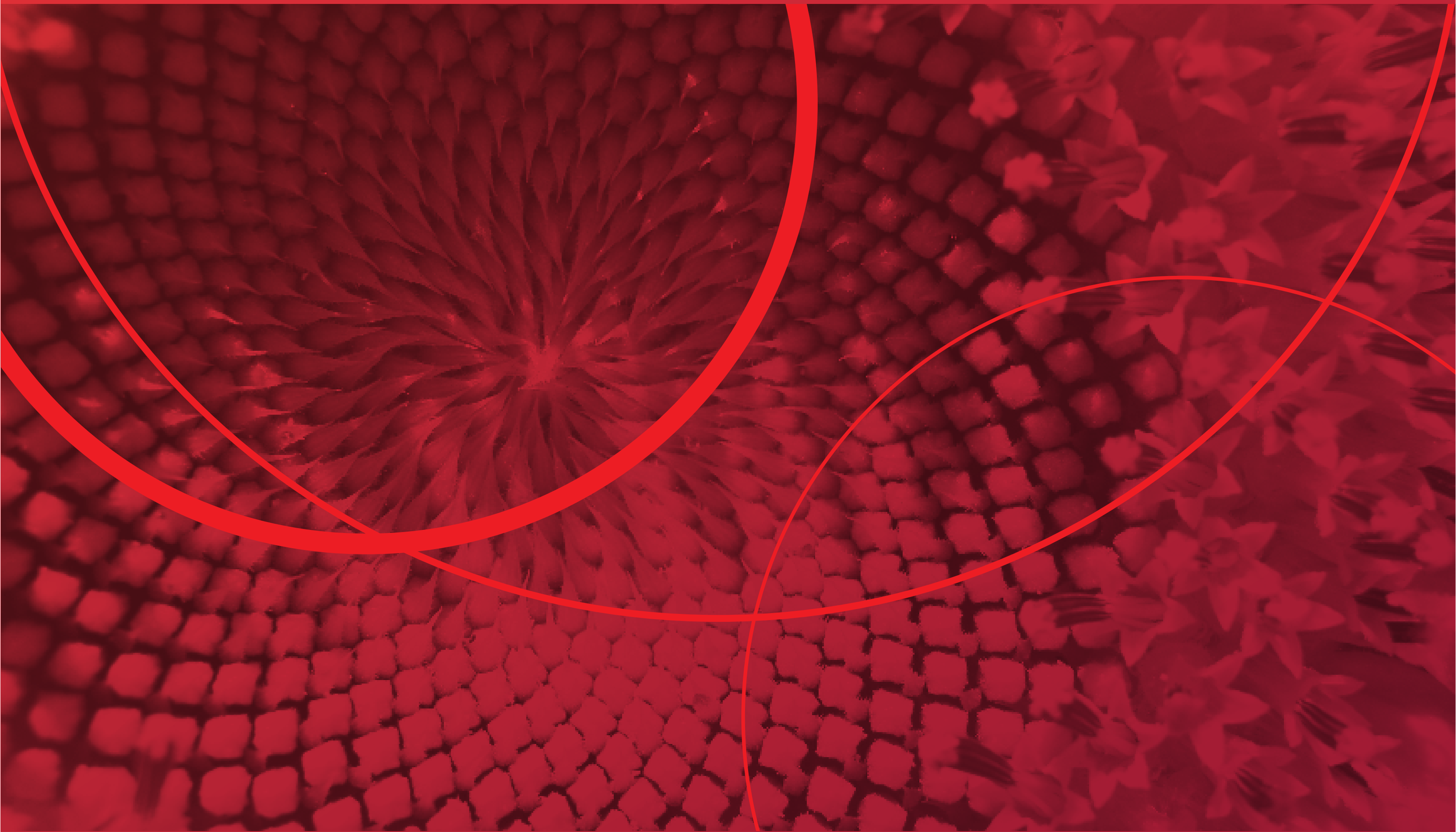
The Mauritius Commercial Bank Ltd

Annual Report 2017



MCB

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

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

The Directors of The Mauritius Commercial Bank Limited are pleased to present its Annual Report for the year ended 30 June 2017.

The Annual Report was approved by the Board of Directors on 28 September 2017.

Jean-Philippe COULIER
Chairperson

Alain LAW MIN
Chief Executive

Navigating this Annual Report

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' or 'Group'). The Group encompasses banking and non-banking subsidiaries and associates.

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

Our integrated reporting

Philosophy of the Annual Report

About this report

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

Embracing integrated reporting

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

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

Scope and boundary of reporting

Reporting period

The report covers the period spanning 1 July 2016 to 30 June 2017. Material events taking place after this date and until approval by the Board of Directors of MCB Ltd on 28 September 2017 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 materiality and the relative 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 applicable National Code of Corporate Governance.

Targeted readers

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

How to go through and read this report

Contents

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

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

This Annual Report is published in full on our website

Additional information for our stakeholders

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

These can be accessed on our website: www.mcb.mu

Icons used in this report

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

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

Essential factors underpinning our value creation

Introduction

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

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

Describing our forms of capital

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

FORMS OF CAPITAL

Financial capital

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

Social and relationship capital

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

Human capital

People's competencies, experience and motivations to innovate

Natural capital

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

Intellectual capital

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

Manufactured capital

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

Determining our material matters

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

Identify

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

Prioritise

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

Integrate

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

Monitor

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

Contents

Highlights and Corporate Profile

Highlights

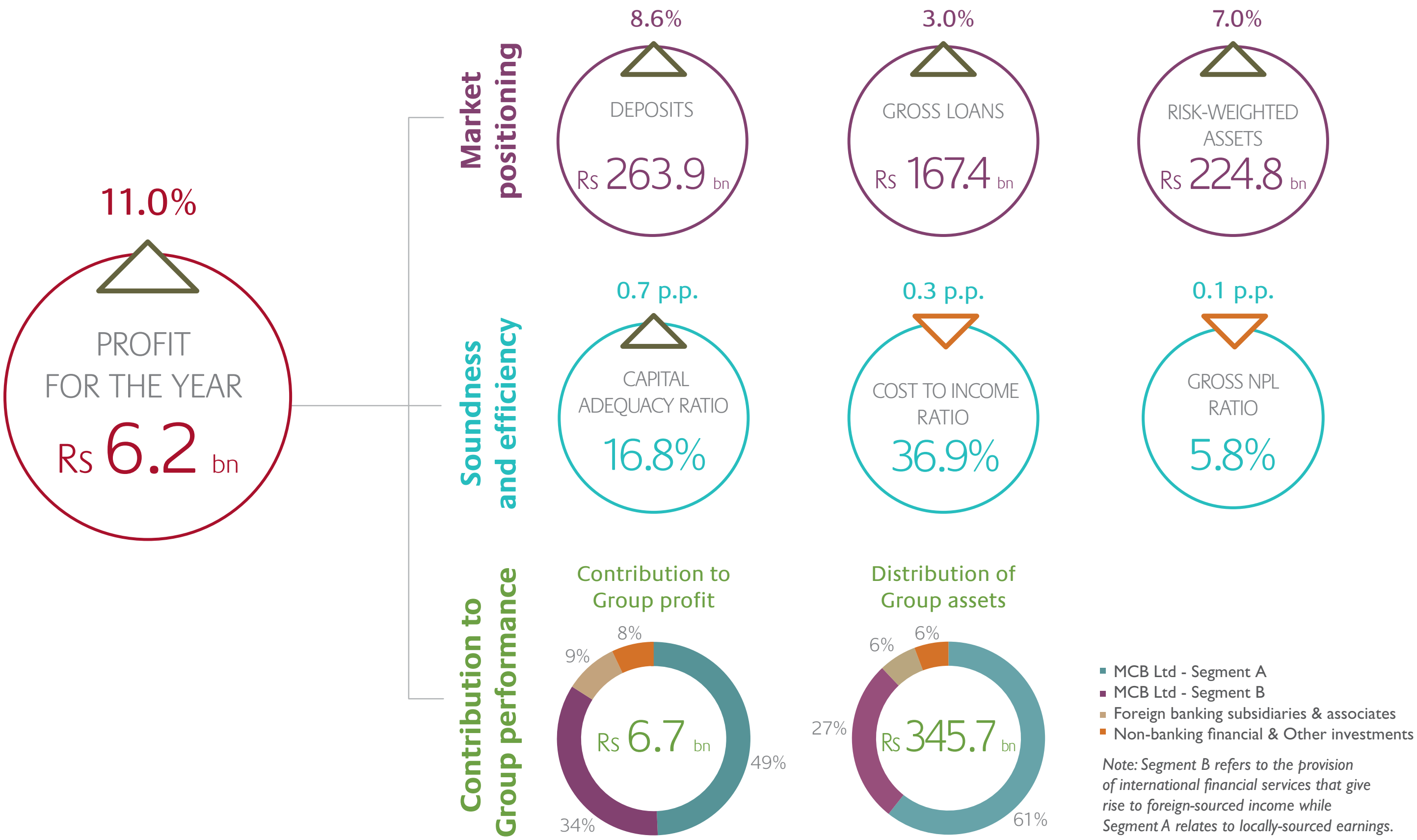
Financial Summary

	Jun-17	Jun-16	Jun-15	Jun-14	Jun-13
Income statement (Rs m)					
Operating income*	13,600	12,463	11,323	10,794	9,672
Operating profit*	8,578	7,823	6,862	6,401	5,603
Profit before tax*	7,628	6,916	5,965	4,558	4,548
Profit for the year	6,237	5,620	5,004	3,687	3,791
Statement of financial position (Rs m)					
Total assets	314,202	286,932	251,938	216,632	196,194
Total loans (net)	161,721	155,938	157,422	146,169	141,830
Investment securities	68,891	56,241	44,995	30,838	17,275
Total deposits	263,872	243,024	208,447	176,268	154,327
Subordinated liabilities	1,052	1,082	1,056	5,449	-
Other borrowed funds	5,607	4,866	6,952	7,603	13,104
Shareholders' funds	37,245	32,955	30,289	22,099	22,693
Performance ratios (%)					
Return on average total assets	2.1	2.1	2.1	1.8	2.1
Return on average equity	17.8	17.8	19.1	16.5	17.6
Return on average Tier 1 capital	18.6	18.6	20.1	17.8	19.9
Non-interest income to operating income*	35.8	34.2	35.1	39.3	34.5
Loans to deposits ratio	63.4	66.9	78.9	87.1	94.5
Cost to income ratio*	36.9	37.2	39.4	40.7	42.1
Capital adequacy ratios (%)					
Capital & reserves/Total assets	11.9	11.5	12.0	10.2	11.6
BIS risk adjusted ratio	16.8	16.1	14.9	13.8	11.4
of which Tier 1	15.8	*14.9*	*13.9*	*10.3*	*10.7*
Asset quality					
Non-performing loans (Rs m)	9,699	9,516	9,535	10,672	7,132
NPL ratio (%)	5.8	5.9	5.9	7.0	4.9
Provision coverage ratio (%)	39.8	49.0	54.8	55.1	56.9

** Figures include profit from discontinued operations*
Notes:
(i) Capital adequacy ratios for June 2014, June 2015, June 2016 and June 2017 are based on Basel III with proforma figures used for 2014 for comparative purposes
(ii) Capital adequacy figures for June 2015 and June 2016 have been restated

Our Strategic and Financial Progress

During FY 2016/17, the Bank sharpened its leading banking position locally and pursued its international market diversification strategy. Initiatives were adopted to strengthen foundations for market expansion, promote superior customer relationships and experiences, reinforce growth enablers and improve operational excellence, with effective channel management and technological innovation being at the forefront of various undertakings. In the wake of the challenging context, MCB Ltd has adopted a prudent approach to execute its market thrusts, notably those spanning the regional scene, and promote quality business growth.



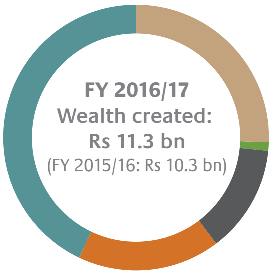
Read more on our financial performance in the 'Financial Review' section on pages 131 to 138

Highlights

Attending to the Needs of Stakeholders

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

Wealth Created by MCB Ltd



Expansion and growth, 37.0%
Wealth is retained to fund our strategy and grow our business.

Employees, 25.5%
Our value proposition comprises competitive rewards and benefits, with emphasis laid on the personal and career development of our staff.

Corporate Social Responsibility, 0.9%
We promote the welfare of the society and the communities in which we live and work.

Government, 13.4%
Through our tax payments, we assist the Government in funding national projects with positive socio-economic ramifications.

Providers of capital, 23.2%
We aim to provide our shareholders with sustainable returns through adequate dividend payout.

Note: Figures relate to the mix of wealth created

Support to Stakeholders

Helping productive sectors
Rs 94 billion
representing our corporate loan book as at 30 June 2017, towards enabling industries to achieve their ambitions

Helping banks and financial institutions
73 entities
serviced in the context of the Group's 'Bank of Banks' initiative during the year to support growth endeavours of clients

Helping homebuyers
Rs 25 billion
representing our mortgage loan book as at 30 June 2017, towards supporting households in moving up the housing ladder

Helping small and medium enterprises
Rs 865 million
relating to outstanding credit facilities to SMEs under the Government-backed SME Financing Scheme as at end-August 2017 to assist these clients in their growth initiatives

Helping communities
Rs 78.9 million
entrusted by MCB Ltd to MCB Forward Foundation for the period under review to underpin social development and empowerment initiatives

Helping to build a Digital Mauritius
~132,350 subscribers
registered as at end-August 2017 for our mobile banking application, in support of an innovative society

Read more on our support to stakeholders in the 'Delivering value to our stakeholders' section on pages 28 to 56

Recognition and Accolades

Mauritius

Best Bank in Mauritius
(Euromoney Awards for Excellence 2017)

Bank of the Year for Mauritius
(The Banker Bank of the Year Awards 2016)

Best Bank in Mauritius
(EMEA Finance 2016)

Best Private Bank in Mauritius
(PWM/The Banker 2016)

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

Africa

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

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

Our Vision

Everyday, we will help make something happen

Our Mission

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

We will listen to them and help them achieve their goals

We will help people with ideas to be entrepreneurs

We will be worthy of our shareholders' confidence

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

And we will never go away

OUR CORE VALUES

Integrity
Honest and trustworthy at all times

Customer care
Delivering unrivalled service

Teamwork
Working together towards a common goal

Innovation
Proactively seeking out new opportunities

Knowledge
Believing in lifelong learning

Excellence
Being the best we possibly can

Corporate profile

Overview of the 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 around 1,470 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 OPERATIONS

Our client base	Our staff
~ 960,000	**2,682**

Loans and deposits	Branches
> 40% Market share for domestic credit to the economy and local currency deposits	**39**

Cards	ATMs
~ 55% Market share of cards in circulation	**176**

Our international presence	POS
43 % Of our net profit is foreign-sourced	**6,883**

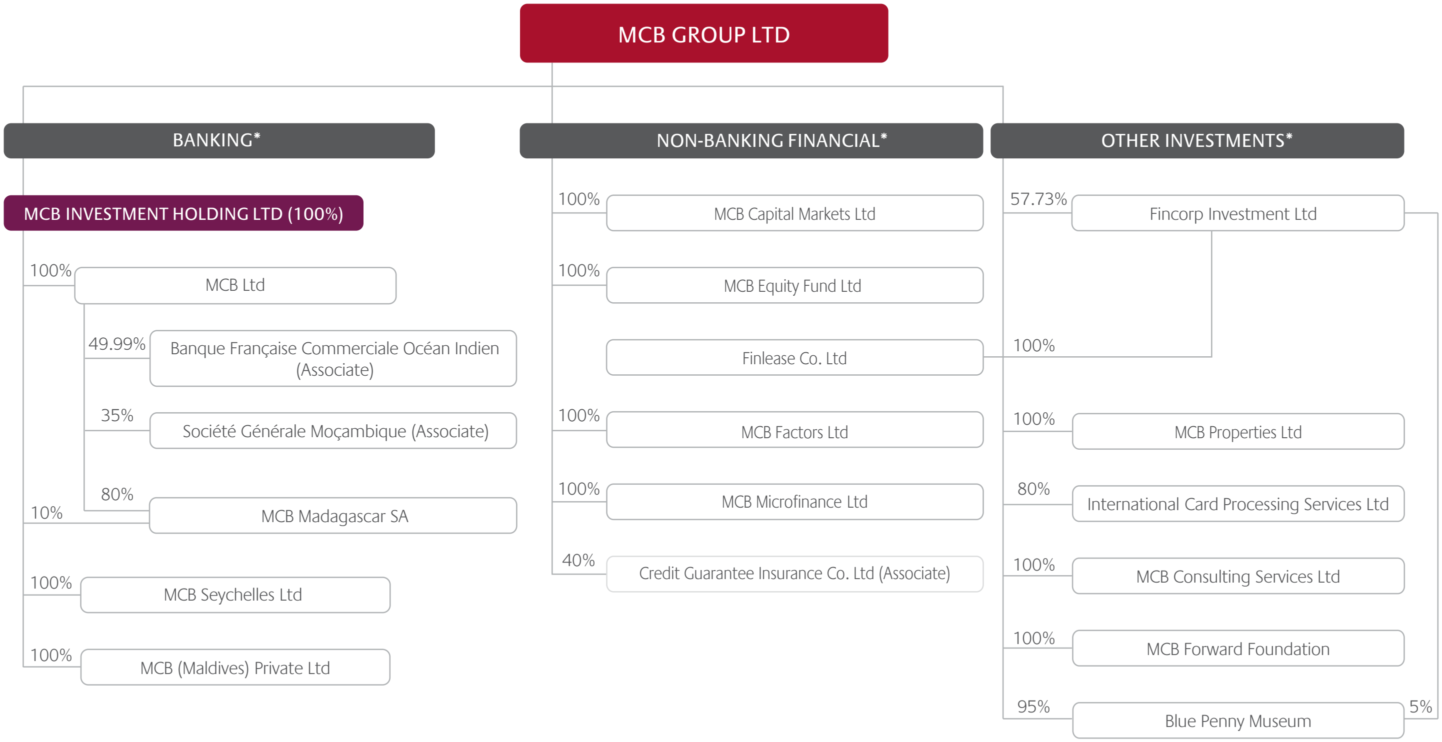
OUR INVESTMENT-GRADE RATINGS

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

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

Corporate profile

Group Structure

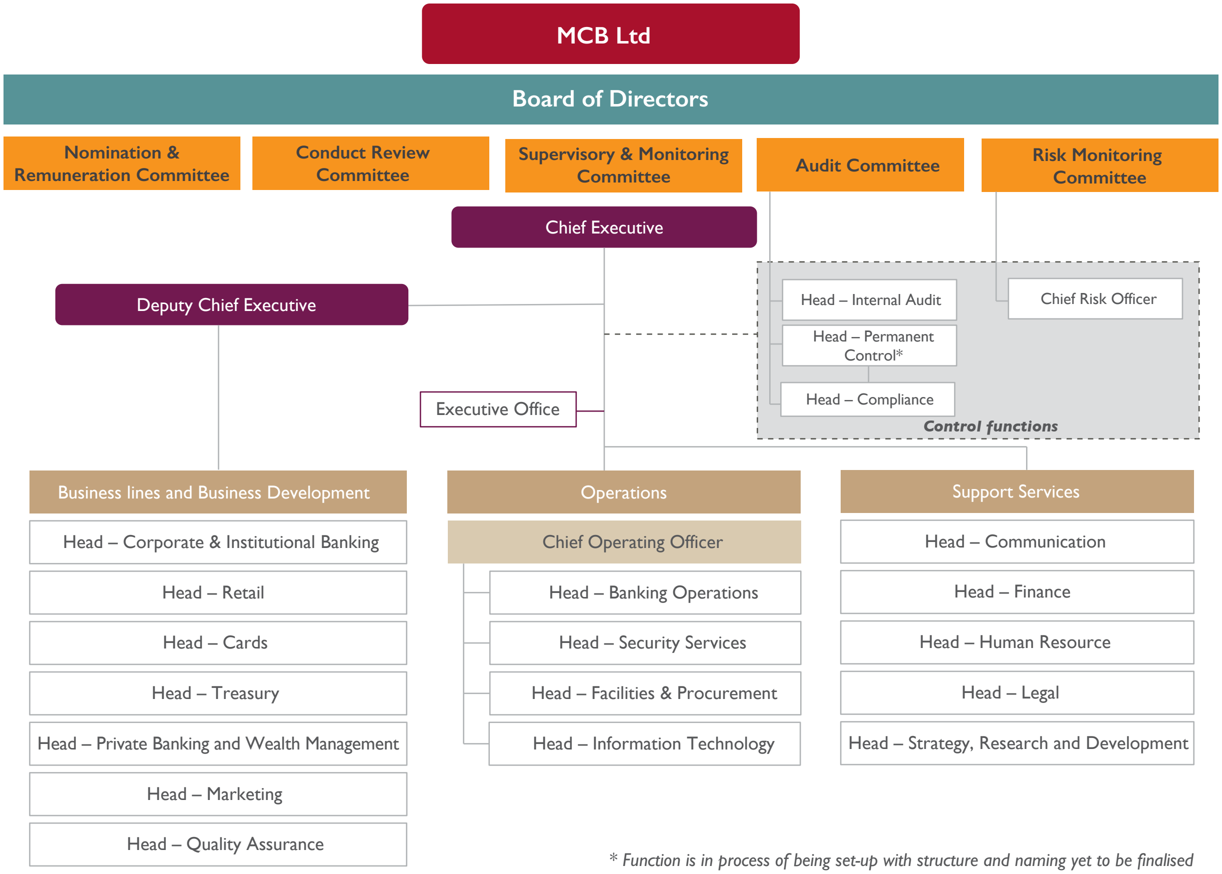


** Relate to clusters*

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.

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.



** Function is in process of being set-up with structure and naming yet to be finalised*

In August last, the Board of Directors approved a new organisation structure for MCB Ltd, which aims to foster alignment with the Bank's strategic objectives and ensure the effective execution of its strategic plan. Notably, the reporting line responsibilities are shared between the newly-appointed Chief Executive (CE) and Deputy Chief Executive (DCE), with the Heads of the business lines reporting to the latter. Moreover, while its naming and functioning remain to be finalised, a Permanent Control function will be set up. Encompassing the Compliance, Operational Risk and Information Risk segments, the function will report to the Audit Committee, while maintaining a day-to-day reporting line for information and administrative purposes directly to the CE. On another note, it can be noted that the Bank's Private Banking and Wealth Management activities have been segregated from its Retail SBU, thus leading to the creation of a separate Private Banking and Wealth Management SBU, which also includes the MCB Select and International Personal Banking segments. Of note also, an Executive Office, which will provide support to both the CE and DCE has been set up, while several members of the organisation have been appointed as Business Leaders within the Leadership Team.

Corporate profile

Our Value Creation Story

Introduction

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

Our Strategic Priorities

Overview

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

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

Our long-term destination

MCB: A strong regional financial player within a diversified Group

Our short to medium term strategic orientations

- Sharpen our positioning on established segments
- Broaden our frontiers
- Build a Digital Bank with a human touch
- Nurture our values and deliver on our brand promise

Our key objectives and strategic focus areas

- Preserve the image, reputation and franchise of the Bank
- Consolidate the Bank's leadership position domestically
- Help position the Group as a financial hub, after leveraging Mauritius as an International Financial Centre
- Further increase our share of foreign-sourced income
- Maintain the Bank's status as a sustainable organisation

Key pillars

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

Our Strategic Drivers and Building Blocks

Managing the economic, market, regulatory and technological environment

Capitalising on our key enablers

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

Achieving high-quality customer relationships and experiences

Zooming on our customer promise

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

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

Our Value Creation Model

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

Key stakeholders

MCB Group Ltd

Clients

Employees

Societies and communities

Governments and regulators

Credit rating agencies

Read more on our value creation model in the 'Delivering value to our stakeholders' section on pages 28 to 56

VALUE IN

Inputs

Availing forms of capitals

Financial capital

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

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

Social and relationship capital

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

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

Human capital

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

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

Natural capital

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

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

Intellectual capital

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

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

Manufactured capital

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

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

VALUE OUT

Outputs

Outcomes

Enabling value-creating activities

Income statement	Key sources of business activity shaping up our on- and off-balance sheet positions	What this means for our stakeholders...
Income after credit impairments		
Interest income and credit impairment charges	We provide lending 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.	Individual, corporate and institutional clients borrow to create and/or grow income and wealth, thus eventually helping to achieve economic and societal progress
Interest expense	We source funding 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.	Depositors leverage funding sources that enable them to manage and expand their income and revenue over the short and longer runs
Non-interest income = (Net fee and commission revenue + Trading revenue + Other revenue)	In addition to 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.	Businesses and investors benefit from strategic and risk-mitigation opportunities to diversify and protect their resources as well as channel the latter to proper destinations, thus supporting economic activity levels

– Expenses		
Staff costs	We invest in developing and retaining our employees to create a solid foundation to execute our strategic objectives and foster customer service excellence.	While enhancing the employability and skills-base of our staff, we contribute to employment creation
Other operating expenses	We invest in modernising our functioning and operational systems and infrastructure to underpin the smooth and effective running of our activities, with costs incurred relating notably to information technology systems and physical infrastructures.	Investing in innovative and modern processes and systems allow us to meet client needs and foster sustainable economic activity generation

– Income tax expense

= Net profit

– Dividends to shareholders

= Retained earnings

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 help to safeguard the quality of the natural environment, alongside helping to preserve the availability of non-renewable sources of energy
- **Intellectual capital** – Our intangible assets and conversion of information into knowledge provide the Bank with a competitive advantage that contributes to reinforce our brand and image
- **Manufactured capital** – Our robust and resilient operational mode allows us to be more innovative and competitive on the marketplace as well as better serve our stakeholders

Corporate profile

Our Market Operations by Business Segment

Corporate and Institutional Banking

The Bank provides corporate and institutional clients in Mauritius, regionally and beyond, with flexible and innovative financial solutions as well as dedicated advice that are geared to meet their business development and inherent capacity-building ambitions, thus helping to transform opportunities into winning strategies and supporting their growth endeavours.

Locally, the Bank inter alia provides a wide range of tailored and innovative financing, trade, treasury, transactional and payment solutions as well as investment services to companies and businesses across established and emerging economic sectors. The Bank has, also, crafted customised and efficient financial services for global business companies, funds, trusts and foundations. Beyond local shores, the Bank seeks to widen its footprint in sub-Saharan Africa and beyond by means of its customised solutions, notably in terms of its structured project finance and Energy and Commodities financing solutions. Besides, the Bank is an active promoter of the Group's 'Bank of Banks' initiative, which consists of providing adapted solutions to financial institution counterparts. To further its foreign market development, the Bank leverages its representative offices in Johannesburg, Paris and Nairobi and a network of around 1,470 correspondent banks worldwide, including some 200 in Africa.

Retail Banking

Backed by its enriched solutions and the quality of its service, the Bank caters for the day-to-day needs of its individual customers and helps them meet their aspirations. In addition to dedicated credit facilities across segments and convenient deposit opening, account packages are offered to individual customers across age groups. Besides, the Bank accompanies small and medium enterprises (SMEs) throughout their business development cycle. Supported by a thorough understanding of business requirements, the function provides innovative and personalised solutions to assist such enterprises in good and bad times and help them reach their targets.

Furthermore, clients can avail of alternative ways to undertake payments, with the quality of service being underpinned by the Bank's comprehensive offerings, including convenient cards, merchant and mobile banking solutions, backed by the recourse to advanced technology, global partnerships and human-centred innovations.

Private Banking and Wealth Management

The Bank undertakes the delivery of excellent service and bespoke wealth management and investment solutions geared towards the safeguard, growth and transmission of the assets of its affluent client base, both domestically and abroad. In particular, it is dedicated to providing financial planning, investment advisory and discretionary portfolio management, trade execution and custodian services to meet the needs of its affluent and high-profile customers. Besides, the Bank is committed to meeting the requirements of professionals, managers and executives. Additionally, the Bank acts as a unique point of contact for *inter alia* asset managers, banks, and fiduciaries looking for a custodian bank and access to traditional banking and financial products and services.

Read more on our business segments in the 'Management Discussion and Analysis' section on pages 108 to 138

More information on our market operations is available on the website

Our Extensive and Customised Financial Solutions

The financial solutions offered by the business segments of MCB Ltd are shown below. Offerings are undertaken via multiple channels that aim to simplify customer experiences and interactions. Furthermore, it can be noted that the Bank acts as a platform to distribute products and services structured by other entities of the Group.

Read more on our multiple channels in the 'Operational Excellence and Innovation Report' on pages 124 to 130


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

More information on our financial solutions is available on the website

Delivering Value to our Stakeholders

Introduction

Our Philosophy

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

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

Engagement and Interactions with Stakeholders

While adhering to regulatory rules, the 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. 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 decisions, with material issues escalated to the Board.

Our stakeholder engagement is guided by the resources and relationships that are leveraged and affected by the Bank. The following sections show how the organisation interacts with various forms of capital on which its operations and activities depend. Emphasis is laid on the main strategic orientations of the Bank and the main initiatives deployed to create value for its stakeholders.

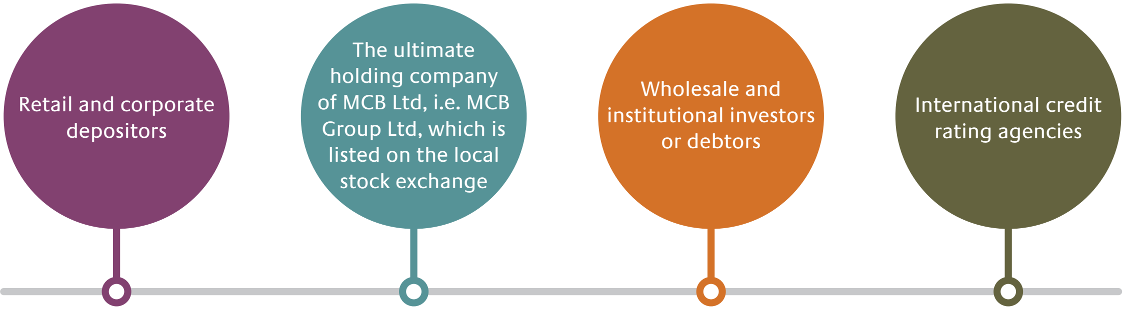
With a view to ensuring that the organisation's activities underlying its stakeholder value creation are anchored on sound foundations and levers, it can, amongst others, be highlighted that employees of the Bank abide by the Bank's Code of Conduct and the national Code of Banking Practice. In addition,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

Read more on our value creation model in the 'Corporate Profile' section on pages 22 to 23

Delivering value to our stakeholders

Financial capital

Our main stakeholders



What do our stakeholders expect from us…

- Protection and growth of wealth and investment over time
- 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, concise 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 with a view to supporting 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 (i) preserve the investment-grade rating of MCB Ltd; and (ii) ensure that its credit strength allows it to access global financial markets

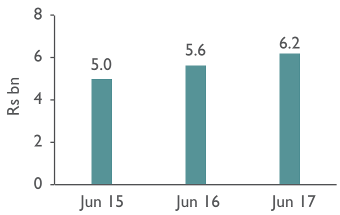
How we have engaged with our stakeholders...

Main undertakings

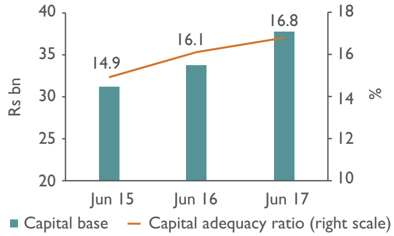
- The organisation has continuously strengthened its core customer deposit base, while remaining alert to the need to tap into wholesale markets if ever required
- The Bank's revenue generating capacity has been enhanced through market diversification and customer service quality, while a prudent business 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

Our strong financial position

Profit for the year

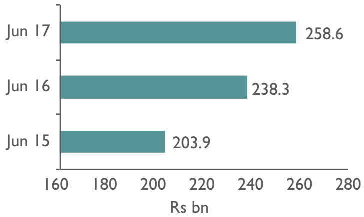


Capital position

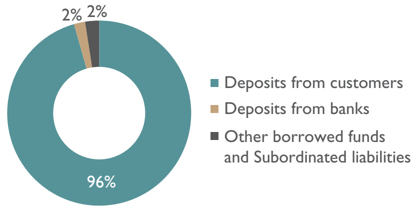


Overview of funding sources

Customer deposits

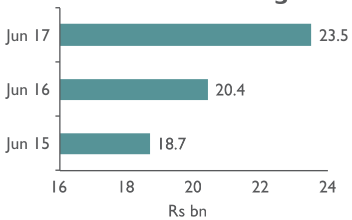


Funding mix as at June 2017

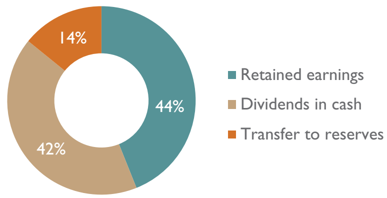


Income available for further business development

Retained earnings

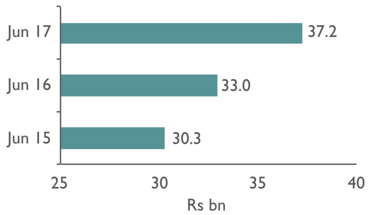


Profit distribution in FY 2016/17

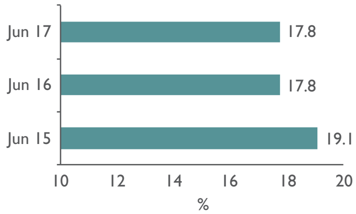


Evolution of equity and return generated

Shareholder's equity



Return on equity



Social and relationship capital

Our main stakeholders

What do our stakeholders expect from us…

Regulators

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

Customers

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

Institutions and economic agents

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

Societies, communities and civil society organisations

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

Our underlying ambitions

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

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

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

To help 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

Delivering value to our stakeholders

How we have engaged with our stakeholders…

Regulators

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

Customers

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

Organisation of and participation in key events

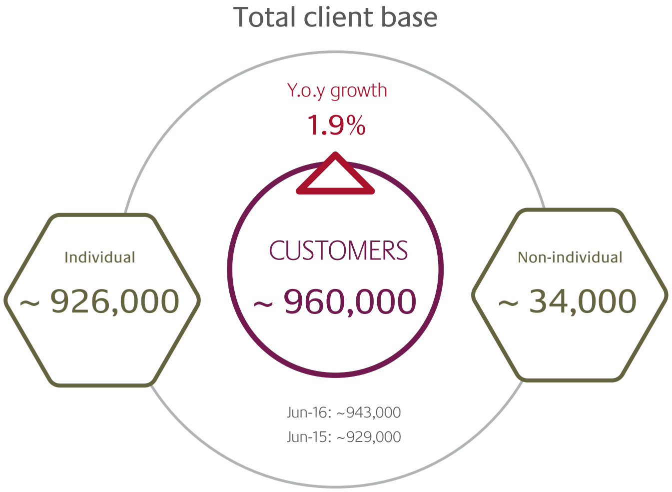
Africa Forward Together Seminar

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

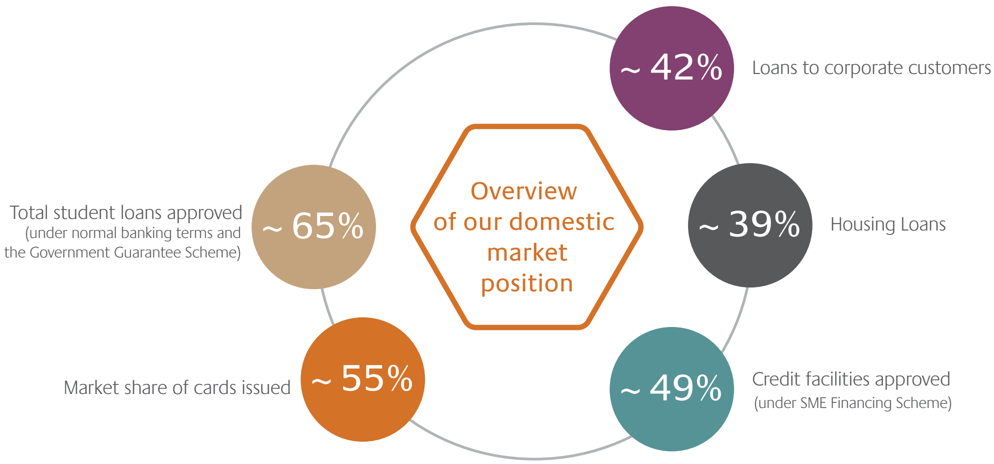
Breakfast Meetings

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

Customer base as at 30 June 2017



Market shares as at 30 June 2017



Read more in the 'Review of operations' section on pages 118 to 130

Delivering value to our stakeholders

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 2017

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

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

Societies, communities and civil society organisation

- The 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 the 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 creation in January 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 social engagement is available on the website

Our social engagement

During the FY 2016/17, Rs 78.9 m was entrusted by MCB Ltd as contribution to the MCB Forward Foundation...

...representing over 90% of an aggregate amount of funds of Rs 86.3 m provided by the Group's local subsidiaries...

... out of which, Rs 82 m was spent on 77 projects, 71 of which are ongoing *(after allowing for administrative costs)*

- Absolute poverty and community empowerment: Rs 27.9 m
- Social housing: Rs 22.8 m
- Socio-economic development: Rs 15.3 m
- Welfare of children: Rs 9.8 m
- Education: Rs 6.4 m
- Health: Rs 0.05 m

Delivering value to our stakeholders

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

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

Sponsorships

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

Education and innovation

- *MCB Foundation Scholarship:* It is awarded to the student ranked next in line to those eligible for the State of Mauritius scholarships on the Economics side at the national Higher School Certificate examinations for studying abroad
- *OVEC Education Fair:* Annual Education Fair, which attracts tertiary institutions from all over the world
- *National Spelling Bee Competition:* This event was carried out both in Mauritius and in Rodrigues, in collaboration with the English Speaking Union
- *Rodrigues Story Telling Competition:* Organised by the English Speaking Union with a view to encouraging students to use imagination and creativity, as well as master confidence in English speaking from a young age
- *Science Quest 2017:* The competition organised by the Rajiv Gandhi Science Centre with a view to promoting science among secondary students, attracted around 400 college students

Culture

- *Kozer Fam:* In line with its Lifestyle Banking concept and while at the same time promoting its 'Juice' mobile platform, MCB was amongst the sponsors of this concert, which aimed at promoting female artists
- *The Voice concert:* MCB 'Juice' was the main sponsor of this concert
- *HUMAN:* Special movie preview of HUMAN by Yann Arthus Bertrand for MCB customers, as well as members of the public at Star Bagatelle. The movie depicts testimonies from over 60 countries confronting the realities and diversity of human conditions
- *Other cultural events:* MCB was a sponsor for the A.R. Rahman concert, a theatre play titled *'Stationnement Alterné' and Cassiya 25th anniversary concert*

Sports competitions

- *Golf competitions:* MCB Tour Championship 2016, which is the most prestigious golf contest held in Mauritius with European Senior Tour champions; other events include MCB Invitational tournament, Mauritius Ladies Open, organised by the Ladies Golf Union, MCB Ladies Trophy and MCB Indian Ocean Amateur Golf Open
- *MCB Youth Championship Rodrigues:* Athletics championships for Rodrigues youth with around 300 participants
- *Royal Raid:* MCB amongst the main sponsors for the Royal Raid, organised by Lux Resorts at Bel Ombre
- *Necker Pro Squash Open:* MCB as one of the sponsors of this competition which is a first in Mauritius and was organised by the Mauritius Squash Federation at Grand Baie La Croisette

Human capital

Our main stakeholders

What do our stakeholders expect from us…

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

Delivering value to our stakeholders

Our underlying ambitions

To uphold the Bank's status as an employer of choice

To attract, develop and retain talents alongside enabling employees to prosper and shape their future

To foster the collective skills, knowledge and experience of staff to create differentiated customer experiences

To avail of a diversified employee base in terms of gender, age group and experience in order to tap into a wide range of knowledge, skills, and specialist competencies to achieve our strategies

To foster general staff welfare, health and safety amidst a stimulating work environment

How we have engaged with our stakeholders…

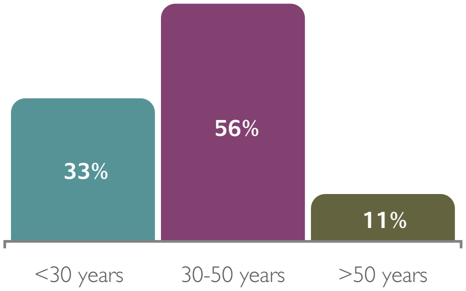
General strategic orientations

- The Bank adopted a more value-adding and increasingly forward-looking perspective as regards the identification and execution of strategic intents for the attention of its employees. To continuously strengthen the skill level of the organisation, the main focus areas of the 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

Our employee base as at 30 June 2017

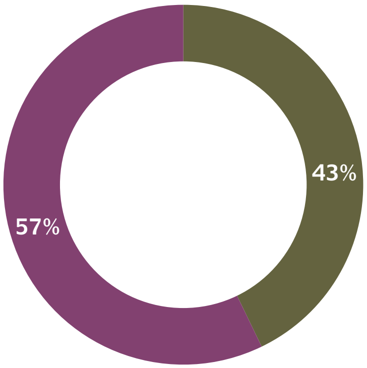
Number of employees

Age



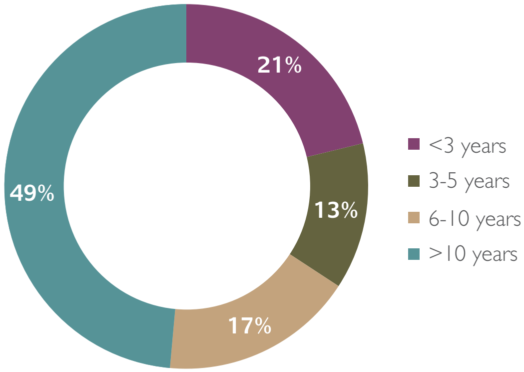
Gender

Qualifications



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

Length of service



Delivering value to our stakeholders

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 adequately, in line with market conditions. The remuneration philosophy for employees of the Bank 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
    - o Opportunity is given to employees to benefit from the financial results and development of the Bank. Indeed, 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. Furthermore, staff members have the added possibility to be incentivised further through a share option scheme
- Generally, the finalisation of remuneration packages is anchored on a range of factors including qualifications, skills scarcity, past performance, personal potential, market norms, responsibilities shouldered and experience. With a view to attaining appropriate remuneration levels, the 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 performance is stimulated and rewarded with strong incentives
    - o Remuneration practices are regularly reviewed and restructured where necessary, providing clear differentiation between individuals' contribution and team performance
- 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
- 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 of 10% 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 in the last financial year.

