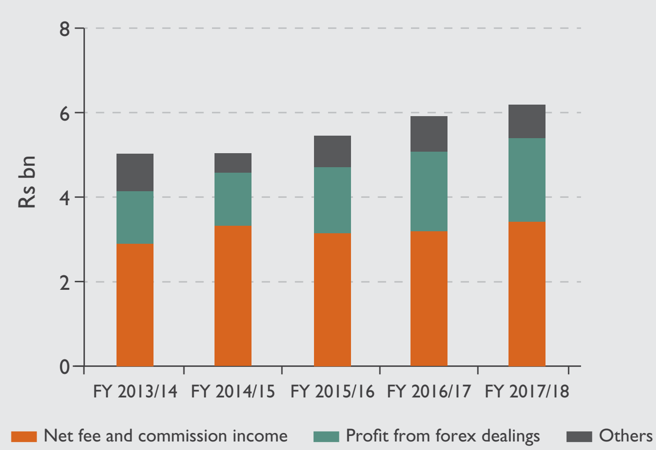
Net interest income



Net interest income to average earning assets



Breakdown of non-interest income



Operating expenses	Cost to income ratio	
Rs 6,802 million (+413 million)	**FY 2016/17** 41.2%	**FY 2017/18** 40.1 %

Operating expenses increased by 6.5% mainly explained by:

- A rise of 5.6% in staff costs, which represented 56% of the cost base, on the back of sustained efforts to upgrade human capital across the Group.
- A growth of 6.7% in depreciation and amortisation costs following continued investment in technology as highlighted further in this report.
- An increase of 8.0% in other expenses, in line with higher consultancy fees associated with capacity building initiatives notably at Bank level.

This, combined with a growth of 9.3% in operating income resulted in our cost to income ratio improving by 107 basis points.

Impairment charges	As a % of loans and advances	
Rs 1,330 million (+266 million)	**FY 2016/17** 0.59%	**FY 2017/18** 0.61 %

Impairment charges increased by 25.0%, explained by the growth in our loans and advances portfolio. In fact, when expressed as a percentage of loans and advances, impairment charges were up by less than 2 basis points to stand at 0.61%, of which portfolio provisions accounted for some 9 basis points (FY 2016/17: 2 basis points).

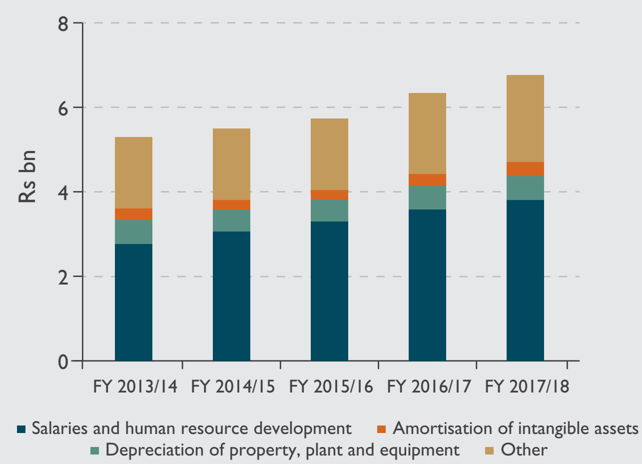
Share of profit of associates	As a % of profit for the year	
Rs 307 million (-32 million)	**FY 2016/17** 5.0%	**FY 2017/18** 4.2%

In spite of an improved contribution from BFCOI, our share of profit of associates declined by 9.3% due a loss registered by Promotion and Development Ltd, more specifically by its associate, Medine Ltd.

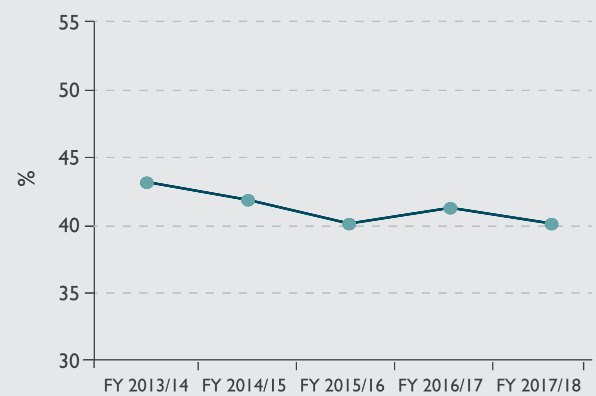
Tax expenses	Effective tax rate	
Rs 1,885 million (+241 million)	**FY 2016/17** 19.6%	**FY 2017/18** 20.7 %

Whilst profit before tax was up by 8.7%, tax expenses rose by 14.6%. This was due to a one-off charge of Rs 258.3 million relating to prior years as a result of a reassessment by the Mauritius Revenue Authority of the allocation of expenses between local and foreign sourced activities of MCB Ltd.

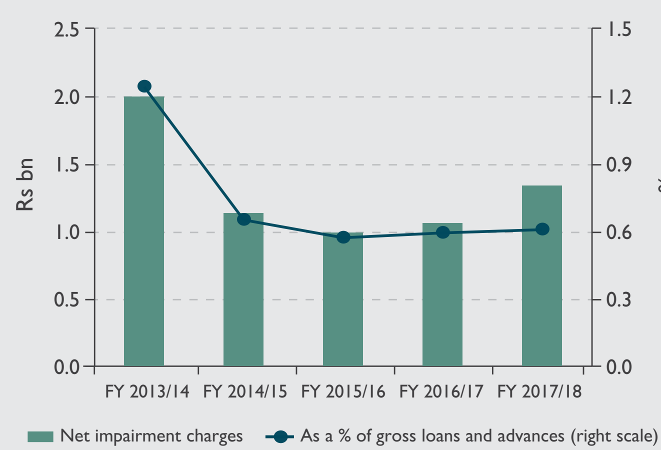
Breakdown of operating expenses



Cost to income ratio



Net impairment charges



Our performance

Financial position statement analysis

Gross loans	Gross NPL ratio	
Rs 211 billion (+33 billion)	FY 2016/17 6.2%	FY 2017/18 4.5 %

After a subdued performance for several years, total gross loans of the Group recorded a year-on-year growth of 18.5% in FY 2017/18, supported by a rise across banking subsidiaries. Specifically, gross loans at the level of MCB Ltd registered an increase of 19.7%, driven by an expansion in its international activities with associated credit to customers increasing by 43.7% linked to the Energy and Commodities business and, to a lesser extent, project financing activities. Further support stemmed from a pickup in the domestic loan portfolio, which grew by 7.0% over the year. The local retail segment of the Bank sustained an appreciable growth of 6.4%, on account of a further expansion in mortgages. Furthermore, loans to local corporates registered a broad-based expansion of 7.3%. This was in addition to exposures through corporate notes which reached Rs 7.0 billion, compared to Rs 655 million in FY 2016/17.

As regards asset quality, the non-performing loan ratios declined by some 170 and 150 basis points to reach 4.5% and 3.1% in gross and net terms in line with successful recovery actions and the expansion in our loan portfolio.

Funding	Loans to funding ratio	
Rs 320 billion (+33 billion)	FY 2016/17 62.2%	FY 2017/18 66.0%

Total deposits, which are the main source of funding of the Group, expanded by 8.3% to attain Rs 298 billion as at 30 June 2018, supported by growth within our main banking subsidiaries. In particular, MCB Ltd posted a rise of 8.2% in its deposit base, following a growth of 10% in rupee-denominated deposits and around 5% in foreign currency deposits. Total demand deposits and savings deposits of the Group rose by 8.8% and 9.7% respectively while time deposits increased by 3.3%.

'Other borrowed funds' went up by Rs 8.4 billion, following increased utilisation of LC refinancing credit lines and higher recourse to the lending facility from Agence Française de Développement for the provision of 'Green Loans'.

June 2018	Exposures	
	Rs m	Y.o.y. growth (%)
Loans to customers	**205,981**	**16.4**
Agriculture and fishing	8,786	7.3
Manufacturing	11,720	7.3
of which EPZ	4,877	6.5
Tourism	26,857	(0.9)
Transport	5,735	21.7
Construction	16,823	10.9
Traders	41,032	47.8
Financial and business services	28,175	30.6
Personal and professional	41,731	10.0
of which credit cards	1,120	43.0
of which housing	27,501	8.7
Global Business Licence holders	15,928	23.7
Others	9,195	(14.6)
Loans to banks	**5,073**	**355.6**
Total	**211,054**	**18.5**

Note: Figures may not add up to totals due to rounding.

Loans and advances as at June 2018	Rs m	Y.o.y. growth (%)	Mix (%)
Retail customers	42,703	8.4	20.2
Credit cards	*1,044*	*49.2*	*0.5*
Mortgages	*27,501*	*8.7*	*13.0*
Other retail loans	*14,158*	*5.7*	*6.7*
Corporate customers	111,360	8.6	52.8
Entities outside Mauritius	49,678	47.5	23.5
Government	2,241	62.7	1.1
Banks	5,073	355.6	2.4
Total loans	**211,054**	**18.5**	**100.0**
Corporate notes	7,049	976.6	-
Total loans and advances	**218,103**	**22.0**	**-**

Off balance sheet items as at 30 June 2018	Rs m	Y.o.y. growth (%)
Acceptances, Guarantees, letters of credit, endorsements and other obligations on account of customers	59,872	38.9
Commitments	6,446	(10.5)
Others	1,978	(16.0)
Total	**68,296**	**29.7**

Investment securities and Cash & cash equivalents	Liquid assets to total assets	
	FY 2016/17	FY 2017/18
Rs 143 billion (-1 billion)	41.6%	37.0%

As a result of an expansion in the loan portfolio, liquid assets of the Group declined slightly over the period under review. This was characterised by a decrease of 17.3% in cash and cash equivalents, including placements, whilst mandatory balances with Central Bank and investment securities (excluding available-for-sale securities and corporate notes) recorded a rise of 12.4% and 11.4% respectively.

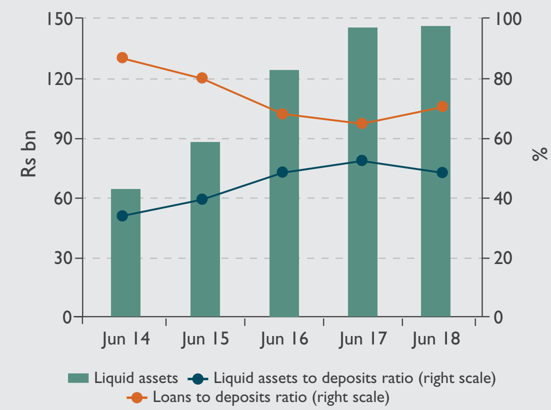
Overall, the ratio of liquid assets as a percentage of deposits stood at 48.0% as at 30 June 2018 compared to 52.3% one year earlier.

Shareholders' funds	Return on equity	
	FY 2016/17	FY 2017/18
Rs 51 billion (+5 billion)	15.5%	14.8%

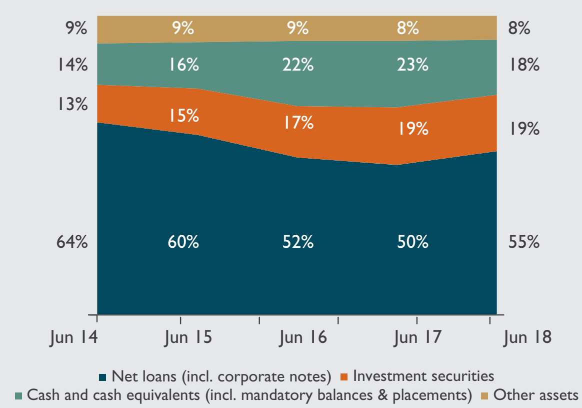
Shareholders' funds increased by 11.7% in line with a growth of 12.2% (+Rs 5.3 billion) in retained earnings and other reserves. Following an interim dividend of Rs 4.50 per share paid in July, a final dividend of Rs 5.50 was declared in September to be payable in December 2018, bringing the total dividend per share to Rs 10.00, representing a growth of 8.1% compared to last year. This resulted in a dividend payout of some 33%, with diluted earnings per share standing at Rs 30.26.

Notwithstanding the sizeable growth in loan portfolio, the Group maintained comfortable capitalisation levels with the BIS ratio standing at 17.3% as at 30 June 2018, of which 15.3% by way of Tier 1.

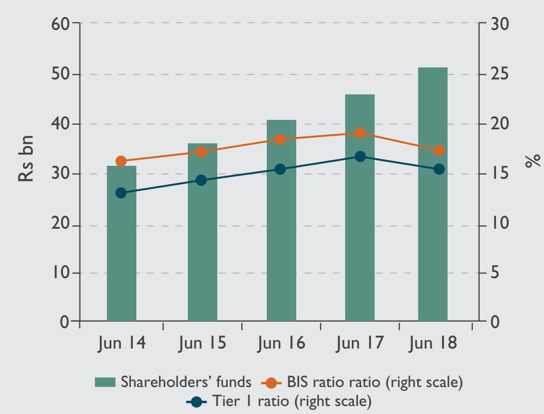
Liquidity position



Evolution of assets mix



Shareholders' funds and capital adequacy



Note: Capital adequacy figures are based on Basel III

Our performance

Analysis by cluster

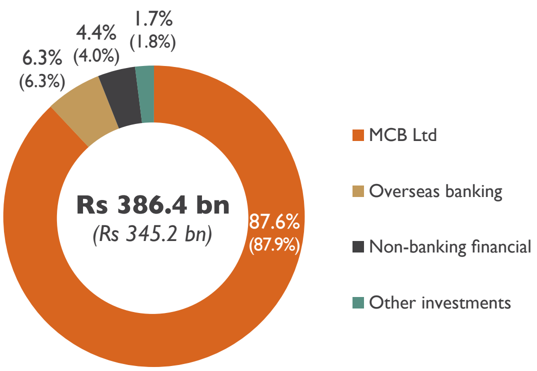
Overview

During FY 2017/18, entities of the Group pursued their growth agenda, while bolstering their inherent capabilities to cope with the exigent operating context and better position themselves to tap into business opportunities. Our market development thrust was reflected by the entrenchment of our foothold in established segments and the continued diversification of activities. In the Mauritian banking sector, the Group reinforced its leadership position in servicing individual and corporate clients. Beyond, it widened its regional involvement across segments, while making headway in the provision of non-bank financial services. Alongside major capacity building ventures, the Group laid due emphasis on sensible risk management and the continuous improvement of its operational efficiency. We continued to leverage synergies, with focus laid on (i) tapping into need-based cross-selling avenues; (ii) the replication of client solutions across geographies; and (iii) provision of bundled solutions emanating from various business lines, particularly in relation to investor-related services and the Group's 'Bank of Banks' value proposition. Notably, the Group made further inroads in positioning the organisation as a regional platform for handling trade finance, payments outsourcing and undertaking consulting assignments for banking and financial services counterparts, operating notably in Africa.

Read more on key initiatives taken by the Group to support the soundness of its activities in the 'Risk and Capital Management Report' section on pages 132 to 169

Asset – Breakdown by cluster

(Figures in brackets relate to 2017)

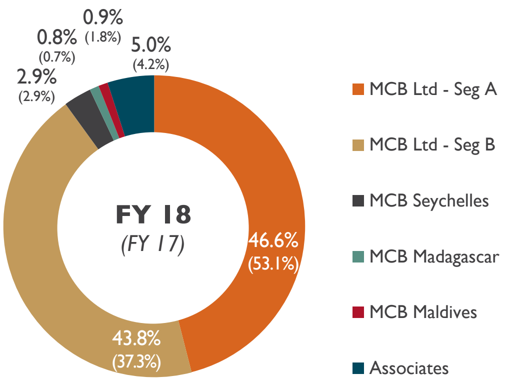


Banking cluster

The contribution of the banking cluster to Group results remained unchanged at 92% with improved performances of the other banking entities offsetting a decline in profits at the level MCB Maldives. A notable rise was observed in the share of foreign-sourced earnings largely due to the growth in international activities of MCB Ltd and improved results at the level of BFCOI.

Contribution to profit within the cluster

(Figures in brackets relate to 2017)



MCB Ltd

Financial performance

While the operating context continued to be challenging despite some improving signs, the Bank posted an appreciable performance for the year under review. Operating income increased by 10.7% to reach Rs 15,059 million. This result was supported by an appreciable rise of 13.8% in net interest income, mainly attributable to a significant expansion in our international loan portfolio and increased investments in Treasury bills locally. Non-interest income registered a growth of 4.8%, fuelled by an encouraging increase in net fee and commission income whereas profit arising from dealings in foreign currencies rose slightly. Reflecting ongoing capacity building initiatives across the Bank, operating expenses went up by 8.6%, leading to a reduction in the cost to income ratio to 36.2%. With impairment charges rising by Rs 278 million, to some extent linked to the growth in our loan book, profit after tax increased by 8.4% to reach Rs 6,762 million.

Our business development

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 widening its operations towards emerging and niche market segments, alongside strengthening its positioning within established markets. Essentially, the Bank has sharpened its leading banking position on the local scene. In addition, it pursued its regional market diversification agenda across key growth pillars and widened its involvement on the international front. Along the way, we coped with the demanding context prevailing across some market segments, while preserving the quality of assets, backed by the reinforcement of risk management and the careful formulation of our risk appetite. On the latter aspect and as far as our foreign exposures are concerned, we have ensured that their expansion and diversification are undertaken by leveraging on our expertise in selected lines of business and our intimate knowledge of our economic sectors. Furthermore and as a major highlight of the year, the Bank has mobilised the necessary resources with a view to undertaking numerous projects with notable organisation-wide ramifications. While setting the stage to gear up the Bank for the future, the key aims of the currently unfolding ventures are to improve the way we do things and build internal capabilities for underpinning sustained business growth in Mauritius and in the region. Amongst the main undertakings, the Bank has remained intent on executing its omni-channel strategy and pursued its digital transformation, with the objective being to enhance the speed and flexibility with which it delivers value to its customers.

Looking ahead, the Bank expects to sustain its good performance. Essentially, it is confident to pursue its business growth on the local front and abroad, after making allowance for the current pipeline of deals being witnessed across market segments. In the same vein, we should stand ready to reap the benefits of various capacity building projects that are currently being executed.

Our performance

Key strategic achievements across business areas

Corporate and Institutional Banking

Local

- Leveraging our unique selling propositions and tailored solutions, we continued to assist businesses and investors across various segments, while contributing to the materialisation of key projects reshaping the landscape of Mauritius. In fact, we positioned ourselves to effectively tap into the relative upturn in nationwide investment and demand for credit, thus reinforcing our status as the premier business partner of companies. Our market share in respect of domestic credit to corporates increased by more than one and a half percentage points during the year under review to reach 43.7% as at 30 June 2018.

- During the last financial year, we have expanded our exposures vis-à-vis various economic sectors, particularly tourism, property development, construction, and financial and business services. We accompanied corporate and institutional clients in their growth endeavours, capacity building moves and restructuring initiatives, by acting as a trusted business advisor. Along the way, 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 (AFD) to stimulate the deployment of renewable energy and energy-efficient technologies, save energy and reduce carbon emissions. Building on the success of the previous lines, the Bank is on course to sign a third line of credit with AFD. Additionally, we delivered a broadening range of adapted treasury solutions to meet the evolving requirements of clients, with a key example relating to structured forex products, alongside further disseminating our MCB Wave solution, which treasurers leveraged as an all-in-one digital and day-to-day tool to manage trading requirements. Also, as an authorised Primary Dealer appointed by the Bank of Mauritius, the Bank has actively traded on the primary and secondary markets.

- On another note, alongside capitalising into the positioning of Mauritius as an International Financial Centre of repute and substance, the Bank has broadened its exposures vis-à-vis global business entities, trusts and foundations. Our market development initiatives have been underpinned by the delivery of customised solutions and enhanced client interactions.

International

- To extend the Bank's frontiers, we actively, yet cautiously, pursued our regional diversification strategy, while prospecting business opportunities beyond the continent. We remained mainly involved in niche areas where we display strategic competencies. We have continued to deepen our relationships with our existing customers and selectively extended our customer base.

- As a major achievement, we furthered our Energy and Commodities (E&C) strategy. In terms of our market positioning, we made inroads across several African countries and increasingly tapped into markets internationally. We further consolidated the structured trade finance segment of our portfolio, alongside adding key relationships to our books. We stroke landmark deals in the E&C field, with the Bank making significant progress in shifting from solely structured trade financing to medium-term financing along the oil value chain. The year under review witnessed E&C's entry into the African oil and gas structured debt market. As another area of satisfaction, the Bank is henceforth recognised as a Commodity Trade Finance bank on the African scene on the basis *inter alia* of its service quality, risk appetite and strong relationship with key players across the value chain, notably traders, oil majors and procurement entities.

- We broadened our portfolio of structured project finance deals across Africa and beyond. We have been involved across a target range of economic sectors and countries where we have expertise and within our risk parameters, with our pipeline of deals witnessing a noticeable expansion in recent times. We notably attended to the needs of clients investing or doing business in Africa, including Mauritian and non-Mauritian corporates, with a selective approach adopted in respect of our lending.

- We have, in close connection with the Group, remained an active promoter of the 'Bank of Banks' initiative of the organisation, which consists of providing a palette of adapted solutions to financial institution counterparts, notably those operating in Africa. We directly partnered with and assisted around 55 banks in Africa in FY 2017/18, while enabling clients to gain access to the range of services and state-of-the-art frameworks offered by various Group entities. Overall, we worked towards enabling clients underpin capacity building and business growth initiatives, while accessing industry best practices.

Retail Banking

- Capitalising on its everyday and adapted solutions, the Bank has serviced individual clients across age and income groups. We provided simplified offerings for customers to save and invest, while distributing the Group's products (e.g. leasing and investment). We remained active on the payments scene, thus allowing customers to set up payments and transfer money in a smart, quick, secure and hassle-free manner. We also adopted dedicated initiatives to accelerate the migration of customers from branches to digital channels.

- We deepened relationships vis-à-vis the mass and mass affluent customer segments. Noticeably, in addition to strengthening our prominent footprint in the education loans segment and while facing up to high competitive pressures, we have, as a key achievement, bolstered our leadership market position with regard to mortgage. Our market share for housing loans rose further to stand at around 39% as at end-June 2018, on the back of a growth of around 9% in our loan book. In recent periods, MCB has refined the appeal and specificities of its housing loan value proposition, with the latter being increasingly customised to meet different client needs. We have provided attractive repayment terms to our clients, alongside offering them the flexibility to withhold repayment for a certain period.

- The Bank further accompanied small and medium enterprises (SMEs) in their activities and growth initiatives, thus remaining their foremost service provider in Mauritius. MCB was ranked 1st amongst the 13 banks operating in the country in respect of credit facilities outstanding under the Government–backed SME Financing Scheme, with a corresponding market share of around 43% posted during the December 2011 – July 2018 period. During the last financial year, our value proposition was revamped, with the creation of two distinct SME account packages, 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 to help clients ease cash flow management. Lately, to enhance client support, we further simplified account opening procedures, made inroads with regard to the digitalisation of client onboarding processes in the wake of the Bank's Digital Transformation Programme, and improved the accessibility of our palette of products and services to small businesses by means of the strategic deployment of Relationship Executives across branches.

- As a landmark move in Mauritius, MCB introduced contactless payments solutions for the benefit of its cardholders, while reinforcing relationships with merchants. Following the upgrading exercise undertaken, we have delivered more than 607,000 new MasterCard Debit Chip cards to our customers. Importantly, their market appeal is underpinned by the fact that they offer the highest level of security to users thanks to a layered security technology approach, which includes the latest generation and state-of-the-art chip technology. Currently, more than 100 outlets operate with our contactless terminals, including fast food outlets, bakery and coffee shops, groceries, supermarkets and pharmacies. Customers, who can now 'touch and pay', are able to undertake purchases in a fast and practical way, without having to fumble with cash. Interestingly, the customer can use his/her MasterCard Debit Chip card at any MasterCard contactless-enabled point of sale (POS) device worldwide. Backed by active promotional campaigns, MCB has, in recent months, witnessed a sustained rise in the number of contactless transactions being undertaken via POS terminals.

- The Bank has further enriched its suite of mobile banking solutions. In addition to offering the ability to effect cardless ATM transactions, make instant payments, undertake P2P money transfer, money transfer to any Visa cardholder worldwide, access selected PayPal services, our 'Juice' mobile banking service was lately endowed with a new interface and broadened functionalities. They include the validation of transactions by means of Touch ID and payments via QR code. As at end August 2018, our service boasted some 190,000 subscribers, including 57,650 being recorded over the past year. As another innovation, the Bank lately launched a Soft Token service to further ease banking operations of customers requiring to effect payments/transfers of above Rs 250,000. While maintaining a safe and secured banking experience, the application, which can be downloaded via Google Play or App Store, will further facilitate transactions on our online platforms, i.e. MCB Internet Banking and JuiceByMCB.

Private Banking and Wealth Management

- During FY 2017/18, the Bank made further progress in entrenching its objective of acting as the trusted lifetime partner for its affluent and high net worth customer base, helped by its differentiating service quality and bespoke offerings, notably relating to our increasingly sophisticated range of investment and wealth management solutions. Against this backdrop, the Bank has nearly doubled its assets under management, while positing a rise of around 10% as regard its loans and advances, helped by a sustained increase in its client base across different market segments.

- A major achievement of the Bank is its increasingly prominent positioning as a reference in the region for premium banking and wealth management expertise, in line with a key growth pillar of the Bank, which is to expand private banking into Africa. Interactions with External Asset Managers and Financial Intermediaries, notably those in Africa, have been broadened as we provided them with trading, custody and transactional services. We also grew our business further on the international front, notably in Europe and specific markets such as Middle East. With regard to the local scene, the Bank has pursued its business activities across various segments. As a key success story, we further deployed our Lombard loan, which enables clients to utilise a wide spectrum of credit products, which are secured against their existing investment portfolios.

- To underpin our strategic thrusts, we have capitalised on strengthened client interactions and enriched value proposition. Our value proposition has lately been enhanced with the launch of our 'Conciergerie' service in December 2017. This is a dedicated Personal Assistance service designed to seamlessly integrate with the lifestyles of our clients while providing the latter with assistance and information on a 24-hour basis. Furthermore, the Bank reinforced its operational set-up with the inauguration of a new lounge in Cascavelle in December 2017. Six dedicated lounges are now available across the Bank's branches. They offer a premium and private space for our customers, with a digital corner equipped with iPad and self-service kiosks.

Our performance

Key enablers and underpinnings for sustained growth

To support the execution of our business strategies, we continuously reinforced our internal capabilities, as shown in the following sections. Fundamentally, we have, as highlighted before, embarked on a journey to transform the Bank. We onboarded key projects to gear up for the future, reinforce productivity levels and enhance customer service quality. Apart from our Sustainable Development Programme and some realignment exercises, the main projects unfolding include our Digital Transformation Programme and HR Transformation Programme, with relevant details thereon being provided on pages 86 and 87.

Deepening stakeholder relationships and reinforcing our brand

- In addition to sponsoring high-profile events, it organised several Business Meetings, while actively spearheading key events and roadshows. It maintained its involvement in local, regional and international seminars and conferences with a view to promoting its capabilities and value proposition, while gaining insights on international business trends and dynamics. Also, the Bank reinforced linkages with carefully-chosen business operators and other stakeholders across the market place. On another note, the websites of MCB and its business lines have been further upgraded and enriched to provide more concise and readily accessible information on our range of solutions and strategic position, while seeking to foster enhanced customer engagement. Moreover, we remained active on social media platforms like Facebook, Twitter, YouTube, and LinkedIn.

Organisation of and participation in key events

'Africa Forward Together' Seminar

The Group organised the 9th edition of its 'Africa Forward Together' seminar in September 2018, which welcomed 24 banks from 11 African 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. MCB provides its African institutional partners with avenues for forging or strengthening business relationships as well as leveraging fresh collaboration opportunities.

Africa CEO Forum

The organisation has, for the fourth consecutive year, been the Diamond Sponsor of the Africa CEO Forum, held in March 2018 in Abidjan. The Forum brought together some 1,500 African and international personalities including representatives of over 10 Mauritian companies, key decision-makers in industry, finance and politics from 70 countries. It served as a platform for constructive dialogue to shape Africa's future and identify business opportunities on the continent.

MCB InovApp Challenge

In view of stimulating creativity, driving innovation and fostering enhanced collaboration within the ecosystem, the first MCB InovApp Challenge was organised in May 2018. In addition to an internal competition amongst staff, the event to the public attracted 16 groups of up to 5 people who competed for 24 hours non-stop to develop working prototypes around the theme of improving the banking experience of Mauritians. This kick-started the collaboration with the budding community of developers and FinTech start-ups. It served as a platform to generate innovative ideas, position MCB as a leading bank, source new talents and identify potential partnerships with local entrepreneurs and start-ups.

AFT September 2018

Group Chief Executive Pierre Guy Noël addressing bankers from all over Africa, attending the Africa Forward Together conference at the Trou aux Biches Beachcomber Golf Resort and Spa.

Fostering operational excellence and innovation

Processes, systems and platforms

- With a view to simplifying and streamlining its processes, the Bank made further progress in improving the ease of loan application procedures and quickening approval times, thus simplifying credit allocation. In addition, it performed a more coherent articulation, segmentation and allocation of customer portfolios. This enabled us to better understand client needs and propose more suitable value propositions. Furthermore, the Bank geared up its recourse to cutting-edge technologies across the value chain, while investing in upgrading and modernising its IT systems and infrastructure. Last year, it implemented an all-in-one Customer Relationship Management (CRM) system across lines of business and relevant support functions to foster customer service improvement as well as operational excellence and efficiency gains. Furthermore, the Bank now operates a Tier 3 Level data centre for its main services, thus giving a guarantee of availability and scalability. Also, a complete revamp of our network infrastructure was initiated, allowing the rollout of new services in our branches (e.g. free Wi-Fi access to customers). In addition, major business application upgrade projects are underway, with a key example relating to the scheduled migration by the Treasury function of the Bank to a new single cross-asset front-to-back platform, named Calypso. The underlying objective thereof is to improve avenues for undertaking a broader range of activities on the system and foster improved coordination of information across the value chain, while bringing new and sophisticated treasury products on the market. In the same light and amidst our Treasury Realignment Programme, we embarked on a review of the current operating model of our Treasury ecosystem, whilst ensuring proper alignment of our operations with international best practice standards. More generally, we have recently been undertaking the realignment or creation of specific functions and units in some areas. As another key development on this front, our private banking and wealth management arm has reviewed its organisation structure with a view to better catering for the needs of its clientele, both locally and internationally.

Human capital

- The Bank remained committed to fostering an engaged, knowledgeable and customer-focused workforce, while nurturing talents. We adopted dedicated measures geared towards strengthening the skills base of the Bank's workforce to support the strategic orientations of the Bank. Alongside inspiring and empowering our people to deliver their best, we have worked towards consolidating core values across the organisation. On a specific note, noticeable human capital reinforcements have been made across some business units of the Bank, in line with set growth aspirations. The corporate leadership team was reinforced, while capabilities at support levels, notably with respect to our risk management and information technology functions, have been upgraded.

Organisational synergies and collaboration

- The Bank ensured that synergies between its business units are judiciously tapped into, while fostering increased collaboration with other Group entities. Notably, we remained active in allowing our clients benefit from the full spectrum of products and services offered by various units of MCB Ltd and entities of MCB Group. In another light, the Bank has lately set up an Africa Desk, as a joint collaboration between our private banking and wealth management as well as corporate and institutional banking arms. While aiming to expand our international footprint, the desk seeks to attend to the needs of the African entrepreneurs segment, helped by the delivery of an integrated and coherent value proposition.

Transformation of the organisation

Digital Transformation Programme

- As an important move, MCB embarked on an ambitious Digital Transformation Programme (DTP). Within the DTP, the objective set by the Bank is to deliver a world-class customer experience through digital. In a nutshell, the DTP is a three-year programme whose target is to digitise customer journeys prioritised on value to the Bank and its customers in order to deliver a more convenient and appealing experience to our clients, insofar they are, themselves, becoming increasingly 'digital'. A renowned international consultant is guiding us to implement the project and craft customer journeys. Strategically, while upholding our competitive edge and putting us at the cutting-edge of financial services, the DTP aims to better position the Bank to (i) respond to customer needs almost instantly through technology enablement; (ii) make the lives of customers, intermediaries and staff painless by reducing paper usage, queues in branches and manual effort across multiple channels; (iii) instill a bottom-up innovation and client-centric culture across the organisation; (iv) deliver digital customer journeys in a nimble and cross-functional way; and (v) improve efficiencies through enhanced employee productivity and cost effectiveness across the delivery team.

- As a major preliminary outcome of the DTP and a first step towards gearing up for the future we envision, MCB launched a Digital Factory to serve as an incubator for embedding truly customer-centric operations across the Bank. The Digital Factory encompasses cross-functional co-located team members working in agile squads. Key tasks include end-to-end customer journey definition and redesign, process redesign in parallel with tech redesign as well as engagement with key external collaborators and vendors. Towards these ends, the Bank is investing significantly in skills development and capacity building towards reinforcing digital capabilities and forging an adapted culture and mindset. It is recruiting new talents to fill in several key roles, from data analytics and user experience design to user interface design and full stack developers amongst others.

Key deliverables of the Digital Transformation Programme

Strategic themes

Connectivity

- Simple and seamless banking experience across all channels
- Availability of core products and services on all digital channels
- Mobile app capability across segments

Automation

- End-to-end digitisation of top customer journeys
- Paperless process with minimal manual interventions
- Self-service as standard, with help available at hand

Decision making

- Advanced analytics driving customer value management, risk management, internal efficiency and decision-making
- Personalised & actionable insights to customers

Innovation

- Partnerships with merchants, FinTechs and other players to offer products and services across digital channels
- Lifestyle focused ecosystem strategy integrated with top customer journeys

HR Transformation Programme

- The organisation has boarded onto a HR Transformation Programme (HRTP) with a view to upgrading its human capital, while enabling it to better support ongoing growth strategies. A key target is to develop a new operating model for the organisation towards further enhancing with effectiveness of human resource frameworks and systems. The Bank aims to create propitious grounds for efficiently delivering essential HR services and ensuring that all MCB employees and HR processes work in close alignment to build customer connectivity, innovation and talent capabilities across the organisation.

- From a specific angle, the project seeks to help us better understand our human resource development challenges and priorities in order to develop adapted and pragmatic action points for the organisation, whilst establishing a proper learning journey that is best adapted to the context and environment in which we want to operate. It aims to provide improved assistance to the business towards anchoring strong customer focus, high workforce engagement and seamless operations. Of note, towards formulating the HRTP, we retained the services of a world-renowned HR consulting practice.

