The Mauritius Commercial Bank Ltd

Annual Report 2016

MCB

The Directors of The Mauritius Commercial Bank Limited are pleased to present its Annual Report for the year ended 30 June 2016.

The Annual Report was approved by the Board of Directors on 28 September 2016.

Jean-Philippe COULIER
Chairperson

Antony R. WITHERS
Chief Executive

Navigating this Annual Report

The success and perennity of our organisation are dependent on the trust and support of our investors, clients and other stakeholders. In this Annual Report, we provide a transparent, balanced and relatable outline of who we are, what we achieved for our internal and external stakeholders, and what we intend to undertake for them in the future to foster business growth and preserve stakeholder interests.

About us

The Mauritius Commercial Bank Limited (referred to as 'MCB Ltd', 'MCB' or 'Bank' or 'Company') is the leading bank in Mauritius and an increasingly prominent player in the region. It is the mainstay of MCB Group Limited (hereinafter referred to as 'MCB Group Ltd'). The Group encompasses banking and non-banking subsidiaries and associates.

Our integrated reporting

About this report

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

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

Embracing integrated reporting

Our philosophy

Integrated thinking is entrenched in the conduct of the Bank's activities and the way the latter are reported.

Our achievements

This year, our Annual Report makes a major step forward in adhering to the Integrated Reporting Framework laid out by the International Integrated Reporting Council (IIRC). In fact, the nature and layout of information found therein are closely aligned with guiding principles and content elements formulated by the IIRC so as to bring about a more cohesive and efficient approach to corporate reporting.

We have strived to ensure that our Annual Report provides a clear, concise and integrated overview of how we leverage resources to create sustainable value for stakeholders. Thus, we have further improved the quality and pertinence of information available to our stakeholders to foster better appreciation thereof and informed decision-making. Towards this end, we depicted a holistic picture of (i) the connectivity and interdependencies of factors impacting our ability to operate and perform; (ii) the capacity of our organisation to respond to stakeholder needs; and (iii) the customisation of our strategies to respond to the risks/opportunities prompted by the external landscape.

Moving forward

Adherence to integrated reporting is a continuing journey. Looking forward, the Bank is committed to further enhance the layout and depth of information contained in its Annual Report to better connect and engage with our readers in tune with their changing needs and expectations.

Scope and boundary of reporting

Reporting period

The report covers the period spanning 1 July 2015 to 30 June 2016. Material events taking place after this date and until approval by the Board of Directors of MCB Ltd on 29 September 2016 have also been communicated. Furthermore, the report contains relevant insights pertaining to the Bank's financial and strategic outlook and objectives for the short to medium term.

Operating businesses

The report sheds light on the Bank's business units, while also relating to the main support functions. The nature and extent of information delivered depend on the significance of the different business units.

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 Ltd and that the corporate governance report is consistent with the requirements of the code.

How to go through and read this report

In the report, insights on our business model, value proposition, performance and strategic positioning have been elicited within the following main sections:

(i) Highlights;

(ii) Corporate Profile;

(iii) Corporate Governance Report;

(iv) Management Discussion & Analysis; and

(v) Risk Management Report.

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

Icons used in this report

Read more (i.e. in this annual report)

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

This Annual Report is published in full on our website.

Disclosure of value creation concepts

The report discloses information that pertains mostly to the material matters of the Bank since they directly shape up our strategic focus areas. We consider a matter as being material when it has or could have the ability to substantially affect MCB's performance and reputation and its aptitude to create value for itself and others. In the same light, we recognise that the long-term value creation of the Bank is manifested through transformation of capitals engendered by the execution of the organisation's business activities. We, therefore, explain how the forms of capital that are essential to realising our business goals and our relevance as an organisation are applied to our business model and managed.

Identifying our material matters

Our material matters are determined after making allowance for their known or potential effect on the organisation's strategies, performance and prospects. Our commonly identified material matters, whose relative significance and underpinnings evolve over time, revolve typically around the following themes: (i) upholding high ethical and good governance standards in our operation; (ii) managing external challenges and opportunities; (iii) preserving the trust of our investors and other stakeholders; (iv) providing customers with their preferred choices of financial services; (v) optimising our operational platforms; and (vi) embracing innovation and new technologies. The key stages of the methodological approach adopted by the Bank are depicted in the illustration below.

Assessment	A list of matters is identified by means *inter alia* of internal deliberations and stakeholder engagement as well as a systematic scanning of the external operating context with a view to uncovering signals indicating business risks and opportunities.
Selection	Our material matters are, then, determined after considering those that (i) are related to the inherent nature of our businesses; (ii) thoroughly fit in the organisation's values and underlying ambitions; (iii) are most pertinent to foster our market development and help stakeholders effectively realise their ambitions; and (iv) are closely aligned to our risk and capital management framework.
Monitoring	The Bank ensures that the impact of material matters and their relevance to its operations are regularly evaluated, with relevant updates being undertaken if need be.

Describing our forms of capital

The definitions of capitals, as formulated by the International Integrated Reporting Council, are shown below. As underlined earlier, capitals are stocks of value which are increased or decreased through the conduct of our business operations. The interactions, activities and relationships that are essential for such value creation and are of material importance to the Bank are explained in the different sections of this Annual Report.

Forms of capital

Financial capital

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

Social and relationship capital

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

Human capital

People's competencies, experience and motivations to innovate

Natural capital

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

Intellectual capital

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

Manufactured capital

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

Contents

Highlights

Financial Summary

	Jun 16	Jun 15	Jun 14	Jun 13	Jun 12
Income statement (Rs m)					
Operating income*	12,463	11,323	10,794	9,672	9,514
Profit before tax*	6,916	5,965	4,558	4,548	5,141
Profit for the year	5,620	5,004	3,687	3,791	4,470
Statements of financial position (Rs m)					
Total assets	286,932	251,938	216,632	196,194	173,371
Total loans (net)	155,939	157,422	146,169	141,830	130,466
Total deposits	243,024	208,447	176,268	154,327	140,809
Shareholders' funds	32,955	30,289	22,099	22,693	20,278
Tier 1 capital	31,398	28,989	20,848	20,611	17,451
Risk-weighted assets	210,322	209,505	201,631	192,030	175,267
Performance ratios (%)					
Return on average total assets	2.1	2.1	1.8	2.1	2.7
Return on average equity	17.8	19.1	16.5	17.6	23.5
Return on average Tier 1 capital	18.6	20.1	17.8	19.9	27.4
Non-interest income to operating income*	34.2	35.1	39.3	34.5	39.6
Loans to deposits ratio	66.9	78.9	87.1	94.5	94.9
Cost to income ratio*	37.2	39.4	40.7	42.1	40.6
Capital adequacy ratios (%)					
Capital & reserves / Total assets	11.5	12.0	10.2	11.6	11.7
BIS risk adjusted ratio	16.3	15.1	13.8	11.4	10.7
of which Tier 1	*14.9*	*13.8*	*10.3*	*10.7*	*10.0*
Asset quality					
Non-performing loans (Rs m)	9,516	9,535	10,672	7,132	5,885
NPL ratio (%)	5.9	5.9	7.0	4.9	4.4
Provision coverage ratio (%)	49.0	54.8	55.1	56.9	53.4

**Figures include profit from discontinuing operations*

Note: Capital adequacy ratios for June 2016, 2015 and 2014 are based on Basel III with proforma figures used for 2014 for comparative purposes

During FY 2015/16, our financial performance indicators have remained generally sound

Our sustained profitability levels helped to reinforce our sound capitalisation position

10.1% ▲
OPERATING INCOME
Rs 12.5 bn

12.3% ▲
NET PROFIT
Rs 5.6 bn

115 bp ▲
BIS RATIO
16.3%

While deposits further increased, our loan portfolio was pressurised by the difficult context

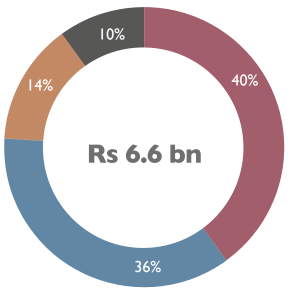
13.9% ▲
TOTAL ASSETS
Rs 286.9 bn

16.6% ▲
DEPOSITS
Rs 243.0 bn

0.3% ▼
GROSS LOANS TO CUSTOMERS
Rs 159.6 bn

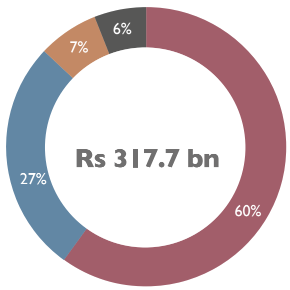
Positioning of MCB Ltd as the mainstay of the Group

Contribution to Group profit



- MCB Ltd - Segment A
- MCB Ltd - Segment B
- Foreign banking subsidiaries & associates
- Non-banking financial & Other investments

Distribution of Group assets



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 Strategic Progress

In FY 2015/16, the Bank sharpened its leading banking position locally and pursued its international market diversification strategy. Implemented initiatives related to enriched customer experiences and interactions, wide-ranging channel management, technological innovation, and improved operational efficiency levels. In the wake of the challenging context, MCB Ltd has adopted a prudent approach to execute its market thrusts and promote quality business growth. Alongside positioning itself for the next growth cycle, it has laid due emphasis on further capacity building in order to cater for the smooth implementation of its strategic orientations over time, especially those relating to regional endeavours.

Our strategic realisations during FY 2015/16 and till date

Strengthening foundations for market expansion and diversification

- Execution of earmarked initiatives to underpin the realisation of short to medium term strategic orientations of the Bank
- The Bank embracing omnichannel management as key axis of digital transformation agenda
- Sharpening of the Bank's retail business activities; increased exposures to premium customers, with the Bank's business segments capitalising on its comprehensive solutions
- Consolidation of the Bank's local corporate business; broadened financing by MCB Ltd in relation to the 2nd edition of 'Green loans', pursuant to the loan facility obtained from Agence Française de Développement
- Continued servicing of corporate and institutional clients on the regional scene and beyond, albeit executing strategic intents in a prudent way amidst challenging market conditions
- Enhanced deployment of the Group's 'Bank of Banks' initiative to further entrench the organisation's positioning as a regional platform for providing adapted solutions to financial institution counterparts
- Partnership with Société Générale, which acquired a stake in the renamed Société Générale Moçambique, alongside bringing along resources and expertise to help boost the entity's business activities

Promotion of superior customer relationships and experiences

- MCB Ltd capitalising on its unique selling proposition and tailored solutions to reinforce relationships with corporate clients and accompany them in their strategic undertakings
- The Bank offering dedicated solutions to individual clients across age and income groups; refined housing loan offer contributing to strengthen the Bank's retail segment; SMEs benefiting from increased client proximity
- The Bank's 'Juice' mobile payments platform being endowed with increased and more attractive functionalities
- Leveraging the latest generation chip technology, contactless payment solution introduced while enhancing security for debit card users
- Unveiling of our digital and real-time forex platform, which allows treasurers to manage trading requirements
- Launch of the organisation's all-new Internet Banking service, which is marked by a fresh design and new platforms for making banking easier, simpler and faster
- Other Bank channels (e.g. branches, Self-Service Kiosks, ATMs and websites) offering enriched client experiences
- Augmented brand awareness, market visibility and field presence being achieved by Bank entities through corporate events and road-shows as well as the sponsorship of local and international happenings

Reinforcement of growth enablers and improved operational excellence

- Further strengthening and alignment of the functioning of the Bank's business, risk and compliance units to better harness their synergistic potential and help to achieve set strategic ambitions
- Phase-wise operationalisation of the newly-established Corporate and Institutional Banking SBU, backed by strengthened governance and operational frameworks, reinforced physical capabilities and value chain optimisation, etc.
- Revamping of the functioning and business model of our representative offices in Johannesburg and Nairobi to ensure alignment with the Bank's strategic intents
- Strengthening of the risk management frameworks, policies and processes governing functioning
- Upgrade of technological platforms, e.g. ongoing deployment of Bank-wide Customer Relationship Management System and state-of-the-art Securities and Wealth Management system
- Launch of the Bank's 'Refresh towards Smarter Operations' programme to attain efficiency gains, a spin-off being the more structured/coherent organisation of the Chief Operating Officer's office; our SWIFT Bureau Service being certified as Premier Operational Practice, thus making MCB the most highly qualified institution in the region
- Further improvement of the quality of the Bank's human capital, backed by initiatives in favour of employee engagement, talent and career development, performance management, etc.

Recognitions and Accolades

Mauritius

Bank of the Year for Mauritius
(The Banker Bank of the Year Awards 2015)

Best Bank in Mauritius
(Euromoney Awards for Excellence Survey 2016)

Best Bank in Mauritius 2015
(UnionPay International)

Best innovative Bank in the market and
Visa Innovation Award
(Visa)

Best Trade Finance Bank in Mauritius
(Global Trade Review 2015)

Best online reporting and
Best Risk Management Disclosures for banks
(PwC Corporate Reporting Awards 2016)

Performance Excellence Award 2015
attributed by *Citibank*, *Deutsche Bank* and *JPMorgan Chase* for
MCB's straight-through processing rate for payments and transfers

Africa

Best Regional Bank in Southern Africa
(African Banker Awards 2015)

Leading regional bank in terms of operating income and profitability
(L'Eco Austral, Top 500 Regional, Edition 2016)

40th in Africa in terms of assets
(Jeune Afrique Top 200 Banks, The Africa Report 2015)

Corporate profile

Overview of the Bank

Established in 1838, MCB Ltd is the longest-standing and leading banking institution in Mauritius, while displaying an increasingly prominent foothold in the region. Backed by its sound business model, modern channel capabilities and high quality customer service, the Bank has, throughout its history, been true to its guiding principle of assisting in the advancement of individuals, corporates and the country at large, thus playing a key role in the socio-economic development of Mauritius. The Bank embraces an innovative culture, with significant progress made in upgrading its IT platform and developing its digital footprint. Furthermore, the Bank, which leverages a network of over 1,600 correspondent banks across the world, has diversified its activities in sub-Saharan Africa and beyond, as gauged by participation in major cross-border deals and transactions as well as the deployment of the 'Bank of Banks' initiative.

Our staff
~2,600

Our client base
>940,000

Loans and deposits
> 40%
Market share for domestic credit to the economy and local currency deposits

Our international presence
~47%
Of our net profit is foreign-sourced

Cards
~50%
Market share of cards issued

Our regional footprint
>200
African correspondent banks

Our investment grade ratings

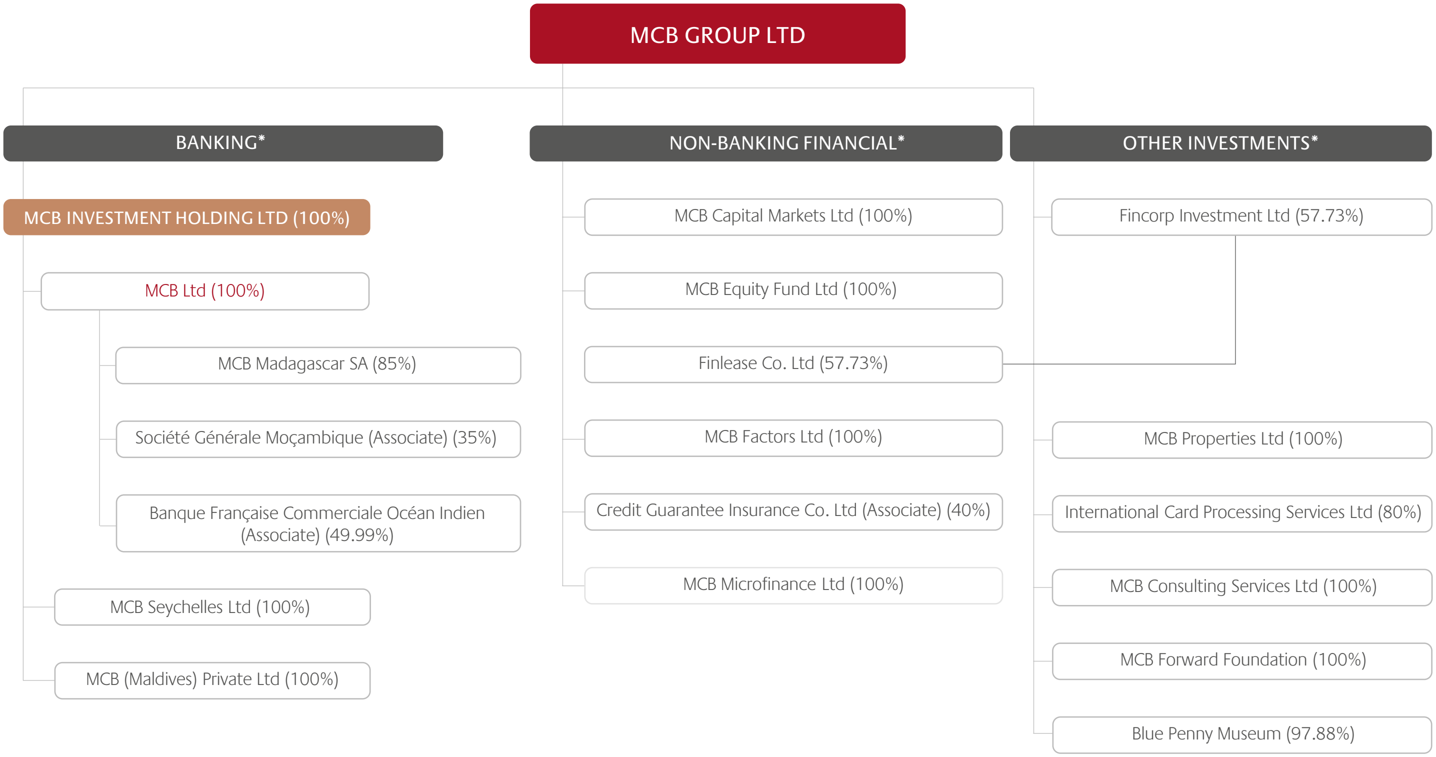
Moody's

Outlook	Stable
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Issuer Rating	Baa3
NSR Senior Unsecured MTN	A3.za
NSR Subordinate MTN	Baa2.za
Counterparty Risk Assessment	Baa2/P-2

Fitch Ratings

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

Group Structure



Note that figures refer to effective holding of MCB Group Ltd as at September 2016

** Relate to clusters*

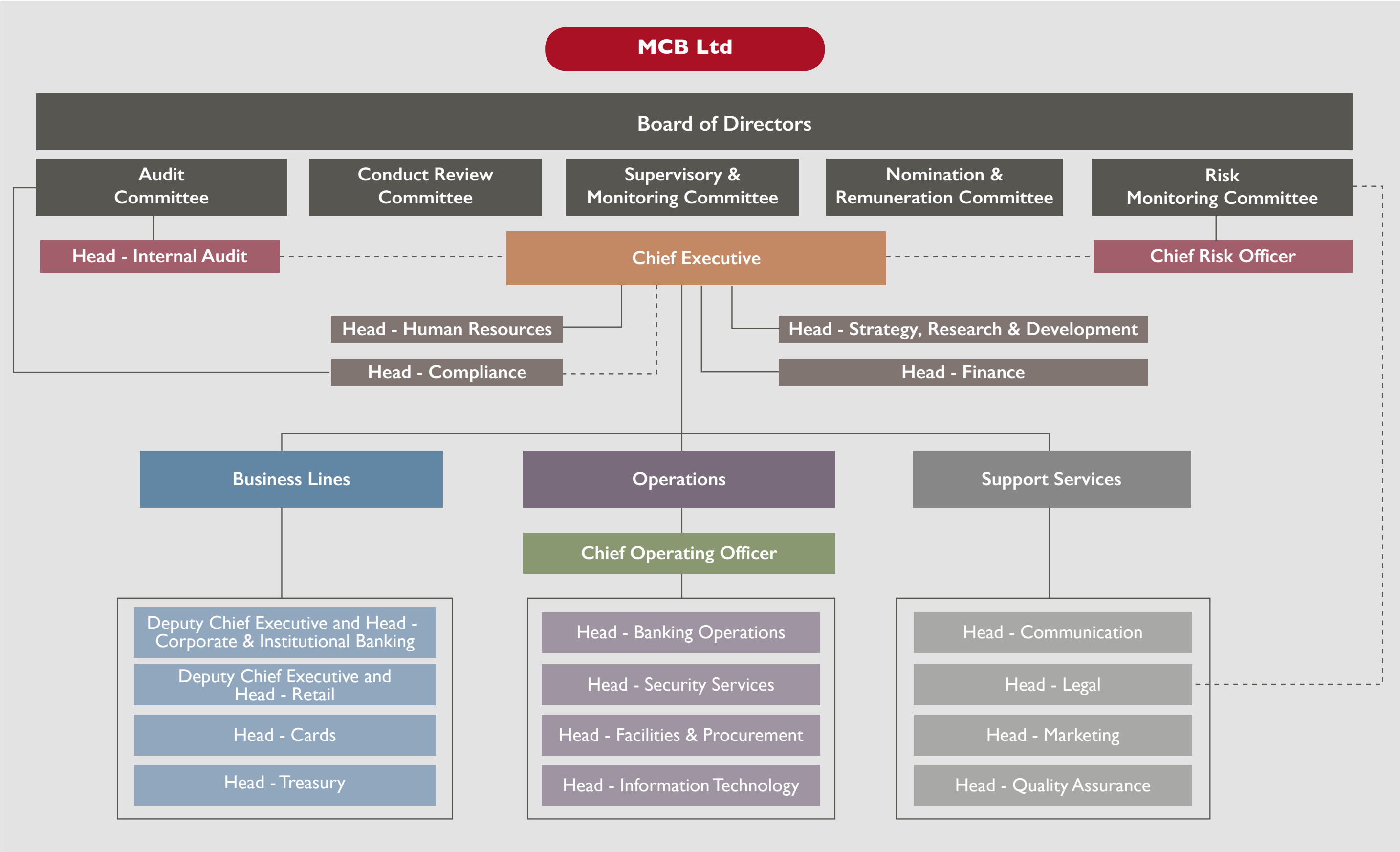
MCB Ltd is a wholly-owned subsidiary of MCB Investment Holding Ltd, itself a wholly-owned subsidiary of MCB Group Ltd. The latter acts as the ultimate holding company of MCB Group's entities, following a restructuring exercise initiated in 2013 to separate the banking and non-banking operations. The subsidiaries and associates of MCB Group Ltd operate under three distinct clusters, namely 'Banking', 'Non-banking financial', and 'Other investments', in line with international standards and regulatory requirements.

During FY 2015/16, investments in MCB Seychelles and MCB Maldives have been transferred from MCB Ltd to MCB Investment Holding Ltd. MCB Madagascar will follow the same course once regulatory approvals are obtained. On another note, Société Générale Moçambique has become an associate of MCB Group Ltd. This follows the acquisition, by Société Générale, of a stake in the former subsidiary, i.e. MCB Moçambique, in October 2015, towards boosting the entity's operations and market expansion.

Corporate profile

Organisation Chart of the Bank

Our strategy execution is enabled by key operating pillars, which comprise business lines and supporting functions. Common frameworks and policies underpin the execution of our strategic intents towards ensuring that the Bank works in a coherent way for the benefit of its customers.



In alignment with its strategic orientations and market practices, the functioning of the Bank has been further enhanced and streamlined lately. A key development relates to the official 'Go-Live' of its newly-established Corporate and Institutional Banking Strategic Business Unit on 1 July 2016, pursuant to the validation of its organisation structure by the Management Committee and Board of MCB Ltd last March. The design of the new operational set-up is geared towards catering for more cost-efficient and value-added operations, reinforcing risk controls and supporting new engines of growth. Furthermore, with a view to attaining Bank-wide operational efficiency gains, a more structured and coherent organisation of the Chief Operating Officer's (COO) office has been achieved. In addition to a more articulate enunciation of the responsibilities and operations of existing segments, two new business units that report to the COO have been created, namely Business Analysis and Project Management, as well as Digital and Document Processing.

Our Business Model

Our Philosophy and Guiding Principles

Our ambition

Capitalising on our brand, people and technology, our underlying ambition is to achieve sound, balanced and sustained business growth locally and abroad, while supporting economic, social and environmental progress in the countries where we are involved.

Stakeholder engagement

Alongside adhering to regulatory rules and good business practices, we help to create and grow wealth to foster long-term value creation for our stakeholders and earn their trust.

Value creation model

Our business model, which is guided by our mission, vision, values and material matters, is encapsulated within our value creation model. The latter shows how the Bank allocates, modifies and makes use of our various capitals before transforming them to produce outputs and create value (outcomes).

VALUE IN

Inputs

Availing forms of capitals

Financial capital

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

Key components:

- Funds generated by means of our productive operations and investment
- Financing obtained from external sources

Social and relationship capital

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

Key components:

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

Human capital

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

Key components:

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

Natural capital

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

Key components:

- Environment resources
- Biodiversity and eco-system

Intellectual capital

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

Key components:

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

Manufactured capital

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

Key components:

- Branches and buildings
- Plant and equipment
- Remote and digital channels

Setting strategic ambitions and priorities

Acting upon capitals through strategic initiatives

Designing and providing adapted financial solutions across market and business segments

Deploying specialised competencies and knowledge for interpreting and attending to stakeholder needs

Achieving efficient use of technologies and processes

Managing key risks through solid frameworks

Coping with the operating context

Managing the economic, market, regulatory and technological environment

Dealing with internal challenges in terms of process, people and systems

VALUE OUT

Outputs

Outcomes

Activities underpinning income generation

Key sources of business activity shaping up our on- and off-balance sheet positions	Income statement
Income after credit impairments	
We provide lending facilities to our clients, within the limits of prescribed regulatory requirements and by taking into consideration the customer's credit-worthiness, industry dynamics and the economic climate. Furthermore, investments are made in treasury securities and funds are placed with banks.	Interest income and credit impairment charges
We source funding mainly from deposits placed by individual and corporate customers as well as public sector entities. Besides, we leverage wholesale funding markets when required, including the capital and debt markets as well as international financial organisations.	Interest expense
In addition to our retail and corporate loan facilities and delivering solutions emanating from other entities of the Group, we offer a multitude of products and services. In particular, our offerings comprise: transactional, trade-related and risk mitigation facilities as well as portfolio and wealth management services. Furthermore, income is derived from profit arising from dealing in foreign currencies and returns on investments.	Non-interest income = (Net fee and commission revenue + Trading Revenue + Other revenue)
– Expenses	
We invest in engaging, developing and retaining our employees to create a solid foundation to execute our strategic thrusts and to foster the attainment of customer service excellence.	Staff costs
We invest in establishing and modernising our functioning and operational set-up so as to underpin the smooth and effective running of our strategic activities, with costs incurred relating notably to information technology systems and physical infrastructures.	Other operating expenses

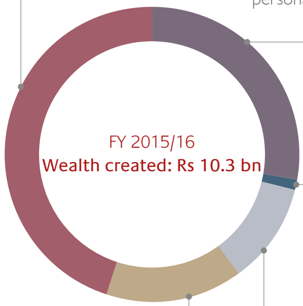
– Income tax expense

= Net profit

– Dividends in cash

= Retained earnings

Wealth created



Expansion and growth, 38%
Wealth is retained to fund our strategy and grow our business.

Employees, 26%
Our value proposition comprises competitive rewards and benefits, with emphasis laid on the personal and career development of our staff.

Corporate Social Responsibility, 1%
We promote the welfare of the society and the communities in which we live and work.

Providers of capital, 21%
We aim to provide our shareholders with sustainable returns through adequate dividend payout.

Government, 14%
Through our tax payments, we assist the Government in funding national projects with positive socio-economic ramifications.

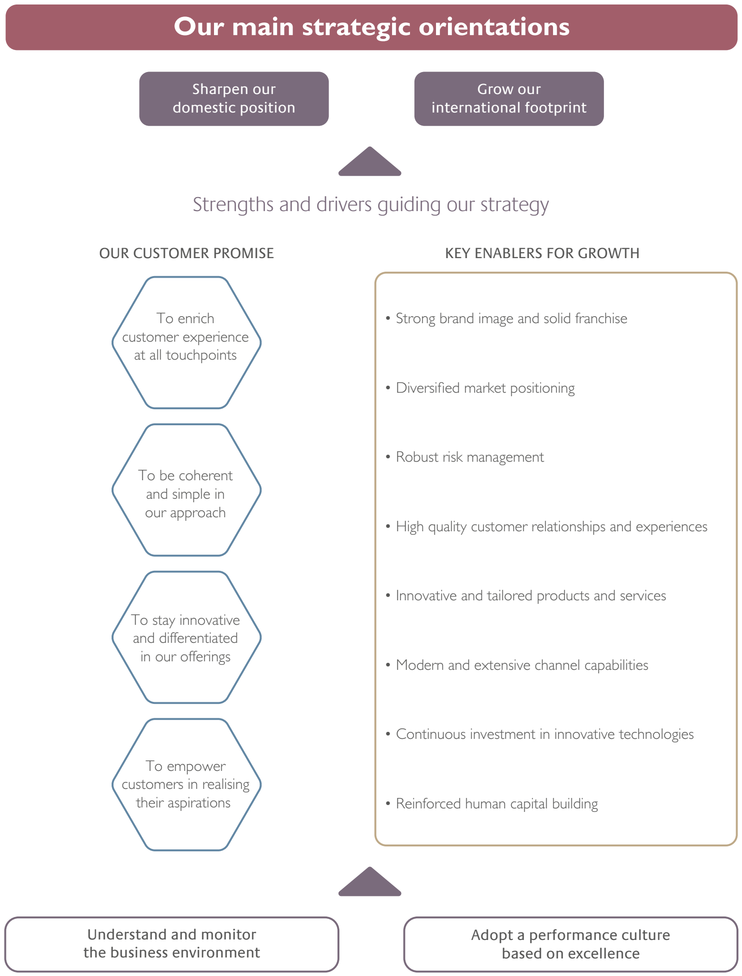
Witnessing the impact on forms of capital

Financial capital	Revenue generated help to reward investors, pave the way for future business growth, and generate favourable socio-economic outcomes
Social and relationship capital	We promote the well-being of communities, economies, clients and other stakeholders, while addressing relevant requirements and queries
Human capital	We allow employees to prosper, in support of better client experiences and business growth
Natural capital	We aim to safeguard the quality of the natural environment, alongside helping to preserve the availability of non-renewable sources of energy
Intellectual capital	Our intangible assets and conversion of information into knowledge provide the Bank with a competitive advantage that contributes to reinforce our brand and image
Manufactured capital	Our strengthened operational paradigm allows us to be more innovative and competitive on the marketplace as well as to better serve our stakeholders

Our Strategic Focus Areas

Alongside addressing the challenges and opportunities linked to our operating environment, our strategy is embedded on the thorough understanding of client needs and expectations with a view to providing them with convenient and tailored solutions for achieving their goals. We are actively engaged in fostering market diversification across segments and geographies as well as promoting financial soundness.

To achieve our strategic objectives, we aim to continuously align our internal processes, systems and people to our market development thrusts, adopt an internal performance culture which is based on innovation and excellence, and carefully manage the risk areas linked to our operations and activities.



Retail

Backed by its enriched solutions and the quality of its service, the Retail SBU caters for the day-to-day needs of various customer segments, including high net worth clients. Besides, the Bank assists small and medium enterprises across sectors in the realisation of their needs and aspirations, while acting as an effective coach for supporting their initiation and development. In order to further its strategic thrusts, the Bank embraces judicious channel management with a view to simplifying customer interactions and experiences.

Corporate and Institutional Banking

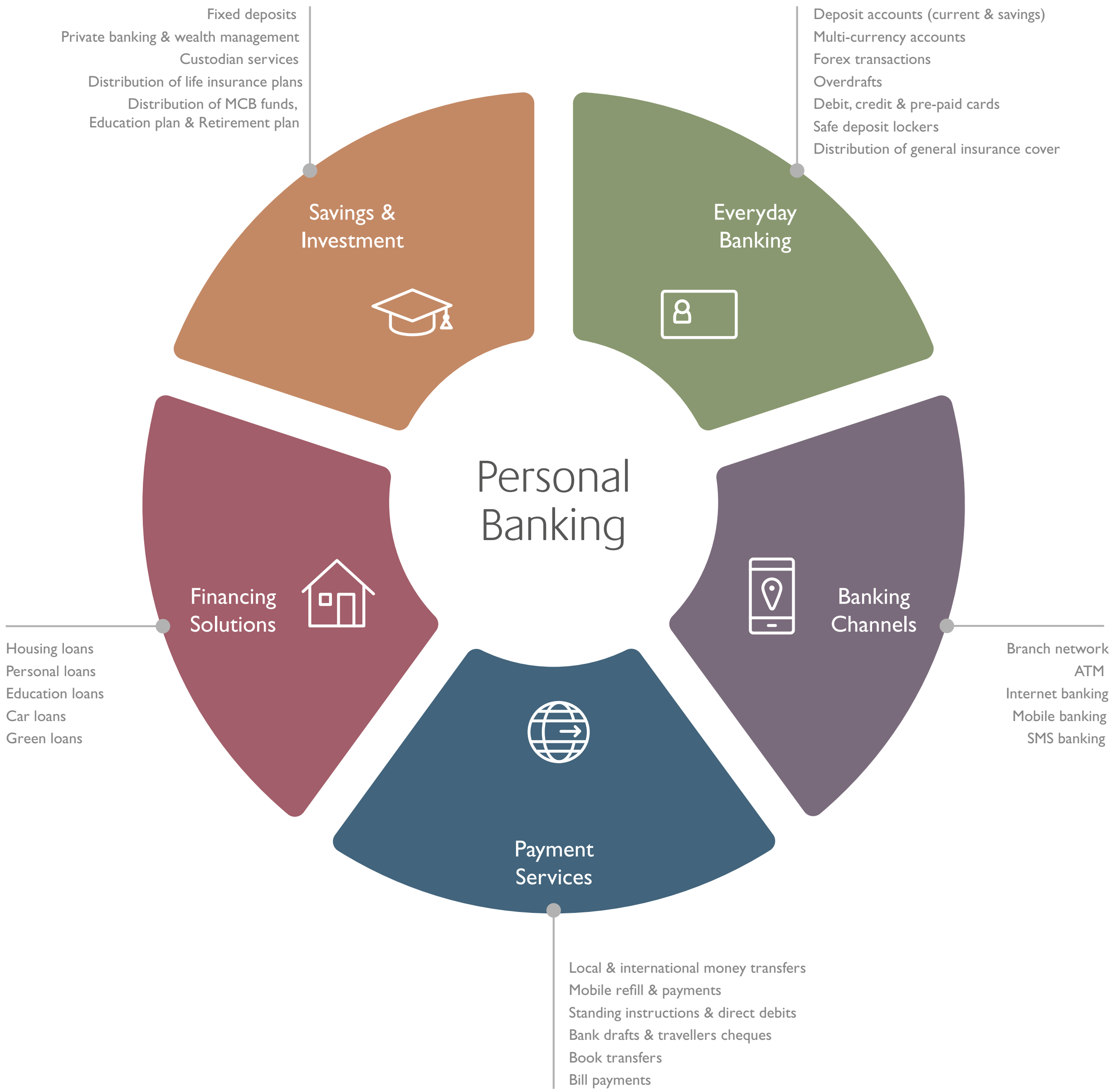
The Corporate and Institutional Banking SBU provides dedicated solutions to meet the needs of non-individuals locally and abroad. The Bank assists domestically-located corporates spanning the established and emerging economic sectors and the global business field. It provides them with flexible and innovative financial solutions as well as dedicated advice to meet their business development ambitions locally or abroad, thus helping to transform opportunities into winning strategies and supporting clients in their growth endeavours. Furthermore, the Bank seeks to widen its market footprint abroad, notably in the sub-Saharan African region. A cornerstone of MCB Ltd's regional diversification agenda is the 'Bank of Banks' initiative through which bundled banking and financial industry capabilities are offered to counterparts on the African continent. To achieve its objectives, the Bank's foreign involvement is supported by its customised solutions, wide network of global banking correspondents, access to global finance, dedicated business units operating from Mauritius, and representative offices in Johannesburg, Paris and Nairobi. The Group's overseas reach, through its foreign banking subsidiaries and associates, is also leveraged.

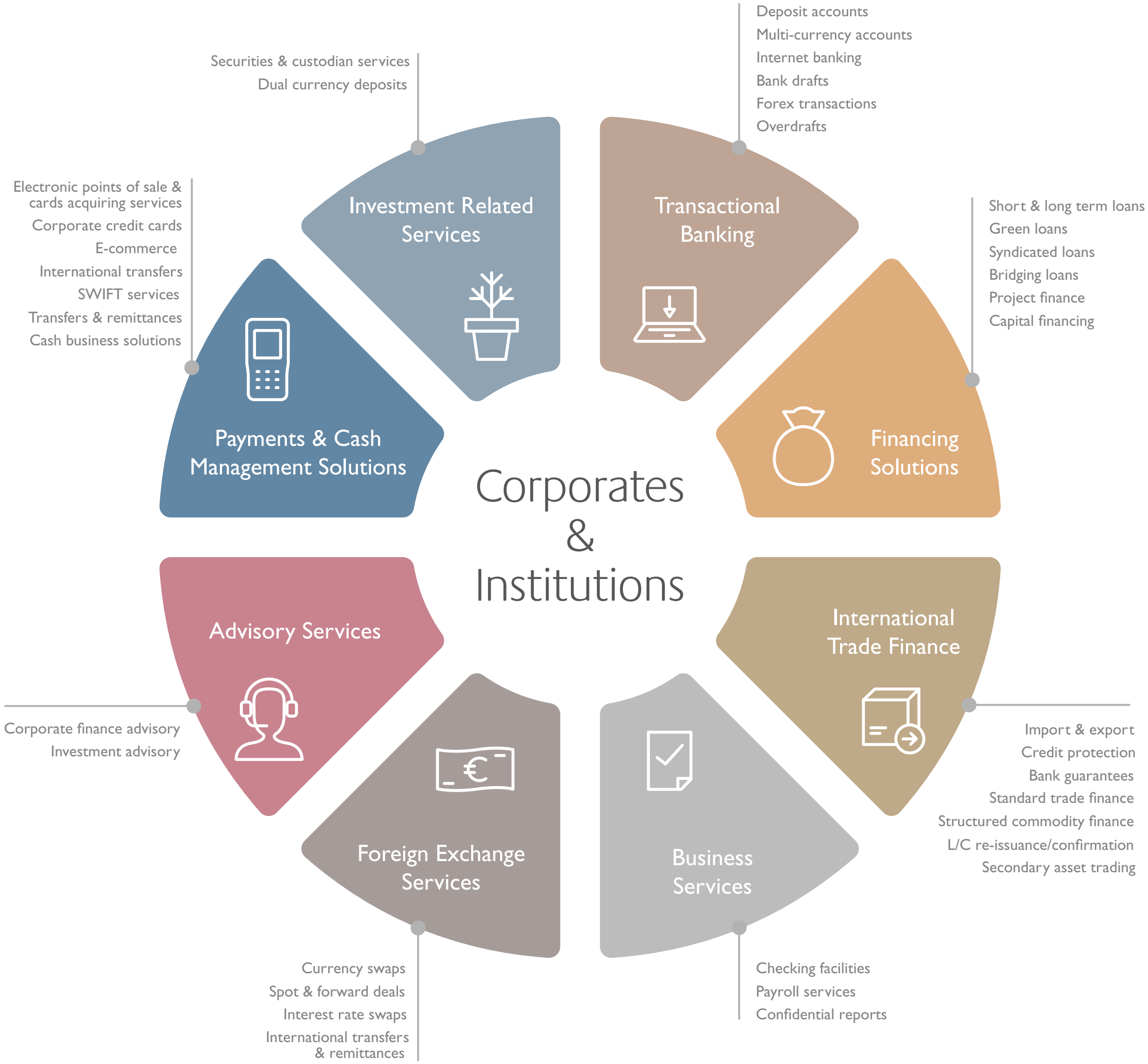
Cards

By means of its comprehensive offerings, advanced technology, global partnerships and extensive merchant network, the Cards SBU acts as a one-stop-shop for meeting all cards-related needs of its clients, while allowing them to make payments through digital channels.

Our Extensive and Customised Financial Solutions

The financial solutions offered by the business segments of MCB Ltd are shown below. Of note, the Bank also acts as a channel to distribute products and services structured by other entities of the Group.




Corporates & Institutions
Investment Related Services
Securities & custodian services
Dual currency deposits
Transactional Banking
Deposit accounts
Multi-currency accounts
Internet banking
Bank drafts
Forex transactions
Overdrafts
Financing Solutions
Short & long term loans
Green loans
Syndicated loans
Bridging loans
Project finance
Capital financing
International Trade Finance
Import & export
Credit protection
Bank guarantees
Standard trade finance
Structured commodity finance
L/C re-issuance/confirmation
Secondary asset trading
Business Services
Checking facilities
Payroll services
Confidential reports
Foreign Exchange Services
Currency swaps
Spot & forward deals
Interest rate swaps
International transfers & remittances
Advisory Services
Corporate finance advisory
Investment advisory
Payments & Cash Management Solutions
Electronic points of sale & cards acquiring services
Corporate credit cards
E-commerce
International transfers
SWIFT services
Transfers & remittances
Cash business solutions

Board and Management

Board of Directors

Non-Executive Directors

Jean-Philippe COULIER *(Chairperson)(Independent)*

Priscilla BALGOBIN-BHOYRUL *(Independent)*

Jonathan CRICHTON *(Independent)*

Gilles GUFFLET *(Independent)*

Jean-Michel NG TSEUNG

Iqbal RAJAHBALEE *(Independent)*

Simon Pierre REY *(Independent)*

Executive Directors

Raoul GUFFLET

Alain LAW MIN

Antony R. WITHERS

Secretary to the Board

MCB Registry & Securities Ltd
(represented by Marivonne OXENHAM)

Committees of the Board

Supervisory and Monitoring Committee

Jean-Philippe COULIER *(Chairperson)*
Raoul GUFFLET
Alain LAW MIN *(also acts as Secretary)*
Antony R. WITHERS

Audit Committee

Gilles GUFFLET *(Chairperson)*
Priscilla BALGOBIN-BHOYRUL
Simon Pierre REY

Secretary: MCB Registry & Securities Ltd (represented by Marivonne OXENHAM)

Conduct Review Committee

Simon Pierre REY *(Chairperson)*
Priscilla BALGOBIN-BHOYRUL
Gilles GUFFLET

Secretary: Frederic PAPOCCHIA

Nomination and Remuneration Committee

Jean-Philippe COULIER *(Chairperson)*
Iqbal RAJAHBALEE
Simon Pierre REY *(also acts as Secretary)*
Antony R. WITHERS

Risk Monitoring Committee

Jonathan CRICHTON *(Chairperson)*
Jean-Philippe COULIER
Raoul GUFFLET *(until August 2016)*
Jean-Michel NG TSEUNG
Iqbal RAJAHBALEE
Antony R. WITHERS

Secretary: Frederic PAPOCCHIA (as from January 2016)
Alternate: Alain LAW MIN (to Antony R. WITHERS)

Board and Management

General Management

Management Committee

Antony R. WITHERS	**Chief Executive**
Raoul GUFFLET	**Deputy Chief Executive and Head – Corporate and Institutional Banking**
Alain LAW MIN	**Deputy Chief Executive and Head – Retail**
Vincent CHATARD	Chief Operating Officer
Eddy JOLICOEUR	Head – Human Resources
Frederic PAPOCCHIA	Chief Risk Officer
Bhavish NAECK	Head – Finance

Other members of General Management

Paul CORSON	Deputy Head – Corporate and Institutional Banking
Robin CUNDASAWMY	Head – Internal Audit
Koomaren CUNNOOSAMY	Head – Corporate Banking
Hemandra Kumar HAZAREESING	Head – Global Business
Marc HAREL	Head – Institutional banking
Vicky HURYNAG	Head – Strategy, Research & Development
Roselyne LEBRASSE-RIVET	Head – Legal/In-House Lawyer
Steve LEUNG SOCK PING	Head – Quality Assurance
Binesh MANGAR	Head – Cards
Didier MERLE	Head – Private Banking and Affluent Segments
Vikash NATHOO	Head – Recovery
Stephanie NG TSEUNG-YUE	Head – Marketing
Jovanna PREFUMO-MONTY	Head – Treasury
Abraham RAWAT	Head – Banking Operations
Anju UMROWSING-RAMTOHUL	Head – Credit Management

Advisor to Chief Executive

Denis MOTET *(as from January 2016)*

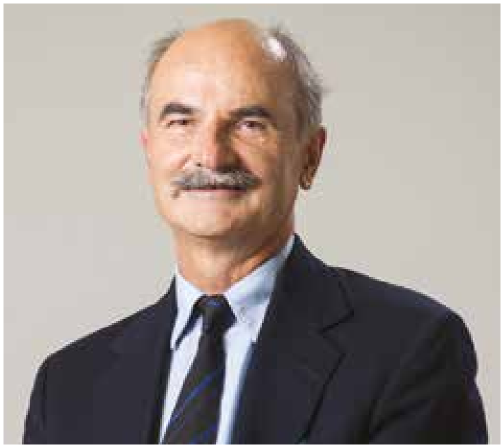
Movements during the year:

Appointment: Frederic PAPOCCHIA (formerly Deputy Chief Risk Officer) as Chief Risk Officer and Member of the Management Committee effective January 2016

Retirement: Denis MOTET (December 2015), Jean Philippe COUVE DE MURVILLE (June 2016)

Resignation: Kent GRAYSON (December 2015)

Chairperson's Statement



The Year in Review

In FY 2015/16, MCB Ltd maintained its commitment to serve its customers and other stakeholders backed by the adherence to good corporate governance and solid risk management principles, in alignment with regulatory requirements and international best practices. The main challenge of the past year was certainly the deterioration of the geopolitical situation, especially in Africa which is our main focus abroad, and the lack of dynamism of the Mauritian economy, with a weak ratio of private investment. In this mediocre economic environment, our answer was to remain focused on adapting to change and growing our business. We prudently executed our strategic targets, which enabled us to sharpen our domestic market position and preserve a prominent regional footprint.

Domestically, in addition to improving the quality of our customer service, we have harnessed digital technology as a game-changer and a means to continuously enhance the richness of our value proposition. MCB consolidated its leadership position across both the individual and corporate segments. It accounts for 40% of local currency deposits, while nearly one in every two cards issued in Mauritius is MCB-branded. We have similarly maintained a market share of around 40% in respect of total domestic credit to the economy, with foremost positions held in respect of housing loans and credit extended to most economic sectors. Reflecting its pledge to help entrepreneurs to take off and prosper, the Bank continues to rank 1st amongst banks participating in the Government-backed SME Financing Scheme, representing 50% of total facilities granted between December 2011 and August 2016. Besides, testifying to its endeavour to support the education of the country's youth, MCB Ltd stands at the topmost position in respect of total student loans approved under normal banking terms and the Government Guarantee Scheme, with a market share of over 60% posted for credit offered between April 2013 and August 2016.

Beyond local shores, MCB has reinforced its market involvement in the sub-Saharan African region, notably underpinned by its customised solutions and correspondent banking relationships. A major achievement relates to the continued deployment of the 'Bank of Banks' initiative, through which our organisation offers a range of tailored outsourcing services to our counterparts in Africa and beyond. It can be noted that, since the inception of the 'Bank of Banks' initiative in 2009, MCB has serviced nearly 100 financial institutions worldwide, including more than 80 across Africa.

To support these endeavours with a maximum of efficiency and lay solid foundations for future growth, the Bank has embarked on important reorganisation initiatives. The reorganisation and merger of our Corporate and International Business has been completed while the support functions have been regrouped under a newly-created position of Chief Operating Officer.

Reflecting this sensible market development approach and the creation of favourable conditions to support sustained business growth, MCB Ltd registered a resilient balance sheet growth in the year ending June 2016, while its net profit grew by 12% to attain Rs 5,620 million. At the same time, the Bank upheld healthy capitalisation, funding and liquidity, as well as asset quality metrics.

Our Stakeholder Engagement

Our commitment to our stakeholders goes beyond putting our customers at the heart of our initiatives and extends to a wide-ranging and thoughtful stakeholder engagement agenda. This is reflected in the new format adopted for this year's Annual Report, which integrates the review of all resources which contributed to the success of MCB Ltd. First of all, reflecting our unflinching compliance with good governance standards and regulations, we regularly engage with our regulators and rating agencies in a transparent and constructive manner. On the employee side, we remain active in attracting, retaining and developing a talented and diverse workforce which is capable of meeting current challenges and adapting to an evolving operating environment. To this end, we took the necessary initiatives to understand and deal with staff requirements, create a stimulating work environment to promote the safety, well-being and professional advancement of employees, and conduct specialised training programmes.

On another note, the Bank fulfilled its commitment as a socially responsible and caring corporate citizen. In FY 2015/16, an amount of Rs 67 million was entrusted by MCB Ltd to the MCB Forward Foundation which is the Group's dedicated vehicle, ISO certified, for the design and implementation of CSR initiatives. Several actions have been taken in favour of absolute poverty alleviation as well as the education, health and welfare of children, while dedicated moves underpinning community empowerment and socio-economic development were made. Finally, to promote sustainability principles, the Bank contributed to preserve the quality of the natural environment and foster the optimal management of non-renewable sources of energy. MCB adopted environment-conscious practices in its operations and activities and has committed to the Equator principles, thus encouraging energy-saving investments by its clients. Besides, it promoted the eco-friendly awareness of customers, the general public and its employees, in addition to sensitising internal stakeholders in this respect.

Looking Forward

We know that change is permanently around us. In this dynamic era, our aim is to remain a well-capitalised and sufficiently-funded Bank that will unleash opportunities for revenue generation, deliver high standard of service to our customers and create value for our numerous stakeholders. In order to meet these objectives, we need to take additional steps to further improve the way our organisation operates, introduce new products and services and remain on the look-out for growth avenues.

The Bank will keep on simplifying and streamlining the way the organisation functions and will also invest in new technologies, in order to effectively respond to the increasingly complex demands of its operating landscape. Specifically, the Bank will strive to remain relevant to its clients in the digital economy and provide them with exciting new banking solutions. More generally and as it has always been the case, adherence to good corporate governance principles will be the mainstay of our operations, thereby helping us to maintain consistency and rigour in our decision-making process and effective control mechanisms. In another respect, the Bank will remain committed to corporate social responsibility, alongside integrating sound environmental practices into its day-to-day business activities. All in all, the Bank aspires to embrace the principles of holistic leadership, whereby each of our stakeholders takes pride in being an essential part of our business transformation and achievements.

Final Words

On behalf of the Board, I would like to acknowledge the dedicated involvement of the staff and management of MCB Ltd in taking the organisation to new heights. I am proud of their individual and collective contributions in helping to deliver our strategy in such challenging times. I also wish to express my gratitude to our esteemed customers for their continued trust in our ability to serve them. Furthermore, I thank my fellow Board members for their wise counsel and collaboration with respect to the formulation and execution of key strategic decisions that guided the Bank forward.

Jean-Philippe COULIER
Chairperson
MCB Ltd

Chief Executive's Statement

I am pleased to report that MCB Ltd achieved good operating income and bottom-line results for the year ending 30 June 2016. While highlighting that our strategy is working, our performance is all the more encouraging when considering that our operating environment has remained persistently difficult, both in Mauritius and abroad. In fact, our sound business model and the dedication of all of our staff have enabled us to further grow our business and create value for our stakeholders.

Our Financial Performance

The net profit of the Bank increased by nearly 12% to Rs 5,620 million in FY 2015/16. As already mentioned, this outcome has been achieved in the face of a particularly delicate economic context. Sluggish private investment trends have prevailed in Mauritius, with the consequence that our gross loans to customers remained relatively flat. Nonetheless, our net interest income rose further and, coupled with a solid growth in profit on exchange, this led to an increase of 10.1% in operating income to Rs 12,463 million. This outcome was achieved in spite of a drop in net fees and commission income after several years of appreciable growth, reflecting the adverse impact of low oil prices on our regional trade finance activities. Furthermore, after making allowance for the contained rise in operating expenses in line with the Bank's careful management thereof, operating profit before provisions rose by 14% to Rs 7,823 million. Alongside pursuing its business development, the Bank exercised prudence in preserving the soundness of its activities in support of future growth. These results translated into a further drop of more than 2 percentage points in our cost to income ratio to 37.2%. Moreover, we remained a well-capitalised Bank. While comfortably overshooting regulatory requirements as per Basel III, our BIS and Tier 1 ratios reached 16.3% and 14.9% respectively as at 30 June 2016, representing a rise of more than 1 percentage point in both cases. On the asset quality side, after factoring in our nearly unchanged loan book, our gross and net NPL ratios stood at 5.9% and 3.8% respectively as at 30 June 2016, which, while capable of improvement in future, are viewed as being generally satisfactory in the current circumstances.

Our Achievements

In FY 2015/16, MCB pursued its business development agenda across market segments, while moving forward in a responsible way in the challenging business context. In fact, a distinguishing feature of the period under review is that the Bank bolstered its operational platforms and capabilities to support the execution of its strategy, alongside adopting a selective approach to existing and new business prospects. Locally, we have sharpened our leading market position, with the Bank maintaining its proximity to its individual, large corporate and SME clients with the aim of empowering and enabling them to realise their ambitions. Our endeavours have been guided by the continuous enhancement of the richness of our customer propositions. We have delivered best-in-class experiences that suit the lifestyles and aspirations of our customers, supported by client-centred innovation. The ethos that has shaped our actions can be summarised as follows:

i. the formulation of a clear and coherent customer promise;
ii. making banking solutions available anywhere and anytime;
iii. understanding and making sense of client requirements; and
iv. building close-knit relationships with clients with a view to offering them exactly what they are looking for.

To achieve its objectives, the Bank has accelerated its technological transformation and, thus, built a strong position in the field of self-service and digital banking. In addition to boosting in-branch experiences, the Bank improved the attractiveness of its online channels, notably 'Juice', i.e. our mobile banking and payments service as well as our website and Internet Banking platform. Testifying to our perpetual quest to put clients at the heart of everything we undertake, our 'Juice' mobile service has attracted sustained market interest over time. Since its launch in July 2013, it witnessed a remarkable and sustained growth in the number of registered users, which now stand at over 80,000, with around 40,000 users having been added during the year. Beyond Mauritius, MCB has increased its market vigilance in order to effectively deal with heightened macroeconomic challenges prevailing in the sub-Saharan African region. In this respect, a key decision has been the revision of our risk appetite to foster the gradual and balanced execution of our regional market diversification. With regard to the latter, a notable achievement of MCB is the extension of the 'Bank of Banks' initiative. While helping us to forge strategic relationships geared towards the nurturing of mutually beneficial avenues for collaboration in various fields, the proposition has, till now, enabled the Bank to build its dedicated platform for handling the outsourcing needs of financial institutions in Africa and beyond, with notable headway made in terms of our geographical market reach and the range of our product offerings. In addition, while moving thoughtfully given the marked decline in oil and other commodity prices, the Bank has executed its Energy & Commodities strategy, alongside maintaining its participation in syndicated lending and consolidating its positioning in relation to structured project finance for sectors where it has proven experience and good track record.

Our Accolades

The Bank has, during the year under review, maintained the investment grade ratings assigned to it by Moody's and Fitch Ratings. In recent reports, these institutions have, amongst others, underscored the Bank's dominant domestic franchise, strengthened capitalisation which provides a high loss-absorption capacity, stabilising asset quality metrics, improving profitability, and comfortable liquidity levels, supported by a granular deposit-based funding structure. MCB has, also, been the recipient of awards and accolades. Last year, MCB Ltd was named the 'Bank of the Year for Mauritius' by The Banker/FT Magazine and 'Best Bank' in the country by both Euromoney and UnionPay International. In addition, our ability to spearhead technological innovation has won us two accolades from Visa, notably 'Best innovative Bank in the market' and 'Visa Innovation Award'. The Bank's reputation for excellence has also been recognised on the regional front. Indeed, MCB Ltd was named as 'Best Regional Bank in South Africa' by The African Banker and is the 'Leading regional bank in terms of operating income and profitability' according to L'Eco Austral.

Our Reinforced Capabilities

The year under review has also witnessed the mobilisation of resources to build capacity and invest for future growth. Underpinned by organisation-wide efforts, we finalised the setting up of our Corporate and Institutional Banking SBU. The function, which now has a reinforced operational and governance framework, should help the Bank to better harness its potential and pursue a more coordinated internationalisation strategy. Furthermore, MCB has continued to simplify and streamline its operations capability with added flexibility to respond to fast-changing customer needs. The 'Refresh towards Smarter Operations' programme of the Bank has been put into place, with a notable accomplishment being the more structured and coherent organisation of the Chief Operating Officer's office. In the same vein, several technological projects have been initiated to support our back and front office operations. They should pave the way for more agile and smarter operations as well as better attending to client requirements. In addition, we have put a strong focus on reinforcing the quality of our human resources, backed by tailored development programmes.

Looking Ahead

The domestic and international business environment will likely remain quite testing in the coming years. While the persistently volatile economic landscapes of our targeted countries call for attention, regulations and compliance standards are getting ever more stringent, with the bar raised in the field of anti-money laundering and KYC. Consequently, banks, which are subject to increasing scrutiny, need to maintain higher level of diligence when executing activities and onboarding customers. Also, the speed of technology revolution worldwide is viewed as unprecedented. This necessitates that we stay well-informed of relevant industry developments taking place across the financial services sector and beyond. The aim is to tap into the avenues for business growth emanating from technological developments by adopting innovative practices that will help us to preserve our competitive edge and benefit our customers. Overall, alongside highlighting that banking is an inherently fragile business, the tough operating climate is throwing up new challenges and, likewise, interesting avenues for growth on us. Concurrently, it is imposing more responsibilities on the Bank as it looks to raise its performance to a higher level.

