Annual Report 2016

MCB GROUP

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

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

Dear Shareholder,

The Directors of MCB Group Limited are pleased
to present its Annual Report for the year ended 30 June 2016.

The Annual Report was approved by the Board of Directors
on 29 September 2016.

J. Gérard HARDY
Chairperson

Pierre Guy NOEL
Chief Executive

Navigating this Annual Report

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

About us

MCB Group Limited (hereinafter referred to as 'MCB Group Ltd' or 'Company') is the holding company of MCB Group. The Group, which encompasses banking and non-banking subsidiaries and associates, is an integrated financial services provider. Its mainstay is The Mauritius Commercial Bank Limited (denoted as 'MCB Ltd', 'MCB' or 'Bank'). The latter is the leading bank in Mauritius and an increasingly prominent player in the region.

Our integrated reporting

About this report

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

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

Embracing integrated reporting

Our philosophy

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

Our achievements

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

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

Moving forward

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

Scope and boundary of reporting

Reporting period

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

Operating businesses

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

Reporting requirements

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

Assurance and independent assessment

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

How to go through and read this report

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

(i) Highlights;

(ii) Corporate Profile;

(iii) Corporate Governance Report;

(iv) Business and Financial Review; and

(v) Risk Management Report.

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

Icons used in this report

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

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

This Annual Report is published in full on our website.

Disclosure of value creation concepts

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

Identifying our material matters

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

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

Describing our forms of capital

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

Forms of capital

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

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

Human capital
People's competencies, experience and motivations to innovate

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

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

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

Contents

Highlights and Corporate Information

Highlights

Group Financial Summary

	Jun 16	Jun 15	Jun 14	Jun 13	Jun 12
Income statement (Rs m)					
Operating income	14,418	13,214	12,275	11,023	10,008
Operating profit	7,607	6,526	4,946	5,040	4,885
Profit attributable to ordinary equity holders of the parent	6,626	5,722	4,365	4,345	4,125
Statements of financial position (Rs m)					
Total assets	317,705	280,013	240,886	216,528	191,283
Total loans (net)	166,697	168,222	154,471	150,604	138,125
Total deposits	255,262	221,140	186,088	166,113	150,877
Subordinated liabilities	5,620	5,596	5,409	-	-
Shareholders' funds	40,730	35,933	30,968	28,506	25,315
Performance ratios (%)					
Return on average total assets	2.2	2.2	1.9	2.1	2.3
Return on average equity	17.3	17.1	14.7	16.1	16.8
Loans to deposits ratio	68.1	79.6	86.4	93.2	93.7
Cost to income ratio	40.2	41.8	43.1	44.5	46.0
Financial soundness ratios (%)					
Capital & reserves / Total assets	12.8	12.8	12.9	13.2	13.2
BIS risk adjusted ratio	18.3	17.1	16.1	12.9	12.5
of which Tier 1	*15.3*	*14.1*	*12.8*	*11.8*	*11.4*
Asset quality (%)					
Non-performing loans (Rs m)	10,704	10,755	11,711	7,779	6,277
NPL ratio	6.2	6.2	7.3	5.0	4.4
Provision coverage ratio	48.0	54.9	53.1	54.4	52.1

Notes:

(i) Proforma figures have been used in respect of the income statement prior to 2015 and the financial positions before 2014 in order to give a proper understanding and comparative view of the Group performance over time.

(ii) Capital adequacy ratios for June 2014, June 2015 and June 2016 are based on Basel III; figures prior to June 16 have been restated..

During FY 2015/16, the Group posted a strong financial performance in spite of its loan portfolio being impacted by the difficult economic context …

Earnings

15.8%

ATTRIBUTABLE PROFIT

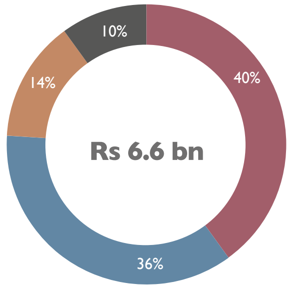
Rs 6.6 bn

9.1%

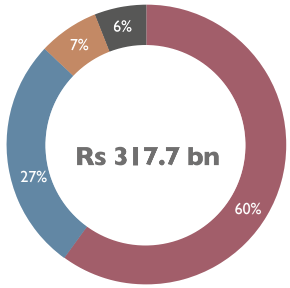
OPERATING INCOME

Rs 14.4 bn

Contribution to Group profit



Distribution of Group assets



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

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.

Balance Sheet

15.4%

DEPOSITS

Rs 255.3 bn

0.8%

GROSS LOANS TO CUSTOMERS

Rs 170.9 bn

… thus, delivering strong and sustainable returns for its shareholders

Stock profile

0.2 p.p.

RETURN ON EQUITY

17.3%

15.7%

EARNINGS PER SHARE

Rs 27.82

9.4%

DIVIDEND PER SHARE

Rs 8.75

Our Strategic Progress

In FY 2015/16, the Group sharpened its leading banking position locally, pursued its international market diversification strategy, and boosted its non-bank activities. Initiatives that have been implemented related to enriched customer experiences and interactions, wide-ranging channel management, technological innovation, and improved operational efficiency levels.

In the wake of the challenging context, the entities of the Group have, in general, adopted a prudent approach to execute their market development thrusts and promote quality business growth. Key focus has been laid on further capacity building in order to cater for the smooth implementation of strategic orientations over time.

Our strategic realisations during FY 2015/16 and till date

Strengthening foundations for market expansion and diversification

- Execution of earmarked initiatives to underpin the realisation of short to medium term strategic orientations of Group entities
- MCB Ltd embracing omnichannel management as key axis of its digital transformation agenda
- Sharpening of the Bank's retail business activities; increased exposures to premium customers, with the Bank's business segments capitalising on its comprehensive solutions
- Consolidation of the Bank's local corporate business; broadened financing by MCB Ltd in relation to the 2nd edition of 'Green loans', pursuant to the loan facility obtained from Agence Française de Développement
- Continued servicing of corporate and institutional clients on the regional scene and beyond, albeit executing strategic intents in a prudent way amidst challenging market conditions
- Enhanced deployment of the Group's 'Bank of Banks' initiative to further entrench the organisation's positioning as a regional platform for providing adapted solutions to financial institution counterparts
- MCB Capital Markets Ltd tapping into diversified growth avenues, with Africa-related activities being pursued
- Broadened involvement of MCB Consulting Services Ltd in diverse assignments across some 20 countries
- International Card Processing Services Ltd (ICPS) expanding its reach in Africa by leveraging its position as a recognised cards business enabler and partner of choice for innovative payment solutions
- Launch of MCB Microfinance Ltd, the latter being a fully-owned subsidiary of MCB Group Ltd dedicated to assisting micro and small entrepreneurs as well as self-employed people
- Partnership with Société Générale, which acquired a stake in the renamed Société Générale Moçambique, alongside bringing along resources and expertise to help boost the entity's business activities

Promotion of superior customer relationships and experiences

- The Group capitalising on its unique selling proposition and tailored solutions to reinforce relationships with corporate clients and accompany them in their strategic undertakings
- Extensive use of innovative technologies to make banking simpler and more convenient to customers
- The Bank offering dedicated solutions to individual clients across age and income groups; refined housing loan offer contributing to strengthen the Bank's retail segment; SMEs benefiting from increased client proximity
- Leveraging the latest generation chip technology, contactless payment solution introduced while enhancing security for debit card users
- The Bank's 'Juice' mobile payments platform being endowed with increased and more attractive functionalities
- Launch of the organisation's all-new Internet Banking service, which is marked by a fresh design and new platforms for making banking easier, simpler and faster
- Other Bank channels (e.g. branches, Self-Service Kiosks, ATMs and websites) offering enriched client experiences
- MCB Capital Markets Ltd widening its range of solutions, with the launch of two new funds, i.e. MCB India Sovereign Bond ETF and MCB Africa Equity Fund, as well as the successful structuring and marketing of two capital-guaranteed products, namely Crescendo SmartTech and Crescendo Global Security
- Foreign banking subsidiaries of the Group improving the range and appeal of their services, notably relating to credit facilities (e.g. launch of 'green' loans and housing loan campaigns at MCB Seychelles) and cards solutions
- MCB Consulting Services Ltd providing sustainable and customised solutions to enable clients pursue their innovation and growth strategies
- Augmented brand awareness, market visibility and field presence being achieved by Group entities through corporate events and roadshows as well as the sponsorship of local and international happenings

Reinforcement of growth enablers and improved operational excellence

- Further strengthening and alignment of the functioning of the Bank's business, risk and compliance units to better harness their synergistic potential and help to achieve set strategic ambitions
- Phased operationalisation of the newly-established Corporate and Institutional Banking SBU, backed by strengthened governance and operational frameworks, reinforced physical capabilities and value chain optimisation, etc.
- Strengthening of the risk management frameworks, policies and processes of the Group entities
- Upgrade of technological platforms, e.g. ongoing deployment of Bank-wide Customer Relationship Management System and state-of-the-art Securities and Wealth Management system by MCB Ltd; roll-out of new core banking system at MCB Madagascar
- Additional progress made by Group entities in achieving more agile, efficient and smarter operations; launch of the Bank's 'Refresh towards Smarter Operations' programme to attain efficiency gains, a spin-off being the more structured/coherent organisation of the Chief Operating Officer's office; the Bank's SWIFT Bureau Service being certified as Premier Operational Practice, thus making MCB the most highly qualified institution in the region
- Further improvement of the quality of the Group's human capital, backed by initiatives in favour of employee engagement, talent and career development, performance management, etc.
- MCB Consulting Services Ltd taking due advantage of best-in-class technological applications and its strong linkages with international strategic partners to further its growth impetus

Recognitions and Accolades

Mauritius

- Bank of the Year for Mauritius
  (The Banker Bank of the Year Awards 2015)
- Best Bank in Mauritius
  (Euromoney Awards for Excellence Survey 2016)
- Best Bank in Mauritius 2015
  (UnionPay International)
- Best Innovative Bank in the market and Visa Innovation Award
  (Visa)
- Best Trade Finance Bank in Mauritius
  (Global Trade Review 2015)
- Best Online Reporting and Best Risk Management Disclosures for banks
  (PwC Corporate Reporting Awards 2016)
- Performance Excellence Award 2015
  attributed by Citibank, Deutsche Bank and JPMorgan Chase for MCB's straight-through processing rate for payments and transfers

World

The Banker Top 1000 World Banks
(July 2016)

666th Among the Top 1000 Banks *(in terms of Tier I Capital)*

Financial soundness

Capital assets ratio: 104th
Profit on capital: 188th
Return on assets: 73rd

Africa

17th In Africa in terms of Tier I Capital
(The Banker Top 1000 World Banks, July 2016)

1st In East Africa

88th in Africa in terms of market capitalisation
(African Business Top 250 Companies, May 2016)

Banking and Financial Services Award 2015
attributed to MCB Seychelles Ltd
(Seychelles Chamber of Commerce and Industry)

Accolades for MCB Ltd

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

Leading Regional Bank
in terms of operating income and profitability
(L'EcoAustral, Top 500 Regional, Edition 2016)

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

Our Vision

Everyday, we will help make

something happen

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 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

Corporate profile

Overview of the Group

MCB Group is an integrated banking and financial services player, offering tailored and innovative solutions through its local and foreign subsidiaries and associates. Building on its sound business model, the Group actively assists in the advancement of individuals and corporates. Through MCB Ltd which was established in 1838, the Group has cemented its position as the leading banking sector player locally, in the process playing a key role in promoting the socio-economic development of Mauritius over time. Moreover, underpinned by its market diversification strategy, the Group has carved out an increasingly prominent position in the region and expanded beyond, while broadening its footprint in the non-banking field. As a responsible corporate citizen, the Group promotes social welfare and natural resource protection.

Our operations

Total assets

Rs 318 bn

Employees

> 3,200

Customers

> 988,000

Correspondent banks

> 1,600
(of which > 200 in Africa)

Our stock profile

Listings[1]

On the Stock Exchange of Mauritius since 1989

Shareholder base

Broad and diversified with > 18,000 investors

Shareholding profile

Local: 82%
Foreign: 18%

Market capitalisation

Share of close to 25% on the local bourse[2]

Our investment grade ratings (MCB Ltd)

Moody's

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

Fitch Ratings

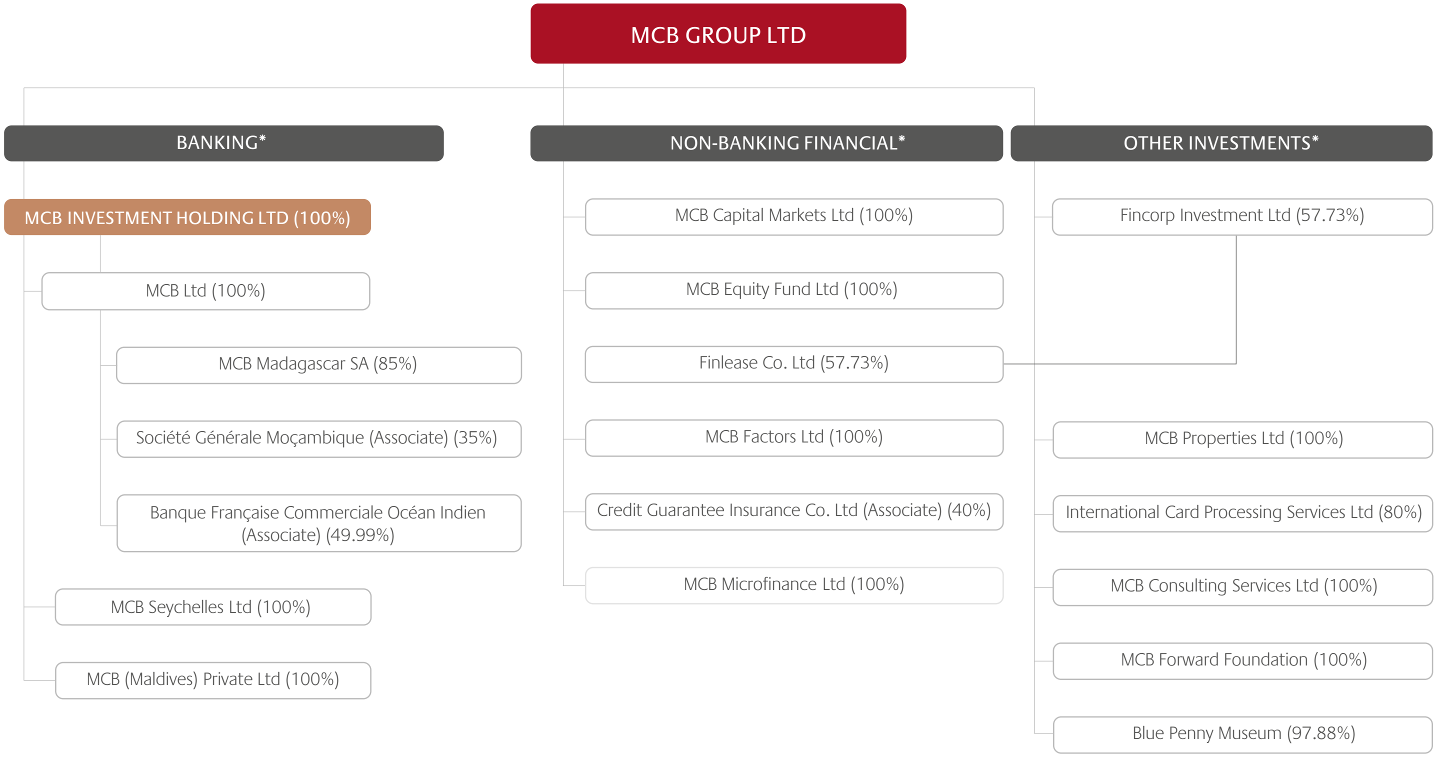
Outlook	Stable
Long-Term Issuer Default Rating	BBB-
Short-Term Issuer Default Rating	F3
Viability Rating	bbb-
Support Rating	3
Support Rating Floor	BB+

[1] The listed company was MCB Ltd util March 2014 and MCB Group Ltd thereafter

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

Group Structure

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



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

** Relate to clusters*

Further to the restructuring exercise initiated in 2013, the Group has separated its banking and non-banking operations. The reorganisation led to MCB Group Ltd acting as the ultimate holding company of the Group. The subsidiaries and associates thereof operate under three business clusters, i.e. 'Banking', 'Non-banking financial', and 'Other investments'. MCB Investment Holding Ltd, a wholly-owned subsidiary of MCB Group Ltd, is the holding company of all the banking investments of the Group, namely MCB Ltd and the foreign banking subsidiaries and associates.

During FY 2015/16, investments in MCB Seychelles and MCB Maldives have been transferred from MCB Ltd to MCB Investment Holding Ltd. MCB Madagascar will follow the same course once regulatory approvals are obtained. On another note, Société Générale Moçambique has become an associate of MCB Group Ltd. This follows the acquisition, by Société Générale, of a stake in the former subsidiary, i.e. MCB Moçambique, in October 2015, towards boosting the entity's operations and market expansion. Regarding the 'Non-banking financial' cluster, MCB Microfinance Ltd, whose aim is to help the smaller entrepreneurs get easier access to loans, has lately been launched as a wholly-owned subsidiary of MCB Group Ltd.

Our Business Model

Our Philosophy and Guiding principles

Our ambition	Capitalising on our brand, people and technology, our underlying ambition is to achieve sound, balanced and sustained business growth locally and abroad, while supporting economic, social and environmental progress in the countries where we are involved.
Stakeholder engagement	Alongside adhering to regulatory rules and good business practices, we help to create and grow wealth to foster long-term value creation for our stakeholders and earn their trust.
Value creation model	Our business model, which is guided by our mission, vision, values and material matters, is encapsulated within our value creation model. The latter shows how the Group allocates, modifies and makes use of our various capitals before transforming them to produce outputs and create value (outcomes).

VALUE IN

Inputs

Availing forms of capitals

Financial capital

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

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

Social and relationship capital

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

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

Human capital

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

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

Natural capital

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

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

Intellectual capital

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

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

Manufactured capital

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

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

Setting strategic ambitions and priorities

Acting upon capitals through strategic initiatives

Designing and providing adapted financial solutions across market and business segments

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

Achieving efficient use of technologies and processes

Managing key risks through solid frameworks

Coping with operating context

Managing the economic, market, regulatory and technological environment

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

VALUE OUT

Outputs

Outcomes

Activities underpinning income generation

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

\+ Share of profits of associates

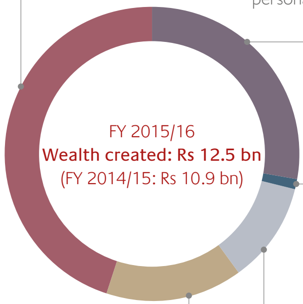
– Income tax expense

= Net profit

– Dividends to shareholders

= Retained earnings

Wealth created



Expansion and growth, 43%
Wealth is retained to fund our strategy and grow our business.

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

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

Providers of capital, 17%
We aim to provide our shareholders with sustainable returns through adequate dividend payout.

Government, 13%
Through our tax payments, we assist the government in funding national projects with positive socio-economic ramifications.

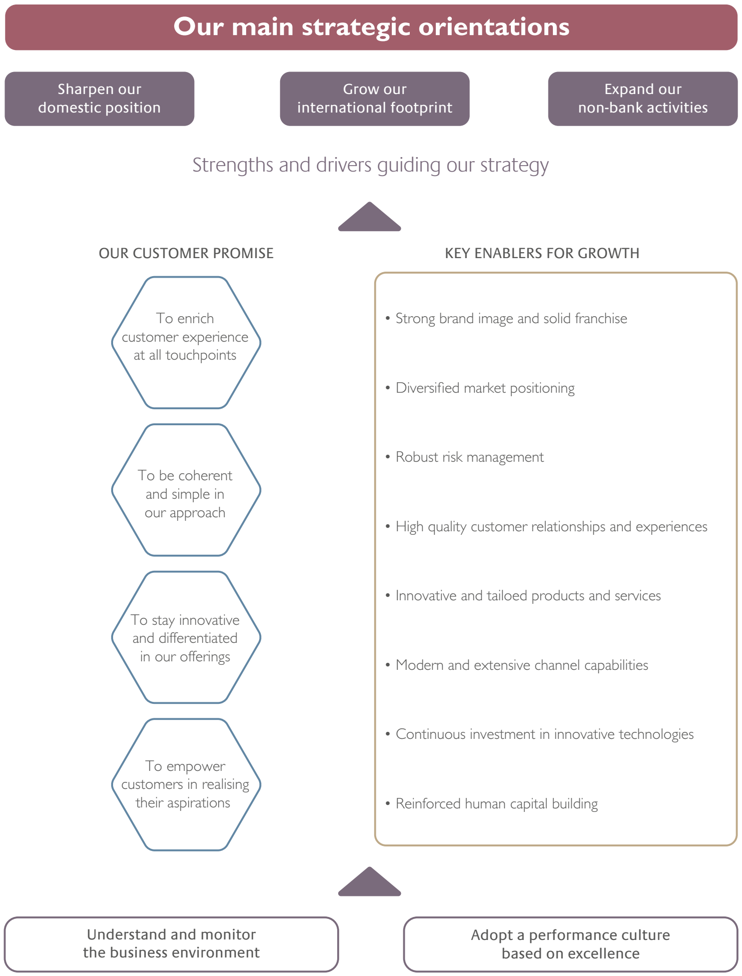
Witnessing the impact on forms of capital

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

Our Strategic Focus Areas

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

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



Delivering our Strategy through Clusters, Entities and Business Lines

Our geographical presence

Legend

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

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

Banking

Local

Operating under the aegis of MCB Ltd, the business segments below attend to the banking needs of clients within Mauritius. Reflecting its leadership market position, the Bank has market shares of some 40% in respect of domestic credit to the economy and local currency deposits and nearly 50% of cards issued.