Key objectives

Develop enterprise wide talent management strategies such as succession planning, workforce planning, professional development programs

Provide strategic partnering, guidance and assistance to business leaders to directly support key capabilities of the business

HR Transformation Programme

Ensure optimal and cost-effective HR Operations to enhance the efficiency and effectiveness of operational processes

Reinforce HR practices which will deliver key capabilities and address business needs

Our performance

Foreign banking subsidiaries

MCB Madagascar

Performance

- While the country has remained exposed to a fragile operating environment in recent times, amidst notably lingering political uncertainties and exogenous shocks, real GDP growth has gained further steam lately and is expected to further improve this year, partly helped by the scaling up of public investment and the unfolding of the structural reform agenda. Encouragingly, this momentum has provided an appreciable anchor in support of the recent noticeable business growth of MCB Madagascar.

- During the financial year, MCB Madagascar registered a notable expansion in net loans and advances, mainly driven by improved performances with respect to short-term corporate loans and equipment loans. Yet, net interest income grew marginally owing to a significant drop in treasury bills rates, while investment therein was also somewhat restrained as a result of funds being put aside with a view to financing approved loan deals. As for non-interest income, it grew by a significant margin. Net fee and commission income was mainly boosted by corporate banking fees, while profit arising from dealing in foreign currencies benefited from the relative weakening of the Ariary against the euro and the US dollar during specific periods. On the other hand, operating expenses grew considerably as the bank unleashed ambitious capacity building initiatives, notably geared towards the scheduled opening of new branches as well as investment in human capital and IT equipment. Overall, after making allowance for major net recoveries in respect of the net impairment of financial assets, net profit of MCB Madagascar increased by 21% to reach MGA 5.9 billion, contributing Rs 55 million to Group results.

Main initiatives and achievements

- To reinforce proximity with its clients, the bank has widened its branch network, thus extending its presence in the regions of Antananarivo, Antsirabe and Tuléar. The new branches, which are equipped with ATMs and include lounges for Personal Banking customers, offer a customer-friendly banking environment. Moreover, the bank has enriched its value proposition and the quality of customer service by introducing new and innovative solutions, as adapted from the 'success stories' of MCB Ltd. In addition to revamping its housing loan offer, the bank has, as market firsts in Madagascar: (i) introduced its 'Instakit' service, whereby 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; and (ii) made allowance for customers to benefit from the 'Verified by VISA' security features for online transactions. In another respect, MCB Madagascar has fostered greater brand visibility through its participation in several key events, as gauged notably by the launch of promotional campaigns to encourage card usage, while being increasingly present across billboards in the regions where it operates.

Opening of branch

The opening of MCB Madagascar's eighth branch in Ankorondrano in July 2018. A new branch also opened in Tuléar this year, bringing the total number of MCB branches in Madagascar to nine.

- Noticeably, the expansion of the branch network has been accompanied by reinforcement of staff competencies, with training and development initiatives being put in place locally and in Mauritius. Notably, employees have benefited from dedicated training on customer service lately, while refresher courses covering anti-money laundering, compliance and information security have been delivered. Moreover, as a key initiative to reward the best performers and while fostering alignment with advocated Group practices, MCB Madagascar has initiated the review of its Performance Management System, whereby various stakeholders have participated in work sessions, coming up with the best possible approach and techniques to be adopted by the bank.

MCB Maldives

Performance

- While real GDP growth in Maldives has been engaged onto a recovery path lately, the economy has continued to be beset by a relatively challenging context. Notably, activity levels continued to be volatile across some key economic sectors. At the same time, political instability has weighed adversely on investment and value creation. Against the back of the challenging operating environment, pressures have been exerted on the financial performance of MCB Maldives.

- In FY 2017/18, the bank posted a decline in its net interest income, principally explained by a fall in net loans and advances on the back of the testing operating landscape, while heightened competitive pressures have also been observed. Besides, despite recovering lately, investment in Government securities remained subdued for prolonged periods amidst tight liquidity conditions prevailing internally. As a result, a drop in operating income was noted in spite of non-interest income being boosted by rising volumes of SWIFT transactions and book transfers as well as improved cross-currency transactions. Moreover, operating expenses rose, mainly due to human capital investments and expenditures linked to software licensing and transactional banking activities. After factoring in a surge in allowance for credit impairment as a result of the bank increasing its provision coverage on NPLs while continuing to push through its recovery efforts in a challenging operating environment, net profit of MCB Maldives fell to MVR 27 million, with contribution to Group results standing at Rs 59 million.

Main initiatives and achievements

- The bank pursued its diversification strategy by targeting new market segments. In this respect, it successfully launched the 'MCB Select' service, which caters for affluent individuals. Specifically, the value proposition incorporates the following: a personalised service with a dedicated Relationship Manager, an international VISA Platinum Debit card in USD with the 'Verified by VISA' security feature, and lounge access at Malé branch as well as international airports, in partnership with LoungeKey. Moreover, the bank strived to consolidate its positioning in established market segments. Toward this end, it laid due emphasis on delivering relevant and competitive client solutions, alongside simplifying the banking experience. Illustratively, the bank offered unique selling propositions to its corporate customers, with the products and services being bundled into a package offer, personalised and adapted to their business needs. In addition, the bank has further improved the interior layout of its Malé and Hulhumalé branches to enhance customer service.

- In terms of capacity building, the bank embarked on a journey to streamline its processes towards making them more efficient and less costly. Key initiatives include automation of the reconciliation and reporting processes, the rationalisation of application forms as well as the electronic archiving of contracts, forms and documents. Furthermore, the bank sustained its investment in human capital development by conducting several training initiatives, notably encapsulating customer service, regulatory and self-development courses and programmes. On another note, the bank has improved its brand visibility and promoted its solutions through participation in exhibitions and commercial campaigns.

Maldives Yonex Tournament

Maldives' national badminton team has the full support of MCB Maldives for the second time in a row as they took part in the Yonex International Badminton tournament held in Mauritius

MCB Seychelles

Performance

- The Seychelles economy has continued to perform well in recent periods, supported notably by the buoyant performances of key economic pillars and expanding credit to the private sector. As for this year, in spite of the impact of monetary policy tightening and sector-specific vulnerabilities on national output, macroeconomic fundamentals have remained generally sound. Consequently, this has provided a generally conducive backdrop for MCB Seychelles to pursue its business growth.

- In FY 2017/18, while a major growth was witnessed in respect of the deposits base amidst higher time deposits and competitive rates offered, the loan book expanded by around 9% to attain SCR 2 billion. In fact, several pipeline projects have materialised, which led to rising exposures vis-à-vis the trading and construction sectors in particular. Against this backdrop, the bank registered a rise of more than 10% in its net interest income, with another key driver thereof being a significant rise in investment in short-term securities amidst high liquidity conditions prevailing in the banking system, even though relatively lower yields were registered in respect of such assets. Overall, operating income rose by 9.4%, after taking into consideration a notable rise in net fee and commission income on the back of our improved cards business as well as higher transaction and loan-related fees. Operating expenses grew significantly, on account mainly of salary reviews and rising headcount, while being additionally impacted by capital investments, notably associated with the refurbishment and relocation of branches. Overall, attributable profits for the year have increased by 16% to reach SCR 79.7 million, after factoring in the reduced income tax expense linked to the tax credit obtained during the year. As a result, the bank contributed Rs 201 million to the Group profits.

Main initiatives and achievements

- Towards broadening its customer base and bolstering product penetration, the bank laid focus on the delivery of personalised services and enrichment of its palette of solutions. It relocated two of its largest branches on Praslin and Mahé into newly constructed premises, thus offering a more customer-friendly banking environment. The Express Service Counter at the Victoria Branch was also revamped into a more effective one-stop shop for cheque deposits, remote banking and cards-related services. In the retail segment, the housing loan value proposition was enhanced to sharpen the bank's market foothold, with the term extended from 25 to 30 years and facilities repriced with attractive rates. Furthermore, the bank migrated its debit cards to the new Visa Debit Chip card, which offers enhanced security through chip technology. A key benefit of the new Visa Debit card is that it can be delivered to customers on the same day, with the bank having invested in its own printing technology. In addition to allowing international usage, the card offers an online payment option endowed with the 'Verified by Visa' security feature, whereby customers receive, across secure sites, a one-time password on their phone to confirm a transaction. Amidst such developments, card usage expenditure has risen by a significant amount during the financial year, aided by active promotional campaigns aimed at encouraging customers boost their Point of Sale and online transactions.

Our performance

Branch refurbishment

The Grande Anse Praslin branch of MCB Seychelles gets a facelift

- In terms of capacity building, the bank invested in a comprehensive transformation programme aimed at upgrading the skills base of its employees and accelerating knowledge-building, alongside reinforcing the values of the organisation through leadership development. Employees attended training courses and lectures held by international experts, while the bank invested in dedicated equipment and office space to facilitate such exercises. It launched its Forward Graduate Training programme to attract high performance individuals for fast-tracked development as banking professionals. Furthermore, the bank successfully upgraded its core banking system in June 2018. It also deployed a new PABX system, which offers a more modern and cost-effective telephone exchange within the branch network and with customers, alongside enabling seamless communication with other countries. Additional system enhancements to improve work technology include the adoption of a business intelligence tool to allow staff access key performance dashboards, while upgrades of the HR system helped to increase the level of automation of some processes. In another respect, the bank launched its new Internet Banking platform, which offers a fresh look, simpler menu and friendlier navigation.

Foreign banking associates

Banque Française Commerciale Océan Indien (BFCOI)

- The economy of Réunion Island, the main market of BFCOI, has continued to grow at a relatively notable pace lately, driven mainly by the expansion in both household and Government consumption expenditure. However, a restrained evolution of nationwide investment was noted. Against this backdrop and amidst a competitive operating landscape, loans and advances to customers rose by around 2% to reach EUR 1.6 billion, whereas, on the other hand, deposits grew by 6% to attain EUR 1.2 billion. Overall, net interest income decreased by 2%. As for non-interest income, it grew by 2%, as a result mainly of revenue generated by the Bancassurance business and delivery of IT solutions. Consequently, operating income remained flat at EUR 79 million. While benefiting from one-off gains, including the reversal of a prior Mayotte pension charge, operating expenses were essentially impacted by higher staff costs and capital investments associated with the unfolding of some key projects. Subsequently, operating profit before provisions marginally declined during the period under review.

- As expected, underpinned by a major reduction in the allowance for credit impairment, the results of BFCOI have improved during the year under review. Additionally, the bank has benefitted from a decline in its effective income tax rate, primarily due to the above-mentioned pension reversal. Overall, BFCOI witnessed a notable rise of 23% in profits attributable to shareholders, with contribution to MCB Group profits up at Rs 427 million. BFCOI remained comfortably capitalised, with capital adequacy ratio standing at 16.1% as at 30 June 2018, of which 13% by way of Tier 1 capital.

Société Générale Moçambique

- The Mozambican economy continued to face key macroeconomic challenges lately, with real GDP growth estimated at 3.8% in 2017 as per the IMF. For this year, a relative recovery in economic activities is anticipated, but the main economic sectors remain under pressure. Notwithstanding this difficult context and delays encountered in the materialisation of some key pipeline deals, notably related to the financing of oil imports and distribution, the loan book of Société Générale Moçambique expanded by 22% during the year ended June 2018 – principally driven by appreciable outcomes in respect of the agricultural, oil, gas and transport sectors – with a similar growth being witnessed by deposits in spite of its relative volatility. Consequently, net interest income increased by 13%, further underpinned by higher investment in Government securities. Operating income rose by 23% during the year under review, after also benefitting from an increase in profit on exchange on account of higher volumes of deals struck with corporate clients, while an expansion in net fee and commission income was also witnessed.

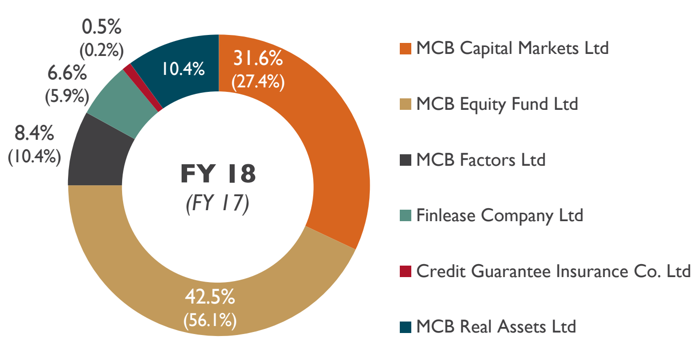
- Nonetheless, results displayed by Société Générale Moçambique were adversely affected by high non-interest expenses. The latter increased by 10% largely due to the impact of the depreciation of the MZN on the cost base of the bank, to the extent that a notable chunk of operating expenses is in foreign currencies, while the bank also implemented a number of initiatives to support the execution of its strategic initiatives. Indeed, the bank further invested to reinforce its capabilities and boost its market visibility, including expanding its branch network and moving its Head Office into the city centre. Consequently, the contribution of Société Générale Moçambique to MCB Group profits in FY 2017/18 remained negative. The bank stayed firmly capitalised, with capital adequacy ratio rising by a significant margin to attain 26.5% as at 30 June 2018, of which 18.9% by way of Tier 1 capital. The higher capitalisation levels were largely attributable to noteworthy capital injection, with the bank increasing its share capital by USD 15.7 million. In fact, the bank has set forward to boost its market development strategy amidst a difficult context, while also aiming to better collaborate in the development of the local economy.

Non-banking financial cluster

The share of this cluster in Group profits increased from 6.4% in FY 2016/17 to 7.2% for the year under review on the back of an improved results from MCB Capital Markets Ltd and Finlease Company Ltd as well as a positive contribution from MCB Real Assets Ltd in its first year of operation.

Contribution to profit within the cluster

(Figures in brackets relate to 2017)



Note: In FY 18 and FY 17, contribution from our subsidiary, MCB Microfinance, was negative.

MCB Capital Markets Ltd and its subsidiaries (MCBCM)

In FY 2017/18, revenue and consolidated profit after tax attained Rs 392.1 million (FY 2016/17: Rs 334.6 million) and Rs 172.9 million (FY 2016/17: Rs 126.3 million) respectively. MCBCM's results continued to be driven primarily by the successful completion of corporate finance transactions and an increase in assets under management.

Our performance

Corporate Finance Advisory

The Corporate Finance Advisory team continued to build its track record and successfully completed landmark transactions, which included:

- Advising MCB Group Ltd on the EUR 60 million acquisition of Club Med's 84.4% shareholding in Compagnie des Villages de Vacances de L'Isle de France Limitée ('Covifra');
- Arranging a USD 10 million Mezzanine debt financing for Cap Tamarin (Trimetys) for its Smart City; and
- Arranging a EUR 58.5 million financing package to develop the first senior residence project backed by institutional investors in Mauritius.

Investment Management

Income from investment management activities increased to Rs 146 million in FY 2017/18 from Rs 118 million in FY 2016/17, with assets under management approaching Rs 27 billion. Almost all markets (mainly global equities) recorded positive returns. The MCB range of funds registered healthy inflows, supported by marketing efforts to encourage investors to diversify away from bank deposits at a time when savings rate remained at historically low levels. This trend is expected to continue during this financial year. In FY 2017/18, we have broadened our activities to real estate investment management following the acquisition of Covifra by MCB Group Ltd and announced our strategic objective to give investors the opportunity to access yielding assets backed by prime real estate. In September 2018, the African Development Bank (AfDB) and MCB Group launched the African Domestic Bond Fund. The Fund, which is listed on the Stock Exchange of Mauritius Ltd, is the first multijurisdictional fixed income Exchange Traded Fund on the continent. It is an exciting initiative which will strengthen our product offering to investors wishing to access sovereign bonds denominated in local currency.

Stockbroking

MCB Stockbroking took advantage of a number of corporate actions by listed clients, including share issues, bond issues, underwriting transactions and mandatory takeovers, which more than compensated for the lower level of trading activity notably by foreign investors, which represented 29% of total market turnover. Overall, income was up by 30% to Rs 77 million. Looking ahead, we expect the performance of the business to improve as it continues to build its brokerage market share. For strategic reasons, MCB Capital Markets exited World Market Securities, a brokerage joint venture during the period under review. Persistently low interest rates in FY 2017/18 provided limited opportunities to structure attractive capital guaranteed products, while buoyant activity in the debt capital markets presented investors with alternatives to place their savings. We expect that activity around structured products will pick up in FY 2018/19, which should be reflected in higher distribution fee income.

Registry & Transfer Agent

MCB Registry & Securities underwent a restructuring of its activities during the year under review, with corporate secretarial services being transferred to a new dedicated entity, MCB Group Corporate Services Ltd. The remaining registry services business produced noteworthy revenue growth of over 12%, which was driven by corporate actions and investors' appetite to invest in both equity and debt capital markets. The company expects to sustain the growth in turnover in future years, although increased investment in people and technology would be required to maintain its market positioning.

Private Equity

MCB Equity Fund is an evergreen fund that provides expansion capital to established businesses with solid growth prospects, healthy profitability and strong management teams in Africa. Our private equity team manages the fund that counts MCB Group Ltd as the sole limited partner. Assets under management, on a fair value basis, stood at Rs 2.4 billion as at 30 June 2018. Net asset value of MCB Equity Fund Ltd rose from Rs 3.3 billion in FY 2016/17 to Rs 3.6 billion in FY 2017/18. During the year under review, the fund realised net profits of Rs 229 million, including profits on disposal realised on the Fund's exit from investments in the tourism and automobile sectors. Dividend income amounted to Rs 33 million in FY 2017/18 compared to Rs 34 million in FY 2016/17.

Finlease

During the year under review, Finlease's operations continued to be adversely affected by excess liquidity in the market. This contributed to a contraction of 7.6% in its Finance Lease portfolio to Rs 3,503 million and of 1.3% in its Operating Lease portfolio to Rs 590.9 million. As such, the combined Lease portfolio contracted by 6.7%. As a result, operating Income, after taking into account the depreciation charges relating to Operating Leases, dropped by 6.5% to Rs 150.7 million.

On the other hand, impairment charges as well as losses on disposal of leased assets, which had reached exceptionally high levels in the year to 30 June 2017, fell by Rs 32.6 million to Rs 17.6 million. Furthermore, operating costs of Finlease (excluding depreciation charges relating to the Operating Leases) dropped by Rs 3.3 million to Rs 57.0 million. Income tax charge increased by Rs 8.4 million given that FY 2016/17 included a deferred tax credit relating to the significant increase in specific provisions.

As a result of the above, net profit of Finlease increased from Rs 45.9 million to Rs 62.9 million.

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 landscape, by capitalising on its rich business experience and its deep market knowledge, the company proposes both recourse and non-recourse factoring services, with the latter providing protection against potential bad debts. On the international front, MCB Factors provides factoring services mainly through Factors Chain International, which is the Global Representative Body for Factoring and Financing of Open Account Domestic and International Trade Receivables. During FY 2017/18, the net profit of the company stood at Rs 47 million. For the current financial year, emphasis will be laid on improving customer experience, enhancing risk management and further diversifying the palette of invoice finance products.

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 the 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 2018, MCB Microfinance had disbursed around 1,870 loans corresponding to a gross amount of some Rs 362 million. 57% of the loans disbursed were investment loans, with the remaining being working capital loans. It is worth highlighting that the performance of MCB Microfinance has been better than what was initially projected, with a significant gross loan portfolio of around Rs 231 million being posted as at 30 June 2018. It can be recalled that, in March last year, MCB Microfinance had extended its activities to Rodrigues, with the opening of an office and the recruitment of two Relationship Officers. As at 30 June 2018, 90 micro-loans had been disbursed in Rodrigues, corresponding to a gross amount of Rs 12.6 million. Whilst MCB Microfinance registered a loss in FY 2017/18, it is moving towards break-even point on the basis of its business development momentum.

MCB Real Assets Ltd

During the last financial year, MCB Real Assets ('MCBRA') acquired 93.0% of Compagnie des Villages de Vacances de L'Isle de France Limitée ('COVIFRA'), which owns the hotel property occupied by Club Med S.A.S ('Club Med') at La Pointe aux Canonniers, Mauritius (the 'Resort'). MCBRA's investment was effected in two phases: the acquisition of the 84.4% shareholding of Club Med in COVIFRA followed by the acquisition of an additional 8.6% through a mandatory offer to the minority shareholders of COVIFRA. The rationale for this transaction is to access real estate backed yielding assets and thus provide our investing customers with access to a different asset class through participation in investments seeded by MCB Group.

COVIFRA is listed on the Development and Enterprise Market of the Stock Exchange of Mauritius. It leases the hotel property to Holiday Villages Management Services (Mauritius) Limited ('HVMS'), a wholly-owned subsidiary of Club Med, which operates the Resort under a long term 'triple net' lease agreement. With regard to the latter, the tenant is responsible for paying the property taxes, insurance and costs of maintenance and repairs related to the building during the term of the lease. HVMS has proposed an extensive refurbishment of the Resort (the 'Refurbishment') as part of an upscaling strategy being implemented by Club Med. The Refurbishment, which involves an upgrade and extension of the Resort through the construction of additional rooms, is expected to cost some EUR 40 million (exclusive of VAT) and is due to be completed in November 2018. As the Resort will continue to be operated by HVMS and given Club Med's track record in developing resorts, COVIFRA has agreed to finance the Refurbishment and has appointed Club Med as its agent to carry out the Refurbishment. Amongst other conditions, COVIFRA will receive a rental yield plus indexation for every Euro spent on the Refurbishment. Following completion of the Refurbishment, shareholders of COVIFRA are expected to benefit from an attractive euro denominated dividend yield of between 5% and 6% p.a.

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 ending 30 June 2018, the contribution to Group results increased to stand at around Rs 3 million.

Other investments cluster

Fincorp Investment Ltd

Fincorp Investment Ltd (Fincorp) is an investment company which is listed on the Official Market of the Stock Exchange of Mauritius Ltd. Its financial performance is directly correlated to that of its two main investments, namely Finlease Company Limited (Finlease), a wholly owned subsidiary, and Promotion and Development Limited (PAD), which is an investment company that is also listed on the local bourse and in which Fincorp has a 46.3% stake.

In spite of an improved performance of Finlease as explained earlier, Fincorp registered a loss of Rs 8.7 million for the financial year ended 30 June 2018 compared to a profit of Rs 82.0 million achieved last year. This was mainly explained by losses recorded by PAD, whose contribution to Fincorp group profits shifted from a profit of Rs 70.3 million in FY 2016/17 to a loss of Rs 42.2 million in FY 2017/18. This adverse performance was attributable exclusively to the poor performance of Medine Limited, in which PAD has a 35% stake and which, on account of losses incurred by its sugar operations coupled with lower sale proceeds from real estate activities, saw its contribution to Fincorp's results drop from a profit of Rs 12.7 million in FY 2016/17 to a net loss of Rs 123.2 million in FY 2017/18. The contribution of PAD's other associates and subsidiaries to Fincorp's profit increased from Rs 57.6 million to Rs 81.0 million for the year under review.

On the whole, the entity made a negative contribution of Rs 5.0 million to MCB Group results, after deduction of minority interest of 43%, compared to a profit of Rs 46.7 million in FY 2016/17. The net assets value per share amounted to Rs 52.65 at 30 June 2018, representing a decrease of 0.4% from last year's value of Rs 52.85.

International Card Processing Services Ltd

In line with the Group strategy to diversify its operations on the African continent, 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 and ATMs. The entity has moved forward with the development of full-fledged payment businesses. Today, ICPS acts as an end-to-end enabler for its clients located in Mauritius, the Indian Ocean 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, business operations outsourcing, system implementation and information security advisory services. The company's footprint now spans 15 African markets, while support is also provided to the foreign banking subsidiaries of the Group. The entity's focus for the past years has been to build a robust platform around payment, notably encompassing mobile and analytics, by constantly investing in research and development with a view to providing the best innovative solutions to hosted banks. Leveraging the new version of our payment system as well as a dedicated team of business and IT professionals with core expertise in the delivery of added value services across the payment lifecycle, ICPS has registered strong business growth during the past few years. During FY 2017/2018, ICPS has continued to make noteworthy headway in a persistently difficult environment to reach a turnover of Rs 258 million.

MCB Consulting Services Ltd

Established in June 2014 as a fully-owned subsidiary of MCB Group Ltd, MCB Consulting Services offers consulting services, articulated around the four pillars of any company (i.e. process, people, technology and strategy) to organisations, mainly those operating in the financial sector. Over the last four years, this now truly international company – manned by around 80 employees of different nationalities – has undertaken more than 360 assignments (including above 160 over the last financial year) in 28 different countries (with 4 new countries adding up since June 2017). The lion's share of business growth has occurred in French and English-speaking African countries, while increasing penetration has been realised in the Middle East. In FY 2017/18, the financial performance of MCB Consulting has been satisfactory, as epitomised by a turnover of USD 6.5 million and a rise of 52% in its bottom line. The financial results have been underpinned by several enablers and achievements, with the main areas of satisfaction being described as follows:

- A well-balanced turnover repartition across country and client, thus avoiding any over-dependency;
- An increased sophistication of the markets in which the entity operates, with assignments being carried out in United Arab Emirates, Egypt and even Guernsey, amongst others;
- The successful launch of new services, mainly pertaining to business process reengineering, digitalisation and capacity building, with positive client feedback being recorded;
- A handful of newly-signed strategic partnership agreements with global software vendors and consulting firms;
- The consolidation of our mainstream line of business (i.e. the products emanating from the leading Core Banking Software provider Temenos), with MCBCS becoming an exclusive Temenos training partner in 30 distinct countries, in addition to becoming the first African certified partner of Temenos for wealth management products

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

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. During the year under review, the new Government policy directing companies to channel 50% of their CSR funds to the Mauritius Revenue Authority has significantly reduced the level of financial resources available to the Foundation for implementing its earmarked social initiatives. Against this backdrop, despite the fact that the Group's locally-based entities have assigned 2% of chargeable income derived from the preceding year to the organisation's CSR fund as it is required of them, the amount that MCB Forward Foundation was able to leverage for spending on relevant projects was limited to Rs 49.7 million in FY 2017/18. Consequently, the afore-mentioned official measure is jeopardizing the execution of long-term projects that the Group has been earmarking for the promotion of social welfare and empowerment. In fact, no full-fledged 'appel à projets' could be initiated by the Group for the year under review. A full report on the Foundation's activities is found in the 'Creating value in a sustainable way' section on pages 50 to 53.

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

Corporate Governance Report

Sports

TEAM MCB'S SECRET TO EXCELLENCE

The African proverb "If you want to go fast, go alone. If you want to go far, go together", has never resonated more eloquently than it does with Team MCB. When MCB teamed up with the national selection in 2017, providing the team with all the resources they would ever need, MCB became synonymous with Mauritius.

And victory became synonymous with team work.

The team learnt that victory could only be had if they had each other's back. And this is exactly what they did in the first year of the partnership when, Mauritius, through Team MCB, won the Tour de la Réunion for the first time in 33 years. And because practice makes perfect, they did it again this year!

Corporate governance report

Compliance with the National Code of Corporate Governance for Mauritius (2016)

During the year under review, the Board of MCB Group Limited assessed the requirements and provisions as specified in the National Code of Corporate Governance for Mauritius (2016) (the 'Code') and took the necessary steps to ensure adherence thereto. Throughout the year ended 30 June 2018, to the best of the Board's knowledge, the Group has applied the principles set out in the Code and has explained how these have been applied.

Disclosures pertaining to the eight principles of the Code have been made in different sections of the Annual Report, as outlined below.

Principles of the Code	Relevant sections of the Annual Report
Principle 1: Governance Structure	• Our Corporate Profile • Corporate Governance Report
Principle 2: The Structure of the Board and its Committees	• Corporate Governance Report
Principle 3: Director Appointment Procedures	• Corporate Governance Report
Principle 4: Director Duties, Remuneration and Performance	• Our Corporate Strategy • Corporate Governance Report
Principle 5: Risk Governance and Internal Control	• Corporate Governance Report • Risk and Capital Management Report
Principle 6: Reporting with Integrity	• Our Corporate Strategy • Corporate Governance Report
Principle 7: Audit	• Corporate Governance Report • Risk and Capital Management Report
Principle 8: Relations with Shareholders and Other Key Stakeholders	• Our Corporate Strategy • Corporate Governance Report

Note: The sections 'Our Corporate Profile', 'Our Corporate Strategy' and 'Risk and Capital Management Report' can be found on pages 18 to 32, pages 34 to 67 and pages 132 to 169 respectively.

Our philosophy

The Board of MCB Group Ltd views adherence to high standards of corporate governance as an essential condition to upholding its long-term business sustainability and creating value for the Group's stakeholders and society at large. In this respect, the Board has well-established governance processes in place, within a framework of effective controls, to support its strategic orientations and meet the reasonable expectations of its stakeholders. The Board provides ethical and effective leadership from the top in the way it conducts itself and oversees the business and affairs of the Company and its subsidiaries. It also promotes a culture whereby the principles of integrity, accountability and transparency are embraced by employees within the organisation. The Board continuously monitors and adapts practices to reflect developments in corporate governance principles to ensure smooth business operations and optimal stakeholder engagement. Sound governance standards and practices at the Group are anchored on key pillars as highlighted hereunder.

Strong commitment to ethics and values

- Specific Board Committee overseeing ethical conduct across the Group
- Application of the Group's 'Code of Ethics', approved and monitored by the Board
- Whistleblowing Policy allowing employees to report matters of concern in strict confidentiality

Strict compliance to rules and regulations

- Adherence by entities to the provisions of relevant legislations and rules in countries where they operate
- Compliance by relevant domestic entities with the National Code of Corporate Governance for Mauritius (2016)
- Adoption of the underlying Basel principles by banking subsidiaries

Robust risk governance and internal control

- Ring-fencing of activities, as gauged by the segregation of banking and non-banking operations
- Board responsible for oversight and monitoring of risk profile against risk appetite through adapted frameworks
- Provision of independent assurance by both internal and external auditors

Continuous multi-stakeholder engagement

- Ongoing dialogue and transparent communication with the investment community
- Help customers achieve their goals and support economic development
- Promotion of community well-being and adoption of environment-friendly practices
- Fostering of human resource development and staff welfare

Corporate governance report

Governance structure

Governance framework

MCB Group Ltd is led by a committed and unitary Board, which has the ultimate collective responsibility for the overall stewardship and oversight of the organisation. The Group operates within a clearly defined governance framework, which provides for delegation of authority and clear lines of responsibility without abdicating the Board's responsibility. In order to carry out its duties effectively, the Board has established five Committees mandated to provide specific expertise to the Board in matters affecting the Group's affairs. Through this framework, the Board sets out the strategic directions of the Group and has entrusted the day-to-day running of the organisation to the Management Executives, with their performance against set objectives and policies closely monitored. The fundamental relationships among the Board, Board Committees and Management Executives as well as their main respective roles are illustrated in the following diagram.

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

The Board Charter and the Position Statements, which have been approved and are regularly reviewed by the Board, provide 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. The Board ensures that external obligations of non-executive directors do not hinder the discharge of their duties and responsibilities. In this respect, it is to be noted that the external commitments of the Chairperson did not change during the financial year 2017/18.

Key roles and responsibilities

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

Corporate governance report

Constitution of MCB Group Limited

The Constitution of MCB Group Ltd conforms to the provisions of the Companies Act 2001 of Mauritius and the Listing Rules of the Stock Exchange of Mauritius Ltd. There are no clauses of the Constitution deemed material enough for specific disclosure. A copy of the Constitution is available on the website.

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 Board 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 soundness and effectiveness of the Group's internal control systems;
- the existence of a robust Enterprise Risk Management system, with a view to ensuring that key risks across each Group entity are effectively addressed and that risk discussions are elevated to the strategic level;
- 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.

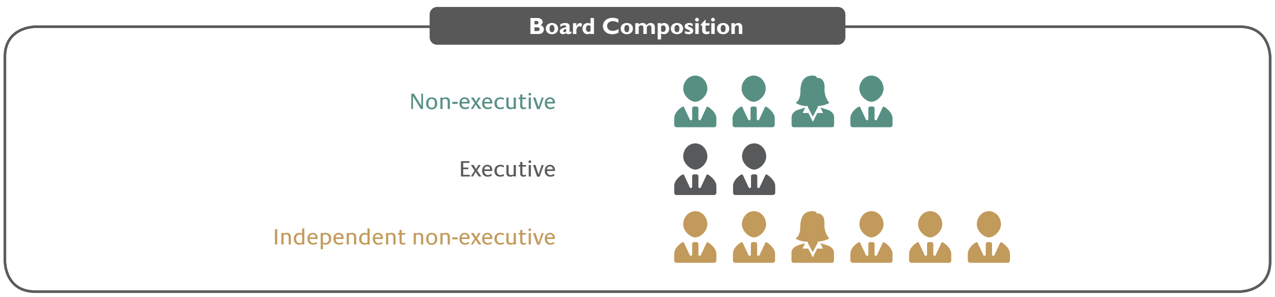
Approval of the Board is specifically required for, amongst other important matters, modifying the Company's Constitution, issuing fresh capital or buying back its own shares, declaring dividends, acquiring or divesting sizeable stakes in subsidiaries or associates, making appointments of senior officers,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

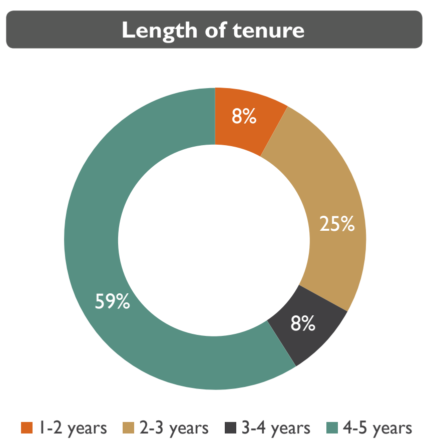
Composition and meetings

Composition

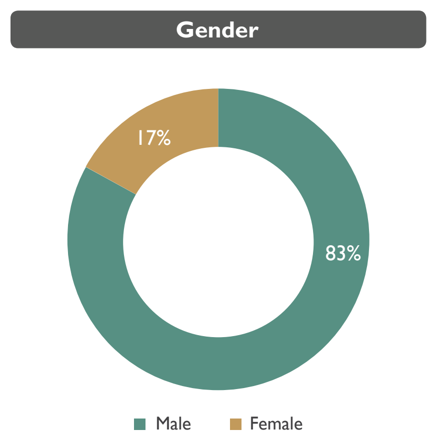
As per the Board Charter, the Board shall consist of a minimum of five and a maximum of twelve directors, of which at least two executive and two independent directors. The Chairperson of the Board may be independent. As at 30 June 2018, the Board consisted of twelve members including two female directors, with a diverse range of skills, knowledge and experience, with average age of around 61 years. The Board diversity for the year under review is shown in the diagram hereafter.

The Board, assisted by the Remuneration, Corporate Governance and Ethics Committee ('RCGEC'), regularly reviews the Board size, composition, including the independence status of the non-executive directors. In line with the National Code of Corporate Governance for Mauritius (2016), upon the recommendation of the RCGEC, the Board has decided that independent directors who have served on the Board of MCB Ltd (the ultimate holding company prior to the restructuring exercise in 2014) and subsequently on the Board of MCB Group Ltd for more than nine consecutive years are to be henceforth considered as non-independent directors. As such, Mrs Margaret Wong Ping Lun, Mr Jean-Pierre Montocchio, and Mr Navin Hooloomann, who were previously members of the Board of MCB Ltd, prior to the restructuring exercise in 2014, are now categorised as non-executive directors. With respect to the independent directors, the Board is satisfied that they are free of any relationships or circumstances that are likely to affect their judgement.





