

ANNUAL REPORT 2018

Forward and upward
for a sustainable tomorrow



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

This report has been prepared to assist relevant stakeholders to assess the strategies of 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 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 2018.

The Annual Report was approved by the Board of Directors on 26 September 2018.



Jean-Philippe COULIER
Chairperson



Alain LAW MIN
Chief Executive Officer

MCB at a glance

The Mauritius Commercial Bank Limited (referred to as 'MCB Ltd', 'MCB' or 'Bank' or 'Company') is a strong and dynamic organisation with a rich heritage. It is the leading bank in Mauritius and an increasingly prominent player in the region.

MCB is the main subsidiary of MCB Group Limited (hereinafter referred to as 'MCB Group Ltd' or 'Group'). The Group encompasses local and foreign banking and non-banking subsidiaries and associates.

Sustainable prosperity is embedded in our DNA

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

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

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

Financial summary

	Jun-18	Jun-17	Jun-16	Jun-15	Jun-14
Income statement (Rs m)					
Operating income	15,059	13,600	12,463	11,323	10,794
Operating profit	9,603	8,578	7,823	6,862	6,401
Profit before tax	8,374	7,628	6,916	5,965	4,558
Profit for the year	6,762	6,237	5,620	5,004	3,687
Statement of financial position (Rs m)					
Total assets	349,760	313,735	286,514	251,938	216,632
Total loans (net)	193,852	161,277	155,560	157,422	146,169
Investment securities	81,884	68,891	56,241	44,995	30,838
Total deposits	285,532	263,872	243,024	208,447	176,268
Subordinated liabilities	1,060	1,052	1,082	1,056	5,449
Other borrowed funds	14,189	5,607	4,866	6,952	7,603
Shareholders' funds	41,292	37,245	32,955	30,289	22,099
Performance ratios (%)					
Return on average total assets	2.0	2.1	2.1	2.1	1.8
Return on average equity	17.2	17.8	17.8	19.1	16.5
Return on average Tier 1 capital	18.0	18.6	18.6	20.1	17.8
Non-interest income to operating income	32.9	34.7	33.0	35.1	39.3
Loans to deposits ratio	70.0	63.3	66.7	78.9	87.1
Cost to income ratio	36.2	36.9	37.2	39.4	40.7
Capital adequacy ratios (%)					
Capital & reserves/Total assets	11.8	11.9	11.5	12.0	10.2
BIS risk adjusted ratio	15.0	16.8	16.1	14.9	13.8
of which Tier 1	14.2	15.8	14.9	13.9	10.3
Asset quality					
Non-performing loans (Rs m)	8,508	9,699	9,516	9,535	10,672
NPL ratio (%)	4.1	5.9	5.9	5.9	7.0
Provision coverage ratio (%)	49.2	39.8	49.0	54.8	55.1

Note: Capital adequacy ratios are based on Basel III with proforma figures used for 2014 for comparative purposes.

Board of Directors

Independent Non-Executive Directors

Jean-Philippe COULIER *(Chairperson)*
Priscilla BALGOBIN-BHOYRUL
Jonathan CRICHTON
Uday GUJADHUR *(as from December 2017)*
Gilles GUFFLET *(until December 2017)*
Philippe LEDESMA *(as from December 2017)*
Iqbal RAJAHBALEE *(until July 2017)*
Simon Pierre REY

Non-Executive Directors

Jean Michel NG TSEUNG

Executive Directors

Raoul GUFFLET
Alain LAW MIN

Secretary to the Board

MCB Group Corporate Services 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

Conduct Review Committee

Simon Pierre REY *(Chairperson)*
Priscilla BALGOBIN-BHOYRUL
Gilles GUFFLET *(until December 2017)*
Uday GUJADHUR *(as from December 2017)*

Secretary: Frederic PAPOCCHIA

Risk Monitoring Committee

Jonathan CRICHTON *(Chairperson)*
Jean-Philippe COULIER
Alain LAW MIN
Philippe LEDESMA *(as from December 2017)*
Jean Michel NG TSEUNG
Simon Pierre REY *(from August to December 2017)*

Secretary: Frederic PAPOCCHIA

Audit Committee

Uday GUJADHUR *(Chairperson) (as from December 2017)*
Gilles GUFFLET *(Chairperson) (until December 2017)*
Priscilla BALGOBIN-BHOYRUL
Simon Pierre REY

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

Nomination and Remuneration Committee

Jean-Philippe COULIER *(Chairperson)*
Alain LAW MIN
Philippe LEDESMA *(as from December 2017)*
Simon Pierre REY *(also acts as Secretary)*

Leadership Team

Business Executives

Alain LAW MIN

Raoul GUFFLET

Vincent CHATARD

Bhavish NAECK

Frederic PAPOCCHIA

Mike SOPHIE

Business Leaders

Christophe AYNAUD

Matthieu BENOIT

Hema CEDERHAGE

Paul CORSON

Robin CUNDASAWMY

Koomaren CUNNOOSAMY

Vanessa DOGER DE SPEVILLE

Marc HAREL

Chief Executive Officer

Deputy Chief Executive

Chief Operating Officer

Head – Finance

Chief Risk Officer

Head – Human Resources

Head – Permanent Control

Head – Marketing

Head – Securities Services

Deputy Head – Corporate and Institutional Banking

Head – Internal Audit

Head – Corporate Banking

Head – Communications

Head – Institutional Banking

Hemandra Kumar HAZAREESING

Jean-François HENRI

Patrice HERVE

Vicky HURYNAG

Roselyne LEBRASSE-RIVET

Steve LEUNG SOCK PING

Didier MERLE

Vikash NATHOO

Stephanie NG TSEUNG-YUE

Lindley PERRINE

Jovanna PREFUMO-MONTY

Dominic PROVENCAL

Neekeea RAMEN

Abraham RAWAT

Zaahir SULLIMAN

Anju UMROWSING-RAMTOHUL

Head – Global Business

Head – Facilities Management and Procurement

Head – IT

Head – Strategy, Research & Development

Head – Legal/In-House Lawyer

Head – Quality Assurance

Head – Private Banking and Wealth Management

Head – Recovery

Head – Cards

Head – Transaction Management and Monitoring

Head – Treasury

Deputy Head – Retail

Head – Credit Management

Head – Retail

Head – Energy and Commodities

Head – Credit Origination and Structuring

Reflections from the Chairman

How can you describe the progress made by the Bank during the year?

In summary, it has been a satisfactory year for the Bank. Alongside fulfilling our pledge to creating sustainable value for our numerous stakeholders, we have pursued our business growth agenda. We have maintained our commitment to attending to the needs of our customers, while adhering to good corporate governance and risk management principles.

Notwithstanding the demanding context, we witnessed a meaningful growth in our business after two years of relatively restrained activities. This contributed to an appreciable improvement in profit before tax. Along the way, we have preserved the soundness of our financial metrics, as gauged by the strengthening of our asset quality as well as our healthy liquidity, funding and capital positions. Overall, progress made by the Bank was underpinned by initiatives aimed at diversifying its involvement across segments and geographies, helped by its sound business model. Also, we are reaping the benefits of the continuous strengthening of our capabilities, which aims to lay solid foundations for sustained growth. Notably, the new organisation structure of the Bank has helped to reinforce the execution of our strategic plan, backed by appointments made across several key positions and addition of new members to our Leadership Team.

As a source of satisfaction, the Chief Executive and Deputy Chief Executive of the Bank have, after nearly two years in office, settled in well in their responsibilities and taken various important initiatives, several of which having already helped to scale up our capabilities and business momentum. Against this backdrop, I observe that the Bank is being well run and managed. In particular, I find that our Leadership Team and employees are successfully sailing

with a fast-changing and technology-savvy operating landscape.

Can you further sketch out the main initiatives and achievements of the Bank?

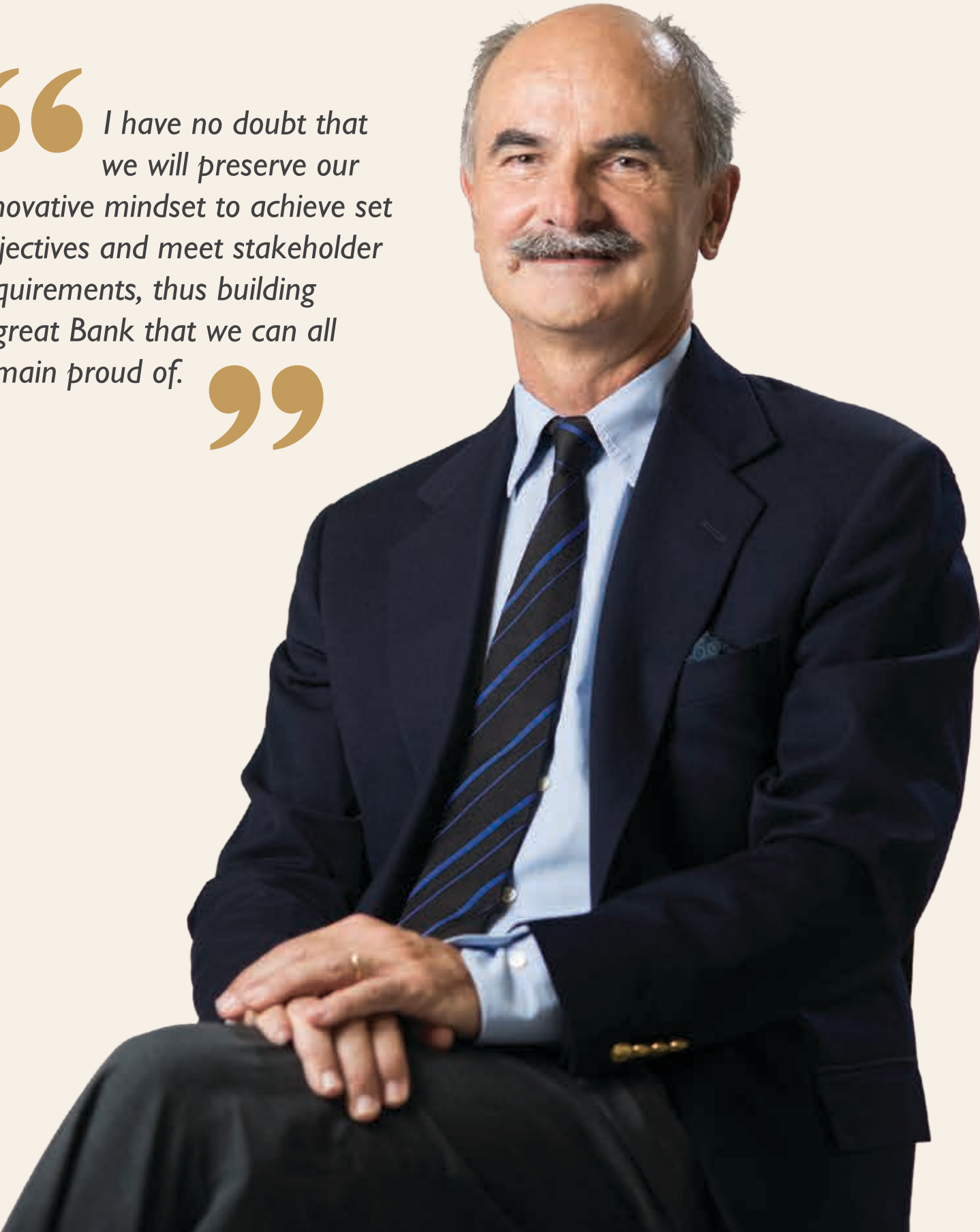
During the last financial year, we have further progressed towards achieving our strategic objectives, namely extend our frontiers, deliver a world-class customer experience through digital, as well as nurture our values and deliver on our brand promise. With around 976,700 customers, the Bank has consolidated its position as the leading bank in Mauritius, alongside widening its footprint abroad.

“I find that our Leadership Team and employees are successfully sailing with a fast-changing and technology-savvy operating landscape.”

As a key achievement, we deepened our regional diversification strategy and became increasingly involved beyond. We made major headway in terms of our Energy and Commodities financing, backed by the adoption of a sound operating model. Progress was also made in widening our structured project finance activities vis-à-vis clients operating in Africa and beyond, while we maintained our involvement 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. On the domestic front, we have further improved the quality of customer experiences, while harnessing the use of digital technology as a game-changer and a means to continuously enhance the richness of our value proposition. We consolidated our leadership position across both the individual and corporate segments. We accounted for 47% of local currency deposits, while around one in every two cards issued in Mauritius is MCB-branded. Our enriched ‘Juice’ mobile banking service currently boasts about 190,000 subscribers, including some 57,000 during the last year. Also, we have registered a market share of around 42% in respect of total domestic credit to the economy, with foremost positions held in respect of housing loans and credit extended to most economic sectors. On this note, I take great pride in our continued efforts to assist in the advancement of individuals and businesses by allowing them to achieve their goals, while supporting the sound development of Mauritius. For instance, reflecting its pledge to help entrepreneurs to take off and prosper, the Bank ranks 1st amongst banks participating in the Government-backed SME Financing Scheme, representing 48% of total facilities granted between December 2011 and August 2018. Besides, testifying to its endeavour to support the education of the country’s youth, MCB stands at the topmost position in respect of total student loans approved under normal banking terms and the Government Guarantee Scheme, with a market share of over 66% posted for credit offered between April 2013 and August 2018. It is also interesting to note that the Bank has used around 76% of the second line of credit assigned by the Agence Française de Développement to banks in Mauritius, with our ‘Green loans’ enabling us to contribute in stimulating the deployment of renewable energy and energy-efficient technologies, save energy and reduce carbon emissions.

“ I have no doubt that we will preserve our innovative mindset to achieve set objectives and meet stakeholder requirements, thus building a great Bank that we can all remain proud of. ”



Reflections from the Chairman

As highlighted before, MCB continues to reinforce its capabilities to underpin its growth ambitions. Notably, due focus is being laid on a robust risk management framework. We adhere to our thoughtful and carefully-calibrated risk appetite, in addition to applying strict due diligence principles in order to widen and diversify our activities in an orderly way, notably on the regional and international fronts. As a key development, we set up our Permanent Control function to reinforce our internal control mechanisms and better support the business. Furthermore, in addition to realignment projects, we mobilised resources for the deployment of our Digital Transformation Programme and HR Transformation Programme. We are committed to ensuring that these projects materialise in an opportune way as they should have far-reaching impacts on our operations and business activities, while enabling us to meet our strategic targets.

“We adhere to our thoughtful and carefully-calibrated risk appetite, in addition to applying strict due diligence principles in order to widen and diversify our activities in an orderly way.”

In addition, how has the organisation stood out lately?

The appreciable financial performance and solid credentials of the Bank have been widely acknowledged. Notably, MCB was, for the third time in a row, named the 'Bank of the Year for Mauritius' by The Banker/FT Magazine last year. Importantly, the outlook for the investment-grade credit rating assigned to us by Moody's Investors Service was changed from stable to positive. This is an encouraging development that testifies to the sound fundamentals of the Bank and implies that we are moving in the right direction. Building on this goods news, the Bank remains committed to adopting the necessary moves with a view to achieving an upgrade in its credit rating in a timely manner. On another note, we pursued dedicated initiatives in favour of our stakeholder engagement agenda. While improving the productivity and wellbeing of our employees, we have worked towards optimising shareholder value and have engaged with the regulatory authorities and rating agencies in a transparent and constructive manner. Furthermore, we strived to make a sound and sustainable contribution to the economy, society and environment towards fulfilling our engagement as a socially responsible and caring corporate entity. This was achieved through our sponsorship and corporate social responsibility activities. As the Group's dedicated vehicle for the implementation of CSR initiatives, the MCB Forward Foundation has provided extensive support in key focus areas, notably community empowerment and preservation of the natural environment, arts and culture, youth development and sports,

as well as education. Lately, we are launching our Sustainable Development Programme, as part of our endeavour to revisit our socio-economic involvement and strengthen the MCB brand. In addition, may I underscore that our commitment to stakeholders goes beyond the above areas and also reflects our endeavours to undertake an extensive and articulate display and assessment of our strategic directions and our ability to create sustainable value. A key headway in this direction relates to the contents and layout of this year's Annual Report, which have been increasingly aligned with advocated corporate governance and integrated reporting principles.

How do you envision the future for the Bank?

I believe that the future holds good promise for the sound and sustained development of the Bank. Notably, while the operating environment continues to call for scrutiny, the economic climate on the domestic front is showing encouraging healing signs. Against this backdrop, the Bank will continue to build its internal capabilities with a view to improving its operational efficiency, capitalising on growth avenues across markets and further entrenching its regional diversification strategy. Operationally, we will strive to meet the changing and increasingly exigent needs and expectations of our customers. Along the way, the recourse to cutting-edge technologies will stay a key feature of our agenda, with the Bank pursuing its digital

transformation. On a more strategic note, we will uphold our sound capital and funding positions to support our ambitions, backed *inter alia* by the continuous improvement of our treasury operations. Above all, adherence to good corporate governance and effective risk management practices will stay the backbone of our operations. While pursuing our strategic initiatives in an ambitious way, we are conscious that our regional and international expansion should be undertaken with a prudent approach given the risks and uncertainties that prevail across markets.

Any concluding remarks?

On behalf of the Board, I would like to express my gratitude to our esteemed clients for the opportunity to serve them every day. I want to show my appreciation to my fellow Board members for their continuous support and wisdom in overseeing the direction of the Bank and guiding the organisation forward. On a specific note, I am grateful to Mr Iqbal Rajahbalee and Mr Gilles Gufflet for the strong acumen that they had brought along as members of our Board, before leaving in July and December 2017 respectively. The Board looks forward to benefiting from the wide-ranging experience and expertise of Mr Uday Gujadhur and Mr Philippe Ledesma, who were appointed to the Board in December 2017. Furthermore, I warmly acknowledge the dedication, commitment, loyalty and hard work that the Leadership team and staff of MCB Ltd have displayed in order to

improve the resilience and competitiveness of the Bank. They are, without any doubt, the cornerstone of our success and we remain deeply grateful to them.

“I believe that the future holds good promise for the sound and sustained development of the Bank.”

In alignment with applicable regulatory stipulations, I am resigning from the Board of MCB Ltd at the end of 2018, after being appointed as a Board member in 2012 and taking office as Chairperson of MCB Ltd in April 2014. Over the years, it has been a truly rewarding experience for me and I am honoured to have had the opportunity to participate in the Bank's advancement, both in Mauritius and in the region. During my tenure at the organisation, I have witnessed the continued commitment and hard work displayed by our talented employees towards enabling the Bank deliver on its objectives and spearhead to new heights. We have executed our strategy on the back of judicious and, often, courageous decisions that have helped us to continuously improve the way our organisation functions. Looking ahead, I wish every success to the whole team of MCB for

its future endeavours. I have no doubt that we will preserve our innovative mindset to achieve set objectives and meet stakeholder requirements, thus building a great Bank that we can all remain proud of.

Jean-Philippe COULIER
Chairperson

Review by the Chief Executive



“With the organisation celebrating its 180-year history this year, I believe that future looks as exciting as ever, for both the Bank and its multiple stakeholders.”

What are the key highlights of the year?

I am pleased to note that it has been an eventful and successful year for the Bank which accelerated its business growth and created long-term value for its numerous stakeholders. We continued to build and deepen relationships with customers across segments, whilst ensuring that we meet their expectations and remain worthy of their trust. This contributed to reinforce our brand image, with MCB ranking 4th at the Top 10 Brands of Mauritius Awards based on research conducted by Kantar TNS. I also take pride in the accolades that the Bank has received. We won the Bank of the Year Award for Mauritius from The Banker/FT Magazine for the third time in a row and for the seventh time during the last decade. We were also, for the fifth consecutive year, acclaimed as Best Bank in Mauritius at the Euromoney awards. In addition, reflecting our improving fundamentals and our strategic positioning, Moody's Investors Service upgraded our credit rating outlook from stable to positive.

Our net profit rose by 8.4% to attain Rs 6,762 million in FY 2017/18, supported by broad-based revenue streams. As a key source of satisfaction, foreign-sourced income derived mainly from our regional diversification endeavours accounted for 49% of our results as compared to 43% the year before. It is also worth noting that our performance continues to reflect our franchise and the loyalty of our widening client base, with deposits from customers growing by nearly 8% to attain Rs 279 billion and gross loans to customers climbing up by 17% to stand at Rs 194 billion as at 30 June 2018. Our asset quality improved, with our non-performing loan to gross loan ratio dropping from 5.9% to 4.1%. Our cost to income ratio also

improved to reach a record low of 36.2%. In addition, we maintained healthy liquidity and funding positions, while our core and total capital ratios have remained above current regulatory norms.

On a more strategic note, at the start of FY 2017/18, we set out on our business growth path with a clear vision and direction to execute our three-pronged strategies, namely 'extend our frontiers', 'deliver a world-class customer experience through digital', and 'nurture our values and deliver on our brand promise'. During the year, we launched a number of initiatives, with clear priorities and enablers for growth. In addition to ensuring that our goals are clear, simple and actionable, we did our best to align our employees to our common focus areas, while ensuring that every member of our organisation works together and across teams so as to meet our underlying ambitions and targets.

How is the Bank progressing as regard its business growth aspirations?

Our focused business development initiatives brought encouraging results and helped to boost our operating income for the year. We are intent on pursuing our growth pillars and extending our frontiers, within Africa and the region. In addition to consolidating our involvement vis-à-vis individual and corporate clients locally, we have further deepened our regional market footprint, while opportunistically tapping into market development avenues. As a key success, we broadened and deepened our involvement in Energy and Commodities trade financing by developing close relationships with oil traders and majors. We became increasingly engaged in

medium-term financing along the oil value chain and entered the African oil and gas structured debt market. In addition, we extended our private banking and wealth management activities and widened our portfolio of structured project finance deals on the regional and international fronts. To support our growth aspirations, we enriched our value proposition and increased client proximity, which helped us meet the needs of our customer base. Above all, we adopted a prudent approach to grow our business, which helps to uphold the quality of our exposures. In particular, we remained involved in niche market segments where we already have technical expertise and trustworthy relationships whilst being principally engaged in economic sectors that we are well accustomed to. In addition to gearing up the capabilities of our support functions, we ensure that our deals are well-structured and properly monitored and reviewed.

“We are intent on pursuing our growth pillars and extending our frontiers, within Africa and the region.”

How is the Bank gearing up for sustainable growth?

In order to support and enable our business growth initiatives in Mauritius and the region, we are on a journey to build internal capabilities and hence equip our Bank with

Review by the Chief Executive

the necessary means to achieve its ambitions. With the review of the Bank's organisation structure last year, we have added new members to our Leadership team to provide a more robust and coherent set-up for supporting the execution of our strategic aspirations. We undertook the realignment of support functions and business segments to reinforce our operational capabilities and better cater for client needs. On another front, we further strengthened our robust risk and compliance framework, with the recent establishment of our Permanent Control function. Moreover, the Bank maintained its focus on developing its human capital, a key enabler for success. In this respect, we launched an HR Transformation Programme with the intent to help the business realise its strategic ambitions. Amongst others, this Programme will lead to the setting up of an HR Academy, which will equip the Bank with best practices in the development of talent, performance management and HR operations effectiveness.

How important is innovation in shaping the future of the Bank?

Innovation is one of our key values of MCB and is, therefore, at the core of who we are and what we do. We made further progress in moving from transactional to relationship banking, while pursuing our voyage towards migrating our customers to alternative self-service channels. Our 'Juice' mobile banking service has been revamped to create a more user-friendly interface as well as introduce

payments via QR code in order to make the process simpler and faster. Moreover, MCB has introduced yet another innovation with contactless payments solutions in Mauritius with 'touch and pay' features. During the year, we embarked on an ambitious Digital Transformation Programme, aimed at improving our operational efficiencies and better reflecting the changing ways customers wish to bank. We are aligning ourselves to the rapidly changing tastes and exigencies of our customers who require simpler financial solutions that are easy to understand, rapidly accessible and conveniently delivered, with mobile phones being a platform of choice. Against this backdrop, we are committed to creating differentiated and delightful customer experiences. To deliver on this programme, we have launched a Digital Factory, which serves as an incubator for embedding truly customer-centric operations across the Bank by redefining end-to-end customer journeys. It, notably, encompasses cross-functional co-located team members working in agile squads. Over time, we will create a startup culture across the Bank to embrace the agile mode of working which will enable us to work collaboratively in order to deliver value for our customers.

How meaningful is corporate culture for the organisation?

We made a conscious choice in identifying the need 'to nurture our values and deliver on our brand promise' as a key strategic objective. In this respect,

“Innovation is one of our key values of MCB and is, therefore, at the core of who we are and what we do. We made further progress in moving from transactional to relationship banking, while pursuing our voyage towards migrating our customers to alternative self-service channels.”

we are actively engaged in extending the dissemination of our core values across all layers of the organisation and ensuring alignment of actions for the achievement of common goals. Furthermore, our corporate culture and values shape our stakeholder engagement and reinforce the MCB way of doing things in a professional and ethical manner. While building on progress made over time, we have given a new dimension to our raison d'être amidst a rapidly changing world environment. The launch of our Sustainable Development Programme should accompany us in enriching our stakeholder

interactions, and thus strengthening the MCB brand. It should provide us with the means to better contribute to the development of a vibrant and sustainable local economy, the protection and valorisation of the country's cultural and environmental heritage, as well as the promotion of individual and collective well-being.

Any concluding note?

I would like to acknowledge the enthusiasm, hard work and commitment of our employees in this pivotal year where we made good progress on all fronts, from improving our existing business to building the foundations for the future development of the Bank. I would also like to thank my deputy, Mr Raoul Gufflet, and members of the Leadership Team for their unflinching support in driving the Bank forward. Thanks to the team spirit and collaboration of everyone, we have elevated the Bank to new heights.

During the year, we were saddened with the demise of our former Head of Communication, Mr Ryan Coopamah, who was appointed to the Leadership Team in August 2017. Ryan will be remembered for his dedication, creative mindset and humility. On another note, I would like to thank Mr Eddy Jolicoeur who retired from the Bank after his 10-year tenure as Head of Human Resources and played a key role in gearing up the quality of our human capital. I also wish to congratulate and extend my warm welcome to those who have been appointed as Business Leaders during the year. I look forward to

collaborating with them in delivering positive results for the Bank.

My deep gratitude also goes to our esteemed customers. We are fully conscious that we need to earn and uphold their trust and confidence every single day. I also extend my appreciation to the Board of MCB Ltd and that of our ultimate shareholder, MCB Group Ltd, for their direction and guidance for creating favourable foundations underpinning the Bank's progress.

“We will continue to leverage our strong brand image, values and competencies developed over our long history in order to reinforce trust and deliver exceptional service and value to our customers.”

With the organisation celebrating its 180-year history this year, I believe that future looks as exciting as ever, for both the Bank and its multiple stakeholders. We will continue to leverage our strong brand image, values and competencies developed over our

long history in order to reinforce trust and deliver exceptional service and value to our customers. Moreover, with our innovative spirit and our desire to adapt continuously to our changing world, we are committed to transforming our Bank for it to become increasingly International, Digital and Sustainable. As always, our continuing success lies in our capacity to work together as an engaged community, consistently adding value in each interaction with customers and colleagues and making a difference as a responsible citizen in our society.

Alain LAW MIN
Chief Executive Officer

About this report

Philosophy of the annual report

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

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

Introduction to key concepts

Our stakeholder engagement

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

Our key stakeholders



Shareholders
and investors



Customers



Societies and
communities



Authorities
and economic
agents



Employees

Our materiality review

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



Scope and boundary of reporting

Reporting period

The report covers the period spanning 1 July 2017 to 30 June 2018. Material events taking place after this date and until approval by the Board of Directors of MCB Ltd on 26 September 2018 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 business

The report sheds light on activities undertaken across different segments and layers of the Bank. The nature and extent of information delivered depend on their materiality and relative significance to the Bank and its stakeholders.

Reporting requirements

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

Assurance and independent assessment

Our external auditor states 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.

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:



Icons used in this report

- Read more (i.e. in this Annual Report)
- Find out more online (i.e. across MCB websites)

You can access our annual report at www.mcb.mu

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

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Our Corporate Profile

Our corporate profile

Who we are

Overview of the Bank

Established in 1838, MCB Ltd is the longest-standing and leading banking institution in Mauritius.

Over time, we diversified our business activities across market segments and geographies. We are actively involved in various markets across sub-Saharan Africa, while remaining alert to relevant business development opportunities across the continent and beyond.

Our brand

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

Our investment-grade ratings

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

Our expertise

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

Our financial strength

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

Our general positioning

~976,700
Clients

2,696
Employees

39
Branches

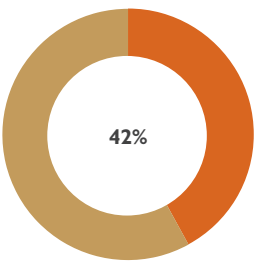
177
ATMs

7,105
POS terminals

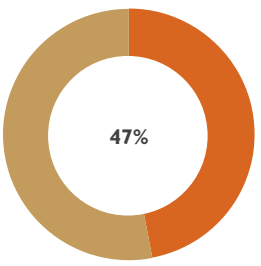
~1,300
Correspondent banks

Domestic market shares

Credit to the economy



Local currency deposits



MCB Ltd

Other banks

Our key financials

Rs 6.8 bn
Net profit
(2017: Rs 6.2 bn)

Rs 350 bn
Total assets
(2017: Rs 314 bn)

Rs 194 bn
Customer loans
(2017: Rs 166 bn)

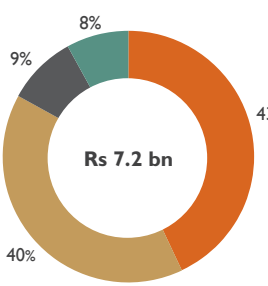
Rs 279 bn
Customer deposits
(2017: Rs 272 bn)

36.2 %
Cost to income ratio
(2017: 36.9%)

15.0 %
Capital adequacy ratio
(2017: 16.8%)

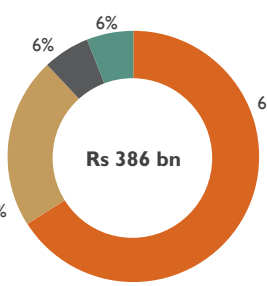
Contribution to Group performance

Net profit



Rs 7.2 bn

Assets



Rs 386 bn

MCB Ltd - Domestic

MCB Ltd - Foreign-sourced

Foreign banking subsidiaries & associates

Non-banking financial & Other investments

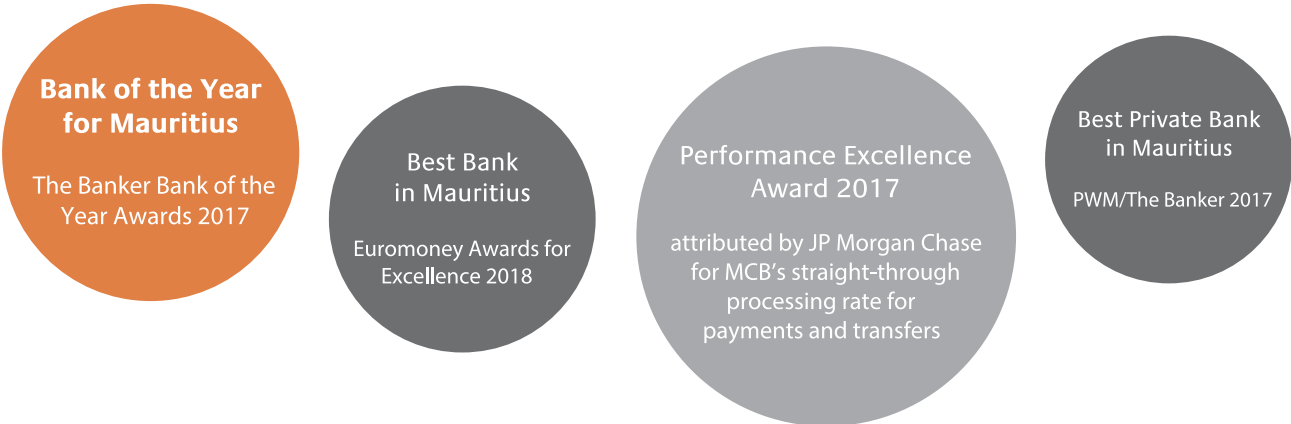
Note: Figures above are as at 30 June 2018

Read more on our financial performance in the 'Financial Review' section on pages 69 to 75

Our corporate profile

Accolades and recognition

Mauritius



Africa



Our transparent and integrated business model

Our purpose

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

What we stand for

With a view to achieving our mission and vision ...

Our Vision

Everyday, we will help make something happen

Our Mission

- We will keep finding ways to meet the needs of our customers
- We will listen to them and help them achieve their goals
- We will help people with ideas to be entrepreneurs
- We will be worthy of our shareholders' confidence
- We will do what we can to make the world a better, greener place
- And we will never go away

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

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

... underpinned by the firm adherence to our core values

Integrity
Honest and trustworthy at all times

Customer care
Delivering unrivalled service

Teamwork
Working together towards a common goal

Innovation
Proactively seeking out new opportunities

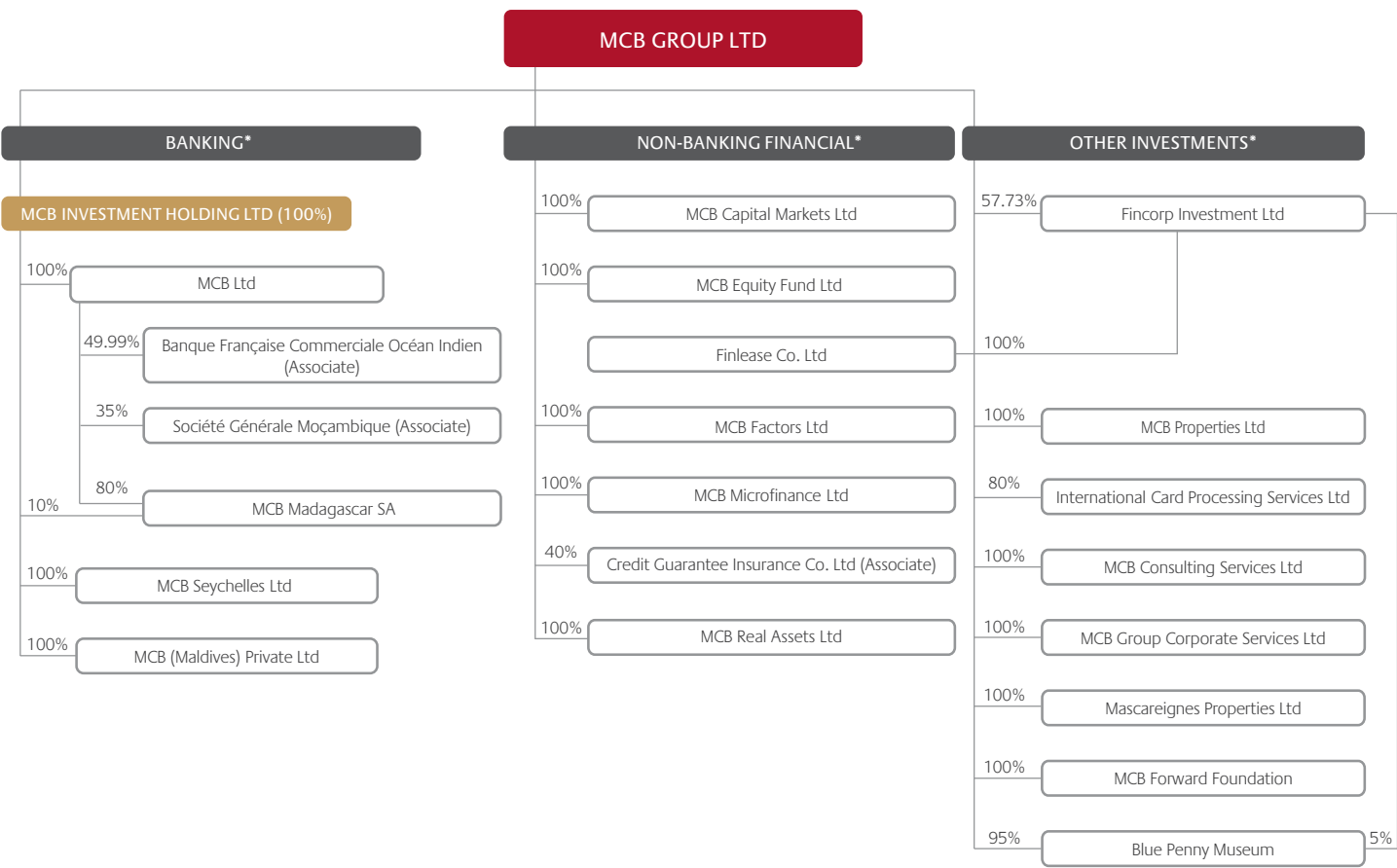
Knowledge
Believing in lifelong learning

Excellence
Being the best we possibly can

Our corporate profile

How we operate

Our Group structure

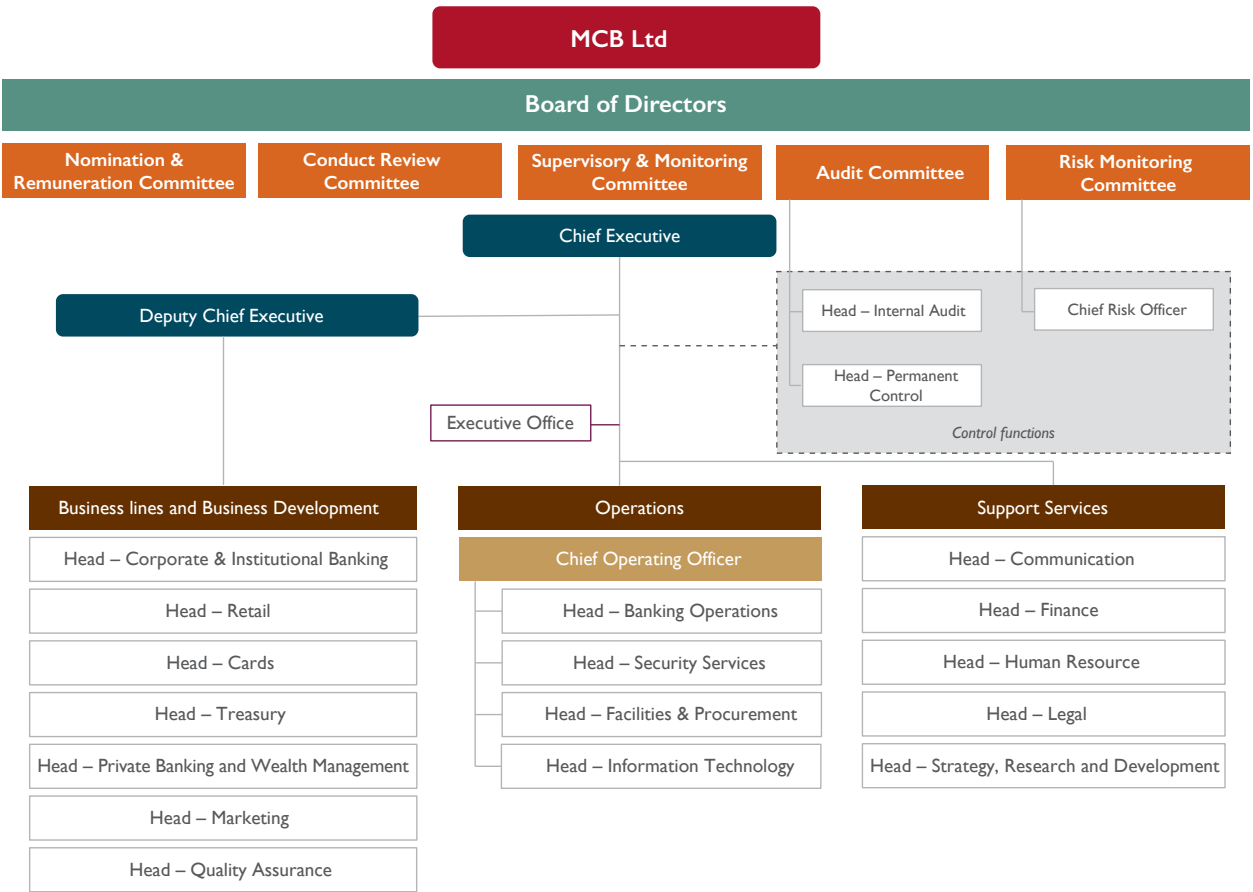


* Relate to clusters

MCB Ltd is a wholly-owned subsidiary of **MCB Investment Holding Ltd**, itself a wholly-owned subsidiary of **MCB Group Ltd**. The latter is the ultimate holding company of MCB Group's entities.

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 as well as coverage and support functions. Specific frameworks and policies underpin the execution of our strategic intents towards ensuring that the Bank works in an integrated way.

The organisation structure of the Bank, which is depicted above, has been reviewed during the last financial year. Since August 2017, a **new organisation structure** is in place to ensure the effective execution of the Bank's strategic plan.

In March 2018, the Bank established a **Permanent Control unit** to provide for an adequate framework to foster strengthened internal control and risk management, in alignment with regulatory requirements and international standards. The Compliance, Operational Risk, Information Risk Management and Health and Safety functions have been transferred to this new unit.

Our corporate profile

Our market operations

Our functioning

To further our business growth, our business segments capitalise on their proficient workforce, cutting-edge technology as well as the Bank’s wide-ranging platforms and channels. The latter include branches, ATMs, merchant terminals as well as mobile and Internet Banking platforms. We leverage our representative offices in Johannesburg, Paris and Nairobi and a network of around 1,300 correspondent banks worldwide, including some 225 in Africa. In addition to forging synergies and collaborating with other Group entities, we capitalise on alliances and partnerships with third-party stakeholders to shore up our market development.

Our main business lines

Corporate and Institutional Banking

Key clients

- Corporates, which are based locally and abroad
- Global business companies, funds, trusts and foundations
- Entities within the Energy and Commodities field, notably traders, refineries, etc.
- Other clients: Financial institutions; Government bodies; Investment and Asset management companies

Our approach

- In Mauritius, we provide dedicated solutions, advice and investment services to corporate and institutional clients. We provide tailored financing, trade, treasury, transactional and payment solutions as well as investment services to support the business development and capacity building initiatives of clients across established and emerging economic sectors. We offer customised solutions for global business companies, funds, trusts and foundations.
- The Bank attends to the needs of diverse customer segments across sub-Saharan Africa, while also venturing beyond. It positions itself to facilitate trade and investment between Africa, Asia and the rest of the world. As a key focus area, the Bank is involved across the downstream, midstream and upstream Energy and Commodities segments, notably across Africa. In addition, we offer structured project finance to assist entities which are investing and doing business in Africa, while also tapping into opportunities across other geographies.
- The Bank actively promotes the Group’s ‘Bank of Banks’ initiative, by providing adapted strategic and operational solutions to help financial institutions meet their growth and capacity building imperatives.

Retail Banking

Key clients

- Mass and mass affluent individual customers
- Junior, youth and young professionals segments
- Small and medium enterprises

Our approach

- The Bank caters for the day-to-day and lifetime needs of its individual customers. In addition to lending and deposit facilities, adapted account packages are offered to individual customers across age groups. We also accompany small and medium enterprises (SMEs) throughout their business development cycle by means of dedicated offerings and advice.
- Our clients can avail of multiple channels and services to carry out their banking transactions. Furthermore, they can benefit from investment solutions which are customised in line with their profiles.


Private Banking and Wealth Management

Key clients

- Local affluent and high net worth individuals (e.g. professionals, executives, entrepreneurs and businessmen, families)
- Foreign high net worth individuals
- External Asset Managers, including financial intermediaries such as fiduciaries, family offices and financial advisors

Our approach

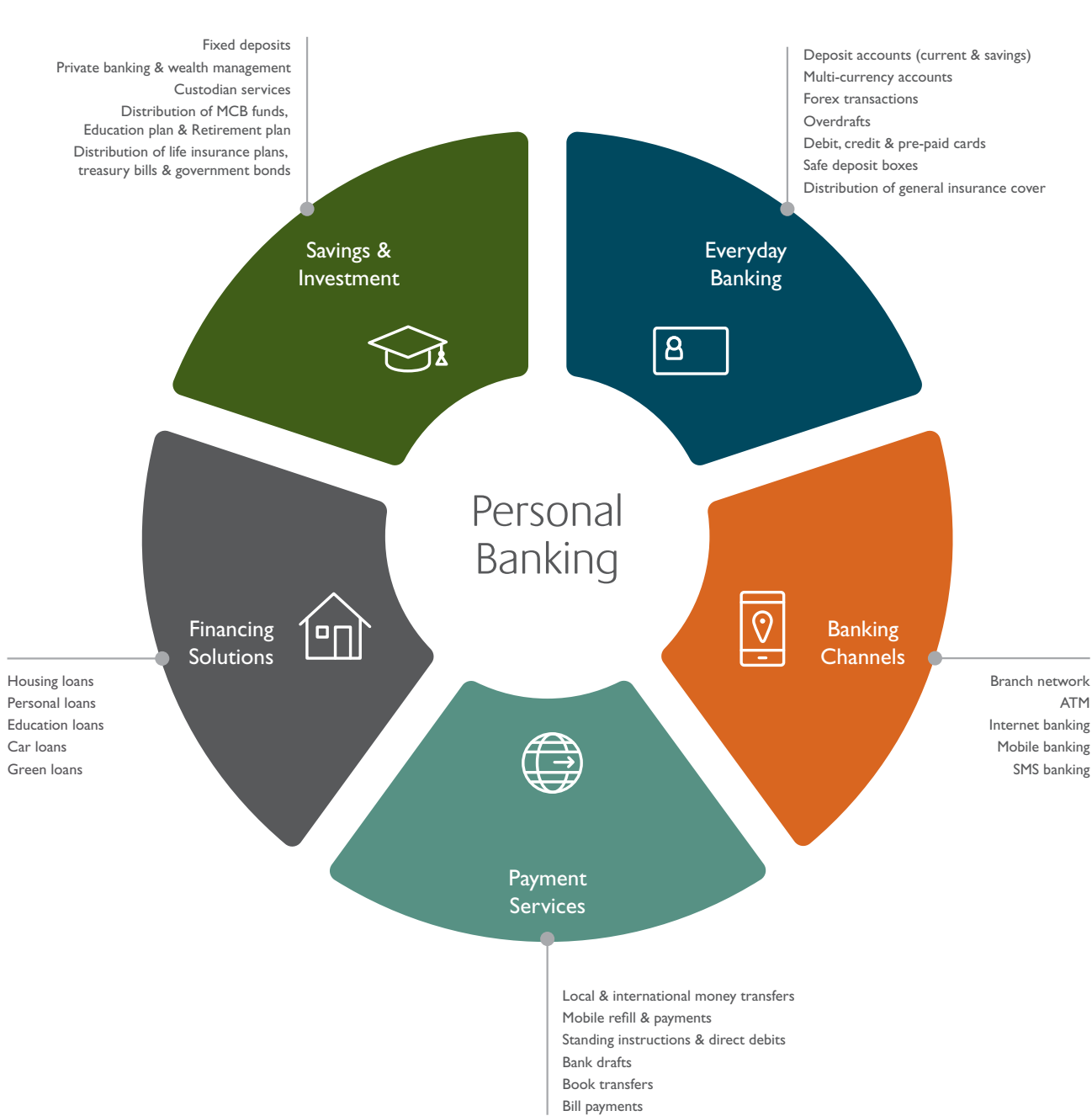
- The Bank provides tailored solutions that are geared towards the safeguard, growth and transmission of the assets of its clients, both domestically and abroad. In particular, it is dedicated to providing financial planning, investment and wealth management services, trade execution, custodian services and exclusive investment opportunities to meet client needs.
- The Bank acts as a direct point of contact for attending to the needs of External Asset Managers. It offers custodian services as well as real time execution services across asset classes through its open architecture and transactional banking services.