Retail

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

Corporate

Through the Corporate and Institutional Banking SBU, MCB Ltd assists companies across established and emerging economic sectors, alongside attending to the needs of global business companies, funds and trusts. It provides them with flexible and innovative financial solutions and dedicated advice to meet their business development ambitions, thus helping to transform opportunities into winning strategies and supporting clients in their growth endeavours.

Cards

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

Foreign involvement

Via its Corporate and Institutional Banking SBU and assisted by representative offices located in Johannesburg, Paris and Nairobi, MCB Ltd leverages its customised solutions, network of above 1,600 international correspondents and access to global finance to widen its footprint in sub-Saharan Africa and internationally. It is an active promoter of the 'Bank of Banks' initiative, while coordinating the delivery of services structured by other units of the Group to regional clients. Beyond MCB Ltd, the Group's foreign banking subsidiaries in Madagascar, Maldives and Seychelles as well as its overseas associates, Société Générale Moçambique and Banque Française Commerciale Océan Indien (BFCOI - operating in Reunion Island, Mayotte and Paris) provide clients with individual and corporate banking solutions that are adapted to local market realities, while capitalising on the core capabilities and internal synergies within the Group.

Non-banking financial

The Group has, over time, entrenched its participation in the non-banking financial services field. In addition to offering leasing, factoring and microfinance solutions, the Group, through its investment banking arm i.e. MCB Capital Markets Ltd, provides end-to-end solutions under one roof to clients seeking advice on their strategic and capital market transactions, alongside arranging for a broad range of financing tools as well as structuring and placing equity and debt instruments with investors. In these respects, our business activities, which target both the domestic and regional markets, include corporate finance advisory, asset management, stockbroking, private equity and registry. In line with its business growth, MCB Capital Markets Ltd depicts the following: (i) total assets under management of around Rs 20 billion; and (ii) 22 dedicated funds and structured products offered.

Other investments

Beyond the direct banking and non-banking financial services spheres, the Group is engaged in consulting services, cards outsourcing operations as well as investment and ancillary undertakings. It also has dedicated structures to promote its actions in the corporate social responsibility and philanthropic fields.

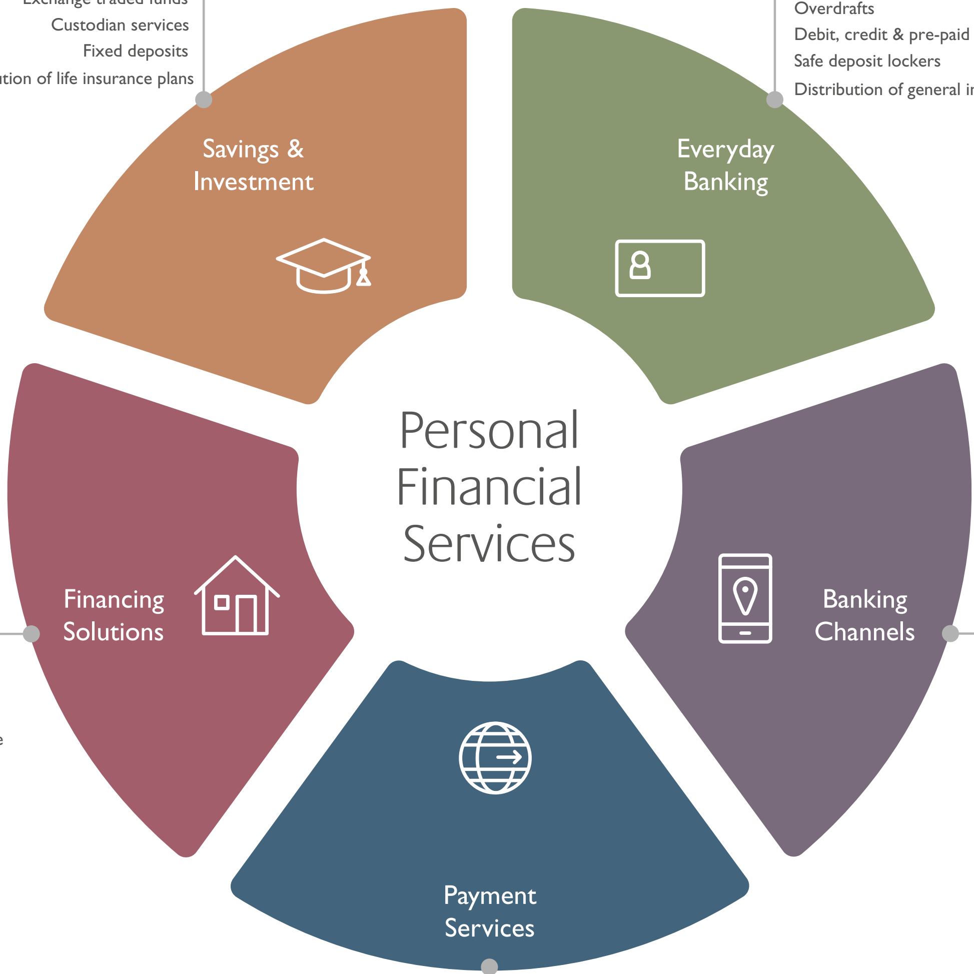
Our Extensive and Customised Financial Solutions

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

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

Education plan
Retirement plan
Local & international stockbroking
Portfolio & wealth management
Capital-guaranteed products
Investment funds
Exchange traded funds
Custodian services
Fixed deposits
Distribution of life insurance plans

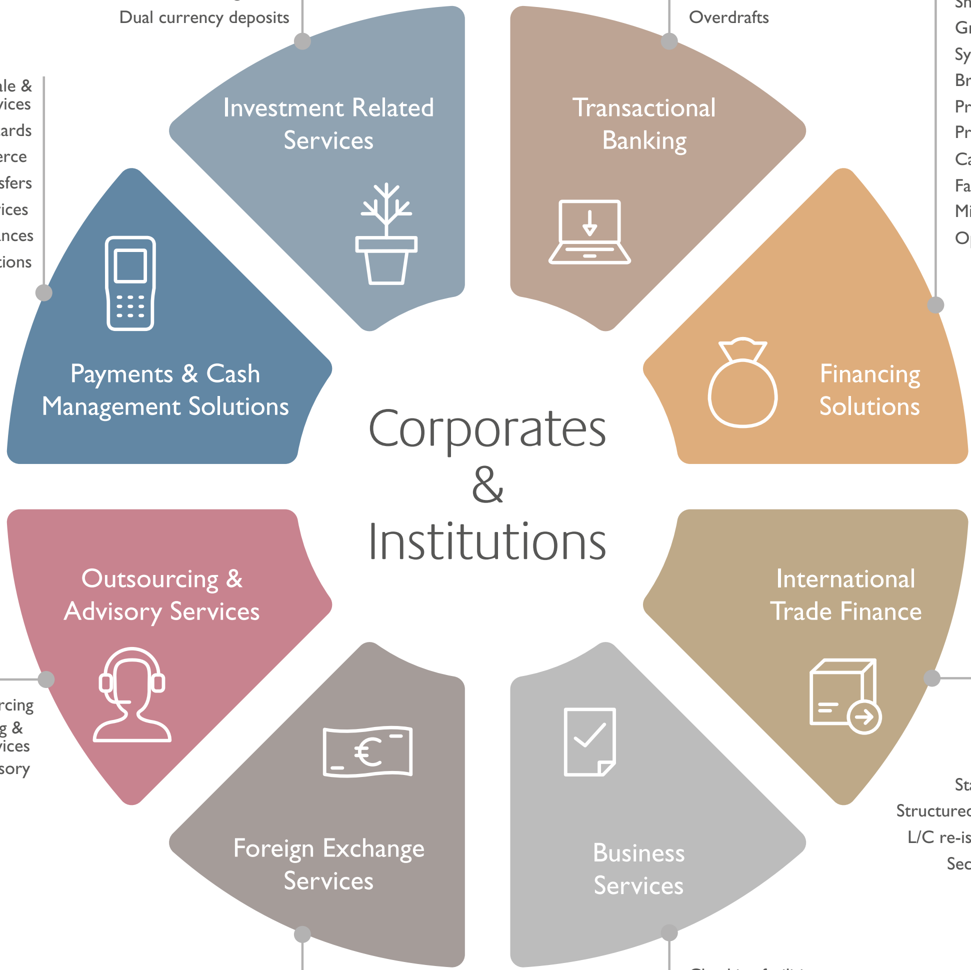
Deposit accounts (current & savings)
Multi-currency accounts
Forex transactions
Overdrafts
Debit, credit & pre-paid cards
Safe deposit lockers
Distribution of general insurance cover



Housing loans
Personal loans
Education loans
Car loans & car lease
Green loans
Microfinance

Branch network
ATM
Internet banking
Mobile banking
SMS banking

Local & international money transfers
Mobile refill & payments
Standing instructions & direct debits
Bank drafts & travellers cheques
Book transfers
Bill payments



Structured products
Investment advisory services
Securities & custodian services
Brokerage services
Investment management
Dual currency deposits

Deposit accounts
Multi-currency accounts
Internet banking
Bank drafts
Forex transactions
Overdrafts

Short & long term loans
Green loans
Syndicated loans
Bridging loans
Private equity
Project finance
Capital financing
Factoring
Microfinance
Operating & finance lease

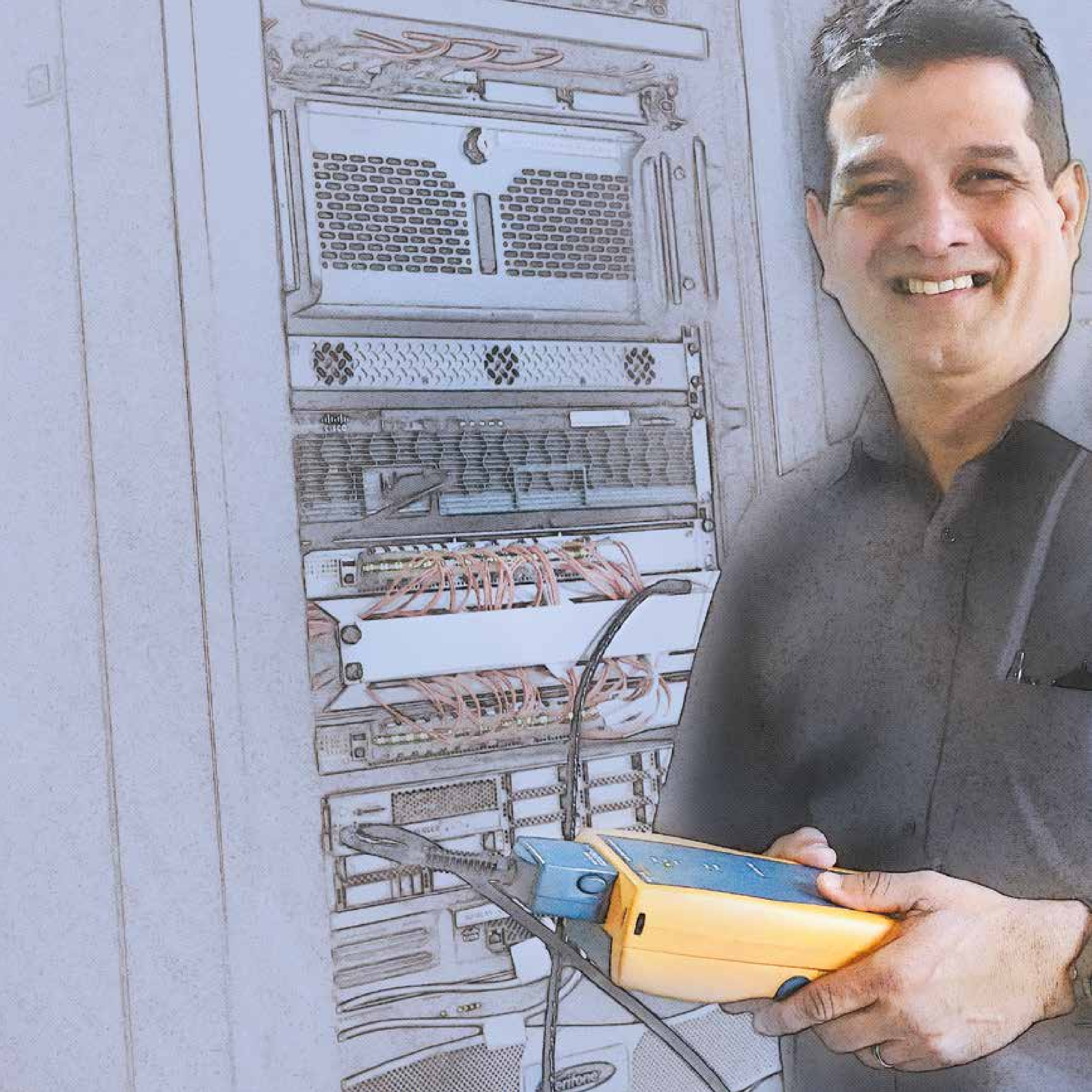
Electronic points of sale & cards acquiring services
Corporate credit cards
E-commerce
International transfers
SWIFT services
Transfers & remittances
Cash business solutions

Cards business outsourcing
Consulting & project management services
Corporate finance advisory

Import & export
Credit protection
Bank guarantees
Standard trade finance
Structured commodity finance
L/C re-issuance/confirmation
Secondary asset trading

Currency swaps
Spot & forward deals
Interest rate swaps
International transfers & remittances

Checking facilities
Payroll services
Secretarial services
Share registry services
Confidential reports
Collection services



Board of Directors and Committees of the Board

Board of Directors and Committees of the Board

Board of Directors

Independent Non-Executive Directors

Gérard HARDY *(Chairperson - up to 29 September 2016)*

Didier HAREL { *Director - as from November 2015*
Chairperson - as from 29 September 2016 }

Sunil BANYMANDHUB

Karuna BHOOJEDHUR-OBEEGADOO *(as from November 2015)*

Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE

Navin HOOLOOMANN, C.S.K.

Jean-Louis MATTEI

Jean-Pierre MONTOCCHIO

Alain REY *(as from November 2015)*

Margaret WONG PING LUN

Executive Directors

Pierre Guy NOEL

Gilbert GNANY

Secretary to the Board

MCB Registry & Securities Ltd
(represented by Marivonne OXENHAM)

Committees of the Board

Risk Monitoring Committee

Jean-Louis MATTEI *(Chairperson)*

Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE

Gilbert GNANY

Gérard HARDY *(up to 29 September 2016)*

Didier HAREL *(as from February 2016)*

Pierre Guy NOEL

Audit Committee

Sunil BANYMANDHUB *(Chairperson)*

Alain REY *(as from February 2016)*

Margaret WONG PING LUN

Remuneration and Corporate Governance Committee

Gérard HARDY *(Chairperson - up to 29 September 2016)*

Karuna BHOOJEDHUR-OBEEGADOO *(as from February 2016)*

Didier HAREL *(as from 29 September 2016)*

Navin HOOLOOMANN, C.S.K.

Jean-Pierre MONTOCCHIO

Pierre Guy NOEL

Chairperson's statement

I am pleased to report that the Group has posted a commendable financial performance in FY 2015/16 despite the difficult operating context. At the same time, we have strengthened our foundations for future growth by means of sustained capability building initiatives.

Our Sound Performance Anchored on Key Foundations

Profit attributable to shareholders expanded by 15.8% to reach Rs 6,626 million in FY 2015/16. In spite of net fee and commission income declining on account of the adverse impact of oil prices on regional trade financing activities, our operating income improved in the wake of another rise in our net interest income, higher profit on exchange as well as a gain associated with the successful exit from an equity investment. Besides, in addition to a contained rise in operating expenses and a decline in allowance for credit impairment, our results have been supported by a near doubling of the share of profit of associates. Our performance is a major source of satisfaction as it reflects the success of our endeavours to broaden and diversify our revenue base. Thus, earnings from foreign sources and non-banking operations contributed around 60% of Group results. Furthermore, in support of our growth aspirations, the Group has, in spite of facing up to testing market and economic conditions, preserved the general healthiness of its financial metrics in terms of capitalisation, funding and liquidity, as well as asset quality. Especially, while the ratios that have been posted by relevant entities have comfortably exceeded the regulatory rules applicable in their respective presence countries, the Group has, as a whole, remained a well-capitalised organisation, with its BIS and tier 1 ratios standing at 18.3% and 15.3% respectively as at 30 June 2016.

Overall, the Group has maintained its leadership banking position in Mauritius, alongside preserving the prominence of its positioning on the regional front and in the non-banking financial services field. It is worth noting that the entities of the Group have pursued their business expansion strategy in a cautious way in light of the demanding context. They have kept on gearing up their inherent capabilities and further improved the quality of their customer service with a view to entrenching strong footholds for dealing with market challenges and achieving future growth. To achieve its strategic objectives, the Group has sustained its efforts to enhance the competencies of its talent pool and to invest in technology improvements and simplification of processes, while seeking ways to tap into potential synergies among its constituent entities. Moreover, our activities have been backed by the adoption of strong risk management policies and practices, which reflect our underlying adherence to industry norms and good corporate governance principles. In the same vein, the Group has aligned with the fast-evolving regulatory environment as gauged by its strict compliance with the relevant laws, regulations, guidelines, standards, codes and other requirements prevailing in its presence countries.

Our Accolades

The appreciable financial performance and solid credentials of the Group have been rewarded and acknowledged in several ways. Epitomising the sound fundamentals of the organisation and strong investor confidence therein, our share price stayed generally stable on a point-to-point basis in the context of marked global uncertainties, while outperforming the market index which registered a notable drop during the financial year. All in all, MCB Group Ltd has remained the strongest blue-chip company on the Official Market of the Stock Exchange of Mauritius during the year under review, with Rs 50.3 billion of market capitalisation being posted as at 30 June 2016, representing a market share of some 25%. In another respect, the Group has been recipient of several awards for its positioning, including a couple on the regional front, while the PricewaterhouseCoopers Corporate Reporting Awards for the preceding year's annual report publication are yet another accolade that testifies to our commitment for promoting transparency vis-à-vis our multiple stakeholders. In this perspective, MCB Group Ltd is achieving another leap forward with this year's annual report as it can be gauged by a more comprehensive adherence to the integrated reporting principles and, in this light, the detailed description of how value is created for each of our key stakeholders. From another angle, it is worth mentioning that, as per the latest Top 1000 World Banks listing of The Banker magazine, MCB Group is ranked 666th worldwide and is positioned at the 17th spot in Africa in terms of its tier 1 capital, while remaining the top banking institution in East Africa.

Our Corporate Responsibility

In line with its commitment to promoting sustainable socio-economic development principles, the Group has remained committed to fulfilling its engagement as a socially responsible and caring corporate entity in the countries where it is present. The MCB Forward Foundation, which is our dedicated vehicle for the implementation of CSR initiatives, enabled us to embed our engagement with the communities in which we operate. In FY 2015/16, an amount of around Rs 72 million was entrusted by the Group's local subsidiaries to MCB Forward Foundation, which led to initiatives being taken in favour of absolute poverty alleviation as well as education, health and the welfare of children, while dedicated moves underpinning community empowerment and socio-economic development were made. The Group also made further inroads in the pursuit of its mission to foster the protection of the natural environment. In addition to promoting awareness amongst staff and the general public about the prudent management of natural resources and the scarce sources of energy, the Group has continued to adopt environment-conscious practices in its operations and activities, alongside encouraging the recourse to environment-friendly and energy-saving investments by its clients.