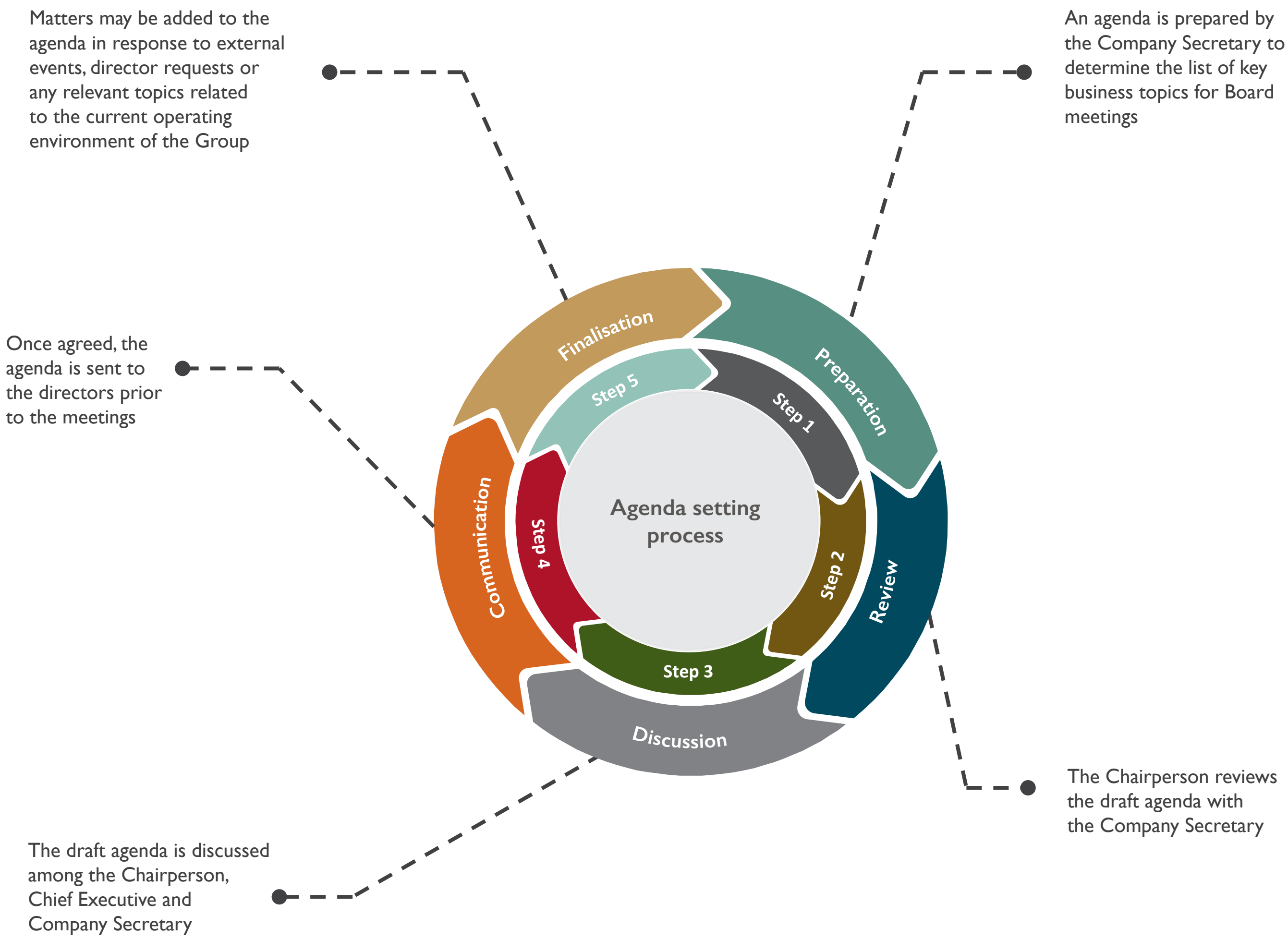
Note: MCB Group Ltd has been in operation since April 2014



Corporate governance report

Meetings

The frequency of Board meetings is set in a way to ensure that it can focus on key issues at the appropriate time. Meetings are conducted at least on a quarterly basis. Although the Board maintains a scheduled programme of meetings, there is sufficient flexibility in the agenda for specific items to be added, as and when required. Meetings are convened so that 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. Members of the Management team and/or external advisors are sometimes invited to attend meetings to discuss topical issues identified by the Board. Directors are provided with Board papers in a timely manner to facilitate meaningful, informed and focused decisions at the meetings. All materials for Board meetings are uploaded onto a secure portal, which can be accessed by directors on tablet devices. The Chairperson presides over the Board meetings to ensure their smooth functioning and promotes open and frank debates. The agenda setting process is described in the diagram hereafter.



Board attendance

The directors who served on the Board and their attendance at Board meetings during FY 2017/18 is 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**	**10/10**
Sunil BANYMANDHUB	April 2014	Independent Non-Executive Director	9/10
Karuna BHOOJEDHUR-OBEEGADOO	November 2015	Independent Non-Executive Director	7/10
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	November 2014	Independent Non-Executive Director	8/10
Jean-Louis MATTEI	April 2014	Independent Non-Executive Director	6/10
Alain REY	November 2015	Independent Non-Executive Director	10/10
Navin HOOLOOMANN, C.S.K	April 2014	Non-Executive Director	10/10
Jean-Pierre MONTOCCHIO	April 2014	Non-Executive Director	8/10
Jean Michel NG TSEUNG	November 2016	Non-Executive Director	10/10
Margaret WONG PING LUN	April 2014	Non-Executive Director	10/10
Gilbert GNANY	April 2014	Executive Director	10/10
Pierre Guy NOEL	April 2014	Executive Director	9/10

Secretary to the Board: MCB Group Corporate Services Ltd (represented by Marivonne OXENHAM)

Corporate governance report

Board focus areas

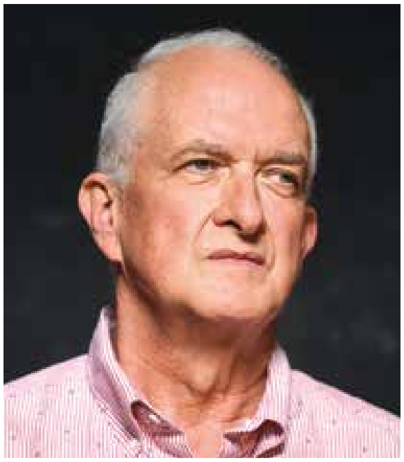
A summary of the main undertakings of the Board during the year is provided below:

Strategy and performance	• Reviewed and approved the strategic orientations and budget plans of all the banking and non-banking subsidiaries of the Group • Monitored the progress of key ongoing projects namely the Digital Transformation, HR Transformation, Treasury Realignment and Sustainable Development • Assessed the development of the growth pillars of MCB Ltd
Governance and risk	• Reviewed and approved the structure, size and composition of the Board and Board Committees • Monitored the implementation of the action plan linked to the Board evaluation exercise • Assessed specific implications of the new National Code of Corporate Governance for Mauritius (2016) • Reviewed the risk management framework at Group level • Briefed on cyber threats by international experts
Financial	• Assessed and monitored the Group's financial performance against budget • Reviewed reports from the Audit Committee • Approved declaration of interim and final dividends • Approved the acquisition of a 93.03% stake in Compagnie Des Villages De Vacances de L'Isle De France Limitée (COVIFRA) through MCB Real Assets Ltd, a wholly owned subsidiary • Approved the issue and listing of MUR 2 Billion of Floating Rate Senior Unsecured Notes due 2023
Recurrent agenda items	• Approved the minutes of proceedings • Reviewed reports from Chairpersons of Committees • Reviewed and approved the Group's consolidated accounts on a quarterly basis • Debriefed on the Annual Meeting of Shareholders • Updated on developments in the operating environment

Directors' profiles

The Board comprises 12 directors who have a proven track record in various fields. Profiles of directors who held office during the financial year under review as well as 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 66

Date of first appointment: November 2015

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

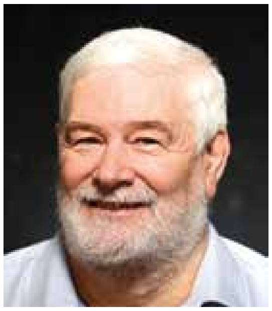
Skills and experience: Didier has a track record of over forty years in the downstream sector of the oil industry, having worked for the EXXON and TOTAL Groups. He started his career with Esso in Mauritius in 1974 and was appointed as Managing Director of Esso Reunion in 1982. He joined the TOTAL Group in 1988 where he was entrusted several international assignments, initially as Managing Director of TOTAL in Zambia and Zimbabwe and subsequently as Managing Director and Chief Executive Officer of major TOTAL Refining & Marketing subsidiaries in South Africa and in the United Kingdom. He also shouldered an array of senior executive positions in the marketing and logistics arena 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 memberships: Risk Monitoring Committee; Remuneration, Corporate Governance and Ethics Committee (Chairperson); Strategy Committee (Chairperson); Supervisory and Monitoring Committee (Chairperson)

Directorships in other listed companies: Sun Ltd; Terra Mauricia Ltd

Corporate governance report

Executive Directors



Pierre Guy NOEL – Age 62
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 Ltd, 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 memberships: Risk Monitoring Committee; Remuneration, Corporate Governance and Ethics Committee; Strategy Committee; Supervisory and Monitoring Committee

Directorship in other listed companies: Compagnie Des Villages De Vacances De L'Isle De France Limitée (COVIFRA)

Gilbert GNANY – Age 56
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)

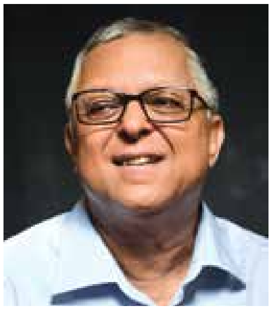
Skills and experience: Gilbert previously worked as Senior Advisor on the World Bank Group's Executive Board where he was responsible for issues relating mainly to the International Finance Corporation and to the private and financial sectors. Prior to joining the World Bank, he was the MCB Group Chief 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 member of the Board of Governors of the Mauritius Offshore Business Activities Authority, a director of the Board of Investment and of the Mauritius Sugar Authority. He was also a member of the IMF Advisory Group for sub-Saharan Africa 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 Madagascar, MCB Microfinance Ltd and MCB Consulting Services Ltd amongst others. On the institutional side, he is an external IMF expert in statistics, in particular on data dissemination standards and strategy. He is also a member of the Financial Services Consultative Council and a director of the Financial Services Institute. 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 memberships: Risk Monitoring Committee; Strategy Committee (also acts as Secretary)

Directorships in other listed companies: Promotion and Development Ltd; Caudan Development Ltd; COVIFRA

Directorships in listed funds: MCB India Sovereign Bond ETF; African Domestic Bond Fund

Independent Non-Executive Directors



Sunil BANYMANDHUB – Age 69

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 memberships: Audit Committee (Chairperson); Strategy Committee

Directorships in other listed companies: Fincorp Investment Ltd; New Mauritius Hotels; Blue Life Ltd

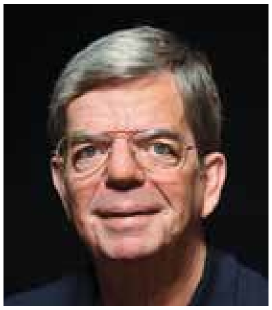
Karuna BHOOJEDHUR-OBEEGADOO Age 57

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 has been previously the Chief Executive of the SICOM Group, from 1996 to 2017 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: Remuneration, Corporate Governance and Ethics Committee



Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE – Age 67

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 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 memberships: Risk Monitoring Committee; Strategy Committee

Corporate governance report

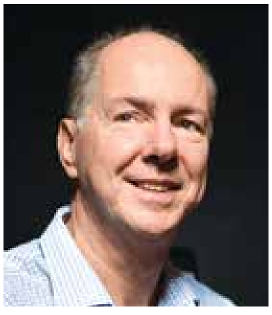
Jean-Louis MATTEI – Age 71
Non-Resident

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 of Agence Française de Développement and also acts as Chairperson of its Audit Committee and Risk Committee.

Board Committee memberships: Risk Monitoring Committee (Chairperson); Strategy Committee



Alain REY – Age 59

Date of first appointment: November 2015

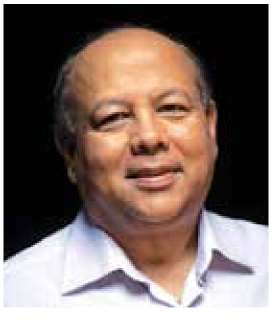
Qualifications: BSc (Honours) in Economics and Chartered Accountant (UK)

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: Audit Committee

Directorships in other listed companies: Terra Mauricia Ltd; Ciel Textile Ltd; New Mauritius Hotels Ltd

Non-Executive Directors



Navin HOOLOOMANN, C.S.K.
Age 59

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: Remuneration, Corporate Governance and Ethics Committee

Jean-Pierre MONTOCCHIO – Age 55

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: Remuneration, Corporate Governance and Ethics Committee

Directorships 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

Jean Michel NG TSEUNG – Age 50

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 in Mauritius. Whilst currently a Board member of several companies within the Group namely MCB Investment Holding Ltd, MCB Ltd, MCB Seychelles, MCB Maldives, MCB Madagascar, Banque Française Commerciale Océan Indien and Finlease Co. Ltd, he also sits on the Risk Monitoring Committee of MCB Ltd.

Board Committee membership: Supervisory and Monitoring Committee (also acts as Secretary)

Margaret WONG PING LUN – Age 64

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 is currently a Board member of several companies within the Group namely MCB Factors Ltd and MCB Real Assets Ltd.

Board Committee membership: Audit Committee

Directorships in other listed companies: Terra Mauricia Ltd; COVIFRA

Corporate governance report

Directors' remuneration

With competent directors considered as essential to contributing to the development of the Group's strategy, the Board 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 can be summarised as follows:

a. For 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.

b. For non-executive directors

- There is a retainer fee for each individual non-executive director reflecting the workload, the size and the complexity (national/international) of the business as well as the responsibility involved;
- The retainer fee paid to the non-executive Chairperson commensurately reflects the fact that he has wider responsibilities and a heavier workload, compared to non-executive directors;
- Committee retainer fees also apply for non-executive directors, who do not hold an executive position within the Group, with the fees differing in accordance with the time required for preparation, the frequency and the duration of meetings. Chairpersons of committees are paid a higher retainer fee than members, in line with the rationale outlined in the previous point; and
- No share option or bonus is granted to non-executive directors, except those who hold an executive position within the Group.

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	2,520	-	**2,520**
Sunil BANYMANDHUB	996	40	**1,036**
Karuna BHOOJEDHUR-OBEEGADOO	462	-	**462**
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	864	-	**864**
Navin HOOLOOMANN, C.S.K.	462	-	**462**
Jean-Louis MATTEI	996	-	**996**
Jean-Pierre MONTOCCHIO	462	115	**577**
Jean Michel NG TSEUNG	7,700	14,106	**21,806**
Alain REY	600	45	**645**
Margaret WONG PING LUN	600	48	**648**
Total Non-Executive	***15,662***	***14,354***	***30,016***
Pierre Guy NOEL	36,312	-	**36,312**
Gilbert GNANY	18,567	-	**18,567**
Total Executive	***54,879***	**-**	***54,879***
Total (Non-Executive and Executive)	**70,541**	**14,354**	**84,895**

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 of directors, which is available for consultation to shareholders upon written request to the Company Secretary. Upon their appointment, all new directors are required to notify in writing to the Company Secretary their holdings as well as the holdings of their closely related parties in the Group's securities.

The following tables give the interests of the directors in the Group's listed securities as at 30 June 2018 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 2018	Number of shares	
	Direct	Indirect
Sunil BANYMANDHUB	2,200	-
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	88	-
Gilbert GNANY	227,102	30,000
Navin HOOLOOMANN, C.S.K.	95,710	977,529
Jean-Pierre MONTOCCHIO	1,000	74,533
Jean Michel NG TSEUNG	18,423	-
Pierre Guy NOEL	1,169,459	28,492
Alain REY	4,840	-
Margaret WONG PING LUN	500	76,775

Transactions during the year	Number of shares	
	Purchased	Sold
Sunil BANYMANDHUB	3,700	1,500
Gilbert GNANY	59,000	-
Navin HOOLOOMANN, C.S.K.	43,300	-
Jean Michel NG TSEUNG	10,538	-
Pierre Guy NOEL	24,000	-
Margaret WONG PING LUN	28,650	-

Interests in MCB Group Ltd Subordinated Notes as at 30 June 2018	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 2018	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 38 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 has delegated authority to various Board Committees to provide specialist guidance and make recommendations, through established reporting mechanisms, on areas and matters delegated to them. Each committee has its own charter, approved by the Board and reviewed as required, which sets out, *inter alia*, its roles, responsibilities, composition and meetings requirement. The mandates, compositions and 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.

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 shall 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.

The directors who served on the RMC and their attendance at committee meetings during FY 2017/18 are provided in the following table.

Members	Committee member since	Board status	Meeting attendance
Jean-Louis MATTEI *(Chairperson)*	**July 2014**	**Independent Non-Executive Director**	**5/5**
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	February 2015	Independent Non-Executive Director	5/5
Didier HAREL	February 2016	Independent Non-Executive Director	5/5
Gilbert GNANY	July 2014	Executive Director	5/5
Pierre Guy NOEL	July 2014	Executive Director	5/5

Secretary: Jean Michel NG TSEUNG (Non-Executive Director)

Focus areas in FY 2017/18

Key topics discussed

- The Group's risk appetite
- Risk management framework of the Group and its subsidiaries
- Risk policies of the Group and its subsidiaries
- Reports from the Group's banking entities and non-banking subsidiaries covering the principal risks (notably credit, market, liquidity) and actions taken to mitigate them
- Adequacy of capital, funding and liquidity requirements of the Group and of the banking subsidiaries
- Risk portfolios of the banking subsidiaries against set limits
- Key risks of specific non-banking subsidiaries
- Progress on the implementation of IFRS 9
- Asset quality metrics of the Group

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

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.

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 shall 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.

Corporate governance report

The directors who served on the AC and their attendance at committee meetings during FY 2017/18 are provided in the following table.

Members	Committee member since	Board status	Meeting attendance
Sunil BANYMANDHUB *(Chairperson)*	**July 2014**	**Independent Non-Executive Director**	**5/8**
Alain REY	February 2016	Independent Non-Executive Director	8/8
Margaret WONG PING LUN	July 2014	Non-Executive Director	8/8

Secretary: MCB Group Corporate Services Ltd (represented by Marivonne OXENHAM)

Focus areas in FY 2017/18

Key topics discussed

- Interim and audited consolidated financial statements published by the Group with recommendations made to the Board
- Reports from internal and external auditors and actions taken accordingly
- Internal and external audit reports of all subsidiaries
- Compliance report of all subsidiaries
- Adequacy of allowance for credit impairment
- Audit plans of internal and external auditors
- Audit fees for external auditors

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

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.

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 shall 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 and their attendance at committee meetings during FY 2017/18 are provided in the following table.

Members	Committee member since	Board status	Meeting attendance
Didier HAREL *(Chairperson)*	**September 2016**	**Independent Non-Executive Director**	**4/4**
Karuna BHOOJEDHUR-OBEEGADOO	February 2016	Independent Non-Executive Director	2/4
Navin HOOLOOMANN, C.S.K	July 2014	Non-Executive Director	4/4
Jean-Pierre MONTOCCHIO	July 2014	Non-Executive Director	4/4
Pierre Guy NOEL	July 2014	Executive Director	4/4

Secretary: MCB Group Corporate Services Ltd (represented by Marivonne OXENHAM)

Focus areas in FY 2017/18

Key topics discussed

- Re-election of directors as Board members
- Board and Board Committees composition
- Group's annual remuneration policy
- Directors' fees for Board and Board Committees
- Appointment of senior executives and Board members at subsidiaries' level
- Review of corporate governance and ethics principles

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

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.

Composition and meetings

As per its Charter, the SC shall consist of at least five members with a majority of non-executive directors. The Chief Executive shall also be a member of the Committee. The Chairperson of the Committee shall 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.

Corporate governance report

The directors who served on the SC and their attendance at committee meetings during FY 2017/18 are provided in the following table.

Members	Committee member since	Board status	Meeting attendance
Didier HAREL *(Chairperson)*	**November 2016**	**Independent Non-Executive Director**	**4/4**
Sunil BANYMANDHUB	November 2016	Independent Non-Executive Director	4/4
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	November 2016	Independent Non-Executive Director	4/4
Jean-Louis MATTEI	November 2016	Independent Non-Executive Director	4/4
Gilbert GNANY (also acts as Secretary)	November 2016	Executive Director	4/4
Pierre Guy NOEL	November 2016	Executive Director	4/4

Focus areas in FY 2017/18

Key topics discussed

- The Group's international expansion strategy and related opportunities
- Strategic positioning of the Group's asset and wealth management activity
- Funding and capital allocation within the Group
- Progress of key strategic initiatives across the Group
- Review of the model and modalities of shared functions within the Group

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

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.

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 who served on the SMC and their attendance at committee meetings during FY 2017/18 are provided in the following table.

Members	Committee member since	Board status	Meeting attendance
Didier HAREL *(Chairperson)*	**July 2017**	**Independent Non-Executive Director**	**12/12**
Jean Michel NG TSEUNG (also acts as Secretary)	July 2017	Non-Executive Director	10/12
Pierre Guy NOEL	July 2017	Executive Director	9/12

Focus areas in FY 2017/18

Key topics discussed

- Progress of approved strategies and major policies
- Regular review of the implementation of major transformative projects
- Major investment decisions
- Capital injection in some subsidiaries as well as the funding structure of MCB Group and its subsidiaries
- Legal, operational and compliance issues of MCB Group
- Follow-up on the recommendations of the various Board Committees
- Committee Charters and policies for approval by the Board

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

Board effectiveness

Nomination process

The Board has a formal and transparent process in place for the nomination and appointment of directors, which is owned by the Remuneration, Corporate Governance and Ethics Committee (RCGEC). It reviews the structure, size and composition of the Board annually, or whenever appointments are considered, to ensure that the Board has a diverse mix of competencies, knowledge and experience, in order to enrich Board discussions from different perspectives and thus improve the quality of decision making. The RCGEC is responsible for identifying suitable candidates, carrying out interviews and recommending potential directors to the Board. Prospective candidates are assessed based on an established set of criteria which relate, amongst others, to their knowledge base, competencies, experience, time commitment, independence, ethics and values. The RCGEC also considers gender diversity in its assessment. Whilst seeking to retain a core of directors with long-standing knowledge of the Group, the Board also recognises the importance of rotation of Board members to ensure its continued effectiveness with due emphasis laid on succession planning. 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 nomination and appointment process of directors for the Group is highlighted in the diagram hereafter.

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

Board induction and training

As part of the Board's commitment to continous improvement, an ongoing professional development and training programme is in place for directors. On joining the Board, all directors receive a formal and tailored induction programme designed to, *inter alia*, make them aware of their legal duties and familiarise them with the Group's operations and business environment, so as to enable them to effectively contribute to strategic discussions and oversight of the Group. 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. During the last financial year, directors attended several presentation sessions on developments in the operating environment, with a key focus relating to digital technology and associated risks. They also received a comprehensive and in-depth interactive session with international experts on trends regarding cyber threats. An outline of the induction and training programme is set out in the diagram hereafter.

Induction/training programme

Board/Directors' performance

The Board undertakes a regular review of the performance as well as the effectiveness of the Board, its Committees and individual directors with the support of the RCGEC. The evaluation is undertaken with the aid of an independent external facilitator with the RCGEC having an oversight of the process.

An evaluation exercise was conducted in mid-2017 by an external independent consultant, BDO, whereby the views of directors were sought on a range of topics including strategy and planning, performance, risk and control, board structure and composition as well as board processes. The reviews concluded that the Board and its Committees are operating effectively and that directors continue to fulfil their roles as required. The report identified a few areas for improvement and an action plan was subsequently agreed. The implementation of the action plan has been monitored by the Chairperson of the Board to ensure that issues identified are given due consideration, within a reasonable timeframe. An outline of the evaluation process methodology used is provided in the diagram hereafter.

Evaluation process methodology

Risk governance

Risk management and internal control

In its bid to promote sound and balanced growth, the Board places key emphasis on the Group's risk management framework and internal control systems, which are regularly reviewed to cater for changes in the operating context, advocated norms and our strategic orientations, notably linked to our international expansion. The Board, supported by the Risk Monitoring Committee ensures that the structures, processes and methods for the identification, evaluation and management of the principal risks, including emerging ones, faced by entities of the Group are integrated in the overall risk governance framework. The Board has received assurance, through the regular reporting by the Chairpersons of relevant Committees, on the adequacy of the risk management arrangements during the year. Besides, the Board has recently enrolled an external consultant to propose enhancements to the risk management framework of the Group in line with its risk appetite and strategies.

Corporate governance report

Moreover, the Board ensures that controls in place result in an acceptable level of risk with the Audit Committee overseeing the effectiveness of the Group's internal control systems. The Internal Audit and Compliance functions regularly report to the Audit Committee which also receives feedback from Audit Committees of subsidiaries. In addition, the Committee obtains reports from the Company's external auditor and has separate sessions with the latter without Management being present. Based on the work performed by internal and external auditors, reviews by Management and regular reporting from the Chairperson of the Audit Committee, the Board has received assurance that the internal control systems are adequate and effective.

More information is available in the 'Risk and Capital Management Report' on pages 132 to 169

Information governance

With the protection of the confidentiality, integrity and availability of information being critical to the smooth running of our activities, the Group continuously seeks to foster a robust framework that upholds the security and performance of information and IT systems in adherence to regulatory and industry norms. In this respect, the Board, through relevant committees, ensures that set policies, which are regularly reviewed, are duly implemented by Management to manage associated risks, backed by fitting structures, processes and resources. For instance, as per the Information Security Policy, access to information is only available to authorised parties while physical and logical access controls are in place at all times with staff being regularly made aware of relevant requirements. The Group continues to invest in technology to enhance its operational resilience with significant investments being monitored by the Board. Besides, to properly fulfil its duties, the latter is kept abreast of developments in the technology space by both internal and external subject matter experts, a key focus during the year relating to digital technology and cyber threats. The Internal Audit function provides for an independent assurance to assess the suitability of the Group entities' information and IT policies while the Audit Committee evaluates the effectiveness of related internal control systems.

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. The proposal to reappoint PricewaterhouseCoopers (PwC), which was first appointed in 2015 as external auditor, was approved by shareholders at the Annual Meeting of Shareholders of MCB Group Ltd, held in November 2017. 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 annually, subject to regulatory provisions and 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.

Auditors' fees and fees for other services

	2018		2017	
	The Group	**The Company**	**The Group**	**The Company**
	Rs '000	**Rs '000**	**Rs '000**	**Rs '000**
Audit fees paid to:				
PricewaterhouseCoopers	20,454	1,055	19,855	1,024
BDO & Co	2,724	-	2,443	-
Other firms	-	-	2,268	-
Fees for other services provided by:				
PricewaterhouseCoopers	3,619	86	3,334	-
BDO & Co	86	86	-	-

Note that the fees for other services relate to annual internal control reviews, quarterly reviews of our abridged unaudited financial statements, tax compliance services, specific comforts from external stakeholders and minor ad hoc services

Directors of MCB Group Ltd subsidiaries

The 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 2017/18 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 *(until December 2017)*
Raoul GUFFLET *(Deputy Chief Executive)*
Uday Kumar GUJADHUR *(as from December 2017)*
Philippe LEDESMA *(as from December 2017)*
Alain LAW MIN *(Chief Executive)*
Jean Michel NG TSEUNG
Iqbal RAJAHBALEE *(until July 2017)*
Simon Pierre REY

MCB MADAGASCAR SA

Jean-François DESVAUX DE MARIGNY *(Chairperson)*
Gilbert GNANY *(as from August 2018)*
Raoul GUFFLET
Jean Philippe LEBON *(Managing Director) (as from September 2017)*
Jean MAMET *(until September 2017)*
Jean Michel NG TSEUNG
Pierre Guy NOEL
Rony RADAYLALL *(Deputy Managing Director)*
Patrick RAZAFINDRAFITO

MCB (MALDIVES) PRIVATE LTD

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

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

MCB INTERNATIONAL SERVICES LTD[1]

Jean-François DESVAUX DE MARIGNY *(Chairperson)*
Regis BISTOQUET
Gilbert GNANY *(as from April 2018)*
Bernard JACKSON
Jean Michel NG TSEUNG *(as from April 2018)*

MASCAREIGNES PROPERTIES LTD[1]

Pierre Guy NOEL *(Chairperson)*
Regis BISTOQUET
Jean-François DESVAUX DE MARIGNY
Gilbert GNANY *(as from April 2018)*
Raoul GUFFLET
Bernard JACKSON
Jean MAMET
Jean Michel NG TSEUNG *(as from April 2018)*

MCB CAPITAL MARKETS LTD

Pierre Guy NOEL *(Chairperson)*
Bertrand DE CHAZAL
Gilbert GNANY
Rony LAM YAN FOON *(Chief Executive Officer)*
Jean MAMET *(until November 2017)*
Jeremy PAULSON-ELLIS

MCB INVESTMENT SERVICES LTD[2]

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

Corporate governance report

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
Vimal ORI *(as from June 2018)*

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 LTD[2]

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

MCB LEVERAGED SOLUTIONS LTD[2]

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

MCB EQUITY FUND LTD

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

MCB FINANCIAL ADVISERS[2]

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

MCB FACTORS LTD

Margaret WONG PING LUN *(Chairperson as from April 2018)*
Jean MAMET *(Chairperson) (until April 2018)*
Koomaren CUNNOOSAMY
Jean-Mée ERNEST *(Managing Director)*
Pierre Guy NOEL

FINLEASE COMPANY LTD[3]

Bernard D'HOTMAN DE VILLIERS *(Chairperson)*
Sow Man (Claude) AH YUK SHING *(until November 2017)*
Mulk Raj GUNGAH *(Managing Director)(as from September 2017)*
Martine Stephanie IP MIN WAN *(as from October 2017)*
Alain LAW MIN
François MONTOCCHIO
Jean Michel NG TSEUNG
Anju UMROWSING-RAMTOHUL *(as from July 2018)*

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.
Marivonne OXENHAM *(as from December 2017)*

INTERNATIONAL CARD PROCESSING SERVICES LTD

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

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)

Margaret WONG PING LUN *(as from October 2017)* *(Chairperson)*
Pierre Guy NOEL
Gilbert GNANY

MCB GROUP CORPORATE SERVICES LTD

Pierre Guy NOEL *(Chairperson)*
Gilbert GNANY
Marivonne OXENHAM *(Managing Director)*

COMPAGNIE DES VILLAGES DE VACANCES DE L'ISLE DE FRANCE LTEE[4]

Margaret WONG PING LUN *(as from October 2017)* *(Chairperson)*
Gilbert GNANY *(as from October 2017)*
Robert IP MIN WAN
Pierre Guy NOEL *(as from October 2017)*
Jean Marc ULCOQ

BLUE PENNY MUSEUM

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

MCB FORWARD FOUNDATION

Didier HAREL *(Chairperson)*
Jean-Philippe COULIER
Gilbert GNANY
Alain LAW MIN
Madeleine de MARASSE ENOUF
Pierre Guy NOEL

[1] Incorporated in Seychelles
[2] A subsidiary of MCB Capital Markets Ltd
[3] A subsidiary of Fincorp Investment Ltd
[4] A subsidiary of MCB Real Assets Ltd as from October 2017

Corporate governance report

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)	2018	2017
Executive (Full-time)	164,595	197,424
Non-executive	10,062	9,460
	174,657	**206,884**

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

Shareholder relations and communication

The Board is committed to upholding open and trusted relationships with shareholders and has a framework in place to ensure that they have the opportunity to share their views and to help them make informed decisions. All material business developments that influence the Group are communicated to shareholders in a transparent and timely manner through various communication channels. Considering its diverse range of shareholders and investors with different communication and engagement needs, there are dedicated teams within the Group to attend to their requirements.

Individual shareholders

The Group's Company Secretary oversees communication with retail shareholders, in collaboration with the Group's Registrar and Transfer Agent, MCB Registry and Securities Ltd. The latter ensures that the information needs of retail shareholders are promptly attended to and that relevant correspondences are sent in a timely manner, in strict compliance with applicable rules and regulations. The Company Secretary escalates feedback received from retail shareholders to the Board to ensure that their views are considered.

Institutional investors

The principal role of the Group's Investor Relations (IR) Unit is to manage and develop relationships with existing and potential institutional investors. During the financial year, the IR Unit has worked on a comprehensive engagement programme, consisting of regular and ongoing activities, to provide institutional investors with the opportunity to interact with Group executives regularly and promote dialogue on progress of the Group's strategic developments and recent financial performance. Moreover, the IR Unit provides regular reports to Group executives and directors on key market trends and on investor sentiment in general.

Read more on investor engagement programme in 'Our Corporate Strategy' section on pages 34 to 67

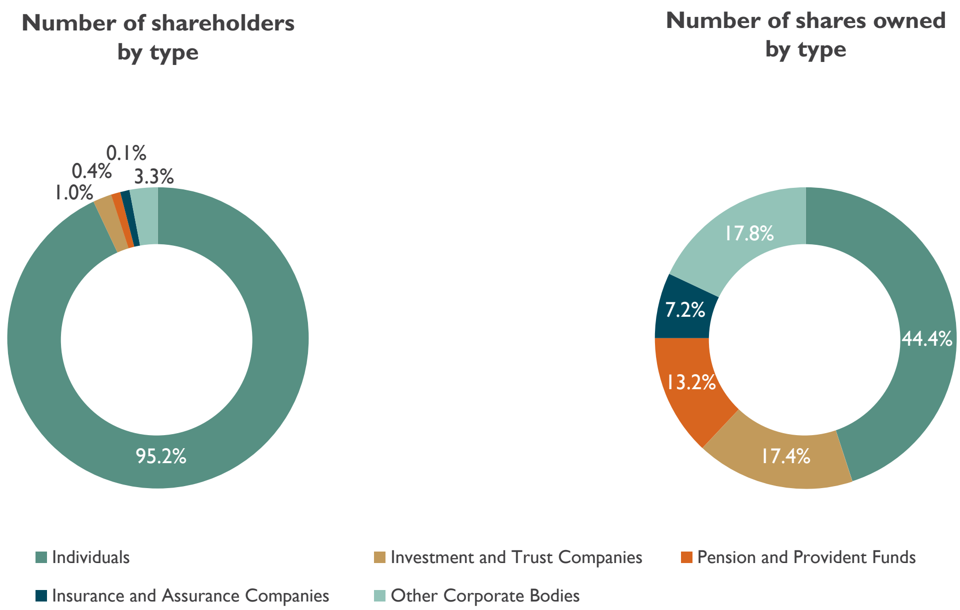
Shareholding profile

The Group has a diversified ownership base of more than 19,000 shareholders, with foreign shareholding accounting for around 16% of the total. As at 30 June 2018, outstanding ordinary issued capital of MCB Group Ltd amounted to Rs 2.5 billion, comprising 238.7 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 2018.