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

Our corporate profile

Our extensive and customised financial solutions

Through its multiple channels, the Bank provides its clients in Mauritius, regionally and beyond, with customised and innovative financial solutions as well as dedicated advice to meet their ambitions.



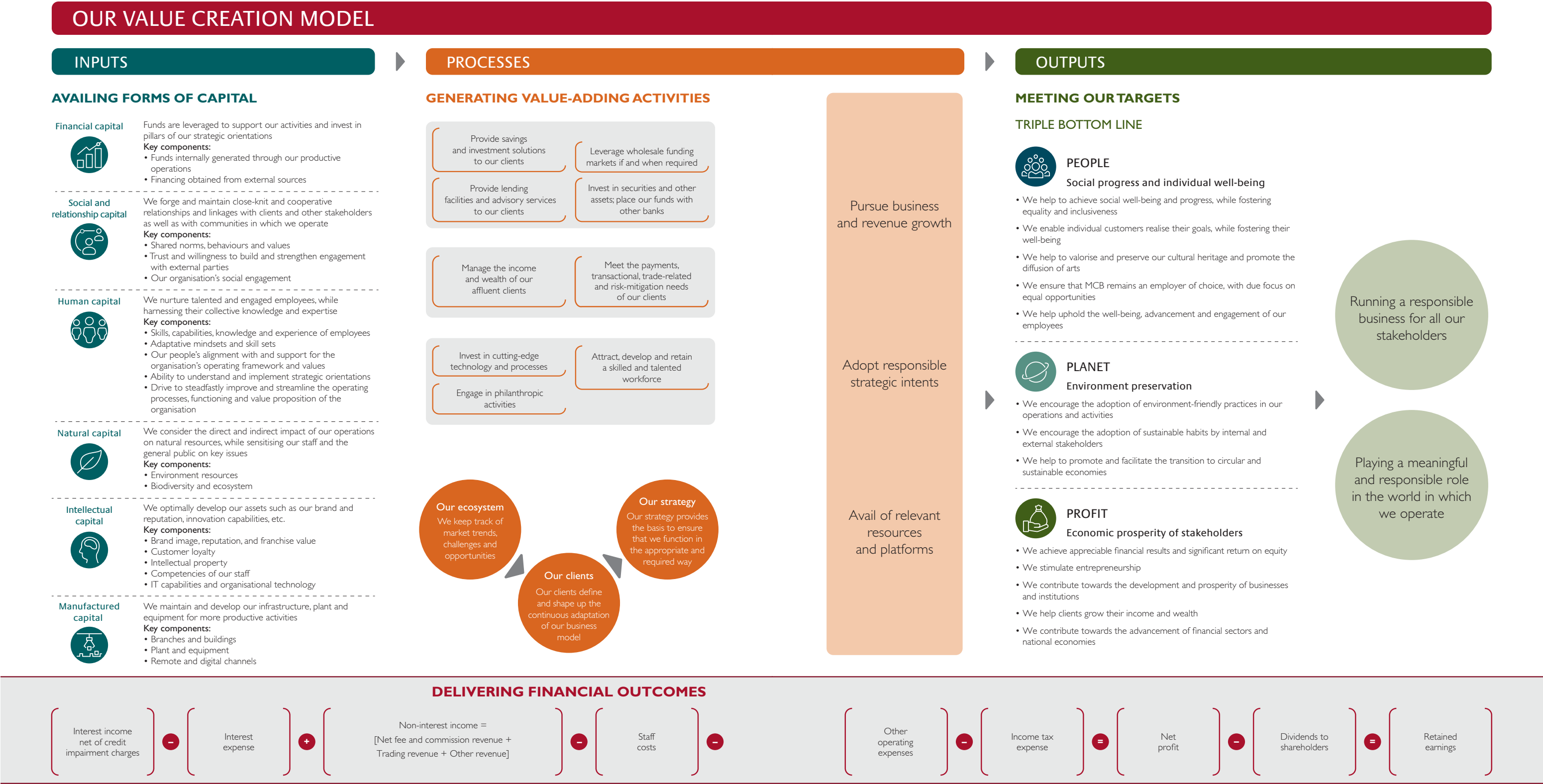
The Bank works closely alongside its customers to understand their imperatives, challenges and priorities towards crafting solutions adapted to their needs. Also, our business segments offer solutions conceived and managed by other Group entities.



More information on our financial solutions is available on our website

Our corporate profile

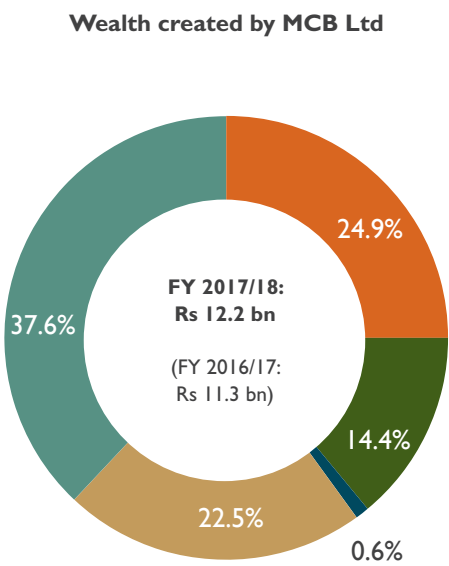
What we deliver




Our corporate profile

How we distributed value created

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



 Retention to support growth

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

 Providers of capital

We provide shareholders with adequate dividend payout.

 Society


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

 Employees

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

 Governments

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

 Read more on our support to stakeholders in the 'Creating value in a sustainable way' section on pages 40 to 60



Our Corporate Strategy

Our corporate strategy

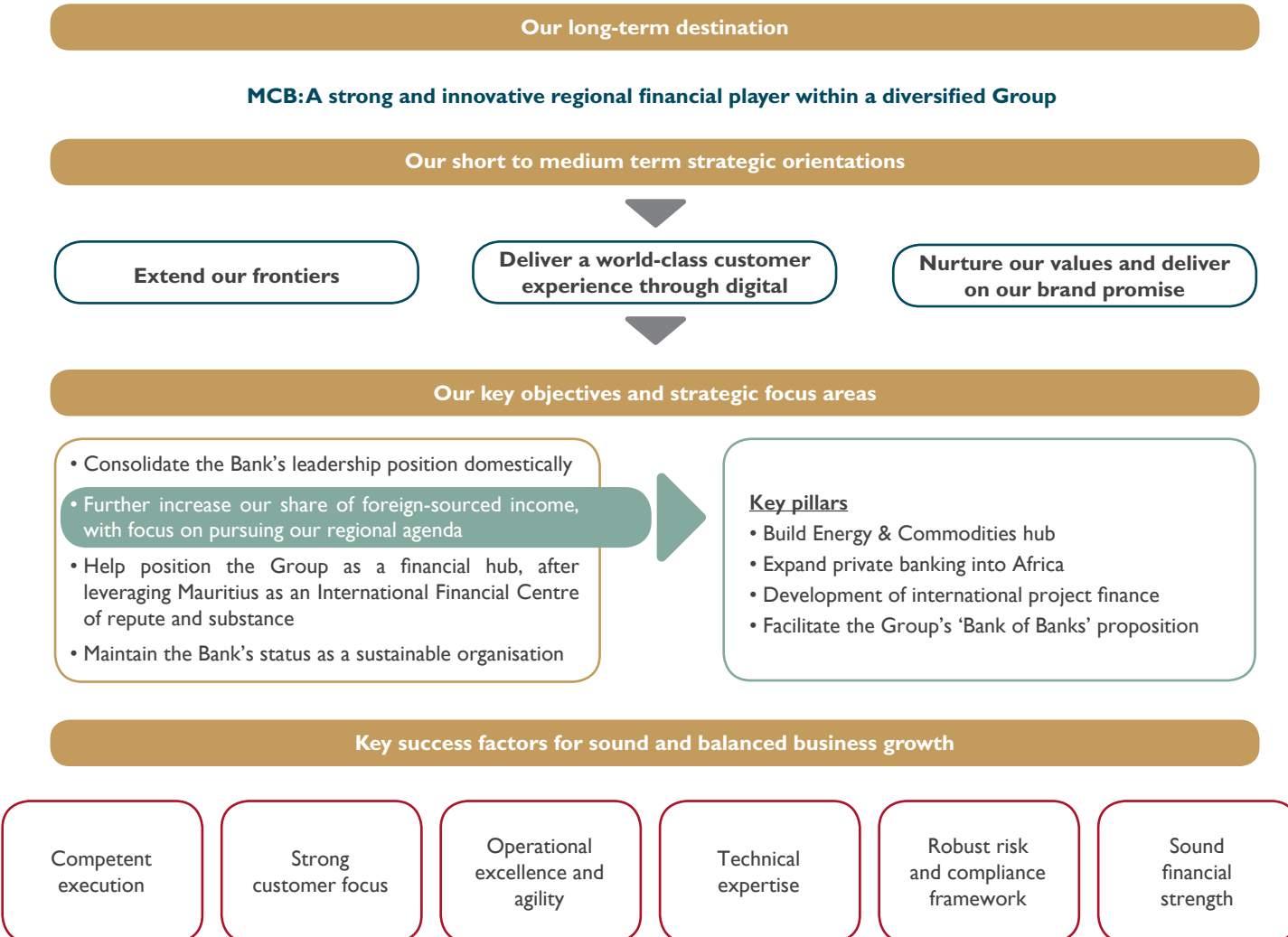
Positioning ourselves for growth and success

Our strategy

Our strategy is guided by our business model. Alongside adhering to good corporate governance principles, we adopt a thoughtful approach to foster our sound and balanced business growth. We aim to diversify our market involvement across segments and geographies. While coping with the dynamic context, we seek to build on our core competencies and raise the level of our game, with focus laid on our digital transformation. Overall, our attempt is to deliver exceptional customer service and tap into the right business development opportunities, while paving the way for sound financial metrics.

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

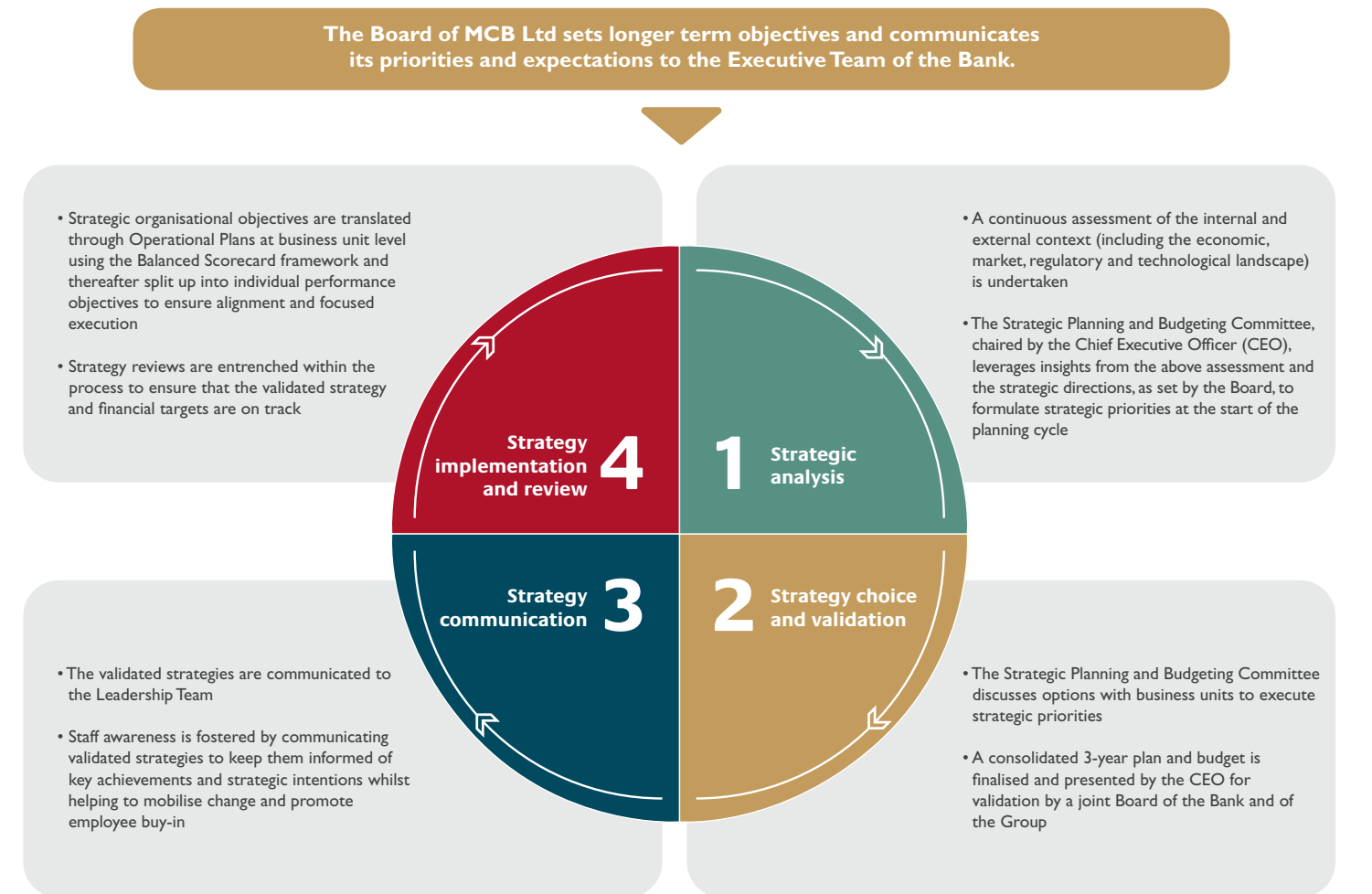
Our main strategic orientations



Read more on our progress in achieving our strategic trajectories in the 'Performance against objectives' section on pages 69 to 70

Our governance and processes

The Bank has a well-defined governance framework as well as coherent processes and practices to facilitate strategy elaboration, execution and review. While ensuring congruence with underlying strategic orientations set at Group level, the Board of MCB Ltd sets the strategic directions of the Bank, approves strategic policies and ensures that they are communicated throughout the organisation. The Bank's strategic orientations are cast in a 3-year rolling plan and approved by the Board at the start of each financial year. Alongside being subject to relevant regulatory and compliance requirements, the Bank determines its strategic initiatives after taking on board the inherent specificities and exigencies of the markets in which it operates as well as the relevant challenges and opportunities characterising the businesses being pursued. When contemplating its strategic directions, the Bank makes due allowance for the risk appetite, as formulated across segments, while considering its capital position as well as the scale and proficiency of their physical and human resources. In its functioning, the Bank capitalises on Group synergies, while the services of external consultants are selectively leveraged to provide competent tools and guidance in order to sustain their thinking and decision-taking process. Of note also, key priorities and performance indicators are formulated with a view to providing for clarity and direction towards supporting the smooth deployment of envisioned initiatives. An overview of the strategic planning processes adopted by MCB Ltd is depicted below.



Our corporate strategy

Creating value in a sustainable way

Engagement and interactions with stakeholders

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

The organisation’s activities underlying its stakeholder value creation are anchored on sound foundations and advocated norms. It can, amongst others, be highlighted that employees of MCB Ltd abide by the Bank’s Code of Conduct and the national Code of Banking Practice. In addition, we do not support or fund political parties or candidates or any groups that promote party interests. Reflecting its commitment to entrench associated principles in its strategy and operations, the Bank has opted to act as a participant to the United Nations Global Compact. The latter is the world’s largest voluntary corporate responsibility initiative for businesses committed to aligning their operations and strategies with universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

Our corporate sustainability strategy

Value beyond numbers

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

Our Sustainable Development Programme

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

Key tenets of our underlying sustainability model

People



Social progress and individual well-being

Planet



Environment preservation

Profit



Economic prosperity of stakeholders

Overview of our Sustainable Development Programme



Key stakeholders directly and indirectly impacted



Shareholders and investors



Customers



Societies and communities



Authorities and economic agents



Employees

Read more on our value creation model in the 'Our Corporate Profile' section on pages 32 to 33

Our corporate strategy



Shareholders and investors

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

Our specific objectives and targets

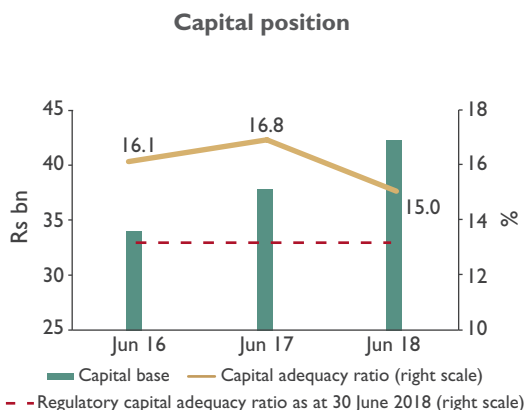
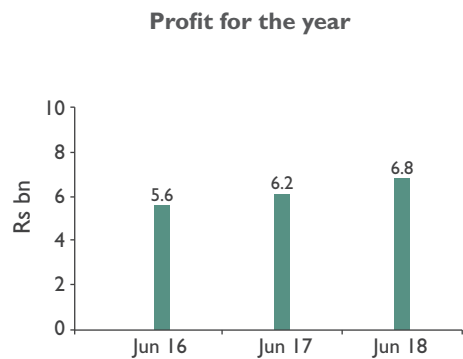
- To generate adequate earnings to reward our shareholders and investors, while delivering adequate dividends and maintaining attractive returns on investment
- To foster the availability of timely, concise and detailed information on the positioning and performance of the Bank
- To preserve the investment-grade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

How we have engaged with and served our stakeholders

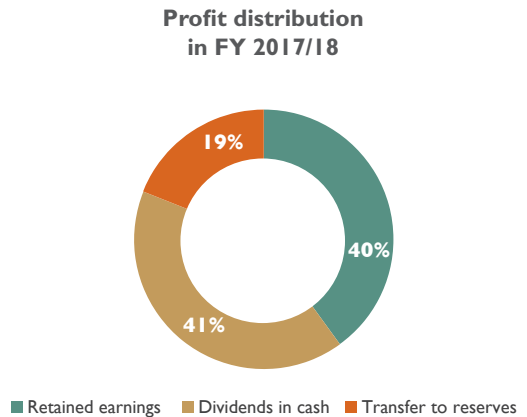
- We have strived to preserve the image and reputation of the Bank as a strategically important industry player. The Bank’s revenue generating capacity has been enhanced through market diversification and customer service quality, while a prudent business development approach was adopted in view of the challenging operating context. To strengthen its brand image and profile, the Bank lays due emphasis on the adoption of innovative practices while adhering to sustainability principles.
- We have held open, constructive and regular dialogues with international rating agencies in order to report on the performance and prospects of the Bank as well as its strategic orientations. Of note, while affirming the ratings of the Bank, Moody’s Investors Service has, in July 2018, changed the outlook on the long-term ratings from stable to positive, citing the improving trends in the underlying financial fundamentals as the key underpinnings.

Financial outcomes reflecting our franchise

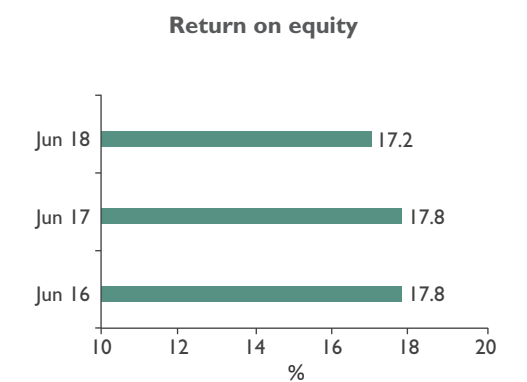
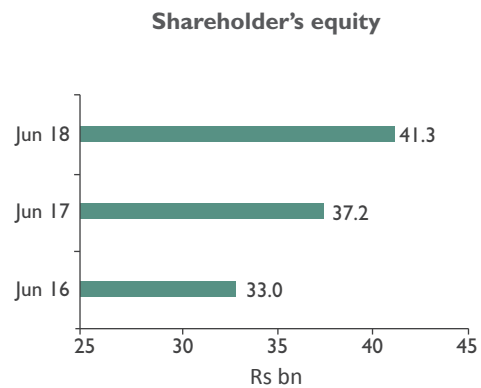
Our strong financial position



Income available for further business development



Evolution of equity and return generated



Read more on our financial performance in the 'Financial review' section on pages 69 to 75

Our corporate strategy



Customers


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

Our specific objectives and targets

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

How we have engaged with and served our stakeholders

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

 Read more on our business activities across segments and entities in the 'Review of Operations' section on pages 76 to 81

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

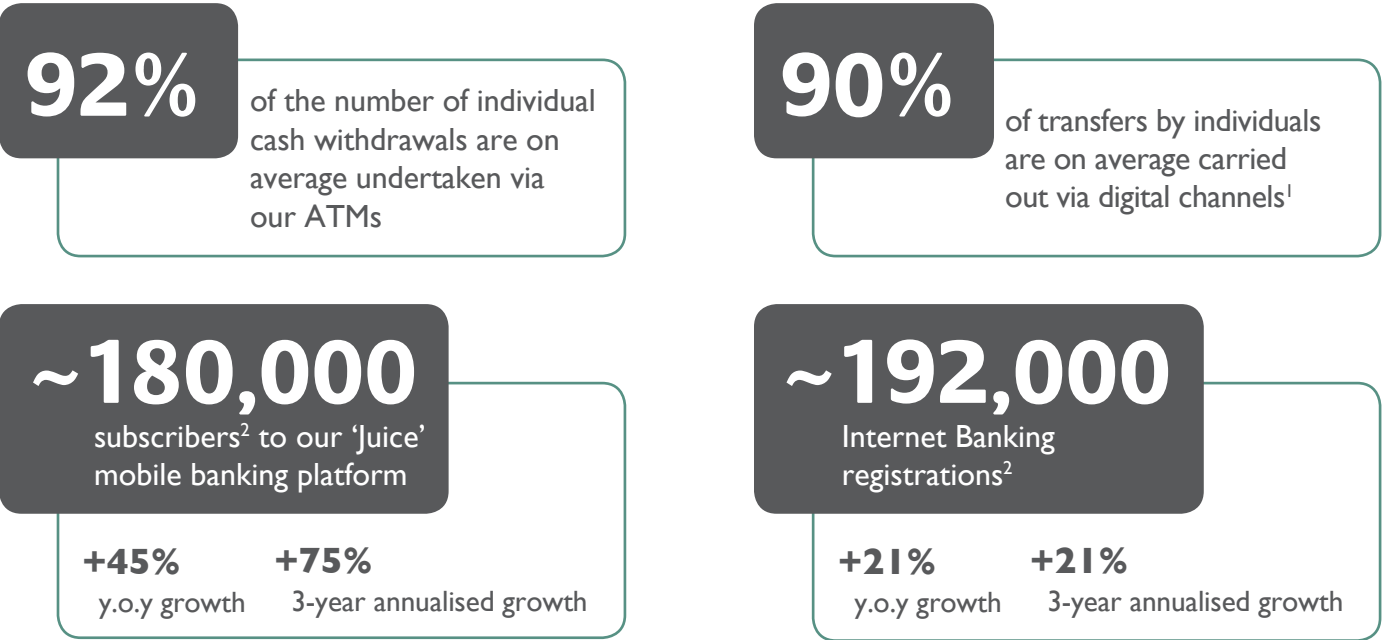
Serving a strong and diversified customer base



Our corporate strategy

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

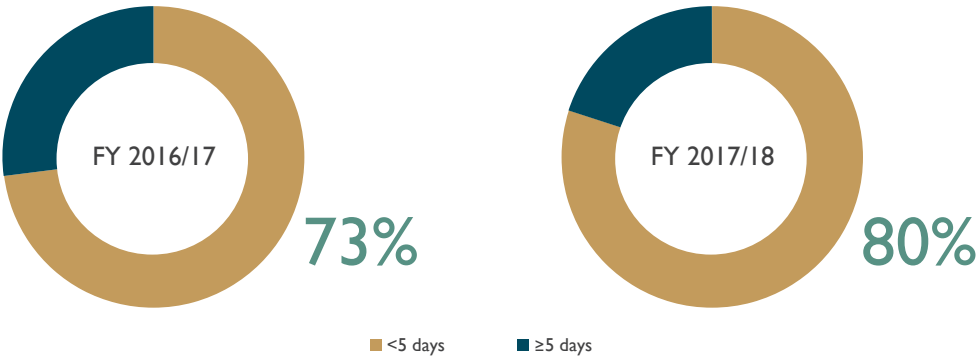
Deploying digital channels



¹ Digital channels include our 'Juice' mobile banking service, Internet Banking solution, Contact Centre, kiosks, contactless Point of Sale terminals, deposits and forex ATMs
² Figures are as at 30 June 2018

Addressing customer grievances in a prompt manner

Estimated average time for resolving customer complaints



Societies and communities

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

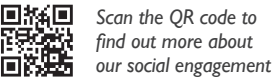
Our specific objectives and targets

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

How we have engaged with and served our stakeholders

Doing good for the society

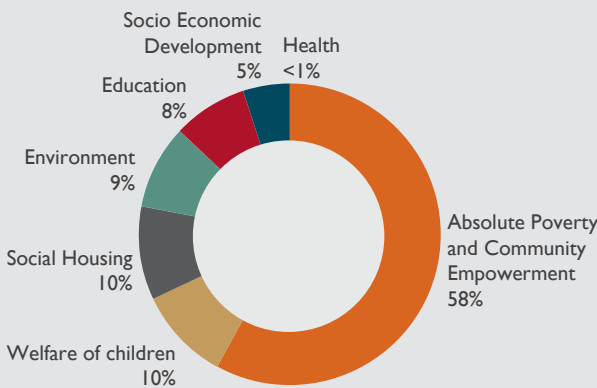
- The Bank continued to live up to its engagement as a socially responsible organisation. We partnered with the relevant stakeholders to promote societal well-being. Our corporate social responsibility activities are channelled via the MCB Forward Foundation (MCBFF). We also provide funding in earmarked fields through our dedicated sponsorship, while our staff offer a meaningful contribution to help realise our initiatives. Overall, the organisation provides extensive support in key focus areas, notably community empowerment and preservation of the natural environment, arts and culture, youth development and sports, as well as education. In respect of the latter, it can, for instance, be noted that our organisation has, since 1988, awarded 30 scholarships to Mauritian students ranked next in line with those eligible for the State of Mauritius scholarships on the Economics side at the Higher School Certificate examinations.
- Consistent with the authorities' requirement for companies to set up an annual CSR Fund representing 2% of their chargeable income derived during the preceding year, an amount of Rs 91 million was accordingly earmarked by MCB Ltd. After fostering alignment with the Government measure requiring companies to remit 50% of their CSR Funds to the Mauritius Revenue Authority, an amount of Rs 45.5 million was entrusted to the MCB Forward Foundation. During the year, the latter spent Rs 49.7 million on 32 projects, of which 25 are ongoing. Of note, no political donations were made during the year under review.



Our corporate strategy

Our engagement via the MCB Forward Foundation

Distribution of amount spent by MCBFF during FY 2017/18



Largest projects financed by MCBFF in FY 2017/18

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

Zoom on MCB Football Academy: Main achievements since 2008

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

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

3,000
Family visits

74

Children channelled to Special Needs School

2,533

Families counselled by clinical psychologists

150

Parents empowered to assume their responsibilities

Supporting social and financial inclusion

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

Helping students

~Rs 1.0 billion representing total student loans approved (under normal banking terms and the Government Guarantee Scheme),
account for a market share of **66%** (as at 30 June 2018)

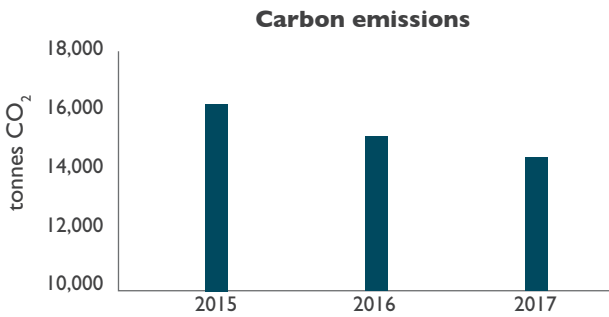
Preserving our environmental heritage

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

- Since May 2012, MCB Ltd adopted the Equator Principles, which is a voluntary and internationally recognised risk management framework, espoused by many financial institutions worldwide, for determining, appraising and managing environmental and social risks in project financing. This framework stands as the foundation and guiding principle of the Bank's Environmental and Social Policy, which articulates the principles, policies, roles and responsibilities through which the Bank ensures the environmental and social risks management of its lending activities, in particular regarding any project or undertaking entailing loans of an aggregate amount greater than or equal to USD 2 million and with maturity of at least 24 months.
- As a key strategic thrust, the Bank has set out to monitor and assess its direct environment footprint in order to minimise the impact of its activities on the environment. The Bank is committed to influence and engage with its employees and external stakeholders towards managing its direct carbon footprint, driving eco-efficiency performance, and greening the supply chain. On this note, the Bank seeks to ensure that all suppliers comply with sustainable procurement standards. We define sustainable procurement as encompassing the social and environmental aspects of the products that the Bank procures as well as the attitude of the supplier towards sustainability. Also, we have set forward to contribute to the development of the circular economy, which we view as a key future model of procurement.

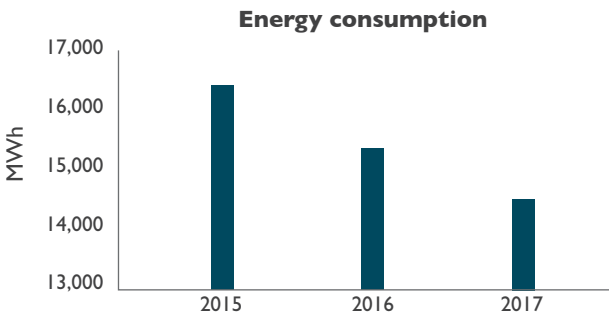
Our corporate strategy

Managing the environmental impact of our operations and activities



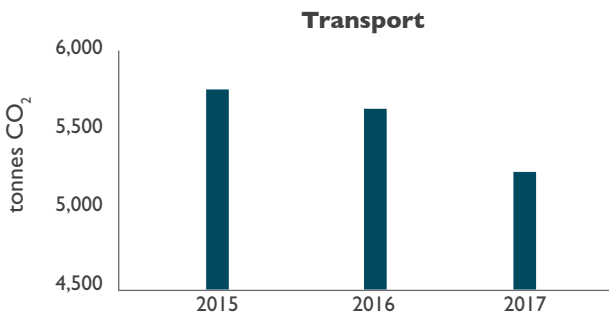
Managing our carbon footprint

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



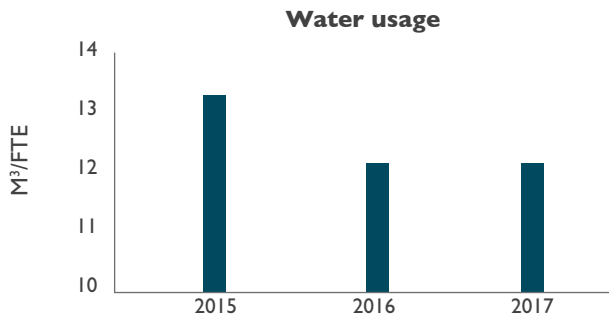
Minimising our energy use and driving eco-efficiency performance

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



Reducing our travel carbon emissions

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



Scaling down water consumption

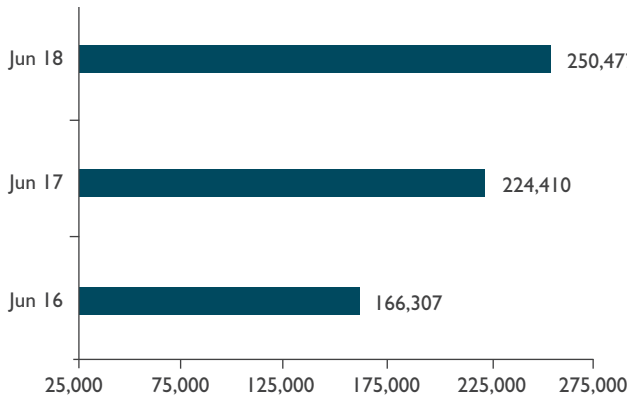
MCB actively monitors its water usage and seeks to reduce the consumption thereof. In 2017, its water footprint intensity stood at 12.2 m³/FTE, which is similar to the level recorded in 2016 and lower as compared to the 13.3 m³/FTE that had been registered in 2015.

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

Promoting the eco-friendly awareness of our stakeholders

- The Bank is intent on raising awareness amongst its stakeholders about environment protection. 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. MCB Ltd also actively promotes the use of e-statements by customers. The total number of customers subscribing thereto increased by nearly 12% during the year ended June 2018. In the same vein, an electronic communication campaign was launched in June 2017 to encourage shareholders and bondholders to choose to receive corporate communications such as notices of meetings, credit advices and annual reports from MCB Group by email. An appreciable response was received from shareholders and bondholders. Besides, employees are encouraged to print less, both through installed software and awareness campaigns. In a number of offices of the Bank, standalone desktop printers have been replaced with central printers. Additionally, MCB Ltd has sought sustainable disposal solutions for IT hardware at the end-of-use phase, while multiple pilot schemes have been conducted to identify the most secure and sustainable options.

E-statements subscriptions for active customer accounts



Encouraging environment-friendly and energy-saving investments

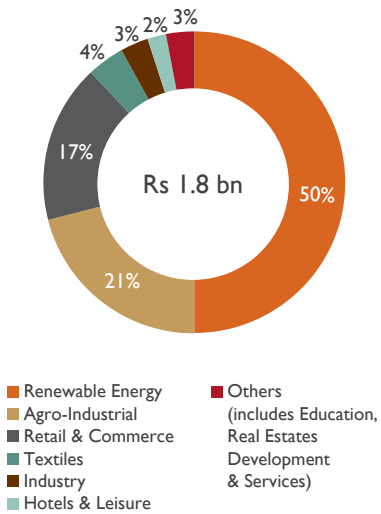
- The Bank widened its involvement in respect of the provision of the second edition of its preferential credit facilities named as 'Green loans', pursuant to the lending facility availed from Agence Française de Développement (AFD) to stimulate the deployment of renewable energy and energy-efficient technologies, save energy and reduce carbon emissions. In this respect, an investment grant of 8% of the loan amount is offered to the client for investments in 'green' projects that can be 100% financed by the Bank. Of note, MCB has used around 76% of the second green line assigned by the AFD to banks in Mauritius and amounting to EUR 60 million, while it posted a market share of 70% as regard the first line of EUR 40 million. Additionally, on the heels of the success of the previous lines, the Bank is on course to sign a third line of credit with AFD.

Our corporate strategy

Green loans – Encouraging environment-friendly and energy-saving investments

Distribution of exposures as at June 2018

Exposures by sector



Exposures by segment

94.6 %
Corporate

5.4 %
Individuals and SMEs

Exposures by geography

93 %
Mauritius

7 %
Foreign

Estimated environmental benefits of projects financed in FY 2017/18

383,206 Kg of
Liquefied Petroleum
Gas saved

7,000 Litres of
Diesel saved

529,903 M³ of
Clean Water saved

51.4 gWh of
Electricity saved

3,805,551 Litres of
Heavy Fuel Oil saved

57,600 Tonnes of
fly ash recycled

93,607 Metric tonnes of
CO₂ emission reductions

14,400 Tonnes of
grate ash recycled

18,514 M³ of
Waste water reduced

57,000 Tonnes of
import of pozollanic
construction material



Authorities and economic agents

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



Our specific objectives and targets

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



How we have engaged with and served our stakeholders

- By means of dedicated actions, we contributed to endeavours undertaken by the authorities to promote the socioeconomic development and modernisation of their relevant jurisdictions.
- We have financed key projects shaping our economic landscape and contributed to foster the sustained growth of businesses and economic sectors in countries where we operate. Alongside supporting trade and investment activities on the regional front, we helped to position our jurisdiction as an international financial centre of substance and good repute. We have upheld our commitment to accompany small and medium enterprises by means of our tailored and modular solutions, while remaining a dedicated and trusted partner for large businesses and investors.

Our corporate strategy



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

Our specific objectives and targets

- To attract, develop and retain talents alongside enabling employees to prosper and shape their future
- To foster the collective skills, knowledge and experience of staff to create differentiated customer experiences
- To avail of a diversified employee base towards creating the right conditions for achieving our business objectives
- To foster general staff welfare, health and safety amidst a stimulating work environment

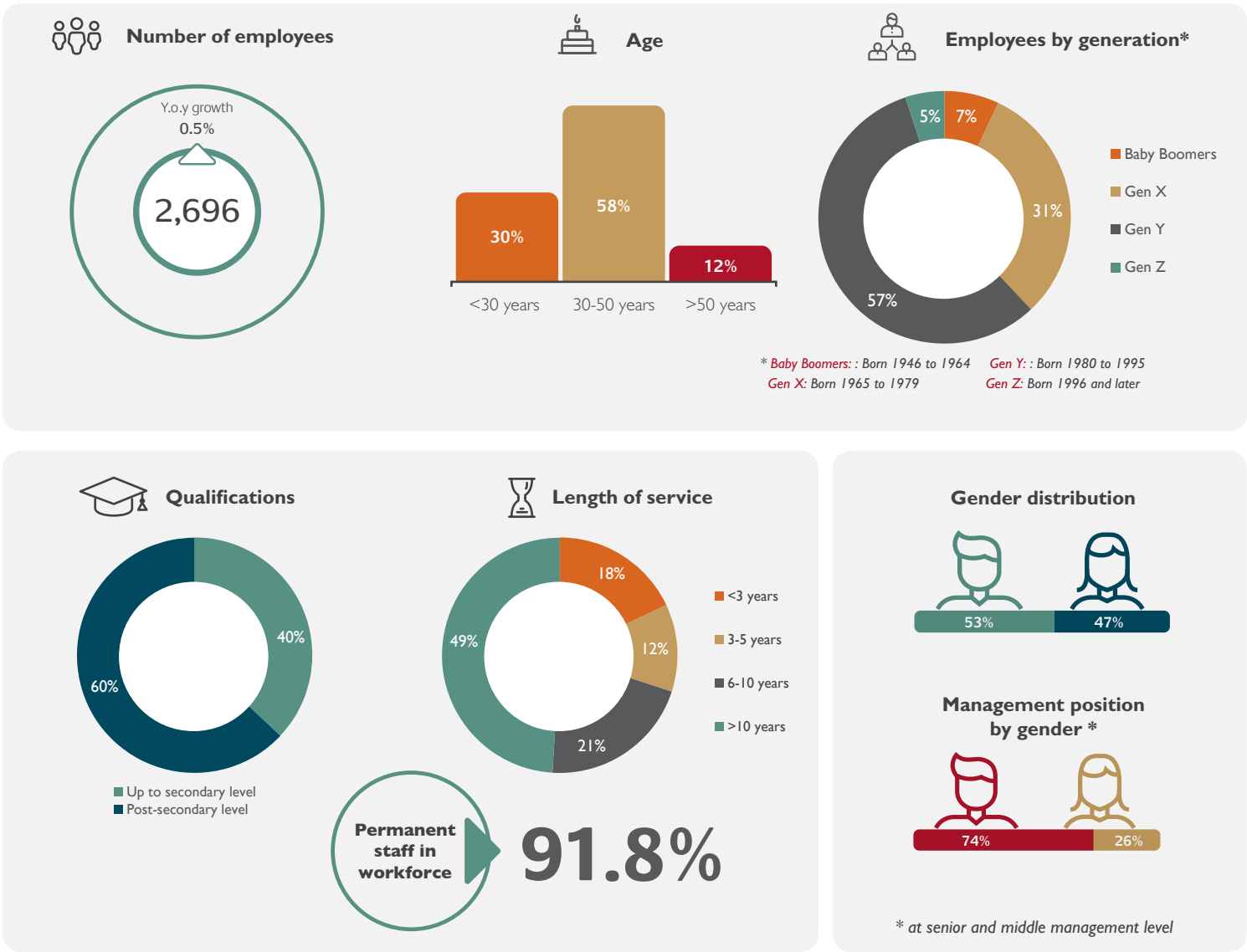
How we have engaged with and served our stakeholders

General undertakings

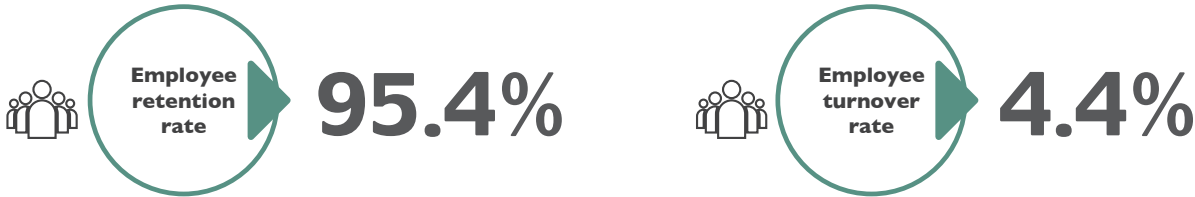
Judicious human resource management has remained central to the pursuit of the strategic objectives of the Bank. We adopted an increasingly forward-looking perspective when undertaking the identification and execution of relevant initiatives for the benefit of our employees. To continuously strengthen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

Read more on the HR Transformation Programme in the 'Transforming our organisation' section on page 81

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



General stability of our workforce as at 30 June 2018



Notes:
(i) Retention rate is the ratio of the number of employees that stayed during a specific period to the number of employees at the beginning of the period
(ii) Turnover rate is the ratio of the number of employees that left to the average number of employees during a specific time period

Our corporate strategy

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

Remuneration philosophy

• With human capital viewed as critical to the sustainability of the business, the 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:

- Full protection is provided, at the lower end of the income ladder, against cost of living increases
- Fairness and equity are promoted throughout the organisation
- Opportunity is given to employees to benefit from the financial results and development of the 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, individual potential, market practices, responsibilities shouldered and experience. With a view to attaining appropriate remuneration levels, the Bank is guided by the following considerations:
 - General market conditions are regularly surveyed in order to ensure that remuneration packages are motivating and competitive
 - Superior team performance is stimulated and rewarded with strong incentives
 - Remuneration practices are regularly reviewed and restructured where necessary, providing clear differentiation between individuals' contribution and team performance
- The Bank provides a range of fringe benefits to its employees to help them in their personal life. Examples of such benefits are as follows:
 - The Bank currently contributes 18.1% of employees' basic salaries to an in-house pension scheme to provide for a retirement pension at the end of their professional career
 - The Bank also provides a medical coverage for all employees and their dependents to assist them in hard times. The Bank organises annual free health checks for its staff for an early screening of potential diseases
 - To help employees meet their endeavours, the Bank provides them with loans under preferential conditions
 - The Bank established a Flexible Working Arrangement (FWA) initiative to support its staff. Employees are offered the flexibility of the start and end hours of work, provided they adhere to the rules of the FWA policy
 - The Bank offers its staff the flexibility of saving part of their monthly emoluments for their holidays. Employees can save the equivalent of 6% of their Basic Salary on an annual basis to cater for their holiday expenses, be it abroad or in a resort in Mauritius. This amount is made available at the beginning of each financial year and arrangements can be made to pay directly to our preferred travel agent, or to obtain refund upon presentation of a receipt. Employees also benefit from a tax rebate on this scheme, as prescribed by the Income Tax Act

• 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, employees are granted non-transferable options to buy MCB Group Ltd shares with up to a maximum of 25% of their annual performance bonus. The options, which can be exercised over a period of one year through four specific windows, carry a retention period of three years. The option price is based on the average of the share price over the quarter prior to the date on which the options are granted, to which a discount of 10% is applied. Members of Management are, however, not entitled to such discount. Once issued, the shares rank pari passu as to dividend, capital, voting rights and in all other respects with the existing shares of MCB Group Ltd. The following table gives details of the options granted to and exercised by employees of the Bank in the last financial year.

	Management	Other employees	Total
Number of options granted in October 2017	73,407	432,223	505,630
Initial option price (Rs)	273.50	246.25	-
Number of options exercised to date	1,737	77,205	78,942
Value (Rs)*	475,070	19,011,731	19,486,801
Percentage exercised	2.4	17.9	15.6
Number of employees	1	346	347
Available for the 4 th window and expiring in mid-October 2018	71,670	355,018	426,688

* Based on initial option price

Employee engagement and training

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

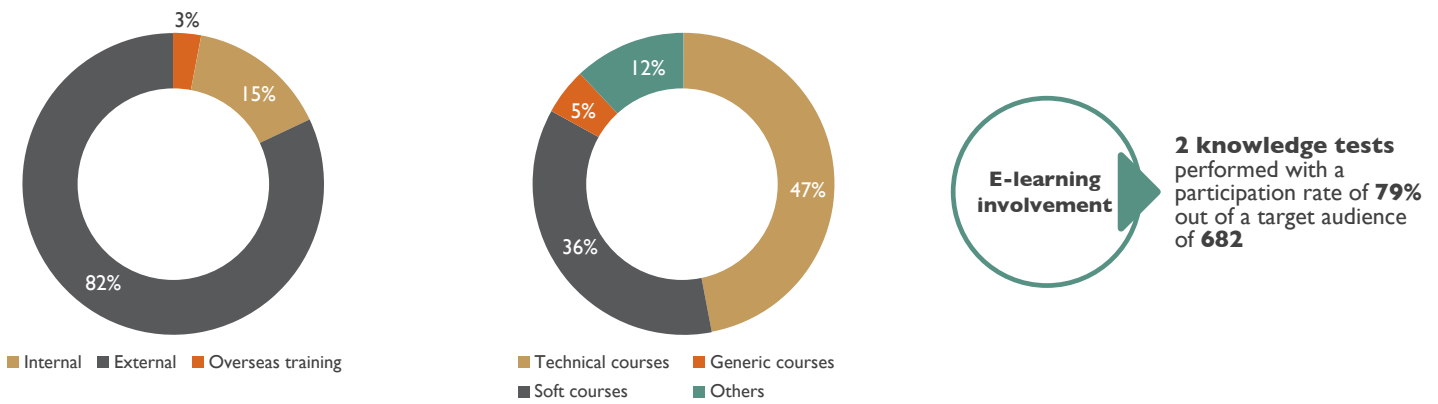
Our corporate strategy

Our learning engagement for FY 2017/18

Key statistics



Types of training courses



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 (OHS) Policy aims to ensure a safe and healthy working environment, system of work and equipment for employees.
- The Leadership Team 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 OHS, 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 for the coordination of initiatives undertaken to achieve health and safety objectives.
- The organisation has further deployed its wellness programme with the aim of promoting a healthy balance of the mind, body and spirit among its employees. The main activities that were conducted include counselling, Zumba, Football, Squash, nature hikes and Body Combat, Kung Fu and Self Defense, Yoga and Tai chi, as well as off-premises fun day experiences.