	Management	Other employees	Total
Number of options granted in October 2016	**102,065**	**489,817**	**591,882**
Initial option price (Rs)	209.25	188.50	-
Number of options exercised to date	58,524	153,842	**212,366**
Value (Rs)*	12,246,147	28,999,217	**41,245,364**
Percentage exercised	57.3	31.4	**35.9**
Number of employees	11	547	**558**
Available for the 4th window and expiring in mid-October 2017	**43,541**	**335,975**	**379,516**

** Based on initial option price*

Employee engagement and talent management

- 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' is carried out. It enables us to obtain the perception of employees about the Bank's leadership, its organisational processes and policies, job satisfaction displayed by staff as well as prevailing working relationships. Subsequently, interactive sessions are held with business units to develop necessary action plans

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

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

Delivering value to our stakeholders

Our learning engagement for FY 2016/17

Key statistics

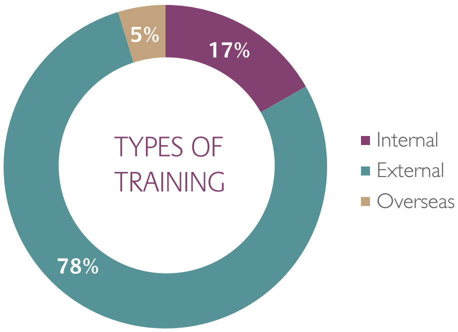
TOTAL TRAINING COST

Rs 50.7m*

E-LEARNING INVOLVEMENT

11 knowledge tests performed with a participation rate of nearly **79%** out of a target audience of **6,931**

Training courses



TOTAL NUMBER OF TRAINING COURSES

191

** Including refund by Human Resource Development Council*

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

Natural capital

Our main stakeholders

Our underlying ambitions

- To promote awareness amongst staff and the general public about the prudent management of natural resources and the scarce sources of energy
- To adopt environment-friendly practices in our operations and activities, while reducing the potentially adverse implications of serving our customers
- To aim towards developing eco-financial solutions and encourage adoption of eco-friendly practices by clients
- To adhere to environmental regulations and international best practices for ‘clean’ operations
- To influence and engage our employees, stakeholders, and suppliers by concentrating our resources on managing our direct carbon footprint, driving eco-efficiency performance and greening the supply chain

Delivering value to our stakeholders

How we have engaged with our stakeholders…

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

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

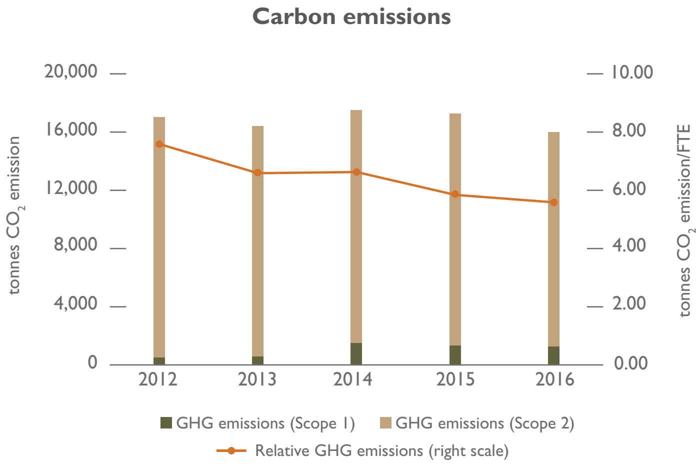
- From another angle, MCB is intent on ensuring that all suppliers comply with its Procurement Charter. The latter essentially defines sustainable procurement as encompassing the social and environmental aspects of the products the Bank procures as well as the attitude of the supplier towards sustainability.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

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

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

Managing direct carbon footprint

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



Notes

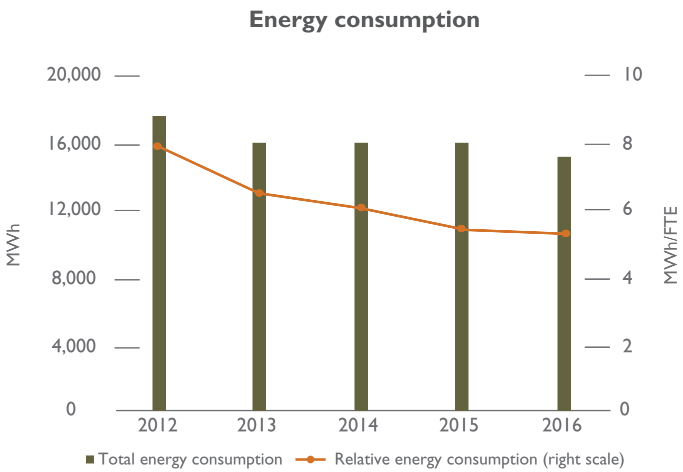
(i) FTE stands for Full Time Employee

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

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

Minimising energy use

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



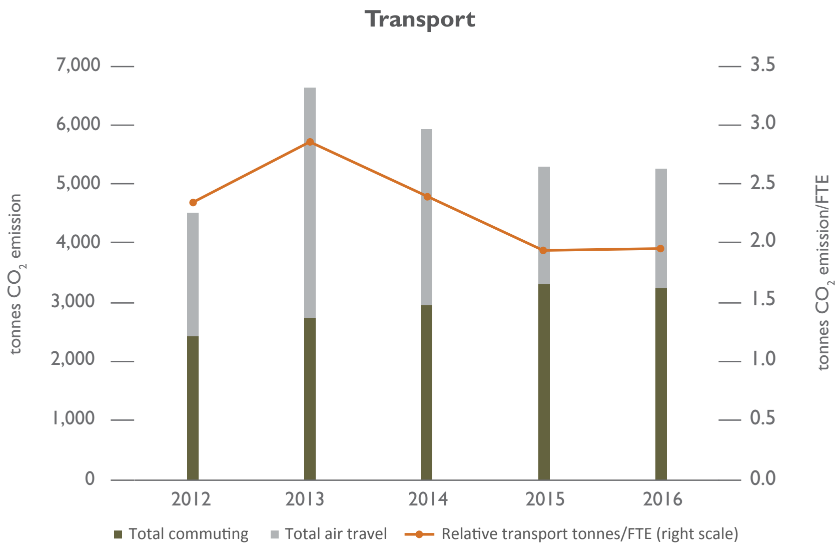
Driving eco-efficiency performance

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

Delivering value to our stakeholders

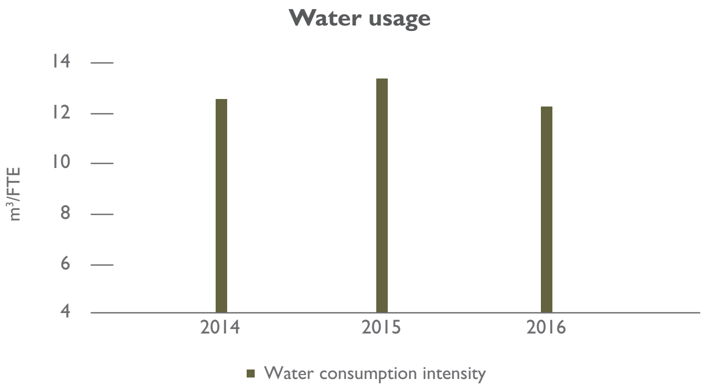
Reducing travel expenses

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



Scaling down water consumption

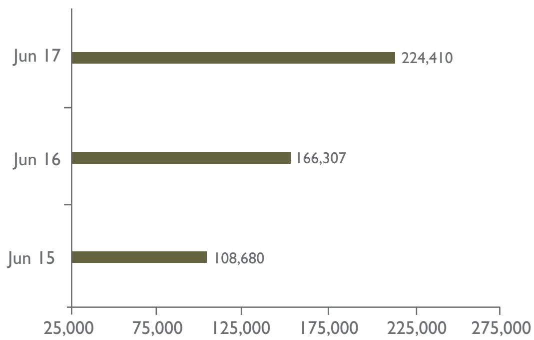
- MCB Ltd actively monitors its water usage and seeks to reduce the consumption thereof. In 2016, its water consumption intensity dropped to 12.2 m^3 per full time employee, compared to 13.3 m^3 per full time employee in 2015



Promoting the eco-friendly awareness of our stakeholders

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

E-statements subscriptions for active customer accounts



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

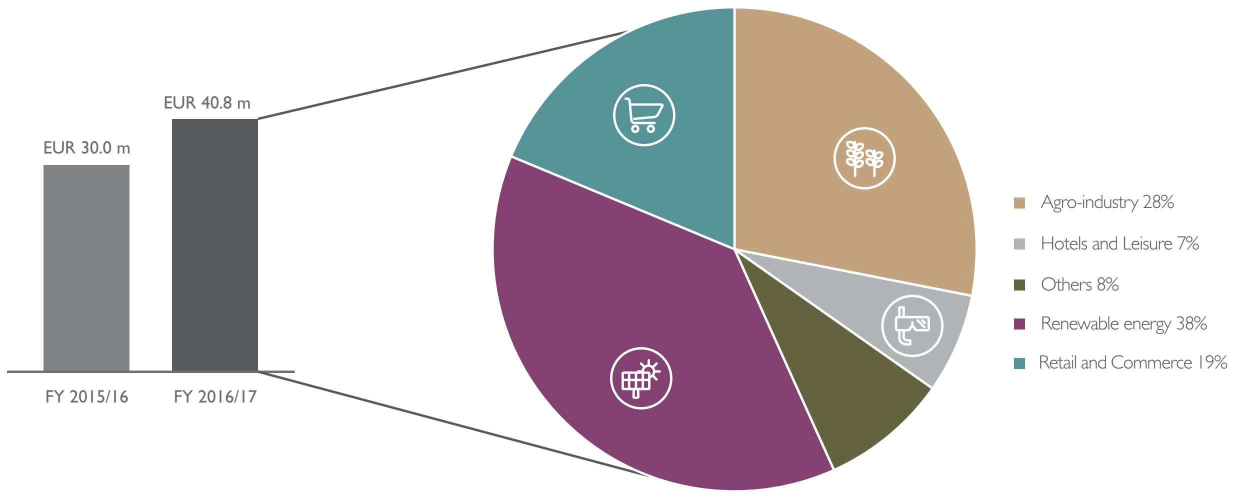
Encouraging environment-friendly and energy-saving investments

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

Delivering value to our stakeholders

Provision of 'greens loans' by MCB Ltd

Exposures by sector as at 30 June 2017



Estimated environmental benefits of projects financed

FY 2016/17

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

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 to 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 social media. Support also emanated from the undertaking of dedicated publications such as the Annual Report and MCB Focus (a periodic and reputed economic report pertaining to Mauritius), as well as participation in and sponsorship of carefully-selected conferences, seminars, and other events
- In order to keep track of ongoing market developments internationally and further promote business networking efforts, the 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 Standard Operational Practice)
- Continuous training and development programmes are provided to managers and supervisors
- The Bank's staffs are provided with relevant certifications towards fostering operational excellence (for instance, SWIFT bureau certified staffs, Six-Sigma/Lean certified process optimisation teams)

Read more in the 'Operational Excellence and Innovation Report' on pages 124 to 130

Delivering value to our stakeholders

Our followers on the social media as at 30 June 2017

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

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

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

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

2,048 followers
(Jun-16: 663)

Credentials underscoring our brand image

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

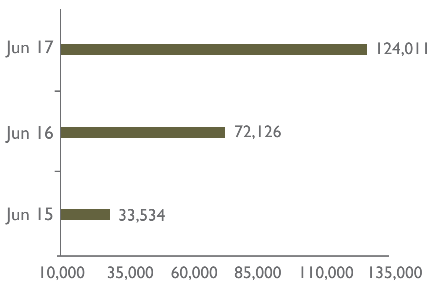
Best Regional Bank in Southern Africa
for the 2nd consecutive year
(African Banker Awards, 2017)

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

Activities on our digital platforms

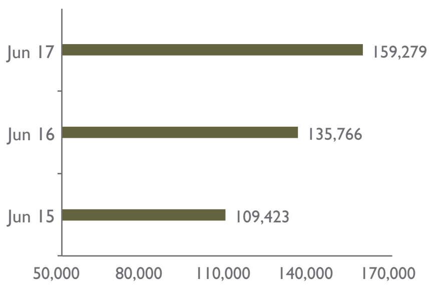
Mobile payments

Number of 'Juice' subscribers



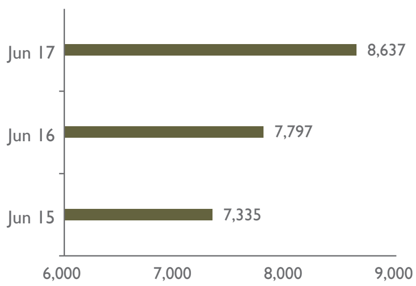
Internet Banking

Number of registrations



Website

Number of views ('000)



Manufactured capital

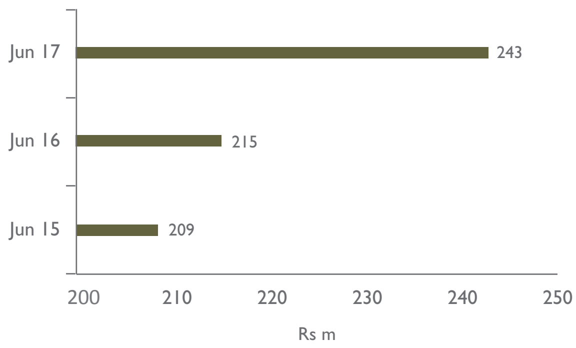
Our underlying ambitions

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 host all systems of the Bank while ensuring the continuity of technological operations and hence of its business activities with a third party data centre
- 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 Learning and 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 also been enhanced

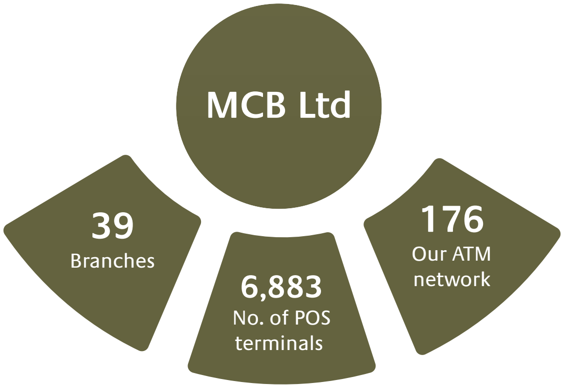
Software licensing and other information technology cost incurred



Read more in the 'Operational Excellence and Innovation Report' on pages 124 to 130

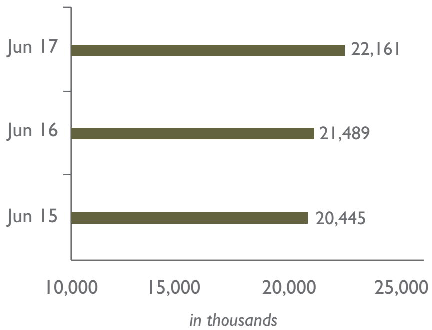
Delivering value to our stakeholders

Scale of our channels as at 30 June 2017

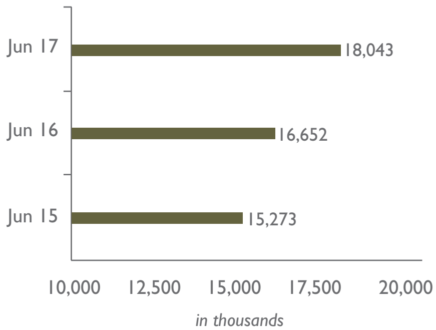


Annual number of transactions across channels/platforms

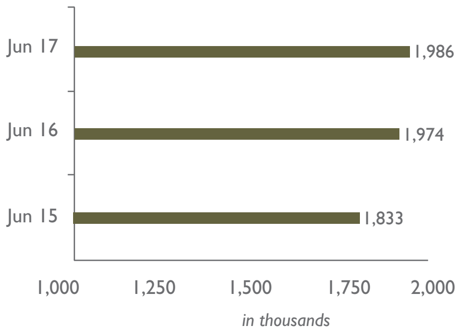
Automated Teller Machines[1] (Withdrawals)



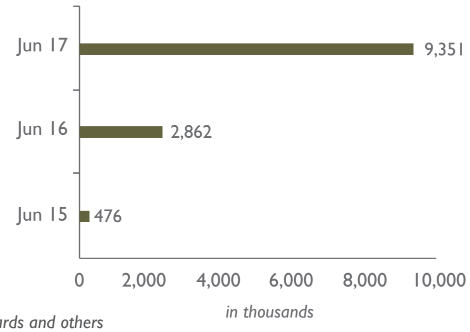
Merchant Point of Sale



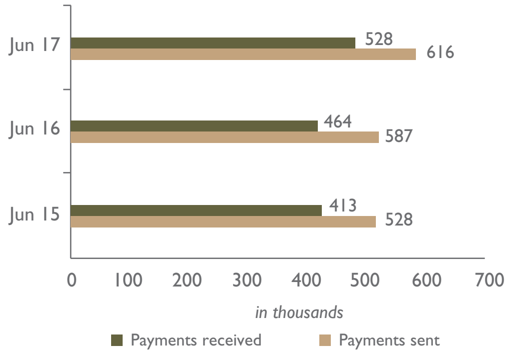
Internet banking[2]



'Juice' logins



SWIFT transfers



Notes:

[1] Debit cards, credit cards and others

[2] Debit transactions

Board of Directors, Committees of the Board and Leadership Team

Board of Directors

Independent Non-Executive Directors

Jean-Philippe COULIER *(Chairperson)*
Priscilla BALGOBIN-BHOYRUL
Jonathan CRICHTON
Gilles GUFFLET
Iqbal RAJAHBALEE *(until July 2017)*
Simon Pierre REY

Non-Executive Director

Jean Michel NG TSEUNG

Executive Directors

Raoul GUFFLET
Alain LAW MIN
Antony R. WITHERS *(until January 2017)*

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 *(also acts as Secretary)*
Alain LAW MIN
Antony R. WITHERS *(until January 2017)*

Conduct Review Committee

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

Secretary: Frederic PAPOCCHIA

Risk Monitoring Committee

Jonathan CRICHTON *(Chairperson)*
Jean-Philippe COULIER
Alain LAW MIN *(as from January 2017)*
Jean Michel NG TSEUNG
Simon Pierre REY *(as from August 2017)*
Iqbal RAJAHBALEE *(until July 2017)*
Antony R. WITHERS *(until January 2017)*

Secretary: Frederic PAPOCCHIA

Audit Committee

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

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

Nomination and Remuneration Committee

Jean-Philippe COULIER *(Chairperson)*
Alain LAW MIN *(as from January 2017)*
Iqbal RAJAHBALEE *(until July 2017)*
Simon Pierre REY *(also acts as Secretary)*
Antony R. WITHERS *(until January 2017)*

Leadership Team

Business Executives

Alain LAW MIN	**Chief Executive Officer**
Raoul GUFFLET	**Deputy Chief Executive**
Vincent CHATARD	Chief Operating Officer
Eddy JOLICOEUR	Head – Human Resources
Bhavish NAECK	Head – Finance
Frederic PAPOCCHIA	Chief Risk Officer

Business Leaders

Hema CEDERHAGE	Head – Securities Services
Ryan COOPAMAH	Head – Communication
Paul CORSON	Deputy Head – Corporate and Institutional Banking
Robin CUNDASAWMY	Head – Internal Audit
Koomaren CUNNOOSAMY	Head – Corporate Banking
Marc HAREL	Head – Institutional Banking
Hemandra Kumar HAZAREESING	Head – Global Business
Jean-François HENRI	Head – Facilities Management and Procurement

Patrice HERVE	Head – IT
Vicky HURYNAG	Head – Strategy, Research & Development
Roselyne LEBRASSE-RIVET	Head – Legal/In-House Lawyer
Steve LEUNG SOCK PING	Head – Quality Assurance
Didier MERLE	Head – Private Banking and Wealth Management
Vikash NATHOO	Head – Recovery
Stephanie NG TSEUNG-YUE	Head – Cards
Lindley PERRINE	Head – Transaction Management and Monitoring
Jovanna PREFUMO-MONTY	Head – Treasury
Dominic PROVENCAL	Deputy Head – Retail
Neekeea RAMEN	Head – Credit Management
Abraham RAWAT	Head – Banking Operations
Mike SOPHIE	Head – Retail
Zaahir SULLIMAN	Head – Energy and Commodities
Anju UMROWSING-RAMTOHUL	Head – Credit Origination and Structuring

Chairperson Statement

In FY 2016/17, MCB Ltd continued to make good progress towards its strategic objectives defined two years ago. It pursued its market expansion in Mauritius and abroad and further enriched its customer relationships.

At the same time, the Bank strove to improve its foundations for future growth by revamping its management structure and reviewing and adapting its strategy in the light of new factors such as the fall of oil price, the revision of the tax treaty with India and the increasing interest of investors for sub-Saharan Africa. It is working ever more closely with the various other entities of the Group to offer seamless solutions to its domestic and international clienteles.

Our Achievement

During the last financial year, the Bank pursued its balance sheet growth and expanded its revenue base. Operating income increased by 9.1% and net profit after tax grew by 11% to attain Rs 6,237 million. Encouragingly, this performance has been achieved in a context of subdued demand for bank credit and excess liquidity. In this respect, the Bank upheld healthy capital, funding and liquidity as well as asset quality positions. Its cost to income ratio has been brought down to an even more comfortable level.

With around 960,000 individual and corporate customers, MCB has, during the last financial year, consolidated its position as the leading bank in Mauritius and an increasingly prominent regional financial services provider. Moreover, the Bank fulfilled its commitment to creating value for its customers and other stakeholders.

Our Business Development

Our performance has been supported by the flexibility of our operations and financial solutions, by our adherence to good corporate governance principles and by our robust risk management framework.

In FY 2016/17, we remained customer centered and offered increasingly simplified and customised banking experiences to our clients.

Domestically, MCB continues to account for more than 40% of local currency deposits and about 55% of cards issued. While the operating context remained difficult, the Bank posted a market share of some 40% in respect of credit to the economy, with foremost positions for loans to corporates, mortgage loans, credit to SMEs and education loans. Furthermore, MCB increasingly capitalised on its digital channels. Market interest for our 'Juice' mobile banking service has continued to mount, with some 52,000 new customers registering during the last financial year.

Beyond local shores, the Bank deepened its regional diversification strategy, with notable inroads made in terms of Energy and Commodities financing. Also, it pursued its action in respect of the 'Bank of Banks' initiative, in close connection with the Group, to offer a palette of solutions to counterparts in Africa and beyond. To date, MCB has serviced over 130 financial institutions abroad, including some 90 across the African continent.

In line with its long-term vision, the Bank has put itself on a stronger foothold to achieve sustainable growth and preserve the soundness and security of its operations and activities, by implementing major restructuring initiatives. A new leadership has been installed, the Private and Wealth Management unit has been segregated from the Retail line of business, key business segments and support functions have witnessed a realignment or upgrading of their functioning and operations. As another key development, a Permanent Control function will soon be put in place and will provide the Bank with the necessary means to undertake a more rigorous identification, assessment and monitoring of risk events.

Our Stakeholder Engagement

Sustainability is an integral part of our business strategy and is embedded in our actions. In FY 2016/17, MCB Ltd has fulfilled its stakeholder engagement and continued to make a difference to the economies, societies and communities in which it is involved. Firstly, we catered for the productivity and wellbeing of our employees. Secondly, we regularly engaged with our regulators and rating agencies in a transparent and constructive manner. Thirdly, the Bank fulfilled its engagement as a socially responsible and caring corporate entity. An amount of about Rs 79 million was, during the year, entrusted by MCB Ltd to MCB Forward Foundation, the dedicated vehicle responsible for the design/implementation of CSR initiatives of MCB Group. The Foundation has pursued multiple initiatives in favour of the alleviation of absolute poverty as well as the education, health and welfare of children. Also, actions in favour of community empowerment and preservation of the natural environment have been adopted.

Looking Ahead

We operate in a business environment which is undergoing increasingly complex shifts such as disruptive technologies, demanding regulatory and compliance requirements, and social responsibility. We should continuously refine the way we behave and interact. As such, in spite of progress made so far, there is always more that we can or should do to transform the Bank and reinforce the trust of our stakeholders. Therefore, the Bank will strive to meet the evolving needs and expectations of its customers and deliver seamless service levels. Along the way, the recourse to digital technologies will stay a key feature of its business agenda. Above all, the Bank and its employees will uphold the highest standards of corporate governance in their operations and interactions with stakeholders. They will strictly adhere to principles of integrity, accountability and transparency when conducting their activities. The Bank will also ensure that the risks faced in achieving its strategic objectives are suitably identified, assessed and mitigated.

Final Words

Once again, the year under review has been challenging and I would like to express my appreciation and gratitude to the staff and Management of MCB Ltd for their strong dedication and hard work in steering the Bank forward. I would also like to thank our esteemed clients who have continued to trust the Bank.

To my fellow Directors of the Board, I thank you for your continued support and counsel in overseeing the direction of the Bank and setting the stage for achieving set targets. On behalf of the Board, I wish to put on record my sincere thanks to Mr Antony Withers who, during his 10-year tenure as Chief Executive, played an influential role in fostering the development and modernisation of the Bank. I wish him the very best in his future endeavours. In the same vein, I congratulate Mr Alain Law Min and Mr Raoul Gufflet on their appointment as Chief Executive and Deputy Chief Executive respectively. I look forward to working with them towards elevating the Bank to even greater heights.

MCB Ltd is building a bank for the future and this enthusiasm is shared by the Board. For the past 180 years, MCB Ltd has been able to adapt to the deep changes in its environment. I have every reason to believe that we will succeed in engaging the Bank into yet another remarkable journey for the benefit of all stakeholders.

Jean-Philippe COULIER
Chairperson

Chief Executive Statement

I am delighted to deliver, for the first time, this statement on the performance and prospects of MCB Ltd.

Availing myself of this opportunity, I would, first of all, wish to highlight that it is an honour and privilege for me to lead such an esteemed Bank since April last. I am conscious of the responsibilities and challenges that this position represents and, at the same time, I am humbled and comforted to be in the midst of a team of talented and motivated men and women who have helped to foster a long string of achievements for the Bank over time.

Our Performance

MCB stands as a strong and dynamic organisation with a rich heritage and a noteworthy potential. In FY 2016/17, the Bank has upheld its strategic and financial progress, alongside creating further value for its stakeholders. Its performance has come out through a combination of capable human capital, operational excellence, disciplined market development and firm adherence to our mission, vision and values.

For the year ending 30 June 2017, profit after tax rose by 11% to reach Rs 6,237 million, with return on average equity standing at 17.8%. Our improved performance was supported by a continued rise in operating income. Net interest income increased by 6.5% on the back of higher investment in securities amidst the high liquidity situation as well as an appreciable performance within our international segment. Furthermore, a relative upturn in net fee and commission income and strong growth in profit on exchange were recorded. Our results were achieved against the backdrop of a rise of 8.2% in operating expenses as we continue to invest in strengthening the Bank's capabilities, whereas impairment charges grew by 4.8% mainly attributable to our international operations. MCB has further enhanced the soundness of its financial metrics. The cost to income ratio declined by 30 basis points to slide beneath the 37% mark, which is another milestone for the organisation. The Bank maintained sound funding and capital positions. Alongside comfortably overshooting regulatory requirements as per Basel III, our BIS and Tier I ratios edged up to attain 16.8% and 15.8% respectively as at 30 June 2017. As for asset quality, a major source of satisfaction is that our gross NPL ratio has dropped by 10 basis points to attain 5.8%, with the ratio standing at 4.3% in net terms.

The performance posted by the Bank is encouraging in view of the testing operating landscape that prevailed both locally and abroad. In particular, sluggish investment levels and the growing recourse to non-bank financing by corporates continued to hamper the demand for bank credit on the domestic front. As a key source of concern, this contributed to the persistence of excess liquidity conditions in the banking system, thus pressurising margins. Set against this context, our financial achievement reflects our sound business model and the success of our endeavours to broaden and diversify our revenue base. Indeed, it can be highlighted that around 43% of our net profit was sourced from our foreign operations in FY 2016/17. In fact, the Bank has, during the last financial year, sharpened its focus on its growth pillars and pursued its regional market diversification agenda, notably in sub-Saharan Africa.

Our Expansion Drive

Domestically, the Bank strengthened the quality of its relationships vis-à-vis its individual clients, small and medium enterprises and larger corporate clients, backed by tailored solutions and reinforced capabilities. On the retail side, MCB extended its involvement in the mortgage market by a notable extent, enhanced its sales efficiency levels and improved the convenience of its digital channels. Today, around 70% of retail transactions are conducted through electronic channels instead of branches. Also, despite competitive developments, the comprehensive mobile payments and banking platform of MCB, titled 'Juice', still leads the way in Mauritius by means of its unrivalled features, including the ability to effect cardless ATM transactions, transfer money to any Visa cardholder worldwide, and access selected PayPal services. As at August 2017, 'Juice' boasted some 132,350 subscribers, representing an annualised growth of around 84% over the past two years. In another respect, the realignment exercise of the Cards Strategic Business Unit (SBU) enabled the Bank to better serve its retail and corporate customers, thanks to a closer collaboration with the respective lines of business whilst ensuring a more efficient and transparent operating model, leveraging on the key functions at the Bank. MCB continued to bolster its investment and wealth management value proposition to better attend to the needs of high net worth customers, *inter alia*, with the creation of two new customer segments, International Personal Banking and External Asset Managers. Moreover, while market conditions were subdued, MCB capitalised on its unique selling propositions to support corporates, alongside accompanying them in their restructuring endeavours. It can additionally be noted that, tapping into the positioning of Mauritius as an International Financial Centre, MCB widened its client base by offering financial solutions to global business entities, with intensive client onboarding helping to boost fee generation. Beyond local shores, the Bank increasingly partnered and operationally supported banks in Africa, allowing them access to state-of-the-art systems and expertise towards supporting their sustained growth. While the Bank continued to diversify its portfolio of structured project finance deals, a major achievement for the year under review relates to the important widening of the market coverage of its Energy and Commodities business. Overall, the Bank anchored its local and foreign strategic moves on close-knit and trustworthy client relationships, the forging of synergies and mutually-beneficial partnerships with other Group entities, solid risk management, and higher operational efficiency levels, aided by reinforced capabilities in terms of processes, systems and human capital.

Our Achievements and Accolades

MCB Ltd upheld its investment-grade credit ratings on the basis of its sound fundamentals. In this respect, Moody's and Fitch have, amongst other observations, underlined the Bank's comfortable capitalisation which provides a high loss-absorption capacity as well as its good profitability metrics and asset quality stabilisation. Besides, the Bank has been recognised as a well-managed institution, while its franchise is viewed as supporting its sound liquidity position. Underscoring its accomplishments, the Bank obtained several tributes. Last year, MCB Ltd was named the 'Bank of the Year for Mauritius' by The Banker Magazine. Also, we were named as 'Best Bank in Mauritius' in the context of the Euromoney Awards for Excellence 2017, while the PWM/The Banker has, last year, conferred us with the 'Best Private Bank in Mauritius' award. Beyond Mauritius, we were awarded the 'Best Regional Bank in Southern Africa' in the context of the African Banker Awards 2017.

The Current Operating Context

As it stands, the domestic and international business environments remain challenging. Bearing in mind that demand for bank credit in Mauritius has remained under pressure for quite some time, we await for national investment levels to be re-ignited in the periods ahead. Even if the anticipated improvement in the economic context could create a more favourable market environment, the objective of tackling excess liquidity levels could prove to be challenging. Beyond Mauritius, we will remain attentive to economic developments across markets, while ascertaining the risks to which we are exposed. Furthermore, the Bank will stay alert to evolving legal and regulatory developments, while local and international compliance standards are getting ever more stringent. Particularly, requirements related to customer onboarding and KYC procedures as well as anti-money laundering standards call for due vigilance. Additionally, the Bank will monitor the payments landscape in view of ongoing market, regulatory and technological developments. In reference to the latter, it is worth highlighting that the speed at which adoption of disruptive technologies is taking centre-stage, re-inventing business models and remodeling market landscapes worldwide, warrants close attention. Today, alongside generating opportunities for process improvements and engendering faster and better-quality client interactions, digitalisation is raising client expectations and prompting a more competitive market landscape. Besides, it is amplifying the challenge of dealing with potential technology-related crimes, especially in the wake of mounting threats witnessed worldwide.

Chief Executive's Statement

Our Strategic Priorities Looking Ahead

Since my nomination, I have, with the collaboration of the Deputy Chief Executive and based on insights gathered from across the organisation, moved forward to establish a three-year strategic plan for the Bank, in alignment with the general directions set by the Board.

In addition to consolidating and deepening our involvement in existing markets, a key axis of the short to medium term strategic orientations of MCB is to broaden its frontiers. Alongside widening its range of products and services to extend market space across segments, the Bank will adopt a prudent approach to diversify markets across the regional scene and beyond. Simultaneously, it will focus on areas where it has developed differentiated value propositions and which are positioned as growth pillars. They notably pertain to Energy and Commodities financing, our Private Banking proposal, international hotel project finance and the 'Bank of Banks' initiative, whereby the Group positions itself as a regional hub in order to meet the outsourcing needs of regional banking counterparts. This initiative is viewed as a key component of the avenues of collaboration and mutually beneficial partnerships that the Bank seeks to forge with other Group entities. It will continue to provide clearly-calibrated operational and strategic assistance to support the business development endeavours of these entities, alongside leveraging the foreign subsidiaries to extend the delivery of its solutions in their respective countries. Our ambition is to increase our share of foreign-sourced income and help position the Group as a financial hub in Africa.

Furthermore, we will build a Digital Bank with a human touch. Pursuing on initiatives put in place during the past few years, the Bank will accelerate the use of cutting-edge technologies towards making banking much more convenient to its customers and reinforcing the richness of client relationships. It will focus on better anticipating and meeting customers' needs whilst simplifying their interaction with the Bank, anytime and anywhere. This will require an intimate understanding and knowledge of the clients' data and an improvement of customers' experiences across all their journeys with the Bank. The digital transformation will accelerate the Bank's evolution from transactional to relationship banking, with our increased capabilities to provide support and advice to meet customers' needs.

Last, but not least, we aim to nurture our values and deliver on our brand promise. The Bank will be engaged in extending the dissemination of its values across all layers of the organisation in order to foster an alignment of actions deployed for the achievement of common goals. The Bank will strive to ensure that its core values, which are its DNA, are continuously lived up and transposed into the day-to-day attitudes, behaviours and activities of its employees.

Enablers For Growth

To ensure that our strategies are effectively designed and executed in a disciplined and timely manner, we will anchor our actions on key principles and enablers. We will ensure that (i) our strategic focus areas are clear, direct, simple and actionable; (ii) synergies amongst business segments are strengthened; (iii) accountability is fostered via the formulation of smart objectives and key performance indicators; and (iv) the environment for continuous learning and improvement is reinforced across the Bank. Above all, the Bank will, as always, place the customer at the heart of everything it does. It will ensure that it comprehensively ascertains client expectations so as to place the organisation in an ideal position to better advise its customers and guide them in making the right choices. As another major venture, the Bank will further initiatives for fostering operational excellence with a view to delivering seamless and flawless customer experiences. The goal is to create a more flexible and agile organisation, underpinned by upgraded systems and processes as well as the promotion of staff specialisation, empowerment and engagement. In the same light, the recent organisational restructuring exercise of the Bank – a key development being the setting up of a full-fledged Private and Wealth Management SBU after related activities have been segregated from the Retail line of business – and the realignment and upgrading of several functions should enable the Bank to operate on more effective grounds for the realisation of its objectives. Concomitantly, the strengthening of our risk control and management standards as well as the upgrading of our compliance capabilities will feature high on our agenda to further integrate the risk culture across the organisation and ensure that our growth trajectory is both sound and sustainable. On this note, due support would emanate from the operationalisation of our Permanent Control function.

Concluding Note

Our sound financial results and achievements would not have been possible without the loyalty, commitment and hard work of our employees and Leadership Team, to whom I am thankful. I was impressed by their enthusiasm and motivation to work together across the Bank in order to make things happen. I am convinced that this team spirit combined with an unflinching commitment to execute on clear common objectives, will help to drive the Bank to greater heights. In spite of our progress so far, I believe that we cannot be complacent in our thinking and endeavours given the multiple challenges faced by the Bank. As a result, we will strive to continuously raise the level of our game with our commitment to build an adaptable, talented and learning organisation. With the recent organisational restructuring exercise of the Bank and the realignment of several functions, I am pleased to extend my warm welcome to those appointed as Business Leaders from 1 August 2017. I look forward to collaborating with them towards strengthening the foundations for the continued growth of the Bank.

My deep gratitude also goes to our valued customers for their support and for continuing to trust us with their business. We are fully aware that we need to strive to earn and keep the trust of our customers every single day, by delivering exceptional customer service and adding value in each interaction with our customers. Also, allow me to express my profound appreciation to the Board of MCB Ltd and to the ultimate shareholder, MCB Group Ltd, for their wise counsel, sound advice and stewardship in driving the Bank forward.

Alain LAW MIN
Chief Executive Officer

Corporate Governance Report

Corporate Governance Report

Our Philosophy

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

The Bank's approach to governance is underpinned by its adherence to advocated norms, rules and relevant regulatory requirements. In this respect, the Bank complies with the revised Mauritius Bankers Association's Code of Ethics and Banking Practice (2016) and the Bank of Mauritius (BoM) Guideline on Corporate Governance, revised in May 2016. In addition, the Bank subscribes to the National Code of Corporate Governance (2004) which was applicable in the last financial year. Furthermore, the Board has assessed the implications of the new National Code of Corporate Governance for Mauritius (Code) launched in February 2017 which adopts an 'apply and explain' methodology based on eight governance principles and is applicable as from the reporting year ending 30 June 2018 (i.e. companies should apply the principles of this Code from July 2017 onward). The Board has thus satisfied itself that the Bank's current practices and disclosures are in compliance with the principles in all material aspects with actions undertaken to ensure adherence thereto. For instance, the Board has reviewed and approved the Board and Board Committee Charters while developing and endorsing other key governance documents, which have all been posted on the Bank's website since July 2017.

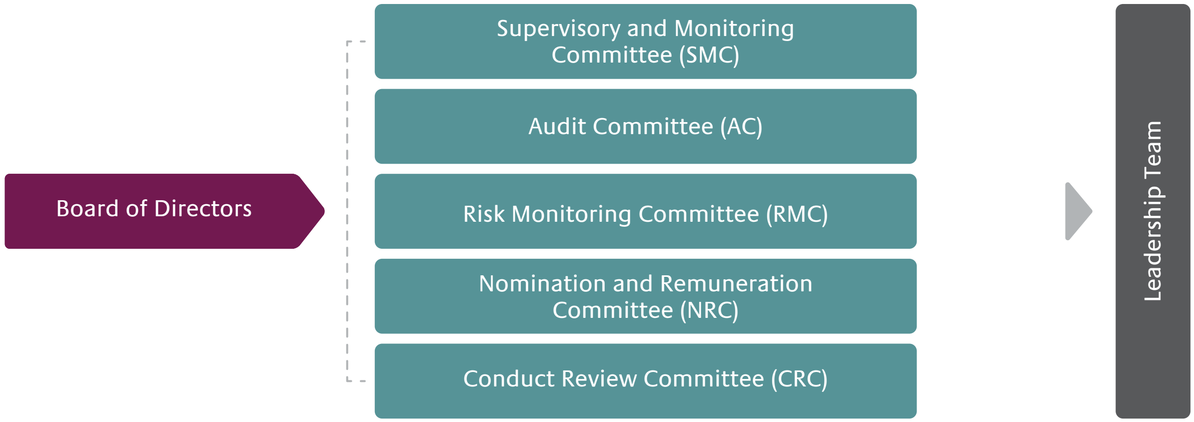
The Bank's perspective of good governance goes beyond regulatory compliance. The Board encourages a corporate culture that promotes ethical and responsible decision-making throughout the organisation by way of bank-wide awareness of its operating beliefs and principles. In this respect, the Bank adheres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

Governance Structure

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. The Bank operates within a clearly defined governance framework which provides for delegation of authority and clear lines of responsibility while enabling the Board to retain effective control. As such, the Board is ultimately accountable and responsible for the performance and affairs of the Bank. While the Board has reserved certain matters for its approval, it has created five Committees tasked to provide specialist guidance to the Board to help it carry out its duties and responsibilities. A reporting mechanism is in place to ensure that matters affecting the affairs and reputation of the Bank are 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. The Board has delegated the day-to-day running of the business to the Leadership Team and regularly monitors their performance in relation to set objectives and policies.

Role of the Board	Role of Board Committees	Role of Leadership Team
The Board provides effective leadership and strategic guidance towards the achievement of the Bank's strategy within a framework of effective controls and risk management, alongside ensuring adherence of the Company to relevant legislations and policies.	Board Committees facilitate the discharge of Board's responsibilities and provide in-depth focus on specific areas. In fulfilling their role of providing oversight and guidance, Chairpersons of Board Committees escalate all significant matters affecting the affairs and reputation of the Bank to the Board.	The Leadership Team is responsible for the day-to-day running of the business, with well-defined accountabilities as endorsed by the Board. They regularly report to the Board on the operational and financial performance of the Bank.



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

Corporate Governance Report

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

Key roles and responsibilities

Chairperson	Chief Executive	Directors
• Provides overall leadership to the Board • Ensures that the Board is effective in its duties of setting out and implementing the 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 development needs of the directors are identified and that appropriate training is provided to continuously update the skills and knowledge of the directors • Maintains sound relations with the shareholder	• Manages the day-to-day operations • Develops and executes the plans and strategy of the business in line with the policies set by the Board • Consults regularly with the Chairperson and Board on matters which may have a material impact on the Bank • Acts as a liaison between the Leadership Team and the Board • Provides leadership and direction to Business Executives • 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	• Contribute to the development of Bank's strategy • Analyse and monitor the performance of the Leadership Team against the set objectives • Ensure that the Bank has adequate and proper financial controls and systems of risk management • Ensure that financial information released to markets and shareholder is accurate • Actively participate in Board decision-making and constructively challenge, if necessary, proposals presented by Management • Provide specialist knowledge and experience to the Board • Remain permanently bound by fiduciary duties and duties of care and skill

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

More information on the key roles is available on the website

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.