Largest shareholders	Number of shares owned	*% Holding*
National Pensions Fund	16,399,120	*6.9*
Swan Life Ltd	7,912,787	*3.3*
Promotion and Development Limited	6,952,200	*2.9*
State Insurance Company of Mauritius Ltd	4,465,721	*1.9*
La Prudence (Mauricienne) Assurances Limitee	2,995,723	*1.3*
SSL C/O SSB A/C Lloyd George Investment Company PLC	2,719,911	*1.1*
The Bank of New York Mellon	2,653,330	*1.1*
Policy Ltd	2,523,535	*1.1*
BNYM Lux SA A/C Eastspring Investments SICAV-FIS	2,493,200	*1.0*
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	12,393	*65.0*	1,391,703	*0.6*
501-1,000 shares	1,427	*7.5*	1,068,706	*0.5*
1,001-5,000 shares	2,491	*13.1*	6,060,621	*2.5*
5,001-10,000 shares	809	*4.2*	5,811,397	*2.4*
10,001-50,000 shares	1,249	*6.6*	28,876,824	*12.1*
50,001-100,000 shares	293	*1.5*	21,123,645	*8.9*
Above 100,000 shares	403	*2.1*	174,350,200	*73.0*
Total	**19,065**	***100.0***	**238,683,096**	***100.0***

Corporate governance report



Shareholders agreements

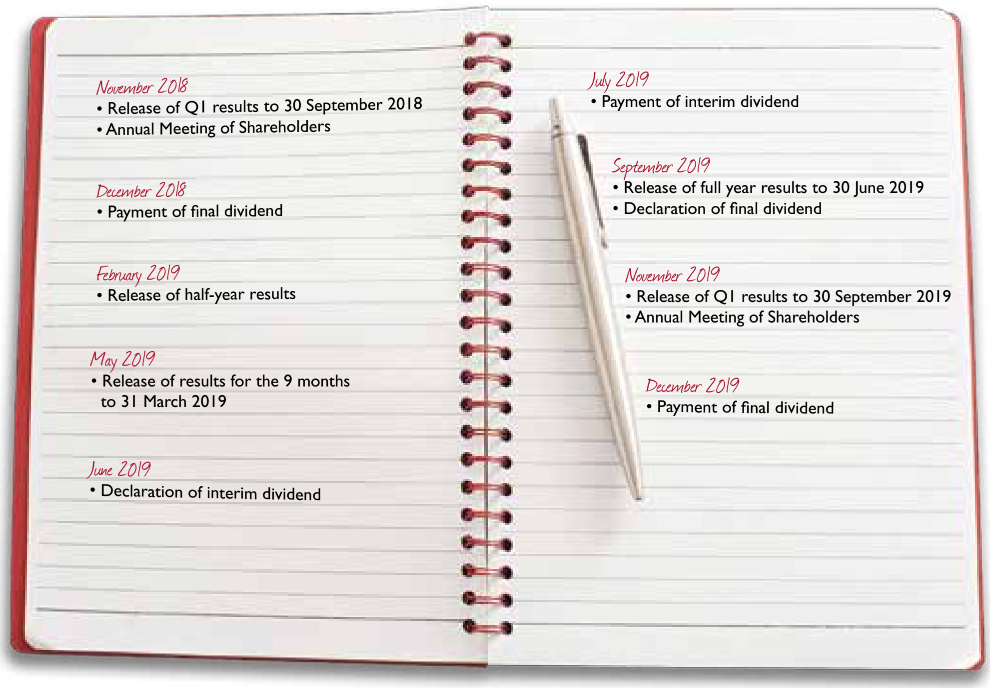
There is currently no shareholders agreement affecting the governance of the Company by the Board.

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 'Our Corporate Strategy' section on page 42

Shareholders' diary



Important shareholder and registrar information

REGISTAR AND TRANSFER OFFICE
MCB REGISTRY & SECURITIES LTD
9th Floor MCB Centre
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcbrs.enquiries@mcbcm.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

ONLINE INVESTOR CENTRE
Help us to protect the environment while also benefiting from easy access to up-to-date information

- Register to receive your shareholder communications electronically
- Opt-in for email alerts pertaining to earnings releases and corporate events
- Access financial reports and presentations

SCAN ME

OR VISIT
investor. mcbgroup.com

Corporate governance report

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 adhered to, subject to any material departures disclosed, explained and quantified 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 flows 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;
- 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 flows for that period;
- 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;
- the Financial Statements have been prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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 2017 to 30 June 2018

We, the Directors of MCB Group Limited, confirm that, to the best of our knowledge, the Company has complied with all of its obligations and requirements under the National Code of Corporate Governance (2016).

M G Didier HAREL
Chairperson

Pierre Guy NOEL
Chief Executive

27 September 2018

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 of Mauritius in terms of section 166(d).

Marivonne OXENHAM
Per MCB Group Corporate Services Ltd
Company Secretary

27 September 2018

Risk and Capital Management Report

Environment

EBONY FOREST: CREATING ECO-GUARDIANS

How are children to know that their country didn't always look the way it does now, that mother nature didn't think that just 2% of endemic forest on this beautiful land, would suffice to protect it, to nourish its fauna?

Ebony forest will tell them. This nature haven in Chamarel, supported by MCB, seeks to teach children – and adults – the importance of protecting their country's flora and fauna. Children are taught this most valuable lesson in a way they're not likely to forget; by replanting lost endemic species themselves, they become guardians of the forest.

13 hectares of the 50 hectare-forest have been cleared to allow for the replanting of more than 130,000 endemic plants while the country's ecological history is taught so that the importance of conservation is never again forgotten.

Risk and capital management report

Introduction

Our approach

Our philosophy

- The conduct of our businesses and activities inherently exposes our organisation to risks. Managing risks effectively is fundamental to the successful execution of our strategy, while enabling us to deliver sustainable value to our multiple stakeholders.

Our key objectives

- 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. It sets out to continuously improve the risk-return profile of its activities, while creating conducive conditions for tapping into 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 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

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

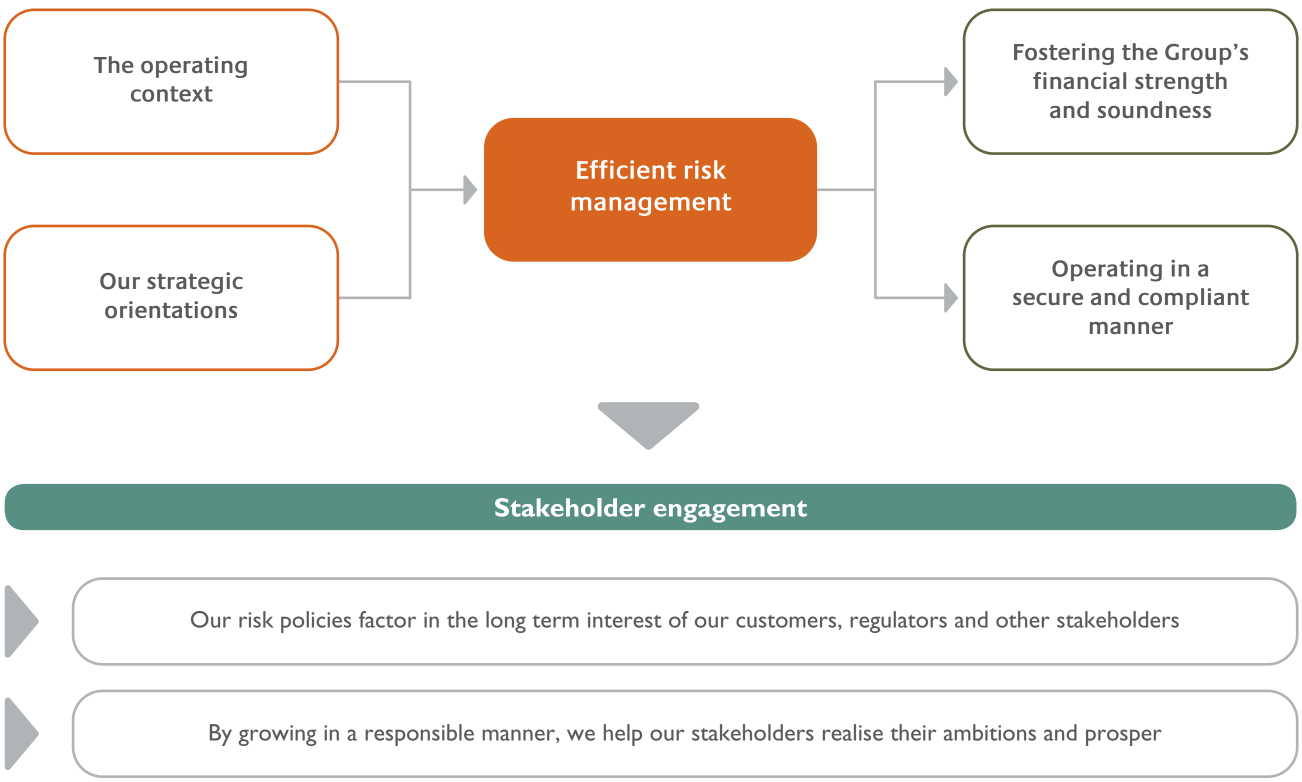
- Regular review and update of risk management practices to ensure consistency with business activities and relevance to financial strategies, while catering for changes in the economic and market landscapes
- Adoption of policies and processes that are clear and simple to be understood and executed, 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

Risk and capital management report

Our risk management strategy and framework

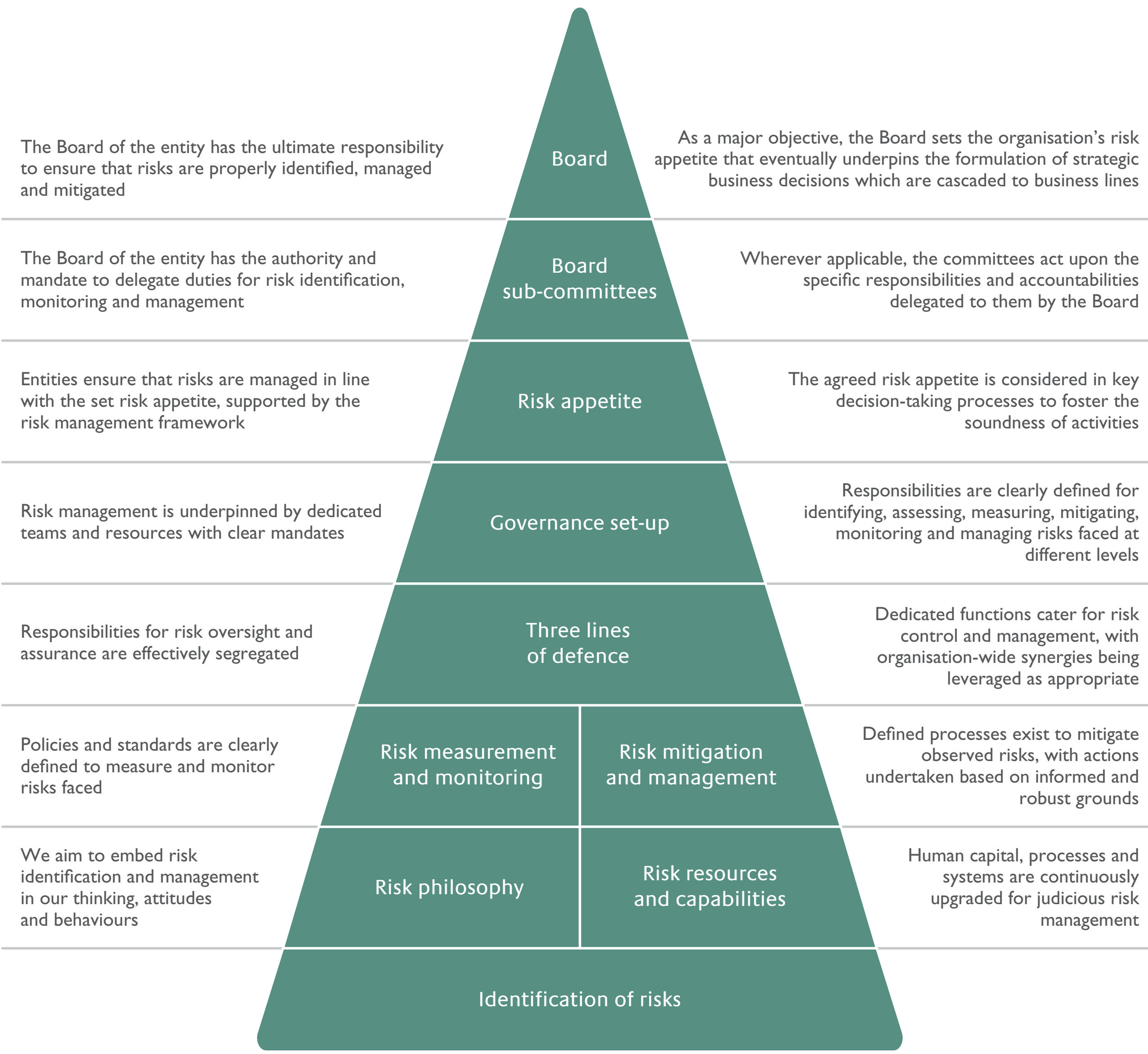
Our business model

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.



Key elements of our risk management set-up

Operating within the directions set by the Board of the Group, individual entities have their own arrangements to manage risks faced. The following illustration provides an overview of the underlying set-up being generally adopted by entities of the Group, with the scale of structures in place differing as per the nature of each entity's activities.



Risk and capital management report

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.

	Key risks	General definitions
FINANCIAL RISK	**Credit risk**	The risk of financial loss should borrowers or counterparties fail to fulfill their financial or contractual obligations as and when they fall due; Credit risk includes counterparty risk, settlement risk and concentration risk, with the latter referring to the risk arising from an excessive 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 of loss caused by movements in market price parameters (including interest rates, exchange rates, and stock price and commodity prices among others)
	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
	Foreign exchange risk	The risk of losses on account of adverse foreign currency movements
	Funding and liquidity risk	*Funding risk:* The risk linked to a relative lack of availability of funds or the risk that a maturing liability or class of liabilities may not be able to be refinanced (without additional relative cost) over any given period of time *Liquidity risk:* The risk arising from insufficient realisable financial assets to meet the financial commitment as and when they fall due
	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 financial instrument, whether listed or unlisted
NON-FINANCIAL RISK	**Operational risk**	The risk of loss 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
	Cyber risk	The risk of breach of information technology security arising from the malicious or unauthorised use of information systems that may have an adverse effect on the confidentiality, availability, or integrity of information or information systems
	Regulatory and compliance risk	The risk arising from changes in legislation and regulations on the operation and functioning of the Group. It is the risk of sanction and material financial loss or reputational damage
TRANSVERSAL RISK	**Strategic and business risk**	The risk arising from inappropriate business decisions or strategies in relation to the operating environment. The risk is caused by inflexible cost structures, changes in the business environment, regulatory decisions, client behaviour and technological progress, and Group-specific factors such as poor choice of strategy
	Reputation risk	The risk arising from reputational damage to the Group's image caused by 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

Board 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. At individual entity level, each subsidiary of the Group 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.

The Board

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.

Risk Monitoring Committee

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. While assigning relevant responsibilities and accountability lines, it ensures that rigorous internal processes and controls which identify, monitor, measure and report different types of risks are implemented. Exposures are monitored on a quarterly basis against those limits and reported to the RMC. The capital plan includes a crisis management plan whereby measures to rapidly mobilise additional capital, should the need arise, are discussed at Board level.

Audit Committee

The Audit Committee caters for the monitoring of internal control processes, while ensuring the preparation of accurate financial reporting and statements in compliance with applicable legal requirements and accounting standards. It also reviews operational and compliance risks and the actions taken to mitigate them.

Read more on the key mandates and focus areas of the Board sub-committees of MCB Group Ltd in the 'Corporate Governance Report' on pages on pages 114 to 119

Risk and capital management report

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 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 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 the Group's main subsidiary, i.e. 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
- Liquidity Coverage Ratio
- Open FX position

Internal limits and desired risk profile

- Country limit
- Bank limit
- Sectorial concentration
- Portfolio risk profile
- Product limits
- Counterparty credit risk limit
  Valuation limit
  Daily settlement limit

Rating tools used by MCB Ltd

Internally-developed model

- **Country**
  - **Country rating model**
    The rating monitors social unrest, nationalisation and expropriation of assets, Government repudiation of external indebtedness, foreign exchange controls and currency movements amongst others
- **Banks**
  - **Bank scoring model**
    The credit worthiness is assessed by assigning a score based on the Bank's financial strength, the 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
- **Retail clients**
  - **Credit scoring model**
    The rating assesses the credit standing, source of repayment and debt service ability of the borrower
- **Corporate clients**
  - **Customer rating software**
    It evaluates the counterparty's financial position and uses MCB's historical default experience and generates rating and Probability of Defaults

External rating agencies

- **Country and banks**
  - Moody's Investors Service, Fitch Ratings, Standard & Poor's, and others as deemed appropriate
- **Corporate clients**
  - **CARE Ratings**
    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

Positioning and performance of the Group

Key achievements

General moves

- In FY 2017/18, the entities of the Group achieved sound business growth across market segments. Several of them expanded their regional and international footprint in an orderly manner. To meet our objectives, we capitalised on robust risk management and internal control frameworks to identify, monitor and mitigate our risk exposures in a consistent manner. As key enablers, we tapped into enhanced synergies amongst relevant functions and entities, alongside improving the efficiency of our processes and further upgrading information systems. Overall, we have maintained comfortable capital levels that exceeded applicable regulatory stipulations and supported our growth endeavours, while diversifying our portfolios across segments and preserving the quality of our assets. We held ample liquid assets to meet obligations in a timely manner, alongside maintaining stable sources of funding, comprising mainly customer deposits. Encouragingly, helped by our sound financial fundamentals and while affirming our ratings, Moody's Investors Service changed the outlook on our long-term ratings from stable to positive in July 2018.

Risk and capital management report

- Relevant Group entities moved forward towards ensuring their readiness for the timely implementation of IFRS 9, notably the adoption of 'Expected Credit Loss' (ECL) models to determine allowances for credit impairment. In Mauritius, the new standard has become effective as from financial period beginning on or after 1 January 2018. Consequently, the first financial accounts of MCB Group Ltd and its subsidiaries to be produced under IFRS 9 will pertain to the financial year beginning 1 July 2018. Of note, as a key step to fostering adherence to the new reporting standards, MCB Ltd has set up a Credit Modelling BU. The latter, operating under the aegis of the Chief Risk Officer, is responsible for analysing data as well as developing, maintaining and validating models for credit application, Basel Capital Accord reporting and IFRS 9 modelling purposes. It is also mandated to identify new opportunities to enhance credit decisions and risk management processes, in line with the strategic objectives of the Risk SBU and the Bank.

MCB Ltd

- The Bank ensured that strict adherence is fostered with relevant amendments made recently to legal and regulatory stipulations. Notably, the Bank of Mauritius (BoM) has issued a revised version of its Guideline on Liquidity Risk Management, effective November 2017, whereby it introduced minimum phased-in standards for the Liquidity Coverage Ratio (LCR). Basically, whilst we were already calculating and monitoring our LCR in previous years despite the rules not having been enforced in Mauritius, we have lately reinforced our ability to comply with the new instructions. In particular, alongside fostering judicious treasury management, we held additional FCY balances at the BoM and recorded higher investments in US treasury bills during the course of the year with a view to upholding appropriate levels of High Quality Liquid Assets in our books. In addition, we adopted the necessary moves in order to underpin our operations, with a key case in point being the upgrade of our liquidity risk information system.

MCB Ltd: Transition to IFRS 9

Project implementation

- In July 2016, MCB launched an internal project aimed at bringing its accounting and credit risk management mechanisms for financial instruments on par with the requirements of IFRS 9 in the fields *inter alia* of the classification, measurement and impairment of financial assets. We, thus, set out to assess the implications and challenges of adhering to IFRS 9, in particular the adoption of an 'Expected Credit Loss' (ECL) model to determine provision levels. To drive the project, a dedicated team was instituted, assisted by a well-established international accounting firm. Under the sponsorship of the Chief Risk Officer and Head of Finance, the project operated within a formal project management and governance structure. Regular reporting was undertaken to an executive Steering Committee, composed of the Chief Executive, Deputy Chief Executive, Chief Operating Officer, Chief Risk Officer, Head of Finance and Head of Strategy, Research and Development. A Technical Review Committee comprising independent experts from our external auditors, project sponsors and the appointed accounting firm was set up to ensure full compliance with applicable requirements, with progress monitored at various levels and regular reporting effected to the Risk Monitoring Committee and the Board.

Progress status

- To ensure the appropriate grouping of counterparties into homogenous risk groups, MCB has segmented its financial assets into the nine following portfolios: (i) Retail: housing loans, other secured loans, unsecured & revolving facilities and SMEs; and (ii) Wholesale: corporates, financial institutions, sovereign entities, project finance and Energy & Commodities. After defining the appropriate segmentations and sub-segmentations for each portfolio, a dedicated credit modelling team worked on the staging analysis to allow for significant increases in credit risk to be tracked and adequately provisioned for within the system. Thereafter, the team proceeded with the calibration of Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) for all portfolios. In accordance with IFRS 9, MCB has ensured that *"expected credit losses represent an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes using reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions"*. Moreover, forward-looking scenarios have been formulated, in alignment with the parameters set by the Board and have been consistently applied across the Bank's risk management and capital planning processes, with sound judgment exercised in determining forecasts for economic parameters.
- As to date, the project team has finalised the classification and measurement framework as well as the credit models underpinning the calculation of ECL. A review of the credit impairment policy was also conducted to ensure that the new processes put into place as well as the new impairment mechanisms operate within an appropriate governance framework.

- A key achievement of the Bank is the setting up of a Permanent Control function. The aim is to reinforce the risk monitoring process and improve the internal control system towards assisting the Bank in pursuing its business growth in a sound way. Key focus areas are as follows: (i) supervise the permanent monitoring of internal control processes across the Bank and cater for the development of an adequate risk culture; (ii) analyse, mitigate and manage the operational, information and compliance risks, alongside ensuring that corrective measures are identified and implemented; and (iii) strengthen procedures and controls with regard to KYC, anti-money laundering and combating the financing of terrorism, along with the analysis of client transactions.

- The year was also marked by the reinforcement of our capabilities and relevant frameworks to tackle emerging risks, notably cyber risks associated with the increased digitalisation of our operations. Dedicated training sessions to foster staff awareness of the matter have been conducted. A Cyber War game, involving Board members, the Leadership team and senior staff was organised. On another note, the Bank further reinforced its management of compliance risk. Notably, while compliance officers were further empowered towards more effectively discharging their responsibilities, the dedicated function exercised appropriate oversight over the revision/implementation of relevant processes and systems enhancements aimed at fostering the Bank's compliance with the amended Data Protection Act and advocated international standards, such as the European Union's Markets in Financial Instruments Directive (MiFID) and the Common Reporting Standards elaborated by the OECD. Besides, specific committees were established at the level of the Bank's business lines with a view to shoring up the customer onboarding process.

Foreign banking subsidiaries

- MCB Madagascar strengthened its internal control mechanisms across business units, backed by the review of existing procedures and the establishment of new ones. Staff underwent various awareness programmes following this revamping exercise, while more intensive use was made of the bank's business solutions software where all of its procedures are hosted and managed. Moreover, the bank revamped its credit management policy and adopted a more rigorous monitoring of the loan portfolio especially in the light of the development and growth of its loan portfolio. In addition, the bank was equipped with an incident reporting tool in order to beef up its operational risk management infrastructure to record incidents related to processes, customers, staff, systems or any external events impacting operations.

- MCB Maldives strengthened its risk function by consolidating further its Risk Management and Internal Audit teams. The latter helped to improve internal controls in all branches and business units, while closely monitoring the execution of action plans that cater for audit reports recommendations. The risk management framework was further reinforced through the introduction of Compliance Certificates using a risk based approach in those areas of the bank that are exposed to higher operational risks, whereby staff have to certify that they conformed to the controls outlined in the banking procedures. As a second line of defence, the Legal and Compliance Officer regularly undertakes spot checks to ensure that the Compliance Certificates are properly and promptly submitted. The bank revamped its credit management policy and adopted a more rigorous monitoring of the loan portfolio.

- MCB Seychelles set up a dedicated KYC remediation team, acting under the supervision of its Compliance Manager, while applying a prioritised risk-based approach with a view to ensuring that the system records of customers are updated at all times. The bank expects to complete its customer remediation exercise by December 2018. In another respect, MCB Seychelles took the opportunity to review all its customer creation and account opening checklists in the light of the implementation of the OECD Common Reporting Standards to ensure that the due diligence requirements are met, in alignment with the best practices. Headway made on this front enabled the bank to provide an influential contribution for the publication of a 'Customer Due Diligence: A Customer Guide' report by the Seychelles Bankers Association, with the aim thereof being to shed light on all relevant KYC requirements applied across the local banking industry. On another note, the bank set up permanent control mechanisms across specific units with a view to systematically assessing the level of adherence to procedural requirements. The initiative involves refreshing all processes and controls per risk area across the bank using a risk based approach and mapping them to specific individuals, while getting the latter to attest and sign off on a Compliance Certificate. Furthermore, the bank added more advanced security features to its ATM park, with all machines now containing modern anti-skimming technology designed to address risks of related incidents.

Non-banking entities

- MCB Capital Markets Ltd (MCBCM) further strengthened its risk management and compliance framework during the year under review. A key highlight relates to the on-going reinforcement of the portfolio risk management process within MCB Investment Management following the recruitment of a dedicated Risk Analyst within the Risk and Compliance (R&C) section as well as the setting-up of a quarterly Investment Committee chaired by an external professional. Furthermore, upgrades were brought about to information systems to facilitate reporting under the Foreign Account Tax Compliance Act (FATCA) and OECD Common Reporting Standard (CRS) as well as to monitor compliance therewith. In the same vein, revisions were made to relevant procedures and documentation to ensure on-going compliance with the amended Data Protection Act 2017. In another light, MCBCM responded to the amendment of the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Code for the financial services industry by reviewing and, where applicable, reinforcing its due diligence exercises and applying stricter screening procedures for better evaluating perceived risks.

- Other entities of the Group adopted dedicated initiatives with the aim of further aligning risk management practices with stated strategic intents and supporting healthy business growth. Notably, while adopting judiciously-crafted enterprise risk management practices, MCB Consulting Services continued to capitalise on the diversification of its value proposition, with broad-based markets served across different segments and geographies, underpinned *inter alia* by the recruitment of staff with adequate and diverse skills sets. It anchored its business development strategy on well-structured foundations and underpinnings, including notably partnership agreements sealed with carefully-selected stakeholders. Worth noting also, the entity sought to judiciously manage currency risks through conduct of swap and forward transactions, while also tapping into its natural hedging strategy.

Key focus areas for FY 2018/19

- Shore up our risk management framework and internal control system by reviewing, wherever relevant, policies, practices and processes, alongside ensuring adherence to regulatory stipulations; appropriately calibrate our operations to ensure compliance with international norms, codes and standards
- Ensure that entities' business expansion endeavours, notably in foreign markets, materialise in a sensible manner, backed by a close structuring of deals, adherence to an adapted risk appetite and systematic scrutiny of clients' operating context
- Ensure that relevant Group entities pursue the necessary initiatives to underpin IFRS implementation in a timely and appropriate way by setting up the appropriate system architecture to support the comprehensive disclosure of relevant requirements and exploring opportunities engendered by the IFRS project to enhance the sophistication of MCB's underwriting and risk management mechanisms, alongside building or reinforcing capabilities in the field of data analytics, statistical analysis, credit modelling and credit management
- Judiciously take stock of, appraise and manage emerging risks, notably those linked to technological utilisation and recourse to innovative platforms, while bringing about relevant upgrades to the framework in terms of tools and processes

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.

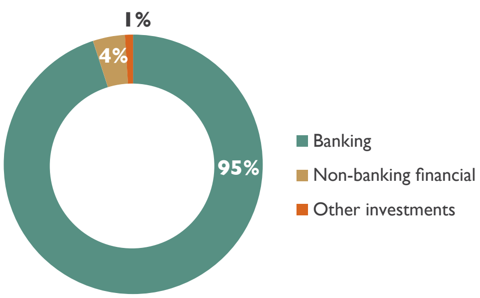
Towards this end, the Group aims to leverage internal capital generation through retained earnings, while remaining ready to enter wholesale markets if need be. In addition, it seeks to maintain appropriate discipline over the nature and extent of its market development initiatives and lays due emphasis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

Performance

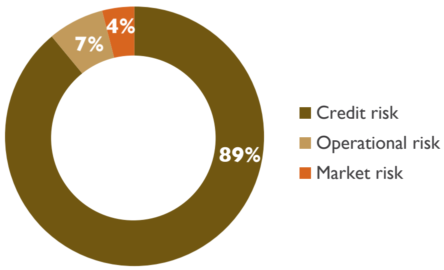
Over the period under review, the Group has, on a consolidated basis, maintained comfortable capitalisation levels as gauged by the BIS and Tier 1 ratios standing at 17.3% and 15.3% respectively as at 30 June 2018. The predominant contribution thereto has obviously emanated from the banking entities 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 320 billion as at 30 June 2018, out of which 87% was accounted for by MCB Ltd and some 5% 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.

Distribution of risk-weighted assets as at 30 June 2018

By cluster



By type of risk



	MCB Group Ltd	
	Jun 17	**Jun 18**
	Rs m	**Rs m**
Capital base	**50,375**	**55,452**
Tier 1		
Ordinary shares (paid-up) capital	2,478	2,548
Retained earnings	37,581	41,725
Other reserves (excluding revaluation surpluses on land and building assets)	5,205	6,188
Common Equity Tier 1 capital: regulatory adjustments		
Goodwill and intangible assets	(1,006)	(1,296)
Deferred tax assets	(229)	(49)
Defined benefit pension fund assets	(99)	-
	43,929	**49,116**
Tier 2		
Subordinated debt	3,352	2,796
Provisions or loan-loss reserves	2,129	2,586
45% of surplus arising from revaluation of land and buildings	965	954
	6,446	**6,336**

	Jun 17	**Jun 18**
Risk-weighted assets	**266,526**	**320,251**
Credit risk		
Weighted amount of on-balance sheet assets	215,665	251,337
Weighted amount of off-balance sheet exposures	19,819	34,549
Operational risk		
Weighted risk assets for operational risk	21,092	22,896
Market risk		
Aggregate net open foreign exchange position	4,966	3,990
Capital charge for trading book position exceeding 5% or more of its total assets	4,984	7,479
Capital adequacy (%)	**18.9**	**17.3**
of which Tier 1	*16.5*	*15.3*

Note: Figures in the above table have been audited

Risk and capital 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 healthy loan portfolio through strong credit discipline, prudent market development approach and sensible strategy execution, cautious loan origination and disbursements, and active efforts for debt collection and recovery.

Performance

Notwithstanding still challenging market conditions, the gross and net NPL ratios of the Group went down to 4.5% and 3.1% as at 30 June 2018, with impairment charges amounting to Rs 1,330 million, which was equivalent to 0.61% of gross loans and advances. While a notable decline in NPL ratios was registered by MCB Madagascar on the back of recoveries and upgrades linked to long outstanding non-performing loans, the improving asset quality metrics of the Group were mainly driven by trends witnessed at the level of MCB Ltd. In fact, supported by its prudent market development approach and active recovery efforts, the gross NPL ratio of the Bank fell by 170 basis points to reach 4.1% in FY 2017/18, while the corresponding ratio in net terms declined by 150 basis points to attain 2.8%.

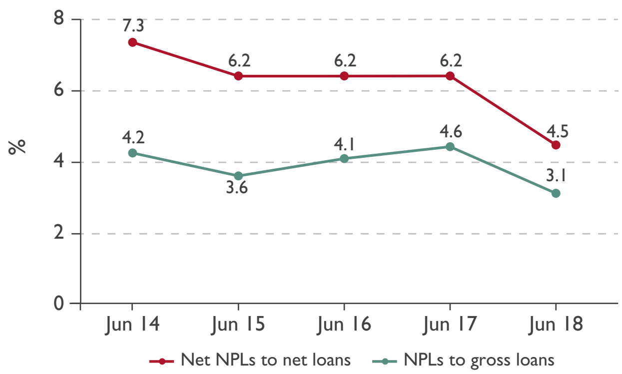
Sectorwise distribution

June 2018	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	**205,981**	**94.4**	**9,734**	**4.8**	**5,365**	**1,318**
Tourism	26,857	*12.3*	832	*3.1*	578	74
Traders	41,032	*18.8*	1,961	*4.8*	749	234
Construction *(including property development)*	16,823	*7.7*	1,462	*9.0*	915	175
Financial and business services	28,175	*12.9*	240	*0.9*	83	91
Manufacturing	11,720	*5.4*	486	*4.2*	207	162
of which EPZ	*4,877*	*2.2*	*89*	*1.8*	*47*	*44*
Agriculture and fishing	8,786	*4.0*	675	*7.9*	318	55
Transport	5,735	*2.6*	1,530	*27.6*	927	49
Personal and professional	41,731	*19.1*	1,827	*4.4*	963	261
of which credit cards	*1,120*	*0.5*	*23*	*2.0*	*20*	*21*
of which housing	*27,501*	*12.6*	*788*	*2.9*	*312*	*123*
Global Business Licence holders	15,928	*7.3*	429	*2.7*	460	169
Others	9,195	*4.2*	293	*3.2*	166	49
Corporate notes	**7,049**	**3.2**	**-**	**-**	**-**	**50**
Loans to banks	**5,073**	**2.3**	**-**	**-**	**96**	**39**
Total	**218,103**	***100.0***	**9,734**	**4.5**	**5,461**	**1,407**

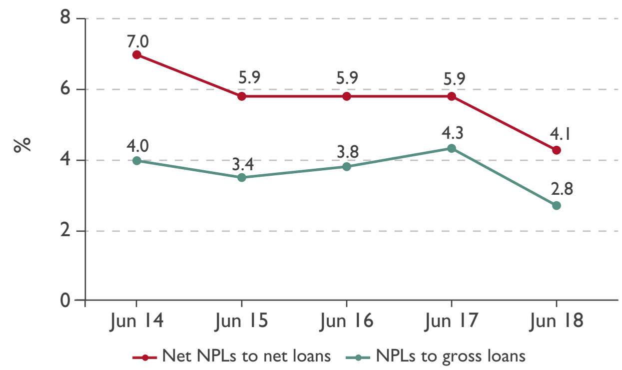
Note: Figures may not add up to totals due to rounding

Credit quality

MCB Group



MCB Ltd



Funding and liquidity

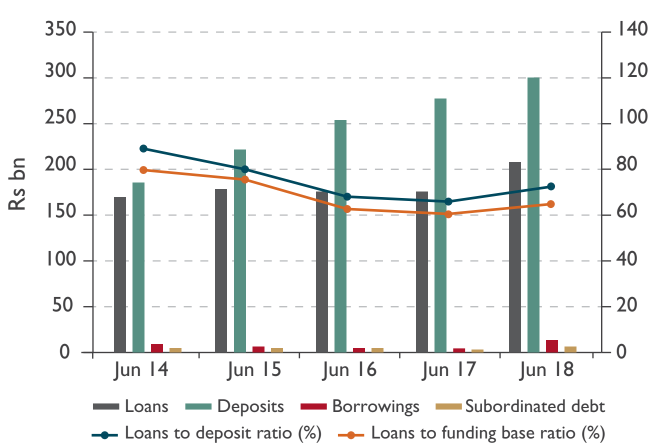
Philosophy

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.