Our Performance

Our performance

The external environment

The general context

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

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

The economic climate

Recent trends and developments

- On the back of improving global economic conditions, the Mauritian economy has posted a fairly resilient, albeit restrained, performance in recent times. As per our latest estimates, real GDP growth is forecast to stand at close to 3.8% in 2018 when measured at market prices. Whilst some key sectors such as textiles and sugar remain in a challenging zone, economic growth has been benefitting from the good showing of key pillars, notably tourism, financial and business services, ICT and construction. The latter sector is being supported by an upturn in investment, boosted by the execution of large-scale infrastructure projects. As for headline inflation, it pursued an uptrend until March 2018 when the rate stood at 5.0%, before embarking on a downward trajectory to reach 3.7% as at August 2018. In another respect, the rupee has, in effective terms, remained relatively stable vis-à-vis the currencies of the country’s main trading partners amidst a balance of payments surplus, in spite of a high current account deficit in line with a drop in our exports of goods.
- With regard to sub-Saharan Africa, a relative recovery is underway, aided notably by stronger global growth, improved market access and higher commodity prices. Notably, a general major rise in oil prices was witnessed in recent months. On a specific note, economic activity rebounded in West Africa lately, on the back mainly of an improvement in Nigeria, while East Africa continued to grow at a robust pace, backed notably by household consumption and infrastructure investment.

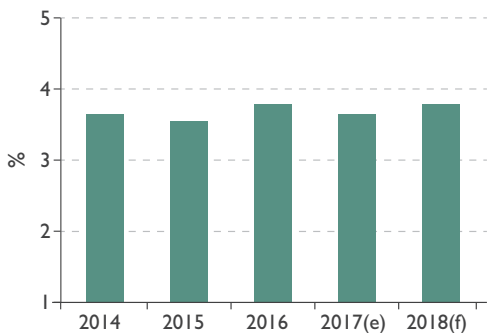
Amidst such developments, we have ...

- Judiciously and, in some instances, opportunistically positioned the organisation to take advantage of relevant avenues for business expansion across the local and foreign markets, while being mainly engaged in specific niche segments, leveraging our adapted value proposition as well as relevant partnerships and alliances
- Posted a noticeable expansion in our loan book growth
- Further boosted our regional trade finance activities, while capitalising on the sustained rise in oil prices

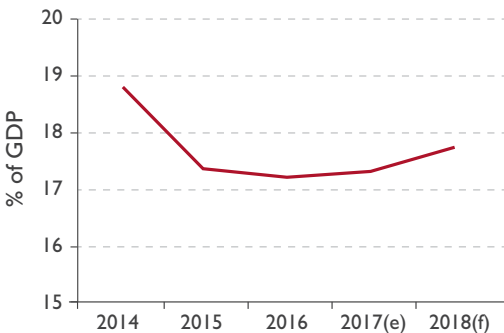
Key economic indicators of relevance to the Bank

Mauritius

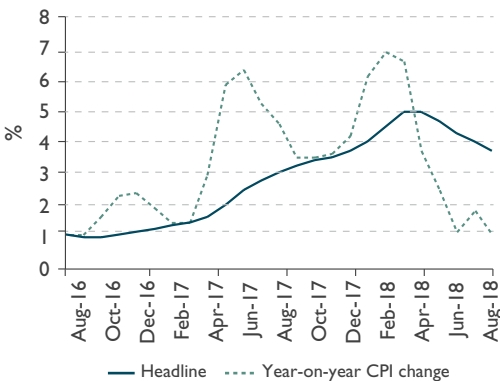
Real GDP growth



National investment



Inflation rate

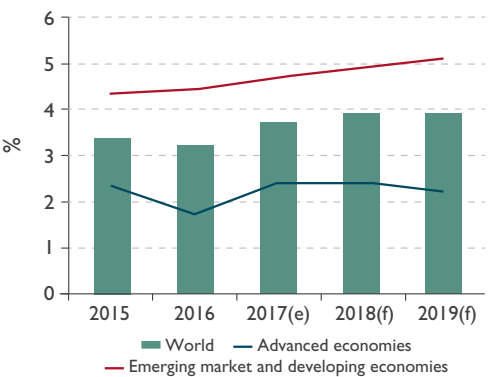


Currency dynamics

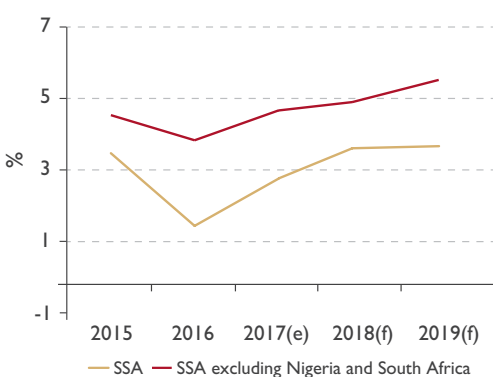
Selling rates of main currencies vis-à-vis the rupee				
	Value as at		Annual average	
	30-Jun-17	30-Jun-18	FY 2016/17	FY 2017/18
USD	35.4	35.3	36.4	34.5
EUR	40.5	41.1	39.7	41.1
GBP	46.1	46.3	46.2	46.4

Other markets – Real GDP growth

World economy and regions



Sub-Saharan Africa



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

Our performance

The market landscape

Recent trends and developments

General market conditions

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

Demand for credit

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

In light of the afore-described trends, the Bank has set out to ...

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

Key banking sector metrics

Average weighted yield - Government of Mauritius Treasury bills



Source: Bank of Mauritius

Loans & advances and NPL

	Loans and advances Y.o.y. growth (%)		NPL ratio (%)	
	Jun-17	Jun-18	Mar-17	Mar-18
Local banking sector				
Mauritius	1.3	6.7	6.9	6.7
Domestic	1.8	6.2	n.a.	n.a.
Foreign-sourced	0.9	7.0	n.a.	n.a.

The legal and regulatory environment

Recent trends and developments

- Notable revisions brought to Bank of Mauritius Guidelines during the year include: (i) rules and standards for the computation and regulatory reporting of the liquidity coverage ratio by banking operators were formulated, in alignment with transitional arrangements and Basel III rules; and (ii) the credit conversion factor for trade-related contingent liabilities changed from a flat rate of 20% to a range of 20 – 100%, thus implying a higher risk-weighted assets in respect of related transactions. Besides, all restrictions on commercial banks as regard limits applicable on loans were removed, with loan-to-value ratios no longer applicable as from July last.
- The revised Data Protection Act 2017 is effective since January 2018. While aiming to strengthen the control and personal autonomy of data subjects over their personal data, the new provisions intend to bring the Mauritius data protection framework in line with the General Data Protection Regulation, which was enforced by the European Union in May last.
- In the wake of the Finance (Miscellaneous Provisions) Act 2018, some major fiscal developments are as follows:
 - Effective as from year of assessment 1st July 2020, a new tax system will be applied to banks, with no distinction made with regard to locally and foreign-sourced income. While the precise requirements have yet to be determined in some respects, applicable rates for the Bank will be as follows: (i) a tax rate of 5% on the first Rs 1.5 billion of chargeable income; (ii) 15% for amount exceeding Rs 1.5 billion; and (iii) a reduced tax rate of 5% on the amount of the current year chargeable income exceeding that of the base year if the specified conditions are met. Additionally, effective as from accounting period ending on or after 1 January 2019, the special levy applicable to banks will be administered under the Value Added Tax Act, with net interest income and other income from banking transactions derived from domestic operations charged at (i) 5.5% for income less than Rs 1.2 billion; and (ii) 4% of income exceeding Rs 1.2 billion.
 - The proportion of Corporate Social Responsibility funds to be remitted to the Mauritius Revenue Authority, will, as from January 2019, go up to 75% from the current rate of 50%. However, the revised proportion may be reduced by an amount not exceeding 25% of the CSR Fund set up on or after 1 January 2019 where the company intends to use such an amount to finance a CSR programme which has started before 1 January 2019, subject to prescribed conditions being met.
- Amongst the key amendments made to the Banking Act, provisions were introduced to reinforce the confidentiality of information pertaining to a customer or financial institution, while every financial institution, including its branches and subsidiaries, is called upon to implement programmes against money laundering and terrorism financing.

In light of observed trends and developments, the Bank has strived to ...

- Appropriately measure and ascertain the significance of developments, while proactively engaging with the Bank of Mauritius
- Enhance risk management and compliance capabilities to ensure strict adherence to regulatory rules and advocated norms
- Revise dedicated processes and procedures, upgrade information systems and train employees in targeted areas

Our performance

Technology and society

Recent trends and developments

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

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

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

Looking ahead ...

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

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

Financial review

Performance against objectives

OBJECTIVES FOR FY 2017/18	PERFORMANCE IN FY 2017/18	OBJECTIVES FOR FY 2018/19
Return on average Tier I		
Return on average Tier I capital is expected to decline slightly to stand at around 18%. (FY 2016/17: 18.6%)	In line with expectation, return on average Tier I capital decreased to 18.0%.	Return on average Tier I capital is forecast to increase to some 19%.
Return on average assets (ROA)		
ROA is likely to remain around the 2% level.	ROA was maintained at 2.0% reflecting an appreciable performance.	ROA is expected to remain around the 2% level.
Operating income		
Net interest income growth is expected to be higher at around 9% driven by expansion in the loan book.	Net interest income rose by 13.8%, fuelled by a robust expansion in our international loan book.	Net interest income is anticipated to grow by around 15% in line with the anticipated growth in our loan portfolio, driven by our foreign activities, and the improved yields on T-Bills observed in the domestic money market.
Higher growth in net fee and commission income is likely to contribute to an increase of around 12% in non-interest income.	Reflecting a lower than expected growth in net fee and commission income and only a slight increase in profit on exchange, non-interest income rose by 4.8%.	Non-interest income is forecast to post a broad-based growth of around 9%.
Operating expenses		
Growth in operating expenses is anticipated to be around 12%, fuelled by capacity building endeavours notably linked to digitalisation initiatives.	Operating expenses grew at a lower rate of 8.6%, mainly due to a timing difference in the execution of some earmarked projects.	In line with the implementation of major ongoing projects, operating expenses are expected to increase by around 15%.
Cost to income ratio		
The cost to income ratio is forecast to increase but should remain close to 38%. (FY 2016/17: 36.9%)	The cost to income ratio improved to 36.2%, mainly due to the lower than anticipated expansion in operating expenses.	Cost to income ratio is expected to increase but is forecast to remain below 37%.
Loans and advances growth		
The customer loan book is forecast to grow above 10%, mainly due to an expected pick-up in our foreign currency loan portfolio.	Average customer loans grew by nearly 10%, driven by a strong rise in the foreign loan book notably linked to our Energy & Commodities (E&C) business.	Sustained growth in our foreign currency loans should contribute to an increase of around 15% in the average customer loan book.
Deposits growth		
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.	Average customer deposits increased by around 8% mainly due to a rise in rupee deposits.	Average customer deposits are expected to grow at around 8%, driven by rupee deposits.

Our performance

OBJECTIVES FOR FY 2017/18	PERFORMANCE IN FY 2017/18	OBJECTIVES FOR FY 2018/19
Asset quality		
Allowance for credit impairment charges is anticipated to remain close to FY 2016/17 figures with the NPL ratios remaining within manageable levels. (FY 2016/17: Gross NPL ratio: 5.9%; Net NPL ratio: 4.3%)	Allowance for credit impairment rose by 29.3% compared to the previous year partly linked to the rise in loans and advances. On the other hand, asset quality improved further with gross NPL ratio declining from 5.9% to 4.1%.	Allowance for credit impairment charges is anticipated to remain close to FY 2017/18 but will be subject to the outcome of the new impairment guidelines from the Bank of Mauritius in view of the implementation of IFRS9.
Capital management		
The overall capital adequacy ratio and the Tier I 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. (FY 2016/17: BIS ratio: 16.8%; Tier I ratio: 15.8%)	As expected, the overall capital adequacy ratio and the Tier I ratio went down to 15.0% and 14.2% respectively whilst remaining comfortably above the prevailing regulatory limits (13.125% and 11.125% respectively).	The overall capital adequacy ratio and the Tier I ratio are expected to remain close to the FY 2017/18 level.

Performance against objectives by lines of business

OBJECTIVES FOR FY 2017/18	PERFORMANCE IN FY 2017/18	OBJECTIVES FOR FY 2018/19
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.	Average retail loan portfolio recorded an appreciable rise of nearly 8%, which, nonetheless, was lower than expected in view of heightened competitive pressures. This contributed to a rise of around 6% in net interest income while gross operating margin went up by above 9% with expenses remaining relatively flat.	The average loan portfolio is expected to grow by around 7%. However, net interest income is likely to grow at a slower pace due to reduced margins amidst stiff competition. As a result, gross operating margin is forecast to grow at a relatively moderate pace.
Private Banking & 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.	Gross operating margin recorded a growth of slightly below 5%, mainly due to lower fee and commission income.	Supported by an increase in both net interest income and non-interest income, gross operating margin is expected to grow by around 7% with the Bank notably seeking to widen its international client base.
Corporate and Institutional Banking		
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.	Average loan portfolio grew by some 10%, mainly underpinned by our international activities. Net interest income was up by some 16%, thereby contributing to a growth of nearly 18% in gross operating margin.	The average loan book is expected to grow at around 15%, mainly driven by further growth in our foreign activities notably linked to E&C and structured project finance. Gross operating margin is forecast to register a similar growth.

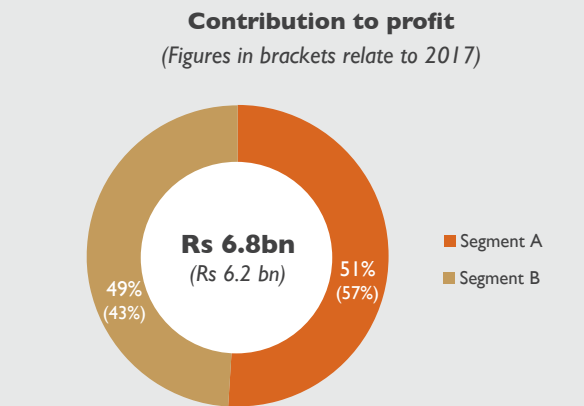
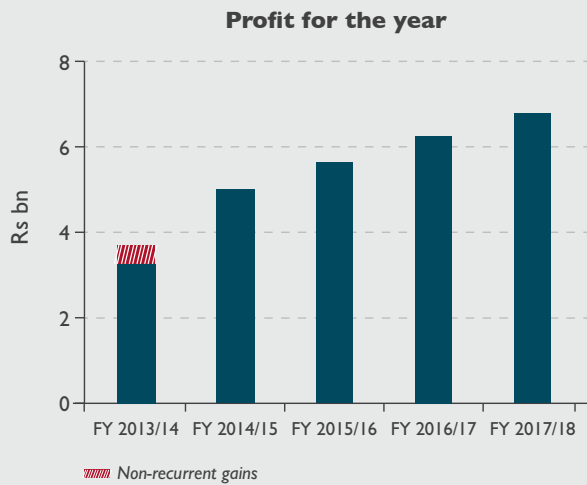
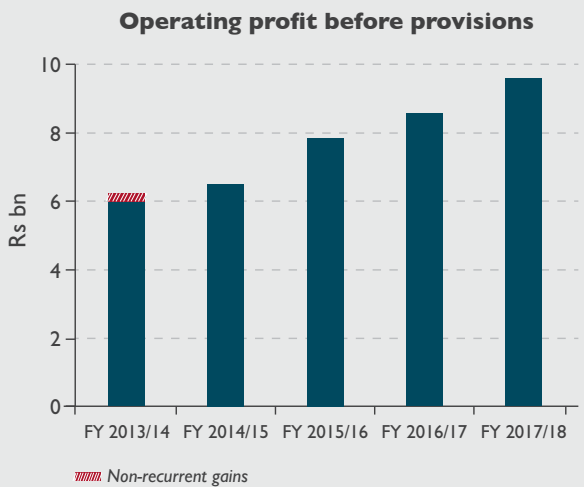
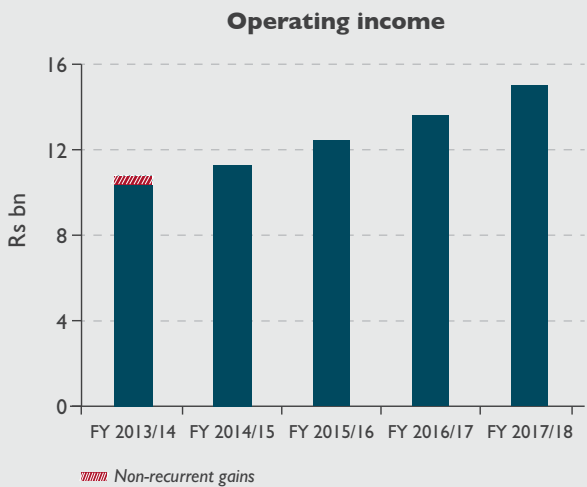
Overview of results



While the operating context continued to be challenging despite some improving signs, the Bank posted an appreciable performance for the year under review. Operating income sustained its growth momentum to rise by 10.7% to reach Rs 15,059 million, notably supported by our international activities. This has contributed to a rise of 8.4% in profit for the year, which stood at Rs 6,762 million. Foreign-sourced earnings accounted for some 49% of the latter in line with headway made in terms of our diversification strategy.

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

 More information on our financial soundness is available in the 'Risk and Capital Management Report' on pages 114 to 147



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

Our performance

Income statement analysis

Net interest income	As a % of average earnings assets	
Rs 10,109 million (+1,230 million)	FY 2016/17	FY 2017/18
	3.3%	3.5 %

Net interest income grew by 13.8% on account of:

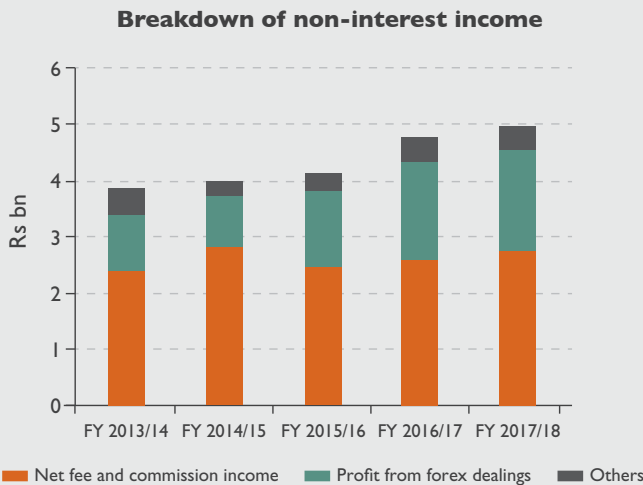
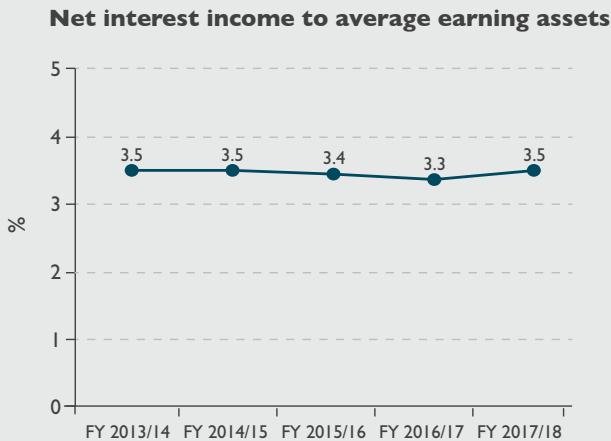
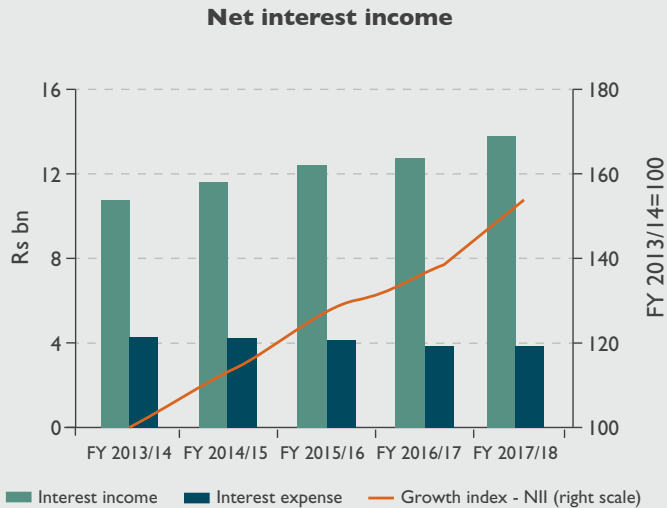
- A rise of 9.1% in interest income to Rs 13,904 million in line with a significant expansion in our international loan book and increased investments in T-Bills amidst the still high liquidity level in Mauritius.
- A decline of 2.0% in interest expense to Rs 3,795 million reflecting lower average interest rates following a drop in the Key Repo rate over the year under review.

Interest margins improved reflecting higher rates on foreign currency loans and the favourable evolution of yields on T-Bills during the year. Whilst net interest income to average earning assets rose by some 20 basis points, the ratio to average total assets increased by nearly 10 basis points to 3.0%.

Non-interest income	As a % of operating income	
Rs 4,950 million (+229 million)	FY 2016/17	FY 2017/18
	34.7%	32.9 %

Non-interest income went up by 4.8% with the key drivers being:

- A growth of 6.5% in net fee and commission income to reach Rs 2,777 million, driven by higher revenues generated from cards activities and regional trade finance, notably linked to the Energy and Commodities business.
- A rise of 2.8% in 'other income' reflecting a subdued rise in profit on exchange taking into account a loss from financial instruments carried at fair value, partly linked to the appreciation of the rupee against the dollar on average during the year under review amidst excess forex supply.



Note: Figures exclude non-recurrent gains

Operating expenses	Cost to income ratio	
Rs 5,455 million (+433 million)	FY 2016/17	FY 2017/18
	36.9%	36.2%

Operating expenses increased by 8.6% mainly explained by:

- A rise of 5.9% in staff costs, which represented 57% of the cost base, on the back of sustained efforts to upgrade human capital.
- A growth of 6.6% in depreciation and amortisation costs following continued investment in technology as highlighted in the section 'Review of operations'.
- An increase of 14.8% in other expenses, in line with higher consultancy fees associated with capacity building initiatives.

This, combined with the rise of 10.7% in operating income, resulted in the cost to income ratio improving by some 70 basis points.

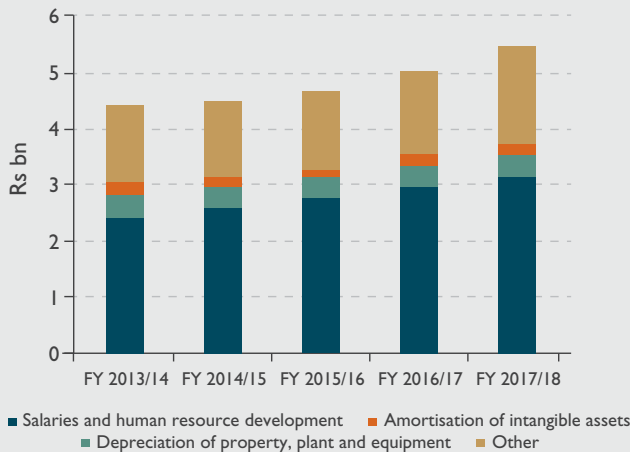
Impairment charges	As a % of loans and advances	
Rs 1,229 million (+278 million)	FY 2016/17	FY 2017/18
	0.57%	0.59%

Impairment charges registered a growth of 29.3%, explained to some extent by the expansion of the loan book. In fact, when expressed as a percentage of loans and advances, impairment charges were only slightly up to stand at 0.59%, of which portfolio provisions accounted for some 10 basis points (FY 2016/17: 2 basis points).

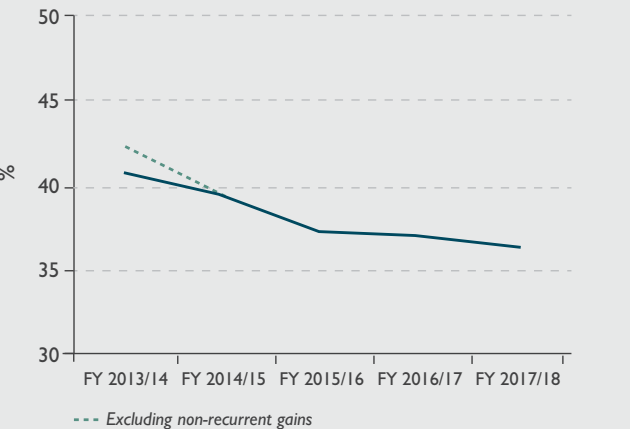
Tax expenses	Effective tax rate	
Rs 1,612 million (+222 million)	FY 2016/17	FY 2017/18
	18.2%	19.2%

Whilst profit before tax improved by 9.8%, tax expenses rose by 15.9%. This was due to a one-off charge of Rs 258.3 million in relation to previous years following an agreement reached with the Mauritius Revenue Authority on the revised methodology for allocating deductible non-interest expenses between local and foreign-sourced activities.

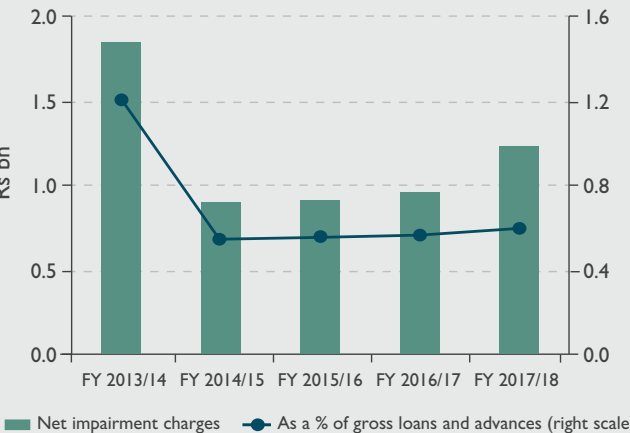
Breakdown of operating expenses



Cost to income ratio



Net impairment charges



Our performance

Financial position statement analysis

Gross loans	Gross NPL ratio	
Rs 200 billion (+33 billion)	FY 2016/17	FY 2017/18
	5.9%	4.1%

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

Asset quality also improved during the year. The non-performing loan ratios declined by some 170 and 150 basis points to reach 4.1% and 2.8% in gross and net terms respectively, in line with successful recovery actions and the expansion in loan and advances.

Funding	Loans to funding ratio	
Rs 301 billion (+30 billion)	FY 2016/17	FY 2017/18
	61.7%	66.4%

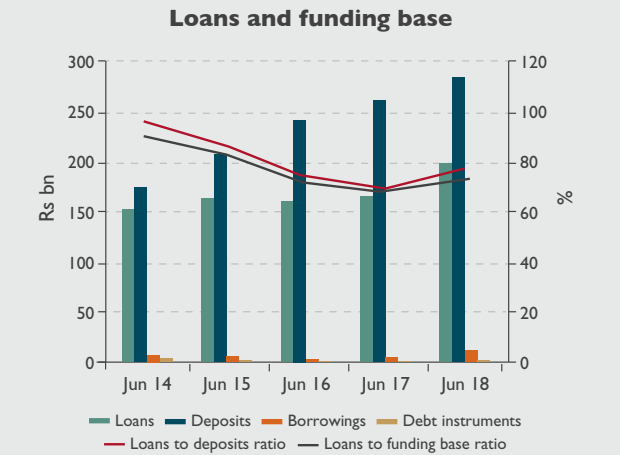
Total deposits expanded by 8.2% to attain Rs 286 billion as at 30 June 2018, supported by a growth of around 5% in foreign currency deposits and 10% in rupee-denominated deposits. The latter were boosted mainly by an increase of 9.7% in savings deposits, which account for around 69% of the rupee deposit base, and a rise of 19.5% in demand deposits.

‘Other borrowed funds’ increased by Rs 8.6 billion following increased utilisation of LC refinancing credit lines and higher recourse to the lending facility from Agence Française de Développement for the provision of ‘Green Loans’.

June 2018	Exposures	
	Rs m	Y.o.y. growth (%)
Loans to customers	194,445	17.4
Agriculture and fishing	8,007	5.7
Manufacturing	9,364	5.7
of which EPZ	3,153	5.9
Tourism	25,191	(0.4)
Transport	5,122	23.7
Construction	15,483	9.3
Traders	37,305	54.9
Financial and business services	31,013	32.5
Personal and professional	39,948	9.6
of which credit cards	995	52.8
of which housing	26,896	8.4
Global Business Licence holders	15,928	23.7
Others	7,083	(17.7)
Loans to banks	5,418	313.7
Total	199,862	19.7

Loans to customers			
June 2018	Rs m	Y.o.y. growth (%)	Mix (%)
Segment A	127,058	7.0	65.3
Segment B	67,387	43.7	34.7
Total	194,445	17.4	100.0

Credit exposures as at 30 June	2017 Rs m	2018 Rs m
On-balance sheet		
Lending	166,933	199,862
Loans to customers	165,624	194,445
Loans to banks	1,310	5,418
Corporate notes	655	7,049
Trading	14,086	28,651
Available-for-sale	4,518	4,418
Held-for-trading	9,569	24,232
Investments	55,377	47,714
	237,052	283,276
Off-balance sheet		
Guarantees, letters of credit, endorsements and other obligations on account of customers	41,128	57,852
Commitments	6,714	6,078
Others	2,347	1,934
Contingent liabilities	50,189	65,863



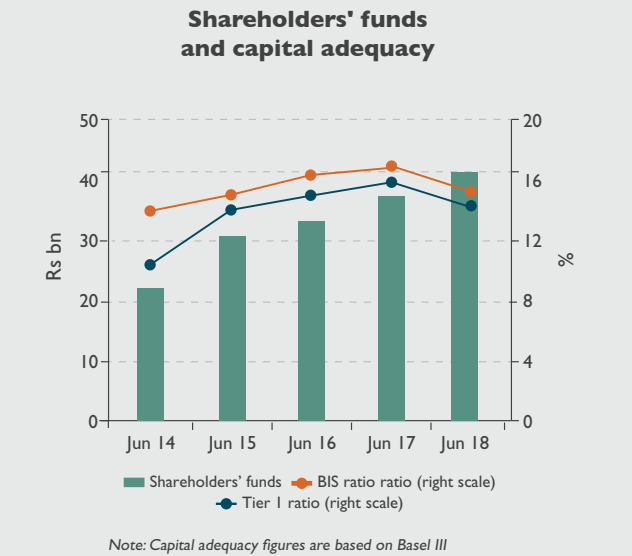
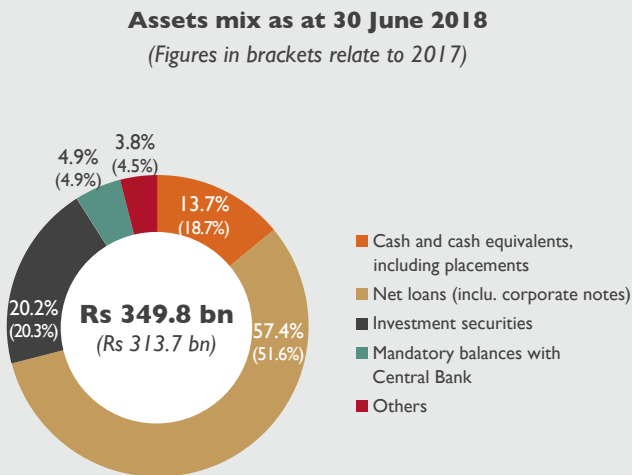
Investment securities and Cash & cash equivalents	Liquid assets to total assets	
Rs 136 billion (-2 billion)	FY 2016/17	FY 2017/18
	43.9%	38.8%

In line with the expansion in the loan book, liquid assets of the Bank went down by 1.5% during the last financial year. This was explained by a drop of 18.0% in cash and cash equivalents, including placements, whilst mandatory balances with Central Bank and investment securities (excluding available-for-sale securities and corporate notes) increased by 11.4% and 10.6% respectively.

Overall, the above-mentioned liquid assets as a percentage of deposits stood at 47.5% as at 30 June 2018 (FY 2016/17: 52.2%).

Shareholders' funds	Return on equity	
Rs 41 billion (+4 billion)	FY 2016/17	FY 2017/18
	17.8%	17.2%

Shareholders' funds increased by 10.9% following a growth of 13.3% in retained earnings and other reserves after accounting for dividend payments of Rs 2.8 billion. The Bank maintained adequate capitalisation levels with the BIS ratio standing at 15.0% as at 30 June 2018, of which 14.2% by way of Tier 1.



Our performance

Review of operations

Our business development

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

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

Key strategic achievements across business areas

Corporate and Institutional Banking

Local

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

development, construction, and financial and business services. We accompanied corporate and institutional clients in their growth endeavours, capacity building moves and restructuring initiatives, by acting as a trusted business advisor. Along the way, the Bank widened its involvement in respect of the provision of the second edition of its preferential credit facilities named as 'Green Loans', pursuant to the lending facility availed from Agence Française de Développement (AFD) to stimulate the deployment of renewable energy and energy-efficient technologies, save energy and reduce carbon emissions. Building on the success of the previous lines, the Bank is on course to sign a third line of credit with AFD. Additionally, we delivered a broadening range of adapted treasury solutions to meet the evolving requirements of clients, with a key example relating to structured forex products, alongside further disseminating our MCB Wave solution, which treasurers leveraged as an all-in-one digital and day-to-day tool to manage trading requirements. Also, as an authorised Primary Dealer appointed by the Bank of Mauritius, the Bank has actively traded on the primary and secondary markets.

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

International

- To extend the Bank's frontiers, we actively, yet cautiously, pursued our regional diversification strategy, while prospecting business opportunities beyond the continent. We remained mainly involved in niche areas where we display strategic competencies. We have continued to deepen our relationships with our existing customers and selectively extended our customer base.
- As a major achievement, we furthered our Energy and Commodities (E&C) strategy. In terms of our market positioning, we made inroads across several African countries and increasingly tapped into markets internationally. We further consolidated the structured trade finance segment of our portfolio, alongside adding key relationships to our books. We stroke landmark deals in the E&C field, with the Bank making significant progress in shifting from solely structured trade financing to medium-term financing along the oil value chain. The year under review witnessed E&C's entry into the African oil and gas structured debt market. As another area of satisfaction, the Bank is henceforth recognised as a Commodity Trade Finance bank on the African scene on the basis *inter alia* of its service quality, risk appetite and strong relationship with key players across the value chain, notably traders, oil majors and procurement entities..
- We broadened our portfolio of structured project finance deals across Africa and beyond. We have been involved across a target range of economic sectors and countries where we have expertise and within our risk parameters, with our pipeline of deals witnessing a noticeable expansion in recent times. We notably attended to the needs of clients investing or doing business in Africa, including

Mauritian and non-Mauritian corporates, with a selective approach adopted in respect of our lending.

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

Retail Banking

- Capitalising on its everyday and adapted solutions, the Bank has serviced individual clients across age and income groups. We provided simplified offerings for customers to save and invest, while distributing the Group's products (e.g. leasing and investment). We remained active on the payments scene, thus allowing customers to set up payments and transfer money in a smart, quick, secure and hassle-free manner. We also adopted dedicated initiatives to accelerate the migration of customers from branches to digital channels.
- We deepened relationships vis-à-vis the mass and mass affluent customer segments. Noticeably, in addition to strengthening our prominent footprint in the education loans segment and while facing up to high competitive pressures, we have, as a key achievement, bolstered our leadership market position with regard to mortgage. Our market share for housing loans rose further to stand at around 39% as at end-June 2018, on the back of a growth of around 9% in our loan book. In recent periods, MCB has refined the appeal and specificities of its housing loan value proposition, with the latter being increasingly customised to meet different client needs. We have provided attractive repayment terms to our clients, alongside offering them the flexibility to withhold repayment for a certain period.
- The Bank further accompanied small and medium enterprises (SMEs) in their activities and growth initiatives, thus remaining their foremost service provider in Mauritius. MCB was ranked 1st amongst the 13 banks operating in the country in respect of credit facilities outstanding under the Government-backed SME Financing Scheme, with a corresponding market share of some 42% posted during the December 2011 – August 2018 period. During the last financial year, our value proposition was revamped, with the creation of two distinct SME account packages, the provision of a Business Deposit Card for free cheque and cash deposits at the Bank's ATMs, and the introduction of a working capital loan and unsecured overdraft to help clients ease cash flow management. Lately, to enhance client support, we further simplified account opening procedures, made inroads with regard to the digitalisation of client onboarding processes in the wake of the Bank's Digital Transformation Programme, and improved the accessibility of our

palette of products and services to small businesses by means of the strategic deployment of Relationship Executives across branches.

- As a landmark move in Mauritius, MCB introduced contactless payments solutions for the benefit of its cardholders, while reinforcing relationships with merchants. Following the upgrading exercise undertaken, we have delivered more than 607,000 new MasterCard Debit Chip cards to our customers. Importantly, their market appeal is underpinned by the fact that they offer the highest level of security to users thanks to a layered security technology approach, which includes the latest generation and state-of-the-art chip technology. Currently, more than 100 outlets operate with our contactless terminals, including fast food outlets, bakery and coffee shops, groceries, supermarkets and pharmacies. Customers, who can now 'touch and pay', are able to undertake purchases in a fast and practical way, without having to fumble with cash. Interestingly, the customer can use his/her MasterCard Debit Chip card at any MasterCard contactless-enabled point of sale (POS) device worldwide. Backed by active promotional campaigns, MCB has, in recent months, witnessed a sustained rise in the number of contactless transactions being undertaken via POS terminals.
- The Bank has further enriched its suite of mobile banking solutions. In addition to offering the ability to effect cardless ATM transactions, make instant payments, undertake P2P money transfer, money transfer to any Visa cardholder worldwide, access selected PayPal services, our 'Juice' mobile banking service was lately endowed with a new interface and broadened functionalities. They include the validation of transactions by means of Touch ID and payments via QR code. As at end August 2018, our service boasted around 190,000 subscribers, including some 57,650 being recorded over the past year. As another innovation, the Bank lately launched a Soft Token service to further ease banking operations of customers requiring to effect payments/transfers of above Rs 250,000. While maintaining a safe and secured banking experience, the application, which can be downloaded via Google Play or App Store, will further facilitate transactions on our online platforms, i.e. MCB Internet Banking and JuiceByMCB.

Private Banking and Wealth Management

- During FY 2017/18, the Bank made further progress in entrenching its objective of acting as the trusted lifetime partner for its affluent and high net worth customer base, helped by its differentiating service quality and bespoke offerings, notably relating to our increasingly sophisticated range of investment and wealth management solutions. Against this backdrop, the Bank has nearly doubled its assets under management, while positing a rise of around 10% as regard its loans and advances, helped by a sustained increase in its client base across different market segments.
- A major achievement of the Bank is its increasingly prominent positioning as a reference in the region for premium banking and wealth management expertise, in line with a key growth pillar of the Bank, which is to expand private banking into Africa. Interactions with External Asset Managers and Financial Intermediaries, notably those in Africa, have been broadened as we provided them with trading,

Our performance

custody and transactional services. We also grew our business further on the international front, notably in Europe and specific markets such as Middle East. With regard to the local scene, the Bank has pursued its business activities across various segments. As a key success story, we further deployed our Lombard loan, which enables clients to utilise a wide spectrum of credit products, which are secured against their existing investment portfolios.

- To underpin our strategic thrusts, we have capitalised on strengthened client interactions and enriched value proposition.

Key enablers and underpinnings for sustained growth

To support the execution of our business strategies, we continuously reinforced our internal capabilities, as shown in the following sections. Fundamentally, we have, as highlighted before, embarked on a journey to transform the Bank. We onboarded key projects to gear up for the future, reinforce productivity levels and enhance customer service quality. Apart from our Sustainable Development Programme and some realignment exercises, the main projects unfolding include our Digital Transformation Programme and HR Transformation Programme, with relevant details thereon being provided on pages 80 and 81.

Deepening stakeholder relationships and reinforcing our brand

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

Organisation of and participation in key events

‘Africa Forward Together’ Seminar

MCB organised the 9th edition of its ‘Africa Forward Together’ seminar in September 2018, which welcomed 24 banks from 11 African countries. This annual seminar offers bankers a privileged platform to network with industry leaders as well as share views on trends and business developments shaping financial services on the continent. MCB provides its African institutional partners with avenues for forging or strengthening business relationships as well as leveraging fresh collaboration opportunities.

Africa CEO Forum

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

MCB InovApp Challenge

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

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

Fostering operational excellence and innovation

Processes, systems and platforms

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

As another key development on this front, our private banking and wealth management arm has reviewed its organisation structure with a view to better catering for the needs of its clientele, both locally and internationally.

Human capital

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

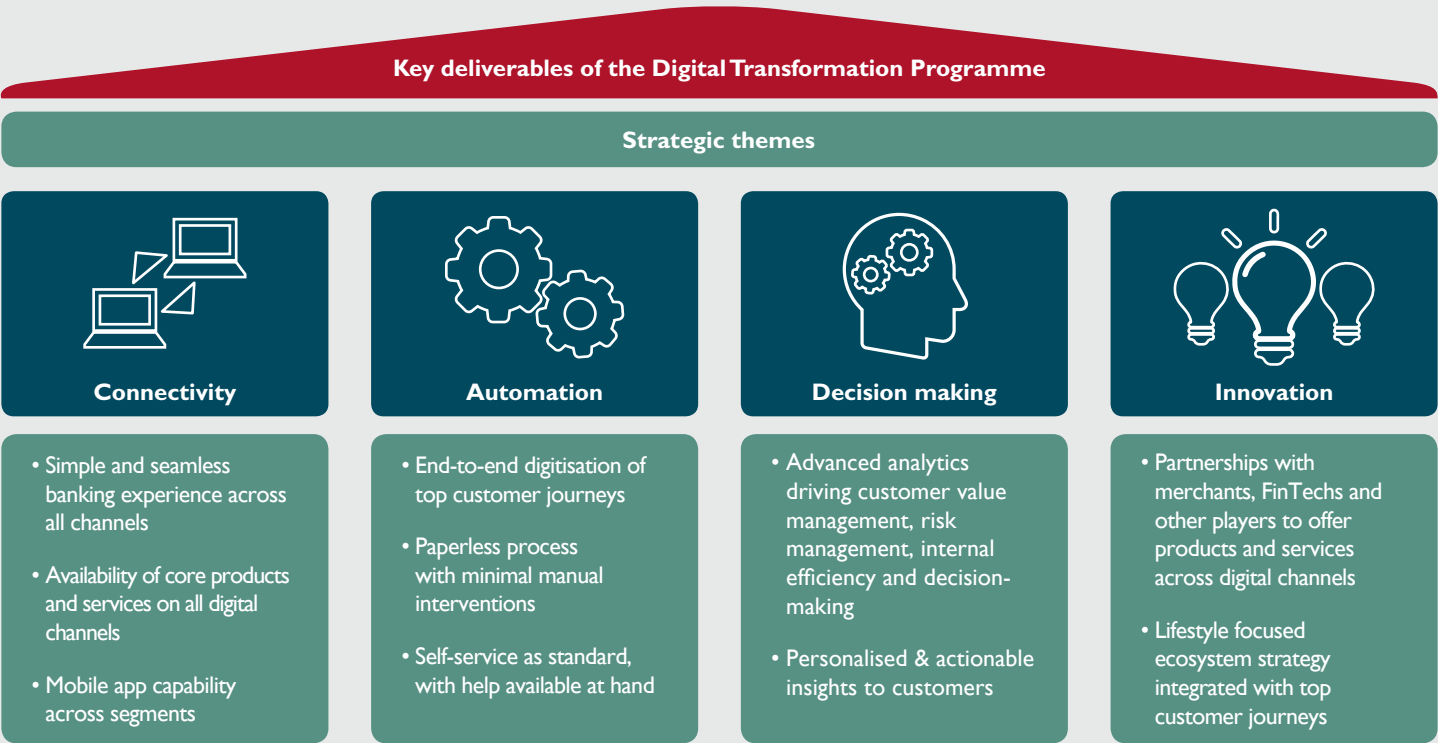
Organisational synergies and collaboration

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

Transformation of the organisation

Digital Transformation Programme

- As an important move, MCB embarked on an ambitious Digital Transformation Programme (DTP). Within the DTP, the objective set by the Bank is to deliver a world-class customer experience through digital. In a nutshell, the DTP is a three-year programme whose target is to digitise customer journeys prioritised on value to the Bank and its customers, in order to deliver a more convenient and appealing experience to our clients, insofar they are, themselves, becoming increasingly 'digital'. A renowned international consultant is guiding us to implement the project and craft customer journeys. Strategically, while upholding our competitive edge and putting us at the cutting-edge of financial services, the DTP aims to better position the Bank to (i) respond to customer needs almost instantly through technology enablement; (ii) make the lives of customers, intermediaries and staff painless by reducing paper usage, queues in branches and manual effort across multiple channels; (iii) instill a bottom-up innovation and client-centric culture across the organisation; (iv) deliver digital customer journeys in a nimble and cross-functional way; and (v) improve efficiencies through enhanced employee productivity and cost effectiveness across the delivery team.
- As a major preliminary outcome of the DTP and a first step towards gearing up for the future we envision, MCB launched a Digital Factory to serve as an incubator for embedding truly customer-centric operations across the Bank. The Digital Factory encompasses cross-functional co-located team members working in agile squads. Key tasks include end-to-end customer journey definition and redesign, process redesign in parallel with tech redesign as well as engagement with key external collaborators and vendors. Towards these ends, the Bank is investing significantly in skills development and capacity building towards reinforcing digital capabilities and forging an adapted culture and mindset. It is recruiting new talents to fill in several key roles, from data analytics and user experience design to user interface design and full stack developers amongst others.