Concluding Remarks

After having spent the last 14 years within MCB Group, I have decided to retire from the Board of MCB Group Ltd with immediate effect. 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 Group's success and advancement, both in Mauritius and in the region.

During my tenure within the Group, I have thoroughly enjoyed the experience of working alongside our talented people to further the development of the organisation for the benefit of all stakeholders. We executed our strategy on the back of judicious and, often, courageous decisions that have helped us to continuously improve the way our organisation functions. It has been a privilege for me to have served MCB Group for all these years and to have witnessed the modernisation of its operations. In this respect, I would like to pay tribute to the unflinching support I received from my fellow directors, the members of the various Boards and committees as well as the management teams and staff of the Group.

Finally, I wish every success to the whole team of MCB Group for future endeavours. I have no doubt that the Group will preserve its dynamic and innovative mindset with a view to attaining further heights and meeting stakeholder requirements, thus remaining a sound and reputed institution.

J. Gérard HARDY
Outgoing Chairperson
MCB Group Limited

Message from the incoming Chairperson of MCB Group Ltd

Dear esteemed shareholders and valued customers,

It gives me great pleasure to be appointed as the Chairman of the Board of Directors of MCB Group Ltd as from 29 September 2016. I am very glad to be given this opportunity to serve you all and I am humbled by the responsibility to lead this great institution forward, especially at a time when our operating environment is fast changing.

On behalf of the Board of Directors, let me seize this opportunity to thank the outgoing Chairman, Mr Gérard Hardy, for the invaluable guidance and strategic direction that he has delivered during this tenure at the organisation. After joining the institution in 2002 in his capacity as Vice-President of the Board of MCB Ltd – which was the Group's former holding entity – Mr Gérard Hardy has acted as President thereof as from 2004, before joining the Board of MCB Group Ltd as Chairman in March 2014 after the Group restructuring. During his term, Mr Gérard Hardy has, amidst challenging market conditions and an evolving regulatory landscape, provided the necessary vision and leadership in steering the Group ahead. In fact, he has provided the required acumen to expand our businesses after being at the helm of ambitious and, very often, bold decisions. Under the stewardship of Mr Gérard Hardy, several landmark initiatives have been taken at different points in time to bolster our shareholder value. In particular, he sponsored notable moves to modernise the organisation, widen its value proposition and diversify its market involvement, notably on the regional front and the non-banking field. To underpin its strategic thrusts, key measures that he promoted related to the improvement of our capital base as well as the transformation of our organisational structures and operational platforms. He played an important role in reinforcing our corporate governance and risk management frameworks while headway has also been made in gearing up the quality of our human capital and promoting employee engagement in line with our philosophy to be an employer of choice. His guidance and support have paved the way for our balance sheet to expand by around 4 times, while our net profit has witnessed an annualised growth rate of nearly 15% over the period he has been with us, a formidable achievement indeed!

Moving forward and as we set out in an era which is expected to be both challenging and exciting, due focus will be laid on understanding what markets expect from us and undertaking what we should do to meet their needs in an innovative and adapted manner. I am conscious that our operating context will remain quite demanding, thus calling upon us to take a close look at our operating model, embrace a clear vision, and maintain the necessary hard work and enthusiasm that will make up our competitive edge. For this purpose, I am sure that I can count on the dedication of my fellow Board members as well as all our employees to make us as proud and successful an institution as we have always been. In fact, it is only through our valued partnership that we will be able to take the Group to the next phase of its growth chapter as well as reinforce the trust that our shareholders, customers and other stakeholders have in us.

M G Didier HAREL
Incoming Chairperson
MCB Group Limited

Chief Executive's statement

The Group made good progress on its strategic initiatives during the year to achieve strong growth in profits despite a persistently tough environment. Underlying fundamentals remained solid, which coupled with ongoing investment to reinforce our internal capabilities, provide a sound footing for creating long-term value for our stakeholders.

A Challenging Operating Context

Business activities continued to be constrained by enduring difficulties in the economic environment. Subdued real growth prevailed across countries where the Group is involved amidst the ongoing fragility of the world economy and market vulnerabilities. On the regional front, the drop in oil prices has led to a notable reduction in the ticket size and volume of regional trade transactions whereas credit worthiness of corporates and financial institutions have come under pressure, with a key area warranting attention being the tightening of forex liquidity conditions for banks in some countries of sub-Saharan Africa. In Mauritius, the sluggish evolution of private investment again acted as a drag on the economy and largely impacted demand for corporate credit. Against this backdrop, the high liquidity situation persisted in the banking system even though a relative reduction was observed in excess cash balances held by operators following the Central Bank's money market interventions.

Another key trend characterising the financial services sector is the heightened levels of regulatory compliance with global pressures quickly reaching our shores. Indeed, more stringent rules are being set in respect of capital adequacy, KYC standards, exchange of information and disclosure requirements and macro-prudential measures amongst others. While being welcomed insofar as they enhance transparency and strengthen the soundness of the financial system, tighter regulations also entail mobilisation of significant resources and increased cost for financial institutions. Likewise, the banking industry is being reshaped by the fast-paced technology landscape. It is clear that our success will depend on our responsiveness in adapting our value proposition to the evolving customers' behaviours, lifestyle and expectations alongside effectively coping with emerging risks such as competitive pressures outside the industry and cyber security threats. At the same time, there is an opportunity for us to differentiate ourselves by leveraging new technologies to make banking simpler and more relevant for our customers.

Strong Financial Performance

Looking back on our results in FY 2015/16, the Group delivered a very satisfactory performance to grow profits attributable to equity holders by 15.8% to Rs 6,626 million. Operating income sustained its growth momentum to rise by 9.1% notwithstanding the impact of economic headwinds on some revenue lines. Whilst net fee and commission income dropped by 5.1%, essentially due to the impact of low oil prices on MCB's regional trade financing, net interest income improved by 9.0% despite a slight fall in the loan portfolio. This increase mainly resulted from higher investment in Government securities which, nonetheless, had the effect of reducing overall margins. Revenue growth was also driven by a strong rise in profit on exchange and enhanced contribution from non-banking activities, notably owing to the successful exit from an equity investment. With the rise in operating expenses contained to 4.8%, the cost to income ratio moved to our long-term target of 40% and, after factoring in a reduction in net impairment charges, this contributed to operating profit going up by more than 16%. Our performance was further enhanced by a near doubling of our share of profit of our associates BFCOI and PAD Group, the latter benefiting from non-recurrent gains on disposal of shares.

The overall performance of the Group underscores our sustained quest to widen our revenue base over the years. Consolidated results of the banking cluster grew by some 11% but, due to the excellent performance of the non-banking activities, its contribution fell from 94% of Group profits in FY 2015/16 to 90% for the year under review. The share of Segment A (domestically-sourced) income increased by one percentage point to reach 40% while the strong performance at the level of our foreign subsidiaries and associates boosted their contribution from 11% to 14%.

As a key pillar of its business model, the Group lays due emphasis on keeping financial soundness indicators at comfortable levels at all times so as to adequately support its growth strategy. As such, we remained well-capitalised with the enhanced financial performance in a context of limited growth in risk weighted assets resulting in an improved capital adequacy ratio which reached 18.3% at year end, of which 15.3% by way of tier 1 ratio. Robust funding and liquidity positions continued to characterise the Group while asset quality was maintained at similar levels as last year.

Executing Our Business Strategies

Even though the operating environment warranted that we remain highly vigilant to ongoing developments, entities of the Group diligently pursued their business development agenda intended to reinforce their market positioning and diversify their activities. On the domestic front, MCB Ltd further etched its foremost position on the basis of enriched value proposition, close-knit customer relationships and modern channel capabilities with the move to promote digital banking gaining prominence. As such, the Bank increased its market share in the retail segment in spite of stiff competition and made further inroads in growing its local and international high net-worth clientele. It also maintained its standing as a trusted business partner for SMEs and large corporates across several sectors. On the regional front, the Bank adopted a conservative approach in the context of the soft economic conditions to foster a gradual and sound execution of its growth ambitions. Alongside nurturing mutually beneficial relationships with financial institutions and seeking to extend its market reach, the Bank has, during the year, placed a key focus on putting together the building blocks that will help it deliver on the set medium term objectives. At the level of the foreign banking subsidiaries, building on enhanced functionalities of their upgraded technological platforms, they maintained their drive to refine their offerings so as to better attend to the needs of the different segments they serve, partly backed by the replication of MCB products and services as appropriate.

The Group has also sustained its efforts to deepen its involvement in the non-banking field. An important milestone was reached with the launch in July last of MCB Microfinance Ltd whose objective is to provide dedicated support to micro and small entrepreneurs so that they can realise their business initiatives. Besides, subsidiaries within the non-banking clusters actively executed their market and product development strategy to make the most of underlying business opportunities. As an example, the customer base of MCB Capital Markets sustained an upward trend and the year saw the launch of two additional capital-guaranteed funds and the MCB India Sovereign Bond Exchange Traded Fund, the first of its type to be structured in Mauritius.

As a key strategic thrust that cuts across the organisation, the Group continued to deploy its ‘Bank of Banks’ proposal to reinforce its positioning as a regional platform for providing tailored solutions to financial institution counterparts. Though trade confirmation and cards outsourcing remained the mainstays of this initiative, appreciable headway has been made in realm of project management and advisory services reflecting business growth achieved by MCB Consulting Services Ltd on account of its expertise and strategic partnerships with leading international solution providers.

In order to foster a sound and lasting development path, the Group continued to reinforce the foundations for growth. In this respect, notable reorganisation initiatives were undertaken during the year for enhanced effectiveness and efficiency. In particular, the creation of the new Corporate and Institutional Banking function at MCB Ltd seeks to promote a more coherent international strategy, enhanced customer experience and value chain optimisation anchored on strong governance and risk management principles. Measures have also been initiated to move towards more agile operations backed by the increased use of technology while further improvements have been brought to the risk management frameworks across banking subsidiaries. In the same vein, the Group adopted a proactive stance in respect of changes in the regulatory landscape as gauged by the monitoring of Basel III liquidity ratios and current moves being adopted to ensure compliance with IFRS 9. Recognising that its people constitute the backbone of the organisation, the Group has devoted notable resources to find people with the required competencies to support our business aspirations. Specialised training was provided to enhance the skill sets of staff and dedicated programmes have been designed to nurture the development of future talents. Appropriate emphasis was also maintained on adequate brand visibility achieved through corporate events, roadshows and relevant sponsorships, with the latest Africa Forward Together seminar, which welcomed executives of partner banks from 14 African countries, once again proving to be very successful.

Chief Executive's statement

The Outlook

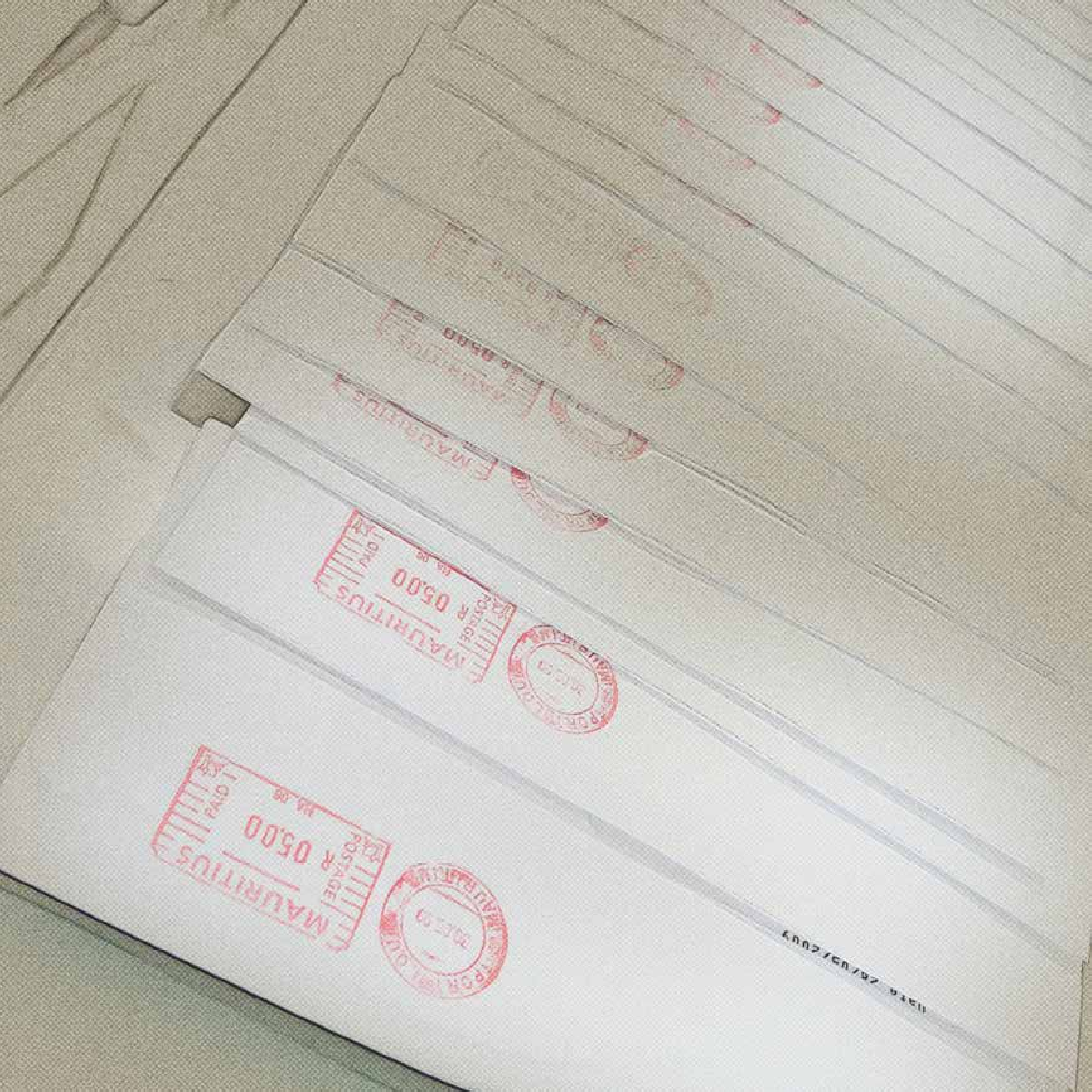
The operating environment is likely to remain challenging amidst persisting global uncertainties with our markets still faced with excess liquidity, in both local and foreign currencies, thereby exercising pressures on average assets yield. Whilst the retail segment is anticipated to sustain its growth momentum, further expansion of credit will be largely dependent on regional economic performance and the implementation of public and private sector projects in the wake of the budgetary measures. Against this backdrop, the Group will maintain its plans to build capacity in support of its growth strategy so as to be well prepared for tapping into avenues for business expansion when a higher growth cycle kicks in. In particular, entities of the Group will keep on strengthening their human resource and physical capabilities, backed by continued investment in technology and process optimisation. This should allow us to further enhance our value proposition with a key axis thereof being the broadening of our digital solutions alongside improving inherent productivity levels and providing us with greater latitude on the operational front to make things happen and realise our strategic ambitions. The latter continues to be centred around the consolidation of our positioning in established markets and further diversification of our operations, with a key focus being laid on areas in which we have developed and nurtured strategic competencies. Moreover, the Group will anchor the soundness of its market endeavours on robust risk management framework, while seeking to stay ahead of the curve in respect of the evolving regulatory landscape.

Appreciation

The realisation of another strong set of results in the face of difficult operating conditions would not have been possible without the unwavering support of all our stakeholders. I would thus like to place on record my gratefulness to our customers for remaining faithful to us and to our shareholders for their unremitting trust in our ability to create value for them. I also wish to extend my thanks to members of the Group's various Boards for their contribution and guidance in achieving our objectives. My appreciation also goes to our staff members and management teams for their tremendous efforts and commitment to the execution of our strategy. Finally, on behalf of the staff and management teams and in my own name, I wish to address my sincere appreciation to Mr Gérard Hardy, who retired as Chairman after 14 years with the organisation. His leadership was exemplary and assisted in building the strongest of foundations for the achievement of our growth objectives. I would like to thank him for his invaluable contribution to the Group and wish him well for his future endeavours.

Pierre Guy NOEL
Chief Executive
MCB Group Limited

Corporate Governance Report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Company Secretary's certificate

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

Marivonne OXENHAM
Per MCB Registry & Securities Ltd
Company Secretary

29 September 2016

Statement of compliance

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

Name of Public Interest Entity ('the PIE'): MCB Group Limited
Reporting Period: 1 July 2015 to 30 June 2016

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

J. Gérard HARDY
Chairperson

Pierre Guy NOEL
Director

29 September 2016

Corporate governance report

Introduction

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

The Group's approach to governance is underpinned by adherence to advocated norms and regulatory requirements. As such, all subsidiaries comply with the provisions of relevant legislations and rules of countries where they operate and the banking subsidiaries adhere to the underlying Basel principles. Entities in Mauritius have also subscribed to the Code of Corporate Governance (2003) which has hitherto been in force. The Board also encourages a culture that promotes ethical and responsible decision-making throughout the organisation by way of Group-wide awareness of its operating ethics. It continuously monitors and adapts practices to reflect developments in corporate governance principles given their significance in ensuring smooth business operations and optimal stakeholder engagement within an increasingly challenging environment.

Governance Structure

Our Governance Framework

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

The Board has entrusted the day-to-day running of the business to the management executives. It regularly monitors compliance of Management to set objectives and policies. The Board Charter provides a clear definition of the roles and responsibilities of the Chairperson, executive and non-executive directors.

Key roles and responsibilities

Directors

Executive

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

Non-executive

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

Chairperson

- Leads the Board
- Ensures that the Board is effective in its duties of setting out and implementing the Group's strategy
- Ensures that committees are properly structured with appropriate terms of reference
- Presides and conducts meetings effectively
- Advises and provides support and supervision to the Chief Executive
- Ensures that directors receive accurate, timely and clear information
- Maintains sound relations with shareholders
- Ensures that the development needs of directors are identified and appropriate training is provided

Chief Executive

- Manages the day-to-day operations
- Develops and executes the plans and strategy of the business in line with the policies set by the Board
- Provides leadership and direction to senior management
- Builds, protects, and enhances the Group's brand value
- Ensures the Group has implemented the necessary frameworks and structures to identify, assess and mitigate risks
- Acts as a liaison between Management and the Board

Company Secretary

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

Corporate governance report

Constitution of MCB Group Limited

The salient features of the Constitution are highlighted below:

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

The Board and its Committees

Board Governance Structure

Board of Directors

In accordance with the Constitution of MCB Group Ltd, the objective of the Board is to define the Company's purpose, strategy and value and determine all matters relating to the directions, policies, practices, management and operations of the Company and all its subsidiaries locally and abroad. The Board shall thereafter ensure that the Group is being managed in accordance with its directions and delegations. The Board is ultimately responsible for the affairs of the Company. The Company's Constitution provides that the minimum number of directors shall be five and the maximum number twelve.

	Risk Monitoring Committee (RMC)	Audit Committee (AC)	Remuneration and Corporate Governance Committee (RCGC)
Mandate	The RMC shall assist the Board in setting up risk strategies and in assessing and monitoring the risk management process of MCB Group Ltd and all its subsidiaries. The Committee shall also advise the Board on risk issues and shall monitor the risk of the different portfolios against the set risk appetite in the case of banking subsidiaries.	The AC shall assist the Board in the oversight of MCB Group Ltd and its subsidiaries, in matters relating to the safeguarding of assets, the monitoring of control processes and the effectiveness of systems, and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.	The RCGC shall assist the Board in the discharge of its duties relating to all remuneration aspects, corporate governance matters and nomination of directors and senior executives of MCB Group Ltd.
Composition as per Charter	Shall consist of at least three members including the Chief Executive and at least one independent non-executive director. The Chairperson of the Committee should be a non-executive director and shall not be the Chairperson of the Board.	Shall consist of a minimum of three non-executive members, with a majority of independent directors from whom the Chairperson shall be nominated.	Shall comprise between three and five members with a majority of non-executive directors. The Chairperson of the Committee shall be an independent non-executive director. The Chief Executive Officer may be a member of the Committee.