In the periods ahead, a key priority of the Bank will be to raise its ability to adhere to evolving regulatory requirements, with the targeted adoption of IFRS 9 in June 2018 being also on the horizon. Furthermore, along with building capabilities to be ready for the anticipated new growth cycle, MCB will pursue its strategic objectives across market segments, with the key focus on executing its Medium Term Growth Strategy. At the same time, the Bank will continuously adjust and refine its actions to live up to what customers expect. Locally, the Bank will look to strengthen its relationships with its individual and non-individual customers, backed by its tailored offerings and unique selling propositions. While it is appropriate to take note of measures earmarked by the Government to improve investment and growth, the Bank will position itself to capitalise on any upturn in the business environment and the demand for credit. Beyond that, the Bank will seek to preserve its prominent market position in the sub-Saharan

Chief Executive's Statement

African region, while proceeding in a prudent way given the generally soft economic climate. While we will stay alert to opportunities in fast-evolving environments across other geographies, we will be mainly involved in fields where we hold strategic competencies and differentiated value propositions. Overall, to underpin its business growth, the Bank will continue to place customer at the heart of everything it does. It will enhance its value proposition and further widen its digital footprint, backed by the use of innovative technologies. Thus, it will provide an increasingly appealing range of self-service, seamless and tailored solutions that will make things simpler, easier and better for our customers. To this end, we will further simplify our processes, alongside continuing to invest in our people. Our aim is to continue capitalising on the tremendous potential of our employees after equipping them with the right set of skills that will prepare them for evolving market developments.

Concluding Note

Steering the Bank forward during such demanding times is a challenging, yet exciting, task. For that, I would like to acknowledge the hard work and commitment of our staff, management team and Management Committee in helping to make things happen. Achievements are only possible with close collaboration and dedicated support in delivering sustainable value to our multiple stakeholders. Here, I wish to put on record our sincere gratitude to the efforts and contribution that Mr Jean Philippe Couve de Murville has, before his retirement this year, provided for the advancement of the Bank in his capacity as Chief Engineer. I wish him all the best going forward. At the same time, I wish to welcome Mr Vincent Chatard as Chief Operating Officer and member of the Management Committee of MCB Ltd.

Importantly also, I would like to take the opportunity to thank our valued clients for doing business with us and for their confidence in our ability to meet their changing and increasingly sophisticated expectations. We are fully aware that we need to earn and keep the trust of our customers every single day, which we have always strived to achieve. I also extend my gratitude to the Board of MCB Ltd and that of our ultimate shareholder, MCB Group Ltd, for its direction in spearheading our organisation to new strategic heights and creating a favourable environment that will embed the dynamism necessary for the promotion of sound and sustained business growth.

A.R. Withers

Antony R. WITHERS
Chief Executive
MCB Ltd

Company Secretary's certificate

In our capacity as Company Secretary, we hereby certify that, to the best of our knowledge and belief, the Company has filed with the Registrar of Companies all such returns as are required of the Company under the Companies Act 2001 in terms of section 166(d).

Marivonne OXENHAM
Per MCB Registry & Securities Ltd
Company Secretary

28 September 2016

Statement of compliance
(Section 75(3) of the Financial Reporting Act)

Name of Public Interest Entity ('the PIE'): The Mauritius Commercial Bank Limited
Reporting Period: 1 July 2015 to 30 June 2016

We, the Directors of The Mauritius Commercial Bank Limited, confirm that, to the best of our knowledge, the Company has complied with the obligations and requirements under the Code of Corporate Governance in all material aspects.

A.R. Withers

Jean-Philippe COULIER
Chairperson

Antony R. WITHERS
Director

28 September 2016

Introduction

The Board of MCB Ltd is committed to upholding the highest standards of corporate governance. Sound corporate governance is intrinsic to the Bank's values, culture, processes and functions in the pursuit of its strategic orientations aimed at maximising the long-term value creation for its stakeholders. Principles of integrity, accountability and transparency are fostered throughout the organisation to ensure professional and ethical conduct by directors and employees in their dealings with all stakeholders, thus promoting and maintaining trust.

The Bank's approach to governance is underpinned by adherence to advocated norms and regulatory requirements. As such, MCB Ltd ensures strict compliance with all relevant legislations in Mauritius and adopts underlying Basel principles. The Bank abides by the Basel III rules pertaining to eligible capital as contained in guidelines issued by the Bank of Mauritius while having in place an Internal Capital Adequacy Assessment Process (ICAAP) framework and a formal disclosure policy as per advocated practices. It also complies with the Bank of Mauritius Guideline on Corporate Governance, revised in May 2016, in addition to subscribing to the Code of Corporate Governance (2003) which has hitherto been in force. In the same vein, the Bank abides by the revised Mauritius Bankers Association's Code of Ethics and Banking Practice (2016) and has its own Code of Conduct which seeks to instill Bank-wide awareness of its operating beliefs and principles. In fact, the Board continuously monitors and adapts practices to reflect developments in corporate governance principles given their significance in ensuring smooth business operations and optimal stakeholder engagement within an increasingly challenging environment.

Corporate governance report

Governance Structure

Our Governance Framework

MCB Ltd is led by a committed and unitary board, which is collectively accountable and responsible for the long-term success of the organisation. Accordingly, the Board sets out the Bank's strategic directions, oversees their execution and establishes the procedures and practices within a framework of effective controls and risk management, alongside ensuring adherence to relevant legislations and policies. While the Board has reserved certain matters for its approval, it has created five committees to help it carry out its duties and responsibilities in specific areas. The Board Charter provides for delegation of authority and clear lines of responsibility, backed by a fitting reporting mechanism whereby matters affecting the affairs and reputation of the Bank are duly escalated to the Board by the Chairpersons of these committees. In this way, the Board maintains an effective oversight process within a flexible and autonomous structure that allows for adequate ring-fencing of activities, as gauged by the segregation of banking and non-banking operations.

The day-to-day running of the business is entrusted to the management executives with the Board regularly monitoring compliance thereof to set objectives and policies. The Board Charter provides a clear definition of the roles and responsibilities of the Chairperson, executive and non-executive directors.

Key roles and responsibilities

Directors

Executive

- Make and implement decisions on matters affecting the operations, performance and strategy of the Bank
- Design, develop and implement strategic plans
- Provide specialist knowledge and experience to the Board
- Deal with the day-to-day operations of the Bank

Non-executive

- Contribute to the development of the Bank's strategy
- Analyse and monitor the performance of management against the set objectives
- Ensure that the Bank has adequate and proper financial controls and systems of risk management
- Actively participate in Board decision making and challenge constructively

Chairperson

- Leads the Board
- Ensures that the Board is effective in its duties of setting out and implementing the Bank'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 the development needs of directors are identified and appropriate training is provided
- Maintains sound relations with stakeholders

Chief Executive

- 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
- Provides leadership and direction to senior management
- Builds, protects, and enhances the Bank's brand value
- Ensures the Bank has implemented the necessary frameworks and structures to identify, assess and mitigate risks
- Acts as a liaison between Management and the Board

Company Secretary

- Ensures compliance with all relevant statutory and regulatory requirements
- Develops and circulates the agenda for the Board meetings
- Ensures good information flows as well as comprehensive practical support and guidance to directors
- Assists in the induction and training of directors

Constitution of The Mauritius Commercial Bank Limited

The salient features of the Bank's Constitution are highlighted below:

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

Corporate governance report

The Board and its Committees

Board Governance Structure

Board of Directors

In accordance with the constitution of MCB Ltd, the Board has all the powers necessary for managing, directing and supervising the management of the business and affairs of the Company. The Board is ultimately responsible for the affairs of the Company. The Company's constitution provides that the minimum number of directors shall be five and the maximum number twelve.

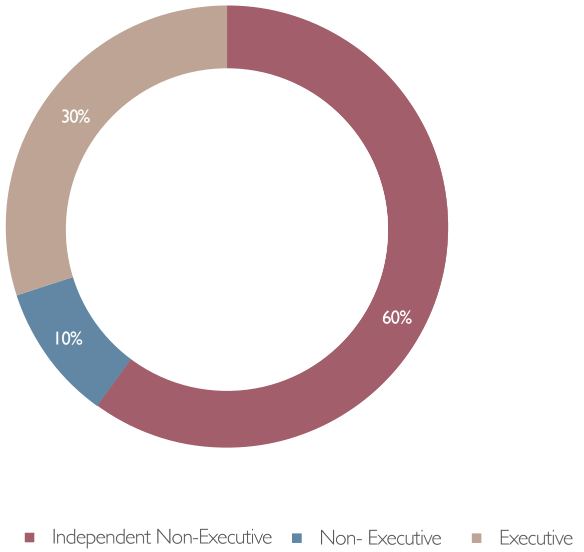
	Supervisory and Monitoring Committee (SMC)	Audit Committee (AC)	Risk Monitoring Committee (RMC)	Nomination and Remuneration Committee (NRC)	Conduct Review Committee (CRC)
Mandate	The SMC is responsible for setting the development strategy and objectives of MCB Ltd and submitting it to the Board whilst monitoring and measuring the Bank's performance against such strategy. It oversees the overall management of MCB Ltd in accordance with set policies.	The AC is responsible for overseeing the financial reporting process designed by management in order to ensure the integrity and transparency of the financial information published by MCB Ltd.	The RMC is responsible for establishing the risk appetite and tolerances for MCB Ltd. It also reviews and monitors specific individual risk portfolios set against the agreed risk parameters in compliance with Basel recommendations and the risk management framework of MCB Ltd.	The NRC is responsible for making recommendations in respect of nominations and remunerations for the Board and Committee members as well as chief executive /senior officers who form part of the General Management.	The CRC is responsible for monitoring and reviewing related party transactions, their terms and conditions, and ensuring the effectiveness of established procedures and compliance with the Bank of Mauritius Guidelines.
Composition as per Charter	Shall consist of the following:- • Chairperson of the Board • Chief Executive • Deputy Chief Executives	Shall comprise between three and five members and shall consist solely of independent directors from whom the Chairperson shall be nominated.	Shall consist of the following:- • At least three non-executive directors • Chief Executive	Shall comprise between three and five members, with a majority of independent non-executive directors.	Shall comprise between three and five independent directors.

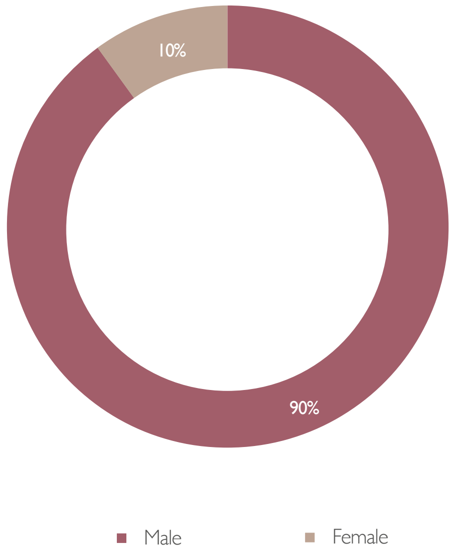
Board of Directors

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

- the composition of the Board with preferably a majority of independent non-executive directors;
- the requirement that the Chairperson of the Board shall be an independent non-executive director;
- the creation of Committees;
- a corporate code of conduct addressing, *inter alia*, issues relating to conflicts of interest;
- the establishment of strategic objectives;
- the appointment and remuneration policy of members of the General Management;
- the existence of clear lines of responsibility and accountability throughout the organisation;
- Board performance evaluation; and
- the provision of timely and accurate information to relevant authorities.

Approval of the Board is specifically required for, amongst other important matters, modifying the Company's Constitution, issuing fresh capital or buying back its own shares, declaring dividends, acquiring or divesting sizeable stakes in subsidiaries or associated companies, making appointments of senior officers, and establishing the remuneration of directors and chief executives. The Board presently comprises 10 members: 3 executive, 1 non-executive and 6 independent non-executive directors including 1 female member.





Corporate governance report

Board focus areas in FY 2015/16

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

Strategy and performance	• Approved the strategic orientations and budget plans • Discussed about progress of the Medium Term Growth Strategy amidst the evolving context • Approved the reorganisation of the Corporate and Institutional Banking SBU, regrouping the Corporate Banking, International and Global Business segments • Approved the creation of a Chief Operating Officer function and the organisation of the divisions attached thereto • Reviewed the role, activity and staffing of the representative offices • Discussed the results of the employee engagement survey (PULSE) • Reviewed the ongoing activities and initiatives of selected functions within the Bank • Discussed on current IT and Digital Transformation projects • Discussed on the regulatory compliance required to ensure the orderly execution of strategic orientations in specific segments
Governance and risk	• Reviewed and approved the Board and Board Committee Charters • Reviewed the findings of the evaluation of the Board and its sub committees undertaken by an external facilitator • Reviewed and approved the structure, size and composition of the Board and Board Committees • Approved the appointment of external auditors for joint audit • Directors briefed on reporting procedures with respect to directors' interests • Approved the Directors Development Programme • Assessed and discussed the main regulatory developments, notably with respect to IFRS 9 and the new draft Corporate Governance Code (2016) • Directors briefed by Chairpersons of the Risk Monitoring Committee, Nomination and Remuneration Committee and Conduct Review Committee on their deliberations • Discussed on the role of directors in a crisis situation • Assessed and approved the action plan to mitigate risks pertaining to skimming incidents • Discussed about the outcome of ongoing interactions with rating agencies
Financial	• Reviewed and approved the Bank's accounts on a quarterly basis • Assessed and monitored the Bank's financial performance against budget • Reviewed reports from the Audit Committee

Board Committees

The Board has created five Board Committees to help it in carrying out its duties and responsibilities namely the Supervisory and Monitoring Committee, the Audit Committee, the Conduct Review Committee, the Nomination and Remuneration Committee and the Risk Monitoring Committee. Of note, corporate governance matters are taken up at the level of the Board which ensures that related practices established by MCB Group Ltd, the ultimate holding company, are duly adhered to by the Bank. The composition of the committees appears on Page 31 of the Annual Report. Each committee has its own charter, approved by the Board and reviewed as deemed necessary. The charter sets out the committees' role, composition, powers, responsibility, structure, resources and any other relevant matters. Through the deliberations and reporting of its various committees, the Board ensures that Management's daily actions are in line with its objectives and regulatory requirements.

The key responsibilities/activities of each of the Board Committees are described hereafter.

Supervisory and Monitoring Committee

Presided by the Chairperson of the Board, who is an independent non-executive director, the committee also consists of the Chief Executive and two Deputy Chief Executives. It usually meets on a regular basis.

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

Its main responsibilities include:
- submitting to the Board the development strategy of the Bank;
- setting out the corporate values and principal policies, including the credit policy, in respect of the conduct of the business;
- ensuring that the organisation structure is best suited for the implementation and realisation of such policies and strategy while providing for clear lines of responsibility and accountability;
- ensuring that the Chief Executive and Deputy Chief Executives are managing the Bank in accordance with set policies and strategy;
- proposing the dividend policy and any change in the share capital;
- monitoring strategic alliances and major litigation issues; and
- ensuring that the Board is permanently updated about the running of the affairs of the Bank and about the major subjects and decisions that it has to approve.

Audit Committee

The committee currently consists of three independent non-executive directors with relevant financial know-how as described in their respective profile. It meets at least four times a year corresponding to the Bank's quarterly reporting cycle. In particular, it reviews the quarterly results and annual financial statements before these are approved by the Board.

The activities of the Audit Committee include, amongst others, regular reviews and monitoring of the following:
- the effectiveness of the Bank's internal financial control and risk management systems;
- the effectiveness of the internal audit function;
- the independence of the external auditors and the assessment of their performance;
- the remuneration of the external auditors and their supply of non-audit services; and
- the Bank's procedures for ensuring compliance with laws and regulations relevant to financial reporting and with its internal code of conduct.

As part of its responsibility to address significant issues linked to financial reporting, the committee has, during the year, discussed the adequacy of allowance for credit impairment. The committee also took note that new standards will be effective as from January 2018. Steps will soon be taken to prepare for the implementation of these standards. The committee has satisfied its responsibilities for the year in compliance with its terms of reference.

Corporate governance report

Risk Monitoring Committee	Nomination and Remuneration Committee	Conduct Review Committee
Consisting of five members including four non-executive directors, the committee meets at least on a quarterly basis. The Chief Risk Officer acts as Secretary. The main responsibilities of the Risk Monitoring Committee include: • monitoring the credit risk and market risk portfolios of the Bank; • overseeing credit concentration risk; • monitoring the quality of assets by segment and by product; • scrutinising the risk profile of large exposures; • recommending impairment and provisioning to the Audit Committee; • monitoring the utilisation of capital to make sure that the Bank has, at any time, a capital adequacy ratio corresponding to at least the regulatory minimum while performing regular stress tests thereon as part of the ICAAP; • ensuring that the Bank's security structure is adequate and that appropriate levels of protection for people and the Bank's assets are established; • ensuring that the confidentiality, integrity, availability and protection of the Bank's information assets are under constant review and that related information systems software and hardware devices are adequate and effective; • ascertaining that adequate measures are taken to ensure compliance with all relevant laws, BoM Guidelines and regulations, codes of conduct and standards of good governance; • reviewing and making recommendations to the Board with respect to the setting of risk appetite; • recommending foreign country exposure limits to the Board and monitoring actual exposures against these limits once validated; and • reviewing the Bank's operational risk tolerance as well as the business continuity plans to ensure that they are up-to-date.	The committee currently consists of four members namely the Chief Executive and three independent non-executive directors, including the Chairperson of the Board. The committee meets at least twice a year and on an ad hoc basis when required. Its main responsibilities include: • ascertaining whether the potential directors, chief executives and senior officers are fit and proper persons, have the required skills and expertise, and are free from material conflicts of interest; • ensuring that an induction programme is provided to new directors and that all directors are given regular updates on the evolution of laws, regulations and accounting best practices; • reviewing the Board structure, size and composition (including balance between independent/ non-executive/executive) and the composition of Board Committees; • reviewing, for submission to the Board, remunerations for directors and executives/senior officers as well as proposals of promotion to the General Management; and • reviewing the succession plan of senior executives and the list of talents.	Consisting of three independent non-executive directors, the committee meets four times a year. Its main responsibilities include: • ensuring that related party transactions' policy and procedures have been established by Management to comply with the requirements of the BoM Guidelines and that the policy is approved by the Board; • periodically reviewing the existing procedures to ensure their continuing adequacy; in particular, ascertaining that they are sufficient to identify any transactions with related parties that may have a material effect on the stability and solvency of the Bank and ensuring that such transactions are properly dealt with; • taking cognisance, reviewing and ratifying each credit facility granted to related parties with a view to ensuring compliance with the Bank of Mauritius Guideline and the Bank's 'Conflicts of Interest and Related Party Transactions Policy'; • ensuring that market terms and conditions are applied to all related party transactions; and • reporting on a quarterly basis to the Board of Directors on matters reviewed by it, including exceptions to policies, processes and limits.

Directors' Profile

The profiles of the Board members who served on the Board during FY 2015/16 are given hereunder. Profiles of directors including their directorships in other listed companies (where applicable) are given hereafter. Unless otherwise stated in their respective profile, directors ordinarily reside in Mauritius.

Chairperson

Jean-Philippe COULIER - Age 67
Independent Non-Executive Director

Date of first appointment : December 2012

Qualifications: 'Diplôme d'Études Supérieures en Droit' and 'Diplôme de l'Institut d'Études Politiques de Paris' (France)

Experience: During his career, Jean-Philippe has accumulated extensive experience in the banking sector, having worked for the Société Générale Group for some 40 years. Over this period, he has assumed a range of high-level responsibilities within the group, acting as Director, Chief Operating Officer and Chief Executive Officer in its various offices based worldwide. Before his retirement from Société Générale in early 2013, he was the Vice Chairman and Managing Director of the National Société Générale Bank in Cairo, Egypt. He currently sits on the Board of MCB Forward Foundation, a subsidiary of MCB Group Ltd.

Board Committee membership(s): Nomination and Remuneration Committee (Chairperson), Supervisory and Monitoring Committee (Chairperson), Risk Monitoring Committee

Executive Directors

Antony R. WITHERS - Age 62
Chief Executive

Date of first appointment : December 2006

Qualifications: MA in Economics (UK) and MBA (Switzerland)

Experience: Antony is currently Chief Executive of MCB Ltd, which he joined in April 2006. He has accumulated wide-ranging experience in the banking sector shouldering an array of high-level responsibilities in a number of institutions. These include Citibank, Bank of Montreal, S.G Warburg & Co. Limited, UBS Securities Limited, Commerzbank A.G, as well as Lloyds TSB Bank plc where he was Director and Global Head of Financial Institutions & International Trade Finance. He assumed the chairmanship of the Mauritius Bankers Association Ltd between November 2006 and May 2010 and was appointed as Chairman for a further term in March 2016. He also sits on the board of MCB Forward Foundation, a subsidiary of MCB Group Ltd.

Board Committee membership(s): Supervisory and Monitoring Committee, Risk Monitoring Committee, Nomination and Remuneration Committee

Directors' Profile (Cont'd)

Raoul GUFFLET - Age 48
Deputy Chief Executive and Head of Corporate & Institutional Banking

Date of first appointment : August 2015

Qualifications: Master's degree in Economics and 'DESS' in International Finance (France)

Experience: Raoul spent eleven years with PricewaterhouseCoopers holding various positions therein namely as Auditor, Corporate Finance Advisor and Management Consultant. Since joining MCB Ltd in April 2004, he was the Head of International and shouldered various responsibilities, *inter alia*, relating to the oversight of the Group's foreign banking subsidiaries, the management of international structured project and commodities trade finance activities, and the coordination of the correspondent banking relationships of MCB. During the past financial year, Raoul directed the merger between the International and the domestic Corporate Banking divisions that led to the creation of the Corporate and Institutional Banking line of business, of which he is the Head. He is a board member of several entities within the Group, namely Société Générale Moçambique, MCB Madagascar, MCB Seychelles and MCB Maldives amongst others.

Board Committee membership(s): Supervisory and Monitoring Committee

Alain LAW MIN - Age 57
Deputy Chief Executive and Head of Retail

Date of first appointment : August 2015

Qualifications: BA (Honours) in Economics, Chartered Accountant and MBA (UK)

Experience: As Head of the Retail SBU, Alain is responsible for the Affluent, Individual and Business customer segments, the multi-channel distribution, including the branch network, as well as the 'Retail Product' and 'Operations and Service' units. Previously, he launched the leasing, factoring and private banking services of MCB and acted as Project Director for the Business Process Re-engineering exercise initiated with Accenture. Before joining the Bank, he was Senior Manager at De Chazal Du Mée's Consulting division. He is currently a director of Finlease Co. Ltd, a subsidiary of MCB Group Ltd.

Board Committee membership(s): Supervisory and Monitoring Committee (also acts as Secretary), alternate to the Chief Executive on the Risk Monitoring Committee

Non-Executive Director

Jean Michel NG TSEUNG - Age 48

Date of first appointment : August 2015

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

Experience: Jean Michel joined The Mauritius Commercial Bank Ltd in January 2004 and was Head of Corporate of the Bank until July 2015, when he joined MCB Investment Holding Ltd as Chief Executive Officer. 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 addition to his directorship in MCB Investment Holding Ltd, he is currently a board member of Finlease Co. Ltd, a subsidiary of MCB Group Ltd. He is also a member of the Listing Executive Committee of the Stock Exchange of Mauritius Ltd.

Board Committee membership(s): Risk Monitoring Committee

Independent Non-Executive Directors

Priscilla BALGOBIN-BHOYRUL - Age 41

Date of first appointment : December 2012

Qualifications: LLB (Honours) and Higher Diploma in Law (UK)

Experience: Priscilla has been called both to the Bar of England and Wales and to the Bar in Mauritius. She is a member of the Middle Temple. Priscilla specialises mostly in civil, commercial, banking and industrial law matters. She is a past director of the Mauritius Union Assurance Company Ltd, where she also sat on the Audit Committee and former chairperson of the Sugar Investment Trust Property Development Ltd. She occupies various positions within local and international organisations and is presently the National President of the World Jurist Association and member of the Public Bodies Appeal Tribunal.

Board Committee membership(s): Audit Committee, Conduct Review Committee

Directors' Profile (Cont'd)

Jonathan CRICHTON - Age 61

Date of first appointment : December 2013

Qualifications: Combined Honours Degree in History and Politics (UK), 'Diplôme IEHEI' (France), Associate of the Institute of Financial Services (UK), and Fellow of Finsia (Australia)

Experience: Jonathan retired in 2012 from HSBC after 32 years as an International Manager. He held a wide range of senior positions in the EMEA and Asia Pacific regions of the group covering corporate and retail banking and control support functions such as Audit and Risk. He was a Board member and Chairperson of several HSBC bank subsidiaries.

Board Committee membership(s): Risk Monitoring Committee (Chairperson)

Gilles GUFFLET - Age 71
Non-Resident

Date of first appointment : December 2011

Qualifications: Chartered Accountant (UK)

Experience: Gilles has accumulated a wide-ranging experience in the financial services and auditing fields. From 1967 to 2001, he worked at Coopers & Lybrand, France, where he acted as a partner since 1974. Over those years, he has shouldered an array of high-level responsibilities during his stint there. Whilst being a Board member and a member of the Executive Committee of the French firm, he headed the Audit and Accounting as well as the Finance and Administration departments and has also served on several committees of Coopers & Lybrand International. Following the merger that created PricewaterhouseCoopers in 1997, he became a member of the new firm's 50 strong Global Leadership team and acted as Financial Controller for Europe, the Middle-East and Africa.

Board Committee membership(s): Audit Committee (Chairperson), Conduct Review Committee

Iqbal RAJAHBALEE - Age 62

Date of first appointment : December 2012

Qualifications: LLB & LLM (UK), Barrister

Experience: Iqbal is a Senior Counsel, with over 25 years of practice at the Mauritius Bar. He is a founder of the Mauritius offshore industry and served as the first Executive Director of the former Mauritius Offshore Business Activities Authority. Besides having been the first Chief Executive of the Financial Services Commission, the non-bank regulatory body in Mauritius, he served for more than 10 years at the Attorney General's Office, which he left as Assistant Solicitor General. He was a director of the Bank of Mauritius and sat on boards of state-owned bodies and Government advisory bodies. He has led several official delegations in relation to issues such as international taxation and trading agreements. He has often been called upon by Government departments in the region to advise on financial law matters and was responsible for drafting numerous pieces of Mauritius legislation, notably the Trusts Act, the Securities Act, the Financial Services Development Act and the Insurance Act. Alongside being a director of several global business entities, he is counsel and legal advisor in major cross border transactions and litigation cases.

Board Committee membership(s): Risk Monitoring Committee, Nomination and Remuneration Committee

Simon Pierre REY - Age 63

Date of first appointment : Was a non-executive director from 1994 to 1996 and in 2000. Re-appointed in December 2013

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

Experience: Simon Pierre has worked for some 25 years with Ireland Blyth Limited in the finance field until his retirement in December 2012. During this period, he has occupied important ranks within the group, notably as Group Finance Director/Controller, Company Secretary and Chief Operating Officer, amongst others. Furthermore, he was a Board member of various companies within the Ireland Blyth Group, whilst serving on several board committees of these entities, namely the Audit and the Corporate Governance Committees.

Board Committee membership(s): Conduct Review Committee (Chairperson), Audit Committee, Nomination and Remuneration Committee (also acts as Secretary)

Directorship(s) in other listed companies: ENL Commercial Ltd, ENL Land Ltd

Corporate governance report

Board and Committee Attendance

	MCB Ltd	Board of Directors	Board Committees: Supervisory and Monitoring	Audit	Risk Monitoring	Nomination and Remuneration	Conduct Review
	Number of meetings held during FY 2015/16	**11**	**27**	**4**	**4**	**4**	**4**
	Meetings attended						
Executive	Antony R. WITHERS	10	20	-	4	4	-
Executive	Raoul GUFFLET *(as from August 2015)*	10	19	-	4	-	-
Executive	Alain LAW MIN *(as from August 2015)*	10	23	-	-	-	-
Independent	Jean-Philippe COULIER	11	27	-	4	4	-
Independent	Pricilla BALGOBIN-BHOYRUL	11	-	4	-	-	4
Independent	Jonathan CRICHTON	11	-	-	4	-	-
Independent	Gille GUFFLET	4	-	4	-	-	3
Independent	Iqbal RAJAHBALEE	10	-	-	3	4	-
Independent	Simon Pierre REY	9	-	4	-	2	4
Independent	Jean Michel NG TSEUNG	11	-	-	3	-	-

Directors' Interests and Dealings in Securities

MCB Investment Holdings Ltd being the sole direct shareholder of MCB Ltd, the directors do not hold shares of their own company. However, regarding directors' dealings in the Group's securities, the directors confirm that they have followed the absolute prohibition principles and notification requirements of the model code for securities transactions by directors as detailed in Appendix 6 of the Stock Exchange of Mauritius Listing Rules.

The Company Secretary maintains a Register of Interests which is updated with every transaction entered into by directors and their closely related parties. Such transactions, which have to take place exclusively outside the close periods prescribed by the Stock Exchange Regulations, require the written authorisation of the Board of Directors. All new directors are required to notify in writing to the Company Secretary their interest in the Group's securities. This is entered in the Register of Interests, which is subsequently updated with all relevant movements. In addition, the register is available for consultation to shareholders upon written request to the Company Secretary.

The following tables give the interests of the directors in the Group's listed securities as at 30 June 2016 as well as the transactions effected by them during the year.

Interests in MCB Group Ltd shares as at 30 June 2016	Number of shares	
	Direct	Indirect
Jean-Philippe COULIER	20,500	-
Pricilla BALGOBIN-BHOYRUL	500	-
Gilles GUFFLET	500	-
Raoul GUFFLET	28,965	17,630
Alain LAW MIN	170,678	595
Jean Michel NG TSEUNG	7,885	-
Iqbal RAJAHBALEE	500	-
Simon Pierre REY	18,636	-
Antony R. WITHERS	175,000	-

Transactions during the year	Number of shares	
	Purchased	Sold
Jean-Philippe COULIER	20,000	-
Alain LAW MIN	6,000	-
Antony R. WITHERS	65,000	-

Interests in MCB Group Ltd Subordinated Notes as at 30 June 2016	Number of notes	
	Direct	Indirect
Alain LAW MIN	-	3,000
Simon Pierre REY	7,225	10,467
Antony R. WITHERS	5,000	-

Interests in Fincorp Investment Ltd as at 30 June 2016	Number of shares	
	Direct	Indirect
Alain LAW MIN	52,270	-

Corporate governance report

Directors' Service Contracts

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

Director Appointment, Performance and Remuneration

Nomination Process

The size and composition of the Board is so established as to ensure an appropriate balance of skills and expertise at all times that will help achieve the strategic objectives set for the organisation. Whilst seeking to retain a core of directors with long-standing knowledge of the Bank, the Board also recognises the importance of rotation to ensure its renewal and continual effectiveness, with due emphasis laid on succession planning.

The process and policy for the appointment of directors is owned by the Nomination and Remuneration Committee (NRC), as delegated by the Board. As such, the NRC is responsible for identifying suitable candidates, carrying out interviews and recommending potential directors to the Board. The NRC has established a set of criteria for the selection of prospective directors in view of the needs and strategic orientations of the Bank, alongside considering gender diversity. These, amongst others, relate to their knowledge base, competencies, experience, time commitment, ethics and values which provide the basis for assessing potential successors for the Board and its committees. While favouring a majority of independent non-executive directors, the Board seeks to promote diversity in terms of the combination of personalities and experience contributing to a comprehensive range of perspectives, which improves the quality of decision making and avoids undue reliance on any individual(s).

As regards the nomination process, directors recommended by the NRC must stand for election at the Annual Meeting of Shareholders. The latter are provided with relevant information on the potential candidates prior to the Annual Meeting, to assist them to take an informed decision on the directors' election. It is also worth highlighting that, at each Annual Meeting, one third of Board members, notably those having been longest in office, are required to retire, while being eligible for re-election.

Induction and Training

Necessary steps are taken by the Board to ensure that directors are aware of their responsibilities and legal obligations as well as execute their duties in the most productive manner. In this respect, a comprehensive and tailored induction programme is delivered to all newly appointed directors to enable them to discharge their duties effectively, alongside building a deep understanding of the business and markets in which we operate. They receive an induction pack containing reading materials such as constitutive documents, recent Board papers and disclosure requirements with respect to directors' interests. A series of presentations are organised to highlight their roles and responsibilities while providing them with an overview of the Bank's activities, strategy, structure, financial performance and major policies. Furthermore, briefing sessions, including one-to-one meetings if required, are held with Heads of Strategic Business Units with the nature and extent of these consultations depending on the specific needs of the director's requirements.

The Board also recognises the importance of a well-managed process of ongoing professional development and training to sustain an effective, well-informed and functional Board. In this context, the Bank has put in place a development programme for directors over the current calendar year, in collaboration with the Mauritius Institute of Directors (MIoD), which has been approved by the Board. The programme seeks to provide an update on governance matters, emerging trends in corporate governance and sustainability practices of relevance to the Bank. Of note, the Company Secretary maintains a training and development log for each director, which is used as a basis for identification of future development opportunities specific to the director's requirements.

Board/Directors' Performance

The Board Charter provides for a mechanism to assess the performance of directors as well as the effectiveness of the Board and its committees. In this respect, the Board commissioned an evaluation exercise by an external independent consultant from the MIoD which was conducted in May 2015. The methodology involved the completion of a detailed questionnaire by each director followed by individual interviews carried out by the consultant and a full review of all relevant Board documents. A written report summarising the results was thereafter presented and discussed at Board level. The report confirmed, amongst others, that the correct structures, processes and procedures are in place and that the composition of the Board is appropriate with the independent directors fulfilling their roles effectively. A few recommendations for improvement were made and these have been duly considered by the Board.

Directors' Remuneration

With competent directors viewed as critical to the sustainability of the business, the Bank lays significant emphasis on appointing the right people with the right skills and behaviours whilst rewarding them properly. The Bank's remuneration philosophy concerning directors, as proposed by the Nomination and Remuneration Committee and approved by the Board provides that:

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

Remuneration and benefits received by directors during the financial year were as follows:

Remuneration and benefits received	Rs '000
Jean-Philippe COULIER	2,548
Priscilla BALGOBIN-BHOYRUL	677
Jonathan CRICHTON	800
Gilles GUFFLET	861
Iqbal RAJAHBALEE	738
Simon Pierre REY	861
Total Non-Executive	**6,485**
Antony R. WITHERS	25,286
Raoul GUFFLET	13,464
Alain LAW MIN	14,554
Total Executive	**53,304**
Total (Non-Executive and Executive)	**59,789**

Notes:
(i) Net fees from companies where executive directors serve as representatives of MCB Ltd are reimbursed to the latter.
(ii) Remuneration and benefits received by Jean Michel NG TSEUNG are paid by MCB Investment Holding Ltd in his capacity as Chief Executive of the latter.

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 Bank and the individual.

Corporate governance report

Risk Governance and Internal Controls

Risk Management

The Board of MCB Ltd, recognising that the Bank encounters risk in every aspect of its business, ensures that the necessary structures, processes and methods for identifying, measuring and monitoring such risks are in place as advocated by Basel norms and relevant laws and regulations. The Risk Monitoring Committee, whose main responsibilities are listed on page 50 of this report, plays an active role in ensuring that risk-taking activities remain within the precincts of the appetite approved by the Board. The committee receives regular reports and recommendations following work done by the Risk Strategic Business Unit, the Executive Credit Committee, the Asset and Liability Committee and the Information Risk, Operational Risk and Compliance Committee. Through its Chairperson, the committee reports to the Board in a timely manner on all risk issues that could have an impact on the operations and/or reputation of the Bank.

The Board gains assurance that risks are effectively managed through regular reporting and presentations by the Chairpersons of relevant committees.

Read more in the 'Risk Management Report' on pages 118 to 146

Internal Control and Audit

The Bank's internal controls framework seeks to ensure the reliability of financial reporting, operations and systems and guarantee compliance with laws, regulations, and codes of business practice in order to protect the Bank's assets and reputation. The Audit Committee, whose main responsibilities are listed on page 49 of this report, oversees the effectiveness of the Bank's internal control system to ensure that all significant areas are covered.

In carrying out its duties, the committee meets regularly with the Executive Management of the Bank and regular reports are received from both internal and external auditors. During the course of its regular meetings, the committee also receives oral reports from the Managers of the main business units and, more particularly, from the Chief Risk Officer and the Head of Internal Audit. Separate sessions are also regularly held with the external auditors, without Management being present. Based on the internal controls in place, the audit reports, the reviews by management and the regular reporting from the Chairperson of the Audit Committee, the Board is of the opinion that the Bank's internal controls systems are adequate and effective

Read more in the 'Risk Management Report' on pages 118 to 146

Information Governance

The Bank lays due emphasis on the confidentiality, integrity, availability and protection of information, backed by an adapted information technology (IT) and systems. The salient features of the organisation's information governance framework are described hereafter:

- The Board of MCB Ltd is responsible for overseeing the information governance framework of the Bank through delegation of relevant authority to the RMC for reviewing information risks and actions taken to mitigate them and to Audit Committee which evaluates the effectiveness of related internal controls. Relevant issues as well as major investments on IT and systems identified by the Bank, are escalated to the board for review and approval;
- Management is responsible for implementing the policies, procedures and practices to protect the Bank's information, in line with regulatory and other relevant requirements. The oversight and monitoring of the security and performance of information, IT and systems is exercised through an executive committee namely, the Information Risk, Operational Risk and Compliance Committee;
- The Bank ensures that access to information is only available to authorised parties while having physical and logical access controls in place at all times; staff is regularly made aware, through fitting communication channels, of relevant requirements set out in the Information Security Policy which is approved by the Board;
- A Business Continuity Management policy is in force to enhance the Bank's overall resilience by dealing with potential strategic, operational and financial risks associated with business disruptions;
- The Information Risk Management (IRM) BU provides an independent assurance and advisory services aimed at enhancing the Bank's information risk resilience by performing assessments of information security to identify potential issues and recommending mitigating measures; and
- The Internal Audit BU acts as an additional line of defense to assess the suitability of security policies, standards and related procedures.

Read more in the 'Risk Management Report' on pages 118 to 146

External Auditors

With a view to enhancing the overall adequacy and effectiveness of the Bank's internal controls framework, a tender for the services of joint external auditors was called for in 2015. Following the selection process, BDO & Co and PricewaterhouseCoopers Ltd (PwC) were chosen as joint auditors. Their appointment was approved by shareholders during a Special Meeting of Shareholders held in May 2015 and is effective as from FY 2015/16.

The selection process involved the issue of a Request for Proposal (RFP) in consultation with the Audit Committee of MCB Ltd. The RFP outlined the request to provide external audit services to MCB Ltd, in compliance with applicable legislative and regulatory requirements. Detailed written responses by the participating audit firms to the RFP were followed by a presentation to the Management Executives and members of the Audit Committee of MCB Ltd. Key parameters of the selection process included *inter alia* the general background and credentials of the firm, qualifications of personnel to be assigned to perform the audit, availability of resources and ability to complete the audits in a timely manner, the strength of the firm's references and the financial proposal of bidding firms. The recommendations of the Audit Committee were thereafter provided to the Board of Directors for their assessment. As regards the timeframe, the total duration of the audit assignment is for a period of one year with the possibility of reappointment of the selected firm/s annually, subject to approval at the Annual Meeting of Shareholders of MCB Ltd. The latter retains the right to renew and extend the contract following an assessment by the Audit Committee of the external auditors' overall scope, terms of reference and independence.

Non-audit services

MCB 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

	MCB Ltd	
	2016	2015
	Rs '000	Rs '000
Audit fees paid to:		
BDO & Co	10,178	16,905
PricewaterhouseCoopers Ltd	10,178	-
Fees for other services provided by:		
BDO & Co	1,380	2,415
PricewaterhouseCoopers Ltd	1,380	-

Note that the fees for other services relate to the annual internal control review and the three quarterly reviews of our abridged financial statements.

Corporate governance report

Executive Management

The conduct of business is entrusted to the Management team of the Bank which has the responsibility to operate within the strategic framework, risk appetites and policies set by the Board while adhering to regulatory requirements. To this end, various committees involving the Bank's senior officers are in place to deliberate on key issues for informed decision making. A Management Committee has been set up to assist the Chief Executive to manage the day-to-day running of the Bank's business and affairs. Of note also, oversight and monitoring of the various risk areas within the business are exercised through other dedicated standing committees, namely the Executive Credit Committee, the Information Risk, Operational Risk and Compliance Committee and the Asset and Liability Committee.

Management Committee Member Profile

The profiles of the members of the Management Committee – excluding those for Antony R. WITHERS, Raoul GUFFLET and Alain LAW MIN, which appear in the Directors' Profiles section – are given hereunder.

Vincent CHATARD - Age 52
Chief Operating Officer

Qualifications: Masters of Engineering from Agro ParisTech (France) and MBA from HEC Paris (France)

Experience: Vincent was appointed Chief Operating Officer in September 2015. He has accumulated wide-ranging experience in the banking sector, having occupied a number of senior executive positions in international banks. He spent 7 years working for Crédit Lyonnais International before joining KPMG France as a management consultant in 1995. In 1997, he was appointed as Head of Information Technology and Organisation of Banque Robeco France (a Personal Banking Unit of the Rabobank Group). From 2000 to 2008, he was appointed Chief Information Officer and Senior Vice-President Business Development of ING Direct, to establish the units both in France and the UK. From 2008 to 2011, he launched and was the Chief Operating Officer of BforBank, the direct banking unit of Crédit Agricole. He then acted as Chief Operating Officer, Chief Business Development Officer and Executive Board Director of Mediterranean Bank, a privately owned investment and internet wealth bank operating in Malta and Belgium prior to joining MCB Ltd.

Eddy JOLICOEUR - Age 59
Head of Human Resources

Qualifications: BA (Honours) in Economics and Social Policy & Administration and MSc in Human Resources Management (UK)

Experience: Eddy has known a fulsome career spanning the breadth of the sugar industry, namely Deep River-Beau Champ (1983-1990), Mon Desert Alma (1990-1999) and Medine (1999-2000). He joined Rogers & Co. Ltd in 2000 where he was the Chief Human Resources Executive until he joined the Bank in August 2008 as Head of Human Resources.

Bhavish NAECK - Age 45
Head of Finance

Qualifications: BSc (Honours) in Economics with specialisation in Accounting and Finance and Chartered Accountant (UK)

Experience: Bhavish, who is the first MCB Foundation scholar, spent some years in Singapore, working in the Audit and Business Advisory division of Deloitte & Touche and, then, as Financial Controller at JDA Asia, a subsidiary of a listed NASDAQ entity. After a stint at Sun Resorts, he joined MCB in May 2000 and also worked as Project Leader on the Business Process Re-engineering project. He presently heads the Finance SBU where he is responsible for the provision of internal and external financial/regulatory reports, budgeting and forecasting and provides key support to the Asset and Liability Committee of the Bank.

Frederic PAPOCCHIA - Age 42
Chief Risk Officer

Qualifications: Masters in Finance from Paris Dauphine University (France) and MBA (France)

Experience: Frederic was appointed Chief Risk Officer in January 2016. He joined MCB in July 2012 as a Consultant to the Group Chief Executive and worked on various projects in the risk arena. He then took office as Deputy Chief Risk Officer in April 2014, overseeing the Credit Risk, Operational Risk, Market Risk and Information Risk Management Business Units of the Bank. As part of his ongoing responsibilities, he also acts as Secretary to the Executive Credit Committee of the Bank and to the Conduct Review Committee of the Board. Prior to joining MCB, he had accumulated extensive experience in management consultancy particularly in areas of risk management and regulation. After a 2-year stint as Consultant with Deloitte Consulting in the UK where he started his career, he worked for Accenture France where he spent 9 years and left as Senior Manager. In 2010, he joined, as an Associate Partner, a niche consulting firm specialising in Banking and Capital Markets where he was in charge of the Finance Risk and Compliance practice for the Paris office. During his 13 years in consulting, he engaged with several large banks such as Bank of America, Societé Générale and BNP Paribas, working on various assignments including the implementation of the Basel 2 and Basel 2.5 reforms, the development of stress-testing frameworks and the review of credit origination frameworks.

Interests in Shares

The following table gives the interests of members of the Management Committee in the Group's listed securities at the end of the financial year.

Interests as at 30 June 2016 (number)	MCB Group Ltd shares		MCB Group Ltd Subordinated Notes	
	Direct	Indirect	Direct	Indirect
Eddy JOLICOEUR	18,230	-	-	2,000
Bhavish NAECK	18,544	4,639	1,000	1,500
Frederic PAPOCCHIA	1,225	-	-	-

Note: Above members of the Management Committee do not hold any share in Fincorp Investment Limited

Remuneration

The aggregate amount paid to the management committee in terms of remuneration can be found in Note 36 of the Financial Statements.

Related Party Transactions

For the purposes of these Financial Statements, parties are considered to be related to the Bank if they have the ability, directly or indirectly, to control the Bank or exercise significant influence over the Bank in making financial and operating decisions, or vice versa, or if they and the Bank are subject to common control. Related parties may be individuals or other entities. The BoM Guideline on Related Party Transactions, issued in January 2009 and revised in June 2015, is articulated around three main elements:

- the role of the Board of Directors of a financial institution, its Conduct Review Committee and that of its Senior Management in establishing and implementing appropriate policies on related party transactions and administering the process for handling the transactions;
- the definition of the different types of related party transactions and the setting out of regulatory limits on credit exposures to related parties; and
- the definition of basic rules for monitoring and regulatory reporting of related party transactions and their disclosure in the Annual Report.

In fact, the Guideline is more stringent than the applicable International Accounting Standard (IAS 24) in that a person holding directly or indirectly 10% or more of the capital or of the voting rights of the Bank also falls within the definition of related party. As a general rule, all transactions with a related party must be carried out at arm's length, i.e. on terms and conditions that are at least as favourable to the Bank as market terms and conditions.

Corporate governance report

Related party transactions include:

- loans, finance leases and service agreements;
- guarantees issued on behalf of a related party;
- investments in any securities of a related party;
- deposits and placements; and
- professional service contracts.

As regards regulatory reporting on exposures to related parties, the latter are classified into three categories:

1. Directors, their close family members and any entity where any of them holds more than a 10% interest;
   Shareholders owning more than 10% of the financial institution's capital;
   Directors of any controlling shareholder; and
   Entities (excluding subsidiaries) where the financial institution holds more than a 10% interest.
2. Senior Management, their close family members and any entity where any of them holds more than 10% interest;
   Senior Management of any controlling shareholder; and
   Subsidiaries of the financial institution.
3. Senior Management, provided their exposures are within the terms and conditions of their employment contract.

Category 3 above, as well as exposures representing less than 2% of the institution's Tier 1 capital, are excluded from regulatory limits which are set, in aggregate, at 60% of Tier 1 capital for category 1 and 150% thereof for the total of categories 1 and 2.

The Bank's policy on related party transactions sets out the rules governing the identification of related parties, the terms and conditions applicable to transactions entered into with them and reporting procedures to the Conduct Review Committee. Note 36 to the Financial Statements sets out on- and off-balance sheet exposures to related parties as at 30 June 2016.

Aggregate exposure of related parties, including exposure of the Bank to subsidiary companies amounted to Rs 6,762 million (on-balance sheet) and Rs 1,198 million (off-balance sheet), which represented respectively 4.2% and 3.4% of Bank loans and Bank contingent liabilities as at 30 June 2016.

Exposure of the Bank's top six related parties as at 30 June 2016 were Rs 2,773 million, Rs 1,070 million, Rs 662 million, Rs 574 million, Rs 483 million and Rs 337 million. These balances represented 8.8%, 3.4%, 2.1%, 1.8%, 1.5% and 1.1% respectively of the Bank's Tier 1 capital.

None of the loans granted to related parties was non-performing as at 30 June 2016, except for an exposure of Rs 483 million on a group of companies where one of the Group's directors has a minority stake. This group of customers has entered into a scheme of arrangement with its creditors. Interest on this group's debts has been suspended and expected losses have been provided for in the financial statements.

Delivering Value to Our Stakeholders

Overview

The Bank values the role, involvement and significance of its internal and external stakeholders. It is committed to forging and nurturing clearly-defined, close-knit, fair, transparent and impactful relationships with them with a view to delivering mutual benefits over the short and longer runs.

As a responsible corporate citizen, the Bank strives to make a sound and sustained contribution to the economies, environments and communities in which it is involved. To this end and while adhering to regulatory rules, the Bank has a well-established governance and operational framework to ensure that engagement with its stakeholders is optimally managed, in alignment with good international practices. Employees abide by the Bank's Code of Conduct and the national Code of Banking Practice. The Bank adheres to the United Nations Global Compact, the world's largest voluntary corporate responsibility initiative for businesses committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption. Stakeholders are kept informed about the Bank'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 Bank's ongoing decisions, with material issues escalated to the Board. In another light, the Bank ensures that its efforts are underpinned by adequate human, technical and financial resourcing as well as transparent control. Accountabilities are properly institutionalised to ensure that the efficiency and effectiveness of interactions are duly preserved.

Leveraging the Forms of Capital to create Value

Our stakeholder engagement is guided by the resources and relationships that are leveraged and affected by the Bank. The following sections show how the organisation interacts with various forms of capital to create value. In line with stakeholder expectations, the emphasis is laid on the ambitions and main strategic orientations of the Bank, before light is shed on the initiatives deployed to meet stakeholder needs. The involvement of the Bank is also gauged by selected performance indicators. Looking ahead, the depth of data unveiled will be gradually enhanced in line with the Bank's journey towards increasingly comprehensive integrated reporting.

Read more on our capitals in the 'Navigating this Annual Report' section on pages 6 to 7 and the 'Corporate Profile' section on pages 21 to 23

Financial capital

Our main stakeholders

- Retail and corporate depositors; the ultimate holding company of MCB Ltd, i.e. MCB Group Ltd, which is listed on the local stock exchange; wholesale and institutional investors or debtors; international credit rating agencies

What do our stakeholders expect from us ...

- Protection and growth of wealth and investment over time
- Contribution to the financial performance of MCB Group Ltd to (i) boost the latter's image as an appealing source of investment on the local bourse; and (ii) strengthen its ability to foster stable and predictable dividend distribution
- Availability of timely and detailed information in relation to the strategic positioning as well as the financial performance and prospects of the Bank

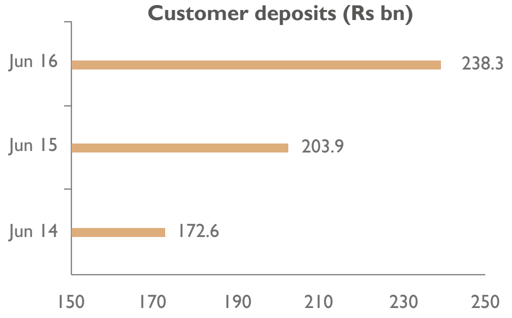
Our underlying ambitions

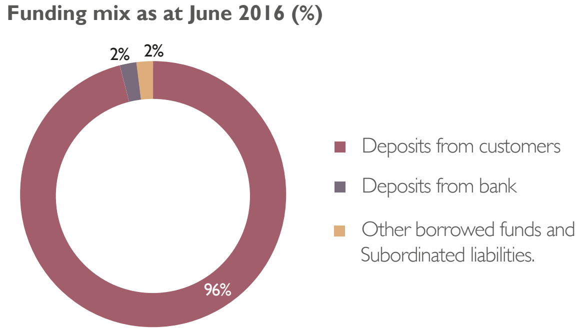
- To undertake strategic moves that preserve the image and reputation of the Bank in order to uphold shareholder confidence in the ability of the Group to create meaningful value over time.
- To generate adequate earnings to reward investors, pave the way for future business growth and generate favourable socio-economic outcomes; to achieve sound financial metrics to support sustainable revenue growth.
- To optimise the level and quality of externally-sourced funds and the management of our retained earnings to effectively run our businesses, undertake strategic investments and preserve the soundness of our financials.
- To regularly engage with our rating agencies; to exercise a close monitoring of rating opinions to help to (i) preserve the Bank's investment-grade rating; and (ii) ensure that its credit strength allows it to access global financial markets.

How we have engaged with our stakeholders ...

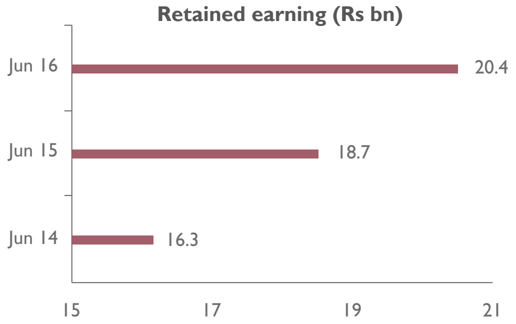
- The organisation has continuously strengthened its core customer deposit base, while remaining ready to tap into wholesale markets if ever required.
- The Bank's revenue generating capacity has been enhanced through market diversification and customer service quality, while a prudent business development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

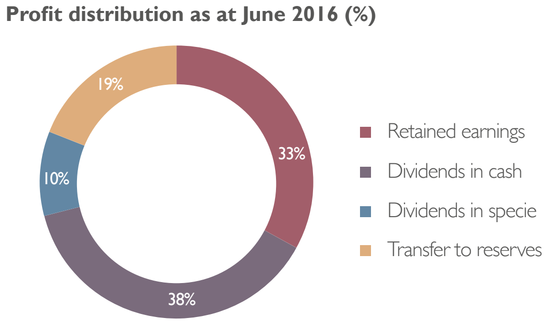
Overview of funding sources



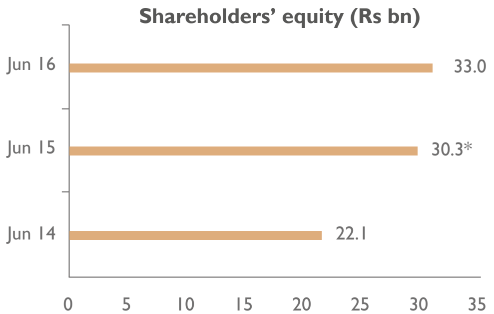


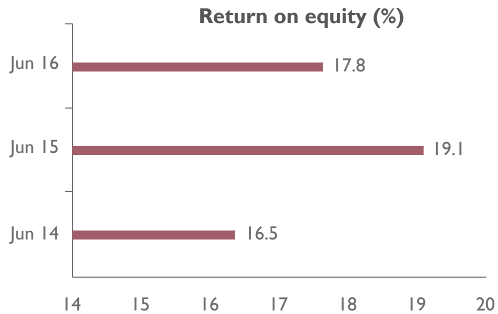
Revenue available for further business development





Evolution of equity and return generated





**The rise in equity is notably attributable to an increase in share capital of Rs 4.5 billion following the capital restructuring exercise which entailed the transfer of the assets and liabilities pertaining to Floating Rate Subordinated Notes from MCB Ltd to MCB Group Ltd and the latter's subsequent reinvestment of the proceeds in the Bank's share capital through MCB Investment Holding Ltd.*

Read more in the 'Financial Review' section on pages 108 to 115

Dividend Policy

Although there is no formal dividend policy, the Company aims to supply its shareholder with adequate returns to meet the objective of the Group to have a stable and relatively predictable dividend path.

Social and relationship capital

Our main stakeholders

- Retail and corporate customers across market spectrums; regulators across fields of activity; institutions and other economic agents (e.g. multilateral organisations, Mauritius Bankers Association, international financial institutions); communities and societies in which we operate; civil society organisations

What do our stakeholders expect from us ...

Regulators

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

Customers

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

Institutions and other economic agents

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

Societies, communities and civil society organisations

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

Our underlying ambitions

- To safeguard the perennity and soundness of our operations, alongside fully understanding and coping with the specificities and implications of evolving mandatory provisions and requirements.
- To build life-long relationships with our clients, thus accompanying them in good and bad times, upholding their trust in the organisation and helping them achieve their goals.
- To onboard 'clean' business on the back of strict adherence to KYC and Anti-Money Laundering procedures and requirements.
- To help in promoting financial inclusion and literacy.
- To help promote the socio-economic development and modernisation of countries in which we are involved, while supporting trade and investment activities on the regional front.
- To continuously reinforce our linkages and partnerships with external business parties, both locally and internationally.
- To uphold the Bank's social commitment through support to the development and execution of initiatives for the well-being and social benefit of the communities in which we live and work.

How we have engaged with our stakeholders ...

Regulators

- The Bank has ensured that strict compliance be exercised with respect to relevant regulatory limits and stipulations relating to business operations, product development, market development, risk management, etc.
- Reports have been submitted in a timely manner to the regulatory bodies, while transparent and open relationships have been forged with the latter to promote adequate monitoring of our activities and pave the way for informed discussions about relevant issues and matters.
- Since March 2015, all banks in Mauritius are required to submit specific returns in XBRL format with a view to streamlining data collection, validation and analysis. In this respect, MCB was actively involved and collaborated fully with the Bank of Mauritius via discussion forums. In FY 2015/16, the Bank invested in a specialised solution that allows for Automated Data Flow, thus improving the efficiency in handling complex reports. The Bank has, accordingly, moved towards optimising its internal processes to ensure that its regulatory obligations are always met in a timely manner.