More information on the Constitution is available on the website

Corporate Governance Report

The Board

Mandate

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

Responsibilities

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

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

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

Composition and Meetings

Composition

As per the Board Charter, the Board shall comprise executive and non-executive directors, with a majority of independent non-executive directors. It shall consist of a minimum of five and a maximum of twelve directors. The Chairperson of the Board shall be an independent or a non-executive director. Moreover, the Chief Executive shall be a member of the Board.

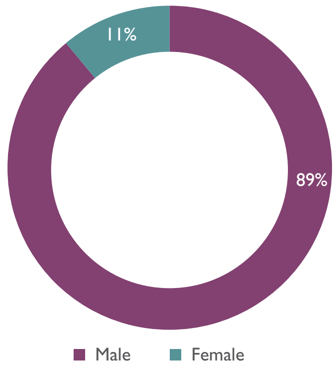
The Board comprised 9 members as at 30 June 2017, with the average age of the Board being around 59 years. Board members have a diverse mix of skills and experience and are distinguished by their professional ability, integrity and independence of opinion. The Board composition for the year under review is shown below.

Independence

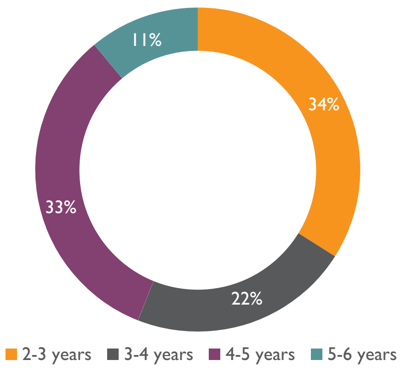
Independent non-executive (Including Chairperson)	6
Executive	2
Non-executive	1
Total	**9**

66% of Board members are independent

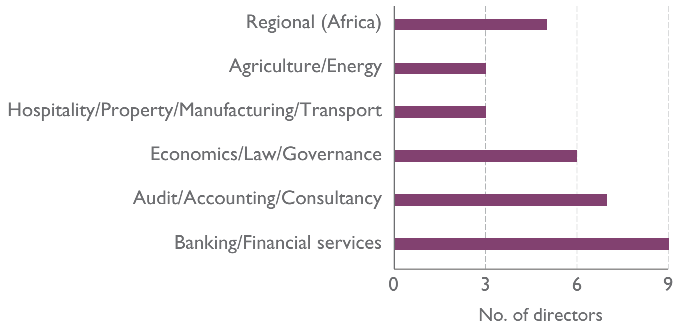
Gender



Length of tenure



Mix of skills and experience



Corporate Governance Report

Meetings

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

Agenda setting process

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

▼

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

▼

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

▼

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

▼

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

Board Attendance

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

Members	Board member since	Board status	Meeting attendance
Jean-Philippe COULIER *(Chairperson)*	**December 2012**	**Independent Non-Executive Director**	**11/11**
Priscilla BALGOBIN-BHOYRUL	December 2012	Independent Non-Executive Director	9/11
Jonathan CRICHTON	December 2013	Independent Non-Executive Director	9/11
Gilles GUFFLET	December 2011	Independent Non-Executive Director	4/11
Raoul GUFFLET	August 2015	Executive Director	11/11
Alain LAW MIN	August 2015	Executive Director	11/11
Jean Michel NG TSEUNG	August 2015	Non-Executive Director	11/11
Iqbal RAJAHBALEE	December 2012	Independent Non-Executive Director	9/11
Simon Pierre REY	December 2013	Independent Non-Executive Director	8/11
Antony R. WITHERS	December 2006 (Retired in January 2017)	Executive Director	6/7

Corporate Governance Report

Board Focus Areas

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

Strategy and performance	• Reviewed and endorsed the strategic orientations and budget plans of the Bank • Appraised the progress of the medium term growth strategy and other ongoing strategic initiatives • Reviewed and approved the new organisational structure • Approved the appointment of new senior officers to the Leadership team • Discussed and determined the strategic orientations and alignment of cards and treasury activities • Reviewed the on-going activities of some selected business segments
Governance and risk	• Discussed and assessed the implications of the new National Code of Corporate Governance for Mauritius • 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 size and composition of the Board and Board Committees • Approved the appointment of PricewaterhouseCoopers Ltd (PwC) as external auditor • Reviewed the stress testing model and scenarios as part of the ICAAP exercise • Discussed about the progress regarding the implementation of IFRS 9 • Assessed and discussed other main regulatory changes
Financial	• Assessed and monitored the Bank's financial performance against budget • Approved declaration of dividend • Reviewed reports from the Audit Committee
Recurrent agenda items	• Reviewed reports from Chairpersons of Committees • Reviewed and approved the Bank's accounts on a quarterly basis • Updated on developments in the operating environment

Directors' Profiles

The profiles of the Board members who served on the Board during FY 2016/17 are given hereunder. Their directorships in other listed companies (where applicable) are also provided. Unless otherwise stated in their respective profile, directors ordinarily reside in Mauritius.

Chairperson

Jean-Philippe COULIER – Age 68
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)

Skills and 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

Directors' Profiles (Cont'd)

Executive Directors

Alain LAW MIN – Age 58
Chief Executive Officer

Date of first appointment: August 2015

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

Skills and Experience: Alain has been appointed Chief Executive Officer of MCB Ltd effective 28 April 2017. Prior to his nomination, he was the Head of the Retail SBU, 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. He previously launched the leasing, factoring and private banking services of MCB Ltd and acted as Project Director for the Business Process Re-engineering exercise initiated with Accenture in 2001. 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 and MCB Forward Foundation, both subsidiaries of MCB Group Ltd.

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

Raoul GUFFLET – Age 49
Deputy Chief Executive

Date of first appointment: August 2015

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

Skills and experience: Raoul spent eleven years with Pricewaterhouse-Coopers 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 Ltd.

Raoul directed the merger between the International and the domestic Corporate Banking divisions, leading to the creation in July 2016 of the Corporate and Institutional Banking line of business that he has been heading during the financial year in review while also bearing the hat of Deputy Chief Executive of the Bank. Since May 2017, Raoul has been appointed full-time Deputy Chief Executive. 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

Non-Executive Director

Jean Michel NG TSEUNG – Age 49

Date of first appointment: August 2015

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

Skills and experience: Jean Michel joined MCB Ltd in January 2004 and was Head of Corporate of the Bank until July 2015, when he was appointed Chief Executive Officer of MCB Investment Holding Ltd. He trained as a Chartered Accountant with Arthur Andersen in London before becoming Partner and Head of the Audit and Business Advisory Department of De Chazal du Mée and subsequently of Ernst & Young. Whilst currently being a Board member of several companies within MCB Group namely MCB Group Ltd, MCB Investment Holding Ltd, MCB Seychelles, MCB Maldives, MCB Madagascar and Finlease Co. Ltd, he also sits on the Supervisory and Monitoring Committee of MCB Group Ltd. Furthermore, he is 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 42

Date of first appointment: December 2012

Qualifications: LLB (Honours) and Higher Diploma in Law (UK), Bar Vocational Course (UK)

Skills and experience: Priscilla practices as a barrister in Mauritius and has been called to the Bar of England and Wales as well as to the Mauritian Bar. She specialises mostly in civil, commercial, banking and industrial law matters. Priscilla has been a director of the Mauritius Union Assurance Company Ltd, where she also sat on the Audit Committee and is the 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, Member and Treasurer of the Mauritius Bar Association as well as a board member of Global Finance Mauritius.

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

Corporate Governance Report

Directors' Profiles (Cont'd)

Jonathan CRICHTON – Age 62

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)

Skills and 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 72

Non-Resident

Date of first appointment: December 2011

Qualifications: Chartered Accountant (UK)

Skills and 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. He 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 63

Date of first appointment: December 2012. Resigned in July 2017

Qualifications: LLB & LLM (UK), Barrister

Skills and experience: Iqbal is a Senior Counsel, with over 30 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 regulatory body for non-bank financial services 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 64

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)

Skills and 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); Risk Monitoring Committee (as from August 2017)

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

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 adequately in line with market practices. 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.

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.

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

Remuneration and benefits received	Rs '000
Jean-Philippe COULIER	2,729
Priscilla BALGOBIN-BHOYRUL	703
Jonathan CRICHTON	844
Gilles GUFFLET	894
Iqbal RAJAHBALEE	766
Simon Pierre REY	894
Total Non-Executive	***6,830***
Antony R. WITHERS *(until January 2017)*	22,837
Alain LAW MIN	22,081
Raoul GUFFLET	21,469
Total Executive	***66,387***
Total (Non-Executive and Executive)	**73,217**

Notes:

(i) The above figures, as from this financial year, include post employment benefits.

(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.

Directors' Interests and Dealings in Securities

MCB Investment Holding 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 2017 as well as the transactions effected by them during the year.

Interests in MCB Group Ltd shares as at 30 June 2017	Number of shares	
	Direct	Indirect
Jean-Philippe COULIER	20,500	9,500
Priscilla BALGOBIN-BHOYRUL	500	-
Gilles GUFFLET	500	-
Raoul GUFFLET	39,503	18,130
Alain LAW MIN	180,678	595
Jean Michel NG TSEUNG	7,885	-
Iqbal RAJAHBALEE	500	-
Simon Pierre REY	18,636	-

Transactions during the year	Number of shares	
	Purchased	Sold
Jean-Philippe COULIER	9,500	-
Alain LAW MIN	10,000	-
Raoul GUFFLET	11,038	-

Interests in MCB Group Ltd Subordinated Notes as at 30 June 2017	Number of notes	
	Direct	Indirect
Alain LAW MIN	-	3,000
Simon Pierre REY	7,225	12,117

Interests in Fincorp Investment Ltd as at 30 June 2017	Number of shares	
	Direct	Indirect
Alain LAW MIN	52,270	-

Corporate Governance Report

Directors' Service Contracts

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

Board Committees

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

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

Supervisory and Monitoring Committee (SMC)

Mandate

The SMC assists the Board in 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 the Bank in accordance with set policies.

Role and responsibilities

The main responsibilities of the Committee include:

- submitting to the Board the development strategy and objectives 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 senior 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.

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.

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

Composition and meetings

As per its Charter, the SMC shall consist of a Chairperson, the Chief Executive and Deputy Chief Executive/s. The SMC shall generally meet once a week or on an ad hoc basis when required.

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

Members	Committee member since	Board status	Meeting attendance
Jean-Philippe COULIER *(Chairperson)*	**January 2014**	**Independent Non-Executive Director**	**31/31**
Alain LAW MIN	July 2015	Executive Director	30/31
Raoul GUFFLET	July 2015	Executive Director	25/31
Antony R. WITHERS	July 2006 (Retired in January 2017)	Executive Director	12/16

Focus areas in FY 2016/17

Key topics

- Discussed and determined the Bank's new organisational structure
- Reviewed and considered prospective candidates for senior positions
- Reviewed and monitored the progress of initiatives under the medium term growth strategy
- Appraised the Bank's operating environment
- Discussed on the strategic orientations and alignment of cards and treasury activities
- Discussed about major credit risk issues
- Followed up on legal, operational and compliance issues

Corporate Governance Report

Audit Committee (AC)

Mandate

The AC assists the Board in overseeing the financial reporting process to ensure the balance, integrity and transparency of the financial information published by MCB Ltd. It monitors internal control processes and ensures compliance with relevant laws and regulations.

Role and responsibilities

The main responsibilities of the Committee include reviews of the following:

- the quarterly results and annual financial statements before these are approved by the Board;
- the effectiveness of the Bank's internal financial control and risk management systems;
- the effectiveness of the internal audit function;
- the appointment, replacement and remuneration of the Head of Internal Audit;
- the independence of the external auditors and their performance;
- the remuneration of the external auditors and their supply of non-audit services;
- the Bank's procedures for ensuring compliance with laws and regulations relevant to financial reporting and with the 'Code of Ethics' of its holding Company.

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

Composition and meetings

As per its Charter, the AC shall comprise between three and five members and shall consist solely of independent directors from whom the Chairperson shall be nominated. The Chairperson of the Board should not be a member of the AC. The AC meets at least four times a year corresponding to the Company's quarterly reporting cycle and on an ad hoc basis when required.

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

Members	Committee member since	Board status	Meeting attendance
Gilles GUFFLET *(Chairperson)*	**January 2012**	**Independent Non-Executive Director**	**4/4**
Priscilla BALGOBIN-BHOYRUL	January 2013	Independent Non-Executive Director	4/4
Simon Pierre REY	January 2014	Independent Non-Executive Director	4/4

Focus areas in FY 2016/17

Key topics
• Examined and reviewed the interim and audited financial statements published by the Bank
• Considered reports from internal and external auditors and monitored actions taken accordingly
• Considered and reviewed the audit plan and compliance reports
• Reviewed and discussed the adequacy of allowance for credit impairment
• Considered the progress made in terms of the implementation of IFRS 9
• Reviewed and approved the proposed audit scope and plan of the external auditor
• Recommended to the Board, the appointment of PricewaterhouseCoopers Ltd (PwC) as sole external auditor

Risk Monitoring Committee (RMC)

Mandate

The RMC assists the Board in setting up risk mitigation strategies and in assessing and monitoring the risk management process of the Bank. It also advises the Board on risk issues and monitors the risk of the different portfolios against the set risk appetite, in compliance with relevant regulations and advocated norms.

Role and responsibilities

The main responsibilities of the Committee include:

- monitoring the different risks of the Bank comprising credit, market, country, legal, information and reputational risks;
- overseeing credit concentration risk;
- scrutinising the risk profile of large exposures;
- monitoring the quality of assets by segment and by product;
- 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 Internal Capital Adequacy Assessment Process (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;
- 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.

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

Corporate Governance Report

Composition and attendance

As per its Charter, the RMC shall consist of the Chief Executive and at least three independent non-executive directors. The Chairperson of the Committee should be an independent non-executive director. The RMC meets at least quarterly and on an ad hoc basis when required.

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

Members	Committee member since	Board status	Meeting attendance
Jonathan CRICHTON *(Chairperson)*	**January 2014**	**Independent Non-Executive Director**	**5/5**
Jean-Philippe COULIER	January 2013	Independent Non-Executive Director	4/5
Iqbal RAJAHBALEE	January 2013	Independent Non-Executive Director	3/5
Jean Michel NG TSEUNG	August 2015	Non-Executive Director	4/5
Alain LAW MIN	January 2017	Executive Director	2/2
Antony R. WITHERS	February 2007 (Retired in January 2017)	Executive Director	3/3

Focus areas in FY 2016/17

Key topics
• Reviewed and approved the Bank's risk appetite
• Reviewed risk portfolios against set limits
• Assessed the principal risks such as credit, market and operational risks and monitored actions taken to mitigate them
• Examined the stress testing results in terms of capital adequacy as part of ICAAP
• Reviewed the progress of IFRS 9 implementation
• Reviewed the Country Risk framework
• Discussed the set-up of the Permanent Control Structure
• Assessed the implications of revised and new BoM Guidelines

Nomination and Remuneration Committee (NRC)

Mandate

The NRC assists the Board by making recommendations in respect of nominations and remunerations for the Board and for Committee members as well as Chief Executive/Senior Officers who form part of the Leadership Team of the Bank.

Role and responsibilities

The main responsibilities of the Committee include:

- establishing formal, clear and transparent selection criteria for prospective directors;
- 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 the performance of current directors;
- reviewing, for submission to the Board, remunerations for directors and executives/senior officers as well as proposals of promotion to the Leadership Team; and
- reviewing the succession plan of senior executives and the list of talents.

More information on the Nomination and Remuneration Committee Charter is available on the website

Composition and meetings

As per its Charter, the NRC shall comprise between three and five members, the majority of which shall be independent non-executive directors. The Chairperson should be a non-executive director and the Chief Executive may be a member of the NRC. The NRC meets at least twice a year and on an ad hoc basis when required.

Corporate Governance Report

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

Members	Committee member since	Board status	Meeting attendance
Jean-Philippe COULIER *(Chairperson)*	**January 2014**	**Independent Non-Executive Director**	**7/7**
Iqbal RAJAHBALEE	January 2013	Independent Non-Executive Director	6/7
Simon Pierre REY	January 2014	Independent Non-Executive Director	4/7
Alain LAW MIN	January 2017	Executive Director	3/3
Antony R. WITHERS	January 2014 (Retired in January 2017)	Executive Director	3/4

Focus areas in FY 2016/17

Key topics

- Reviewed and assessed the effectiveness of the Board and its sub-committees with the assistance of an external facilitator
- Monitored the selection process for the replacement of the Chief Executive of the Bank
- Reviewed the Board and Board Committees' composition
- Recommended the re-election of Board members to the Board for approval in the Annual Meeting of Shareholders
- Reviewed the performance evaluation and reward system of the Bank
- Assessed and discussed the implications of the new National Code of Corporate Governance for Mauritius

Conduct Review Committee (CRC)

Mandate

The CRC assists the Board in 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.

Role and responsibilities

The main responsibilities of the Committee include:

- ensuring that related party transactions' policy and procedures have been established by the Bank to comply with the requirements of the BoM Guidelines and that the policy is approved by the Board;
- periodically reviewing 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 approved facilities on related party, in particular ensuring that they are granted at arm's length, with a view to ensuring compliance with the BoM Guideline and the Group'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.

More information on the Conduct Review Committee Charter is available on the website

Composition and meetings

As per its Charter, the CRC shall consist of between three and five independent non-executive directors, from whom the Chairperson shall be nominated. The CRC meets at least four times per year and on an ad hoc basis when required.

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

Members	Committee member since	Board status	Meeting attendance
Simon Pierre REY *(Chairperson)*	**January 2014**	**Independent Non-Executive Director**	**4/4**
Priscilla BALGOBIN-BHOYRUL	January 2014	Independent Non-Executive Director	4/4
Gilles GUFFLET	January 2012	Independent Non-Executive Director	3/4

Focus areas in FY 2016/17

Key topics
• Reviewed and ratified all credit facilities granted to related parties
• Reviewed and approved the reporting to the BoM on related party exposures
• Reviewed reports with respect to deposits of related parties
• Reviewed the financial positions (exposures and deposits) relating to external auditors as well as to partners in charge of the audit of the Bank

Board Effectiveness

Nomination Process

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

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

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

Nomination and appointment process

The NRC identifies potential candidate(s) for the Board of the Company in line with established criteria.

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

The NRC proposes the selected candidate(s) to the Board for review and approval.

Once the Board has reviewed and is satisfied with the profile of the candidates, the Board shall request the approval of the regulatory authorities.

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

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

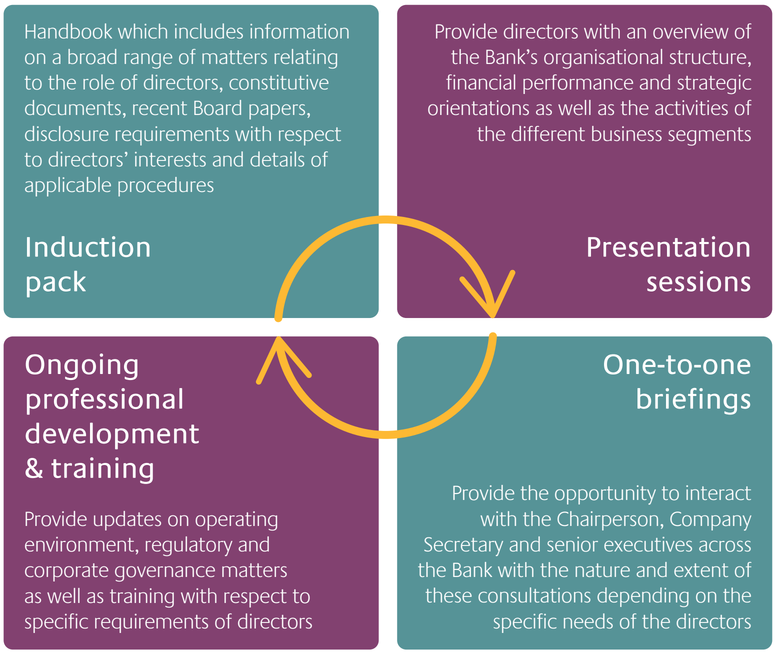
Necessary filing is effected with relevant regulatory authorities.

Board Induction and Training

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

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

Induction/training programme



Board/Directors' Performance

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

Evaluation process methodology

A detailed online questionnaire was completed by each director

↓

A comprehensive report was thereafter submitted to the NRC

↓

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

↓

An action plan was agreed by Board members to address gaps identified

Risk Governance and Internal Controls

Risk Management and Internal Control

Being mindful of the risks facing the Bank in its day-to-day operations and activities, the Board of MCB Ltd acknowledges its responsibility for maintaining a robust risk management and internal control system and for reviewing its effectiveness on a regular basis. In this respect, the Board ensures that the necessary structures, processes and methods for identifying, measuring and monitoring such risks are in place and integrated in the Bank's overall framework for risk governance. In line with its business development orientations, the Board identifies the main risks and determines the principal strategies in respect of the risk management of the Company, while ensuring that all laws, regulations and codes of business practice are adhered to. For the discharge of its duties, the Board is assisted by sub-committees, notably the Risk Monitoring Committee, which enable it to properly formulate, review and approve policies on monitoring and managing risk exposures. The Board gains assurance that risks are effectively managed through regular reporting and presentations by the Chairperson of the Risk Monitoring Committee.

Besides, the Bank's internal control framework seeks to ensure the reliability of financial reporting, operations and systems whilst guaranteeing compliance with internal established policies and procedures as well as with laws, regulations, and codes of business practice in order to protect the Bank's assets and reputation. The Board is assisted in its responsibilities by the Audit Committee which oversees the effectiveness of the Bank's internal control systems. Processes are in place to monitor the effectiveness of internal control, identify and report any significant issues, and ensure that timely and appropriate corrective actions are taken. In carrying out its duties, the Committee receives regular reports from the Internal Audit function. The Audit Committee holds frequent meetings with the Chief Executive and the Head of Internal Audit. In addition, the Committee receives reports from the Company's external auditor and has separate sessions with the latter without Management being present. As such, through the internal control in place, the audit reports, the reviews by Management and the regular reporting from the Chairperson of the Audit Committee, the Board gains assurance that the Bank's internal control systems are adequate and effective.

More information is available in the 'Risk Management Report' on pages 140 to 175

Information Governance

The Bank lays due importance on the confidentiality, integrity, availability and protection of information, backed by an adapted information and information technology (IT) systems. The Board ensures that prudent and reasonable steps are taken in order that the IT governance framework forms an integral part of the overall corporate governance of the Bank and are managed effectively. In this respect, the Board has established an Information Security Policy, which is regularly reviewed and monitored. The Board is supported by the Risk Monitoring Committee for reviewing information risks and actions taken to mitigate them as well as to ensure that the performance of information and information technology systems leads to business benefits and creates value. For its part, the Leadership Team is responsible for implementing the policies, procedures and practices to protect the Bank's information, in line with regulatory and other relevant requirements which ensure that relevant issues are duly escalated. In addition, 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 and staff are regularly made aware, through fitting communication channels, of relevant requirements as set out in the Information Security Policy. The oversight and monitoring of the security and performance of information and information technology systems is exercised through an executive committee namely the Information Risk, Operation Risk and Compliance Committee (IORCC). There are also appropriate governance arrangements in place whereby the IT function and the function responsible for monitoring adherence to Information risk and IT security are kept separate. While the Audit Committee evaluates the effectiveness of related internal control systems, the set-up provides for independent assurance with notably the Internal Audit and Compliance functions which act as an additional line of defence to assess the suitability of the Bank's securities policies, standards and related procedures.

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

External Auditors

With a view to ensuring the overall adequacy of the Bank's internal control framework, the Audit Committee evaluates the independence and effectiveness of the external auditors on an ongoing basis before making a recommendation to the Board on their appointment and retention. The Committee monitors any possible conflict of interest of external auditors by obtaining from them annual statements of their relationship with the Bank. Besides, it ensures that any significant matters are escalated by external auditors to relevant members of the Leadership Team as and when required.

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

Non-audit services

MCB 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	
	2017	2016
	Rs '000	Rs '000
Audit fees paid to:		
BDO & Co	-	10,178
PricewaterhouseCoopers Ltd	18,055	10,178
Fees for other services provided by:		
BDO & Co	-	1,380
PricewaterhouseCoopers Ltd	3,058	1,380

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

Business Executives

The conduct of business is entrusted to the Leadership 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. Business Executives assist the Chief Executive Officer and Deputy 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.

Profiles of Business Executives

The profiles of Business Executives – excluding those for Alain LAW MIN and Raoul GUFFLET, which appear in the Directors' Profiles section – are given hereunder.

Vincent CHATARD – Age 53

Chief Operating Officer

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

Skills and 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 wealth bank operating in Malta and Belgium prior to joining MCB Ltd.

Eddy JOLICOEUR – Age 60

Head of Human Resources

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

Skills and 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 46

Head of Finance

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

Skills and 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 as Manager – Investment Administration and then worked as Project Leader on the Business Process Re-engineering project in 2001. 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 43

Chief Risk Officer

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

Skills and 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, during which 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 Business Executives in the Group's listed securities at the end of the financial year.

Interests as at 30 June 2017 (number)	MCB Group Ltd shares		MCB Group Ltd Subordinated Notes	
	Direct	Indirect	Direct	Indirect
Eddy JOLICOEUR	23,128	-	-	2,000
Bhavish NAECK	22,444	5,194	1,000	1,500
Frederic PAPOCCHIA	3,973	-	-	-

Note: The above Business Executives do not hold any share in Fincorp Investment Ltd.

Corporate Governance Report

Remuneration

The aggregate amount paid to the Business Executives 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 Bank of Mauritius 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.

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 2017.

Aggregate exposure of related parties, including exposure of the Bank to subsidiary companies amounted to Rs 6,111 million (on-balance sheet) and Rs 863 million (off-balance sheet), which represented respectively 3.7% and 1.7% of Bank loans and Bank contingent liabilities as at 30 June 2017.

Exposure of the Bank's top six related parties as at 30 June 2017 were Rs 1,857 million, Rs 1,104 million, Rs 848 million, Rs 517 million, Rs 456 million and Rs 302 million. These balances represented 5.2%, 3.1%, 2.4%, 1.5%, 1.3% and 0.8% respectively of the Bank's Tier 1 capital.

None of the loans granted to related parties was non-performing as at 30 June 2017, except for an exposure of Rs 188 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.

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

Stakeholders' Relations and Communication

The Board of MCB Ltd places high importance on an open and meaningful dialogue with all those involved with the Bank, whilst ensuring that their information needs are promptly attended to. In this respect, relevant stakeholders and the public at large are duly kept informed of notable developments at the Bank through appropriate communication channels. In addition to official press announcements, occasional press conferences, the Bank's website, hosted at www.mcb.mu, provides for an adapted and comprehensive self-service interface.

Shareholders Agreement

There is currently no shareholders agreement affecting the governance of the Company by the Board, except as mentioned in shareholders' resolution under the Constitution of The Mauritius Commercial Bank Limited.

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.

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 the Financial Statements have been prepared in accordance with and comply with International Financial Reporting Standards, the Mauritian Companies Act 2001 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. The 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 consistently used; and
- International Financial Reporting Standards, the Mauritian Companies Act 2001, as well as the requirements of the Banking Act 2004 and the guidelines issued hereunder have been adhered to.

On behalf of the Board.

Jean-Philippe COULIER
Chairperson

Alain LAW MIN
Chief Executive Officer

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 2016 to 30 June 2017

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 (2004) in all material aspects.

Jean-Philippe COULIER
Chairperson

Alain LAW MIN
Director

28 September 2017

Company Secretary's certificate

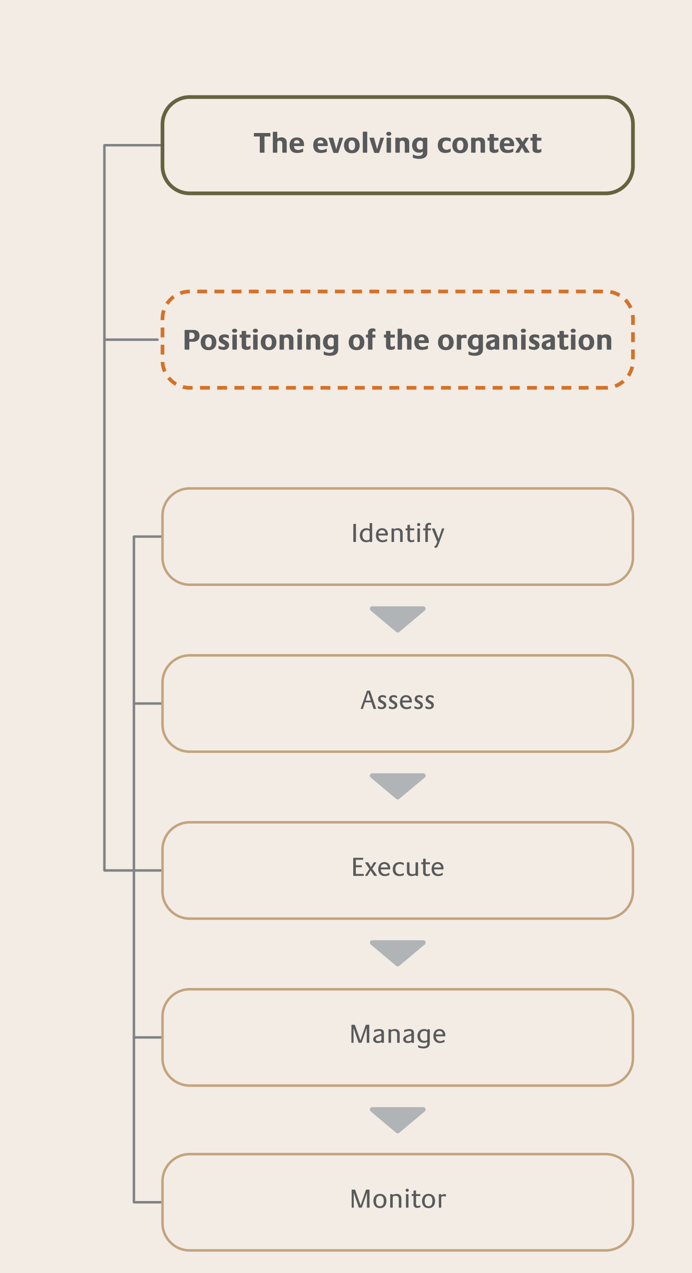
In our capacity as Company Secretary, we hereby certify that, to the best of our knowledge and belief, the Company has filed with the Registrar of Companies all such returns as are required of the Company under the Companies Act 2001 in terms of section 166(d).

Marivonne OXENHAM
Per MCB Registry & Securities Ltd
Company Secretary

28 September 2017

Management Discussion and Analysis

Our Operating Environment



THE CONTEXT

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

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

OUR POSITIONING

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

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

Challenges in Executing Our Strategy

Macroeconomic developments

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

Legal and regulatory landscape

Faced with the evolving regulatory background, the Bank remains vigilant to new developments in the relevant banking and financial services sectors.

Market environment

The Bank is subject to heightened competitive pressures in specific niche market segments and mixed conditions across the markets where it is involved. In particular, it faces up to persistently high liquidity conditions in the local banking sector.

Digitalisation and technological innovation

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

Society and culture

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

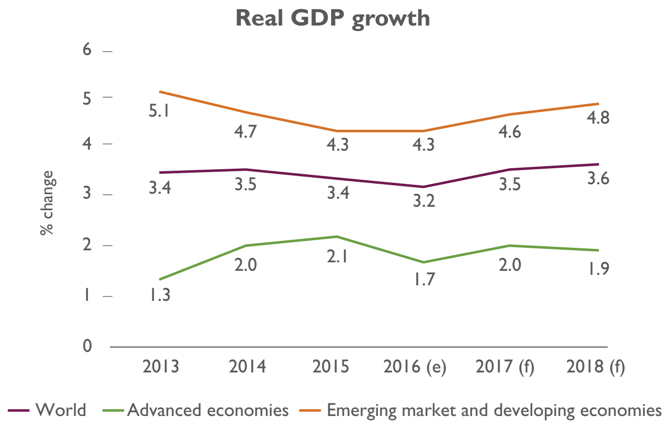
Management discussion and analysis

Macroeconomic Developments

Generally soft economic conditions have prevailed on the domestic and regional scenes during the last financial year.

The international context

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



(e) estimates (f) forecasts

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

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

The Mauritian economy

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

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

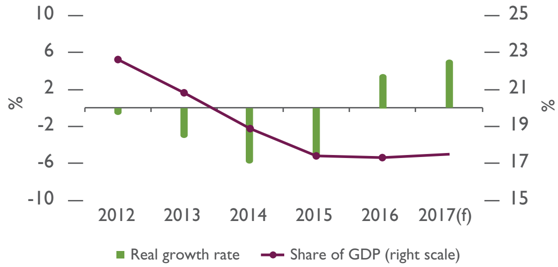
More information on our outlook for the Mauritian economy is available on the website

Economic dashboard

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

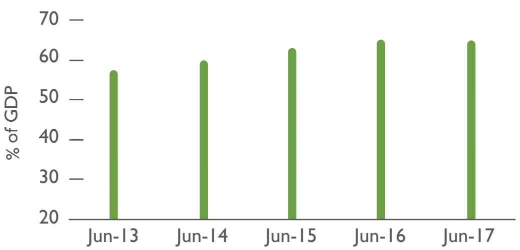
Real GDP growth rate and unemployment

Total investment



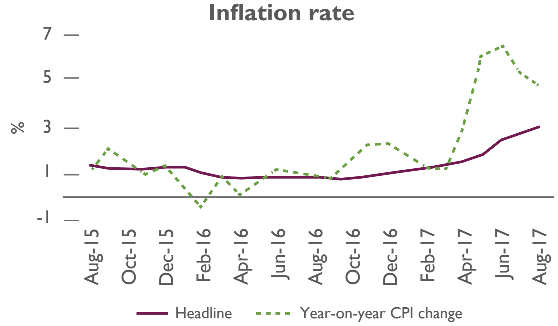
Fiscal and debt metrics continue to warrant attention given the subdued economic context and major infrastructure projects planned for realisation. On another note, whilst remaining manageable, headline inflation pursued an uptrend lately, on account essentially of increases in the prices of vegetables,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

Public sector debt*



* *based on international definition*

Inflation rate

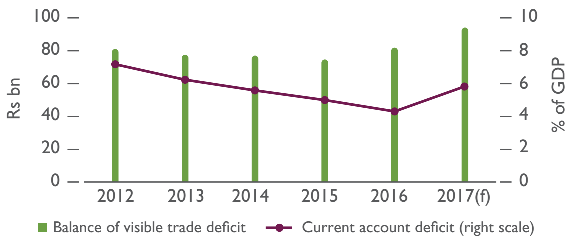


Reflecting liquidity in the forex markets, the rupee has, on a point-to-point basis, appreciated against the US dollar, the euro and the pound sterling during the year ending June 2017. Despite the anticipated worsening of external balances, compounded by exports being hit by rupee strengthening, the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

Currency dynamics

Selling rates of main currencies vis-à-vis the rupee				
	Value as at		Annual average	
	30-Jun-16	30-Jun-17	FY 2015/16	FY 2016/17
USD	36.7	35.4	36.3	36.4
EUR	40.8	40.5	40.3	39.7
GBP	49.3	46.1	53.9	46.2

External front



(f) MCB forecasts

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

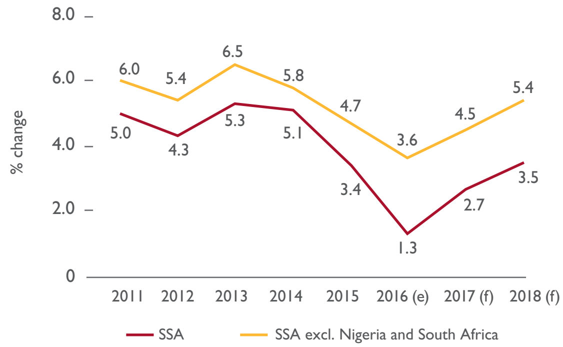
Management discussion and analysis

The regional landscape

With regard to the sub-Saharan African region, economic growth reached a two-decade low last year on account, notably, of the ramifications of the marked decline in oil prices, as well as country-specific headwinds. As per the IMF, growth is projected to recover modestly and stand at 2.7% in 2017 and 3.5% for next year, principally reflecting a relative pickup in oil and commodity prices and supportive domestic conditions.

That said, although disparities exist among countries, with varying growth outcomes being anticipated for the short to medium term, a more favourable outturn is observed when excluding South Africa and Nigeria.

Real GDP growth



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

Legal and Regulatory Environment

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

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

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

- Amendments were brought to the Banking Act 2004 and Bank of Mauritius Act 2004. The Bank of Mauritius has been empowered to request information from any financial entity for financial stability purposes and conduct effective conglomerate and consolidated supervision. Besides, the Mauritius Revenue Authority (MRA) has been empowered to request any deposit-taking institution a statement of financial transactions effected by an individual/société/succession that made a deposit exceeding Rs 500,000 or above Rs 4 million in aggregate in the preceding year, with money changers and foreign exchange dealers also having to submit such returns to the MRA with regard to the sales, purchases or transfers of foreign currency worth at least Rs 200,000 in a single transaction. Also, the Banking Act 2004 was amended, with the Bank of Mauritius being empowered to grant licences to issuers of commercial papers, the objective being to create relatively more conducive conditions for corporate borrowers to diversify the source of their short-term borrowings and provide an additional instrument for investment. In the same vein, draft guidelines to govern the issuance of commercial papers were released by the Bank of Mauritius in September 2017. Moreover, the Borrowers Protection Act 2007 was amended, whereby all credit facilities of up to Rs 3 million (compared to a limit of Rs 2 million before) now fall under the purview of the legislation.

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

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

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

Market Environment

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

- During the last financial year, the banking system was characterised by mixed fortunes in terms of market trends and dynamics. In addition to facing up to external operational threats in the form notably of cyber-attacks, which have been well-managed, the banking operators faced up to competitive pressures across some segments. Especially, prominent endeavours were displayed by operators to provide

Management discussion and analysis

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

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

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

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

Main banking sector metrics

Loans and deposits

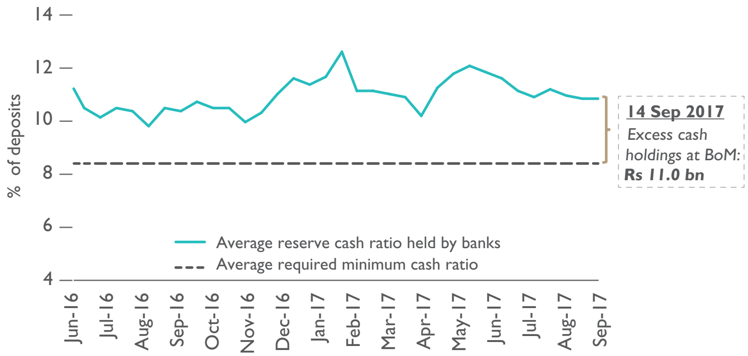
Loans (June 2017)			
By segment	**Rs m**	**Mix (%)**	**Y.o.y. change (%)**
Segment A	286,373	46.8	1.8
Segment B	325,829	53.2	0.9
Total	612,202	100.0	1.3

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

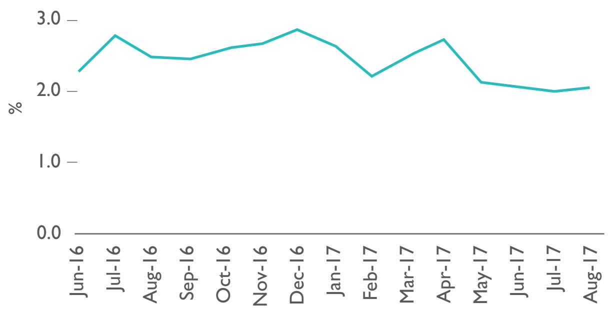
Credit to the economy (June 2017)			
Sectors	**Rs m**	**Mix (%)**	**Y.o.y. change (%)**
Agriculture and fishing	20,064	5.8	2.6
Export oriented industry	6,789	2.0	6.1
Domestic oriented industry	15,776	4.6	4.5
Tourism	40,745	11.8	(14.2)
Transport	3,930	1.1	(10.5)
Construction	89,928	26.1	4.1
Housing	*59,900*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

Money market indicators

Average cash reserve ratio



Average weighted yield – Government of Mauritius Treasury bills



Management discussion and analysis

Review of Operations

Recent Headway

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

Strategic Orientations and Targets

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

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

Medium term strategic targets

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

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

Corporate and Institutional Banking

Performance

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

Main initiatives and achievements

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

finance portfolio by adding new industries and targeting new markets; and (iii) widening its market coverage in terms of its Energy & Commodities business, notably buttressed by enlarged product offerings to expand into upstream and medium term financing across the value chain as well as an increased collaboration with leading players in the oil and gas space across the African continent and beyond. In support of its foreign business development aspirations, the Bank also tapped into Group synergies and its Representative Offices in Kenya and South Africa, with the latter recently witnessing an upgrade of its strategic positioning. Besides, the Bank was helped by increased on-the-field visibility and intelligence-building, enhanced and meaningful business relationship management with carefully-chosen market players, the gearing up of the quality of human capital, and strict adherence to regulatory and compliance requirements. Moreover, the Bank pursued its promotional activities, as gauged by the sponsoring of Trade Finance Conferences held in Mauritius and Egypt, the organisation of the 8th edition of its 'Africa Forward Together' seminar in September 2017, which welcomed 31 banks from 14 countries, and the hosting of and participation in several foreign events and forums with the objective of showcasing its capabilities and value proposition.

Strategic orientations going forward

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

Retail Banking

Performance

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

Main initiatives and achievements

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

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

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

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

Read more on our innovative approach and digital footprint in the 'Operational Excellence and Innovation Report' on pages 124 to 130

Strategic orientations going forward

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

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

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

Private Banking and Wealth Management

Performance

- While private banking activities were hitherto conducted under the aegis of the Retail SBU, it was decided, as highlighted before in this report in the context of the announced new organisation structure of MCB Ltd, to create a segregated Private Banking and Wealth Management SBU to enable the Bank in developing this line of business in a more focused manner.