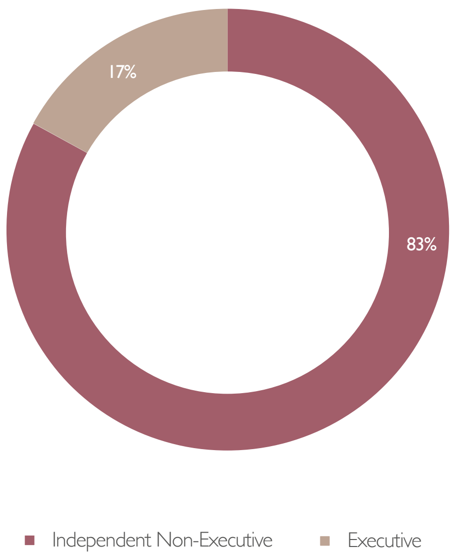
Corporate governance report

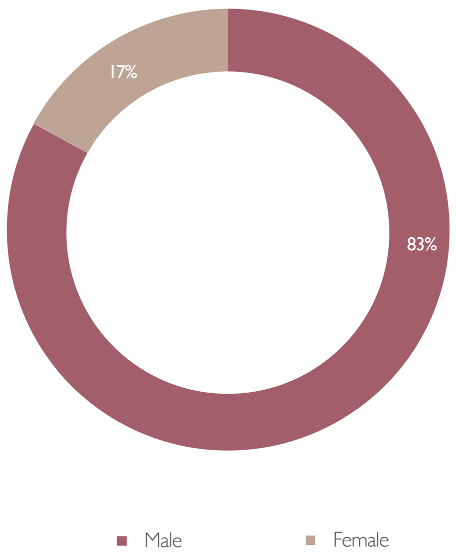
Board of Directors

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

- the composition of the Board with an appropriate balance of executive, non-executive and independent directors;
- the Chairperson of the Board to be an independent non-executive director;
- the creation of Committees;
- a corporate code of conduct addressing, *inter alia*, issues relating to conflicts of interests;
- the approval of strategic objectives, policies and corporate values as well as their communication throughout the organisation;
- the monitoring of management in respect of the implementation of Board plans and strategies, and compliance with set policies;
- the existence of clear lines of responsibility and accountability throughout the organisation and compliance with all relevant laws, regulations and codes of business practice;
- Board performance evaluation;
- a formal and transparent directors' remuneration policy;
- the review of procedures and practices to ensure effectiveness of the Group's internal control systems; and
- the provision of timely and accurate information to shareholders, relevant authorities and the public.

Approval of the Board is specifically required for, amongst other important matters, modifying the Company's Constitution, issuing fresh capital or buying back its own shares, declaring dividends, acquiring or divesting sizeable stakes in subsidiaries or associated companies, making appointments of senior officers, and establishing the remuneration of directors and chief executives. The Board presently comprises 12 directors: 2 executive and 10 independent non-executive directors including 2 female members.





Board focus areas in FY 2015/16

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

Strategy and performance	• Reviewed and approved the strategic orientations and budget plans of all the banking and non-banking entities of the Group • Discussed about progress of the Medium Term Growth Strategy of MCB Ltd amidst the evolving context • Discussed the major developments in the operating context including implications of the amendments to the Protocol relating to the India-Mauritius Double Taxation Avoidance Agreement on the global business sector • Considered and approved the setting up of MCB MicroFinance Ltd • Reviewed and monitored the unbundling process of two overseas banking subsidiaries from MCB Ltd
Governance and risk	• Reviewed the findings of the evaluation of the Board and its sub committees undertaken by an external facilitator • Reviewed and approved the structure, size and composition of the Board and Board Committees • Approved, upon the recommendation of the Remuneration and Corporate Governance Committee, the appointment of Mrs Karuna Bhojeedhur-Obeegadoo, Mr Alain Rey and Mr Didier Harel as Board members • Approved the appointment of external auditors for joint audit • Directors briefed on reporting procedures with respect to directors' interests • Assessed and discussed regulatory developments, notably with respect to IFRS 9 and the new draft Corporate Governance Code (2016) • Directors briefed by Chairpersons of the Risk Monitoring Committee and Remuneration and Corporate Governance Committee on their deliberations
Financial	• Reviewed and approved the Group's consolidated accounts on a quarterly basis • Assessed and monitored the Group's financial performance against budget • Approved declaration of dividend • Reviewed reports from the Audit Committee
Shareholders	• Directors briefed on Investor Analyst meeting • Annual Meeting of Shareholders briefing

Board Committees

The Board has created three Board Committees to help it in carrying out its oversight function: the Risk Monitoring Committee, the Audit Committee, the Remuneration and Corporate Governance Committee. The composition of the committees appears on Page 35 of the Annual Report.

Each committee has its own charter, approved by the Board and reviewed as deemed necessary. The charter sets out the committees' role, composition, powers, responsibility, structure, resources and any other relevant matters. Through the deliberations and reporting of its various committees, the Board ensures that the Company and its subsidiaries are being managed in line with its objectives.

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

Risk Monitoring Committee

The committee currently consists of six members namely the Chief Executive, the Chief Strategy Officer and four independent non-executive directors, including the Chairperson of the Board. It meets at least quarterly and on an ad hoc basis when required.

Its main responsibilities include:
- overseeing the development of an effective risk management framework for the Group by implementing rigorous internal processes and controls which identify, monitor, measure and report different types of risks;
- reviewing the principal risks, including credit, market, liquidity, operational, compliance and reputational risks as well as the actions taken to mitigate them;
- reviewing regular information on risk exposures and risk management activities, and make appropriate recommendations to the Board;
- setting risk exposure limits, as well as the delegation and authorisation procedures;
- monitoring risk portfolios against set limits with respect to, *inter alia*, risk concentration, asset quality, large and foreign country exposures, in compliance with regulations and internal policies;
- ensuring that clear lines of responsibility and accountability exist and are enforced throughout the organisation;
- ensuring that the Group complies with all the relevant laws, regulations and codes of business practice; and
- reviewing any legal matters that could have a significant impact on the Company's and its subsidiaries' business.

Audit Committee

The committee consists of three independent non-executive directors, with relevant financial expertise as described in their respective profile. The committee meets at least four times a year corresponding to the Company's quarterly reporting cycle. In particular, it reviews the quarterly results and annual financial statements, prior to submission and approval by the Board. Of note, to effectively carry out its duties, the Committee holds consultations with audit committees of subsidiaries as deemed appropriate.

Its main responsibilities, amongst others, include:
- reviewing the effectiveness of the Group's internal control and reporting systems;
- monitoring the effectiveness of the internal audit function;
- assessing audit matters pertaining to the Company and its subsidiaries;
- overseeing the financial reporting procedures in accordance with prescribed standards and addressing relevant significant issues;
- making recommendations to the Board on the appointment of external auditors;
- monitoring the effectiveness and independence of external auditors and assessing the implications of the supply of non-audit services;
- reviewing the overall scope and deliverables of external auditors as well as their remuneration; and
- ensuring compliance by the Company and its subsidiaries, with the requirements of relevant constitutions, legislations and regulations.

As part of its responsibility to address significant issues linked to financial reporting, the Committee has, during the year, discussed the adequacy of allowance for credit impairment. The Committee also took note that new standards will be effective as from January 2018. Steps will be taken as from 2017 to prepare for the implementation of these standards. The Comittee has satisfied its responsibilities for the year in compliance with its terms of reference.

Remuneration and Corporate Governance Committee

Consisting of five members including the Chief Executive, the committee meets at least twice a year and on an ad hoc basis when required.

Its main responsibilities include:
- identifying and recommending suitable candidates for the Boards and committees of the Company and its subsidiaries while ascertaining that potential new directors and senior officers are fit and proper persons;
- reviewing the Board structure, size and composition to achieve an appropriate balance of skills and expertise, with a majority of independent non-executive directors;
- establishing clear criteria for selecting prospective directors and evaluating the performance of current directors;
- setting and developing the Group's general policy concerning the remuneration of directors;
- reviewing the remuneration of directors, taking into account their responsibilities and workload;
- making recommendations to the Board regarding the use of incentive plans and equity-based remuneration for executive directors;
- reviewing the succession plan of senior executives and the list of talents;
- determining and developing the Group's general policy on corporate governance in accordance with the applicable Code of Corporate Governance;
- ensuring that an induction programme is provided to new directors and that all directors are given regular updates on evolution of laws, regulations and accounting best practices; and
- ensuring that no material conflict of interests exists/ arises in conducting business.

Directors' Profiles

The Board comprises 12 directors who have a proven track record in various fields, with the average age of directors standing at 61 years. Profiles of directors including their directorships in other listed companies (where applicable) are given hereafter. Unless otherwise stated in their respective profile, directors ordinarily reside in Mauritius.

Outgoing Chairperson

Gérard HARDY - Age 72
Independent Non-Executive Director

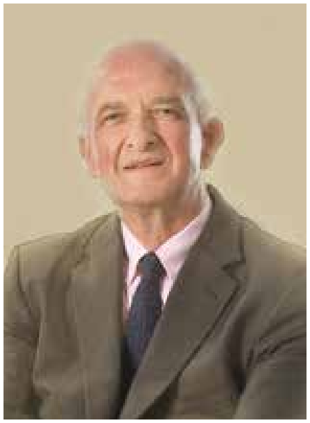
Date of first appointment: April 2014

Qualifications: Certified Accountant (UK) and 'Expert Comptable' (France)

Experience: Gérard has had an enriching career in France, where he spent 8 years with KPMG and 17 years with the IP Group before setting up his own consultancy firm there. He returned to Mauritius in June 2001 and was appointed to the Board of MCB Ltd in 2002, on which he was elected Vice President. In July 2003, at the request of the Board of the Bank, he chaired its Management Committee until its dissolution at the beginning of 2005. He was President of the Board of MCB Ltd until March 2014 when he joined the Board of MCB Group Ltd following the restructuring of the Group. He is currently a Board member of several entities within the Group, namely Banque Française Commerciale Océan Indien, MCB Forward Foundation and Blue Penny Museum.

Board Committee membership(s): Remuneration and Corporate Governance Committee (Chairperson), Risk Monitoring Committee

Incoming Chairperson



Didier HAREL - Age 64
Resident

Date of first appointment: November 2015

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

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

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

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

Directors' Profiles (cont'd)

Executive Directors

Pierre Guy NOEL - Age 60
Chief Executive

Date of first appointment : April 2014

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

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

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

Gilbert GNANY - Age 54
Chief Strategy Officer

Date of first appointment: April 2014

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

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

Board Committee membership(s): Risk Monitoring Committee

Directorships in other listed companies: Promotion and Development Ltd, Caudan Development Ltd

Independent Non-Executive Directors

Sunil BANYMANDHUB - Age 67

Date of first appointment: April 2014

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

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

Board Committee membership(s): Audit Committee (Chairperson)

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

Karuna BHOOJEDHUR-OBEEGADOO - Age 55

Date of first appointment: November 2015

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

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

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

Board Committee membership(s): Remuneration and Corporate Governance Committee

Directors' Profiles (cont'd)

Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE - Age 65
Non-Resident

Date of first appointment: November 2014

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

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

Board Committee membership(s): Risk Monitoring Committee

Navin HOOLOOMANN, C.S.K. - Age 57

Date of first appointment: April 2014

Qualifications: Chartered Surveyor FRICS (UK)

Experience: Navin has over 25 years of experience in the construction industry internationally. He is the founder and Managing Director of Hooloomann & Associates Ltd, a construction, project management and cost management consultancy firm operating in Mauritius, Seychelles, Maldives, Sri Lanka, India and West Africa. He has served on the Board of MCB Ltd for several years since 2002 and was a Director thereof until March 2014, after which he was appointed Director of MCB Group Ltd following the Group's restructuring exercise.

Board Committee membership(s): Remuneration and Corporate Governance Committee

Jean-Louis MATTEI - Age 69
Non-Resident

Date of first appointment: April 2014

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

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

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

Jean-Pierre MONTOCCHIO - Age 53

Date of first appointment: April 2014

Qualifications: Notary Public

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

Board Committee membership(s): Remuneration and Corporate Governance Committee

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

Corporate governance report

Directors' Profiles (cont'd)

Alain REY - Age 57

Date of first appointment: November 2015

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

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

Board Committee membership(s): Audit Committee

Directorship(s) in other listed companies: Rogers and Co. Ltd, Terra Mauricia Ltd, Ciel Textile Ltd

Margaret WONG PING LUN - Age 62

Date of first appointment: April 2014

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

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

Board Committee membership(s): Audit Committee

Directorships in other listed companies: Terra Mauricia Ltd

Board and Committee Attendance

	MCB Group Ltd	Board of Directors	Board Committees		
			Audit	Risk Monitoring	Remuneration and Corporate Governance
	Number of meetings held during FY 2015/16	**5**	**4**	**5**	**4**
	Meetings attended				
Executive	Pierre Guy NOEL	5	-	5	4
Executive	Gilbert GNANY	5	-	5	-
Independent	Gérard HARDY	5	-	5	4
Independent	Sunil BANYMANDHUB	5	4	-	-
Independent	Karuna BHOOJEDHUR-OBEEGADOO[1]	2	-	-	1
Independent	Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	3	-	4	-
Independent	Didier HAREL[2]	2	-	2	-
Independent	Navin HOOLOOMANN, C.S.K.	5	-	-	4
Independent	Jean-Louis MATTEI	4	-	3	-
Independent	Jean-Pierre MONTOCCHIO	3	-	-	4
Independent	Alain REY[3]	2	-	-	-
Independent	Margaret WONG PING LUN	5	4	-	-

[1]Appointed to the Board of Directors in November 2015 and to the Remuneration and Corporate Governance Committee as from February 2016
[2]Appointed to the Board of Directors in November 2015 and to the Risk Monitoring Committee as from February 2016
[3]Appointed to the Board of Directors in November 2015 and to the Audit Committee as from February 2016

Corporate governance report

Directors' Interests and Dealings in Securities

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

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

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

The following tables give the interests of the directors in the Group's listed securities as at 30 June 2016 as well as related transactions effected by the directors during the year. None of the directors had any interest in the securities of the subsidiaries of MCB Group Ltd other than in the equity of Fincorp Investment Ltd.

Interests in MCB Group Ltd shares as at 30 June 2016	Number of shares	
	Direct	Indirect
Gérard HARDY	5,000	-
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	88	-
Gilbert GNANY	155,122	-
Navin HOOLOOMANN, C.S.K.	55,910	974,029
Jean-Pierre MONTOCCHIO	1,000	74,533
Pierre Guy NOEL	1,127,395	33,288
Alain REY	4,840	-
Margaret WONG PING LUN	500	41,900

Transactions during the year	Number of shares	
	Purchased	Sold
Sunil BANYMANDHUB	2,400	2,400
Gilbert GNANY	12,690	-

Interests in MCB Group Ltd Subordinated Notes as at 30 June 2016	Number of notes	
	Direct	Indirect
Gérard HARDY	-	100
Gilbert GNANY	-	200
Navin HOOLOOMANN, C.S.K.	-	2,500
Jean-Pierre MONTOCCHIO	-	2,195

Interests in Fincorp Investment Ltd as at 30 June 2016	Number of shares	
	Direct	Indirect
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	550	-
Gilbert GNANY	69,000	-
Navin HOOLOOMANN, C.S.K.	-	362,200
Jean-Pierre MONTOCCHIO	-	12,493
Pierre Guy NOEL	750,166	32,250
Margaret WONG PING LUN	-	10,000

Directors' Service Contracts

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

Related Party Transactions

Related party transactions were conducted in line with relevant internal policies and guidelines. For related party transactions, please refer to Note 37 of the Financial Statements.

Director Appointment, Performance and Remuneration

Nomination Process

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

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

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

Induction and Training

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

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

Board/Directors' Performance

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

Corporate governance report

Directors' Remuneration

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

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

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

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

Remuneration and benefits received (Rs '000)	From the holding company	From subsidiaries	Total
Gérard HARDY	1,883	-	**1,883**
Sunil BANYMANDHUB	660	38	**698**
Karuna BOOJEDHUR-OBEEGADOO *(as from November 2015)*	200	-	**200**
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	600	-	**600**
Navin HOOLOOMANN, C.S.K.	420	-	**420**
Jean-Louis MATTEI	660	-	**660**
Jean-Pierre MONTOCCHIO	420	110	**530**
Alain REY *(as from November 2015)*	250	-	**250**
Margaret WONG PING LUN	540	42	**582**
Total Non-Executive	***5,633***	***190***	***5,823***
Pierre Guy NOEL	25,474	-	**25,474**
Gilbert GNANY	13,287	-	**13,287**
Total Executive	***38,761***	***-***	***38,761***
Total (Non-Executive and Executive)	**44,394**	**190**	**44,584**

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

Remuneration and benefits received (Rs '000)	2016	2015
Executive (Full-time)	149,679	112,267
Non-Executive	8,881	9,158
	158,560	**121,425**

Risk Governance and Internal Controls

Risk Management

The Board of MCB Group Ltd, recognising that entities of the Group encounter risk in every aspect of their business, ensures that the necessary structures, processes and methods for identifying, measuring and monitoring such risks are in place as advocated by Basel norms and relevant laws and regulations. The Risk Monitoring Committee, whose main responsibilities are listed on page 54 of this report, plays an active role in ensuring that risk-taking activities remain within the precincts of the appetite approved by the Board. In the same vein, respective risk committees of the Group's subsidiaries ensure that risk-taking activities stay within set limits, taking into consideration the sector norms and country-specific requirements.

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

Read more in the 'Risk Management Report' on pages 138 to 166

Internal Control and Audit

The Group's internal control framework seeks to ensure the reliability of financial reporting, operations and systems and guarantee compliance with laws, regulations, and codes of business practice in order to protect the Group's assets and reputation. The Audit Committee, whose main responsibilities are listed on page 54 of this report, oversees the effectiveness of the Group's internal control system to ensure that all significant areas are covered.

In carrying out its duties, the committee receives regular reports from internal and external auditors. It holds frequent meetings with the Chief Executive and the Head of Audit function while receiving feedback from audit committees of subsidiaries. Separate sessions are also conducted with external auditors without Management being present.

Based on the internal controls in place, the audit reports, the reviews by Management and the regular reporting from the Chairperson of the Audit Committee, the Board is of the opinion that the Group's internal control systems are adequate and effective.

Read more in the 'Risk Management Report' on pages 138 to 166

Information Governance

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

- The Board of MCB Group Ltd is responsible for overseeing the information governance framework of the Group through delegation of relevant authority to the RMC for reviewing information risks and actions taken to mitigate them and to the Audit Committee which evaluates the effectiveness of related internal controls. Relevant issues as well as major investments in IT and systems identified by entities of the Group are escalated to their respective Board for review and approval;
- Management is responsible for implementing the policies, procedures and practices to protect the Group's information, in line with regulatory and other relevant requirements;
- The Group ensures that access to information is only available to authorised parties while having physical and logical access controls in place at all times; staff is regularly made aware of relevant requirements through fitting communication channels;
- The entities of the Group adopt the principles enshrined in MCB's Business Continuity Management policy while ensuring alignment with the specificities of their operating environment with a view to enhancing the overall resilience of the Group when dealing with potential strategic, operational and financial risks associated with business disruptions; and
- The set-up provides for independent assurance with notably the Internal Audit function which acts as an additional line of defence to assess the suitability of the Group entities' security policies, standards and related procedures.

Corporate governance report

External Auditors

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

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

Non-audit services

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

Auditors' fees and fees for other services

	2016		2015	
	The Group	The Company	The Group	The Company
	Rs '000	Rs '000	Rs '000	Rs '000
Audit fees paid to:				
BDO & Co	13,471	575	19,726	412
PricewaterhouseCoopers Ltd	10,810	575	-	-
Other firms	2,317	-	4,753	-
Fees for other services provided by:				
BDO & Co	1,486	-	2,691	-
PricewaterhouseCoopers Ltd	1,380	-	-	-

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

Directors of MCB Group Ltd Subsidiaries

The current Board composition of the subsidiaries is given hereafter, with the corresponding chairpersons as well as chief executives or managing directors (where applicable) sitting on the respective Boards being mentioned. Changes in the Board composition during the financial year 2015/16 and to date are also highlighted.