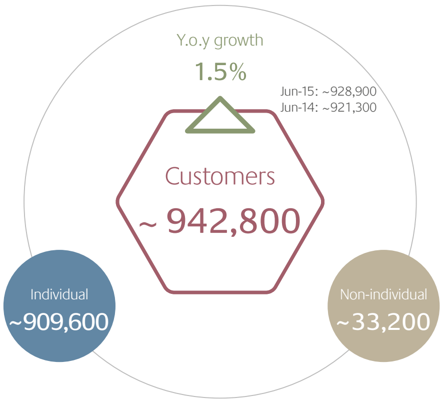
Customers

- The Bank has placed its clients at the centre of its preoccupations, with increasingly personalised and simplified customer experiences offered to them. It has provided solutions that are tailored to their needs and invested in digital channels, notably its 'Juice' mobile banking and payments platform.
- The Bank adopts a carefully-designed segmentation strategy to better meet needs of various customer groups.
- The Bank has upheld and strengthened client relationships and market visibility, mainly through (i) its appealing websites and social media presence; and (ii) the organisation of and participation in various promotional and commercial initiatives, business meetings, especially with SMEs, as well as international seminars, conferences and road shows. Furthermore, the Bank regularly seeks customer feedback on its products and services, notably via surveys, with a view to improving its value proposition. As such, it has recourse to Voice of the Customer and Net Promoter Score programmes.
- The Bank adopted thoughtful communication and reporting channels vis-à-vis customers to provide them with detailed information about our offerings and effectively deal with their complaints.

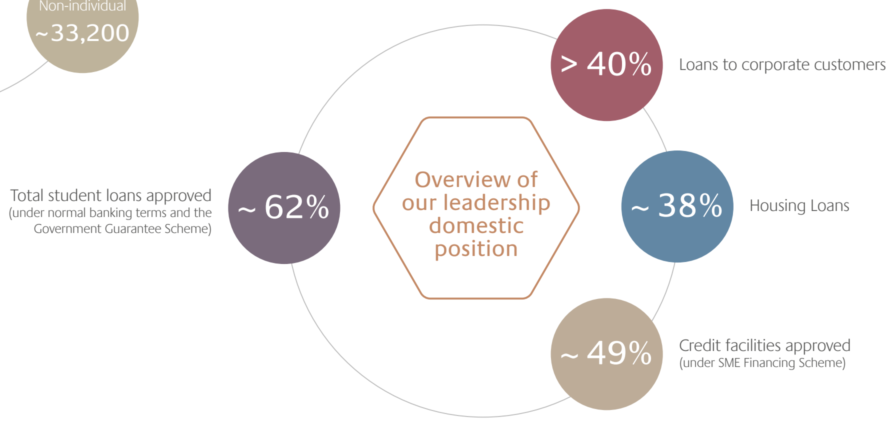
Read more in the 'Review of Operations' section on pages 97 to 107

Customer base as at 30 June 2016

Total client base and distribution



Market share - June 2016



Corporate governance report

Institutions and other economic agents

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

Direct contribution of MCB Ltd to the Mauritian economy*

Year ending 30 June 2016

	Share of total	
Gross Domestic Product	~ 3% Of the total value added generated by the economy	~ 45% Of the total value added by the banking sector
Employment	~ 18% Of total employment in the financial and insurance activities	> 30% Of employment in the banking sector
Income Tax	13% Of total corporate tax paid across the economy	51% Of special levy paid by banks

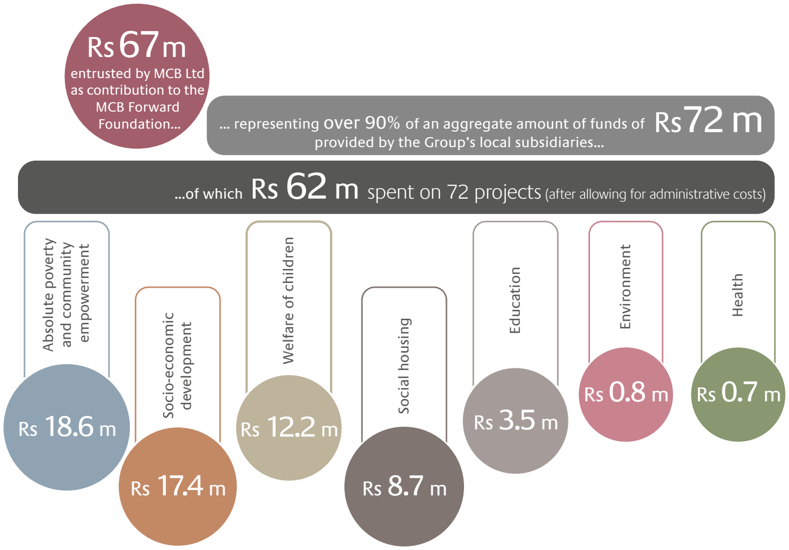
** Figures displayed are based on officially-reported data and MCB staff estimates*

Societies, communities and civil society organisations

- The Bank remained committed to promoting sustainable socio-economic development principles and continues to live up to its engagement as a socially responsible and caring corporate entity. It fulfilled its Corporate Social Responsibility (CSR) by devoting funds to the MCB Forward Foundation (MCBFF). This is 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. The MCBFF, which is the first CSR Foundation to be ISO 9001:2008 certified in Mauritius, is a dedicated vehicle of the Group responsible for the efficient and effective design, implementation and management of initiatives geared to embed the organisation's engagement with the communities in which it operates. Since its launch in September 2010, MCBFF has significantly evolved in its commitment vis-à-vis the society and its people by means of carefully-designed programmes and wide-ranging stakeholder interactions.
- Of note, no political donations were made during the year under review.

More information on our community engagement is available on the website

Our social engagement



The five largest projects financed by the MCB Forward Foundation in FY 2015/16 are:

Projects	Rs m
MCB Football Academy	11.7
Integrated housing project *(Social Housing Cité Tôle)*	4.7
Vocational rehabilitation for youths with moderate to severe intellectual disabilities *(Association des Parents d'Enfants Inadaptés de L'Ile Maurice)*	3.9
Eco therapy for individuals suffering from psychological disorders *(Open Mind)*	2.9
A digital language lab for children out of the mainstream education system *(École Familiale de l'Ouest)*	2.8

Sponsorships

- MCB provided extensive support for the promotion of education, culture, youth and sports in the country through sponsorship activities, as illustrated below.

Education, culture and innovation

- *MCB Foundation Scholarship*: For study abroad, it is awarded to the student ranked next in line to those eligible for the State of Mauritius scholarships on the Economics side.
- *Stock Exchange of Mauritius Young Investor Award 2015*: The competition, which aims at helping students appreciate the factors impacting stock market performance, attracted over 900 students from 109 colleges split across 188 teams.
- *OVEC Education Fair*: Annual Education Fair, which attracts tertiary institutions from all over the world.
- *Science and Technology Enrolment Programme*: To support the women leaders of tomorrow, a four-day programme was organised by Planet Earth Institute for 100 female secondary school students, aged 13-15.
- *National Spelling Bee Competition*: The 15th edition gathered 528 students from 141 schools in Mauritius and 72 students from Rodrigues.
- *TED talk*: Organised in Mauritius by TEDx Plaine Wilhems, the conference, themed 'Food for thought', brought together professionals and leading experts from different backgrounds. It is designed to help communities, organisations and individuals spark conversations and connect through local experiences.
- *Make a Wish Competition*: The winner of the 4th edition of the 'Make a Wish' competition in 2015, i.e. Grande-Rivière-Sud-Est Government School, has had its wish realised in June 2016, with the setting up of a school museum exhibiting the rich history of the village.
- *Science Quest 2016 and Young Scientists in Action 2016*: The competitions organised by the Rajiv Gandhi Science Centre attracted 410 college students and 23 different primary schools respectively, who were tasked with applying science to devise novel solutions for daily life problems.
- *InnovEd*: The competition, organised by the National Productivity and Competitiveness Council, had the participation of some 450 students from 52 colleges.

Sports competitions

- *Royal Raid:* MCB was amongst the main sponsors for the 11th edition of Royal Raid, one of the first trails ever organised in Mauritius.
- *Tropica'Dingue:* The first edition of the fun trail running and multisport racing of around 10 km, held at Mon Trésor, attracted 1,500 participants.
- *Golf competitions:* MCB Tour Championship 2015, which is the most prestigious golf contest held in Mauritius and the last competition of the European Senior Tour; and other events such as MCB Constance Lemuria, which attracted 80 participants in Seychelles, MCB Invitational tournaments held in Madagascar, Mauritius Ladies Open, Ladies Golf Union held at Bel Ombre, and MCB Indian Ocean Amateur Golf Open.
- *Dodo Trail:* MCB acted as the principal partner of the 5th edition of the international event held in Mauritius, which involved over 1,500 participants.
- *Other events:* (i) Africa Zone 4.3 Individual Chess Championship 2016; (ii) MCB Youth Championship Rodrigues; and (iii) 1st edition of Gecko Games in Mauritius.

Culture

- *PORLWI by Light:* MCB was amongst the official sponsors for this 'premiere' in the capital city which attracted around 450,000 visitors and aimed at promoting the local cultural heritage.
- *Borderline:* The art exhibition showcased more than 90 works from 20 artists at the Port Louis Waterfront.
- *Kozer Fam:* In line with its Lifestyle Banking concept and while at the same time promoting its 'Juice' mobile platform, MCB was amongst the sponsors of this concert, which aimed at promoting female artists.

Human capital

Our main stakeholders

- Employees of the organisation; executives across business lines

What do our stakeholders expect from us ...

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

Our underlying ambitions

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

How we have engaged with our stakeholders ...

General strategic orientations

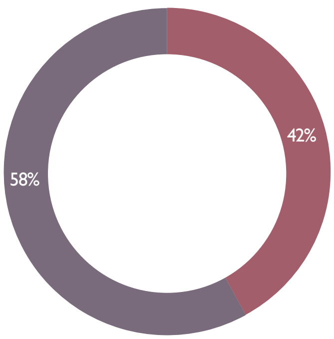
- The Bank endorsed its functioning with a more value-adding and increasingly forward-looking perspective as regards the identification and execution of strategic intents. To continuously strengthen the skill level of the organisation, the main focus areas of the Bank include the following: talent sourcing,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

Corporate governance report

Our employee base as at 30 June 2016

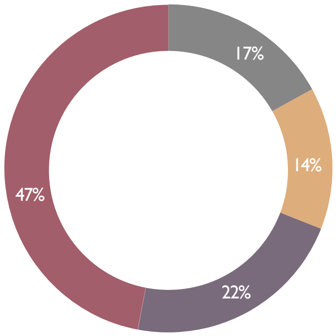
Our staff

Qualifications



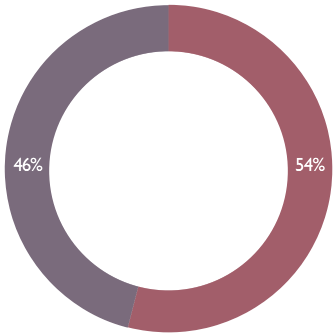
- Up to secondary level
- Post-secondary level (including ongoing courses)

Length of service



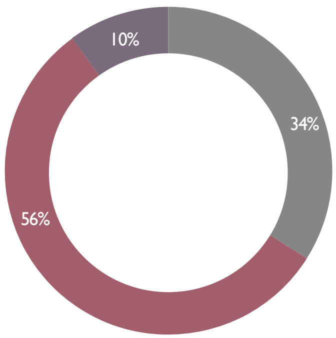
- < 3 years
- 3 - 5 years
- 6 - 10 years
- > 10 years

Gender



- Male
- Female

Age



Average age: 36 years

- < 30 years
- 30 - 50 years
- > 50 years

Remuneration philosophy

- With human capital viewed as critical to the sustainability of the business, the Bank lays significant emphasis on employing the right people with the right skills and behaviours, while rewarding them properly. The remuneration philosophy for Management and staff is based on meritocracy and ensures that:
  - o full protection is provided, at the lower end of the income ladder, against cost of living increases;
  - o fairness and equity are promoted throughout the organisation; and
  - o opportunity is given to all employees to benefit from the financial results and development of the Bank. Indeed, all staff members of the Bank receive an annual bonus based on the performance of the Company as well as an assessment of their contribution thereto. In addition, all staff members have the added possibility to be incentivised further through a share option scheme.
- Specifically, the Bank provides a range of fringe benefits to its employees to help them in their personal life:
  - o 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.
  - o 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.
  - o To help employees meet their endeavours, the Bank provides them with loans under preferential conditions.
  - o The Bank has established a Flexible Working Arrangement (FWA) initiative to support its staff. Employees are offered the flexibility of the start and end hours of work, provided that they adhere to the rules of the FWA policy.
- Generally, the finalisation of remuneration packages is anchored on a range of factors including qualifications, skills scarcity, past performance, personal potential, market norms, responsibilities shouldered, and experience. With a view to attaining appropriate remuneration levels, the Bank is guided by the following considerations:
  - o General market conditions are regularly surveyed in order to ensure that remuneration packages are motivating and competitive;
  - o Superior team and Bank performance is stimulated and rewarded with strong incentives; and
  - o Remuneration practices are regularly reviewed and restructured where necessary, providing clear differentiation between individuals' contribution to Bank performance.
- Employees of the Bank are entitled to the MCB Group Employee Share Option Scheme (GESOS), which provides them with the opportunity to partake in the growth and prosperity of the Group through an acquisition of a stake therein. This scheme acts as an additional lever to promote a performance culture alongside upholding motivation and commitment across the organisation. Under the scheme, the Bank's employees are granted non-transferable options to buy MCB Group Ltd shares 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 is applied. 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 MCB.

Corporate governance report

	Management	Other employees	Total
Number of options granted in October 2015	**102,323**	**473,319**	**575,642**
Initial option price (Rs)	212.75	191.50	**-**
Number of options exercised to date	-	72,074	**72,074**
Value (Rs '000)*	-	13,802	**13,802**
Percentage exercised	-	15.2	**12.5**
Number of employees	-	352	**352**
Available for the 4th window and expiring in mid-October 2016	**102,323**	**401,245**	**503,568**

** Based on initial option price*

Employee engagement

- The Bank holds strongly to the belief that an engaged workforce is a prerequisite to achieving a company's sustainable growth. An MCB-wide Employee Engagement Survey, branded 'PULSE' was carried out in February 2016. More than 2,200 individual surveys were completed, resulting in an overall response rate of 94%, well above the international benchmark of 50-60% participation rate to such initiatives. It enabled us to obtain the perception of employees about the Bank's leadership, its organisational processes and policies, job satisfaction displayed by staff as well as prevailing working relationships. Subsequently, interactive sessions were held with business units to develop necessary action plans. Testifying to its importance, 'PULSE' will become a recurrent feature on the Bank's annual calendar of events.

Performance management

- As a key achievement, the Bank continued to implement its recently-redesigned performance management process in line with the Balanced Scorecard framework.
- Leveraging international partnership, MCB has developed a Performance Management training to better equip managers and supervisors through various stages of the Performance Management cycle. The training reached some 400 attendees. It provided tools and techniques aimed at enabling participants to uncover development needs, backed by the holding of relevant discussions on human resource management.

Learning, talent management and career development

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

Our learning engagement

Key statistics for FY 2015/16

TOTAL TRAINING COSTS

Rs 54.1m*

E-LEARNING INVOLVEMENT

13 knowledge tests performed, with a participation rate of nearly **80%** out of a target audience of around **6, 850**

Number of training courses

Types of training	FY 2013/14	FY 2014/15	FY 2015/16	*Mix (%) FY 2015/16*
Internal (provided by MCB staff)	28	37	44	*18.6*
External (provided by external provider)	130	148	182	*76.8*
Overseas training	5	11	11	*4.6*
Total	**163**	**196**	**237**	***100.0***

* *Including refund by Human Resource Development Council*

Corporate governance report

- The Bank is among the pioneers in the banking industry to have executed the 'DUO' programme, which is a joint public-private sector partnership that allows secondary school leavers to obtain a full sponsorship for a 'Brevet de Technicien Supérieur' with specialisation in Banking at the Business School of the Mauritius Chamber of Commerce and Industry (MCCI). MCB designed and implemented a programme allowing 40 HSC school leavers to concomitantly work as employees of the Bank, while being also enrolled on the 2-year programme. This has been made possible through a roster, allowing the employees to dedicate some days of the week to their studies. In the same vein, MCB granted 25 bursaries to employees in its retail field to follow the same academic course on a part-time basis.
- In line with its philosophy of promoting continuous learning at all levels, the Bank partnered with a French-based executive leadership development consultancy firm to propose a comprehensive journey for leadership transformation. Participants to this programme are members of the Bank's Management Committee, the General Management as well as members of leading teams impacted by recent organisational restructuring exercises. In 2015, the Bank initiated a Management Development Programme in partnership with the University of Stellenbosch Executive Education (USB ED), which targeted some 100 high potential employees aspiring to leadership positions. A first batch of participants graduated in March 2016, while the second cohort will do so in November 2016. The participants, which come from different sections of the Bank, are organised in syndicates to define, research and document a Business-Driven Action Learning project, while benefiting from 5 study schools facilitated by experienced tutors from USB ED.

Promotion of staff welfare and safety

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

Natural capital

Our main stakeholders

• Communities and societies in which we operate; populations at large and institutions

Our underlying ambitions

• To promote awareness amongst staff and the general public about the prudent management of natural resources and the scarce sources of energy.
• To adopt environment-friendly practices in our operations and activities to reduce the potentially adverse implications of serving our customers; to aim towards developing eco-financial solutions and fostering the optimal management of our resources.
• To adhere to environmental regulations and international best practices for 'clean' operations.

How we have engaged with our stakeholders ...

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

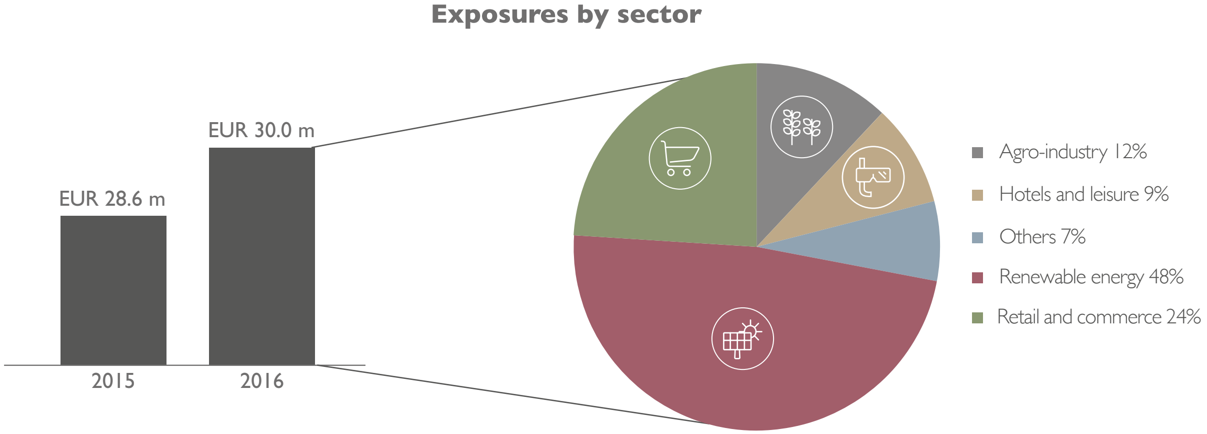
• Since 15 May 2012, MCB Ltd has adopted the Equator Principles, which is a voluntary and internationally recognised risk management framework, espoused by many financial institutions worldwide, for determining, appraising and managing environmental and social risks in project financing. This framework stands as the foundation and guiding principle of the Bank's Environmental and Social Policy, which articulates the principles, policies, roles and responsibilities through which the Bank ensures the environmental and social risks management of its lending activities, in particular regarding any project or undertaking entailing loans of an aggregate amount greater than or equal to USD 2 million and with a maturity of at least 24 months.
• Bank-wide energy audits are regularly conducted to pave the way for increased energy efficiency. In 2015, following the Blue Carbon Footprint certification received from Rexizon Consulting by all its branches and sites during the previous year, MCB Ltd has successfully renewed such certification after passing the relevant validation and mitigation assessments. Testifying to our commitment to minimising our operational environment impact, our emissions of carbon dioxide were reduced by around 3% in 2015.

Encouraging environment-friendly and energy-saving investments

• The Bank widened its involvement in respect of the provision of the second edition of its preferential credit facilities named as 'Green Loans', pursuant to the lending facility availed from Agence Française de Développement to stimulate the deployment of renewable energy and energy efficiency technologies, save energy and reduce carbon emissions. In respect of this financing product, an investment grant of 8% of the loan amount is offered to the client for investments in 'green' projects that can be 100% financed by the Bank.

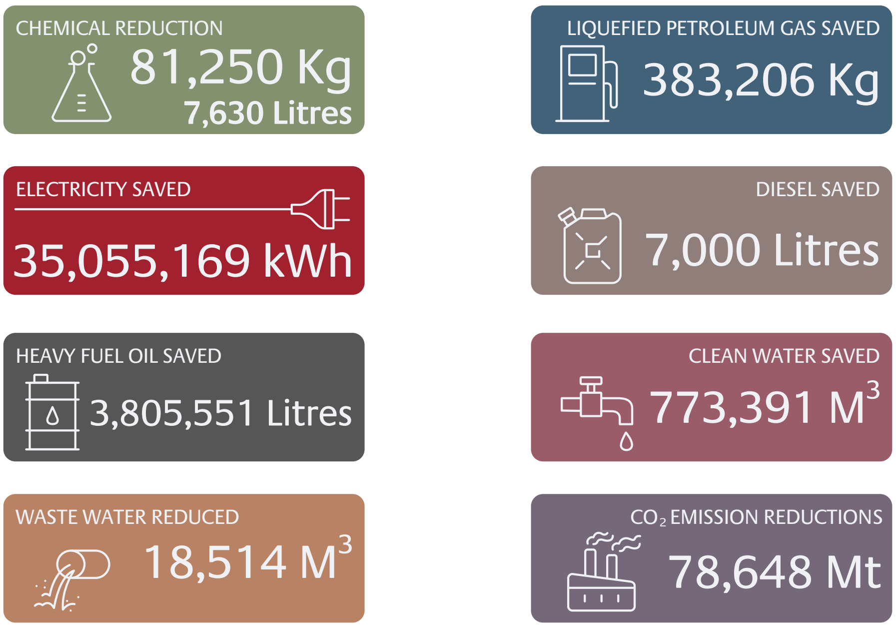
Corporate governance report

'Green loans' offered as at 30 June 2016



Estimated environmental benefits of projects financed

FY2015/16

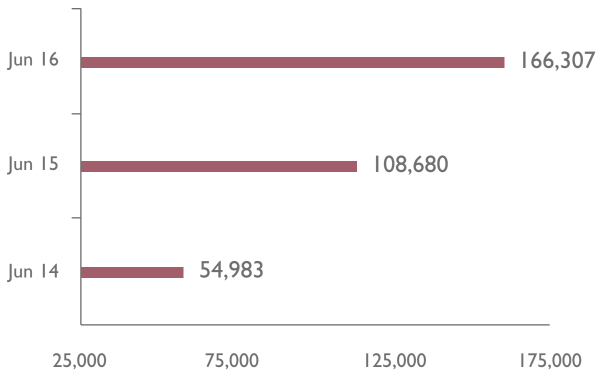


- MCB has, some time back, partnered with the BioPark Mauritius project, which is viewed as being the first hub of its kind in the Indian Ocean. BioPark Mauritius aspires to be a dedicated space encouraging the use of biotechnologies for research and development by innovative companies and professionals.

Promoting the eco-friendly awareness of the customers, general public and our employees

- MCB actively promoted the use of e-statements by customers. The total number of customers subscribing thereto increased by 53% during the year ending June 2016. In the same vein, the Bank offers its customers the possibility of receiving its key publications, such as annual reports, financial statements, notices of meetings and other shareholder documents, electronically.

E-statement subscriptions for active customer accounts



- The Bank is supporting the Ebony Forest project, which consists of recreating 50 hectares of forest by weeding 13 hectares of invaded forest and planting over 110,000 native plants. Also, the Bank is financing an educational film in English and French, which will be a permanent feature in the Ebony Forest's visitor centre, highlighting what Mauritius was like before the arrival of humans, the degradation of the environment, and ongoing efforts to restore and save the remnants habitats and species.

Sensitisation of our internal stakeholders

- Specific initiatives have been undertaken to sensitise our staff and business units on environment issues. The organisation 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.

Intellectual capital

Our underlying ambitions

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

What are our strategies that enabled value creation ...

- Notable investment has been incurred to build and regularly upgrade our technological capabilities.
- Our adherence to innovative practices and human resource capabilities are continuously geared up to enable the Bank live up to its values as well as preserve its reputation.
- The brand image of the Bank has been consolidated by *inter alia* the adoption of digital channels in tune with customers' contemporary lifestyles, its appealing web site, and active presence on the social media. Support also emanated from the undertaking of dedicated publications such as the Annual Report and MCB Focus (a periodic and reputed economic report pertaining to Mauritius), as well as participation in and sponsorship of carefully-selected conferences, seminars, and other events.
- In order to keep track of ongoing market developments internationally and underpin business networking efforts, the Bank subscribes to and is a member of various organisations and publications. For instance, as a member of EFMA, it benefits from exclusive access to a multitude of resources, database and publications, while being given the opportunity to attend numerous networking forums such as work groups, online communities and international meetings.
- The preservation of its investment-grade ratings helped to underpin the realisation of the Bank's growth ambitions.
- The Bank continues to adopt advocated standards and processes (e.g. the MCB Swift Service Bureau is certified as Premier Operational Practice; the MCB Development Centre was the first training institution in Mauritius to obtain the ISO 9001:2008 certification in 2013). Besides, the Bank taps into partnerships forged with several high-calibre business partners (e.g. MCB Private Banking nurtures privileged relationships with leading international investment and fund management specialists).

Read more in the 'Operational Excellence and Innovation Report' on pages 101 to 107

Our followers on the social media as at 30 June 2016

Facebook
147,824 fans
Jun -15: 127,589 Jun -14: 75,652

Twitter
2,046 followers

Youtube
1,820,433 views
Jun -15: 1,218,499 Jun -14: 494,801

Instagram
1,918 followers

Credentials underscoring our brand image

Best Bank in Mauritius

5 times in 8 years

(The Banker)

Best Bank in Mauritius

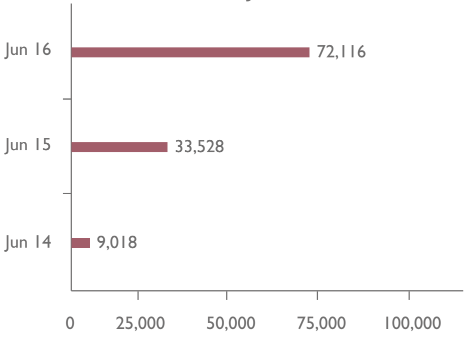
3rd time in a row

(Euromoney Awards for Excellence)

Adoption of our digital platforms

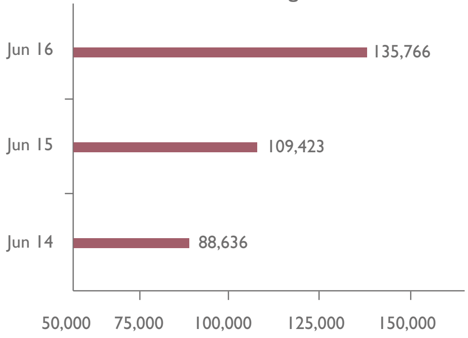
Mobile payments

Number of 'Juice' subscribers



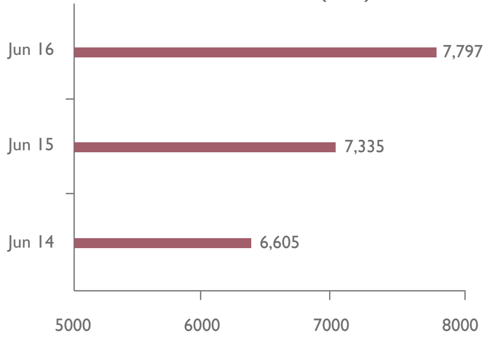
Internet banking

Number of registrations



Website

Number of views ('000)



Manufactured capital

Our underlying ambitions

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

What are our strategies that enabled value creation ...

- The Bank adheres to best-in-class infrastructure, plant and equipment to improve the ability of business units and entities to foster process automation and improve productivity levels for the benefit of our customers. In addition to buildings and offices housing its business and support operations, the Bank operates a dedicated data centre whose aim is to respond to crisis situations so as to ensure the continuity of technological operations and, thus, business activities of the Bank. In another respect, the MCB SWIFT Service Bureau provides and manages SWIFT connectivity and related products to subsidiaries of the Group as well as other local and foreign banks. Additionally, to foster continuous learning amongst its staff, the MCB Development Centre provides state-of-the-art facilities, including various training rooms as well as an auditorium and a library, backed by recourse to the latest technologies to facilitate the learning process.
- The Bank widened and enriched its digital banking channels to meet the needs and exigencies of customers in a more seamless and rapid way.
- Functionalities and appeal of physical channels (e.g. ATMs, branches) have been enhanced.

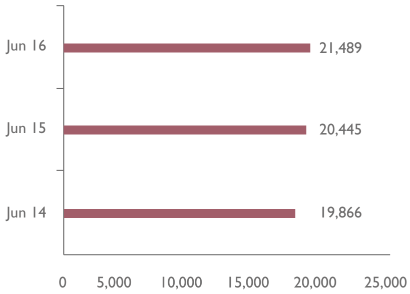
Read more in the 'Operational Excellence and Innovation Report' on pages 101 to 107

Scale of our physical channels as at 30 June 2016

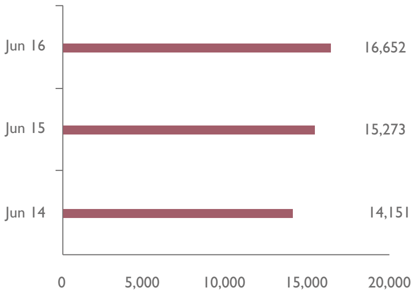
Our branch network	40
Our ATM network	173
Number of POS terminals	6,826

Number of transactions

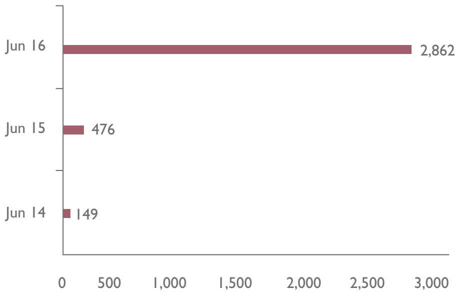
Automated teller machines[1] ('000)



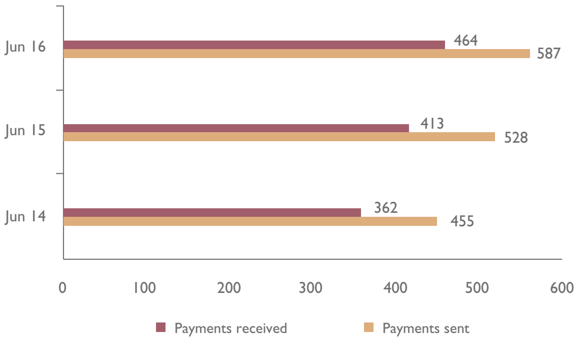
Merchant Point of Sale ('000)



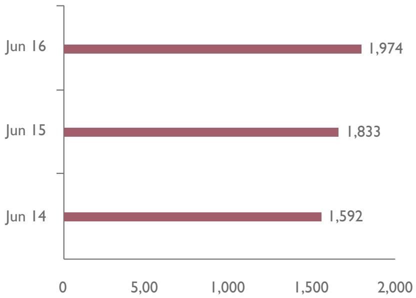
'Juice' logins ('000)



SWIFT transfers ('000)



Internet banking[2] ('000)



Notes:
[1] *Withdrawals*
[2] *Debit transactions*

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

- ensure that adequate accounting records and an effective system of internal controls and risk management have been maintained;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business;
- keep proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank while ensuring that: the Financial Statements fairly present the state of affairs of the Bank, as at the financial year end, and the results of its operations and cash flow for that period; and
- ensure that Financial Statements have been prepared in accordance with and comply with International Financial Reporting Standards as well as the requirements of the Banking Act 2004 and the guidelines issued thereunder.

The external auditors are responsible for reporting on whether the Financial Statements are fairly presented. Directors are also responsible for safeguarding the assets of the Bank 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 Bank.

The Directors report that:

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

On behalf of the Board.

Jean-Philippe COULIER
Chairperson

Antony R.WITHERS
Chief Executive

Management discussion and analysis

Our Operating Environment

Challenges in Executing our Strategy

During FY 2015/16, the Bank faced a challenging operating environment. It responded to the context by adopting a forward-thinking approach that allowed it to manage threats to its bottom-line, while effectively ascertaining and realising the opportunities for business growth. Alongside remaining focused on adapting and responding to the changing customer needs and aspirations, the Bank continued to build up and sharpen its resilience and adaptability to change.

Key challenges

Macroeconomic developments	The economic environment in which the Bank operates continues to be difficult, with pressures being notably exerted on the demand for customer products and services.
Legal and regulatory landscape	Faced with the evolving regulatory background, the Bank remains vigilant to the exigencies of existing and new developments taking place in the industry.
Market environment	The Bank is subject to mixed market conditions and faces up to heightened competitive pressures in specific niche market segments.
Technology and innovation	The unearthing and spread of new technologies worldwide entails opportunities and challenges for the Bank to effectively leverage relevant systems to improve service quality and enhance its competitiveness.
Operational challenges	The Bank is geared towards implementing the right set of processes and operational platforms so as to conduct its activities in an efficient manner and provide clients with the best possible service.
People and expertise	The strategic orientations of the Bank necessitate the employment of people with wide-ranging and sophisticated skills to underpin the productivity of operations and help to connect with clients.
Society and culture	The Bank is called upon to understand and thoughtfully respond to the changing behaviours, attitudes and modes of life of its customers in order to succeed in offering them the solutions that they demand.

Macroeconomic Developments

Subdued economic growth rates have, in general, prevailed on the domestic and regional scenes, notably linked to global difficulties and country-specific vulnerabilities, while the sharp declines in oil and other commodity prices have called for close monitoring. Yet, noteworthy avenues for business expansion subsisted, linked to favourable dynamics prevailing in specific niche markets, both locally and on the regional front.

The international economy

- After a drop in its expansion rate to 3.1% last year, the global economy remained subject to uncertainties and vulnerabilities so far in 2016. In particular, the surprise vote of the United Kingdom (UK) to leave the European Union cast a shadow over business confidence and investor sentiment worldwide. In its July 2016 World Economic Outlook (WEO) Update, the IMF notched down its global growth forecasts for this year by 10 basis points, relative to those of April, with world growth anticipated to stay at 3.1%.
- The distribution of risks to global economic activity remains tilted to the downside. Aside from the threats that the Brexit vote has set in motion, risks include a sharper-than-expected slowdown in major emerging markets and prevalence of unresolved crisis legacies, ranging from debt overhang in advanced economies and increasing corporate leverage in emerging economies to long-term unemployment and low investment.
- Global financial markets appeared to start recovering towards mid-February last, before being caught off guard by the outcome of UK's vote. Indeed, the immediate market reaction to Brexit triggered one of the most dramatic and volatile trading sessions in the last decade, with a sharp drop in valuation of risky assets amidst renewed risk aversion, although there has been a relative stabilisation thereafter. On another note, while rising for 5 consecutive months before averaging around USD 48 per barrel in June 2016, oil prices have remained low on account of restrained global demand. In its July Commodity Markets Outlook, the World Bank indicated that most commodity prices would remain volatile and relatively subdued in the periods ahead, despite an anticipated pick-up being expected on average in 2017.

The Mauritian economy

- Sluggish investment patterns and sector-level difficulties continued to impact the demand for credit as well as activity levels in the banking and financial services sectors in Mauritius.
- Amidst soft external conditions and the persistence of inherent structural bottlenecks, real GDP growth at market prices stood at 3.5% in 2015, as per estimates by Statistics Mauritius, with the corresponding indicator being 3.0% when measured at basic prices. Whilst some sectors, notably tourism, ICT, business and financial services, and seafood, fared well on the back of market development and diversification breakthroughs, others faced difficulties associated with the soft global economic context and heightened competitive pressures. Of particular relevance to the Bank as regards demand for credit, nationwide activity levels have been adversely impacted by a contraction in private sector investment owing to economic uncertainty levels, while public investment has been slow-moving due to project implementation lead times affecting large-scale ventures.
- The country's real GDP growth is expected to remain in challenging territories this year. In fact, economic growth measured at market prices is forecast to stand at 3.8% in 2016, with budgetary intentions, notably aimed at rekindling investment levels and implementing public sector reforms, only likely to yield desired outcomes over time. Regarding sectors in respect of which MCB Ltd exhibits relatively significant exposures, the tourism sector should post another robust expansion on the back of intensified promotional and market diversification endeavours, whilst the construction sector is forecast to register a modest recovery as a result of the initiation and unfolding of some investment projects. As regards the export oriented manufacturing sector, it is still marred by the external disturbances. Regarding the performance of other sectors, the business and financial services and ICT industries should capitalise on their sound fundamentals and competitiveness-enhancing moves to continue expanding at an appreciable pace. Likewise, notwithstanding market access uncertainties, the sugar industry is on course to record an appreciable growth in real value added this year, mainly underpinned by an anticipated notable increase in its harvested production levels. On the other hand, the performance of the domestic oriented industry is expected to remain subdued in spite of measures adopted by the authorities to nurture the development of small and medium enterprises. As for the trade industry, it would grow at a moderate pace in the wake of the prevalence of soft nationwide economic conditions. From an expenditure viewpoint, growth in public investment is expected to be appreciable, following the initiation of some infrastructure projects, which are however likely to yield more significant impact on investment and economic activity levels next year and beyond. For its part, private investment is likely to pick up from four consecutive years of contraction, but a restrained growth is forecast therein due to the expected negative trend in non-residential fixed capital formation on the back of economic difficulties and uncertainties.

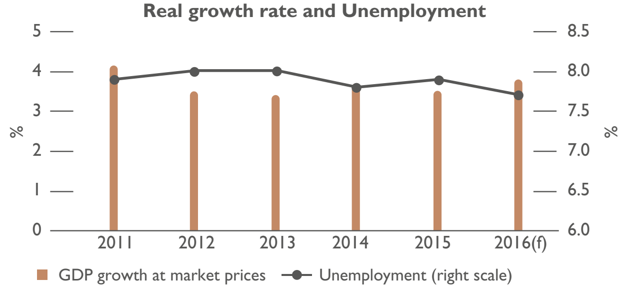
More information on our outlook for the Mauritian economy is available on the website

Management discussion and analysis

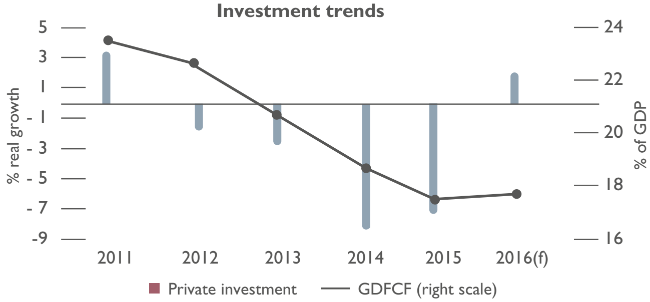
Snapshot of the Economic Environment

Whilst awaiting for the earmarked budgetary measures to be fully put in train, the Mauritian economy continues to be engaged on a below-par growth trajectory amidst the delicate international context. As a result and given lingering labour market imperfections, the nationwide unemployment rate has remained relatively elevated, with key concerns relating to women and youth.

Real growth rate and Unemployment

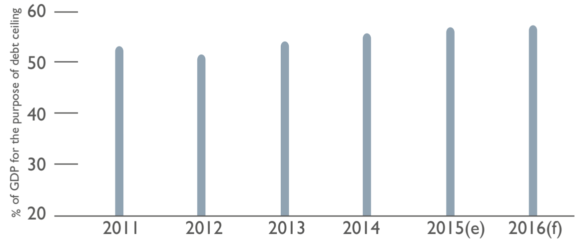


Investment trends

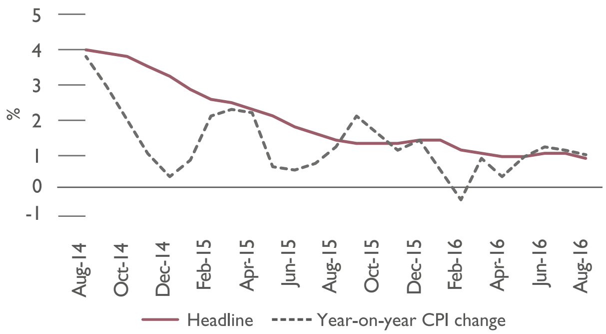


Despite delays in the implementation of specific large-scale projects, the budget deficit stayed elevated, thus contributing to a generally high public sector debt ratio. As per the authorities, the budget deficit would pursue a downtrend to reach 1.6% by FY 2018/19, whilst public sector debt is anticipated to reach 53.0% of GDP by June 2019. Headline inflation maintained its downward trajectory lately, on account of low international commodity prices, soft global economic activity and subdued domestic demand.

Public sector debt



Inflation rate

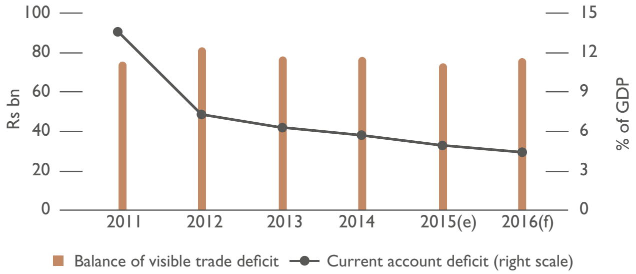


During the year ending 30 June 2016, the rupee appreciated against the pound on a point-to-point basis, following the latter's loss in value amidst the Brexit vote. Reflecting the general strength of the greenback on international markets, the rupee depreciated against the US dollar, while remaining relatively stable vis-à-vis the euro. Against this backdrop, the balance of trade deficit remained high, although declining on the back of lower imported commodity prices. The current account deficit also warrants attention, despite being offset by net capital and financial inflows, which led to a balance of payments surplus position.

Currency dynamics

Selling rates of main currencies vis-à-vis the rupee				
	Value as at		Annual average	
	30-Jun-15	30-Jun-16	FY 2014/15	FY 2015/16
USD	35.8	36.7	33.2	36.3
GBP	56.2	49.3	52.3	53.9
EUR	40.0	40.8	39.8	40.3

External front



(e) estimates (f) MCB forecasts

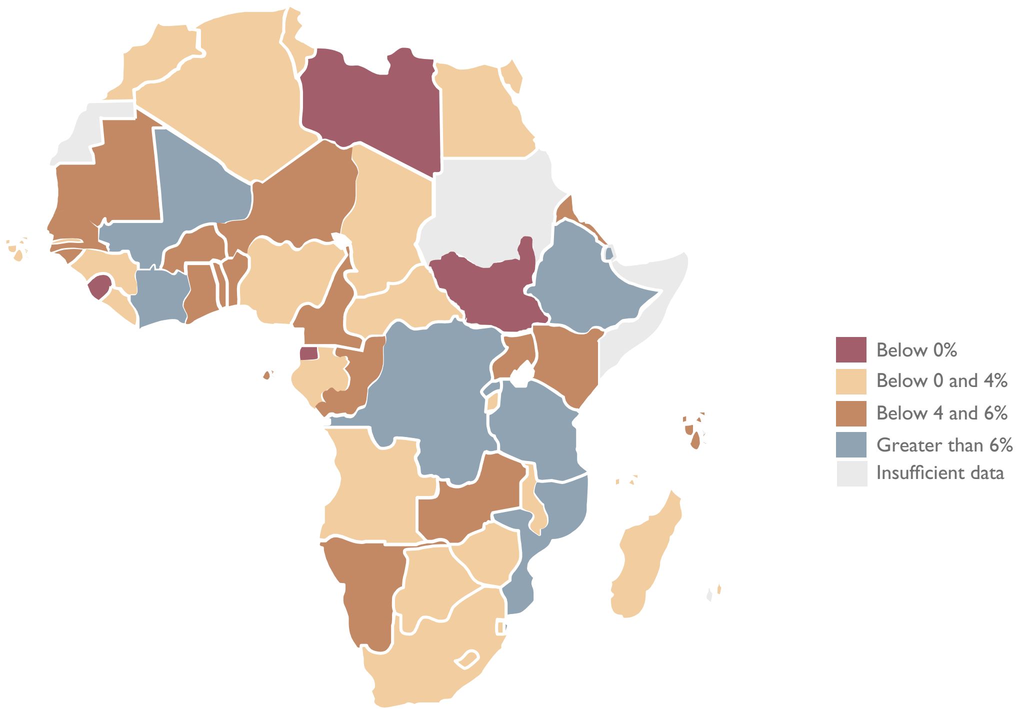
Note: Figures for 2011 and onwards have been rebased in the context of the Census of Economic Activities (CEA) conducted in 2013

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

The regional landscape

- While foundations for growth stayed generally appreciable, the sub-Saharan African region suffered a marked slowdown in its growth pattern lately. Difficulties facing the region's countries have had a bearing on credit worthiness of corporates and financial institutions, with the tightening of banks' forex liquidity conditions in a few countries also noteworthy, while the sharp fall in oil prices has impacted regional trade finance activities.
- The IMF has, recently, downgraded the region's real GDP growth for 2015 to 3.3%, while the indicator is forecast to stand at an even lower rate of 1.6% in 2016. The region is being confronted by a confluence of domestic and external headwinds. Exogenous factors relate to the ramifications of global economic realignments, notably (i) the adjustment to the marked decline in oil prices; and (ii) the relative slowdown characterising emerging markets, particularly China – the region's largest trading partner and one of the biggest consumers of Africa's commodities – which is having spillover effects on African countries through trade and capital flows channels. That said, even though disparate country growth prospects prevail, the growth picture is more favourable upon excluding South Africa and Africa's largest oil exporting country, Nigeria, with estimations suggesting that the region's real GDP growth rates would stand at some 4.4% and 5.6% for 2016 and 2017 respectively.

Average real GDP growth rates (2014-2016)



Source: IMF World Economic Outlook Database, April 2016

Management discussion and analysis

Legal and Regulatory Landscape

During the last financial year, the legal and regulatory landscape to which the Bank is exposed was subject to various developments. These generally aimed at enhancing the efficiency, stability and soundness of relevant industries. As a prominent feature, applicable compliance standards have, in the wake of the adherence to domestic rules and international codes and standards, become relatively more stringent. In response to the increasingly exigent landscape, MCB has further reinforced and fine-tuned its functioning to ensure that all mandatory requirements are strictly met. It has also upgraded its operations and processes to meet international stipulations, especially those relating to Organisation for Economic Co-operation and Development's (OECD) Common Reporting Standards and FATCA reporting, while the implications and challenges of IFRS 9 are being thoroughly assessed. In addition to abiding by present stipulations, initiatives taken by the Bank aim to bolster its level of preparedness to deal with upcoming developments that can potentially have a notable bearing on its activities. The following sections enlist the main measures taken and pronouncements made during FY 2015/16 and until recently, insofar as they are deemed to be of interest to MCB Ltd.

Bank of Mauritius guidelines

- The Guideline on Credit Impairment Measurement was amended, with the new provisions being effective on 1 July 2016. New sections relate to credit impairment provisions with regard to classification and assessment of credit impairment, the application of prudential norms in credit classification and provision for credit losses as well as restructured loans, while the definition of large credit was reviewed.
- Effective 1 June 2016, the Guideline on Corporate Governance was revised to reflect a move from a mandatory and prescriptive approach which focused on compliance requirements to a more adaptable approach that provides companies with the flexibility to adopt standards/principles that are most effective to meet internal and stakeholder needs. In particular, changes were brought in relation to the responsibilities and functioning of the board, committees thereof as well as senior management and internal/external auditors.
- The Guidance Notes on AML/CFT were amended by the addition, effective 14 March 2016, of a number of measures which financial institutions are recommended to implement to further protect themselves from money laundering and terrorism financing risks.

Main legal amendments

In the wake of the National Budget and the passing of the Finance Act 2016, the relevant legal revisions include:

- Bank of Mauritius Act: The Bank of Mauritius (BoM) endowed with central authority over bank holding companies and the power to monitor intra-group transactions and those between group entities and related parties.
- Banking Act: (i) to remove 'investment banking business' from the definition of 'bank' so that only the Financial Services Commission (FSC) regulates the business to prevent regulatory arbitrage; (ii) ultimate and intermediate financial holding company to comply with the BoM prudential requirements; (iii) to make it mandatory for banks to rotate audit firms every 5 years instead of partners in a firm of auditors; (iv) to provide for the provisions of Banking Act to prevail in case of any conflict or inconsistency with other laws, other than Bank of Mauritius Act; and (v) new definitions provided for 'banking licence' and 'significant interest' in capital or voting rights of a financial institution.
- Code Civil Mauricien: Capitalisation of interest for term loans with a tenor of more than 3 years is henceforth subject to such interest having been accrued for a full year prior to the operation of capitalisation.
- Income Tax Act: (i) relaxation of eligibility criteria to benefit from interest relief on secured housing loans for personal income tax exemption; and (ii) new mechanism for remittance of Corporate Social Responsibility (CSR) Fund by every company to the Mauritius Revenue Authority to be channelled to the National CSR Foundation.

Key pronouncements and releases

- The BoM issued several reports for public consultation in view of their future implementation. In January 2016, the BoM proposed the creation of an Asset Management Company. The latter will take over, in a phased manner, non-performing loans from banks that are secured by residential and commercial property. In February 2016, a draft Deposit Insurance Scheme Bill was unveiled. The aim is to establish a deposit insurance system to protect depositors and guarantee repayment of their deposits to such extent as may be feasible, in case of failure of a bank or non-bank deposit taking institution. Besides, a draft National Payment System Bill was disclosed. Its objective is to provide for the regulation and supervision of the national payment system and the designation of the BoM as the authority for that matter. The authorities also mentioned that the BoM will come up with a National Payment Switch with the aim of reducing transaction costs and boosting e-commerce.

Market Environment

In FY 2015/16, while business development opportunities remained on the cards, activity levels have been subject to economic and market-specific challenges and vulnerabilities. Against this backdrop and compounded by excess liquidity conditions, competitive pressures have prevailed in specific market segments, thus impacting the revenue generating ability of operators. That said, the banking sector continued to exhibit generally sound financial metrics.

- The banking sector has remained healthy and well-capitalised in spite of global economic uncertainties. As per the BoM in its Monetary Policy and Financial Stability Report of May 2016, "*Most banks maintained capital over and above the minimum statutory requirement of 10 per cent, with the overall capital adequacy ratio remaining at a comfortable level of 17.9 per cent as at end-December 2015. Common Equity Tier 1 capital ratio of banks stood at 15.5 per cent which underscores the strengthening of capital buffers in line with implementation of Basel III framework.*" On the other hand, while asset quality levels prevailing in the industry stayed within a circumstantially manageable zone, overall NPL ratios have maintained their uptrend, notably due to a relative deterioration in respect of credit extended outside Mauritius.
- The accommodative monetary policy stance of the Central Bank has been preserved and reinforced during the period under review. To provide impetus to economic growth in a context of persistently low inflation levels, the Monetary Policy Committee (MPC) of the BoM reduced the Key Repo Rate by 25 basis points to 4.40% in November 2015. After being maintained in the ensuing meeting of the MPC, the rate was further slashed by 40 basis points in July 2016, to reflect growing risks to the domestic growth outlook in a context of contained inflationary pressures. In light of such changes and sometimes independently amidst the excess liquidity conditions, commercial banks have, to varying degrees, decreased their savings and prime lending rates. The Central Bank announced that it is currently revamping the operational framework for the conduct of monetary policy to improve the effectiveness of monetary policy impulses to the market and resolve the disconnect between the reference and market rates.
- Following economic developments having potential ramifications on the industry, the BoM set out to reassure relevant stakeholders. The Protocol for the amendment of the Double Taxation Avoidance Agreement between Mauritius and India was signed in May 2016, with key provisions notably relating to (i) India getting taxation rights on capital gains arising from alienation of shares acquired on or after 1 April 2017; and (ii) withholding tax on interest income arising in India being applied to Mauritian resident banks at a rate of 7.5% for debt-claims or loans. In the wake of such amendments, the BoM noted that the two largest domestic banks, including MCB Ltd, do not have consequential treaty-related liquidity concerns. Further to the Brexit vote, the BoM took several measures to safeguard the stock of foreign exchange reserves, while standing ready to intervene in case of shocks.

Key trends

- After expanding by an appreciable margin during the preceding year, gross loans in the banking sector registered a year-on-year decline of 1.4% to attain Rs 604 billion as at 30 June 2016. This performance was mainly attributable to a corresponding drop of 5% in segment B advances by banks i.e. exposures giving rise to foreign-sourced income. In fact, whilst credit to Global Business Licence holders as well as foreign currency bills purchased and discounted posted notable growth rates in spite of market uncertainties, foreign currency loans extended outside Mauritius dropped in a context of subdued regional and international economic conditions. Conversely, a relative firming up was observed with regard to the evolution of segment A loans i.e. exposures generating locally-sourced earnings. However, the expansion thereof was limited to 2.9% during FY 2015/16, reflecting the slow-moving demand for credit against the backdrop of the soft economic environment and, in some cases, sector-specific developments. Worth highlighting, negative growth rates were recorded in credit to tourism, transport, construction (excluding housing) and public nonfinancial corporations. On the other hand, notable expansion rates were displayed by traders as well as the agriculture and fishing, ICT, financial and business services, as well as the export and domestic oriented manufacturing industries. In the retail field, whilst exposures to the 'personal and professional' segment fell slightly, housing loans increased by 7.6%, supported by enhanced value proposition by operators.
- Whilst a double-digit growth rate was posted during the preceding year, total deposits rose by 1.8% to attain Rs 885 billion as at 30 June 2016. This was attributable to a decline in foreign currency deposits in view of global economic difficulties and uncertainties. On the other hand, in spite of the low interest environment and the restrained nationwide income generation, rupee deposits increased by nearly 7%, supported by savings and demand deposits. Comparatively, foreign currency deposits at the level of MCB Ltd grew by about 25% while its rupee deposits increased by some 12% over the period under review.
- Underpinned by liquidity management operations conducted by the BoM, including sterilised interventions, the excess liquidity levels in the money market somewhat receded during the year. However, as gauged by the evolution of the excess holdings of banks at the BoM beyond mandatory balances, they remained volatile and generally elevated in the wake of the contained evolution of the demand for credit. Thus, while fluctuating, average weighted yields on Government of Mauritius treasury bills generally edged up during the period as a result of an upward trend in late 2015 in particular.

Management discussion and analysis

Main banking sector metrics

Loans and deposits

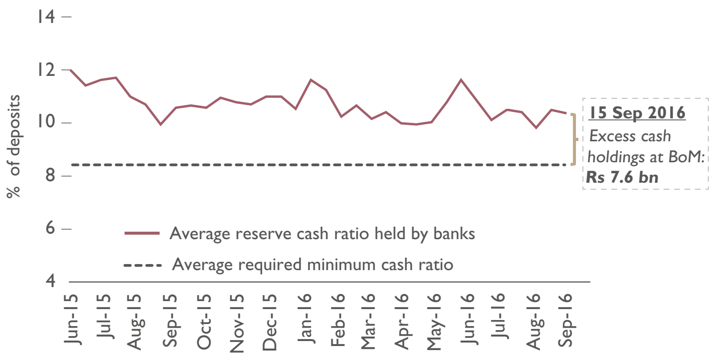
Loans (June 2016)			
By segment	**Rs m**	**Mix (%)**	**Y.o.y. change (%)**
Segment A	281,415	46.6	2.9
Segment B	323,009	53.4	(5.0)
Total	604,424	100.0	(1.4)

Deposits (June 2016)			
By type	**Rs m**	**Mix (%)**	**Y.o.y. change (%)**
Rupee	341,220	38.6	6.8
Savings	*208,687*	*23.6*	*11.6*
Demand	*57,267*	*6.5*	*8.6*
Time	*75,266*	*8.5*	*(5.7)*
Foreign currency	543,636	61.4	(1.2)
Total	884,856	100.0	1.8

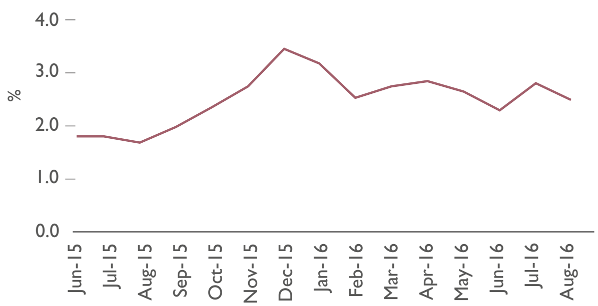
Credit to the economy (June 2016)			
Sectors	**Rs m**	**Mix (%)**	**Y.o.y. change (%)**
Agriculture and fishing	19,555	5.9	10.7
Export oriented industry	6,400	1.9	10.0
Domestic oriented industry	15,096	4.6	6.8
Tourism	47,461	14.4	(0.2)
Transport	4,390	1.3	(10.9)
Construction	86,411	26.2	3.9
Housing	*55,689*	*16.9*	*7.6*
Others	*30,721*	*9.3*	*(2.2)*
Traders	31,067	9.4	3.4
Information & Comm. Technology	1,853	0.6	24.2
Financial & business services	26,593	8.1	6.3
Infrastructure	4,583	1.4	7.8
Global Business Licence holders	46,223	14.0	11.6
Personal & professional	29,995	9.1	(1.9)
Public nonfinancial corporations	2,023	0.6	(39.1)
Others	8,324	2.5	13.7
Total	329,974	100.0	4.2

Money market indicators

Average cash reserve ratio



Average weighted yield - Government of Mauritius Treasury Bills



Review of Operations

The period under review has been marked by the sensible deployment of the Bank's strategic intents. Its undertakings have been backed by improved operational efficiency levels, reinforced risk management and enriched client solutions. Beyond initiatives highlighted in subsequent sections, the Treasury BU has, in addition to gearing up its ability to effectively manage high rupee and forex liquidity levels, launched MCB Wave, which is an all-in-one digital and real-time forex platform enabling treasurers to actively manage trading requirements.