HR Transformation Programme

- The organisation has boarded onto a HR Transformation Programme (H RTP) with a view to upgrading its human capital, while enabling it to better support ongoing growth strategies. A key target is to develop a new operating model for the organisation towards further enhancing with effectiveness of human resource frameworks and systems. The Bank aims to create propitious grounds for efficiently delivering essential HR services and ensuring that all MCB employees and HR processes work in close alignment to build customer connectivity, innovation and talent capabilities across the organisation.
- From a specific angle, the project seeks to help us better understand our human resource development challenges and priorities in order to develop adapted and pragmatic action points for the organisation, whilst establishing a proper learning journey that is best adapted to the context and environment in which we want to operate. It aims to provide improved assistance to the business towards anchoring strong customer focus, high workforce engagement and seamless operations. Of note, towards formulating the H RTP, we retained the services of a world-renowned HR consulting practice.



Alain LAW MIN
Chief Executive Officer

Raoul GUFFLET
Deputy Chief Executive

Corporate Governance
Report

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

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

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

Principles of the Code	Relevant sections of the Annual Report
Principle 1: Governance Structure	<ul style="list-style-type: none">• Our Corporate Profile• Corporate Governance Report
Principle 2: The Structure of the Board and its Committees	<ul style="list-style-type: none">• Corporate Governance Report
Principle 3: Director Appointment Procedures	<ul style="list-style-type: none">• Corporate Governance Report
Principle 4: Director Duties, Remuneration and Performance	<ul style="list-style-type: none">• Our Corporate Strategy• Corporate Governance Report
Principle 5: Risk Governance and Internal Control	<ul style="list-style-type: none">• Corporate Governance Report• Risk and Capital Management Report
Principle 6: Reporting with Integrity	<ul style="list-style-type: none">• Our Corporate Strategy• Corporate Governance Report
Principle 7: Audit	<ul style="list-style-type: none">• Corporate Governance Report• Risk and Capital Management Report
Principle 8: Relations with Shareholders and Other Key Stakeholders	<ul style="list-style-type: none">• Our Corporate Strategy• Corporate Governance Report

Note: The sections ‘Our Corporate Profile’, ‘Our Corporate Strategy’ and ‘Risk and Capital Management Report’ can be found on pages 20 to 34, pages 36 to 60 and pages 114 to 147 respectively.

Our philosophy

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

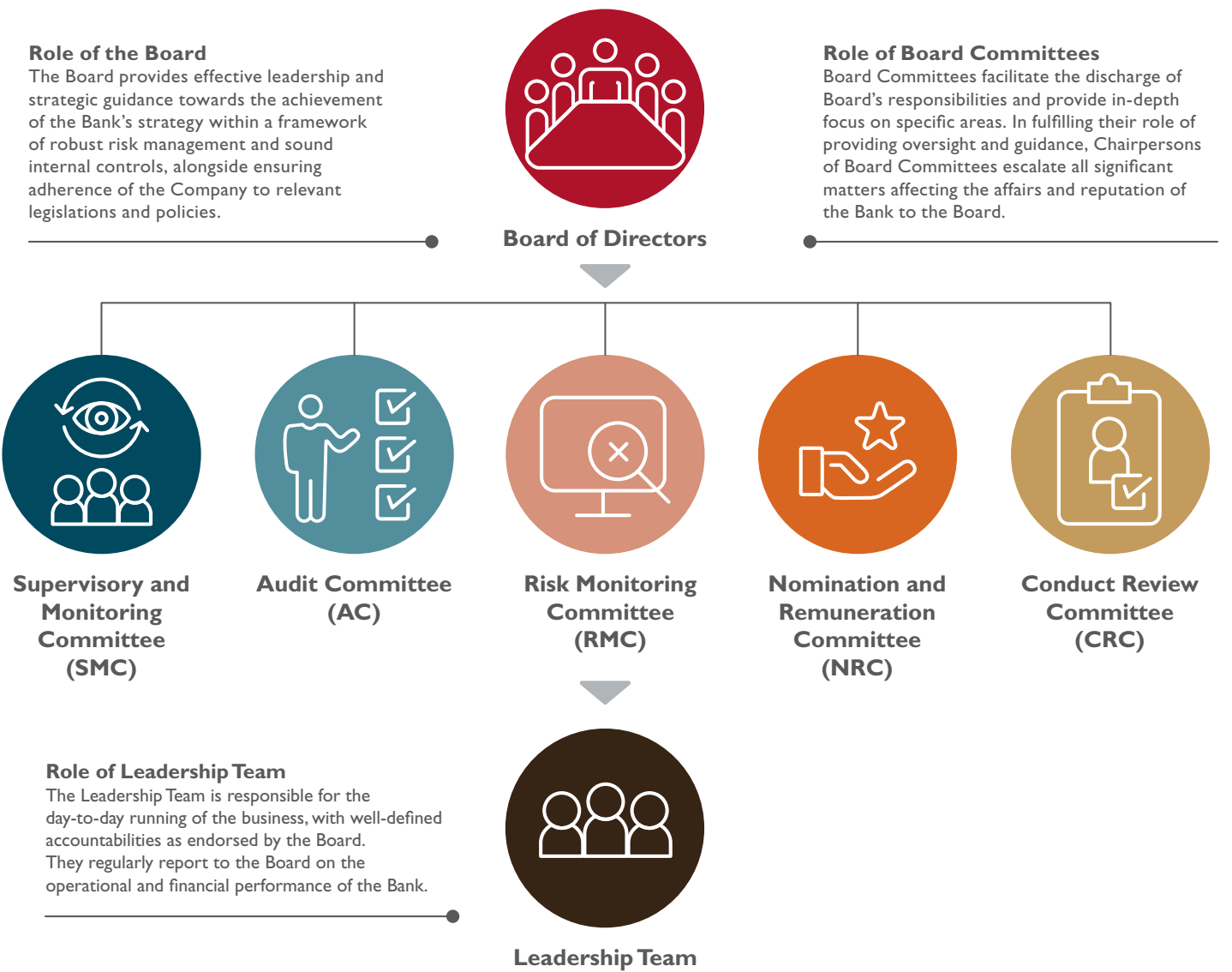


Corporate governance report

Governance structure

Governance framework

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



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

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

Key roles and responsibilities

Chairperson	Chief Executive	Directors
<ul style="list-style-type: none">• 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 their skills and knowledge• Oversees the succession planning process• Maintains sound relations with the shareholder	<ul style="list-style-type: none">• 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• Ensures the maintenance of a sound internal control system	<ul style="list-style-type: none">• 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 internal controls as well as a robust system 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		
<ul style="list-style-type: none">• Ensures compliance with all relevant statutory and regulatory requirements• Develops and circulates the agenda for Board meetings• Ensures good information flows as well as provides comprehensive practical support to directors• Facilitates proper induction of directors and provides guidance to them in terms of their roles and responsibilities• Assists the Chairperson in governance processes such as Board and Committee evaluation• Ensures effective communication with shareholders and guarantees that shareholders' interests are duly taken care of		

More information on the key roles is available on the website

Constitution of 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 of Mauritius (“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;
- 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 shareholder shall not vote on a shareholder’s resolution of The Mauritius Commercial Bank Ltd which would trigger shareholder’s 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

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, non-executive and independent directors in compliance with applicable rules and regulations;
- the Chairperson of the Board who shall be an independent or non-executive director;
- the creation of Board Committees;
- the adherence to the Group’s ‘Code of Ethics’;
- the approval of strategic objectives, policies and corporate values as well as their communication throughout the organisation;
- the monitoring of Leadership Team in respect of the implementation of Board plans and strategies, and compliance with set policies;
- the existence of clear lines of responsibility and accountability throughout the organisation and compliance with all relevant laws, regulations and codes of business practice;
- a formal and transparent directors’ remuneration policy;
- the review of procedures and practices to ensure soundness and effectiveness of the internal control systems;
- the existence of a robust Enterprise Risk Management system, with a view to ensuring that key risks across the Bank are effectively addressed and that risk discussions are elevated to the strategic level;
- the setting of principal policies in respect of risk and conduct of business for the Company; and
- the provision of timely and accurate information to 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 associates, making appointments of senior officers, and establishing the remuneration of directors and chief executives.

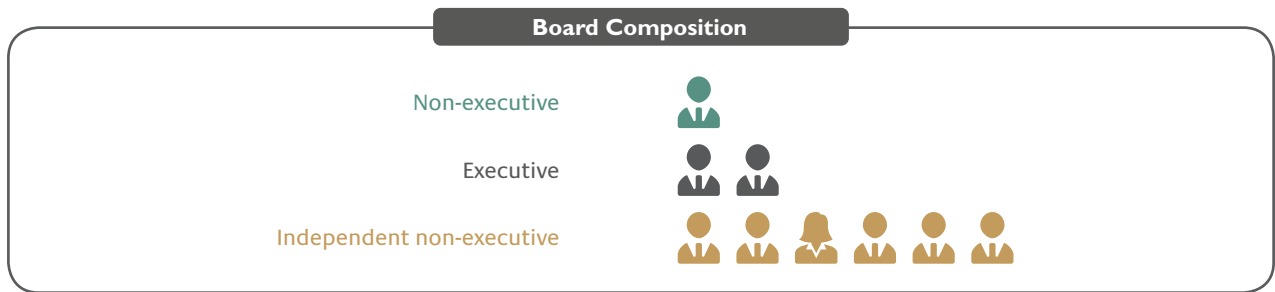
Composition and meetings

Composition

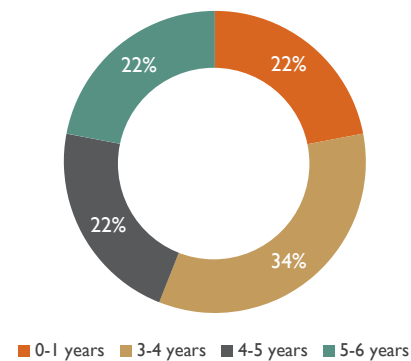
As per the Board Charter, the Board shall consist of a minimum of five and a maximum of twelve directors including the Chief Executive. The Chairperson of the Board shall be an independent or a non-executive director. In case the Chairperson is an independent director, the Board shall comprise at least 40% of independent directors in line with Bank of Mauritius (BoM) Guidelines. Otherwise, independent directors should make up for at least 50% of the Board. As at 30 June 2018, the Board comprised nine members, with an average age of around 58 years. The Board diversity for the year under review is shown hereafter.

Corporate governance report

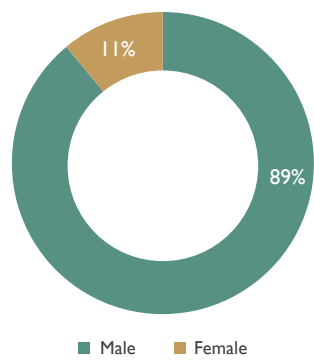
The Board, assisted by the Nomination and Remuneration Committee, regularly reviews the Board size, composition, including the independence status of the non-executive directors. The Board has duly considered the National Code of Corporate Governance for Mauritius (2016) and is satisfied that non-executive directors are exercising independent thinking and judgement in their conduct at Board meetings.



Length of tenure



Gender

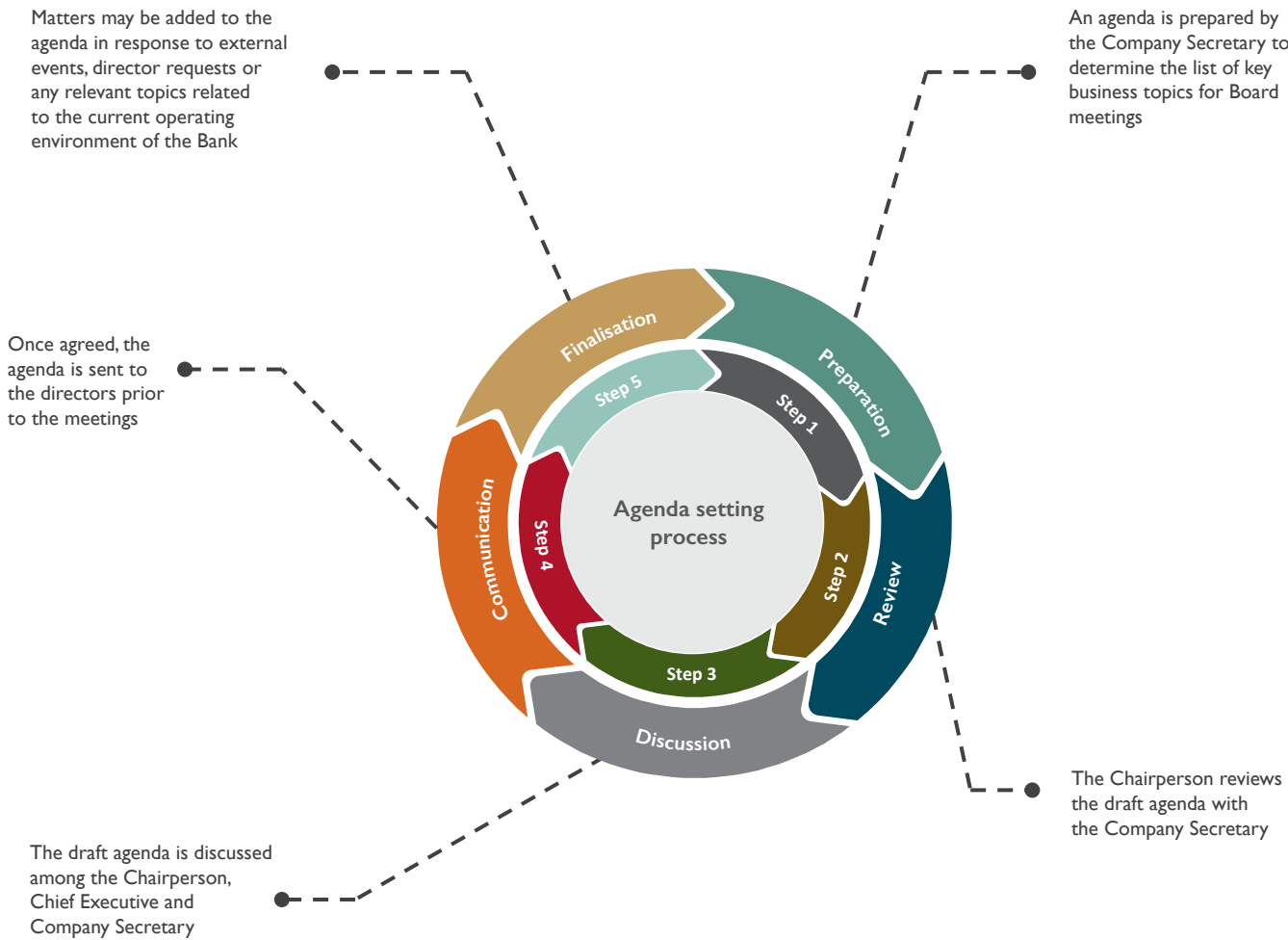


Mix of skills and experience



Meetings

The frequency of Board meetings is set in a way to ensure that it can focus on key issues at the appropriate time. Meetings are conducted at least on a quarterly basis. Although the Board maintains a scheduled programme of meetings, there is sufficient flexibility in the agenda for specific items to be added, as and when required. Meetings are convened so that directors are able to attend and participate in person. In case personal attendance by some or all the directors is not possible, meetings are conducted by means of audio and/or video conferences. Members of the Leadership Team and/or external advisors are sometimes invited to attend meetings to discuss on topical issues identified by the Board. Directors are provided with Board papers in a timely manner to facilitate meaningful, informed and focused decisions at the meetings. All materials for Board meetings are uploaded onto a secure portal which can be accessed by directors on tablet devices. The Chairperson presides over the Board meetings to ensure their smooth functioning and promotes open and frank debates. The agenda setting process is described in the diagram hereafter.



Corporate governance report

Board attendance

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

Members	Board member since	Board status	Meeting attendance
Jean-Philippe COULIER (<i>Chairperson</i>)	December 2012	Independent Non-Executive Director	11/11
Priscilla BALGOBIN-BHOYRUL	December 2012	Independent Non-Executive Director	10/11
Jonathan CRICHTON	December 2013	Independent Non-Executive Director	8/11
Gilles GUFFLET	December 2011 (Until December 2017)	Independent Non-Executive Director	3/6
Uday GUJADHUR	December 2017	Independent Non-Executive Director	5/5
Philippe LEDESMA	December 2017	Independent Non-Executive Director	4/5
Iqbal RAJAHBALEE	December 2012 (Until July 2017)	Independent Non-Executive Director	1/1
Simon Pierre REY	December 2013	Independent Non-Executive Director	8/11
Jean Michel NG TSEUNG	August 2015	Non-Executive Director	11/11
Raoul GUFFLET	August 2015	Executive Director	9/11
Alain LAW MIN	August 2015	Executive Director	11/11

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

Board focus areas

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

Strategy and performance

- Reviewed and approved the strategic orientations and budget plans of the Bank
- Assessed the development of the growth pillars of the Bank
- Monitored the progress of ongoing projects namely the Digital Transformation, HR Transformation, Treasury Realignment and Sustainable Development
- Approved the appointment of new senior officers to the Leadership Team
- Approved the implementation of a ‘Contrat D’objectifs’ over a three-year period comprising both financial and non-financial objectives for the Executive team
- Briefed on Blockchain Technology and its potential implications

Governance and risk

- Reviewed and approved the structure, size and composition of the Board and Board Committees
- Approved, upon the recommendation of the Nomination and Remuneration Committee, the appointment of Mr. Uday Gujadhur and Mr. Philippe Ledesma as new Board members
- Monitored the implementation of the action plan linked to the Board evaluation exercise
- Monitored the setting up of the Permanent Control function
- Reviewed the stress testing model and scenarios as part of the ICAAP exercise
- Discussed about the progress regarding the implementation of IFRS 9
- Apprised of cyber threats by international experts
- Reviewed and approved the Bank’s risk appetite
- Followed up on Bank of Mauritius audit
- Reviewed Customer Acceptance Policy and Compliance Handbook
- Assessed specific implications of the new National Code of Corporate Governance for Mauritius (2016)
- Assessed and discussed specific regulatory changes

Financial

- Assessed and monitored the Bank’s financial performance against budget
- Approved declaration of interim and final dividends
- Reviewed reports from the Audit Committee

Recurrent agenda items

- Approved the minutes of proceedings
- Reviewed reports from Chairpersons of Committees
- Reviewed and approved the Bank’s accounts on a quarterly basis
- Updated on developments in the operating environment

Corporate governance report

Directors’ profiles

The profiles of the Board members as at end of the financial year under review 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 69
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 memberships: Nomination and Remuneration Committee (Chairperson); Supervisory and Monitoring Committee (Chairperson); Risk Monitoring Committee

Executive Directors

Alain LAW MIN – Age 59
Chief Executive Officer

Date of first appointment: August 2015

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

Skills and experience: Prior to being appointed Chief Executive Officer in 2017, Alain 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 memberships: Supervisory and Monitoring Committee; Risk Monitoring Committee; Nomination and Remuneration Committee

Raoul GUFFLET – Age 50
Deputy Chief Executive

Date of first appointment: August 2015

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

Skills and experience: Since joining MCB Ltd in 2004, Raoul has had a long experience in the debt market, helped set-up the MCB Equity Fund and was Head of International. In 2016, he was appointed Head of Corporate and Institutional Banking after overseeing the merger of the domestic and international wholesale banking segments. Earlier

in his career, he worked with PricewaterhouseCoopers where he spent several years in auditing, strategy consulting, restructurings and corporate advisory in France and East Europe. He has been exposed to financial institutions in both developed and transitional economies through several World Bank and European Bank Reconstruction Development institutional strengthening studies. He is currently the Chairperson of the Assets & Liabilities Committee of the Bank and 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: Supervisory and Monitoring Committee (also acts as Secretary)

Corporate governance report

Non-Executive Director

Jean Michel NGTSEUNG – Age 50

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

Board Committee membership: Risk Monitoring Committee

Independent Non-Executive Directors

Priscilla BALGOBIN-BHOYRUL – Age 43

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 as well as a board member of Global Finance Mauritius.

Board Committee memberships: Audit Committee; Conduct Review Committee

Jonathan CRICHTON – Age 63

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 as well as control support functions such as Audit and Risk. He was a board member and Chairperson of several HSBC bank subsidiaries.

Board Committee membership: Risk Monitoring Committee (Chairperson)

Uday GUJADHUR – Age 63

Date of first appointment: December 2017

Qualifications: Chartered Certified Accountant (UK)

Skills and experience: Uday has over 40 years of professional experience in the fields of auditing, taxation, consulting and structuring. He has been involved in advising both local and international firms in various business sectors including investment funds seeking listing on the Stock Exchange of Mauritius. Between 1986 and 1994, he carried out several audits of companies and projects financed by the World Bank and African Development Bank in African countries. Until October 2008, he was the Chief Executive Officer, Director and shareholder of a major Trust and Fiduciary company in Mauritius. He also served as a board member of Global Finance Mauritius, a company regrouping

various stakeholders in the Financial Services Industry. He was a member of the Consultative committee set up by the Government of Mauritius to advise on the reforms to the non-banking financial services sector in 2000 which led to the setting up of the Financial Services Commission and the enactment of a new legal and regulatory framework in 2001. He is the Founder member of the International Fiscal Association IFA (Mauritius branch) and currently serves as an independent non-executive director of companies including investment funds and entities listed on the Stock Exchange of Mauritius.

Board Committee memberships: Audit Committee (Chairperson); Conduct Review Committee

Directorships in other listed companies: Bravura Holdings Limited; Dacosbro; Trevo Capital Limited; Margarine Industries Ltd; Quality Beverages Ltd; RHT Holding Ltd; Soap & Allied Industries Ltd

Philippe LEDESMA – Age 60

Date of first appointment: December 2017

Qualifications: Masters' Degree in Business and Company Law (DESS) and Postgraduate Degree in Business Law (France)

Skills and experience: Philippe has more than 25 years practice as a tax and business law adviser for governments, international financial institutions, banks and private groups in various countries. He has a dual experience both as an in-house lawyer and as a lawyer within large consultancy groups and specialises in mergers and acquisitions, restructuring and privatisation process, drafting of new legal frameworks, negotiation and drafting of commercial agreements and in tax planning, particularly through offshore vehicles registered in Mauritius. Previously, he has been a Counsellor for the French

Foreign Trade and has advised a French world leader of the hotel industry as well as a French group of investors for the setting up of a five star hotel and real estate program in Mauritius. He has also been the leading counsel of the Malagasy authorities in respect of the privatisation process of a state owned company having a quasi-monopoly for marketing locally produced cotton. Furthermore, he was highly involved in a legal feasibility study in respect of an airline company to be created between the French West Indies and Metropolitan France and has also advised the Banque des Etats d'Afrique Centrale (BEAC) for the setting up of a regional stock exchange common to the six member States of the Central African Economic and Monetary Community (CEMAC) within a consortium led by the Stock Exchange of Mauritius.

Board Committee memberships: Risk Monitoring Committee; Nomination and Remuneration Committee

Simon Pierre REY – Age 65

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 memberships: Conduct Review Committee (Chairperson); Audit Committee; Nomination and Remuneration Committee (also acts as Secretary); Risk Monitoring Committee (from August 2017 to December 2017)

Directorships in other listed companies: ENL Commercial Ltd; ENL Land Ltd

Corporate governance report

Directors’ remuneration

With competent directors considered as essential to contributing to the development of the Bank’s strategy, the Board lays significant emphasis on appointing the right people with the right skills and behaviours whilst rewarding them adequately, in line with market practices. The Bank’s remuneration philosophy concerning directors can be summarised as follows:

a. For executive directors

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

b. For non-executive directors

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

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

Remuneration and benefits received	Rs '000
Jean-Philippe COULIER	2,896
Priscilla BALGOBIN-BHOYRUL	728
Jonathan CRICHTON	894
Gilles GUFFLET (<i>until December 2017</i>)	453
Uday GUJADHUR (<i>as from December 2017</i>)	508
Philippe LEDESMA (<i>as from December 2017</i>)	436
Iqbal RAJAHBALEE (<i>until July 2017</i>)	65
Simon Pierre REY	1,029
Total Non-Executive	7,009
Alain LAW MIN	22,436
Raoul GUFFLET	22,021
Total Executive	44,457
Total (Non-Executive and Executive)	51,466

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. Upon their appointment, all new directors are required to notify in writing to the Company Secretary their interest as well as the interest of their closely related parties in the Group’s securities.

The following tables give the interests of the directors in the Group’s listed securities as at 30 June 2018 as well as the transactions effected by them during the year.

Interests in MCB Group Ltd shares as at 30 June 2018	Number of shares	
	Direct	Indirect
Jean-Philippe COULIER	20,500	9,500
Priscilla BALGOBIN-BHOYRUL	500	-
Raoul GUFFLET	69,503	19,435
Uday GUJADHUR	-	142
Alain LAW MIN	196,216	895
Philippe LEDESMA	-	48,520
Jean Michel NG TSEUNG	18,423	-
Simon Pierre REY	21,936	56,000

Transactions during the year	Number of shares	
	Purchased	Sold
Raoul GUFFLET	31,305	-
Alain LAW MIN	15,838	-
Jean Michel NG TSEUNG	10,538	-
Simon Pierre REY	59,300	-

Interests in MCB Group Ltd Subordinated Notes as at 30 June 2018	Number of notes	
	Direct	Indirect
Alain LAW MIN	-	3,000
Simon Pierre REY	7,225	12,117

Interests in MCB Group Ltd Floating Rate Senior Unsecured Notes due 2023 as at 30 June 2018	Number of shares	
	Direct	Indirect
Jean-Philippe COULIER	-	4,000
Alain LAW MIN	-	1,000
Philippe LEDESMA	-	4,100

Interests in Fincorp Investment Ltd as at 30 June 2018	Number of notes	
	Direct	Indirect
Alain LAW MIN	52,270	-

Directors’ service contracts

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

Corporate governance report

Board Committees

The Board has delegated authority to various Board Committees to provide specialist guidance and make recommendations, through established reporting mechanisms, on areas and matters delegated to them. Each committee has its own charter, approved by the Board and reviewed as required, which sets out, *inter alia*, its roles, responsibilities, composition and meetings requirement. The mandates, compositions and 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 presented hereafter.

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.

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

Members	Committee member since	Board status	Meeting attendance
Jean-Philippe COULIER (Chairperson)	January 2014	Independent Non-Executive Director	25/25
Raoul GUFFLET (<i>also acts as Secretary</i>)	July 2015	Executive Director	19/25
Alain LAW MIN	July 2015	Executive Director	24/25

Focus areas in FY 2017/18

Key topics discussed
<ul style="list-style-type: none">• Progress on key organisation wide initiatives such as the HR and Digital Transformation projects• Prospective candidates for senior positions• Development of the growth pillars of the Bank• Operating environment of the Bank• Strategic orientations and alignment of Treasury activities• Major credit risk issues• Legal, operational and compliance issues• Initiation of the Sustainable Development Project• Large credit exposures ratification



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

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.

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

Members	Committee member since	Board status	Meeting attendance
Uday GUJADHUR (Chairperson)	December 2017	Independent Non-Executive Director	4/4
Priscilla BALGOBIN-BHOYRUL	January 2013	Independent Non-Executive Director	5/6
Gilles GUFFLET	January 2012 (Until December 2017)	Independent Non-Executive Director	2/2
Simon Pierre REY	January 2014	Independent Non-Executive Director	6/6

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

Focus areas in FY 2017/18

Key topics discussed
<ul style="list-style-type: none">• Interim and audited financial statements published by the Bank with recommendations made to the Board• Reports from internal and external auditors and actions taken accordingly• Audit plans of internal and external auditors• Compliance work plan/reports and actions taken• Operational and information risk reports• Adequacy of allowance for credit impairment• Progress on the implementation of IFRS9• Ongoing activities of some selected business segments



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

Corporate governance report

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.

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

Members	Committee member since	Board status	Meeting attendance
Jonathan CRICHTON (<i>Chairperson</i>)	January 2014	Independent Non-Executive Director	5/5
Jean-Philippe COULIER	January 2013	Independent Non-Executive Director	5/5
Philippe LEDESMA	December 2017	Independent Non-Executive Director	2/3
Simon Pierre REY	August 2017 (Until December 2017)	Independent Non-Executive Director	2/2
Jean Michel NG TSEUNG	August 2015	Non-Executive Director	5/5
Alain LAW MIN	January 2017	Executive Director	5/5

Secretary: Frederic PAPOCCHIA (Chief Risk Officer)

Focus areas in FY 2017/18

Key topics discussed
<ul style="list-style-type: none">• The Bank's risk appetite• Country risk limits• Risk portfolios against set limits• Principal risks such as credit, market, information and operational risks and actions taken to mitigate them• The stress testing results in terms of capital adequacy as part of ICAAP• Progress on the implementation of IFRS 9• Governance of the Permanent Control function• Credit Risk policy review

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

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.

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 shall 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.

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

Members	Committee member since	Board status	Meeting attendance
Jean-Philippe COULIER (<i>Chairperson</i>)	January 2014	Independent Non-Executive Director	6/6
Philippe LEDESMA	December 2017	Independent Non-Executive Director	1/2
Simon Pierre REY (<i>also acts as Secretary</i>)	January 2014	Independent Non-Executive Director	5/6
Alain LAW MIN	January 2017	Executive Director	6/6

Focus areas in FY 2017/18

Key topics discussed
<ul style="list-style-type: none">• Review of Board composition with recommendations made to the Board for replacement of two directors for approval at the Annual Meeting of Shareholders• Induction programme for new directors• Board Committees composition• Performance evaluation and reward system of the Bank• Directors' fees for Board and Board Committees• Review of the appointment of senior officers to the Leadership Team with proposal submitted to the Board

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

Corporate governance report

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.

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

Members	Committee member since	Board status	Meeting attendance
Simon Pierre REY (<i>Chairperson</i>)	January 2014	Independent Non-Executive Director	4/4
Priscilla BALGOBIN-BHOYRUL	January 2014	Independent Non-Executive Director	4/4
Gilles GUFFLET	January 2012 (Until December 2017)	Independent Non-Executive Director	2/2
Uday GUJADHUR	December 2017	Independent Non-Executive Director	2/2

Secretary: Frederic PAPOCCHIA (Chief Risk Officer)

Focus areas in FY 2017/18

Key topics discussed
<ul style="list-style-type: none">• Credit facilities granted to related parties• Reporting to the BoM on related party exposures• Reports with respect to deposits of related parties• Financial positions (exposures and deposits) relating to external auditors as well as partners in charge of the audit of the Bank


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

Board effectiveness

Nomination process

The Board has a formal and transparent process in place for the nomination and appointment of directors, which is owned by the Nomination and Remuneration Committee (NRC). It reviews the structure, size and composition of the Board annually, or whenever appointments are considered, to ensure that the Board has a diverse mix of competencies, knowledge and experience, in order to enrich Board discussions from different perspectives and thus improve the quality of decision making. The NRC is responsible for identifying suitable candidates, carrying out interviews and recommending potential directors to the Board. Prospective candidates are assessed based on an established set of criteria which relate, amongst others, to their knowledge base, competencies, experience, time commitment, independence, ethics and values. The NRC also considers gender diversity in its assessment. Whilst seeking to retain a core of directors with long-standing knowledge of the Bank, the Board also recognises the importance of rotation of Board members to ensure its continued effectiveness with due emphasis laid on succession planning. It is worth highlighting that, at each Annual Meeting, one third of Board members, notably those who have been longest in office, are required to retire, while being eligible to stand for re-election. The nomination and appointment process of directors for the Bank is highlighted in the diagram hereafter.

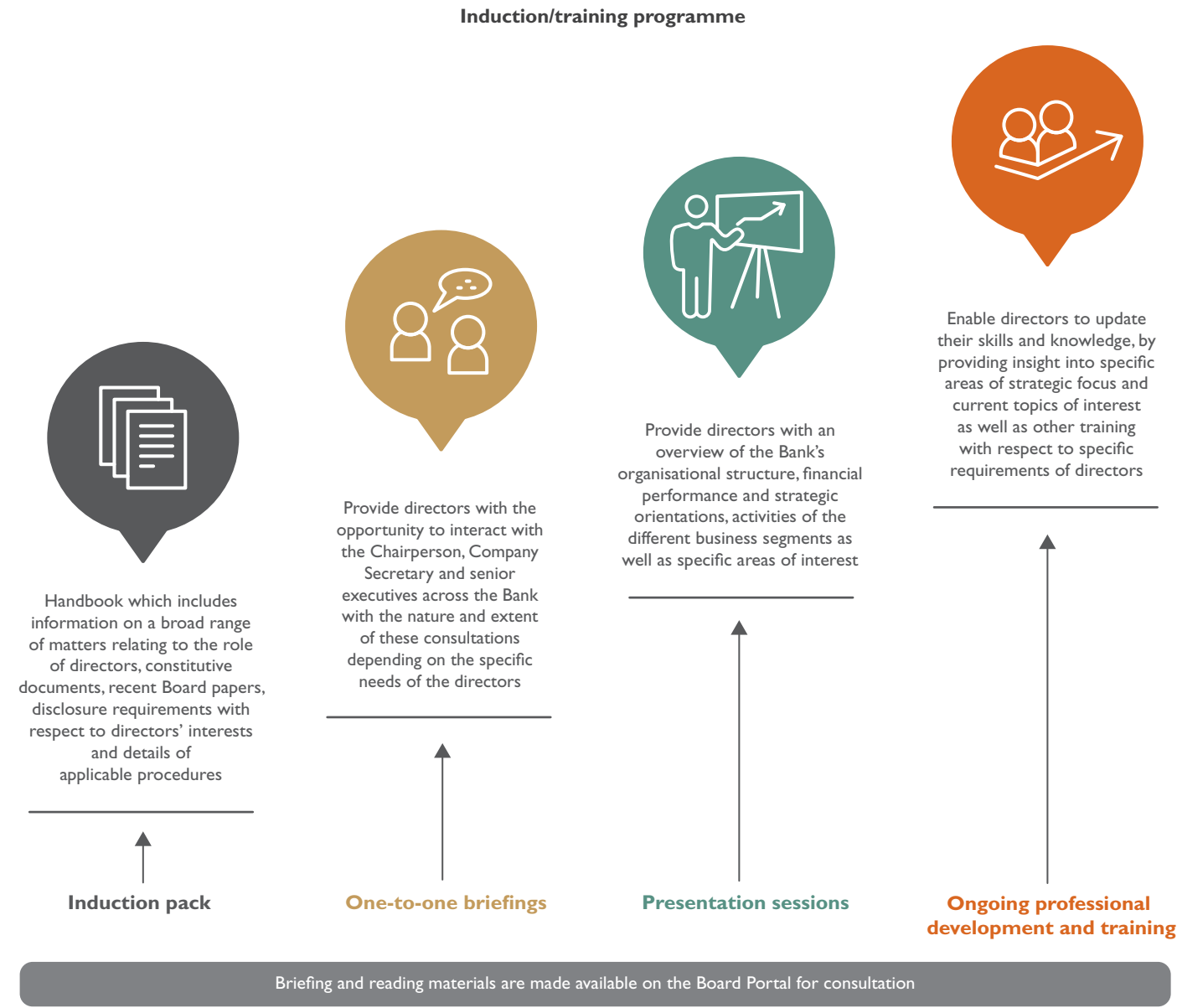


 More information on the nomination and appointment process is available on the website

Corporate governance report

Board induction and training

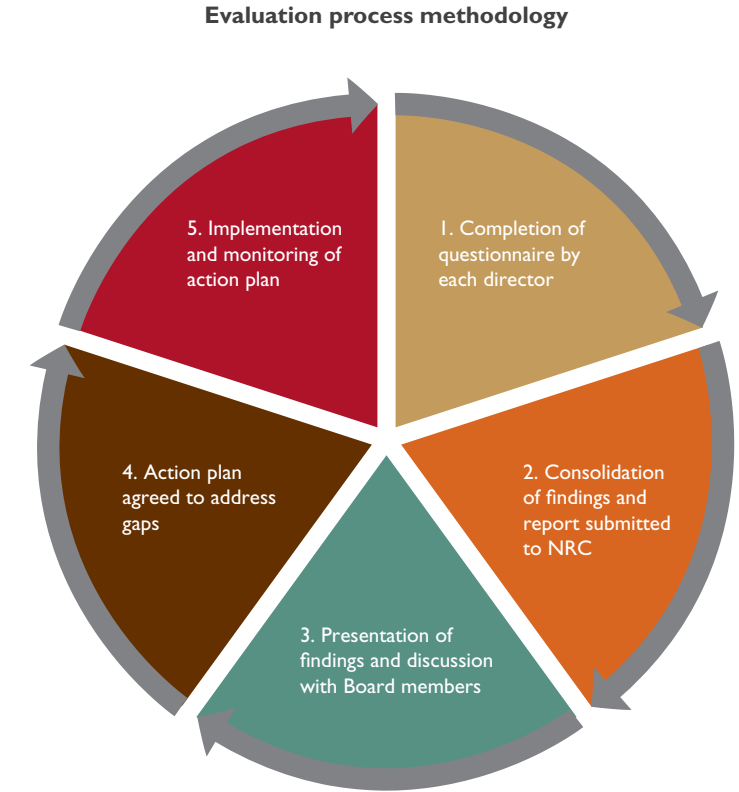
As part of the Board’s commitment to continuous improvement, an ongoing professional development and training programme is in place for directors. On joining the Board, all directors receive a formal and tailored induction programme designed to, *inter alia*, make them aware of their legal duties and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



Board / Directors’ performance

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

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




Risk governance

Risk management and internal control

In its bid to promote sound and balanced growth, the Board places key emphasis on the Bank’s risk management framework and internal control systems, which are regularly reviewed to cater for changes in the operating context, advocated norms and our strategic orientations, notably linked to broadening our frontiers. The Board, supported by the Risk Monitoring Committee ensures that the structures, processes and methods for the identification, evaluation and management of the principal risks, including emerging ones, faced by the Bank are integrated in the overall risk governance framework. The Board has received assurance, through the regular reporting by the Chairperson of the Risk Monitoring Committee, on the adequacy of the risk management arrangements during the year.


Corporate governance report

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

 More information is available in the ‘Risk and Capital Management Report’ on pages 114 to 147

Information governance

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

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

External auditor

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 auditor on an ongoing basis before making a recommendation to the Board on their appointment and retention. The proposal to reappoint PricewaterhouseCoopers (PwC), which was first appointed in 2015 as external auditor, was approved by shareholders at the Annual Meeting of Shareholders of MCB Ltd, held in December 2017. As regards the timeframe, the total duration of the audit assignment is for a period of one year with the possibility of reappointment of the selected firm/s annually, subject to regulatory provisions and 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	
	2018	2017
	Rs ‘000	Rs ‘000
Audit fees paid to:		
PricewaterhouseCoopers	18,597	18,055
Fees for other services provided by:		
PricewaterhouseCoopers	3,240	3,058

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

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 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 54

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 and since February 2018, he is also steering the Digital Transformation Programme. 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.

Mike SOPHIE – Age 49

Head of Human Resources

Qualifications: Fellow member of the Association of Chartered Certified Accountant and MBA (UK)

Skills and experience: Mike has a vast experience in banking. He spent 9 years in overseas subsidiaries of the Group from 1999 to 2008 before joining the Retail SBU. He held various positions therein namely as Regional Manager, Retail Operations and Service Manager and subsequently as Head of Retail since August 2017. He was appointed Head of Human Resources effective May 2018. His career within the Group gives him a sound oversight of the different business lines, to better shape HR strategies to accompany them to meet their business goals.

Bhavish NAECK – Age 47

Head of Finance

Qualifications: BSc (Honours) in Economics with specialisation in Accounting and Finance and Fellow 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 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. Since January 2014, he 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 main committees of the Bank.

Corporate governance report

Frederic PAPOCCHIA – Age 44

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 and currently oversees the Credit Risk, Credit Management, Credit Modelling, Recovery Business and Market Risk 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, Société 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 2018 (number)	MCB Group Ltd shares		MCB Group Ltd Subordinated Notes		MCB Group Ltd Floating Rate Senior Unsecured Notes	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Bhavish NAECK	22,444	5,194	1,000	1,500	4,333	500
Frederic PAPOCCHIA	7,673	-	-	-	-	-
Mike SOPHIE	1,119	-	-	-	-	-

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

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 I capital, are excluded from regulatory limits which are set, in aggregate, at 60% of Tier I 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 34 to the Financial Statements sets out on- and off- balance sheet exposures to related parties as at 30 June 2018.

Aggregate exposure of related parties, including exposure of the Bank to subsidiary companies amounted to Rs 7,220 million (on-balance sheet) and Rs 952 million (off-balance sheet), which represented respectively 3.5% and 1.4% of Bank loans and Bank contingent liabilities as at 30 June 2018.

Exposure of the Bank’s top six related parties as at 30 June 2018 were Rs 1,883 million, Rs 1,449 million, Rs 993 million, Rs 969 million, Rs 651 million and Rs 364 million. These balances represented 4.8%, 3.7%, 2.5%, 2.4%, 1.6% and 0.9% respectively of the Bank’s Tier I capital.

None of the loans granted to related parties was non-performing as at 30 June 2018, except for an exposure of Rs 196 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 is committed to building open and trusted relationships with stakeholders and the public at large through regular engagement. All material business developments that influence the Bank are communicated to stakeholders in a transparent and timely manner through various 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.

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 adhered to, subject to any material departures disclosed, explained and quantified in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the 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 flows 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 auditor is 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;
- 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 flows for that period;
- appropriate accounting policies supported by reasonable and prudent judgements 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;
- the Financial Statements have been prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

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 2017 to 30 June 2018

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

Jean-Philippe COULIER
Chairperson

26 September 2018

Alain LAW MIN
Director

Company Secretary’s certificate

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

Marivonne OXENHAM
Per MCB Group Corporate Services Ltd
Company Secretary

26 September 2018

Risk and Capital Management Report

Introduction

Our philosophy

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

Our key targets and objectives

- MCB Ltd is committed to staying a well-capitalised bank with adequate liquidity buffers to help achieve sustainable business growth and financial returns, while safeguarding the interests of our shareholders
- Towards those ends, we adopt a conservative and disciplined approach to risk and capital management. We anchor our decisions on a continuous evaluation of the short and longer term risk and return implications of our operations and activities

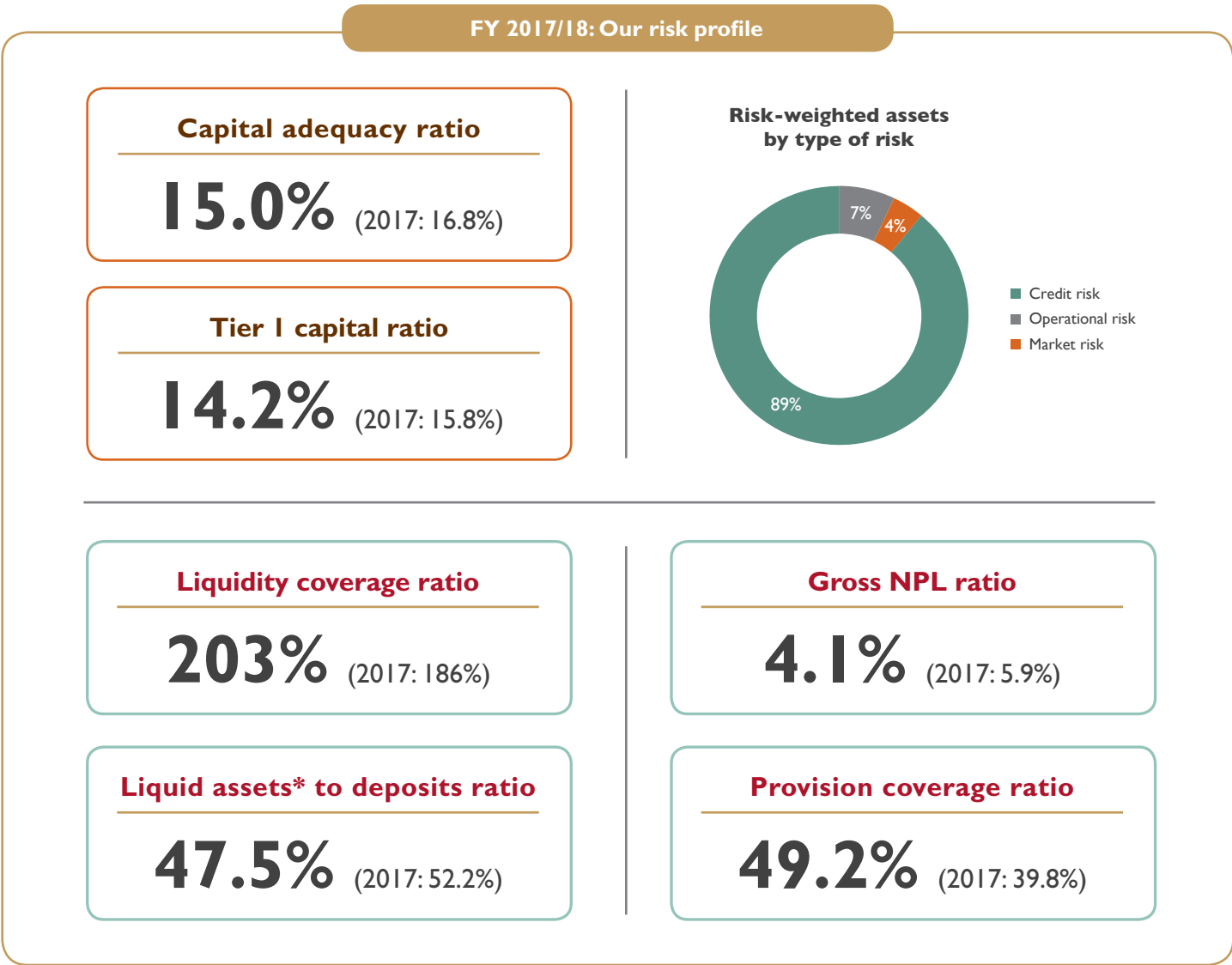
Our guiding principles

- 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 coherent risk management
- Conferring ultimate responsibility for risk management to the Board, with supervision by the latter through sub-committees
- Making sure that strategic decisions are taken in tune with the Board-approved risk appetite
- Continuously reinforcing our risk monitoring process and improving our internal control system
- Fostering an appropriate balance between risk and reward considerations to maximise shareholder returns; having recourse to the Return on Risk-Adjusted Capital (RoRAC) metric in order to ensure that the price charged for client solutions is reasonable in relation to the relative riskiness of exposures, while providing us with an adequate rate of return
- Paving the way for Bank-wide adherence to a common set of behaviours, attitudes, skills and guiding courses of action in support of coherent decision-taking, alongside fostering the integration of the risk culture across the organisation

Overview of recent main achievements and initiatives

Our financial soundness

- During the period under review, the Bank has maintained the soundness of its business growth across market segments. Notably, we expanded our regional and international footprint in an orderly manner. Towards meeting our objectives, we have capitalised on our robust risk management and internal control frameworks, while actively leveraging a comprehensive set of policies, standards and processes to identify, monitor and mitigate our risk exposures in a consistent manner. As key enablers, we tapped into enhanced synergies amongst relevant functions, alongside improving the efficiency of our processes and further upgrading information systems. All in all, we maintained comfortable capital levels that exceeded regulatory stipulations and supported our growth endeavours, while diversifying our portfolios across segments and preserving the quality of our assets. We held ample liquid assets to meet obligations in a timely manner, alongside maintaining stable sources of funding, comprising mainly customer deposits. Encouragingly, helped by our sound financial fundamentals and while affirming our ratings, Moody's Investors Service changed the outlook on our long-term ratings from stable to positive in July 2018.