MCB Investment Holding Ltd

Pierre Guy NOEL *(Chairperson)*
Jean-François DESVAUX DE MARIGNY
Jean Michel NG TSEUNG *(Chief Executive)(as from August 2016)*

The Mauritius Commercial Bank Ltd

Jean-Philippe COULIER *(Chairperson)*
Priscilla BALGOBIN-BHOYRUL
Jonathan CRICHTON
Gilles GUFFLET
Raoul GUFFLET *(Deputy Chief Executive)(as from August 2015)*
Alain LAW MIN *(Deputy Chief Executive)(as from August 2015)*
Jean-Michel NG TSEUNG *(as from August 2015)*
Iqbal RAJAHBALEE
Simon Pierre REY
Antony R. WITHERS *(Chief Executive)*

MCB Madagascar SA

Jean-François DESVAUX DE MARIGNY *(Chairperson)*
Marc DE BOLLIVIER *(Managing Director)*
Raoul GUFFLET
Jean MAMET
Pierre Guy NOEL
Michel PICHON *(Deputy Managing Director)*
Patrick RAZAFINDRAFITO

MCB (Maldives) Private Ltd

Pierre Guy NOEL *(Chairperson)*
Jean-François DESVAUX DE MARIGNY
Gilbert GNANY
Raoul GUFFLET
Jean MAMET
Laila MANIK
Gilles MARIE JEANNE *(Managing Director)*

MCB Seychelles Ltd

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

MCB International Services Ltd[1]

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

Mascareignes Properties Ltd[1]

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

MCB Capital Markets Ltd

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

MCB Investment Services Ltd[2]

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

MCB Registry & Securities Ltd[2]

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

MCB Registry & Securities (Rwanda) Ltd[2] *(Incorporated in December 2015)*

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

MCB Stockbrokers Ltd[2]

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

MCB Capital Partners Ltd[2]

Gilbert GNANY *(Chairperson)*
Raoul GUFFLET *(until August 2015)*
Rony LAM YAN FOON
Joël LAMBERT *(as from January 2016)*
Bernard YEN

[1] Incorporated in Seychelles [2] A subsidiary of MCB Capital Markets Ltd

Corporate governance report

MCB Investment Management Co. Ltd[2]

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

MCB Structured Solutions Ltd[2]

Gilbert GNANY *(Chairperson)*
Rony LAM YAN FOON
Joël LAMBERT *(as from August 2015)*
Vimal ORI *(as from August 2015)*

MCB Investment Services (Rwanda) Ltd[2] *(Incorporated in December 2015)*

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

MCB Equity Fund Ltd

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

MCB Factors Ltd

Jean MAMET *(Chairperson)*
Koomaren CUNNOOSAMY *(as from September 2015)*
Jean-Mée ERNEST *(Managing Director - as from September 2015)*
Alain LAW MIN *(until August 2015)*
Jean-Michel NG TSEUNG *(until August 2015)*
Pierre Guy NOEL *(as from September 2015)*
Margaret WONG PING LUN

MCB Properties Ltd

Pierre Guy NOEL *(Chairperson)*
Jean-François DESVAUX DE MARIGNY *(until August 2015)*
Gilbert GNANY *(as from August 2015)*

Fincorp Investment Ltd

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

Finlease Co. Ltd[3]

Bernard D'HOTMAN DE VILLIERS *(Chairperson)*
Sow Man (Claude) AH YUK SHING
Alain CHAMARY *(Managing Director)*
Alain LAW MIN
Jean MAMET *(up to December 2015)*
François MONTOCCHIO
Jean-Michel NG TSEUNG

International Card Processing Services Ltd

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

MCB Consulting Services Ltd

Pierre Guy NOEL *(Chairperson)*
Jean-Michel FELIX *(Chief Executive Officer - as from November 2015)*
Gilbert GNANY
Angelo LETIMIER

MCB Microfinance Ltd *(Incorporated in January 2016)*

Pierre Guy NOEL *(Chairperson)*
Paul CORSON *(as from July 2016)*
Gilbert GNANY
Aurélie LECLEZIO *(Chief Executive Officer - as from July 2016)*
Alain REY *(as from July 2016)*

Blue Penny Museum

Philippe A. FORGET *(Chairperson)*
Jean-François DESVAUX DE MARIGNY
Raoul GUFFLET *(as from September 2015)*
Gérard HARDY
Damien MAMET
Pierre Guy NOEL

MCB Forward Foundation

Gérard HARDY *(Chairperson)*
Jean-Philippe COULIER *(as from September 2015)*
Philippe A. FORGET *(until September 2015)*
Gilbert GNANY
Madeleine de MARASSE ENOUF
Pierre Guy NOEL
Antony R. WITHERS *(as from September 2015)*

[2] A subsidiary of MCB Capital Markets Ltd [3] A subsidiary of Fincorp Investment Ltd

Delivering Value to Our Stakeholders

Overview

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

As a responsible corporate citizen, the Group strives to make a sound and sustained contribution to the economies, environments and communities in which it operates. To this end and while adhering to regulatory rules, the Group has a well-established governance and operational framework to ensure that engagement with its stakeholders is optimally managed, in alignment with good international practices. Notably, employees of MCB Ltd abide by the Bank's Code of Conduct and the national Code of Banking Practice. The Bank also adheres to the United Nations Global Compact, the world's largest voluntary corporate responsibility initiative for businesses committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption. Reflecting its adherence to sustainability principles, MCB Group Ltd is one of the constituents of SEMSI. This sustainability index of the Stock Exchange of Mauritius tracks the price-performance of listed companies which demonstrate strong sustainability practices.

Stakeholders are kept informed about the Group's business and strategy on a regular basis through various channels. The views and concerns of stakeholders, notably gathered through ongoing dialogue/interactions, meetings, surveys and roadshows, are considered in the Group's ongoing decisions, with material issues escalated to the Board. In another light, the Group ensures that its engagement efforts are underpinned by adequate human, technical and financial resourcing as well as transparent control. Accountabilities are properly institutionalised to ensure that the efficiency and effectiveness of interactions are duly preserved.

Leveraging the Forms of Capital

Our stakeholder engagement is guided by the resources and relationships that are leveraged and affected by the Group. The following sections show how the organisation interacts with various forms of capital to create value. In line with stakeholder expectations, the emphasis is laid on the ambitions and main strategic orientations of the Group, before the light is shed on the initiatives deployed to meet stakeholder needs. The involvement of the Group is also gauged by selected performance indicators. The consolidated information disclosed relate to the Group's local and foreign subsidiaries, unless otherwise stated, with the performance of MCB being underlined in some instances by virtue of its activities and positioning as the mainstay of the Group. Of note, data pertaining to the Group's entity in Mozambique has been excluded for comparability purposes. Looking ahead, the extent of data unveiled will be gradually broadened in line with the Bank's journey towards increasingly comprehensive integrated reporting.

Read more on our capitals in the 'Navigating this Annual Report' section on pages 6 to 7 and the 'Corporate Profile' section on pages 23 to 25

Financial capital

Our main stakeholders

- Retail and corporate depositors; shareholders and investors on the Official Market of the Stock Exchange of Mauritius; wholesale and institutional investors or debtors; international credit rating agencies

What do our stakeholders expect from us ...

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

Our underlying ambitions

General orientations

- To generate adequate earnings to reward investors, pave the way for future business growth and generate favourable socio-economic outcomes; to achieve sound financial metrics to support sustainable revenue growth.
- To optimise the level and quality of externally-sourced funds and the management of retained earnings to effectively run our businesses, undertake strategic investments and preserve our sound financials.
- To preserve the image and reputation of the Group as a strategically important industry player as well as an institution which is bestowed with a wide and diversified ownership base.
- To regularly engage with rating agencies; to closely monitor the rating opinions to help to (i) preserve the Bank's investment-grade rating; and (ii) ensure that its credit strength allows it to access global financial markets.

Shareholder engagement

- To uphold shareholder confidence in our ability to create meaningful value over time
- To supply shareholders with returns in the form of stable and relatively predictable dividend distribution
- To establish a clear and coherent road-map for communicating with shareholders

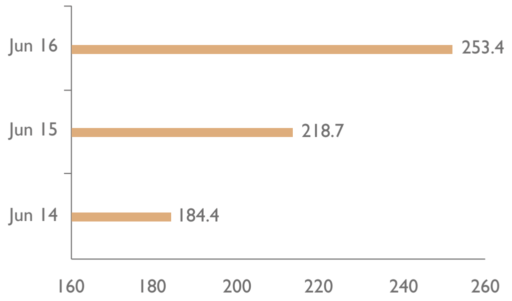
How we have engaged with our stakeholders ...

Main undertakings

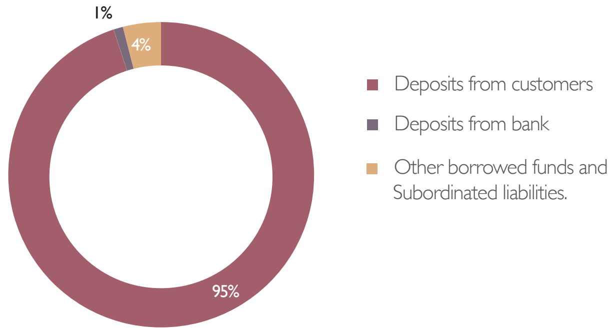
- The organisation has continuously strengthened its core customer deposit base, while remaining alert to the need to tap into wholesale markets if ever required.
- The Group's revenue generating capacity has been enhanced through market diversification and customer service quality, while a prudent business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

Overview of funding sources

Customer deposits (Rs bn)

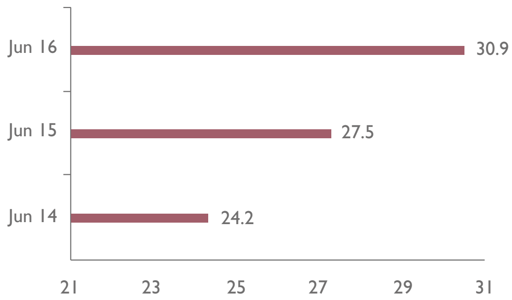


Funding mix as at June 2016 (%)

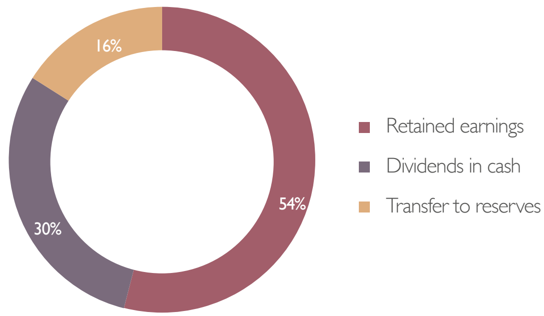


Revenue available for further business development

Retained earning (Rs bn)

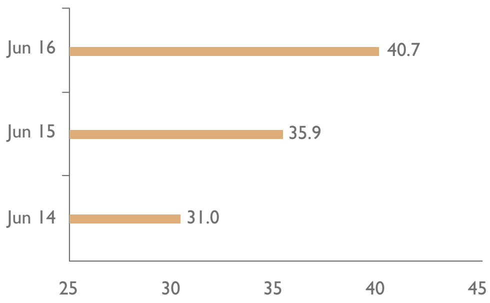


Profit distribution (%)

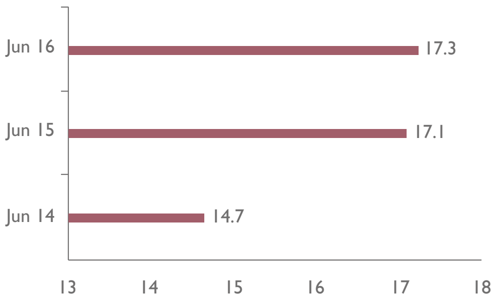


Evolution of equity and return generated

Shareholders' equity (Rs bn)



Return on equity (%)



Return on investment

Dividend policy

- MCB Group Ltd seeks to distribute around 30% of its profits in the form of dividends. An interim dividend of Rs 4.00 per share was paid in July 2016, while a final dividend of Rs 4.75 per share was declared in September 2016 and will be paid in December 2016. Dividend per share for the year under review stood at Rs 8.75, representing a rise of 9.4% as compared to FY 2014/15. As such, dividend yield stood at 4.1% while dividend cover was 3.2 times for the period ending 30 June 2016.

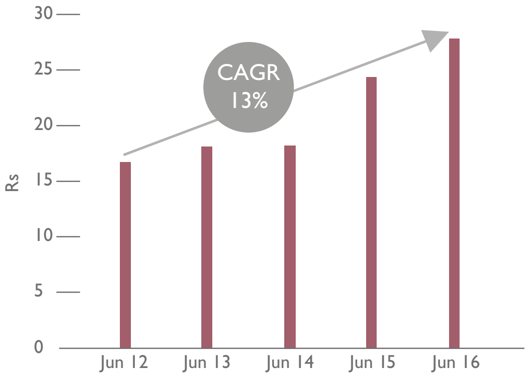
Share price statistics and performance

Year ending June	2012	2013	2014	2015	2016
Stock Exchange of Mauritius (SEM)					
SEMDEX	1,775.9	1,914.6	2,084.7	1,980.9	1,752.4
SEMTRI	5,381.3	5,956.7	6,703.4	6,549.9	5,974.1
MCB Group					
Share price (Rs)					
High	189.00	196.25	223.00	218.00	225.00
Low	162.00	160.00	179.50	195.00	202.50
Average	168.17	175.76	205.03	205.00	209.91
Closing - Year end	169.00	186.00	215.00	217.00	211.00
Market capitalisation as at 30 June (Rs m)	42,313	46,570	51,165	51,656	50,257
Market capitalisation as % of total market	25.2	23.9	22.3	23.5	25.2
Value of shares traded (Rs m)	2,938	3,620	3,575	6,244	4,292
MCB Market share (%)	40.9	37.0	30.0	38.5	42.4
Price/NAV ratio (times)	1.6	1.6	1.7	1.4	1.2
Price earnings ratio (times)	9.7	10.2	11.7	9.0	7.6
Earnings yield (%)	10.3	9.8	8.5	11.1	13.2

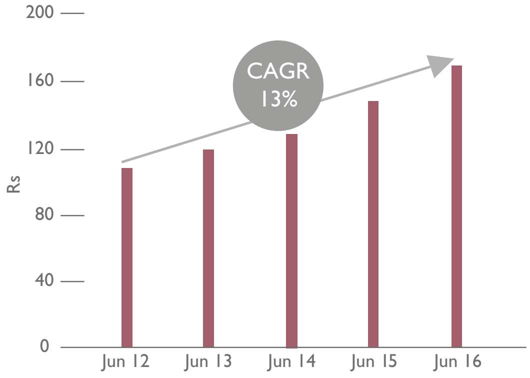
Notes: (i) SEMTRI relates to total return index; (ii) Value of shares traded for SEM excludes one-off transactions

On 12 September 2016, the SEM launched 2 new indices, namely the SEM ALL Share index (SEM-ASI) and the SEM Volume Weighted Average Price Index (SEM-VWAP). The SEM-ASI includes the current constituents of SEMDEX as well as foreign-currency denominated, GBC 1 and international companies. The SEM-VWAP tracks the performance of ordinary shares forming part of SEM-ASI through the use of volume weighted average price as a basis for the calculation of the index. As such, the SEMDEX and SEMTRI focus solely on tracking the performance of rupee-denominated companies. On 10 October 2016, the SEM will launch a new total return index, the SEMTRI-ASI, which will track the evolution of SEM-ASI's constituents.

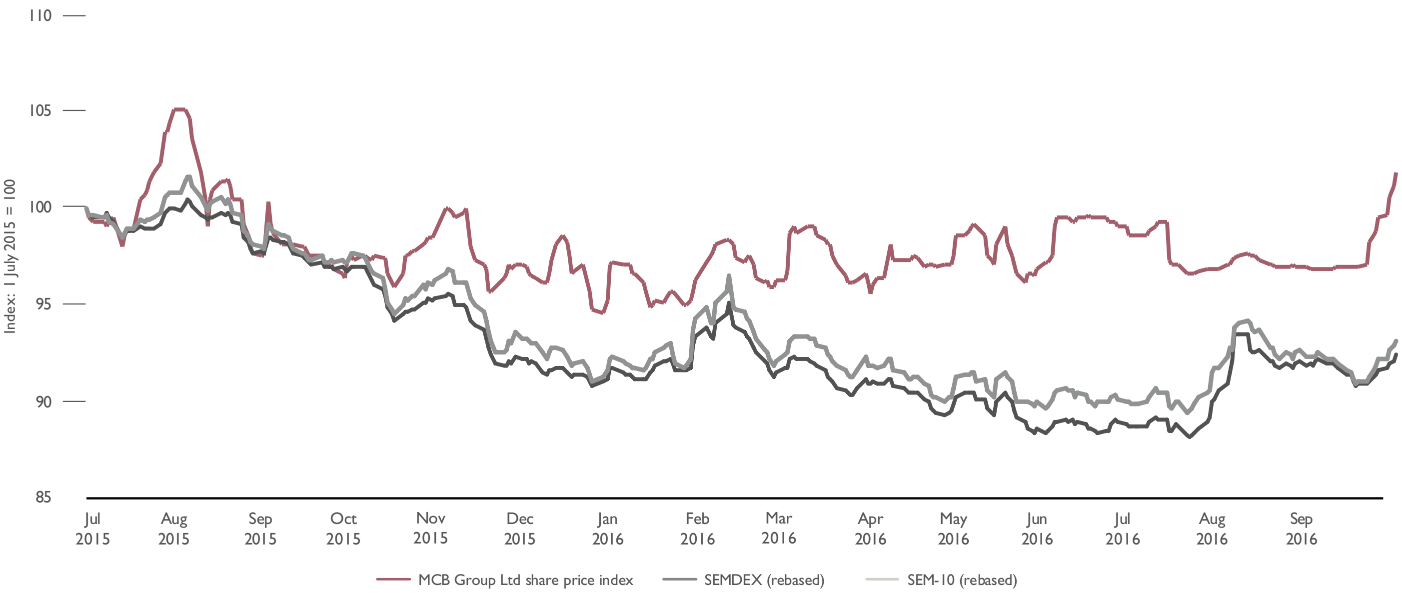
Earning per share



Net asset value per share



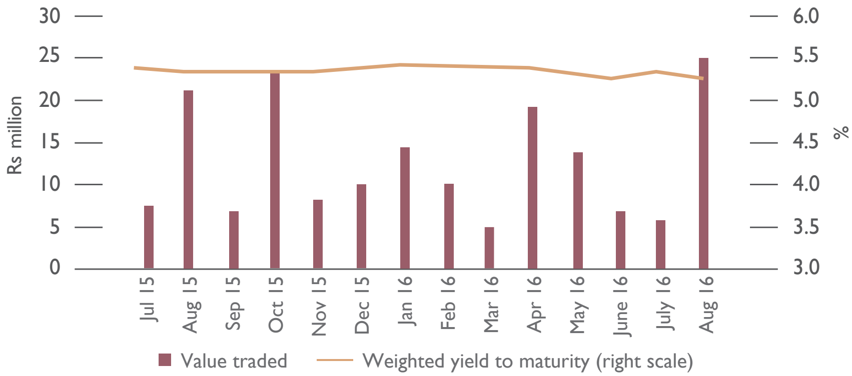
Performance of MCB Group Ltd against the market



Corporate governance report

Floating Rate Subordinated Notes

• In FY 2013/14, MCB raised Rs 4.5 billion worth of Floating Rate Subordinated Notes on the Official Market of the Stock Exchange of Mauritius. In June 2015, in the context of the capital restructuring exercise initiated by the organisation, the assets and liabilities pertaining to the Notes worth Rs 4.5 billion were transferred from MCB to MCB Group Ltd. The Notes, each with a principal amount of Rs 1,000, are available to individual and institutional investors for secondary trading on the local bourse. During FY 2015/16, the total value traded of the Notes amounted to Rs 149 million, with the Notes trading at Rs 1,020 and depicting an effective yield to maturity of 5% on 29 September 2016.



Shareholding profile

• The Group nurtures a wide and diversified ownership base of more than 18,000 shareholders, with foreign shareholding accounting for some 18% of the total. As at 30 June 2016, outstanding ordinary issued capital of MCB Group Ltd amounted to Rs 2.4 billion, comprising 238.2 million ordinary shares.

The following tables set out the 10 largest shareholders and ownership of ordinary share capital by size and type as at 30 June 2016.