Looking ahead, the Bank is committed to sharpening its leadership position locally and extend its involvement on the regional front, with the continuous enhancement of the richness of our customer relationships and experiences remaining high on the agenda. Specifically, alongside positioning the Bank for the next growth cycle turning up both locally and in the region, the Bank will further reinforce its capabilities in terms of people, systems and processes so as to cater for the gradual and smooth implementation of its Medium Term Growth Strategy. In fact, the Bank will adopt a thoughtful approach in executing its market initiatives in order to promote quality business growth over the short and longer term and preserve financial soundness.

Corporate and Institutional Banking

In FY 2015/16, the Corporate and Institutional Banking (CIB) SBU posted a somewhat resilient financial performance, bearing in mind the external context and operational challenges associated with its recent establishment. In fact, while strategic orientations have been pursued in a prudent way, the year under review has been mostly characterised by the execution of major capacity-building initiatives. Measures taken have contributed to foster the smooth operationalisation of the function, alongside nurturing a conducive background to support future growth.

Operational restructuring

In the wake of the implementation of the Bank's Medium Term Growth Strategy, the CIB SBU was created in July 2015 following the merger of its corporate and international segments. After a comprehensive consultative process involving key stakeholders across the Bank, a major milestone was achieved with the official Go-Live of the business line on 1 July 2016. In alignment with the increasingly internationalised and sophisticated business needs of our customers, the new organisation structure of the CIB SBU seeks to: (i) promote a more coordinated and calibrated international market development strategy; (ii) further enhance and harmonise customer experiences across sub-segments through greater emphasis on client proximity and relationship management; (iii) bolster the ability to cost-effectively provide bespoke solutions to domestic and international customers; (iv) promote process and value chain optimisation as well as secure end-to-end operational efficiency gains, underpinned by lower turnaround times; (v) reinforce the human and technical competency line-up in key service areas; and (vi) uphold the Bank's dynamism in responding to changes pertaining to the risk, regulatory and compliance landscapes.

Importantly, the governance framework of the CIB SBU has been geared up. A CIB Management Committee and a CIB Portfolio Review Committee have been set up to enhance coordination in the steering of the function and define portfolio strategies respectively. Relationship management teams attend to CIB customers through four segments, namely Energy & Commodities, Institutional Banking, Corporate Banking and Global Business. Additionally, with respect to credit origination and structuring, dedicated product groups have been created to provide specialised inputs for *inter alia* the structuring, analysis and pricing of deals. Of note also, a Transaction Management and Monitoring team has been established to reinforce controls across the value chain and allow front office functions to tap into shared and well-segregated middle office functions from post-approval to pre-disbursement stages of the credit chain.

Strategic initiatives

Alongside strengthening its operations, the CIB SBU continued to execute its business development initiatives.

Servicing domestically-located corporates

- The function strengthened relationships with corporate players across established and emerging sectors, backed by its unique selling propositions and customised offerings. It financed projects reshaping the country's economic landscape, while accompanying clients in their business restructuring and strategic undertakings.
- The Bank increased its financing in relation to the 2nd edition of its 'Green loans', pursuant to the lending facility availed from Agence Française de Développement to help firms save energy and reduce carbon emissions.
- In the global business field, relationships with management companies and other clients were geared up to meet the needs of vehicles set up in Mauritius, helped by improved client solutions and pricing strategies.

Management discussion and analysis

Catering for foreign corporate and institutional clients

- The International segment has updated its risk appetite to promote the gradual and prudent execution of its strategic orientations on account of macroeconomic developments, especially linked to the marked decline in international oil prices. Besides, in view of the increased risk profile of some key African countries, heightened 'boots on the ground' coverage efforts have been made by the segment to obtain better market intelligence for risk-taking, where appropriate. At the same time, it remained active on the regional marketplace to tap into appealing growth avenues. In fact, the segment: (i) furthered the Group's 'Bank of Banks' initiative and correspondent banking offering in Africa; (ii) pursued its Energy & Commodities strategy by targeting new countries, engaging directly with oil majors and traders while undertaking new financing structures along the oil value chain; (iii) remained a participant in syndicated lending and the sale of risks; and (iv) consolidated its position in relation to structured project finance for sectors where it has good track record.
- To realise its ambitions, the segment has capitalised on its customised solutions and representative offices in Johannesburg, Nairobi and Paris, with these entities being currently revamped in terms of human resource capabilities and strategic orientations to foster alignment with our earmarked business development thrusts. Besides, MCB Group's presence in Madagascar, Maldives, Seychelles and Mozambique as well the Bank's network of over 1,600 correspondent banks worldwide, including 200 across some 30 African countries, has been tapped into.

Capacity building initiatives

To strengthen its inherent capabilities and underpin market activities, the main initiatives taken by the CIB SBU are:

- Following the unfolding of its new operational platforms, the function took several measures so as to ensure that business is conducted in a sound and smooth manner. Notably, it has made inroads in (i) elaborating and adopting processes underpinning the new structures and the transitional arrangements required to bridge the gap between the actual and desired states; and (ii) reinforcing strategic partnerships with other areas of the Bank, especially risk and compliance, in order to capitalise on synergies and expertise.
- A new human resource management framework has been elaborated, including the formulation of new job profiles, preparation of employee development plans and finalisation of team mandates. In addition, several initiatives have been deployed, targeting leaders at manager and supervisory levels to equip them with the appropriate leadership style and management philosophy to help maximise cross-functional synergies, nurture talent and develop further areas of expertise towards achieving strategic targets. Also, the Bank elicited the services of an advisor, with a proven track record in the setting up and operationalisation of Energy and Commodities specialist financing units in renowned global financial groups.
- The function participated in and sponsored key events in Mauritius, Africa and Asia. To improve business relationships and showcase its value proposition, it hosted the 6th edition of its 'Africa Forward Together' seminar last year, welcoming 46 top executives from 36 African banks. The 7th edition, held in September 2016, welcomed banking executives from partner banks from some 14 African countries.

Looking forward

The CIB SBU is intent on cautiously widening its activities across market segments and geographies. Locally, the function will continue to assist corporates in the established and emerging sectors in good and bad times as well as enhance its value proposition both from the lending and transactional perspectives. It remains ready to tap into interesting business growth avenues that may emerge, notably in case national investment levels are materially boosted. On the global business front, developments will be closely monitored, with a key case in point relating to the new competitive landscape that the revision of the DTAA between Mauritius and India will entail for the country. Furthermore, the international activities will continue to be an important axis of the Bank's business growth, with the African region remaining the main target in view of its generally appealing economic prospects, in spite of warranting close scrutiny on account of its vulnerabilities. Thus, alongside prospecting business development avenues into unchartered territories, the CIB SBU will thoughtfully broaden its involvement, with emphasis being mainly laid on pursuing strategic orientations for which it has nurtured appreciable competencies. Towards those ends, the CIB SBU will leverage the synergies created by the new operational structure and further improve its customer centricity as well as reinforce its physical and human capabilities. It will prudently manage risk, with a key move relating to the implementation of solid KYC and customer onboarding procedures.

Retail

Notwithstanding the delicate economic environment and high competitive pressures, the Retail SBU registered yet another commendable performance during the year under review. This can be gauged by a notable rise in its gross operating margin, backed by appreciable outcomes posted across sub-segments. The quality of assets was preserved, with reinforced risk management providing a sound platform for achieving a suitable risk-return profile. Underpinned by strengthened operational capabilities as well as targeted promotional campaigns, the function has enriched its customer relationships, alongside improving its sales efficiency levels. Notably, it continued to execute its multi-channel strategy, which is anchored on strategies to shift from a transactional to a relationship banking mindset. Thus, it further broadened its digital footprint so as to provide increasingly simple and adapted banking experiences to clients. Besides, in line with its market diversification strategy, the Bank continued to embrace a clearly-defined customer segmentation strategy, with its value proposition tailored to the needs of customers spanning age and income groups. The main developments characterising the Retail SBU during the last financial year and until recently are described below:

- The Bank continued to disseminate its retail solutions on the marketplace, while distributing the Group's products, particularly relating to areas such as leasing and investment. As a key achievement, the Bank further enhanced its leadership position in the mortgage segment. It posted a 16% rise in housing loans over the year ending 30 June 2016, supported by its continuously refined housing loan offer.
- On the digital transformation front, several key projects have been put into train to improve the deployment and customer-centricity of delivery channels in alignment with market realities. Also, the Retail SBU accelerated the migration of customers to remote channels, while gearing up customer acquisition and retention moves. Today, customers are increasingly shifting towards online channels as gauged by their growing preference to use ATMs for cash deposits (notably via our Bunch Note Acceptor ATMs), while more than 90% of cash withdrawals are undertaken at ATMs instead of branches.

Read more on our innovative approach and digital footprint in the 'Operational Excellence and Innovation Report' on pages 101 to 107

- In relation to its customer segments, the Retail SBU made progress in terms of the centralised management of mass customers, backed by the optimisation of branch footprints and formats. Furthermore, via its Business Banking segment, MCB upheld its commitment to accompanying small and medium enterprises (SMEs) and remained the foremost service provider for these clients in Mauritius. In fact, MCB was ranked 1st amongst the 12 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 40% posted during the December 2011 – July 2016 period. In addition to tapping into a range of customised solutions in support of business growth, clients have capitalised on our 'Knowledge Centre', which offers free strategic and financial tools to start, manage and expand businesses. Also, three business meetings were conducted in FY 2015/16, which prompted around 120 leads and ensuing disbursements of some Rs 100 million in the field of trade finance. With a view to encouraging the entrepreneurial spirit and culture, the Bank has, in association with l'Université Paris-Dauphine and Analysis Institute of Management (AIM), launched an innovative training programme, titled 'Créateur d'Entreprise'. Ten potential entrepreneurs were selected for an intense training programme to help them develop their ideas for business implementation.
- Along with the deepening of customer relationships by the Select segment – which caters for the needs of professionals, managers and executives – the Bank has further embedded its involvement vis-à-vis high net worth customers. Backed by its brand and relationship building drive, the Private Banking segment widened its local and international client base, contributing to a noticeable expansion in assets under management. In order to build durable and trustworthy relationships with clients, the segment offered simplified and fast-tracked solutions to meet their everyday transactional needs, while working with them to identify their financial objectives and develop strategies to achieve the latter. To help the segment in tapping into Africa's pool of high net worth customers in line with the Bank's Medium Term Growth Strategy, several initiatives have been implemented and/or are ongoing, including (i) the revamping of our on-the-ground presence at the level of the Bank's representative offices; (ii) human resource and internal process upgrade; (iii) creation of greater synergies with other stakeholders across the organisation; and (iv) the proper ring-fencing of risk and compliance considerations as well as the formulation of an appropriate governance set-up.
- To support its growth ambitions and the quality of its customer service, the Retail SBU has upgraded the competencies of its staff and its sales force by way of dedicated training programmes. Key initiatives deployed are as follows: (i) development programmes have been designed for front-liners and branch managers; (ii) coaching programmes have been developed to inculcate specialised skills to specific staff, aimed notably at uplifting their knowledge of the more complex client solutions; and (iii) revised career paths have been established for relevant functions, supported by the formulation of a talent management plan. Moreover, inroads have been made with regard to the optimisation and automation of processes to achieve greater operational and sales efficiency. In the latter respect, several sales meetings were conducted, which initially resulted into leads and, eventually, the delivery of loans as well as other products to clients.
- Also, the Bank has regularly sought customer feedback through its (i) Voice of the Customer and Net Promoter Score programmes,

Management discussion and analysis

which measure and monitor customer satisfaction and advocacy, notably in respect of selected MCB products and services; (ii) systematic client surveys within each customer segment to seek levels of satisfaction and improvement initiatives; and (iii) upgraded 'Complaints Handling Policy', whereby customers are given the opportunity to provide their views via screens placed in the Bank's branch network. Findings are analysed to better understand customer needs and effectively feed in service enhancement initiatives.

Looking ahead, the Retail SBU will seek to duly cope with challenges linked to the economic context, ongoing and future regulatory developments, international codes and standards, and prevailing socio-demographic dynamics such as the growing prominence of social media as well as the increasing sophistication of client needs and behaviours. While effectively managing risks associated with its activities, the function will bring about further improvements in the quality of its customer service, the range and attractiveness of its client solutions as well as the appeal and convenience of its delivery channels. The journey to moving towards being an omnichannel bank will be pursued, backed by more agile processes and reinforced human capital.

Cards

The Cards SBU has, in spite of being confronted by a competitive landscape, sustained its business growth and maintained its leadership position in both cards acquiring and issuing businesses. In FY 2015/16, it recorded a notable growth in its gross operating margin, underpinned by the recourse to innovative technologies, a continuously refined value proposition and the conduct of dedicated promotional campaigns. The recent main developments characterising the Cards SBU are as follows:

- The function made further headway in widening its customer base across market segments. In respect of the Bank's 'Juice' mobile banking application, total registered users increased at a fast pace, standing at nearly 80,000 as at end-August 2016, compared to around 39,100 a year before. To foster widespread market penetration of the 'Juice' mobile service, the Bank launched a referral programme to the public at large, whereby both parties are rewarded, with the referrer being also eligible to participate in a lucky draw to win appealing prizes.
- In its quest to provide simplified banking experiences to its customers, the Bank successfully brought its mobile banking application to new heights with its innovative Visa Direct service. This new feature allows customers to transfer money from their MCB account to any Visa card in the fastest way possible anytime and anywhere in the world, which is a first in both Mauritius and Africa.
- Another first mover initiative in Mauritius relates to the enhanced flexibility given to MCB debit cardholders, with the latter being, henceforth, able to enjoy the privilege of making online payments. This initiative, which has been made possible thanks to the longstanding relationship between MasterCard and MCB, is expected to help to grow the customer base of the Bank and further boost transaction volumes of its e-commerce business. More recently, the Bank announced its decision to upgrade its 675,000 debit cards to the convenient and safe contactless payment solution. The roll-out will start as from October 2016, with customers being able to replace their debit card at no additional cost. The aim is to offer our customers higher level of security notably through the latest generation chip technology. The card will be contactless, implying that, while being accepted at all ATMs and points of sale terminals, they will offer customers a fast, simple and secure way to pay, without having to insert the card in a terminal or swiping it at a POS.
- To promote card usage, the Bank conducted several promotional campaigns in association with MasterCard. The opportunity was given to two adults to spend three nights in the underwater suite at Atlantis The Palm Dubai on an all-inclusive package. Another high profile commercial initiative relates to an offer currently open to all MCB American Express® cardholders to participate in a lucky draw to win an all-new BMW X1.
- Reflective of its market development thrust and innovation mindset, MCB Ltd was awarded the 'Visa Innovation Award' by Visa, for being the first bank to launch MCB Visa Direct via a mobile application in Africa. In addition, MCB won the 'Best Innovative Bank in the Market' accolade from the same organisation, while also obtaining the award for 'Best Bank in Mauritius 2015' from UnionPay International (UPI), a leading credit card issuer in the world, for the commercialisation and promotion of UPI services in Mauritius.

Read more on our innovative approach and digital footprint in the 'Operational Excellence and Innovation Report' on pages 101 to 107

Moving forward, alongside monitoring the operating environment and developments on the regulatory front, the Cards SBU is intent on sharpening its position locally and further probing regional ventures within set competency areas. It will gear up its capabilities to cater for the execution of earmarked initiatives, notably those associated with the 'MCB goes digital!' strategy of the Bank. In particular, the function will strive to broaden and enhance the range of functionalities linked to its 'Juice' mobile banking platform and strengthen its extensive suite of customised card solutions. It will also assist Group entities, by notably replicating the 'Juice' mobile service in its foreign banking subsidiaries. Overall, to achieve its strategic intents, the Cards SBU will lay due emphasis on reinforcing the quality of human capital, processes and systems so as to ensure that the value proposition is attuned to customers' needs as well as changing market and technological dynamics.

Operational Excellence and Innovation Report

Introduction

Throughout its history, the Bank has remained committed to embedding operational excellence and innovation as a key enabler of its business model and strategic orientations. In recent years, amidst a fast-paced and increasingly competitive operating context, MCB Ltd has embarked on a transformational journey to move from transactional to relationship banking in tune with the changing needs and aspirations of its clients. The Bank is working on the transformation of the banking landscape in Mauritius by moving in sync with the population's contemporary lifestyles and promoting the emergence of a 'cashlight' or 'cashless' society, with customers accessing paperless services in the palm of their hand.

Our strategic positioning

Over time, the Bank has adopted innovative practices and platforms, as gauged by the recourse to cutting-edge technologies across the value chain and the sustained streamlining of processes and workflows to achieve increasingly agile operations. Initiatives adopted by the Bank have allowed to continuously (i) improve internal productivity and sale efficiency levels after automating and rationalising relevant processes towards providing services in a faster and less costly way; (ii) launch tailored, sophisticated and a broader array of solutions, while reaching out further to the younger generation; and (iii) continuously enhance and enrich the quality of customer service, thus simplifying banking and making the latter an intuitive and enjoyable journey for the customer. Such achievements contributed to strengthen the Bank's ability to adapt to change, preserve its brand image and foster sustainable business growth. As a notable leap forward, the Bank has, in the early 2010s, embarked on a digital multichannel strategy with the aim of uplifting customer experience. The Bank has developed and broadened its digital footprint, which enabled it to enhance the speed and flexibility with which it delivers value to customers. Specifically, the Bank has, during the past few years, made inroads in (i) improving the appeal of its physical channels; (ii) migrating clients towards online channels; and (iii) fostering seamless multichannel integration. The engagement of the Bank has been backed by investment in human capacity building, adequate risk management (e.g. to deal with information security threats), recourse to extensive data analytics, customer education and a conducive shift in the organisational culture.

Looking ahead, the Bank will further entrench its technological transformation and process improvement initiatives to improve its operational flexibility and market competitiveness. Due emphasis is being laid on 'MCB goes digital!' which is a key pillar of our Medium Term Growth Strategy. The Bank is intent on guiding its way towards omnichannel oriented transformation, with a view to providing self-service and straight-through banking services to our clients anywhere, anytime and on any device.

Management discussion and analysis

Innovation is at the heart of our strategy

Our ambitions

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

Our guiding principles

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

Our framework

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

Selected entities operating under the aegis of the COO's office

Banking Operations

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

Information Technology

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

Business Analysis & Project Management

Its main objectives are to drive innovation and improvements through proactive and agile projects and change management, continuously engage with the business and speed up service delivery, align changes as per the established governance set-up, and boost operational efficiency to enable the cost-effective and timely realisation of the Bank's strategies and align business and IT strategy.

Retracing our Key Milestones

Starting with offline branches a long time back, the Bank realised numerous landmarks in the field of innovation and technology over time. Most of them have been market firsts in Mauritius, with some being even pioneers in Africa, notably the cardless ATMs and Visa Direct functionalities via the 'Juice' mobile service. Our main achievements are listed below.

Zooming on key milestones of MCB Ltd in Mauritius

2016
- Contactless debit cards
- Revamped Internet Banking
- Payment to any Visa cardholder via 'Juice' mobile service
- All-in-one Customer Relationship Management application via iPad
- Certified e-statements

2015
- Lifestyle Banking via 'Juice' mobile service
- Self-Service Kiosks with card swipe authentication
- MCB SWIFT Service Bureau

2014
- Financial Health Check Service via iPad
- State-of-the-art Enterprise Risk Management suite
- Predictive Analytics for marketing campaigns

2013
- Dual Banking and Payment Mobile application ('Juice' mobile service)
- Cheques truncation at source from branches for both internal and Central Bank clearing and settlement
- Instant one-stop Customer onboarding to multiple products and services via digitalised documents and workflow ('Instakit')
- Optical Character Recognition for processing of customer applications

2012

Enrolment to Home Loans & Cards via iPad and electronic signature

2011
- Forex ATMs
- E-statements and e-advices sent via email
- State-of-the-art branch network
- Bunch Notes Deposits enabled on MCB ATMs

2010
- Server-less and PC-less MCB branches through Virtualisation Technology
- State-of-the-art Core Banking System

2009

Digitalisation of paper-based customer instructions at source from branches for centralised processing

2008

MCB SWIFT Member Concentrator

2007
- Fully-integrated Teller Cash Recyclers
- Mobile Airtime Refill via SMS

2006

Mobile/GPRS POS terminals for cards transactions acquiring

2005
- Datawarehouse and Analytics
- Full-fledged Treasury system

2004
- Mobile Airtime Refill via ATMs & Internet Banking
- End-to-end Cards Issuing System

2003

End-to-end Cards Acquiring System

2002
- Magnetic ink character recognition cheques processing with online cheques returns from all its branches

1999

Online card transactions with MasterCard and Visa

1998

Internet Banking

1996

Online Signature verification for customer transactions

1994

Telephone Banking

1993

State-of-the-art Data Centre

1989

Online Branch Teller System and Transactions

1988

Credit card

1987

ATM and debit card

Management discussion and analysis

Overview of innovative solutions adopted over the past few years

Channel management

Our branch network

- All of our 40 branches operate as per world-class 'department store' standards. Our differentiated formats cater for different market segments and include full sales branches, counters in shopping malls and flagship branches. MCB operates lounges across five branches (including its exclusive 'Lounge 1838' at its headquarters), which feature private spaces for premium customers to bank in style and comfort, while enjoying a bouquet of features such as complimentary parking, hot/cold drinks, WiFi, books and magazines. Across the branch network, our 5 Self-Service Kiosks offer fast and simplified banking experiences, with secured card swipe authentication. While doing away with queues, the platform has paved the way for thousands of financial and non-financial transactions to be effected and fulfilled daily in a seamless and straight-through mode, e.g. account transfers, transactions and balance enquiries, application for various products and services, standing order set-up/cancellation, request for electronic certified statements and cancellation of direct debits.
- Through our breakthrough 'Instakit' service, in-branch experience is boosted with on-the-spot products and services (e.g. debit cards, Internet Banking, Mobile and SMS Banking) offered for immediate use to customers within just a few minutes. In our branch network, video conferencing is available to interact with customers located in Mauritius and abroad, with advice provided notably on our specialised banking and investment services. While enabling them to be more mobile and efficient in their sales activities, iPads are used by front-liners notably to cross-sell loans and cards as well as to provide specialised financial health check services on-the-go at fairs and commercial events. MCB's value proposition is also promoted across more than 250 digital screens across our branch network. In addition, free WiFi service is available to customers since a few years in a number of our branches across the island.

Our ATMs and POS terminals

- Accounting for around 38% of the national network, MCB Ltd has 174 strategically-located ATMs, while our wide platform of some 6,900 merchant terminals include multi-currency and wireless mobile POS terminals. Our 18 Bunch Note Acceptor ATMs allow for deposits on 24/7 basis, which are also instantly credited to the designated accounts. Besides, forex notes can be exchanged on our 8 Forex ATMs.
- Dynamic Currency Conversion has been extended on our ATMs and merchant terminals. As such, a large array of foreign cardholders are able to accurately determine the value of their transactions in their home currency, while knowing exactly which exchange rate is instantly applied instead of having to wait until the transaction is actually cleared.

Our digital channels

- The Bank has further made headway in migrating customers from branches to digital channels, with the latter being mainly intended for transactional operations and the former increasingly sought for advisory services. In addition to engaging in the regular monitoring of key performance indicators, the Bank has met its objective by means of price differentiation strategies and customer education. In fact, a key accomplishment during FY 2015/16 relates to the assignment of dedicated digital champions (i-Connect) in each branch, with the objective being to explain the benefits of digital and remote channels and help customers during the on-boarding and utilisation stages.
- As a landmark achievement, the Bank launched its 'Juice' mobile banking and payments service in 2013 to be more attuned to its customers' contemporary lifestyles. In fact, MCB Ltd was the first bank on the island to launch a 2-in-1 Banking and Payment Mobile app, downloadable from App Store and Play Store, while also being accessible via the web. The solution provides a comprehensive set of online banking and payment services including Pay to Peer (P2P) and Pay to merchant payments via mobile, email, account transfers as well as via card-less cash withdrawals from ATMs and the refill of mobile phones. Since last year, the service was enhanced with the roll-out of our 'Lifestyle Banking' proposal with services provided free of charge on a 24 hour basis. Our mobile application allows customers to self-onboard online, to avail of offers of products and services at promotional prices when paid via 'Juice' or MCB Cards and to effect their bill payments at finger touch. Conspicuously, MCB is, today, viewed as the only bank in Mauritius and Africa offering breakthrough features as part of its comprehensive mobile banking application, including the ability to transfer money to any Visa cardholder in the world. Testifying to its success, nearly 80,000 customers have, as at the end of August, registered to the service in just 3 years (including more than 39,000 over the past year).
- The MCB website has been continuously revamped over time, with web content management solutions being used for dynamically displaying our brand image and boosting our online marketing efforts. Moreover, promotional videos are hosted on MCB's Facebook page and YouTube channel.
- Our rich and secured Internet Banking service counts over 145,000 registered users, conferring a local market share of above 38%. It encompasses straight-through further account opening, enquiries on loans, cards and investment products, domestic and international transfers in local and foreign currency, application to letters of credit, as well as bulk payment files upload for payrolls, etc. Of note, in August 2016, the Bank launched its all-new Internet Banking service, which is marked by a fresh design and new technological platform for making banking easier, simpler and faster.
- Other achievements posted by the Bank are: (i) Our free SMS alert service sends notification each time the customer's card is used overseas or online for an even safer experience; (ii) daily and quarterly e-newsletters are sent to customers; and (iii) a self-service forex trading platform has been established for businesses to enable them to actively manage their forex trading requirements.

Management discussion and analysis

Fostering seamless multichannel integration

- The Bank promotes cross-channel collaboration, with key examples being as follows: (i) self-service onboarding to our Mobile banking and Internet Banking transactions signing through a one-time password made available via SMS; (ii) client requests (e.g. for education loans) can be initiated through the web and fulfilled in-branch; (iii) increase of daily online funds transfer limits can be done via our Call Centre; and (iv) applications from the Kiosk can be fulfilled in-branch.
- Our Contact Centre provides information about MCB's offerings on a 24-hour basis. Importantly, it: (i) acts as support to remote channels; (ii) offers mass customers the convenience of obtaining information without having to come to a branch; and (iii) constitutes a key axis of our multi-channel strategy of promoting the move to self-service solutions.

Other technological platforms and innovative practices

Key achievements

- MCB avails landmark information technology platforms to underpin its operations, with the main examples being as follows: (i) Temenos Core Banking System; (ii) e-forms, optical character recognition as well as documents and Business Process Management (BPM) tools with functionalities for streamlining and automating processes and reaping improved efficiencies, while reducing data capture, paper usage and email exchanges; (iii) full-fledged systems leveraged at the level of specific business functions, notably Treasury (whereby all of the front, middle and back offices are automated), Cards (with the full suite of issuing, acquiring, transactional/authorisation switch, ATM and POS terminals being seamlessly integrated to offer 24 by 7 service) and Risk (e.g. Enterprise Risk Management System used for credit and market risk management); (iv) Teller Cash Recyclers at branches; and (v) software for customer complaints. Moreover, MCB has invested in a software solution providing e-learning training and also Graphical Interface Electronic Operations Manual, an e-learning medium allowing employees to be trained on selective modules on easy-to-use visual interface.
- MCB is deploying a Bank-wide Customer Relationship Management (CRM) system to facilitate and enhance customer service by providing the same full 360-degree customer view across all business lines and our Contact Centre. Online and real time access is provided to all customer accounts, facilities and transactions, cards, investments, archived electronic documents, and any complaints, requests or suggestions made across branches and channels (e.g. ATMs, POS, mobile banking platform, Internet Banking, etc.). The system will also enable and enforce the management of all commercial campaigns and sales programmes relating to MCB products and services end-to-end i.e. from leads to fulfilment of products and services by means of the close and daily tracking of key performance indicators.
- The Bank is adopting a state-of-the-art Securities and Wealth Management system. The aim of the latter is to further automate and enhance its investment and securities portfolio offer to high net worth customers.
- The Bank's corporate value proposition was improved with the implementation of a robust online project finance management platform. It facilitates the exchange of documents, business plans, contracts, etc. between customers and the Bank's project finance management team, while speeding and improving the quality of customer service.

Key process improvements

- MCB Ltd recently launched its 'Refresh towards Smarter Operations' programme. The objectives of projects executed in this respect are to attain Bank-wide operational efficiency gains, fasten realisation of strategic objectives, transaction cycles and improve customer-centricity, while managing risks. A major spin-off of the programme has already been posted in the form of the more structured and coherent organisation of the Chief Operating Officer's office.
- The MCB SWIFT Service Bureau has been certified as Standard Operational Practice and is soon set to be the first certified Premier Operational Practice. This will position MCB as the most highly qualified institution in Africa and amongst the selected few in the world for providing SWIFT services.
- Over the past few years, the combined use of digitalisation through optical character recognition or e-forms and workflows integrated with core systems through re-usable Application Programming Interfaces has boosted the automation and optimisation of several processes, transactions and services involving several actors, thus reducing service time, enhancing efficiency and productivity of operations and boosting customer service (e.g. end-to-end application through approval and disbursement of credit facilities for both corporate and individual customers, one-stop creation and amendment of customers' accounts, application to multiple products and services, amendments to cards, etc.). The variety of robust, fast and richly-featured digital channels have also helped to facilitate transactions, while reducing their costs as they are self-effected and almost all of them are entirely fulfilled by the customers themselves.
- MCB Ltd has leveraged its BPM, workflow and optical character recognition tool to reduce turnaround time for the processing of high volume funds transfers and cards amendments made from branches, faxes or phones. A digital and document processing unit has been set-up to accompany related transformation.
- The Bulk Payment service enables secured and Straight-Through Processing (STP) of payrolls and multiple transfers, thus avoiding altogether manual inputs, visual verifications and human errors.
- Lately, the Bank has made inroads in further improving the effectiveness and dexterity of its payments, customer onboarding and credit operations. Actions deployed led to smarter as well as more efficient and smooth-running back-end activities, while helping to minimise risks, turnaround times and the cost to serve. Notably, the Bank achieved a gradual elimination of paper work in the wake of a higher propensity for online interventions, posted lower loan disbursement times, lessened bottlenecks to operations, and reduced dependence on low value-adding operations.

Management discussion and analysis

Financial Review

In this section, income derived from discontinuing operations linked to investments unbundled from MCB Ltd as part of the restructuring exercise has been included, as relevant, in the indicators being commented.

Performance against Objectives

OBJECTIVES FOR FY 2015/16	PERFORMANCE IN FY 2015/16	OBJECTIVES FOR FY 2016/17
Return on average Tier I		
Given the significant rise in equity after the capital restructuring exercise at the end of June 2015, the ratio is likely to fall but should be close to the 19% mark. It is expected to recover in subsequent years especially as the execution of the medium term growth strategy gains momentum.	In line with expectations, return on average Tier I capital decreased to 18.6%.	With the operating context likely to remain challenging, the ratio is expected to decrease but should stay at around 18%.
Return on average assets (ROA)		
ROA is likely to maintain an upward trend on account of enhanced financial performance (FY 2014/15: 2.1%).	ROA was maintained at 2.1%, a satisfactory level considering the difficult operating context.	ROA is forecast to be close to the 2% mark.
Operating income		
Even with the relatively low yields on treasury bills, net interest income is anticipated to grow by around 15% for the year, spurred by better balance sheet management and the impact of the Subordinated Notes transfer to the ultimate holding company. Adjusting for the latter impact, net interest income should still grow by more than 11% on a like for like basis.	Net interest income rose by 11.6%, which is lower than anticipated, on account of a slowdown in the average loan book. Accounting for the impact of the transfer of the Subordinated Notes to the ultimate holding company in FY 2014/15, net interest income posted a growth of 7.6%.	Net interest income is expected to rise by some 8% in line with an improvement in the loan book and our excess liquidity situation.
Net fee and commission income is likely to maintain a healthy growth of about 13%, on the back of strong contributions from our international operations. With treasury profits also expected to grow further on account of a projected increase in transaction volumes, non-interest income is expected to rise by around 9%.	Low oil prices have led to a drop in revenue from regional trade financing, which in turn contributed to a fall of 5.8% in net fee and commission income. Conversely, non-interest income increased by 7.3% on a like-to-like basis following a strong growth in profit on exchange.	Non-interest income is anticipated to increase by about 7% as we expect a recovery in net fee and commission income from the drop registered in FY 2015/16.
Operating expenses		
Growth in operating expenses is forecast to pick up to around 12%, fuelled by capacity-building endeavours, including some major capital expenditure, to be undertaken in support of our medium term growth ambitions.	Operating expenses grew by only 4.0% following the drop in depreciation and amortisation charges, principally explained by a timing difference in the execution of some earmarked projects.	Growth in operating expenses is expected to exceed 10% in line with the roll-out of ongoing major projects in the course of FY 2016/17.

OBJECTIVES FOR FY 2015/16	PERFORMANCE IN FY 2015/16	OBJECTIVES FOR FY 2016/17
Cost to income ratio		
The ratio is expected to edge slightly higher from last year although remaining below the levels achieved in preceding years.	The cost to income ratio fell to 37.2% on account of the contained increase in operating expenses and sustained growth in operating income.	Cost to income ratio should increase slightly but is forecast to remain below 40%.
Loans and advances growth		
Growth in rupee advances should improve slightly compared to FY 2014/15 while the increase in the non-rupee portfolio is forecast to maintain a healthy double digit growth. Overall, the average growth rate of loans and advances should improve to around 8%.	The average customer loan book registered a growth of only 2% as a result of a relatively flat foreign currency loan book and a growth of some 4% in the rupee loan portfolio reflecting the challenging environment.	While still being confronted by a difficult environment, both the rupee and foreign currency customer loan books are expected to grow by at least 5% in line with the execution of our strategic priorities.
Deposits growth		
Whilst the excess liquidity within the banking system is likely to fall, the deposit base should maintain its organic growth, with non-rupee deposits being further boosted by consistent flows from foreign customers being attracted. Overall, the increase in customer deposits is expected to reach some 10% for the year.	Average customer deposits registered a growth of some 18%, on account of a 28% rise in foreign currency deposits and an increase of 13% in rupee deposits.	Customer deposits should again post a solid growth both in local and foreign currency terms with the overall expansion likely to be above 10%.
Asset quality		
Non-performing loans are expected to stay at satisfactory levels with impairment charges anticipated to remain at the same level as FY 2014/15.	NPL ratios remained at satisfactory levels in the current difficult circumstances, standing at 5.9% and 3.8% in gross and net terms respectively. For its part, impairment charges rose by some 5% compared to the previous year.	Allowance for credit impairment charges is expected to be close to the FY 2015/16 figures with the NPL ratios to remain at manageable levels.
Capital management		
The overall capital ratio as well as the Tier 1 metric should improve by around 30 basis points over the year. (FY 2014/15: BIS: 15.1% and Tier 1: 13.8%).	The overall capital adequacy ratio for the Bank improved to 16.3% on the back of organic growth with Tier 1 ratio standing at 14.9% after allowing for the impact of the unbundling of two of its banking subsidiaries from the Bank in the wake of the restructuring exercise.	Both the overall capital adequacy ratio and the Tier 1 ratio are expected to be maintained at least at the current levels.

Management discussion and analysis

Performance against Objectives by Lines of Business

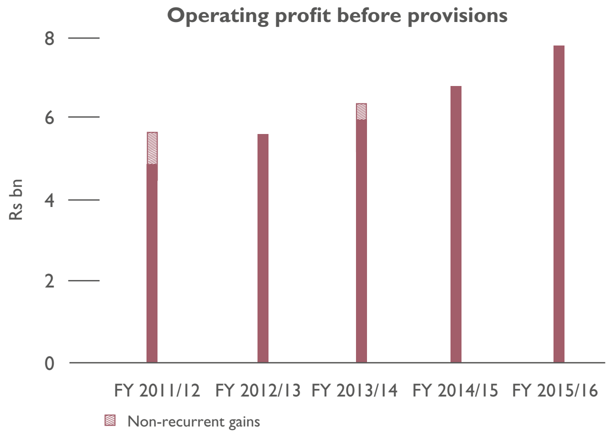
OBJECTIVES FOR FY 2015/16	PERFORMANCE IN FY 2015/16	OBJECTIVES FOR FY 2016/17
Retail		
The ongoing drive to reinforce the value proposition, improve service quality and extend our services to foreign customers should underpin an increase of some 12% in average retail loans. This should contribute to net interest income and overall gross operating margin rising by nearly 8% and 6% respectively.	The average retail loan portfolio grew by 11% supported by the sustained growth in housing loans despite continued competitive pressures. Net interest income grew by around 8%, contributing to a similar rise in gross operating margin.	In line with its strategic intent to enhance its value proposition and service quality, the average retail loan portfolio is expected to sustain a growth of some 12%. Consequently, net interest income and overall gross operating margin are expected to grow by around 9% and 10% respectively.
Corporate and Institutional Banking		
Whilst challenging market conditions locally are expected to persist, average loan book of the Corporate and Institutional Banking (CIB) segment is expected to grow by some 7%, reflecting the Bank's thrust to pursue its regional agenda. Given improved margins emanating from an increased shift towards foreign currency advances and better balance sheet management, net interest income is forecast to grow by above 15%, thereby contributing to a rise of some 14% in gross operating earnings.	Whilst the corporate loan book rose by around 4%, the average CIB loan portfolio remained relatively flat mainly due to the lower regional trade finance business amidst low oil prices. Although net interest income grew by some 5%, gross operating margin declined by some 1% following the drop in trade finance fee income.	Whilst the operating environment is likely to remain delicate, our ongoing commitment to support clients in their business endeavours and to pursue our diversification strategy are expected to contribute to a 5% growth in the average loan portfolio of CIB. Against this backdrop, net interest income is expected to increase by some 4%. Gross operating margin, however, is expected to grow by a relatively lower rate of around 3% on the back of some capacity-building initiatives.

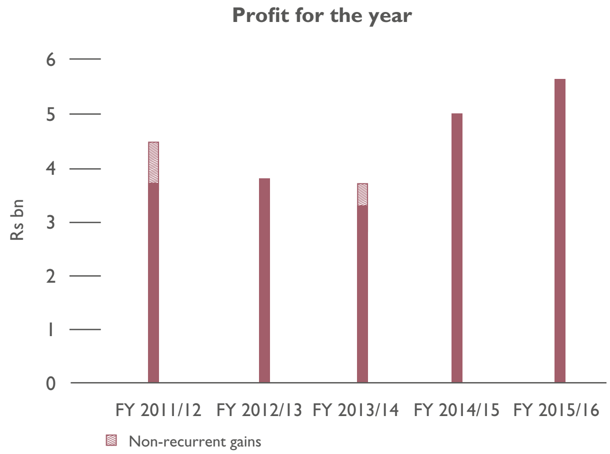
Overview of Results

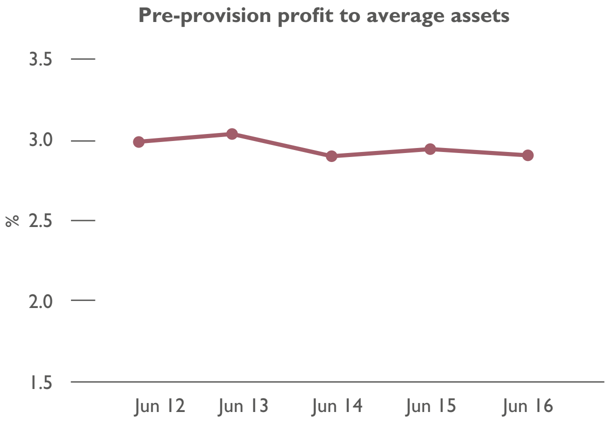
The Bank posted a satisfactory financial performance during the year under review in spite of the challenges prevailing in the domestic and regional operating context as described in previous sections. Backed by the sensible execution of our strategic priorities, operating income increased by some 10% to reach Rs 12,463 million. This growth was driven by a rise in net interest income and higher profit on exchange which outweighed a drop in net fee and commission income caused by a decline in revenue from regional trade financing amidst low oil prices. With the rise in operating costs contained at 4% and net impairment charges remaining relatively flat, profit before tax rose by 16.0%. After accounting for an increase of Rs 336 million to Rs 1,296 million in income tax expense including the special levy and CSR contributions, overall results rose by 12.3% to reach Rs 5,620 million.

The Bank has maintained generally sound financial indicators in FY 2015/16 as gauged by improved capital adequacy ratios and strong funding and liquidity positions. Asset quality remained at reasonable levels despite the difficult environment.

Read more in the 'Risk Management Report' on pages 118 to 146







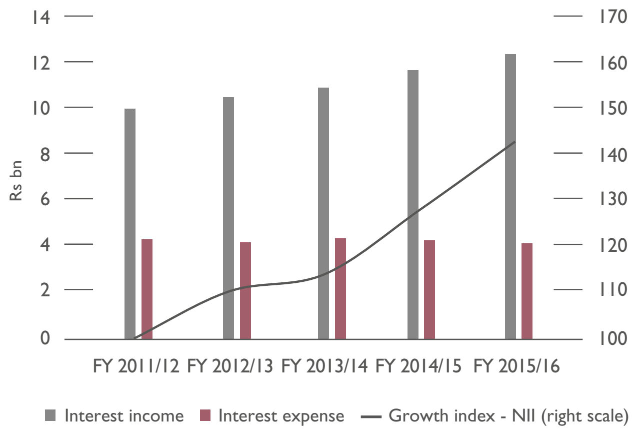
Pre-provision profit to average assets = Pre-provision profit excluding net income from sale of securities and non-recurrent items to average assets

Management discussion and analysis

Income Statement Analysis

Net interest income

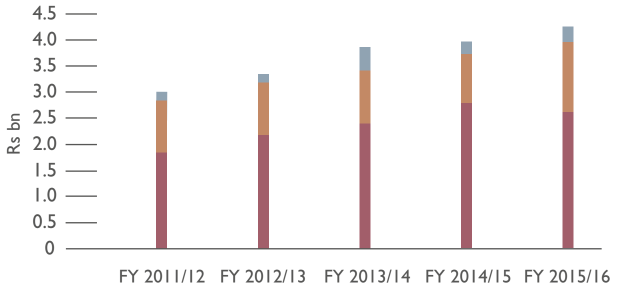
Whilst being restrained by the dampened evolution of the loan book, interest income for the Bank grew by 5.7% to Rs 12,299 million in FY 2015/16. This was prompted by an increase in related income from Government and BoM bonds following significantly higher investment therein amidst a strong growth in deposits. In spite of the latter trend, interest expense decreased by 4.3% to Rs 4,101 million owing to relatively lower interest rates on average and the transfer of the Subordinated Notes to the ultimate holding company. Consequently, net interest income rose by 11.6% to attain Rs 8,198 million in FY 2015/16. The higher proportion of liquid assets in our book has exerted downward pressures on margins even if an improvement was observed at the foreign currency level on account of evolving portfolio mix. On the whole, net interest income to average earning assets declined to 3.3% while the ratio for net interest income to average assets stood at 3.0%.



Non-interest income

Non-interest income grew by 7.3% to attain Rs 4,265 million in the last financial year. While continuing to benefit from increased revenue linked to cards activities, net fee and commission income declined by 5.8% mainly due to the adverse impact of low oil prices on regional trade financing. Conversely, 'other income' rose strongly as a result of a 38.6% growth in profit arising from dealing in foreign currencies and higher dividend income received from our associate Banque Française Commerciale Océan Indien.

Breakdown of non-interest income

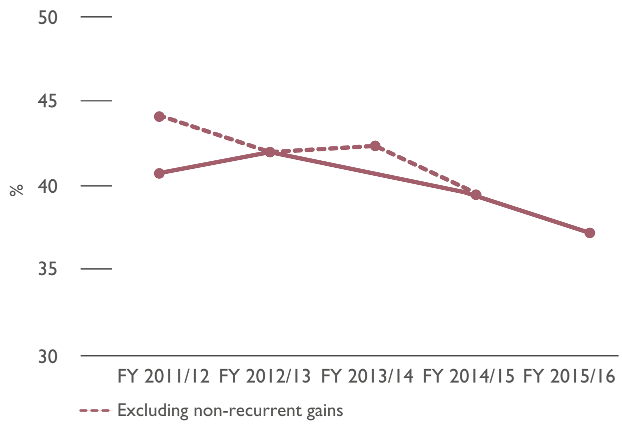


Note: Figures exclude non-recurrent gains

Cost control

Staff expenses, which represent nearly 60% of the cost base, rose by some 7% on the back of continued investment to upgrade human capital. On the other hand, depreciation and amortisation charges declined reflecting the delayed impact of capital investment. Coupled with operational efficiency initiatives, this has contributed to a contained growth of 4.0% in non-interest expense which reached Rs 4,640 million in FY 2015/16. In view of the relatively higher growth in operating income, the cost to income ratio improved from 39.4% to 37.2% in FY 2015/16.

Cost to income ratio



Impairment charges

Allowance for credit impairment rose by 5.4% to stand at Rs 907 million in FY 2015/16, thus representing 0.56% of the loan portfolio for the year ending June 2016. Although being confronted by pressures emanating from the testing context, the NPL was maintained at 5.9% of gross loans while being at 3.8% in net terms.

Financial Position Statement Analysis

Credit exposure

Reflecting the challenging economic environment, gross loans to customers remained flat to stand at Rs 159.6 billion as at June 2016. At domestic level, Segment A loans increased by around 3%, supported by a growth of around 9% within the retail segment amidst the sustained momentum in housing loans. For its part, credit to the corporate segment rose by 1.2% in line with the subdued private investment level. Apart from a notable rise in credit to the domestic oriented industry, advances to the main sectors either remained relatively unchanged or witnessed a drop as in the case of tourism amidst capital restructuring initiatives by operators within the sector. As regards loans and advances to customers at Segment B level, a decline of around 10% was registered in spite of a rise recorded in respect of 'Global Business Licence holders'. This was principally due to a significant fall in foreign currency loans outside Mauritius on account of a decline in regional short term trade financing activities.

June 2016	Exposures	
	Rs m	Y.o.y growth (%)
Loans to customers	**159,608**	**(0.3)**
Agriculture and fishing	7,052	(5.6)
Manufacturing	10,102	0.6
of which EPZ	*3,164*	*(4.2)*
Tourism	29,580	(11.7)
Transport	3,840	8.0
Construction	16,543	2.0
Traders	15,740	(8.0)
Financial and business services	18,045	4.8
Personal and professional	33,808	9.4
of which credit cards	*645*	*3.8*
of which housing	*21,969*	*15.1*
Global Business Licence holders	15,948	8.4
Others	8,949	(4.7)
Loans to banks	**2,954**	**(33.3)**
Total	**162,562**	**(1.2)**

Management discussion and analysis

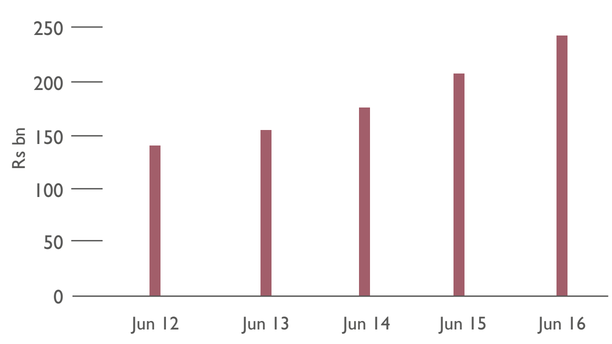
June 2016	Loans to customers		
	Rs m	**Y.o.y growth (%)**	**Mix (%)**
Segment A	119,654	3.2	75.0
Segment B	39,954	(9.5)	25.0
Total	**159,608**	**(0.3)**	**100.0**

Credit exposures as at 30 June	2014	2015	2016
On-balance sheet	**Rs m**	**Rs m**	**Rs m**
Lending	153,527	164,559	162,562
Loans to customers	*148,491*	*160,128*	*159,608*
Loans to banks	*5,035*	*4,431*	*2,954*
Trading	1,958	4,043	4,031
Investments	28,879	40,952	53,371
	184,364	**209,554**	**219,964**
Off-balance sheet	**Rs m**	**Rs m**	**Rs m**
Guarantees, letters of credit, endorsements and other obligations on account of customers	62,112	43,322	30,130
Commitments	4,355	4,380	2,600
Other	1,777	1,981	2,264
Contingent liabilities	**68,245**	**49,684**	**34,994**

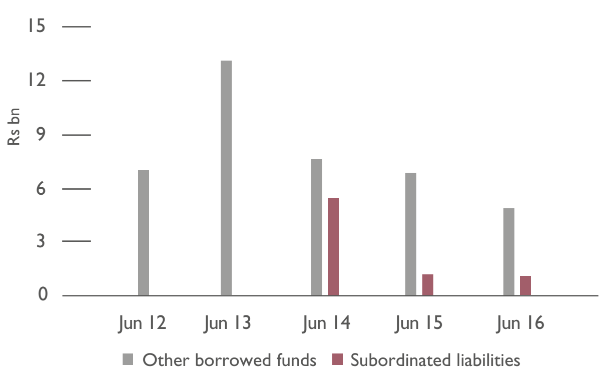
Funding

Despite the prevalence of relatively low interest rates, total deposits expanded by 16.6% to attain Rs 243 billion as at 30 June 2016. Foreign currency deposits went up by about 25% and rupee-denominated deposits by some 12%. The latter was fuelled by a 22% rise in time deposits, while savings deposits, which account for a share of nearly 69% of the total amount, rose by some 11%. On the other hand, 'other borrowed funds' decreased by around 30% on account of lower recourse by the Bank to LC refinancing credit lines linked to decreasing regional trade finance activities.

Deposits



Borrowings and subordinated liabilities

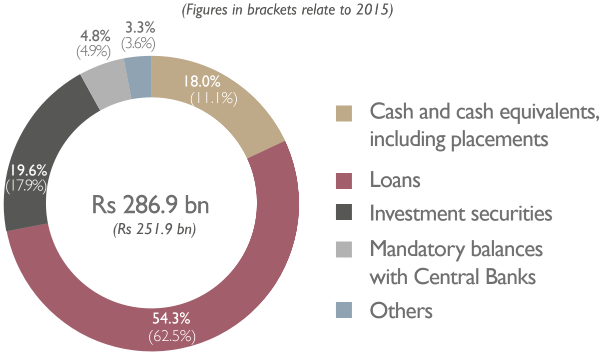


Investment securities and cash & cash equivalents

The dampened evolution of the loan portfolio and the strong growth in deposits translated into a significant increase in the Bank's total liquid assets. This was characterised by: (i) a rise of 84% in cash and cash equivalents, including placements, mainly through balances with banks abroad; (ii) an increase of 25% in investment in treasury bills and Government securities; and (iii) a growth of 12% in mandatory balances at the Central Bank. Overall, the share of liquid assets, including placements, in total assets reached 40.7% as at June 2016 with the corresponding ratio as a percentage of deposits standing at 48.0%.

Assets mix as at 30 June 2016

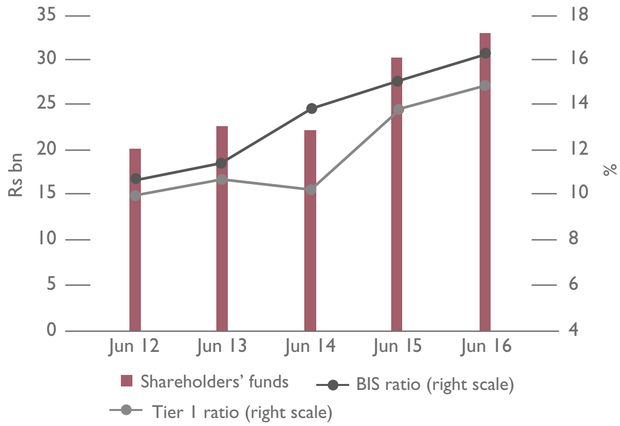
(Figures in brackets relate to 2015)



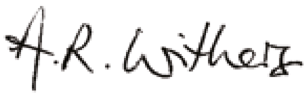
Capital resources

Shareholders' funds grew by 8.8% to reach Rs 33 billion as at 30 June 2016. The rise in equity was driven by a growth of 9.3% in retained earnings after accounting for a cash dividend payment of Rs 2.1 billion and dividend in specie amounting to Rs 540 million linked to the unbundling of MCB Maldives Ltd and MCB Seychelles Ltd from MCB Ltd into MCB Investment Holding Ltd. On the whole, testifying to its ability to withstand potential shocks and foster further business growth, the Bank maintained comfortable capitalisation levels. Indeed, overall capital adequacy ratio increased from 15.1% to 16.3%, with the Tier I ratio standing at 14.9% as at June 2016.

Shareholders' funds and capital adequacy



Note: Capital adequacy ratios for June 2014, June 2015 and June 2016 are based on Basel III



Antony R. WITHERS
Chief Executive

Raoul GUFFLET
Deputy Chief Executive
and Head - Corporate & Institutional Banking

Alain LAW MIN
Deputy Chief Executive
and Head - Retail

Risk Management Report

Risk Management Philosophy

The mission of the risk management function at MCB Ltd is:

To identify, assess and manage the risks to which the Bank is exposed so as to improve the risk-return profile of its activities and uphold an environment conducive to attracting and promoting business operations.

…whilst its goal is:

To enhance stakeholders' confidence with respect to the management of current and potential risks and foster an effective recovery of assets through:

- adequate internal control mechanisms;
- up-to-date and comprehensive risk frameworks and policies; and
- adherence to legal and regulatory requirements.

Risk Summary

Our strategic focus areas

Our activities during the year …

- Alongside ensuring that changes to its operational set-up are addressed in a sound manner, the Bank adopted a prudent approach to execute its business strategies in the face of the increasingly challenging regulatory, economic, market and technological environments. Towards this end, the Bank has continued to invest in people, systems and processes so as to cater for the appropriate monitoring and management of risks faced.
- The Bank has set out to proactively tackle risks that are commonly inherent in its activities and operations, alongside taking the necessary steps to confront emerging risks, e.g. cyber threats and exposures of ATMs to card skimmers.
- Overall, the Bank managed to sustain its orderly business growth and preserve the soundness of its financial metrics. This contributed to the maintenance of investment grade ratings assigned to it by Moody's and Fitch Ratings.

… have been backed by our robust risk management culture and philosophy

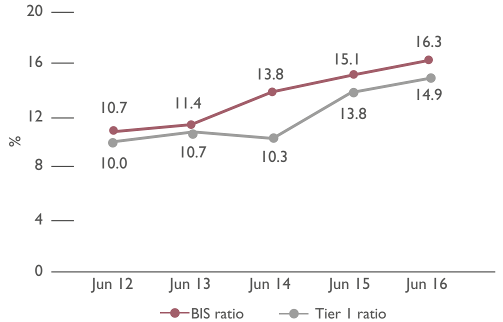
- Ensuring that our risk management principles are anchored on advocated industry norms and good corporate governance principles
- Establishing a strong governance framework and clear segregation of duties for risk management
- Ultimate responsibility for risk management conferred to the Board; supervision by the Board through sub-committees
- Making sure that strategic decisions are taken in tune with the Board-approved risk appetite
- Fostering an appropriate balance between risk and reward considerations; recourse to return on risk-adjusted capital (RORAC) metric to ensure that the price charged for client solutions is reasonable in relation to the relative riskiness of exposures and provides an adequate rate of return
- Adherence to a common set of behaviours, attitudes, skills and guiding courses of action in support of coherent decision-taking and Bank-wide integration of the risk culture

Risk management report

Our main achievements

Reinforced positioning as a well-capitalised and sound organisation

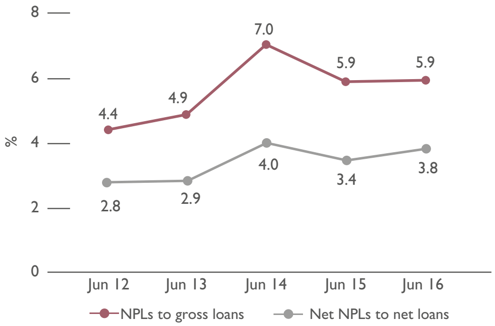
Capital adequacy



Note: Capital adequacy ratios for the last three financial years are based on Basel III with proforma figures used for 2014 for comparative purposes

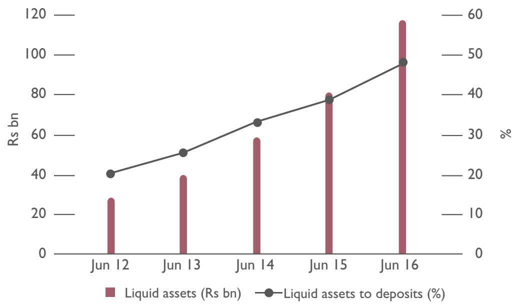
- The Bank maintained comfortable capital levels to withstand potential shocks and support of its business growth with internal capital generation leveraged via retained earnings.
- The capital adequacy ratios of MCB Ltd improved further in FY 2015/16, thus standing well above the stipulated regulatory levels.

Asset quality



- Whilst being subject to notable pressures, the asset quality remained generally satisfactory in the current context, mainly backed by strong credit discipline, prudent market penetration as well as cautious loan origination and disbursements.
- Allowance for credit impairment accounted for 0.6% of our loan portfolio as at 30 June 2016.

Liquidity and funding



- The Bank had ample liquid assets to meet obligations in a timely way. It maintained cost-efficient and stable sources of funding, which predominantly comprise customer deposits.
- As per Basel III definitions, our liquidity coverage ratio and net stable funding ratio stood at 450% and 115% respectively as at 30 June 2016.