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

Main initiatives and achievements

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

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

Strategic orientations going forward

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

Operational Excellence and Innovation Report

Introduction

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

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

Our strategic positioning

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

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

Innovation is at the heart of our strategy

Our ambitions

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

Our guiding principles

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

Our framework

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

Selected entities under the aegis of the COO

Banking Operations

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

Information Technology

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

Digital Transformation Programme & Innovation Lab

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

Management discussion and analysis

Overview of innovative solutions adopted over the past few years

Channel Management

Our branch network

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

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

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

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

Moving towards remote channels

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

Our electronic and digital channels

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

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

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

Fostering seamless multichannel integration

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

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

Read more on our remote channels in the 'Delivering value to our stakeholders' section on pages 28 to 56

Other Technological Platforms and Innovative Practices

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

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

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

Key process improvements

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

Management discussion and analysis

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

Our ambition

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

Our strategic focus

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

Our key objectives

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

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

Our Digital Transformation Programme

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

Key strategic thrusts

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

Challenges to cope with

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

Financial Review

Performance against Objectives

OBJECTIVES FOR FY 2016/17	PERFORMANCE IN FY 2016/17	OBJECTIVES FOR FY 2017/18
Return on average Tier I		
With the operating context likely to remain challenging, the ratio is expected to decrease but should stay at around 18%.	Return on average Tier I capital stood at 18.6% following a notable growth in results.	Return on average Tier I capital is expected to decline slightly to stand at around 18%.
Return on average assets (ROA)		
ROA is forecast to be close to the 2% mark.	ROA was maintained at 2.1% despite a difficult context.	ROA is likely to remain around the 2% level.
Operating income		
Net interest income is expected to rise by some 8% in line with an improvement in the loan book and our excess liquidity situation.	Reflecting the restrained evolution of the average loan portfolio, net interest income rose by 6.5%.	Net interest income growth is expected to be higher at around 9% driven by expansion in the loan book.
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.	Non-interest income grew by 14.1%, mainly driven by a strong growth in profit on exchange while an upturn was recorded in net fee and commission income.	Higher growth in net fee and commission income is likely to contribute to an increase of around 12% in non-interest income.
Operating expenses		
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.	The rise in operating expenses was lower than expected at 8.2%, mainly due to lower growth in depreciation and amortisation charges following the deferral of some earmarked projects.	Growth in operating expenses is anticipated to be around 12%, fuelled by capacity building endeavours notably linked to digitalisation initiatives.
Cost to income ratio		
Cost to income ratio should increase slightly but is forecast to remain below 40% (FY 2015/16: 37.2%).	The cost to income ratio fell to 36.9% given the higher increase in operating income compared to operating expenses.	The cost to income ratio is forecast to increase but should remain close to 38%.

Management discussion and analysis

OBJECTIVES FOR FY 2016/17	PERFORMANCE IN FY 2016/17	OBJECTIVES FOR FY 2017/18
Loans and advances growth		
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.	The average customer loan book grew by some 2% with growth in both the foreign currency and rupee loan portfolios being lower than anticipated amidst the challenging context.	The customer loan book is forecast to grow above 10%, mainly due to an expected pick-up in our foreign currency loan portfolio.
Deposits growth		
Customer deposits should again post a solid growth both in local and foreign currency terms with the overall expansion likely to be above 10%.	Average customer deposits rose by around 14.5%, on the back of similar growth in both rupee and foreign currency deposits.	Whilst the low interest rate environment continues to prevail amidst the excess liquidity situation, average customer deposits are expected to grow by some 7%, driven notably by rupee deposits.
Asset quality		
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.(FY 2015/16: Gross NPL ratio: 5.9%; Net NPL ratio: 3.8%).	Gross and net NPL ratios of the Bank remained at satisfactory levels standing at 5.8% and 4.3% respectively. For its part, net impairment charges increased by 4.8% essentially linked to our international activities.	Allowance for credit impairment charges is anticipated to remain close to FY 2016/17 figures with the NPL ratios remaining within manageable levels.
Capital management		
Both the overall capital adequacy ratio and the Tier 1 ratio are expected to be maintained at least at the current levels.	The overall capital adequacy ratio and Tier 1 ratio went up to 16.8% and 15.8% respectively underpinned by the Bank's organic growth and the moderate evolution of the risk-weighted assets.	The overall capital adequacy ratio and the Tier 1 ratio are expected to decrease following a notable rise in risk-weighted assets on the back of the growth in loan portfolio and the significant increase in 'held-for-trading' instruments linked to the Bank's primary dealer status.

Performance against Objectives by Lines of Business

OBJECTIVES FOR FY 2016/17	PERFORMANCE IN FY 2016/17	OBJECTIVES FOR FY 2017/18
Retail Banking and Private Banking & Wealth Management		
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.	The average retail loan portfolio grew by 9% supported by the continued growth in housing loans. However, net interest income was relatively flat reflecting the excess liquidity situation and competitive pressures. Nonetheless, gross operating margin increased by some 4.5% on the back of a rise in non-interest income.	Retail Banking The average loan portfolio of the Retail Banking segment is expected to grow by some 10% despite the ongoing stiff competition in the housing loan segment. Net interest income is forecast to increase by some 8%, thereby contributing to a rise of around 10% in gross operating margin. Private Banking and Wealth Management Gross operating margin within the Private Banking and Wealth Management segment is anticipated to rise by some 10%, driven by appreciable growth in both net interest income and non-interest income in line with our diversification strategy.
Corporate and Institutional Banking		
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.	In line with soft economic conditions, the average loan portfolio remained relatively flat. Net interest income decreased slightly while gross operating margin edged up by around 1%, upheld by growth in our Global Business and Energy & Commodities activities.	Although challenging market conditions are likely to persist, we anticipate a growth of 10% in the average loan portfolio, to a large extent, attributable to our international activities. Both net interest income and overall gross operating margin are expected to grow at a higher pace.

Management discussion and analysis

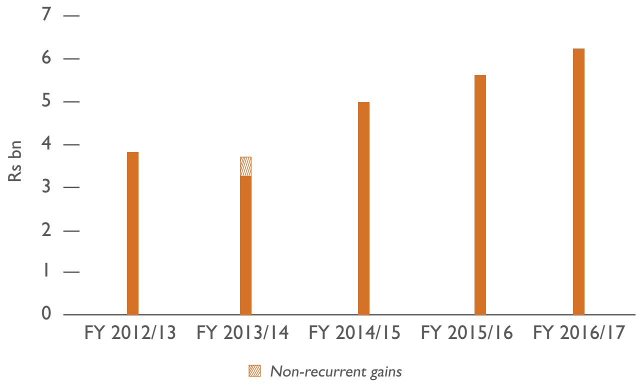
Overview of Results

The Bank posted an encouraging financial performance during the year under review amidst a difficult context characterised by a relatively tough economic environment, persisting excess liquidity and competitive pressures in specific segments. Operating income increased by 9.1% to reach Rs 13,600 million, underpinned by a continued rise in net interest income, a recovery in net fee and commission income, strong growth in profit on exchange and higher dividend income. With operating expenses rising by 8.2% and net impairment charges increasing by 4.8%, profit before tax was up by 10.3% to reach Rs 7,628 million. After accounting for income tax expense of Rs 1,390 million (+7.3%), overall results rose by 11.0% to stand at Rs 6,237 million in FY 2016/17. Foreign-sourced earnings accounted for some 43% of profits despite a tempered performance within this segment.

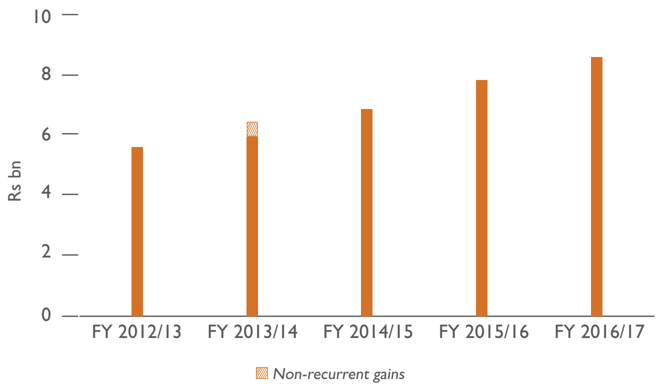
The Bank has sustained generally sound financial indicators in FY 2016/17, as demonstrated by further improvement of its capital adequacy ratios as well as the maintenance of strong funding and liquidity positions while asset quality metrics remained at satisfactory levels.

Read more in our 'Risk Management Report' on pages 140 to 175

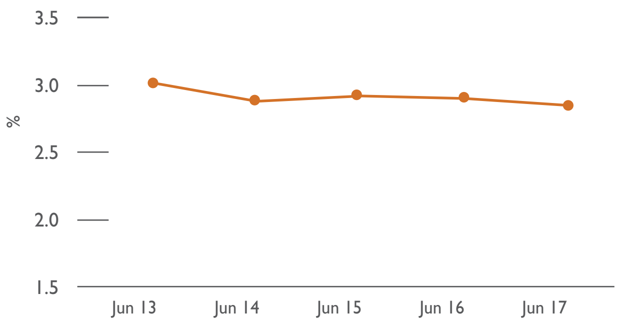
Profit for the year



Operating profit before provisions



Pre-provision profit to average assets



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

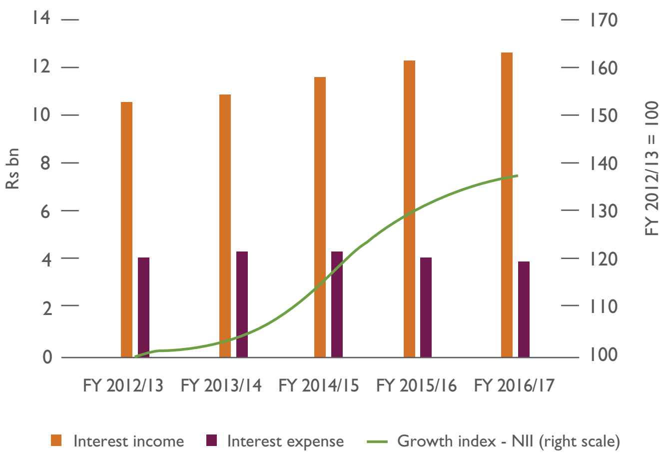
Income Statement Analysis

Net interest income

Although being impacted by the subdued demand for credit and pressures on margins linked to the excess liquidity situation, both in rupee and foreign currency terms, net interest income rose by 6.5% to stand at Rs 8,734 million in FY 2016/17. Interest income was up by 2.5% on the back of continued growth in investment securities and improved yields thereon as well as a rise in the foreign currency loan portfolio. On the other hand, notwithstanding continued growth in deposits, interest expense decreased by 5.6% due to relatively lower interest rates on average.

In view of the high proportion of low yielding liquid assets on our balance sheet, net interest income to average earning assets declined from 3.3% to 3.2% while the ratio for net interest income to average total assets went down slightly to 2.9%.

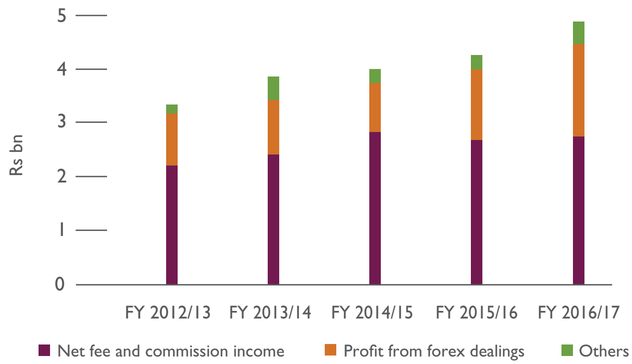
Net interest income



Non-interest income

Non-interest income of the Bank registered a growth of 14.1% to reach Rs 4,866 million for the period under review. In spite of a drop in revenues from trade finance activities, an upturn was observed in net fee and commission income which grew by 3.8% to reach Rs 2,752 million. This was underpinned by increased income from cards, payments and financing activities. Besides, profit on exchange posted a notable rise amidst increased volume of transactions, although growth therein was impacted in the fourth quarter of the financial year by excess forex supply that resulted in rupee appreciation. This contributed to an increase of 31% in 'other income' which was further upheld by dividend income received from our associate Banque Française Commerciale Océan Indien and subsidiary MCB Madagascar.

Breakdown of non-interest income

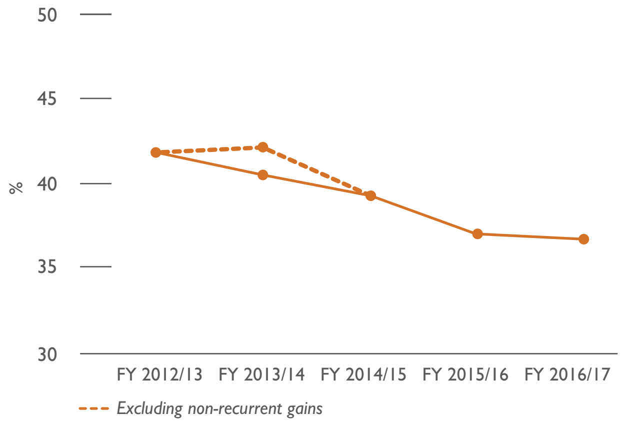


Note:
Figures exclude non-recurrent gains

Operating costs

Operating expenses went up by 8.2% to reach Rs 5,022 million as a result of capacity building initiatives being undertaken to enable our business strategies. Reinforcement of the human capital contributed to a rise of 7.0% in staff costs, which represented 59% of the cost base. Furthermore, continued investment in technology and infrastructure prompted an increase in depreciation and amortisation costs. Nonetheless, the cost to income ratio declined slightly from 37.2% to 36.9% in FY 2016/17 given the higher growth in operating income.

Cost to income ratio



Management discussion and analysis

Impairment charges

Net impairment charges rose by 4.8% to stand at Rs 951 million mainly linked to our international operations. Impairment charges thus represented 0.57% of the loan portfolio for the year ending June 2017. Notwithstanding the challenging market conditions, non-performing loan ratio declined to 5.8% in gross terms while standing at 4.3% in net terms as at 30 June 2017.

Financial Position Statement Analysis

Credit exposure

Gross loans registered a growth of 3.0% on a point-to-point basis to stand at Rs 167.4 billion as at June 2017. This performance was driven mainly by its international activities with associated credit to customers increasing by 17.4% as a result of the growth in foreign currency loans outside Mauritius more than offsetting a reduction in advances to 'Global Business Licence holders'. At domestic level, in line with the sluggish evolution of demand for bank credit amidst the still subdued investment levels and the recourse to other financing instruments by some operators, Segment A loans remained relatively flat. Within the corporate segment, whereas advances to the financial and business services as well as the primary sector went up, a drop was recorded in credit to the tourism, manufacturing and the construction sectors. On the other hand, the retail segment sustained an appreciable growth with credit therein rising by nearly 8%, supported by an expansion in housing loans.

June 2017	Exposures	
	Rs m	Y.o.y growth (%)
Loans to customers	**166,068**	**4.0**
Agriculture and fishing	7,572	7.4
Manufacturing	9,026	(10.6)
of which EPZ	*2,978*	*(5.9)*
Tourism	25,293	(14.5)
Transport	4,140	7.8
Construction	14,162	(14.4)
Traders	24,530	55.8
Financial and business services	23,403	29.7
Personal and professional	36,457	7.8
of which credit cards	*651*	*0.9*
of which housing	*24,817*	*13.0*
Global Business Licence holders	12,881	(19.2)
Others	8,603	(3.9)
Loans to banks	**1,310**	**(55.7)**
Total	**167,377**	**3.0**

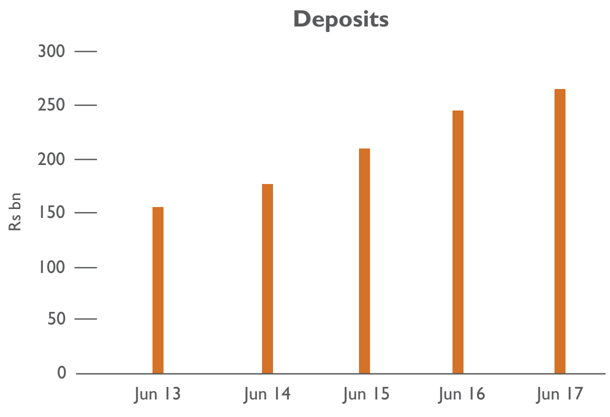
June 2017	Loans to customers		
	Rs m	Y.o.y growth (%)	Mix (%)
Segment A	119,152	(0.4)	71.7
Segment B	46,915	17.4	28.3
Total	**166,068**	**4.0**	**100.0**

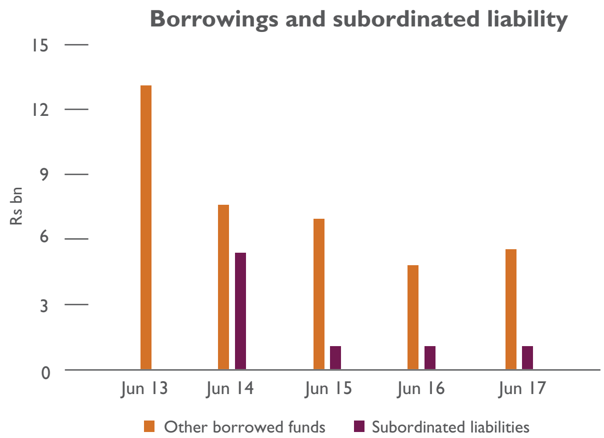
Credit exposures as at 30 June	2015	2016	2017
On-balance sheet	**Rs m**	**Rs m**	**Rs m**
Lending	164,559	162,562	167,377
Loans to customers	*160,128*	*159,608*	*166,068*
Loans to banks	*4,431*	*2,954*	*1,310*
Corporate notes	-	-	655
Trading	4,043	4,754	14,086
Available-for-sale	*4,043*	*4,031*	*4,518*
Held-for-trading	-	*723*	*9,569*
Investments	40,952	52,649	55,374
	209,554	**219,964**	**237,492**

Off-balance sheet	Rs m	Rs m	Rs m
Guarantees, letters of credit, endorsements and other obligations on account of customers	43,322	30,130	41,128
Commitments	4,380	2,600	6,714
Others	1,981	2,264	2,347
Contingent liabilities	**49,684**	**34,994**	**50,189**

Funding

In spite of the low interest rate environment, total deposits expanded by 8.6% to attain Rs 264 billion as at 30 June 2017. Whilst foreign currency deposits grew by 3%, the rupee-denominated deposits registered a growth of 12% over the corresponding period. The latter was boosted mainly by an increase of 13% in savings deposits, which account for a share of around 70% of the rupee deposit base, and a rise of 10% in demand deposits. 'Other borrowed funds' rose by 15 % principally due to recourse to the lending facility from Agence Française de Développement for the provision of 'Green Loans'.





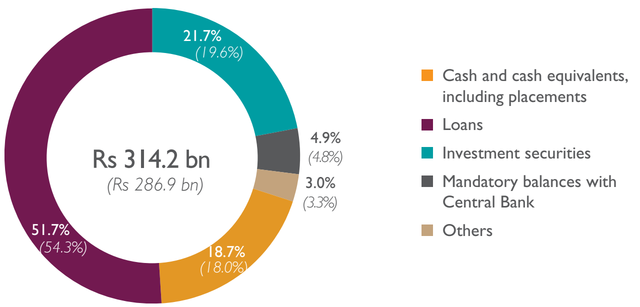
Management discussion and analysis

Investment securities and cash & cash equivalents

Reflecting the excess liquidity situation both in rupee and foreign currency terms, liquid assets of the Bank increased further during the last financial year.This was characterised by: (i) a rise of 14% in cash and cash equivalents, including placements, mainly through money market instruments; (ii) an increase of 22% in investment securities (excluding available-for-sale securities and corporate notes); and (iii) a growth of 13% in mandatory balances with Central Bank. Overall, the share of liquid assets, including placements, in total assets reached 43.9% as at June 2017 with the corresponding ratio as a percentage of deposits standing at 52.2%.

Assets mix as at 30 June 2017

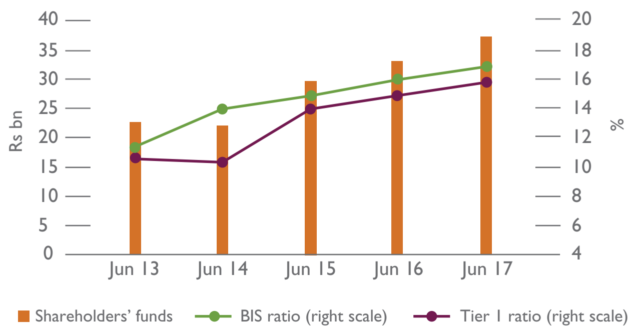
(Figures in brackets relate to 2016)



Capital resources

Shareholders' funds grew by 13% to reach Rs 37.2 billion as at 30 June 2017. The rise in equity was driven by a growth of 14.8% in retained earnings after accounting for a dividend payment of Rs 2.6 billion. On the whole, testifying to its ability to withstand potential shocks and foster further business growth endeavours, the Bank maintained comfortable capitalisation levels as gauged by capital adequacy ratio increasing from 16.1% to 16.8%, with the Tier I ratio increasing from 14.9% to 15.8% as at June 2017.

Shareholders' funds and capital adequacy



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

Alain LAW MIN

Chief Executive

Raoul GUFFLET

Deputy Chief Executive

Risk Management Report

Risk management report

Introduction

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

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

Our risk management strategy is anchored on sound foundations ...

Our mission

- 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

Our goal

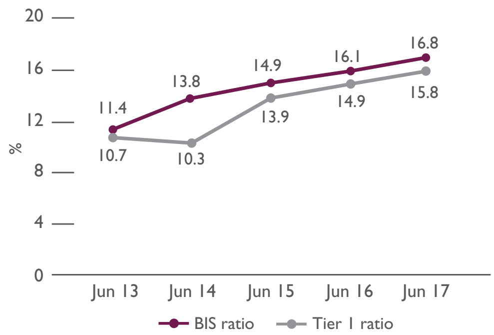
- To enhance stakeholders' confidence with respect to the management of risks and foster an effective recovery of assets through adequate internal control mechanisms, up-to-date and comprehensive risk frameworks and policies as well as adherence to legal and regulatory requirements

Our guiding principles

- Ensuring that risk management principles are anchored on advocated industry norms and 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 to maximise shareholder returns; 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

... which are instrumental in preserving our healthy financial metrics

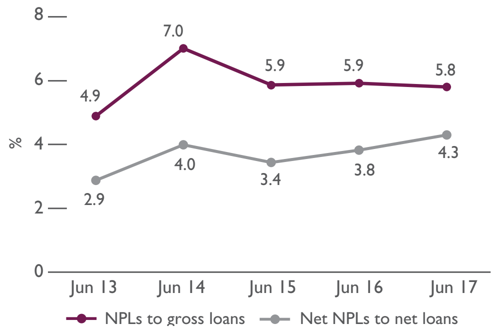
Capital adequacy



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

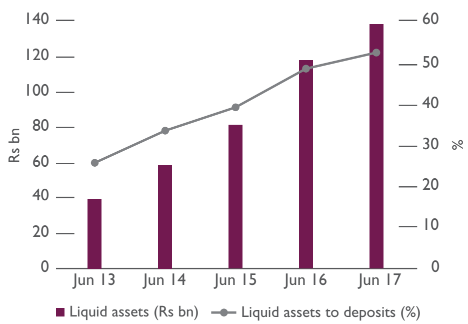
- The Bank has maintained comfortable capital levels to withstand potential shocks and support its business growth with internal capital generation leveraged via retained earnings.
- The capital adequacy ratios of MCB Ltd improved further in FY 2016/17, thus remaining well above stipulated regulatory levels, with applicable minimum BIS ratio standing at 11.875% and Tier I ratio at 9.875%.

Asset quality



- In spite of the difficult context, asset quality improved during the period, backed by strong credit discipline, prudent market approach and cautious loan origination and disbursements.
- Allowance for credit impairment accounted for 0.6% of our loan portfolio as at 30 June 2017.

Liquidity and funding



- The Bank held 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 186% and 116% respectively as at 30 June 2017.

Risk management report

FY 2016/17: Overview of the Bank's positioning and initiatives

General moves

- During the last financial year, the Bank adopted a prudent approach in executing its strategic thrusts. It continued to strengthen its capabilities to identify and mitigate risk. Due focus has been laid on enhanced interactions among relevant functions, the shoring up and ring-fencing of procedures and processes including for customer on-boarding and KYC matters and the upgrade and optimisation of information systems, especially for risk monitoring. Furthermore, the Bank ensured strict adherence to legal and regulatory stipulations and complied with applicable codes and standards, with a key case in point being OECD's Common Reporting Standards for the Automatic Exchange of Financial Information.

- Overall, the Bank managed to underpin its orderly business growth and preserve the soundness of its financial metrics. This contributed to the maintenance of the investment-grade ratings assigned to it by Moody's and Fitch.

Specific achievements

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

- As part of the initiative to enhance its management of credit files which was initiated in early 2016, the Bank finalised the setting up of its new Credit Management structure. This *inter alia* involved an enhanced specialisation of teams to better address specificities of the credit portfolio, alongside ensuring that credit teams – as guarantor of an independent credit assessment of files – are on-boarded as early as possible on the structuring of credit facilities. In addition, the Bank implemented an enhanced account monitoring framework in May 2017 aimed at improving the scrutiny of the credit portfolio. Hence, the monitoring of all potential problem credit files is henceforth conducted on a monthly basis by teams comprising both lines of business and credit management. An Account Monitoring Committee, comprising of Heads of business lines and the Head of Credit Management, was set up to review actions being taken to regularise excesses and past dues on an account basis. Other initiatives aiming to reinforce credit portfolio monitoring were also launched and remain work-in-progress. Those initiatives will reinforce independent second-level controls by credit management teams on the quality of the portfolio. They cover insurance contracts monitoring, collaterals perfection, conditions subsequent satisfaction and the ongoing monitoring of covenants linked to banking facilities. The aim is to ensure that breaches are proactively identified, managed and escalated to approving authorities for action.

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

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

Main focus areas for FY 2017/18

- Underpinned by the firming up of its risk culture, the Bank will keep on monitoring and actively responding to the evolving operating landscape across the markets in which it operates. At the same time, it will stand ready to judiciously ascertain and manage established and emerging risks, notably those linked to technological utilisation. Alongside exceeding minimum regulatory ratios for capital adequacy and providing appropriate responses to legal and regulatory developments, the aim is to reinforce and embed the management of risks in the Bank's operations and processes.

- Leveraging upgraded human capital, technology and synergies across the organisation, the Bank will strengthen the management of risk by reviewing and updating, wherever relevant, policies, practices and processes. It will ensure that its risk metrics are managed within acceptable and suitable thresholds alongside allowing for the smooth realisation of strategic targets. Concurrently, it will strengthen risk awareness levels across all layers of the organisation.

- On another note and in line with set objectives, the Bank will ensure that key projects are adequately managed and brought to fruition. Notably, resources will be devoted to foster the smooth introduction of a Permanent Control function in line with the agreed modus operandi. As regards implementation of IFRS 9, a key priority ahead is to set up the appropriate system architecture to support automated disclosure of related requirements, validate the assumptions used in the models by business experts and put into place a pragmatic governance structure to make the proposed way forward perennial and business-friendly.

Risk management report

Our Risk Management Strategy

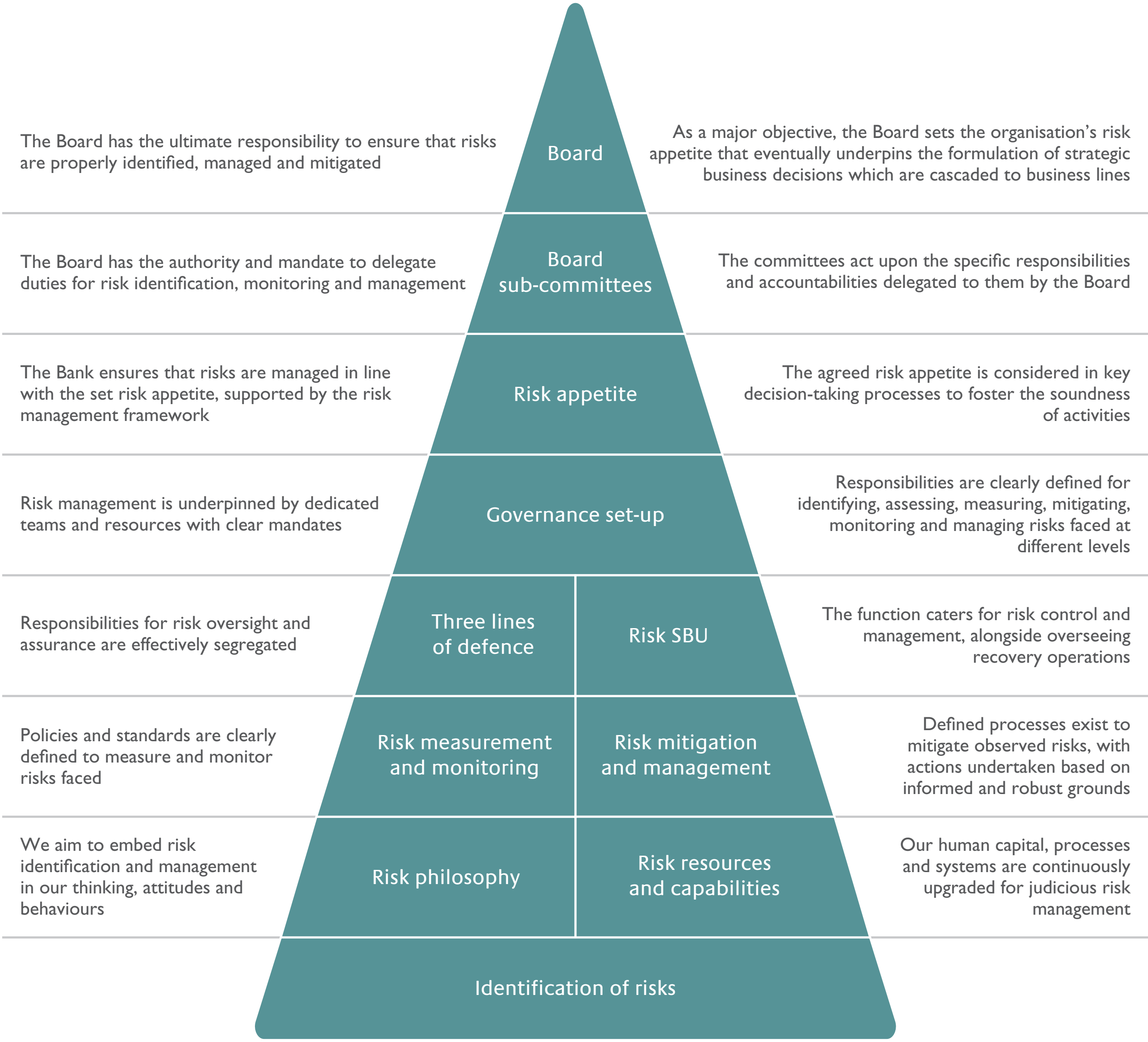
Main Risks Faced

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 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 that the Bank does not have sufficient financial resources to meet its obligations as they fall due or will have to do so at an excessive cost
NON-FINANCIAL RISK	**Operational risk**	The risk of loss or costs resulting from human factors, inadequate or failed internal processes and systems or external events. It includes fraud and criminal activity, project risk, business continuity, information and IT risk, etc.
	Information risk	The risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources which would compromise the confidentiality, integrity or availability of information
	Regulatory and compliance risk	The risk that is primarily linked to the impact of changes in legislations and regulations on the operation and functioning of the organisation. It is the risk of statutory or regulatory sanction and material financial loss or reputational damage, which eventually results in the risk of losses, fines or penalties linked to the failure to comply with any applicable laws, regulations or supervisory requirements
TRANSVERSAL RISK	**Strategic and business risk**	The risk to current or prospective earnings arising from inappropriate business decisions or inadequate future business strategies in relation to the operating environment. The risk is, usually, caused by inflexible cost structures, changes in the business environment, Government or international regulatory decisions, client behaviour and technological progress, and 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 a negative media coverage, compliance failures, pending litigations or underperformance. Such damage may result in a breakdown of trust, confidence and business relationships, which may impair the Bank's ability to retain and generate business

Key Elements of our Risk Management Set-Up

The risk management set-up of the Bank, which applies to every area of its business and covers all risks faced, aims to ensure that the organisation adopts a consistent and integrated approach to risk identification, management and monitoring.

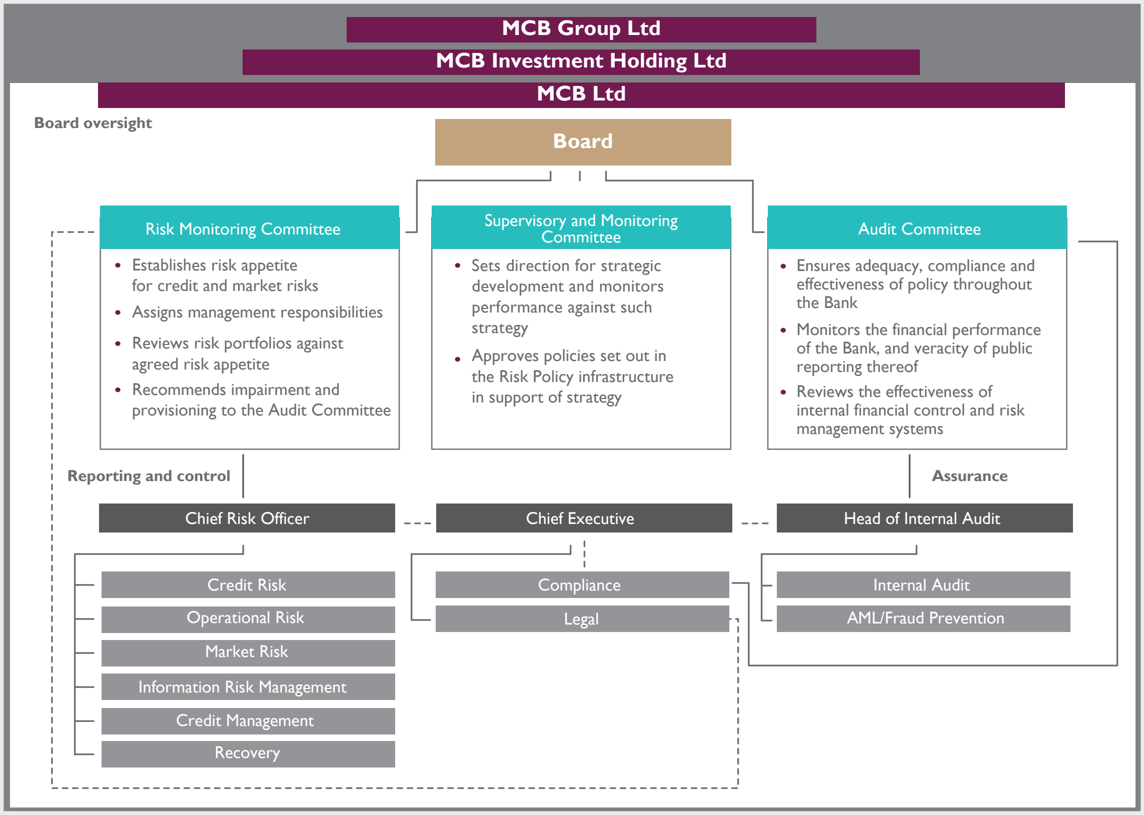


Risk management report

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. The allocation of responsibilities across the Bank is structured to ensure that decisions are taken at the most appropriate levels, in alignment with the mandates of internal stakeholders and the strategic orientations pursued by the organisation.

Current Risk Management Framework



Recent developments

- As highlighted before, the creation of a Permanent Control function has been announced by MCB Ltd in August 2017.
- While its precise naming and operational mandates are being discussed, the function – which will encompass Compliance, Operational Risk and Information Risk Management – will report to the Audit Committee, alongside having a day-to-day reporting line for administrative purposes to the Chief Executive.

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 to oversee specific responsibilities for risk management. The primary Board committee overseeing risk matters is the Risk Monitoring Committee (RMC). It assists the Board in setting up risk strategies as well as to assess and monitor the risk management process 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 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 attached to different parties at the Bank. Specifically, the approach defines responsibilities for identifying, appraising, measuring, managing and mitigating risks. Concomitantly, it assists to foster collaboration among internal stakeholders for the efficient design, execution and coordination of risk control activities.

First line of defence: Risk ownership

- The first line owns risks emanating from deployed strategic activities. It is called upon to adopt adequate processes and mechanisms to suitably manage risks faced and escalate knowledge of risks identified in the course of activities for appropriate mitigating actions.
- Employees engaged in client-facing divisions and support functions as well as business line managers 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 second line is mandated to establish the limits, rules and constraints under which the first line activities shall be performed.
- The Risk SBU, under the guidance of the Chief Risk Officer (CRO), bears the responsibility for providing independent risk control as well as managing key risks, notably credit and market 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 RMC for the monitoring and management of risk areas. Managers catering for the risk areas are dedicated to establishing methodologies for risk measurement. They ensure the regular monitoring and reporting of the Bank's risk exposures, profiles, concentration and trends to the RMC and Senior Management for discussions and formulation of appropriate actions. Moreover, the second line of defence adopted by the Bank will soon be restructured and reinforced by the implementation of the announced Permanent Control function. The latter is earmarked as a key move to underpin the organisation's stability and soundness by ensuring that activities at the operational level are correctly handled and secured.
- A strong risk control framework is also fostered through independent teams overseeing the legal and physical security functions as well as compliance with laws, regulations, codes of conduct and standards of good practice. 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 reports to the Chief Operating Officer's office.

Risk management report

Third line of defence: Risk assurance

- The third line evaluates and provides independent assurance on the effectiveness of the risk governance, the control environment and risk management processes and mechanisms, in tune with business strategies and the evolving external environment.
- 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.

Our Risk Appetite and Strategy

The Bank clearly articulates its risk appetite framework to provide an informed guidance for the management and monitoring of its risk profile in relation to the defined risk appetite, alongside paving the way for the sound execution of its market development endeavours. The purpose 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 strategic orientations. The Bank's risk appetite is regularly updated to reflect the aspirations of its stakeholders and the risk landscape, notably in the wake of economic, market and regulatory developments. The main components of the Bank's risk appetite framework are described below. Their application seeks to ensure that the Bank stays within suitable risk boundaries to underpin sound activities and operations.

Risk capacity

- The Bank determines the maximum level of risk that it can assume given its current level of resources, relevant regulatory dispositions and stakeholder requirements, to the extent that the latter dynamics tend to shape and restrict the ability of the organisation to take risk.

Risk appetite

- The Bank ensures that its activities and operations are undertaken within the precinct of its risk appetite. The latter refers to the quantity and type of risk that the organisation is broadly able and willing to take and deems as being reasonable in the pursuit of its operational, strategic and financial objectives.
- In determining its risk appetite, the Bank considers all main risks. The risk appetite is subject to constraints which are guided by the need to *inter alia* preserve credit quality, foster sound and sustainable revenue growth, and maintain good credit ratings.

Risk tolerance

- The Bank establishes the maximum amount of risk that it is willing to tolerate for a particular risk category or a specific initiative, while ensuring that the organisation achieves its business strategies and operates within its broader-level risk appetite.

Risk profile

- Expressed in terms of quantitative indicators and qualitative interpretations, our risk profile refers to our current net risk exposures for risk categories across customer segments and geographies.
- In order to take stock of and appraise the level of risk to which it is exposed amidst an evolving operating environment and any changes in its strategic orientations, the Bank regularly monitors its risk profile. This approach assists the organisation in adopting dedicated control measures to prevent the risk profile from going beyond the set risk appetite.

Risk control

- To maintain the size of our risk profile within our risk appetite, risk control tools and mechanisms are leveraged.
- Our control activities are notably underpinned by the establishment of target market criteria and risk limits which pertain to practical constraints on our business activities.

In line with direction set by the Board and the Risk Monitoring Committee, MCB *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.

Risk management report

Limit structure

Regulatory

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

Internal limits and desired risk profile

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

Rating tools used by the Bank

Internally-developed model

- Country
  - **Country rating model**
    The rating monitors social unrest, nationalisation and expropriation of assets, Government repudiation of external indebtedness, foreign exchange controls and currency movements amongst others
- Banks
  - **Bank scoring model**
    The credit worthiness is assessed by assigning a score based on the Bank's financial strength, the probability of receiving affiliate and/or Government support in case of financial stress as well as the sovereign risk of the country in which the institution operates
- Retail clients
  - **Credit scoring model**
    The rating assesses the credit standing, source of repayment and debt service ability of the borrower

External rating agencies

- Country and banks
  - Moody's, Fitch, Standard & Poor's, and others as deemed appropriate
- Corporate clients
  - **Moody's Financial Analyst**
    The rating evaluates the countryparty's financial standing and specific non-quantitative factors such as industry risk, access to funding, market standing and management strength
  - **CARE Ratings**
    Financial obligations subscribed by the Bank in favour of corporate customers can be rated by CARE Ratings, with capital relief being applicable on investment-grade ratings

Management of Key Risks

Credit Risk

Key objectives

- The aim of credit risk management at MCB is to:
  - o Abide by sound credit risk management principles;
  - o 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;
  - o Achieve the targeted asset quality levels; and
  - o 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.

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. These ratings are leveraged not only in respect of loan approval but also in relation to credit review and monitoring of risk profiles. They are also used for the purpose of the stress testing and limits determination exercises.