Largest shareholders	Number of shares owned	% Holding
National Pensions Fund	15,371,120	6.5
Swan Life Ltd	7,681,390	3.2
Promotion and Development Ltd	6,952,200	2.9
State Insurance Company of Mauritius Ltd	3,895,607	1.6
La Prudence (Mauricienne) Assurances Limitée	3,540,923	1.5
SSB A/C SQM Frontier Africa Master Fund Ltd	3,216,450	1.4
Mellon Omnibus	2,922,016	1.2
Policy Ltd	2,774,235	1.2
SSL C/O SSB A/C Lloyd George Investment Company PLC	2,455,711	1.0
Citibank New York A/C Norges Bank	2,068,653	0.9

Size of shareholding	Number of shareholders	%	Number of shares owned	% Holding
1-500 shares	12,137	65.4	1,359,757	0.6
501-1,000 shares	1,378	7.4	1,028,639	0.4
1,001-5,000 shares	2,376	12.8	5,754,278	2.4
5,001-10,000 shares	769	4.1	5,520,116	2.3
10,001-50,000 shares	1,198	6.5	27,440,349	11.5
50,001-100,000 shares	288	1.6	20,714,705	8.7
Above 100,000 shares	408	2.2	176,369,328	74.0
Total	**18,554**	**100.0**	**238,187,172**	**100.0**

Category	Number of shareholders	%	Number of shares owned	% Holding
Individuals	17,622	95.0	104,073,673	43.7
Insurance and Assurance Companies	19	0.1	17,005,273	7.1
Investment and Trust Companies	202	1.1	47,806,577	20.1
Pension and Provident Funds	60	0.3	26,883,905	11.3
Other Corporate Bodies	651	3.5	42,417,744	17.8
Total	**18,554**	**100.0**	**238,187,172**	**100.0**

Shareholder relations and communication

- The Group promotes open and productive dialogues with shareholders with a view to providing them with the opportunity to share their views, while ensuring that their information needs are promptly attended to. Shareholders are kept abreast of all material developments of MCB Group – e.g. relating to its strategic intents, corporate accomplishments, dates for release of financial results and dividend payment, the financial and stock market performance of the organisation – through appropriate communication channels such as official press communiqués, occasional letters, and the Group's website. The latter allows for an adapted and comprehensive self-service interface, with shareholders provided with the possibility to post their queries, while having access to relevant information such as updated MCB Group Ltd share price as well as latest results announcements and presentations. Enhancements are continuously brought to the website in order to improve its layout and user friendliness. In another respect, our shareholders are encouraged to attend the Annual Meeting to express their views and receive feedback from Board members. In case a shareholder cannot attend, votes may still be cast on all the resolutions through completion of the proxy form.

Corporate governance report

Shareholders' Diary

Mid-November 2016	Release of first quarter results to 30 September 2016
November 2016	Annual Meeting of Shareholders
December 2016	Payment of final dividend
Mid-February 2017	Release of half-year results
Mid-May 2017	Release of results for the 9-month period to 31 March 2017
June 2017	Declaration of interim dividend
July 2017	Payment of interim dividend
End-September 2017	Release of full-year results to 30 June 2017 and declaration of final dividend
Mid-November 2017	Release of first quarter results to 30 September 2017
November 2017	Annual Meeting of Shareholders
December 2017	Payment of final dividend

- The Group has dedicated teams which are responsible for engaging with its investors, backed by the deployment of a well-thought and comprehensive communication programme. As regards the relationship of MCB Group Ltd with its retail shareholders, the Company Secretariat – supported by the Group's Registrar and Transfer Agent and MCB Registry and Securities Ltd – caters for information needs that range from the sending of relevant correspondences to responding to their queries in a timely manner. Furthermore, the Group's Investor Relations (IR) Unit acts as a point of contact and has the day-to-day responsibility for upholding relationships with existing and potential institutional investors in particular. The Group's investor relations activities promote regular, effective and fair communication with institutional equity investors. As a notable milestone, the Group organised its first earnings call in November 2015 in the wake of the release of its first quarter results for FY 2015/16, with the related presentation delivered and transcript thereof made available on the website thereafter. The engagement with shareholders helped to gain external perspectives on the Group's strategic directions and performance as well as gather feedback on market perception of the Group. Key IR activities of the Group are detailed in the following table.

Activity	Frequency	Description
Earnings release	Quarterly	Following earnings releases, a document titled 'Group Management Statement' highlighting the key features of the Group's financial performance, including the Group CEO's comments thereon, is made available on the same day on the website and sent to a broad mailing list of investors and analysts. Moreover, MCB Group Ltd organises earnings calls to provide local/foreign analysts and investors the opportunity to interact and ask questions to Group's executives regarding the recent financial performance and progress on strategic orientations.
Investor meetings	Semi-annually	Investor meetings are organised after half-year and full-year results to create an avenue for local analysts and institutional investors to discuss with Group executives. The aim is to obtain answers to their queries pertaining to the Group's performance and strategic initiatives.
Conference calls / meetings	On request	Investors are given the opportunity to interact and ask questions to executives of the Group regarding the latter's performance, strategic orientations as well as major developments impacting the environment in which the Group operates.
Roadshows	Semi-annually	Group executives usually attend international roadshows/conferences after the release of the half-year and full-year results, notably in the United Kingdom and South Africa to update existing and potential investors on the financial performance and key strategic objectives of the Group. During the year under review, Group executives attended the Investec Africa Securities Conference in South Africa in February 2016 and the Exotix Investor Conference in Kenya in April 2016.

More details on investor-related information is available on the website

Social and relationship capital

Our main stakeholders

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

What do our stakeholders expect from us ...

Regulators

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

Customers

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

Institutions and other economic agents

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

Societies, communities and civil society organisations

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

Our underlying ambitions

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

How we have engaged with our stakeholders ...

Regulators

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

Corporate governance report

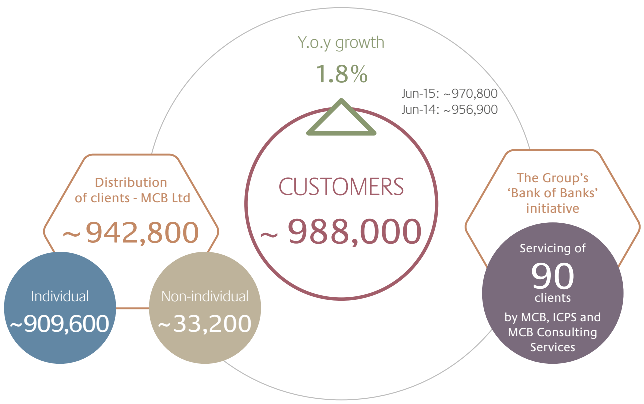
Customers

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

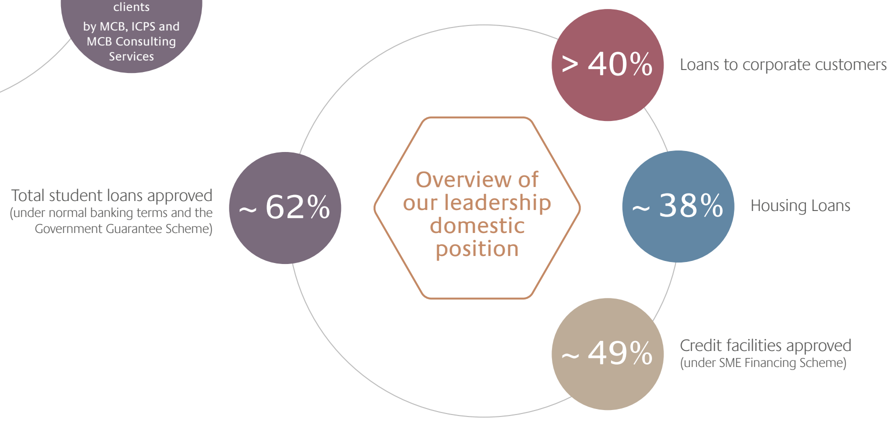
Read more in the 'Analysis by Cluster' section on pages 115 to 134

Customer base as at 30 June 2016

Total client base



Market share for MCB Ltd - June 2016



Institutions and other economic agents

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

Direct contribution of MCB Ltd to the Mauritian economy*

Year ending 30 Jun 2016

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

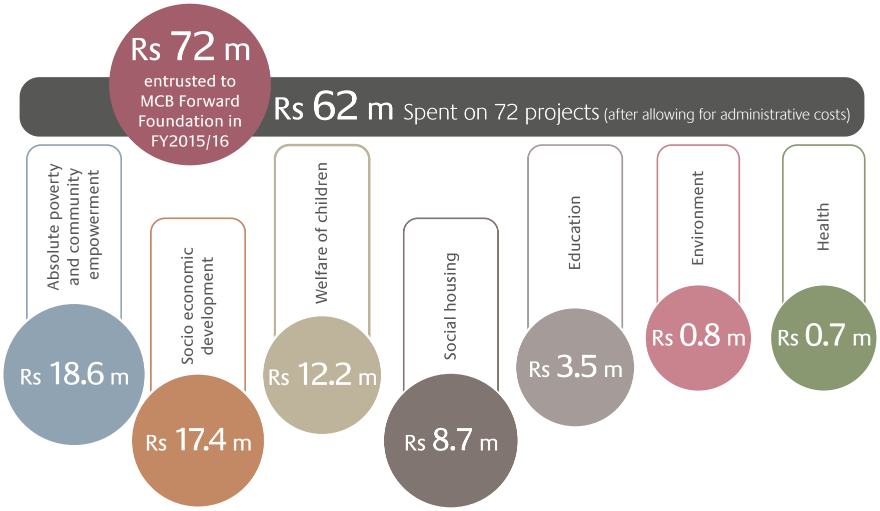
* *Figures displayed are based on officially-reported data and MCB staff estimates*

Societies, communities and civil society organisations

- The Group remained committed to promoting sustainable socio-economic development principles and continues to fulfill its engagement as a socially responsible and caring corporate entity.
- The Corporate Social Responsibility (CSR) activities of the Group are channelled via the MCB Forward Foundation. The latter is the dedicated vehicle responsible for the efficient and effective design, implementation and management of initiatives which contribute to embed the Group's engagement with the communities in which it operates. Since its launch in September 2010, MCB Forward Foundation has significantly evolved in its commitment vis-à-vis the society and its people by means of carefully-designed programmes and wide-ranging stakeholder interactions. In order to underpin its social commitments, MCB Forward Foundation has, during the period under review, provided support to NGOs for enhanced capacity in monitoring and reporting, while it has maintained its ISO 9001:2008 certification to meet the highest standards of service and ethics in its operations.
- Consistent with the authorities' requirement for companies to set up an annual CSR Fund representing 2% of their chargeable income derived during the preceding year, an aggregate amount of around Rs 72 million was, as illustrated hereafter, entrusted by the Group's local subsidiaries to MCB Forward Foundation in FY 2015/16. Of note, no political donations were made during the year under review.

More information on our community engagement is available on the website

Our social engagement



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

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

Specific CSR projects funded by MCB Forward Foundation

Absolute poverty and community empowerment

- *Union Park:* Fostering of income generation of vulnerable women through their involvement in the Mushroom Production Unit
- *Batisseurs de Paix:* Pedagogical support offered to vulnerable children in their early childhood
- *MCB Rodrigues Scholarship:* Award of scholarship to a student to enable the latter to pursue tertiary studies at the University of Mauritius
- *Cooperative de Terre Rouge Rodrigues:* Enabling fishermen to be engaged in alternative occupations
- *MCB Football Academy (MCBFA):*
    - o Strengthened support provided to address the medical and academic needs of children involved in the academy to reinforce their social integration and quality of life – 71 families benefited from 239 psychological sessions, with 39 children channeled to 2 special needs schools
    - o The FootFive Tournament: 7 football clubs participated in the event, including 30 football players of MCBFA (in the following age categories: 8-9 and 10-11)

Welfare of children

- *École Familiale de l'Ouest:* Setting up of a Digital Language Lab for children who are out of the mainstream education system
- *Étoile Du Berger:* Provision of accommodation to girls in distress
- *Association d'Alphabétisation de Fatima:* Delivery of IT equipment to children who are out of the mainstream education system
- *Rodrigues Student Needs Association:* Pedagogical support provided to children with learning difficulties and/or dyslexia
- *Association des Malades et Handicapés de L'est :* Support provided to enhance the capacity of NGO involved with children with disabilities

Education

- *Vent D'un Rêve:* Provision of musical and literacy classes to vulnerable children
- *Collège du St Esprit Rivière Noire:* Provision of equipment for the upgrading of Design & Technology workshop

Health

- *Espoir Revivre Barkly:* Implementation of a Harm Reduction program for substance abusers
- *Prévention Information et Lutte contre le Sida (PILS):* Setting up of aquaponics systems to help people living with HIV

Socio-economic development

- *I CAN Special Need School:* Financing of paramedical services for children with special needs
- *Association Des Parents D'enfants Inadaptés De L'Ile Maurice-APEIM:* Provision of vocational rehabilitation services to intellectually-disabled young adults
- *Magic Fingers:* Provision of specialised equipment for the empowerment of unemployed women and youth
- *Open Mind:* Provision of ecotherapy programme for the wellbeing, skills development and social inclusion of people suffering from psychological disorders
- *Lois Lagesse Trust Fund:* Upgrading of infrastructure to enhance the physical security of visually impaired individuals
- *Association Anou Grandi:* Therapeutic and rehabilitation programme offered to disabled children
- *Association Des Parents De Déficients Auditifs:* Provision of educational support to children with cochlear implants
- *Lizié Dan La Main/Union des Aveugles de L'Ile Maurice:* Delivery of equipment for visually-impaired children
- *La Fraternité Mauricienne des Malades et Handicapés:* Financing of paramedical services and provision of equipment
- *SOS Femmes:* Provision of therapeutic and legal services to victims of domestic violence

Social housing

- *Integrated Social Housing Project at Cité Tôle, Mahebourg:* 15 vulnerable families benefiting from psychological, psychosocial and educational support

Corporate governance report

Sponsorships

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

Education, culture and innovation

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

Sports competitions

- *Royal Raid:* MCB was amongst the main sponsors for the 11th edition of Royal Raid, one of the first trails ever organised in Mauritius.
- *Tropica'Dingue:* The first edition of the fun trail running and multisport racing of around 10 km, held at Mon Trésor, attracted 1500 participants.
- *Golf competitions:* MCB Tour Championship 2015, which is the most prestigious golf contest held in Mauritius and the last competition of the European Senior Tour; and other events such as MCB Constance Lemuria, which attracted 80 participants in Seychelles, MCB Invitational tournaments held in Madagascar, Mauritius Ladies Open, Ladies Golf Union held at Bel Ombre, and MCB Indian Ocean Amateur Golf Open.
- *Dodo Trail:* MCB acted as the principal partner of the 5th edition of the international event held in Mauritius, which involved over 1,500 participants.
- *Other events:* (i) Africa Zone 4.3 Individual Chess Championship 2016; (ii) MCB Youth Championship Rodrigues; and (iii) 1st edition of Gecko Games in Mauritius.

Culture

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

Human capital

Our main stakeholders

• Employees of the organisation; executives across business lines and entities

What do our stakeholders expect from us ...

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

Our underlying ambitions

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

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

How we have engaged with our stakeholders ...

General strategic orientations

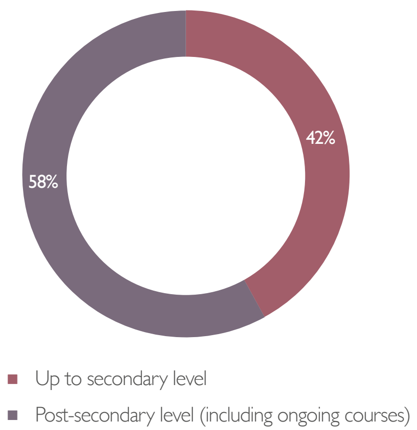
- The Group endorsed its functioning with a more value-adding and increasingly forward-looking perspective as regards the identification and execution of strategic intents. To continuously strengthen the skill level of the organisation, the main focus areas of the Group include the following: talent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

Corporate governance report

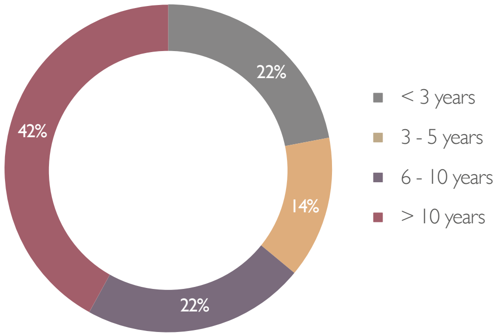
Our employee base as at 30 June 2016

Our staff

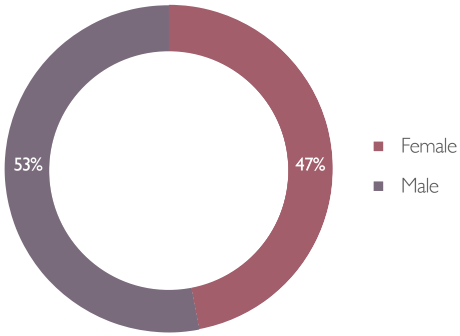
Qualifications - Local subsidiaries



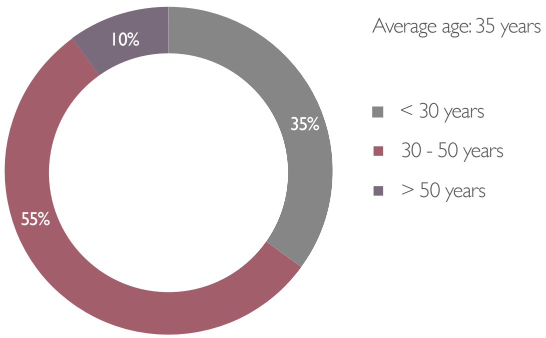
Length of service



Gender



Age



Remuneration philosophy

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

Corporate governance report

The following table gives details of the options granted to and exercised by employees of the Group under the share option scheme in the last financial year.

	Management	Other employees	Total
Number of options granted in October 2015	**135,746**	**539,309**	**675,055**
Initial option price (Rs)	212.75	191.50	-
Number of options exercised to date	-	90,685	**90,685**
Value (Rs '000)*	-	17,366	**17,366**
Percentage exercised	-	16.8	13.4
Number of employees	-	402	**402**
Available for the 4th window and expiring in mid-October 2016	**135,746**	**448,624**	**584,370**

** Based on initial option price*

Employee engagement

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

Performance management

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

Learning, talent management and career development

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

Our learning engagement

Key statistics for FY 2015/16

TOTAL TRAINING COSTS

Rs 66.3m*

E-LEARNING INVOLVEMENT

Some **30** knowledge tests performed, with a participation rate of nearly **90%** out of a target audience of **7,100**

Number of training courses - MCB Ltd

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

** Including refund by Human Resource Development Council*

Corporate governance report

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

Promotion of staff welfare and safety

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

Natural capital

Our main stakeholders

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

Our underlying ambitions

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

How we have engaged with our stakeholders ...

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

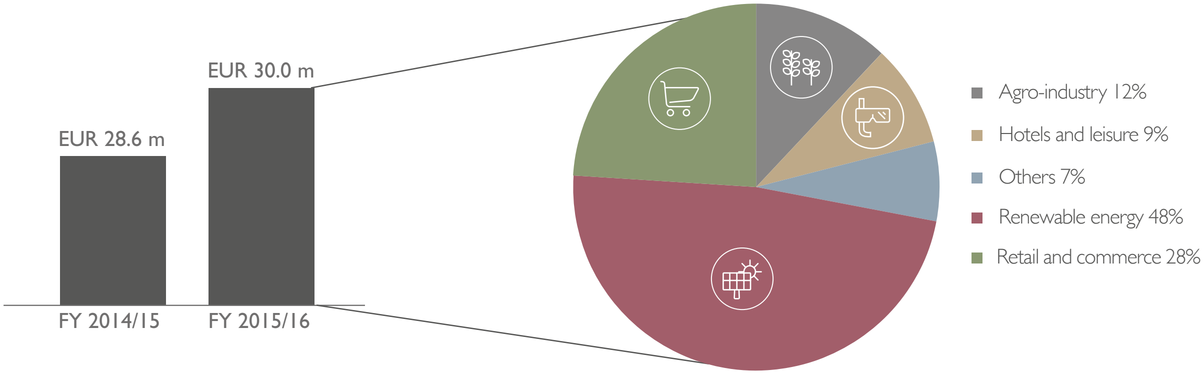
- Since 15 May 2012, MCB Ltd has, adopted the Equator Principles, which is a voluntary and internationally recognised risk management framework, espoused by many financial institutions worldwide, for determining, appraising and managing environmental and social risks in project financing. This framework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

Encouraging environment-friendly and energy-saving investments

- The Bank widened its involvement in respect of the provision of the second edition of its preferential credit facilities named as 'Green Loans', pursuant to the lending facility availed from Agence Française de Développement to stimulate the deployment of renewable energy and energy efficiency technologies, save energy and reduce carbon emissions. In respect of this financing product, an investment grant of 8% of the loan amount is offered to the client for investments in 'green' projects that can be 100% financed by the Bank. The solution has also been extended to customers located in the Group's regional presence countries with a view to financing projects therein.
- In December 2015, the Group has, via MCB Equity Fund, invested in Partnering Technologies, which is a French high-tech printing and robotics business run by a Mauritian national, who is the inventor of Diya One. The latter is seen as the first neuro-inspired robot that can analyse and purify indoor air. It is equipped with artificial intelligence and moves around silently on its own, eliminating particulate and chemical pollution. It is also worth recalling that MCB has, some time back, partnered with the BioPark Mauritius project, which is viewed as being the first hub of its kind in the Indian Ocean. BioPark Mauritius aspires to be a dedicated space encouraging the use of biotechnologies for research and development by innovative companies and professionals.