* In the computation, liquids assets comprise cash, balances with BoM, placements, T-Bills and Government securities

Risk and capital management report

Specific initiatives

- The Bank has moved forward to ensure its readiness for the timely implementation of IFRS 9, notably the adoption of ‘Expected Credit Loss’ (ECL) models to determine allowances for credit impairment. The new standard has become effective as from financial period beginning on or after 1 January 2018. Consequently, our first financial accounts to be produced under IFRS 9 will pertain to the financial year beginning 1 July 2018. As a key step to foster adherence to the new reporting standards, the Bank set up a Credit Modelling BU. The latter, operating under the aegis of the Chief Risk Officer, is responsible for analysing data as well as developing, maintaining and validating models for credit application, Basel Capital Accord reporting and IFRS 9 modelling purposes. It is also mandated to identify new opportunities to enhance credit decisions and risk management processes, in line with the strategic objectives of the Risk SBU and the Bank.
- The Bank ensured that strict adherence is fostered with relevant amendments made recently to legal and regulatory stipulations. Notably, the Bank of Mauritius (BoM) has issued a revised version of its Guideline on Liquidity Risk Management, effective November 2017, whereby it introduced minimum phased-in standards for the Liquidity Coverage Ratio (LCR). Basically, whilst we were already calculating and monitoring our LCR in previous years despite the rules not having been enforced in Mauritius, we have lately reinforced our ability to comply with the new instructions. In particular, alongside fostering judicious treasury management, we held additional FCY balances at the BoM and recorded higher investments in US treasury bills during the course of the year with a view to upholding appropriate levels of High Quality Liquid Assets in our books. In addition, we adopted the necessary moves in order to underpin our operations, with a key case in point being the upgrade of our liquidity risk information system.
- A key achievement of the Bank is the setting up of a Permanent Control function. The aim is to reinforce the risk monitoring process and improve the internal control system towards assisting the Bank in pursuing its business growth in a sound way. Key focus areas are as follows: (i) supervise the permanent monitoring of internal control processes across the Bank and cater for the development of an adequate risk culture; (ii) analyse, mitigate and manage the operational, information and compliance risks, alongside ensuring that corrective measures are identified and implemented; and (iii) strengthen procedures and controls with regard to KYC, anti-money laundering and combating the financing of terrorism, along with the analysis of client transactions.
- The year was also marked by the reinforcement of our capabilities and relevant frameworks to tackle emerging risks, notably cyber risks associated with the increased digitalisation of our operations. Dedicated training sessions to foster staff awareness of the matter have been conducted. A Cyber War game, involving Board members, the Leadership Team and senior staff was organised. On another note, the Bank further reinforced its management of compliance risk. Notably, while compliance officers were further empowered towards more effectively discharging their responsibilities, the dedicated function exercised appropriate oversight over the revision/implementation of relevant processes and systems enhancements aimed at fostering the Bank’s compliance with the amended Data Protection Act and advocated international standards, such as the European Union’s Markets in Financial Instruments Directive (MiFID) and the Common Reporting Standards elaborated by the OECD. Besides, specific committees were established at the level of the Bank’s business lines with a view to shoring up the customer onboarding process.

MCB Ltd: Transition to IFRS 9

Project implementation

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

Progress status

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

Key focus areas for FY 2018/19

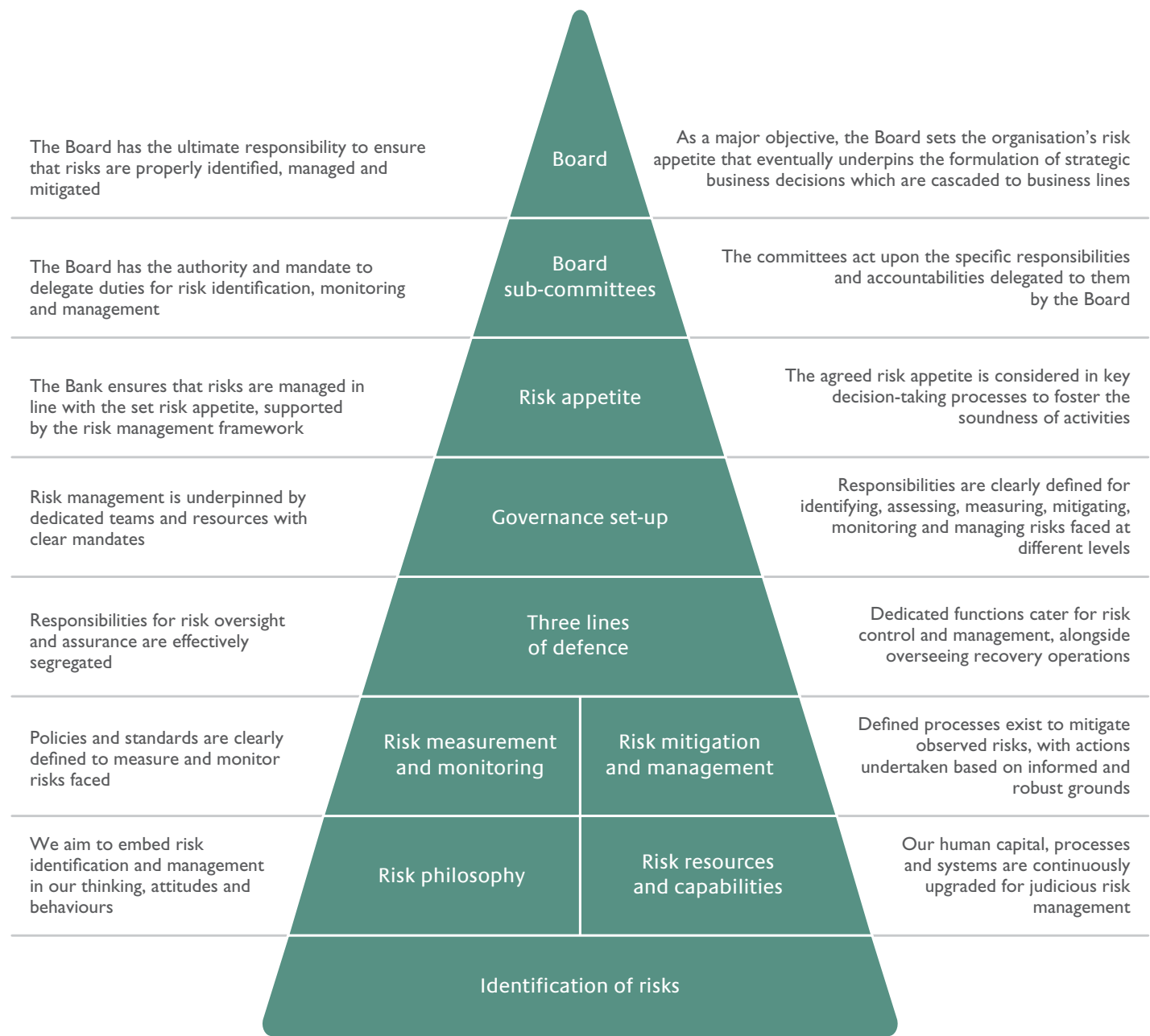
- Shore up our risk management framework and internal control system by reviewing, wherever relevant, policies, practices and processes, alongside ensuring adherence to legal and regulatory stipulations; appropriately calibrate our operations and processes for ensuring compliance with international norms, codes and standards; our key focus areas to notably include the following: (i) the operationalisation of relevant Permanent Control structures with a view to fostering the permanent monitoring of internal control plans performed across the organisation and ensure a risk culture development; and (ii) the reinforcement of our client onboarding and monitoring frameworks and processes
- Ensure that our business expansion endeavours, notably on the international front, materialise in a sensible manner, backed by a close structuring of deals, adherence to an adapted risk appetite and systematic scrutiny of clients’ operating context
- Set up the appropriate system architecture in order to support the comprehensive disclosure of IFRS 9 requirements; explore relevant opportunities engendered by the IFRS project to enhance the sophistication of MCB’s underwriting and risk management mechanisms, alongside building or reinforcing capabilities in the field of data analytics, statistical analysis, credit modelling and credit management
- Judiciously take stock of, appraise and manage emerging risks, notably those linked to technological utilisation and recourse to innovative platforms, while bringing about relevant upgrades to the framework in terms of tools and processes

Risk and capital management report

Our risk management strategy

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.



Main risks faced

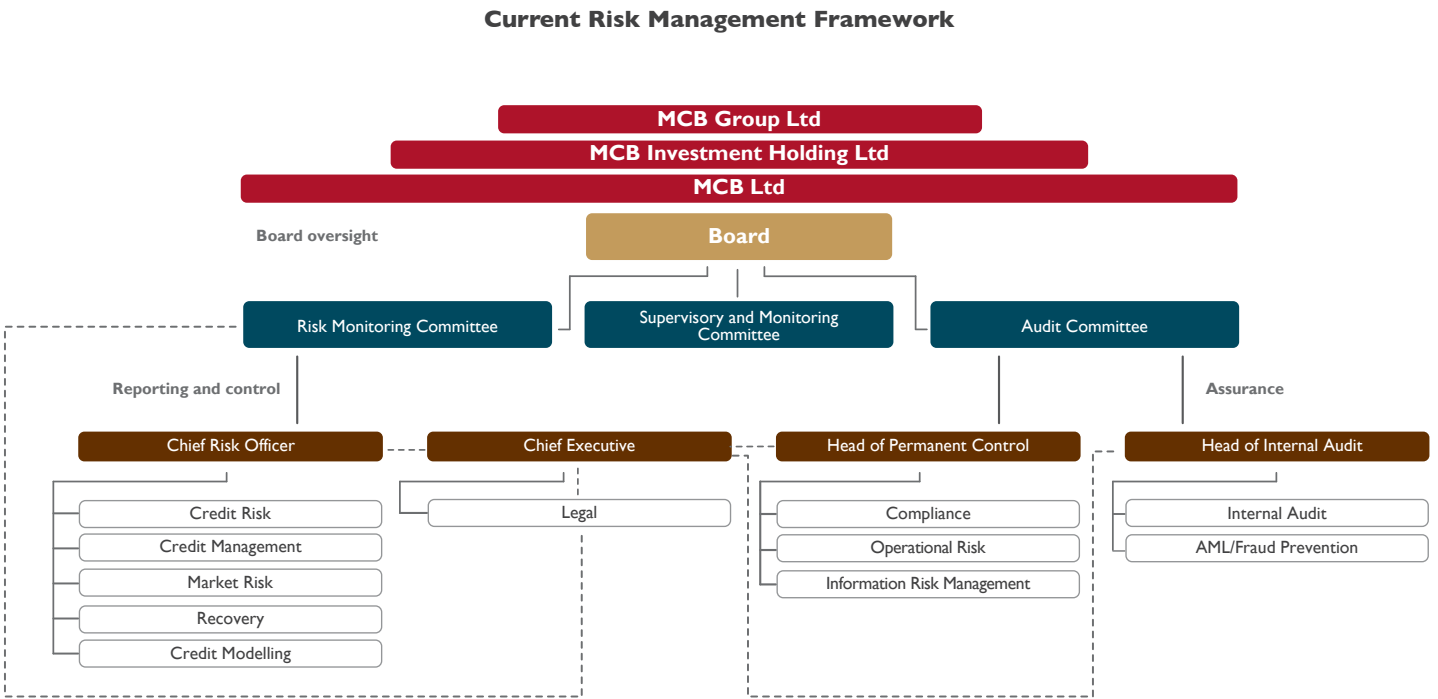
In its bid to deliver its strategic objectives, the Bank has adopted a consistent and integrated approach to risk identification, management and monitoring. Main material risks that could impact the Bank's business model, performance, solvency and liquidity are continuously identified and monitored.

	Key risks	General definitions	Key objectives
FINANCIAL RISK	Credit risk	The risk of financial loss should borrowers or counterparties fail to fulfill their financial or contractual obligations as and when they fall due; Credit risk includes counterparty risk, settlement risk and concentration risk, with the latter referring to the risk arising from an excessive build-up of exposures to a counterparty, industry, market or product amongst others	To foster sound credit risk management principles; to 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; to achieve the targeted risk-return profile of the portfolio; to promote, monitor and manage the quality of the credit portfolio
	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	To provide for a comprehensive framework and adequate control processes for assessing country risk, determining risk tolerance and allocating exposures across geographies
	Market risk	The risk of loss caused by movements in market price parameters (including interest rates, exchange rates, and stock price and commodity prices among others)	To monitor, report and control the overall market risk exposures, including market-contingent risks such as counterparty credit risk and profit and loss risks arising from the Bank's market risk activities
	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	To manage the impact of interest rate changes on the Bank's overall risk profile both from an earnings and economic value perspective
	Foreign exchange risk	The risk of losses on account of adverse foreign currency movements	To detect and manage impact of currency fluctuations
	Funding and liquidity risk	<i>Funding risk:</i> The risk linked to a relative lack of availability of funds or the risk that a maturing liability or class of liabilities may not be able to be refinanced (without additional relative cost) over any given period of time <i>Liquidity risk:</i> The risk arising from insufficient realisable financial assets to meet the financial commitment as and when they fall due	To maintain adequate liquidity levels and have access to diversified funding sources to rapidly and effectively respond to the demands of our clients and foster our business development
NON-FINANCIAL RISK	Operational risk	The risk of loss resulting from human factors, inadequate or failed internal processes and systems or external events. It includes fraud and criminal activity, project risk, business continuity, information and IT risk, etc.	To identify, mitigate and manage the Bank's operational risks in line with the defined risk appetite and with a strategic intent to provide our customers with seamless services
	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	To maintain the confidentiality, integrity and availability of information assets stored, processed and transmitted throughout the organisation
	Cyber risk	The risk of breach of information technology security arising from the malicious or unauthorised use of information systems that may have an adverse effect on the confidentiality, availability, or integrity of information or information systems	To handle and mitigate cyber risks and establish a strong IT platform to aid the delivery of the organisation's strategic objectives whilst protecting confidentiality, preventing misuse of systems and business disruptions
	Regulatory and compliance risk	The risk arising from changes in legislation and regulations on the operation and functioning of the Bank. It is the risk of sanction and material financial loss or reputational damage	To comply with all relevant regulations and legislation in force to safeguard the assets of the organisation and shield the organisation from legal and regulatory sanctions as well as financial / reputation losses
TRANSVERSAL RISK	Strategic and business risk	The risk arising from inappropriate business decisions or strategies in relation to the operating environment. The risk is caused by inflexible cost structures, changes in the business environment, regulatory decisions, client behaviour and technological progress, and Bank-specific actors such as poor choice of strategy	To set out and deploy our strategic orientations in a judicious and well-thought manner, remain attentive to changes in the operating environment and pay close attention to the current/future exigencies of our customers
	Reputation risk	The risk arising from reputational damage to the Bank's image caused by negative media coverage, compliance failures, pending litigations or underperformance. Such damage may result in a breakdown of trust, confidence and business relationships, which may impair the Bank's ability to retain and generate business	To bolster our brand image and ensure that our actions and behaviours are in line with best practice standards

Risk and capital 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. The allocation of responsibilities and segregation of duties are structured in a way 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. We adopt a robust three-lines-of-defence approach to effectively manage risks, based on transparency and accountability principles.



The **Board of MCB Ltd** 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 provides clear guidance as regard the setting out and regular review of applicable strategic thrusts, processes and policies for risk management. As a key focus area, the Board is responsible for the validation of the Bank's risk appetite towards achieving its strategic objectives. The Board delegates authority to the Board committees to enable them formulate the specific responsibilities and required policies for effective risk management.

The **Risk Monitoring Committee (RMC)** is the primary Board committee overseeing risk matters. 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 for credit and market risks to the Board for approval. It analyses risk portfolios against the set risk appetite, while also reviewing and exercising oversight over capital management. Regarding our market diversification strategy, the RMC is entrusted with the authority of determining the Bank's overall international capital allocation and exposure limits while monitoring country exposures against set limits on a quarterly basis. Besides, 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. Of note, four out of the five members of the RMC are non-executive directors, thus strengthening the Bank's independent oversight and control functions.

The **Supervisory and Monitoring Committee** sets the overall direction for the strategic development of the Bank and monitors performance against such strategy. The **Audit Committee** monitors internal control processes and ensures compliance with relevant laws and regulations. It sets operational risk tolerance levels and ensures the regular review of business continuity plans.

Adherence to the three-lines-of-defence approach

1 st line of defence	Risk ownership
<ul style="list-style-type: none">• 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.	
2 nd line of defence	Risk control and compliance
<ul style="list-style-type: none">• The second line is mandated to establish the limits, rules and constraints under which the first line activities shall be performed.• The Risk SBU bears the responsibility for providing independent risk control. It manages credit and market risks, alongside overseeing the credit management and recovery operations. While having an administrative reporting line to the Chief Executive, the CRO is accountable to the RMC for the monitoring and management of assigned risk areas. Managers catering for the latter are dedicated to establishing methodologies for risk measurement, while carrying out the regular monitoring and reporting of the Bank's risk exposures and profiles.• The Permanent Control function, which reports to the Audit Committee, ensures that activities at the operational level are correctly handled and secured, alongside ensuring that compliance with relevant laws, regulations and codes of conduct is fostered.• Independent teams oversee the legal and physical security functions. The Head of the Legal SBU acts as Money Laundering Reporting Officer to ensure strict independence. The Physical Security BU reports to the Chief Operating Officer's office.	
3 rd line of defence	Risk assurance
<ul style="list-style-type: none">• The Internal Audit SBU 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.• While reporting to the Head of Internal Audit, the Anti-Money Laundering/Fraud Prevention BU 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.	

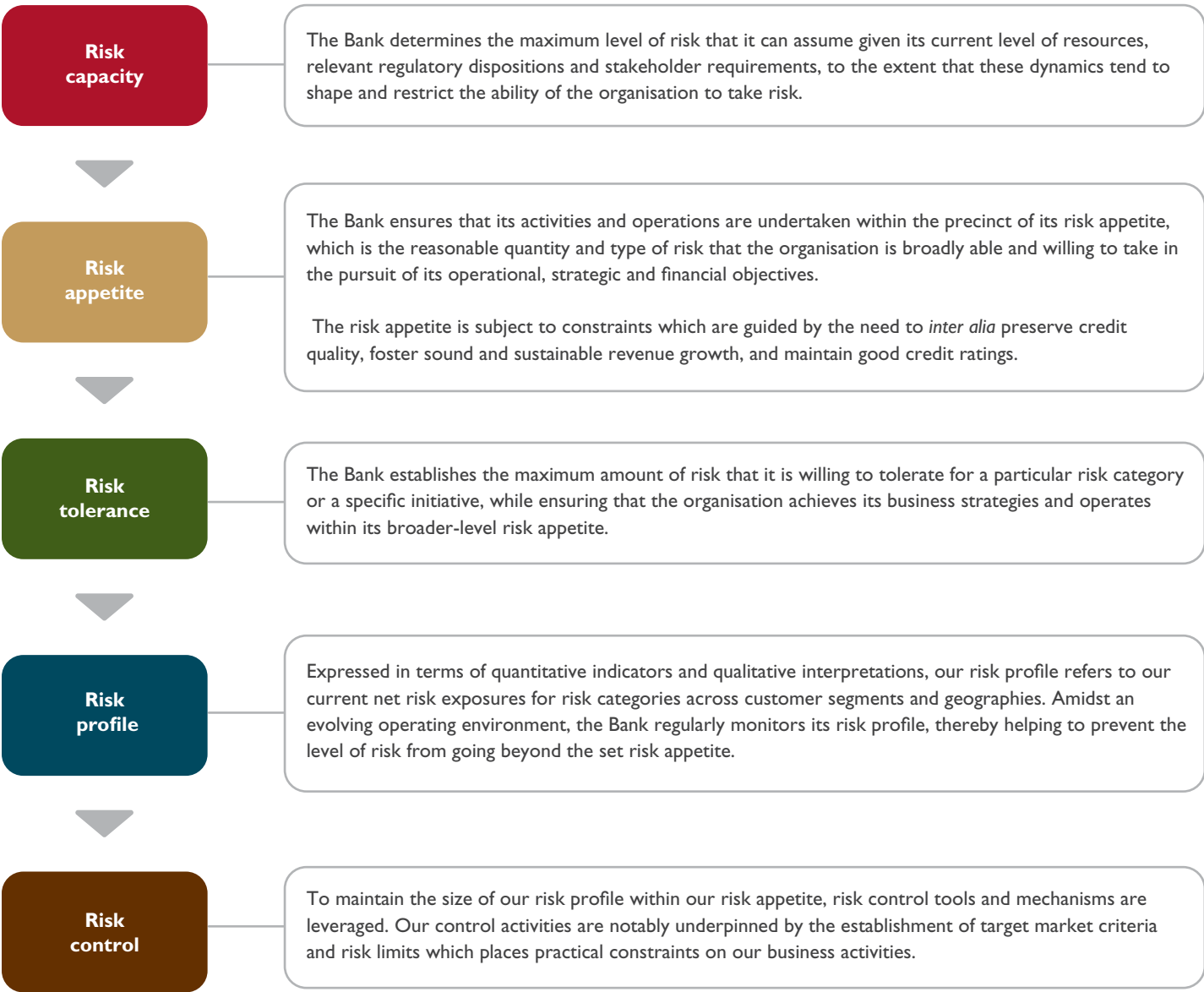
Risk and capital management report

The risk management framework also allows for dedicated committees to assist in the oversight and monitoring of various risk areas within the business.

Sub-committees	Key responsibilities
Credit risk	
Executive Credit Committee (ECC)	<ul style="list-style-type: none">• The ECC (A), which comprises, amongst others, the Chief Executive and Deputy Chief Executive, sanctions/declines credit applications where Group Total Commitment exceeds Rs 150 million• The ECC (B) sanctions/declines credit applications with Total Client Commitment of up to Rs 150 million
Credit Committee	<ul style="list-style-type: none">• It sanctions/declines credit applications where Group Total Commitment is up to Rs 50 million for retail clients and Rs 60 million for corporate clients
Country Risk Committee (CRC)	<ul style="list-style-type: none">• The CRC, which is chaired by the Chief Executive and comprises the Deputy Chief Executive and Chief Risk Officer as members, is responsible for setting individual country limits within the validated risk parameters as well as reporting any excesses observed to the RMC
Market risk	
Asset and Liability Committee (ALCO)	<ul style="list-style-type: none">• The purpose of the ALCO is to review and validate decisions – in consultation with relevant Heads of lines of business wherever relevant and applicable – in relation to the balance sheet structure of MCB. These decisions are taken with respect to the various dimensions of market, liquidity and funding risks faced by the Bank, while also making allowance for funds transfer pricing• ALCO sets and reviews all trading book limits and banking book targets, in alignment with the diversification and growth of the Bank's balance sheet, especially in terms of domestic and foreign currencies as well as from a consolidated perspective• The committee, which comprises members of Executive Management, is chaired by the Deputy Chief Executive, with targeted monthly meetings or, as deemed necessary, ad-hoc and special meetings being held
Operational risk	
Information Risk, Operational Risk and Compliance Committee (IORCC)	<ul style="list-style-type: none">• The monitoring of the entire operational cycle is exercised through the IORCC, which is chaired by the Chief Executive. The IORCC acts as the focal point and coordinating committee with a view to ensuring that operational risk management is in line with the Operational Risk Policy. Significant operational risks are escalated to the IORCC and then, if warranted, to the RMC• The responsibility for the implementation of strategies and monitoring of Business Continuity Management (BCM) is delegated to the IORCC

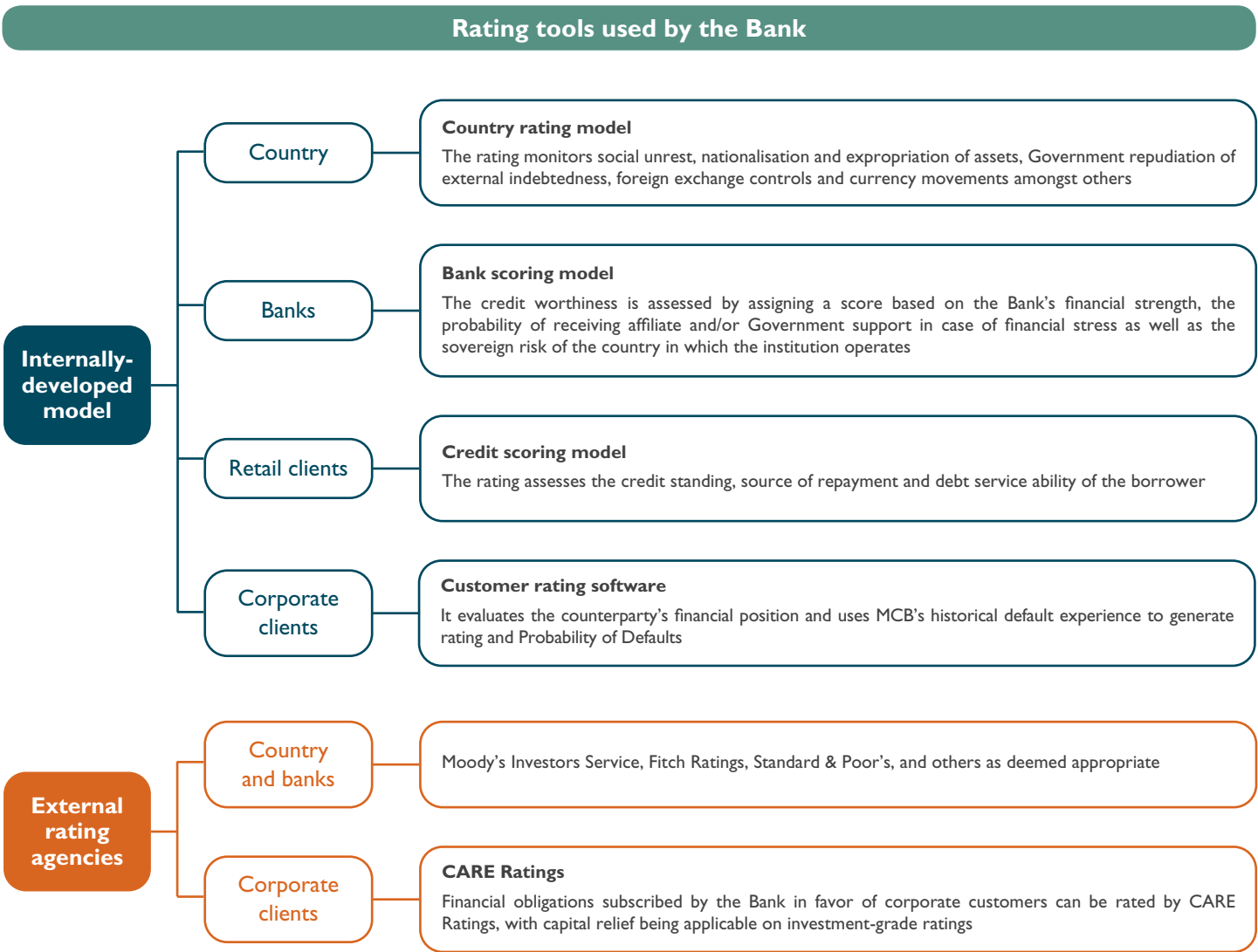
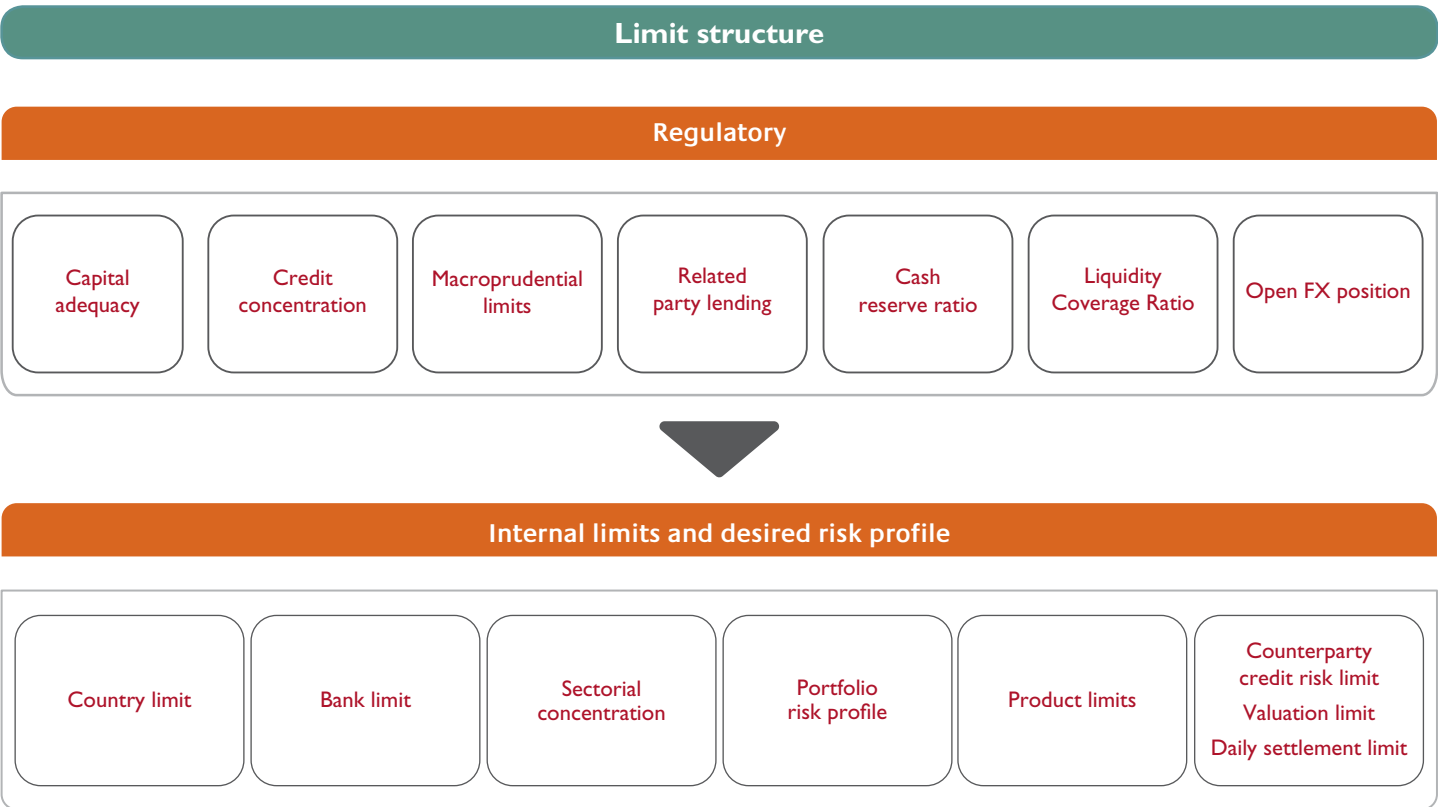
Our risk appetite and strategy

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 operating environment. 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 RMC; (iii) preparation and use of risk reports for capital management purposes; and (iv) application of a stress-testing framework.



Risk and capital management report

The size of the internal risk limits set by the Bank is a function of regulatory requirements and the risk appetite set by the Bank, 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.



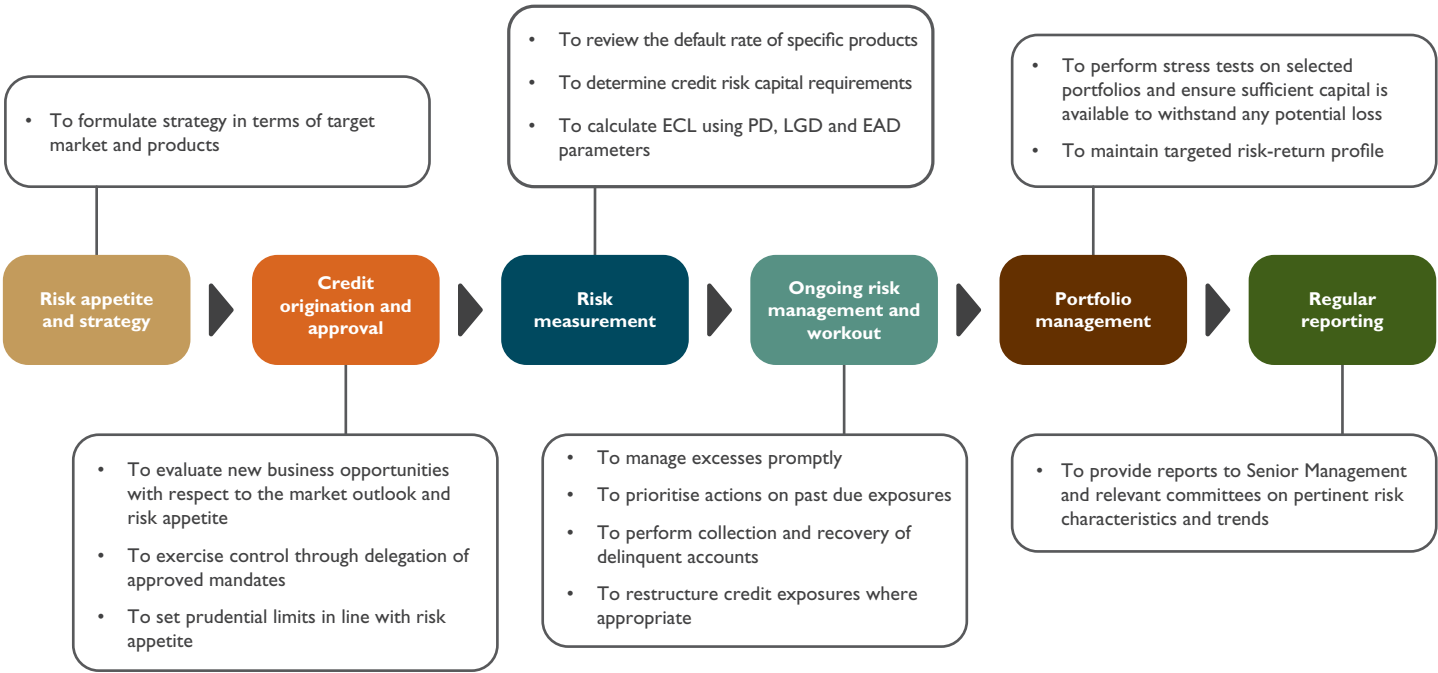
Risk and capital management report

Management of key risks

Credit risk

General approach

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



Risk measurement and monitoring

- Our 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.

Key principles	<ul style="list-style-type: none">• Credit facilities granted are guided by the credit standing, source of repayment and debt servicing ability of the borrower. As a fundamental credit principle, the 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 while additionally, being monitored periodically depending on the type, liquidity and volatility of the collateral value.• 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, monitoring of risk profiles and determining business strategies. They are also used for the purpose of the stress testing and limits determination exercises.
Assessment by key business lines	<p>Retail</p> <ul style="list-style-type: none">• 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 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. <p>Corporate</p> <ul style="list-style-type: none">• Large corporate credits are assessed on an individual basis with the support of an internally-developed Customer rating software. The latter evaluates the counterparty's financial position and uses MCB's historical default experience. The ratings and probability of default rates generated are typically used to measure the risk profile of the customers which consumes a sizeable proportion of capital resources and to calculate Expected Credit Losses (ECL). The counterparty risk rating assigned to smaller businesses is primarily based on their financial strength and account performance.

Risk mitigation and management

- 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. The BoM Guideline on Credit Impairment Measurement and Income Recognition 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 define 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 2018, 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.

Risk and capital management report

- 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 in order to proactively manage the portfolio risk profile and minimise undue credit concentrations. Significant trends are regularly reported to the RMC as well as Senior Management and other relevant platforms such as the Corporate and Institutional Banking 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 SMEs, as well as the financing structure of our Energy and Commodities portfolio and that of banks.
- 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.

Country risk management

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

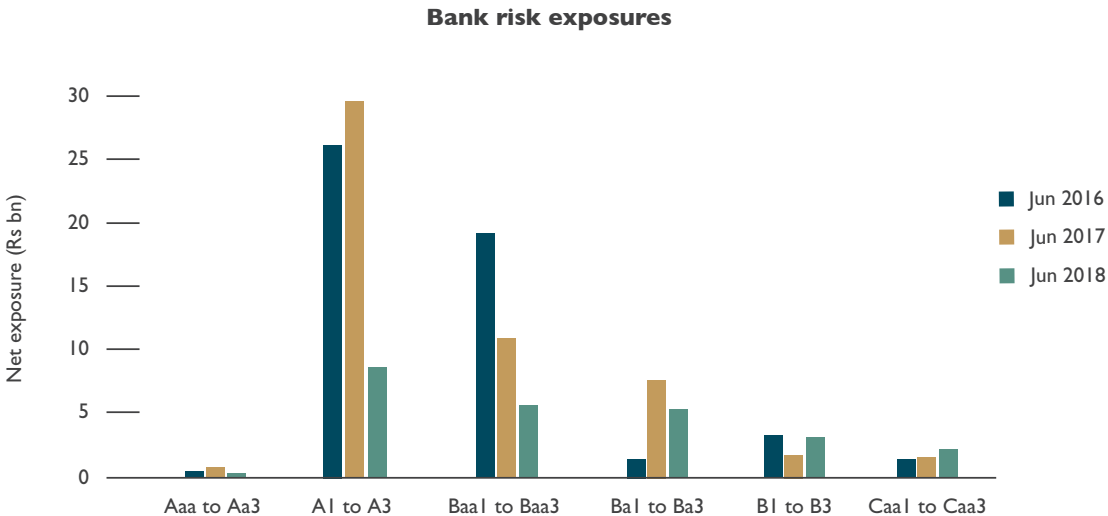
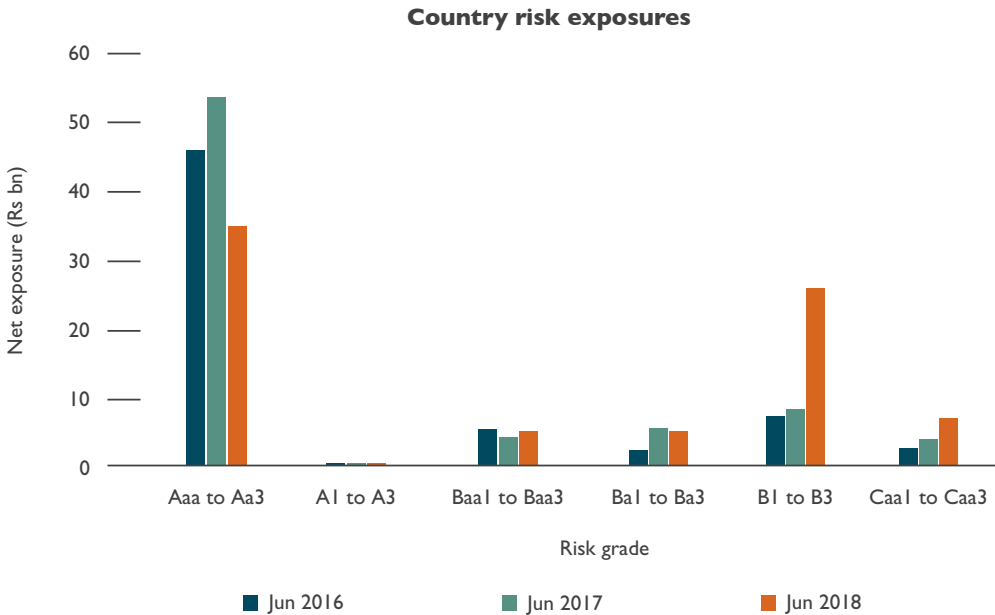
Concentration risk management

- The Bank promotes the diversification of its lending portfolio by setting industry sector limits based on forecasts spanning a five-year horizon with a view to ensuring 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. Essentially, the Bank limits credit risk exposures and concentrations within the constraints of its Tier I capital, while complying with applicable regulatory instructions.

Key metrics and outcomes

- During the year under review, the Bank has, alongside sustaining its business growth, set out to mitigate the riskiness of its activities, with the profiles of its exposures remaining within the precincts of its risk appetite. We held a diversified positioning across markets, which helped us remain well positioned in terms of credit concentration when compared to regulatory limits.
- In spite of the challenging context in some markets, our asset quality metrics improved by an appreciable margin, backed by our prudent market development approach and active recovery efforts. The gross NPL ratio of the Bank fell by 170 basis points to reach 4.1% in FY 2017/18, while the corresponding ratio in net terms declined by 150 basis points to attain 2.8%. The overall cover ratio of NPLs by provisions stood at 49.2% 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.

Risk profile of exposures

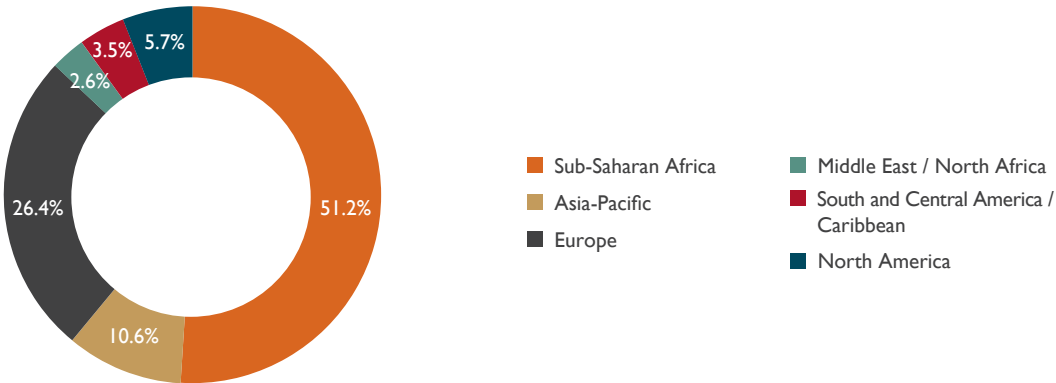


- Notes:
- (i) Risk exposures to banks relate to placements, advances and financial guarantees
 - (ii) In FY 2017/18, exposures to banks fell considerably, with part thereof being shifted towards higher quality assets to meet LCR limits, while funding our international activities
 - (iii) For each country /bank, the worst of the ratings assigned by Moody's Investor Service, Standard & Poor's and Fitch Ratings was selected and converted into a Moody's equivalent rating; countries/banks unrated by the above rating agencies have been assigned a rating determined by our in-house models

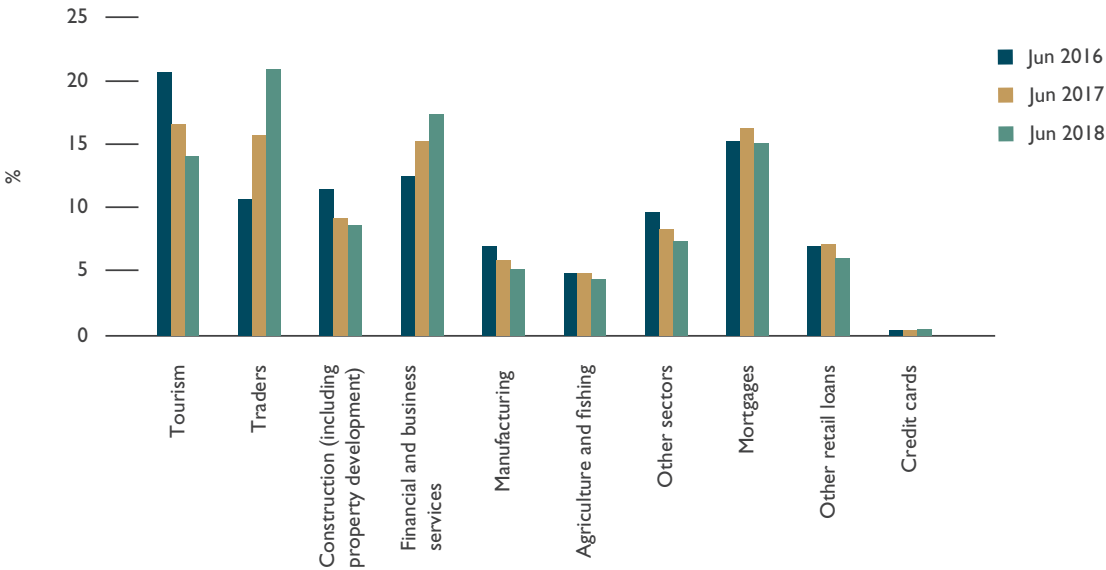
Diversification of exposures

Total risk-weighted exposures by region

(Excluding Mauritius, Maldives, Seychelles and Madagascar)



Sectorial distribution of credit to the private sector



Concentration of exposures

Bank of Mauritius Guideline on Credit Concentration Risk		
Credit concentration limits (% of Bank's Tier I capital)	Regulatory requirements	MCB Ltd
Aggregate credit exposure to any single customer	Not exceed 25%	17.5%
Aggregate credit exposure to any group of connected counterparties	Not exceed 40%	38.0%
Aggregate large credit exposures* to all customers and groups of connected counterparties	Not exceed 800%	279.2%

Note: *Refer to exposures over 10% of the financial institution's Tier I capital

Gross exposure as at 30 June 2018	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	45.5	4.5	13.7
Total large credit exposures	110.4	9.3	28.5

Quality of exposures

June 2018	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	194,445	94.0	8,508	4.4	5,876	2.1	47.8
Agriculture and fishing	8,007	3.9	616	8.0	345	0.9	11.3
Manufacturing	9,364	4.5	383	4.1	276	2.7	65.0
of which EPZ	3,153	1.5	57	1.8	56	1.7	95.2
Tourism	25,191	12.2	573	2.3	514	1.1	50.0
Transport	5,122	2.5	1,318	26.5	893	14.9	56.0
Construction (including property development)	15,483	7.5	1,408	9.4	1,065	3.8	40.2
Traders	37,305	18.0	1,569	4.2	655	1.6	36.8
Financial and business services	31,013	15.0	233	0.8	169	0.4	57.3
Personal and professional	39,948	19.3	1,744	4.4	1,165	2.3	51.2
of which credit cards	995	0.5	22	2.3	41	4.2	183.9
of which housing	26,896	13.0	774	2.9	435	1.2	40.8
Global Business Licence holders	15,928	7.7	428	2.7	629	2.7	100.8
Others	7,083	3.4	235	3.3	164	1.7	50.7
Corporate notes	7,049	3.4	-	-	50	0.7	-
Loans to banks	5,418	2.6	-	-	135	1.3	-
Total	206,911	100.0	8,508	4.1	6,061	2.0	49.2

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

Risk and capital management report

Market risk

General approach

- All businesses involved in market risk activities of any kind are subject to the Bank’s Market Risk Policy. The latter covers the policies, principles and main functional responsibilities in relation to the management of market risk. It ensures that market risk origination, processing and valuation are appropriately segregated and undertaken. The Policy is approved by the Risk Monitoring Committee (RMC) and is reviewed periodically. The RMC meets on a quarterly basis and reviews a summary of market risk exposures, including regulatory and other developments affecting both the trading book and wider balance sheet of the Bank. Of note, the Market Risk BU is primarily focused on exercising overall control, monitoring and management 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.
- Our market risk management approach is governed by regulatory requirements, including those that are encompassed in applicable Bank of Mauritius Guidelines. They notably include the Guideline on Measurement and Management of Market Risk, the Guideline of Liquidity Risk Management and the Guideline on the Operational Framework for Primary Dealers.