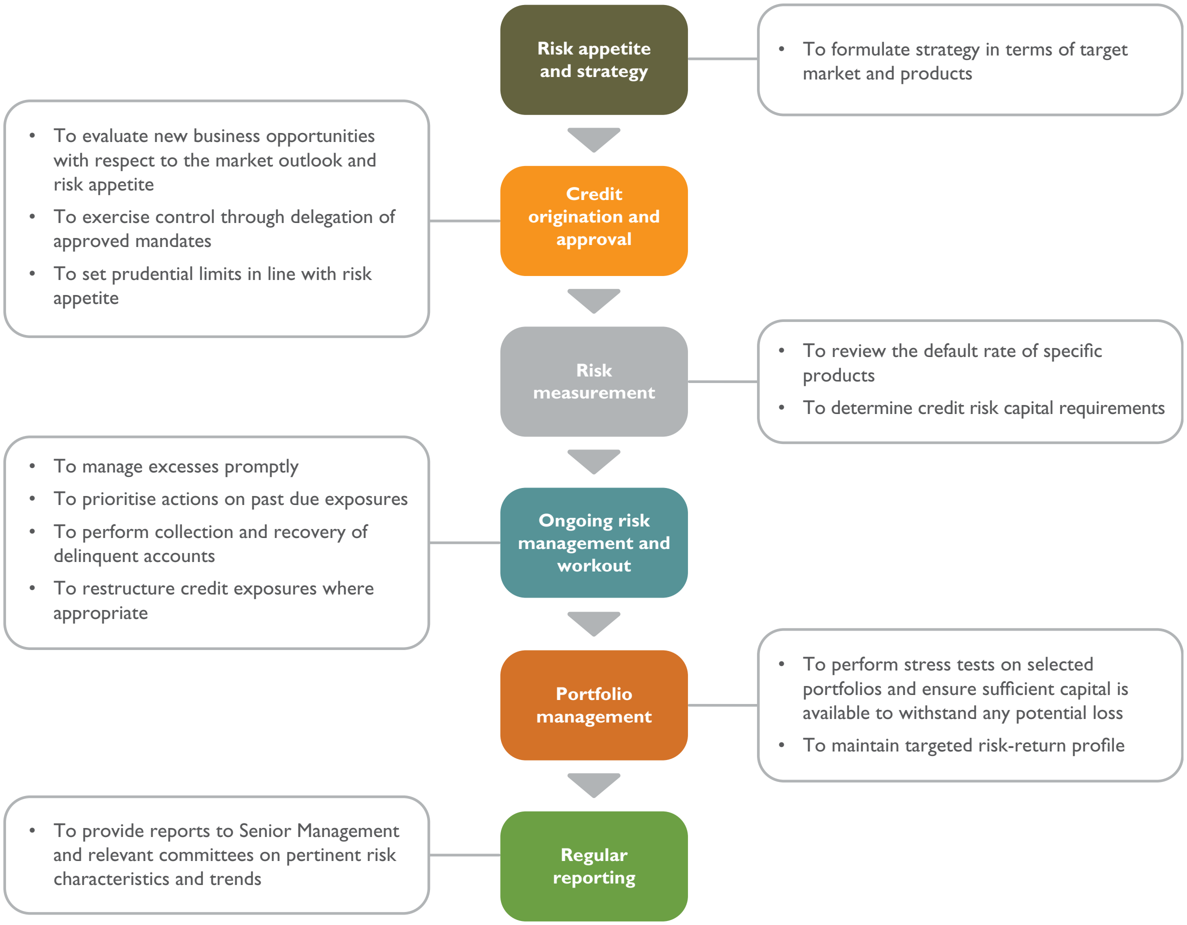
- On the retail side, credit comprising mainly residential mortgages, unsecured loans and credit cards are managed on a portfolio basis. The exposures are assessed through credit scoring models, records from the Mauritius Credit Information Bureau, customers' behavioural records as well as the application 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. With regard to corporate exposures, 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 are typically used to measure the risk profile of the customers 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

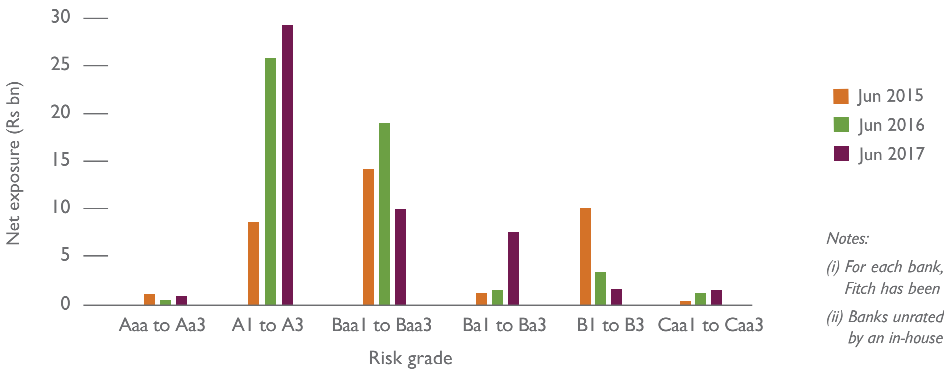
- The enterprise-wide credit risk policy, which is approved and reviewed by the RMC, sets forth the principles by which the Bank conducts its credit risk management activities. The policy provides guidance in the formulation of the appropriate structure by which business generation is harmonised with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



Framework and processes

- The credit risk management framework enables the Bank to manage credit risk within the limits of its risk appetite, develop risk-response strategies and optimise risk-taking by anticipating and acting on potential opportunities/threats. It relies on the Bank's dual control structure, sound credit processes and clear delegation of decision-making authority for loan approval.
- 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 review of all exposures, the frequency of which is increased in accordance to the size and likelihood of potential credit losses to ensure the timely detection of possible problem loans. Exposures showing signs of deterioration are placed on a watch list and referred to a dedicated team for closer scrutiny where appropriate.
- With respect to the determination and review of impairment and provisioning, the relevant exercise is undertaken on a quarterly basis by MCB and involves the collaboration of several internal stakeholders. After being reviewed, agreed upon by the RMC and validated by the Board, the figures are submitted to the Bank of Mauritius in line with regulatory reporting requirements. MCB complies with the BoM Guideline on Credit impairment Measurement and Income recognition. The latter, whose latest version is effective as from July 2016, aims to bring a balance between the application of international accounting norms (i.e. IAS 39) and regulatory prudential norms with a view to ensuring that financial institutions have adequate processes for determining allowance for credit losses in a timely manner and the carrying amounts of credit portfolio recoverable values. Whilst 'objective evidence' is considered under IAS 39 in determining whether an asset is impaired, prudential norms defines credit as impaired if it is past due for more than 90 days. At MCB, loans are assessed as being impaired on case-by-case basis above a certain materiality threshold. Loans are written off when the prospect of recovery is poor and the loss can be reasonably determined. Furthermore, a financial institution is under the aforementioned guideline required to compute credit impairment provisions in terms of both the applicable accounting standard and the prudential provisioning norm prescribed by the Bank of Mauritius. As at 30 June 2017, MCB's specific provision computed under accounting standard was higher than that determined by the prudential provisioning norm. Hence, as per BoM requirements, the entire specific provision computed under the accounting standard was treated as an expense in the statement of profit or loss account.
- 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 regularly 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 and products including those pertaining to corporates and small and medium 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 and Fitch 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 e.g. the International Swaps and Derivatives Association (ISDA) Master Agreements and 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 while complying with the BoM Guideline on Credit Concentration Risk. The stipulated limits are:

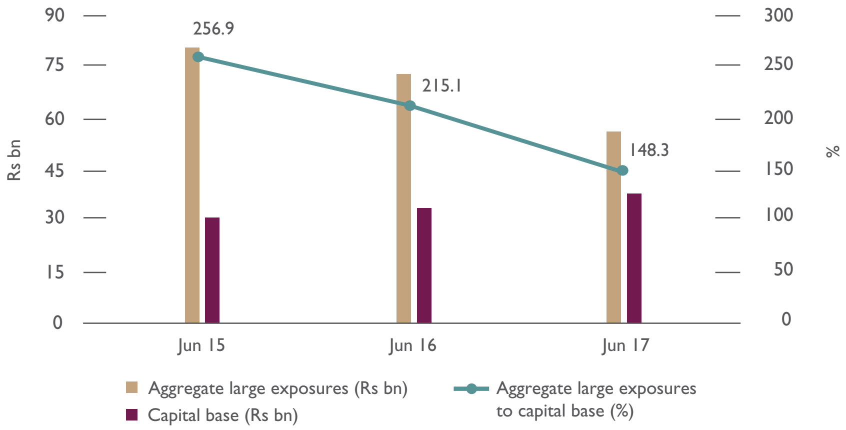
Guideline on Credit Concentration Risk	
Credit concentration limits	**% of bank's capital base**
Credit exposure to any single customer	Not exceed 25%
Credit exposure to any group of closely-related customers	Not exceed 40%
Aggregate large credit exposures* to all customers and groups of closely-related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

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

- 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 148% as at 30 June 2017, 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

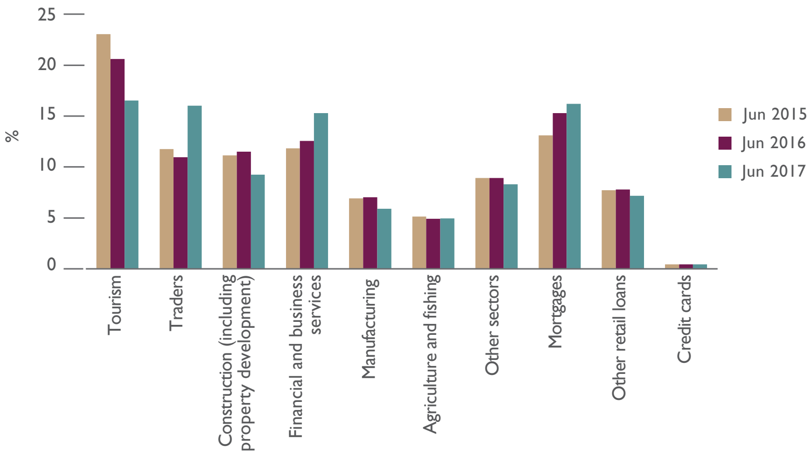
Aggregate large exposures as a percentage of capital base



Large credit exposures and capital consumed

Gross exposure as at 30 June 2017	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	43.4	1.9	8.2
Total large credit exposures	55.9	3.4	*14.2*

Sectorial distribution of credit to the private sector



Risk management report

Credit quality

- In spite of the difficult operating context and as highlighted before, NPL for the Bank improved to reach 5.8% of gross loans and advances in FY 2016/17 while the corresponding ratio in net terms stood at 4.3%. The cover ratio of NPLs by specific provisions stood at 27.8% at year end. The remaining portion is more than adequately covered by collateral, suitably discounted to reflect current market conditions and expected recovery time. The breakdown of specific and portfolio provision by industry is provided in Note 6(b) of the Financial Statements. Besides, additional provision for credit losses notably linked to the macroprudential policy measure set by the Bank of Mauritius is catered for in the Bank's general banking reserves.

June 2017	**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	**166,068**	***98.8***	**9,699**	**5.9**	**5,650**	**2.3**	**39.7**
Agriculture and fishing	7,572	*4.5*	1,097	*14.9*	277	*0.9*	*6.0*
Manufacturing	9,026	*5.4*	519	*5.8*	266	*2.6*	*44.6*
of which EPZ	*2,978*	*1.8*	*39*	*1.3*	*39*	*1.2*	*92.5*
Tourism	25,293	*15.1*	834	*3.3*	571	*1.4*	*43.1*
Transport	4,140	*2.5*	1,302	*32.2*	606	*12.7*	*39.6*
Construction *(including property development)*	14,162	*8.4*	1,691	*12.4*	1,045	*4.2*	*34.0*
Traders	24,530	*14.6*	774	*3.2*	635	*2.2*	*68.7*
Financial and business services	23,403	*13.9*	285	*1.2*	154	*0.5*	*41.8*
Personal and professional	36,457	*21.7*	1,941	*5.4*	1,294	*2.7*	*50.5*
of which credit cards	*651*	*0.4*	*31*	*4.7*	*39*	*6.1*	*129.2*
of which housing	*24,817*	*14.8*	*965*	*3.9*	*524*	*1.4*	*36.3*
Global Business Licence holders	12,881	*7.7*	264	*2.1*	496	*2.5*	*119.3*
Others	8,603	*5.1*	989	*11.7*	306	*1.8*	*15.5*
Corporate notes	**655**	***0.4***	**-**	**-**	**4**	**0.6**	**-**
Loans to banks	**1,310**	***0.8***	**-**	**-**	**6**	**0.5**	**-**
Total	**168,032**	***100.0***	**9,699**	**5.8**	**5,660**	**2.3**	**39.8**

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 has a comprehensive framework and adequate control processes to assess country risk, formulate related risk tolerance and determine exposures to be assigned across geographies.

Governance and oversight

- As highlighted before, the Country Risk Management Framework of the Bank was upgraded lately in response to the increasing volume of cross-border activities and to underpin the organisation's overseas expansion strategy. Notably, the governance set-up and internal processes have been reviewed to ensure that our exposures are effectively monitored daily against established thresholds and adequate remedial actions are initiated in case of breaches.

- The Board is responsible for the setting out and regular review of the strategic thrusts, policies and procedures for effective country risk management. It approves country exposure limits on an annual basis and delegates responsibilities to the Risk Monitoring Committee and the Country Risk Committee. The Risk Monitoring Committee (RMC) is entrusted with the authority of determining the overall international capital allocation and exposure limits while monitoring country exposures against set limits on a quarterly basis. Besides, in line with Board orientations, it approves country risk policies and proposed amendments thereto, alongside reviewing the country risk framework and risk appetite parameters. Target risk profiles are set at Bank level as well as for each portfolio and are complemented by target maturity profiles. As for the Country Risk Committee, which is chaired by the Chief Executive and comprises the Deputy Chief Executive and Chief Risk Officer as members, it is responsible for setting individual country limits within the validated risk parameters as well as reporting any excesses observed to the Risk Monitoring Committee.

Risk measurement, monitoring and management

- 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) assigned capital for international exposures; (iii) the prevailing economic and market environments and sizes of the economies under review; (iv) sovereign ratings; (v) its areas of expertise as far as its business involvement is concerned; and (vi) its knowledge of the economies. The 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.

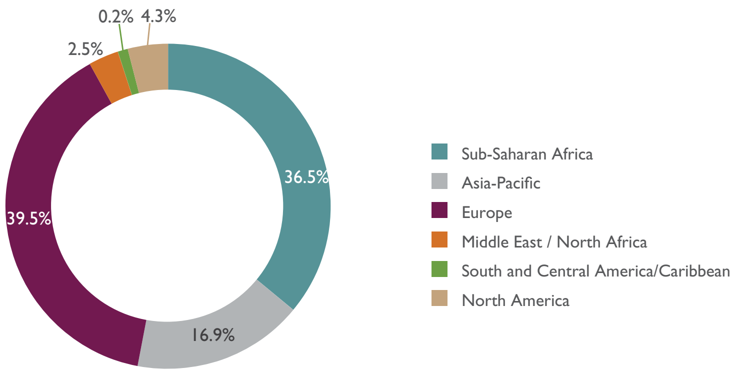
- The Bank's leverages its management information systems to generate detailed reports for the identification, measurement and proactive monitoring of country risk exposures.

Risk management report

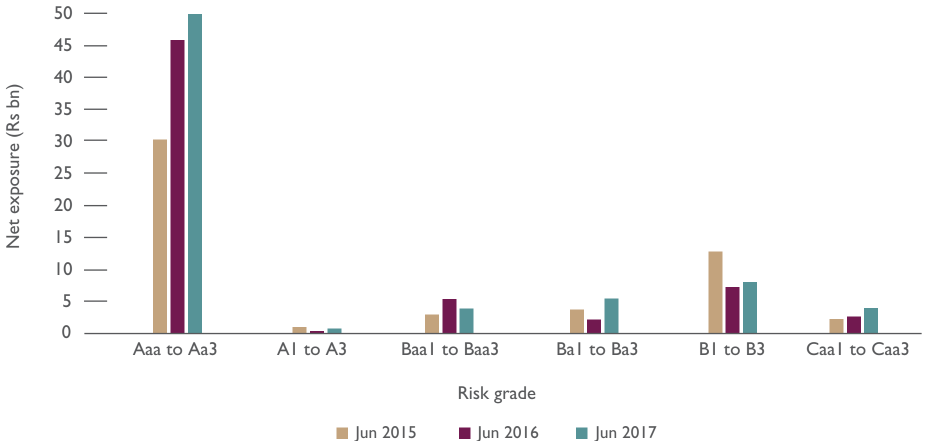
The following illustrations depict the evolution and distribution of country risk exposures of the Bank.

Total risk-weighted exposures by region

(Excluding Mauritius, Maldives, Seychelles and Madagascar)



Country risk exposure by rating



Note: For each country, the worst of the ratings assigned by Moody's, Standard & Poor's and Fitch 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 arising from activities undertaken in or impacted by financial markets. This includes both market price risk and ancillary risks such as liquidity and funding (liability) risks. MCB Ltd implemented a framework to systematically identify, assess, monitor and report market risk in both its trading and banking books.

Governance and oversight

- The Board is responsible for setting risk appetite in respect of market risk, in compliance with the prudential guidelines set by BoM. Within the governance framework of market risk management, the Market Risk Policy, as approved by the RMC and reviewed periodically, establishes a cogent and comprehensive framework of policies, principles and functional responsibilities within which market risk origination, processing and valuation are appropriately segregated and undertaken.

- The Asset and Liability Committee (ALCO) reviews and takes decisions with regard to the balance sheet structure of MCB Ltd, in terms of domestic and foreign currencies as well as from a consolidated perspective. ALCO sets and reviews all trading book limits and banking book targets in alignment with the diversification and growth of the Bank's balance sheet, especially from a funding, market risk and funds transfer pricing perspective, alongside making allowance for the changing economic and competitive landscape. ALCO, which comprises of the members of the Bank's Executive Management, meets on a monthly basis under the chairmanship of the Chief Executive. For its part, the Market Risk BU is primarily focused on exercising overall control and monitoring of market and liquidity risks within MCB Ltd while assisting with the provision of financial position and risk analysis information to the ALCO and RMC. It is also responsible for ascertaining counterparty risk limits linked to market transactions, ensuring the Treasury SBU's adherence to these limits, negotiating all treasury-related market agreements (such as ISDA and Credit Support Annex) and supervising all collateral margin valuation movements under such agreements. Counterparty risk arises when a counterparty to a financial contract defaults before the contract expires. The value of such a contract is uncertain and changes as a function of market variables such as interest rates or exchange rates.

Risk measurement, monitoring and management

Interest rate risk

- Interest rate risk is defined as the exposure of the Bank's financial conditions to adverse movements in interest rates or the prices of interest rate-related securities and derivatives. MCB is mainly exposed to repricing risk in their banking book due to the reset date of its on and off-balance sheet assets not coinciding exactly with the reset date of its on and off-balance sheet liabilities. The Bank monitors the resulting mismatch through interest rate risk gap analysis and limits this source of risk through the application, in most cases, of floating interest rates linked to an index.

- The Bank also incurs interest rate risk by holding fixed income securities for trading and running net open positions in derivatives that are subject to daily revaluation. To constrain its exposure to interest rate risk in the trading book, it sets Basis Point Value limits which are sensitivity measures aimed at limiting the loss in value as a result of a parallel upward shift of one basis point in applicable interest rates.

Foreign exchange risk

- Foreign exchange (FX) risk is the risk arising from the movement in exchange rates between two currencies. FX risk may be incurred from (i) an on-balance sheet perspective i.e. as a result of imbalances between the foreign currency composition of the Bank's assets and liabilities; and (ii) an off-balance sheet angle through the execution of derivatives such as foreign exchange forwards.

- Exposure to FX risk is monitored against both the official regulatory guideline and an internal target validated by the ALCO. Besides, several individual trading, transactional and periodic stop-loss limits, which are also reviewed on an annual basis by the ALCO, are set at individual desk and trader levels. The limits are system-embedded, with automatic email alerts launched to notify any breaches on a real-time basis to designated personnel at the Bank.

- The Bank conducts Value-at-Risk (VaR) analyses linked to its main foreign exchange risk positions. The Bank uses a historical observation period of one year, with a 99% one-tailed confidence interval and a holding period of 10 days.

Risk management report

Liquidity and funding risk

- Liquidity risk is defined as the risk that at any time MCB does not have sufficient realisable financial assets to meet its financial obligations as they fall due.

- MCB maintains a two-pronged policy aimed at ensuring that the Bank can meet its financial obligations both in a business-as-usual scenario and unexpected stressed circumstances. This policy entails the establishment and maintenance of three mutually-reinforcing lines of defence:

  o Cash flow management whereby the Bank actively manages expected inflows and outflows of funds, according to their scheduled maturities while ensuring that maturity concentration risk is limited. In addition to the contractual maturities, the Bank also conducts behavioural analysis of their non-maturity deposit base, ensuring that historical stickiness remain within non-volatile ranges;

  o Maintenance of a liquid assets buffer, whereby the Bank holds a stock of high quality unencumbered assets and immediately-realisable assets to be used to raise funds at short notice in order to meet unexpected outflows of funds or substitute expected inflows of funds that do not eventually materialise at little or no loss in market value; and

  o Maintenance of a diversified liability base across different categories of depositors while fully exploiting the funding potential of wholesale markets.

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 level. The objective is to underpin the continuity of 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 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 processes and client solutions with 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 the identification, assessment and management of related risks. From a more holistic angle, operational risk management forms part of the day-to-day responsibilities of 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 apply mitigation strategies • Report risk incidents	• Oversee the conduct of policy • Implement integrated risk framework • Report on inherent and residual risks • Monitor corrective actions • Promote Operational Risk Culture within the Bank	• Verify the effectiveness of the overall operational risk framework

- 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.

Risk management report

- In the recent past, the Bank has 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 • Concurrent Disaster Recovery simulation	• Identification of critical positions / job roles which are required to resume critical operations • Identification of communication channels with respect to external parties	• 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. Risk management 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.

- While making allowance for business exigencies and the operating landscape, Information Security policies have been developed for the Bank. After having been approved at Board level, they are disseminated to the Bank's staff. These policies are regularly monitored by the IRM BU to ensure that they remain at all times accurate and pertinent to the Bank's operating context. Further, several processes have been assigned to assist in identifying and analysing the business need to access logical information, restrict the information deployed to the relevant requirements as well as monitor and control access to such information. The pertinence of any major information security expenditure is evaluated and discussed at several hierarchical levels before finally reaching out to the Management committee and if needed to the Board for approval.

- During the last financial year, the Bank geared up to meet the challenges of increasing cyber threats. It set up a cyber-security committee aimed at defining our strategies and priorities to tackle potential cyber-attacks. In the same line, several initiatives have been approved and implemented with a view to increasing the Bank's resilience against such attacks, identifying our weak points (not only from a technical perspective but also from process and behavioural angles) and taking proactive steps in order to cope with the vulnerabilities identified. The year under review has also seen the IRM BU significantly enhance its risk identification mechanisms to respond and align itself with the Bank's international partners' requirements.

Read more on the governance framework for information risk management on pages 98 and 99 of the 'Corporate Governance Report' section

Other Risk Areas

- The Legal SBU has since its inception been ensuring the centralisation of all legal matters and is a key element within MCB's value chain. Its general mandate is to uphold, secure and defend from a legal standpoint the interests of MCB Ltd. Over time, it has consistently consolidated its competencies and made sustained progress in 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 Legal SBU is committed to support MCB's aspirations to become a strong regional financial player and is focusing its efforts on extending and improving its capabilities to new areas and specialities in order to evolve in pace with the business and the disruptive technological environment. The Legal SBU is set upon finding new ways to upgrade its expertise while keeping in perspective the vision, strategy and interests of 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, the Bank implemented several technology security projects and reviewed the security and risk profiling as well as the guarding procedures of MCB's 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 and regulatory sanctions as well as financial/ reputation losses.

Strategy and guiding principles

- The Board and the Senior Management team 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 and cope with 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 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 the impact of the latter 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 communication with business lines through the dissemination of compliance-related information, the provision of advisory services and the delivery 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;

Risk management report

- 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 to ensure 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 – alongside paving the way for suspicious transactions to be effectively tracked down. 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. It also automated the AML/CFT risk categorisation of its customer base. 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 and conducts 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 2016/17 are as follows:
  - o Training of staff on matters related to OECD's Common Reporting Standard (in collaboration with an External Service provider) and drafting of an FAQ document, made available to staff on our intranet;
  - o Ring-fencing of the on-boarding process of foreign customers, who are directed to the Compliance BU for screening, via a workflow;
  - o Use of workflows and e-working papers across a dedicated software to improve response time and follow up actions on Compliance recommendations to business lines;
  - o Increased use of technological tools for monitoring exercises (e.g. SWIFT Traffic Profile for wire transfers analysis);
  - o Visit of branches for compliance monitoring purposes;
  - o Enhancement of the KYC checklist for the on-boarding of non-individuals;
  - o Extension of compliance advisory services to overseas banking subsidiaries of MCB Group (MCB Madagascar, MCB Seychelles and MCB Maldives);
  - o Review of all correspondent banks in non-equivalent jurisdictions and not affiliated to a banking group in an equivalent jurisdiction to ensure that no dealings are made with shell banks; and
  - o Issue of regular circulars on compliance-related matters, AML/CFT and governance (e.g. duty of confidentiality).
- The Bank has implemented a Whistleblowing Policy, whereby an alternative reporting process is established for use by all employees in confidence, without the risk of subsequent retaliation, victimisation, discrimination or disadvantage. The Whistleblowing Framework at MCB is designed 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, it will be investigated by either the AMLFP BU or the Compliance BU. The investigation team maintains the confidentiality of anyone reporting a concern, subject to no external legal action following from the disclosure, and provides reasonable feedback to the originator of the concern.

Risk Assurance: Internal Audit

Key objectives

- The role of internal audit at MCB is to provide independent assurance to the Board and Management that the Bank's risk management, governance and internal control processes are operating effectively.

Strategy and guiding principles

- In line with good governance principles, the Internal Audit SBU functionally reports to the Audit Committee, which approves and monitors the internal audit plan and recommendations. The established framework of the internal audit activity is risk-based, with the priorities of the internal audit function being aligned with the organisation's goals. The pillars which the function relies upon to roll out a disciplined approach in evaluating and improving the effectiveness of risk management and control processes are as follows: (i) the implementation of regular updated audit work programmes addressing, as far as possible, identified residual audit risks; (ii) increased usage of data analytics through a world-wide recognised audit software; and (iii) automation of tasks namely relating to time sheets, reports preparation, working papers and follow-up of recommendations.

- 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 SBU 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. The next independent assessment is programmed by end 2018.

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. 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 International Standards for the Professional Practice of Internal Auditing and approved processes through *inter alia:*

  o The conduct of quality assurance assignments, which contribute to enhance the effectiveness of the Quality Assurance and Improvement Program (QAIP);

  o Increased communication and collaboration with the Risk SBU for improved synergy;

  o Greater communication with Compliance BU to consolidate compliance and regulatory assurance;

  o Improved use of data analytics to facilitate the implementation of 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-recognised sources such as IIA's Certified Internal Auditor (CIA) or ISACA's Certified Information Systems Auditor (CISA) – as to date, 2 Internal Audit staff members are CIA certified and another 6 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, to cater for complete and up-to date-skills sets and competences.

More information on the structure, organisation and qualifications of the key members of the internal audit function is available on the website

Risk management report

- 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.
- Looking ahead, the Internal Audit SBU will strive to enhance the effectiveness and efficiency of its operations through the Quality Assurance Improvement Programme. Keeping in mind the expectations of internal stakeholders and external parties, the function will undertake the necessary actions to ensure that it delivers impactful advice on critical issues with a view to generating positive outcomes for the organisation. Moreover, the function will seek to provide the necessary audit and risk insights to support the Bank's strategic orientations notably its digital transformation endeavours and regional market diversification ambitions. Ultimately, the Internal Audit SBU aspires to be the trusted advisors of the Board and Management.

Capital Management

Introduction

In line with regulatory rules, Basel requirements and industry best practices, our capital management objective, which is aligned with general directions determined at Group level, is to ensure that the Bank has adequate capital resources to operate effectively, foster sustained business growth, preserve or enhance its credit ratings and cope with adverse situations. Our capital management policies and practices aim to maintain a strong capital position that is consistent with the expectations and requirements of our numerous stakeholders, e.g. regulators, rating agencies, correspondent banks, the authorities and customers.

Backed by the adoption of a forward-looking approach and a sensible governance framework, we determine the level and composition of our capital after making allowance for multiple factors. They include the legal and regulatory landscape, the business environment, the Bank's strategic orientations, conditions prevailing across the economy and financial markets, etc.

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 and 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 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 a key risk management tool used by the Bank and is an integral part of our ICAAP. The aim of the Bank's stress testing framework is to identity, quantify, evaluate and make sense of the potential impact of specific changes in risk factors on the business development and financial strength of the Bank. 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 extreme cases, our recent analyses have revealed that the capital adequacy of the Bank does not fall below the regulatory requirements in any of the scenarios below.

Scenario 1	Concentration risk – One customer group impaired
Scenario 2	Concentration risk – Three large single customers impaired
Scenario 3	Strategic risk – A drastic drop in oil prices
Scenario 4	Reputation risk – MCB Ltd becomes non-investment grade
Scenario 5	Credit risk – A crash in the property market in Mauritius
Scenario 6	Credit risk – Collapse of a commodities trading house
Scenario 7	Country risk – Exposures in a specific country turn into non-performing
Scenario 8	Country risk – Coup d'état in a specific country
Scenario 9	Country Risk – Dismantling of the European Union
Worst case scenario	Worst case scenario – A combination of scenarios - 1, 2, 3, 7 & 9

Risk management report

Our Capital Position

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. Under the latter, banks are required to hold a capital surcharge ranging from 1.0% to 2.5% of their risk- weighted assets depending on their systemic importance. The assessment for determining domestic-systemically important banks is carried out on a yearly basis on end-June figures. As per the assessment that has recently been carried out by the Central Bank, MCB Ltd remains among the five banks that have been determined to be systemically important in our jurisdiction, based on the assessment of five factors, namely size, exposure to large groups, interconnectedness, complexity and substitutability.

Performance of MCB Ltd

As noted before, the capital position of the Bank remained strong during the last financial year as gauged by an improvement in the core and total capital ratios to 15.8% and 16.8% respectively as at June 2017. After factoring in a moderate rise in risk-weighted assets, the latter performance can be attributable to organic capital accumulation linked to the further improvement in financial results of the Bank. Furthermore, the BIS ratio of the Bank comfortably overshot the applicable minimum regulatory levels, which have edged up further as from January 2017 as per the phase-in arrangements stipulations set by the Central Bank in its relevant guidelines. In fact, our BIS metric already exceeds the mandatory ratios which will be in force as from 1 January 2020.

As at 30 June 2017

The minimum total capital adequacy ratio applicable to MCB Ltd stood at 11.875%, consisting of the following:

- A ratio of 10.625% of risk-weighted assets as per the BoM Guideline on Scope of Application of Basel III and Eligible Capital, including a capital conservation buffer of 0.625%; and
- An additional equivalent of 1.25% as per the BoM Guideline on Domestic Systemically-Important Banks, since the Bank lies in bucket 4 on the basis of its systemic importance (of note, banks are segregated in buckets ranging from 1 to 5 based on their systemic importance scores, with those in lower buckets attracting lower capital surcharge)

As from 1 January 2020

The minimum total capital adequacy ratio applicable to MCB Ltd is expected to stand at 15.0%, consisting of the following:

- A ratio of 12.5% of risk-weighted assets as per the BoM Guideline on Scope of Application of Basel III and Eligible Capital, including a capital conservation buffer of 2.5%;
- An additional equivalent of 2.5% as per the BoM Guideline on Domestic Systemically-Important Banks, assuming that the Bank continues to lie in bucket 4 on the basis of its systemic importance

Minimum regulatory ratios applicable to MCB Ltd

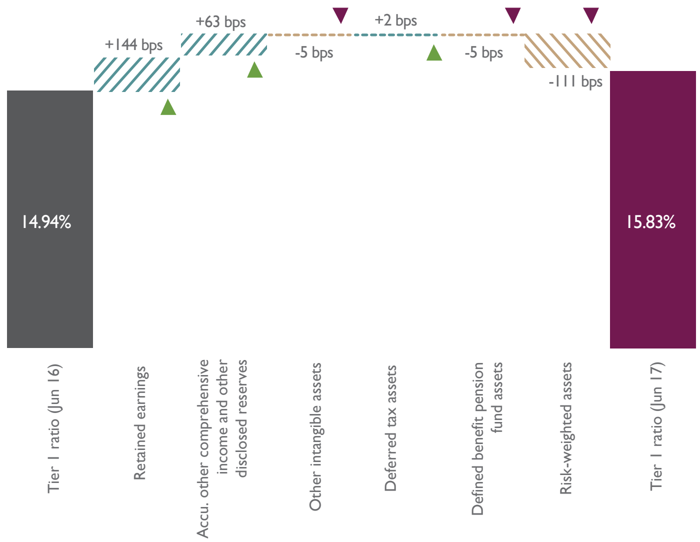
Common Equity Tier 1 (CET 1) Capital Adequacy Ratio (CAR) (%)		Jul 14	Jan 15	Jan 16	Jan 17	Jan 18	Jan 19	Jan 20
Minimum CET 1 CAR	(a)	5.500	6.000	6.500	6.500	6.500	6.500	6.500
Capital Conservation Buffer	(b)				0.625	1.250	1.875	2.500
Minimum CET 1 CAR plus Capital Conservation Buffer	**(c) = (a) + (b)**	**5.500**	**6.000**	**6.500**	**7.125**	**7.750**	**8.375**	**9.000**

Tier 1 CAR (%)		Jul 14	Jan 15	Jan 16	Jan 17	Jan 18	Jan 19	Jan 20
Minimum Tier 1 CAR	(d)	6.500	7.500	8.000	8.000	8.000	8.000	8.000
Minimum Tier 1 CAR plus Capital Conservation Buffer	**(e) = (d) + (b)**	**6.500**	**7.500**	**8.000**	**8.625**	**9.250**	**9.875**	**10.500**

Total CAR (%)		Jul 14	Jan 15	Jan 16	Jan 17	Jan 18	Jan 19	Jan 20
Minimum Total CAR	(f)	10.000	10.000	10.000	10.000	10.000	10.000	10.000
Minimum Total CAR plus Capital Conservation Buffer	**(g) = (f) + (b)**	**10.000**	**10.000**	**10.000**	**10.625**	**11.250**	**11.875**	**12.500**

D-SIB Buffer (%)		Jul 14	Jan 15	Jan 16	Jan 17	Jan 18	Jan 19	Jan 20
Minimum additional loss absorbency (bucket 4)	(h)			0.625	1.250	1.875	2.500	2.500
Minimum Tier 1 CAR plus Capital Conservation Buffer plus D-SIB Buffer	(i) = (e) + (h)	6.500	7.500	8.625	9.875	11.125	12.375	13.000
Minimum Total CAR plus Capital Conservation Buffer plus D-SIB Buffer	(j) = (g) + (h)	10.000	10.000	10.625	11.875	13.125	14.375	15.000

Key drivers of the movement in Tier 1 ratio of MCB Ltd in FY 2016/17



Determination and evolution of the capital adequacy ratios of MCB Ltd

MCB Ltd	Jun 16	Jun 17
Capital base	**Rs m**	**Rs m**
Ordinary shares (paid-up) capital	6,880	6,880
Retained earnings	20,435	23,463
Accumulated other comprehensive income and other disclosed reserves	4,750	6,065
Common Equity Tier 1 capital before regulatory adjustments	**32,065**	**36,408**
Regulatory adjustments		
Other intangible assets	473	580
Deferred tax assets	194	144
Defined benefit pension fund assets	-	99
Common Equity Tier 1 capital (CET1)	**31,398**	**35,585**
Additional Tier 1 capital (AT1)	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**31,398**	**35,585**
Tier 2 capital		
Capital instruments	758	631
Provisions or loan-loss reserves	2,011	1,999
Tier 2 capital before regulatory adjustments	**2,769**	**2,630**
Regulatory adjustments	**403**	**522**
Tier 2 capital (T2)	**2,366**	**2,108**
Total capital (T1 + T2)	**33,764**	**37,693**

MCB Ltd	Jun 16	Jun 17
Risk-weighted assets	**Rs m**	**Rs m**
Weighted amount of on-balance sheet assets	178,012	179,920
Weighted amount of off-balance sheet exposures	13,895	18,619
Weighted risk assets for operational risk	16,621	18,342
Aggregate net open foreign exchange position	1,593	2,927
Capital charge for trading book position exceeding 5% or more of its total assets	-	4,984
Total risk-weighted assets	**210,120**	**224,792**

Capital adequacy ratios (%)		
BIS risk adjusted ratio	16.1	16.8
of which Tier I	*14.9*	*15.8*

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 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 2017, 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.

MCB Ltd	Jun 17 Amount	Jun 17 Weight	Jun 17 Weighted Assets	Jun 16 Weighted Assets
Risk-weighted on-balance sheet assets	**Rs m**	**%**	**Rs m**	**Rs m**
Cash items	3,007	0 - 20	93	90
Claims on sovereigns	52,656	0 - 100	305	312
Claims on central banks	26,028	0 - 100	947	800
Claims on banks	48,048	20 - 100	19,167	19,027
Claims on non-central government public sector entities	0	100	0	0
Claims on corporates	121,146	20 - 150	122,253	111,866
Claims on retail segment	10,991	75	6,946	6,729
Claims secured by residential property	25,648	35 - 125	11,559	10,408
Fixed assets/other assets	8,561	100 - 250	9,795	10,856
Past due claims	7,094	50 - 150	8,855	17,924
Total			**179,920**	**178,012**

MCB Ltd	Jun 17 Nominal Amount	Jun 17 Credit Conversion Factor	Jun 17 Credit Equivalent Amount	Jun 17 Weight	Jun 17 Weighted Amount	Jun 16 Weighted Amount
Non-market related off-balance sheet risk-weighted assets	**Rs m**	**%**	**Rs m**	**%**	**Rs m**	**Rs m**
Direct credit substitutes	1,289	100	1,289	0 - 100	1,285	1,034
Transaction-related contingent items	19,991	50	9,996	0 - 100	9,855	10,221
Trade related contingencies	18,808	20	3,762	0 - 100	3,896	1,174
Outstanding loans commitment	6,714	20 - 50	3,357	100	3,357	1,300
Total					**18,393**	**13,729**

MCB Ltd	Jun 17 Nominal Amount	Jun 17 Credit Conversion Factor	Jun 17 Potential Future Exposure	Jun 17 Current Exposure	Jun 17 Credit Equivalent Amount	Jun 17 Weighted Assets	Jun 16 Weighted Assets
Market-related off-balance sheet risk-weighted assets	**Rs m**	**%**	**Rs m**	**Rs m**	**Rs m**	**Rs m**	**Rs m**
Interest rate contracts	3,657	0 - 1.5	40	48	88	45	11
Foreign exchange contracts	10,587	1 - 7.5	124	149	272	181	155
Total						**226**	**166**

	Jun 17	Jun 16
	Rs m	**Rs m**
Total credit risk-weighted assets	**198,539**	**191,906**

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 2017	
On-balance sheet	**Eligible collateral**
	Rs m
Corporate	677
Retail	1,996
	2,673
Off-balance sheet	**Eligible collateral**
	Rs m
Direct credit substitutes	11
Transaction-related contingent items	327
Trade-related contingencies	99
	437
Total	**3,110**

Aggregate net open foreign exchange position

MCB Ltd	Jun 15	Jun 16	Jun 17
Market risk	**Rs m**	**Rs m**	**Rs m**
Aggregate net open foreign exchange position	1,586	1,593	2,927
Capital charge for trading book position exceeding 5% or more of its total assets	-	-	4,984

Operational risk capital charge

MCB Ltd		Basic indicator approach		
Line of business	**Alpha factor (α)**	**Jun 15**	**Jun 16**	**Jun 17**
	%	**Rs m**	**Rs m**	**Rs m**
Total yearly weighted gross income	α=15	1,639	1,825	2,039
Capital charge for operational risk		1,529	1,662	1,834

Jonathan CRICHTON
Director
Chairperson Risk Monitoring Committee

Alain LAW MIN
Chief Executive

Financial Statements

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 30th June 2017 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.

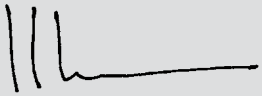
The Bank's Board of Directors, acting in part through the Audit Committee, Conduct Review Committee and Board Risk Monitoring Committee, which comprise, principally, independent directors, oversees Management's responsibility for financial reporting, internal controls, assessment and control of major 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 external auditor, PricewaterhouseCoopers Ltd, has 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.

Alain LAW MIN
Director
Chief Executive



Jean-Philippe COULIER
Director
Chairperson

Gilles GUFFLET
Director
Chairperson Audit Committee

Independent auditor's report

To the Shareholder of The Mauritius Commercial Bank Limited

Report on the Audit of the Financial Statements of the Bank standing alone

Our Opinion

In our opinion, the financial statements give a true and fair view of the financial position of The Mauritius Commercial Bank Limited (the "Bank") standing alone as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001.

What we have audited

The Mauritius Commercial Bank Limited's accompanying financial statements comprise:

- the statement of financial position as at 30 June 2017;
- the statement of profit or loss for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes, comprising significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the risk management report, rather than in the notes to the financial statements. These disclosures are cross-referenced from the financial statements and are identified as audited.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other Information

The directors are responsible for the other information. The other information comprises the following: navigating this annual report, the highlights, the corporate profile, delivering value to our stakeholders, the board of directors and leadership team, the chairperson's statement, the chief executive's statement, the corporate governance report, the statement of compliance, the company secretary's certificate, the management discussion and analysis, the risk management report and the administrative information but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. Our reporting responsibilities regarding the corporate governance report is dealt with in the "Report on Other Legal and Regulatory Requirements" section of this report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

To the Shareholder of The Mauritius Commercial Bank Limited (Cont'd)

Report on the Audit of the Financial Statements of the Bank standing alone (Cont'd)

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001, the Mauritian Banking Act 2004 and regulations and guidelines issued by 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.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent auditor's report

To the Shareholder of The Mauritius Commercial Bank Limited (Cont'd)

Report on the Audit of the Financial Statements of the Bank standing alone (Cont'd)

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 or its subsidiary other than in our capacity as auditor and tax advisor of the Bank, and dealings in the ordinary course of business with the Bank;
(b) we have obtained all the information and explanations we have required; and
(c) in our opinion, proper accounting records have been kept by the Bank as far as appears from our examination of those records.

Mauritian Banking Act 2004

The Mauritian 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 Mauritian Banking Act 2004 and regulations and guidelines issued by 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.

Mauritian Financial Reporting Act 2004

The directors are responsible for preparing the corporate governance report. Our responsibility is to report on the extent of compliance with the Code of Corporate Governance (the "Code") as disclosed in the annual report and on whether the disclosure is consistent with the requirements of the Code.

In our opinion, the disclosure in the annual report is consistent with the requirements of the Code.