Adapting our management of risk to changes in our operational set-up and the external environment

Update of the Bank's risk appetite

- MCB updated its risk appetite in May 2016 to reflect its reviewed Medium Term Growth Strategy amidst notable changes taking place in the macroeconomic environment. While maintaining its market diversification agenda, the Bank has factored in heightened regional challenges, particularly linked to the marked decline in oil prices. Thus, we set out to reinforce our risk management approach to foster the progressive and balanced execution of our strategic orientations.
- The new risk appetite, validated by the Risk Monitoring Committee (RMC), involved the following: (i) the formulation of an updated 5-year projections dashboard with respect to capital adequacy ratios, based on revised forecasts for credit risk-weighted assets of the international portfolios in particular; and (ii) a qualitative risk assessment covering the risk profiles of the targeted portfolios.
- Systems and processes were enhanced to enable the Bank to proactively monitor exposures against revised risk appetite limits.

Reinforced risk management as part of restructuring initiatives

- Enhanced risk management has been a key pillar in the creation of the new Corporate and Institutional Banking (CIB) SBU with risk functions involved throughout the exercise to ensure a smooth execution thereof. Among others, the new structure seeks to establish stronger governance and better segregation of tasks. In the wake of this reorganisation, the Credit Management BU of the Risk SBU has been restructured to be in tune with the changes brought within the business. The Bank's credit policy was also reviewed to foster alignment with the organisation structure of the CIB SBU while making allowance for the updated risk appetite and amendments in relevant regulatory guidelines. Furthermore, the Risk SBU has worked towards the specialisation of its teams and reinforced the competency base of its human capital. In addition to the conduct of career development programmes, emphasis has been laid on the recruitment of talents who are well-versed with the business growth pillars embraced by MCB Ltd. Steps have also been taken to help relevant staff to gather in-depth information on files at an early stage of the credit management cycle.

Gearing up operational capabilities to allow for the adoption of IFRS 9

- The Bank has embarked on assessing the implications and challenges of IFRS 9, in particular the adoption of an 'expected credit loss' model to determine provision levels. A well-established international accounting firm was appointed to perform an IFRS 9 Readiness Assessment Roadmap and a Quantitative Impact Assessment on the Bank's impairment allowances. The findings have recently been submitted and a project team has been set up to ensure compliance with the new standard when it will be applicable i.e. as from 2018.
- The Bank is presently implementing a predictive scoring model to predict the likelihood of default for unsecured loan facilities. The aim is to (i) refine the Bank's credit risk measurement and control; and (ii) facilitate compliance with IFRS 9 requirements for this segment.

Enhancing the effectiveness and dissemination of the risk controls

- The Risk SBU carried out awareness campaigns across the Bank to sensitise employees on their roles and responsibilities with respect to the growing sophistication of operational risks, notably linked to cyber threats and the importance of business continuity planning.
- A Risk Culture Transformation Journey is currently under way to enhance the fundamentals upon which the function is anchored.

Risk management report

Our Risk Management Strategy

Main Risks Faced

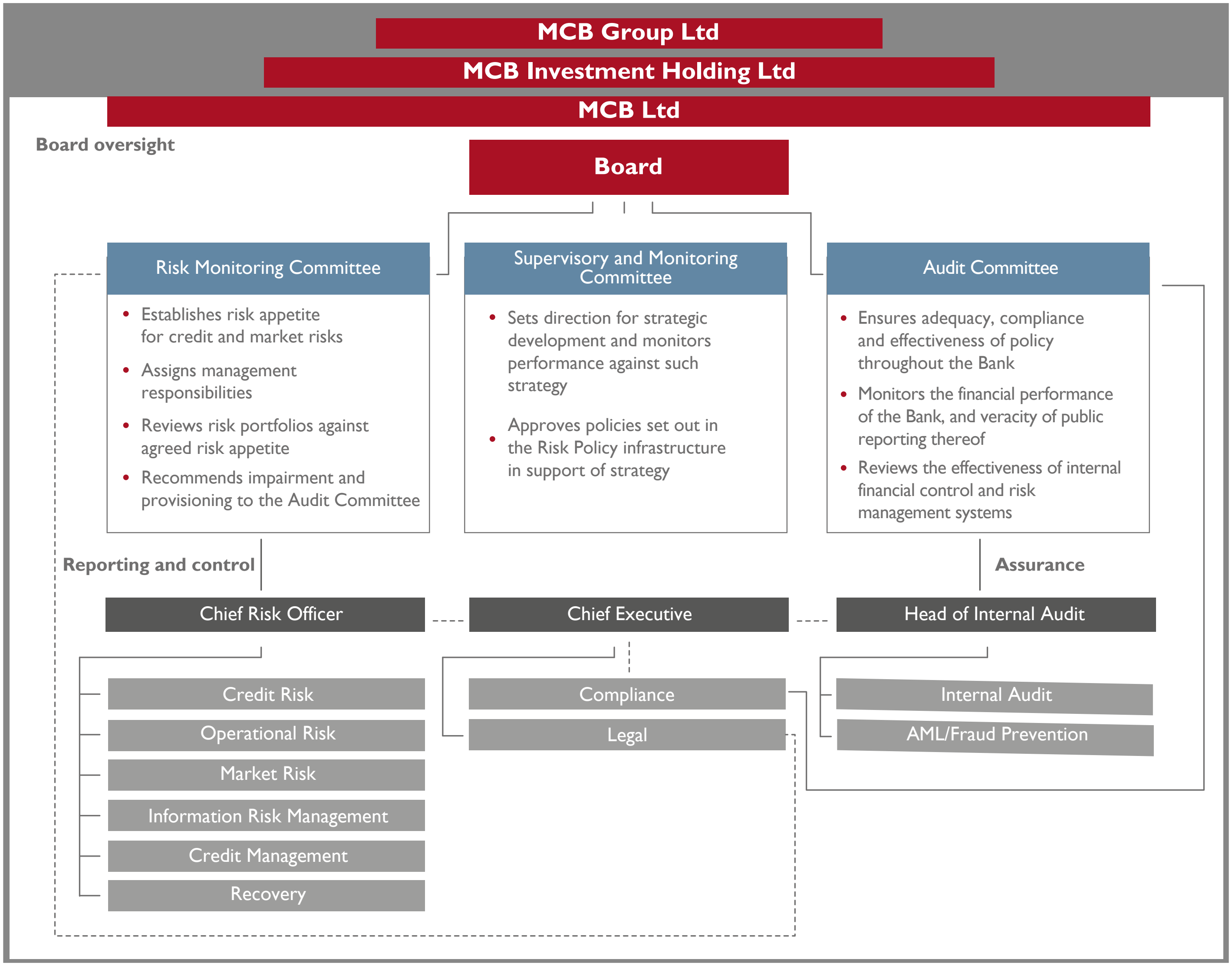
The main risks to which the Bank is or could be exposed in its operations are depicted below. The Bank ensures that all its material risks are regularly and consistently identified and monitored. Risks are viewed as material when they could threaten the Bank's business model, performance, solvency and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

	Principal risks	General definitions
FINANCIAL RISK	Credit risk	The risk of financial loss should borrowers or counterparties fail to fulfill their financial or contractual obligations to the Bank as and when they fall due; Credit risk typically includes counterparty risk, settlement risk and concentration risk, with the latter referring to the risk that the institution faces from the lack of diversification of its lending portfolio due to the 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 arising from a change in the market value of a portfolio of financial instruments caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, etc.
	Interest rate risk	The risk arising from changes in interest rates or the prices of interest rate related securities and derivatives, impacting on the Bank's earnings or economic value of equity
	Funding and liquidity risk	Funding risk: The risk arising from not having sufficiently stable and diverse sources of funding or the funding structure being inefficient Liquidity risk: The risk arising from having insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost
OPERATIONAL RISK	Operational risk	The risk of loss or costs resulting from human factors, inadequate or failed internal processes and systems or external events. It includes fraud and criminal activity, project risk, business continuity, information and IT risk, etc.
	Information risk	The risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources which would compromise the confidentiality, integrity or availability of information
	Regulatory and compliance risk	The risk that is primarily linked to the impact of changes in legislation and regulations on the operation and functioning of the organisation. It is the risk of statutory or regulatory sanction and material financial loss or reputational damage which eventually results in the risk of losses, fines or penalties arising from the failure to comply with any applicable laws, regulations or supervisory requirements
OTHER RISKS	Strategic and business risk	The risk to current or prospective earnings arising from inappropriate business decisions or inadequate future business strategies in relation to the operating environment. The risk is usually caused by inflexible cost structures, changes in the business environment, Government or international regulatory decisions, client behaviour and technological progress as well as Bank-specific factors such as poor choice of strategy; the risk includes strategic risk, business risk, as well as environmental, social and governance risks
	Reputation risk	The risk of loss resulting from reputational damage to the Bank'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 Bank's ability to retain and generate business

Governance and Oversight

The risk management framework of MCB Ltd defines the roles and responsibilities as well as the reporting lines for its business units. While adhering to regulatory rules, the structure aims at safeguarding the Bank's assets and promoting the effective deployment of its business strategy. The delegation of authority, control processes and operational procedures are documented and disseminated to staff at different levels.

Risk Management Framework



Risk management report

Ultimate responsibility for the management of risk

The Board has the ultimate responsibility to ensure that risks faced by the Bank are adequately identified, measured, monitored and managed in line with good corporate governance principles. It is responsible for the validation of the Bank's risk appetite towards achieving its strategic objectives. The Board delegates authority to Board committees to enable them oversee specific responsibilities for risk management. The primary Board committee overseeing risk matters is the Risk Monitoring Committee. It assists the Board in setting up risk strategies as well as to assess and monitor the risk management process of the Bank. It recommends the risk appetite to the Board for approval, while reviewing and exercising oversight over capital management. Four out of the five members of the RMC are non-executive directors, thus strengthening the Bank's independent risk oversight and control functions. The Management of the Bank is accountable to the Board for ensuring the effectiveness of risk management and adherence to risk appetite.

Adherence to the three lines of defence approach

In line with the effective delegation of authority emanating from the Board, the risk management framework of the Bank is anchored on the three-lines-of-defence approach. The latter promotes transparency, accountability and consistency through the segregation of duties as well as the clear identification and enforcement of the roles and responsibilities attached to different parties at the Bank.

First line of defence: Risk ownership

- Business line managers, who incur and own the risks emanating from their strategic activities, have the first-level responsibility for day-to-day risk management in the interest of the Bank.

Second line of defence: Risk control and compliance

- The Risk SBU, under the guidance of the Chief Risk Officer (CRO), bears the responsibility for providing independent risk control as well as managing credit, market, operational and information risks, alongside overseeing the credit management and recovery operations. While having an administrative reporting line to the Chief Executive, the CRO is accountable to the Risk Monitoring Committee for the monitoring and management of risk areas. Risk managers catering for credit risk, market risk, operational risk and information risk are dedicated to establishing methodologies for risk measurement. They ensure the regular monitoring and reporting of the Bank's various risk exposures, profiles, concentration and trends to the RMC and Senior Management for discussions and the formulation of appropriate actions.
- A strong risk control framework is also fostered through independent teams overseeing the legal and physical security functions as well as compliance with laws, regulations, codes of conduct and standards of good practice. The Compliance function, which has an administrative reporting line to the Chief Executive of the Bank, is accountable to the Audit Committee. The Head of the Legal SBU also acts as Money Laundering Reporting Officer to reinforce the strict independence needed for this position. For its part, the Physical Security BU henceforth reports to the Chief Operating Officer's office.

Third line of defence: Risk assurance

- The Internal Audit SBU provides independent assurance that the control objectives are achieved by the first and second lines of defence in line with the set risk appetite.
- From a governance perspective, the Internal Audit function, which has an administrative reporting line to the Chief Executive of the Bank, is accountable to the Audit Committee.

Pillars of Our Risk Appetite and Strategy

Our risk appetite is governed by an overarching framework of policies, authorities, limits and targets adhered to across the Bank. Our risk appetite and strategy is targeted at ensuring ongoing risk identification and achieving effective capital management. The objective of setting risk appetite is not necessarily to limit risk-taking, but to cater for an alignment between the Bank's risk profile and its business strategy. Key tenets of our risk appetite framework are depicted below.

Our risk appetite framework

Risk capacity

- To determine the maximum level of risk that we can assume given our level of resources, relevant regulatory dispositions and other stakeholder requirements, to the extent that they shape and restrict our ability to take risk

Risk appetite

- To determine the quantity/type of risk that we are willing to accept, within our risk capacity, to foster the orderly execution of our business
- To underpin our decisions by self-imposed constraints, guided by the need to *inter alia* preserve credit quality, maintain good credit worthiness ratings, etc.

Risk tolerance/control

- To establish risk controls (e.g. risk tolerances which are translated into risk limits) that maintain the size of our risk profile within our risk appetite
- To limit our on- and off-balance sheet exposures in alignment with our business ambitions, capabilities and the operating environment

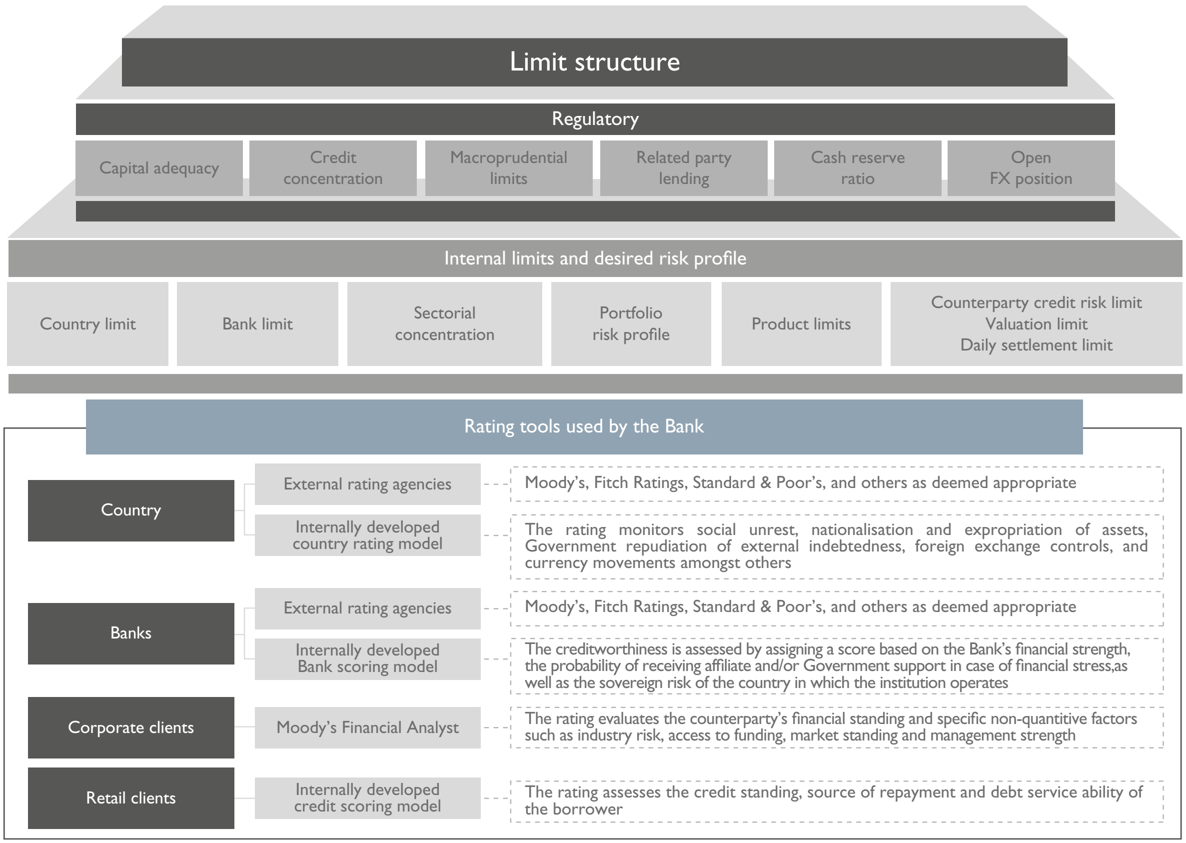
Risk profile

- To carefully define our risk profile – i.e. our net risk exposures for risk categories across portfolios/segments and geographies
- To express our risk profile in terms of quantitative indicators and qualitative interpretations
- To regularly monitor and refine our risk profile in the wake of changes in respect of our operating context and our main strategic priorities
- To take dedicated control measures to prevent our risk profile from going beyond our scheduled risk appetite

Risk management report

In line with direction set by the Board and the Risk Monitoring Committee, MCB Ltd *inter alia* defines (i) its appetite for credit risk in terms, for example, of the allocation of range targets for domestic and international credit exposures, exposures by sectors, portfolios' asset quality as well as the risk profile of the different portfolios; and (ii) its appetite for market risk in terms of the splits between domestic and international markets, foreign currency and interest rate exposures, exposure allocation for position-taking and target splits in terms of maturities of exposure. To underpin proper risk identification and quantification, the Bank caters for: (i) continuous monitoring of approved risk targets; (ii) quarterly risk reporting to Risk Monitoring Committee; (iii) preparation and use of risk reports for capital management purposes; and (iv) application of a stress-testing framework.

The size of the internal risk limits set by the Bank is a function of regulatory requirements and the risk appetite set by the Board, after making allowance for the relevant economic and market environments. In its day-to-day business, the Bank makes use of internally-generated and externally-sourced rating tools for risk identification, quantification and monitoring.



Management of Key Risks

Credit Risk

Key objectives

- The aim of credit risk management at MCB is to:
  - Abide by sound credit risk management principles;
  - Uphold a well-diversified credit portfolio consistent with the risk profiles defined in the risk appetite as well as the broad characteristics set out in target market criteria;
  - Achieve the targeted asset quality levels; and
  - Monitor and manage the quality of the credit portfolio.

Governance and oversight

- The Board has ultimate control and oversight of credit risk management as well as credit risk policies and their deployment through dedicated committees. The Board delegates authority to the Risk Monitoring Committee for setting the overall direction and policy for managing credit risk at the Bank.
- The Bank's Supervisory and Monitoring Committee is accountable to the Board for the setting of the principal credit management policies guiding the conduct of businesses. In line with the segregation of duties within the credit risk management architecture, the Executive Credit Committee (ECC) is responsible for the planning, sanctioning, control and monitoring of credit risk.
- The model governing the Bank's credit risk management approach and principles caters for regulatory requirements as encompassed in applicable Bank of Mauritius guidelines. These include the Guideline on Standardised Approach to Credit Risk, the Guideline on Credit Concentration Risk and the Guideline on Credit Impairment Measurement and Income Recognition. The latter, which came into effect in July 2016, incorporated new sections, notably relating to prudential norms.

Risk measurement and monitoring

- Credit risk measurement consists of appraising the track record of customers as appropriate for the prediction of likely future behaviours of existing accounts. Ultimately, the Bank assesses 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 for the Bank. This is achieved by channelling risk capital from low-return to high-return business areas, commensurate with the risks shouldered.
- The Bank measures the credit risk capital requirements by applying appropriate risk weights to both on-balance sheet and off-balance sheet exposures in line with the Guideline on Scope of Application of Basel III and Eligible Capital and the Guideline on Standardised Approach to Credit Risk issued by BoM.
- The capital adequacy indicators and the return on capital levels for the individual risk categories of the Bank's portfolio are regularly monitored by the 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 credit rating frameworks that enable the extensive usage of ratings for its different portfolios, not only in respect of loan approval but also in relation to credit review and monitoring of risk profile as well as for the purpose of the stress testing and limits determination exercises.

Retail

- Retail credit comprising mainly residential mortgages, unsecured loans and credit cards are managed on a portfolio basis and are assessed through credit scoring models, records from the Mauritius Credit Information Bureau, customers' behavioural records as well as the application of relevant risk acceptance criteria. In order to ensure the robustness and adequacy of the scoring models, the Credit Risk BU independently conducts formal validation thereof at least annually.
- In collaboration with the Retail SBU, the Risk SBU regularly analyses default trends, identifies the underlying root causes and subsequently channels recommendations to Senior Management. The objective of such initiatives is to eventually fine-tune the relevant credit scoring parameters.

Corporate

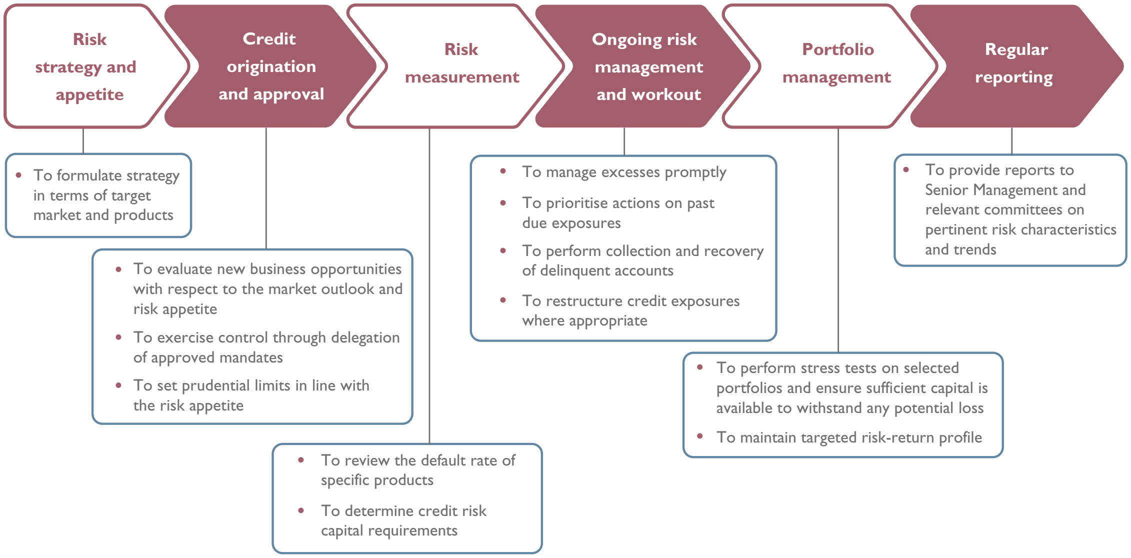
- Large corporate credits are assessed on an individual basis with the support of the Moody's Financial Analyst software. The latter evaluates the counterparty's financial standing and specific non-quantitative factors such as industry risk, access to funding, market standing and management strength. The ratings generated by this software are typically used to measure the risk profile of the corporate customer segment which consumes a sizeable proportion of capital resources and to set tolerance limits for enhanced management of excesses. The counterparty risk rating assigned to smaller businesses is primarily based on their financial strength.

Risk management report

Risk mitigation and management

The credit risk management cycle

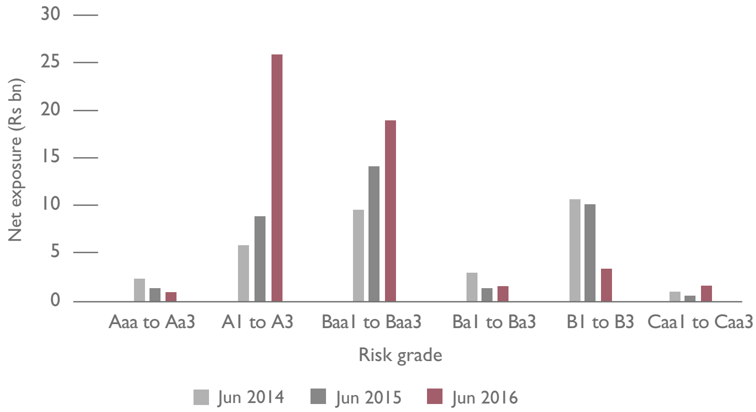
- The enterprise-wide credit risk policy, which is approved and reviewed by the RMC, sets forth the principles by which the Bank conducts its credit risk management activities. The policy provides guidance in the formulation of the appropriate structure by which business generation is harmonised with the target market criteria. The credit risk management practices adopted by MCB Ltd cut across the entire credit cycle, as depicted in the following diagram.



Key focus areas

- The credit risk management framework enables the Bank to manage credit risk within the limits of its evolving risk appetite, develop risk-response strategies and optimise risk-taking by anticipating and acting on potential opportunities or threats. It relies on the Bank's dual control structure, sound credit processes and clear delegation of decision-making authority for the approval of loans.
- Credit risk exposures are managed through the Bank's robust credit assessment, structuring and monitoring process. The latter, under the responsibility of the Credit Management BU, 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 with a view to ensuring the timely detection of possible problem loans. Exposures showing signs of deterioration are placed on a watch list and referred to a dedicated team for closer scrutiny where appropriate.
- The impairment and provisioning exercise is done on a quarterly basis at MCB Ltd and involves the collaboration of several internal stakeholders. After being reviewed, agreed upon by the RMC and validated by the Board, the figures are then submitted to the Bank of Mauritius as part of the regulatory reporting requirements.
- While being responsible for risk portfolio monitoring and risk measurement methodologies, the Credit Risk BU provides an independent and regular review of the aggregate loan portfolio to proactively manage the portfolio risk profile and minimise undue credit concentrations. Significant trends are, on a regular basis, reported to the Risk Monitoring Committee as well as Senior Management and other relevant platforms such as the CIB Portfolio Review Committee and the Retail Portfolio Forum. These, amongst others, relate to the credit risk profile of portfolios/segments/products, including corporates and small businesses, as well as the financing structures of the Energy and Commodities portfolio and banks. The risk exposures (via placements, advances, financial guarantees) vis-à-vis the latter are provided in the following diagram.

Risk exposure to banks



Notes:
(i) For each bank, the worst of the ratings assigned by Moody's, Standard & Poor's, FitchRatings, and COFACE has been selected and converted into a Moody's equivalent rating
(ii) Banks unrated by the above rating agencies have been assigned a rating determined by an in-house model

Credit allocation and coverage

- All credit facilities are granted based on the credit standing, source of repayment and debt servicing ability of the borrower. As a fundamental credit principle, the Bank does not generally grant credit facilities solely on the basis of the collateral provided. Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically, with the frequency of valuation depending on the type, liquidity and volatility of the collateral value.
- The main credit risk mitigation techniques applied by the Bank include security/collateral, netting, guarantees, credit insurance and political risk covers. Exposures arising from foreign exchange and derivatives are typically mitigated through agreements such as the International Swaps and Derivatives Association (ISDA) Master Agreements and the Credit Support Annex (CSA) documentation.

Credit concentration

- The Bank promotes the diversification of its lending portfolio by setting industry sector limits based on forecasts spanning a five-year horizon to ensure that its performance is not negatively impacted by a large sectoral exposure default. Regular stress tests are performed on the portfolio to ensure that the Bank holds sufficient capital to withstand any loss arising from significant exposure to a sector, single customer and group of closely-related customers.
- The Bank aims to limit credit risk exposures and concentrations within the constraints of its capital base, whilst complying with the BoM Guideline on Credit Concentration Risk. The stipulated limits are:

Guideline on Credit Concentration Risk

Credit concentration limits	% of bank's capital base
Credit exposure to any single customer	Not exceed 25%
Credit exposure to any group of closely-related customers	Not exceed 40%
Aggregate large credit exposures* to all customers and groups of closely-related customers	Not exceed 800%

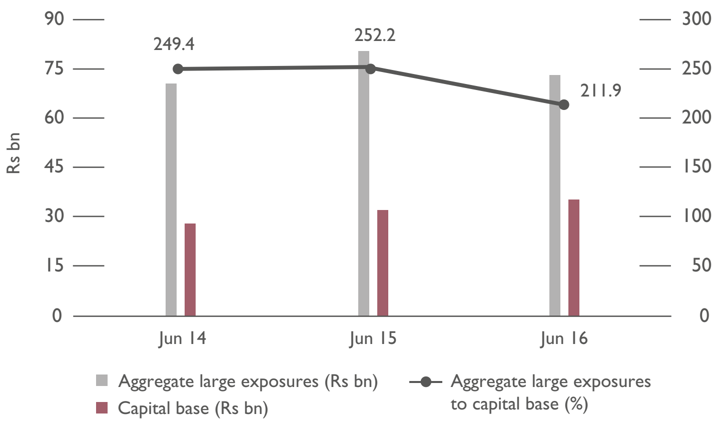
** Refer to exposures over 15% of the financial institution's capital base*

Risk management report

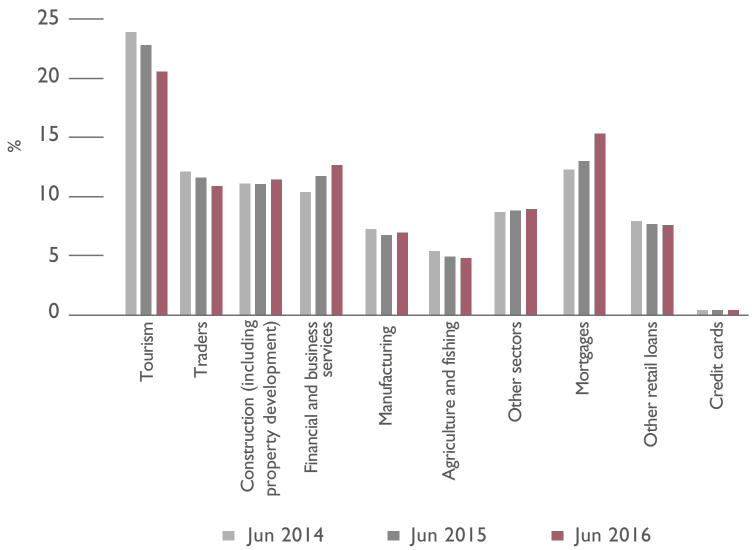
- The Bank has remained well positioned in terms of its credit concentration when compared to the above regulatory limits. Its aggregate large credit exposure ratio stood at around 212% as at 30 June 2016, which is significantly lower than the prudential limit of 800%. The following diagrams shed light on recent trends in terms of credit concentration and testify to the sound and diversified market positioning of MCB.

Measures of credit concentration

Aggregate large exposures as a percentage of capital base



Sectorial distribution of credit to the private sector



Large credit exposures and capital consumed

Gross exposure as at 30 June 2016	Total gross exposure	Risk capital consumed	*Risk capital consumed as a % of total credit risk capital*
	Rs bn	Rs bn	%
Top 5 customers / customer groups	43.0	2.6	*12.5*
Total large credit exposures	72.6	3.6	*17.8*

Credit quality

- In spite of the difficult operating context, NPL for the Bank was maintained at 5.9% of gross loans while the corresponding ratio in net terms stood at 3.8%. The cover ratio of NPLs by specific provisions stood at 37.2% at year end, with the remaining portion more than adequately covered by collateral, suitably discounted to reflect current market conditions and expected recovery time. The amount of specific provision more than adequately covers the shortfall between the carrying amount of loans and their recoverable amounts. Potential losses as a result of current economic conditions and general historical patterns of losses are assigned comfortable levels of portfolio provision allowances. The breakdown of specific and portfolio provision by industry is provided in Note 6(b) of the Financial Statements. Furthermore, it is worth noting that the general banking reserves include additional provisions made for credit losses since FY 2014/15 in wake of macroprudential guidelines set by the BoM.

June 2016	**Exposures**		**Non-performing loans (NPLs)**		**Allowances for credit impairment**		
MCB Ltd	**Rs m**	***Mix (%)***	**Rs m**	***% of loans***	**Rs m**	***% of loans***	***% of NPLs***
Loans to customers	**159,608**	***98.2***	**9,516**	***6.0***	**6,605**	**2.9**	*48.8*
Agriculture and fishing	7,052	*4.3*	1,079	*15.5*	157	0.7	*4.3*
Manufacturing	10,102	*6.2*	707	*7.1*	457	3.4	*48.0*
of which EPZ	*3,164*	*1.9*	*31*	*1.0*	*35*	*1.0*	*105.8*
Tourism	29,580	*18.2*	709	*2.4*	455	0.9	*39.1*
Transport	3,840	*2.4*	916	*23.9*	161	3.9	*16.2*
Construction *(including property development)*	16,543	*10.2*	2,070	*13.0*	1,727	6.8	*52.5*
Traders	15,740	*9.7*	792	*5.1*	678	3.4	*67.5*
Financial and business services	18,045	*11.1*	120	*0.7*	136	0.5	*82.7*
Personal and professional	33,808	*20.8*	2,170	*6.5*	1,479	3.4	*52.9*
of which credit cards	*645*	*0.4*	*60*	*9.3*	*70*	*10.8*	*116.4*
of which housing	*21,969*	*13.5*	*960*	*4.4*	*475*	*1.5*	*33.0*
Global Business Licence holders	15,948	*9.8*	666	*4.2*	1,035	4.9	*115.5*
Others	8,949	*5.5*	286	*3.2*	321	2.2	*68.6*
Loans to banks	**2,954**	***1.8***	**-**	***-***	**18**	**0.6**	-
Total	**162,562**	***100.0***	**9,516**	***5.9***	**6,623**	**2.9**	***49.0***

Risk management report

Country Risk

Key objectives

- The aim of country risk management at MCB is to support the orderly and sustained achievement of our regional and international business development ambitions. The Bank avails of a comprehensive framework and adequate control processes to assess country risk, determine related risk tolerance and allocate exposures across geographies.

Governance and oversight

- The Board is responsible for the setting out and regular review of the strategic thrusts, policies and procedures for country risk management. It approves country exposure limits on an annual basis.
- The Risk Monitoring Committee is entrusted, by the Board, with the authority for determining the risk appetite for foreign exposures and monitoring the country exposure limits set on a quarterly basis.

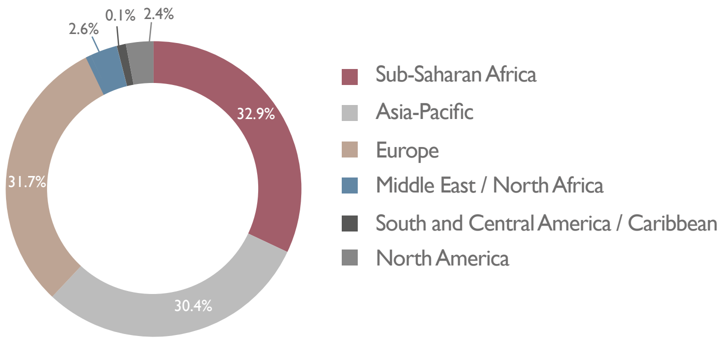
Risk measurement, monitoring and management

- The specific country risk events that are monitored include general economic developments, sovereign credit worthiness, and specific occurrences such as social unrest, nationalisation and expropriation of assets, Government repudiation of external indebtedness, foreign exchange controls, and currency depreciation/devaluation amongst others. Alongside making allowance for the BoM Guideline on Country Risk Management, the Bank sets its risk appetite in terms of country risk profile, backed by the recourse to a proven country risk model.
- The foreign country exposure limits are set by the Bank on the basis of (i) its current exposures and growth ambitions; (ii) the prevailing economic and market environments as well as the sizes of the economies under review; (iii) sovereign ratings; (iv) its areas of expertise as far as its business involvement is concerned; and (v) its knowledge of the economies under review. 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.
- The continuous improvements to the Bank's management information systems enable the generation of detailed reports for the identification, measurement and proactive monitoring of country risk exposures.

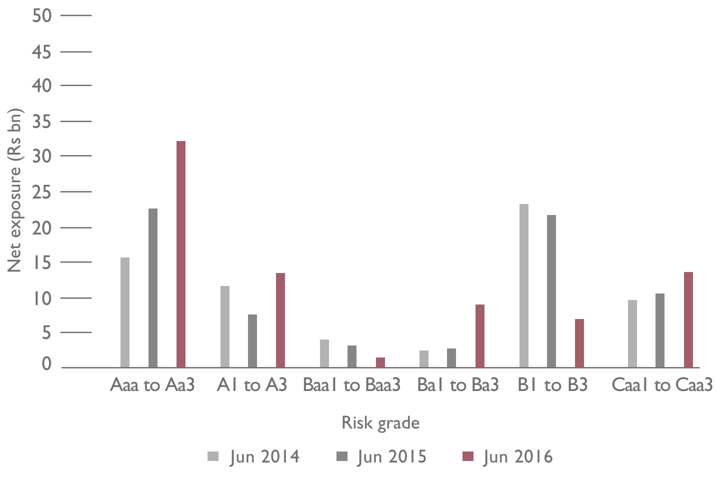
The following illustrations depict the evolution and distribution of country risk exposures of the Bank.

Total risk-weighted exposures by region

(Excluding Mauritius)



Country risk exposure by rating



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

Market Risk

Key objectives

- The aim of market risk management at MCB is to minimise the risk of losses in on- and off-balance sheet positions arising from movements in market prices of financial instruments. The Bank seeks to monitor, report and control, within pre-defined limits, the market risk exposures across its trading and banking books, including market-contingent risks such as counterparty credit risk and profit and loss risks linked to market risk activities.

Governance and oversight

- The Board is responsible for setting risk appetite in respect of market risk, in compliance with guidelines set by BoM. The framework of policies, principles and main functional responsibilities in relation to the market risk management is established in the Bank's revised Market Risk Policy, as approved by the RMC in 2016.
- Operating within this framework, the Asset and Liability Committee (ALCO) reviews and takes decisions with regard to the overall mix of assets and liabilities within the balance sheet of MCB Ltd. This includes the monitoring/review of all market and liquidity risk related limits and targets, and other key balance sheet indicators. ALCO meets on a monthly basis under the chairmanship of the Chief Executive. It is attended by Heads of relevant SBUs and the Chief Risk Officer. For its part, the Market Risk BU of the Risk SBU exercises control and monitoring of market and liquidity risks within the Bank, alongside providing financial position and risk analysis information to the ALCO and RMC.

Risk measurement, monitoring and management

- While adhering to Board oversight, the Market Risk BU is tasked with ensuring that the Bank is not exposed to unacceptable losses beyond its defined market risk appetite. It provides financial position and market risk analysis information to ALCO. It is also responsible for all treasury-related market documentations and agreements aimed at mitigating related counterparty credit risk.
- The Bank conducts Value-at-Risk (VaR) analyses linked to its main foreign exchange and interest rate risk positions. In line with Basel recommendations, the Bank uses a historical observation period of one year, with a 99% one-tailed confidence interval and a holding period of 10 days.

<u>Interest rate risk</u>

- The main source of interest rate risk at MCB Ltd arises due to timing differences between the interest reset dates of the Bank's on- and off-balance sheet exposures and liabilities. The Bank monitors interest rate risk in the trading and non-trading books (i.e. across the whole balance sheet) using gap and cumulative mismatch techniques based on maturity/repricing schedules. The purpose of these analyses is to set benchmarks within which it is intended to limit interest rate exposure at different points in the interest rate maturity spectrum.
- Repricing risk is limited by the application, in most cases, of floating interest rates linked to an index.
- As for trading book exposures in fixed income securities and derivatives, the Bank sets DV01 limits, which measures the dollar value of a 1 basis point parallel shift in interest rates. Trading book exposures are constrained within the significance level of 5% of total assets as stipulated in the related BoM guideline.

<u>Foreign exchange risk</u>

- Foreign exchange (FX) risk may be borne or embedded in on-balance sheet positions and/or off-balance sheet positions, notably in the form of derivatives such as foreign exchange forwards.
- Exposure to FX risk is monitored against both the official regulatory guideline and an internal target. Moreover, several individual trading, transactional and periodic stop-loss limits are set at individual desk and trader levels. These limits are reviewed on an annual basis by ALCO.
- The limits are system-integrated with automatic email alerts launched so as to signal breaches on a real-time basis to designated personnel at the Bank.

<u>Liquidity and funding risk</u>

- Liquidity risk represents the amount of potential outflows in any future period less committed inflows in that period such that the Bank is unable to meet its financial obligations as they fall due or can secure them only at excessive cost. The Bank manages the liquidity profile of the balance sheet through both short term liquidity management and the availing of long term strategic funding.
- To manage liquidity risk, the Bank adheres to the BoM Guideline on Liquidity Risk Management. It operates mutually supporting lines of defence, which are as follows:
  - o Cash flow management: The Bank creates a continuously maturing stream of assets and liabilities through time, avoiding undue accumulation of maturities in any one time band, especially those maturing in the close future. Liquidity gap schedules and forecast cash flow projections with impacts on balance and liquidity metrics are closely monitored on a monthly basis by ALCO.
  - o Liquid assets buffer maintenance: The Bank holds a stock of high quality and unencumbered assets which it 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.
  - o Funding risk management / liquidity base diversification: The Bank relies on the maintenance of a diversified liability base across different

categories of depositors as well as exploitation of the funding potential of the wholesale markets. With savings and current account balances considered as non-volatile, the risk associated with liquidity mismatch should be viewed in the light of the overall stickiness of deposits. ALCO regularly monitors the largest depositors' concentration level based on the potential withdrawal scenario analysis. Liquidity risk tolerance is monitored by ALCO on a monthly basis and the RMC on a quarterly basis, using a variety of tools and measures such as liquid assets and loans to deposits ratios, funding concentration and liquidity risk gap analysis. Besides, as mentioned before and although the related Basel III rules have not yet been enforced in Mauritius, the Bank is well positioned in respect of its liquidity coverage ratio and the net stable funding ratio, which stood at 450% and 115% respectively as at 30 June 2016.

Operational Risk

Key objectives

- The aim of operational risk management at MCB is to identify, mitigate and manage the Bank's operational risks across its activities, processes and systems in line with the defined risk tolerance. The objective thereof is to underpin the continuity of our operations and anchor a solid platform to provide customers with seamless services.

Governance and oversight

- The Board retains the ultimate responsibility for ensuring that operational risk is adequately managed throughout the Bank by providing clear guidance with respect to policies and processes for day-to-day operations. The Board delegates authority to the Risk Monitoring Committee with respect to operational risk tolerance as well as the regular review of business continuity plans.
- As described in the Operational Risk Policy, the responsibility for implementing the Operational Risk Management Framework is entrusted to Senior Management. The monitoring of the entire operational cycle is exercised through the Information Risk, Operational Risk and Compliance Committee (IORCC), which is chaired by the Chief Executive. The IORCC acts as the focal point and coordinating committee which ensures that operational risk management conforms to the Operational Risk Policy. Significant operational risks observed are escalated to the IORCC and then, if warranted, to the RMC.
- The Board, through its RMC, is ultimately responsible for the execution of the Business Continuity Management (BCM) programme of the Bank. The responsibility for the implementation of strategies and the monitoring of BCM is delegated to the IORCC. A dedicated crisis management team, consisting of key members of Senior Management, shoulders central command during a crisis and is assisted in by several tactical and operational crisis teams. As an integral part of the Operational Risk Management Framework, the BCM is centrally coordinated and controlled by the Operational Risk BU, in collaboration with relevant support functions of the Bank. 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.

Risk measurement and monitoring

- The determination of the Bank's risk exposure is anchored on the regular review of the operational risk inherent in our processes and client solutions with the monitoring thereof performed against acceptable tolerance limits. The use of the Basic Indicator Approach by the Bank provides a conservative and efficient approach for the calculation and reporting of the operational risk capital charge.
- The information on operational risk events is recorded in a centralised database, which enables systematic root cause and trend analysis for necessary corrective actions.

Risk mitigation and management

- The Operational Risk BU is responsible for the implementation of policies for identification, assessment and management of related risks. From a more holistic angle, operational risk management forms part of the day-to-day responsibilities of management 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	RMC/IORCC/ Operational Risk BU	Internal/External Audit
• Implement internal control procedures • Identify inherent risks in products, activities, processes and systems • Initiate actions and applies 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

- Operational risk is managed in a timely and effective manner through adherence to good practices for the prompt identification of risk incidents, the initiation of appropriate remedial actions and the reporting of such incidents to the Operational Risk function. The Operational Risk Cartography is leveraged not only for the assessment of operational risks and relevant controls but also for the identification and empowerment of Operational Risk Champions within each SBU of the Bank as the first point of contact for escalating risks to the Operational Risk BU. Risk transfer is, to some extent, executed through the insurance or outsourcing of non-banking activities where appropriate.

Business Continuity Management

- Business Continuity Management at MCB is defined as its ability to effectively plan for and respond to incidents and business interruptions 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. Business Continuity Management is an integral part of the Bank's Operational Risk Management Framework. The BCM policy outlines the prevailing governance structure as well as the roles and responsibilities of each actor involved in the BCM programme. The BCM strategy is continuously refreshed to reflect changes in the business landscape and ensure that mission critical activities are able to resume in accordance with set recovery objectives and stakeholders' expectations. Workaround procedures and recovery plans are well-established within the Bank and are regularly revised to assist business units to continue with or recover their activities with minimal disruption.
- During the last financial year, the Bank has further consolidated its business continuity preparedness and resilience through measures that are summarised in the table below. From a holistic perspective, a list of mission critical activities has been defined, while an incident crisis management process has been established in order to ensure an incident or impending crisis is handled in the most efficient manner. This is further enhanced by a series of BCM awareness sessions conducted across the Bank.

Denial of access / premises-related	Technology-related	People-related	Supplier-related
• Emergency procedures updated • Relocation strategy validated and implemented • Business continuity plans (BCPs) drafted and shared with business units	• Upgrade of IT infrastructure and Disaster Recovery site • Alignment of business-defined Recovery Time Objectives (RTOs) with IT capability • BCP procedures/ workarounds established to cater for system unavailability	• Identification of critical positions/jobs roles which are required to resume critical operations	• Best practice guidelines formulated to ensure that supplier risks are mitigated for critical services

Information Risk

Key objectives

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

Approach and initiatives

- 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 at the Bank. The function reports to the Information, Operational Risk and Compliance Committee, which guarantees close alignment of its endeavours with business requirements and initiatives.
- In line with the requirements of the Code of Corporate Governance for Mauritius, Information Security policies have been developed for the Bank. After being approved at Board level, they are disseminated to the Bank's staff. They are regularly monitored by the IRM BU to ensure that they remain, at all times, accurate and pertinent to the Bank's operating context.
- Several processes and policies exist to identify and analyse 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 the Management committee and, if needed, to the Board for approval.
- During the last financial year, alongside gearing up to meet the challenges of increasing cyber threats, the Bank saw the successful completion of major projects aimed at further securing the Bank's information assets by providing business owners with a greater visibility over the flow of their information as well as enhancing the security framework around individual systems users. The IRM BU pursued efforts to monitor and measure compliance to the Bank's relevant policy requirements as well as its technical infrastructure. By engaging with relevant stakeholders, the function strived to foster the Bank's sound operation from an information security perspective.

Read more on the governance framework for information risk management on page 60 of the 'Corporate Governance Report'

Risk management report

Other Risk Areas

- The general mandate of the Legal SBU is to uphold, secure and defend, from a legal standpoint, the interests of MCB Ltd. Based on its specialist knowledge in banking and financial services law, the Legal SBU advises the Bank on an array of banking law matters, including the granting of loans, property loan transactions and mortgages, syndication, collateral, security enforcement, professional secrecy and online banking transactions. In FY 2015/16, the Legal SBU made progress in further enhancing the identification, understanding and appraisal of business needs and associated risks, while delivering the right mix of solutions to meet up with the increasingly complex challenges faced by business lines. Looking ahead, the unit intends to further its strategic intents, alongside re-engineering and re-aligning the configuration and deployment of its resources in tune with exigencies of ongoing changes in the operational set-up within the Bank.
- While ensuring compliance with BoM regulations, applicable laws and legislations, the Physical Security BU leverages established control and security structures for the prompt identification and correction of operational deficiencies and seeks to maintain the highest physical security standards at the Bank. It strives to safeguard the security of employees, customers and other assets as far as it is reasonable. Dedicated policies and processes are in place to enable the timely detection of threats, devise appropriate responses to difficult circumstances and cater for their regular monitoring. The initiatives undertaken by the function are supported by the conduct of regular and formalised audit exercises across the network as well as awareness campaigns and training programmes. Besides, in support of the judicious delivery of its services, MCB Ltd continues to deploy state-of-the-art technology to complement its pool of trained security officers. During the year under review, the Bank implemented online monitoring of MCB's branches after banking hours via CCTV link-up and reviewed the security and risk profiling as well as the guarding procedures of our branches and sites. Collaboration with the Mauritius Police Force and other financial institutions was consolidated as part of the conduct of crime prevention and awareness campaigns. No major incident was reported to the Bank over the year under review.

Compliance

Key objectives

- The compliance strategy of MCB 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 Bank from legal/regulatory sanctions as well as financial/ reputation losses.

Strategy and guiding principles

- The Board and the Senior Management team are responsible to ensure that adequate systems and procedures have been established and that sufficient resources have been put into place so that the Bank is adequately equipped to live up to the increasingly exigent levels of regulation as well as the exercise of greater scrutiny by regulators and law enforcement authorities.
- The Compliance BU aims to protect the Bank's reputation, ensure fair treatment of customers and identify potential breaches of the Bank's standards of ethics and behaviour. It carries out regular monitoring exercises designed to verify compliance with policies, procedures and controls. Compliance risk management is anchored on the following core principles.
  - o Paying continuous attention to latest developments as regards laws and regulations (including extra territorial laws), accurately understanding their impact and coming up with necessary responses so that the Bank can effectively address the risks arising from such changes;
  - o Maintaining close working arrangements and communications with business lines through the dissemination of compliance-related information, the provision of advisory services and the provision of dedicated training courses to staff on compliance-related matters;
  - o Use of state-of-the-art technology to monitor adherence to legal and regulatory rules so as to provide assurances to Management and the Board, through the Audit Committee, as regards the state of compliance;
  - o Fostering good relationships with regulatory and supervisory bodies by maintaining productive and value-adding dialogue with them to uphold effective two-way communication; and
  - o Assisting Management in nurturing and promoting a culture of integrity as well as ensuring that the Bank and its staff adhere to both to the letter and spirit of relevant laws, regulations, codes and standards of good practices.

Approach and initiatives

- In keeping with principles guiding the conduct of its operations, the Compliance BU is tasked to keep non-compliance incidents at bay. Main strategic intents implemented are as follows:
  - o Promoting awareness of Management and staff on requirements arising out of new or amendments to laws and regulations;
  - o Undertaking regular reviews with the aim of ensuring ongoing adherence to the principles of good corporate governance;
  - o Shoring up processes and procedures to ensure that the Bank conducts its business in a manner that effectively mitigates the risk of money laundering and financing of terrorism;
  - o Designing a set of policies to promote strong ethical behaviours by staff; and
  - o Exercising close oversight over customer-related complaints.

- With regard to the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) obligations of the Bank, the Compliance function is duty-bound to ensure that the Bank has adequate processes, systems and controls with a view to rendering its services inaccessible to criminals, including money launderers and terrorists or their financiers. To that end, the function, *inter alia*, ensures that staff is given appropriate training to help them identify suspicious transactions in keeping with legal and regulatory requirements. The Bank has also invested extensively in automated systems to assist in tracking transactions which are not commensurate with the declared activities of the customer. The recent implementation of a module of an IT system which effectively enables the AML/CFT risk categorisation of the Bank's customer base is worth highlighting. Of note as well, a separate section, namely the Anti-Money Laundering/Fraud Prevention BU (AMLFP BU), which reports to the Head of Internal Audit, seeks to promote staff awareness on fraud risks as well as in conducting enquiries with respect to cases of suspected fraud perpetrated internally or by outsiders. The function also provides assistance to the Money Laundering Reporting Officer as regards filing of suspicious transaction reports to the Financial Intelligence Unit.
- Major initiatives undertaken by the Compliance BU during FY 2015/16 are as follows:
  - o Assessment of the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) procedures of more than 60 correspondent banks and provision of AML/CFT certifications to some 95 other correspondent banks, in accordance with international standards;
  - o Broader compliance oversight through extension of scope of compliance monitoring;
  - o Implementation of dedicated processes and procedures to enable MCB Ltd comply with OECD's Common Reporting Standards;
  - o FATCA Reporting to the Mauritius Revenue Authority;
  - o Review and validation of new and/or amended process flows and ensuring that related regulatory requirements are duly incorporated in the way business is conducted; and
  - o Training of staff through classroom sessions and/or e-learning sessions on compliance-related subjects.
- The Bank has implemented a Whistleblowing Policy, whereby an alternative reporting process is established for use by all employees without the risk of subsequent victimisation, discrimination or disadvantage. Whistleblowing at MCB is intended to assist employees who are deemed to have discovered malpractices or impropriety. In this respect, the reporting of undesirable conduct can be made to the Anti-Money Laundering/Fraud Prevention BU (AMLFP BU) by using the Bank's whistleblowing hotline, by email or directly to either: (i) the manager of the AMLFP BU; (ii) the Head of the Compliance BU; or (iii) the Chief Executive. Depending on the nature of the concern, the latter will be investigated by either the AMLFP BU or the Compliance BU. The investigation team maintains the confidentiality of anyone reporting a concern, subject to no external legal action following from the disclosure, and provides reasonable feedback to the originator of the concern.

Risk Assurance: Internal Audit

Key objectives

- The aim of internal audit at MCB is to assess the policies, methods and procedures in place at the organisation in order to cater for their adequate execution. Independent assurance is provided to the Board and management on the quality and effectiveness of MCB's internal control systems and processes, thus helping to protect the organisation and its reputation.

Strategy and guiding principles

- Functionally reporting to the Audit Committee, the Internal Audit BU has conscientiously geared up its efforts over time towards implementing a risk-centric model, whilst taking into consideration the need for adopting a purely compliance approach to some specifically-identified business areas. The main building blocks which the function uses to adopt a disciplined and systematic approach in evaluating and improving the effectiveness of risk management and control processes are as follows: (i) the implementation of audit work programmes addressing, as far as possible, identified residual audit risks; (ii) increased reliance on data analytics through a world-wide recognised audit software; and (iii) automation of some audit-related administrative tasks relating to time sheets, reports and working papers. The Institute of Internal Auditors (IIA) requires each internal audit function to have an external quality assessment conducted at least once every five years. The Internal Audit BU has been assessed twice, namely in 2009 and 2013, by an internationally recognised auditing firm. In both cases, it was confirmed as being compliant with the International Standards for the Professional Practice of Internal Audit issued by the above-mentioned institute.

Approach and initiatives

- The main outcomes of the audit assignments, including a risk-based grading of the relevant issues, are submitted to relevant functional heads and line managers as well as to the Executive Directors. The Internal Audit function also communicates, on a needs basis, a summarised implementation status of measures earmarked to tackle the main issues encountered to the Executive Directors for discussion and, more importantly, for the purpose of reaching a consensus on corrective actions where necessary. Quarterly or more frequent meetings are scheduled with the Audit Committee. The annual audit plan, the status of audit assignments, identified audit issues, progress regarding implementation of identified initiatives, and resource requirements are typical items on the agenda. The business model of the Internal Audit function ensures a continual and strict adherence to expected standards and approved processes through *inter alia*:

Risk management report

- o The conduct of internal peer reviews and quality assurance assignments, which contribute to enhance the effectiveness of the Quality Assurance and Improvement Program (QAID);
- o Increased communication and collaboration with the Risk SBU for improved synergy;
- o Greater communication with Compliance BU to consolidate compliance/regulatory assurance;
- o Recourse to continuous and near real-time auditing that paves the way for a more timely identification of errors and other irregularities;
- o Encouraging internal auditors to obtain professional certifications from globally accepted sources such as IIA's Certified Internal Auditor (CIA) or ISACA's Certified Information Systems Auditor (CISA) - as at date, 2 Internal Audit staff members are CIA certified and another 3 are CISA certified; and
- o The implementation of an appropriate human resource development programme for the auditors, including the provision of specific and high-calibre training.

- 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 jeopardise the operations of the Bank.
- Moving forward, the Internal Audit BU is committed to further enhancing the effectiveness and efficiency of its operations, alongside being attentive to the evolving and more demanding expectations of internal stakeholders and external parties. Besides, without falling into the common traps of assurance fatigue and pure check-list based auditing, the function will, in its quest for more impactful risk management, reinforce its interactions with internal stakeholders, with secondments and the guest audit concept remaining key features of strategic undertakings. Moreover, the function will pursue its aim to provide the necessary audit and risk insights to support the strategic orientations pursued by the Bank, notably its digital transformation endeavours and regional market diversification aspirations.

Capital Management

Background

In line with Basel requirements and industry best practices, our capital management objective, which is aligned with general directions determined at Group level, is to ensure that adequate capital resources are available to foster sustained business growth and cope with adverse situations. Besides, the aim is to maintain a strong capital position that is consistent with the expectations and requirements of stakeholders, e.g. regulators, rating agencies, correspondent banks, the authorities and customers.

Our Internal Capital Adequacy Assessment Process

The framework

MCB Ltd is guided by its Internal Capital Adequacy Assessment Process (ICAAP) in determining its capital planning and formulating its risk appetite process. The ICAAP framework has been developed and applied at the Bank pursuant to the issue of the BoM Guideline on Supervisory Review Process in April 2010. The objective of the latter is to ensure that banks have adequate capital to support the risks they are exposed to as well as to encourage banks to develop and use better risk management techniques in monitoring and managing their risks. The purpose of ICAAP is to (i) provide an informative description of the methodology and procedures that the Bank uses to assess and mitigate its risks; and (ii) make sure that adequate capital is kept to support its risks beyond core minimum requirements. It delineates the process through which the Bank assesses the required minimum level of capital to support its activities. The document, which is reviewed periodically, seeks to ensure that the Bank remains well capitalised after considering all material risks. 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, while financial year risk appetite limits are set by the Board. Exposures are monitored on a quarterly basis against those limits and reported to the RMC. The capital plan also includes a crisis management plan whereby measures to rapidly mobilise additional capital, should the need arise, are discussed at Board level.

Stress testing

Stress testing is an integral part of our ICAAP. The aim of the Bank's stress testing framework is to ensure that risk management exercises are firmly embedded in the organisation's governance culture. Forecasts are made over a three-year horizon, taking into account the Basel Pillar I and II stresses. The ICAAP provides for an assessment of the Pillar I risk types (i.e. credit, operational, market risks) and Pillar II risk types (i.e. concentration of risk, liquidity risk, interest rate risk, strategic risks and so on). These assessments are conducted with a view to understanding the sensitivity of the key assumptions of the capital plan to the realisation of plausible stress scenarios. This helps the Bank to evaluate how it can continue to maintain adequate capital under such scenarios.