'Green loans' offered as at 30 June 2016

Exposures by Sector



Estimated environmental benefits of projects financed

FY2015/16

CHEMICAL REDUCTION
81,250 Kg
7,630 Litres

LIQUEFIED PETROLEUM GAS SAVED
383,206 Kg

ELECTRICITY SAVED
35,055,169 kWh

DIESEL SAVED
7,000 Litres

HEAVY FUEL OIL SAVED
3,805,551 Litres

CLEAN WATER SAVED
773,391 M^3

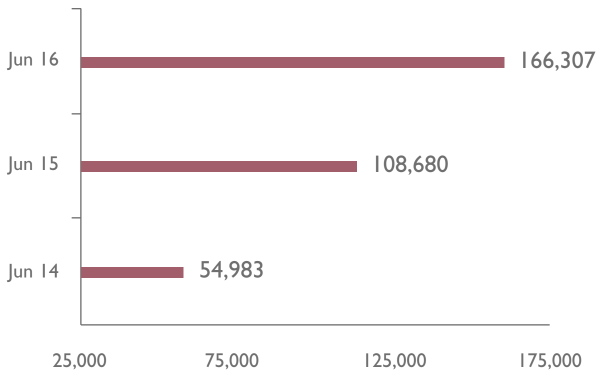
WASTE WATER REDUCED
18,514 M^3

CO_2 EMISSION REDUCTIONS
78,648 Mt

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

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

E-statement subscriptions for active customer accounts



- The Bank is supporting the Ebony Forest project, which consists of recreating 50 hectares of forest by weeding 13 hectares of invaded forest and planting over 110,000 native plants. Also, the Bank is financing an educational film in English and French, which will be a permanent feature in the Ebony Forest's visitor centre, highlighting what Mauritius was like before the arrival of humans, the degradation of the environment, and ongoing efforts to restore and save the remnants habitats and species.
- The Group launched a short film on the national television and social media to mark the World Environment Day in June 2016. Leveraging the collaboration of local talents, the film helped to showcase a positive image of the natural environment and raise awareness of relevant issues.
- MCB Seychelles sponsored a recycling exhibition organised by 'Ecole Française des Seychelles' by providing recycled bags to students in line with our commitment to environmental protection.

Sensitisation of our internal stakeholders

- Specific initiatives have been undertaken to sensitise our staff and business units 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.

Intellectual capital

Our underlying ambitions

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

What are our strategies that enabled value creation ...

- Notable investment has been incurred to build and regularly upgrade our technological capabilities.
- Our adherence to innovative practices and human resource capabilities are continuously geared up to enable the Group live up to its values as well as preserve its reputation.
- The brand image of the Group has been consolidated by *inter al*ia the adoption of digital channels in tune with customers' contemporary lifestyles, its appealing website, and active presence on the social media. Support also emanated from the undertaking of dedicated publications such as the Annual Report and MCB Focus (a periodic and reputed economic report pertaining to Mauritius), as well as participation in and sponsorship of carefully-selected conferences, seminars, and other events.
- In order to keep track of ongoing market developments internationally and underpin business networking efforts, the Group subscribes to and is a member of various organisations and publications. For instance, as a member of EFMA, MCB Ltd benefits from exclusive access to a multitude of resources, database and publications, while being given the opportunity to attend numerous networking forums such as work groups, online communities and international meetings.
- The preservation of its investment-grade ratings helped to underpin the realisation of the Bank's growth ambitions.
- In support of its strategic intents, the Group continues to adopt advocated standards and processes (e.g. International Cards Processing Services Ltd is compliant with the Payment Card Industry Data Security Standard as well as ISO 27001 in relation to information security management; the MCB Swift Service Bureau is certified as Premier Operational Practice). Besides, the Group taps into partnerships forged with several high-calibre business partners (e.g. MCB Consulting Services Ltd is an accredited service partner of Graphical Intelligent Electronic Operational Management and Temenos).

Read more in the 'Operational Excellence and Innovation Report' on pages 121 to 127

Our followers on the social media as at 30 June 2016

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

Twitter
2,046 followers

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

Instagram
1,918 followers

Credentials underscoring our brand image

Best Bank in Mauritius (MCB Ltd)

5 times in 8 years

(The Banker)

Only Mauritian Bank in Africa's

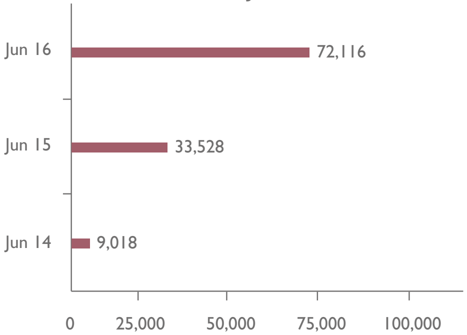
Top 25

(The Banker Top 1000 World Banks, July 2016)

Adoption of our digital platforms

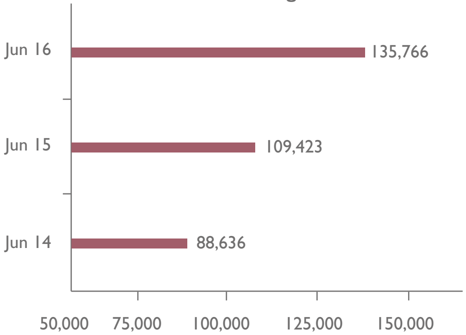
Mobile payments*

Number of 'Juice' subscribers



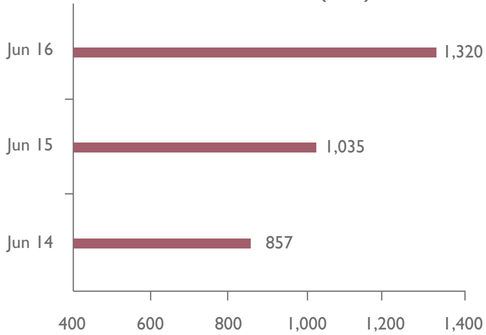
Internet banking*

Number of registrations



Website

Number of views ('000)



*Refers to MCB Ltd

Manufactured capital

Our underlying ambitions

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

What are our strategies that enabled value creation ...

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

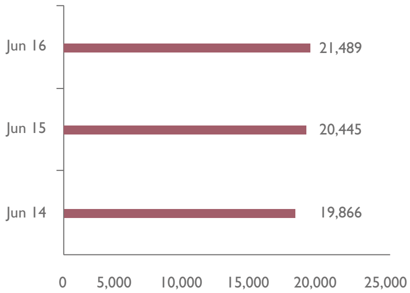
Read more in the 'Operational Excellence and Innovation Report' on pages 121 to 127

Scale of our physical channels as at 30 June 2016

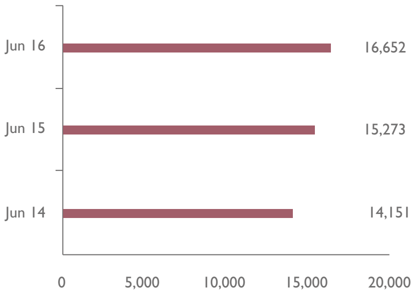
	MCB Ltd	Foreign banking susidiaries
Our branch network	40	14
Our ATM network	173	21
Number of POS terminals	6,826	1,058

Number of transactions - MCB Ltd

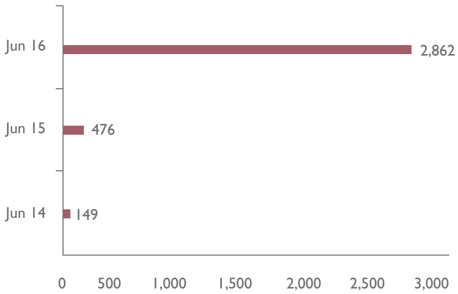
Automated teller machines[1] ('000)



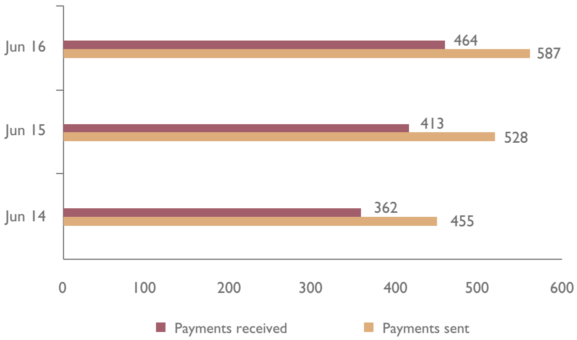
Merchant Point of Sale ('000)



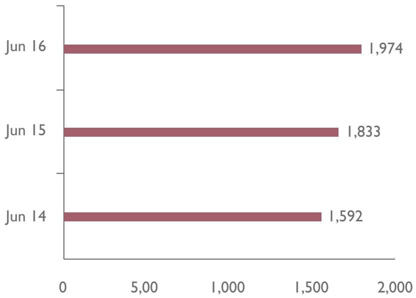
'Juice' logins ('000)



SWIFT transfers ('000)



Internet banking[2] ('000)



Notes:
[1] Withdrawals
[2] Debit transactions

Corporate governance report

Statement of Directors' Responsibilities

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

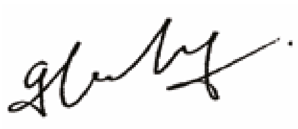
- ensure that adequate accounting records and an effective system of internal controls and risk management have been maintained;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting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

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

The Directors report that:

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

On behalf of the Board.



J. Gérard HARDY
Chairperson

Pierre Guy NOEL
Chief Executive

Business and Financial Review

Business and financial review

Our Operating Environment

Challenges in Executing our Strategy

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

Key challenges

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

Macroeconomic Developments

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

The international economy

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

The Mauritian economy

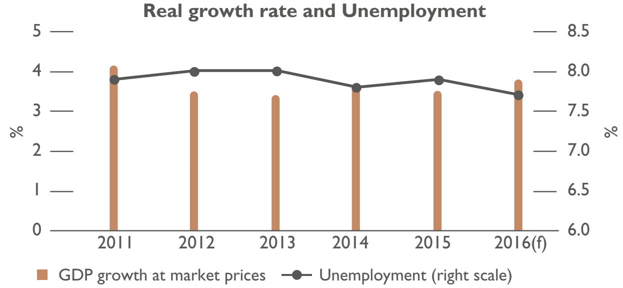
- Sluggish investment patterns and sector-level difficulties continued to impact the demand for credit as well as activity levels in the banking and financial services sectors in Mauritius.
- Amidst soft external conditions and the persistence of inherent structural bottlenecks, real GDP growth at market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

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

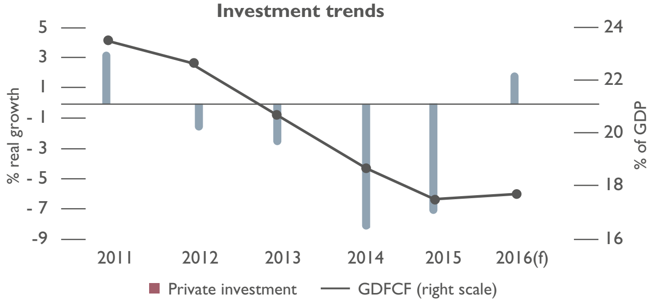
Snapshot of the Economic Environment

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

Real growth rate and Unemployment

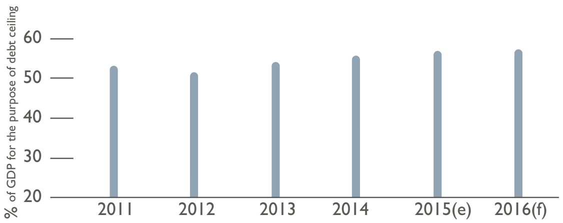


Investment trends

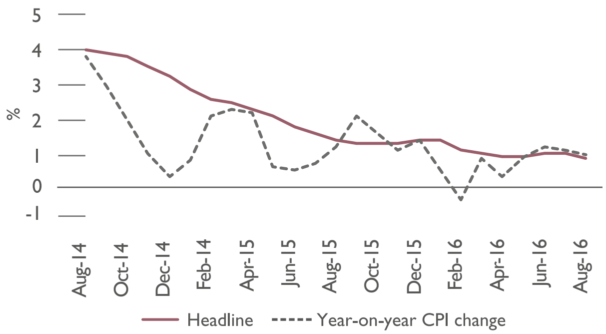


Despite delays in the implementation of specific large-scale projects, the budget deficit stayed elevated, thus contributing to a generally high public sector debt ratio. As per the authorities, the budget deficit would pursue a downtrend to reach 1.6% by FY 2018/19, whilst public sector debt is anticipated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

Public sector debt



Inflation rate

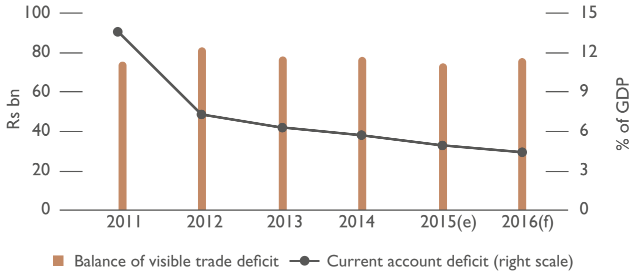


During the year ending 30 June 2016, the rupee appreciated against the pound on a point-to-point basis, following the latter's loss in value amidst the Brexit vote. Reflecting the general strength of the greenback on international markets, the rupee depreciated against the US dollar, while remaining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

Currency dynamics

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

External front



(e) estimates (f) MCB forecasts

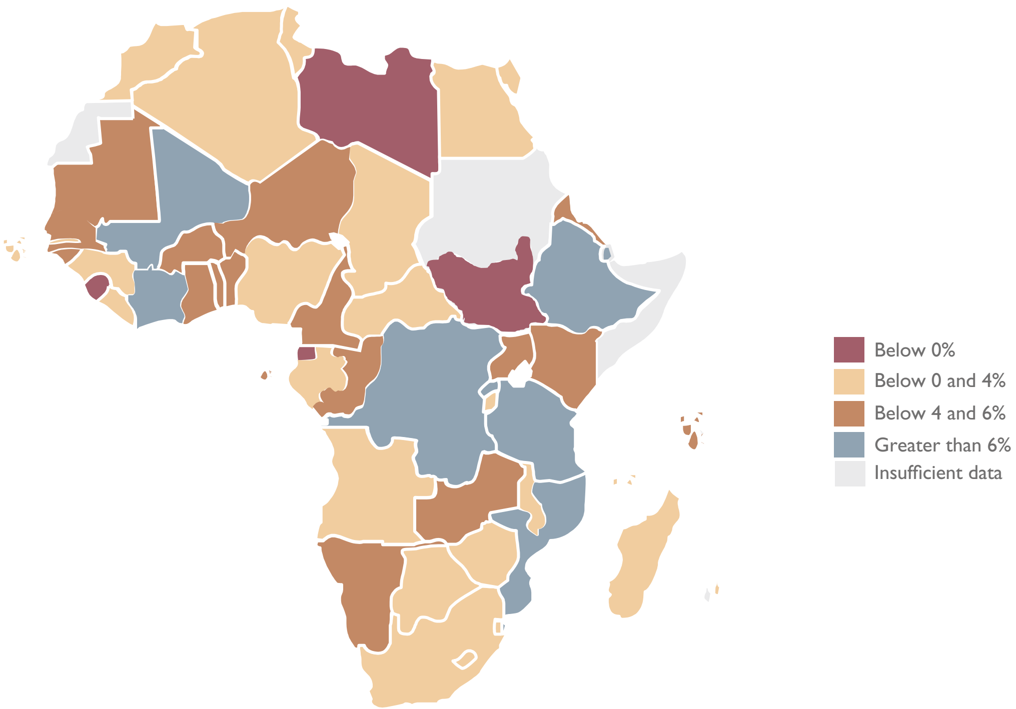
Note: Figures for 2011 and onwards have been rebased in the context of the Census of Economic Activities (CEA) conducted in 2013

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

The regional landscape

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

Average real GDP growth rates (2014-2016)



Source: IMF World Economic Outlook Database, April 2016

Business and financial review

Our foreign presence countries

- In Madagascar, economic activity levels have remained hindered by a combination of political uncertainty, weak governance, weather-related shocks and underinvestment in physical and human capital as per the IMF. Thus, the recovery process has struggled to gain momentum, as gauged by real GDP growth standing at a sub-par rate of 3.1% in 2015. It is expected to move up to 4.1% in 2016, supported mainly by planned reforms following the first disbursement of USD 43.5 million under the recently-approved 40-month Extended Credit Facility (ECF) arrangement with the IMF as well as country-specific factors. The latter include (i) a pick-up in tourism activity; (ii) an appreciable expansion by the manufacturing sector following the restored African Growth and Opportunity Act eligibility of the country; and (iii) more favourable weather conditions benefiting agriculture.
- Maldives suffered a marked growth slowdown in 2015. Real GDP growth dropped to 1.5%, mainly attributable to the slump in tourist arrivals, notably from Russia and China, partly linked to the declaration of the November 2015 State of Emergency in the country. A relative upturn is expected in 2016, with real GDP growth forecast at 3.5%, backed by a modest recovery in tourism, improved activity in the transport and electricity sectors as well as the unfolding of major infrastructure projects, which are, however, expected to boost activity levels more significantly in the years ahead.
- The economy of Seychelles expanded by 4.4% in 2015, notably underpinned by relatively strong tourist arrivals, principally emanating from Asian countries, as well as expanding credit to the private sector. Growth is forecast to edge down to 3.3% in 2016, reflecting a slowdown in construction, partly offset by efforts to boost exports in the fisheries sector and an anticipated improvement in tourist arrivals.

Legal and Regulatory Landscape

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

Local banking sector

Bank of Mauritius guidelines

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

Main legal amendments

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

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

- Income Tax Act: (i) relaxation of eligibility criteria to benefit from interest relief on secured housing loans for personal income tax exemption; and (ii) new mechanism for remittance of Corporate Social Responsibility (CSR) Fund by every company to the Mauritius Revenue Authority to be channelled to the National CSR Foundation.

Key pronouncements and releases

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

Overall local financial services sector

- Several legislations have been amended in the wake of the passing of the Finance Act 2016. In particular, the revised Financial Services Act includes new provisions pertaining to the following: (i) approval of the FSC required for transfer of shares resulting in a change in control of the licensee; (ii) Category 2 Global Business Licence Holders are allowed to invest in any securities listed on a securities exchange licensed under the Securities Act 2015; and (iii) establishment of regulations for the setting up of an online centralised KYC database, to which operators in the non-banking financial services sector will have access. Other adjustments are as follows: (i) an audit firm appointed by a listed company shall not audit the accounts of that company for a continuous period of more than 7 years as per the Financial Reporting Act; and (ii) the definition of 'corporate finance advisory' has been added to the provisions of the Securities Act.
- In January 2016, the Captive Insurance Act established a framework for the licensing and regulation of captive insurance business and connected purposes. The legislation applies only to 'pure captives' implying that the business of undertaking liability is restricted to the risks of parent and affiliated corporations. In February 2016, the FSC issued its proposed Captive Insurance Rules for public consultation.
- As part of its Fair Market Conduct Programme, the FSC released its Code of Business Conduct in an attempt to promote the adoption of sound practices in the financial services sector, while establishing required standards to preserve the image of Mauritius as an international financial centre of good repute. All licensees are, as from 1 January 2016, required to meet their obligations as set out under the guiding principles of the report.

Financial services sectors of our foreign presence countries

Madagascar

- The authorities made headway to enhance the independence and operations of the Central Bank as per the IMF. In addition to the securitisation of Government liabilities to the Central Bank, a new Central Bank Act was passed. The latter seeks to augment the independence of the Central Bank by (i) gradually reducing its advances to the Government; (ii) automatically transferring its losses and profits to the Government; and (iii) establishing an Audit Committee as well as an Executive Committee to propose policies to the board of Directors.

Maldives

- The Maldives Monetary Authority Act was amended to strengthen the Authority's regulatory mandate by enabling it to act as the exclusive regulator for all non-bank financial services, except for those related to the securities market. The Central Bank was further empowered to regulate payment systems and act as an operator for the latter.