To the Shareholder of The Mauritius Commercial Bank Limited (Cont'd)

Other Matter

This report, including the opinion, has been prepared for and only for the Bank's shareholder in accordance with Section 205 of the Mauritian Companies Act 2001 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers
28th September 2017

Gilles Beesoo
Licensed by FRC

Statement of financial position

as at 30th June 2017

	Notes	2017 RS'000	2016 RS'000	2015 RS'000
ASSETS				
Cash and cash equivalents	4	**34,033,960**	31,975,711	22,999,839
Derivative financial instruments	5	**226,731**	175,771	268,901
Loans to and placements with banks	6(a)	**25,912,459**	22,485,623	9,486,995
Loans and advances to customers	6(b)	**160,418,113**	153,002,181	153,007,990
Investment securities	7	**68,890,863**	56,241,340	44,995,318
Investment in subsidiary	8(a)	**64,322**	-	-
Investments in associates	8(b)	**1,159,250**	1,161,063	-
Intangible assets	9	**579,569**	473,162	385,453
Property, plant and equipment	10	**4,911,082**	4,952,603	5,030,443
Deferred tax assets	11	**143,667**	193,960	222,519
Other assets	12	**17,861,716**	16,270,104	14,209,212
		314,201,732	286,931,518	250,606,670
Non-current assets held for distribution	34	**-**	-	1,331,216
Total assets		**314,201,732**	286,931,518	251,937,886
LIABILITIES AND SHAREHOLDER'S EQUITY				
Deposits from banks	13(a)	**5,302,566**	4,712,603	4,504,425
Deposits from customers	13(b)	**258,569,834**	238,311,493	203,942,576
Derivative financial instruments	5	**97,430**	122,353	112,976
Other borrowed funds	14	**5,606,935**	4,865,908	6,952,264
Subordinated liability	15	**1,052,037**	1,082,289	1,055,697
Current tax liabilities		**778,869**	578,996	448,835
Other liabilities	17	**5,549,010**	4,302,453	4,632,233
Total liabilities		**276,956,681**	253,976,095	221,649,006
Shareholder's equity				
Stated capital		**6,879,602**	6,879,602	6,879,602
Retained earnings		**23,462,727**	20,435,491	18,705,062
Other components of equity		**6,902,722**	5,640,330	4,704,216
Total equity		**37,245,051**	32,955,423	30,288,880
Total equity and liabilities		**314,201,732**	286,931,518	251,937,886
CONTINGENT LIABILITIES				
Guarantees, letters of credit, endorsements and other obligations on account of customers		**41,128,382**	30,129,810	43,322,427
Commitments		**6,714,334**	2,600,154	4,380,241
Tax assessments		**992,632**	836,868	797,225
Other		**1,353,991**	1,427,519	1,184,265
	19	**50,189,339**	34,994,351	49,684,158

These financial statements were approved for issue by the Board of Directors on the 28th September 2017.

Alain LAW MIN
Director
Chief Executive

Jean-Philippe COULIER
Director
Chairperson

Gilles GUFFLET
Director
Chairperson Audit Committee

The notes on pages 195 to 278 form part of these financial statements.
Auditor's report on pages 180 to 183.

Statement of profit or loss

for the year ended 30th June 2017

	Notes	Year ended 30th June 2017 RS'000	Year ended 30th June 2016 RS'000	Year ended 30th June 2015 RS'000
Continuing operations				
Interest income	20	**12,604,065**	12,299,145	11,632,725
Interest expense	21	**(3,870,375)**	(4,101,325)	(4,284,673)
Net interest income		**8,733,690**	8,197,820	7,348,052
Fee and commission income	22	**3,440,108**	3,280,209	3,403,343
Fee and commission expense	23	**(687,673)**	(628,354)	(586,930)
Net fee and commission income		**2,752,435**	2,651,855	2,816,413
Other income				
Profit arising from dealing in foreign currencies		**1,620,365**	1,406,259	779,542
Net gain/(loss) from financial instruments carried at fair value	24	**100,208**	(88,482)	146,884
		1,720,573	1,317,777	926,426
Dividend income	25	**354,594**	251,998	30,863
Net gain on sale of securities		**6,056**	1,193	3,667
Other operating income		**32,529**	42,455	35,679
		2,113,752	1,613,423	996,635
Operating income		**13,599,877**	12,463,098	11,161,100
Non-interest expense				
Salaries and human resource development	26(a)	**(2,955,584)**	(2,761,898)	(2,582,066)
Depreciation of property, plant and equipment		**(367,856)**	(358,331)	(358,815)
Amortisation of intangible assets		**(188,486)**	(139,093)	(178,893)
Other	26(b)	**(1,509,897)**	(1,380,498)	(1,341,309)
		(5,021,823)	(4,639,820)	(4,461,083)
Operating profit before impairment		**8,578,054**	7,823,278	6,700,017
Net impairment of financial assets	27	**(950,504)**	(907,021)	(897,173)
Profit before tax		**7,627,550**	6,916,257	5,802,844
Income tax expense	28	**(1,390,088)**	(1,296,094)	(960,290)
Profit for the year from continuing operations		**6,237,462**	5,620,163	4,842,554
Discontinued operations				
Profit for the year from discontinued operations	34(b)	**-**	-	161,746
Profit for the year		**6,237,462**	5,620,163	5,004,300
Earnings per share (Rs):				
Continuing operations	30	**9.07**	8.17	19.84
Discontinued operations	30	**-**	-	0.66

The notes on pages 195 to 278 form part of these financial statements.
Auditor's report on pages 180 to 183.

Statement of comprehensive income

for the year ended 30th June 2017

	Year ended 30th June 2017 RS'000	Year ended 30th June 2016 RS'000	Year ended 30th June 2015 RS'000
Profit for the year	**6,237,462**	5,620,163	5,004,300
Other comprehensive income/(expense):			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plan, net of deferred tax	**287,079**	(173,765)	95,215
Items that may be reclassified subsequently to profit or loss:			
Reclassification adjustments on disposal of available-for-sale investments	**24,257**	(60,243)	-
Net fair value gain/(loss) on available-for-sale investments	**355,079**	(46,491)	398,796
	379,336	(106,734)	398,796
Other comprehensive income/(expense) for the year	**666,415**	(280,499)	494,011
Total comprehensive income for the year	**6,903,877**	5,339,664	5,498,311
Total comprehensive income for the year:			
Continuing operations	**6,903,877**	5,339,664	5,336,565
Discontinued operations	**-**	-	161,746
	6,903,877	5,339,664	5,498,311

The notes on pages 195 to 278 form part of these financial statements.
Auditor's report on pages 180 to 183.

Statement of changes in equity

for the year ended 30th June 2017

	Note	Stated Capital RS'000	Retained Earnings RS'000	Capital Reserve RS'000	Statutory Reserve RS'000	General Banking Reserve RS'000	Total Equity RS'000
At 1st July 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		-	(2,673,121)	-	-	-	(2,673,121)
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**
Profit for the year		**-**	**6,237,462**	**-**	**-**	**-**	**6,237,462**
Other comprehensive income for the year		**-**	**287,079**	**379,336**	**-**	**-**	**666,415**
Total comprehensive income for the year		**-**	**6,524,541**	**379,336**	**-**	**-**	**6,903,877**
Dividends in cash	29	**-**	**(2,614,249)**	**-**	**-**	**-**	**(2,614,249)**
Transactions with owner in his capacity as owner		**-**	**(2,614,249)**	**-**	**-**	**-**	**(2,614,249)**
Transfer to statutory reserve		**-**	**(936,000)**	**-**	**936,000**	**-**	**-**
Transfer from general banking reserve		**-**	**52,944**	**-**	**-**	**(52,944)**	**-**
At 30th June 2017		**6,879,602**	**23,462,727**	**1,154,719**	**4,910,602**	**837,401**	**37,245,051**

The notes on pages 195 to 278 form part of these financial statements.
Auditor's report on pages 180 to 183.

Statement of cash flows

for the year ended 30th June 2017

	Notes	Year ended 30th June 2017 RS'000	Year ended 30th June 2016 RS'000	Year ended 30th June 2015 RS'000
Operating activities				
Net cash flows from trading activities	32	**(175,858)**	5,094,908	5,841,493
Net cash flows from other operating activities	33	**6,411,810**	8,732,789	4,451,672
Dividends paid		**(2,304,667)**	(2,123,965)	(1,594,333)
Income tax paid		**(1,190,595)**	(1,107,369)	(921,438)
Net cash flows from operating activities		**2,740,690**	10,596,363	7,777,394
Investing activities				
Purchase of available-for-sale investments		**(872,146)**	(442,746)	(2,130,238)
Proceeds from sale of available-for-sale investments		**768,911**	413,354	415,573
Investment in associate		**-**	(50,705)	-
Purchase of property, plant and equipment		**(347,321)**	(285,825)	(191,895)
Purchase of intangible assets		**(295,359)**	(226,802)	(44,668)
Proceeds from sale of intangible assets		**-**	-	17,762
Proceeds from sale of property, plant and equipment		**33,271**	5,886	11,437
Net cash flows from investing activities		**(712,644)**	(586,838)	(1,922,029)
Net cash flows before financing activities		**2,028,046**	10,009,525	5,855,365
Financing activities				
Rights issue		**-**	-	4,500,000
Subordinated liability transferred		**-**	-	(4,500,000)
Net debt securities matured		**-**	-	(1,793,050)
Net refund of subordinated loan		**-**	199,354	-
Net cash flows from financing activities		**-**	199,354	(1,793,050)
Increase in cash and cash equivalents		**2,028,046**	10,208,879	4,062,315
Net cash and cash equivalents at 1st July		**31,969,261**	21,760,382	17,698,067
Net cash and cash equivalents at 30th June	4	**33,997,307**	31,969,261	21,760,382

The notes on pages 195 to 278 form part of these financial statements.
Auditor's report on pages 180 to 183.

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.

Index to notes to the financial statements

Index to notes to the financial statements
(continued)

Index to notes to the financial statements
(continued)

1. Significant Accounting Policies

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

(a) Basis of preparation

The financial statements of The Mauritius Commercial Bank Limited (the "Bank"), parent company, have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the Mauritian Companies Act 2001, the Banking Act 2004 and regulations and guidelines 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.

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 which are stated at fair value.

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

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

Amendments to published standards (effective as from 1st January 2016):
- Amendments to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation;
- Annual Improvements 2012 – 2014 Cycle;
- Amendments to IAS 1, 'Presentation of financial statements' disclosure initiative;
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on applying the consolidation exemption; and
- Amendments to IAS 34 Interim Financial Reporting regarding disclosure of information.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

Standards, amendments to published standards and interpretations issued but not yet effective

Certain standards, amendments to published standards and interpretations issued are effective for accounting periods beginning after 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 2 Share-based payment Amendment on clarifying share-based payment transactions – effective 1st January 2018;
- IFRS 9 Financial Instruments – effective 1st January 2018;
- IFRS 15 Revenue from Contracts with Customers – effective 1st January 2018;
- IFRS 16 Leases – effective 1st January 2019;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration – effective 1st January 2018;
- IFRIC 23 Uncertainty over Income Tax Treatments – effective 1st January 2019;
- Amendment to IAS 12 on Recognition of deferred tax assets for unrealised losses – effective 1st January 2017;
- Amendment to IAS 7 on Disclosure Initiative – effective 1st January 2017; and
- Annual Improvements 2014 – 2016 Cycle - effective 1st January 2018.

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 the financial statements.

IFRS 9 Financial Instruments - effective 1st January 2018

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, 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 at the end of each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

1. Significant Accounting Policies (Cont'd)

(a) Basis of preparation (Cont'd)

Hedge accounting

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Bank's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting as the standard introduces a more principles-based approach.

Transition

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

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

Investment in subsidiary

A subsidiary is an entity which the Bank controls. The Bank controls an investee if it is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Bank performs a reassessment of control whenever there is a change in the substance of the relationship between the Bank and an investee. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Investment in subsidiary is carried at cost which is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquirer. Acquisition-related costs are generally recognised in profit or loss as incurred. The carrying amount is reduced to recognise any impairment in the value of individual investment. The impairment loss is taken to profit or loss.

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 IFRS 10 Paragraph 4 from the requirement to prepare consolidated financial statements as MCB Group Limited, the ultimate parent, 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.

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 IAS 28 'Investments in Associates' Paragraph 17 and IFRS 10 Parargraph 4 from the requirement to prepare financial statements using equity-accounting as MCB Group Limited, the ultimate parent, 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.

1. Significant Accounting Policies (Cont'd)

(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.

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 prevailing at reporting date. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Transaction costs are charged immediately through profit or loss.

The 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.

1. Significant Accounting Policies (Cont'd)

(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.

(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 the 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 financial assets are subsequently remeasured at fair value. Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income and cumulated in a separate reserve, capital reserve.

Financial assets at fair value through profit or loss are financial assets held-for-trading.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any provision for impairment. If the 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.

1. Significant Accounting Policies (Cont'd)

(h) Investment securities (Cont'd)

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 assets.

(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 profit or loss for the year.

(j) Loans and advances

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.

(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.

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.

1. Significant Accounting Policies (Cont'd)

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

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

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general banking reserve as an appropriation of retained earnings.

(ii) Assets classified as available-for-sale

The 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 and provides for the requirements under the Employment Rights Act 2008. The defined benefit plan is fully funded. The assets of the funded plan are held independently and administered by The Mauritius Commerical Bank Limited Superannuation Fund.

(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 entitle them to the contributions.

(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.

Remeasurement of the net defined benefit liability, which comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), is recognised immediately in other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income shall not be reclassified to profit or loss in subsequent period.

As from 1st July 2015, the Bank has introduced a Defined Contribution Cash Balanced scheme (DCCB) for its employees.
With the introduction of DCCB, new employees automatically join the DCCB scheme, whilst existing employees had a one-time opportunity to choose from one of the options listed below:

Option A: To stay in the Defined Benefit (DB) scheme for all service.
Option B: To keep the accrued past pension benefits until 30th June 2015 in the DB scheme and join the DCCB scheme as from 1st July 2015.
Option C: To join the DCCB scheme as from 1st July 2015 and transfer the total accrued benefits as at 30th June 2015 from the DB scheme into the DCCB scheme.

(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)

(i) Current income tax

The current income tax charge is based on taxable income for the year calculated on the basis of tax laws enacted or substantively enacted by the end of the reporting period and includes the Corporate Social Responsibility charge and Bank levy.

(ii) Deferred income tax

Deferred 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 declared and unpaid

Dividend declared and unpaid to the Bank's shareholder at reporting date 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 are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

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 cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of high quality corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

Additional disclosures on pension benefits are shown in note 16.

(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.

In March 2017, the Bank was appointed by the Bank of Mauritius (BoM) to act as one of the four primary dealers for the trading of government securities. Per the Guideline on the Operational Framework for Primary Dealers issued by the BoM in the same month, the Bank is required to bid for 30% of the tender amount every time the BoM issues Government Treasury Bills and Bonds. These securities are accounted for as held-for-trading by the Bank. The Bank considers the market for these government securities to be active since the volume and frequency of trading in these securities provides pricing information. As such at reporting date, the held-for-trading securities have been fair valued based on the yield prevailing on the market.

Additional disclosures on the held-for-trading investments are shown in notes 3(d) and 7.

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

(e) Asset lives and residual values

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

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

(f) Impairment loss on financial assets

(i) Specific provisioning

The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgements based on any observable data which could indicate an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio.

Where cash flows for large credits include the realisable value of collateral securing the credit, the value of such collateral is based on the opinion of independent and qualified appraisers discounted as per requirements of the Bank of Mauritius Guidelines on Credit Impairment.

(ii) Portfolio provisioning

In assessing the portfolio provisioning, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

3. Financial Risk Management

(a) Strategy in using financial instruments

The use of financial instruments is a major feature of the 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.

Credit quality

	2017 RS '000	2016 RS '000	2015 RS '000
Neither past due nor impaired	**156,706,520**	147,583,562	148,940,152
Past due but not impaired	**1,626,920**	5,744,304	6,075,341
Impaired	**9,698,673**	9,515,741	9,534,646
Gross	**168,032,113**	162,843,607	164,550,139
Less Allowances for credit impairment	**(5,659,940)**	(6,623,444)	(7,136,693)
Net	**162,372,173**	156,220,163	157,413,446
Fair Value of collaterals of past due but not impaired loans	**1,916,486**	7,000,893	7,270,580
Fair Value of collaterals of impaired loans	**10,938,817**	9,628,873	6,285,572

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

Credit quality of neither past due nor impaired

Large corporate clients are assigned a Borrower Risk Rating which is generated by the Moody's Financial Analyst software which evaluates the borrower's financial position and subjective factors such as management quality, company standing and industry risk. Those ratings are used to monitor the credit quality of the Corporate Banking Segment which consumes a sizeable portion of the Bank's capital resources. Internally built scoring models are used to rate individuals based on borrowers' repayment capacity, track record and personal attributes for specialised lending including the Structured Trade and Commodity Finance portfolio, the risk profile is assessed based on the specificities of the financing structures and the type of borrowers.

Credit quality

For debt securities and certain other financial instruments, external rating have been aligned to the three quality classifications based upon the mapping of related Customer Risk Rating ("CRR") to external credit rating. The mapping is reviewed on a regular basis.

3. Financial Risk Management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality of cash and cash equivalents and loans to and placements with banks

For credit quality of cash and cash equivalents and loans to and placements with banks, the Bank uses the following categories to recognise the risk associated with each financial instrument:

- "Low risk" exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and or low levels of expected loss. The credit rating as per Moody's would be generally in the range Aaa to A3.
- "Medium" exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. The credit rating as per Moody's would be generally in the range Ba1 to Baa3.
- "High" exposures require varying degrees of special attention and default risk is of greater concern. The credit rating as per Moody's would be generally in the range Caa1 to Caa3.

For cash and cash equivalents and loans to and placements with banks, the credit rating is as follows:

	Cash and cash equivalents 2017 RS '000	Loans to and placements with banks 2017 RS '000
Credit rating:		
Aaa to Aa3	11,802,356	1,308,917
A1 to A3	10,127,093	6,070,293
B1 to B3	-	689,820
Ba1 to Ba3	1,640,361	-
Baa1 to Baa3	6,874,469	17,040,116
Caa1 to Caa3	172,533	-
Unrated	876,942	809,690
Total gross amount	31,493,754	25,918,836
Allowance for impairment (individual and collective)	-	(6,377)
Net carrying amount	31,493,754	25,912,459

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

	2017 RS '000	2016 RS '000	2015 RS '000
Up to 3 months	1,472,371	743,202	1,346,956
Over 3 months and up to 6 months	92,684	2,325,662	1,853,136
Over 6 months and up to 1 year	37,460	522,510	2,340,249
Over 1 year	24,405	2,152,930	535,000
	1,626,920	5,744,304	6,075,341

3. Financial Risk Management (Cont'd)

(b) Credit risk (Cont'd)

Loans and advances restructured

	2017 RS '000	2016 RS '000	2015 RS '000
Loans and advances restructured	**13,279,962**	13,021,413	15,064,254

Collateral and other credit enhancements

Credit mitigation instruments are used to reduce the Bank's lending risk, resulting in security against the majority of exposures. In the event of default of counterparty, the Bank has the ability to call on different type of collaterals which in turn are driven by portfolio, product or counterparty type: fixed and floating charges on properties and other assets, pledge on deposits, lien on vehicles, pledge on securities/ bonds, pledge on deposits held in other financial institutions, pledge on life insurance policies, bank guarantee/corporate guarantee/personal guarantee, 'nantissement de part sociales', government guarantee and lien/gage on equipment.

Credit risk on other assets

The treasury function, as part of the daily management of the Bank's liquidity, places funds with the Bank of Mauritius and other commercial banks and financial institutions. These transactions are mainly money market placements and government securities held-for-trading on the secondary market. These market counterparties are mainly investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets and internationally. These counterparties are located in the UK, Europe, America and Australia.

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

	2017 RS '000	2016 RS '000	2015 RS '000
Credit risk exposures relating to on-balance sheet assets are as follows :			
Cash and cash equivalents	**31,493,754**	29,938,462	21,103,964
Derivative financial instruments	**226,731**	175,771	268,901
Loans to and placements with banks	**25,912,459**	22,485,623	9,486,995
Loans and advances to customers	**160,418,113**	153,002,181	153,007,990
Investment securities	**66,557,591**	54,236,768	43,016,761
Other financial assets	**16,718,604**	14,578,046	12,732,435
Total	**301,327,252**	274,416,851	239,617,046
Credit risk exposures relating to off-balance sheet assets are as follows :			
Guarantees, letters of credit, endorsements and other obligations on account of customers	**41,128,382**	30,129,810	43,322,427
Commitments	**6,714,334**	2,600,154	4,380,241
Total	**47,842,716**	32,729,964	47,702,668

3. Financial Risk Management (Cont'd)

(c) Market risk

Market risk arises from activities undertaken in or impacted by financial markets generally. This includes the risk of gain or loss arising from the movement in market price of a financial asset or liability as well as currency or interest rate risk. The market risk management policies at the Bank are set by the Board Risk Monitoring Committee and executive management of this class of risk is delegated to the Asset and Liability Committee (ALCO). The Market Risk Business Unit (MRBU) plays a central role in monitoring and controlling market risk activities. It is the aim of MRBU to ensure that market risk policies and guidelines are being effectively complied with and that limits are being observed.

(i) Price risk

The 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%.

	2017 RS '000	2016 RS '000	2015 RS '000
Available-for-sale financial assets	**225,879**	201,546	202,148

(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 Head of Treasury. Such limits include daily, monthly, half-yearly and yearly stop losses. Exposure resulting from non-trading activities is managed through the Asset and Liability Management framework, with reference to guidelines and policies set and approved by ALCO and the Board Risk Monitoring Committee.

The Bank uses the value-at-risk (VaR) to measure its market price risk. VaR is the statistical representation of financial risk, expressed as a number, based on consistent modelling of past data and/or simulation of possible future movements, applied to a particular risk position, asset, or portfolio.

The VaR model used by the Bank is based upon a 99 percent one-tailed confidence level and assumes a ten-day holding period, with market data taken from the previous one year.

VaR Analysis - Foreign Exchange Risk

	As at 30 June	Average	Maximum	Minimum
2017 (RS '000)	**(29,885)**	**(15,266)**	**(29,885)**	**(5,627)**
2016 (RS '000)	(8,422)	(17,843)	(28,164)	(8,341)
2015 (RS '000)	(13,451)	(8,941)	(15,476)	(4,800)

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, 2017	EURO RS '000	USD RS '000	GBP RS '000	MUR RS '000	OTHER RS '000	TOTAL RS '000
Financial assets						
Cash and cash equivalents	5,263,990	18,351,597	3,741,059	5,628,458	1,048,856	34,033,960
Derivative financial instruments	28,023	-	7,163	191,545	-	226,731
Loans to and placements with banks	7,740,920	6,512,417	2,518,902	7,750,576	1,396,021	25,918,836
Loans and advances to customers	12,851,050	48,193,096	985,443	103,978,399	59,743	166,067,731
Investment securities	1,494,529	1,650,826	507,398	65,143,609	98,446	68,894,808
Other financial assets	762,832	965,732	455,501	14,419,964	114,575	16,718,604
	28,141,344	75,673,668	8,215,466	197,112,551	2,717,641	311,860,670
Less allowances for credit impairment						(5,659,940)
Total						**306,200,730**
Financial liabilities						
Deposits from banks	916,650	3,819,037	227,460	266,408	73,011	5,302,566
Deposits from customers	23,837,619	58,761,391	4,182,101	166,273,882	5,514,841	258,569,834
Derivative financial instruments	8,766	5,063	12,156	71,445	-	97,430
Other borrowed funds	3,131,238	2,470,954	-	4,743	-	5,606,935
Subordinated liability	-	1,052,037	-	-	-	1,052,037
Other financial liabilities	247,728	168,789	162,416	994,609	20,794	1,594,336
Total	28,142,001	66,277,271	4,584,133	167,611,087	5,608,646	**272,223,138**
Net on-balance sheet position	(657)	9,396,397	3,631,333	29,501,464	(2,891,005)	39,637,532
Less allowances for credit impairment						(5,659,940)
						33,977,592
Off balance sheet net notional position	7,976,596	14,504,387	5,197,688	-	958,009	28,636,680
Credit commitments	4,140,515	28,968,650	15,862	14,133,969	583,720	47,842,716

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 liability	-	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 liability	-	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

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 (IRR) mainly in the form of repricing risk and uses an interest rate risk gap analysis as shown below to measure and monitor this source of risk. Amongst other methodologies, it applies BOM framework of a 200 basis point parallel shift in interest rates to estimate the one-year earnings impact on a static balance sheet basis as follows:

	2017 RS '000	2016 RS '000	2015 RS '000
Impact on Earnings	**710,740**	713,587	482,670

Interest sensitivity of assets and liabilities- repricing analysis

At June 30, 2017	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	18,584,377	-	-	-	-	-	15,449,583	34,033,960
Derivative financial instruments	-	-	-	-	-	12,068	214,663	226,731
Loans to and placements with banks	1,991,275	9,746,768	6,989,490	5,861,767	1,000,000	120,718	208,818	25,918,836
Loans and advances to customers	108,345,533	32,434,811	8,350,531	1,132,068	1,804,828	11,006,126	2,993,834	166,067,731
Investment securities	5,818,819	6,393,045	7,548,467	11,239,951	14,219,471	20,376,999	3,298,056	68,894,808
Other financial assets	-	-	-	-	150,620	256,148	16,311,836	16,718,604
	134,740,004	48,574,624	22,888,488	18,233,786	17,174,919	31,772,059	38,476,790	311,860,670
Less allowances for credit impairment								(5,659,940)
Total								**306,200,730**
Financial liabilities								
Deposits from banks	3,353,158	762,713	734,040	119,487	-	-	333,168	5,302,566
Deposits from customers	229,007,708	2,460,295	1,191,092	1,238,889	1,420,772	1,633,436	21,617,642	258,569,834
Derivative financial instruments	-	-	-	-	-	-	97,430	97,430
Other borrowed funds	3,592,491	-	983,635	4,699	17,007	972,450	36,653	5,606,935
Subordinated liability	1,034,724	-	-	-	-	-	17,313	1,052,037
Other financial liabilities	-	-	-	-	-	255,012	1,339,324	1,594,336
Total	236,988,081	3,223,008	2,908,767	1,363,075	1,437,779	2,860,898	23,441,530	**272,223,138**
On balance sheet interest sensitivity gap	(102,248,077)	45,351,616	19,979,721	16,870,711	15,737,140	28,911,161	15,035,260	39,637,532
Less allowances for credit impairment								(5,659,940)
								33,977,592

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, 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 liability	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	10,247,910	-	-	-	-	-	12,751,929	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 liability	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)

(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. Treasury Strategic Business Unit manages liquidity in accordance with this policy, on a day-to-day basis.

The amounts disclosed in the following table are undiscounted (2016 and 2015: discounted).

Maturities of assets and liabilities

At June 30, 2017	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	31,095,535	88,293	66,755	110,392	111,000	-	2,958,373	34,430,348
Derivative financial instruments	67,330	43,070	76,559	4,119	-	12,068	18,622	221,768
Loans to and placements with banks	2,284,636	9,050,762	7,035,679	6,262,551	1,051,501	216,497	175,058	26,076,684
Loans and advances to customers	41,583,457	13,087,373	11,024,140	11,262,040	42,818,920	92,629,035	8,713,669	221,118,634
Investment securities	5,156,606	5,668,028	7,707,836	11,889,368	14,475,562	21,425,266	2,333,747	68,656,413
Other financial assets	-	-	-	-	150,620	256,148	16,311,836	16,718,604
	80,187,564	27,937,526	25,910,969	29,528,470	58,607,603	114,539,014	30,511,305	367,222,451
Less allowances for credit impairment								(5,659,940)
Total								**361,562,511**
Financial liabilities								
Deposits from banks	3,681,236	767,382	739,188	121,804	-	-	-	5,309,610
Deposits from customers	224,608,852	4,789,785	3,635,273	6,677,544	10,877,279	10,221,806	-	260,810,539
Derivative financial instruments	22,854	15,243	29,995	3,330	-	-	20,431	91,853
Other borrowed funds	-	450,378	205,666	711,882	2,551,091	1,917,107	-	5,836,124
Subordinated liability	-	20,891	-	24,792	403,561	802,018	-	1,251,262
Other financial liabilities	-	-	-	-	-	255,012	1,339,324	1,594,336
Total	228,312,942	6,043,679	4,610,122	7,539,352	13,831,931	13,195,943	1,359,755	**274,893,724**
Net liquidity gap	(148,125,378)	21,893,847	21,300,847	21,989,118	44,775,672	101,343,071	29,151,550	92,328,727
Less allowances for credit impairment								(5,659,940)
								86,668,787

3. Financial Risk Management (Cont'd)

(c) Market risk (Cont'd)

(iv) Liquidity risk (Cont'd)

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	-	-	-	-	-	247,353	14,330,693	14,578,046
	74,540,813	14,924,372	12,040,578	23,126,920	34,469,463	105,943,366	20,036,604	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 liability	-	-	-	-	-	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	(131,530,152)	10,091,239	7,425,010	15,635,803	25,467,906	89,178,972	17,535,110	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 liability	-	-	-	-	-	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

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

3. Financial Risk Management (Cont'd)

(d) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily quoted equity investments and instruments for which a market, which is considered to be the most representative price, is readily available. These financial assets have been classified as held-for-trading and available-for-sale.

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

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

Specific techniques used to value financial instruments include:

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

The nominal value less estimated credit adjustments of receivables and payables are assumed to approximate their fair values.

(e) Capital risk management

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

3. Financial Risk Management (Cont'd)

(f) Financial instruments by category

At 30 June, 2017	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	-	-	34,033,960	-	-	34,033,960
Derivative financial instruments	-	226,731	-	-	-	226,731
Loans to and placements with banks	-	-	25,912,459	-	-	25,912,459
Loans and advances to customers	-	-	160,418,113	-	-	160,418,113
Investment securities	54,804,703	9,568,590	-	4,517,570	-	68,890,863
Other financial assets	-	-	16,718,604	-	-	16,718,604
Total	54,804,703	9,795,321	237,083,136	4,517,570	-	**306,200,730**
Financial liabilities						
Deposits from banks	-	-	-	-	5,302,566	5,302,566
Deposits from customers	-	-	-	-	258,569,834	258,569,834
Derivative financial instruments	-	97,430	-	-	-	97,430
Other borrowed funds	-	-	-	-	5,606,935	5,606,935
Subordinated liability	-	-	-	-	1,052,037	1,052,037
Other financial liabilities	-	-	-	-	1,594,336	1,594,336
Total	-	97,430	-	-	272,125,708	**272,223,138**
Net on-balance sheet position	54,804,703	9,697,891	237,083,136	4,517,570	(272,125,708)	**33,977,592**

Notes to the financial statements
for the year ended 30th June 2017 (continued)

3. Financial Risk Management (Cont'd)

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

At June 30, 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	-	-	22,485,623	-	-	22,485,623
Loans and advances to customers	-	-	153,002,181	-	-	153,002,181
Investment securities	51,487,622	722,789	-	4,030,929	-	56,241,340
Other financial assets	-	-	14,578,046	-	-	14,578,046
Total	51,487,622	898,560	222,041,561	4,030,929	-	**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 liability	-	-	-	-	1,082,289	1,082,289
Other financial liabilities	-	-	-	-	2,183,582	2,183,582
Total	-	122,353	-	-	251,155,875	**251,278,228**
Net on-balance sheet position	51,487,622	776,207	222,041,561	4,030,929	(251,155,875)	**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	-	-	9,486,995	-	-	9,486,995
Loans and advances to customers	-	-	153,007,990	-	-	153,007,990
Investment securities	40,952,351	-	-	4,042,967	-	44,995,318
Other financial assets	-	-	12,732,435	-	-	12,732,435
Total	40,952,351	268,901	198,227,259	4,042,967	-	**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 liability	-	-	-	-	1,055,697	1,055,697
Other financial liabilities	-	-	-	-	3,403,391	3,403,391
Total	-	112,976	-	-	219,858,353	**219,971,329**
Net on-balance sheet position	40,952,351	155,925	198,227,259	4,042,967	(219,858,353)	**23,520,149**

4. Cash and Cash Equivalents

	2017 RS'000	2016 RS'000	2015 RS'000
Cash in hand	**2,452,676**	1,935,304	1,834,403
Foreign currency notes and coins	**87,530**	101,945	61,472
Unrestricted balances with Central Bank*	**2,957,699**	599,525	2,234,995
Balances due in clearing	**466,989**	447,892	315,767
Money market placements	**18,413,033**	9,724,176	10,247,910
Balances with banks abroad	**9,483,500**	18,876,854	8,305,292
Interbank loans**	**172,533**	290,015	-
	34,033,960	31,975,711	22,999,839

* Unrestricted balances with Central Bank represents amounts above the minimum cash reserve requirement.
** Interbank loans represent loans with banks having an original maturity of less than three months.

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

	2017 RS'000	2016 RS'000	2015 RS'000
Cash and cash equivalents	**34,033,960**	31,975,711	22,999,839
Other borrowed funds (see note 14(a))	**(36,653)**	(6,450)	(1,239,457)
Net cash and cash equivalents	**33,997,307**	31,969,261	21,760,382
Change in year	**2,028,046**	10,208,879	4,062,315

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
Derivative held-for-trading - Level 2			
Year ended 30th June 2017			
Derivative Instruments			
Currency forwards	**5,167,027**	**71,665**	**51,677**
Interest rate swaps	**3,656,970**	**23,118**	**26,008**
Currency swaps	**20,199,124**	**131,481**	**19,745**
Others	**467**	**467**	**-**
	29,023,588	**226,731**	**97,430**
Year ended 30th June 2016			
Derivative Instruments			
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			
Derivative Instruments			
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

6. Loans

(a) Loans to and placements with banks

	2017 RS'000	2016 RS'000	2015 RS'000
(i) Loans to and placements with banks			
in Mauritius	**7,923,109**	6,277,304	3,226,027
outside Mauritius	**46,064,793**	45,117,309	24,830,786
	53,987,902	51,394,613	28,056,813
Less:			
Loans and placements with original maturity less than 3 months and included in cash and cash equivalents	**(28,069,066)**	(28,891,045)	(18,553,202)
	25,918,836	22,503,568	9,503,611
Less:			
Allowances for credit impairment	**(6,377)**	(17,945)	(16,616)
	25,912,459	22,485,623	9,486,995
(ii) Remaining term to maturity			
Up to 3 months	**10,310,019**	12,417,250	4,462,999
Over 3 months and up to 6 months	**8,204,519**	2,703,010	652,588
Over 6 months and up to 1 year	**6,239,050**	6,377,327	4,034,532
Over 1 year and up to 5 years	**1,042,981**	1,005,981	175,950
Over 5 years	**122,267**	-	177,542
	25,918,836	22,503,568	9,503,611

(iii) Allowances for credit impairment

	RS'000
Portfolio Provision :	
At 1st July 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**
Provision released during the year	**(11,568)**
At 30th June 2017	**6,377**

6. **Loans** (Cont'd)

(b) Loans and advances to customers

	2017 RS'000	2016 RS'000	2015 RS'000
(i) Loans and advances to customers			
Retail customers:			
Credit cards	**659,962**	653,788	632,299
Mortgages	**24,817,404**	21,969,378	19,079,950
Other retail loans	**12,238,768**	12,621,653	12,847,745
Corporate customers	**94,149,015**	97,817,761	98,090,550
Governments	**523,147**	283,043	308,155
Entities outside Mauritius	**33,679,435**	26,262,057	29,169,368
	166,067,731	159,607,680	160,128,067
Less:			
Allowances for credit impairment	**(5,649,618)**	(6,605,499)	(7,120,077)
	160,418,113	153,002,181	153,007,990

(ii) Remaining term to maturity

	2017 RS'000	2016 RS'000	2015 RS'000
Up to 3 months	**44,208,300**	41,307,782	47,884,696
Over 3 months and up to 6 months	**4,402,213**	4,612,032	3,046,710
Over 6 months and up to 1 year	**3,140,205**	4,194,400	3,945,189
Over 1 year and up to 5 years	**39,158,470**	39,145,416	40,080,619
Over 5 years	**75,158,543**	70,348,050	65,170,853
	166,067,731	159,607,680	160,128,067

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 2016	**2,690,731**	**1,103,007**	**3,793,738**
Exchange adjustment	**(12,712)**	**-**	**(12,712)**
Provision for credit impairment for the year	**1,134,680**	**48,336**	**1,183,016**
Provision released during the year	**(188,539)**	**-**	**(188,539)**
Amounts written off	**(1,620,922)**	**-**	**(1,620,922)**
At 30th June 2017	**2,003,238**	**1,151,343**	**3,154,581**
Interest suspense	**2,495,037**	**-**	**2,495,037**
Provision and interest suspense at 30th June 2017	**4,498,275**	**1,151,343**	**5,649,618**
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

6. Loans (Cont'd)

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

(iv) Allowances for credit impairment by industry sectors

	2017					2016	2015
	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	**7,572,451**	**1,097,418**	**271,192**	**5,757**	**276,949**	157,292	41,153
Manufacturing	**9,026,061**	**519,400**	**145,726**	**119,936**	**265,662**	456,515	335,013
of which EPZ	***2,978,358***	***38,915***	***19,591***	***19,484***	***39,075***	*34,806*	*85,795*
Tourism	**25,293,172**	**834,463**	**494,959**	**75,960**	**570,919**	455,062	399,346
Transport	**4,139,850**	**1,302,433**	**562,046**	**43,542**	**605,588**	161,106	724,050
Construction	**14,162,092**	**1,691,177**	**876,900**	**168,243**	**1,045,143**	1,726,628	1,452,839
Financial and business services	**23,402,578**	**285,333**	**76,084**	**77,700**	**153,784**	135,805	151,989
Traders	**24,530,233**	**774,288**	**426,775**	**208,152**	**634,927**	678,167	772,900
Personal	**35,412,059**	**1,849,506**	**1,015,851**	**209,984**	**1,225,835**	1,398,313	1,597,019
of which credit cards	***651,341***	***30,514***	***25,047***	***14,370***	***39,417***	*69,785*	*56,200*
of which housing	***24,817,404***	***965,112***	***408,970***	***115,262***	***524,232***	*474,613*	*394,410*
Professional	**1,044,842**	**91,449**	**48,412**	**19,781**	**68,193**	80,629	222,614
Foreign governments	**523,147**	**-**	**-**	**-**	**-**	-	-
Global Business Licence holders	**12,880,934**	**263,911**	**315,586**	**180,888**	**496,474**	1,035,110	1,118,000
Others	**8,080,312**	**989,295**	**264,744**	**41,400**	**306,144**	320,872	305,154
	166,067,731	**9,698,673**	**4,498,275**	**1,151,343**	**5,649,618**	6,605,499	7,120,077

(v) Credit concentration of risk by industry sectors

Corporate notes and credit facilities 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.