Stress-testing at MCB Ltd

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 the extreme cases, our recent analyses have revealed that the capital adequacy of the Bank does not fall below the regulatory requirements in any of the scenarios below.

Scenario 1: Risk concentration

• Exposure to a large corporate group becomes impaired

Scenario 2: Credit risk

• A crash in the property market in Mauritius

Scenario 3: Reputation risk

• MCB Ltd becomes non-investment grade

Scenario 4: Country risk

• Exposures in a country turn non-performing and another country hit by a natural calamity

Scenario 5: Liquidity/liability risk

• Withdrawal of top 10 depositors

Scenario 6

• Interest rate shock

Worst case scenario

• A combination of some of the above scenarios

Risk management report

Adherence to Basel Rules

The Bank uses the Basel II Standardised Approach to manage its credit and market risk exposures, with the Basic Indicator Approach used for operational risk. As for determination of its capital, the Bank adheres to the BoM Guideline on Scope of Application of Basel III and Eligible Capital, which came into effect as from July 2014. It also complies with the Guideline for dealing with Domestic-Systemically Important Banks. MCB Ltd is among the five banks identified as falling under this category as per BoM, based on the assessment of five factors, namely size, exposure to large groups, interconnectedness, complexity and substitutability.

Mauritius: Mandatory capital limits and buffers as per Basel III rules

Main objectives of Bank of Mauritius guidelines

Guideline on Scope of Application of Basel III and Eligible Capital

- To set out rules text and timelines to implement some of the elements related to the strengthening of the capital framework
- To formulate the characteristics that an instrument must have in order to qualify as regulatory capital
- To outline capital conservation buffers that ensure that banks build up capital buffers outside periods of stress
- To lay down the transitional arrangements for implementing the limits and minima of the different components of capital

Guideline for dealing with Domestic-Systemically Important Banks

- To put in place a reference system for assessing the systemic importance of banks
- To identify those banks whose failure could affect the financial system and the real economy
- To ensure that the systemically important banks have the capacity to absorb losses through higher capital

Domestic-Systemically Important Banks (D-SIBs) are segregated into different buckets, based on their systemic importance scores, and are subject to loss absorbency capital surcharge in a graded manner depending on the buckets in which they are placed. A D-SIB in lower bucket attracts lower capital charge while a D-SIB in higher bucket attracts higher capital charge.

D-SIB - Additional loss absorbendy requirement*				
Bucket (%)	**Jan 16**	**Jan 17**	**Jan 18**	**Jan 19**
5 (Empty)				3.500
4	0.625	1.250	1.875	2.500
3	0.500	1.000	1.500	2.000
2	0.375	0.750	1.125	1.500
1	0.250	0.500	0.750	1.000

** Relates to additional CET 1 as a % of risk-weighted assets of D-SIBs*

Minimum regulatory ratios applicable to MCB Ltd								
Common Equity Tier 1 (CET 1) Capital Adequacy Ratio (CAR) (%)		**Jul 14**	**Jan 15**	**Jan 16**	**Jan 17**	**Jan 18**	**Jan 19**	**Jan 20**
Minimum CET 1 CAR	(a)	5.500	6.000	6.500	6.500	6.500	6.500	6.500
Capital Conservation Buffer	(b)				0.625	1.250	1.875	2.500
Minimum CET 1 CAR plus Capital Conservation Buffer	**(c) = (a) + (b)**	**5.500**	**6.000**	**6.500**	**7.125**	**7.750**	**8.375**	**9.000**
Tier 1 CAR (%)		**Jul 14**	**Jan 15**	**Jan 16**	**Jan 17**	**Jan 18**	**Jan 19**	**Jan 20**
Minimum Tier 1 CAR	(d)	6.500	7.500	8.000	8.000	8.000	8.000	8.000
Minimum Tier 1 CAR plus Capital Conservation Buffer	**(e) = (d) + (b)**	6.500	7.500	8.000	**8.625**	**9.250**	**9.875**	**10.500**
Total CAR (%)		**Jul 14**	**Jan 15**	**Jan 16**	**Jan 17**	**Jan 18**	**Jan 19**	**Jan 20**
Minimum Total CAR	(f)	10.000	10.000	10.000	10.000	10.000	10.000	10.000
Minimum Total CAR plus Capital Conservation Buffer	**(g) = (f) + (b)**	**10.000**	**10.000**	**10.000**	**10.625**	**11.250**	**11.875**	**12.500**
D-SIB Buffer (%)		**Jul 14**	**Jan 15**	**Jan 16**	**Jan 17**	**Jan 18**	**Jan 19**	**Jan 20**
Minimum additional loss absorbency (bucket 4)	(h)			0.625	1.250	1.875	2.500	2.500
Minimum Tier 1 CAR plus Capital Conservation Buffer plus D-SIB Buffer	**(i) = (e) + (h)**			**8.625**	**9.875**	**11.125**	**12.375**	**13.00**
Minimum Total CAR plus Capital Conservation Buffer plus D-SIB Buffer	**(j) = (g) + (h)**	**10.000**	**10.000**	**10.625**	**11.875**	**13.125**	**14.375**	**15.000**

Positioning of MCB Ltd

During FY 2015/16, our capital position remained strong as gauged by an improvement in the core and total equity capital ratios to 14.9% and 16.3% respectively as at June 2016. This performance is attributable to organic capital accumulation linked to the significant improvement in financial results of the Bank, with the restrained evolution of our risk-weighted assets amidst challenging economic conditions also weighing in the balance. Furthermore, the BIS ratio of the Bank comfortably overshot the minimum regulatory level. As at 30 June 2016, the latter stood at 10.625%, consisting of:

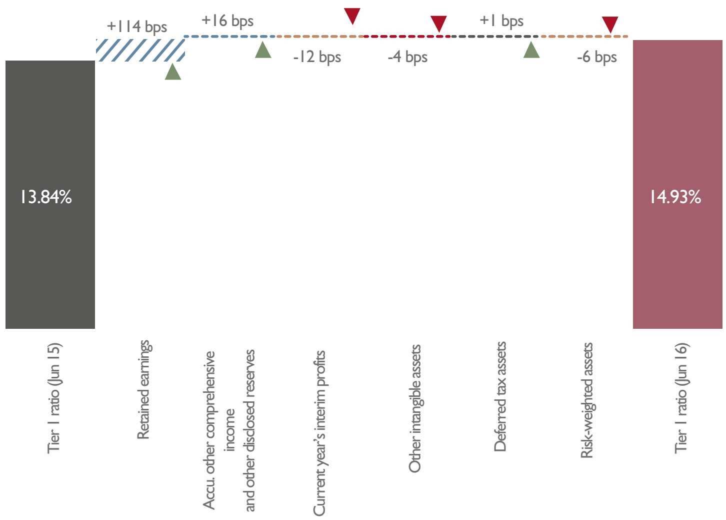
- A ratio of 10% of risk-weighted assets as per the transitional arrangements set by BoM in its Guideline on Scope of Application of Basel III and Eligible Capital; and
- An equivalent rate of 0.625% for MCB, as per the Guideline for dealing with Domestic Systemically-Important Banks, since it lies in bucket 4 based on its systemic importance score.

In fact, our current BIS metric already exceeds the mandatory ratios which will be in force as from 1 January 2020. As illustrated before, the regulatory minimum tier 1 and total capital adequacy ratios will, inclusive of the capital conservation and D-SIB buffers (bucket 4), stand at 13% and 15% respectively as from that date.

The following chart and table shed light on: (i) the key drivers of the movement in tier 1 capital; and (ii) the determination/evolution of the capital adequacy ratios of MCB Ltd, in accordance with regulatory rules.

The following chart and table shed light on: (i) the key drivers of the movement in tier 1 capital; and (ii) the determination/evolution of the capital adequacy ratios of MCB Ltd, in accordance with regulatory rules.

Contribution to the rise in Tier 1 ratio in FY 2015/16



MCB Ltd	Jun 15	Jun 16
Capital base	**Rs m**	**Rs m**
Ordinary shares (paid-up) capital	6,880	6,880
Retained earnings	16,323	18,705
Accumulated other comprehensive income and other disclosed reserves	3,199	3,533
Current year's interim profits	3,196	2,947
Common Equity Tier 1 capital before regulatory adjustments	**29,597**	**32,065**
Regulatory adjustments		
Other intangible assets	385	473
Deferred tax assets	223	194
Common Equity Tier 1 capital (CET1)	**28,989**	**31,398**
Additional Tier 1 capital (AT1)	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**28,989**	**31,398**
Tier 2 capital		
Capital instruments	950	866
Provisions or loan-loss reserves	1,794	2,011
Tier 2 capital before regulatory adjustments	**2,744**	**2,877**
Regulatory adjustments	**-**	**-**
Tier 2 capital (T2)	**2,744**	**2,877**
Total capital (T1 + T2)	**31,734**	**34,275**

MCB Ltd	Jun 15	Jun 16
Risk-weighted assets	**Rs m**	**Rs m**
Weighted amount of on-balance sheet assets	172,001	178,213
Weighted amount of off-balance sheet exposures	20,626	13,895
Weighted risk assets for operational risk	15,293	16,621
Aggregate net open foreign exchange position	1,586	1,593
Total risk-weighted assets	**209,505**	**210,322**

Capital adequacy ratios (%)		
BIS risk adjusted ratio	15.1	16.3
of which Tier 1	*13.8*	*14.9*

Determination of Risk-Weighted Assets

Credit risk

- The risk-weighted exposures under the Standardised Approach to credit risk are based on the category of borrower, its risk weight and the credit conversion factor of the underlying credit facility. The Bank uses the external ratings from Standard & Poor's, Moody's and Fitch Ratings for credit exposures to its sovereign and bank portfolios. It adheres to BoM requirements, notably the Guideline on Standardised Approach to Credit Risk.
- The Standardised Approach recognises the use of a number of techniques to mitigate the credit risks to which banks are exposed. For example, exposures may be collateralised by first priority claims, in whole or in part with cash or securities. Banks may agree to net loans owed to them against deposits from the same counterparty. On a conservative basis, for the purpose of calculating its capital requirements, the Bank considers only cash pledged and guarantees as eligible credit risk mitigations in its calculations.

Market risk

- MCB adheres to the Standardised Approach as outlined by BoM in its Guideline on Measurement and Management of Market Risk. As per this methodology, which is closely aligned with Basel II Standardised Measurement Method, a bank is required to hold additional capital whenever its overall position in trading book activities exceeds 5% or more of its total assets. A bank is encouraged to hold a capital buffer that adequately covers the interest rate risk exposures arising from non-trading activities.
- As at 30 June 2016, MCB's trading book exposures were below the 5% significance level and consisted mainly of foreign exchange risk. Separate interest rate risk gap analysis schedules are prepared and submitted to BoM on a quarterly basis for the Bank's significant currencies (MUR, USD and EUR). The Bank held a capital buffer commensurate with the aggregate banking book interest rate risk both from an earnings and economic value perspective as defined by the aforementioned guideline. The one-year earnings impact arising from a 200 basis points parallel shift in interest rates, using the earnings perspective framework prescribed by the BoM is shown in Notes 3(c) (iii) to the Accounts.

Operational risk

- The Bank applies the Basic Indicator Approach to determine its operational risk capital, mainly driven by its more conservative results and ease of computation. The capital charge under this approach is arrived at by applying 15% (denoted as alpha) to the average of positive annual gross income over the previous three years. This percentage is set by BoM and relates to the industry-wide level of required capital.

Risk management report

MCB Ltd	Jun 16			Jun 15
	Amount	Weight	Weighted Assets	Weighted Assets
Risk-weighted on-balance sheet assets	**Rs m**	**%**	**Rs m**	**Rs m**
Cash items	2,485	0 - 20	90	63
Claims on sovereigns	50,590	0 - 100	312	318
Claims on central banks	20,210	0 - 100	800	631
Claims on banks	46,002	20 - 100	19,229	10,881
Claims on non-central government public sector entities	0	100	0	0
Claims on corporates	110,497	20 - 150	111,866	117,277
Claims on retail segment	10,497	75	6,729	6,530
Claims secured by residential property	22,914	35 - 125	10,408	9,166
Fixed assets/other assets	9,115	100 - 250	10,856	12,393
Past due claims	13,327	50 - 150	17,924	14,742
Total			**178,213**	**172,001**

MCB Ltd	Jun 16					Jun 15
	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	1,070	100	1,041	0 - 100	1,034	4,010
Transaction-related contingent items	21,764	50	10,631	0 - 100	10,221	12,263
Trade related contingencies	7,321	20	1,349	0 - 100	1,174	1,979
Outstanding loans commitment	2,600	20 - 50	1,300	100	1,300	2,190
Total					**13,729**	**20,442**

MCB Ltd	Jun 16						Jun 15
	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	1,525	0 - 1.5	16	8	24	11	16
Foreign exchange contracts	7,389	1 - 7.5	93	133	226	155	168
Total						**166**	**184**

	Jun 16	Jun 15
	Rs m	**Rs m**
Total credit risk-weighted assets	**192,108**	**192,627**

Risk-weighted exposures for on- and off-balance sheet assets

Exposures covered by cash and bank guarantees which qualify as a zero risk-weight

Exposures covered by credit risk mitigation as at 30 June 2016	
On-balance sheet	**Eligible collateral**
	Rs m
Corporate	827
Retail	1,800
	2,627
Off-balance sheet	**Eligible collateral**
	Rs m
Direct credit substitutes	31
Transaction-related contingent items	288
Trade-related contingencies	271
	590
Total	**3,216**

Aggregate net open foreign exchange position

MCB Ltd	Jun 14	Jun 15	Jun 16
Market risk	**Rs m**	**Rs m**	**Rs m**
Aggregate net open foreign exchange position	1,492	1,586	1,593

Operational risk capital charge

MCB Ltd	Basic indicator approach			
Line of business	**Alpha factor (α)**	**Jun 14**	**Jun 15**	**Jun 16**
	%	**Rs m**	**Rs m**	**Rs m**
Total yearly weighted gross income	α=15	1,522	1,639	1,825
Capital charge for operational risk		1,411	1,529	1,662

Risk management report

Looking Ahead

Our main ambitions

While complying fully with the ever more stringent regulatory regime, the objective of MCB is to effectively and proactively absorb the signals of the complex environment in which it operates.

Against this backdrop and with a view to fostering its financial soundness, it will raise up its game to further strengthen and embed the management of risk across the organisation. It will ensure that its risk metrics are managed within acceptable and suitable thresholds, while ensuring that minimum regulatory ratios for capital adequacy are comfortably exceeded at all times. Our aim is to promote the orderly execution of our strategic orientations.

Key strategic focus areas

Key objective being pursued by the Bank are as follows:

- Ensuring alignment of our operations and activities to new regulatory stipulations as well as to evolving international codes and standards, such as IFRS 9 and the OECD standards for automatic information exchange
- Leveraging technology to boost operational efficiency of control functions, automate their reporting, and provide for a holistic perspective for decision-taking in support of sound business growth
- Enhancing the capacity of the Risk SBU to better ascertain and manage emerging risks, notably those related to increasing use of technological systems and digital channels
- Upgrading the quality of human capital of the Bank's risk control functions, notably through recruitment of new talents – notably those who are knowledgeable and well-versed in respect of the growth pillars pursued by the Bank – and the development of training and career development programmes for the staff
- Strengthening of a strong risk culture and consciousness across all levels of the organisation

Jonathan CRICHTON
Director
Chairperson Risk Monitoring Committee

Antony R. WITHERS
Chief Executive

Statement of management's responsibility for financial reporting

The Financial Statements for the Bank presented in this annual report have been prepared by Management, which is responsible for their integrity, consistency, objectivity and reliability. International Financial Reporting Standards as well as the requirements of the Banking Act 2004 and the guidelines issued thereunder have been applied for the year ended 30 June 2016 and Management has exercised its judgement and made best estimates where deemed necessary.

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

The Bank's Board of Directors, acting in part through the Audit Committee, Conduct Review Committee and Risk Monitoring Committee, which comprise, principally, independent directors, oversees Management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

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

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

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

A.R. Withers

Antony R. WITHERS
Chief Executive

Jean-Philippe COULIER
Director

Gilles GUFFLET
Director
Chairperson Audit Committee

Independent auditors’ report

To the shareholder of The Mauritius Commercial Bank Limited

This report is made solely to the shareholder of The Mauritius Commercial Bank Limited (the “bank”) in accordance with Section 205 of the Mauritian Companies Act 2001. Our audit work has been undertaken so that we might state to the bank's shareholder those matters we are required to state to it in an auditors’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the bank and the bank's shareholder, for our audit work, for this report, or for the opinions we have formed.

Report on the Financial Statements

We have audited the accompanying separate financial statements of the bank which comprise the statement of financial position as at 30th June 2016 and the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Directors’ Responsibility for the Financial Statements

The bank’s directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritian Companies Act 2001, the Banking Act 2004 and regulations and guidelines of the Bank of Mauritius and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

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

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

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

Opinion

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the bank as at 30th June 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Mauritian Companies Act 2001.

To the shareholder of The Mauritius Commercial Bank 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 bank other than in our capacity as auditors and dealings in the ordinary course of business;

(b) we have obtained all information and explanations we have required; and

(c) in our opinion, proper accounting records have been kept by the bank as far as it appears from our examination of those records.

Banking Act 2004

The Banking Act 2004 requires that in carrying out our audit we consider and report to you on the following matters.

We confirm that:

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

(b) the explanations or information called for or given to us by the officers or agents of the bank were satisfactory.

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.

PricewaterhouseCoopers

Gilles Beesoo
Licensed by FRC

28th September 2016

BDO & Co

Ameenah Ramdin
Licensed by FRC

Statement of financial position

as at 30th June 2016

	Notes	2016 RS'000	2015 RS'000	2014 RS'000
ASSETS				
Cash and cash equivalents	4	**31,975,711**	22,999,839	17,703,620
Derivative financial instruments	5	**175,771**	268,901	126,939
Loans to and placements with banks	6(a)	**22,485,623**	9,486,995	6,558,004
Loans and advances to customers	6(b)	**153,002,181**	153,007,990	141,151,333
Investment securities	7	**56,241,340**	44,995,318	30,837,645
Investments in associates	8	**1,161,063**	-	-
Intangible assets	9	**473,162**	385,453	523,084
Property, plant and equipment	10	**4,952,603**	5,030,443	5,202,509
Deferred tax assets	11	**193,960**	222,519	194,292
Other assets	12	**16,270,104**	14,209,212	13,003,228
		286,931,518	250,606,670	215,300,654
Non-current assets held for distribution	34	**-**	1,331,216	1,331,216
Total assets		**286,931,518**	251,937,886	216,631,870
LIABILITIES AND SHAREHOLDER'S EQUITY				
Deposits from banks	13(a)	**4,712,603**	4,504,425	3,698,038
Deposits from customers	13(b)	**238,311,493**	203,942,576	172,569,469
Derivative financial instruments	5	**122,353**	112,976	539,203
Other borrowed funds	14	**4,865,908**	6,952,264	7,602,776
Subordinated liabilities	15	**1,082,289**	1,055,697	5,449,026
Current tax liabilities		**578,996**	448,835	368,440
Other liabilities	17	**4,302,453**	4,632,233	4,305,852
Total liabilities		**253,976,095**	221,649,006	194,532,804
Shareholder's Equity				
Stated capital		**6,879,602**	6,879,602	2,379,602
Retained earnings		**20,435,491**	18,705,062	16,322,961
Other components of equity		**5,640,330**	4,704,216	3,396,503
Equity attributable to the ordinary equity holder of the bank		**32,955,423**	30,288,880	22,099,066
Total equity and liabilities		**286,931,518**	251,937,886	216,631,870
CONTINGENT LIABILITIES				
Guarantees, letters of credit, endorsements and other obligations on account of customers		**30,129,810**	43,322,427	62,112,445
Commitments		**2,600,154**	4,380,241	4,355,291
Tax assessments		**836,868**	797,225	272,057
Other		**1,427,519**	1,184,265	1,504,788
	19	**34,994,351**	49,684,158	68,244,581

These financial statements were approved for issue by the Board of Directors on the 28th September 2016.

Antony R. WITHERS
Director
Chief Executive

Jean-Philippe COULIER
Director
Chairperson

Gilles GUFFLET
Director
Chairperson Audit Committee

The notes on pages 163 to 243 form part of these financial statements.
Auditors' report on pages 150 and 151.

Statement of profit or loss

for the year ended 30th June 2016

	Notes	2016 RS'000	2015 RS'000	2014 RS'000
Continuing operations				
Interest income	20	**12,299,102**	11,632,970	10,865,841
Interest expense	21	**(4,101,325)**	(4,284,673)	(4,319,193)
Net interest income		**8,197,777**	7,348,297	6,546,648
Fee and commission income	22	**3,280,209**	3,403,343	2,949,355
Fee and commission expense	23	**(628,354)**	(586,930)	(550,459)
Net fee and commission income		**2,651,855**	2,816,413	2,398,896
Other income				
Profit arising from dealing in foreign currencies		**1,406,259**	779,542	974,196
Net (loss)/gain from financial instruments carried at fair value	24	**(106,784)**	158,123	46,446
		1,299,475	937,665	1,020,642
Dividend income	25	**251,998**	30,863	13,520
Net gain/(loss) on sale of securities		**19,538**	(7,817)	422,237
Other operating income		**42,455**	35,679	46,686
		1,613,466	996,390	1,503,085
Operating income		**12,463,098**	11,161,100	10,448,629
Non-interest expense				
Salaries and human resource development	26(a)	**(2,761,898)**	(2,582,066)	(2,405,637)
Depreciation		**(358,331)**	(358,815)	(410,318)
Amortisation of intangible assets		**(139,093)**	(178,893)	(215,688)
Other	26(b)	**(1,380,498)**	(1,341,309)	(1,361,415)
		(4,639,820)	(4,461,083)	(4,393,058)
Operating profit before impairment		**7,823,278**	6,700,017	6,055,571
Net impairment of financial assets	27	**(907,021)**	(897,173)	(1,843,056)
Profit before tax		**6,916,257**	5,802,844	4,212,515
Income tax expense	28	**(1,296,094)**	(960,290)	(871,418)
Profit for the year from continuing operations		**5,620,163**	4,842,554	3,341,097
Discontinuing operations				
Profit for the year from discontinuing operations	34(b)	**-**	161,746	345,484
Profit for the year attributable to the owner of the bank		**5,620,163**	5,004,300	3,686,581
Earnings per share (Rs):				
Continuing operations	30	**8.17**	19.84	14.04
Discontinuing operations	30	**-**	0.66	1.45

The notes on pages 163 to 243 form part of these financial statements.
Auditors' report on pages 150 and 151.

Statement of comprehensive income

for the year ended 30th June 2016

	2016 RS'000	2015 RS'000	2014 RS'000
Profit for the year	**5,620,163**	5,004,300	3,686,581
Other comprehensive (expense)/income:			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plan, net of deferred tax	**(173,765)**	95,215	(229,412)
Items that may be reclassified subsequently to profit or loss:			
Reclassification adjustments on disposal of available-for-sale investments	**(60,243)**	-	(320,766)
Net fair value (loss)/gain on available-for-sale investments	**(46,491)**	398,796	101,416
	(106,734)	398,796	(219,350)
Other comprehensive (expense)/income for the year	**(280,499)**	494,011	(448,762)
Total comprehensive income for the year	**5,339,664**	5,498,311	3,237,819
Total comprehensive income attributable to the owner of the bank:			
Continuing operations	**5,339,664**	5,336,565	2,892,335
Discontinuing operations	**-**	161,746	345,484
	5,339,664	5,498,311	3,237,819

The notes on pages 163 to 243 form part of these financial statements.
Auditors' report on pages 150 and 151.

Statement of changes in equity

for the year ended 30th June 2016

	Note	Stated Capital RS'000	Treasury Shares RS'000	Retained Earnings RS'000	Capital Reserve RS'000	Statutory Reserve RS'000	General Banking Reserve RS'000	Total Equity RS'000
At 30th June 2013-restated		**2,615,838**	**(360,057)**	**16,585,299**	**702,671**	**2,615,838**	**533,580**	**22,693,169**
Profit for the year		-	-	3,686,581	-	-	-	3,686,581
Other comprehensive expense for the year		-	-	(229,412)	(219,350)	-	-	(448,762)
Total comprehensive income/(expense) for the year		-	-	3,457,169	(219,350)	-	-	3,237,819
Dividends in cash	29	-	-	(1,522,573)	-	-	-	(1,522,573)
Dividends in specie	29	-	-	(2,339,812)	-	-	-	(2,339,812)
Employee share options exercised		26,101	4,362	-	-	-	-	30,463
Cancellation of treasury shares		(262,337)	355,695	(93,358)	-	-	-	-
Transactions with owner in his capacity as owner		(236,236)	360,057	(3,955,743)	-	-	-	(3,831,922)
Transfer from statutory reserve		-	-	236,236	-	(236,236)	-	-
At 30th June 2014		**2,379,602**	**-**	**16,322,961**	**483,321**	**2,379,602**	**533,580**	**22,099,066**
Profit for the year		-	-	5,004,300	-	-	-	5,004,300
Other comprehensive income for the year		-	-	95,215	398,796	-	-	494,011
Total comprehensive income for the year		-	-	5,099,515	398,796	-	-	5,498,311
Rights issue		4,500,000	-	-	-	-	-	4,500,000
Dividends in cash	29	-	-	(1,808,497)	-	-	-	(1,808,497)
Transactions with owner in his capacity as owner		4,500,000	-	(1,808,497)	-	-	-	2,691,503
Transfer to statutory reserve		-	-	(751,000)	-	751,000	-	-
Transfer to general banking reserve		-	-	(157,917)	-	-	157,917	-
At 30th June 2015		**6,879,602**	**-**	**18,705,062**	**882,117**	**3,130,602**	**691,497**	**30,288,880**
Profit for the year		**-**	**-**	**5,620,163**	**-**	**-**	**-**	**5,620,163**
Other comprehensive expense for the year		**-**	**-**	**(173,765)**	**(106,734)**	**-**	**-**	**(280,499)**
Total comprehensive income/(expense) for the year		**-**	**-**	**5,446,398**	**(106,734)**	**-**	**-**	**5,339,664**
Dividends in cash	29	**-**	**-**	**(2,132,676)**	**-**	**-**	**-**	**(2,132,676)**
Dividends in specie	29	**-**	**-**	**(540,445)**	**-**	**-**	**-**	**(540,445)**
Transactions with owner in his capacity as owner		**-**	**-**	**2,773,277**	**(106,734)**	**-**	**-**	**2,666,543**
Transfer to statutory reserve		**-**	**-**	**(844,000)**	**-**	**844,000**	**-**	**-**
Transfer to general banking reserve		**-**	**-**	**(198,848)**	**-**	**-**	**198,848**	**-**
At 30th June 2016		**6,879,602**	**-**	**20,435,491**	**775,383**	**3,974,602**	**890,345**	**32,955,423**

The notes on pages 163 to 243 form part of these financial statements.
Auditors' report on pages 150 and 151.

Statement of cash flows

for the year ended 30th June 2016

	Notes	2016 RS'000	2015 RS'000	2014 RS'000
Operating activities				
Net cash flows from trading activities	32	**5,094,910**	5,841,493	3,492,841
Net cash flows from other operating activities	33	**8,732,789**	4,451,672	3,348,331
Dividends paid		**(2,123,965)**	(1,594,333)	(1,510,165)
Income tax paid		**(1,107,371)**	(921,438)	(784,946)
Net cash flows from operating activities		**10,596,363**	7,777,394	4,546,061
Investing activities				
Purchase of available-for-sale investments		**(442,746)**	(2,130,238)	(835,678)
Proceeds from sale of available-for-sale investments		**413,354**	415,573	429,960
Proceeds on disposal of shares in subsidiaries		**-**	-	251,392
Investment in subsidiaries		**-**	-	(1,512)
Investment in associate		**(50,705)**	-	(185)
Purchase of property, plant and equipment		**(285,825)**	(191,895)	(196,214)
Purchase of intangible assets		**(226,802)**	(44,668)	(47,207)
Proceeds from sale of intangible assets		**-**	17,762	331
Proceeds from sale of property, plant and equipment		**5,886**	11,437	60,118
Net cash flows from investing activities		**(586,838)**	(1,922,029)	(338,995)
Net cash flows before financing activities		**10,009,525**	5,855,365	4,207,066
Financing activities				
Employee share options exercised		**-**	-	26,595
Rights issue		**-**	4,500,000	-
Subordinated liabilities (transferred)/issued		**-**	(4,500,000)	5,455,512
Net debt securities (matured)/issued		**-**	(1,793,050)	145,800
Net refund of subordinated loan		**199,354**	-	12,500
Net cash flows from financing activities		**199,354**	(1,793,050)	5,640,407
Increase in cash and cash equivalents		**10,208,879**	4,062,315	9,847,473
Net cash and cash equivalents at 1st July		**21,760,382**	17,698,067	7,850,594
Net cash and cash equivalents at 30th June	4	**31,969,261**	21,760,382	17,698,067

The notes on pages 163 to 243 form part of these financial statements.
Auditors' report on pages 150 and 151.

General information

The Mauritius Commercial Bank Limited ("the bank") is a public company incorporated by Royal Charter in 1838 and registered as limited liability company on 18th August 1955. Its registered office is situated at 9-15, Sir William Newton Street, Port Louis, Mauritius.

The main activities of the bank consist of providing a whole range of banking and financial services. The bank is wholly owned by MCB Investment Holding Limited.

The ultimate holding company is MCB Group Limited which is listed on The Stock Exchange of Mauritius Ltd.

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1. Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of The Mauritius Commercial Bank Limited (the "bank"), parent company comply with The Mauritian Companies Act 2001 and have been prepared in accordance with International Financial Reporting Standards (IFRS) and instructions, Guidelines and Guidance notes issued by the Bank of Mauritius, in so far as the operations of the bank are concerned.

Where necessary, comparative figures have been amended to conform with changes in presentation, or in accounting policies in the current year. At the reporting date, interest receivable and interest payable have been reclassified under the appropriate underlying assets and liabilities. Furthermore, the balance of MCB Superannuation Fund has been reclassified under deposits.

The financial statements have been prepared under the historical cost convention except for available-for-sale investment securities, financial assets and liabilities held-for-trading, derivative contracts and the defined benefit plan stated at fair value.

Standards, Amendments to published Standards and Interpretations effective in the reporting period

There are no standards, amendments to published standards and interpretations effective for the first time in the reporting period.

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 on or after 1st July 2016, but which the bank has not early adopted.

At the reporting date of these financial statements, the following were in issue but not yet effective:

IFRS 9 Financial Instruments
IFRS 14 Regulatory Deferral Accounts
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
IFRS 15 Revenue from Contract with Customers
Clarifications to IFRS 15 Revenue from Contracts with Customers
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
Equity Method in Separate Financial Statements (Amendments to IAS 27)
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
Annual Improvements to IFRSs 2012-2014 Cycle
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
Disclosure Initiative (Amendments to IAS 1)
IFRS 16 Leases
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
Amendments to IAS 7 Statement of Cash Flows
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

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)

Where relevant, the bank is still evaluating the effect of these Standards, amendments to published Standards and Interpretations issued but not yet effective, on presentation of the financial statements.

IFRS 9 is of particular importance to the bank. In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). In many instances, the classification and measurement outcomes will be similar to IAS 39, although differences will arise. For example, under IFRS 9, embedded derivatives are not separated from host financial assets and equity securities are measured at FVPL or, in limited circumstances, at FVOCI. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged. For certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Impairment

The impairment requirements apply to financial assets measured at amortised cost, and 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'.

The assessment of whether credit risk has increased significantly since initial recognition is performed for 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.

1. Significant Accounting Policies (Cont'd)

(a) Basis of preparation (Cont'd)

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link between it and risk management strategy and permitting the former to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

Transition

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods.

The mandatory application date for the standard as a whole is 1st January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date.

Investments in associates

An associate is an entity over which the bank has significant influence but not control or joint control, generally accompanying a shareholding between 20% and 50% of the voting rights. The investments in associates are carried at cost and reduced to recognise any impairment.

The financial statements contain information about the Mauritius Commercial Bank Limited as an individual company and do not contain consolidated financial information as the parent of a group. The bank has taken advantage of the exemption under IAS28 'Investments in Associates' from the requirement to prepare financial statements using equity-accounting as MCB Group Limited, the ultimate holding company, prepares consolidated financial statements that complies with IFRS. A copy of the consolidated financial statements is available at the registered office of the MCB Group Limited at 9-15, Sir William Newton Street, Port Louis.

(b) Foreign currency translation

(i) Functional and presentation currency

These financial statements are prepared in Mauritian Rupees (Rs.), which is the bank's functional and presentation currency. Except as indicated, financial information presented in Mauritian rupees has been rounded to the nearest thousand.

(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. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1. Significant Accounting Policies (Cont'd)

(b) Foreign currency translation (Cont'd)

(ii) Transactions and balances (Cont'd)

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.

(c) Derivative financial instruments

Derivative financial instruments include mainly foreign exchange contracts and currency swaps. These are initially recognised at fair value on the date the derivative contracts are entered into and subsequently remeasured at their fair value. 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. 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 bank's derivative transactions, while providing effective economic hedges under the bank'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.

(d) 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.

(e) 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.

1. Significant Accounting Policies (Cont'd)

(f) 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.

(g) 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 repos agreements using the effective interest method.

(h) Investment securities

The bank classifies its investment securities as financial asset 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 listed financial assets are subsequently remeasured at fair value. Fair values for unlisted equity securities are estimated using maintainable earnings or net assets bases refined to reflect the specific circumstances of the issuer. 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 bank 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 bank would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

Interest earned while holding investment securities is reported as interest income. Dividends receivable are included separately in 'dividend income ' in profit or loss when the entity'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 bank commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

1. Significant Accounting Policies (Cont'd)

(i) 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 includes transaction costs) and measured at subsequent reporting dates at fair value. All related realised and unrealised gains and losses are recognised in statement of profit or loss for the year.

(j) Loans and provisions for loan impairment

Loans originated by the bank by providing money directly to the borrower (at draw-down) are categorised as loans by the bank 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.

All loans and advances are recognised when cash is advanced to borrowers. An allowance for loan impairment is established if there is the objective evidence that the bank will not be able to collect all amounts due according to the original contractual terms of the loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loans.

The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the end of the reporting period. These have been estimated upon the historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectible, it is written off against the related provision for impairment; subsequent recoveries are credited to the provision for loan losses 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.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as a reduction of the provision for loan losses.

(k) Impairment of financial assets

(i) Assets carried at amortised cost

The bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

1. Significant Accounting Policies (Cont'd)

(k) Impairment of financial assets (Cont'd)

(i) Assets carried at amortised cost (Cont'd)

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 bank 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.

(ii) Assets classified as available-for-sale

The bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

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)

(l) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation.

Depreciation is calculated to write down the cost of such assets to their residual values on a straight-line basis over their estimated useful lives as follows:

Buildings	50 years
Computer and other equipment	5-10 years
Furniture, fittings and vehicles	5-15 years

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount 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.

(m) 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 Bank 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.

1. Significant Accounting Policies (Cont'd)

(n) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and balances with Central Bank and amounts due to and from other banks which are short term, highly liquid with original maturities of 3 months or less. A further breakdown of cash and cash equivalents is given in note 4 to the financial statements.

(o) Provisions

Provisions are recognised when the bank 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.

(p) 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.

(q) Employee benefits

The bank operates a number of defined benefit and defined contribution plans. The defined benefit plan is fully funded. The assets of the funded plan are held independently and administered by The MCB Superannuation Fund.

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.

(i) Defined contribution plans

A defined contribution plan is a pension plan under which the bank pays fixed contributions into a separate entity. The bank 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 entitled them to the contributions.

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(ii) Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

1. Significant Accounting Policies (Cont'd)

(q) Employee benefits (Cont'd)

(ii) Defined benefit plans (Cont'd)

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 16 to the financial statements.

The bank 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.

As from 1st July 2015, the bank has introduced a Defined Contribution Cash Balanced scheme (DCCB) for its employees.
With the introduction of DCCB, new employees automatically join the DCCB section, 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) section for all service.

Option B: To keep the accrued past pension benefits until 30th June 2015 in the DB section and join the DCCB section as from 1st July 2015.

Option C: To join the DCCB section as from 1st July 2015 and transfer the total accrued benefits as at 30th June 2015 from the DB section into the DCCB section.

(r) Non-current assets held for distribution

Non-current assets classified as held for distribution are measured at the lower of carrying amount and fair value less costs to distribute if their carrying amount is recovered principally through a distribution rather than through a continuing use. This condition is regarded as met only, when the distribution is highly probable and the asset is available for immediate distribution in its present condition.

(s) 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.

1. Significant Accounting Policies (Cont'd)

(s) Current and deferred income tax (Cont'd)

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.

Deferred income tax

Deferred income 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 differences can be utilised.

(t) 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.

(u) Dividend distribution

Dividend distribution to the bank's shareholder is recognised as a liability in the period in which dividends are declared.

(v) Acceptances

Acceptances comprise undertakings by the bank to pay bills of exchange drawn on customers. The bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are disclosed as liabilities with corresponding contra-assets.

(w) Operating segments

An operating segment is a component of the bank 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 bank's other components. All operating segments' operating results are reviewed regularly by the Supervisory and Monitoring Committee to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Detailed analysis of operating segments are shown in note 35 to the financial statements.

1. Significant Accounting Policies (Cont'd)

(x) Stated capital

Ordinary shares are classified as equity.

(i) Share issue costs

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

(ii) Treasury shares

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

(y) 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.

(z) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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 asset exceeds its recoverable amount. The recoverable amount is the higher of an asset 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).

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 assumptions

The bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

2. Critical Accounting Estimates and Judgements (Cont'd)

(a) Held-to-maturity investments

The bank 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 bank evaluates its intention and ability to hold such investments to maturity.

If the bank 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 bank 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 bank 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 present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 16.

The value of the pension obligations is based on the report submitted by an independent actuarial firm on an annual basis.

(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 bank using valuation techniques including third party transaction values, earnings, net asset value or discounted cash flows, whichever is considered to be appropriate. The bank 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.

(e) Asset lives and residual values

Property, plant and equipment are depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. Consideration is also given to the extent of current profits and losses on the disposal of similar assets.

The directors therefore make estimates based on historical experience and use best judgement to assess the useful lives of assets and to forecast the expected residual values of the assets at the end of their expected useful lives.

2. Critical Accounting Estimates and Judgements (Cont'd)

(f) Impairment of assets

Assets are considered for impairment if there is a reason to believe that impairment may be necessary. Factors taken into consideration in reaching such a decision include the economic viability of the asset itself and where it is a component of a larger economic unit, the viability of that unit itself.

Future cash flows expected to be generated by an asset or cash-generating assets are projected, taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using an appropriate discount rate, is compared to the current net asset value and, if lower, the assets are impaired to the present value. The impairment loss is first allocated to goodwill and then to the other assets of a cash-generating unit.

(g) Impairment loss on loans and advances

The bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The directors use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

3. Financial Risk Management

(a) Strategy in using financial instruments

The use of financial instruments is a major feature of the bank's operations. It has been the bank's policy to take deposits from customers at variable rates mostly by investing these funds in a wide range of assets.

The bank also seeks to raise its interest margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. The bank'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.

(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.

3. Financial Risk Management (Cont'd)

(b) Credit risk (Cont'd)

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.

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Credit quality of loans and advances

	2016 RS'M	2015 RS'M	2014 RS'M
Neither past due nor impaired	**147,302**	148,911	140,066
Past due but not impaired	**5,744**	6,075	2,765
Impaired	**9,516**	9,535	10,672
Gross	**162,562**	164,521	153,503
Less Allowances for credit impairment	**(6,623)**	(7,137)	(7,357)
Net	**155,939**	157,384	146,146
Fair Value of collaterals of past due but not impaired loans	**7,001**	7,271	5,555
Fair Value of collaterals of impaired loans	**9,629**	6,286	6,496

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

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

	2016 RS'M	2015 RS'M	2014 RS'M
Up to 3 months	**743**	1,347	991
Over 3 months and up to 6 months	**2,326**	1,853	1,134
Over 6 months and up to 1 year	**523**	2,340	539
Over 1 year	**2,152**	535	101
	5,744	6,075	2,765

3. Financial Risk Management (Cont'd)

(b) Credit risk (Cont'd)

Loans and advances negotiated

	2016 RS'M	2015 RS'M	2014 RS'M
Loans and advances negotiated	**13,021**	15,064	12,720
Fair value of collaterals	**13,021**	15,064	12,720

Maximum exposure to credit risk before collateral and other credit risk enhancements :

	2016 RS'M	2015 RS'M	2014 RS'M
Credit risk exposures relating to on-balance sheet assets are as follows:			
Cash and cash equivalents	**29,938**	21,104	15,326
Derivatives financial instruments	**176**	269	127
Loans to and placements with banks	**22,486**	9,487	6,558
Loans and advances to customers	**153,002**	153,009	141,151
Investment securities	**56,241**	44,995	30,838
Other financial assets	**14,578**	12,732	11,681
Credit risk exposures relating to off-balance sheet assets are as follows:			
Financial guarantees	**30,130**	43,322	62,112
Loans committed and other credit related liabilities	**2,600**	4,380	4,355
Total	**309,151**	289,298	272,148

(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 Risk Committee of the Board 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.

3. Financial Risk Management (Cont'd)

(c) Market risk (Cont'd)

(i) Price risk

The bank 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 bank's equity. The analysis is based on the assumption that the fair value had increased/decreased by 5%.

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	2016 RS'M	2015 RS'M	2014 RS'M
Available-for-sale financial assets	**202**	201	98

(ii) Currency risk

Currency Risk is defined as the risk that movements in foreign exchange rates adversely affect the value of the bank'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 Treasury Manager. Such limits include daily, monthly, half-yearly and yearly stop losses. Exposure resulting from non-trading activities is managed through the Asset Liability Management framework, with reference to guidelines and policies set and approved by ALCO and the Board Risk Monitoring Committee.

A major methodology which MCB uses for the measurement of market price risk is Value-at-Risk (VaR). 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
2016 (RS 'M)	**(8.42)**	**(17.84)**	**(28.16)**	**(8.34)**
2015 (RS 'M)	(13.45)	(8.94)	(15.48)	(4.80)
2014 (RS 'M)	(10.16)	(10.10)	(21.59)	(7.48)

Notes to the financial statements
for the year ended 30th June 2016 (continued)

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

At June 30, 2016	EURO RS '000	USD RS '000	GBP RS '000	MUR RS '000	OTHER RS '000	TOTAL RS '000
Financial assets						
Cash and cash equivalents	12,117,646	10,347,836	1,273,341	3,201,014	5,035,874	31,975,711
Derivative financial instruments	18,188	-	6	157,577	-	175,771
Loans to and placements with banks	1,632,006	12,220,466	1,483,933	5,987,290	1,179,873	22,503,568
Loans and advances to customers	14,411,705	41,033,852	792,997	103,223,701	145,425	159,607,680
Investment securities	595,535	1,627,834	789,800	53,128,639	99,532	56,241,340
Other financial assets	722,614	1,091,097	196,655	12,462,587	105,093	14,578,046
	29,497,694	66,321,085	4,536,732	178,160,808	6,565,797	285,082,116
Less allowances for credit impairment						(6,623,444)
Total						**278,458,672**
Financial liabilities						
Deposits from banks	884,677	3,305,007	227,234	153,743	141,942	4,712,603
Deposits from customers	26,682,169	52,482,780	3,973,912	148,763,687	6,408,945	238,311,493
Derivative financial instruments	23,794	5,009	5,267	88,283	-	122,353
Other borrowed funds	3,486,514	1,363,810	-	9,134	6,450	4,865,908
Subordinated liabilities	-	1,082,289	-	-	-	1,082,289
Other financial liabilities	211,213	255,188	232,511	1,460,893	23,777	2,183,582
Total	31,288,367	58,494,083	4,438,924	150,475,740	6,581,114	**251,278,228**
Net on-balance sheet position	(1,790,673)	7,827,002	97,808	27,685,068	(15,317)	33,803,888
Less allowances for credit impairment						(6,623,444)
						27,180,444
Off balance sheet net notional position	3,257,301	8,283,686	917,542	-	591,929	13,050,458
Credit commitments	3,789,137	15,177,904	30,305	13,407,884	324,734	32,729,964

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

At June 30, 2015	EURO RS '000	USD RS '000	GBP RS '000	MUR RS '000	OTHER RS '000	TOTAL RS '000
Financial assets						
Cash and cash equivalents	1,846,572	8,477,238	3,411,793	4,333,455	4,930,781	22,999,839
Derivative financial instruments	17,859	-	-	251,042	-	268,901
Loans to and placements with banks	1,244,523	1,246,855	400	5,930,036	1,081,797	9,503,611
Loans and advances to customers	14,912,784	46,060,824	1,002,696	97,960,002	191,761	160,128,067
Investment securities	220,122	2,156,576	107,323	42,408,762	102,535	44,995,318
Other financial assets	379,404	930,233	103,005	11,319,793	-	12,732,435
	18,621,264	58,871,726	4,625,217	162,203,090	6,306,874	250,628,171
Less allowances for credit impairment						(7,136,693)
Total						**243,491,478**
Financial liabilities						
Deposits from banks	585,942	3,457,130	126,222	201,521	133,610	4,504,425
Deposits from customers	24,176,757	34,563,074	4,566,233	133,097,294	7,539,218	203,942,576
Derivative financial instruments	16,951	1,845	-	94,180	-	112,976
Other borrowed funds	3,407,056	3,533,162	104	11,831	111	6,952,264
Subordinated liabilities	-	1,055,697	-	-	-	1,055,697
Other financial liabilities	123,343	352,204	17,266	2,887,318	23,260	3,403,391
Total	28,310,049	42,963,112	4,709,825	136,292,144	7,696,199	**219,971,329**
Net on-balance sheet position	(9,688,785)	15,908,614	(84,608)	25,910,946	(1,389,325)	30,656,842
Less allowances for credit impairment						(7,136,693)
						23,520,149
Off balance sheet net notional position	3,525,033	17,496,463	943,953	-	502,597	22,468,046
Credit commitments	4,983,272	32,894,885	243,628	12,136,109	650,025	50,907,919

Notes to the financial statements
for the year ended 30th June 2016 (continued)

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

At June 30, 2014	EURO RS '000	USD RS '000	GBP RS '000	MUR RS '000	OTHER RS '000	TOTAL RS '000
Financial assets						
Cash and cash equivalents	3,958,598	2,146,589	2,123,233	4,128,630	5,346,570	17,703,620
Derivative financial instruments	26,696	-	-	100,243	-	126,939
Loans to and placements with banks	1,318,725	4,534,817	129	4,040	717,693	6,575,404
Loans and advances to customers	12,687,718	37,952,829	1,023,923	96,578,858	247,877	148,491,205
Investment securities	-	600,021	-	30,199,268	38,356	30,837,645
Other financial assets	458,928	1,190,981	81,444	9,857,484	91,802	11,680,639
	18,450,665	46,425,237	3,228,729	140,868,523	6,442,298	215,415,452
Less allowances for credit impairment						(7,357,272)
Total						**208,058,180**
Financial liabilities						
Deposits from banks	731,275	2,594,353	93,137	90,401	188,872	3,698,038
Deposits from customers	21,907,679	22,992,038	3,194,061	117,087,758	7,387,933	172,569,469
Derivative financial instruments	25,130	420,372	-	93,701	-	539,203
Other borrowed funds	3,515,965	2,200,482	80	23,424	1,862,825	7,602,776
Subordinated liabilities	-	909,081	-	4,539,945	-	5,449,026
Other financial liabilities	51,092	759,354	12,367	2,708,968	36,083	3,567,864
Total	26,231,141	29,875,680	3,299,645	124,544,197	9,475,713	**193,426,376**
Net on-balance sheet position	(7,780,476)	16,549,557	(70,916)	16,324,326	(3,033,415)	21,989,076
Less allowances for credit impairment						(7,357,272)
						14,631,804
Off balance sheet net notional position	4,606,621	19,977,023	1,204,381	-	871,141	26,659,166
Credit commitments	5,346,577	46,590,357	132,678	13,007,444	1,390,680	66,467,736

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 bank's financial condition owing to changes in the level of interest rates. It is the bank'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 mainly in the form of repricing risk and uses an interest rate risk gap analysis as shown in Note 3(iii) to measure and monitor this source of risk. Amongst other methodologies, it applies BOM framework of a 200 basis point paralle shift in interest rates to estimate the one-year earnings impact on a static balance sheet basis as follows:

	2016 RS'M	2015 RS'M	2014 RS'M
Decrease in Earnings	**(714)**	(483)	(165)

Interest sensitivity of assets and liabilities - repricing analysis

At June 30, 2016	Up to 1 month RS '000	1-3 months RS '000	3-6 months RS '000	6-12 months RS '000	1-3 years RS '000	Over 3 years RS '000	Non-interest bearing RS '000	Total RS '000
Financial assets								
Cash and cash equivalents	10,011,721	-	-	-	-	-	21,963,990	31,975,711
Derivative financial instruments	-	-	-	-	-	6,292	169,479	175,771
Loans to and placements with banks	5,214,809	7,151,193	2,677,355	6,348,074	1,000,000	-	112,137	22,503,568
Loans and advances to customers	116,528,259	23,621,746	6,424,188	1,373,412	1,854,294	7,124,507	2,681,274	159,607,680
Investment securities	2,548,898	4,851,113	4,466,302	12,352,575	17,288,103	11,681,328	3,053,021	56,241,340
Other financial assets	-	-	-	-	-	247,353	14,330,693	14,578,046
	134,303,687	35,624,052	13,567,845	20,074,061	20,142,397	19,059,480	42,310,594	285,082,116
Less allowances for credit impairment								(6,623,444)
Total								**278,458,672**
Financial liabilities								
Deposits from banks	2,773,183	483,055	938,412	24,835	280,186	-	212,932	4,712,603
Deposits from customers	211,467,490	2,597,404	767,563	1,956,377	609,238	2,285,867	18,627,554	238,311,493
Derivative financial instruments	-	-	-	-	-	-	122,353	122,353
Other borrowed funds	2,320,419	-	1,383,312	9,044	-	1,124,132	29,001	4,865,908
Subordinated liabilities	1,064,361	-	-	-	-	-	17,928	1,082,289
Other financial liabilities	-	-	-	-	-	326,721	1,856,861	2,183,582
Total	217,625,453	3,080,459	3,089,287	1,990,256	889,424	3,736,720	20,866,629	**251,278,228**
On balance sheet interest sensitivity gap	(83,321,766)	32,543,593	10,478,558	18,083,805	19,252,973	15,322,760	21,443,965	33,803,888
Less allowances for credit impairment								(6,623,444)
								27,180,444

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

At June 30, 2015	Up to 1 month RS '000	1-3 months RS '000	3-6 months RS '000	6-12 months RS '000	1-3 years RS '000	Over 3 years RS '000	Non-interest bearing RS '000	Total RS '000
Financial assets								
Cash and cash equivalents	10,247,911	-	-	-	-	-	12,751,928	22,999,839
Derivative financial instruments	-	-	-	-	-	-	268,901	268,901
Loans to and placements with banks	1,016,811	2,084,301	2,167,472	4,018,949	175,949	-	40,129	9,503,611
Loans and advances to customers	109,133,185	34,679,079	-	4,307,232	3,089,744	5,590,574	3,328,253	160,128,067
Investment securities	529,579	4,826,224	5,348,601	5,384,624	17,562,028	8,425,220	2,919,042	44,995,318
Other financial assets	140	1,006	-	-	680	-	12,730,609	12,732,435
	120,927,626	41,590,610	7,516,073	13,710,805	20,828,401	14,015,794	32,038,862	250,628,171
Less allowances for credit impairment								(7,136,693)
Total								**243,491,478**
Financial liabilities								
Deposits from banks	3,466,409	372,544	337,480	-	66,861	-	261,131	4,504,425
Deposits from customers	182,590,968	2,115,983	1,330,737	235,895	1,839	2,103,575	15,563,579	203,942,576
Derivative financial instruments	-	-	-	-	-	-	112,976	112,976
Other borrowed funds	3,336,037	524,775	2,082,895	11,719	-	952,586	44,252	6,952,264
Subordinated liabilities	1,055,697	-	-	-	-	-	-	1,055,697
Other financial liabilities	131,309	-	-	-	-	-	3,272,082	3,403,391
Total	190,580,420	3,013,302	3,751,112	247,614	68,700	3,056,161	19,254,020	**219,971,329**
On balance sheet interest sensitivity gap	(69,652,794)	38,577,308	3,764,961	13,463,191	20,759,701	10,959,633	12,784,842	30,656,842
Less allowances for credit impairment								(7,136,693)
								23,520,149

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

At June 30, 2014	Up to 1 month RS '000	1-3 months RS '000	3-6 months RS '000	6-12 months RS '000	1-3 years RS '000	Over 3 years RS '000	Non-interest bearing RS '000	Total RS '000
Financial assets								
Cash and cash equivalents	9,770,058	57,140	-	-	-	50,008	7,826,414	17,703,620
Derivative financial instruments	-	-	-	-	-	-	126,939	126,939
Loans to and placements with banks	2,119,071	2,818,669	1,025,658	588,227	-	-	23,779	6,575,404
Loans and advances to customers	101,994,828	29,799,997	3,692,028	4,994,739	1,903,920	3,183,179	2,922,514	148,491,205
Investment securities	2,061,003	3,380,053	4,607,305	4,838,117	8,439,874	5,509,813	2,001,480	30,837,645
Other financial assets	-	-	-	-	-	-	11,680,639	11,680,639
	115,944,960	36,055,859	9,324,991	10,421,083	10,343,794	8,743,000	24,581,765	215,415,452
Less allowances for credit impairment								(7,357,272)
Total								**208,058,180**
Financial liabilities								
Deposits from banks	2,636,677	528,830	243,275	176,780	-	16,596	95,880	3,698,038
Deposits from customers	149,419,567	3,389,126	3,424,379	1,239,359	43,604	728,496	14,324,938	172,569,469
Derivative financial instruments	12,186	-	393,591	-	-	-	133,426	539,203
Other borrowed funds	695,549	2,189,437	3,521,488	23,189	-	1,130,392	42,721	7,602,776
Subordinated liabilities	909,081	4,500,000	-	-	-	-	39,945	5,449,026
Other financial liabilities	-	-	-	-	-	-	3,567,864	3,567,864
Total	153,673,060	10,607,393	7,582,733	1,439,328	43,604	1,875,484	18,204,774	**193,426,376**
On balance sheet interest sensitivity gap	(37,728,100)	25,448,466	1,742,258	8,981,755	10,300,190	6,867,516	6,376,991	21,989,076
Less allowances for credit impairment								(7,357,272)
								14,631,804

Other disclosures on interest rate risk are available in the Risk Management Report.

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 bank 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. The bank Treasury manages liquidity in accordance with this policy, on a day-to-day basis.

The amounts disclosed in the following table are discounted.