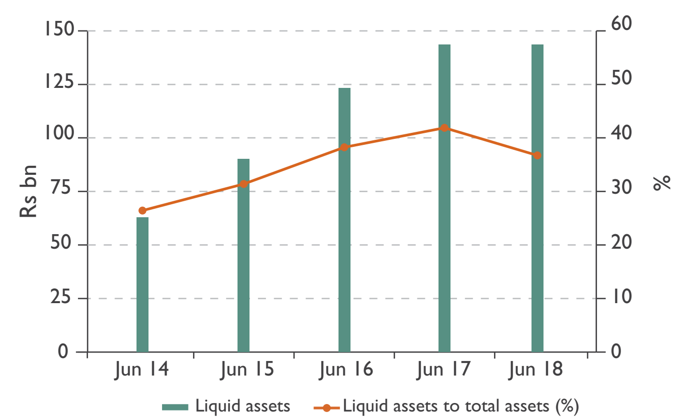
Performance

During FY 2017/18, the Group continued to be exposed to relatively high liquidity conditions in the Mauritian banking sector, with the situation also warranting attention in Seychelles and Madagascar. Against this backdrop and while it has preserved its sound funding position, the Group has continued to display high liquid assets levels, as demonstrated in the following illustrations. In this regard, it is worth highlighting that the consolidated Liquidity Coverage Ratio of MCB Ltd stood at 203% as at 30 June 2018, which comfortably overshot the applicable regulatory limit. Besides, though not yet a regulatory requirement in Mauritius, MCB reported a Net Stable Funding Ratio of 108%, which exceeds the minimum level recommended under Basel III, which is set to be at least 100% on an ongoing basis.

Loan and funding base



Liquid assets



Note: Liquid assets comprise cash, balances with BoM, placements, T-Bills and Government securities

Risk and capital management report

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 non-banking entities of the Group, backed by the elaboration of clear guidelines and mandates. Hence, as per the modalities set out in Service Level Agreements, the 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 the 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.

Banking cluster

Governance

Board of each entity

Functioning in alignment with objectives and targets 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 by the Bank 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 is the Risk Monitoring Committee (RMC). It assists the Board in setting up risk strategies as well as to assess and monitor the risk management process. It recommends the risk appetite for credit and market risks to the Board for approval. It analyses risk portfolios against the set risk appetite, while also reviewing and exercising oversight over capital management. Regarding our market diversification strategy, the RMC is entrusted with the authority of determining the Bank's overall international capital allocation and exposure limits while monitoring country exposures against set limits on a quarterly basis. The Supervisory and Monitoring Committee sets the overall direction for the strategic development of the Bank and monitors performance against such strategy. The Audit Committee monitors internal control processes and ensures compliance with relevant laws and regulations. It sets operational risk tolerance levels and ensure the regular review of business continuity plans. The Risk SBU bears the responsibility for providing independent risk control. It manages credit and market risks, alongside overseeing the credit management and recovery operations. While having an administrative reporting line to the Chief Executive, the Chief Risk Officer is accountable to the RMC for the monitoring and management of assigned risk areas. Managers catering for the latter are dedicated to establishing methodologies for risk measurement, while carrying out the regular monitoring and reporting of the Bank's risk exposures and profiles. The Permanent Control function, which reports to the Audit Committee, ensures that activities at the operational level are correctly handled and secured. A strong risk control framework is also fostered through independent teams overseeing the legal and physical security and internal audit functions. The latter evaluates and provides independent assurance on the effectiveness of the risk governance, the control environment and risk management processes and mechanisms, in tune with business strategies and the environment.

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 also 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.

Risk and capital management report

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; • To monitor the different risks of the Bank comprising credit, market, country, legal, information and reputational risks; • To oversee credit concentration risk and scrutinise the risk profile of large exposures; • To monitor the quality of assets by segment and by product; • 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 Internal Capital Adequacy Assessment Process (ICAAP); • 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; • To ensure that the confidentiality, integrity, availability and protection of the information assets are under constant review and that related information systems software and hardware devices are adequate and effective; and • To recommend foreign country exposure limits to the Board and monitoring actual exposures against these limits once validated	• To recommend such changes to the agreed risk appetite as may be appropriate in the light of changing circumstances and conclusions from their reviews; • To review the credit risk portfolio against the agreed credit risk appetite; • To review the market risk portfolio against the agreed market risk appetite; • To monitor the utilisation of capital and current capital adequacy; • To adopt the risk appetite, as set by the Board, in the context of capital adequacy; • To receive and consider recommendations from the business for changes to the Risk Policy Manual or to instigate such changes when they become necessary; • To receive relevant reports from internal and external auditors in respect of specific risk events; and • 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; • To review and monitor the effectiveness of the Bank's internal financial control and risk management systems; •To review and monitor the effectiveness of the internal audit function; • To review the Bank's operational risk tolerance as well as the business continuity plans to ensure that they are up-to-date • To review and monitor the independence of the external auditors and their performance; • To review and monitor the remuneration of the external auditors and their supply of non-audit services; • 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 • 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; • To review reports on operational risk against set tolerance levels; • 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; • 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; • To provide oversight for bank's internal and external auditors; • To review report of internal and external auditors and implementation of recommendations; • To monitor bank's compliance with laws and regulations applicable; and • To report, at least annually, to shareholders at the general meetings on its activities

In addition to the Board committees and the adoption of the three lines of defence approach, the risk management framework also allows for dedicated executive committees of the banking entities to assist in the oversight and monitoring of risk areas within the business.

MCB Ltd

Key responsibilities	
Credit risk	
Executive Credit Committee (ECC)	• The ECC (A), which comprises the Chief Executive and Deputy Chief Executive, sanctions/declines credit applications where Group Total Commitment exceeds Rs 150 million • The ECC (B) sanctions/declines credit applications with Total Client Commitment of up to Rs 150 million
Credit Committee	• It sanctions/declines credit applications where Group Total commitment is up to Rs 50 million for retail clients and Rs 60 million for corporate clients
Country Risk Committee (CRC)	• The CRC, which is chaired by the Chief Executive and comprises the Deputy Chief Executive and Chief Risk Officer as members, is responsible for setting individual country limits within the validated risk parameters as well as reporting any excesses observed to the RMC
Market risk	
Asset and Liability Committee (ALCO)	• The purpose of the ALCO is to review and validate decisions – in consultation with relevant Heads of lines of business wherever relevant and applicable – in relation to the balance sheet structure of MCB. These decisions are taken with respect to the various dimensions of market, liquidity and funding risks faced by the Bank, while also making allowance for funds transfer pricing • 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 in terms of domestic and foreign currencies as well as from a consolidated perspective • The committee, which comprises members of Executive Management, is chaired by the Deputy Chief Executive, with targeted monthly meetings or, as deemed necessary, ad-hoc and special meetings being held
Operational risk	
Information Risk, Operation Risk and Compliance Committee (IORCC)	• The monitoring of the entire operational cycle is exercised through the IORCC, which is chaired by the Chief Executive. The IORCC acts as the focal point and coordinating committee with a view to ensuring that operational risk management is in line with the Operational Risk Policy. Significant operational risks are escalated to the IORCC and then, if warranted, to the RMC • The responsibility for the implementation of strategies and monitoring of Business Continuity Management (BCM) is delegated to the IORCC

Foreign banking subsidiaries

Key responsibilities	
Subsidiary Credit Committee	• It is responsible for the planning, sanctioning, controlling and monitoring of credit risk • It sanctions/declines credit applications for customers with exposures of up to USD 150,000. Exposures from USD 150,000 to USD 1.5 million are approved by a joint MCB Ltd and subsidiary committee. Facilities above this level are channeled to the Executive Credit Committee of MCB Ltd before a final decision is reached
Asset and Liability Committee	• 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

Risk and capital management report

Management of key risks

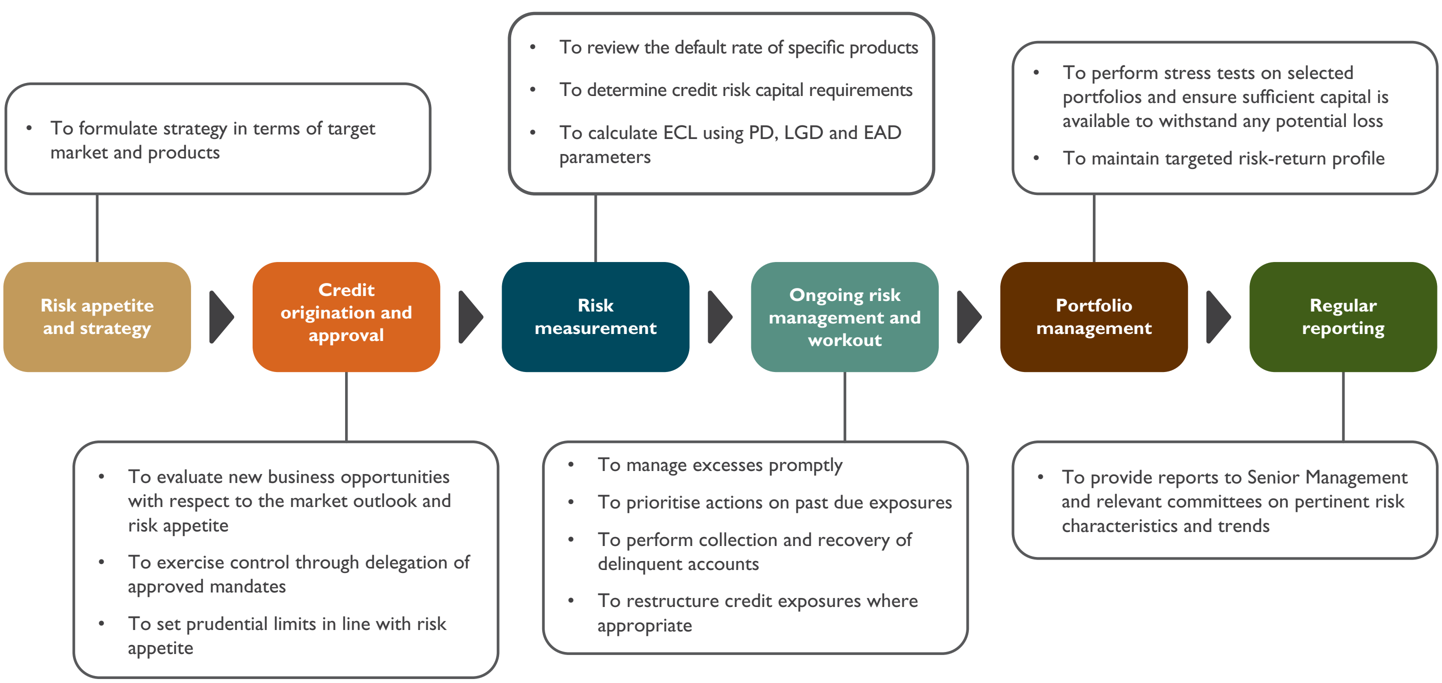
Credit risk

<u>Our approach and objectives</u>

- 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.

- The risk management framework encompasses credit policies which are approved by the RMC of each banking entity. At the level of MCB Ltd, the Credit Risk Policy, which is approved and reviewed by the RMC, sets forth the principles by which the Bank conducts its credit risk management activities. The policy formulates the roles and responsibilities whereby credit risk is to be managed across the different business segments. It provides guidance in the formulation of the appropriate structures and architectures that work towards ensuring that business generation is harmonised with the established target market criteria. Its credit risk management approach is governed by regulatory rules set out in Bank of Mauritius Guidelines. They include the Guideline on Credit Risk Management, Guideline on Standardised Approach to Credit Risk, the Guideline on Credit Concentration Risk, the Guideline on Credit Impairment Measurement and Income Recognition and the Guideline on Country Risk Management. The credit risk management practices adopted by banking entities cuts across the entire credit cycle as depicted below.



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. Credit facilities granted are guided by the credit standing, source of repayment and debt servicing ability of the borrower. As a fundamental credit principle, the banking entities do not generally grant credit facilities solely on the basis of the collateral provided. Collateral is taken whenever possible to mitigate the credit risk assumed while additionally, being monitored periodically depending on the type, liquidity and volatility of the collateral value.

- 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.

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.

Banking cluster	Jun 18			Jun 17
	Amount	Weight	Weighted Assets	Weighted Assets
Risk-weighted on-balance sheet assets	**Rs m**	**%**	**Rs m**	**Rs m**
Cash items	3,022	0 - 20	85	93
Claims on sovereigns	47,947	0 - 100	3,282	1,876
Claims on central banks	53,259	0 - 100	13,601	5,419
Claims on banks	21,120	20 - 100	11,192	19,638
Claims on non-central government public sector entities	2,213	0 - 100	0	0
Claims on corporates	140,095	20 - 150	140,195	107,954
Claims on retail segment	12,149	75	7,737	7,241
Claims secured by residential property	29,104	35 - 125	13,267	12,363
Claims secured by commercial real estate	18,228	100 - 125	21,278	18,974
Fixed assets/other assets	12,626	100 - 250	18,069	17,606
Past due claims	6,720	50 - 150	7,896	9,289
Total			**236,602**	**200,454**

Banking cluster	Jun 18					Jun 17
	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	9,063	100	8,874	0 - 100	8,805	2,015
Transaction-related contingent items	23,554	50	11,410	0 - 100	11,396	10,058
Trade related contingencies	24,841	20 - 100	11,192	0 - 100	11,092	4,065
Outstanding loans commitment	6,446	20 - 50	3,137	0 - 100	3,137	3,456
Total					**34,430**	**19,594**

Banking cluster	Jun 18						Jun 17
	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	677	0 - 1.5	3	0	3	2	45
Foreign exchange contracts	14,494	1 - 7.5	162	70	232	117	181
Total						**119**	**226**

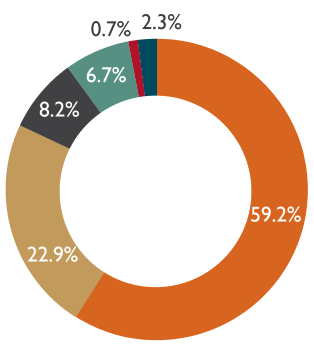
	Jun 18	Jun 17
	Rs m	**Rs m**
Total credit risk-weighted assets	**271,151**	**220,274**

Note: Figures may not add up to total due to rounding

- 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.

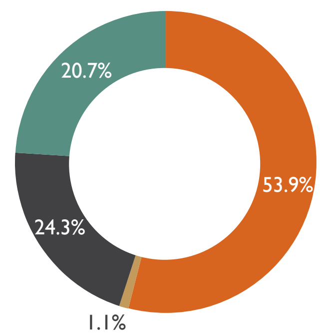
Distribution of loans and advances – banking cluster

Total credit risk-weighted exposures by region



■ Mauritius ■ Europe
■ Sub-Saharan Africa ■ Middle East / North Africa
■ Asia-Pacific ■ America / Caribbean

Loans and advances by customer segment



■ Corporate customers ■ Retail customers
■ Governments ■ Entities outside Mauritius*

** 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 and capital management report

Country risk management at MCB Ltd

Our objectives

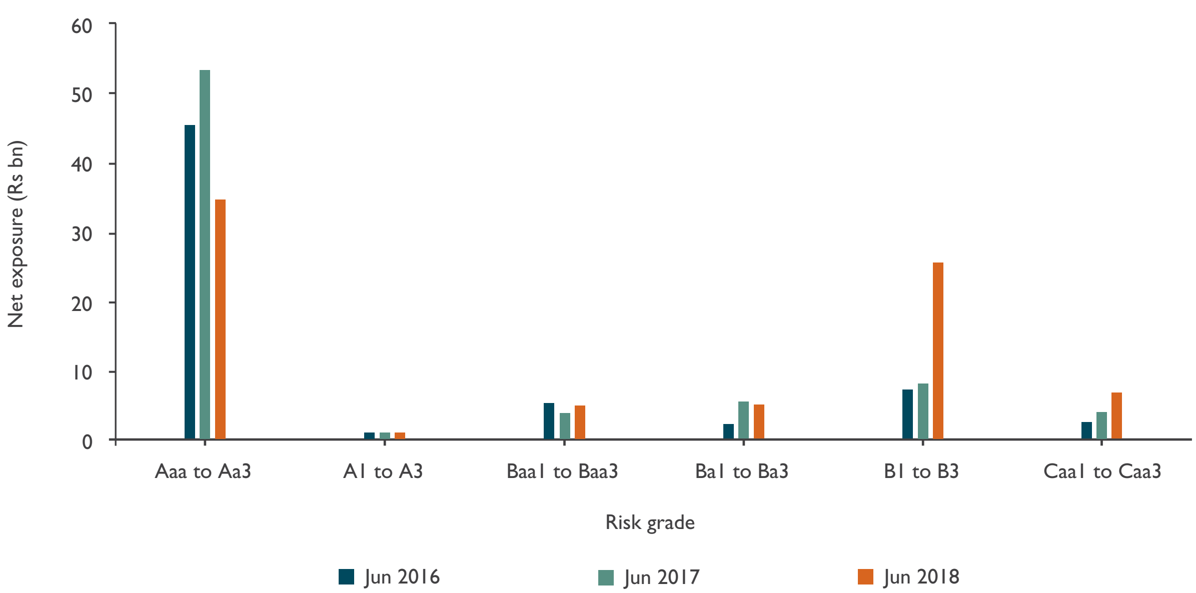
MCB Ltd aims to support the orderly and sustained achievement of its regional and international business development ambitions. It has a comprehensive framework and adequate control processes to assess country risk, formulate related risk tolerance and determine exposures to be assigned across geographies.

Risk management

- In line with its strategic orientation to expand internationally, the Bank carefully monitors country risk events, including economic developments, sovereign credit worthiness, and specific occurrences such as social unrest, nationalisation and expropriation of assets, foreign exchange controls and currency depreciation/devaluation. The Bank sets its risk appetite in terms of country risk profile, backed by recourse to a proven country risk model. The Bank ensures the proactive monitoring of country risk exposures against country limits and sub-limits set while promptly reviewing such levels in case of adverse unexpected events. Foreign country exposure limits are set by the Bank on the basis of (i) its current exposures and growth ambitions; (ii) assigned capital for international exposures; (iii) the prevailing economic and market environments and sizes of the economies under review; (iv) sovereign ratings; (v) its areas of expertise as far as its business involvement is concerned; and (vi) its knowledge of the economies.

The following illustration depicts the evolution of the country risk exposures of the Bank (comprising of treasury and financing activities), which have globally been maintained within the precincts of its risk appetite.

Country risk exposures



Note: The worst of the ratings assigned by Moody's Investors Service, Standard & Poor's and Fitch Ratings was selected and converted into a Moody's equivalent rating; countries unrated by the above rating agencies have been assigned a rating determined by an in-house model

Market risk

Our approach and 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.

- At the level of MCB Ltd, 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 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. Its market risk management approach is governed by regulatory requirements, including those that are encompassed in applicable Bank of Mauritius Guidelines. They notably include the Guideline on Measurement and Management of Market Risk, the Guideline of Liquidity Risk Management and the Guideline on the Operational Framework for Primary Dealers.

- With regard to the foreign banking subsidiaries, market risk sanctioning mandates are delegated to management for the conduct and monitoring of relevant day-to-day operations and activities. They 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 management[1]

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 its banking book on account of the reset date of its on and off-balance sheet assets not coinciding exactly with that of its on and off-balance sheet liabilities. The resulting mismatch is monitored through the conduct of interest rate risk gap analysis on both an earnings and economic value impact basis. This source of risk is limited through the application, in most cases, of floating interest rates that are linked to an index.

Foreign exchange risk (FX risk)

- It may be incurred from an on-balance sheet perspective, i.e. as a result of imbalances witnessed between the foreign currency composition of the Bank's assets and liabilities, while it can also be viewed from an off-balance sheet angle through the deployment 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

- The entities manage the liquidity profile of their balance sheet through both short term liquidity management and long term strategic funding, while covering both local and foreign currencies. Towards this, 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.

    - 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.

[1] *Information in this section has been audited*

MCB Ltd: Key liquidity ratios

Liquidity coverage ratio (LCR)

- In alignment with Basel III rules, the objective of the LCR is to promote the short-term resilience of a bank's liquidity risk profile by ensuring that it maintains an adequate stock of unencumbered High Quality Liquid Assets (HQLA) in order to meet its liquidity requirements. As per regulatory stipulations in the Mauritian banking system, the LCR is computed as the ratio of the stock of unencumbered HQLA to the net cash outflows over the next 30 days in the event of an acute liquidity stress scenario. While relevant rules and directions have come into effect in November 2017, it can be highlighted that banks should, as from January 2018, hold an LCR of 100% in rupee terms. Comparatively, the minimum requirement currently stands at 70% for each significant currency, with a similar ratio being applied on a consolidated basis. Under the transitional arrangements that have been set by the Bank of Mauritius, the stipulations that will unfold for the coming years are described in the table thereafter.

- As at 30 June 2018, the Bank comfortably overshot stipulated LCR requirements. It reported a consolidated LCR of 203%, which is equivalent to a surplus of around Rs 45 billion over stressed total net cash outflows. At a more granular level, we exceeded the mandatory LCR limits relating to rupee and significant foreign currencies. It can be recalled that HQLA eligible for the purpose of calculating the LCR under the BoM Guideline consist of cash or assets that can be converted into cash at little or no loss of value in markets. In this light, MCB maintained suitable levels of investment in sovereign, high-quality corporate and cash liquid assets.

Bank of Mauritius: Transitional arrangements for Liquidity Coverage Ratio (LCR)

	As from 30 November 2017	As from 31 January 2018	As from 31 January 2019	As from 31 January 2020
LCR in MUR	100%	100%	100%	100%
LCR in material foreign currencies	60%	70%	80%	100%
Consolidated LCR (in either MUR or USD)	60%	70%	80%	100%
Reporting timeframe	Within 20 working days from month end	Within 10 working days from month end		

Net Stable Funding Ratio (NSFR)

- Under Basel III, liquidity risk is also tackled by means of the NSFR, which aims to promote the resilience of a bank by requiring the latter to fund its activities with sufficiently stable sources of funding in such a way as to mitigate any future funding stress. The NSFR effectively recognises a bank's maturity transformation role in the credit creation and resource allocation process. It seeks to limit its overreliance on short-term wholesale funding or the holding of large funding gaps to sustain rapid balance sheet growth.
- Though not yet a regulatory requirement in Mauritius, MCB regularly monitors its performance in terms of NSFR, which requires an amount of available stable funding to be maintained in relation to required stable funding. As at 30 June 2018, the Bank's NSFR stood at 108% which is above the recommended minimum level of 100% under Basel III.

Operational risk

Our approach and 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.

- Towards determining the operational risk tolerance levels, the entities set risk acceptance and mitigation limits in respect of the principal categories of operational risk as appropriate. 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.

- The operational risk management framework is anchored on adapted policies which are approved by the Audit Committee of each banking entity. At the level of MCB Ltd, the Operational Risk Policy of the Bank formulates the principles and methodologies for the management of operational risk at the Bank. It sets out a framework covering advocated rules and norms on the local and international fronts, best practices and standards as well as the relevant roles and responsibilities within the Bank. The latter's operational risk management approach is governed by regulatory requirements, including the Guideline on Operational Risk Management and Capital Adequacy Determination.

Risk measurement and monitoring

- The determination of the risk exposures of the banking entities is anchored on the regular review of the operational risk 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 and as described in its Operational Risk Policy, the responsibility for implementing the Operational Risk Management Framework is entrusted to Senior Management. The Operational Risk BU is responsible for the implementation of policies for the identification, assessment and management of related risks. From a more holistic angle, operational risk management forms part of the day-to-day responsibilities of the Leadership team and employees at all levels of the organisation. 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. An overview of both operational risk and Business Continuity Management is provided to new staff at the onset of their career through induction courses. The Operational Risk Management Framework relies on three primary lines of control as depicted below.

Risk ownership	Risk control	Independent assurance
Business units	**Audit Committee/IORCC/ Operational Risk BU**	**Internal/External Audit**
• Implement internal control procedures • Identify inherent risks in products, activities, processes and systems • Initiate actions and apply mitigation strategies • Report risk incidents	• Oversee the conduct of policy • Implement integrated risk framework • Report on inherent and residual risks • Monitor corrective actions • Promote Operational Risk Culture within the Bank	• Verify the effectiveness of the overall operational risk framework

Risk and capital management report

- As regards the foreign banking entities, they adhere to clearly-defined controls and procedures for controlling and mitigating the effects of operational risks. The introduction of compliance certificates to be submitted monthly by the business units provides assurance that the identified controls are functioning adequately. The management of operational risks is also underpinned by 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 (BCM)

- 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 framework is detailed in the BCM policy and 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. As an integral part of the Operational Risk Management Framework in place at the Bank, the BCM is centrally coordinated and controlled by the Operational Risk SBU, in collaboration with relevant support functions of the Bank. A dedicated crisis management team consisting of key members of Senior Management shoulders central command during a crisis and is assisted by several tactical and operational crisis teams. Individual business units, through designated business continuity champions, are the BCM process owners and are hence responsible for designing, reviewing and maintaining up-to-date recovery plans at their respective levels. The Bank continues to consolidate its business continuity preparedness and resilience through simulations aimed at exercising its business continuity plans and procedures, which are updated after each test to ensure they remain current and correspond to MCB's recovery objectives. Ongoing initiatives include the automation of the BCM process to embrace a more holistic way of managing disruptions at the Bank. Notably, Disaster Recovery, Emergency Response and Crisis Management disciplines have been integrated within the BCM framework. A Pandemic Preparedness Policy is being finalised in order to allow the Bank to shape its response during a disease outbreak thereby ensuring that impacts on people and operations are mitigated.

- 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

Our approach

- The aim of information risk management at the banking entities is to maintain the confidentiality, integrity and availability of information assets stored, processed and transmitted.

Risk mitigation and management

- Risk management by the banking entities implies the regular conduct of information risk assessments so as to identify issues that can potentially harm the organisation's information assets and recommend adequate mitigating controls.

- At MCB Ltd, the Information Risk Management (IRM) BU is responsible for executing set policies and practices in relation to information security to ensure protection of private and confidential information. While making allowance for business exigencies and the operating landscape, Information Security policies have been developed for the Bank. These policies are regularly monitored by the IRM BU to ensure that they remain at all times accurate and pertinent to the Bank's operating context. Further, several processes have been assigned to assist in identifying and analysing the business need to access logical information, restrict the information deployed to the relevant requirements as well as monitor and control access to such information. The pertinence of any major information security expenditure is evaluated and discussed at several hierarchical levels before finally reaching out to Senior Management and if needed to the Board for approval.

- The banking entities have lately geared up their policies and processes to effectively cope with challenges posed by increasing cyber threats. For instance, at the level of MCB Ltd, the IRM took several steps to assess and strengthen the Bank's cyber security posture: (i) full reviews and assessments have been undertaken to assess and, where necessary, improve our cyber security resilience; (ii) the Bank's critical infrastructure was independently and regularly tested to ensure that we have the right level of security; and (iii) special attention was accorded to the awareness of our employees at various level of responsibility within the organisation.

Compliance risk

Our approach and 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.

- The aim is to promote a compliance-oriented culture with a view to supporting business lines in delivering fair outcomes for customers and preserving the organisation's reputation, while helping to achieve business development objectives.

Risk mitigation and management

- The banking entities seek to ensure that their core values and standards of professional conduct are maintained at every level and within all their activities and operations. Towards this end and in addition to complying with relevant external norms and requirements, they adhere to their own policies, including those related to their ethical standards. They adopt dedicated systems and processes so as to properly identify and prevent any risks of non-compliance while ensuring that they are sufficiently equipped in order to live up to the increasingly stringent regulatory environment and effectively cope with greater scrutiny by regulators and law enforcement authorities. In order to ensure that their objectives are met in a consistent and judicious manner, they perform regular monitoring exercises, to foster compliance with policies and procedures and ascertain that controls are operating in a sound way. In a nutshell, compliance risk management is anchored in the following core principles:

    - Paying continuous attention to and undertaking regular reviews of ongoing developments as regard local and relevant international laws and regulations, accurately understanding their impact and coming up with necessary responses;

    - Fostering a compliance control mechanism to pave the way for normalised processes and operations;

    - Maintaining a set of policies to promote strong ethical behaviour by staff as well as to prevent and manage conflicts of interests;

    - Promoting the awareness of Management and staff on requirements arising out of new/amendments to laws and regulations and other compliance-related matters;

    - Providing adequate training to the compliance officers to ensure that they have the necessary knowledge and skills to accomplish their duties;

    - Maintaining close working arrangements and communication with business lines through the dissemination of compliance-related information, provision of advisory services and delivery of dedicated training courses to staff;

    - Fostering trusted relationships with regulatory and supervisory bodies by maintaining productive and value-adding dialogue with them to uphold effective two-way communication

- In relation to their Anti-Money Laundering /Combating the Financing of Terrorism (AML/CFT) obligations, the banking entities of the Group ensure that adequate processes, systems and controls are in place to render their services inaccessible to criminals, including money launderers and terrorists or their financiers, alongside paving the way for detecting suspicious activities. While fostering continuous staff awareness, the entities inter alia ensure that employees are given appropriate training on AML/CFT and fraud prevention topics to help them identify suspicious transactions in keeping with legal and regulatory requirements. A Financial Crime Risk Management system has been implemented for underpinning the oversight of anti-money laundering. Moreover, the entities adhere to a Whistleblowing Policy, whereby an alternative reporting process is established for use by all employees in confidence, without the risk of subsequent retaliation, victimisation, discrimination or disadvantage. The Whistleblowing Framework at the organisation is designed to assist employees deemed to have discovered malpractices or impropriety.

- Lately, the compliance frameworks of our banking entities have been reinforced through the adoption of continuous permanent control mechanisms. Of note, our overseas banking entities are assisted by the Compliance BU of MCB Ltd via the following forms:

    - 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;

    - 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;

    - 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;

    - 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;

    - Project execution: It assist entities embarking on the implementation of IT tools to ensure compliance risk management; and

    - 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.

Risk Assurance: Internal Audit

Approach

- 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 application. Independent assurance is provided on the quality and effectiveness of internal control, governance and risk management systems and processes, thus helping to protect the organisation and its reputation.

- The established framework of the internal audit activity is risk-based. As a key thrust, the banking entities of the Group aim to gather the necessary audit and risk insights in order to support their strategic orientations.

Risk and capital management report

Strategy and objectives

- In line with good governance principles, the Internal Audit SBU of MCB Ltd reports to the Audit Committee, which approves and monitors the internal audit plan and recommendations. The key pillars which the function relies upon to roll out a disciplined approach to evaluate and improve the effectiveness of risk management and control processes are: (i) the implementation of regularly 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.

- The foreign banking entities of the Group rely on their locally-based internal auditors, alongside leveraging the services provided by the Internal Audit SBU of MCB Ltd. The latter carries out regular assignments to assist these entities to better manage their risks as well as improve the quality of their control systems and processes, with advice being delivered on different aspects in line with the nature of projects being executed. Internal audit findings and agreed action plans are reported to the Audit Committee and Board of relevant subsidiaries, with matters escalated to the Audit Committee of MCB Group Ltd if required.

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.

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.

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. 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. 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 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 • 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 • 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

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 the nine scenarios below.

Scenario 1	Country risk – Eurozone recession
Scenario 2	Strategic risk – Major African economies underperform
Scenario 3	Concentration risk – Top borrowers default
Scenario 4	Credit risk – Global business entities de-locate from Mauritius
Scenario 5	Credit risk – Collapse of a commodities trading house
Scenario 6	Reputation risk – MCB Ltd becomes non-investment grade
Scenario 7	Liquidity risk – Stress on LCR run-off factors
Scenario 8	Liquidity risk – Major withdrawal from GBL depositors as well as off balance sheet commitments becoming funded
Scenario 9	Interest rate risk – Interest rate risk- based on a permanent increase of 2% in interest rates across all currencies
Worst case scenario	Worst case scenario – A combination of specific scenarios

The banking subsidiaries of the Group foster strict compliance with mandatory stipulations set by the regulators of their jurisdictions. In this respect, 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 13.125% of risk-weighted assets. This includes a capital conservation buffer, which will grow gradually and attain 2.5% as from 1 January 2020. 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 carried out by the Central Bank, MCB Ltd features 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.