	2017 RS'000	2016 RS'000	2015 RS'000
Agriculture and fishing	**2,004,071**	2,088,601	1,272,256
Manufacturing	**294,716**	2,365,431	2,142,255
of which EPZ	***66,337***	*1,616,803*	*1,553,253*
Tourism	**5,934,586**	11,705,358	15,418,199
Transport	**52,399**	39,946	39,511
Construction	**4,253,594**	4,211,324	2,048,423
Financial and business services	**4,185,209**	15,081,604	23,187,296
Traders	**18,949,275**	15,283,922	21,074,963
Global Business Licence holders	**20,171,903**	21,789,702	14,104,893
Others	**45,647**	62,992	738,654
	55,891,400	72,628,880	80,026,450

7. Investment Securities

	2017 RS'000	2016 RS'000	2015 RS'000
Held-to-maturity	**54,808,648**	51,487,622	40,952,351
Held-for-trading	**9,568,590**	722,789	-
Available-for-sale	**4,517,570**	4,030,929	4,042,967
	68,894,808	56,241,340	44,995,318
Less:			
Allowance for credit impairment on investment securities	**(3,945)**	-	-
	68,890,863	56,241,340	44,995,318

(a) (i) Held-to-maturity

	2017 RS'000	2016 RS'000	2015 RS'000
Government of Mauritius and Bank of Mauritius bonds	**41,906,114**	35,690,180	26,664,552
Treasury bills	**10,680,154**	14,635,850	13,527,402
Foreign bonds	**1,567,616**	879,910	731,007
Notes	**654,764**	281,682	29,390
	54,808,648	51,487,622	40,952,351

(ii) Remaining term to maturity

	2017					
	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	**3,380,265**	**2,865,462**	**5,216,563**	**21,027,859**	**9,415,965**	**41,906,114**
Treasury bills	**5,844,659**	**2,199,712**	**2,635,783**	**-**	**-**	**10,680,154**
Foreign bonds	**-**	**68,982**	**118,978**	**1,379,656**	**-**	**1,567,616**
Notes	**-**	**-**	**-**	**252,291**	**402,473**	**654,764**
	9,224,924	**5,134,156**	**7,971,324**	**22,659,806**	**9,818,438**	**54,808,648**

	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

7. Investment Securities (Cont'd)

(ii) Remaining term to maturity (Cont'd)

	2015					
	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	-	202,253	1,159,889	20,312,773	4,989,637	26,664,552
Treasury bills	4,524,071	4,948,490	4,054,841	-	-	13,527,402
Foreign bonds	356,000	-	177,579	197,428	-	731,007
Notes	-	-	-	29,390	-	29,390
	4,880,071	5,150,743	5,392,309	20,539,591	4,989,637	40,952,351

(b) (i) Held-for-trading

	2017 RS'000	2016 RS'000	2015 RS'000
Treasury bills:			
Up to 3 months	**2,107,988**	-	-
Over 3 months and up to 6 months	**1,949,766**	-	-
Over 6 months and up to 12 months	**3,312,559**	57,061	-
Government of Mauritius & Bank of Mauritius bonds	**1,689,065**	-	-
Foreign bonds	**509,212**	665,728	-
	9,568,590	722,789	-

(ii) Held-for-trading by levels

	2017 RS'000	2016 RS'000	2015 RS'000
Quoted - Level 1			
Foreign bonds	**509,212**	665,728	-
Unquoted - Level 2			
Government of Mauritius & Bank of Mauritius bonds	**1,689,065**	-	-
Treasury bills	**7,370,313**	57,061	-
	9,059,378	57,061	-
	9,568,590	722,789	-

7. Investment Securities (Cont'd)

(c) (i) Available-for-sale

	2017 RS'000	2016 RS'000	2015 RS'000
Quoted - Level 1			
Official list : shares	**1,263,593**	1,103,635	1,125,581
Bonds	**1,480,819**	1,185,342	1,243,909
Foreign shares	**840,403**	671,661	623,697
	3,584,815	2,960,638	2,993,187
Unquoted - Level 2			
Investment fund	**494,618**	416,227	408,482
Unquoted - Level 3			
Equity shares	**229,276**	229,276	229,279
Investment fund	**-**	215,927	203,158
Inflation - indexed Government of Mauritius bonds	**208,861**	208,861	208,861
	438,137	654,064	641,298
	4,517,570	4,030,929	4,042,967

(ii) Reconciliation of Level 3 fair value measurements

	RS'000
At 1st July 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**
Fair value	**(4,466)**
Transfers	**(205,448)**
Exchange adjustments	**(6,013)**
At 30th June 2017	**438,137**

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

8. Investments in Subsidiary and Associates

(a) Investment in Subsidiary

(i) The Bank's interest in its subsidiary is as follows:

	Country of incorporation	Nature of Business	Assets RS'000	Liabilities RS'000	Holding %	Cost RS'000
Year ended 30th June 2017						
MCB Madagascar SA	**Madagascar**	**Banking & Financial Services**	**326,928,177**	**274,927,649**	**80.00**	**64,322**
Year ended 30th June 2016 and 30th June 2015						-

(ii) Movement in investment in subsidiary is as follows:

	2017 RS'000	2016 RS'000	2015 RS'000
At 1st July	**-**	-	-
Transferred from other assets	**64,322**	-	-
At 30th June	**64,322**	-	-

(b) Investments in associates

(i) The Bank's interest in its 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 2017							
Banque Française Commerciale Océan Indien	**France**	**70,552,404**	**64,336,491**	**4,099,849**	**706,130**	**49.99**	**447,489**
Société Générale Moçambique	**Mozambique**	**4,062,817**	**3,498,273**	**303,435**	**(246,064)**	**35.00**	**310,625**
							758,114
Subordinated loan to associates							**401,136**
							1,159,250
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	Mozambique	3,205,028	2,160,847	234,284	(229,511)	35.00	310,625
							758,114
Subordinated loan to associates							402,949
							1,161,063
Year ended 30th June 2015							-

(ii) Movements in investments in associates are as follows:

	2017 RS'000	2016 RS'000	2015 RS'000
At 1st July	**1,161,063**	-	-
Increase in shareholding during the year	**-**	50,705	-
Exchange adjustment on subordinated loan	**(1,813)**	-	-
Transferred from non-current assets held for distribution	**-**	707,409	-
	1,159,250	758,114	-
Subordinated loan to associate reclassified from loans to banks	**-**	402,949	-
At 30th June	**1,159,250**	1,161,063	-

9. Intangible Assets

	Computer software RS'000	Work in progress RS'000	Total RS'000
Cost			
At 1st July 2014	2,377,402	15,388	2,392,790
Additions	10,726	33,942	44,668
Scrap/Impairment	(12,824)	-	(12,824)
Disposal	(68,992)	-	(68,992)
Transfer	35,309	(35,309)	-
At 30th June 2015	2,341,621	14,021	2,355,642
Additions	9,897	216,905	226,802
Scrap/Impairment	(50,679)	-	(50,679)
Transfer	36,309	(36,309)	-
At 30th June 2016	**2,337,148**	**194,617**	**2,531,765**
Additions	**58,471**	**236,888**	**295,359**
Scrap/Impairment	**(602)**	**-**	**(602)**
Transfer	**322,094**	**(322,094)**	**-**
At 30th June 2017	**2,717,111**	**109,411**	**2,826,522**
Amortisation			
At 1st July 2014	1,869,706	-	1,869,706
Scrap/Impairment	(12,824)	-	(12,824)
Disposal adjustment	(65,586)	-	(65,586)
Charge for the year	178,893	-	178,893
At 30th June 2015	1,970,189	-	1,970,189
Scrap/Impairment	(50,679)	-	(50,679)
Charge for the year	139,093	-	139,093
At 30th June 2016	**2,058,603**	**-**	**2,058,603**
Scrap/Impairment	**(136)**	**-**	**(136)**
Charge for the year	**188,486**	**-**	**188,486**
At 30th June 2017	**2,246,953**	**-**	**2,246,953**
Net book values			
At 30th June 2017	**470,158**	**109,411**	**579,569**
At 30th June 2016	278,545	194,617	473,162
At 30th June 2015	371,432	14,021	385,453

The Core Banking System T24 is the only material intangible asset. The remaining useful life of this intangible asset is 3 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 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**
Additions	**14,777**	**98,270**	**26,597**	**207,677**	**347,321**
Disposals	**(23,715)**	**(42,018)**	**(7,544)**	**-**	**(73,277)**
Transfer	**82,735**	**159,660**	**41,583**	**(283,978)**	**-**
At 30th June 2017	**4,521,988**	**3,096,825**	**819,791**	**58,519**	**8,497,123**
Accumulated depreciation					
At 1st July 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**
Charge for the year	**73,703**	**241,837**	**52,316**	**-**	**367,856**
Disposal adjustment	**(5,431)**	**(40,829)**	**(6,031)**	**-**	**(52,291)**
At 30th June 2017	**785,256**	**2,344,280**	**456,505**	**-**	**3,586,041**
Net book values					
At 30th June 2017	**3,736,732**	**752,545**	**363,286**	**58,519**	**4,911,082**
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

11. Deferred Tax Assets

	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
The movement in the deferred income tax account is as follows:					
2017					
Provisions and post retirement benefits	**253,905**	**-**	**(16,718)**	**(50,661)**	**186,526**
Provisions for credit impairment	**115,753**	**(12)**	**36,837**	**-**	**152,578**
Accelerated tax depreciation	**(175,698)**	**-**	**(19,739)**	**-**	**(195,437)**
At 30th June 2017	**193,960**	**(12)**	**380**	**(50,661)**	**143,667**
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

12. Other Assets

	2017 RS'000	2016 RS'000	2015 RS'000
Mandatory balances with Central Bank	**15,432,134**	13,688,608	12,252,565
Prepayments & other receivables	**699,238**	725,499	741,942
Credit Card Clearing	**68,525**	68,659	180,193
Non-banking assets acquired in satisfaction of debts*	**51,802**	51,909	57,474
Impersonal & other accounts	**1,510,530**	1,735,429	952,038
Post employee benefit asset (see note 16)	**99,487**	-	-
Receivable from Mauritius Union Assurance Co Ltd	**-**	-	25,000
	17,861,716	16,270,104	14,209,212

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

Notes to the financial statements
for the year ended 30th June 2017 (continued)

13. Deposits

	2017 RS'000	2016 RS'000	2015 RS'000
(a) Deposits from banks			
Demand deposits	**2,743,209**	2,643,632	3,303,800
Money market deposits with remaining term to maturity:			
Up to 3 months	**1,703,673**	715,676	513,951
Over 3 months and up to 6 months	**670,395**	1,045,465	468,681
Over 6 months and up to 1 year	**185,289**	25,379	151,133
Over 1 year and up to 5 years	**-**	282,451	66,860
	2,559,357	2,068,971	1,200,625
	5,302,566	4,712,603	4,504,425
(b) Deposits from customers			
(i) Retail customers			
Demand deposits	**25,318,439**	25,182,505	20,749,512
Savings deposits	**109,296,825**	96,501,629	86,278,568
Time deposits with remaining term to maturity:			
Up to 3 months	**2,807,938**	3,304,781	3,551,031
Over 3 months and up to 6 months	**1,954,290**	1,855,545	1,931,431
Over 6 months and up to 1 year	**4,201,169**	4,596,129	4,426,212
Over 1 year and up to 5 years	**12,645,559**	11,663,604	10,388,268
Over 5 years	**12,586**	5,478	53,665
	21,621,542	21,425,537	20,350,607
	156,236,806	143,109,671	127,378,687
(ii) Corporate customers			
Demand deposits	**80,958,642**	72,803,936	58,121,151
Savings deposits	**5,906,210**	5,253,182	5,643,459
Time deposits with remaining term to maturity:			
Up to 3 months	**4,799,755**	4,937,434	5,048,153
Over 3 months and up to 6 months	**1,520,490**	1,699,788	1,967,956
Over 6 months and up to 1 year	**2,260,756**	2,850,519	1,494,043
Over 1 year and up to 5 years	**6,810,544**	4,803,622	1,468,282
Over 5 years	**62**	2,791,762	2,781,760
	15,391,607	17,083,125	12,760,194
	102,256,459	95,140,243	76,524,804
(iii) Government			
Demand deposits	**15,353**	9,411	10,423
Savings deposits	**61,216**	52,168	28,662
	76,569	61,579	39,085
	258,569,834	238,311,493	203,942,576

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

14. Other Borrowed Funds

(a) Other borrowed funds comprise the following:

	2017 RS'000	2016 RS'000	2015 RS'000
Borrowings from banks:			
in Mauritius	**4,743**	9,134	11,832
Abroad	**5,602,192**	4,856,774	6,940,432
	5,606,935	4,865,908	6,952,264
Other borrowed funds include borrowings with original maturity of less than 3 months as shown in note 4	**36,653**	6,450	1,239,457

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

(b) Remaining term to maturity:

	2017	2016	2015
On demand or within a period not exceeding 1 year	**41,352**	15,584	2,092,663
Within a period of more than 3 years	**5,565,583**	4,850,324	4,859,601
	5,606,935	4,865,908	6,952,264

15. Subordinated Liability

Subordinated liability comprise of the following:

	2017 RS'000	2016 RS'000	2015 RS'000
USD 30M subordinated debt maturing in August 2023 at an average interest rate of 4.3% (2016: 3.8% and 2015: 3.5%) (Level 3)	**1,052,037**	1,082,289	1,055,697

The carrying amount of the subordinated liability is not materially different from its fair value.

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.

Notes to the financial statements

for the year ended 30th June 2017 (continued)

16. Post Employee Benefit (Asset)/Liability

Amounts recognised in the financial statements at end of year

	2017 Rs'000	2016 Rs'000	2015 Rs'000
Reconciliation of net defined benefit (asset)/liability			
Opening balance	**249,707**	1,034,237	1,151,026
Amount recognised in statement of profit or loss	**214,143**	267,942	309,534
Amount recognised in statement of comprehensive income	**(337,740)**	204,430	(112,018)
Less capital injection	**-**	(1,000,000)	-
Less employer contributions	**(225,597)**	(256,902)	(314,305)
(Asset)/liability as shown in note 12/17	**(99,487)**	249,707	1,034,237
Reconciliation of fair value of plan assets			
Opening balance	**6,202,697**	5,297,925	4,703,279
Interest income	**402,455**	365,479	379,941
Capital injection	**-**	1,000,000	-
Employer contributions	**225,597**	256,902	314,305
Benefits paid	**(242,419)**	(317,155)	(220,533)
Return on plan assets excluding interest income	**208,035**	(400,454)	120,933
Closing balance	**6,796,365**	6,202,697	5,297,925
Reconciliation of present value of defined benefit obligation			
Opening balance	**6,452,404**	6,332,162	5,854,305
Current service cost	**205,129**	201,604	229,782
Interest expense	**411,469**	431,817	459,693
Other benefits paid	**(242,419)**	(317,155)	(220,533)
Liability experience (gain)/loss	**-**	(2,726)	20,774
Liability gain due to change in financial assumptions	**(129,705)**	(193,298)	(11,859)
Closing balance	**6,696,878**	6,452,404	6,332,162
Components of amount recognised in statement of profit or loss			
Current service cost	**205,129**	201,604	229,782
Net interest on net defined benefit liability	**9,014**	66,338	79,752
Total	**214,143**	267,942	309,534
Analysed as follows:			
The Mauritius Commercial Bank Limited	**197,708**	238,205	271,530
Other members of The MCB Group Limited	**16,435**	29,737	38,004
	214,143	267,942	309,534
Components of amount recognised in other comprehensive income			
Return on plan assets (above)/below interest income	**(208,035)**	400,454	(120,933)
Liability experience (gain)/loss	**-**	(2,726)	20,774
Liability gain due to change in financial assumptions	**(129,705)**	(193,298)	(11,859)
Total	**(337,740)**	204,430	(112,018)

16. Post Employee Benefit (Asset)/Liability (Cont'd)

	2017	2016	2015
Allocation of plan assets at end of year	%	%	%
Equity - Local quoted	**28**	21	22
Equity - Local unquoted	**1**	1	2
Debt - Overseas quoted	**6**	9	9
Debt - Local quoted	**8**	6	4
Debt - Local unquoted	**4**	1	3
Property - Local	**3**	3	4
Investment funds	**32**	31	39
Cash and other	**18**	28	17
Total	**100**	100	100

Allocation of plan assets at end of year	%	%	%
Reporting entity's own transferable financial instruments	**7**	6	6
Property occupied by reporting entity	**1**	1	2
Other assets used by reporting entity	**13**	25	11

Principal assumptions used at end of year			
Discount rate	**6.5%**	6.5%	7.0%
Rate of salary increases	**4.5%**	4.5%	5.0%
Rate of pension increases	**3.5%**	3.7%	4.5%
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

	2017 Rs'000	2016 Rs'000	2015 Rs'000
Sensitivity analysis on defined benefit obligation at end of year			
Increase due to 1% decrease in discount rate	**1,192,044**	1,221,952	1,219,187
Decrease due to 1% increase in discount rate	**944,260**	947,166	942,666

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 Benefit (Asset)/Liability (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 asset of Rs 99,487,000 as at 30th June 2017 for the plan (net defined benefit liability - 2016 : Rs 249,707,000, 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 Bank's actuaries:

Expected employer contribution for the next year (Rs'000)	**249,077**
Weighted average duration of the defined benefit obligation	**16 years**

Defined contribution scheme

As from 1st July 2015, the Bank has introduced a Defined Contribution Cash Balanced scheme "DCCB" 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

	2017 RS'000	2016 RS'000	2015 RS'000
Post employee benefit liability (see note 16)	-	249,707	1,034,237
Proposed dividend (see note 29)	**1,341,522**	1,031,940	1,023,229
Impersonal & other accounts	**4,207,488**	3,020,806	2,574,767
	5,549,010	4,302,453	4,632,233

18. Stated Capital and Reserves

(a) Stated capital

	Number of shares Share Capital
At 1st July 2014	**237,960,247**
Rights issue	**450,000,000**
At 30th June 2015, 30th June 2016 and 30th June 2017	**687,960,247**

Fully paid ordinary shares carry one vote per share and the right to dividend.

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 Bank.

(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

	2017 RS'000	2016 RS'000	2015 RS'000
(a) Instruments			
Guarantees on account of customers	**19,186,056**	18,330,563	15,686,218
Letters of credit and other obligations on account of customers	**20,444,660**	8,273,242	15,781,597
Other contingent items	**1,497,666**	3,526,005	11,854,612
	41,128,382	30,129,810	43,322,427
(b) Commitments			
Loans and other facilities, including undrawn credit facilities	**6,714,334**	2,600,154	4,380,241
(c) Tax assessments *	**992,632**	836,868	797,225
(d) Other			
Inward bills held for collection	**350,954**	423,796	380,692
Outward bills sent for collection	**1,003,037**	1,003,723	803,573
	1,353,991	1,427,519	1,184,265
	50,189,339	34,994,351	49,684,158

* During the period December 2011 to June 2017, the Bank received income tax assessments relating to seven consecutive years starting with financial year ended 30th June 2007 to 30th June 2013 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 992.6 million, including penalties and interests.

20. Interest Income

	Year ended 30th June 2017 RS'000	Year ended 30th June 2016 RS'000	Year ended 30th June 2015 RS'000
Loans to and placements with banks	**577,309**	367,076	202,394
Loans and advances to customers	**9,768,906**	10,196,930	10,105,092
Held-to-maturity investments	**2,129,450**	1,676,321	1,278,776
Available-for-sale investments	**60,596**	44,754	35,254
Held-for-trading investments	**54,031**	6,594	2,506
Other	**13,773**	7,470	8,703
	12,604,065	12,299,145	11,632,725

21. Interest Expense

	2017	2016	2015
Deposits from banks	**22,038**	15,623	16,335
Deposits from customers	**3,668,925**	3,949,990	3,856,580
Subordinated liability	**44,522**	41,006	300,459
Other borrowed funds	**134,890**	94,706	111,299
	3,870,375	4,101,325	4,284,673

22. Fee and Commission Income

	2017	2016	2015
Retail banking fees	**754,754**	755,429	763,574
Corporate banking fees	**565,567**	433,541	430,487
Guarantee fees	**221,386**	212,579	204,688
Interbank transaction fees	**57,237**	49,809	43,092
Cards and other related fees	**1,458,173**	1,315,704	1,221,028
Trade finance fees	**296,915**	432,867	647,999
Others	**86,076**	80,280	92,475
	3,440,108	3,280,209	3,403,343

23. Fee and Commission Expense

	2017	2016	2015
Interbank transaction fees	**13,206**	20,589	16,553
Cards and other related fees	**653,578**	582,843	539,423
Others	**20,889**	24,922	30,954
	687,673	628,354	586,930

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

	2017	2016	2015
Net gain/(loss) from derivative financial instruments	**88,017**	(108,131)	157,552
Investment securities held-for-trading	**12,191**	19,649	(10,668)
	100,208	(88,482)	146,884

25. Dividend Income

	2017	2016	2015
Income from subsidiary	**63,506**	-	-
Income from associate	**246,305**	210,830	-
Income from quoted investments	**38,805**	33,720	26,166
Income from unquoted investments	**5,978**	7,448	4,697
	354,594	251,998	30,863

26. Non-Interest Expense

(a) Salaries and human resource development

	Year ended 30th June 2017 RS'000	Year ended 30th June 2016 RS'000	Year ended 30th June 2015 RS'000
Wages and salaries	**2,039,545**	1,857,907	1,766,201
Defined benefit plan	**197,708**	238,205	271,530
Defined contribution plan	**66,041**	36,046	-
Compulsory social security obligations	**61,166**	56,856	54,079
Equity settled share-based payments	**3,024**	1,558	1,488
Other personnel expenses	**588,100**	571,326	488,768
	2,955,584	2,761,898	2,582,066
Number of employees at the end of the year	**2,682**	2,598	2,522

(b) Other non-interest expense

	Year ended 30th June 2017 RS'000	Year ended 30th June 2016 RS'000	Year ended 30th June 2015 RS'000
Software licensing and other information technology cost	**242,892**	215,071	208,519
Others	**1,267,005**	1,165,427	1,132,790
	1,509,897	1,380,498	1,341,309

27. Net Impairment of Financial Assets

	Year ended 30th June 2017 RS'000	Year ended 30th June 2016 RS'000	Year ended 30th June 2015 RS'000
Allowance for credit impairment:			
Loans and advances (Note (a))	**946,559**	907,021	860,840
Investment securities	**3,945**	-	-
Impairment of available-for-sale investment securities	**-**	-	36,333
	950,504	907,021	897,173

(a) Allowance for credit impairment on loans and advances

	Year ended 30th June 2017 RS'000	Year ended 30th June 2016 RS'000	Year ended 30th June 2015 RS'000
Provision for bad and doubtful debts:			
Loans to and placements with banks	**-**	1,329	-
Loans and advances to customers	**1,183,016**	1,544,417	869,266
Bad debts written off for which no provisions were made	**13,173**	34,776	48,960
Provision released during the year:			
Loans to and placements with banks	**(11,568)**	-	(784)
Loans and advances to customers	**(188,539)**	(648,211)	(29,350)
Recoveries of advances written off	**(49,523)**	(25,290)	(27,252)
	946,559	907,021	860,840

28. Income Tax Expense

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

	Year ended 30th June 2017 RS'000	Year ended 30th June 2016 RS'000	Year ended 30th June 2015 RS'000
Income tax based on the adjusted profit	**807,776**	664,577	588,653
Deferred tax	**(380)**	58,564	(41,544)
Special levy on banks	**511,704**	428,271	362,494
Corporate Social Responsibility contribution	**96,955**	147,733	62,749
Over provision in previous years	**(25,967)**	(3,051)	(12,062)
Charge for the year	**1,390,088**	1,296,094	960,290
The tax on the profits differs from the theoretical amount that would arise using the basic tax rate as follows:			
Profit before tax:			
Continuing operations	**7,627,550**	6,916,257	5,802,844
Discontinued operations	**-**	-	161,746
	7,627,550	6,916,257	5,964,590
Tax calculated at a rate of 15%	**1,144,133**	1,037,439	894,689
Impact of:			
Income not subject to tax	**(73,095)**	(126,464)	(119,631)
Expenses not deductible for tax purposes	**98,547**	79,259	117,934
Tax credits	**(362,189)**	(267,093)	(345,883)
Special levy on banks	**511,704**	428,271	362,494
Corporate Social Responsibility contribution	**96,955**	147,733	62,749
Over provision in previous years	**(25,967)**	(3,051)	(12,062)
Tax charge	**1,390,088**	1,296,094	960,290

Corporate Social Responsibility (CSR) tax

Corporate Social Responsibility (CSR) tax was legislated by the Government of Mauritius in July 2009. The Bank is required to allocate a percentage of its chargeable income of the preceding year to government approved CSR Non Governmental Organisations.

Bank Levy

The Bank is liable to pay a special levy as a percentage of its chargeable income.

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

Remeasurement of defined benefit pension plan	**(337,740)**	204,430	(112,018)
Deferred tax charge/(credit)	**50,661**	(30,665)	16,803
Remeasurement of defined benefit pension plan, net of deferred tax	**(287,079)**	173,765	(95,215)

29. Dividends

	2017 RS'000	2016 RS'000	2015 RS'000
Dividends in cash			
Paid on 15th December 2016 at Rs 1.85 per share (F/Y 2016: Rs 1.60; F/Y 2015: Rs 3.30)	**1,272,727**	1,100,736	785,268
Paid on 27th July 2017 at Rs 1.95 per share (F/Y 2016: Rs 1.50; F/Y 2015: Rs 4.30)	**1,341,522**	1,031,940	1,023,229
	2,614,249	2,132,676	1,808,497
Dividends in specie*			
Dividends in specie	**-**	540,445	-
	2,614,249	2,673,121	1,808,497

* Unbundling of non-current assets which were held for distribution were made through dividends 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 holder of the Bank by the weighted average number of ordinary shares outstanding during the year.

	2017 RS'000	2016 RS'000	2015 RS'000
Profit from continuing operations	**6,237,462**	5,620,163	4,842,554
Profit from discontinued operations	**-**	-	161,746
Weighted average number of ordinary shares (thousands)	**687,960**	687,960	244,124
Earnings per share (Rs)			
Continuing operations	**9.07**	8.17	19.84
Discontinued operations	**-**	-	0.66

31. Commitments

(a) Capital commitments

	2017 RS'000	2016 RS'000	2015 RS'000
Expenditure contracted for but not incurred	**119,233**	217,793	117,600
Expenditure approved by the Board but not contracted for	**211,719**	348,114	304,371

(b) Securities pledged

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

	2017	2016	2015
Government of Mauritius bonds	**3,828,888**	3,041,047	2,941,320

32. Net Cash Flows from Trading Activities

	2017 RS'000	2016 RS'000	2015 RS'000
Continuing operations			
Profit before tax	**7,627,550**	6,916,257	5,802,844
Increase in other assets	**(1,554,461)**	(2,000,439)	(1,291,386)
Increase in other liabilities	**1,186,682**	446,039	229,006
Net (increase)/decrease in derivative financial instruments	**(75,883)**	102,507	(568,189)
Increase in investment securities held-for-trading	**(8,845,801)**	(722,789)	-
Capital injection in Superannuation Fund	**-**	(1,000,000)	-
(Release of)/additional provision for employee benefits	**(11,454)**	11,040	(4,771)
Charge for credit impairment	**1,186,961**	1,545,746	869,266
Release of provision for credit impairment	**(200,107)**	(648,211)	(30,134)
Exchange (profit)/loss	**(27,812)**	(50,921)	89,252
Depreciation of property, plant and equipment	**367,856**	358,331	358,815
Amortisation of intangible assets	**188,486**	139,093	178,893
Profit on disposal of property, plant and equipment	**(12,285)**	(552)	(6,291)
Loss/(profit) on disposal of intangible assets	**466**	-	(14,356)
Impairment of available-for-sale investments	**-**	-	36,333
Profit on disposal of available-for-sale investments	**(6,056)**	(1,193)	(3,667)
	(175,858)	5,094,908	5,645,615
Discontinued operations			
Net cash flows from trading activities (see note 34(b))	**-**	-	195,878
	(175,858)	5,094,908	5,841,493

33. Net Cash Flows from Other Operating Activities

	2017 RS'000	2016 RS'000	2015 RS'000
Net increase in deposits	**20,848,304**	34,577,095	32,179,494
Net increase in loans and advances	**(11,825,677)**	(14,473,617)	(15,624,780)
Increase in held-to-maturity investment securities	**(3,321,026)**	(10,535,271)	(12,072,892)
Net increase/(decrease) in other borrowed funds	**710,209**	(835,418)	(30,150)
	6,411,810	8,732,789	4,451,672

34. Non-Current Assets Held for Distribution

(a) Non-current assets held for distribution

	Principal activities	Effective Holding %	Value Rs'000
Year ended 30th June 2017 and 30th June 2016			
Banking subsidiaries and associate	**Banking & Financial services**	**N/A**	**-**
Year ended 30th June 2015			
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) Discontinued operations following unbundling of investments

	2017 Rs'000	2016 Rs'000	2015 Rs'000
Income recognised in profit or loss is as follows:			
Dividend income	-	-	161,746
Cash flow information from discontinued operations is as follows:			
Dividend received during the year	-	-	195,878

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.

All operating segments used by the Bank meet the definition of a reportable segment under IFRS 8.

(a) Year ended 30th June 2017

		Continuing operations			
	RS'000	Net interest income RS'000	Net fee and commission income RS'000	Dividend income RS'000	Forex profit and others RS'000
Operating income	13,599,877	8,733,690	2,752,435	354,594	1,759,158
Non-interest expense	(5,021,823)				
Net impairment of financial assets	(950,504)				
Income tax expense	(1,390,088)				
Profit for the year	6,237,462				
Segment assets	273,948,642	271,615,370	-	2,333,272	-
Intangible assets	579,569				
Deferred tax assets	143,667				
Unallocated assets	39,529,854				
Total assets	314,201,732				
Segment liabilities	270,628,802	270,628,802	-	-	-
Unallocated liabilities	6,327,879				
Total liabilities	276,956,681				

35. Operating Segments (Cont'd)

(b) Year ended 30th June 2016

		Continuing operations			
	RS'000	Net interest income RS'000	Net fee and commission income RS'000	Dividend income RS'000	Forex profit and others RS'000
Operating income	12,463,098	8,197,820	2,651,855	251,998	1,361,425
Non-interest expense	(4,639,820)				
Net impairment of financial assets	(907,021)				
Income tax expense	(1,296,094)				
Profit for the year	5,620,163				
Segment assets	260,073,171	258,068,599	-	2,004,572	-
Intangible assets	473,162				
Deferred tax assets	193,960				
Unallocated assets	26,191,225				
Total assets	286,931,518				
Segment liabilities	249,094,646	249,094,646	-	-	-
Unallocated liabilities	4,881,449				
Total liabilities	253,976,095				

35. Operating Segments (Cont'd)

(c) Year ended 30th June 2015

		Continuing operations			
	RS'000	Net interest income RS'000	Net fee and commission income RS'000	Dividend income RS'000	Forex profit and others RS'000
Operating income	11,161,100	7,348,052	2,816,413	30,863	965,772
Non-interest expense	(4,461,083)				
Net impairment of financial assets	(897,173)				
Income tax expense	(960,290)				
Profit from discontinued 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				

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
Cash equivalents, Loans and advances						
Balances at 1st July 2014	-	-	2,090,941	1,578,298	70,366	614,542
Net movements during the year	16	-	248,383	182,079	3,355	1,968
Balances at 30th June 2015	16	-	2,339,324	1,760,377	73,721	616,510
Net movements during the year	314	-	(381,415)	1,007,552	105,203	27,463
Balances at 30th June 2016	330	-	1,957,909	2,767,929	178,924	643,973
Net movements during the year	242,492	297	224,547	(911,095)	542	156,591
Balances at 30th June 2017	**242,822**	**297**	**2,182,456**	**1,856,834**	**179,466**	**800,564**
Leases receivable						
Balance at year end:						
30th June 2015	-	-	-	-	-	643
30th June 2016	-	-	-	-	-	497
30th June 2017	**-**	**-**	**-**	**-**	**-**	**5,176**
Deposits						
Balance at year end:						
30th June 2015	51,828	2,060	3,800,818	168,075	241,313	41,600
30th June 2016	50,361	79,361	5,486,329	57,485	304,548	106,069
30th June 2017	**-**	**32,221**	**5,276,410**	**504,391**	**312,033**	**94,361**
Amounts due from/(to)						
Balance at year end:						
30th June 2015	10,164	(1,023,229)	613,448	405,030	-	-
30th June 2016	4,918	(1,018,762)	357,448	405,899	-	-
30th June 2017	**2,060**	**(1,341,522)**	**444,088**	**453,517**	**-**	**-**
Off Balance sheet items						
Balance at year end:						
30th June 2015	-	-	1,486,755	-	-	5,394
30th June 2016	-	-	709,839	487,814	-	-
30th June 2017	**-**	**-**	**856,872**	**1,587**	**-**	**4,088**

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 2015	-	-	113,089	27,380	2,552	10,229
30th June 2016	-	-	108,999	30,256	5,567	11,002
30th June 2017	**4,472**	**-**	**110,851**	**15,084**	**4,217**	**38,429**
Interest expense						
For the year ended:						
30th June 2015	-	-	51,672	3,953	2,823	356
30th June 2016	-	-	51,443	2,671	3,567	108
30th June 2017	**-**	**-**	**64,271**	**8,863**	**5,727**	**383**
Other income						
For the year ended:						
30th June 2015	6,701	-	172,271	99,936	531	468
30th June 2016	5,100	1,598	92,680	215,172	801	452
30th June 2017	**1,359**	**1**	**144,900**	**242,293**	**951**	**3,849**
Non interest expense						
For the year ended:						
30th June 2015	-	-	83,491	-	-	-
30th June 2016	-	-	70,074	-	-	-
30th June 2017	**-**	**-**	**71,734**	**-**	**-**	**-**

All the above related party transactions were carried out under market terms and conditions with the exception of loans to Key Management Personnel who benefited from preferential rates as applicable to staff. Credit facilities granted to related parties are secured except for credit cards, money market lines and facilities provided to related financial institution counterparties in accordance with our policy and are settled from the underlying obligor's operating cash flows.

*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 1,341.5M for 2016/2017, Rs 1,031.9M for 2015/2016 and Rs 1,023.2M for 2014/2015.

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 dividend income as well as management fees charged to these entities in respect of salaries, notional rental of office space and provision of technical, administrative and other assistance. It also includes an amount of Rs 3.9M annually 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 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 Bank. Gross amounts claimed, net of withholding tax in the local jurisdiction, were as follows :

MCB Seychelles	5% of Gross operating income	Rs 46.2M
MCB Madagascar	5% of Operating income	Rs 8.4M
MCB Maldives	5% of Operating income	Rs 20.2M

The Bank also claimed fees from SG Moçambique in respect of IT, Systems and Cards services support for an amount of USD 183,235 (FY 2015/2016: USD 112,760). These amounts have been recognised as income in the related entity statement of profit or loss.

During the year, 96,880 share options were exercised under the Group Employee Share Option Scheme by Key Management Personnel, including Executive Directors amounting to Rs 20.4M (2016: Nil, 2015: 7,588 share options for Rs 1.5M).

Key Management Personnel compensation

	2017 RS'000	2016 RS'000	2015 RS'000
Remuneration and other benefits relating to Key Management Personnel, including Directors, were as follows :			
Salaries and short term employee benefits	**133,737**	145,518	108,707
Post employment benefits	**8,253**	11,539	13,010
	141,990	157,057	121,717

37. Additional disclosures 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 gives 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, GBL holders 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 disclosures as required by the Bank of Mauritius (Cont'd)

Statement of financial position as at 30th June 2017

		2017			2016			2015		
	Note	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
ASSETS										
Cash and cash equivalents		**34,033,960**	**6,137,427**	**27,896,533**	31,975,711	3,374,681	28,601,030	22,999,839	4,446,636	18,553,203
Derivative financial instruments	37(a)	**226,731**	**94,309**	**132,422**	175,771	121,419	54,352	268,901	61,873	207,028
Loans to and placements with banks	37(b)	**25,912,459**	**7,750,576**	**18,161,883**	22,485,623	5,987,290	16,498,333	9,486,995	3,226,027	6,260,968
Loans and advances to customers	37(c)	**160,418,113**	**115,189,801**	**45,228,312**	153,002,181	114,818,437	38,183,744	153,007,990	111,007,660	42,000,330
Investment securities	37(d)	**68,890,863**	**64,485,319**	**4,405,544**	56,241,340	52,444,929	3,796,411	44,995,318	41,788,775	3,206,543
Investment in subsidiary	37(e)	**64,322**	**-**	**64,322**	-	-	-	-	-	-
Investments in associates	37(e)	**1,159,250**	**-**	**1,159,250**	1,161,063	-	1,161,063	-	-	-
Intangible assets	37(f)	**579,569**	**579,569**	**-**	473,162	473,162	-	385,453	385,453	-
Property, plant and equipment	37(g)	**4,911,082**	**4,911,082**	**-**	4,952,603	4,952,603	-	5,030,443	5,030,443	-
Deferred tax assets		**143,667**	**127,335**	**16,332**	193,960	172,808	21,152	222,519	186,370	36,149
Other assets	37(h)	**17,861,716**	**17,435,454**	**426,262**	16,270,104	16,146,779	123,325	14,209,212	14,073,127	136,085
		314,201,732	**216,710,872**	**97,490,860**	286,931,518	198,492,108	88,439,410	250,606,670	180,206,364	70,400,306
Non-current assets held for distribution	37(y)	**-**	**-**	**-**	-	-	-	1,331,216	-	1,331,216
Total assets		**314,201,732**	**216,710,872**	**97,490,860**	286,931,518	198,492,108	88,439,410	251,937,886	180,206,364	71,731,522
LIABILITIES AND SHAREHOLDER'S EQUITY										
Deposits from banks	37(i)	**5,302,566**	**222,663**	**5,079,903**	4,712,603	90,983	4,621,620	4,504,425	52,892	4,451,533
Deposits from customers	37(j)	**258,569,834**	**184,060,612**	**74,509,222**	238,311,493	163,853,411	74,458,082	203,942,576	143,121,410	60,821,166
Derivative financial instruments	37(a)	**97,430**	**22,445**	**74,985**	122,353	36,719	85,634	112,976	21,154	91,822
Other borrowed funds	37(k)	**5,606,935**	**4,743**	**5,602,192**	4,865,908	9,134	4,856,774	6,952,264	11,832	6,940,432
Subordinated liability	37(l)	**1,052,037**	**-**	**1,052,037**	1,082,289	-	1,082,289	1,055,697	-	1,055,697
Current tax liabilities		**778,869**	**670,881**	**107,988**	578,996	480,352	98,644	448,835	448,835	-
Other liabilities	37(m)	**5,549,010**	**5,501,737**	**47,273**	4,302,453	4,302,027	426	4,632,233	4,553,675	78,558
Total liabilities		**276,956,681**	**190,483,081**	**86,473,600**	253,976,095	168,772,626	85,203,469	221,649,006	148,209,798	73,439,208
Shareholder's equity										
Stated capital		**6,879,602**	**6,879,602**	**-**	6,879,602	6,879,602	-	6,879,602	6,879,602	-
Retained earnings		**23,462,727**	**23,462,727**	**-**	20,435,491	20,435,491	-	18,705,062	18,705,062	-
Other components of equity		**6,902,722**	**6,659,672**	**243,050**	5,640,330	5,590,012	50,318	4,704,216	4,582,392	121,824
Total equity		**37,245,051**	**37,002,001**	**243,050**	32,955,423	32,905,105	50,318	30,288,880	30,167,056	121,824
Total equity and liabilities		**314,201,732**	**227,485,082**	**86,716,650**	286,931,518	201,677,731	85,253,787	251,937,886	178,376,854	73,561,032
CONTINGENT LIABILITIES										
Guarantees, letters of credit, endorsements and other obligations on account of customers		**41,128,382**	**15,891,901**	**25,236,481**	30,129,810	15,376,317	14,753,493	43,322,427	13,798,403	29,524,024
Commitments		**6,714,334**	**3,316,186**	**3,398,148**	2,600,154	1,757,355	842,799	4,380,241	3,737,850	642,391
Tax assessments		**992,632**	**992,632**	**-**	836,868	836,868	-	797,225	797,225	-
Other		**1,353,991**	**508,450**	**845,541**	1,427,519	627,279	800,240	1,184,265	650,259	534,006
	37(n)	**50,189,339**	**20,709,169**	**29,480,170**	34,994,351	18,597,819	16,396,532	49,684,158	18,983,737	30,700,421

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

Statement of profit or loss for the year ended 30th June 2017

		2017			2016			2015		
		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(o)	**12,604,065**	**9,765,425**	**2,838,640**	12,299,145	9,679,507	2,619,638	11,632,725	9,284,865	2,347,860
Interest expense	37(p)	**(3,870,375)**	**(3,225,767)**	**(644,608)**	(4,101,325)	(3,419,133)	(682,192)	(4,284,673)	(3,632,492)	(652,181)
Net interest income		**8,733,690**	**6,539,658**	**2,194,032**	8,197,820	6,260,374	1,937,446	7,348,052	5,652,373	1,695,679
Fee and commission income	37(q)	**3,440,108**	**2,114,635**	**1,325,473**	3,280,209	1,947,655	1,332,554	3,403,343	1,910,305	1,493,038
Fee and commission expense	37(r)	**(687,673)**	**(572,993)**	**(114,680)**	(628,354)	(513,445)	(114,909)	(586,930)	(539,148)	(47,782)
Net fee and commission income		**2,752,435**	**1,541,642**	**1,210,793**	2,651,855	1,434,210	1,217,645	2,816,413	1,371,157	1,445,256
Other income										
Profit arising from dealing in foreign currencies		**1,620,365**	**1,265,348**	**355,017**	1,406,259	1,123,279	282,980	779,542	447,619	331,923
Net gain/(loss) from financial instruments carried at fair value	37(s)	**100,208**	**65,906**	**34,302**	(88,482)	(92,543)	4,061	146,884	151,052	(4,168)
		1,720,573	**1,331,254**	**389,319**	1,317,777	1,030,736	287,041	926,426	598,671	327,755
Dividend income	37(t)	**354,594**	**39,469**	**315,125**	251,998	36,703	215,295	30,863	27,994	2,869
Net gain/(loss) on sale of securities		**6,056**	**7,096**	**(1,040)**	1,193	-	1,193	3,667	-	3,667
Other operating income		**32,529**	**35,991**	**(3,462)**	42,455	37,915	4,540	35,679	35,679	-
		2,113,752	**1,413,810**	**699,942**	1,613,423	1,105,354	508,069	996,635	662,344	334,291
Operating income		**13,599,877**	**9,495,110**	**4,104,767**	12,463,098	8,799,938	3,663,160	11,161,100	7,685,874	3,475,226
Non-interest expense										
Salaries and human resource development	37(u)	**(2,955,584)**	**(2,550,333)**	**(405,251)**	(2,761,898)	(2,486,647)	(275,251)	(2,582,066)	(2,335,324)	(246,742)
Depreciation of property, plant and equipment		**(367,856)**	**(354,146)**	**(13,710)**	(358,331)	(348,073)	(10,258)	(358,815)	(345,338)	(13,477)
Amortisation of intangible assets		**(188,486)**	**(178,886)**	**(9,600)**	(139,093)	(133,173)	(5,920)	(178,893)	(171,773)	(7,120)
Other	37(v)	**(1,509,897)**	**(1,365,618)**	**(144,279)**	(1,380,498)	(1,238,448)	(142,050)	(1,341,309)	(1,210,427)	(130,882)
		(5,021,823)	**(4,448,983)**	**(572,840)**	(4,639,820)	(4,206,341)	(433,479)	(4,461,083)	(4,062,862)	(398,221)
Operating profit before impairment		**8,578,054**	**5,046,127**	**3,531,927**	7,823,278	4,593,597	3,229,681	6,700,017	3,623,012	3,077,005
Net impairment of financial assets	37(w)	**(950,504)**	**(184,671)**	**(765,833)**	(907,021)	(401,131)	(505,890)	(897,173)	(454,378)	(442,795)
Profit before tax		**7,627,550**	**4,861,456**	**2,766,094**	6,916,257	4,192,466	2,723,791	5,802,844	3,168,634	2,634,210
Income tax expense	37(x)	**(1,390,088)**	**(1,282,100)**	**(107,988)**	(1,296,094)	(1,197,450)	(98,644)	(960,290)	(871,255)	(89,035)
Profit for the year from continuing operations		**6,237,462**	**3,579,356**	**2,658,106**	5,620,163	2,995,016	2,625,147	4,842,554	2,297,379	2,545,175
Discontinued operations										
Profit for the year from discontinued operations	37(y)	**-**	**-**	**-**	-	-	-	161,746	-	161,746
Profit for the year		**6,237,462**	**3,579,356**	**2,658,106**	5,620,163	2,995,016	2,625,147	5,004,300	2,297,379	2,706,921

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

Statement of comprehensive income for the year ended 30th June 2017

	2017			2016			2015		
	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	**6,237,462**	**3,579,356**	**2,658,106**	5,620,163	2,995,016	2,625,147	5,004,300	2,297,379	2,706,921
Other comprehensive income/(expense):									
Item that will not be reclassified to profit or loss:									
Remeasurement of defined benefit pension plan, net of deferred tax	**287,079**	**287,079**	**-**	(173,765)	(173,765)	-	95,215	95,215	-
Items that may be reclassified subsequently to profit or loss:									
Reclassification adjustments on disposal of available-for-sale investments	**24,257**	**24,257**	**-**	(60,243)	(60,243)	-	-	-	-
Net fair value gain/(loss) on available-for-sale investments	**355,079**	**112,029**	**243,050**	(46,491)	(96,809)	50,318	398,796	276,972	121,824
	379,336	**136,286**	**243,050**	(106,734)	(157,052)	50,318	398,796	276,972	121,824
Other comprehensive income/(expense) for the year	**666,415**	**423,365**	**243,050**	(280,499)	(330,817)	50,318	494,011	372,187	121,824
Total comprehensive income for the year	**6,903,877**	**4,002,721**	**2,901,156**	5,339,664	2,664,199	2,675,465	5,498,311	2,669,566	2,828,745
Total comprehensive income for the year									
Continuing operations	**6,903,877**	**4,002,721**	**2,901,156**	5,339,664	2,664,199	2,675,465	5,336,565	2,669,566	2,666,999
Discontinued operations	**-**	**-**	**-**	-	-	-	161,746	-	161,746
	6,903,877	**4,002,721**	**2,901,156**	5,339,664	2,664,199	2,675,465	5,498,311	2,669,566	2,828,745