Maturities of assets and liabilities

At June 30, 2016	Up to 1 month RS '000	1-3 months RS '000	3-6 months RS '000	6-12 months RS '000	1-3 years RS '000	Over 3 years RS '000	Non-maturity items RS '000	Total RS '000
Financial assets								
Cash and cash equivalents	31,525,258	-	-	-	-	-	450,453	31,975,711
Derivative financial instruments	112,196	21,369	14,308	9,654	-	6,292	11,952	175,771
Loans to and placements with banks	5,153,920	7,151,193	2,703,010	6,377,327	1,005,981	-	112,137	22,503,568
Loans and advances to customers	35,271,346	3,222,975	4,612,032	4,194,400	15,926,824	93,566,642	2,813,461	159,607,680
Investment securities	2,478,093	4,528,835	4,711,228	12,545,539	17,536,658	12,123,079	2,317,908	56,241,340
Other financial assets	13,688,608	-	-	-	-	247,353	642,085	14,578,046
	88,229,421	14,924,372	12,040,578	23,126,920	34,469,463	105,943,366	6,347,996	285,082,116
Less allowances for credit impairment								(6,623,444)
Total								**278,458,672**
Financial liabilities								
Deposits from banks	2,975,794	376,619	1,045,465	25,379	282,451	-	6,895	4,712,603
Deposits from customers	203,047,331	4,434,438	3,555,333	7,446,648	8,719,016	10,545,450	563,277	238,311,493
Derivative financial instruments	41,390	22,076	14,770	10,046	-	-	34,071	122,353
Other borrowed funds	6,450	-	-	9,044	90	4,827,862	22,462	4,865,908
Subordinated liabilities	-	-	-	-	-	1,064,361	17,928	1,082,289
Other financial liabilities	-	-	-	-	-	326,721	1,856,861	2,183,582
Total	206,070,965	4,833,133	4,615,568	7,491,117	9,001,557	16,764,394	2,501,494	**251,278,228**
Net liquidity gap	(117,841,544)	10,091,239	7,425,010	15,635,803	25,467,906	89,178,972	3,846,502	33,803,888
Less allowances for credit impairment								(6,623,444)
								27,180,444

3. Financial Risk Management (Cont'd)

(c) Market risk (Cont'd)

(iv) Liquidity risk (Cont'd)

Maturities of assets and liabilities

At June 30, 2015	Up to 1 month RS '000	1-3 months RS '000	3-6 months RS '000	6-12 months RS '000	1-3 years RS '000	Over 3 years RS '000	Non-maturity items RS '000	Total RS '000
Financial assets								
Cash and cash equivalents	22,688,519	-	-	-	-	-	311,320	22,999,839
Derivative financial instruments	210,523	22,805	12,535	5,179	-	-	17,859	268,901
Loans to and placements with banks	2,140,740	2,282,130	652,588	4,034,532	175,950	177,542	40,129	9,503,611
Loans and advances to customers	35,893,847	8,097,958	3,046,710	3,945,189	14,878,944	90,372,528	3,892,891	160,128,067
Investment securities	509,875	3,869,962	6,200,833	5,485,633	17,626,305	8,696,698	2,606,012	44,995,318
Other financial assets	-	4,351	2,718	7,686	183,317	121,910	12,412,453	12,732,435
	61,443,504	14,277,206	9,915,384	13,478,219	32,864,516	99,368,678	19,280,664	250,628,171
Less allowances for credit impairment								(7,136,693)
Total								**243,491,478**
Financial liabilities								
Deposits from banks	3,436,910	380,841	468,681	151,133	66,860	-	-	4,504,425
Deposits from customers	173,989,598	4,308,172	3,899,387	5,920,255	7,533,925	7,158,050	1,133,189	203,942,576
Derivative financial instruments	13,445	65,025	11,405	4,305	-	-	18,796	112,976
Other borrowed funds	1,239,457	182,468	215,495	450,943	-	4,827,462	36,439	6,952,264
Subordinated liabilities	-	-	-	-	-	1,055,697	-	1,055,697
Other financial liabilities	-	-	-	112	-	-	3,403,279	3,403,391
Total	178,679,410	4,936,506	4,594,968	6,526,748	7,600,785	13,041,209	4,591,703	**219,971,329**
Net liquidity gap	(117,235,906)	9,340,700	5,320,416	6,951,471	25,263,731	86,327,469	14,688,961	30,656,842
Less allowances for credit impairment								(7,136,693)
								23,520,149

Notes to the financial statements
for the year ended 30th June 2016 (continued)

3. Financial Risk Management (Cont'd)

(c) Market risk (Cont'd)

(iv) Liquidity risk (Cont'd)

Maturities of assets and liabilities

At June 30, 2014	Up to 1 month RS '000	1-3 months RS '000	3-6 months RS '000	6-12 months RS '000	1-3 years RS '000	Over 3 years RS '000	Non-maturity items RS '000	Total RS '000
Financial assets								
Cash and cash equivalents	17,307,927	57,140	-	-	-	-	338,553	17,703,620
Derivative financial instruments	70,612	19,023	9,749	559	-	-	26,996	126,939
Loans to and placements with banks	1,963,662	2,396,789	1,026,562	589,820	421,880	152,912	23,779	6,575,404
Loans and advances to customers	34,471,448	8,854,721	3,295,535	4,739,625	12,083,056	81,918,899	3,127,921	148,491,205
Investment securities	2,022,985	3,380,053	4,629,517	4,930,180	8,463,581	5,718,674	1,692,655	30,837,645
Other financial assets	-	-	-	-	-	-	11,680,639	11,680,639
	55,836,634	14,707,726	8,961,363	10,260,184	20,968,517	87,790,485	16,890,543	215,415,452
Less allowances for credit impairment								(7,357,272)
Total								**208,058,180**
Financial liabilities								
Deposits from banks	2,640,584	528,830	243,275	285,349	-	-	-	3,698,038
Deposits from customers	142,492,371	4,244,599	4,740,359	6,088,894	10,957,622	3,203,264	842,360	172,569,469
Derivative financial instruments	66,633	19,033	401,162	12,649	-	-	39,726	539,203
Other borrowed funds	5,553	-	1,285,650	1,468,885	1,274,919	3,530,601	37,168	7,602,776
Subordinated liabilities	-	-	-	-	-	5,409,081	39,945	5,449,026
Other financial liabilities	-	-	-	-	-	-	3,567,864	3,567,864
Total	145,205,141	4,792,462	6,670,446	7,855,777	12,232,541	12,142,946	4,527,063	**193,426,376**
Net liquidity gap	(89,368,507)	9,915,264	2,290,917	2,404,407	8,735,976	75,647,539	12,363,480	21,989,076
Less allowances for credit impairment								(7,357,272)
								14,631,804

Other disclosures on liquidity risk are available in the Risk Management Report.

3. Financial Risk Management (Cont'd)

(d) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of 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 occuring market transactions on an arm's length basis. The quoted market price used for financial assets held by the bank is the current bid price. These instruments are included in level1. Instruments included in level 1 comprise primarily quoted equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on specific estimates. If all significant input required to fair value on instrument is observable, the instrument is included in level 2.

If one or more significant inputs are not based on observable market data, the instrument is included in level 3.

Specific techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest swaps is calculated as the present value of the estimated future cashflows based on observable yield curves;
- The fair value of foreign exchange contracts is determined using foreign exchange rates at the end of the reporting period, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cashflows at the current market interest rate that is available to the bank for similar financial instruments.

(e) Capital risk management

Disclosures relating to capital risk management are available in the Risk Management Report.

Notes to the financial statements
for the year ended 30th June 2016 (continued)

3. Financial Risk Management (Cont'd)

(f) Financial instruments by category

At 30 June, 2016	Held-to-maturity RS '000	Held-for-trading RS '000	Loans and Receivables RS '000	Available-for-sale RS '000	Other financial Liabilities at amortised cost RS '000	Total RS '000
Financial Assets						
Cash and cash equivalents	-	-	31,975,711	-	-	31,975,711
Derivative financial instruments	-	175,771	-	-	-	175,771
Loans to and placements with banks	-	-	22,503,568	-	-	22,503,568
Loans and advances to customers	-	-	159,607,680	-	-	159,607,680
Investment securities	51,487,622	722,789	-	4,030,929	-	56,241,340
Other financial assets	-	-	14,578,046	-	-	14,578,046
	51,487,622	898,560	228,665,005	4,030,929	-	285,082,116
Less allowances for credit impairment						(6,623,444)
Total assets						**278,458,672**
Financial Liabilities						
Deposits from banks	-	-	-	-	4,712,603	4,712,603
Deposits from customers	-	-	-	-	238,311,493	238,311,493
Derivative financial instruments	-	122,353	-	-	-	122,353
Other borrowed funds	-	-	-	-	4,865,908	4,865,908
Subordinated liabilities	-	-	-	-	1,082,289	1,082,289
Other financial liabilities	-	-	-	-	2,183,582	2,183,582
Total liabilities	-	122,353	-	-	251,155,875	**251,278,228**
Net on-balance sheet position	51,487,622	776,207	228,665,005	4,030,929	(251,155,875)	33,803,888
Less allowances for credit impairment						(6,623,444)
						27,180,444

3. **Financial Risk Management** (Cont'd)

(f) **Financial instruments by category** (Cont'd)

At June 30, 2015	Held-to-maturity RS '000	Held-for-trading RS '000	Loans and Receivables RS '000	Available-for-sale RS '000	Other financial Liabilities at amortised cost RS '000	Total RS '000
Financial Assets						
Cash and cash equivalents	-	-	22,999,839	-	-	22,999,839
Derivative financial instruments	-	268,901	-	-	-	268,901
Loans to and placements with banks	-	-	9,503,611	-	-	9,503,611
Loans and advances to customers	-	-	160,128,067	-	-	160,128,067
Investment securities	40,952,351	-	-	4,042,967	-	44,995,318
Other financial assets	-	-	12,732,435	-	-	12,732,435
	40,952,351	268,901	205,363,952	4,042,967	-	250,628,171
Less allowances for credit impairment						(7,136,693)
Total assets						**243,491,478**
Financial Liabilities						
Deposits from banks	-	-	-	-	4,504,425	4,504,425
Deposits from customers	-	-	-	-	203,942,576	203,942,576
Derivative financial instruments	-	112,976	-	-	-	112,976
Other borrowed funds	-	-	-	-	6,952,264	6,952,264
Subordinated liabilities	-	-	-	-	1,055,697	1,055,697
Other financial liabilities	-	-	-	-	3,403,391	3,403,391
Total liabilities	-	112,976	-	-	219,858,353	**219,971,329**
Net on-balance sheet position	40,952,351	155,925	205,363,952	4,042,967	(219,858,353)	30,656,842
Less allowances for credit impairment						(7,136,693)
						23,520,149

3. Financial Risk Management (Cont'd)

(f) Financial instruments by category (Cont'd)

At June 30, 2014 Financial Assets	Held-to-maturity RS '000	Held-for-trading RS '000	Loans and Receivables RS '000	Available-for-sale RS '000	Other financial Liabilities at amortised cost RS '000	Total RS '000
Cash and cash equivalents	-	-	17,703,620	-	-	17,703,620
Derivative financial instruments	-	126,939	-	-	-	126,939
Loans to and placements with banks	-	-	6,575,404	-	-	6,575,404
Loans and advances to customers	-	-	148,491,205	-	-	148,491,205
Investment securities	28,879,459	-	-	1,958,186	-	30,837,645
Other financial assets	-	-	11,680,639	-	-	11,680,639
	28,879,459	126,939	184,450,868	1,958,186	-	215,415,452
Less allowances for credit impairment						(7,357,272)
Total assets						**208,058,180**
Financial Liabilities						
Deposits from banks	-	-	-	-	3,698,038	3,698,038
Deposits from customers	-	-	-	-	172,569,469	172,569,469
Derivative financial instruments	-	539,203	-	-	-	539,203
Other borrowed funds	-	-	-	-	7,602,776	7,602,776
Subordinated liabilities	-	-	-	-	5,449,026	5,449,026
Other financial liabilities	-	-	-	-	3,567,864	3,567,864
Total liabilities	-	539,203	-	-	192,887,173	**193,426,376**
Net on-balance sheet position	28,879,459	(412,264)	184,450,868	1,958,186	(192,887,173)	21,989,076
Less allowances for credit impairment						(7,357,272)
						14,631,804

4. Cash and Cash Equivalents

	2016 RS'000	2015 RS'000	2014 RS'000
Cash in hand	**1,935,304**	1,834,403	2,296,253
Foreign currency notes and coins	**101,945**	61,472	80,972
Unrestricted balances with Central Bank	**599,525**	2,234,995	1,450,185
Balances due in clearing	**447,892**	315,767	338,761
Money market placements	**9,724,176**	10,247,910	4,903,195
Balances with banks abroad	**18,876,854**	8,305,292	8,542,124
Interbank loans	**290,015**	-	90,003
Balances with local banks	**-**	-	2,127
	31,975,711	22,999,839	17,703,620

Cash and cash equivalents as shown in the statement of cash flows

	2016 RS'000	2015 RS'000	2014 RS'000
Cash and cash equivalents	**31,975,711**	22,999,839	17,703,620
Other borrowed funds (see note 14(a))	**(6,450)**	(1,239,457)	(5,553)
Net cash and cash equivalents	**31,969,261**	21,760,382	17,698,067
Change in year	**10,208,879**	4,062,315	9,847,473

5. Derivative Financial Instruments

The bank utilises the following derivative instruments to manage its exposure to foreign currency risk and interest rate risk: Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency swaps and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, or interest rates, or a combination of all these.

Except for certain currency swaps, no exchange of principal takes place. The bank'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 bank assesses counterparties using the same techniques as for its lending activities.

The fair values of derivative instruments held are set out below:

	Contractual/ Nominal Amount RS'000	Fair value assets RS'000	Fair value liabilities RS'000
Derivatives held-for-trading			
Year ended 30th June 2016			
Foreign Exchange & Interest Rate Derivatives			
Currency forwards	**2,898,540**	**70,977**	**75,943**
Interest rate swaps	**1,524,809**	**11,903**	**22,174**
Currency swaps	**8,951,194**	**92,841**	**24,236**
Others	**50**	**50**	**-**
	13,374,593	**175,771**	**122,353**
Year ended 30th June 2015			
Foreign Exchange & Interest Rate Derivatives			
Currency forwards	3,928,124	49,480	35,862
Interest rate swaps	847,571	17,859	18,796
Currency swaps	18,841,767	201,562	58,318
	23,617,462	268,901	112,976
Year ended 30th June 2014			
Foreign Exchange & Interest Rate Derivatives			
Currency forwards	3,180,349	59,688	58,725
Cross currency interest rate swaps	2,262,827	-	413,472
Interest rate swaps	970,186	26,696	32,029
Currency swaps	21,165,753	40,255	34,977
Others	41,383	300	-
	27,620,498	126,939	539,203

6. Loans

(a) Loans to and placements with banks

	2016 RS'000	2015 RS'000	2014 RS'000
(i) Loans to and placements with banks			
in Mauritius	**6,277,304**	3,226,027	93,418
outside Mauritius	**45,117,309**	24,830,786	20,019,435
	51,394,613	28,056,813	20,112,853
Less:			
Loans and placements with original maturity less than 3 months and included in cash and cash equivalents	**(28,891,045)**	(18,553,202)	(13,537,449)
	22,503,568	9,503,611	6,575,404
Less:			
Allowances for credit impairment	**(17,945)**	(16,616)	(17,400)
	22,485,623	9,486,995	6,558,004
(ii) Remaining term to maturity			
Up to 3 months	**12,417,250**	4,462,999	4,384,230
Over 3 months and up to 6 months	**2,703,010**	652,588	1,026,562
Over 6 months and up to 1 year	**6,377,327**	4,034,532	589,820
Over 1 year and up to 5 years	**1,005,981**	175,950	421,915
Over 5 years	**-**	177,542	152,877
	22,503,568	9,503,611	6,575,404

(iii) Allowances for credit impairment

	RS'000
Portfolio Provision :	
At 1st July 2013	10,000
Provision for credit impairment for the year	7,400
At 30th June 2014	17,400
Provision released during the year	(784)
At 30th June 2015	**16,616**
Provision for credit impairment for the year	**1,329**
At 30th June 2016	**17,945**

6. Loans (Cont'd)

(b) Loans and advances to customers

	2016 RS'000	2015 RS'000	2014 RS'000
(i) Loans and advances to customers			
Retail customers:			
Credit cards	**653,788**	632,299	619,236
Mortgages	**21,969,378**	19,079,950	16,935,623
Other retail loans	**12,621,653**	12,847,745	12,257,844
Corporate customers	**97,817,761**	98,090,550	92,849,447
Governments	**283,043**	308,155	428,745
Entities outside Mauritius	**26,262,057**	29,169,368	25,400,310
	159,607,680	160,128,067	148,491,205
Less:			
Allowances for credit impairment	**(6,605,499)**	(7,120,077)	(7,339,872)
	153,002,181	153,007,990	141,151,333

	2016 RS'000	2015 RS'000	2014 RS'000
(ii) Remaining term to maturity			
Up to 3 months	**41,307,782**	47,884,696	46,454,090
Over 3 months and up to 6 months	**4,612,032**	3,046,710	3,295,535
Over 6 months and up to 1 year	**4,194,400**	3,945,189	4,739,625
Over 1 year and up to 5 years	**39,145,416**	40,080,619	27,527,934
Over 5 years	**70,348,050**	65,170,853	66,474,021
	159,607,680	160,128,067	148,491,205

6. Loans (Cont'd)

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

(iii) Allowances for credit impairment

	Specific RS'000	Portfolio RS'000	Total RS'000
At 1st July 2015	**3,236,815**	**1,086,213**	**4,323,028**
Exchange adjustment	**10,400**	**-**	**10,400**
Provision for credit impairment for the year	**1,527,623**	**16,794**	**1,544,417**
Provision released during the year	**(648,211)**	**-**	**(648,211)**
Amounts written off	**(1,435,896)**	**-**	**(1,435,896)**
At 30th June 2016	**2,690,731**	**1,103,007**	**3,793,738**
Interest suspense	**2,811,761**	**-**	**2,811,761**
Provision and interest suspense at 30th June 2016	**5,502,492**	**1,103,007**	**6,605,499**
At 1st July 2014	3,843,616	1,023,900	4,867,516
Exchange adjustment	113,409	-	113,409
Provision for credit impairment for the year	806,953	62,313	869,266
Provision released during the year	(29,350)	-	(29,350)
Amounts written off	(1,497,813)	-	(1,497,813)
At 30th June 2015	3,236,815	1,086,213	4,323,028
Interest suspense	2,797,049	-	2,797,049
Provision and interest suspense at 30th June 2015	6,033,864	1,086,213	7,120,077
At 1st July 2013	2,173,283	997,000	3,170,283
Provision for credit impairment for the year	1,769,341	26,900	1,796,241
Provision released during the year	(9,857)	-	(9,857)
Amounts written off	(89,151)	-	(89,151)
At 30th June 2014	3,843,616	1,023,900	4,867,516
Interest suspense	2,472,356	-	2,472,356
Provision and interest suspense at 30th June 2014	6,315,972	1,023,900	7,339,872

Notes to the financial statements
for the year ended 30th June 2016 (continued)

6. Loans (Cont'd)

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

(iv) Allowances for credit impairment by industry sectors

	2016					2015	2014
	Gross amount of loans RS'000	Non performing loans RS'000	Specific provision and interest suspense RS'000	Portfolio provision RS'000	Total provision RS'000	Total provision RS'000	Total provision RS'000
Agriculture and fishing	**7,052,382**	**1,079,055**	**151,788**	**5,504**	**157,292**	41,153	29,829
Manufacturing	**10,101,676**	**706,745**	**336,057**	**120,458**	**456,515**	335,013	512,849
of which EPZ	***3,164,207***	***30,759***	***13,115***	***21,691***	***34,806***	*85,795*	*106,660*
Tourism	**29,580,226**	**709,444**	**387,442**	**67,620**	**455,062**	399,346	365,398
Transport	**3,839,873**	**916,091**	**134,060**	**27,046**	**161,106**	724,050	430,090
Construction	**16,542,714**	**2,069,944**	**1,520,802**	**205,826**	**1,726,628**	1,452,839	1,081,431
Financial and business services	**18,045,489**	**119,680**	**87,075**	**48,730**	**135,805**	151,989	142,582
Traders	**15,740,041**	**792,418**	**540,640**	**137,527**	**678,167**	772,900	1,185,299
Personal	**32,761,273**	**2,045,023**	**1,198,073**	**200,240**	**1,398,313**	1,597,019	1,706,740
of which credit cards	***645,495***	***59,940***	***56,175***	***13,610***	***69,785***	*56,200*	*68,976*
of which housing	***21,969,378***	***960,292***	***372,166***	***102,447***	***474,613***	*394,410*	*375,995*
Professional	**1,046,945**	**125,388**	**60,706**	**19,923**	**80,629**	222,614	75,675
Foreign governments	**283,043**	**-**	**-**	**-**	**-**	-	1,500
Global Business Licence holders	**15,947,815**	**666,212**	**833,928**	**201,182**	**1,035,110**	1,118,000	1,504,126
Others	**8,666,203**	**285,741**	**251,921**	**68,951**	**320,872**	305,154	304,353
	159,607,680	**9,515,741**	**5,502,492**	**1,103,007**	**6,605,499**	7,120,077	7,339,872

(v) Credit concentration of risk by industry sectors

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

	2016 RS'000	2015 RS'000	2014 RS'000
Agriculture and fishing	**2,088,601**	1,272,256	2,390,858
Manufacturing	**2,365,431**	2,142,255	3,225,296
of which EPZ	***1,616,803***	*1,553,253*	*1,652,056*
Tourism	**11,705,358**	15,418,199	17,662,724
Transport	**39,946**	39,511	53,889
Construction	**4,211,324**	2,048,423	1,813,951
Financial and business services	**15,081,604**	23,187,296	19,966,767
Traders	**15,283,922**	21,074,963	14,101,600
Global Business Licence holders	**21,789,702**	14,104,893	7,243,028
Others	**62,992**	738,654	2,960,333
	72,628,880	80,026,450	69,418,446

7. Investment Securities

	2016 RS'000	2015 RS'000	2014 RS'000
Held-to-maturity	**51,487,622**	40,952,351	28,879,459
Available-for-sale	**4,030,929**	4,042,967	1,958,186
Held-for-trading	**722,789**	-	-
	56,241,340	44,995,318	30,837,645

(a) (i) Held-to-maturity

	2016 RS'000	2015 RS'000	2014 RS'000
Government of Mauritius and Bank of Mauritius bonds	**35,690,180**	26,664,552	15,329,616
Treasury bills	**14,635,850**	13,527,402	13,191,774
Foreign bonds	**879,910**	731,007	328,679
Notes	**281,682**	29,390	29,390
	51,487,622	40,952,351	28,879,459

(ii) Remaining term to maturity

	2016					
	Up to 3 months RS'000	3 - 6 months RS'000	6 - 12 months RS'000	1 - 5 years RS'000	Over 5 years RS'000	Total RS'000
Government of Mauritius & Bank of Mauritius bonds	**1,008,915**	**99,733**	**7,282,382**	**21,040,870**	**6,258,280**	**35,690,180**
Treasury bills	**6,046,002**	**4,060,686**	**4,529,162**	**-**	**-**	**14,635,850**
Foreign bonds	**-**	**107,468**	**574,042**	**198,400**	**-**	**879,910**
Notes	**30,890**	**-**	**-**	**250,792**	**-**	**281,682**
	7,085,807	**4,267,887**	**12,385,586**	**21,490,062**	**6,258,280**	**51,487,622**

(b) (i) Available-for-sale

	2016 RS'000	2015 RS'000	2014 RS'000
Quoted - Level 1			
Official list : shares	**1,103,635**	1,125,581	754,514
Bonds	**1,185,342**	1,243,909	30,266
Foreign shares	**671,661**	623,697	421,501
	2,960,638	2,993,187	1,206,281
Unquoted - Level 2			
Investment fund	**416,227**	408,482	92,063
Unquoted - Level 3			
Investment fund	**215,927**	203,158	187,369
Shares	**229,276**	229,279	263,612
Inflation - indexed Government of Mauritius bonds	**208,861**	208,861	208,861
	654,064	641,298	659,842
	4,030,929	4,042,967	1,958,186

7. Investment Securities (Cont'd)

(b) (ii) Reconciliation of Level 3 fair value measurements

	RS'000
At 1st July 2013	660,332
Disposals	(5,000)
Fair value	8,734
Exchange adjustments	(4,224)
At 30th June 2014	659,842
Additions	370,640
Disposals	(25,933)
Fair value	(76,862)
Transfers	(307,473)
Exchange adjustments	21,084
At 30th June 2015	641,298
Disposals	(4)
Fair value	11,102
Exchange adjustments	1,668
At 30th June 2016	**654,064**

The book value approximates the fair value.

8. Investments in Associates

(a) The bank's interest in its principal associates are as follows:

	Country of incorporation	Assets RS'000	Liabilities RS'000	Revenues RS'000	Profit/(loss) RS'000	Holding %	Cost RS'000
Year ended 30th June 2016							
Banque Française Commerciale Océan Indien	France	68,961,035	62,672,636	4,169,968	877,613	49.99	447,489
Société Générale Moçambique	Moçambique	3,205,028	2,160,847	234,284	(229,511)	35.00	310,625
							758,114
Subordinated loans to associates							402,949
							1,161,063
Year ended 30th June 2015 and 30th June 2014		-	-	-	-	-	-

8. Investments in Associates (Cont'd)

(b) Movements in investments in associates

	2016 RS'000	2015 RS'000	2014 RS'000
At 1st July	**-**	-	876,156
Increase in shareholding during the year	**50,705**	-	185
Exchange adjustment on subordinated loan	**-**	-	8,528
Subordinated loan converted into shares and disposed thereafter	**-**	-	(3,600)
Distributed by way of dividend in specie	**-**	-	(12,000)
Transferred from/(to) non-current assets held for distribution	**707,409**	-	(447,369)
	758,114	-	421,900
Subordinated loans to associates reclassified from/(to) loans to banks/customers	**402,949**	-	(421,900)
At 30th June	**1,161,063**	-	-

9. Intangible Assets

	2016 RS'000	2015 RS'000	2014 RS'000
Computer Software			
Cost			
At 1st July	**2,355,642**	2,392,790	2,367,218
Additions	**226,802**	44,668	47,207
Scrap/Impairment	**(50,679)**	(12,824)	(21,082)
Disposal	**-**	(68,992)	(553)
At 30th June	**2,531,765**	2,355,642	2,392,790
Amortisation			
At 1st July	**1,970,189**	1,869,706	1,675,322
Scrap/Impairment	**(50,679)**	(12,824)	(21,082)
Disposal adjustment	**-**	(65,586)	(222)
Charge for the year	**139,093**	178,893	215,688
At 30th June	**2,058,603**	1,970,189	1,869,706
Net book value	**473,162**	385,453	523,084

The Core Banking System T24 is the only material intangible asset. The remaining useful life of this intangible asset is 4 years.

10. Property, Plant and Equipment

	Land and buildings RS'000	Computer and other equipment RS'000	Furniture, fittings and vehicles RS'000	Work in progress RS'000	Total RS'000
Cost					
At 1st July 2013	4,435,299	2,700,581	772,655	34,645	7,943,180
Additions	23,597	71,805	25,815	74,997	196,214
Disposals	(21,288)	(40,424)	(39,752)	-	(101,464)
Transfer	-	29,489	15,123	(44,612)	-
At 30th June 2014	4,437,608	2,761,451	773,841	65,030	8,037,930
Additions	10,583	118,140	12,319	50,853	191,895
Disposals	-	(71,121)	(33,124)	-	(104,245)
Transfer	-	80,357	10,066	(90,423)	-
At 30th June 2015	**4,448,191**	**2,888,827**	**763,102**	**25,460**	**8,125,580**
Additions	**-**	**93,962**	**18,595**	**173,268**	**285,825**
Disposals	**-**	**(162,079)**	**(26,247)**	**-**	**(188,326)**
Transfer	**-**	**60,203**	**3,705**	**(63,908)**	**-**
At 30th June 2016	**4,448,191**	**2,880,913**	**759,155**	**134,820**	**8,223,079**
Accumulated depreciation					
At 1st July 2013	503,524	1,653,440	344,174	-	2,501,138
Charge for the year	71,037	284,604	54,677	-	410,318
Disposal adjustment	(98)	(37,767)	(38,170)	-	(76,035)
At 30th June 2014	574,463	1,900,277	360,681	-	2,835,421
Charge for the year	71,261	235,154	52,400	-	358,815
Disposal adjustment	-	(68,932)	(30,167)	-	(99,099)
At 30th June 2015	**645,724**	**2,066,499**	**382,914**	**-**	**3,095,137**
Charge for the year	**71,260**	**237,601**	**49,470**	**-**	**358,331**
Disposal adjustment	**-**	**(160,828)**	**(22,164)**	**-**	**(182,992)**
At 30th June 2016	**716,984**	**2,143,272**	**410,220**	**-**	**3,270,476**
Net book values					
At 30th June 2016	**3,731,207**	**737,641**	**348,935**	**134,820**	**4,952,603**
At 30th June 2015	3,802,467	822,328	380,188	25,460	5,030,443
At 30th June 2014	3,863,145	861,174	413,160	65,030	5,202,509

11. Deferred Tax Assets

The movement in the deferred income tax account is as follows:

	Balance as at 1st July RS'000	Exchange Adjustments RS'000	Recognised in Statement of profit or loss RS'000	Recognised in Statement of comprehensive income RS'000	Balance as at 30th June RS'000
2016					
Provisions and post retirement benefits	**236,584**	**-**	**(13,344)**	**30,665**	**253,905**
Provisions for credit impairment	**162,835**	**(660)**	**(46,422)**	**-**	**115,753**
Accelerated tax depreciation	**(176,900)**	**-**	**1,202**	**-**	**(175,698)**
At 30th June 2016	**222,519**	**(660)**	**(58,564)**	**30,665**	**193,960**
2015					
Provisions and post retirement benefits	254,103	-	(716)	(16,803)	236,584
Provisions for credit impairment	117,432	3,486	41,917	-	162,835
Accelerated tax depreciation	(177,243)	-	343	-	(176,900)
At 30th June 2015	194,292	3,486	41,544	(16,803)	222,519
2014					
Provisions and post retirement benefits	208,376	-	5,243	40,484	254,103
Provisions for credit impairment	94,689	-	22,743	-	117,432
Accelerated tax depreciation	(189,279)	-	12,036	-	(177,243)
At 30th June 2014	113,786	-	40,022	40,484	194,292

12. Other Assets

	2016 RS'000	2015 RS'000	2014 RS'000
Mandatory balances with Central Bank	**13,688,608**	12,252,565	10,646,314
Prepayments & other receivables	**725,499**	741,942	910,276
Credit Card Clearing	**68,659**	180,193	238,605
Non-banking assets acquired in satisfaction of debts	**51,909**	57,474	55,792
Margin deposit under Credit Support Annex	**10,178**	-	431,521
Impersonal & other accounts	**1,725,251**	952,038	670,720
Receivable from Mauritius Union Assurance Co Ltd	**-**	25,000	50,000
	16,270,104	14,209,212	13,003,228

13. Deposits

	2016 RS'000	2015 RS'000	2014 RS'000
(a) Deposits from banks			
Demand deposits	**2,643,632**	3,303,800	2,415,169
Money market deposits with remaining term to maturity:			
Up to 3 months	**715,676**	513,951	754,245
Over 3 months and up to 6 months	**1,045,465**	468,681	243,275
Over 6 months and up to 1 year	**25,379**	151,133	285,349
Over 1 year and up to 5 years	**282,451**	66,860	-
	2,068,971	1,200,625	1,282,869
	4,712,603	4,504,425	3,698,038
(b) Deposits from customers			
(i) Retail customers			
Demand deposits	**25,182,505**	20,749,512	15,508,233
Savings deposits	**96,501,629**	86,278,568	74,282,426
Time deposits with remaining term to maturity:			
Up to 3 months	**3,304,781**	3,551,031	3,401,560
Over 3 months and up to 6 months	**1,855,545**	1,931,431	2,759,831
Over 6 months and up to 1 year	**4,596,129**	4,426,212	4,314,523
Over 1 year and up to 5 years	**11,663,604**	10,388,268	9,404,831
Over 5 years	**5,478**	53,665	32,002
	21,425,537	20,350,607	19,912,747
	143,109,671	127,378,687	109,703,406
(ii) Corporate customers			
Demand deposits	**72,803,936**	58,121,151	44,337,589
Savings deposits	**5,253,182**	5,643,459	5,591,302
Time deposits with remaining term to maturity:			
Up to 3 months	**4,937,434**	5,048,153	4,435,602
Over 3 months and up to 6 months	**1,699,788**	1,967,956	1,980,528
Over 6 months and up to 1 year	**2,850,519**	1,494,043	1,774,371
Over 1 year and up to 5 years	**4,803,622**	1,468,282	1,795,147
Over 5 years	**2,791,762**	2,781,760	2,928,906
	17,083,125	12,760,194	12,914,554
	95,140,243	76,524,804	62,843,445
(iii) Government			
Demand deposits	**9,411**	10,423	3,715
Savings deposits	**52,168**	28,662	18,903
	61,579	39,085	22,618
	238,311,493	203,942,576	172,569,469

14. Other Borrowed Funds

(a) Other borrowed funds comprise the following:

	2016 RS'000	2015 RS'000	2014 RS'000
Borrowings from banks:			
in Mauritius	**9,134**	11,832	23,424
Abroad	**4,856,774**	6,940,432	5,722,302
Debt securities*	**-**	-	1,857,050
	4,865,908	6,952,264	7,602,776
Other borrowed funds include borrowings with original maturity of less than 3 months as shown in note 4	**6,450**	1,239,457	5,553

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

*The debt securities consist of senior unsecured floating rate notes as follows:

	2016 RS'000	2015 RS'000	2014 RS'000
ZAR 200 million maturing in January 2015 at an average interest rate of 6.6%	**-**	-	571,400
ZAR 100 million maturing in December 2014 at an average interest rate of 6.8%	**-**	-	285,700
ZAR 350 million maturing in December 2014 at an average interest rate of 7.4%	**-**	-	999,950
	-	-	1,857,050

(b) Remaining term to maturity:

	2016 RS'000	2015 RS'000	2014 RS'000
On demand or within a period not exceeding 1 year	**15,584**	2,092,663	2,783,254
Within a period of more than 1 year but not exceeding 2 years	**-**	-	1,276,836
Within a period of more than 3 years	**4,850,324**	4,859,601	3,542,686
	4,865,908	6,952,264	7,602,776

15. Subordinated Liabilities

Subordinated liabilities comprise of the following:

		2016 RS'000	2015 RS'000	2014 RS'000
USD 30M subordinated debt maturing in August 2023 at an average interest rate of 3.8%(2015:3.5%) (Level 3)	(i)	**1,082,289**	1,055,697	909,081
Rs 4.5 billion floating rate subordinated note maturing in August 2023 at an average interest rate of 6% (Level 1)	(ii)	**-**	-	4,539,945
		1,082,289	1,055,697	5,449,026

The carrying amounts of the subordinated liabilities are not materially different from their fair values.

(i) The bank obtained a USD 30M 10-year subordinated debt from the African Development Bank. This facility forms part of a wider package of USD 150M granted by the latter to allow the bank to increase its foreign currency lending to clients operating in the region and in mainland Africa.

(ii) As part of its capital-raising plans, the bank made an offer to the public for the issue of Rs 3 billion worth of floating rate subordinated notes due in 2023, with an option to issue up to Rs 4.5 billion, in case of oversubscription. The offer closed on 19th July 2013 and applications were received for a total of Rs 6.3 billion from which the bank decided to retain the maximum amount of Rs 4.5 billion.

In order to strengthen the capital base of the bank in anticipation of future business growth and of higher regulatory requirements set out in Basel III, the Board of Directors of the bank and MCB Group Limited have obtained the approval of the Bank of Mauritius under Section 32A of the Banking Act to transfer the assets and liabilities attached to the floating rate subordinated notes to the ultimate holding company, MCB Group Limited. The transfer was effected on 25th June 2015. As such, the bank has been replaced by MCB Group Limited as the issuer of the Notes and the corresponding liabilities (i.e. coupon payments and principal repayment at maturity) were fully assumed by MCB Group Limited in exchange of a cash receipt of Rs 4.5 billion. Apart from the change in issuer, the existing terms and conditions of the Notes remained unchanged.

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.

16. Post Employee Benefits Liabilities

Amounts recognised in the financial statements at end of year

	2016 Rs'000	2015 Rs'000	2014 Rs'000
Reconciliation of net defined benefit liability			
Opening balance	**1,034,237**	1,151,026	846,178
Amount recognised in statement of profit or loss	**267,942**	309,534	265,038
Amount recognised in statement of comprehensive income	**204,430**	(112,018)	269,896
Less capital injection	**(1,000,000)**	-	-
Less employer contributions	**(256,902)**	(314,305)	(230,086)
Liability as shown in note 17	**249,707**	1,034,237	1,151,026
Reconciliation of fair value of plan assets			
Opening balance	**5,297,925**	4,703,279	4,326,598
Interest income	**365,479**	379,941	347,894
Capital injection	**1,000,000**	-	-
Employer contributions	**256,902**	314,305	230,086
Benefits paid	**(317,155)**	(220,533)	(185,062)
Return on plan assets excluding interest income	**(400,454)**	120,933	(16,237)
Closing balance	**6,202,697**	5,297,925	4,703,279
Reconciliation of present value of defined benefit obligation			
Opening balance	**6,332,162**	5,854,305	5,172,776
Current service cost	**201,604**	229,782	206,370
Interest expense	**431,817**	459,693	406,562
Other benefits paid	**(317,155)**	(220,533)	(185,062)
Liability experience (gain)/loss	**(2,726)**	20,774	(31,361)
Liability (gain)/loss due to change in financial assumptions	**(193,298)**	(11,859)	285,020
Closing balance	**6,452,404**	6,332,162	5,854,305
Components of amount recognised in statement of profit or loss			
Current service cost	**201,604**	229,782	206,370
Net interest on net defined benefit liability	**66,338**	79,752	58,668
Total	**267,942**	309,534	265,038
Analysed as follows:			
Mauritius Commercial Bank Ltd	**238,205**	271,530	246,158
Other members of the MCB Group Ltd	**29,737**	38,004	18,880
	267,942	309,534	265,038
Components of amount recognised in other comprehensive income			
Return on plan assets below/(above) interest income	**400,454**	(120,933)	16,237
Liability experience (gain)/loss	**(2,726)**	20,774	(31,361)
Liability (gain)/loss due to change in financial assumptions	**(193,298)**	(11,859)	285,020
Total	**204,430**	(112,018)	269,896

16. Post Employee Benefits Liabilities (Cont'd)

	2016	2015	2014
Allocation of plan assets at end of year	%	%	%
Equity - Local quoted	**21**	22	22
Equity - Local unquoted	**1**	2	2
Debt - Overseas quoted	**9**	9	11
Debt - Local quoted	**6**	4	3
Debt - Local unquoted	**1**	3	4
Property - Local	**3**	4	4
Investment funds	**31**	39	37
Cash and other	**28**	17	17
Total	**100**	100	100

Allocation of plan assets at end of period	%	%	%
Reporting entity's own transferable financial instruments	**6**	6	5
Property occupied by reporting entity	**1**	2	3
Other assets used by reporting entity	**25**	11	14

Principal assumptions used at end of period			
Discount rate	**6.5%**	7.0%	8.0%
Rate of salary increases	**4.5%**	5.0%	6.0%
Rate of pension increases	**3.7%**	4.5%	5.5%
Average retirement age (ARA)	**62**	62	62
Average life expectancy for:			
Male at ARA	**18.0 years**	18.0 years	18.0 years
Female at ARA	**22.5 years**	22.5 years	22.5 years

	2016 Rs'000	2015 Rs'000	2014 Rs'000
Sensitivity analysis on defined benefit obligation at end of period			
Increase due to 1% decrease in discount rate	**1,221,952**	1,219,187	1,152,747
Decrease due to 1% increase in discount rate	**947,166**	942,666	830,913

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.

16. Post Employee Benefits Liabilities (Cont'd)

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 bank sponsors a defined benefit pension plan for its staff which is self-administered and funded separately from the bank .The bank has recognised a net defined benefit liability of Rs 249,707,000 as at 30th June 2016 for the plan (2015 : Rs 1,034,237,000).

The bank 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'000)	**238,352**
Weighted average duration of the defined benefit obligation	**17 years**

Capital injection
During the year, the bank has injected Rs1 billion into the Superannuation Fund in order to finance the shortfall of the fund.

Defined contribution scheme
As from1st July 2015, the bank has introduced a Defined Contribution Cash Balanced Scheme for its employees.

Consequently, all employees joining the bank as from that date are automatically enrolled in the new scheme. Existing employees have the choice of either remaining in the Defined Benefit Scheme 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.

17. Other Liabilities

	2016 RS'000	2015 RS'000	2014 RS'000
Margin deposit under Credit Support Annex	**-**	21,818	-
Post employee benefit liability (see note 16)	**249,707**	1,034,237	1,151,026
Proposed dividend	**1,031,940**	1,023,229	809,065
Impersonal & other accounts	**3,020,806**	2,552,949	2,345,761
	4,302,453	4,632,233	4,305,852

18. Stated Capital, Treasury Shares and Reserves

(a) Stated capital and treasury shares

	Number of shares		
	Share Capital	Treasury Shares	Total
At 30th June 2013	250,375,595	(12,567,596)	237,807,999
Exercise of share options	-	152,248	152,248
Cancellation of treasury shares	(12,415,348)	12,415,348	-
At 30th June 2014	**237,960,247**	**-**	**237,960,247**
Rights issue	**450,000,000**	**-**	**450,000,000**
At 30th June 2015 and 30th June 2016	**687,960,247**	**-**	**687,960,247**

At a special meeting of the shareholder of the bank held on 25th June 2015, 450,000,000 shares were offered by way of rights issue for an amount of Rs 4.5 billion. The shares have no par value and rank "pari passu" in all respects with the existing ordinary shares of the company.

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(b) Reserves

(i) Capital reserve

The capital reserve represents the cumulative net change in the fair value of available-for-sale investment securities until the securities are derecognised or impaired.

(ii) Statutory reserve

Statutory reserve represents accumulated transfers from retained earnings in accordance with relevant local banking legislations. These reserves are not distributable.

(iii) General banking reserve

The bank makes an appropriation to a general banking reserve for unforeseen risks and future losses.

19. Contingent Liabilities

	2016 RS'000	2015 RS'000	2014 RS'000
(a) Instruments			
Guarantees on account of customers	**18,330,563**	15,686,218	15,931,937
Letters of credit and other obligations on account of customers	**8,273,242**	15,781,597	29,632,253
Other contingent items	**3,526,005**	11,854,612	16,548,255
	30,129,810	43,322,427	62,112,445
(b) Commitments			
Loans and other facilities, including undrawn credit facilities	**2,600,154**	4,380,241	4,355,291
(c) Tax assessments *	**836,868**	797,225	272,057
(d) Other			
Inward bills held for collection	**423,796**	380,692	461,794
Outward bills sent for collection	**1,003,723**	803,573	1,042,994
	1,427,519	1,184,265	1,504,788
	34,994,351	49,684,158	68,244,581

*During the period December 2011 to June 2016, the bank received income tax assessments relating to six consecutive years starting with financial year ended 30th June 2007 to 30th June 2012 against which the bank has objected.

Moreover, the bank received several assessments under the Value Added Tax Act for the periods beginning April 2006 to June 2015 against which the bank has also objected.

The above are pending in front of the Assessment Review Committee. The maximum liability that could arise from these assessments amounts to Rs 836.9 million, including penalties and interests.

20. Interest Income

	2016 RS'000	2015 RS'000	2014 RS'000
Loans to and placements with banks	**367,076**	202,394	186,503
Loans and advances to customers	**10,196,930**	10,105,092	9,747,799
Held-to-maturity investments	**1,680,892**	1,280,581	919,662
Available-for-sale investments	**44,754**	35,254	159
Other	**9,450**	9,649	11,718
	12,299,102	11,632,970	10,865,841

21. Interest Expense

	2016 RS'000	2015 RS'000	2014 RS'000
Deposits from banks	**15,623**	16,335	32,200
Deposits from customers	**3,949,990**	3,856,580	3,836,096
Subordinated liabilities	**41,006**	300,459	262,671
Other borrowed funds	**94,706**	111,299	188,226
	4,101,325	4,284,673	4,319,193

22. Fee and Commission Income

	2016 RS'000	2015 RS'000	2014 RS'000
Retail banking fees	**618,982**	653,258	433,631
Corporate banking fees	**433,541**	430,487	386,329
Guarantee fees	**212,579**	204,688	217,778
Interbank transaction fees	**49,809**	43,092	46,398
Cards and other related fees	**1,315,704**	1,221,028	1,107,863
Trade finance fees	**432,867**	647,999	637,558
Others	**216,727**	202,791	119,798
	3,280,209	3,403,343	2,949,355

23. Fee and Commission Expense

	2016 RS'000	2015 RS'000	2014 RS'000
Interbank transaction fees	**20,589**	16,553	8,374
Cards and other related fees	**582,843**	539,423	490,788
Others	**24,922**	30,954	51,297
	628,354	586,930	550,459

24. Net (loss)/gain from Financial Instruments Carried at Fair Value

	2016 RS'000	2015 RS'000	2014 RS'000
Net (loss)/gain from derivative financial instruments	**(108,131)**	157,552	46,291
Investment securities held-for-trading	**1,347**	571	155
	(106,784)	158,123	46,446

25. Dividend Income

	2016 RS'000	2015 RS'000	2014 RS'000
Income from associate	**210,830**	-	-
Income from quoted investments	**33,720**	26,166	10,182
Income from unquoted investments	**7,448**	4,697	3,338
	251,998	30,863	13,520

Notes to the financial statements
for the year ended 30th June 2016 (continued)

26. Non-Interest Expense

(a) Salaries and human resource development

	2016 RS'000	2015 RS'000	2014 RS'000
Wages and salaries	**1,857,907**	1,766,201	1,607,208
Defined benefit plan	**238,205**	271,530	246,158
Defined contribution plan	**36,046**	-	-
Compulsory social security obligations	**56,856**	54,079	50,646
Equity settled share-based payments	**1,558**	1,488	4,192
Other personnel expenses	**571,326**	488,768	497,433
	2,761,898	2,582,066	2,405,637
Number of employees at the end of the year	**2,598**	2,522	2,522

(b) Other non-interest expense

	2016 RS'000	2015 RS'000	2014 RS'000
Software licensing and other information technology cost	**215,071**	208,519	179,326
Others	**1,165,427**	1,132,790	1,182,089
	1,380,498	1,341,309	1,361,415

27. Net Impairment of Financial Assets

	2016 RS'000	2015 RS'000	2014 RS'000
The impairment charge related to the statement of profit or loss:			
Allowance for credit impairment	**907,021**	860,840	1,843,056
Impairment of available-for-sale investment securities	**-**	36,333	-
	907,021	897,173	1,843,056

(a) Allowance for credit impairment

	2016 RS'000	2015 RS'000	2014 RS'000
Provision for bad and doubtful debts:			
Loans to and placements with banks	**1,329**	-	7,400
Loans and advances to customers	**1,544,417**	869,266	1,796,241
Bad debts written off for which no provisions were made	**34,776**	48,960	81,479
Provision released during the year:			
Loans to and placements with banks	**-**	(784)	-
Loans and advances to customers	**(648,211)**	(29,350)	(9,857)
Recoveries of advances written off	**(25,290)**	(27,252)	(32,207)
	907,021	860,840	1,843,056

28. Income Tax Expense

(a) The tax charge related to statement of profit or loss is as follows:

	2016 RS'000	2015 RS'000	2014 RS'000
Income tax based on the adjusted profit	**664,577**	588,653	526,365
Deferred tax	**58,564**	(41,544)	(40,022)
Special levy on banks	**428,271**	362,494	332,456
Corporate Social Responsibility Contribution	**147,733**	62,749	59,647
Over provision in previous years	**(3,051)**	(12,062)	(7,028)
Charge for the year	**1,296,094**	960,290	871,418

The tax on the profits differs from the theoretical amount that would arise using the basic tax rate as follows:

	2016 RS'000	2015 RS'000	2014 RS'000
Profit before tax:			
Continuing operations	**6,916,257**	5,802,844	4,212,515
Discontinuing operations	**-**	161,746	345,484
	6,916,257	5,964,590	4,557,999
Tax calculated at a rate of 15%	**1,037,439**	894,689	683,700
Impact of:			
Income not subject to tax	**(126,464)**	(119,631)	(69,039)
Expenses not deductible for tax purposes	**79,259**	117,934	125,023
Special levy on banks	**428,271**	362,494	332,456
Tax credits	**(267,093)**	(345,883)	(253,341)
Corporate Social Responsibility Contribution	**147,733**	62,749	59,647
Over provision in previous years	**(3,051)**	(12,062)	(7,028)
Tax charge	**1,296,094**	960,290	871,418

(b) The tax charge related to statement of comprehensive income is as follows:

	2016 RS'000	2015 RS'000	2014 RS'000
Remeasurement of defined benefit pension plan	**204,430**	(112,018)	269,896
Deferred tax (credited)/ charge	**(30,665)**	16,803	(40,484)
	173,765	(95,215)	229,412

Notes to the financial statements
for the year ended 30th June 2016 (continued)

29. Dividends

	2016 RS'000	2015 RS'000	2014 RS'000
Dividends in cash			
Paid on 15th December 2015 at Rs 1.60 per share (F/Y 2015: Rs 3.30; F/Y 2014: Rs 3.00)	**1,100,736**	785,268	713,508
Paid on 26th July 2016 at Rs 1.50 per share (F/Y 2015: Rs 4.30; F/Y 2014: Rs 3.40)	**1,031,940**	1,023,229	809,065
	2,132,676	1,808,497	1,522,573
Dividends in specie			
Dividend in specie	**540,445**	-	2,339,812
	2,673,121	1,808,497	3,862,385

Unbundling of non-current assets which were held for distribution were made through dividend in specie for MCB (Maldives) Private Ltd and MCB Seychelles Ltd on 31st March 2016.

30. Earnings per Share

Earnings per share is calculated by dividing the profit attributable to the ordinary equity holders of the bank by the weighted average number of ordinary shares outstanding during the year.

	2016 RS'000	2015 RS'000	2014 RS'000
Profit from continuing operations attributable to the ordinary equity holder of the bank	**5,620,163**	4,842,554	3,341,097
Profit from discontinuing operations attributable to the equity holder of the bank	**-**	161,746	345,484
Weighted average number of ordinary shares (thousands)	**687,960**	244,124	237,887
Earnings per share (Rs)			
Continuing operations	**8.17**	19.84	14.04
Discontinuing operations	**-**	0.66	1.45

31. Commitments

(a) Capital commitments

	2016 RS'000	2015 RS'000	2014 RS'000
Expenditure contracted for but not incurred	**217,793**	117,600	79,776
Expenditure approved by the Board but not contracted for	**348,114**	304,371	25,911

(b) Securities pledged

The bank has pledged Government of Mauritius bonds as collateral for the purpose of overnight facility from the Bank of Mauritius:

	2016	2015	2014
Government of Mauritius bonds	**3,041,047**	2,941,320	2,442,656

32. Net Cash Flows from Trading Activities

	2016 RS'000	2015 RS'000	2014 RS'000
Continuing operations			
Profit before tax	**6,916,257**	5,802,844	4,212,515
Increase in interest receivable and other assets	**(2,000,439)**	(1,291,386)	(2,839,464)
Increase/(decrease) in other liabilities	**446,039**	229,006	(33,964)
Net decrease/(increase) in derivatives	**102,507**	(568,189)	24,089
Increase in investment securities held-for-trading	**(722,789)**	-	-
Employee share option expenses	**-**	-	3,868
Capital injection in Superannuation Fund	**(1,000,000)**	-	-
Additional/(release) of provision for employee benefits	**11,040**	(4,771)	34,952
Charge for credit impairment	**1,545,746**	869,266	1,803,641
Release of provision for credit impairment	**(648,211)**	(30,134)	(9,857)
Exchange (profit)/loss	**(50,919)**	77,768	(156,283)
Depreciation	**358,331**	358,815	410,318
Amortisation of intangible assets	**139,093**	178,893	215,688
Profit on disposal of property, plant and equipment	**(552)**	(6,291)	(34,689)
Profit on disposal of intangible assets	**-**	(14,356)	-
Impairment of available-for-sale investments	**-**	36,333	-
(Profit)/loss on disposal of available-for-sale investments	**(1,193)**	7,817	(421,351)
Profit on disposal of shares in subsidiaries	**-**	-	(886)
	5,094,910	5,645,615	3,208,577
Discontinuing operations			
Net cash flows from trading activities (see note 34(b))	**-**	195,878	284,264
	5,094,910	5,841,493	3,492,841

33. Net Cash Flows from Other Operating Activities

	2016 RS'000	2015 RS'000	2014 RS'000
Net increase in deposits	**34,577,095**	32,179,494	20,349,846
Net increase in loans and advances	**(14,473,617)**	(15,624,780)	(5,327,192)
Increase in held-to-maturity investment securities	**(10,535,271)**	(12,072,892)	(12,898,245)
Net (decrease)/increase in other borrowed funds	**(835,418)**	(30,150)	1,223,922
	8,732,789	4,451,672	3,348,331

34. Non-Current Assets Held for Distribution

(a) Non-current assets held for distribution

As at 30th June 2016, all the subsidiaries classified as non-current assets held for distribution,with the exception of MCB Moçambique SA, have been unbundled. Both Banque Française Commerciale Océan Indien and Société Générale Moçambique (formerly called MCB Moçambique SA) have been transferred to investments in associates.

	Principal activities	Effective Holding %	Value Rs'000
Year ended 30th June 2016			
Banking subsidiaries and associate	Banking & Financial services	N/A	-
Year ended 30th June 2015 and 30th June 2014			
Banking subsidiaries			
MCB (Maldives) Private Ltd	Banking & Financial services	100.00	347,963
MCB Moçambique SA	Banking & Financial services	95.00	260,040
MCB Seychelles Ltd	Banking & Financial services	100.00	211,522
MCB Madagascar SA	Banking & Financial services	85.00	64,322
			883,847
Banking associate			
Banque Française Commerciale Océan Indien	Banking & Financial services	49.99	447,369
Total			**1,331,216**

(b) Discontinuing operations following unbundling of investments

	2016 Rs'000	2015 Rs'000	2014 Rs'000
Income recognised in profit or loss is as follows:			
Dividend income	-	161,746	345,484
Cash flow information from discontinuing operations is as follows:			
Dividend received during the year	-	195,878	284,264

35. Operating Segments

Operating segments are reported in accordance with the internal reporting provided to the Supervisory and Monitoring Committee, which is the Board Committee responsible for allocating capital and resources to the reportable segments and assessing their performance.

(a) Year ended 30th June 2016

		Continuing operations			
	RS'000	Net interest income RS'000	Net fee and commissions RS'000	Dividend income RS'000	Forex profit and others RS'000
Operating income	**12,463,098**	8,197,777	2,651,855	251,998	1,361,468
Non-interest expense	**(4,639,820)**				
Net impairment of financial assets	**(907,021)**				
Income tax expense	**(1,296,094)**				
Profit from discontinuing operations	**-**				
Profit for the year	**5,620,163**				
Segment assets	**261,518,749**	259,514,177	-	2,004,572	-
Intangible assets	**473,162**				
Deferred tax assets	**193,960**				
Non current assets held for distribution	**-**				
Unallocated assets	**24,745,647**				
Total assets	**286,931,518**				
Segment liabilities	**249,094,646**	249,094,646	-	-	-
Unallocated liabilities	**4,881,449**				
Total liabilities	**253,976,095**				

Notes to the financial statements
for the year ended 30th June 2016 (continued)

35. Operating Segments (Cont'd)

(b) Year ended 30th June 2015

		Continuing operations			
	RS'000	Net interest income RS'000	Net fee and commissions RS'000	Dividend income RS'000	Forex profit and others RS'000
Operating income	11,161,100	7,348,297	2,816,413	30,863	965,527
Non-interest expense	(4,461,083)				
Net impairment of financial assets	(897,173)				
Income tax expense	(960,290)				
Profit from discontinuing operations	161,746				
Profit for the year	5,004,300				
Segment assets	226,312,406	224,333,849	-	1,978,557	-
Intangible assets	385,453				
Deferred tax assets	222,519				
Non current assets held for distribution	1,331,216				
Unallocated assets	23,686,292				
Total assets	251,937,886				
Segment liabilities	216,567,938	216,567,938	-	-	-
Unallocated liabilities	5,081,068				
Total liabilities	221,649,006				

35. Operating Segments (Cont'd)

(c) Year ended 30th June 2014

		Continuing operations			
	RS'000	Net interest income RS'000	Net fee and commissions RS'000	Dividend income RS'000	Forex profit and others RS'000
Operating income	10,448,629	6,546,648	2,398,896	13,520	1,489,565
Non-interest expense	(4,393,058)				
Net impairment of financial assets	(1,843,056)				
Income tax expense	(871,418)				
Profit from discontinuing operations	345,484				
Profit for the year	3,686,581				
Segment assets	192,211,370	190,771,743	-	1,439,627	-
Intangible assets	523,084				
Deferred tax assets	194,292				
Non current assets held for distribution	1,331,216				
Unallocated assets	22,371,908				
Total assets	216,631,870				
Segment liabilities	189,858,512	189,858,512	-	-	-
Unallocated liabilities	4,674,292				
Total liabilities	194,532,804				

36. Related Party Transactions

	Ultimate Holding Company * RS'000	Holding Company* RS'000	Entities under common control (including defined benefit plan) RS'000	Entities in which the Bank holds more than a 10% interest RS'000	Directors and Key Management Personnel (including parent) RS'000	Enterprises in which Directors and Key Management Personnel have significant interest (including parent) RS'000
Loans and advances						
Balances at 30th June 2015	16	-	2,550,463	1,760,377	73,721	616,510
Net movements during the year	314	-	(379,682)	1,007,552	105,203	27,463
Balances at 30th June 2016	**330**	**-**	**2,170,781**	**2,767,929**	**178,924**	**643,973**
Leases receivable						
Balance at year end:						
30th June 2014	-	-	-	-	-	-
30th June 2015	-	-	-	-	-	643
30th June 2016	**-**	**-**	**-**	**-**	**-**	**497**
Deposits						
Balance at year end:						
30th June 2014	3,166	-	3,580,766	480,341	210,132	25,946
30th June 2015	51,828	2,060	3,791,256	168,075	241,313	41,600
30th June 2016	**50,361**	**79,361**	**5,475,637**	**57,485**	**304,548**	**106,069**
Amounts due from/(to)						
Balance at year end:						
30th June 2014	(797,567)	-	688,674	426,007	-	-
30th June 2015	10,164	(1,023,229)	613,448	405,030	-	-
30th June 2016	**9,605**	**(1,017,164)**	**388,211**	**408,877**	**-**	**-**
Off Balance sheet items						
Balance at year end:						
30th June 2014	-	-	692,829	-	-	10,477
30th June 2015	-	-	1,486,755	-	-	5,394
30th June 2016	**-**	**-**	**709,839**	**487,814**	**-**	**-**

36. Related Party Transactions (Cont'd)

	Ultimate Holding Company * RS'000	Holding Company* RS'000	Entities under common control (including defined benefit plan) RS'000	Entities in which the Bank holds more than a 10% interest RS'000	Directors and Key Management Personnel (including parent) RS'000	Enterprises in which Directors and Key Management Personnel have significant interest (including parent) RS'000
Interest income						
For the year ended:						
30th June 2014	-	-	117,102	30,156	2,387	8,429
30th June 2015	-	-	113,089	27,380	2,552	10,229
30th June 2016	**-**	**-**	**108,999**	**30,256**	**5,567**	**11,002**
Interest expense						
For the year ended:						
30th June 2014	-	-	59,042	6,365	3,341	1,099
30th June 2015	-	-	51,672	3,953	2,823	356
30th June 2016	**-**	**-**	**51,443**	**2,671**	**3,567**	**108**
Other income						
For the year ended:						
30th June 2014	1,898	-	379,643	103,521	474	3,575
30th June 2015	6,701	-	172,263	99,936	531	468
30th June 2016	**5,100**	**1,598**	**92,676**	**215,172**	**801**	**452**
Non interest expense						
For the year ended:						
30th June 2014	-	-	80,795	-	-	-
30th June 2015	-	-	83,491	-	-	-
30th June 2016	**-**	**-**	**70,074**	**-**	**-**	**-**

All the above related party transactions were carried out at least under market terms and conditions with the exception of loans to Key Management Personnel who benefited from preferential rates as applicable to staff.