Risk measurement and management¹

Interest rate risk

- MCB is mainly exposed to repricing risk in its banking book on account of the reset date of its on and off-balance sheet assets not coinciding exactly with that of its on and off-balance sheet liabilities. The Bank monitors the resulting mismatch through the conduct of interest rate risk gap analysis on both an earnings and economic value impact basis. It limits this source of risk through the application, in most cases, of floating interest rates that are linked to an index.
- The Bank also incurs interest rate risk in the trading book by virtue of (i) its primary dealership status in the local Government and/or BoM securities market; (ii) its trading positions in international fixed income securities of high credit quality; and (iii) the holding of net open positions in derivatives that are subject to daily revaluation. To constrain its exposure to interest rate risk in the trading book, the Bank sets Basis Point Value limits. Basically, the latter, which is a measure of the impact of price volatility on portfolio value, aims 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 may be incurred from an on-balance sheet perspective, i.e. as a result of imbalances witnessed between the foreign currency composition of the Bank’s assets and liabilities. It can also be viewed from an off-balance sheet angle through the deployment of derivatives such as foreign exchange forwards.
- Exposure to FX risk is monitored against both the regulatory guideline and an internal target validated by the ALCO. Besides, several individual trading, transactional and periodic stop-loss limits, also reviewed annually 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 Bank personnel. We conduct Value-at-Risk (VaR) analyses linked to our main foreign exchange risk positions. We use a historical observation period of one year, with a 99% one-tailed confidence interval and a holding period of 10 days.

Liquidity and funding risk

- The Bank manages the liquidity profile of its balance sheet through both short term liquidity management and long term strategic funding, while covering both local and foreign currencies. Towards this, the Bank operates mutually supporting lines of defence:
 - Cash flow management: MCB creates a continuously maturing stream of assets and liabilities through time, while avoiding undue accumulation of maturities in any one time band, especially those expected to mature in the close future. The Bank uses cash and liquidity gap profiles in both local and significant foreign currencies to monitor the impact of projected disbursements by lines of business. It also conducts the behavioural analysis of its non-maturity current and savings balances so as to assign an actuarial maturity profile which reflects the stickiness of such deposits.
 - Liquid assets buffer maintenance: The Bank holds a stock of high quality and unencumbered assets which it can rapidly dispose of in case required. The aim is to meet unexpected outflows of funds or substitute expected inflows of funds (such as loan instalments) that do not eventually materialise at little or no loss in market value. The stock of liquid assets is proactively managed to not only cover day-to-day cash management, but to also provide for an adequate coverage of the risk-weighted cash outflows associated with the standardised crisis scenario under the Basel III framework.
 - Funding management: The management of funding risk at the Bank relies, in particular, on the maintenance of a diversified liability base across different categories of depositors, alongside also covering a spectrum of short to medium term funding. The Bank also resorts to wholesale markets whenever required.

Key metrics and outcomes

Liquidity coverage ratio (LCR)

- In alignment with Basel III rules, the objective of the LCR is to promote the short-term resilience of a bank’s liquidity risk profile by ensuring that it maintains an adequate stock of unencumbered High Quality Liquid Assets (HQLA) in order to meet its liquidity requirements. As per regulatory stipulations in the Mauritian banking system, the LCR is computed as the ratio of the stock of unencumbered HQLA to the net cash outflows over the next 30 days in the event of an acute liquidity stress scenario. Under the transitional arrangements as set by the BoM, the stipulations that will unfold for the coming years are described in the table thereafter.
- As at 30 June 2018, the Bank comfortably overshot stipulated LCR requirements. It reported a consolidated LCR of 203%, which is equivalent to a surplus of around Rs 45 billion over stressed total net cash outflows. At a more granular level, we exceeded the mandatory LCR limits relating to rupee and significant foreign currencies. It can be recalled that HQLA eligible for the purpose of calculating the LCR under the BoM Guideline consist of cash or assets that can be converted into cash at little or no loss of value in markets. In this light, MCB maintained suitable levels of investment in sovereign, high-quality corporate and cash liquid assets.

¹ Information in this section has been audited

Risk and capital management report

Bank of Mauritius: Transitional arrangements for Liquidity Coverage Ratio (LCR)				
	As from 30 November 2017	As from 31 January 2018	As from 31 January 2019	As from 31 January 2020
LCR in MUR	100%	100%	100%	100%
LCR in material foreign currencies	60%	70%	80%	100%
Consolidated LCR (in either MUR or USD)	60%	70%	80%	100%
Reporting timeframe	Within 20 working days from month end	Within 10 working days from month end		

MCB Ltd: Liquidity coverage ratio		
As at 30 June 2018	Total unweighted value (quarterly average of monthly observations)	Total weighted value (quarterly average of monthly observations)
	Rs '000	Rs '000
High-quality liquid assets		
Total high-quality liquid assets (HQLA)	89,413	89,412
Cash outflows		
Retail deposits and deposits from small business customers, of which:		
Less stable deposits	160,859	14,150
Unsecured wholesale funding, of which:		
Operational deposits (all counterparties)	9,059	2,265
Non-operational deposits (all counterparties)	99,633	41,394
Secured wholesale funding		
Additional requirements, of which:		
Outflows related to derivative exposures and other collateral requirements	51	51
Credit and liquidity facilities	13,420	1,262
Other contractual funding obligations	83	83
Other contingent funding obligations	84,437	4,222
Total cash outflows	367,542	63,426
Cash inflows		
Inflows from fully performing exposures	25,742	19,273
Other cash inflows	49	
Total cash inflows	25,791	19,273
	Total adjusted value	
	Rs '000	
Total HQLA	89,412	
Total net cash outflows	44,153	
Liquidity coverage ratio	203%	

Net Stable Funding Ratio (NSFR)

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

Operational risk

General approach

- The Operational Risk Policy of the Bank formulates the principles and methodologies for the management of operational risk at the Bank. It sets out a framework covering advocated rules and norms on the local and international fronts, best practices and standards as well as the relevant roles and responsibilities within the Bank. Our operational risk management approach is governed by regulatory requirements, including the Guideline on Operational Risk Management and Capital Adequacy Determination.

Risk measurement and monitoring

- The determination of the 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

- As described in the Operational Risk Policy, the responsibility for implementing the Operational Risk Management Framework is entrusted to Senior Management. The Operational Risk BU is responsible for the implementation of policies for the identification, assessment and management of related risks. From a more holistic angle, operational risk management forms part of the day-to-day responsibilities of the Leadership team and employees at all levels of the organisation.
- Operational risk mitigation relies on appropriate policies, processes and systems, backed by the clear segregation of duties, dual control as well as the regular verification and reconciliation of transactions. The control environment is also based on an appropriate risk culture which is fostered through risk awareness sessions targeting relevant audiences. An overview of both operational risk and Business Continuity Management is provided to new staff at the onset of their career through induction courses. The Operational Risk Management Framework relies on three primary lines of control as depicted below.

Risk ownership	Risk control	Independent assurance
Business units	Audit Committee/IORCC/ Operational Risk BU	Internal/External Audit
<ul style="list-style-type: none">Implement internal control proceduresIdentify inherent risks in products, activities, processes and systemsInitiate actions and apply mitigation strategiesReport risk incidents	<ul style="list-style-type: none">Oversee the conduct of policyImplement integrated risk frameworkReport on inherent and residual risksMonitor corrective actionsPromote Operational Risk Culture within the Bank	<ul style="list-style-type: none">Verify the effectiveness of the overall operational risk framework

Risk and capital management report

- 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 (BCM)

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

Health and safety

- The Bank is committed to providing the highest standards of Health and Safety to its employees and stakeholders. Towards this end, it complies with the provisions of relevant legislations, i.e. the Occupational Safety and Health Act (OSHA) and other associated laws and regulations. Risk control measures are implemented through health and safety audits, which the latter being aimed at identifying hazards and risk factors that have the potential to cause harm (hazard identification). The audits also seek to determine the appropriate ways to eliminate such hazards towards protecting our staff and visitors.

Information risk

General approach

- The Bank undertakes 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.

Risk mitigation and management

- 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.
- While making allowance for business exigencies and the operating landscape, Information Security policies have been developed for the Bank. These policies are regularly monitored by the IRM BU to ensure that they remain at all times accurate and pertinent to the Bank's operating context. Further, several processes have been assigned to assist in identifying and analysing the business need to access logical information, restrict the information deployed to the relevant requirements as well as monitor and control access to such information. The pertinence of any major information security expenditure is evaluated and discussed at several hierarchical levels before finally reaching out to Senior Management and if needed to the Board for approval.
- The year under review has seen a number of steps taken by IRM to assess and strengthen the Bank's cyber security posture: (i) full reviews and assessments have been undertaken to assess and, where necessary, improve our cyber security resilience; (ii) the Bank's critical infrastructure was independently and regularly tested to ensure that we have the right level of security; and (iii) special attention was accorded to the awareness of our employees at various levels of responsibilities within the organisation

Compliance risk

General approach

- The Bank ensures that the organisation and its staff adhere, at all times, to both to the letter and spirit of applicable laws, rules and regulations, generally accepted business and industry standards, as well as advocated norms and codes.
- The Bank promotes a compliance-oriented culture with a view to supporting business lines in delivering fair outcomes for customers and preserving the Bank's reputation, while helping to achieve business development objectives.

Risk mitigation and management

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

- Paying continuous attention to and undertaking regular reviews of ongoing developments as regard laws and regulations, accurately understanding their impact and coming up with necessary responses so that the Bank can effectively address the risks arising from such changes;
- Fostering a coherent compliance control mechanism within the Bank to pave the way for normalised processes and operations;
- Maintaining a set of policies to promote strong ethical behaviour by staff as well as to prevent and manage conflicts of interests;
- Promoting the awareness of Management and staff on requirements arising out of new/amendments to laws and regulations and other compliance-related matters (e.g. Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) training sessions were conducted, which targeted some 1,000 employees across the Bank);
- Providing adequate training to the compliance officers to ensure that they have the necessary knowledge and skills to accomplish their duties;
- Maintaining close working arrangements and communication with business lines through the dissemination of compliance-related information, provision of advisory services and delivery of dedicated training courses to staff;
- Using state-of-the-art technology to monitor adherence to set norms so as to provide assurance to Management and the Board, through the Audit Committee, as regards the state of compliance; and
- Fostering trusted relationships with regulatory and supervisory bodies by maintaining productive and value-adding dialogue with them to uphold effective two-way communication.

- In terms of our AML/CFT obligations, we ensure that the Bank has adequate processes, systems and controls to render its services inaccessible to criminals, including money launderers and terrorists or

their financiers, alongside paving the way for suspicious activities to be tracked down. We *inter alia* ensure that staff is given appropriate training to help them identify suspicious transactions in keeping with legal and regulatory requirements.

- The Bank has also 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 deemed to have discovered malpractices or impropriety.

Risk Assurance: Internal Audit

General approach

- The established framework of the internal audit activity at the Bank is risk-based. It seeks to continuously ensure that the Bank's risk management, governance and internal control processes are operating effectively in alignment with the organisation's goals.

- As a key thrust, the Bank aims to gather the necessary audit and risk insights in order to support its strategic orientations, notably its digital transformation endeavours and regional market diversification ambitions. More generally, while keeping in mind the expectations of internal stakeholders and external parties, the dedicated Internal Audit function undertakes the necessary actions to ensure that it delivers impactful advice on critical issues with a view to generating positive outcomes for the organisation.

Strategy and initiatives


- The key pillars which the Internal Audit function relies upon to roll out a disciplined approach to evaluate and improve the effectiveness of risk management and control processes are: (i) the implementation of regularly updated audit work programmes addressing, as far as possible, identified residual audit risks; (ii) increased usage of data analytics through a world-wide recognised audit software; and (iii) automation of tasks namely relating to time sheets, reports preparation, working papers and follow-up of recommendations.
- 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.

- Operationally, the main outcomes of the Bank's 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

Risk and capital management report

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*:

- The conduct of quality assurance assignments, which contribute to enhance the effectiveness of the Quality Assurance and Improvement Program (QAIP);
 - Greater communication with Risk SBU and Compliance BU to consolidate compliance and regulatory assurance;
 - 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;
 - 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
 - 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 skill sets and competences.
- Based on assessments, the internal audit function is presently not aware of any significant area of the Bank where there are no internal controls. We do not believe that there are deficiencies in internal controls that could give rise to risks that could jeopardise the Bank's operations.

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

Capital management

Our objective

- 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 and preserve or enhance its credit ratings. We aim to maintain a strong capital position that is consistent with the expectations and requirements of our numerous stakeholders, notably the regulators and authorities, rating agencies, correspondent banks 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 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 identify, 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 the nine scenarios below.

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

Risk and capital 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 resources, the Bank adheres to the BoM Guideline on Scope of Application of Basel III and Eligible Capital. 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 features 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. Overall, the transitional arrangements set out by the Central Bank in respect of capital adequacy are summarised below, with the mandatory limits having edged up further as from 1 January 2018.

As at 30 June 2018

The minimum total capital adequacy ratio applicable to MCB Ltd stood at 13.125%, consisting of the following:

- A ratio of 11.25% 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 1.25%; and
- An additional 1.875% 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%; and
- An additional 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 I (CET I) Capital Adequacy Ratio (CAR) (%)		Jan 18	Jan 19	Jan 20
Minimum CET I CAR	(a)	6.500	6.500	6.500
Capital Conservation Buffer	(b)	1.250	1.875	2.500
Minimum CET I CAR plus Capital Conservation Buffer	(c) = (a) + (b)	7.750	8.375	9.000

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

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

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

Performance of MCB Ltd

As it has been noted before, the capital position of the Bank has remained generally strong during the last financial year, while comfortably overshooting current mandatory limits. Our core and total capital ratios stood at 14.2% and 15.0% respectively as at June 2018. These figures, nonetheless, represent a relative decline when compared to our last year's performance on account of a notable increase in our risk-weighted assets, which can be mainly explained by our expanding international loan book and the regulatory application of higher credit conversion factors for medium to long term trade-related contingent items. They, in fact, changed from a flat rate of 20% to a range of 20 – 100%, thus implying a higher risk-weighted assets in respect of related transactions.

Risk and capital management report

Determination and evolution of the capital adequacy ratios of MCB Ltd

MCB Ltd	Jun 17	Jun 18
Capital base	Rs m	Rs m
Ordinary shares (paid-up) capital	6,880	6,880
Retained earnings	23,463	25,995
Accumulated other comprehensive income and other disclosed reserves	6,065	7,324
Common Equity Tier I capital before regulatory adjustments	36,408	40,199
Regulatory adjustments		
Other intangible assets	(580)	(545)
Deferred tax assets	(144)	(104)
Defined benefit pension fund assets	(99)	-
Common Equity Tier I capital (CETI)	35,585	39,550
Additional Tier I capital (ATI)	-	-
Tier I capital (TI = CETI + ATI)	35,585	39,550
Tier 2 capital		
Capital instruments	631	530
Provisions or loan-loss reserves	1,999	2,453
Tier 2 capital before regulatory adjustments	2,630	2,983
Regulatory adjustments	522	674
Tier 2 capital (T2)	2,108	2,309
Total capital (TI + T2)	37,693	41,859
Risk-weighted assets	Rs m	Rs m
Weighted amount of on-balance sheet assets	179,920	214,730
Weighted amount of off-balance sheet exposures	18,619	33,599
Weighted risk assets for operational risk	18,342	20,399
Aggregate net open foreign exchange position	2,927	2,330
Capital charge for trading book position exceeding 5% or more of its total assets	4,984	7,479
Total risk-weighted assets	224,792	278,538
Capital adequacy ratios (%)		
BIS risk adjusted ratio	16.8	15.0
of which Tier I	15.8	14.2

Note: Figures in the above table have been audited

Determination of risk-weighted assets

Credit risk

- 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 the BoM. 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 facility. The Bank uses external ratings from Standard & Poor's, Moody's Investor Service and Fitch Ratings for credit exposures to its sovereign and bank portfolios.
- 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 the 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 2018, MCB's trading book exposures were above 9% of total assets and consisted mainly of foreign exchange risk and interest rate risk arising from net positions in securities and derivatives held for trading. Subsequently, an additional capital charge was held.

- Separate interest rate risk gap analysis schedules are prepared and submitted to the BoM on a quarterly basis for the Bank's significant currencies (MUR, USD and EUR) and on a consolidated basis. 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 the BoM and relates to the industry-wide level of required capital.

Risk and capital management report

MCB Ltd	Jun 18			Jun 17
	Amount	Weight	Weighted Assets	Weighted Assets
Risk-weighted on-balance sheet assets	Rs m	%	Rs m	Rs m
Cash items	2,792	0 - 20	85	93
Claims on sovereigns	46,072	0 - 100	1,408	305
Claims on central banks	48,406	0 - 100	8,748	947
Claims on banks	20,651	20 - 100	11,154	19,167
Claims on non-central government public sector entities	2,058	0	0	0
Claims on corporates	152,373	20 - 150	155,523	122,253
Claims on retail segment	11,734	75	7,426	6,946
Claims secured by residential property	28,112	35 - 125	12,581	11,559
Fixed assets/other assets	8,766	100 - 250	10,366	9,795
Past due claims	6,079	50 - 150	7,439	8,855
Total			214,730	179,920

MCB Ltd	Nominal Amount	Credit Conversion Factor	Jun 18		Weighted Amount	Jun 17
			Credit Equivalent Amount	Weight		Weighted Amount
Non-market related off-balance sheet risk-weighted assets	Rs m	%	Rs m	%	Rs m	Rs m
Direct credit substitutes	9,011	100	8,822	0 - 100	8,753	1,285
Transaction-related contingent items	22,593	50	10,930	0 - 100	10,915	9,855
Trade related contingencies	23,800	20 - 100	10,872	0 - 100	10,773	3,896
Outstanding loans commitment	6,078	20 - 50	3,039	100	3,039	3,357
Total					33,480	18,393

MCB Ltd	Nominal Amount	Credit Conversion Factor	Jun 18			Weighted Assets	Jun 17
			Potential Future Exposure	Current Exposure	Credit Equivalent Amount		Weighted Assets
Market-related off-balance sheet risk-weighted assets	Rs m	%	Rs m	Rs m	Rs m	Rs m	Rs m
Interest rate contracts	677	0 - 1.5	3	0	3	2	45
Foreign exchange contracts	14,494	1 - 7.5	162	70	232	117	181
Total						119	226

	Jun 18	Jun 17
	Rs m	Rs m
Total credit risk-weighted assets	248,329	198,539

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

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 2018	
On-balance sheet	Eligible collateral
	Rs m
Corporate	961
Retail	2,060
	3,021
Off-balance sheet	Eligible collateral
	Rs m
Direct credit substitutes	191
Transaction-related contingent items	414
Trade-related contingencies	175
	780
Total	3,801

Aggregate net open foreign exchange position

MCB Ltd	Jun 16	Jun 17	Jun 18
Market risk	Rs m	Rs m	Rs m
Aggregate net open foreign exchange position	1,593	2,927	2,330
Capital charge for trading book position exceeding 5% or more of its total assets	-	4,984	7,479

Operational risk capital charge

MCB Ltd	Basic indicator approach			
	Alpha factor (α)	Jun 16	Jun 17	Jun 18
	%	Rs m	Rs m	Rs m
Total yearly weighted gross income	$\alpha=15$	1,825	2,039	2,256
Capital charge for operational risk		1,662	1,834	2,040



Jonathan CRICHTON
Director
Chairperson Risk Monitoring Committee



Alain LAW MIN
Chief Executive Officer

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 30 June 2018 and Management has exercised its judgement and made best estimates where deemed necessary.

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

The Bank’s Board of Directors, acting in part through the Audit Committee, Conduct Review Committee and Risk Monitoring

Committee, which comprise, principally, independent directors, oversees Management’s responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

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

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


The Bank’s 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



Uday GUJADHUR
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 2018, 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 2018;
- 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 and capital 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 information included in the annual report 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.

Independent auditor’s report

To the Shareholder of The Mauritius Commercial Bank Limited (Continued)

Report on the Audit of the Financial Statements of the Bank standing alone (Continued)

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 (Continued)

Report on the Audit of the Financial Statements of the Bank standing alone (Continued)

Auditor’s Responsibilities for the Audit of the Financial Statements (Continued)

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.

Independent auditor’s report

To the Shareholder of The Mauritius Commercial Bank Limited (Continued)

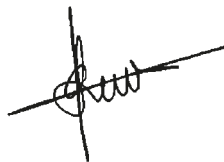
Other Matter

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

26 September 2018




Gilles Beesoo
Licensed by FRC


Statement of financial position

as at 30 June 2018

	Notes	2018 RS'000	2017 RS'000	2016 RS'000
ASSETS				
Cash and cash equivalents	4	34,087,944	34,033,960	31,975,711
Derivative financial instruments	5	95,817	226,731	175,771
Loans to and placements with banks	6(a)	19,265,587	25,912,459	22,485,623
Loans and advances to customers	6(b)	188,569,042	159,973,920	152,623,560
Investment securities	7	81,884,347	68,890,863	56,241,340
Investment in subsidiary	8(a)	117,570	64,322	-
Investments in associates	8(b)	1,362,227	1,159,250	1,161,063
Intangible assets	9	544,602	579,569	473,162
Property, plant and equipment	10	4,841,797	4,911,082	4,952,603
Deferred tax assets	11	104,365	143,667	193,960
Other assets	12	18,886,360	17,838,894	16,231,070
Total assets		349,759,658	313,734,717	286,513,863
LIABILITIES AND SHAREHOLDER'S EQUITY				
Deposits from banks	13(a)	6,588,686	5,302,566	4,712,603
Deposits from customers	13(b)	278,943,186	258,569,834	238,311,493
Derivative financial instruments	5	407,024	97,430	122,353
Other borrowed funds	14	14,188,543	5,606,935	4,865,908
Subordinated liability	15	1,060,181	1,052,037	1,082,289
Current tax liabilities		872,964	778,869	578,996
Other liabilities	17	6,407,271	5,081,995	3,884,798
Total liabilities		308,467,855	276,489,666	253,558,440
Shareholder's equity				
Stated capital		6,879,602	6,879,602	6,879,602
Retained earnings		25,994,839	23,462,727	20,435,491
Other components of equity		8,417,362	6,902,722	5,640,330
Total equity		41,291,803	37,245,051	32,955,423
Total equity and liabilities		349,759,658	313,734,717	286,513,863
CONTINGENT LIABILITIES				
Guarantees, letters of credit, endorsements and other obligations on account of customers		57,851,972	41,128,382	30,129,810
Commitments		6,077,554	6,714,334	2,600,154
Tax assessments		537,147	992,632	836,868
Other		1,396,653	1,353,991	1,427,519
	19	65,863,326	50,189,339	34,994,351

These financial statements were approved for issue by the Board of Directors on the 26 September 2018.


Alain LAW MIN
Director
Chief Executive


Jean-Philippe COULIER
Director
Chairperson


Uday GUJADHUR
Director
Chairperson Audit Committee

The notes on pages 167 to 242 form part of these financial statements.
Auditor's report on pages 152 to 155.

Statement of profit or loss

for the year ended 30 June 2018

	Notes	Year ended 30 June 2018 RS'000	Year ended 30 June 2017 RS'000	Year ended 30 June 2016 RS'000
Interest income	20	13,903,688	12,749,424	12,457,272
Interest expense	21	(3,794,901)	(3,870,375)	(4,101,325)
Net interest income		10,108,787	8,879,049	8,355,947
Fee and commission income	22	3,644,356	3,294,749	3,122,082
Fee and commission expense	23	(867,748)	(687,673)	(628,354)
Net fee and commission income		2,776,608	2,607,076	2,493,728
Other income		2,152,372	1,620,365	1,406,259
Profit arising from dealing in foreign currencies				
Net (loss)/gain from financial instruments carried at fair value	24	(381,569)	100,208	(88,482)
Dividend income	25	1,770,803	1,720,573	1,317,777
Net gain on sale of available-for-sale securities		365,621	354,594	251,998
Other operating income		17,999	6,056	1,193
		18,704	32,529	42,455
Operating income		2,173,127	2,113,752	1,613,423
Non-interest expense		15,058,522	13,599,877	12,463,098
Salaries and human resource costs	26(a)	(3,129,179)	(2,955,584)	(2,761,898)
Depreciation of property, plant and equipment		(391,651)	(367,856)	(358,331)
Amortisation of intangible assets		(201,416)	(188,486)	(139,093)
Other	26(b)	(1,733,068)	(1,509,897)	(1,380,498)
		(5,455,314)	(5,021,823)	(4,639,820)
Operating profit before impairment		9,603,208	8,578,054	7,823,278
Net impairment of financial assets	27	(1,228,932)	(950,504)	(907,021)
Profit before tax		8,374,276	7,627,550	6,916,257
Income tax expense	28	(1,611,782)	(1,390,088)	(1,296,094)
Profit for the year		6,762,494	6,237,462	5,620,163
Earnings per share (Rs)	30	9.83	9.07	8.17

The notes on pages 167 to 242 form part of these financial statements.
Auditor's report on pages 152 to 155.

Statement of comprehensive income

for the year ended 30 June 2018

	Year ended 30 June 2018 RS'000	Year ended 30 June 2017 RS'000	Year ended 30 June 2016 RS'000
Note			
Profit for the year	6,762,494	6,237,462	5,620,163
Other comprehensive (expense)/income:			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plan, net of deferred tax	(235,146)	287,079	(173,765)
Items that may be reclassified subsequently to profit or loss:			
Reclassification adjustments on disposal of available-for-sale investments	(227,304)	24,257	(60,243)
Net fair value gain/(loss) on available-for-sale investments	471,373	355,079	(46,491)
	244,069	379,336	(106,734)
Other comprehensive income/(expense) for the year	8,923	666,415	(280,499)
Total comprehensive income for the year	6,771,417	6,903,877	5,339,664

The notes on pages 167 to 242 form part of these financial statements.
Auditor's report on pages 152 to 155.

Statement of changes in equity

for the year ended 30 June 2018

	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
Note						
	6,879,602	18,705,062	882,117	3,130,602	691,497	30,288,880
	-	5,620,163	-	-	-	5,620,163
	-	(173,765)	(106,734)	-	-	(280,499)
	-	5,446,398	(106,734)	-	-	5,339,664
29	-	(2,132,676)	-	-	-	(2,132,676)
29	-	(540,445)	-	-	-	(540,445)
	-	(2,673,121)	-	-	-	(2,673,121)
	-	(844,000)	-	844,000	-	-
	-	(198,848)	-	-	198,848	-
	6,879,602	20,435,491	775,383	3,974,602	890,345	32,955,423
	-	6,237,462	-	-	-	6,237,462
	-	287,079	379,336	-	-	666,415
	-	6,524,541	379,336	-	-	6,903,877
29	-	(2,614,249)	-	-	-	(2,614,249)
	-	(2,614,249)	-	-	-	(2,614,249)
	-	(936,000)	-	936,000	-	-
	-	52,944	-	-	(52,944)	-
	6,879,602	23,462,727	1,154,719	4,910,602	837,401	37,245,051
	-	6,762,494	-	-	-	6,762,494
	-	(235,146)	244,069	-	-	8,923
	-	6,527,348	244,069	-	-	6,771,417
29	-	(2,751,841)	-	-	-	(2,751,841)
	-	27,176	-	-	-	27,176
	-	(2,724,665)	-	-	-	(2,724,665)
	-	(1,015,000)	-	1,015,000	-	-
	-	(255,571)	-	-	255,571	-
	6,879,602	25,994,839	1,398,788	5,925,602	1,092,972	41,291,803

The notes on pages 167 to 242 form part of these financial statements.
Auditor's report on pages 152 to 155.

Statement of cash flows

for the year ended 30 June 2018

		Year ended 30 June 2018 RS'000	Year ended 30 June 2017 RS'000	Year ended 30 June 2016 RS'000
Notes				
Operating activities				
Net cash flows from trading activities	32	(4,030,924)	(241,430)	5,094,908
Net cash flows from other operating activities	33	7,202,416	6,374,147	8,703,397
Dividends paid		(2,751,841)	(2,304,667)	(2,123,965)
Income tax paid		(1,430,223)	(1,190,595)	(1,107,369)
Net cash flows from operating activities		(1,010,572)	2,637,455	10,566,971
Investing activities				
Investment in associate		(190,960)	-	(50,705)
Investment in subsidiary		(53,248)	-	-
Purchase of property, plant and equipment		(334,070)	(347,321)	(285,825)
Purchase of intangible assets		(166,449)	(295,359)	(226,802)
Proceeds from sale of property, plant and equipment		12,942	33,271	5,886
Net cash flows from investing activities		(731,785)	(609,409)	(557,446)
Net cash flows before financing activities		(1,742,357)	2,028,046	10,009,525
Financing activities				
Net refund of subordinated loan		-	-	199,354
Net cash flows from financing activities		-	-	199,354
(Decrease)/Increase in cash and cash equivalents		(1,742,357)	2,028,046	10,208,879
Net cash and cash equivalents at 1 July		33,997,307	31,969,261	21,760,382
Net cash and cash equivalents at 30 June	4	32,254,950	33,997,307	31,969,261

The notes on pages 167 to 242 form part of these financial statements.
Auditor's report on pages 152 to 155.

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 18 August 1955. Its registered office is situated at 9-15, Sir William Newton Street, Port Louis, Mauritius.

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

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

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I. 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 are effective and applicable to the Bank in the reporting period:

Amendments to published standards (effective as from 1 January 2017):

- Amendments to IAS 12, Recognition of Deferred Tax Assets for unrealised losses;
- Amendments to IAS 7 - Disclosure Initiative; and
- Annual Improvements Cycle 2014 – 2016 - amendments to IFRS12.

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

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

Certain standards, amendments to published standards and interpretations issued are effective for accounting periods beginning after 1 July 2017, 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 1 January 2018;
- IFRS 9 Financial Instruments – effective 1 January 2018;
- IFRS 15 Revenue from Contracts with Customers – effective 1 January 2018;
- IFRS 16 Leases – effective 1 January 2019;
- IFRS 17 Insurance Contracts - effective 1 January 2021;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration – effective 1 January 2018;
- Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between investor and its associate or joint venture;
- IFRIC 23 Uncertainty over Income Tax Treatments – effective 1 January 2019; and
- Annual Improvements 2014 – 2016 Cycle - effective 1 January 2018.

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

IFRS 2 Share-based payment Amendment on clarifying share-based payment transactions– effective 1 January 2018

No material impact is expected on the financial statements.

I. 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)

IFRS 9 Financial Instruments - effective 1 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.

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.

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

Transition

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

I. 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)

IFRS 15 Revenue from Contracts with Customers – effective 1 January 2018

No material impact is expected on the financial statements.

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 Paragraph 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.

(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.

Notes to the financial statements

for the year ended 30 June 2018 (continued)

I. Significant Accounting Policies (Cont'd)

(b) Foreign currency translation (Cont'd)

(ii) Transactions and balances (Cont'd)

Trading transactions denominated in foreign currencies are accounted for at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities expressed in foreign currencies are reported at the rate of exchange ruling at the end of the reporting date. Differences arising from reporting monetary items are dealt with through profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates 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 forward contracts, currency swaps and interest rate swaps. These are initially recognised at fair value on the date the derivative contracts are entered into and subsequently remeasured at their fair 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.

(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.

I. Significant Accounting Policies (Cont'd)

(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.

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.

I. Significant Accounting Policies (Cont'd)

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

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

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the 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.

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 classified as available-for-sale is impaired.

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

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

I. Significant Accounting Policies (Cont'd)

(l) Property, plant and equipment

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

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

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

Land is not depreciated.

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

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

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

(n) Cash and cash equivalents

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

Notes to the financial statements

for the year ended 30 June 2018 (continued)

I. Significant Accounting Policies (Cont'd)

(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 Commercial Bank Limited Superannuation Fund.

(i) Defined contribution plans

Short term obligations

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

A defined contribution plan is a pension plan under which the 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

Gratuity on retirement

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

Termination Benefits

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

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

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

Option A: To stay in the Defined Benefit (DB) scheme for all service.

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

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

(r) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

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

(ii) Deferred income tax

Deferred 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.

Notes to the financial statements

for the year ended 30 June 2018 (continued)

I. Significant Accounting Policies (Cont'd)

(s) 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.

(t) 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 dividend is declared.

(u) 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.

(v) Stated capital

- (i) Ordinary shares are classified as equity.
- (ii) Share issue costs are incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(w) 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.

(x) 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).

(y) Earnings per share

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

2. Critical Accounting Estimates and Judgements

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and 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:

(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, the directors consider the interest rates of high quality corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

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.

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

(e) Asset lives and residual values

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

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

(f) Impairment loss on financial assets

(i) Specific provisioning

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

(g) Provision for tax assessment

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

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

	2018 Rs '000	2017 Rs '000	2016 Rs '000
Neither past due nor impaired	196,399,312	156,262,327	147,204,941
Past due but not impaired	2,003,711	1,626,920	5,744,304
Impaired	8,508,032	9,698,673	9,515,741
Gross	206,911,055	167,587,920	162,464,986
Less Allowances for credit impairment	(6,060,701)	(5,659,940)	(6,623,444)
Net	200,850,354	161,927,980	155,841,542
Fair Value of collaterals of past due but not impaired loans	3,034,280	1,916,486	7,000,893
Fair Value of collaterals of impaired loans	6,553,385	10,938,817	9,628,873

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 ratings have been aligned to the three quality classifications based upon the mapping of related Customer Risk Rating ("CRR") to external credit ratings. The mapping is reviewed on a regular basis.

Notes to the financial statements

for the year ended 30 June 2018 (continued)

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 2018 RS ‘000	Cash and cash equivalents 2017 RS ‘000	Loans to and placements with banks 2018 RS ‘000	Loans to and placements with banks 2017 RS ‘000
Credit rating:				
Aaa to Aa3	2,258,416	11,802,356	-	1,308,917
A1 to A3	6,442,163	10,127,093	780,599	6,070,293
B1 to B3	-	-	1,667,481	689,820
Ba1 to Ba3	1,300,121	1,640,361	1,502,665	-
Baa1 to Baa3	20,225,769	6,874,469	14,562,293	17,040,116
Caa1 to Caa3	-	172,533	-	-
Unrated	3,861,475	876,942	887,574	809,690
Total gross amount	34,087,944	31,493,754	19,400,612	25,918,836
Allowance for impairment (individual and collective)	-	-	(135,025)	(6,377)
Net carrying amount	34,087,944	31,493,754	19,265,587	25,912,459

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

	2018 RS ‘000	2017 RS ‘000	2016 RS ‘000
Up to 3 months	1,938,251	1,472,371	743,202
Over 3 months and up to 6 months	41,792	92,684	2,325,662
Over 6 months and up to 1 year	990	37,460	522,510
Over 1 year	22,678	24,405	2,152,930
	2,003,711	1,626,920	5,744,304

3. Financial Risk Management (Cont'd)

(b) Credit risk (Cont'd)

Loan and advances restructured

	2018 RS ‘000	2017 RS ‘000	2016 RS ‘000
Loan and advances restructured	9,786,301	13,279,962	13,021,413
out of which impaired	1,478,184	1,781,548	995,728

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 :

	2018 RS ‘000	2017 RS ‘000	2016 RS ‘000
Credit risk exposures relating to on-balance sheet assets are as follows :			
Cash and cash equivalents	31,721,573	31,493,754	29,938,462
Derivative financial instruments	95,817	226,731	175,771
Loans to and placements with banks	19,265,587	25,912,459	22,485,623
Loans and advances to customers	188,569,042	159,973,920	152,623,560
Investment securities	79,536,257	66,557,591	54,236,768
Other financial assets	17,948,311	16,695,782	14,539,012
Total	337,136,587	300,860,237	273,999,196
Credit risk exposures relating to off-balance sheet assets are as follows :			
Guarantees, letters of credit, endorsements and other obligations on account of customers	57,851,972	41,128,382	30,129,810
Commitments	6,077,554	6,714,334	2,600,154
Total	63,929,526	47,842,716	32,729,964

Notes to the financial statements

for the year ended 30 June 2018 (continued)

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%.

	2018 RS '000	2017 RS '000	2016 RS '000
Available-for-sale financial assets	220,918	225,879	201,546

(ii) Current 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
2018 (RS '000)	(36,352)	(37,812)	(59,521)	(15,752)
2017 (RS '000)	(29,885)	(15,266)	(29,885)	(5,627)
2016 (RS '000)	(8,422)	(17,843)	(28,164)	(8,341)

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 30 June 2018	EURO RS '000	USD RS '000	GBP RS '000	MUR RS '000	OTHER RS '000	TOTAL RS '000
Financial assets						
Cash and cash equivalents	5,676,105	16,741,989	1,166,230	8,578,312	1,925,308	34,087,944
Derivative financial instruments	25,600	-	-	70,217	-	95,817
Loans to and placements with banks	863,186	5,367,438	-	12,027,372	1,142,616	19,400,612
Loans and advances to customers	22,251,978	64,186,332	893,665	107,006,393	106,438	194,444,806
Investment securities	1,455,976	1,585,355	155,389	78,641,671	95,868	81,934,259
Other financial assets	642,146	1,421,074	200,599	15,553,230	131,262	17,948,311
	30,914,991	89,302,188	2,415,883	221,877,195	3,401,492	347,911,749
Less allowances for credit impairment						(6,060,701)
Total						341,851,048
Financial liabilities						
Deposits from banks	1,551,676	4,295,375	418,730	243,715	79,190	6,588,686
Deposits from customers	26,674,310	60,250,870	5,283,647	182,937,026	3,797,333	278,943,186
Derivative financial instruments	1,639	18	-	405,367	-	407,024
Other borrowed funds	2,917,255	11,268,518	-	2,561	209	14,188,543
Subordinated liability	-	1,060,181	-	-	-	1,060,181
Other financial liabilities	169,179	196,346	37,096	1,379,905	21,265	1,803,791
Total	31,314,059	77,071,308	5,739,473	184,968,574	3,897,997	302,991,411
Net on-balance sheet position	(399,068)	12,230,880	(3,323,590)	36,908,621	(496,505)	44,920,338
Less allowances for credit impairment						(6,060,701)
						38,859,637
Off balance sheet net notional position	6,701,679	13,718,209	420,004	-	481,963	21,321,855
Credit commitments	3,179,035	44,215,443	45,469	15,742,046	747,533	63,929,526

Notes to the financial statements

for the year ended 30 June 2018 (continued)

3. Financial Risk Management (Cont'd)

(c) Market risk (Cont'd)

(ii) Currency risk (Cont'd)

Concentration of assets, liabilities and off-balance sheet items

At 30 June 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	12,849,007	48,180,747	984,858	103,549,192	59,734	165,623,538
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	14,397,142	114,575	16,695,782
	28,139,301	75,661,319	8,214,881	196,660,522	2,717,632	311,393,655
Less allowances for credit impairment						(5,659,940)
Total						305,733,715
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	245,685	156,440	161,831	879,209	20,785	1,463,950
Total	28,139,958	66,264,922	4,583,548	167,495,687	5,608,637	272,092,752
Net on-balance sheet position	(657)	9,396,397	3,631,333	29,164,835	(2,891,005)	39,300,903
Less allowances for credit impairment						(5,659,940)
						33,640,963
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 30 June 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	14,409,647	41,028,319	792,053	102,853,645	145,395	159,229,059
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	12,423,553	105,093	14,539,012
	29,495,636	66,315,552	4,535,788	177,751,718	6,565,767	284,664,461
Less allowances for credit impairment						(6,623,444)
Total						278,041,017
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	209,155	249,655	231,567	1,321,094	23,747	2,035,218
Total	31,286,309	58,488,550	4,437,980	150,335,941	6,581,084	251,129,864
Net on-balance sheet position	(1,790,673)	7,827,002	97,808	27,415,777	(15,317)	33,534,597
Less allowances for credit impairment						(6,623,444)
						26,911,153
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

Notes to the financial statements

for the year ended 30 June 2018 (continued)

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:

	2018 RS '000	2017 RS '000	2016 RS '000
Impact on Earnings	1,150,382	710,740	713,587

Interest sensitivity of assets and liabilities - repricing analysis

At 30 June 2018	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	2,260,851	-	-	-	-	-	31,827,093	34,087,944
Derivative financial instruments	-	-	-	-	-	16,872	78,945	95,817
Loans to and placements with banks	1,998,059	2,680,965	1,615,894	11,940,909	799,517	121,666	243,602	19,400,612
Loans and advances to customers	115,333,255	34,230,275	7,235,946	10,625,016	11,632,750	12,191,927	3,195,637	194,444,806
Investment securities	5,259,264	9,852,122	8,877,740	15,006,837	18,663,496	20,885,381	3,389,419	81,934,259
Other financial assets	-	-	-	-	3,523	-	17,944,788	17,948,311
	124,851,429	46,763,362	17,729,580	37,572,762	31,099,286	33,215,846	56,679,484	347,911,749
Less allowances for credit impairment								(6,060,701)
Total								341,851,048
Financial liabilities								
Deposits from banks	4,144,532	909,542	908,844	-	-	-	625,768	6,588,686
Deposits from customers	233,609,985	2,712,636	781,473	1,534,738	1,160,713	3,862,383	35,281,258	278,943,186
Derivative financial instruments	-	-	-	-	-	-	407,024	407,024
Other borrowed funds	3,648,176	8,863,955	722,226	2,538	10,690	855,798	85,160	14,188,543
Subordinated liability	-	1,042,848	-	-	-	-	17,333	1,060,181
Other financial liabilities	-	-	-	-	-	-	1,803,791	1,803,791
Total	241,402,693	13,528,981	2,412,543	1,537,276	1,171,403	4,718,181	38,220,334	302,991,411
On balance sheet interest sensitivity gap	(116,551,264)	33,234,381	15,317,037	36,035,486	29,927,883	28,497,665	18,459,150	44,920,338
Less allowances for credit impairment								(6,060,701)
								38,859,637

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 30 June 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	2,549,641	165,623,538
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	16,289,014	16,695,782
	134,740,004	48,574,624	22,888,488	18,233,786	17,174,919	31,772,059	38,009,775	311,393,655
Less allowances for credit impairment								(5,659,940)
Total								305,733,715
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	1,208,938	1,463,950
Total	236,988,081	3,223,008	2,908,767	1,363,075	1,437,779	2,860,898	23,311,144	272,092,752
On balance sheet interest sensitivity gap	(102,248,077)	45,351,616	19,979,721	16,870,711	15,737,140	28,911,161	14,698,631	39,300,903
Less allowances for credit impairment								(5,659,940)
								33,640,963

Notes to the financial statements

for the year ended 30 June 2018 (continued)

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 30 June 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	2,302,653	159,229,059
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	14,291,659	14,539,012
	134,303,687	35,624,052	13,567,845	20,074,061	20,142,397	19,059,480	41,892,939	284,664,461
Less allowances for credit impairment								(6,623,444)
Total								278,041,017
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	1,708,497	2,035,218
Total	217,625,453	3,080,459	3,089,287	1,990,256	889,424	3,736,720	20,718,265	251,129,864
On balance sheet interest sensitivity gap	(83,321,766)	32,543,593	10,478,558	18,083,805	19,252,973	15,322,760	21,174,674	33,534,597
Less allowances for credit impairment								(6,623,444)
								26,911,153

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 tables are undiscounted (2016: discounted).

Maturities of assets and liabilities

At 30 June 2018	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	14,483,301	-	-	-	-	-	19,183,698	33,666,999
Derivative financial instruments	-	(667)	1,362	(3,344)	(4,252)	1,710	78,945	73,754
Loans to and placements with banks	910,550	2,412,573	2,275,668	12,578,918	1,415,050	211,366	33,179	19,837,304
Loans and advances to customers	32,943,701	18,416,678	7,799,992	15,723,304	51,621,378	103,064,357	18,814,552	248,383,962
Investment securities	3,823,583	10,170,217	9,012,151	15,198,699	22,122,473	30,532,862	2,642,004	93,501,989
Other financial assets	-	-	-	-	-	-	17,948,311	17,948,311
	52,161,135	30,998,801	19,089,173	43,497,577	75,154,649	133,810,295	58,700,689	413,412,319
Less allowances for credit impairment								(6,060,701)
Total								407,351,618
Financial liabilities								
Deposits from banks	4,762,684	917,176	918,164	-	-	-	-	6,598,024
Deposits from customers	245,096,101	5,117,347	3,192,517	7,233,676	12,097,995	7,851,392	-	280,589,028
Derivative financial instruments	-	-	-	-	-	-	407,024	407,024
Other borrowed funds	2,325,725	6,728,355	305,450	999,696	2,550,926	1,174,037	-	14,084,189
Subordinated liability	-	21,055	-	134,949	512,224	569,322	-	1,237,550
Other financial liabilities	-	-	-	-	-	-	1,803,791	1,803,791
Total	252,184,510	12,783,933	4,416,131	8,368,321	15,161,145	9,594,751	2,210,815	304,719,606
Net liquidity gap	(200,023,375)	18,214,868	14,673,042	35,129,256	59,993,504	124,215,544	56,489,874	108,692,713
Less allowances for credit impairment								(6,060,701)
								102,632,012

Notes to the financial statements

for the year ended 30 June 2018 (continued)

3. Financial Risk Management (Cont'd)

(c) Market risk (Cont'd)

(iv) Liquidity risk (Cont'd)

Maturities of assets and liabilities

At 30 June 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	8,269,476	220,674,441
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	16,289,014	16,695,782
	80,187,564	27,937,526	25,910,969	29,528,470	58,607,603	114,539,014	30,044,290	366,755,436
Less allowances for credit impairment								(5,659,940)
Total								361,095,496
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	1,208,938	1,463,950
Total	228,312,942	6,043,679	4,610,122	7,539,352	13,831,931	13,195,943	1,229,369	274,763,338
Net liquidity gap	(148,125,378)	21,893,847	21,300,847	21,989,118	44,775,672	101,343,071	28,814,921	91,992,098
Less allowances for credit impairment								(5,659,940)
								86,332,158

3. Financial Risk Management (Cont'd)

(c) Market risk (Cont'd)

(iv) Liquidity risk (Cont'd)

Maturities of assets and liabilities

At 30 June 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	2,434,840	159,229,059
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	14,291,659	14,539,012
	74,540,813	14,924,372	12,040,578	23,126,920	34,469,463	105,943,366	19,618,949	284,664,461
Less allowances for credit impairment								(6,623,444)
Total								278,041,017
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	1,708,497	2,035,218
Total	206,070,965	4,833,133	4,615,568	7,491,117	9,001,557	16,764,394	2,353,130	251,129,864
Net liquidity gap	(131,530,152)	10,091,239	7,425,010	15,635,803	25,467,906	89,178,972	17,265,819	33,534,597
Less allowances for credit impairment								(6,623,444)
								26,911,153

Notes to the financial statements
for the year ended 30 June 2018 (continued)

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 an instrument is observable, the instrument is included in level 2.