Minimum regulatory ratios applicable to MCB Ltd

Common Equity Tier 1 (CET 1) Capital Adequacy Ratio (CAR) (%)		Jan 18	Jan 19	Jan 20
Minimum CET 1 CAR	(a)	6.500	6.500	6.500
Capital Conservation Buffer	(b)	1.250	1.875	2.500
Minimum CET 1 CAR plus Capital Conservation Buffer	**(c) = (a) + (b)**	**7.750**	**8.375**	**9.000**

Tier 1 CAR (%)		Jan 18	Jan 19	Jan 20
Minimum Tier 1 CAR	(d)	8.000	8.000	8.000
Minimum Tier 1 CAR plus Capital Conservation Buffer	**(e) = (d) + (b)**	**9.250**	**9.875**	**10.500**

Total CAR (%)		Jan 18	Jan 19	Jan 20
Minimum Total CAR	(f)	10.000	10.000	10.000
Minimum Total CAR plus Capital Conservation Buffer	**(g) = (f) + (b)**	**11.250**	**11.875**	**12.500**

D-SIB Buffer (%)		Jan 18	Jan 19	Jan 20
Minimum additional loss absorbency (bucket 4)	(h)	1.875	2.500	2.500
Minimum Tier 1 CAR plus Capital Conservation Buffer plus D-SIB Buffer	(i) = (e) + (h)	11.125	12.375	13.000
Minimum Total CAR plus Capital Conservation Buffer plus D-SIB Buffer	(j) = (g) + (h)	13.125	14.375	15.000

Risk and capital management report

Minimum regulatory ratios currently applicable to the foreign banking entities

	MCB Seychelles	MCB Maldives	MCB Madagascar
As at 30 June 2018	%	%	%
Capital adequacy ratio	12.0	12.0	8.0
Tier I ratio	6.0	6.0	8.0

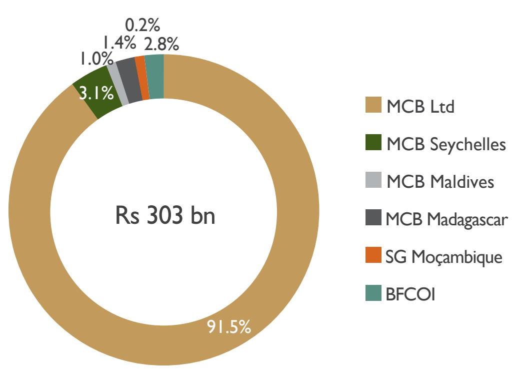
Performance of the consolidated banking cluster

During FY 2017/18, the banking entities have maintained their respective capital adequacy ratios comfortably above the applicable regulatory requirements. The capital adequacy ratio of the banking cluster – as measured at the level of MCB Investment Holding Ltd on a consolidated basis – fell by around 150 basis points to reach 15.8% as at June 2018. The capital base was primarily made up of core capital, with the Tier I ratio standing at 14.7% as at June 2018, down from 16.2% a year earlier. Overall, these trends are mainly explained by a drop in the corresponding ratios at the level of MCB Ltd. This is attributable to a notable increase in the Bank's risk-weighted assets, which can be principally explained by its expanding international loan book and the regulatory application of higher credit conversion factors for medium to long term trade-related contingent items. They, in fact, changed from a flat rate of 20% to a range of 20 – 100%, thus implying a higher risk-weighted assets in respect of related transactions. 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 17	**Jun 18**
	Rs m	**Rs m**
Capital base	**43,010**	**47,717**
Tier I	40,303	44,652
Tier 2	2,707	3,066
Risk-weighted assets	**248,665**	**302,868**
Capital adequacy (%)	**17.3**	**15.8**
of which Tier I	*16.2*	*14.7*

Risk-weighted assets by entity



Capital adequacy	MCB Ltd	MCB Seychelles	MCB Maldives	MCB Madagascar
	%	%	%	%
Capital adequacy ratio				
As at 30 June 2017	16.8	17.4	25.8	21.9
As at 30 June 2018	15.0	17.1	26.3	24.0
Tier I ratio				
As at 30 June 2017	15.8	14.9	21.4	21.9
As at 30 June 2018	14.2	14.6	18.0	24.0

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 cluster

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 for Mauritius (2016), 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.

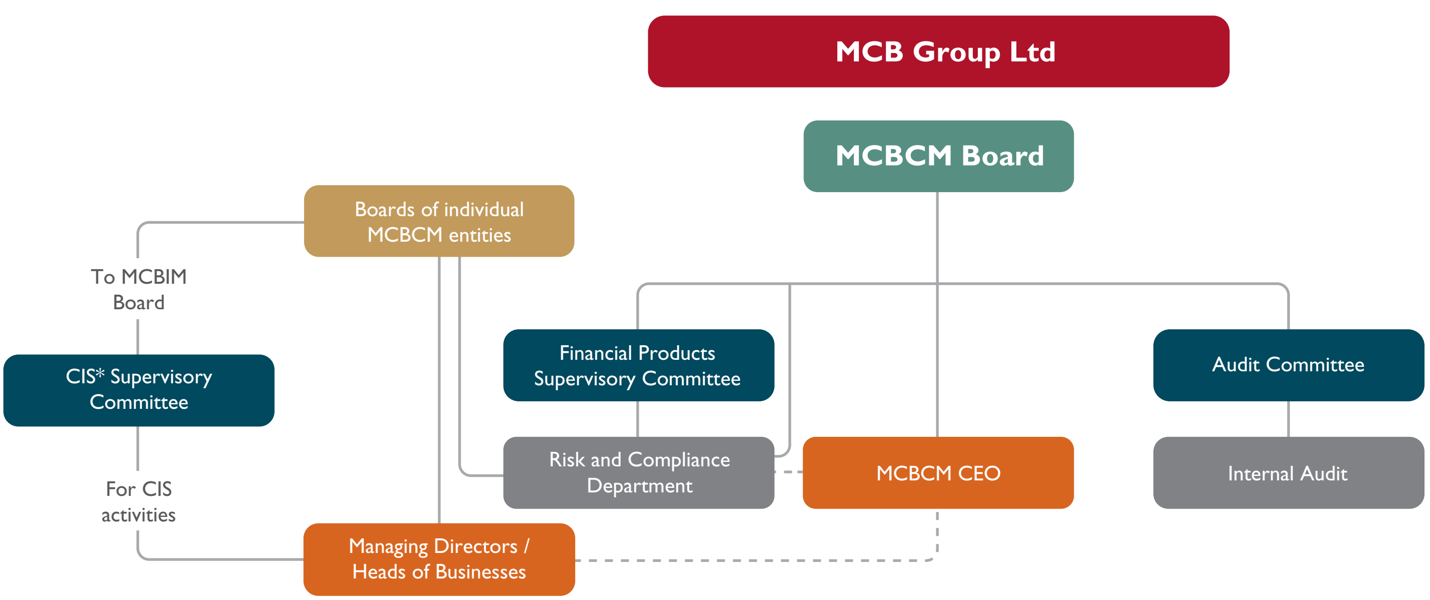
Day-to-day risk management is delegated to the management team of each subsidiary and to MCBCM's Risk & Compliance (R&C) section, whose primary responsibilities are as follows:

- 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 a direct reporting line to the Boards and sub-committees of MCBCM and its subsidiaries, as applicable and in line with best practice. 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.

The MCBCM governance framework is set out below.



* *Relates to Collective Investment Schemes*

Risk and capital management report

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:

- Regular review of applicable laws and regulations to identify compliance gaps;
- 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;
- Monitoring of changes to the legal and regulatory framework and initiation of corrective actions as relevant; and
- 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:

  - 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;
  - 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.

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.

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

Education

WHEN ALL IT TAKES IS… PLAYING CHESS

When first introduced, the concept sounded rather strange – introducing chess in schools to enhance mathematical skills, to help refine children's thought-process, to sharpen their focus? Who would have thought?

Chess was introduced in 2017, on a pilot basis, in primary schools. 12 schools have, as at now, included chess in their curriculum and the project is expected to extend to many more schools in the foreseeable future. Why? Simply because it helps children to not only focus but to perform better academically.

The "chess in schools project" is an important symbol of public-private partnership and is a powerful reminder of how far we can go if together, we shift our focus to what actually matters.

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 2018, 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 statements of financial position as at 30 June 2018;
• the statements of profit or loss for the year then ended;
• the statements of comprehensive income for the year then ended;
• the statements of changes in equity for the year then ended;
• the 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 and capital 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.

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

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 the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters relating to the consolidated financial statements	How our audit addressed the key audit matters relating to the consolidated financial statements
Impairment provisions on loans and advances to customers, and loans to and placements with banks Impairment provisions relating to loans and advances to customers, and loans to and placements with banks, as disclosed in note 6 to the consolidated financial statements, represent management's best estimates of the credit losses incurred within the loan portfolio as at 30 June 2018. They are calculated on a collective basis for portfolios of loans of a similar nature and on an individual basis for significant credit-impaired loans. The determination of both collective and individual impairment allowances is inherently judgemental and involves the application of critical accounting estimates by management, as disclosed in note 2(f) to the consolidated financial statements. Collective impairment allowances are calculated on loans using historical loan loss ratios by sector, adjusted for management estimates relating to the impact of current economic conditions, including any known adverse economic conditions likely to affect the financial performance of the relevant sectors. For specific impairment, 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. The audit was focused on impairment due to the materiality of the loan balances, associated impairment allowances and the subjective nature of the calculations.	• We tested a sample of movements in the loan loss ratios from prior year based on our understanding of the various sectors of the industry and their operational environment, by considering the basis for the adjustments, the rationale, the source data used and the key assumptions adopted. • We re-calculated the portfolio provision and tested the completeness and accuracy of the extraction of data used in the models, including the 'bucketing' by the relevant sectors. • We assessed 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. • We re-performed the calculation of specific impairment and independently assessed the appropriateness of the assumptions used, the provision methodologies and policies applied, and formed an independent view of the adequacy of the provision. • For specific impairment, where the cash flows of large credits include the net realisable value of collateral securing the credit, the value of such collateral takes into account the time taken to realisation and is based on the opinion of qualified appraisers. We assessed the objectivity and the qualifications of the appraisers. • We examined a sample of loans which had not been identified by management as impaired and formed our own judgement as to whether the latter were appropriate, using appropriate external evidence in respect of the relevant counterparties. • For collateral held, we inspected legal agreements on a sample basis and other supporting documentation to confirm the existence of and the legal rights to the relevant collaterals.

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 (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
IFRS 9 Transition Disclosure IFRS 9 'Financial Instruments' is effective for the Group for the financial year ending 30 June 2019 and replaces the existing financial instruments standard IAS 39 'Financial Instruments: Recognition and Measurement'. Refer to note 1 which provides the disclosures required by IAS 8 'Accounting Policies, Accounting Estimates and Errors', on the impact of the new standard in the 2018 financial statements. The disclosures are significantly less comprehensive than those which will be made in the 2019 financial statements. IFRS 9 requires the recognition of expected credit losses ('ECL') rather than incurred credit losses and is therefore a fundamentally different approach. Management is required to determine the expected credit loss that may occur over either a 12-month period or the remaining life of an asset, depending on the categorisation of the individual asset. This categorisation is determined by an assessment of whether there has been a significant increase in credit risk ('SICR') of the borrower since loan origination. It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. The calculation of ECLs in accordance with IFRS 9 is complex and involves a number of judgemental assumptions. Management has made a number of interpretations and assumptions when designing and implementing models that are compliant with the new standard. The models use risk parameters, such as loss given default ('LGD') and probability of default ('PD') to calculate an ECL based on past experience. Management applied judgement in situations where this past experience is not considered to be reflective of future outcomes due to limited or incomplete data.	• In evaluating the required disclosures of the impact of the adoption of IFRS 9, we considered, and where necessary (as described below) tested the governance over the project, the implementation of the necessary systems, processes, methodologies and controls of the Group. • We considered the disclosures made with regard to the impact that IFRS 9's classification and measurement requirements are expected to have on the Group's reserves as at 1 July 2018 based on our understanding of the new classification and measurement requirements of IFRS 9. • For the expected credit loss impairment model, we considered if the disclosure is consistent with our understanding of the requirements of IFRS 9 and the output of the Group's impairments models, based on the work we performed on the Group's readiness assessment as at 30 June 2018.

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 (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
This includes the use of proxy LGDs relating to corporate loans due to the limited level of historical loss data on the Group's portfolios. The following judgements are also key to the determination of the ECL: • Setting of appropriate thresholds for what represents a SICR; • The determination of forward looking macroeconomic scenarios and the probability weights applied to each; and • Assessment of model and data limitations and use of post model adjustments to address such risks.	
Tax Assessments As disclosed in note 21 to the consolidated financial statements, a subsidiary was subject to income tax assessments covering financial years ended 30 June 2007 to 2014 against which the subsidiary has initially objected. The basis of the assessments raised by the Mauritius Revenue Authority ("MRA") were around a number of areas and during the year, there have been advanced discussions between the subsidiary and the MRA in relation to some areas and an additional provision of Rs 258 million has been made as at 30 June 2018. This represents management's best estimate of additional tax payable including penalties and interests for all the years up to 30 June 2017 (excluding the upfront payment that was due at the time of objection of the respective assessments). In addition, the subsidiary received several assessments in the previous 5 years under the Value Added Tax Act for the periods beginning April 2006 to June 2015 against which the subsidiary has also objected.	• We assessed the adequacy of the provision and contingent liabilities in the accounts with respect to the tax assessments raised against the subsidiary by reviewing the underlying assumptions and calculations on which these were derived. • We examined correspondences between the subsidiary and the MRA. • We assessed the adequacy of the subsidiary's disclosures relating to the tax assessment. • We discussed with management to understand the basis of the provision made and the contingent liabilities disclosed. • We also involved our tax specialist to assess the adequacy of the tax provision and contingent liabilities and found that these were reasonable in the actual context.

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 (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
Management is of opinion that the likelihood of incurring additional payment to the MRA is low on the remaining areas where no agreement has yet been reached under the Income Tax and Valued Added Tax Acts. The maximum liability that could arise from these amounted to Rs 537 million and disclosure of these contingent liabilities is in note 21 to the consolidated financial statements. The assessments are still pending in front of the Assessment Review Committee. The determination of income tax provision and contingent liabilities is complex and requires management to use significant judgement and critical accounting estimates as disclosed in notes 2(g), 21 and 30 to the consolidated financial statements.	
Valuation of unquoted financial assets held at fair value The valuation of the Group's unquoted financial assets held at fair value was a key area of audit focus due to the significance of the amount and complexity involved in the valuation process. Management makes 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. The valuation of the level 3 investment securities are dependent on market conditions and key assumptions made. The determination of these assumptions is complex and requires the exercise of management judgement. See notes 2(d), 3(d) and 7(d) to the consolidated 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. • For the more judgemental valuations, which 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 consolidated financial statements. • We also involved our valuation experts to assess 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.

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)

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report 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.

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 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.

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)*

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 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 consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

Independent auditor's report

To the Shareholders of MCB Group Limited (Cont'd)

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.

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
27 September 2018

Gilles Beesoo
licensed by FRC

Statements of financial position
as at 30 June 2018

	Notes	GROUP 2018 RS'M	GROUP 2017 RS'M	COMPANY 2018 RS'M	COMPANY 2017 RS'M
ASSETS					
Cash and cash equivalents	4	**35,903.0**	35,711.4	**522.8**	-
Derivative financial instruments	5	**512.8**	479.7	**-**	-
Loans to and placements with banks	6(a)	**18,920.8**	25,716.3	**-**	-
Loans and advances to customers	6(b)	**199,298.2**	170,779.5	**-**	-
Investment securities	7	**88,747.4**	74,729.7	**200.0**	-
Investments in associates	8	**9,796.0**	9,552.3	**117.2**	109.7
Investments in subsidiaries	9	**-**	-	**10,799.6**	9,386.4
Investment properties	10	**2,861.1**	-	**-**	-
Goodwill and other intangible assets	11	**1,238.8**	949.4	**-**	-
Property, plant and equipment	12	**6,194.8**	6,196.8	**224.9**	226.8
Deferred tax assets	13	**285.8**	282.2	**-**	-
Other assets	14	**22,611.1**	20,812.4	**1,387.4**	1,374.5
Total assets		**386,369.8**	345,209.7	**13,251.9**	11,097.4
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposits from banks	15(a)	**3,157.7**	2,489.5	**-**	-
Deposits from customers	15(b)	**294,560.9**	272,373.8	**-**	-
Derivative financial instruments	5	**883.4**	401.7	**-**	-
Other borrowed funds	16	**14,372.5**	5,968.4	**-**	242.6
Subordinated liabilities	17(a)	**5,591.8**	5,587.0	**4,531.7**	4,535.0
Debt securities	17(b)	**2,012.7**	-	**2,012.7**	-
Current tax liabilities		**1,000.2**	905.9	**0.3**	-
Deferred tax liabilities	13	**236.4**	53.4	**0.1**	0.4
Other liabilities	19	**10,787.6**	9,093.4	**1,128.9**	1,063.7
Total liabilities		**332,603.2**	296,873.1	**7,673.7**	5,841.7
Shareholders' equity					
Stated capital		**2,547.9**	2,477.8	**2,547.9**	2,477.8
Retained earnings		**38,233.2**	34,761.0	**3,030.3**	2,777.9
Other components of equity		**10,525.1**	8,710.4	**-**	-
Equity attributable to the ordinary equity holders of the parent		**51,306.2**	45,949.2	**5,578.2**	5,255.7
Non-controlling interests		**2,460.4**	2,387.4	**-**	-
Total equity		**53,766.6**	48,336.6	**5,578.2**	5,255.7
Total equity and liabilities		**386,369.8**	345,209.7	**13,251.9**	11,097.4
CONTINGENT LIABILITIES					
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers		**59,872.2**	43,102.9		
Commitments		**6,446.1**	7,201.2		
Tax assessments		**537.1**	992.6		
Other		**1,440.4**	1,360.2		
	21	**68,295.8**	52,656.9		

These financial statements were approved for issue by the Board of Directors on the 27 September 2018.

Pierre Guy NOEL
Director
Chief Executive

Didier HAREL
Director
Chairperson

Sunil BANYMANDHUB
Director
Chairperson Audit Committee

The notes on pages 192 to 265 form part of these financial statements.
Auditor's report on pages 172 to 179.

Statements of profit or loss

for the year ended 30 June 2018

	Notes	GROUP Year ended 30 June 2018 RS'M	GROUP Year ended 30 June 2017 RS'M	COMPANY Year ended 30 June 2018 RS'M	COMPANY Year ended 30 June 2017 RS'M
Interest income	22	**15,112.9**	14,034.3	**2.3**	-
Interest expense	23	**(4,383.7)**	(4,478.0)	**(268.1)**	(246.2)
Net interest income		**10,729.2**	9,556.3	**(265.8)**	(246.2)
Fee and commission income	24	**4,547.6**	4,134.4	**-**	-
Fee and commission expense	25	**(1,114.6)**	(930.0)	**-**	-
Net fee and commission income		**3,433.0**	3,204.4	**-**	-
Other income					
Profit arising from dealing in foreign currencies		**2,391.7**	1,827.9	**-**	-
Net (loss)/gain from financial instruments carried at fair value	26	**(385.5)**	101.3	**-**	-
		2,006.2	1,929.2	**-**	-
Dividend income	27	**85.2**	88.8	**2,922.6**	2,841.4
Net gain on sale of securities		**226.7**	278.8	**-**	-
Other operating income		**470.5**	448.5	**-**	-
		2,788.6	2,745.3	**2,922.6**	2,841.4
Operating income		**16,950.8**	15,506.0	**2,656.8**	2,595.2
Non-interest expense					
Salaries and human resource costs	28(a)	**(3,813.6)**	(3,611.5)	**(90.9)**	(78.6)
Depreciation of property, plant and equipment		**(600.4)**	(551.8)	**(2.0)**	(1.9)
Amortisation of intangible assets		**(288.5)**	(281.6)	**-**	-
Other	28(b)	**(2,099.1)**	(1,943.3)	**(44.4)**	(33.8)
		(6,801.6)	(6,388.2)	**(137.3)**	(114.3)
Operating profit before impairment		**10,149.2**	9,117.8	**2,519.5**	2,480.9
Net impairment of financial assets	29	**(1,329.9)**	(1,063.8)	**-**	-
Operating profit		**8,819.3**	8,054.0	**2,519.5**	2,480.9
Share of profit of associates		**306.6**	338.2	**-**	-
Profit before tax		**9,125.9**	8,392.2	**2,519.5**	2,480.9
Income tax expense	30	**(1,884.6)**	(1,643.8)	**(0.1)**	-
Profit for the year		**7,241.3**	6,748.4	**2,519.4**	2,480.9
Profit for the year attributable to:					
Ordinary equity holders of the parent		**7,220.9**	6,702.1	**2,519.4**	2,480.9
Non-controlling interests		**20.4**	46.3	**-**	-
		7,241.3	6,748.4	**2,519.4**	2,480.9
Earnings per share:					
Basic (Rs)	32	**30.26**	28.12		
Diluted (Rs)	32	**30.26**	28.10		

The notes on pages 192 to 265 form part of these financial statements.
Auditor's report on pages 172 to 179.

Statements of comprehensive income

for the year ended 30 June 2018

	Note	GROUP Year ended 30 June 2018 RS'M	GROUP Year ended 30 June 2017 RS'M	COMPANY Year ended 30 June 2018 RS'M	COMPANY Year ended 30 June 2017 RS'M
Profit for the year		**7,241.3**	6,748.4	**2,519.4**	2,480.9
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Remeasurement of defined benefit pension plan, net of deferred tax	30(b)	**(235.1)**	287.1	**-**	-
Share of other comprehensive expense of associates		**(18.5)**	(120.9)	**-**	-
		(253.6)	166.2	**-**	-
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		**118.1**	(184.4)	**-**	-
Reclassification adjustments on disposal of available-for-sale investments		**(240.7)**	16.4	**-**	-
Net fair value gain on available-for-sale investments		**670.0**	432.1	**-**	-
Share of other comprehensive income of associates		**28.5**	242.8	**-**	-
		575.9	506.9	**-**	-
Other comprehensive income for the year		**322.3**	673.1	**-**	-
Total comprehensive income for the year		**7,563.6**	7,421.5	**2,519.4**	2,480.9
Total comprehensive income attributable to:					
Ordinary equity holders of the parent		**7,526.2**	7,272.2	**2,519.4**	2,480.9
Non-controlling interests		**37.4**	149.3	**-**	-
		7,563.6	7,421.5	**2,519.4**	2,480.9

The notes on pages 192 to 265 form part of these financial statements.
Auditor's report on pages 172 to 179.

Statements of changes in equity
for the year ended 30 June 2018

	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 01 July 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	31	-	(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		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 30 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**
Profit for the year		**-**	**7,220.9**	**-**	**-**	**-**	**-**	**7,220.9**	**20.4**	**7,241.3**
Other comprehensive (expense)/income for the year		**-**	**(232.3)**	**416.1**	**121.5**	**-**	**-**	**305.3**	**17.0**	**322.3**
Total comprehensive income for the year		**-**	**6,988.6**	**416.1**	**121.5**	**-**	**-**	**7,526.2**	**37.4**	**7,563.6**
Dividends	31	**-**	**(2,267.0)**	**-**	**-**	**-**	**-**	**(2,267.0)**	**(297.9)**	**(2,564.9)**
Unclaimed dividends pertaining to previous years		**-**	**27.1**	**-**	**-**	**-**	**-**	**27.1**	**-**	**27.1**
Impact of acquisition by subsidiary		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**326.3**	**326.3**
Impact of rights issue exercised by minority shareholders in subsidiary		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6.7**	**6.7**
Issue of shares following the exercise of Group Employee Share Options Scheme		**70.1**	**-**	**-**	**-**	**-**	**-**	**70.1**	**-**	**70.1**
Transactions with owners		**70.1**	**(2,239.9)**	**-**	**-**	**-**	**-**	**(2,169.8)**	**35.1**	**(2,134.7)**
Share of transfer by associate		**-**	**0.2**	**(0.2)**	**-**	**-**	**-**	**-**	**-**	**-**
Share of other movements in reserves of associate		**-**	**0.4**	**0.2**	**-**	**-**	**-**	**0.6**	**0.5**	**1.1**
Transfer to general banking reserve		**-**	**(256.7)**	**-**	**-**	**-**	**256.7**	**-**	**-**	**-**
Transfer to statutory reserve		**-**	**(1,020.4)**	**-**	**-**	**1,020.4**	**-**	**-**	**-**	**-**
At 30 June 2018		**2,547.9**	**38,233.2**	**3,770.0**	**(412.2)**	**5,980.8**	**1,186.5**	**51,306.2**	**2,460.4**	**53,766.6**

The notes on pages 192 to 265 form part of these financial statements.
Auditor's report on pages 172 to 179.

Statements of changes in equity

for the year ended 30 June 2018 (cont'd)

COMPANY	Note	Stated Capital RS'M	Retained Earnings RS'M	Total Equity RS'M
At 01 July 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	31	-	(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 30 June 2017		**2,477.8**	**2,777.9**	**5,255.7**
Profit for the year		**-**	**2,519.4**	**2,519.4**
Total comprehensive income for the year		**-**	**2,519.4**	**2,519.4**
Dividends	31	**-**	**(2,267.0)**	**(2,267.0)**
Issue of shares following the exercise of Group Employee Share Options Scheme		**70.1**	**-**	**70.1**
Transactions with owners		**70.1**	**(2,267.0)**	**(2,196.9)**
At 30 June 2018		**2,547.9**	**3,030.3**	**5,578.2**

The notes on pages 192 to 265 form part of these financial statements.
Auditor's report on pages 172 to 179.

Statements of cash flows

for the year ended 30 June 2018

	Notes	GROUP Year ended 30 June 2018 RS'M	GROUP Year ended 30 June 2017 RS'M	COMPANY Year ended 30 June 2018 RS'M	COMPANY Year ended 30 June 2017 RS'M
Operating activities					
Net cash flows from trading activities	34	**(4,303.6)**	894.0	**2,522.3**	2,179.6
Net cash flows from other operating activities	35	**6,937.0**	6,518.3	**-**	-
Dividends received from associates		**373.5**	305.1	**-**	-
Dividends paid		**(2,206.2)**	(2,084.4)	**(2,206.2)**	(2,084.4)
Dividends paid to non-controlling interests in subsidiaries		**(297.9)**	(40.8)	**-**	-
Income tax paid		**(1,689.8)**	(1,568.1)	**-**	-
Net cash flows from operating activities		**(1,187.0)**	4,024.1	**316.1**	95.2
Investing activities					
Investment in associate		**(198.5)**	(136.6)	**(7.5)**	(83.2)
Investment in subsidiaries		**-**	-	**(2.0)**	(83.2)
Net subordinated loan granted to subsidiaries		**-**	-	**(1,411.2)**	(50.0)
Investment in securities		**-**	-	**(200.0)**	-
Acquisition by subsidiary, net of cash acquired	36(b)	**(944.7)**	-	**-**	-
Purchase of investment property		**(569.4)**	-	**-**	-
Purchase of property, plant and equipment		**(674.8)**	(990.9)	**(0.1)**	(221.8)
Purchase of intangible assets		**(195.7)**	(345.0)	**-**	-
Proceeds from sale of property, plant and equipment		**62.5**	116.4	**-**	-
Net cash flows from investing activities		**(2,520.6)**	(1,356.1)	**(1,620.8)**	(438.2)
Net cash flows before financing activities		**(3,707.6)**	2,668.0	**(1,304.7)**	(343.0)
Financing activities					
Shares issued/employee share options exercised		**70.1**	51.0	**70.1**	51.0
Impact of right issue exercised by minority shareholders in subsidiary		**6.7**	-	**-**	-
Debt securities issued		**2,000.0**	-	**2,000.0**	-
Net cash flows from financing activities		**2,076.8**	51.0	**2,070.1**	51.0
(Decrease)/Increase in cash and cash equivalents		**(1,630.8)**	2,719.0	**765.4**	(292.0)
Net cash and cash equivalents at 01 July		**35,660.7**	33,215.1	**(242.6)**	49.4
Effect of foreign exchange rate changes		**33.4**	(273.4)	**-**	-
Net cash and cash equivalents at 30 June	4	**34,063.3**	35,660.7	**522.8**	(242.6)

The notes on pages 192 to 265 form part of these financial statements.
Auditor's report on pages 172 to 179.

General information

The MCB Group Limited ("the Company") was incorporated as a public company limited by shares on 05 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

These financial statements 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 are prepared under the historical cost convention, except for certain specific classes of Property, Plant and Equipment, namely agricultural land and factory buildings, which are carried at revalued amounts/deemed costs.

Standards, amendments to published Standards and interpretations effective in the reporting period

The following standards, amendments to published standards and interpretations are effective and applicable to the Group in the reporting period:

Amendments to published standards (effective as from 01 January 2017):
• Amendments to IAS 12, Recognition of Deferred Tax Assets for unrealised losses;
• Amendments to IAS 7 - Disclosure Initiative; and
• Annual improvements cycle 2014-2016 - Amendments to IFRS 12;

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 01 July 2017, but which the Group has not early adopted.

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)

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 01 January 2018;
• IFRS 9 Financial Instruments – effective 01 January 2018;
• IFRS 15 Revenue from Contracts with Customers – effective 01 January 2018;
• IFRS 16 Leases – effective 01 January 2019;
• IFRS 17 Insurance Contracts - effective 01 January 2021;
• IFRIC 22 Foreign Currency Transactions and Advance Consideration – effective 01 January 2018;
• Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between investor and its associate or joint venture;
• IFRIC 23 Uncertainty over Income Tax Treatments – effective 01 January 2019; and
• Annual Improvements 2014 – 2016 Cycle - effective 01 January 2018.

Where relevant, the Group is still evaluating the effect of these Standards, amendments to published Standards and interpretations on the financial statements.

IFRS 2 Share-based payment Amendment on clarifying share-based payment transactions– effective 01 January 2018;

No material impact is expected on the financial statements.

IFRS 9 Financial Instruments - effective 01 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.

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 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'.

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)

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.

The adoption of IFRS 9 at 1 July 2018, by applying the accounting policies and ECL measurement methodologies outlined above, is not expected to have a material impact when compared to our existing portfolio provisions and other loan-loss reserves.

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.

IFRS 15 Revenue from Contracts with Customers – effective 01 January 2018

No material impact is expected on the financial statements.

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 previously held equity interest in the acquiree over (b) the net of the acquisition-date amounts of identifiable assets acquired and the liabilities and contingent 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 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 subsidiaries companies are carried at cost. In subsequent years, 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). In subsequent years, 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 forward contracts, currency swaps and interest rate 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 as '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)

(l) 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 carried at amortised cost 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 classified as available-for-sale 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.

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.

1. Significant accounting policies (Cont'd)

(m) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(n) Goodwill

The excess of the consideration transferred, the 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.

(o) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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)

(p) 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.

(q) 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.

(r) Accounting for leases - where the subsidiary 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.

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.

1. Significant accounting policies (Cont'd)

(s) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and balances with Central Banks, treasury bills 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.

(t) 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.

(u) 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.

(v) 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

Short term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

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)

(v) Employee benefits (Cont'd)

(ii) Defined benefit plans

Gratuity on retirement

For employees who are not covered (or who are insufficiently covered by the above pension plans), the net present value of gratuity on retirement payable under the Employment Rights Act 2008 (Amended) is calculated by a qualified actuary and provided for. The obligations arising under this item are not funded.

Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

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 18 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 01 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 30 June 2015 in the DB scheme and join the DCCB scheme as from 01 July 2015.

Option C: To join the DCCB scheme as from 01 July 2015 and transfer the total accrued benefits as at 30 June 2015 from the DB scheme into the DCCB scheme.

1. Significant accounting policies (Cont'd)

(w) 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.

(i) 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.

(ii) 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 substantively 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.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary difference can be utilised.

(x) 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.

(y) 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 is declared.

(z) 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.

(aa) 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 segments and assess their performance, and for which discrete financial information are available.

Detailed analysis of segment reporting are shown in note 37 to the financial statements.

1. Significant accounting policies (Cont'd)

(ab) Stated capital

(i) Ordinary shares are classified as equity.

(ii) Share issue costs are 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.

(ac) 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.

(ad) 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).

(ae) 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 28 (c).

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.

(af) Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year.

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.

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, the directors consider 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.

Additionals disclosure on Pension benefits are shown in Note 18.

(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.

2. Critical accounting estimates and judgements (Cont'd)

(e) Asset lives and residual values

Property, plant and equipment are depreciated over their useful lives 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

(i) 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.

(ii) Portfolio provisioning

In assessing the portfolio provisioning, the directors consider 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.

(g) Provision for tax assessment

In assessing the provision for tax assessment, directors consider the likelihood of an outflow of resources based on discussions with the Mauritius Revenue Authority (MRA).

(h) Significant influence in Banque Française Commerciale Ocean Indien

The Group holds 49.99% of Banque Française Commerciale Ocean Indien (BFCOI) and it is considered as an associate. The directors consider that the Group only has significant influence over BFCOI since it does not have the practical ability to control the relevant activities of BFCOI.

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.

Credit quality	GROUP	
	2018 RS'M	2017 RS'M
Neither past due nor impaired	**205,977.1**	165,764.0
Past due but not impaired	**2,392.0**	2,149.3
Impaired	**9,733.8**	10,881.8
Gross	**218,102.9**	178,795.1
Less Allowances for credit impairment	**(6,868.1)**	(6,257.6)
Net	**211,234.8**	172,537.5
Fair Value of collaterals of past due but not impaired loans	**3,550.8**	2,522.0
Fair Value of collaterals of impaired loans	**8,383.4**	12,841.0

The Bank regards "Past due but not impaired" for amounts due for more than 60 days.

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

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 ratings have been aligned to the three quality classifications based upon the mapping of related Customer Risk Rating ("CRR") to external credit ratings. 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.