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

(a) Derivative financial instruments

	2017			2016			2015		
	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	**71,665**	**48,500**	**23,165**	70,977	29,231	41,746	49,480	31,926	17,554
Interest rate swaps	**23,118**	**4,514**	**18,604**	11,903	10,891	1,012	17,859	17,859	-
Currency swaps	**131,481**	**41,295**	**90,186**	92,841	81,297	11,544	201,562	12,088	189,474
Others	**467**	**-**	**467**	50	-	50	-	-	-
	226,731	**94,309**	**132,422**	175,771	121,419	54,352	268,901	61,873	207,028
(ii) Fair value liabilities									
Currency forwards	**51,677**	**5,692**	**45,985**	75,943	32,246	43,697	35,862	13,169	22,693
Interest rate swaps	**26,008**	**-**	**26,008**	22,174	-	22,174	18,796	-	18,796
Currency swaps	**19,745**	**16,753**	**2,992**	24,236	4,473	19,763	58,318	7,985	50,333
	97,430	**22,445**	**74,985**	122,353	36,719	85,634	112,976	21,154	91,822

(b) Loans to and placements with banks

	2017 TOTAL RS'000	2017 Segment A RS'000	2017 Segment B RS'000	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
(i) Loans to and placements with banks									
in Mauritius	**7,923,109**	**7,923,109**	**-**	6,277,304	6,277,304	-	3,226,027	3,226,027	-
outside Mauritius	**46,064,793**	**-**	**46,064,793**	45,117,309	-	45,117,309	24,830,786	-	24,830,786
	53,987,902	**7,923,109**	**46,064,793**	51,394,613	6,277,304	45,117,309	28,056,813	3,226,027	24,830,786
Less:									
Loans and placements with original maturity less than 3 months and included in cash and equivalents	**(28,069,066)**	**(172,533)**	**(27,896,533)**	(28,891,045)	(290,014)	(28,601,031)	(18,553,202)	-	(18,553,202)
	25,918,836	**7,750,576**	**18,168,260**	22,503,568	5,987,290	16,516,278	9,503,611	3,226,027	6,277,584
Less allowances for credit impairment	**(6,377)**	**-**	**(6,377)**	(17,945)	-	(17,945)	(16,616)	-	(16,616)
	25,912,459	**7,750,576**	**18,161,883**	22,485,623	5,987,290	16,498,333	9,486,995	3,226,027	6,260,968
(ii) Remaining term to maturity									
Up to 3 months	**10,310,019**	**1,446,416**	**8,863,603**	12,417,250	885,880	11,531,370	4,462,999	-	4,462,999
Over 3 months and up to 6 months	**8,204,519**	**917,913**	**7,286,606**	2,703,010	817,451	1,885,559	652,588	-	652,588
Over 6 months and up to 1 year	**6,239,050**	**4,343,266**	**1,895,784**	6,377,327	3,277,978	3,099,349	4,034,532	3,226,027	808,505
Over 1 year and up to 5 years	**1,042,981**	**1,042,981**	**-**	1,005,981	1,005,981	-	175,950	-	175,950
Over 5 years	**122,267**	**-**	**122,267**	-	-	-	177,542	-	177,542
	25,918,836	**7,750,576**	**18,168,260**	22,503,568	5,987,290	16,516,278	9,503,611	3,226,027	6,277,584

(iii) Allowances for credit impairment

	TOTAL RS'000	Segment B RS'000
Portfolio provision		
At 1st July 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**
Provision released during the year	**(11,568)**	**(11,568)**
At 30th June 2017	**6,377**	**6,377**

Notes to the financial statements
for the year ended 30th June 2017 (continued)

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

(c) Loans and advances to customers

	2017			2016			2015		
	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	659,962	649,264	10,698	653,788	635,868	17,920	632,299	617,957	14,342
Mortgages	24,817,404	23,594,364	1,223,040	21,969,378	20,764,866	1,204,512	19,079,950	17,896,781	1,183,169
Other retail loans	12,238,768	11,994,464	244,304	12,621,653	12,260,191	361,462	12,847,745	12,485,027	362,718
Corporate customers	94,149,015	82,914,210	11,234,805	97,817,761	85,992,753	11,825,008	98,090,550	84,986,509	13,104,041
Governments	523,147	-	523,147	283,043	-	283,043	308,155	-	308,155
Entities outside Mauritius	33,679,435	-	33,679,435	26,262,057	-	26,262,057	29,169,368	-	29,169,368
	166,067,731	119,152,302	46,915,429	159,607,680	119,653,678	39,954,002	160,128,067	115,986,274	44,141,793
Less:									
Allowances for credit impairment	(5,649,618)	(3,962,501)	(1,687,117)	(6,605,499)	(4,835,241)	(1,770,258)	(7,120,077)	(4,978,614)	(2,141,463)
	160,418,113	115,189,801	45,228,312	153,002,181	114,818,437	38,183,744	153,007,990	111,007,660	42,000,330

(i) Remaining term to maturity

	2017 TOTAL	2017 Segment A	2017 Segment B	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B
Up to 3 months	44,208,300	32,320,989	11,887,311	41,307,782	31,800,811	9,506,971	47,884,696	31,729,569	16,155,127
Over 3 months and up to 6 months	4,402,213	2,127,850	2,274,363	4,612,032	2,891,769	1,720,263	3,046,710	1,483,107	1,563,603
Over 6 months and up to 1 year	3,140,205	2,039,228	1,100,977	4,194,400	1,660,033	2,534,367	3,945,189	3,431,042	514,147
Over 1 year and up to 5 years	39,158,470	20,427,820	18,730,650	39,145,416	22,895,153	16,250,263	40,080,619	22,060,272	18,020,347
Over 5 years	75,158,543	62,236,415	12,922,128	70,348,050	60,405,912	9,942,138	65,170,853	57,282,284	7,888,569
	166,067,731	119,152,302	46,915,429	159,607,680	119,653,678	39,954,002	160,128,067	115,986,274	44,141,793

(ii) Credit concentration of risk by industry sectors

	2017 TOTAL	2017 Segment A	2017 Segment B	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B
Agriculture and fishing	2,004,071	2,004,071	-	2,088,601	2,088,601	-	1,272,256	1,272,256	-
Manufacturing	294,716	294,716	-	2,365,431	2,365,431	-	2,142,255	2,142,255	-
of which EPZ	*66,337*	*66,337*	-	*1,616,803*	*1,616,803*	-	*1,553,253*	*1,553,253*	-
Tourism	5,934,586	5,838,189	96,397	11,705,358	11,226,012	479,346	15,418,199	14,348,693	1,069,506
Transport	52,399	52,399	-	39,946	39,944	2	39,511	39,511	-
Construction	4,253,594	4,253,594	-	4,211,324	4,211,324	-	2,048,423	2,048,423	-
Financial and business services	4,185,209	4,161,770	23,439	15,081,604	3,736,683	11,344,921	23,187,296	4,019,725	19,167,571
Traders	18,949,275	1,881,672	17,067,603	15,283,922	1,418,246	13,865,676	21,074,963	793,626	20,281,337
Global Business Licence holders	20,171,903	-	20,171,903	21,789,702	-	21,789,702	14,104,893	-	14,104,893
Others	45,647	45,647	-	62,992	62,992	-	738,654	175,616	563,038
	55,891,400	18,532,058	37,359,342	72,628,880	25,149,233	47,479,647	80,026,450	24,840,105	55,186,345

37. Additional disclosures 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 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**
Exchange adjustment	**(12,712)**	**-**	**(12,712)**	**-**	**-**	**-**	**(12,712)**	**-**	**(12,712)**
Provision for credit impairment for the year	**1,134,680**	**48,336**	**1,183,016**	**377,814**	**(10,985)**	**366,829**	**756,866**	**59,321**	**816,187**
Provision released during the year	**(188,539)**	**-**	**(188,539)**	**(156,839)**	**-**	**(156,839)**	**(31,700)**	**-**	**(31,700)**
Amounts written off	**(1,620,922)**	**-**	**(1,620,922)**	**(865,152)**	**-**	**(865,152)**	**(755,770)**	**-**	**(755,770)**
At 30th June 2017	**2,003,238**	**1,151,343**	**3,154,581**	**1,205,496**	**768,119**	**1,973,615**	**797,742**	**383,224**	**1,180,966**
Interest suspense	**2,495,037**	**-**	**2,495,037**	**1,988,886**	**-**	**1,988,886**	**506,151**	**-**	**506,151**
Provision and interest suspense at 30th June 2017	**4,498,275**	**1,151,343**	**5,649,618**	**3,194,382**	**768,119**	**3,962,501**	**1,303,893**	**383,224**	**1,687,117**
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	16,794	1,544,417	414,495	40,536	455,031	1,113,128	(23,742)	1,089,386
Provision released during the year	(648,211)	-	(648,211)	(63,441)	-	(63,441)	(584,770)	-	(584,770)
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

37. Additional disclosures 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

	2017					2016	2015
	Gross amount of loans	Non performing loans	Specific provision and interest suspense	Portfolio provision	Total provision	Total provision	Total provision
	RS'000	RS'000	RS'000	RS'000	RS'000	RS'000	RS'000
TOTAL							
Agriculture and fishing	**7,572,451**	**1,097,418**	**271,192**	**5,757**	**276,949**	157,292	41,153
Manufacturing	**9,026,061**	**519,400**	**145,726**	**119,936**	**265,662**	456,515	335,013
of which EPZ	***2,978,358***	***38,915***	***19,591***	***19,484***	***39,075***	*34,806*	*85,795*
Tourism	**25,293,172**	**834,463**	**494,959**	**75,960**	**570,919**	455,062	399,346
Transport	**4,139,850**	**1,302,433**	**562,046**	**43,542**	**605,588**	161,106	724,050
Construction	**14,162,092**	**1,691,177**	**876,900**	**168,243**	**1,045,143**	1,726,628	1,452,839
Financial and business services	**23,402,578**	**285,333**	**76,084**	**77,700**	**153,784**	135,805	151,989
Traders	**24,530,233**	**774,288**	**426,775**	**208,152**	**634,927**	678,167	772,900
Personal	**35,412,059**	**1,849,506**	**1,015,851**	**209,984**	**1,225,835**	1,398,313	1,597,019
of which credit cards	***651,341***	***30,514***	***25,047***	***14,370***	***39,417***	*69,785*	*56,200*
of which housing	***24,817,404***	***965,112***	***408,970***	***115,262***	***524,232***	*474,613*	*394,410*
Professional	**1,044,842**	**91,449**	**48,412**	**19,781**	**68,193**	80,629	222,614
Foreign governments	**523,147**	**-**	**-**	**-**	**-**	-	-
Global Business Licence holders	**12,880,934**	**263,911**	**315,586**	**180,888**	**496,474**	1,035,110	1,118,000
Others	**8,080,312**	**989,295**	**264,744**	**41,400**	**306,144**	320,872	305,154
	166,067,731	**9,698,673**	**4,498,275**	**1,151,343**	**5,649,618**	6,605,499	7,120,077
Segment A							
Agriculture and fishing	**7,472,171**	**1,097,354**	**271,128**	**5,668**	**276,796**	157,139	40,962
Manufacturing	**9,025,388**	**518,950**	**145,299**	**119,933**	**265,232**	361,238	326,630
of which EPZ	***2,978,358***	***38,915***	***19,591***	***19,484***	***39,075***	*34,806*	*85,795*
Tourism	**16,616,165**	**308,911**	**129,063**	**50,598**	**179,661**	165,546	284,207
Transport	**1,544,502**	**174,229**	**25,433**	**20,796**	**46,229**	33,265	134,596
Construction	**14,089,113**	**1,691,050**	**876,784**	**167,257**	**1,044,041**	1,725,484	1,452,254
Financial and business services	**17,830,222**	**106,187**	**67,013**	**59,377**	**126,390**	122,701	134,443
Traders	**12,300,635**	**763,890**	**424,867**	**99,051**	**523,918**	561,671	686,713
Personal	**33,943,612**	**1,754,089**	**979,658**	**200,973**	**1,180,631**	1,355,101	1,562,336
of which credit cards	***641,162***	***30,231***	***24,803***	***14,141***	***38,944***	*66,395*	*56,200*
of which housing	***23,594,364***	***888,493***	***383,007***	***109,603***	***492,610***	*452,229*	*388,159*
Professional	**779,098**	**90,129**	**47,134**	**13,722**	**60,856**	71,790	85,896
Others	**5,551,396**	**268,639**	**228,003**	**30,744**	**258,747**	281,306	270,577
	119,152,302	**6,773,428**	**3,194,382**	**768,119**	**3,962,501**	4,835,241	4,978,614
Segment B							
Agriculture and fishing	**100,280**	**64**	**64**	**89**	**153**	153	191
Manufacturing	**673**	**450**	**427**	**3**	**430**	95,277	8,383
Tourism	**8,677,007**	**525,552**	**365,896**	**25,362**	**391,258**	289,516	115,139
Transport	**2,595,348**	**1,128,204**	**536,613**	**22,746**	**559,359**	127,841	589,454
Construction	**72,979**	**127**	**116**	**986**	**1,102**	1,144	585
Financial and business services	**5,572,356**	**179,146**	**9,071**	**18,323**	**27,394**	13,104	17,546
Traders	**12,229,598**	**10,398**	**1,908**	**109,101**	**111,009**	116,496	86,187
Personal	**1,468,447**	**95,417**	**36,193**	**9,011**	**45,204**	43,212	34,683
Professional	**265,744**	**1,320**	**1,278**	**6,059**	**7,337**	8,839	136,718
Foreign governments	**523,147**	**-**	**-**	**-**	**-**	-	-
Global Business Licence holders	**12,880,934**	**263,911**	**315,586**	**180,888**	**496,474**	1,035,110	1,118,000
Others	**2,528,916**	**720,656**	**36,741**	**10,656**	**47,397**	39,566	34,577
	46,915,429	**2,925,245**	**1,303,893**	**383,224**	**1,687,117**	1,770,258	2,141,463

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

(d) Investment securities

	2017			2016			2015		
	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	**54,808,648**	**53,241,032**	**1,567,616**	51,487,622	50,607,712	879,910	40,952,351	40,221,344	731,007
Held-for-trading	**9,568,590**	**9,059,378**	**509,212**	722,789	57,061	665,728	-	-	-
Available-for-sale	**4,517,570**	**2,188,854**	**2,328,716**	4,030,929	1,780,156	2,250,773	4,042,967	1,567,431	2,475,536
	68,894,808	**64,489,264**	**4,405,544**	56,241,340	52,444,929	3,796,411	44,995,318	41,788,775	3,206,543
Less:									
Allowances for credit impairment on investment securities	**(3,945)**	**(3,945)**	**-**	-	-	-	-	-	-
	68,890,863	**64,485,319**	**4,405,544**	56,241,340	52,444,929	3,796,411	44,995,318	41,788,775	3,206,543

(i) Held-to-maturity

	2017 TOTAL	2017 Segment A	2017 Segment B	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B
Government of Mauritius & Bank of Mauritius bonds	**41,906,114**	**41,906,114**	**-**	35,690,180	35,690,180	-	26,664,552	26,664,552	-
Treasury bills	**10,680,154**	**10,680,154**	**-**	14,635,850	14,635,850	-	13,527,402	13,527,402	-
Foreign Bonds	**1,567,616**	**-**	**1,567,616**	879,910	-	879,910	731,007	-	731,007
Notes	**654,764**	**654,764**	**-**	281,682	281,682	-	29,390	29,390	-
	54,808,648	**53,241,032**	**1,567,616**	51,487,622	50,607,712	879,910	40,952,351	40,221,344	731,007

(ii) Held-for-trading

	2017 TOTAL	2017 Segment A	2017 Segment B	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B
Quoted - Level 1									
Foreign bonds	**509,212**	**-**	**509,212**	665,728	-	665,728	-	-	-
Unquoted - Level 2									
Government of Mauritius & Bank of Mauritius bonds	**1,689,065**	**1,689,065**	**-**	-	-	-	-	-	-
Treasury bills	**7,370,313**	**7,370,313**	**-**	57,061	57,061	-	-	-	-
	9,059,378	**9,059,378**	**-**	57,061	57,061	-	-	-	-
	9,568,590	**9,059,378**	**509,212**	722,789	57,061	665,728	-	-	-

(iii) Available-for-sale

	2017 TOTAL	2017 Segment A	2017 Segment B	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B
Quoted - Level 1									
Official list: shares	**1,263,593**	**1,263,593**	**-**	1,103,635	1,103,635	-	1,125,581	1,125,581	-
Bonds	**1,480,819**	**499,173**	**981,646**	1,185,342	250,433	934,909	1,243,909	15,762	1,228,147
Foreign shares	**840,403**	**-**	**840,403**	671,661	-	671,661	623,697	-	623,697
	3,584,815	**1,762,766**	**1,822,049**	2,960,638	1,354,068	1,606,570	2,993,187	1,141,343	1,851,844
Unquoted - Level 2									
Investment fund	**494,618**	**-**	**494,618**	416,227	-	416,227	408,482	-	408,482
Unquoted - Level 3									
Investment fund	**-**	**-**	**-**	215,927	-	215,927	203,158	-	203,158
Equity shares	**229,276**	**217,227**	**12,049**	229,276	217,227	12,049	229,279	217,227	12,052
Inflation - indexed Government of Mauritius bonds	**208,861**	**208,861**	**-**	208,861	208,861	-	208,861	208,861	-
	438,137	**426,088**	**12,049**	654,064	426,088	227,976	641,298	426,088	215,210
	4,517,570	**2,188,854**	**2,328,716**	4,030,929	1,780,156	2,250,773	4,042,967	1,567,431	2,475,536

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

(e) Investments in subsidiary and associates

(i) Investment in subsidiary

The Bank's interest in its subsidiary is as follows:

	Country of incorporation	Holding %	2017 TOTAL RS'000	2017 Segment A RS'000	2017 Segment B RS'000	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
MCB Madagascar SA	**Madagascar**	**80.00**	**64,322**	**-**	**64,322**	-	-	-	-	-	-

Movement in investment in subsidiary

	2017 TOTAL RS'000	2017 Segment A RS'000	2017 Segment B RS'000	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
At 1st July	**-**	**-**	**-**	-	-	-	-	-	-
Transferred from other assets	**64,322**	**-**	**64,322**	-	-	-	-	-	-
At 30th June	**64,322**	**-**	**64,322**	-	-	-	-	-	-

(ii) Investment in associates

The Bank's interest in its associates is as follows:

	Country of incorporation	Holding %	2017 TOTAL RS'000	2017 Segment A RS'000	2017 Segment B RS'000	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
Banque Française Commerciale Ocean Indien	**France**	**49.99**	**447,489**	**-**	**447,489**	447,489	-	447,489	-	-	-
Société Générale Moçambique	**Moçambique**	**35.00**	**310,625**	**-**	**310,625**	310,625	-	310,625	-	-	-
			758,114	**-**	**758,114**	758,114	-	758,114	-	-	-
Subordinated loan to associate			**401,136**	**-**	**401,136**	402,949	-	402,949	-	-	-
			1,159,250	**-**	**1,159,250**	1,161,063	-	1,161,063	-	-	-

Movements in investment in associates

	2017 TOTAL RS'000	2017 Segment A RS'000	2017 Segment B RS'000	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
At 1st July	**1,161,063**	**-**	**1,161,063**	-	-	-	-	-	-
Increase in shareholding during the year	**-**	**-**	**-**	50,705	-	50,705	-	-	-
Exchange adjustment on subordinated loan	**(1,813)**	**-**	**(1,813)**	-	-	-	-	-	-
Transferred from non-current assets held for distribution	**-**	**-**	**-**	707,409	-	707,409	-	-	-
	1,159,250	**-**	**1,159,250**	758,114	-	758,114	-	-	-
Subordinated loan to associate reclassified from loans to banks	**-**	**-**	**-**	402,949	-	402,949	-	-	-
At 30th June	**1,159,250**	**-**	**1,159,250**	1,161,063	-	1,161,063	-	-	-

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

(f) Intangible assets

	Computer Software RS'000	Work in progress RS'000	Total RS'000
Computer Software			
Cost			
At 1st July 2014	2,377,402	15,388	2,392,790
Additions	10,726	33,942	44,668
Scrap/Impairment	(12,824)	-	(12,824)
Disposal	(68,992)	-	(68,992)
Transfer	35,309	(35,309)	-
At 30th June 2015	2,341,621	14,021	2,355,642
Additions	9,897	216,905	226,802
Scrap/Impairment	(50,679)	-	(50,679)
Transfer	36,309	(36,309)	-
At 30th June 2016	**2,337,148**	**194,617**	**2,531,765**
Additions	**58,471**	**236,888**	**295,359**
Scrap/Impairment	**(602)**	**-**	**(602)**
Transfer	**322,094**	**(322,094)**	**-**
At 30th June 2017	**2,717,111**	**109,411**	**2,826,522**
Amortisation			
At 1st July 2014	1,869,706	-	1,869,706
Scrap/Impairment	(12,824)	-	(12,824)
Disposal adjustment	(65,586)	-	(65,586)
Charge for the year	178,893	-	178,893
At 30th June 2015	1,970,189	-	1,970,189
Scrap/Impairment	(50,679)	-	(50,679)
Charge for the year	139,093	-	139,093
At 30th June 2016	**2,058,603**	**-**	**2,058,603**
Scrap/Impairment	**(136)**	**-**	**(136)**
Charge for the year	**188,486**	**-**	**188,486**
At 30th June 2017	**2,246,953**	**-**	**2,246,953**
Net book values - Segment A			
At 30th June 2017	**470,158**	**109,411**	**579,569**
At 30th June 2016	278,545	194,617	473,162
At 30th June 2015	371,432	14,021	385,453

The Core Banking System T24 is the only material intangible asset. The remaining useful life of this intangible asset is 3 years.

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

(g) 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 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**
Additions	**14,777**	**98,270**	**26,597**	**207,677**	**347,321**
Disposals	**(23,715)**	**(42,018)**	**(7,544)**	**-**	**(73,277)**
Transfer	**82,735**	**159,660**	**41,583**	**(283,978)**	**-**
At 30th June 2017	**4,521,988**	**3,096,825**	**819,791**	**58,519**	**8,497,123**
Accumulated depreciation					
At 1st July 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**
Charge for the year	**73,703**	**241,837**	**52,316**	**-**	**367,856**
Disposal adjustment	**(5,431)**	**(40,829)**	**(6,031)**	**-**	**(52,291)**
At 30th June 2017	**785,256**	**2,344,280**	**456,505**	**-**	**3,586,041**
Net book values - Segment A					
At 30th June 2017	**3,736,732**	**752,545**	**363,286**	**58,519**	**4,911,082**
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

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

(h) Other assets

	2017			2016			2015		
	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	**15,432,134**	**15,432,134**	**-**	13,688,608	13,688,608	-	12,252,565	12,252,565	-
Prepayments and other receivables	**699,238**	**528,861**	**170,377**	725,499	693,529	31,970	741,942	688,486	53,456
Credit card clearing	**68,525**	**68,525**	**-**	68,659	68,659	-	180,193	164,291	15,902
Non-banking assets acquired in satisfaction of debts	**51,802**	**51,802**	**-**	51,909	51,909	-	57,474	57,474	-
Impersonal & other accounts	**1,510,530**	**1,254,645**	**255,885**	1,735,429	1,644,074	91,355	952,038	885,311	66,727
Post employee benefits asset	**99,487**	**99,487**	**-**	-	-	-	-	-	-
Receivable from Mauritius Union Assurance Co Ltd	**-**	**-**	**-**	-	-	-	25,000	25,000	-
	17,861,716	**17,435,454**	**426,262**	16,270,104	16,146,779	123,325	14,209,212	14,073,127	136,085

(i) Deposits from banks

	2017			2016			2015		
	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	**2,743,209**	**222,663**	**2,520,546**	2,643,632	90,983	2,552,649	3,303,800	52,892	3,250,908
Money market deposits with remaining term to maturity:									
Up to 3 months	**1,703,673**	**-**	**1,703,673**	715,676	-	715,676	513,951	-	513,951
Over 3 months and up to 6 months	**670,395**	**-**	**670,395**	1,045,465	-	1,045,465	468,681	-	468,681
Over 6 months and up to 1 year	**185,289**	**-**	**185,289**	25,379	-	25,379	151,133	-	151,133
Over 1 year and up to 5 years	**-**	**-**	**-**	282,451	-	282,451	66,860	-	66,860
	2,559,357	**-**	**2,559,357**	2,068,971	-	2,068,971	1,200,625	-	1,200,625
	5,302,566	**222,663**	**5,079,903**	4,712,603	90,983	4,621,620	4,504,425	52,892	4,451,533

Notes to the financial statements

for the year ended 30th June 2017 (continued)

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

(j) Deposits from customers

	2017			2016			2015		
	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	**25,318,439**	**15,771,178**	**9,547,261**	25,182,505	12,965,061	12,217,444	20,749,512	10,628,272	10,121,240
Savings deposits	**109,296,825**	**102,336,118**	**6,960,707**	96,501,629	89,747,661	6,753,968	86,278,568	79,501,616	6,776,952
Time deposits with remaining term to maturity:									
Up to 3 months	**2,807,938**	**2,135,636**	**672,302**	3,304,781	2,295,161	1,009,620	3,551,031	2,499,326	1,051,705
Over 3 months and up to 6 months	**1,954,290**	**1,658,863**	**295,427**	1,855,545	1,410,603	444,942	1,931,431	1,276,450	654,981
Over 6 months and up to 1 year	**4,201,169**	**3,459,730**	**741,439**	4,596,129	3,311,467	1,284,662	4,426,212	3,234,232	1,191,980
Over 1 year and up to 5 years	**12,645,559**	**11,244,637**	**1,400,922**	11,663,604	9,753,802	1,909,802	10,388,268	8,208,247	2,180,021
Over 5 years	**12,586**	**11,313**	**1,273**	5,478	5,038	440	53,665	48,778	4,887
	21,621,542	**18,510,179**	**3,111,363**	21,425,537	16,776,071	4,649,466	20,350,607	15,267,033	5,083,574
	156,236,806	**136,617,475**	**19,619,331**	143,109,671	119,488,793	23,620,878	127,378,687	105,396,921	21,981,766
(ii) Corporate customers									
Demand deposits	**80,958,642**	**34,884,801**	**46,073,841**	72,803,936	32,938,713	39,865,223	58,121,151	27,735,491	30,385,660
Savings deposits	**5,906,210**	**5,902,307**	**3,903**	5,253,182	5,206,014	47,168	5,643,459	5,562,870	80,589
Time deposits with remaining term to maturity:									
Up to 3 months	**4,799,755**	**662,853**	**4,136,902**	4,937,434	835,615	4,101,819	5,048,153	1,281,421	3,766,732
Over 3 months and up to 6 months	**1,520,490**	**1,057,779**	**462,711**	1,699,788	609,155	1,090,633	1,967,956	898,364	1,069,592
Over 6 months and up to 1 year	**2,260,756**	**897,906**	**1,362,850**	2,850,519	601,978	2,248,541	1,494,043	1,048,423	445,620
Over 1 year and up to 5 years	**6,810,544**	**3,960,860**	**2,849,684**	4,803,622	4,111,564	692,058	1,468,282	1,158,835	309,447
Over 5 years	**62**	**62**	**-**	2,791,762	-	2,791,762	2,781,760	-	2,781,760
	15,391,607	**6,579,460**	**8,812,147**	17,083,125	6,158,312	10,924,813	12,760,194	4,387,043	8,373,151
	102,256,459	**47,366,568**	**54,889,891**	95,140,243	44,303,039	50,837,204	76,524,804	37,685,404	38,839,400
(iii) Government									
Demand deposits	**15,353**	**15,353**	**-**	9,411	9,411	-	10,423	10,423	-
Savings deposits	**61,216**	**61,216**	**-**	52,168	52,168	-	28,662	28,662	-
	76,569	**76,569**	**-**	61,579	61,579	-	39,085	39,085	-
	258,569,834	**184,060,612**	**74,509,222**	238,311,493	163,853,411	74,458,082	203,942,576	143,121,410	60,821,166

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

(k) Other borrowed funds

(i) Other borrowed funds comprise the following:

	2017			2016			2015		
	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
Borrowings from banks:									
in Mauritius	**4,743**	**4,743**	**-**	9,134	9,134	-	11,832	11,832	-
abroad	**5,602,192**	**-**	**5,602,192**	4,856,774	-	4,856,774	6,940,432	-	6,940,432
	5,606,935	**4,743**	**5,602,192**	4,865,908	9,134	4,856,774	6,952,264	11,832	6,940,432

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

(ii) Remaining term to maturity:

	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
On demand or within a period not exceeding 1 year	**41,352**	**4,743**	**36,609**	15,584	9,134	6,450	2,092,663	11,832	2,080,831
Within a period of more than 3 years	**5,565,583**	**-**	**5,565,583**	4,850,324	-	4,850,324	4,859,601	-	4,859,601
	5,606,935	**4,743**	**5,602,192**	4,865,908	9,134	4,856,774	6,952,264	11,832	6,940,432

(l) Subordinated liability

	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 4.3% (2016: 3.8% and 2015: 3.5%) (Level 3)	**1,052,037**	**-**	**1,052,037**	1,082,289	-	1,082,289	1,055,697	-	1,055,697

(m) Other liabilities

	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
Post employee benefit liability	**-**	**-**	**-**	249,707	249,707	-	1,034,237	1,034,237	-
Proposed dividend	**1,341,522**	**1,341,522**	**-**	1,031,940	1,031,940	-	1,023,229	1,023,229	-
Impersonal & other accounts	**4,207,488**	**4,160,215**	**47,273**	3,020,806	3,020,380	426	2,574,767	2,496,209	78,558
	5,549,010	**5,501,737**	**47,273**	4,302,453	4,302,027	426	4,632,233	4,553,675	78,558

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

(n) Contingent liabilities

	2017			2016			2015		
	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	**19,186,056**	**12,944,650**	**6,241,406**	18,330,563	13,076,101	5,254,462	15,686,218	10,608,174	5,078,044
Letters of credit and other obligations on account of customers	**20,444,660**	**2,947,251**	**17,497,409**	8,273,242	2,293,314	5,979,928	15,781,597	2,856,450	12,925,147
Other contingent items	**1,497,666**	**-**	**1,497,666**	3,526,005	6,902	3,519,103	11,854,612	333,779	11,520,833
	41,128,382	**15,891,901**	**25,236,481**	30,129,810	15,376,317	14,753,493	43,322,427	13,798,403	29,524,024
(ii) Commitments									
Loans and other facilities, including undrawn credit facilities	**6,714,334**	**3,316,186**	**3,398,148**	2,600,154	1,757,355	842,799	4,380,241	3,737,850	642,391
(iii) Tax assessments	**992,632**	**992,632**	**-**	836,868	836,868	-	797,225	797,225	-
(iv) Other									
Inward bills held for collection	**350,954**	**280,744**	**70,210**	423,796	321,213	102,583	380,692	328,127	52,565
Outward bills sent for collection	**1,003,037**	**227,706**	**775,331**	1,003,723	306,066	697,657	803,573	322,132	481,441
	1,353,991	**508,450**	**845,541**	1,427,519	627,279	800,240	1,184,265	650,259	534,006
	50,189,339	**20,709,169**	**29,480,170**	34,994,351	18,597,819	16,396,532	49,684,158	18,983,737	30,700,421

(o) Interest income

	2017 TOTAL RS'000	2017 Segment A RS'000	2017 Segment B RS'000	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
Loans to and placements with banks	**577,309**	**192,559**	**384,750**	367,076	116,476	250,600	202,394	6,258	196,136
Loans and advances to customers	**9,768,906**	**7,402,402**	**2,366,504**	10,196,930	7,899,300	2,297,630	10,105,092	8,008,423	2,096,669
Held-to-maturity investments	**2,129,450**	**2,101,426**	**28,024**	1,676,321	1,650,749	25,572	1,278,776	1,258,975	19,801
Available-for-sale investments	**60,596**	**16,675**	**43,921**	44,754	3,633	41,121	35,254	-	35,254
Held-for-trading investments	**54,031**	**46,898**	**7,133**	6,594	1,980	4,614	2,506	2,506	-
Other	**13,773**	**5,465**	**8,308**	7,470	7,369	101	8,703	8,703	-
	12,604,065	**9,765,425**	**2,838,640**	12,299,145	9,679,507	2,619,638	11,632,725	9,284,865	2,347,860

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

(p) Interest expense

	2017			2016			2015		
	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	**22,038**	**-**	**22,038**	15,623	-	15,623	16,335	2	16,333
Deposits from customers	**3,668,925**	**3,223,618**	**445,307**	3,949,990	3,418,863	531,127	3,856,580	3,376,990	479,590
Subordinated liabilities	**44,522**	**-**	**44,522**	41,006	-	41,006	300,459	255,044	45,415
Other borrowed funds	**134,890**	**2,149**	**132,741**	94,706	270	94,436	111,299	456	110,843
	3,870,375	**3,225,767**	**644,608**	4,101,325	3,419,133	682,192	4,284,673	3,632,492	652,181

(q) Fee and commission income

Retail banking fees	**754,754**	**333,320**	**421,434**	755,429	329,617	425,812	763,574	390,919	372,655
Corporate banking fees	**565,567**	**383,842**	**181,725**	433,541	308,313	125,228	430,487	320,675	109,812
Guarantee fees	**221,386**	**144,358**	**77,028**	212,579	155,208	57,371	204,688	142,804	61,884
Interbank transaction fees	**57,237**	**-**	**57,237**	49,809	-	49,809	43,092	-	43,092
Cards and other related fees	**1,458,173**	**1,131,655**	**326,518**	1,315,704	1,038,060	277,644	1,221,028	982,407	238,621
Trade finance fees	**296,915**	**103,339**	**193,576**	432,867	100,550	332,317	647,999	48,971	599,028
Others	**86,076**	**18,121**	**67,955**	80,280	15,907	64,373	92,475	24,529	67,946
	3,440,108	**2,114,635**	**1,325,473**	3,280,209	1,947,655	1,332,554	3,403,343	1,910,305	1,493,038

(r) Fee and commission expense

Interbank transaction fees	**13,206**	**-**	**13,206**	20,589	-	20,589	16,553	-	16,553
Cards and other related fees	**653,578**	**572,993**	**80,585**	582,843	513,445	69,398	539,423	539,148	275
Others	**20,889**	**-**	**20,889**	24,922	-	24,922	30,954	-	30,954
	687,673	**572,993**	**114,680**	628,354	513,445	114,909	586,930	539,148	47,782

(s) Net gain/(loss) from financial instruments carried at fair value

Net gain/(loss) from derivative financial instruments	**88,017**	**45,082**	**42,935**	(108,131)	(93,827)	(14,304)	157,552	150,255	7,297
Investment securities held-for-trading	**12,191**	**20,824**	**(8,633)**	19,649	1,284	18,365	(10,668)	797	(11,465)
	100,208	**65,906**	**34,302**	(88,482)	(92,543)	4,061	146,884	151,052	(4,168)

(t) Dividend income

Income from subsidiary	**63,506**	**-**	**63,506**	-	-	-	-	-	-
Income from associate	**246,305**	**-**	**246,305**	210,830	-	210,830	-	-	-
Income from quoted investments	**38,805**	**34,743**	**4,062**	33,720	30,241	3,479	26,166	23,479	2,687
Income from unquoted investments	**5,978**	**4,726**	**1,252**	7,448	6,462	986	4,697	4,515	182
	354,594	**39,469**	**315,125**	251,998	36,703	215,295	30,863	27,994	2,869

Notes to the financial statements
for the year ended 30th June 2017 (continued)

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

(u) Salaries and human resource development

	2017			2016			2015		
	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	**2,039,545**	**1,737,941**	**301,604**	1,857,907	1,660,389	197,518	1,766,201	1,596,954	169,247
Defined benefit plan	**197,708**	**169,503**	**28,205**	238,205	214,495	23,710	271,530	248,662	22,868
Defined contribution plan	**66,041**	**62,200**	**3,841**	36,046	32,890	3,156	-	-	-
Compulsory social security obligations	**61,166**	**55,041**	**6,125**	56,856	51,743	5,113	54,079	49,476	4,603
Equity settled share-based payments	**3,024**	**2,933**	**91**	1,558	1,509	49	1,488	1,442	46
Other personnel expenses	**588,100**	**522,715**	**65,385**	571,326	525,621	45,705	488,768	438,790	49,978
	2,955,584	**2,550,333**	**405,251**	2,761,898	2,486,647	275,251	2,582,066	2,335,324	246,742

(v) Other non-interest expense

	2017 TOTAL	2017 Segment A	2017 Segment B	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B
Software licensing and other information technology cost	**242,892**	**230,150**	**12,742**	215,071	204,069	11,002	208,519	194,648	13,871
Others	**1,267,005**	**1,135,468**	**131,537**	1,165,427	1,034,379	131,048	1,132,790	1,015,779	117,011
	1,509,897	**1,365,618**	**144,279**	1,380,498	1,238,448	142,050	1,341,309	1,210,427	130,882

(w) Net impairment of financial assets

The impairment charge related to the Statement of Profit or Loss:

	2017 TOTAL	2017 Segment A	2017 Segment B	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B
Allowance for credit impairment									
Loans and advances	**946,559**	**180,726**	**765,833**	907,021	401,131	505,890	860,840	418,045	442,795
Investment securities	**3,945**	**3,945**	**-**	-	-	-	-	-	-
Impairment of available-for-sale investment securities	**-**	**-**	**-**	-	-	-	36,333	36,333	-
	950,504	**184,671**	**765,833**	907,021	401,131	505,890	897,173	454,378	442,795

(i) Allowance for credit impairment

	2017 TOTAL	2017 Segment A	2017 Segment B	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B
Loans and advances to customers	**958,127**	**180,726**	**777,401**	905,692	401,131	504,561	861,624	418,045	443,579
Loans to and placements with banks	**(11,568)**	**-**	**(11,568)**	1,329	-	1,329	(784)	-	(784)
Investment securities	**3,945**	**3,945**	**-**	-	-	-	-	-	-
	950,504	**184,671**	**765,833**	907,021	401,131	505,890	860,840	418,045	442,795

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

(x) Income tax expense

	2017			2016			2015		
	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	**1,416,435**	**1,308,895**	**107,540**	1,240,581	1,153,720	86,861	1,013,896	903,228	110,668
(Over)/Under provision in previous years	**(25,967)**	**(21,595)**	**(4,372)**	(3,051)	163	(3,214)	(12,062)	(279)	(11,783)
	1,390,468	**1,287,300**	**103,168**	1,237,530	1,153,883	83,647	1,001,834	902,949	98,885
Deferred tax	**(380)**	**(5,200)**	**4,820**	58,564	43,567	14,997	(41,544)	(31,694)	(9,850)
Charge for the year	**1,390,088**	**1,282,100**	**107,988**	1,296,094	1,197,450	98,644	960,290	871,255	89,035

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

	2017 TOTAL	2017 Segment A	2017 Segment B	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B
Profit before tax:									
Continuing operations	**7,627,550**	**4,861,456**	**2,766,094**	6,916,257	4,192,466	2,723,791	5,802,844	3,168,634	2,634,210
Discontinued operations	**-**	**-**	**-**	-	-	-	161,746	-	161,746
	7,627,550	**4,861,456**	**2,766,094**	6,916,257	4,192,466	2,723,791	5,964,590	3,168,634	2,795,956
Tax calculated at a rate of 15%	**1,144,133**	**729,219**	**414,914**	1,037,439	628,870	408,569	894,689	475,295	419,394
Impact of:									
Income not subject to tax	**(73,095)**	**(74,486)**	**1,391**	(126,464)	(21,162)	(105,302)	(119,631)	(46,316)	(73,315)
Expenses not deductible for tax purposes	**98,547**	**67,231**	**31,316**	79,259	39,451	39,808	117,934	43,614	74,320
Tax credits	**(362,189)**	**-**	**(362,189)**	(267,093)	-	(267,093)	(345,883)	-	(345,883)
Special levy on banks	**511,704**	**484,776**	**26,928**	428,271	402,395	25,876	362,494	336,192	26,302
Corporate Social Responsibility Contribution	**96,955**	**96,955**	**-**	147,733	147,733	-	62,749	62,749	-
(Over)/Under provision in previous years	**(25,967)**	**(21,595)**	**(4,372)**	(3,051)	163	(3,214)	(12,062)	(279)	(11,783)
Tax charge	**1,390,088**	**1,282,100**	**107,988**	1,296,094	1,197,450	98,644	960,290	871,255	89,035

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

	2017 TOTAL	2017 Segment A	2017 Segment B	2016 TOTAL	2016 Segment A	2016 Segment B	2015 TOTAL	2015 Segment A	2015 Segment B
Remeasurement of defined benefit pension plan	**(337,740)**	**(337,740)**	**-**	204,430	204,430	-	(112,018)	(112,018)	-
Deferred tax charge/(credit)	**50,661**	**50,661**	**-**	(30,665)	(30,665)	-	16,803	16,803	-
Remeasurement of defined benefit pension plan, net of deferred tax	**(287,079)**	**(287,079)**	**-**	173,765	173,765	-	(95,215)	(95,215)	-

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

(y) Non-current assets held for distribution

(i) Non-current assets held for distribution

	Principal activities	Effective Holding %	TOTAL RS'000	Segment A RS'000	Segment B RS'000
Year ended 30th June 2017 & 2016					
Banking subsidiaries and associate	**Banking & Financial services**	**N/A**	-	-	-
Year ended 30th June 2015					
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) Discontinued operations following unbundling of investments

Income recognised in profit or loss is as follows:

	2017			2016			2015		
	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

Administrative Information

Administrative information

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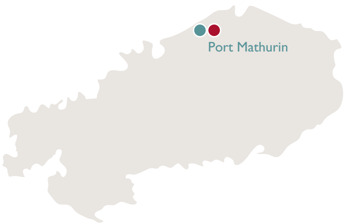
Local Branch Network

Mauritius

Rodrigues



- Branches
- Bureaux de Change / Forex ATMs
- ★ Bank Kiosks