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

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

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

(e) Capital risk management

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

3. Financial Risk Management (Cont'd)

(f) Financial instruments by category

At 30 June 2018

Financial assets

Cash and cash equivalents
Derivative financial instruments
Loans to and placements with banks
Loans and advances to customers
Investment securities
Other financial assets

Total

Financial liabilities

Deposits from banks
Deposits from customers
Derivative financial instruments
Other borrowed funds
Subordinated liability
Other financial liabilities

Total

Net on-balance sheet position

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
-	-	34,087,944	-	-	34,087,944
-	95,817	-	-	-	95,817
-	-	19,265,587	-	-	19,265,587
-	-	188,569,042	-	-	188,569,042
53,233,603	24,232,384	-	4,418,360	-	81,884,347
-	-	17,948,311	-	-	17,948,311
53,233,603	24,328,201	259,870,884	4,418,360	-	341,851,048
-	-	-	-	6,588,686	6,588,686
-	-	-	-	278,943,186	278,943,186
-	407,024	-	-	-	407,024
-	-	-	-	14,188,543	14,188,543
-	-	-	-	1,060,181	1,060,181
-	-	-	-	1,803,791	1,803,791
-	407,024	-	-	302,584,387	302,991,411
53,233,603	23,921,177	259,870,884	4,418,360	(302,584,387)	38,859,637

Notes to the financial statements

for the year ended 30 June 2018 (continued)

3. Financial Risk Management (Cont'd)

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

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	-	-	159,973,920	-	-	159,973,920
Investment securities	54,804,703	9,568,590	-	4,517,570	-	68,890,863
Other financial assets	-	-	16,695,782	-	-	16,695,782
Total	54,804,703	9,795,321	236,616,121	4,517,570	-	305,733,715
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	-	-	-	-	1,463,950	1,463,950
Total	-	97,430	-	-	271,995,322	272,092,752
Net on-balance sheet position	54,804,703	9,697,891	236,616,121	4,517,570	(271,995,322)	33,640,963

3. Financial Risk Management (Cont'd)

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

At 30 June 2016	Held-to-maturity RS '000	Held-for-trading RS '000	Loans and receivables RS '000	Available-for-sale RS '000	Other financial liabilities at amortised cost RS '000	Total RS '000
Financial assets						
Cash and cash equivalents	-	-	31,975,711	-	-	31,975,711
Derivative financial instruments	-	175,771	-	-	-	175,771
Loans to and placements with banks	-	-	22,485,623	-	-	22,485,623
Loans and advances to customers	-	-	152,623,560	-	-	152,623,560
Investment securities	51,487,622	722,789	-	4,030,929	-	56,241,340
Other financial assets	-	-	14,539,012	-	-	14,539,012
Total	51,487,622	898,560	221,623,906	4,030,929	-	278,041,017
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	-	-	-	-	2,035,218	2,035,218
Total	-	122,353	-	-	251,007,511	251,129,864
Net on-balance sheet position	51,487,622	776,207	221,623,906	4,030,929	(251,007,511)	26,911,153

Notes to the financial statements

for the year ended 30 June 2018 (continued)

4. Cash and Cash Equivalents

	2018 RS'000	2017 RS'000	2016 RS'000
Cash in hand	2,272,454	2,452,676	1,935,304
Foreign currency notes and coins	93,917	87,530	101,945
Unrestricted balances with Central Bank*	19,183,540	2,957,699	599,525
Balances due in clearing	425,401	466,989	447,892
Money market placements	-	18,413,033	9,724,176
Treasury bills held-for-trading	210,851	-	-
Balances with banks abroad	9,851,543	9,483,500	18,876,854
Interbank loans**	2,050,238	172,533	290,015
	34,087,944	34,033,960	31,975,711

* Unrestricted balances with Central Bank represent 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 statements of cash flows

	2018 RS'000	2017 RS'000	2016 RS'000
Cash and cash equivalents	34,087,944	34,033,960	31,975,711
Other borrowed funds (see note 14(a))	(1,832,994)	(36,653)	(6,450)
Net cash and cash equivalents	32,254,950	33,997,307	31,969,261
Change in year	(1,742,357)	2,028,046	10,208,879

5. Derivative Financial Instruments

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

Except for certain currency swaps, no exchange of principal takes place. The 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 financial 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			
At 30 June 2018			
Derivative Instruments			
Currency forwards	9,160,009	65,067	75,215
Interest rate swaps	52,685	8,727	2,784
Currency swaps	11,731,597	20,896	329,025
Others	329,437	1,127	-
	21,273,728	95,817	407,024
At 30 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	137,709	467	-
	29,160,830	226,731	97,430
At 30 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	47,760	50	-
	13,422,303	175,771	122,353

Notes to the financial statements

for the year ended 30 June 2018 (continued)

6. Loans

(a) Loans to and placements with banks

(i) Loans to and placements with banks

in Mauritius
outside Mauritius

Less:
Loans and placements with original maturity less than
3 months and included in cash and cash equivalents

Less:
Allowances for credit impairment

(ii) Remaining term to maturity

Up to 3 months
Over 3 months and up to 6 months
Over 6 months and up to 1 year
Over 1 year and up to 5 years
Over 5 years

(iii) Allowances for credit impairment

Portfolio provision :

At 1 July 2015

Provision for credit impairment for the year

At 30 June 2016

Provision released during the year

At 30 June 2017

Provision for credit impairment for the year

Amounts written off

At 30 June 2018

Interest in suspense

Provision and interest in suspense at 30 June 2018

	2018 RS'000	2017 RS'000	2016 RS'000
	14,077,611	7,923,109	6,277,304
	17,224,782	46,064,793	45,117,309
	31,302,393	53,987,902	51,394,613
	(11,901,781)	(28,069,066)	(28,891,045)
	19,400,612	25,918,836	22,503,568
	(135,025)	(6,377)	(17,945)
	19,265,587	25,912,459	22,485,623
	3,297,287	10,310,019	12,417,250
	2,226,314	8,204,519	2,703,010
	12,095,668	6,239,050	6,377,327
	1,519,065	1,042,981	1,005,981
	262,278	122,267	-
	19,400,612	25,918,836	22,503,568

	Specific RS'000	Portfolio RS'000	Total RS'000
	-	16,616	16,616
	-	1,329	1,329
	-	17,945	17,945
	-	(11,568)	(11,568)
	-	6,377	6,377
	205,093	32,218	237,311
	(173,808)	-	(173,808)
	31,285	38,595	69,880
	65,145	-	65,145
	96,430	38,595	135,025

6. Loans (Cont'd)

(b) Loans and advances to customers

(i) Loans and advances to customers

Retail customers:

Credit cards

Mortgages

Other retail loans

Corporate customers

Governments

Entities outside Mauritius

Less:

Allowances for credit impairment

(ii) Remaining term to maturity

Up to 3 months
Over 3 months and up to 6 months
Over 6 months and up to 1 year
Over 1 year and up to 5 years
Over 5 years

(iii) Allowances for credit impairment

At 1 July 2017

Exchange adjustment

Provision for credit impairment for the year

Provision released during the year

Amounts written off

At 30 June 2018

Interest in suspense

Provision and interest in suspense at 30 June 2018

At 1 July 2016

Exchange adjustment

Provision for credit impairment for the year

Provision released during the year

Amounts written off

At 30 June 2017

Interest in suspense

Provision and interest in suspense at 30 June 2017

	2018 RS'000	2017 RS'000	2016 RS'000
	1,003,083	659,962	653,788
	26,896,479	24,817,404	21,969,378
	12,957,067	12,238,768	12,621,653
	102,586,065	93,704,822	97,439,140
	1,323,731	523,147	283,043
	49,678,381	33,679,435	26,262,057
	194,444,806	165,623,538	159,229,059
	(5,875,764)	(5,649,618)	(6,605,499)
	188,569,042	159,973,920	152,623,560

	50,691,516	43,764,107	40,929,161
	6,734,022	4,402,213	4,612,032
	1,970,122	3,140,205	4,194,400
	57,866,312	39,158,470	39,145,416
	77,182,834	75,158,543	70,348,050
	194,444,806	165,623,538	159,229,059

	Specific RS'000	Portfolio RS'000	Total RS'000
	2,003,238	1,151,343	3,154,581
	21,008	-	21,008
	786,417	119,739	906,156
	(11,110)	-	(11,110)
	(453,284)	-	(453,284)
	2,346,269	1,271,082	3,617,351
	2,258,413	-	2,258,413
	4,604,682	1,271,082	5,875,764
	2,690,731	1,103,007	3,793,738
	(12,712)	-	(12,712)
	1,134,680	48,336	1,183,016
	(188,539)	-	(188,539)
	(1,620,922)	-	(1,620,922)
	2,003,238	1,151,343	3,154,581
	2,495,037	-	2,495,037
	4,498,275	1,151,343	5,649,618

Notes to the financial statements

for the year ended 30 June 2018 (continued)

6. Loans (Cont'd)

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

(iii) Allowances for credit impairment (Cont'd)

	Specific RS'000	Portfolio RS'000	Total RS'000
At 1 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 30 June 2016	2,690,731	1,103,007	3,793,738
Interest in suspense	2,811,761	-	2,811,761
Provision and interest in suspense at 30 June 2016	5,502,492	1,103,007	6,605,499

(iv) Allowances for credit impairment by industry sectors

	2018				2017		2016
	Gross amount of loans RS'000	Non performing loans RS'000	Specific provision and interest in suspense RS'000	Portfolio provision RS'000	Total provision RS'000	Total provision RS'000	Total provision RS'000
Agriculture and fishing	8,006,741	616,458	292,863	51,865	344,728	276,949	157,292
Manufacturing	9,364,011	383,199	123,509	152,658	276,167	265,662	456,515
<i>of which EPZ</i>	3,153,492	56,667	21,193	34,791	55,984	39,075	34,806
Tourism	25,191,420	572,686	442,184	72,194	514,378	570,919	455,062
Transport	5,121,880	1,318,379	846,302	47,060	893,362	605,588	161,106
Construction	15,482,908	1,407,640	892,081	173,143	1,065,224	1,045,143	1,726,628
Financial and business services	31,012,976	233,415	77,889	90,736	168,625	153,784	135,805
Traders	37,305,196	1,569,371	431,242	224,041	655,283	634,927	678,167
Personal	38,910,813	1,446,923	733,053	233,376	966,429	1,225,835	1,398,313
<i>of which credit cards</i>	995,138	22,486	19,946	21,409	41,355	39,417	69,785
<i>of which housing</i>	26,896,479	773,727	311,784	123,009	434,793	524,232	474,613
Professional	1,037,496	296,683	181,519	17,463	198,982	68,193	80,629
Foreign governments	1,323,731	-	-	-	-	-	-
Global Business Licence holders	15,928,184	428,475	460,131	168,630	628,761	496,474	1,035,110
Others	5,759,450	234,803	123,909	39,916	163,825	306,144	320,872
	194,444,806	8,508,032	4,604,682	1,271,082	5,875,764	5,649,618	6,605,499

6. Loans (Cont'd)

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

(v) Credit concentration of risk by industry sectors

Corporate notes and credit facilities extended by the Bank to any closely-related customers for amounts aggregating more than 10% of its Tier 1 capital (2017 and 2016: 15% of its capital base), classified by industry sectors.

	2018 RS'000	2017 RS'000	2016 RS'000
Agriculture and fishing	7,367,397	2,004,071	2,088,601
Manufacturing	2,926,040	294,716	2,365,431
<i>of which EPZ</i>	1,298,250	66,337	1,616,803
Tourism	17,100,616	5,934,586	11,705,358
Transport	66,430	52,399	39,946
Construction	10,420,322	4,253,594	4,211,324
Financial and business services	23,140,004	4,185,209	15,081,604
Traders	28,178,790	18,949,275	15,283,922
Global Business Licence holders	17,668,144	20,171,903	21,789,702
Others	3,553,575	45,647	62,992
	110,421,318	55,891,400	72,628,880

7. Investment Securities

Held-to-maturity	53,283,515	54,808,648	51,487,622
Held-for-trading	24,232,384	9,568,590	722,789
Available-for-sale	4,418,360	4,517,570	4,030,929
	81,934,259	68,894,808	56,241,340
Less:	(49,912)	(3,945)	-
Allowance for credit impairment on investment securities	81,884,347	68,890,863	56,241,340

(a) (i) Held-to-maturity

Government of Mauritius & Bank of Mauritius bonds	42,824,594	41,906,114	35,690,180
Treasury bills	2,000,461	10,680,154	14,635,850
Foreign bonds	1,409,392	1,567,616	879,910
Notes	7,049,068	654,764	281,682
	53,283,515	54,808,648	51,487,622

Notes to the financial statements

for the year ended 30 June 2018 (continued)

7. Investment Securities (Cont'd)

(a) (ii) Remaining term to maturity

	2018					
	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	773,366	1,812,848	6,259,839	24,147,183	9,831,358	42,824,594
Treasury bills	209,387	817,724	973,350	-	-	2,000,461
Foreign bonds	174,970	406,199	157,767	670,456	-	1,409,392
Notes	-	-	-	2,956,257	4,092,811	7,049,068
	1,157,723	3,036,771	7,390,956	27,773,896	13,924,169	53,283,515

	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

(b) (i) Held-for-trading

Treasury bills:

Up to 3 months	
Over 3 months and up to 6 months	
Over 6 months and up to 12 months	
Government of Mauritius & Bank of Mauritius bonds	
Foreign bonds	

	2018 RS'000	2017 RS'000	2016 RS'000
Up to 3 months	11,633,644	2,107,988	-
Over 3 months and up to 6 months	5,110,295	1,949,766	-
Over 6 months and up to 12 months	6,429,650	3,312,559	57,061
Government of Mauritius & Bank of Mauritius bonds	1,058,795	1,689,065	-
Foreign bonds	-	509,212	665,728
	24,232,384	9,568,590	722,789

7. Investment Securities (Cont'd)

(b) (ii) Held-for-trading by levels

Quoted - Level 1

Foreign bonds

Unquoted - Level 2

Government of Mauritius & Bank of Mauritius bonds
Treasury bills

(c) (i) Available-for-sale by levels

Quoted - Level 1

Official list : shares
Bonds
Foreign shares

Unquoted - Level 2

Inflation - indexed Government of Mauritius bonds
Investment fund

Unquoted - Level 3

Investment fund
Equity shares
Inflation - indexed Government of Mauritius bonds

(ii) Reconciliation of Level 3 fair value measurements

At 1 July 2015
Disposals
Fair value
Exchange adjustments
At 30 June 2016
Fair value
Transfer to Level 2
Exchange adjustments
At 30 June 2017
Fair value
Transfer to Level 2
At 30 June 2018

2018 RS'000	2017 RS'000	2016 RS'000
-	509,212	665,728
1,058,795	1,689,065	-
23,173,589	7,370,313	57,061
24,232,384	9,059,378	57,061
24,232,384	9,568,590	722,789

885,660	1,263,593	1,103,635
1,354,821	1,480,819	1,185,342
1,233,154	840,403	671,661
3,473,635	3,584,815	2,960,638
205,709	-	-
509,740	494,618	416,227
715,449	494,618	416,227
-	-	215,927
229,276	229,276	229,276
-	208,861	208,861
229,276	438,137	654,064
4,418,360	4,517,570	4,030,929

RS'000
641,298
(4)
11,102
1,668
654,064
(4,466)
(205,448)
(6,013)
438,137
(3,152)
(205,709)
229,276

Notes to the financial statements

for the year ended 30 June 2018 (continued)

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 30 June 2018						
MCB Madagascar SA	Madagascar	Banking & Financial Services	4,252,903	3,625,635	80.00	117,570
Year ended 30 June 2017	Madagascar	Banking & Financial Services	3,523,754	2,963,273	80.00	64,322
Year ended 30 June 2016						-

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

	2018 RS'000	2017 RS'000	2016 RS'000
At 1 July	64,322	-	-
Increase in shareholding during the year	53,248	-	-
Transferred from other assets	-	64,322	-
At 30 June	117,570	64,322	-

8. Investments in Subsidiary and Associates (Cont'd)

(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
At 30 June 2018							
Banque Française Commerciale Océan Indien	France	73,977,358	67,366,892	4,130,602	854,440	49.99	447,489
Société Générale Moçambique	Mozambique	3,371,670	2,744,458	429,013	(244,831)	35.00	501,585
							949,074
Subordinated loan to associates							413,153
							1,362,227
At 30 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	2,327,929	2,004,454	303,435	(246,064)	35.00	310,625
							758,114
Subordinated loan to associates							401,136
							1,159,250
At 30 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	1,790,289	1,207,023	234,284	(229,511)	35.00	310,625
							758,114
Subordinated loan to associates							402,949
							1,161,063

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

	2018 RS'000	2017 RS'000	2016 RS'000
At 1 July	1,159,250	1,161,063	-
Increase in shareholding during the year	190,960	-	50,705
Exchange adjustment on subordinated loan	12,017	(1,813)	-
Transferred from non-current assets held for distribution	-	-	707,409
	1,362,227	1,159,250	758,114
Subordinated loan to associate reclassified from loans to banks	-	-	402,949
At 30 June	1,362,227	1,159,250	1,161,063

9. Intangible Assets

Cost

	Computer software RS'000	Work in progress RS'000	Total RS'000
At 1 July 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 30 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 30 June 2017	2,717,111	109,411	2,826,522
Additions	14,148	152,301	166,449
Transfer	103,154	(103,154)	-
At 30 June 2018	2,834,413	158,558	2,992,971

Accumulated amortisation

At 30 June 2015	1,970,189	-	1,970,189
Scrap/Impairment	(50,679)	-	(50,679)
Charge for the year	139,093	-	139,093
At 30 June 2016	2,058,603	-	2,058,603
Scrap/Impairment	(136)	-	(136)
Charge for the year	188,486	-	188,486
At 30 June 2017	2,246,953	-	2,246,953
Charge for the year	201,416	-	201,416
At 30 June 2018	2,448,369	-	2,448,369

Net book values

At 30 June 2018	386,044	158,558	544,602
At 30 June 2017	470,158	109,411	579,569
At 30 June 2016	278,545	194,617	473,162

The Core Banking System T24 is the only material intangible asset. The remaining useful life of this intangible asset is 2 years.

10. Property, Plant and Equipment

Cost

At 1 July 2015
Additions
Disposals
Transfer
At 30 June 2016
Additions
Disposals
Transfer
At 30 June 2017
Additions
Disposals
Transfer
At 30 June 2018

Accumulated depreciation

At 1 July 2015
Charge for the year
Disposal adjustment
At 30 June 2016
Charge for the year
Disposal adjustment
At 30 June 2017
Charge for the year
Disposal adjustment
At 30 June 2018

Net book values

At 30 June 2018
At 30 June 2017
At 30 June 2016

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
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4,448,191	2,888,827	763,102	25,460	8,125,580
-	93,962	18,595	173,268	285,825
-	(162,079)	(26,247)	-	(188,326)
-	60,203	3,705	(63,908)	-
4,448,191	2,880,913	759,155	134,820	8,223,079
14,777	98,270	26,597	207,677	347,321
(23,715)	(42,018)	(7,544)	-	(73,277)
82,735	159,660	41,583	(283,978)	-
4,521,988	3,096,825	819,791	58,519	8,497,123
30,441	176,734	20,180	106,715	334,070
-	(75,975)	(44,059)	-	(120,034)
-	116,693	34,650	(151,343)	-
4,552,429	3,314,277	830,562	13,891	8,711,159

645,724	2,066,499	382,914	-	3,095,137
71,260	237,601	49,470	-	358,331
-	(160,828)	(22,164)	-	(182,992)
716,984	2,143,272	410,220	-	3,270,476
73,703	241,837	52,316	-	367,856
(5,431)	(40,829)	(6,031)	-	(52,291)
785,256	2,344,280	456,505	-	3,586,041
73,700	263,260	54,691	-	391,651
-	(73,810)	(34,520)	-	(108,330)
858,956	2,533,730	476,676	-	3,869,362

3,693,473	780,547	353,886	13,891	4,841,797
3,736,732	752,545	363,286	58,519	4,911,082
3,731,207	737,641	348,935	134,820	4,952,603

Notes to the financial statements

for the year ended 30 June 2018 (continued)

11. Deferred Tax Assets

2018

Provisions and post retirement benefits
Provisions for credit impairment
Accelerated tax depreciation

At 30 June 2018

2017

Provisions and post retirement benefits
Provisions for credit impairment
Accelerated tax depreciation

At 30 June 2017

2016

Provisions and post retirement benefits
Provisions for credit impairment
Accelerated tax depreciation

At 30 June 2016

Balance as at 1 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 30 June RS'000
186,526	-	11,142	48,162	245,830
152,578	-	(47,456)	-	105,122
(195,437)	-	(51,150)	-	(246,587)
143,667	-	(87,464)	48,162	104,365

253,905	-	(16,718)	(50,661)	186,526
115,753	(12)	36,837	-	152,578
(175,698)	-	(19,739)	-	(195,437)
193,960	(12)	380	(50,661)	143,667

236,584	-	(13,344)	30,665	253,905
162,835	(660)	(46,422)	-	115,753
(176,900)	-	1,202	-	(175,698)
222,519	(660)	(58,564)	30,665	193,960

12. Other Assets

Mandatory balances with Central Bank
Prepayments & other receivables
Credit Card Clearing
Non-banking assets acquired in satisfaction of debts*
Impersonal & other accounts
Post employee benefit asset (see note 16)

2018 RS'000	2017 RS'000	2016 RS'000
17,196,714	15,432,134	13,688,608
469,478	699,238	725,499
89,854	68,525	68,659
48,699	51,802	51,909
1,081,615	1,487,708	1,696,395
-	99,487	-
18,886,360	17,838,894	16,231,070

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

13. Deposits

(a) Deposits from banks

Demand deposits

Money market deposits with remaining term to maturity:

Up to 3 months
Over 3 months and up to 6 months
Over 6 months and up to 1 year
Over 1 year and up to 5 years

(b) Deposits from customers

(i) Retail customers

Demand deposits

Savings deposits

Time deposits with remaining term to maturity:

Up to 3 months
Over 3 months and up to 6 months
Over 6 months and up to 1 year
Over 1 year and up to 5 years
Over 5 years

(ii) Corporate customers

Demand deposits

Savings deposits

Time deposits with remaining term to maturity:

Up to 3 months
Over 3 months and up to 6 months
Over 6 months and up to 1 year
Over 1 year and up to 5 years
Over 5 years

(iii) Government

Demand deposits

Savings deposits

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

2018 RS'000	2017 RS'000	2016 RS'000
3,815,235	2,743,209	2,643,632
1,861,440	1,703,673	715,676
912,011	670,395	1,045,465
-	185,289	25,379
-	-	282,451
2,773,451	2,559,357	2,068,971
6,588,686	5,302,566	4,712,603

27,312,248	25,318,439	25,182,505
121,345,043	109,296,825	96,501,629
3,862,278	2,807,938	3,304,781
1,858,647	1,954,290	1,855,545
4,478,033	4,201,169	4,596,129
12,405,134	12,645,559	11,663,604
4,105	12,586	5,478
22,608,197	21,621,542	21,425,537
171,265,488	156,236,806	143,109,671

86,750,375	80,958,642	72,803,936
4,964,468	5,906,210	5,253,182
5,711,297	4,799,755	4,937,434
1,274,641	1,520,490	1,699,788
2,528,487	2,260,756	2,850,519
6,312,278	6,810,544	4,803,622
100	62	2,791,762
15,826,803	15,391,607	17,083,125
107,541,646	102,256,459	95,140,243

25,328	15,353	9,411
110,724	61,216	52,168
136,052	76,569	61,579
278,943,186	258,569,834	238,311,493

14. Other Borrowed Funds

(a) Other borrowed funds comprise the following:

Borrowings from banks:
in Mauritius
Abroad

2018 RS'000	2017 RS'000	2016 RS'000
4,386,247	4,743	9,134
9,802,296	5,602,192	4,856,774
14,188,543	5,606,935	4,865,908
1,832,994	36,653	6,450

Other borrowed funds include borrowings with original maturity
of less than 3 months as shown in note 4

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

(b) Remaining term to maturity:

On demand or within a period not exceeding 1 year
Within a period of more than 1 year but not exceeding 3 years
Within a period of more than 3 years

8,363,531	41,352	15,584
3,517,597	-	-
2,307,415	5,565,583	4,850,324
14,188,543	5,606,935	4,865,908

15. Subordinated Liability

Subordinated liability comprise of the following:

USD 30M subordinated debt maturing in August 2023 at an average
interest rate of 4.8% (2017: 4.3% and 2016: 3.8%) (Level 3)

2018 RS'000	2017 RS'000	2016 RS'000
1,060,181	1,052,037	1,082,289

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.

16. Post Employee Benefit Liability/(Asset)

(a) Staff superannuation fund (defined benefit section)

Reconciliation of net defined benefit liability/(asset)

Opening balance
Amount recognised in statement of profit or loss
Amount recognised in statement of comprehensive income
Less capital injection
Less employer contributions

Liability/(asset) as shown in note 17 and 12

Reconciliation of fair value of plan assets

Opening balance
Interest income
Capital injection
Employer contributions
Benefits paid
Return on plan assets excluding interest income

Closing balance

Reconciliation of present value of defined benefit obligation

Opening balance
Current service cost
Interest expense
Other benefits paid
Liability experience loss/(gain)
Liability gain due to change in demographic assumptions
Liability loss/(gain) due to change in financial assumptions

Closing balance

Components of amount recognised in statement of profit or loss

Current service cost
Net interest on net defined benefit (asset)/liability

Total

Analysed as follows:

The Mauritius Commercial Bank Limited
Other members of The MCB Group Limited

Components of amount recognised in other statement of comprehensive income

Return on plan assets (above)/below interest income
Liability experience loss/(gain)
Liability gain due to change in demographic assumptions
Liability loss/(gain) due to change in financial assumptions

Total

2018 RS'000	2017 RS'000	2016 RS'000
(99,487)	249,707	1,034,237
197,012	214,143	267,942
283,308	(337,740)	204,430
-	-	(1,000,000)
(228,798)	(225,597)	(256,902)
152,035	(99,487)	249,707
6,796,365	6,202,697	5,297,925
440,005	402,455	365,479
-	-	1,000,000
228,798	225,597	256,902
(283,792)	(242,419)	(317,155)
11,902	208,035	(400,454)
7,193,278	6,796,365	6,202,697
6,696,878	6,452,404	6,332,162
210,798	205,129	201,604
426,219	411,469	431,817
(283,792)	(242,419)	(317,155)
369,496	-	(2,726)
(223,193)	-	-
148,907	(129,705)	(193,298)
7,345,313	6,696,878	6,452,404
210,798	205,129	201,604
(13,786)	9,014	66,338
197,012	214,143	267,942
172,431	197,708	238,205
24,581	16,435	29,737
197,012	214,143	267,942
(11,902)	(208,035)	400,454
369,496	-	(2,726)
(223,193)	-	-
148,907	(129,705)	(193,298)
283,308	(337,740)	204,430

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

(a) Staff superannuation fund (defined benefit section) (Cont'd)

Allocation of plan assets at end of year

Equity - Local quoted
Equity - Local unquoted
Debt - Overseas quoted
Debt - Local quoted
Debt - Local unquoted
Property - Local
Investment funds
Cash and other
Total

2018	2017	2016
%	%	%
31	28	21
1	1	1
3	6	9
12	8	6
5	4	1
3	3	3
32	32	31
13	18	28
100	100	100

Allocation of plan assets at end of year

Reporting entity's own transferable financial instruments
Property occupied by reporting entity
Other assets used by reporting entity

%	%	%
9	7	6
2	1	1
5	13	25

Principal assumptions used at end of year

Discount rate
Rate of salary increases
Rate of pension increases
Average retirement age (ARA)

6.3%	6.5%	6.5%
3.8%	4.5%	4.5%
3.3%	3.5%	3.7%
63	62	62

Average life expectancy for:

Male at ARA
Female at ARA

17.3 years	18.0 years	18.0 years
21.7 years	22.5 years	22.5 years

Sensitivity analysis on defined benefit obligation at end of year

Increase due to 1% decrease in discount rate
Decrease due to 1% increase in discount rate

2018 RS'000	2017 RS'000	2016 RS'000
1,311,293	1,192,044	1,221,952
1,027,086	944,260	947,166

The above sensitivity analysis has been carried out by recalculating the present value of obligation at the end of the period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation.

It has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

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

(a) Staff superannuation fund (defined benefit section) (Cont'd)

The sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

There was no change in the methods and assumptions used in preparing that sensitivity analysis from prior years.

The Bank sponsors a defined benefit pension plan for its staff which is self-administered and funded separately from the Bank. The Bank has recognised a net defined benefit liability of Rs 152,035,000 as at 30 June 2018 for the plan (net defined benefit asset - 2017 : Rs 99,487,000 and net defined benefit liability 2016: Rs 249,707,000).

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)	233,835
Weighted average duration of the defined benefit obligation	16 years

Defined contribution scheme

As from 1 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 had 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.

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

(b) Residual retirement gratuities

Amounts recognised in the financial statements at end of year

Reconciliation of net defined benefit liability

Amount recognised in statement of profit or loss

Liability as shown in note 17

Present value of defined benefit obligation

Principal assumptions used at end of year

Discount rate

Rate of salary increases

Rate of pension increases

Average retirement age (ARA)

Sensitivity analysis on defined benefit obligation at end of year

Increase due to 1% decrease in discount rate

Decrease due to 1% increase in discount rate

The above sensitivity analysis has been carried out by recalculating the present value of obligation at end of period after increasing or decreasing the discount rate while leaving all other assumptions unchanged.

Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation.

Future cash flows

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

Expected employer contribution for the next year (Rs'000)

Weighted average duration of the defined benefit obligation

Nil

22 years

17. Other Liabilities

Post employee benefit liability

(a) Staff Superannuation Fund (Defined Benefit Section - see note 16 a)

(b) Residual Retirement Gratuities (see note 16 b)

Proposed dividend (see note 29)

Impersonal & other accounts

18. Stated Capital and Reserves

(a) Stated capital

At 30 June 2016, 30 June 2017 and 30 June 2018

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

(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.

2018 RS'000	2017 RS'000	2016 RS'000
152,035	-	249,707
51,033	-	-
1,341,522	1,341,522	1,031,940
4,862,681	3,740,473	2,603,151
6,407,271	5,081,995	3,884,798

Number of shares
Share Capital
687,960,247

Notes to the financial statements

for the year ended 30 June 2018 (continued)

19. Contingent Liabilities

(a) Instruments

Guarantees on account of customers
Letters of credit and other obligations on account of customers
Other contingent items

(b) Commitments

Loans and other facilities, including undrawn credit facilities

(c) Tax assessments *

(d) Other

Inward bills held for collection
Outward bills sent for collection

2018 RS'000	2017 RS'000	2016 RS'000
22,168,213	19,186,056	18,330,563
32,684,338	20,444,660	8,273,242
2,999,421	1,497,666	3,526,005
57,851,972	41,128,382	30,129,810
6,077,554	6,714,334	2,600,154
537,147	992,632	836,868
404,983	350,954	423,796
991,670	1,003,037	1,003,723
1,396,653	1,353,991	1,427,519
65,863,326	50,189,339	34,994,351

*The Mauritius Commercial Bank Limited received income tax assessments relating to financial year ended 30 June 2007 to 30 June 2014 against which the Bank has initially objected.

The basis of the assessment raised by the Mauritius Revenue Authority (“MRA”) were around a number of areas and during the year, there have been advanced discussions between the Bank and the MRA in relation to some areas. On the basis of agreement reached for year of assessment 2014, an additional provision of Rs 258.3 million has been made at 30 June 2018 for all the years up to 30 June 2017.

In addition, the Bank received several assessments in the previous 5 years under the Value Added Tax Act for the periods beginning April 2006 to June 2015 against which the Bank has also objected.

The Bank is of the opinion that the likelihood of incurring additional payment to the MRA is not probable on the remaining areas where no agreement has yet been reached under Income Tax and Value Added Tax Acts which the Bank has objected.The maximum liability that could arise from these amounted to Rs 537.1 million.

The assessments are still pending in front of the Assessment Review Committee.

20. Interest Income

Loans to and placements with banks
Loans and advances to customers
Held-to-maturity investments
Available-for-sale investments
Held-for-trading investments
Other

21. Interest Expense

Deposits from banks
Deposits from customers
Subordinated liability
Other borrowed funds

22. Fee and Commission Income

Retail banking fees
Corporate banking fees
Guarantee fees
Interbank transaction fees
Cards and other related fees
Trade finance fees
Others

23. Fee and Commission Expense

Interbank transaction fees
Cards and other related fees
Corporate banking and trade finance fees
Others

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

Net (loss)/gain from derivative financial instruments
Investment securities held-for-trading

25. Dividend Income

Income from subsidiary
Income from associate
Income from quoted investments
Income from unquoted investments

Year ended 30 June 2018 RS'000	Year ended 30 June 2017 RS'000	Year ended 30 June 2016 RS'000
668,016	577,309	367,076
10,454,505	9,914,265	10,355,057
2,122,591	2,129,450	1,676,321
114,816	60,596	44,754
511,164	54,031	6,594
32,596	13,773	7,470
13,903,688	12,749,424	12,457,272
48,168	22,038	15,623
3,474,471	3,668,925	3,949,990
46,507	44,522	41,006
225,755	134,890	94,706
3,794,901	3,870,375	4,101,325
748,684	754,754	755,429
522,642	420,208	275,414
235,715	221,386	212,579
63,216	57,237	49,809
1,577,784	1,458,173	1,315,704
376,296	296,915	432,867
120,019	86,076	80,280
3,644,356	3,294,749	3,122,082
17,624	13,206	20,589
722,430	653,578	582,843
113,338	-	-
14,356	20,889	24,922
867,748	687,673	628,354
(420,408)	88,017	(108,131)
38,839	12,191	19,649
(381,569)	100,208	(88,482)
26,937	63,506	-
302,503	246,305	210,830
26,762	38,805	33,720
9,419	5,978	7,448
365,621	354,594	251,998

Notes to the financial statements

for the year ended 30 June 2018 (continued)

26. Non-Interest Expense

(a) Salaries and human resource costs

	Year ended 30 June 2018 RS'000	Year ended 30 June 2017 RS'000	Year ended 30 June 2016 RS'000
Wages and salaries	2,123,234	2,039,545	1,857,907
Defined benefit plan	172,431	197,708	238,205
Defined contribution plan	84,740	66,041	36,046
Residual Retirement Gratuities	51,033	-	-
Compulsory social security obligations	65,073	61,166	56,856
Equity settled share-based payments	10,915	3,024	1,558
Other personnel expenses	621,753	588,100	571,326
	3,129,179	2,955,584	2,761,898
	2,696	2,682	2,598

Number of employees at the end of the year

(b) Other

Legal & professional fees	406,192	258,475	235,863
Rent, repairs, maintenance and security costs	293,353	301,758	269,026
Software licensing and other information technology costs	255,029	242,892	215,071
Electricity, water & telephone charges	219,416	213,745	193,186
Advertising, marketing costs and sponsoring	156,276	150,610	132,656
Postage, courier & stationery costs	135,301	140,088	128,334
Insurance costs	95,090	102,660	83,773
Others	172,411	99,669	122,589
	1,733,068	1,509,897	1,380,498

27. Net Impairment of Financial Assets

Allowance for credit impairment:

Loans and advances (Note (a))	1,182,965	946,559	907,021
Investment securities	45,967	3,945	-
	1,228,932	950,504	907,021

(a) Allowance for credit impairment on loans and advances

Provision for bad and doubtful debts:			
Loans to and placements with banks	237,311	-	1,329
Loans and advances to customers	906,156	1,183,016	1,544,417
Bad debts written off for which no provisions were made	100,117	13,173	34,776
Provision released during the year:			
Loans to and placements with banks	-	(11,568)	-
Loans and advances to customers	(11,110)	(188,539)	(648,211)
Recoveries of advances written off	(49,509)	(49,523)	(25,290)
	1,182,965	946,559	907,021

28. Income Tax Expense

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

	Year ended 30 June 2018 RS'000	Year ended 30 June 2017 RS'000	Year ended 30 June 2016 RS'000
Income tax based on the adjusted profit	760,596	807,776	664,577
Deferred tax	87,464	(380)	58,564
Special levy on banks	493,820	511,704	428,271
Corporate Social Responsibility contribution	92,170	96,955	147,733
Over provision in previous years	(80,540)	(25,967)	(3,051)
Provision for tax assessment	258,272	-	-
Charge for the year	1,611,782	1,390,088	1,296,094
The tax on the profits differs from the theoretical amount that would arise using the basic tax rate as follows:			
Profit before tax:	8,374,276	7,627,550	6,916,257
	1,256,141	1,144,133	1,037,439
Tax calculated at a rate of 15%			
Impact of:			
Income not subject to tax	(142,783)	(73,095)	(126,464)
Expenses not deductible for tax purposes	222,341	98,547	79,259
Tax credits	(487,639)	(362,189)	(267,093)
Special levy on banks	493,820	511,704	428,271
Corporate Social Responsibility contribution	92,170	96,955	147,733
Over provision in previous years	(80,540)	(25,967)	(3,051)
Provision for tax assessment	258,272	-	-
Tax charge	1,611,782	1,390,088	1,296,094

Corporate Social Responsibility (CSR) tax

Corporate Social Responsibility (CSR) tax was legislated by the Government of Mauritius in July 2009. The Bank is entitled to allocate a percentage of its chargeable income of the preceding year to a CSR programme approved by the National CSR Foundation and the remaining to the Mauritius Revenue Authority.

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	283,308	(337,740)	204,430
Deferred tax (credit)/charge	(48,162)	50,661	(30,665)
Remeasurement of defined benefit pension plan, net of deferred tax	235,146	(287,079)	173,765

Notes to the financial statements

for the year ended 30 June 2018 (continued)

29. Dividends

Dividends in cash

Paid on 12 December 2017 at Rs 2.05 per share (F/Y 2017: Rs 1.85; F/Y 2016: Rs 1.60)

Paid on 27 July 2018 at Rs 1.95 per share (F/Y 2017: Rs 1.95; F/Y 2016: Rs 1.50)

Dividends in specie

Dividends in specie

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.

Profit for the year

Weighted average number of ordinary shares (thousands)

Earnings per share (Rs)

2018 RS'000	2017 RS'000	2016 RS'000
1,410,319	1,272,727	1,100,736
1,341,522	1,341,522	1,031,940
2,751,841	2,614,249	2,132,676
-	-	540,445
2,751,841	2,614,249	2,673,121

2018 RS'000	2017 RS'000	2016 RS'000
6,762,494	6,237,462	5,620,163
687,960	687,960	687,960
9.83	9.07	8.17

31. Commitments

(a) Capital commitments

Expenditure contracted for but not incurred

Expenditure approved by the Board but not contracted for

2018 RS'000	2017 RS'000	2016 RS'000
95,075	119,233	217,793
232,282	211,719	348,114

(b) Securities pledged

The Bank has pledged Government of Mauritius bonds as collateral for the purpose of overnight facility from the Bank of Mauritius and for repurchase agreement with other financial institutions.

Government of Mauritius bonds with Bank of Mauritius

Government of Mauritius bonds with other financial institutions

2018 RS'000	2017 RS'000	2016 RS'000
4,528,877	3,828,888	3,041,047
1,800,000	-	-
6,328,877	3,828,888	3,041,047

32. Net Cash Flows from Trading Activities

Continuing operations

Profit before tax

Increase in other assets

Increase in other liabilities

Net decrease/(increase) in derivative financial instruments

Net increase in investment securities held-for-trading

Capital injection in Superannuation Fund

(Release of)/additional provision for employee benefits

Additional Provision for residual retirement gratuities

Charge for credit impairment - loans and advances

Charge for credit impairment - investment securities

Release of provision for credit impairment

Exchange loss/(profit)

Depreciation of property, plant and equipment

Amortisation of intangible assets

Profit on disposal of property, plant and equipment

Loss on disposal of intangible assets

Profit on disposal of available-for-sale investments

2018 RS'000	2017 RS'000	2016 RS'000
8,374,276	7,627,550	6,916,257
(1,045,943)	(1,570,673)	(2,000,439)
1,049,897	1,137,322	446,039
440,508	(75,883)	102,507
(14,663,794)	(8,845,801)	(722,789)
-	-	(1,000,000)
(31,786)	(11,454)	11,040
51,033	-	-
1,143,467	1,183,016	1,545,746
45,967	3,945	-
(11,110)	(200,107)	(648,211)
42,731	(27,812)	(50,921)
391,651	367,856	358,331
201,416	188,486	139,093
(1,238)	(12,285)	(552)
-	466	-
(17,999)	(6,056)	(1,193)
(4,030,924)	(241,430)	5,094,908

33. Net Cash Flows from Other Operating Activities

Net increase in deposits

Net increase in loans and advances

Purchase of available-for-sale investments

Proceeds from sale of available-for-sale investments

Decrease/(increase) in held-to-maturity investment securities

Net increase/(decrease) in other borrowed funds

2018 RS'000	2017 RS'000	2016 RS'000
21,659,472	20,848,304	34,577,095
(23,301,635)	(11,760,105)	(14,473,617)
(11,413,222)	(872,146)	(442,746)
11,947,380	768,911	413,354
1,525,133	(3,321,026)	(10,535,271)
6,785,288	710,209	(835,418)
7,202,416	6,374,147	8,703,397

Notes to the financial statements

for the year ended 30 June 2018 (continued)

34. Related Party Transactions

Cash equivalents, Loans and advances

	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
Balances at 1 July 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 30 June 2016	330	-	1,957,909	2,767,929	178,924	643,973
Net movements during the year	242,492	297	224,550	(911,095)	542	156,591
Balances at 30 June 2017	242,822	297	2,182,459	1,856,834	179,466	800,564
Net movements during the year	(241,714)	66	1,818,960	(463,006)	70,474	(146,315)
Balances at 30 June 2018	1,108	363	4,001,419	1,393,828	249,940	654,249

Leases receivable (included above as from 1 July 2017)

Balance at year end:						
30 June 2016	-	-	-	-	-	497
30 June 2017	-	-	-	-	-	5,176

Deposits

Balance at year end:						
30 June 2016	50,361	79,361	5,486,329	57,485	304,548	106,069
30 June 2017	-	32,221	5,276,410	504,391	312,033	94,361
30 June 2018	522,807	76,863	5,710,560	163,046	243,523	100,193

Amounts due from/(to)

Balance at year end:						
30 June 2016	4,918	(1,018,762)	357,448	405,899	-	-
30 June 2017	2,060	(1,341,522)	444,088	453,517	-	-
30 June 2018	1,544	(1,341,522)	382,695	415,179	-	-

Off Balance sheet items

Balance at year end:						
30 June 2016	-	-	709,839	487,814	-	-
30 June 2017	-	-	856,872	1,587	-	4,088
30 June 2018	-	-	949,193	-	-	2,715

34. Related Party Transactions (Cont'd)

Interest income

For the year ended:

30 June 2016	-	-	108,999	30,256	5,567	11,002
30 June 2017	4,472	-	110,851	15,084	4,217	38,429
30 June 2018	15,760	-	135,985	15,564	5,171	32,400

Interest expense

For the year ended:

30 June 2016	-	-	51,443	2,671	3,567	108
30 June 2017	-	-	64,271	8,863	5,727	383
30 June 2018	-	-	53,741	5,051	5,792	87

Other income

For the year ended:

30 June 2016	5,100	1,598	99,123	215,172	801	452
30 June 2017	1,359	1	165,716	248,780	951	3,849
30 June 2018	1,268	1	163,598	300,399	2,865	2,976

Non interest expense

For the year ended:

30 June 2016	-	-	70,074	-	-	-
30 June 2017	-	-	71,734	-	-	-
30 June 2018	-	-	107,436	-	-	-

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

Credit facilities granted to related parties are secured except for credit cards, money market lines and facilities provided to related financial institution counterparties in accordance with our policy and are settled from the underlying obligor's operating cash 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 2017/2018, Rs 1,341.5M for 2016/2017 and Rs 1,031.9M for 2015/2016.

34. Related Party Transactions (Cont'd)

The figures for “Fees and Commissions and Other income” from Ultimate Holding Company/Holding Company and Entities under common control, include dividend income and reimbursable expenses charged to these entities in respect of salaries, notional rental of office space and provision of technical, administrative and other assistance. The figure for “Entities in which the bank holds more than a 10% interest” also includes dividend income, an annual amount in respect of management fees charged to Banque Francaise Commerciale Ocean Indien (‘BFCOI’) and fees charged to SG Moçambique in respect of cards services support.

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 “Fees and Commissions and 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 46.8M
MCB Madagascar	5 % of Operating income	Rs 10.8M
MCB Maldives	5 % of Operating income	Rs 13.5M

During the year, 42,657 share options were exercised under the Group Employee Share Option scheme by Key Management Personnel, including Executive Directors amounting to Rs 9.4M (FY 2016/2017: 96,880 share options for Rs 20.4M; FY 2015/2016: None).

Key Management Personnel compensation

Remuneration and other benefits relating to Key Management Personnel, including Directors, were as follows :

Salaries and short term employee benefits

Post employment benefits

2018 RS'000	2017 RS'000	2016 RS'000
104,103	133,737	145,518
7,186	8,253	11,539
111,289	141,990	157,057

35. 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.