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:

	GROUP			
	Cash and cash equivalents	Cash and cash equivalents	Loans and placements with banks	Loans and placements with banks
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
Credit rating:				
Aaa to Aa3	**2,258.4**	11,802.4	**-**	1,308.9
A1 to A3	**6,442.2**	10,127.1	**780.6**	6,070.3
B1 to B3	**-**	-	**1,667.5**	689.8
Ba1 to Ba3	**1,300.1**	1,640.4	**1,502.7**	-
Baa1 to Baa3	**20,225.8**	6,874.5	**14,562.3**	17,040.1
Caa1 to Caa3	**-**	172.5	**-**	-
Unrated	**3,861.4**	876.9	**887.6**	809.8
Total gross amount	**34,087.9**	31,493.8	**19,400.7**	25,918.9
Allowance for impairment (individual and collective)	**-**	-	**(135.0)**	(6.4)
Net carrying amount	**34,087.9**	31,493.8	**19,265.7**	25,912.5
Subsidiaries, net of eliminations	**(782.3)**	1,434.3	**(344.9)**	(196.2)
	33,305.6	32,928.1	**18,920.8**	25,716.3

Age analysis of loans and advances that are past due but not impaired

	GROUP	
	2018 RS'M	2017 RS'M
Up to 3 months	**2,194.6**	1,762.3
Over 3 months and up to 6 months	**90.8**	226.7
Over 6 months and up to 1 year	**46.9**	109.5
Over 1 year	**59.7**	50.8
	2,392.0	2,149.3

Loan and advances restructured

	GROUP	
	2018 RS'M	2017 RS'M
Loan and advances restructured	**9,786.3**	13,390.0
out of which impaired	***1,478.2***	*1,781.5*

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	
	2018 RS'M	2017 RS'M
Credit risk exposures relating to on - balance sheet assets are as follows:		
Cash and cash equivalents	**33,305.6**	32,928.1
Derivative financial instruments	**512.8**	479.7
Loans to and placements with banks	**18,920.8**	25,716.3
Loans and advances to customers	**199,298.2**	170,779.5
Investment securities	**88,747.4**	74,729.7
Other financial assets	**17,948.3**	16,695.7
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	**59,872.2**	43,102.9
Commitments	**6,446.1**	7,201.2
Total	**425,051.4**	371,633.1

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	
	2018 RS'M	**2017 RS'M**
Available-for-sale financial assets	**397.4**	390.7

(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 30 June	Average	Maximum	Minimum
2018 (RS'M)	**(34.6)**	**(40.1)**	**(60.4)**	**(20.7)**
2017 (RS'M)	(39.0)	(29.6)	(39.0)	(21.6)

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 30 June 2018 Financial assets	EURO RS'M	USD RS'M	GBP RS'M	MUR RS'M	OTHER RS'M	TOTAL RS'M
Cash and cash equivalents	5,676.1	16,742.0	1,166.2	8,578.3	1,925.3	34,087.9
Derivative financial instruments	25.6	-	-	70.2	-	95.8
Loans to and placements with banks	863.2	5,367.4	-	12,027.4	1,142.6	19,400.6
Loans and advances to customers	22,252.0	64,186.3	893.7	107,006.4	106.4	194,444.8
Investment securities	1,456.0	1,585.4	155.4	78,641.7	95.9	81,934.4
Other financial assets	642.1	1,421.1	200.6	15,553.2	131.3	17,948.3
	30,915.0	89,302.2	2,415.9	221,877.2	3,401.5	347,911.8
Less allowances for credit impairment						(6,060.7)
						341,851.1
Subsidiaries, net of eliminations						19,479.4
Total						361,330.5
Financial liabilities						
Deposits from banks	1,551.7	4,295.4	418.7	243.7	79.2	6,588.7
Deposits from customers	26,674.3	60,250.9	5,283.6	182,937.0	3,797.3	278,943.1
Derivative financial instruments	1.6	-	-	405.4	-	407.0
Other borrowed funds	2,917.3	11,268.5	-	2.6	0.2	14,188.6
Subordinated liabilities	-	1,060.2	-	4,531.6	-	5,591.8
Debt securities	-	-	-	2,012.7	-	2,012.7
Other financial liabilities	169.2	196.3	37.1	1,379.9	21.3	1,803.8
	31,314.1	77,071.3	5,739.4	191,512.9	3,898.0	309,535.7
Subsidiaries, net of eliminations						16,380.8
Total						325,916.5
Net on-balance sheet position	(399.1)	12,230.9	(3,323.5)	30,364.3	(496.5)	38,376.1
Less allowances for credit impairment						(6,060.7)
Subsidiaries, net of eliminations						3,098.6
						35,414.0
Off balance sheet net notional position	6,701.7	13,718.2	420.0	-	482.0	21,321.9
Credit commitments	3,179.0	44,215.4	45.5	15,742.0	747.6	63,929.5
Subsidiaries						6,331.5
						91,582.9

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 30 June 2017 Financial assets	EURO RS'M	USD RS'M	GBP RS'M	MUR RS'M	OTHER RS'M	TOTAL 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	12,849.0	48,180.7	984.9	103,549.2	59.7	165,623.5
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	14,397.1	114.6	16,695.7
	28,139.2	75,661.2	8,215.0	196,660.4	2,717.7	311,393.5
Less allowances for credit impairment						(5,659.9)
						305,733.6
Subsidiaries, net of eliminations						18,378.7
Total						**324,112.3**
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	245.7	156.4	161.8	879.2	20.8	1,463.9
	28,140.0	66,264.8	4,583.6	172,030.6	5,608.6	276,627.6
Subsidiaries, net of eliminations						15,051.3
Total						**291,678.9**
Net on-balance sheet position	(0.8)	9,396.4	3,631.4	24,629.8	(2,890.9)	34,765.9
Less allowances for credit impairment						(5,659.9)
Subsidiaries, net of eliminations						3,327.4
						32,433.4
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						6,267.0
						82,746.5

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	
	2018 RS'M	2017 RS'M
Impact on Earnings	**836.6**	772.6

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 At 30 June 2018 Financial assets	Up to 1 month RS'M	1-3 months RS'M	3-6 months RS'M	6-12 months RS'M	1-3 years RS'M	Over 3 years RS'M	Non-interest bearing RS'M	Total RS'M
Cash and cash equivalents	2,260.9	-	-	-	-	-	31,827.0	34,087.9
Derivative financial instruments	-	-	-	-	-	16.9	78.9	95.8
Loans to and placements with banks	1,998.1	2,681.0	1,615.9	11,940.9	799.5	121.7	243.5	19,400.6
Loans and advances to customers	115,333.3	34,230.3	7,235.9	10,625.0	11,632.7	12,191.9	3,195.7	194,444.8
Investment securities	5,259.3	9,852.1	8,877.7	15,006.8	18,663.5	20,885.5	3,389.5	81,934.4
Other financial assets	-	-	-	-	3.5	-	17,944.8	17,948.3
	124,851.6	46,763.4	17,729.5	37,572.7	31,099.2	33,216.0	56,679.4	347,911.8
Less allowances for credit impairment								(6,060.7)
								341,851.1
Subsidiaries, net of eliminations								19,479.4
Total								361,330.5
Financial liabilities								
Deposits from banks	4,144.5	909.5	908.8	-	-	-	625.9	6,588.7
Deposits from customers	233,609.9	2,712.6	781.5	1,534.7	1,160.7	3,862.4	35,281.3	278,943.1
Derivative financial instruments	-	-	-	-	-	-	407.0	407.0
Other borrowed funds	3,648.2	8,864.0	722.2	2.5	10.7	855.8	85.2	14,188.6
Subordinated liabilities	-	1,042.8	-	-	-	4,500.0	49.0	5,591.8
Debt securities	-	-	-	-	-	2,000.0	12.7	2,012.7
Other financial liabilities	-	-	-	-	-	-	1,803.8	1,803.8
	241,402.6	13,528.9	2,412.5	1,537.2	1,171.4	11,218.2	38,264.9	309,535.7
Subsidiaries net of eliminations								16,380.8
Total								325,916.5
Net on balance sheet interest sensitivity gap	(116,551.0)	33,234.5	15,317.0	36,035.5	29,927.8	21,997.8	18,414.5	38,376.1
Less allowances for credit impairment								(6,060.7)
Subsidiaries, net of eliminations								3,098.6
								35,414.0

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 At 30 June 2017 Financial assets	Up to 1 month RS'M	1-3 months RS'M	3-6 months RS'M	6-12 months RS'M	1-3 years RS'M	Over 3 years RS'M	Non-interest bearing RS'M	Total 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	2,549.7	165,623.5
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	16,289.0	16,695.7
	134,740.0	48,574.6	22,888.5	18,233.9	17,174.9	31,771.9	38,009.7	311,393.5
Less allowances for credit impairment								(5,659.9)
								305,733.6
Subsidiaries, net of eliminations								18,378.7
Total								**324,112.3**
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	1,208.9	1,463.9
	236,988.1	3,223.0	2,908.7	1,363.1	1,437.8	7,360.9	23,346.0	276,627.6
Subsidiaries, net of eliminations								15,051.3
Total								**291,678.9**
Net on balance sheet interest sensitivity gap	(102,248.1)	45,351.6	19,979.8	16,870.8	15,737.1	24,411.0	14,663.7	34,765.9
Less allowances for credit impairment								(5,659.9)
Subsidiaries, net of eliminations								3,327.4
								32,433.4

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 Bank 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 Bank .

Maturities of assets and liabilities

GROUP At 30 June 2018 Financial assets	Up to 1 month RS'M	1-3 months RS'M	3-6 months RS'M	6-12 months RS'M	1-3 years RS'M	Over 3 years RS'M	Non-maturity items RS'M	Total RS'M
Cash and cash equivalents	14,483.3	-	-	-	-	-	19,183.7	33,667.0
Derivative financial instruments	-	(0.7)	1.4	(3.3)	(4.3)	1.7	78.9	73.7
Loans to and placements with banks	910.6	2,412.6	2,275.7	12,578.9	1,415.0	211.4	33.2	19,837.4
Loans and advances to customers	32,943.7	18,416.7	7,800.0	15,723.3	51,621.4	103,064.4	18,814.6	248,384.1
Investment securities	3,823.6	10,170.3	9,012.2	15,198.7	22,122.5	30,532.9	2,642.0	93,502.2
Other financial assets	-	-	-	-	-	-	17,948.3	17,948.3
	52,161.2	30,998.9	19,089.3	43,497.6	75,154.6	133,810.4	58,700.7	413,412.7
Less allowances for credit impairment								(6,060.7)
								407,352.0
Subsidiaries, net of eliminations								19,479.4
Total								426,831.4
Financial liabilities								
Deposits from banks	4,762.7	917.2	918.2	-	-	-	-	6,598.1
Deposits from customers	245,096.1	5,117.3	3,192.5	7,233.7	12,098.0	7,851.4	-	280,589.0
Derivative financial instruments	-	-	-	-	-	-	407.0	407.0
Other borrowed funds	2,325.7	6,728.4	305.4	1,000.0	2,550.9	1,174.0	-	14,084.4
Subordinated liabilities	-	21.0	-	134.9	512.2	5,493.0	-	6,161.1
Debt securities	-	-	-	-	-	2,012.7	-	2,012.7
Other financial liabilities	-	-	-	-	-	-	1,803.8	1,803.8
	252,184.5	12,783.9	4,416.1	8,368.6	15,161.1	16,531.1	2,210.8	311,656.1
Subsidiaries, net of eliminations								16,380.8
Total								328,036.9
Net liquidity gap	(200,023.3)	18,215.0	14,673.2	35,129.0	59,993.5	117,279.3	56,489.9	101,756.6
Less allowances for credit impairment								(6,060.7)
Subsidiaries, net of eliminations								3,098.6
								98,794.5

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iv) Liquidity risk (Cont'd)

Maturities of assets and liabilities

GROUP **At 30 June 2017** **Financial assets**	**Up to 1 month** **RS'M**	**1-3 months** **RS'M**	**3-6 months** **RS'M**	**6-12 months** **RS'M**	**1-3 years** **RS'M**	**Over 3 years** **RS'M**	**Non-maturity items** **RS'M**	**Total** **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	11,024.1	11,262.0	42,818.9	92,629.0	8,269.6	220,674.4
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	16,289.0	16,695.7
	80,187.4	27,937.6	25,911.0	29,528.5	58,607.6	114,539.0	30,044.4	366,755.5
Less allowances for credit impairment								(5,659.9)
								361,095.6
Subsidiaries, net of eliminations								18,378.7
Total								**379,474.3**
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	1,208.9	1,463.9
	228,313.0	6,043.7	4,610.2	7,539.3	13,832.0	17,730.9	1,229.3	279,298.4
Subsidiaries, net of eliminations								15,051.3
Total								**294,349.7**
Net liquidity gap	(148,125.6)	21,893.9	21,300.8	21,989.2	44,775.6	96,808.1	28,815.1	87,457.1
Less allowances for credit impairment								(5,659.9)
Subsidiaries, net of eliminations								3,327.4
								85,124.6

Other disclosures on financial risk management are available in the Risk and Capital 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 an 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 forward 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 and Capital 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 30 June 2018							
Financial assets							
Cash and cash equivalents	-	35,903.0	-	-	-	-	35,903.0
Derivative financial instruments	-	-	-	512.8	-	-	512.8
Loans to and placements with banks	-	18,920.8	-	-	-	-	18,920.8
Loans and advances to customers	-	199,298.2	-	-	-	-	199,298.2
Investment securities	56,450.2	-	7,947.0	24,232.4	117.8	-	88,747.4
Other financial assets	-	17,948.3	-	-	-	-	17,948.3
Total	56,450.2	272,070.3	7,947.0	24,745.2	117.8	-	361,330.5
Financial liabilities							
Deposits from banks	-	-	-	-	-	3,157.7	3,157.7
Deposits from customers	-	-	-	-	-	294,560.9	294,560.9
Derivative financial instruments	-	-	-	883.4	-	-	883.4
Other borrowed funds	-	-	-	-	-	14,372.5	14,372.5
Subordinated liabilities	-	-	-	-	-	5,591.8	5,591.8
Debts securities	-	-	-	-	-	2,012.7	2,012.7
Other financial liabilities	-	-	-	-	-	5,337.5	5,337.5
Total	-	-	-	883.4	-	325,033.1	325,916.5
Net on-balance sheet position	56,450.2	272,070.3	7,947.0	23,861.8	117.8	(325,033.1)	35,414.0

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 30 June 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	-	170,779.5	-	-	-	-	170,779.5
Investment securities	57,345.2	-	7,814.3	9,568.6	1.6	-	74,729.7
Other financial assets	-	16,695.7	-	-	-	-	16,695.7
Total	57,345.2	248,902.9	7,814.3	10,048.3	1.6	-	324,112.3
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	-	-	-	-	-	4,858.5	4,858.5
Total	-	-	-	401.7	-	291,277.2	291,678.9
Net on-balance sheet position	57,345.2	248,902.9	7,814.3	9,646.6	1.6	(291,277.2)	32,433.4

4. Cash and cash equivalents

	GROUP		COMPANY	
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
Cash in hand	**2,436.6**	2,631.2	**522.8**	-
Foreign currency notes and coins	**160.8**	152.1	**-**	-
Unrestricted balances with Central Banks*	**19,374.4**	3,764.2	**-**	-
Balances due in clearing	**425.4**	590.9	**-**	-
Balances with local banks	**446.3**	12.1	**-**	-
Treasury bills held for trading	**210.9**	-	**-**	-
Money market placements	**419.5**	18,816.9	**-**	-
Balances with banks abroad	**10,378.9**	9,571.4	**-**	-
Interbank loans**	**2,050.2**	172.6	**-**	-
	35,903.0	35,711.4	**522.8**	-

* 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	
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
Cash and cash equivalents	**35,903.0**	35,711.4	**522.8**	-
Other borrowed funds (note 16(a))	**(1,839.7)**	(50.7)	**-**	(242.6)
Net cash and cash equivalents	**34,063.3**	35,660.7	**522.8**	(242.6)
Change in year	**(1,597.4)**	2,445.6	**765.4**	(292.0)

5. Derivative financial instruments

The Group utilises the following derivative financial 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			
At 30 June 2018			
Currency forwards	**9,160.0**	**65.1**	**75.2**
Interest rate swaps	**52.7**	**8.7**	**2.8**
Currency swaps	**11,731.6**	**20.9**	**329.0**
Warrants	**3,942.8**	**417.0**	**476.4**
Others	**329.4**	**1.1**	**-**
	25,216.5	**512.8**	**883.4**
At 30 June 2017			
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	137.7	0.5	-
	33,103.6	479.7	401.7

6. Loans

(a) Loans to and placements with banks

	GROUP	
	2018 RS'M	2017 RS'M
(i) Loans to and placements with banks		
in Mauritius	**14,514.0**	7,926.3
outside Mauritius	**17,836.7**	46,369.4
	32,350.7	54,295.7
Less:		
Loans and placements with original maturity less than 3 months and included in cash and cash equivalents	**(13,294.9)**	(28,573.0)
	19,055.8	25,722.7
Less:		
Allowances for credit impairment	**(135.0)**	(6.4)
	18,920.8	25,716.3
(ii) Remaining term to maturity		
Up to 3 months	**3,074.1**	10,234.6
Over 3 months and up to 6 months	**2,226.3**	8,204.5
Over 6 months and up to 1 year	**12,095.7**	6,239.1
Over 1 year and up to 5 years	**1,519.1**	1,043.0
Over 5 years	**140.6**	1.5
	19,055.8	25,722.7

(iii) Allowances for credit impairment

	GROUP		
	Specific RS'M	Portfolio RS'M	Total RS'M
At 01 July 2017	**-**	**6.4**	**6.4**
Provision for credit impairment for the year	**205.1**	**32.2**	**237.3**
Amount written off	**(173.8)**	**-**	**(173.8)**
At 30 June 2018	**31.3**	**38.6**	**69.9**
Interest in suspense	**65.1**	**-**	**65.1**
Provision and interest in suspense at 30 June 2018	**96.4**	**38.6**	**135.0**
At 01 July 2016	-	17.9	17.9
Provision released during the year	-	(11.5)	(11.5)
Provision at 30 June 2017	-	6.4	6.4

6. Loans (Cont'd)

(b) Loans and advances to customers

	GROUP	
	2018 RS'M	2017 RS'M
(i) Loans and advances to customers		
Retail customers:		
Credit cards	**1,044.0**	699.5
Mortgages	**27,500.7**	25,301.9
Other retail loans	**14,158.0**	13,396.8
Corporate customers	**111,359.5**	102,572.1
Governments	**2,240.8**	1,377.1
Entities outside Mauritius	**49,678.4**	33,679.4
	205,981.4	177,026.8
Less:		
Allowances for credit impairment	**(6,683.2)**	(6,247.3)
	199,298.2	170,779.5

Finance lease receivable included in Group loans amounts to Rs 3,502 million as at 30 June 2018 (2017: Rs 3,802 million).

(ii) Remaining term to maturity

	2018 RS'M	2017 RS'M
Up to 3 months	**53,651.2**	46,264.4
Over 3 months and up to 6 months	**7,218.8**	4,860.3
Over 6 months and up to 1 year	**2,721.1**	3,880.1
Over 1 year and up to 5 years	**61,726.7**	44,103.6
Over 5 years	**80,663.6**	77,918.4
	205,981.4	177,026.8

(iii) Allowances for credit impairment

	GROUP		
	Specific RS'M	Portfolio RS'M	Total RS'M
At 01 July 2017	**2,236.7**	**1,194.3**	**3,431.0**
Exchange adjustment	**21.5**	**-**	**21.5**
Provision for credit impairment for the year	**953.1**	**124.1**	**1,077.2**
Provision released during the year	**(81.2)**	**-**	**(81.2)**
Amounts written off	**(440.1)**	**-**	**(440.1)**
At 30 June 2018	**2,690.0**	**1,318.4**	**4,008.4**
Interest in suspense	**2,674.8**	**-**	**2,674.8**
Provision and interest in suspense at 30 June 2018	**5,364.8**	**1,318.4**	**6,683.2**
At 01 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 30 June 2017	2,236.7	1,194.3	3,431.0
Interest in suspense	2,816.3	-	2,816.3
Provision and interest in suspense at 30 June 2017	5,053.0	1,194.3	6,247.3

6. Loans (Cont'd)

(b) Loans and advances to customers (Cont'd)

(iv) Allowances for credit impairment by industry sectors

	GROUP					
	2018					2017
	Gross amount of loans	Non performing loans	Specific provision and Interest in suspense	Portfolio provision	Total provision	Total provision
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Agriculture and fishing	8,786.1	675.3	318.2	55.1	373.3	289.5
Manufacturing	11,720.2	486.1	206.5	162.1	368.6	356.3
of which EPZ	*4,877.0*	*89.4*	*46.7*	*43.6*	*90.3*	*55.7*
Tourism	26,857.1	831.7	577.6	74.1	651.7	668.2
Transport	5,734.5	1,529.6	927.0	48.8	975.8	651.9
Construction	16,823.3	1,462.4	915.1	174.9	1,090.0	1,064.6
Financial and business services	28,174.5	239.7	82.7	90.7	173.4	156.1
Traders	41,031.5	1,960.6	748.8	233.6	982.4	890.0
Personal	40,554.7	1,525.7	778.9	242.5	1,021.4	1,262.6
of which credit cards	*1,120.2*	*22.5*	*19.9*	*21.4*	*41.3*	*39.4*
of which housing	*27,500.7*	*787.6*	*311.8*	*123.0*	*434.8*	*524.3*
Professional	1,176.2	300.8	183.7	18.8	202.5	68.6
Foreign governments	2,240.8	-	-	-	-	-
Global Business Licence holders	15,928.2	428.5	460.1	168.6	628.7	496.5
Others	6,954.3	293.4	166.2	49.2	215.4	343.0
	205,981.4	9,733.8	5,364.8	1,318.4	6,683.2	6,247.3

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 10% of its Tier 1 capital (2017: 15% of its capital base), classified by industry sectors.

	GROUP	
	2018 RS'M	2017 RS'M
Agriculture and fishing	**2,670.3**	2,022.3
Manufacturing	**2,712.9**	369.7
of which EPZ	***1,298.3***	*81.8*
Tourism	**17,349.1**	364.0
Transport	**93.7**	70.1
Construction	**7,574.6**	4,289.1
Financial and business services	**19,704.2**	3,420.8
Traders	**14,583.0**	12,596.6
Global Business Licence holders	**16,176.7**	14,049.9
Others	**184.1**	45.6
	81,048.6	37,228.1

7. Investment securities

(a) Investment securities

	COMPANY
	2018
	RS'M
The company invested in 5.5% non-voting non-cumulative preference shares issued by Finlease Ltd which are classified available-for-sale.	**200.0**

	GROUP	
	2018 RS'M	**2017 RS'M**
Held-to-maturity	**56,500.1**	57,349.1
Held-for-trading	**24,232.4**	9,568.6
Available-for-sale	**7,947.0**	7,814.3
At fair value through profit or loss	**117.8**	1.6
	88,797.3	74,733.6
Less:		
Allowance for impairment of investment securities	**(49.9)**	(3.9)
	88,747.4	74,729.7

At fair value through profit or loss comprise financial instruments including investments in unquoted overseas collective investment scheme.

(b) (i) Held-to-maturity

Government of Mauritius and Bank of Mauritius bonds	**42,824.6**	41,906.1
Treasury bills	**5,009.1**	12,947.7
Foreign bonds	**1,409.4**	1,567.6
Notes	**7,049.1**	654.8
Other	**207.9**	272.9
	56,500.1	57,349.1

(ii) Remaining term to maturity

	2018					
	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	**773.4**	**1,812.8**	**6,259.8**	**24,147.2**	**9,831.4**	**42,824.6**
Treasury bills	**1,390.4**	**1,674.4**	**1,802.2**	**89.9**	**52.2**	**5,009.1**
Foreign bonds	**175.0**	**406.2**	**157.8**	**670.4**	**-**	**1,409.4**
Notes	**-**	**-**	**-**	**2,956.3**	**4,092.8**	**7,049.1**
Other	**-**	**-**	**-**	**52.1**	**155.8**	**207.9**
	2,338.8	**3,893.4**	**8,219.8**	**27,915.9**	**14,132.2**	**56,500.1**

	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
Notes	-	-	-	252.3	402.5	654.8
Other	-	-	-	101.6	171.3	272.9
	9,991.2	5,513.9	8,999.1	22,855.2	9,989.7	57,349.1

7. Investment securities (Cont'd)

(c) (i) Held-for-trading

	GROUP 2018 RS'M	GROUP 2017 RS'M
Treasury bills		
Less than 3 months	**11,633.6**	2,108.0
Over 3 months and up to 6 months	**5,110.3**	1,949.8
Over 6 months and up to 12 months	**6,429.7**	3,312.6
Government of Mauritius and Bank of Mauritius bonds	**1,058.8**	1,689.0
Foreign bonds	**-**	509.2
	24,232.4	9,568.6
Quoted - Level 1		
Foreign bonds	**-**	509.2
Unquoted - Level 2		
Government of Mauritius & Bank of Mauritius bonds	**1,058.9**	1,689.1
Treasury bills	**23,173.5**	7,370.3
	24,232.4	9,059.4
	24,232.4	9,568.6

(d) (i) Available-for-sale

	GROUP 2018 RS'M	GROUP 2017 RS'M
Quoted - Level 1		
Official list : shares	**1,080.1**	1,823.3
Bonds	**1,354.8**	1,480.8
Development and Enterprise Market : shares	**665.5**	570.7
Foreign shares	**1,419.9**	967.1
Investment fund	**-**	174.3
	4,520.3	5,016.2
Unquoted - Level 2		
Investment fund	**714.4**	514.1
Inflation - indexed Government of Mauritius bonds	**205.7**	-
	920.1	514.1
Unquoted - Level 3		
Shares	**2,441.2**	1,971.1
Debts	**65.4**	104.1
Inflation - indexed Government of Mauritius bonds	**-**	208.8
	2,506.6	2,284.0
	7,947.0	7,814.3

(d) (ii) Reconciliation of level 3 fair value measurement

	GROUP RS'M
At 01 July 2016	2,777.4
Additions	15.0
Disposals	(265.4)
Fair value	(26.7)
Transfers to level 2	(205.5)
Exchange adjustments	(10.8)
At 30 June 2017	**2,284.0**
Additions	**595.9**
Disposals	**(200.5)**
Fair value	**31.5**
Transfers to level 2	**(205.7)**
Exchange adjustments	**1.4**
At 30 June 2018	**2,506.6**

The book value approximates the fair value at the end of the reporting year.

A 10% change in management estimates would affect the fair value by about Rs 250.7M.

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
2018					
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**	**Republic of Mauritius**	**0.13**	**46.33**
Caudan Development Ltd	**Property development, investment and provision of security services**	**Mauritius**	**Republic of Mauritius**	**4.81**	**38.06**
Credit Guarantee Insurance Co Ltd	**Insurance services**	**Mauritius**	**Republic of Mauritius**	**40.00**	**-**
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	Republic of Mauritius	0.13	46.35
Caudan Development Ltd	Property development, investment and provision of security services	Mauritius	Republic of Mauritius	4.46	38.07
Credit Guarantee Insurance Co Ltd	Insurance services	Mauritius	Republic of 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 Co Ltd are unquoted.
The other associates are quoted and the market value of the quoted associates was based on SEM bid price at 30 June as follows:
Promotion and Development Ltd : Rs 2,029.9M (2017:Rs 2,111.1 M)
Caudan Development Ltd : Rs 115.3 M (2017: Rs 112.1 M)

	GROUP	
	2018	2017
	RS'M	RS'M
Group's share of net assets	**9,017.0**	8,794.4
Goodwill	**56.9**	56.9
Subordinated loans to associate	**722.1**	701.0
	9,796.0	9,552.3

8. Investments in associates (Cont'd)

(b) Summarised financial information in respect of material entities:

	GROUP	
	2018 RS'M	2017 RS'M
Banque Française Commerciale Ocean Indien		
(i) Summarised statement of financial position:		
Current assets	**9,749.4**	9,634.8
Non current assets	**64,227.9**	60,917.6
Current liabilities	**18,920.8**	19,625.9
Non current liabilities	**48,446.1**	44,710.6
(ii) Summarised statement of profit or loss and other comprehensive income:		
Revenue	**4,130.6**	4,099.8
Profit	**854.4**	706.1
Other comprehensive expense	**-**	(227.2)
Total comprehensive income	**854.4**	478.9
Promotion and Development Ltd		
(i) Summarised statement of financial position:		
Current assets	**279.0**	259.7
Non current assets	**13,224.5**	13,130.7
Current liabilities	**680.4**	385.1
Non current liabilities	**859.9**	841.0
Non controlling interest	**1,162.9**	1,154.1
(ii) Summarised statement of profit or loss and other comprehensive income:		
Revenue	**563.7**	571.1
(Loss)/Profit	**(102.9)**	143.0
Other comprehensive income	**22.8**	506.9
Total comprehensive (expense)/income	**(80.1)**	649.9

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	Profit	Other comprehensive income/ (expense)	Other movements in reserves	Dividend	Closing net assets	Ownership interest	Interest in associates	Goodwill	Subordinated loan	Carrying value
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	%	RS'M	RS'M	RS'M	RS'M
2018											
Banque Française Commerciale Ocean Indien	**6,215.9**	**854.4**	**-**	**177.0**	**(636.9)**	**6,610.4**	**49.99%**	**3,304.5**	**56.9**	**722.1**	**4,083.5**
Promotion and Development Limited	**11,010.2**	**(102.9)**	**22.8**	**10.4**	**(140.2)**	**10,800.3**	**46.46%**	**5,017.8**	**-**	**-**	**5,017.8**
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

(d) Aggregate information of associates that are not individually material

	GROUP	
	2018	2017
	RS'M	RS'M
Carrying amount of interests	**694.7**	569.6
Share of losses	**(72.7)**	(81.2)
Share of other comprehensive expense	**(0.6)**	(0.1)

AT COST

	COMPANY	
	2018	2017
	RS'M	RS'M
At 01 July	**109.7**	26.5
Additions	**7.5**	83.2
At 30 June	**117.2**	109.7

9. Investments in subsidiaries

(a) The Group has the following main subsidiaries:

	Country of incorporation/ operation	Principal activities	Stated capital		Effective Holding 2018 %	Proportion of ownership interests held by non-controlling interests 2018 %	Effective Holding 2017 %	Proportion of ownership interests held by non-controlling interests 2017 %	Cost of Investment Company 2018 RS'M	Cost of Investment Company 2017 RS'M
BANKING										
Direct										
MCB Investment Holding Ltd	Republic of 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	Republic of 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**	**13.6**	**90.00**	**10.00**	90.00	10.00	**-**	-
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	Republic of Mauritius	Private Equity Fund	**Rs'M**	**2,084.6**	**100.00**	**-**	100.00	-	**2,084.6**	2,084.6
MCB Capital Markets Ltd	Republic of Mauritius	Investment Holding Company	**Rs'M**	**73.0**	**100.00**	**-**	100.00	-	**73.0**	73.0
MCB Factors Ltd	Republic of Mauritius	Factoring	**Rs'M**	**50.0**	**100.00**	**-**	100.00	-	**50.0**	50.0
MCB Micro Finance Ltd	Republic of Mauritius	Credit Finance	**Rs'M**	**75.0**	**100.00**	**-**	100.00	-	**75.0**	20.0
MCB Real Assets Ltd*	Republic of Mauritius	Investment Holding Company	**Rs'M**	**-**	**100.00**	**-**	-	-	**-**	-
OTHER INVESTMENTS										
Direct										
International Card Processing Services Ltd	Republic of 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	Republic of Mauritius	Investment Company	**Rs'M**	**103.4**	**57.73**	**42.27**	57.73	42.27	**28.7**	28.7
MCB Properties Ltd	Republic of Mauritius	Property ownership & development	**Rs'M**	**14.6**	**100.00**	**-**	100.00	-	**14.6**	14.6
Blue Penny Museum	Republic of Mauritius	Philatelic museum	**Rs'M**	**1.0**	**97.88**	**2.12**	97.88	2.12	**1.0**	1.0
MCB Group Corporate Services Ltd	Republic of Mauritius	Company secretarial services	**Rs'M**	**2.0**	**100.00**	**-**	-	-	**2.0**	-
MCB Group Consulting Services Ltd	Republic of Mauritius	Consulting, advisory, support and maintenance services	**USD'M**	**1.5**	**100.00**	**-**	100.00	-	**49.7**	49.7
Others*	Seychelles	Property rental & other financial services		**-**	**100.00**	**-**	100.00	-	**0.2**	0.2
									9,338.4	9,336.4
Subordinated loans to subsidiaries									**1,461.2**	50.0
									10,799.6	9,386.4

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 1,432.0 million at 30 June 2018 (2017: Rs 1,473.8 million).

*The stated capital and cost of investment in MCB Real Assets Ltd are negligible.

** '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	
	2018	2017
	RS'M	RS'M
(b) At 01 July	**9,336.4**	9,253.2
Additions	**2.0**	83.2
	9,338.4	9,336.4
Subordinated loans to subsidiaries	**1,461.2**	50.0
At 30 June	**10,799.6**	9,386.4

(c) Details of Fincorp Investment Ltd which has non-controlling interests that are material to the Company

	(Loss)/Profit attributable to non-controlling interests RS'M	Net Assets attributable to non-controlling interests RS'M
GROUP		
2018	**(3.7)**	**2,384.7**
2017	34.7	2,309.0

(d) Summarised financial information for Fincorp Investment Ltd

	GROUP	
	2018 RS'M	2017 RS'M
(i) Summarised statement of financial position:		
Current assets	**1,868.6**	1,653.7
Non current assets	**8,941.3**	9,406.1
Current liabilities	**1,611.9**	1,927.2
Non current liabilities	**3,556.4**	3,670.0
(ii) Summarised statement of profit or loss and statement of comprehensive income:		
Revenue	**504.3**	497.2
(Loss)/Profit	**(8.7)**	82.0
Other comprehensive income	**48.5**	244.9
Total comprehensive income	**39.8**	326.9
(iii) Summarised statement of cash flows:		
Net cash flows from operating activities	**456.3**	677.9
Investing activities	**(118.6)**	(270.7)
Of which investment in associate	**-**	(53.4)
Financing activities	**(97.4)**	(286.8)
Taxation	**(9.7)**	(11.9)
Net increase in cash and cash equivalents	**230.6**	108.5

The summarised financial information above is the amount before intra-group eliminations.

10. Investment properties

	Note	GROUP 2018 RS'M
Investment properties on acquisition of subsidiary by MCB Real Assets Ltd	36(a)	**2,262.5**
Additions		**569.4**
Exchange adjustment		**29.2**
Fair value of land and buildings at 30 June 2018		**2,861.1**
Rental income as from November 2017		**138.8**

The investment properties are held through the Compagnie des Villages de Vacances de l'Isle de France Limitée (COVIFRA), a subsidiary of MCB Real Assets Ltd.

The land held under an operating lease and the buildings have been treated as investment properties and are stated at fair value.

The land is leased from the Government of Mauritius for a term expiring on 30 September 2069 and is fully reimbursed by the tenant.

The investment property is categorised into Level 3 of the fair value hierarchy, the following information is relevant:

-Valuation technique: Income approach

-Significant input (s): Observable input: Fixed rent

Unobservable input: Discount rate

-Sensitivity: An increase in discount rate used would result in a decrease in fair value, and vice versa.

11. Goodwill and other intangible assets

(a) Goodwill

		GROUP	
	Note	2018 RS'M	2017 RS'M
01 July		**6.1**	6.1
Additions following acquisition by MCB Real Assets Ltd	36(a)	**384.8**	-
At 30 June		**390.9**	6.1

The directors have assessed any impairment of goodwill and there is no impairment.

(b) Other intangible assets

	GROUP		
	Computer Software RS'M	Work in progress RS'M	Total RS'M
Cost			
At 01 July 2016			
Additions	3,090.0	194.6	3,284.6
Scrap/Impairment	108.1	236.9	345.0
Transfer	(0.6)	-	(0.6)
Exchange adjustment	323.9	(322.1)	1.8
At 30 June 2017	(23.9)	-	(23.9)
Additions	**3,497.5**	**109.4**	**3,606.9**
Scrap/Impairment	**43.4**	**152.3**	**195.7**
Transfer	**(8.3)**	**-**	**(8.3)**
Exchange adjustment	**103.2**	**(103.2)**	**-**
At 30 June 2018	**(2.7)**	**-**	**(2.7)**
	3,633.1	**158.5**	**3,791.6**
Accumulated amortisation			
At 01 July 2016			
Scrap/Impairment	2,393.3	-	2,393.3
Charge for the year	(0.1)	-	(0.1)
Exchange adjustment	281.6	-	281.6
At 30 June 2017	(11.2)	-	(11.2)
Scrap/Impairment	**2,663.6**	**-**	**2,663.6**
Charge for the year	**(8.3)**	**-**	**(8.3)**
Exchange adjustment	**288.5**	**-**	**288.5**
At 30 June 2018	**(0.1)**	**-**	**(0.1)**
	2,943.7	**-**	**2,943.7**
Net book values			
At 30 June 2018	**689.4**	**158.5**	**847.9**
At 30 June 2017	833.9	109.4	943.3
Total			
At 30 June 2018			**1,238.8**
At 30 June 2017			949.4

The only material intangible assets for the Group are the core banking systems. The remaining useful lives range from 2 to 4 years.