* The directors regard MCB Investment Holding Limited as its holding company and MCB Group Limited as its ultimate holding company. The figures for 'Amounts due from/(to)' include the Interim Dividend payable to MCB Investment Holding Limited of Rs 1,031.9M for 2015/2016 and Rs 1,023.2M for 2014/2015 and Interrim Dividend payable to MCB Group Limited of Rs 809.1M for 2013/2014.

36. Related Party Transactions (Cont'd)

The figures for "Other income" from Ultimate Holding Company/Holding Company, Entities under common control and Entities in which the bank holds more than a 10% interest, include an element representing management fees charged to these entities in respect of salaries, notional rental of office space and provision of technical, administrative and other assistance to local Group companies. It also includes an amount of Rs 3.9M, Rs 3.9M and Rs 4.1M respectively for 2016, 2015 and 2014 in respect of management fees charged to Banque Française Commerciale Océan Indien ('BFCOI').

Additionally, the bank has entered into management contracts with its foreign banking related entities (including MCB Moçambique until 30th September 2015) and charges management fees based on operating income. These fees also included in "other income" represent the re-invoicing of expatriate salaries and benefits, where applicable, as well as management, administrative and technical support provided by The Mauritius Commercial Bank Limited. Gross amounts claimed, net of withholding tax in the local jurisdiction, were as follows :

MCB Seychelles	5 % of Gross operating income	Rs 43.8 M
MCB Madagascar	5 % of operating income	Rs 11.4 M
MCB Moçambique (ex Subsidiary)	5 % of operating income	Rs 1.0 M
MCB Maldives	5 % of operating income	Rs 18.1 M

IT and Systems support to MCB Madagascar SA was provided by BFCOI during 2015/2016 for a claim of EUR 12,600. This amount has been charged to our related entity's profit or loss and consolidated in Group non-interest expense.

In addition, for the period October 2015 to June 2016, the following subsidiaries of MCB Group Ltd claimed fees from SG Moçambique in respect of IT, Systems and Cards services support: USD 91,015 by International Cards Processing Services Ltd, USD 785,323 by MCB Consulting Services Ltd and USD 112,760 by MCB Ltd. These amounts have been recognised as Income in the related entities' and consolidated Group profit or loss.

During the year, no share options were exercised under the Group Employee Share Option Scheme by key management personnel, including executive directors (FY 2014/2015: 7,588 share options for Rs 1.5M, FY 2013/14: 50,110 share options for Rs 9.7M).

Key Management Personnel compensation

	2016 RS'000	2015 RS'000	2014 RS'000
Remuneration and other benefits relating to Key Management Personnel, including Directors, were as follows :			
Salaries and short term employee benefits	**100,061**	107,899	131,091
Post employment benefits	**10,443**	13,010	10,807
	110,504	120,909	141,898

37. Additional disclosure as required by the Bank of Mauritius

Under the Guideline on Segmental Reporting under a Single Banking Licence Regime, the Bank of Mauritius requires the bank to disclose its assets and liabilities, income and expenditure into two segments; Segment A and Segment B.

Segment B activity is essentially directed to the provision of international financial services that give rise to "foreign source income".

Segment B assets will generally consist of placements with and advances to foreign financial institutions, notably associates and overseas correspondents, GBL holders and other non-residents.

However, the liabilities employed to support such assets may come from deposits, borrowings and funds deposited by non-residents, global business companies and residents.

Segment A activity relates to all banking business other than Segment B activity.

Expenditure incurred by the bank but which is not directly attributable to its income derived from Mauritius or its foreign source income is apportioned in a fair and reasonable manner.

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

Statement of financial position as at 30th June 2016

	Note	2016 TOTAL RS'000	2016 Segment A RS'000	2016 Segment B RS'000	2015 TOTAL RS'000	2015 Segment A RS'000	2015 Segment B RS'000	2014 TOTAL RS'000	2014 Segment A RS'000	2014 Segment B RS'000
ASSETS										
Cash and cash equivalents		**31,975,711**	**3,374,681**	**28,601,030**	22,999,839	4,446,636	18,553,203	17,703,620	4,258,302	13,445,318
Derivative financial instruments	37(a)	**175,771**	**121,419**	**54,352**	268,901	61,873	207,028	126,939	88,987	37,952
Loans to and placements with banks	37(b)	**22,485,623**	**5,987,290**	**16,498,333**	9,486,995	3,226,027	6,260,968	6,558,004	1,288	6,556,716
Loans and advances to customers	37(c)	**153,002,181**	**114,818,437**	**38,183,744**	153,007,990	111,007,660	42,000,330	141,151,333	105,463,758	35,687,575
Investment securities	37(d)	**56,241,340**	**52,444,929**	**3,796,411**	44,995,318	41,788,775	3,206,543	30,837,645	29,768,008	1,069,637
Investments in associates	37(e)	**1,161,063**	**-**	**1,161,063**	-	-	-	-	-	-
Intangible assets		**473,162**	**473,162**	**-**	385,453	385,453	-	523,084	523,084	-
Property, plant and equipment	37(f)	**4,952,603**	**4,952,603**	**-**	5,030,443	5,030,443	-	5,202,509	5,202,509	-
Deferred tax assets		**193,960**	**172,808**	**21,152**	222,519	186,370	36,149	194,292	171,479	22,813
Other assets	37(g)	**16,270,104**	**16,146,779**	**123,325**	14,209,212	14,073,127	136,085	13,003,228	12,332,284	670,944
		286,931,518	**198,492,108**	**88,439,410**	250,606,670	180,206,364	70,400,306	215,300,654	157,809,699	57,490,955
Non-current assets held for distribution	37(w)	**-**	**-**	**-**	1,331,216	-	1,331,216	1,331,216	-	1,331,216
Total assets		**286,931,518**	**198,492,108**	**88,439,410**	251,937,886	180,206,364	71,731,522	216,631,870	157,809,699	58,822,171
LIABILITIES AND SHAREHOLDER'S EQUITY										
Deposits from banks	37(h)	**4,712,603**	**90,983**	**4,621,620**	4,504,425	52,892	4,451,533	3,698,038	35,221	3,662,817
Deposits from customers	37(i)	**238,311,493**	**163,853,411**	**74,458,082**	203,942,576	143,121,410	60,821,166	172,569,469	125,617,120	46,952,349
Derivative financial instruments	37(a)	**122,353**	**36,719**	**85,634**	112,976	21,154	91,822	539,203	31,195	508,008
Other borrowed funds		**4,865,908**	**9,134**	**4,856,774**	6,952,264	11,831	6,940,433	7,602,776	23,424	7,579,352
Subordinated liabilities	37(j)	**1,082,289**	**-**	**1,082,289**	1,055,697	-	1,055,697	5,449,026	4,362,051	1,086,975
Current tax liabilities		**578,996**	**480,352**	**98,644**	448,835	448,835	-	368,440	368,440	-
Other liabilities	37(k)	**4,302,453**	**4,302,027**	**426**	4,632,233	4,553,675	78,558	4,305,852	4,198,678	107,174
Total liabilities		**253,976,095**	**168,772,626**	**85,203,469**	221,649,006	148,209,797	73,439,209	194,532,804	134,636,129	59,896,675
Shareholder's Equity										
Stated capital		**6,879,602**	**6,879,602**	**-**	6,879,602	6,879,602	-	2,379,602	2,379,602	-
Retained earnings		**20,435,491**	**20,435,491**	**-**	18,705,062	18,705,062	-	16,322,961	16,322,961	-
Other components of equity		**5,640,330**	**5,590,012**	**50,318**	4,704,216	4,582,392	121,824	3,396,503	3,331,039	65,464
Equity attributable to the ordinary equity holder of the bank		**32,955,423**	**32,905,105**	**50,318**	30,288,880	30,167,056	121,824	22,099,066	22,033,602	65,464
Total equity and liabilities		**286,931,518**	**201,677,731**	**85,253,787**	251,937,886	178,376,853	73,561,033	216,631,870	156,669,731	59,962,139
CONTINGENT LIABILITIES										
Guarantees, letters of credit, endorsements and other obligations on account of customers		**30,129,810**	**15,376,317**	**14,753,493**	43,322,427	13,798,403	29,524,024	62,112,445	15,164,789	46,947,656
Commitments		**2,600,154**	**1,757,355**	**842,799**	4,380,241	3,737,850	642,391	4,355,291	3,238,122	1,117,169
Tax assessments		**836,868**	**836,868**	**-**	797,225	797,225	-	272,057	272,057	-
Other		**1,427,519**	**627,279**	**800,240**	1,184,265	650,259	534,006	1,504,788	783,738	721,050
	37(l)	**34,994,351**	**18,597,819**	**16,396,532**	49,684,158	18,983,737	30,700,421	68,244,581	19,458,706	48,785,875

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

Statement of profit or loss for the year ended 30th June 2016

		2016			2015			2014		
		TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
Continuing operations	Note									
Interest income	37(m)	**12,299,102**	**9,679,464**	**2,619,638**	11,632,970	9,285,110	2,347,860	10,865,841	8,691,324	2,174,517
Interest expense	37(n)	**(4,101,325)**	**(3,419,133)**	**(682,192)**	(4,284,673)	(3,632,492)	(652,181)	(4,319,193)	(3,609,592)	(709,601)
Net interest income		**8,197,777**	**6,260,331**	**1,937,446**	7,348,297	5,652,618	1,695,679	6,546,648	5,081,732	1,464,916
Fee and commission income	37(o)	**3,280,209**	**1,947,655**	**1,332,554**	3,403,343	1,910,305	1,493,038	2,949,355	1,943,667	1,005,688
Fee and commission expense	37(p)	**(628,354)**	**(513,445)**	**(114,909)**	(586,930)	(539,148)	(47,782)	(550,459)	(490,602)	(59,857)
Net fee and commission income		**2,651,855**	**1,434,210**	**1,217,645**	2,816,413	1,371,157	1,445,256	2,398,896	1,453,065	945,831
Other income										
Profit arising from dealing in foreign currencies		**1,406,259**	**1,123,279**	**282,980**	779,542	447,619	331,923	974,196	788,016	186,180
Net (loss)/gain from financial instruments carried at fair value	37(q)	**(106,784)**	**(92,500)**	**(14,284)**	158,123	150,807	7,316	46,446	28,101	18,345
		1,299,475	**1,030,779**	**268,696**	937,665	598,426	339,239	1,020,642	816,117	204,525
Dividend income	37(r)	**251,998**	**36,703**	**215,295**	30,863	27,994	2,869	13,520	10,335	3,185
Net gain/(loss) on sale of securities		**19,538**	**-**	**19,538**	(7,817)	-	(7,817)	422,237	14,651	407,586
Other operating income		**42,455**	**37,915**	**4,540**	35,679	35,679	-	46,686	46,686	-
		1,613,466	**1,105,397**	**508,069**	996,390	662,099	334,291	1,503,085	887,789	615,296
Operating income		**12,463,098**	**8,799,938**	**3,663,160**	11,161,100	7,685,874	3,475,226	10,448,629	7,422,586	3,026,043
Non-interest expense										
Salaries and human resource development	37(s)	**(2,761,898)**	**(2,486,647)**	**(275,251)**	(2,582,066)	(2,335,324)	(246,742)	(2,405,637)	(2,222,944)	(182,693)
Depreciation		**(358,331)**	**(348,073)**	**(10,258)**	(358,815)	(345,338)	(13,477)	(410,318)	(397,229)	(13,089)
Amortisation of intangible assets		**(139,093)**	**(133,173)**	**(5,920)**	(178,893)	(171,773)	(7,120)	(215,688)	(207,833)	(7,855)
Other	37(t)	**(1,380,498)**	**(1,238,448)**	**(142,050)**	(1,341,309)	(1,210,427)	(130,882)	(1,361,415)	(1,258,663)	(102,752)
		(4,639,820)	**(4,206,341)**	**(433,479)**	(4,461,083)	(4,062,862)	(398,221)	(4,393,058)	(4,086,669)	(306,389)
Operating profit before impairment		**7,823,278**	**4,593,597**	**3,229,681**	6,700,017	3,623,012	3,077,005	6,055,571	3,335,917	2,719,654
Net impairment of financial assets	37(u)	**(907,021)**	**(401,131)**	**(505,890)**	(897,173)	(454,378)	(442,795)	(1,843,056)	(376,031)	(1,467,025)
Profit before tax		**6,916,257**	**4,192,466**	**2,723,791**	5,802,844	3,168,634	2,634,210	4,212,515	2,959,886	1,252,629
Income tax expense	37(v)	**(1,296,094)**	**(1,197,450)**	**(98,644)**	(960,290)	(871,255)	(89,035)	(871,418)	(813,013)	(58,405)
Profit for the year from continuing operations		**5,620,163**	**2,995,016**	**2,625,147**	4,842,554	2,297,379	2,545,175	3,341,097	2,146,873	1,194,224
Discontinuing operations										
Profit for the year from discontinuing operations	37(w)	**-**	**-**	**-**	161,746	-	161,746	345,484	164,000	181,484
Profit for the year attributable to the owner of the bank		**5,620,163**	**2,995,016**	**2,625,147**	5,004,300	2,297,379	2,706,921	3,686,581	2,310,873	1,375,708

Notes to the financial statements
for the year ended 30th June 2016 (continued)

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

Statement of comprehensive income for the year ended 30th June 2016

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
Profit for the year	**5,620,163**	**2,995,016**	**2,625,147**	5,004,300	2,297,379	2,706,921	3,686,581	2,310,873	1,375,708
Other comprehensive (expense)/income:									
Item that will not be reclassified to profit or loss:									
Remeasurement of defined benefit pension plan, net of deferred tax	**(173,765)**	**(173,765)**	**-**	95,215	95,215	-	(229,412)	(229,412)	-
Items that may be reclassified subsequently to profit or loss:									
Reclassification adjustments on disposal of available-for-sale investments	**(60,243)**	**(60,243)**	**-**	-	-	-	(320,766)	-	(320,766)
Net fair value (loss)/gain on available-for-sale investments	**(46,491)**	**(96,809)**	**50,318**	398,796	276,972	121,824	101,416	35,952	65,464
	(106,734)	**(157,052)**	**50,318**	398,796	276,972	121,824	(219,350)	35,952	(255,302)
Other comprehensive (expense)/income for the year	**(280,499)**	**(330,817)**	**50,318**	494,011	372,187	121,824	(448,762)	(193,460)	(255,302)
Total comprehensive income for the year	**5,339,664**	**2,664,199**	**2,675,465**	5,498,311	2,669,566	2,828,745	3,237,819	2,117,413	1,120,406
Total comprehensive income attributable to the owner of the bank:									
Continuing operations	**5,339,664**	**2,664,199**	**2,675,465**	5,336,565	2,669,566	2,666,999	2,892,335	1,953,413	938,922
Discontinuing operations	**-**	**-**	**-**	161,746	-	161,746	345,484	164,000	181,484
	5,339,664	**2,664,199**	**2,675,465**	5,498,311	2,669,566	2,828,745	3,237,819	2,117,413	1,120,406

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

(a) Derivative financial instruments

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
(i) Fair value assets									
Currency forwards	**70,977**	**29,231**	**41,746**	49,480	31,926	17,554	59,688	53,642	6,046
Interest rate swaps	**11,903**	**10,891**	**1,012**	17,859	17,859	-	26,696	26,696	-
Currency swaps	**92,841**	**81,297**	**11,544**	201,562	12,088	189,474	40,255	8,649	31,606
Others	**50**	**-**	**50**	-	-	-	300	-	300
	175,771	**121,419**	**54,352**	268,901	61,873	207,028	126,939	88,987	37,952
(ii) Fair value liabilities									
Currency forwards	**75,943**	**32,246**	**43,697**	35,862	13,169	22,693	58,725	4,338	54,387
Cross currency interest rate swaps	**-**	**-**	**-**	-	-	-	413,472	-	413,472
Interest rate swaps	**22,174**	**-**	**22,174**	18,796	-	18,796	32,029	5,738	26,291
Currency swaps	**24,236**	**4,473**	**19,763**	58,318	7,985	50,333	34,977	21,119	13,858
	122,353	**36,719**	**85,634**	112,976	21,154	91,822	539,203	31,195	508,008

(b) Loans to and placements with banks

	2016 TOTAL RS'000	2016 Segment A RS'000	2016 Segment B RS'000	2015 TOTAL RS'000	2015 Segment A RS'000	2015 Segment B RS'000	2014 TOTAL RS'000	2014 Segment A RS'000	2014 Segment B RS'000
(i) Loans to and placements with banks									
in Mauritius	**6,277,304**	**6,277,304**	**-**	3,226,027	3,226,027	-	93,418	93,418	-
outside Mauritius	**45,117,309**	**-**	**45,117,309**	24,830,786	-	24,830,786	20,019,435	-	20,019,435
	51,394,613	**6,277,304**	**45,117,309**	28,056,813	3,226,027	24,830,786	20,112,853	93,418	20,019,435
Less:									
Loans and placements with original maturity less than 3 months and included in cash and equivalents	**(28,891,045)**	**(290,014)**	**(28,601,031)**	(18,553,202)	-	(18,553,202)	(13,537,449)	(92,130)	(13,445,319)
	22,503,568	**5,987,290**	**16,516,278**	9,503,611	3,226,027	6,277,584	6,575,404	1,288	6,574,116
Less allowances for credit impairment	**(17,945)**	**-**	**(17,945)**	(16,616)	-	(16,616)	(17,400)	-	(17,400)
	22,485,623	**5,987,290**	**16,498,333**	9,486,995	3,226,027	6,260,968	6,558,004	1,288	6,556,716
(ii) Remaining term to maturity									
Up to 3 months	**12,417,250**	**885,880**	**11,531,370**	4,462,999	-	4,462,999	4,384,230	1,288	4,382,942
Over 3 months and up to 6 months	**2,703,010**	**817,451**	**1,885,559**	652,588	-	652,588	1,026,562	-	1,026,562
Over 6 months and up to 1 year	**6,377,327**	**3,277,978**	**3,099,349**	4,034,532	3,226,027	808,505	589,820	-	589,820
Over 1 year and up to 5 years	**1,005,981**	**1,005,981**	**-**	175,950	-	175,950	421,915	-	421,915
Over 5 years	**-**	**-**	**-**	177,542	-	177,542	152,877	-	152,877
	22,503,568	**5,987,290**	**16,516,278**	9,503,611	3,226,027	6,277,584	6,575,404	1,288	6,574,116

(iii) Allowances for credit impairment

	TOTAL RS'000	Segment B RS'000
Portfolio provision		
At 30th June 2013	10,000	10,000
Provision for credit impairment for the year	7,400	7,400
At 30th June 2014	17,400	17,400
Provision released during the year	(784)	(784)
At 30th June 2015	**16,616**	**16,616**
Provision for credit impairment for the year	**1,329**	**1,329**
At 30th June 2016	**17,945**	**17,945**

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

(c) Loans and advances to customers

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
Retail customers:									
Credit cards	**653,788**	**635,868**	**17,920**	632,299	617,957	14,342	619,236	607,046	12,190
Mortgages	**21,969,378**	**20,764,866**	**1,204,512**	19,079,950	17,896,781	1,183,169	16,935,623	15,860,714	1,074,909
Other retail loans	**12,621,653**	**12,260,191**	**361,462**	12,847,745	12,485,027	362,718	12,257,844	11,919,027	338,817
Corporate customers	**97,817,761**	**85,992,753**	**11,825,008**	98,090,550	84,986,509	13,104,041	92,849,447	81,802,698	11,046,749
Governments	**283,043**	**-**	**283,043**	308,155	-	308,155	428,745	-	428,745
Entities outside Mauritius	**26,262,057**	**-**	**26,262,057**	29,169,368	-	29,169,368	25,400,310	-	25,400,310
	159,607,680	**119,653,678**	**39,954,002**	160,128,067	115,986,274	44,141,793	148,491,205	110,189,485	38,301,720
Less:									
Allowances for credit impairment	**(6,605,499)**	**(4,835,241)**	**(1,770,258)**	(7,120,077)	(4,978,614)	(2,141,463)	(7,339,872)	(4,725,727)	(2,614,145)
	153,002,181	**114,818,437**	**38,183,744**	153,007,990	111,007,660	42,000,330	141,151,333	105,463,758	35,687,575

(i) Remaining term to maturity

	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B	2014 TOTAL	2014 Segment A	2014 Segment B
Up to 3 months	**41,307,782**	**31,800,811**	**9,506,971**	47,884,696	31,729,569	16,155,127	46,454,090	32,247,531	14,206,559
Over 3 months and up to 6 months	**4,612,032**	**2,891,769**	**1,720,263**	3,046,710	1,483,107	1,563,603	3,295,535	1,889,235	1,406,300
Over 6 months and up to 1 year	**4,194,400**	**1,660,033**	**2,534,367**	3,945,189	3,431,042	514,147	4,739,625	1,497,669	3,241,956
Over 1 year and up to 5 years	**39,145,416**	**22,895,153**	**16,250,263**	40,080,619	22,060,272	18,020,347	27,527,934	16,816,537	10,711,397
Over 5 years	**70,348,050**	**60,405,912**	**9,942,138**	65,170,853	57,282,284	7,888,569	66,474,021	57,738,513	8,735,508
	159,607,680	**119,653,678**	**39,954,002**	160,128,067	115,986,274	44,141,793	148,491,205	110,189,485	38,301,720

(ii) Credit concentration of risk by industry sectors

	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B	2014 TOTAL	2014 Segment A	2014 Segment B
Agriculture and fishing	**2,088,601**	**2,088,601**	**-**	1,272,256	1,272,256	-	2,390,858	2,390,858	-
Manufacturing	**2,365,431**	**2,365,431**	**-**	2,142,255	2,142,255	-	3,225,296	3,225,266	30
of which EPZ	***1,616,803***	***1,616,803***	**-**	*1,553,253*	*1,553,253*	-	*1,652,056*	*1,652,056*	-
Tourism	**11,705,358**	**11,226,012**	**479,346**	15,418,199	14,348,693	1,069,506	17,662,724	16,188,075	1,474,649
Transport	**39,946**	**39,944**	**2**	39,511	39,511	-	53,889	53,889	-
Construction	**4,211,324**	**4,211,324**	**-**	2,048,423	2,048,423	-	1,813,951	1,813,951	-
Financial and business services	**15,081,604**	**3,736,683**	**11,344,921**	23,187,296	4,019,725	19,167,571	19,966,767	4,554,717	15,412,050
Traders	**15,283,922**	**1,418,246**	**13,865,676**	21,074,963	793,626	20,281,337	14,101,600	1,546,019	12,555,581
Global Business Licence holders	**21,789,702**	**-**	**21,789,702**	14,104,893	-	14,104,893	7,243,028	-	7,243,028
Others	**62,992**	**62,992**	**-**	738,654	175,616	563,038	2,960,333	2,477,054	483,279
	72,628,880	**25,149,233**	**47,479,647**	80,026,450	24,840,105	55,186,345	69,418,446	32,249,829	37,168,617

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

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

(iii) Allowances for credit impairment

	TOTAL			SEGMENT A			SEGMENT B		
	Specific RS'000	Portfolio RS'000	Total RS'000	Specific RS'000	Portfolio RS'000	Total RS'000	Specific RS'000	Portfolio RS'000	Total RS'000
At 1st July 2015	**3,236,815**	**1,086,213**	**4,323,028**	**1,745,398**	**738,568**	**2,483,966**	**1,491,417**	**347,645**	**1,839,062**
Exchange adjustment	**10,400**	**-**	**10,400**	**-**	**-**	**-**	**10,400**	**-**	**10,400**
Provision for credit impairment for the year	**1,527,623**	**40,536**	**1,568,159**	**414,495**	**40,536**	**455,031**	**1,113,128**	**-**	**1,113,128**
Provision released during the year	**(648,211)**	**(23,742)**	**(671,953)**	**(63,441)**	**-**	**(63,441)**	**(584,770)**	**(23,742)**	**(608,512)**
Amounts written off	**(1,435,896)**	**-**	**(1,435,896)**	**(246,779)**	**-**	**(246,779)**	**(1,189,117)**	**-**	**(1,189,117)**
At 30th June 2016	**2,690,731**	**1,103,007**	**3,793,738**	**1,849,673**	**779,104**	**2,628,777**	**841,058**	**323,903**	**1,164,961**
Interest suspense	**2,811,761**	**-**	**2,811,761**	**2,206,464**	**-**	**2,206,464**	**605,297**	**-**	**605,297**
Provision and interest suspense at 30th June 2016	**5,502,492**	**1,103,007**	**6,605,499**	**4,056,137**	**779,104**	**4,835,241**	**1,446,355**	**323,903**	**1,770,258**
At 1st July 2014	3,843,616	1,023,900	4,867,516	1,701,127	692,623	2,393,750	2,142,489	331,277	2,473,766
Exchange adjustment	113,409	-	113,409	-	-	-	113,409	-	113,409
Provision for credit impairment for the year	806,953	62,313	869,266	376,472	45,945	422,417	430,481	16,368	446,849
Provision released during the year	(29,350)	-	(29,350)	(26,080)	-	(26,080)	(3,270)	-	(3,270)
Amounts written off	(1,497,813)	-	(1,497,813)	(306,121)	-	(306,121)	(1,191,692)	-	(1,191,692)
At 30th June 2015	3,236,815	1,086,213	4,323,028	1,745,398	738,568	2,483,966	1,491,417	347,645	1,839,062
Interest suspense	2,797,049	-	2,797,049	2,494,648	-	2,494,648	302,401	-	302,401
Provision and interest suspense at 30th June 2015	6,033,864	1,086,213	7,120,077	4,240,046	738,568	4,978,614	1,793,818	347,645	2,141,463
At 1st July 2013	2,173,283	997,000	3,170,283	1,459,973	691,533	2,151,506	713,310	305,467	1,018,777
Provision for credit impairment for the year	1,769,341	26,900	1,796,241	335,046	1,090	336,136	1,434,295	25,810	1,460,105
Provision released during the year	(9,857)	-	(9,857)	(8,393)	-	(8,393)	(1,464)	-	(1,464)
Amounts written off	(89,151)	-	(89,151)	(85,499)	-	(85,499)	(3,652)	-	(3,652)
At 30th June 2014	3,843,616	1,023,900	4,867,516	1,701,127	692,623	2,393,750	2,142,489	331,277	2,473,766
Interest suspense	2,472,356	-	2,472,356	2,331,977	-	2,331,977	140,379	-	140,379
Provision and interest suspense at 30th June 2014	6,315,972	1,023,900	7,339,872	4,033,104	692,623	4,725,727	2,282,868	331,277	2,614,145

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

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

(iv) Allowances for credit impairment by industry sectors

	2016					2015	2014
	Gross amount of loans RS'000	Non performing loans RS'000	Specific provision and interest in suspense RS'000	Portfolio provision RS'000	Total provision RS'000	Total provision RS'000	Total provision RS'000
TOTAL							
Agriculture and fishing	**7,052,382**	**1,079,055**	**151,788**	**5,504**	**157,292**	41,153	29,829
Manufacturing	**10,101,676**	**706,745**	**336,057**	**120,458**	**456,515**	335,013	512,849
of which EPZ	***3,164,207***	***30,759***	***13,115***	***21,691***	***34,806***	*85,795*	*106,660*
Tourism	**29,580,226**	**709,444**	**387,442**	**67,620**	**455,062**	399,346	365,398
Transport	**3,839,873**	**916,091**	**134,060**	**27,046**	**161,106**	724,050	430,090
Construction	**16,542,714**	**2,069,944**	**1,520,802**	**205,826**	**1,726,628**	1,452,839	1,081,431
Financial and business services	**18,045,489**	**119,680**	**87,075**	**48,730**	**135,805**	151,989	142,582
Traders	**15,740,041**	**792,418**	**540,640**	**137,527**	**678,167**	772,900	1,185,299
Personal	**32,761,273**	**2,045,023**	**1,198,073**	**200,240**	**1,398,313**	1,597,019	1,706,740
of which credit cards	***645,495***	***59,940***	***56,175***	***13,610***	***69,785***	*56,200*	*68,976*
of which housing	***21,969,378***	***960,292***	***372,166***	***102,447***	***474,613***	*394,410*	*375,995*
Professional	**1,046,945**	**125,388**	**60,706**	**19,923**	**80,629**	222,614	75,675
Foreign governments	**283,043**	**-**	**-**	**-**	**-**	-	1,500
Global Business Licence holders	**15,947,815**	**666,212**	**833,928**	**201,182**	**1,035,110**	1,118,000	1,504,126
Others	**8,666,203**	**285,741**	**251,921**	**68,951**	**320,872**	305,154	304,353
	159,607,680	**9,515,741**	**5,502,492**	**1,103,007**	**6,605,499**	7,120,077	7,339,872
Segment A							
Agriculture and fishing	**6,920,137**	**1,079,024**	**151,760**	**5,379**	**157,139**	40,962	29,612
Manufacturing	**9,666,842**	**444,810**	**241,880**	**119,358**	**361,238**	326,630	506,466
of which EPZ	***3,164,207***	***30,759***	***13,115***	***21,691***	***34,806***	*85,795*	*106,660*
Tourism	**21,085,291**	**169,126**	**116,240**	**49,306**	**165,546**	284,207	265,411
Transport	**1,894,767**	**26,703**	**16,015**	**17,250**	**33,265**	134,596	88,863
Construction	**16,467,121**	**2,069,912**	**1,520,770**	**204,714**	**1,725,484**	1,452,254	1,081,426
Financial and business services	**14,810,778**	**90,383**	**82,729**	**39,972**	**122,701**	134,443	126,206
Traders	**12,057,560**	**661,697**	**457,392**	**104,279**	**561,671**	686,713	600,456
Personal	**31,189,672**	**1,968,874**	**1,165,172**	**189,929**	**1,355,101**	1,562,336	1,672,955
of which credit cards	***627,623***	***56,675***	***53,124***	***13,271***	***66,395***	*56,200*	*68,976*
of which housing	***20,764,866***	***909,040***	***355,519***	***96,710***	***452,229***	*388,159*	*368,271*
Professional	**767,688**	**122,639**	**58,745**	**13,045**	**71,790**	85,896	72,560
Others	**4,793,821**	**283,771**	**245,434**	**35,872**	**281,306**	270,577	281,772
	119,653,677	**6,916,939**	**4,056,137**	**779,104**	**4,835,241**	4,978,614	4,725,727
Segment B							
Agriculture and fishing	**132,245**	**31**	**28**	**125**	**153**	191	217
Manufacturing	**434,834**	**261,935**	**94,177**	**1,100**	**95,277**	8,383	6,383
Tourism	**8,494,935**	**540,318**	**271,202**	**18,314**	**289,516**	115,139	99,987
Transport	**1,945,106**	**889,388**	**118,045**	**9,796**	**127,841**	589,454	341,227
Construction	**75,593**	**32**	**32**	**1,112**	**1,144**	585	5
Financial and business services	**3,234,711**	**29,297**	**4,346**	**8,758**	**13,104**	17,546	16,376
Traders	**3,682,481**	**130,721**	**83,248**	**33,248**	**116,496**	86,187	584,843
Personal	**1,571,601**	**76,149**	**32,901**	**10,311**	**43,212**	34,683	33,785
Professional	**279,257**	**2,749**	**1,961**	**6,878**	**8,839**	136,718	3,115
Foreign governments	**283,043**	**-**	**-**	**-**	**-**	-	1,500
Global Business Licence holders	**15,947,815**	**666,212**	**833,928**	**201,182**	**1,035,110**	1,118,000	1,504,126
Others	**3,872,382**	**1,970**	**6,487**	**33,079**	**39,566**	34,577	22,581
	39,954,003	**2,598,802**	**1,446,355**	**323,903**	**1,770,258**	2,141,463	2,614,145

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

(d) Investment securities

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
Held-to-maturity	51,487,622	50,607,712	879,910	40,952,351	40,221,344	731,007	28,879,459	28,550,780	328,679
Available-for-sale	4,030,929	1,780,156	2,250,773	4,042,967	1,567,431	2,475,536	1,958,186	1,217,228	740,958
Held-for-trading	722,789	57,061	665,728	-	-	-	-	-	-
	56,241,340	52,444,929	3,796,411	44,995,318	41,788,775	3,206,543	30,837,645	29,768,008	1,069,637

(i) Held-to-maturity

Government of Mauritius & Bank of Mauritius bonds	35,690,180	35,690,180	-	26,664,552	26,664,552	-	15,329,616	15,329,616	-
Treasury bills	14,635,850	14,635,850	-	13,527,402	13,527,402	-	13,191,774	13,191,774	-
Foreign Bonds	879,910	-	879,910	731,007	-	731,007	328,679	-	328,679
Notes	281,682	281,682	-	29,390	29,390	-	29,390	29,390	-
	51,487,622	50,607,712	879,910	40,952,351	40,221,344	731,007	28,879,459	28,550,780	328,679

(ii) Available-for-sale

Quoted - Level 1									
Official list: shares	1,103,635	1,103,635	-	1,125,581	1,125,581	-	754,514	754,514	-
Bonds	1,185,342	250,433	934,909	1,243,909	15,762	1,228,147	30,266	292	29,974
Foreign shares	671,661	-	671,661	623,697	-	623,697	421,501	-	421,501
	2,960,638	1,354,068	1,606,570	2,993,187	1,141,343	1,851,844	1,206,281	754,806	451,475
Unquoted - Level 2									
Investment fund	416,227	-	416,227	408,482	-	408,482	92,063	-	92,063
Unquoted - Level 3									
Investment fund	215,927	-	215,927	203,158	-	203,158	187,369	-	187,369
Shares	229,276	217,227	12,049	229,279	217,227	12,052	263,612	253,561	10,051
Inflation - indexed Government of Mauritius bonds	208,861	208,861	-	208,861	208,861	-	208,861	208,861	-
	654,064	426,088	227,976	641,298	426,088	215,210	659,842	462,422	197,420
	4,030,929	1,780,156	2,250,773	4,042,967	1,567,431	2,475,536	1,958,186	1,217,228	740,958

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

(e) Investments in associates

(i) The bank's interest in its principal associates was as follows:

	Country of incorporation	Holding %	TOTAL RS'000	Segment A RS'000	Segment B RS'000
Year ended 30th June 2016					
Banque Française Commerciale Océan Indien	France	49.99	**447,489**	**-**	**447,489**
Société Générale Moçambique	Moçambique	35.00	**310,625**	**-**	**310,625**
			758,114	**-**	**758,114**
Subordinated loans to associates			**402,949**	**-**	**402,949**
			1,161,063	**-**	**1,161,063**
Year ended 30th June 2015 and 2014			-	-	-

(ii) Movements in investments in associates

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
At 1st July	**-**	**-**	**-**	-	-	-	876,156	15,620	850,536
Increase in shareholding during the year	**50,705**	**-**	**50,705**	-	-	-	185	-	185
Exchange adjustment on subordinated loan	**-**	**-**	**-**	-	-	-	8,528	-	8,528
Subordinated loan converted into shares and disposed thereafter	**-**	**-**	**-**	-	-	-	(3,600)	(3,600)	-
Distributed by way of dividend in specie	**-**	**-**	**-**	-	-	-	(12,000)	(12,000)	-
Transferred from/(to) non-current assets held for distribution	**707,409**	**-**	**707,409**	-	-	-	(447,369)	-	(447,369)
	758,114	**-**	**758,114**	-	-	-	421,900	20	421,880
Subordinated loans to associates reclassified from/(to) loans to banks/customers where applicable	**402,949**	**-**	**402,949**	-	-	-	(421,900)	(20)	(421,880)
At 30th June	**1,161,063**	**-**	**1,161,063**	-	-	-	-	-	-

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

(f) Property, plant and equipment

	Land and buildings RS'000	Computer and other equipment RS'000	Furniture, fittings and vehicles RS'000	Work in progress RS'000	Total RS'000
Cost					
At 1st July 2013	4,435,299	2,700,581	772,655	34,645	7,943,180
Additions	23,597	71,805	25,815	74,997	196,214
Disposals	(21,288)	(40,424)	(39,752)	-	(101,464)
Transfer	-	29,489	15,123	(44,612)	-
At 30th June 2014	4,437,608	2,761,451	773,841	65,030	8,037,930
Additions	10,583	118,140	12,319	50,853	191,895
Disposals	-	(71,121)	(33,124)	-	(104,245)
Transfer	-	80,357	10,066	(90,423)	-
At 30th June 2015	**4,448,191**	**2,888,827**	**763,102**	**25,460**	**8,125,580**
Additions	**-**	**93,962**	**18,595**	**173,268**	**285,825**
Disposals	**-**	**(162,079)**	**(26,247)**	**-**	**(188,326)**
Transfer	**-**	**60,203**	**3,705**	**(63,908)**	**-**
At 30th June 2016	**4,448,191**	**2,880,913**	**759,155**	**134,820**	**8,223,079**
Accumulated depreciation					
At 1st July 2013	503,524	1,653,440	344,174	-	2,501,138
Charge for the year	71,037	284,604	54,677	-	410,318
Disposal adjustment	(98)	(37,767)	(38,170)	-	(76,035)
At 30th June 2014	574,463	1,900,277	360,681	-	2,835,421
Charge for the year	71,261	235,154	52,400	-	358,815
Disposal adjustment	-	(68,932)	(30,167)	-	(99,099)
At 30th June 2015	**645,724**	**2,066,499**	**382,914**	**-**	**3,095,137**
Charge for the year	**71,260**	**237,601**	**49,470**	**-**	**358,331**
Disposal adjustment	**-**	**(160,828)**	**(22,164)**	**-**	**(182,992)**
At 30th June 2016	**716,984**	**2,143,272**	**410,220**	**-**	**3,270,476**
Net book values - Segment A					
At 30th June 2016	**3,731,207**	**737,641**	**348,935**	**134,820**	**4,952,603**
At 30th June 2015	3,802,467	822,328	380,188	25,460	5,030,443
At 30th June 2014	3,863,145	861,174	413,160	65,030	5,202,509

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

(g) Other assets

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
Mandatory balances with Central Bank	**13,688,608**	**13,688,608**	**-**	12,252,565	12,252,565	-	10,646,314	10,646,314	-
Prepayments and other receivables	**725,499**	**693,529**	**31,970**	741,942	688,486	53,456	910,276	762,965	147,311
Credit card clearing	**68,659**	**68,659**	**-**	180,193	164,291	15,902	238,605	168,220	70,385
Non-banking assets acquired in satisfaction of debts	**51,909**	**51,909**	**-**	57,474	57,474	-	55,792	55,792	-
Margin deposit under Credit Support Annex	**10,178**	**-**	**10,178**	-	-	-	431,521	-	431,521
Impersonal & other accounts	**1,725,251**	**1,644,074**	**81,177**	952,038	885,311	66,727	670,720	648,993	21,727
Receivable from Mauritius Union Assurance Co Ltd	**-**	**-**	**-**	25,000	25,000	-	50,000	50,000	-
	16,270,104	**16,146,779**	**123,325**	14,209,212	14,073,127	136,085	13,003,228	12,332,284	670,944

(h) Deposits from banks

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
Demand deposits	**2,643,632**	**90,983**	**2,552,649**	3,303,800	52,892	3,250,908	2,415,169	31,433	2,383,736
Money market deposits with remaining term to maturity:									
Up to 3 months	**715,676**	**-**	**715,676**	513,951	-	513,951	754,245	3,788	750,457
Over 3 months and up to 6 months	**1,045,465**	**-**	**1,045,465**	468,681	-	468,681	243,275	-	243,275
Over 6 months and up to 1 year	**25,379**	**-**	**25,379**	151,133	-	151,133	285,349	-	285,349
Over 1 year and up to 5 years	**282,451**	**-**	**282,451**	66,860	-	66,860	-	-	-
	2,068,971	**-**	**2,068,971**	1,200,625	-	1,200,625	1,282,869	3,788	1,279,081
	4,712,603	**90,983**	**4,621,620**	4,504,425	52,892	4,451,533	3,698,038	35,221	3,662,817

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

(i) Deposits from customers

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
(i) Retail customers									
Demand deposits	**25,182,505**	**12,965,061**	**12,217,444**	20,749,512	10,628,272	10,121,240	15,508,233	8,386,164	7,122,069
Savings deposits	**96,501,629**	**89,747,661**	**6,753,968**	86,278,568	79,501,616	6,776,952	74,282,426	68,596,297	5,686,129
Time deposits with remaining term to maturity:									
Up to 3 months	**3,304,781**	**2,295,161**	**1,009,620**	3,551,031	2,499,326	1,051,705	3,401,560	2,221,802	1,179,758
Over 3 months and up to 6 months	**1,855,545**	**1,410,603**	**444,942**	1,931,431	1,276,450	654,981	2,759,831	1,578,686	1,181,145
Over 6 months and up to 1 year	**4,596,129**	**3,311,467**	**1,284,662**	4,426,212	3,234,232	1,191,980	4,314,523	3,148,881	1,165,642
Over 1 year and up to 5 years	**11,663,604**	**9,753,802**	**1,909,802**	10,388,268	8,208,247	2,180,021	9,404,831	7,727,996	1,676,835
Over 5 years	**5,478**	**5,038**	**440**	53,665	48,778	4,887	32,002	32,002	-
	21,425,537	**16,776,071**	**4,649,466**	20,350,607	15,267,033	5,083,574	19,912,747	14,709,367	5,203,380
	143,109,671	**119,488,793**	**23,620,878**	127,378,687	105,396,921	21,981,766	109,703,406	91,691,828	18,011,578
(ii) Corporate customers									
Demand deposits	**72,803,936**	**32,938,713**	**39,865,223**	58,121,151	27,735,491	30,385,660	44,337,589	22,265,008	22,072,581
Savings deposits	**5,253,182**	**5,206,014**	**47,168**	5,643,459	5,562,870	80,589	5,591,302	5,511,891	79,411
Time deposits with remaining term to maturity:									
Up to 3 months	**4,937,434**	**835,615**	**4,101,819**	5,048,153	1,281,421	3,766,732	4,435,602	2,239,690	2,195,912
Over 3 months and up to 6 months	**1,699,788**	**609,155**	**1,090,633**	1,967,956	898,364	1,069,592	1,980,528	929,693	1,050,835
Over 6 months and up to 1 year	**2,850,519**	**601,978**	**2,248,541**	1,494,043	1,048,423	445,620	1,774,371	1,355,645	418,726
Over 1 year and up to 5 years	**4,803,622**	**4,111,564**	**692,058**	1,468,282	1,158,835	309,447	1,795,147	1,600,747	194,400
Over 5 years	**2,791,762**	**-**	**2,791,762**	2,781,760	-	2,781,760	2,928,906	-	2,928,906
	17,083,125	**6,158,312**	**10,924,813**	12,760,194	4,387,043	8,373,151	12,914,554	6,125,775	6,788,779
	95,140,243	**44,303,039**	**50,837,204**	76,524,804	37,685,404	38,839,400	62,843,445	33,902,674	28,940,771
(iii) Government									
Demand deposits	**9,411**	**9,411**	**-**	10,423	10,423	-	3,715	3,715	-
Savings deposits	**52,168**	**52,168**	**-**	28,662	28,662	-	18,903	18,903	-
	61,579	**61,579**	**-**	39,085	39,085	-	22,618	22,618	-
	238,311,493	**163,853,411**	**74,458,082**	203,942,576	143,121,410	60,821,166	172,569,469	125,617,120	46,952,349

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

(j) Subordinated liabilities

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
USD30M subordinated debt maturing in August 2023 at an average interest rate of 3.8% (2015:3.5%) (Level 3)	**1,082,289**	**-**	**1,082,289**	1,055,697	-	1,055,697	909,081	-	909,081
Rs 4.5 billion floating rate subordinated note maturing in August 2023 at an average interest rate of 6% (Level 1)	**-**	**-**	**-**	-	-	-	4,539,945	4,362,051	177,894
	1,082,289	**-**	**1,082,289**	1,055,697	-	1,055,697	5,449,026	4,362,051	1,086,975

(k) Other liabilities

	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B	2014 TOTAL	2014 Segment A	2014 Segment B
Margin deposit under Credit Support Annex	**-**	**-**	**-**	21,818	-	21,818	-	-	-
Post employee benefit liability	**249,707**	**249,707**	**-**	1,034,237	1,034,237	-	1,151,026	1,151,026	-
Proposed dividend	**1,031,940**	**1,031,940**	**-**	1,023,229	1,023,229	-	809,065	809,065	-
Impersonal & other accounts	**3,020,806**	**3,020,380**	**426**	2,552,949	2,496,209	56,740	2,345,761	2,238,587	107,174
	4,302,453	**4,302,027**	**426**	4,632,233	4,553,675	78,558	4,305,852	4,198,678	107,174

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

(l) Contingent liabilities

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
(i) Instruments									
Guarantees on account of customers	**18,330,563**	**13,076,101**	**5,254,462**	15,686,218	10,608,174	5,078,044	15,931,937	11,325,367	4,606,570
Letters of credit and other obligations on account of customers	**8,273,242**	**2,293,314**	**5,979,928**	15,781,597	2,856,450	12,925,147	29,632,253	2,956,933	26,675,320
Other contingent items	**3,526,005**	**6,902**	**3,519,103**	11,854,612	333,779	11,520,833	16,548,255	882,489	15,665,766
	30,129,810	**15,376,317**	**14,753,493**	43,322,427	13,798,403	29,524,024	62,112,445	15,164,789	46,947,656
(ii) Commitments									
Loans and other facilities, including undrawn credit facilities	**2,600,154**	**1,757,355**	**842,799**	4,380,241	3,737,850	642,391	4,355,291	3,238,122	1,117,169
(iii) Tax assessments	**836,868**	**836,868**	**-**	797,225	797,225	-	272,057	272,057	-
(iv) Other									
Inward bills held for collection	**423,796**	**321,213**	**102,583**	380,692	328,127	52,565	461,794	319,826	141,968
Outward bills sent for collection	**1,003,723**	**306,066**	**697,657**	803,573	322,132	481,441	1,042,994	463,912	579,082
	1,427,519	**627,279**	**800,240**	1,184,265	650,259	534,006	1,504,788	783,738	721,050
	34,994,351	**18,597,819**	**16,396,532**	49,684,158	18,983,737	30,700,421	68,244,581	19,458,706	48,785,875

(m) Interest income

Loans to and placements with banks	**367,076**	**116,476**	**250,600**	202,394	6,258	196,136	186,503	14,282	172,221
Loans and advances to customers	**10,196,930**	**7,899,300**	**2,297,630**	10,105,092	8,008,423	2,096,669	9,747,799	7,749,074	1,998,725
Held-to-maturity investments	**1,680,892**	**1,650,706**	**30,186**	1,280,581	1,260,780	19,801	919,662	916,437	3,225
Available-for-sale investments	**44,754**	**3,633**	**41,121**	35,254	-	35,254	159	-	159
Other	**9,450**	**9,349**	**101**	9,649	9,649	-	11,718	11,531	187
	12,299,102	**9,679,464**	**2,619,638**	11,632,970	9,285,110	2,347,860	10,865,841	8,691,324	2,174,517

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

(n) Interest expense

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
Deposits from banks	**15,623**	**-**	**15,623**	16,335	2	16,333	32,200	4	32,196
Deposits from customers	**3,949,990**	**3,418,863**	**531,127**	3,856,580	3,376,990	479,590	3,836,096	3,364,421	471,675
Subordinated liabilities	**41,006**	**-**	**41,006**	300,459	255,044	45,415	262,671	241,890	20,781
Other borrowed funds	**94,706**	**270**	**94,436**	111,299	456	110,843	188,226	3,277	184,949
	4,101,325	**3,419,133**	**682,192**	4,284,673	3,632,492	652,181	4,319,193	3,609,592	709,601

(o) Fee and commission income

	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B	2014 TOTAL	2014 Segment A	2014 Segment B
Retail banking fees	**618,982**	**282,319**	**336,663**	653,258	355,491	297,767	433,631	427,949	5,682
Corporate banking fees	**433,541**	**308,313**	**125,228**	430,487	320,675	109,812	386,329	285,453	100,876
Guarantee fees	**212,579**	**155,208**	**57,371**	204,688	142,804	61,884	217,778	157,771	60,007
Interbank transaction fees	**49,809**	**-**	**49,809**	43,092	-	43,092	46,398	-	46,398
Cards and other related fees	**1,315,704**	**1,038,060**	**277,644**	1,221,028	982,407	238,621	1,107,863	902,770	205,093
Trade finance fees	**432,867**	**100,550**	**332,317**	647,999	48,971	599,028	637,558	128,064	509,494
Others	**216,727**	**63,205**	**153,522**	202,791	59,957	142,834	119,798	41,660	78,138
	3,280,209	**1,947,655**	**1,332,554**	3,403,343	1,910,305	1,493,038	2,949,355	1,943,667	1,005,688

(p) Fee and commission expense

	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B	2014 TOTAL	2014 Segment A	2014 Segment B
Interbank transaction fees	**20,589**	**-**	**20,589**	16,553	-	16,553	8,374	-	8,374
Card and other related fees	**582,843**	**513,445**	**69,398**	539,423	539,148	275	490,788	490,602	186
Others	**24,922**	**-**	**24,922**	30,954	-	30,954	51,297	-	51,297
	628,354	**513,445**	**114,909**	586,930	539,148	47,782	550,459	490,602	59,857

(q) Net (loss)/gain from financial instruments carried at fair value

	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B	2014 TOTAL	2014 Segment A	2014 Segment B
Net (loss)/gain from derivative financial instruments	**(108,131)**	**(93,827)**	**(14,304)**	157,552	150,255	7,297	46,291	27,946	18,345
Investment securities held-for-trading	**1,347**	**1,327**	**20**	571	552	19	155	155	-
	(106,784)	**(92,500)**	**(14,284)**	158,123	150,807	7,316	46,446	28,101	18,345

(r) Dividend income

	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B	2014 TOTAL	2014 Segment A	2014 Segment B
Income from associate	**210,830**	**-**	**210,830**	-	-	-	-	-	-
Income from quoted investments	**33,720**	**30,241**	**3,479**	26,166	23,479	2,687	10,182	6,997	3,185
Income from unquoted investments	**7,448**	**6,462**	**986**	4,697	4,515	182	3,338	3,338	-
	251,998	**36,703**	**215,295**	30,863	27,994	2,869	13,520	10,335	3,185

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

(s) Salaries and human resource development

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
Wages and salaries	**1,857,907**	**1,660,389**	**197,518**	1,766,201	1,596,954	169,247	1,607,208	1,484,667	122,541
Defined benefit plan	**238,205**	**214,495**	**23,710**	271,530	248,662	22,868	246,158	230,371	15,787
Defined contribution plan	**36,046**	**32,890**	**3,156**	-	-	-	-	-	-
Compulsory social security obligations	**56,856**	**51,743**	**5,113**	54,079	49,476	4,603	50,646	47,121	3,525
Equity settled share-based payments	**1,558**	**1,509**	**49**	1,488	1,442	46	4,192	4,067	125
Other personnel expenses	**571,326**	**525,621**	**45,705**	488,768	438,790	49,978	497,433	456,718	40,715
	2,761,898	**2,486,647**	**275,251**	2,582,066	2,335,324	246,742	2,405,637	2,222,944	182,693

(t) Other non-interest expense

Software licensing and other information technology cost	**215,071**	**204,069**	**11,002**	208,519	194,648	13,871	179,326	170,296	9,030
Others	**1,165,427**	**1,034,379**	**131,048**	1,132,790	1,015,779	117,011	1,182,089	1,088,367	93,722
	1,380,498	**1,238,448**	**142,050**	1,341,309	1,210,427	130,882	1,361,415	1,258,663	102,752

(u) Net impairment of financial assets

The impairment charge related to the Statement of Profit or Loss:

Allowance for credit impairment	**907,021**	**401,131**	**505,890**	860,840	418,045	442,795	1,843,056	376,031	1,467,025
Impairment of available-for-sale investment securities	**-**	**-**	**-**	36,333	36,333	-	-	-	-
	907,021	**401,131**	**505,890**	897,173	454,378	442,795	1,843,056	376,031	1,467,025

(i) Allowance for credit impairment

Loans to and placements with banks	**1,329**	**-**	**1,329**	(784)	-	(784)	7,400	-	7,400
Loans and advances to customers	**905,692**	**401,131**	**504,561**	861,624	418,045	443,579	1,835,656	376,031	1,459,625
	907,021	**401,131**	**505,890**	860,840	418,045	442,795	1,843,056	376,031	1,467,025

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

(v) Income tax expense

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
Current tax expense									
Current year	**1,240,581**	**1,153,720**	**86,861**	1,013,896	903,228	110,668	918,468	845,121	73,347
(Over)/Under provision in previous years	**(3,051)**	**163**	**(3,214)**	(12,062)	(279)	(11,783)	(7,028)	(7,236)	208
	1,237,530	**1,153,883**	**83,647**	1,001,834	902,949	98,885	911,440	837,885	73,555
Deferred tax	**58,564**	**43,567**	**14,997**	(41,544)	(31,694)	(9,850)	(40,022)	(24,872)	(15,150)
Charge for the year	**1,296,094**	**1,197,450**	**98,644**	960,290	871,255	89,035	871,418	813,013	58,405

The tax on the profits differs from the theoretical amount that would arise using the basic tax rate as follows:

	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B	2014 TOTAL	2014 Segment A	2014 Segment B
Profit before tax:									
Continuing operations	**6,916,257**	**4,192,466**	**2,723,791**	5,802,844	3,168,634	2,634,210	4,212,515	2,959,886	1,252,629
Discontinuing operations	**-**	**-**	**-**	161,746	-	161,746	345,484	164,000	181,484
	6,916,257	**4,192,466**	**2,723,791**	5,964,590	3,168,634	2,795,956	4,557,999	3,123,886	1,434,113
Tax calculated at a rate of 15%	**1,037,439**	**628,870**	**408,569**	894,689	475,295	419,394	683,700	468,583	215,117
Impact of:									
Income not subject to tax	**(126,464)**	**(21,162)**	**(105,302)**	(119,631)	(46,316)	(73,315)	(69,039)	(46,275)	(22,764)
Expenses not deductible for tax purposes	**79,259**	**39,451**	**39,808**	117,934	43,614	74,320	125,023	22,005	103,018
Tax credits	**(267,093)**	**-**	**(267,093)**	(345,883)	-	(345,883)	(253,341)	-	(253,341)
Special levy on banks	**428,271**	**402,395**	**25,876**	362,494	336,192	26,302	332,456	316,289	16,167
Corporate Social Responsibility Contribution	**147,733**	**147,733**	**-**	62,749	62,749	-	59,647	59,647	-
(Over)/Under provision in previous years	**(3,051)**	**163**	**(3,214)**	(12,062)	(279)	(11,783)	(7,028)	(7,236)	208
Tax charge	**1,296,094**	**1,197,450**	**98,644**	960,290	871,255	89,035	871,418	813,013	58,405

The tax charge related to statement of profit or loss and other comprehensive income is as follows:

	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B	2014 TOTAL	2014 Segment A	2014 Segment B
Remeasurement of defined benefit pension plan	**204,430**	**204,430**	**-**	(112,018)	(112,018)	-	269,896	269,896	-
Deferred tax	**(30,665)**	**(30,665)**	**-**	16,803	16,803	-	(40,484)	(40,484)	-
	173,765	**173,765**	**-**	(95,215)	(95,215)	-	229,412	229,412	-

37. Additional disclosure as required by the Bank of Mauritius (Cont'd)

(w) Non-current assets held for distribution

(i) Non-current assets held for distribution

As at 30th June 2016, all the subsidiaries classified as non-current assets held for distribution, with the exception of MCB Moçambique SA, have been unbundled. Both Banque Française Commerciale Océan Indien and Société Générale Moçambique (formerly called MCB Moçambique SA) have been transferred to investments in associates.

	Principal activities	Effective Holding %	TOTAL RS'000	Segment A RS'000	Segment B RS'000
Year ended 30th June 2016					
Banking subsidiaries and associate	**Banking & Financial services**	-	-	-	-
Year ended 30th June 2015 and 2014					
Banking subsidiaries					
MCB (Maldives) Private Ltd	Banking & Financial services	100.00	347,963	-	347,963
MCB Moçambique SA	Banking & Financial services	95.00	260,040	-	260,040
MCB Seychelles Ltd	Banking & Financial services	100.00	211,522	-	211,522
MCB Madagascar SA	Banking & Financial services	85.00	64,322	-	64,322
			883,847	-	883,847
Banking associate					
Banque Française Commerciale Océan Indien	Banking & Financial services	49.99	447,369	-	447,369
Total			1,331,216	-	1,331,216

(ii) Discontinuing operations following unbundling of investments

Income recognised in profit or loss is as follows:

	2016			2015			2014		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
Dividend income	-	-	-	161,746	-	161,746	345,484	164,000	181,484

Administrative information

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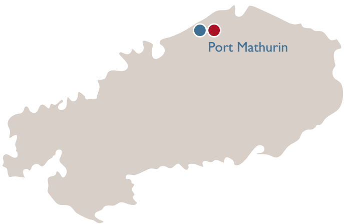
Local Branch Network

Mauritius

Rodrigues



● Branches

● Bureaux de Change / Forex ATMs

★ Bank Kiosks