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

Statement of financial position as at 30 June 2018

		2018			2017			2016		
		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	Note									
Cash and cash equivalents		34,087,944	24,236,401	9,851,543	34,033,960	6,137,427	27,896,533	31,975,711	3,374,681	28,601,030
Derivative financial instruments	35(a)	95,817	8,290	87,527	226,731	94,309	132,422	175,771	121,419	54,352
Loans to and placements with banks	35(b)	19,265,587	12,027,373	7,238,214	25,912,459	7,750,576	18,161,883	22,485,623	5,987,290	16,498,333
Loans and advances to customers	35(c)	188,569,042	123,525,034	65,044,008	159,973,920	114,756,516	45,217,404	152,623,560	114,439,816	38,183,744
Investment securities	35(d)	81,884,347	77,957,492	3,926,855	68,890,863	64,485,319	4,405,544	56,241,340	52,444,929	3,796,411
Investment in subsidiary	35(e)	117,570	-	117,570	64,322	-	64,322	-	-	-
Investments in associates	35(e)	1,362,227	-	1,362,227	1,159,250	-	1,159,250	1,161,063	-	1,161,063
Intangible assets	35(f)	544,602	544,602	-	579,569	579,569	-	473,162	473,162	-
Property, plant and equipment	35(g)	4,841,797	4,841,797	-	4,911,082	4,911,082	-	4,952,603	4,952,603	-
Deferred tax assets		104,365	97,789	6,576	143,667	127,335	16,332	193,960	172,808	21,152
Other assets	35(h)	18,886,360	18,772,720	113,640	17,838,894	17,412,632	426,262	16,231,070	16,107,745	123,325
Total assets		349,759,658	262,011,498	87,748,160	313,734,717	216,254,765	97,479,952	286,513,863	198,074,453	88,439,410
LIABILITIES AND SHAREHOLDER'S EQUITY										
Deposits from banks	35(i)	6,588,686	86,016	6,502,670	5,302,566	222,663	5,079,903	4,712,603	90,983	4,621,620
Deposits from customers	35(j)	278,943,186	203,769,469	75,173,717	258,569,834	184,060,612	74,509,222	238,311,493	163,853,411	74,458,082
Derivative financial instruments	35(a)	407,024	57,179	349,845	97,430	22,445	74,985	122,353	36,719	85,634
Other borrowed funds	35(k)	14,188,543	4,386,247	9,802,296	5,606,935	4,743	5,602,192	4,865,908	9,134	4,856,774
Subordinated liability	35(l)	1,060,181	-	1,060,181	1,052,037	-	1,052,037	1,082,289	-	1,082,289
Current tax liabilities		872,964	824,280	48,684	778,869	670,881	107,988	578,996	480,352	98,644
Other liabilities	35(m)	6,407,271	6,104,342	302,929	5,081,995	5,045,630	36,365	3,884,798	3,884,372	426
Total liabilities		308,467,855	215,227,533	93,240,322	276,489,666	190,026,974	86,462,692	253,558,440	168,354,971	85,203,469
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		25,994,839	25,994,839	-	23,462,727	23,462,727	-	20,435,491	20,435,491	-
Other components of equity		8,417,362	8,081,419	335,943	6,902,722	6,659,672	243,050	5,640,330	5,590,012	50,318
Total equity		41,291,803	40,955,860	335,943	37,245,051	37,002,001	243,050	32,955,423	32,905,105	50,318
Total equity and liabilities		349,759,658	256,183,393	93,576,265	313,734,717	227,028,975	86,705,742	286,513,863	201,260,076	85,253,787
CONTINGENT LIABILITIES										
Guarantees, letters of credit, endorsements and other obligations on account of customers		57,851,972	16,873,754	40,978,218	41,128,382	15,891,901	25,236,481	30,129,810	15,376,317	14,753,493
Commitments		6,077,554	4,719,360	1,358,194	6,714,334	3,316,186	3,398,148	2,600,154	1,757,355	842,799
Tax assessments		537,147	537,147	-	992,632	992,632	-	836,868	836,868	-
Other		1,396,653	551,689	844,964	1,353,991	508,450	845,541	1,427,519	627,279	800,240
	35(n)	65,863,326	22,681,950	43,181,376	50,189,339	20,709,169	29,480,170	34,994,351	18,597,819	16,396,532

Notes to the financial statements

for the year ended 30 June 2018 (continued)

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

Statement of profit or loss for the year ended 30 June 2018

		2018			2017			2016		
		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
Note										
Interest income	35(o)	13,903,688	10,227,030	3,676,658	12,749,424	9,907,583	2,841,841	12,457,272	9,837,634	2,619,638
Interest expense	35(p)	(3,794,901)	(2,991,944)	(802,957)	(3,870,375)	(3,225,767)	(644,608)	(4,101,325)	(3,419,133)	(682,192)
Net interest income		10,108,787	7,235,086	2,873,701	8,879,049	6,681,816	2,197,233	8,355,947	6,418,501	1,937,446
Fee and commission income	35(q)	3,644,356	2,143,068	1,501,288	3,294,749	1,972,477	1,322,272	3,122,082	1,789,528	1,332,554
Fee and commission expense	35(r)	(867,748)	(603,085)	(264,663)	(687,673)	(572,993)	(114,680)	(628,354)	(513,445)	(114,909)
Net fee and commission income		2,776,608	1,539,983	1,236,625	2,607,076	1,399,484	1,207,592	2,493,728	1,276,083	1,217,645
Other income										
Profit arising from dealing in foreign currencies		2,152,372	1,679,486	472,886	1,620,365	1,265,348	355,017	1,406,259	1,123,279	282,980
Net (loss)/gain from financial instruments carried at fair value	35(s)	(381,569)	(416,341)	34,772	100,208	65,906	34,302	(88,482)	(92,543)	4,061
		1,770,803	1,263,145	507,658	1,720,573	1,331,254	389,319	1,317,777	1,030,736	287,041
Dividend income	35(t)	365,621	31,256	334,365	354,594	39,469	315,125	251,998	36,703	215,295
Net gain/(loss) on sale of securities		17,999	13,254	4,745	6,056	7,096	(1,040)	1,193	-	1,193
Other operating income		18,704	15,239	3,465	32,529	35,991	(3,462)	42,455	37,915	4,540
		2,173,127	1,322,894	850,233	2,113,752	1,413,810	699,942	1,613,423	1,105,354	508,069
Operating income		15,058,522	10,097,963	4,960,559	13,599,877	9,495,110	4,104,767	12,463,098	8,799,938	3,663,160
Non-interest expense										
Salaries and human resource costs	35(u)	(3,129,179)	(2,671,411)	(457,768)	(2,955,584)	(2,550,333)	(405,251)	(2,761,898)	(2,486,647)	(275,251)
Depreciation of property, plant and equipment		(391,651)	(373,204)	(18,447)	(367,856)	(354,146)	(13,710)	(358,331)	(348,073)	(10,258)
Amortisation of intangible assets		(201,416)	(187,808)	(13,608)	(188,486)	(178,886)	(9,600)	(139,093)	(133,173)	(5,920)
Other	35(v)	(1,733,068)	(1,554,413)	(178,655)	(1,509,897)	(1,365,618)	(144,279)	(1,380,498)	(1,238,448)	(142,050)
		(5,455,314)	(4,786,836)	(668,478)	(5,021,823)	(4,448,983)	(572,840)	(4,639,820)	(4,206,341)	(433,479)
Operating profit before impairment		9,603,208	5,311,127	4,292,081	8,578,054	5,046,127	3,531,927	7,823,278	4,593,597	3,229,681
Net impairment of financial assets	35(w)	(1,228,932)	(326,567)	(902,365)	(950,504)	(184,671)	(765,833)	(907,021)	(401,131)	(505,890)
Profit before tax		8,374,276	4,984,560	3,389,716	7,627,550	4,861,456	2,766,094	6,916,257	4,192,466	2,723,791
Income tax expense	35(x)	(1,611,782)	(1,563,098)	(48,684)	(1,390,088)	(1,282,100)	(107,988)	(1,296,094)	(1,197,450)	(98,644)
Profit for the year		6,762,494	3,421,462	3,341,032	6,237,462	3,579,356	2,658,106	5,620,163	2,995,016	2,625,147

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

Statement of comprehensive income for the year ended 30 June 2018

		2018			2017			2016		
		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		6,762,494	3,421,462	3,341,032	6,237,462	3,579,356	2,658,106	5,620,163	2,995,016	2,625,147
Other comprehensive (expense)/income:										
Item that will not be reclassified to profit or loss:										
Remeasurement of defined benefit pension plan, net of deferred tax		(235,146)	(235,146)	-	287,079	287,079	-	(173,765)	(173,765)	-
Items that may be reclassified subsequently to profit or loss:										
Reclassification adjustments on disposal of available-for-sale investments		(227,304)	(227,304)	-	24,257	24,257	-	(60,243)	(60,243)	-
Net fair value gain/(loss) on available-for-sale investments		471,373	135,430	335,943	355,079	112,029	243,050	(46,491)	(96,809)	50,318
		244,069	(91,874)	335,943	379,336	136,286	243,050	(106,734)	(157,052)	50,318
Other comprehensive income/(expense) for the year		8,923	(327,020)	335,943	666,415	423,365	243,050	(280,499)	(330,817)	50,318
Total comprehensive income for the year		6,771,417	3,094,442	3,676,975	6,903,877	4,002,721	2,901,156	5,339,664	2,664,199	2,675,465

Notes to the financial statements

for the year ended 30 June 2018 (continued)

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

(a) Derivative financial instruments

	2018			2017			2016		
	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	65,067	5,495	59,572	71,665	48,500	23,165	70,977	29,231	41,746
Interest rate swaps	8,727	-	8,727	23,118	4,514	18,604	11,903	10,891	1,012
Currency swaps	20,896	2,795	18,101	131,481	41,295	90,186	92,841	81,297	11,544
Others	1,127	-	1,127	467	-	467	50	-	50
	95,817	8,290	87,527	226,731	94,309	132,422	175,771	121,419	54,352
(ii) Fair value liabilities									
Currency forwards	75,215	42,756	32,459	51,677	5,692	45,985	75,943	32,246	43,697
Interest rate swaps	2,784	-	2,784	26,008	-	26,008	22,174	-	22,174
Currency swaps	329,025	14,423	314,602	19,745	16,753	2,992	24,236	4,473	19,763
	407,024	57,179	349,845	97,430	22,445	74,985	122,353	36,719	85,634

(b) Loans to and placements with banks

(i) Loans to and placements with banks

in Mauritius	14,077,611	14,077,611	-	7,923,109	7,923,109	-	6,277,304	6,277,304	-
outside Mauritius	17,224,782	-	17,224,782	46,064,793	-	46,064,793	45,117,309	-	45,117,309
	31,302,393	14,077,611	17,224,782	53,987,902	7,923,109	46,064,793	51,394,613	6,277,304	45,117,309
Less:									
Loans and placements with original maturity less than 3 months and included in cash and equivalents	(11,901,781)	(2,050,238)	(9,851,543)	(28,069,066)	(172,533)	(27,896,533)	(28,891,045)	(290,014)	(28,601,031)
	19,400,612	12,027,373	7,373,239	25,918,836	7,750,576	18,168,260	22,503,568	5,987,290	16,516,278
Less allowances for credit impairment	(135,025)	-	(135,025)	(6,377)	-	(6,377)	(17,945)	-	(17,945)
	19,265,587	12,027,373	7,238,214	25,912,459	7,750,576	18,161,883	22,485,623	5,987,290	16,498,333

(ii) Remaining term to maturity

Up to 3 months	3,297,287	1,522,100	1,775,187	10,310,019	1,446,416	8,863,603	12,417,250	885,880	11,531,370
Over 3 months and up to 6 months	2,226,314	699,844	1,526,470	8,204,519	917,913	7,286,606	2,703,010	817,451	1,885,559
Over 6 months and up to 1 year	12,095,668	9,805,429	2,290,239	6,239,050	4,343,266	1,895,784	6,377,327	3,277,978	3,099,349
Over 1 year and up to 5 years	1,519,065	-	1,519,065	1,042,981	1,042,981	-	1,005,981	1,005,981	-
Over 5 years	262,278	-	262,278	122,267	-	122,267	-	-	-
	19,400,612	12,027,373	7,373,239	25,918,836	7,750,576	18,168,260	22,503,568	5,987,290	16,516,278

(iii) Allowances for credit impairment

	Segment B		
	TOTAL RS'000	Specific RS'000	Portfolio RS'000
At 01 July 2015	16,616	-	16,616
Provision for credit impairment for the year	1,329	-	1,329
At 30 June 2016	17,945	-	17,945
Provision released during the year	(11,568)	-	(11,568)
At 30 June 2017	6,377	-	6,377
Provision for credit impairment for the year	237,311	205,093	32,218
Amounts written off	(173,808)	(173,808)	-
At 30 June 2018	69,880	31,285	38,595
Interest in suspense	65,145	65,145	-
Provision and interest in suspense at 30 June 2018	135,025	96,430	38,595

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

(c) Loans and advances to customers

	2018			2017			2016		
	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	1,003,083	979,147	23,936	659,962	649,264	10,698	653,788	635,868	17,920
Mortgages	26,896,479	25,713,443	1,183,036	24,817,404	23,594,364	1,223,040	21,969,378	20,764,866	1,204,512
Other retail loans	12,957,067	11,846,900	1,110,167	12,238,768	11,994,464	244,304	12,621,653	12,260,191	361,462
Corporate customers	102,586,065	88,518,515	14,067,550	93,704,822	82,480,925	11,223,897	97,439,140	85,614,132	11,825,008
Governments	1,323,731	-	1,323,731	523,147	-	523,147	283,043	-	283,043
Entities outside Mauritius	49,678,381	-	49,678,381	33,679,435	-	33,679,435	26,262,057	-	26,262,057
	194,444,806	127,058,005	67,386,801	165,623,538	118,719,017	46,904,521	159,229,059	119,275,057	39,954,002
Less:									
Allowances for credit impairment	(5,875,764)	(3,532,971)	(2,342,793)	(5,649,618)	(3,962,501)	(1,687,117)	(6,605,499)	(4,835,241)	(1,770,258)
	188,569,042	123,525,034	65,044,008	159,973,920	114,756,516	45,217,404	152,623,560	114,439,816	38,183,744

(i) Remaining term to maturity

Up to 3 months	50,691,516	32,535,408	18,156,108	43,764,107	31,887,704	11,876,403	40,929,161	31,422,190	9,506,971
Over 3 months and up to 6 months	6,734,022	3,150,561	3,583,461	4,402,213	2,127,850	2,274,363	4,612,032	2,891,769	1,720,263
Over 6 months and up to 1 year	1,970,122	1,239,665	730,457	3,140,205	2,039,228	1,100,977	4,194,400	1,660,033	2,534,367
Over 1 year and up to 5 years	57,866,312	26,592,921	31,273,391	39,158,470	20,427,820	18,730,650	39,145,416	22,895,153	16,250,263
Over 5 years	77,182,834	63,539,450	13,643,384	75,158,543	62,236,415	12,922,128	70,348,050	60,405,912	9,942,138
	194,444,806	127,058,005	67,386,801	165,623,538	118,719,017	46,904,521	159,229,059	119,275,057	39,954,002

(ii) Credit concentration of risk by industry sectors

Agriculture and fishing	7,367,397	7,367,397	-	2,004,071	2,004,071	-	2,088,601	2,088,601	-
Manufacturing	2,926,040	2,925,991	49	294,716	294,716	-	2,365,431	2,365,431	-
of which EPZ	1,298,250	1,298,250	-	66,337	66,337	-	1,616,803	1,616,803	-
Tourism	17,100,616	13,819,715	3,280,901	5,934,586	5,838,189	96,397	11,705,358	11,226,012	479,346
Transport	66,430	66,430	-	52,399	52,399	-	39,946	39,944	2
Construction	10,420,322	10,420,322	-	4,253,594	4,253,594	-	4,211,324	4,211,324	-
Financial and business services	23,140,004	10,492,425	12,647,579	4,185,209	4,161,770	23,439	15,081,604	3,736,683	11,344,921
Traders	28,178,790	3,131,638	25,047,152	18,949,275	1,881,672	17,067,603	15,283,922	1,418,246	13,865,676
Global Business Licence holders	17,668,144	-	17,668,144	20,171,903	-	20,171,903	21,789,702	-	21,789,702
Others	3,553,575	3,553,575	-	45,647	45,647	-	62,992	62,992	-
	110,421,318	51,777,493	58,643,825	55,891,400	18,532,058	37,359,342	72,628,880	25,149,233	47,479,647

Notes to the financial statements

for the year ended 30 June 2018 (continued)

35. 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 01 July 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
Exchange adjustment	21,008	-	21,008	-	-	-	21,008	-	21,008
Provision for credit impairment for the year	786,417	119,739	906,156	254,945	81,123	336,068	531,472	38,616	570,088
Provision released during the year	(11,110)	-	(11,110)	(9,237)	-	(9,237)	(1,873)	-	(1,873)
Amounts written off	(453,284)	-	(453,284)	(432,683)	-	(432,683)	(20,601)	-	(20,601)
At 30 June 2018	2,346,269	1,271,082	3,617,351	1,018,521	849,242	1,867,763	1,327,748	421,840	1,749,588
Interest in suspense	2,258,413	-	2,258,413	1,665,208	-	1,665,208	593,205	-	593,205
Provision and interest in suspense at 30 June 2018	4,604,682	1,271,082	5,875,764	2,683,729	849,242	3,532,971	1,920,953	421,840	2,342,793
At 01 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 30 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 in suspense	2,495,037	-	2,495,037	1,988,886	-	1,988,886	506,151	-	506,151
Provision and interest in suspense at 30 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 01 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 30 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 in suspense	2,811,761	-	2,811,761	2,206,464	-	2,206,464	605,297	-	605,297
Provision and interest in suspense at 30 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

35. 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

	2018			2017		
	Gross amount of loans RS'000	Non performing loans RS'000	Specific provision and interest in suspense RS'000	Portfolio provision RS'000	Total provision RS'000	Total provision RS'000
TOTAL						
Agriculture and fishing	8,006,741	616,458	292,863	51,865	344,728	276,949
Manufacturing	9,364,011	383,199	123,509	152,658	276,167	265,662
<i>of which EPZ</i>	3,153,492	56,667	21,193	34,791	55,984	39,075
Tourism	25,191,420	572,686	442,184	72,194	514,378	570,919
Transport	5,121,880	1,318,379	846,302	47,060	893,362	605,588
Construction	15,482,908	1,407,640	892,081	173,143	1,065,224	1,045,143
Financial and business services	31,012,976	233,415	77,889	90,736	168,625	153,784
Traders	37,305,196	1,569,371	431,242	224,041	655,283	634,927
Personal	38,910,813	1,446,923	733,053	233,376	966,429	1,225,835
<i>of which credit cards</i>	995,138	22,486	19,946	21,409	41,355	39,417
<i>of which housing</i>	26,896,479	773,727	311,784	123,009	434,793	524,232
Professional	1,037,496	296,683	181,519	17,463	198,982	68,193
Foreign governments	1,323,731	-	-	-	-	-
Global Business Licence holders	15,928,184	428,475	460,131	168,630	628,761	496,474
Others	5,759,450	234,803	123,909	39,916	163,825	306,144
	194,444,806	8,508,032	4,604,682	1,271,082	5,875,764	5,649,618
Segment A						
Agriculture and fishing	7,963,205	616,390	292,795	51,559	344,354	276,796
Manufacturing	9,362,309	382,840	123,158	152,635	275,793	265,232
<i>of which EPZ</i>	3,153,492	56,667	21,193	34,791	55,984	39,075
Tourism	16,912,053	42,743	38,159	49,451	87,610	179,661
Transport	1,487,014	176,654	25,159	15,935	41,094	46,229
Construction	15,413,607	1,407,627	892,068	172,286	1,064,354	1,044,041
Financial and business services	20,312,802	111,006	73,391	59,854	133,245	126,390
Traders	13,264,850	595,614	293,627	78,555	372,182	523,918
Personal	36,601,018	1,324,778	688,548	219,543	908,091	1,180,631
<i>of which credit cards</i>	972,383	21,327	19,166	20,933	40,099	38,944
<i>of which housing</i>	25,713,443	690,930	285,253	118,416	403,669	492,610
Professional	894,613	204,300	133,453	16,177	149,630	60,856
Others	4,846,534	234,253	123,371	33,247	156,618	258,747
	127,058,005	5,096,205	2,683,729	849,242	3,532,971	3,962,501
Segment B						
Agriculture and fishing	43,536	68	68	306	374	153
Manufacturing	1,702	359	351	23	374	430
Tourism	8,279,367	529,943	404,025	22,743	426,768	391,258
Transport	3,634,866	1,141,725	821,143	31,125	852,268	559,359
Construction	69,301	13	13	857	870	1,102
Financial and business services	10,700,174	122,409	4,498	30,882	35,380	27,394
Traders	24,040,346	973,757	137,615	145,486	283,101	111,009
Personal	2,309,795	122,145	44,505	13,833	58,338	45,204
Professional	142,883	92,383	48,066	1,286	49,352	7,337
Foreign governments	1,323,731	-	-	-	-	-
Global Business Licence holders	15,928,184	428,475	460,131	168,630	628,761	496,474
Others	912,916	550	538	6,669	7,207	47,397
	67,386,801	3,411,827	1,920,953	421,840	2,342,793	1,687,117

Notes to the financial statements

for the year ended 30 June 2018 (continued)

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

(d) Investment securities

	2018			2017			2016		
	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	53,283,515	51,874,123	1,409,392	54,808,648	53,241,032	1,567,616	51,487,622	50,607,712	879,910
Held-for-trading	24,232,384	24,232,384	-	9,568,590	9,059,378	509,212	722,789	57,061	665,728
Available-for-sale	4,418,360	1,900,897	2,517,463	4,517,570	2,188,854	2,328,716	4,030,929	1,780,156	2,250,773
	81,934,259	78,007,404	3,926,855	68,894,808	64,489,264	4,405,544	56,241,340	52,444,929	3,796,411
Less:									
Allowances for credit impairment on investment securities	(49,912)	(49,912)	-	(3,945)	(3,945)	-	-	-	-
	81,884,347	77,957,492	3,926,855	68,890,863	64,485,319	4,405,544	56,241,340	52,444,929	3,796,411

(i) Held-to-maturity

Government of Mauritius & Bank of Mauritius bonds	42,824,594	42,824,594	-	41,906,114	41,906,114	-	35,690,180	35,690,180	-
Treasury bills	2,000,461	2,000,461	-	10,680,154	10,680,154	-	14,635,850	14,635,850	-
Foreign Bonds	1,409,392	-	1,409,392	1,567,616	-	1,567,616	879,910	-	879,910
Notes	7,049,068	7,049,068	-	654,764	654,764	-	281,682	281,682	-
	53,283,515	51,874,123	1,409,392	54,808,648	53,241,032	1,567,616	51,487,622	50,607,712	879,910

(ii) Held-for-trading by levels

Quoted - Level 1									
Foreign bonds	-	-	-	509,212	-	509,212	665,728	-	665,728
Unquoted - Level 2									
Government of Mauritius & Bank of Mauritius bonds	1,058,795	1,058,795	-	1,689,065	1,689,065	-	-	-	-
Treasury bills	23,173,589	23,173,589	-	7,370,313	7,370,313	-	57,061	57,061	-
	24,232,384	24,232,384	-	9,059,378	9,059,378	-	57,061	57,061	-
	24,232,384	24,232,384	-	9,568,590	9,059,378	509,212	722,789	57,061	665,728

(iii) Available-for-sale by levels

Quoted - Level 1									
Official list: shares	885,660	885,660	-	1,263,593	1,263,593	-	1,103,635	1,103,635	-
Bonds	1,354,821	592,301	762,520	1,480,819	499,173	981,646	1,185,342	250,433	934,909
Foreign shares	1,233,154	-	1,233,154	840,403	-	840,403	671,661	-	671,661
	3,473,635	1,477,961	1,995,674	3,584,815	1,762,766	1,822,049	2,960,638	1,354,068	1,606,570
Unquoted - Level 2									
Inflation - indexed Government of Mauritius bonds	205,709	205,709	-	-	-	-	-	-	-
Investment fund	509,740	-	509,740	494,618	-	494,618	416,227	-	416,227
	715,449	205,709	509,740	494,618	-	494,618	416,227	-	416,227
Unquoted - Level 3									
Investment fund	-	-	-	-	-	-	215,927	-	215,927
Equity shares	229,276	217,227	12,049	229,276	217,227	12,049	229,276	217,227	12,049
Inflation - indexed Government of Mauritius bonds	-	-	-	208,861	208,861	-	208,861	208,861	-
	229,276	217,227	12,049	438,137	426,088	12,049	654,064	426,088	227,976
	4,418,360	1,900,897	2,517,463	4,517,570	2,188,854	2,328,716	4,030,929	1,780,156	2,250,773

35. 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 %	2018			2017			2016		
			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
MCB Madagascar SA	Madagascar	80.00	117,570	-	117,570	64,322	-	64,322	-	-	-

Movement in investment in subsidiary

	2018			2017			2016		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
At 01 July	64,322	-	64,322	-	-	-	-	-	-
Additions	53,248	-	53,248	-	-	-	-	-	-
Transferred from other assets	-	-	-	64,322	-	64,322	-	-	-
At 30 June	117,570	-	117,570	64,322	-	64,322	-	-	-

(ii) Investments in associates

The Bank's interest in its associates is as follows:

	Country of incorporation	Holding %	2018			2017			2016		
			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
Banque Française	France	49.99	447,489	-	447,489	447,489	-	447,489	447,489	-	447,489
Commerciale Ocean Indien											
Société Générale Moçambique	Moçambique	35.00	501,585	-	501,585	310,625	-	310,625	310,625	-	310,625
			949,074	-	949,074	758,114	-	758,114	758,114	-	758,114
			413,153	-	413,153	401,136	-	401,136	402,949	-	402,949
			1,362,227	-	1,362,227	1,159,250	-	1,159,250	1,161,063	-	1,161,063

Movements in investments in associates

	2018			2017			2016		
	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000	TOTAL RS'000	Segment A RS'000	Segment B RS'000
At 01 July	1,159,250	-	1,159,250	1,161,063	-	1,161,063	-	-	-
Increase in shareholding during the year	190,960	-	190,960	-	-	-	50,705	-	50,705
Exchange adjustment on subordinated loan	12,017	-	12,017	(1,813)	-	(1,813)	-	-	-
Transferred from non-current assets held for distribution	-	-	-	-	-	-	707,409	-	707,409
	1,362,227	-	1,362,227	1,159,250	-	1,159,250	758,114	-	758,114
Subordinated loan to associate reclassified from loans to banks	-	-	-	-	-	-	402,949	-	402,949
At 30 June	1,362,227	-	1,362,227	1,159,250	-	1,159,250	1,161,063	-	1,161,063

Notes to the financial statements

for the year ended 30 June 2018 (continued)

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

(f) Intangible assets

Cost

	Computer Software RS'000	Work in progress RS'000	Total RS'000
At 01 July 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 30 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 30 June 2017	2,717,111	109,411	2,826,522
Additions	14,148	152,301	166,449
Transfer	103,154	(103,154)	-
At 30 June 2018	2,834,413	158,558	2,992,971

Amortisation

At 01 July 2015	1,970,189	-	1,970,189
Scrap/Impairment	(50,679)	-	(50,679)
Charge for the year	139,093	-	139,093
At 30 June 2016	2,058,603	-	2,058,603
Scrap/Impairment	(136)	-	(136)
Charge for the year	188,486	-	188,486
At 30 June 2017	2,246,953	-	2,246,953
Charge for the year	201,416	-	201,416
At 30 June 2018	2,448,369	-	2,448,369

Net book values - Segment A

At 30 June 2018	386,044	158,558	544,602
At 30 June 2017	470,158	109,411	579,569
At 30 June 2016	278,545	194,617	473,162

The Core Banking System T24 is the only material intangible asset. The remaining useful life of this intangible asset is 2 years.

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

(g) Property, plant and equipment

Cost

	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
At 01 July 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 30 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 30 June 2017	4,521,988	3,096,825	819,791	58,519	8,497,123
Additions	30,441	176,734	20,180	106,715	334,070
Disposals	-	(75,975)	(44,059)	-	(120,034)
Transfer	-	116,693	34,650	(151,343)	-
At 30 June 2018	4,552,429	3,314,277	830,562	13,891	8,711,159

Accumulated depreciation

At 01 July 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 30 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 30 June 2017	785,256	2,344,280	456,505	-	3,586,041
Charge for the year	73,700	263,260	54,691	-	391,651
Disposal adjustment	-	(73,810)	(34,520)	-	(108,330)
At 30 June 2018	858,956	2,533,730	476,676	-	3,869,362

Net book values - Segment A

At 30 June 2018	3,693,473	780,547	353,886	13,891	4,841,797
At 30 June 2017	3,736,732	752,545	363,286	58,519	4,911,082
At 30 June 2016	3,731,207	737,641	348,935	134,820	4,952,603

Notes to the financial statements

for the year ended 30 June 2018 (continued)

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

(h) Other assets

	2018			2017			2016		
	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	17,196,714	17,196,714	-	15,432,134	15,432,134	-	13,688,608	13,688,608	-
Prepayments and other receivables	469,478	355,838	113,640	699,238	528,861	170,377	725,499	693,529	31,970
Credit card clearing	89,854	89,854	-	68,525	68,525	-	68,659	68,659	-
Non-banking assets acquired in satisfaction of debts	48,699	48,699	-	51,802	51,802	-	51,909	51,909	-
Impersonal & other accounts	1,081,615	1,081,615	-	1,487,708	1,231,823	255,885	1,696,395	1,605,040	91,355
Post employee benefits asset	-	-	-	99,487	99,487	-	-	-	-
	18,886,360	18,772,720	113,640	17,838,894	17,412,632	426,262	16,231,070	16,107,745	123,325

(i) Deposits from banks

	2018			2017			2016		
	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	3,815,235	86,016	3,729,219	2,743,209	222,663	2,520,546	2,643,632	90,983	2,552,649
Money market deposits with remaining term to maturity:									
Up to 3 months	1,861,440	-	1,861,440	1,703,673	-	1,703,673	715,676	-	715,676
Over 3 months and up to 6 months	912,011	-	912,011	670,395	-	670,395	1,045,465	-	1,045,465
Over 6 months and up to 1 year	-	-	-	185,289	-	185,289	25,379	-	25,379
Over 1 year and up to 5 years	-	-	-	-	-	-	282,451	-	282,451
	2,773,451	-	2,773,451	2,559,357	-	2,559,357	2,068,971	-	2,068,971
	6,588,686	86,016	6,502,670	5,302,566	222,663	5,079,903	4,712,603	90,983	4,621,620

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

(j) Deposits from customers

(i) Retail customers

Demand deposits
Savings deposits
Time deposits with remaining
term to maturity:
Up to 3 months
Over 3 months and up
to 6 months
Over 6 months and up to 1 year
Over 1 year and up to 5 years
Over 5 years

	2018			2017			2016		
	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	27,312,248	17,442,949	9,869,299	25,318,439	15,771,178	9,547,261	25,182,505	12,965,061	12,217,444
Savings deposits	121,345,043	113,889,747	7,455,296	109,296,825	102,336,118	6,960,707	96,501,629	89,747,661	6,753,968
Time deposits with remaining term to maturity:									
Up to 3 months	3,862,278	3,152,113	710,165	2,807,938	2,135,636	672,302	3,304,781	2,295,161	1,009,620
Over 3 months and up to 6 months	1,858,647	1,481,802	376,845	1,954,290	1,658,863	295,427	1,855,545	1,410,603	444,942
Over 6 months and up to 1 year	4,478,033	3,653,383	824,650	4,201,169	3,459,730	741,439	4,596,129	3,311,467	1,284,662
Over 1 year and up to 5 years	12,405,134	11,107,591	1,297,543	12,645,559	11,244,637	1,400,922	11,663,604	9,753,802	1,909,802
Over 5 years	4,105	3,805	300	12,586	11,313	1,273	5,478	5,038	440
	22,608,197	19,398,694	3,209,503	21,621,542	18,510,179	3,111,363	21,425,537	16,776,071	4,649,466
	171,265,488	150,731,390	20,534,098	156,236,806	136,617,475	19,619,331	143,109,671	119,488,793	23,620,878

(ii) Corporate customers

Demand deposits
Savings deposits
Time deposits with remaining
term to maturity:
Up to 3 months
Over 3 months and up
to 6 months
Over 6 months and up to 1 year
Over 1 year and up to 5 years
Over 5 years

Demand deposits	86,750,375	41,342,463	45,407,912	80,958,642	34,884,801	46,073,841	72,803,936	32,938,713	39,865,223
Savings deposits	4,964,468	4,961,626	2,842	5,906,210	5,902,307	3,903	5,253,182	5,206,014	47,168
Time deposits with remaining term to maturity:									
Up to 3 months	5,711,297	1,306,090	4,405,207	4,799,755	662,853	4,136,902	4,937,434	835,615	4,101,819
Over 3 months and up to 6 months	1,274,641	752,977	521,664	1,520,490	1,057,779	462,711	1,699,788	609,155	1,090,633
Over 6 months and up to 1 year	2,528,487	1,148,377	1,380,110	2,260,756	897,906	1,362,850	2,850,519	601,978	2,248,541
Over 1 year and up to 5 years	6,312,278	3,390,394	2,921,884	6,810,544	3,960,860	2,849,684	4,803,622	4,111,564	692,058
Over 5 years	100	100	-	62	62	-	2,791,762	-	2,791,762
	15,826,803	6,597,938	9,228,865	15,391,607	6,579,460	8,812,147	17,083,125	6,158,312	10,924,813
	107,541,646	52,902,027	54,639,619	102,256,459	47,366,568	54,889,891	95,140,243	44,303,039	50,837,204

(iii) Government

Demand deposits
Savings deposits

Demand deposits	25,328	25,328	-	15,353	15,353	-	9,411	9,411	-
Savings deposits	110,724	110,724	-	61,216	61,216	-	52,168	52,168	-
	136,052	136,052	-	76,569	76,569	-	61,579	61,579	-
	278,943,186	203,769,469	75,173,717	258,569,834	184,060,612	74,509,222	238,311,493	163,853,411	74,458,082

Notes to the financial statements

for the year ended 30 June 2018 (continued)

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

(k) Other borrowed funds

(i) Other borrowed funds comprise the following:

	2018			2017			2016		
	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	4,386,247	4,386,247	-	4,743	4,743	-	9,134	9,134	-
abroad	9,802,296	-	9,802,296	5,602,192	-	5,602,192	4,856,774	-	4,856,774
	14,188,543	4,386,247	9,802,296	5,606,935	4,743	5,602,192	4,865,908	9,134	4,856,774
The carrying amounts of other borrowed funds are not materially different from their fair values									
(ii) Remaining term to maturity:									
On demand or within a period not exceeding 1 year	8,363,531	4,386,247	3,977,284	41,352	4,743	36,609	15,584	9,134	6,450
Within a period of more than 1 year but not exceeding 3 years	3,517,597	-	3,517,597	-	-	-	-	-	-
Within a period of more than 3 years	2,307,415	-	2,307,415	5,565,583	-	5,565,583	4,850,324	-	4,850,324
	14,188,543	4,386,247	9,802,296	5,606,935	4,743	5,602,192	4,865,908	9,134	4,856,774

(l) Subordinated liability

USD30M subordinated debt maturing in August 2023 at an average interest rate of 4.8% (2017: 4.3% and 2016: 3.8%) (Level 3)									
	1,060,181	-	1,060,181	1,052,037	-	1,052,037	1,082,289	-	1,082,289

(m) Other liabilities

Post employee benefit liability	152,035	152,035	-	-	-	-	249,707	249,707	-
Residual retirement gratuities	51,033	51,033	-	-	-	-	-	-	-
Proposed dividend	1,341,522	1,341,522	-	1,341,522	1,341,522	-	1,031,940	1,031,940	-
Impersonal & other accounts	4,862,681	4,559,752	302,929	3,740,473	3,704,108	36,365	2,603,151	2,602,725	426
	6,407,271	6,104,342	302,929	5,081,995	5,045,630	36,365	3,884,798	3,884,372	426

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

(n) Contingent liabilities

	2018			2017			2016		
	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	22,168,213	13,291,328	8,876,885	19,186,056	12,944,650	6,241,406	18,330,563	13,076,101	5,254,462
Letters of credit and other obligations on account of customers	32,684,338	3,582,426	29,101,912	20,444,660	2,947,251	17,497,409	8,273,242	2,293,314	5,979,928
Other contingent items	2,999,421	-	2,999,421	1,497,666	-	1,497,666	3,526,005	6,902	3,519,103
	57,851,972	16,873,754	40,978,218	41,128,382	15,891,901	25,236,481	30,129,810	15,376,317	14,753,493
(ii) Commitments									
Loans and other facilities, including undrawn credit facilities	6,077,554	4,719,360	1,358,194	6,714,334	3,316,186	3,398,148	2,600,154	1,757,355	842,799
(iii) Tax assessments	537,147	537,147	-	992,632	992,632	-	836,868	836,868	-
(iv) Other									
Inward bills held for collection	404,983	298,092	106,891	350,954	280,744	70,210	423,796	321,213	102,583
Outward bills sent for collection	991,670	253,597	738,073	1,003,037	227,706	775,331	1,003,723	306,066	697,657
	1,396,653	551,689	844,964	1,353,991	508,450	845,541	1,427,519	627,279	800,240
	65,863,326	22,681,950	43,181,376	50,189,339	20,709,169	29,480,170	34,994,351	18,597,819	16,396,532

(o) Interest income

Loans to and placements with banks	668,016	266,148	401,868	577,309	192,559	384,750	367,076	116,476	250,600
Loans and advances to customers	10,454,505	7,330,178	3,124,327	9,914,265	7,544,560	2,369,705	10,355,057	8,057,427	2,297,630
Held-to-maturity investments	2,122,591	2,096,876	25,715	2,129,450	2,101,426	28,024	1,676,321	1,650,749	25,572
Available-for-sale investments	114,816	29,188	85,628	60,596	16,675	43,921	44,754	3,633	41,121
Held-for-trading investments	511,164	502,618	8,546	54,031	46,898	7,133	6,594	1,980	4,614
Other	32,596	2,022	30,574	13,773	5,465	8,308	7,470	7,369	101
	13,903,688	10,227,030	3,676,658	12,749,424	9,907,583	2,841,841	12,457,272	9,837,634	2,619,638

Notes to the financial statements

for the year ended 30 June 2018 (continued)

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

(p) Interest expense

	2018			2017			2016		
	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	48,168	-	48,168	22,038	-	22,038	15,623	-	15,623
Deposits from customers	3,474,471	2,960,888	513,583	3,668,925	3,223,618	445,307	3,949,990	3,418,863	531,127
Subordinated liability	46,507	-	46,507	44,522	-	44,522	41,006	-	41,006
Other borrowed funds	225,755	31,056	194,699	134,890	2,149	132,741	94,706	270	94,436
	3,794,901	2,991,944	802,957	3,870,375	3,225,767	644,608	4,101,325	3,419,133	682,192

(q) Fee and commission income

Retail banking fees	748,684	360,088	388,596	754,754	333,320	421,434	755,429	329,617	425,812
Corporate banking fees	522,642	234,015	288,627	420,208	241,684	178,524	275,414	150,186	125,228
Guarantee fees	235,715	150,204	85,511	221,386	144,358	77,028	212,579	155,208	57,371
Interbank transaction fees	63,216	-	63,216	57,237	-	57,237	49,809	-	49,809
Cards and other related fees	1,577,784	1,268,461	309,323	1,458,173	1,131,655	326,518	1,315,704	1,038,060	277,644
Trade finance fees	376,296	95,391	280,905	296,915	103,339	193,576	432,867	100,550	332,317
Others	120,019	34,909	85,110	86,076	18,121	67,955	80,280	15,907	64,373
	3,644,356	2,143,068	1,501,288	3,294,749	1,972,477	1,322,272	3,122,082	1,789,528	1,332,554

(r) Fee and commission expense

Interbank transaction fees	17,624	-	17,624	13,206	-	13,206	20,589	-	20,589
Cards and other related fees	722,430	603,085	119,345	653,578	572,993	80,585	582,843	513,445	69,398
Corporate banking and trade finance fees	113,338	-	113,338	-	-	-	-	-	-
Others	14,356	-	14,356	20,889	-	20,889	24,922	-	24,922
	867,748	603,085	264,663	687,673	572,993	114,680	628,354	513,445	114,909

(s) Net (loss)/gain from financial instruments carried at fair value

Net (loss)/gain from derivative financial instruments	(420,408)	(456,860)	36,452	88,017	45,082	42,935	(108,131)	(93,827)	(14,304)
Investment securities held-for-trading	38,839	40,519	(1,680)	12,191	20,824	(8,633)	19,649	1,284	18,365
	(381,569)	(416,341)	34,772	100,208	65,906	34,302	(88,482)	(92,543)	4,061

(t) Dividend income

Income from subsidiary	26,937	-	26,937	63,506	-	63,506	-	-	-
Income from associate	302,503	-	302,503	246,305	-	246,305	210,830	-	210,830
Income from quoted investments	26,762	22,098	4,664	38,805	34,743	4,062	33,720	30,241	3,479
Income from unquoted investments	9,419	9,158	261	5,978	4,726	1,252	7,448	6,462	986
	365,621	31,256	334,365	354,594	39,469	315,125	251,998	36,703	215,295

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

(u) Salaries and human resource development

	2018			2017			2016		
	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	2,123,234	1,800,078	323,156	2,039,545	1,737,941	301,604	1,857,907	1,660,389	197,518
Defined benefit plan	172,431	136,830	35,601	197,708	169,503	28,205	238,205	214,495	23,710
Defined contribution plan	84,740	77,861	6,879	66,041	62,200	3,841	36,046	32,890	3,156
Residual retiring gratuities	51,033	49,502	1,531	-	-	-	-	-	-
Compulsory social security obligations	65,073	56,778	8,295	61,166	55,041	6,125	56,856	51,743	5,113
Equity settled share-based payments	10,915	10,588	327	3,024	2,933	91	1,558	1,509	49
Other personnel expenses	621,753	539,774	81,979	588,100	522,715	65,385	571,326	525,621	45,705
	3,129,179	2,671,411	457,768	2,955,584	2,550,333	405,251	2,761,898	2,486,647	275,251

(v) Other non-interest expense

Legal & professional fees	406,192	312,115	94,077	258,475	194,516	63,959	235,863	180,169	55,694
Rent,repairs,maintenance and security costs	293,353	280,768	12,585	301,758	289,066	12,692	269,026	259,050	9,976
Software licensing and other information technology costs	255,029	240,150	14,879	242,892	230,150	12,742	215,071	204,069	11,002
Electricity,water and telephone charges	219,416	209,739	9,677	213,745	208,381	5,364	193,186	180,547	12,639
Advertising & marketing costs	156,276	136,599	19,677	150,610	129,755	20,855	132,656	90,274	42,382
Postage,courier & stationery costs	135,301	125,841	9,460	140,088	130,595	9,493	128,334	120,545	7,789
Insurance costs	95,090	81,533	13,557	102,660	80,707	21,953	83,773	77,239	6,534
Others	172,411	167,668	4,743	99,669	102,448	(2,779)	122,589	126,555	(3,966)
	1,733,068	1,554,413	178,655	1,509,897	1,365,618	144,279	1,380,498	1,238,448	142,050

(w) Net impairment of financial assets

The impairment charge related to the Statement of Profit or Loss:

Allowance for credit impairment:									
Loans and advances	1,182,965	280,600	902,365	946,559	180,726	765,833	907,021	401,131	505,890
Investment securities	45,967	45,967	-	3,945	3,945	-	-	-	-
	1,228,932	326,567	902,365	950,504	184,671	765,833	907,021	401,131	505,890

(i) Allowance for credit impairment

Loans and advances to customers	945,654	280,600	665,054	958,127	180,726	777,401	905,692	401,131	504,561
Loans to and placements with banks	237,311	-	237,311	(11,568)	-	(11,568)	1,329	-	1,329
Investment securities	45,967	45,967	-	3,945	3,945	-	-	-	-
	1,228,932	326,567	902,365	950,504	184,671	765,833	907,021	401,131	505,890

Notes to the financial statements

for the year ended 30 June 2018 (continued)

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

(x) **Income tax expense**

	2018			2017			2016		
	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	1,346,586	1,244,291	102,295	1,416,435	1,308,895	107,540	1,240,581	1,153,720	86,861
(Over)/Under provision in previous years	(80,540)	(80,387)	(153)	(25,967)	(21,595)	(4,372)	(3,051)	163	(3,214)
Provision for tax assessment	258,272	301,974	(43,702)	-	-	-	-	-	-
	1,524,318	1,465,878	58,440	1,390,468	1,287,300	103,168	1,237,530	1,153,883	83,647
Deferred tax	87,464	97,220	(9,756)	(380)	(5,200)	4,820	58,564	43,567	14,997
Charge for the year	1,611,782	1,563,098	48,684	1,390,088	1,282,100	107,988	1,296,094	1,197,450	98,644

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

Profit before tax:	8,374,276	4,984,560	3,389,716	7,627,550	4,861,456	2,766,094	6,916,257	4,192,466	2,723,791
Tax calculated at a rate of 15%	1,256,141	747,684	508,457	1,144,133	729,219	414,914	1,037,439	628,870	408,569
Impact of:									
Income not subject to tax	(142,783)	(100,016)	(42,767)	(73,095)	(74,486)	1,391	(126,464)	(21,162)	(105,302)
Expenses not deductible for tax purposes	222,341	140,824	81,517	98,547	67,231	31,316	79,259	39,451	39,808
Tax credits	(487,639)	-	(487,639)	(362,189)	-	(362,189)	(267,093)	-	(267,093)
Special levy on banks	493,820	460,849	32,971	511,704	484,776	26,928	428,271	402,395	25,876
Corporate Social Responsibility Contribution	92,170	92,170	-	96,955	96,955	-	147,733	147,733	-
(Over)/under provision in previous years	(80,540)	(80,387)	(153)	(25,967)	(21,595)	(4,372)	(3,051)	163	(3,214)
Provision for tax assessment	258,272	301,974	(43,702)	-	-	-	-	-	-
Tax charge	1,611,782	1,563,098	48,684	1,390,088	1,282,100	107,988	1,296,094	1,197,450	98,644

The tax (credit)/charge related to statement of profit or loss and other comprehensive income is as follows:

Remeasurement of defined benefit pension plan	283,308	283,308	-	(337,740)	(337,740)	-	204,430	204,430	-
Deferred tax (credit)/charge	(48,162)	(48,162)	-	50,661	50,661	-	(30,665)	(30,665)	-
Remeasurement of defined benefit pension plan, net of deferred tax	235,146	235,146	-	(287,079)	(287,079)	-	173,765	173,765	-

Administrative Information

Administrative information

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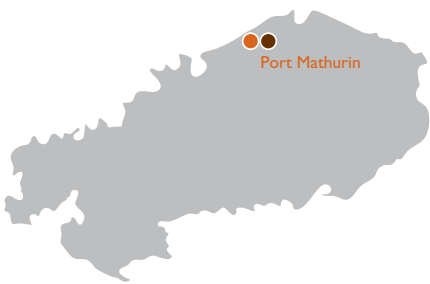
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