12. 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 01 July 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 30 June 2017	**5,035.4**	**3,448.8**	**1,982.1**	**58.5**	**10,524.8**
Additions	**38.3**	**243.7**	**239.4**	**153.4**	**674.8**
Disposals	**(5.9)**	**(83.3)**	**(210.4)**	**-**	**(299.6)**
Exchange adjustment	**5.5**	**0.4**	**0.2**	**0.8**	**6.9**
Transfer	**(0.9)**	**121.1**	**36.0**	**(156.2)**	**-**
At 30 June 2018	**5,072.4**	**3,730.7**	**2,047.3**	**56.5**	**10,906.9**
Accumulated depreciation					
At 01 July 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 30 June 2017	**866.4**	**2,594.7**	**866.9**	**-**	**4,328.0**
Charge for the year	**81.7**	**309.4**	**209.3**	**-**	**600.4**
Disposal adjustment	**(1.2)**	**(80.8)**	**(135.7)**	**-**	**(217.7)**
Exchange adjustment	**2.7**	**-**	**(1.3)**	**-**	**1.4**
Transfer	**-**	**2.5**	**(2.5)**	**-**	**-**
At 30 June 2018	**949.6**	**2,825.8**	**936.7**	**-**	**4,712.1**

12. 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
Net book values					
At 30 June 2018	**4,122.8**	**904.9**	**1,110.6**	**56.5**	**6,194.8**
At 30 June 2017	4,169.0	854.1	1,115.2	58.5	6,196.8
COMPANY					
Cost					
At 01 July 2016	-	-	9.6	-	9.6
Additions	221.8	-	-	-	221.8
At 30 June 2017	**221.8**	**-**	**9.6**	**-**	**231.4**
Additions	**-**	**-**	**0.1**	**-**	**0.1**
At 30 June 2018	**221.8**	**-**	**9.7**	**-**	**231.5**
Accumulated depreciation					
At 01 July 2016	-	-	2.7	-	2.7
Charge for the year	-	-	1.9	-	1.9
At 30 June 2017	**-**	**-**	**4.6**	**-**	**4.6**
Charge for the year	**-**	**-**	**2.0**	**-**	**2.0**
At 30 June 2018	**-**	**-**	**6.6**	**-**	**6.6**
Net book values					
At 30 June 2018	**221.8**	**-**	**3.1**	**-**	**224.9**
At 30 June 2017	221.8	-	5.0	-	226.8

13. Deferred tax assets/(liabilities)

	Balance as at 01 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 acquisition through subsidiary RS'M	Balance as at 30 June RS'M
GROUP						
At 30 June 2018						
Deferred tax assets :						
Provisions and post retirement benefits	**186.6**	**-**	**11.1**	**48.2**	**-**	**245.9**
Provisions for credit impairment	**278.2**	**1.9**	**(16.8)**	**-**	**-**	**263.3**
Tax losses carried forward	**4.7**	**-**	**0.6**	**-**	**-**	**5.3**
Accelerated tax depreciation	**(187.3)**	**-**	**(41.4)**	**-**	**-**	**(228.7)**
	282.2	**1.9**	**(46.5)**	**48.2**	**-**	**285.8**
Deferred tax liabilities :						
Accelerated tax depreciation	**(53.4)**	**(0.5)**	**(28.0)**	**-**	**(163.9)**	**(245.8)**
Fair value of investment property	**-**	**-**	**(0.2)**	**-**	**(17.8)**	**(18.0)**
Tax losses carried forward	**-**	**-**	**2.1**	**-**	**1.8**	**3.9**
Obligation under finance lease	**-**	**-**	**-**	**-**	**23.5**	**23.5**
	(53.4)	**(0.5)**	**(26.1)**	**-**	**(156.4)**	**(236.4)**
At 30 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)

13. Deferred tax assets/(liabilities) (Cont'd)

	Balance as at 01 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 acquisition through subsidiary RS'M	Balance as at 30 June RS'M
COMPANY						
At 30 June 2018						
Deferred tax liability:						
Accelerated tax depreciation	**(0.4)**	**-**	**0.3**	**-**	**-**	**(0.1)**
At 30 June 2017						
Deferred tax liability:						
Accelerated tax depreciation	(0.4)	-	-	-	-	(0.4)

14. Other assets

	GROUP		COMPANY	
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
Mandatory balances with Central Banks	**19,292.4**	17,170.7	**-**	-
Prepayments & other receivables	**1,404.2**	1,423.5	**1,387.4**	1,374.5
Credit Card Clearing	**120.9**	133.1	**-**	-
Non-banking assets acquired in satisfaction of debts*	**48.7**	51.8	**-**	-
Post employee benefit asset (note 18(a))	**-**	99.5	**-**	-
Impersonal and other accounts	**1,744.9**	1,933.8	**-**	-
	22,611.1	20,812.4	**1,387.4**	1,374.5

*The Group's policy is to dispose of such assets as soon as the market permits.

15. Deposits

	GROUP	
	2018 RS'M	2017 RS'M
(a) Deposits from banks		
Demand deposits	**1,764.8**	1,224.3
Money market deposits with remaining term to maturity:		
Up to 3 months	**694.5**	1,259.0
Over 6 months and up to 1 year	**698.4**	6.2
	1,392.9	1,265.2
	3,157.7	2,489.5

15. Deposits (Cont'd)

	GROUP	
	2018	2017
	RS'M	RS'M
(b) Deposits from customers		
(i) Retail customers		
Demand deposits	**29,184.2**	27,090.1
Savings deposits	**125,703.3**	113,192.6
Time deposits with remaining term to maturity:		
Up to 3 months	**4,456.2**	3,282.4
Over 3 months and up to 6 months	**2,051.3**	2,207.2
Over 6 months and up to 1 year	**4,794.2**	4,752.6
Over 1 year and up to 5 years	**14,870.6**	14,976.0
Over 5 years	**4.1**	12.6
	26,176.4	25,230.8
	181,063.9	165,513.5
(ii) Corporate customers		
Demand deposits	**89,768.6**	83,041.5
Savings deposits	**5,343.6**	6,261.9
Time deposits with remaining term to maturity:		
Up to 3 months	**6,308.4**	5,444.1
Over 3 months and up to 6 months	**1,382.1**	1,679.1
Over 6 months and up to 1 year	**2,618.6**	2,320.1
Over 1 year and up to 5 years	**7,022.9**	7,589.3
Over 5 years	**-**	0.1
	17,332.0	17,032.7
	112,444.2	106,336.1
(iii) Government		
Demand deposits	**868.3**	435.4
Savings deposits	**110.7**	61.2
Time deposits with remaining term to maturity:		
Up to 3 months	**5.6**	25.2
Over 3 months and up to 6 months	**11.3**	2.4
Over 1 year and up to 5 years	**56.9**	-
	73.8	27.6
	1,052.8	524.2
	294,560.9	272,373.8

The carrying amounts of deposits are not materially different from their fair values.

16. Other borrowed funds

(a) Other borrowed funds comprise the following:

	GROUP		COMPANY	
	2018 RS'M	**2017 RS'M**	**2018 RS'M**	**2017 RS'M**
Borrowings from banks:				
in Mauritius	**4,386.6**	4.7	**-**	242.6
abroad	**9,985.9**	5,963.7	**-**	-
	14,372.5	5,968.4	**-**	242.6
Other borrowed funds include borrowings with original maturity of less than 3 months as shown in note 4	**1,839.7**	50.7	**-**	242.6

The carrying amounts of other borrowed funds are not materially different from their fair values.

(b) Remaining term to maturity:

	GROUP 2018 RS'M	GROUP 2017 RS'M	COMPANY 2018 RS'M	COMPANY 2017 RS'M
On demand or within a period not exceeding 1 year	**8,522.0**	193.5	**-**	242.6
Within a period of more than 1 year but not exceeding 2 years	**3,542.2**	142.7	**-**	-
Within a period of more than 2 years but not exceeding 3 years	**0.8**	24.5	**-**	-
Within a period of more than 3 years	**2,307.5**	5,607.7	**-**	-
	14,372.5	5,968.4	**-**	242.6

17. (a) Subordinated liabilities

Subordinated liabilities comprise the following:

		GROUP		COMPANY	
		2018 RS'M	2017 RS'M	2018 RS'M	2017 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)	**4,531.7**	4,535.0	**4,531.7**	4,535.0
USD30M subordinated debt maturing in August 2023 at an average interest rate of 4.8% (2017:4.3%) (Level 3)	(ii)	**1,060.1**	1,052.0	**-**	-
		5,591.8	5,587.0	**4,531.7**	4,535.0

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.

(b) Debt securities

Debts securities comprise the following:

	GROUP		COMPANY	
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
Rs 2.0 billion floating rate senior unsecured notes maturing in 2023 at an average interest rate of 3.5% (Level 1)	**2,012.7**	-	**2,012.7**	-

These notes are quoted on the Official Market of the Stock Exchange of Mauritius Ltd and their carrying amounts are not materially different from their fair values.

18. Post employee benefit liability/(asset)

(a) Staff superannuation fund

	GROUP	
	2018 RS'M	2017 RS'M
Reconciliation of net defined benefit (asset)/liability		
Opening balance	**(99.5)**	249.7
Amount recognised in statements of profit or loss	**197.0**	214.1
Amount recognised in statements of comprehensive income	**283.3**	(337.7)
Less employer contributions	**(228.8)**	(225.6)
Liability/(asset) as shown in notes 19 and 14 respectively	**152.0**	(99.5)
Reconciliation of fair value of plan assets		
Opening balance	**6,796.4**	6,202.7
Interest income	**440.0**	402.5
Employer contributions	**228.8**	225.6
Benefits paid	**(283.8)**	(242.4)
Return on plan assets excluding interest income	**11.9**	208.0
Closing balance	**7,193.3**	6,796.4
Reconciliation of present value of defined benefit obligation		
Opening balance	**6,696.9**	6,452.4
Current service cost	**210.8**	205.1
Interest expense	**426.2**	411.5
Other benefits paid	**(283.8)**	(242.4)
Liability experience loss	**369.5**	-
Liability gain due to change in demographic assumptions	**(223.2)**	-
Liability loss/(gain) due to change in financial assumptions	**148.9**	(129.7)
Closing balance	**7,345.3**	6,696.9
Components of amount recognised in statements of profit or loss		
Current service cost	**210.8**	205.1
Net interest on net defined benefit (asset)/liability	**(13.8)**	9.0
Total	**197.0**	214.1
Components of amount recognised in statements of comprehensive income		
Return on plan assets above interest income	**(11.9)**	(208.0)
Liability experience loss	**369.5**	-
Liability gain due to change in demographic assumptions	**(223.2)**	-
Liability loss/(gain) due to change in financial assumptions	**148.9**	(129.7)
Total	**283.3**	(337.7)

18. Post employee benefit liability/(asset) (Cont'd)

(a) Staff superannuation fund (cont'd)

	GROUP	
	2018	2017
Allocation of plan assets at end of year	%	%
Equity - Local quoted	**31**	28
Equity - Local unquoted	**1**	1
Debt - Overseas quoted	**3**	6
Debt - Local quoted	**12**	8
Debt - Local unquoted	**5**	4
Property - Local	**3**	3
Investment funds	**32**	32
Cash and other	**13**	18
Total	**100**	100
Allocation of plan assets at end of year	%	%
Reporting entity's own transferable financial instruments	**9**	7
Property occupied by reporting entity	**2**	1
Other assets used by reporting entity	**5**	13
Principal assumptions used at end of year		
Discount rate	**6.3%**	6.5%
Rate of salary increases	**3.8%**	4.5%
Rate of pension increases	**3.3%**	3.5%
Average retirement age (ARA)	**63**	62
Average life expectancy for:		
Male at ARA	**17.3 years**	18.0 years
Female at ARA	**21.7 years**	22.5 years

	2018	2017
	RS'M	RS'M
Sensitivity analysis on defined benefit obligation at end of year		
Increase due to 1% decrease in discount rate	**1,311.3**	1,192.0
Decrease due to 1% increase in discount rate	**1,027.1**	944.3

18. Post employee benefit liability/(asset) (Cont'd)

(a) Staff superannuation fund (cont'd)

The above sensitivity analysis has been carried out by recalculating the present value of obligation at the end of the 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.

The Mauritius Commercial Bank Limited sponsors a defined benefit pension plan for its staff and some staff of MCB Group Limited. The plan is self-administered and funded separately from the bank . The Mauritius Commercial Bank Limited has recognised a net defined benefit liability of Rs 152.0M, as at 30 June 2018 for the plan (2017 : net defined benefit asset of Rs 99.5M).

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 M) : **233.9**
Weighted average duration of the defined benefit obligation : **16 years**

As from 01 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 had 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. Post employee benefit liability/(asset) (Cont'd)

(b) Residual retirement gratuities

	2018 RS'M
Reconcilation of net defined benefit liability	
Amount recognised in statement of profit or loss	51.0
Liability as shown in note 19	51.0
Present value of defined benefit obligation	51.0
Principal assumptions used at end of year	
Discount rate	6.3%
Rate of salary increases	3.8%
Rate of pension increases	3.3%
Average retirement age(ARA)	63

	2018 RS'M
Sensitivity analysis on defined benefit obligation at end of year	
Increase due to 1% decrease in discount rate	21.7
Decrease due to 1% increase in discount rate	16.1

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.

Future cash flows

The funding policy is to pay benefits out of the reporting entity's cashflow as and when due

Expected employer contribution for the next year (Rs'M): **Nil**

Weighted average duration of the defined benefit obligation: **22 years**

19. Other liabilities

	GROUP		COMPANY	
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
Post employee benefits liability:				
(a) Staff Superannuation Fund as shown in note 18(a)	**152.0**	-	**-**	-
(b) Residual retirement gratuities as shown in note 18(b)	**51.0**	-	**-**	-
Proposed dividend	**1,074.1**	1,013.3	**1,074.1**	1,013.3
Crescendo notes*	**3,533.7**	3,394.6	**-**	-
Impersonal & other accounts	**5,976.8**	4,685.5	**54.8**	50.4
	10,787.6	9,093.4	**1,128.9**	1,063.7

*These notes were issued by one of our subsidiaries whereby the capital and return (where applicable) are guaranteed.

20. Stated capital and reserves

(a) Stated Capital

	Number of shares
At 01 July 2016	238,187,172
Issue of shares following the exercise of Group Employee Share Options Scheme	235,718
At 30 June 2017	**238,422,890**
Issue of shares following the exercise of Group Employee Share Options Scheme	**260,206**
At 30 June 2018	**238,683,096**

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:
(a) the fair value of available-for-sale investment securities until the securities are derecognised or impaired.
(b) revaluation surplus on land and factory buildings where applicable, 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.

21. Contingent liabilities

	GROUP	
	2018 RS'M	2017 RS'M
(a) Instruments		
Acceptances on account of customers	**204.6**	154.3
Guarantees on account of customers	**23,262.0**	19,949.2
Letters of credit and other obligations on account of customers	**33,403.9**	21,477.4
Other contingent items	**3,001.7**	1,522.0
	59,872.2	43,102.9
(b) Commitments		
Loans and other facilities, including undrawn credit facilities	**6,446.1**	7,201.2
(c) Tax assessments*	**537.1**	992.6
(d) Other		
Inward bills held for collection	**420.5**	357.2
Outward bills sent for collection	**1,019.9**	1,003.0
	1,440.4	1,360.2
	68,295.8	52,656.9

**The Mauritius Commercial Bank Limited received income tax assessments relating to financial year ended 30 June 2007 to 30 June 2014 against which the Bank has initially objected.

The basis of the assessment raised by the Mauritius Revenue Authority ("MRA") were around a number of areas and during the year, there have been advanced discussions between the Bank and the MRA in relation to some areas. On the basis of agreement reached for year of assessment 2014, an additional provision of Rs 258.3 million has been made at 30 June 2018 for all the years up to 30 June 2017.

In addition, the Bank received several assessments in the previous 5 years under the Value Added Tax Act for the periods beginning April 2006 to June 2015 against which the Bank has also objected.

The Bank is of the opinion that the likelihood of incurring additional payment to the MRA is not probable on the remaining areas where no agreement has yet been reached under Income Tax and Valued Added Tax Acts which the Bank has objected. The maximum liability that could arise from these amounted to Rs 537.1 million.

The assessments are still pending in front of the Assessment Review Committee.

22. Interest income

	GROUP		COMPANY	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Loans to and placements with banks	**667.8**	595.9	**-**	-
Loans and advances to customers	**11,478.8**	11,008.0	**-**	-
Held-to-maturity investments	**2,279.6**	2,297.2	**-**	-
Available-for-sale investments	**126.5**	67.9	**-**	-
Held-for-trading investments	**511.2**	54.0	**-**	-
Other	**49.0**	11.3	**2.3**	-
	15,112.9	14,034.3	**2.3**	-

23. Interest expense

Deposits from banks	**47.4**	12.2	**-**	-
Deposits from customers	**3,824.5**	4,030.1	**-**	-
Other borrowed funds	**213.4**	149.4	**15.8**	4.5
Subordinated liabilities	**268.5**	286.3	**222.4**	241.7
Debt securities	**29.9**	-	**29.9**	-
	4,383.7	4,478.0	**268.1**	246.2

24. Fee and commission income

Retail banking fees	**757.9**	764.7	**-**	-
Corporate banking fees	**609.8**	565.0	**-**	-
Guarantee fees	**247.3**	232.2	**-**	-
Interbank transaction fees	**64.7**	57.2	**-**	-
Brokerage	**77.0**	26.0	**-**	-
Asset management fees	**145.7**	149.7	**-**	-
Rental income	**175.6**	155.2	**-**	-
Cards and other related fees	**1,760.9**	1,626.2	**-**	-
Trade finance fees	**483.1**	353.0	**-**	-
Others	**225.6**	205.2	**-**	-
	4,547.6	4,134.4	**-**	-

25. Fee and commission expense

Interbank transaction fees	**32.8**	30.5	**-**	-
Cards and other related fees	**907.1**	833.9	**-**	-
Corporate banking and trade finance fees	**113.3**	-	**-**	-
Others	**61.4**	65.6	**-**	-
	1,114.6	930.0	**-**	-

26. Net (loss)/gain from financial instruments carried at fair value

	GROUP		COMPANY	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Derivative financial instruments	**(243.5)**	180.5	**-**	-
Investment securities at fair value through profit or loss	**(182.3)**	(91.2)	**-**	-
Investment securities held-for-trading	**40.3**	12.0	**-**	-
	(385.5)	101.3	**-**	-

27. Dividend income

	GROUP		COMPANY	
Income from quoted investments:				
Subsidiary	**-**	-	**35.8**	-
Others	**59.8**	67.0	**4.1**	3.7
Income from unquoted investments:				
Subsidiary	**-**	-	**2,882.7**	2,837.7
Others	**25.4**	21.8	**-**	-
	85.2	88.8	**2,922.6**	2,841.4

28. Non-interest expense

(a) Salaries and human resource costs

	GROUP		COMPANY	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Wages and salaries	**2,760.7**	2,656.8	**90.9**	78.6
Defined benefit plan	**197.0**	214.1	**-**	-
Residual retirement gratuities	**51.0**	-	**-**	-
Defined contribution plan	**101.1**	80.4	**-**	-
Compulsory social security obligations	**77.3**	73.4	**-**	-
Equity settled share-based payments	**10.9**	3.1	**-**	-
Other personnel expenses	**615.6**	583.7	**-**	-
	3,813.6	3,611.5	**90.9**	78.6
Number of employees at the end of the year	**3,409**	3,386		

(b) Other non-interest expense

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Legal & professional fees	**443.2**	290.8	**3.2**	7.4
Rent, repairs, maintenance costs and security charges	**440.5**	447.0	**0.8**	0.8
Software licensing and other information technology costs	**334.4**	298.5	**-**	-
Electricity water & telephone charges	**282.3**	281.1	**-**	-
Advertising & marketing costs	**169.2**	169.0	**-**	-
Postage, courier & stationery costs	**149.2**	153.9	**-**	-
Insurance costs	**101.6**	108.7	**-**	-
Others	**178.7**	194.3	**40.4**	25.6
	2,099.1	1,943.3	**44.4**	33.8

(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 2017, a further offer of 611,936 options was made on similar terms.

	GROUP			
	2018		2017	
	Weighted avg exercise price RS	Number of options	Weighted avg exercise price RS	Number of options
Outstanding and exercisable at 01 July	**190.97**	**559,883**	196.40	588,263
Expired during the year	**189.87**	**(388,329)**	196.13	(552,106)
Granted during the year	**251.68**	**611,936**	192.54	759,444
Exercised during the year	**211.62**	**(260,206)**	197.52	(235,718)
Outstanding and exercisable at 30 June		**523,284**		559,883

The options outstanding at 30 June 2018 under GESOS have an exercise price in the range of Rs 248.75 to Rs 277.50 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 17/18 was Rs 274.95 (2017:Rs 217.02).

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 246.25 (2017:Rs 209.25).

29. Net impairment of financial assets

	GROUP	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Allowance for credit impairment:		
Loans and advances	**1,283.9**	1,059.9
Investment securities	**46.0**	3.9
	1,329.9	1,063.8

Allowance for credit impairment on loans and advances

	GROUP	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Provision for bad and doubtful debts:		
Loans to and placements with banks	**237.3**	-
Loans and advances to customers	**1,077.2**	1,374.6
Bad debts written off for which no provisions were made	**100.2**	21.0
Provision released during the year:		
Loans to and placements with banks	**-**	(11.5)
Loans and advances to customers	**(81.2)**	(259.7)
Recoveries of advances written off	**(49.6)**	(64.5)
	1,283.9	1,059.9

30. Income tax expense

(a) The tax charge related to statements of profit or loss is as follows:

	GROUP		COMPANY	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Income tax based on the adjusted profit	**1,053.3**	1,102.8	**0.3**	-
Deferred tax	**72.6**	(40.6)	**(0.3)**	-
Special levy on banks	**493.8**	511.7	**-**	-
Corporate Social Responsibility contribution	**98.4**	104.2	**0.1**	-
Over provision in previous years	**(91.8)**	(34.3)	**-**	-
Provision for tax assessments	**258.3**	-	**-**	-
Charge for the year	**1,884.6**	1,643.8	**0.1**	-

The tax on the profits differs from the theoretical amount that would arise using the basic tax rate as follows:

Profit before tax	**9,125.9**	8,392.2	**2,519.5**	2,480.9
Less share of profit of associates	**(306.6)**	(338.2)	**-**	-
	8,819.3	8,054.0	**2,519.5**	2,480.9
Tax calculated at a rate of 15%	**1,322.9**	1,208.1	**377.9**	372.1
Effect of different tax rates	**54.0**	58.8	**-**	-
Impact of:				
Income not subject to tax	**(178.3)**	(103.8)	**(438.8)**	(426.4)
Expenses not deductible for tax purposes	**332.5**	215.6	**60.9**	54.3
Tax credits	**(405.2)**	(316.5)	**-**	-
Special levy on banks	**493.8**	511.7	**-**	-
Corporate Social Responsibility contribution	**98.4**	104.2	**0.1**	-
Over provision in previous years	**(91.8)**	(34.3)	**-**	-
Provision for tax assessments	**258.3**	-	**-**	-
Tax charge	**1,884.6**	1,643.8	**0.1**	-

Corporate Social Responsibility (CSR) tax

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 a CSR programme approved by the National CSR Foundation and the balance remitted to the Mauritius Revenue Authority.

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 (credit)/charge related to statements of comprehensive income is as follows:

	GROUP	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Remeasurement of defined benefits pension plan	**283.3**	(337.7)
Deferred tax (credit)/charge	**(48.2)**	50.6
Remeasurement of defined benefit pension plan, net of deferred tax	**235.1**	(287.1)

31. Dividends

	COMPANY	
	2018 RS'M	2017 RS'M
Paid on 15 December 2017 at Rs 5.00 per share (FY 2017: Rs 4.75 per share)	**1,192.9**	1,131.6
Paid on 30 July 2018 at Rs 4.50 per share (FY 2017: Rs 4.25 per share)	**1,074.1**	1,013.3
	2,267.0	2,144.9

32. 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 30 June 2018	Year ended 30 June 2017
Profit attributable to the ordinary equity holders of the parent (Rs' 000)	**7,220,900**	6,702,100
Weighted average number of ordinary shares (thousands)	**238,593**	238,309
Basic earnings per share (Rs)	**30.26**	28.12

(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 30 June 2018	Year ended 30 June 2017
Profit attributable to the ordinary equity holders of the parent (Rs' 000)	**7,220,900**	6,702,100
Weighted average number of ordinary shares - basic (thousands)	**238,593**	238,309
Effect of share options in issue (thousands)	**45**	166
Weighted average number of ordinary shares - diluted (thousands) at year end	**238,638**	238,475
Diluted earnings per share (Rs)	**30.26**	28.10

33. Commitments

(a) Capital commitments

	GROUP	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Expenditure contracted for but not incurred	**95.1**	119.2
Expenditure approved by the Board but not contracted for	**232.3**	211.7

(b) Securities pledged

The Group has pledged Government of Mauritius bonds as collateral for the purpose of overnight facility from the Bank of Mauritius and for repurchase agreement with other financial institutions.

	GROUP	
	2018 RS'M	2017 RS'M
Government of Mauritius bonds with Bank of Mauritius	**4,528.9**	3,828.9
Government of Mauritius bonds with other financial institutions	**1,800.0**	-
	6,328.9	3,828.9

34. Net cash flows from trading activities

	GROUP		COMPANY	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Operating profit	**8,819.3**	8,054.0	**2,519.5**	2,480.9
Increase in other assets	**(1,742.4)**	(2,112.1)	**(12.9)**	(303.4)
Increase in other liabilities	**1,169.8**	2,335.9	**13.7**	0.2
Net decrease/(increase) in derivative financial instruments	**448.6**	(69.8)	**-**	-
Net increase in investment securities held-for-trading	**(14,663.8)**	(8,845.9)	**-**	-
Net (increase)/decrease in investment securities at fair value through profit or loss	**(116.2)**	1.2	**-**	-
Release of provision for employee benefits	**(31.8)**	(11.5)	**-**	-
Provision for residual retirement gratuities	**51.0**	-	**-**	-
Charge for credit impairment	**1,360.5**	1,378.5	**-**	-
Release of provision for credit impairment	**(81.2)**	(271.2)	**-**	-
Exchange loss/(profit)	**23.9**	(34.4)	**-**	-
Depreciation of property, plant and equipment	**600.4**	551.8	**2.0**	1.9
Amortisation of intangible assets	**288.5**	281.6	**-**	-
Loss/(profit) on disposal of property, plant and equipment	**19.4**	(11.1)	**-**	-
Impairment of intangible assets	**-**	0.5	**-**	-
Profit on disposal of available-for-sale investments	**(443.3)**	(278.7)	**-**	-
Bargain purchase on business combinations	**(6.3)**	(74.8)	**-**	-
	(4,303.6)	894.0	**2,522.3**	2,179.6

35. Net cash flows from other operating activities

	GROUP	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Net increase in deposits	**22,760.7**	20,534.0
Net increase in loans and advances	**(24,028.0)**	(12,216.8)
Purchase of available-for-sale investments	**(12,034.4)**	(945.4)
Proceeds from sale of available-for-sale investments	**12,763.7**	1,358.1
Net decrease/(increase) in held-to-maturity investment securities	**859.9**	(3,026.8)
Net increase in other borrowed funds	**6,615.1**	815.2
	6,937.0	6,518.3

36. Acquisition by subsidiary

MCB Real Assets Ltd, a wholly-owned subsidiary of MCB Group Ltd has acquired 93.03% stake in Compagnie des Villages de Vacances de L'Isle de France Limitée (COVIFRA) during the year.

(a) The assets and liabilities acquired were as follows:

	2018 RS'M
Assets	
Cash and cash equivalents	**267.1**
Investment properties	**2,262.5**
Other assets	**37.2**
	2,566.8
Liabilities	
Borrowings	**1,112.5**
Other liabilities	**408.9**
Deferred tax liabilities	**156.4**
	1,677.8
Net assets acquired	**889.0**
The Goodwill arising on acquisition was as follows:	
Cost of Investment in the book of MCB Real Assets Ltd	**1,211.8**
Share of net assets acquired	**(827.0)**
Goodwill	**384.8**

(b) The net cash outflow on acquisition was as follows:

	2018 RS'M
Cost of Investment in the book of MCB Real Assets Ltd	**1,211.8**
Cash and cash equivalents acquired	**(267.1)**
Acquisition by subsidiary, net of cash acquired	**944.7**

37. 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 30 June 2018

	GROUP RS'M	Banking RS'M	Non-Banking Financial RS'M	Other Investments RS'M	Eliminations RS'M
Income:					
External gross income	**22,449.1**	21,629.1	1,434.8	441.6	(1,056.4)
Expenses	**(12,299.9)**	(11,683.0)	(760.6)	(361.8)	505.5
Operating profit before impairment	**10,149.2**	9,946.1	674.2	79.8	(550.9)
Net impairment of financial assets	**(1,329.9)**	(1,299.0)	(30.9)	-	-
Operating profit	**8,819.3**	8,647.1	643.3	79.8	(550.9)
Share of profit/(loss) of associates	**306.6**	341.5	2.7	(37.6)	-
Profit before tax	**9,125.9**	8,988.6	646.0	42.2	(550.9)
Income tax expense	**(1,884.6)**				
Profit for the year	**7,241.3**				
Other segment items:					
Segment assets	**375,049.2**	376,401.6	16,943.0	1,289.1	(19,584.5)
Investments in associates	**9,796.0**	4,363.3	19.3	5,422.1	(8.7)
Goodwill and other intangible assets	**1,238.8**				
Deferred tax assets	**285.8**				
Total assets	**386,369.8**				
Segment liabilities	**322,688.0**	323,020.2	10,610.3	1,487.6	(12,430.1)
Unallocated liabilities	**9,915.2**				
Total liabilities	**332,603.2**				

37. Operating segments (Cont'd)

Year ended 30 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	334,425.8	335,461.3	13,793.6	1,066.9	(15,896.0)
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	345,209.7				
Segment liabilities	289,313.5	288,867.2	9,331.3	1,268.7	(10,153.7)
Unallocated liabilities	7,559.6				
Total liabilities	296,873.1				

37. Operating segments (Cont'd)

Year ended 30 June 2018

	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	**16,265.7**	10,622.7	3,015.5	594.3	2,033.2
Non-Banking Financial	**1,144.3**	144.3	602.8	34.9	362.3
Other Investments	**396.1**	(37.8)	5.8	14.2	413.9
Eliminations	**(855.3)**	-	(191.1)	(558.2)	(106.0)
	16,950.8	10,729.2	3,433.0	85.2	2,703.4
Segment assets	**296,541.7**	290,935.0		5,606.7	
Investments in associates	**9,796.0**				
Goodwill and other intangible assets	**1,238.8**				
Deferred tax assets	**285.8**				
Unallocated assets	**78,507.5**				
Total assets	**386,369.8**				

Year ended 30 June 2017

	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	9,449.0	2,822.7	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	9,556.3	3,204.4	88.8	2,656.5
Segment assets	290,709.6	285,377.4		5,332.2	
Investments in associates	9,552.3				
Goodwill and other intangible assets	949.4				
Deferred tax assets	282.2				
Unallocated assets	43,716.2				
Total assets	345,209.7				

38. 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:				
30 June 17	2,705.0	179.5	800.6	76.6
30 June 18	**2,466.1**	**249.9**	**654.2**	**181.5**
Leases receivable (included above as from 01 July 2017)				
Balance at year end:				
30 June 17	-	-	5.2	-
Deposits				
Balance at year end:				
30 June 17	499.7	312.0	94.4	1,054.1
30 June 18	**151.9**	**243.5**	**100.2**	**608.1**
Amounts due from/(to)				
Balance at year end:				
30 June 17	(43.5)	-	-	-
30 June 18	**2.0**	**-**	**-**	**-**
Off Balance sheet items				
Balance at year end:				
30 June 17	1.6	-	4.1	-
30 June 18	**-**	**-**	**2.7**	-
Interest income				
For the year ended:				
30 June 17	68.9	4.2	38.4	-
30 June 18	**69.3**	**5.2**	**32.4**	**-**
Interest expense				
For the year ended:				
30 June 17	9.1	5.7	0.4	32.7
30 June 18	**4.7**	**5.8**	**0.1**	**11.6**
Fees and commissions and Other income				
For the year ended:				
30 June 17	38.6	1.0	3.8	2.7
30 June 18	**38.8**	**2.9**	**3.0**	**8.2**

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.

38. Related party transactions (Cont'd)

(a) The Group (Cont'd)

The figure for "Fees and Commissions and Other income" from Associated Companies includes an annual amount in respect of management fees charged to Banque Francaise Commerciale Ocean Indien ('BFCOI') and fees charged to SG Moçambique in respect of IT, Systems and Cards services support by International Cards Processing Services Ltd, MCB Consulting Services Ltd and MCB Ltd.

During the year, 42,657 share options were exercised under the Group Employee Share Option scheme by key management personnel, including executive directors amounting to Rs9.4M (FY2016/2017 96,880 share options for Rs20.4M).

(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 30 June :

Subsidiaries	**Amount owed by RS'M**	**Amount owed to RS'M**
2017	1,369.3	3.9
2018	**1,383.4**	3.1

(ii) Income and expenses for the period ended 30 June:

	Dividend income RS'M	**Other expense RS'M**
Subsidiaries		
2017	2,837.7	10.2
2018	**2,920.9**	39.2
Associate		
2017	3.7	-
2018	**4.0**	-

(c) Key Management Personnel compensation

	GROUP		COMPANY	
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
Remuneration and other benefits relating to Key Management Personnel, including Directors, were as follows :				
Salaries and short term employee benefits	**200.6**	220.0	**58.2**	49.3
Post employment benefits	**15.0**	14.8	**4.7**	3.7
	215.6	234.8	**62.9**	53.0

Administrative Information

Digital Transformation

INOVAPP OR THE SEARCH FOR THE TECHNOLOGIES THAT MAKE LIFE BETTER

Some people understand the digital world better than others. And those people aren't always found in your own organisation. But because digitalisation represents the future, those skills – and here we're talking lateral thinkers, troubleshooters and nimble developers – take an altogether different importance.

And it's because the MCB understands this that the InovApp challenge was created. The aim was to get brilliant people with brilliant ideas together, get them organised into groups with different skillsets and give them 24 hours to come up with a digital banking solution.

And if the solution is good enough? Then they take their cash prize home and then come back to sit down with MCB to discuss their terms. It happened in May 2018 and it will happen again.

Digital solutions are the future. But the time to invest in them is now.

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Sustainability

PUTTING MONEY WHERE THE MOUTH IS

Sustainable development is one of those things everybody believes in but few actually do something about. The reason is essentially an economic one albeit from a short-term point of view.

Yet the fact remains that the return on investment is low – and slow. But things have ostensibly changed these past ten years with MCB's green loan, offered in partnership with the Agence Française de Développement (AFD). MCB has financed more than 185 green projects many of which have already had a positive impact on the use of energy, water and carbon emissions.

The reason companies now take advantage of the green loan is because the loans are subsidised and technical help is available – the very boost they needed to start walking the talk of sustainable development.