Seychelles

- In January 2016, the authorities declared that – by virtue of the Convention on Mutual Administration Assistance on Tax matters to which the country is a party – Seychelles has entered into the OECD Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information on Tax Matters. In this respect, the Revenue Administration (Common Reporting Standard) Regulations have been unveiled, with the first automatic exchange of information on tax with the other Early Adopter Competent Authorities having signed the OECD agreement set for 2017. In April 2016, the Government released guidance notes for financial institutions on how to comply with the FATCA intergovernmental agreement between the country and the US.
- Chaired by the Governor of the Central Bank, a Financial Stability Committee was established in March 2016. The objective of the entity is to monitor domestic and international threats to financial stability in the country as well as take actions to reduce systemic risks and enhance the economy's resilience to shocks.
- The new International Business Act 2016 seeks to promote adherence to international standards, in alignment with principles laid out by the OECD Global Forum on Transparency and Exchange of Information for Tax purposes. The objective is also to help the country become an International Financial Services Centre.

Business and financial review

Market Environment

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

Mauritian banking system

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

Key trends

- After expanding by an appreciable margin during the preceding year, gross loans in the banking sector registered a year-on-year decline of 1.4% to attain Rs 604 billion as at 30 June 2016. This performance was mainly attributable to a corresponding drop of 5% in segment B advances by banks i.e. exposures giving rise to foreign-sourced income. In fact, whilst credit to Global Business Licence holders as well as foreign currency bills purchased and discounted posted notable growth rates in spite of market uncertainties, foreign currency loans extended outside Mauritius dropped in a context of subdued regional and international economic conditions. Conversely, a relative firming up was observed with regard to the evolution of segment A loans i.e. exposures generating locally-sourced earnings. However, the expansion thereof was limited to 2.9% during FY 2015/16, reflecting the slow-moving demand for credit against the backdrop of the soft economic environment and, in some cases, sector-specific developments. Worth highlighting, negative growth rates were recorded in credit to tourism, transport, construction (excluding housing) and public nonfinancial corporations. On the other hand, notable expansion rates were displayed by traders as well as the agriculture and fishing, ICT, financial and business services, as well as the export and domestic oriented manufacturing industries. In the retail field, whilst exposures to the 'personal and professional' segment fell slightly, housing loans increased by 7.6%, supported by enhanced value proposition by operators.

- Whilst a double-digit growth rate was posted during the preceding year, total deposits rose by 1.8% to attain Rs 885 billion as at 30 June 2016. This was attributable to a decline in foreign currency deposits in view of global economic difficulties and uncertainties. On the other hand, in spite of the low interest environment and the restrained nationwide income generation, rupee deposits increased by nearly 7%, supported by savings and demand deposits. Comparatively, foreign currency deposits at the level of MCB Ltd grew by about 25% while its rupee deposits increased by some 12% over the period under review.
- Underpinned by liquidity management operations conducted by the BoM, including sterilised interventions, the excess liquidity levels in the money market somewhat receded during the year. However, as gauged by the evolution of the excess holdings of banks at the BoM beyond mandatory balances, they remained volatile and generally elevated in the wake of the contained evolution of the demand for credit. Thus, while fluctuating, average weighted yields on Government of Mauritius treasury bills generally edged up during the period as a result of an upward trend in late 2015 in particular.

Main banking sector metrics

Loans and deposits

Loans (June 2016)

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

Deposits (June 2016)

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

Credit to the economy (June 2016)

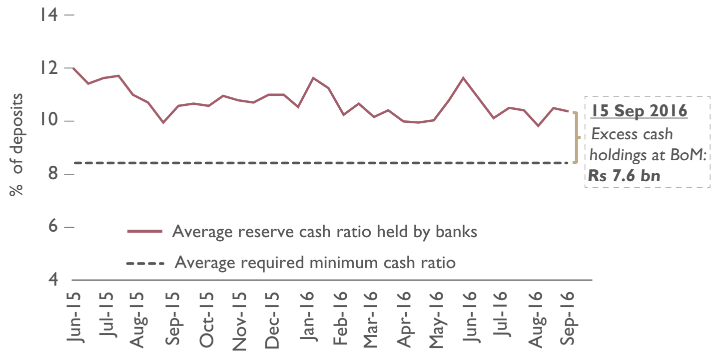
Sectors	Rs m	Mix (%)	Y.o.y. change (%)
Agriculture and fishing	19,555	5.9	10.7
Export oriented industry	6,400	1.9	10.0
Domestic oriented industry	15,096	4.6	6.8
Tourism	47,461	14.4	(0.2)
Transport	4,390	1.3	(10.9)
Construction	86,411	26.2	3.9
Housing	*55,689*	*16.9*	*7.6*
Others	*30,721*	*9.3*	*(2.2)*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

Business and financial review

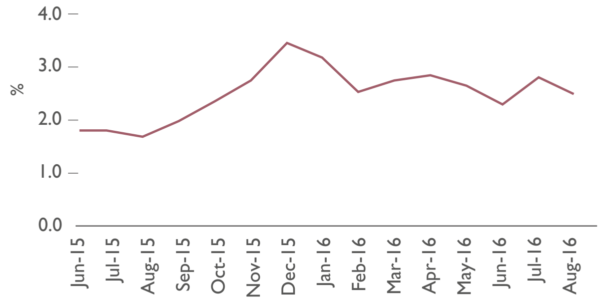
Main banking sector metrics (cont'd)

Money market indicators

Average cash reserve ratio



Average weighted yield - Government of Mauritius Treasury Bills



Local non-bank financial services sector

Notwithstanding the impact of sluggish economic conditions on market activities, several factors positively influenced the provision of capital market services to both local and foreign clients. In particular, the corporate bond market remained active, reflecting clients' search for alternative solutions to bank financing and for cheaper options in an environment of excess liquidity. With regard to the equity market, the two local stock market indices - SEMDEX and DEMEX - were held back by foreign investors' shift out of emerging and frontier market investments amidst depressed commodity prices, lower levels of economic activity, volatile foreign exchange rates and increased uncertainty overall. On the private equity side, good transactions in Africa are hard to come by as plenty of cash chase few good deals and competition drives up valuation. Nonetheless, prospects for private equity investments on the continent remain exciting, where long term economic and demographic fundamentals are favourable.

Financial services sectors of our foreign presence countries

Madagascar

- The reference rate of the Central Bank was cut from 9.5% to 8.7% in October 2015 and to 8.3% in May 2016.
- The regulatory ratio for mandatory cash reserves went down from 15% to 13% in October 2015.
- The banking sector remained profitable and adequately capitalised during the period under review. However, the IMF stressed that, while its Financial Sector Assessment Programme noted that the banking system has been resilient to past shocks, underlying vulnerabilities could become acute with continued financial sector growth.
- Key areas warranting vigilance relate to credit concentration and high liquidity levels, while the volatile economic and political climate act as a reminder that foundations for business growth are quite fragile.

Maldives

- The minimum reserve requirements for banks was reduced from 20% to 10% since August 2015.
- In spite of pressures on asset quality levels, the banking sector continued to operate under generally sound conditions, as gauged by the capital adequacy ratio standing at 40% as at March 2016. It can, additionally, be observed that credit to the private sector posted a double-digit growth in FY 2015/16.
- As per the IMF, the Central Bank has announced its intention of improving the access to credit in the local banking sector, with a key measure relating to a plan for sovereign guarantees for private sector loans in the tourism sector to rejuvenate investment in tourism resorts which were stalled since the global financial crisis.
- In August 2016, the Maldives Monetary Authority launched an SME

Credit Guarantee Scheme, with the aim of facilitating access to finance for small and medium enterprises. The scheme will guarantee a portion of the allocated credit, which mitigates the risks to banks and facilitates lending against lower collateral requirements.

Seychelles

- The banking sector remains adequately capitalised and liquid with system-wide capital adequacy ratios standing comfortably above the required prudential minima. The IMF, however, highlighted that, in view of economic conditions, a careful monitoring of asset quality and liquidity-related indicators is required. Besides, potential vulnerabilities linked to the concentrated sectoral distribution of credit, rapidly growing lending in foreign currency and proliferation of unsecured credit products call for attention.
- As for the offshore banking business, the IMF noted that, while continuing progress is warranted, notable steps have been taken by the authorities to improve the applicable governance and regulatory frameworks as well as adhere to financial integrity and tax transparency principles.

Key banking indicators

	Madagascar			Maldives			Seychelles		
	Jun 14	Jun 15	Jun 16	Jun 14	Jun 15	Jun 16	Jun 14	Jun 15	Jun 16
	Year-on-year growth (%)			Year-on-year growth (%)			Year-on-year growth (%)		
Credit to the private sector	11.9	16.0	13.5	-0.9	0.8	20.1	13.7	19.5	7.1
Deposits	9.8	15.9	12.6	19.3	9.6	9.9	32.7	3.5	9.5

Financial soundness indicators

	Madagascar			Maldives			Seychelles		
As at December	**2013**	**2014**	**2015**	**2013**	**2014**	**2015**	**2013**	**2014**	**2015**
	%	%	%	%	%	%	%	%	%
Capital-based									
Regulatory capital to risk-weighted assets	14.8	13.3	12.4	34.0	44.5	42.0	26.7	21.7	25.2
Asset quality and liquidity									
Non-performing loans to total gross loans	13.8	12.0	10.6	16.7	17.4	15.3	9.4	8.2	7.5
Liquid assets to total assets	43.2	39.9	37.8	34.1	43.4	45.2	54.7	54.2	52.8
Earnings and profitability									
Return on assets	2.3	3.1	3.7	5.1	4.6	3.3	1.9	3.3	4.0
Return on equity	29.2	38.1	46.1	23.8	20.3	14.8	19.6	38.2	37.4

Notes:
(i) For Madagascar, credit to the private sector is captured by credit to the economy
(ii) For 2015: Financial soundness indicators for Maldives are as at September, while the liquid assets ratio for Seychelles is at June

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

Business and financial review

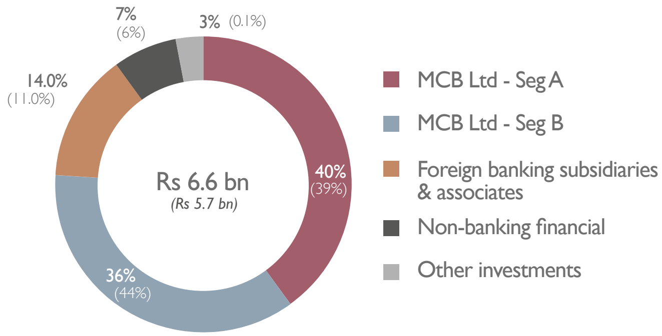
Group Financial Review

Overview of Results

As highlighted in previous sections, MCB Group had to cope with a challenging environment across markets. Nonetheless, the MCB Group withstood these difficulties and posted a commendable performance during the year under review, underpinned by progress made on its strategic objectives. Notwithstanding a drop in net fee and commission income, essentially due to the impact of low oil prices on regional trade financing, operating income expanded by 9.1% to reach Rs 14,418 million for the year. Net interest income went up by 9.0% despite a slightly lower loan portfolio while revenue growth was also driven by a strong rise in profit on exchange and the successful exit from an equity investment. With growth in operating expenses being contained at 4.8% and net impairment charges having fallen, operating profit went up by 16.6%. Our performance was further enhanced a near doubling of our share of profit of associates which attained Rs 735 million on account of improved results of BFCOI and PAD Group, the latter benefiting from non-recurrent gains on disposal of shares as well as higher contributions from its own associates. After accounting for an increase of Rs 408 million to Rs 1,537 million in income tax expense including the special levy on MCB Ltd and regulatory CSR contributions for domestic entities, attributable profits to equity holders of the Group improved by 15.8% to Rs 6,626 million. The performance of the Group reflects the continuous efforts undertaken over the years to broaden our revenue base. Although results of the banking cluster increased by some 11%, its contribution to Group Profits declined from 94% to 90% due to the excellent performance of the non-banking activities. The share of MCB's Segment A (domestically-sourced) income increased by one percentage point to reach 40% while the strong performance at the level of our foreign subsidiaries and associates boosted their contribution from 11% to 14%. The Group maintained generally healthy financial soundness indicators in FY 2015/16 as gauged by improved capitalisation and strong funding and liquidity positions while asset quality remained at similar levels as last year.

Read more in the 'Risk Management Report' on pages 138 to 166

Contribution to Group profit
(Figures in brackets relate to 2015)

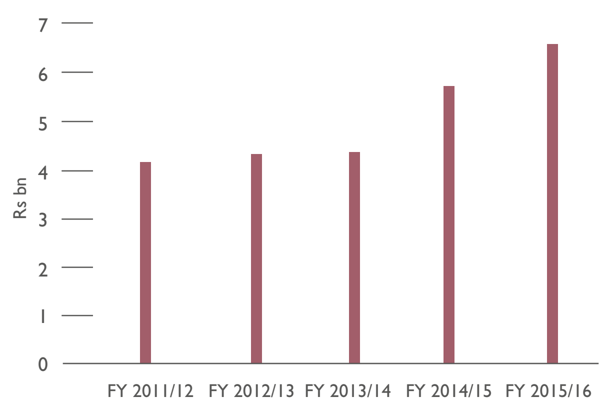


At Company level, MCB Group Ltd received dividend income of Rs 2,204 million from its subsidiaries. After allowing for operating expenses of Rs 100 million and interests of Rs 262.8 miilion paid on the Subordinated Notes transferred from MCB Ltd, profit for the Company stood at Rs 1,841 million for the period ending 30 June 2016. Overall, total assets of the Company amounted to Rs 10,407 million as at June 2016, with investment in subsidiaries and associates standing at Rs 9,280 million.

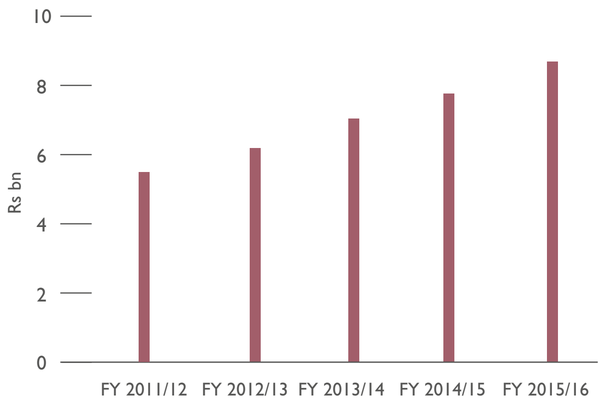
Objectives for FY 2016/17

The operating environment is expected to remain difficult across markets amidst persisting global uncertainties with high liquidity prevailing in both rupee and foreign currencies. While the retail segment is anticipated to sustain its growth, further credit expansion will be dependent on the regional economic performance and the execution of public and private sector projects in the wake of recent budgetary measures. Despite pressures on margins, operating income is likely to increase further, albeit at a reduced pace, while higher growth in operating expenses is foreseen on the back of capacity building initiatives. On the whole, we expect moderate growth in operating profits in FY 2016/17. In this context and with comfortable and rising capitalisation levels, it will be challenging to maintain return on equity at current levels.

Profit attributable to shareholders



Operating profit before provisions

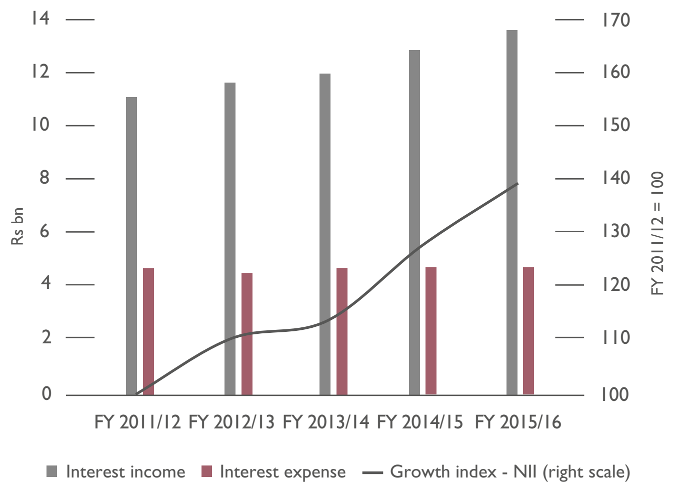


Income Statement Analysis

Net interest income

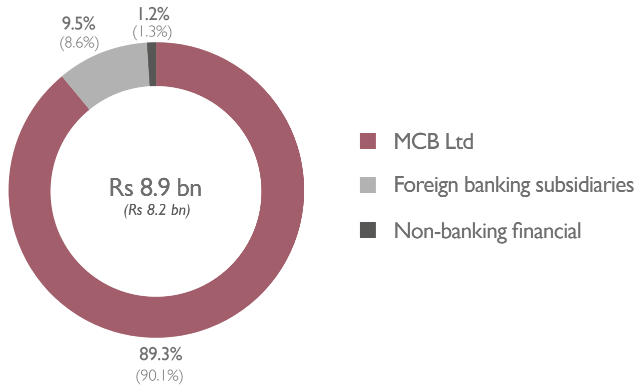
Whilst being restrained by a marginal decline in the loan portfolio, interest income for the Group grew by 6.2% to Rs 13,644 million in FY 2015/16. This performance was mainly driven by increased income from Government securities following higher investments therein across most banking subsidiaries. Notwithstanding the latter, interest expense rose marginally by 1.3% to Rs 4,753 million owing to relatively lower interest rates on average. Consequently, net interest income for the Group rose by 9.0% to reach Rs 8,890 million in FY 2015/16. The higher proportion of liquid assets in our book has exerted downward pressures on margins with net interest income to average earning assets falling to 3.4% as compared to 3.6% in FY 2014/15.

Net interest income



Net interest income by cluster

(Figures in brackets relate to 2015)

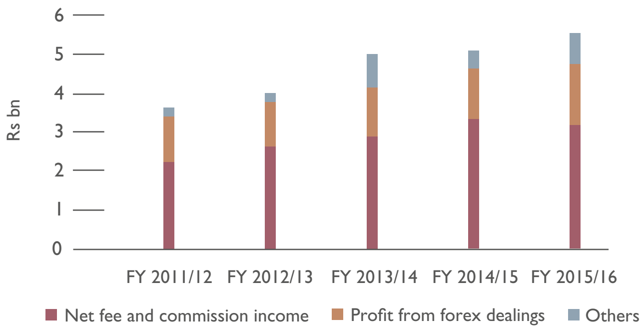


Business and financial review

Non-interest income

In line with progress made in terms of product and market diversification, non-interest income for MCB Group grew by 9.2% to attain Rs 5,528 million in spite of a drop in net fee and commission income. Indeed, the latter declined by 5.1% in FY 2015/16 mainly due to the adverse impact of low oil prices on regional trade financing whilst cards-related fees continued to grow and contribution by MCB Capital Markets Ltd increased on the back of new investment products launched and higher assets under management. 'Other income' registered a robust performance owing to a growth of 25.8% in profit arising from dealing in foreign currencies, the successful exit from an investment by MCB Equity Fund and enhanced revenue of other non-bank entities such as International Card Processing Services (ICPS) Ltd, the Group's cards outsourcing services provider.

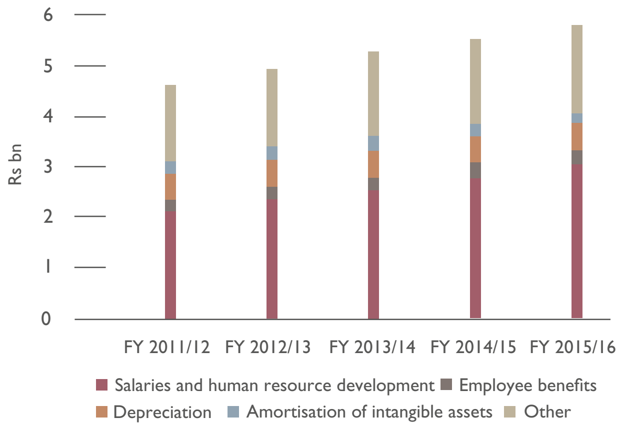
Breakdown of non-interest income



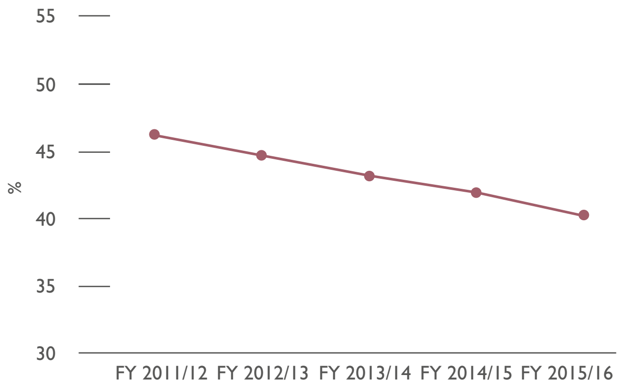
Operating expenses

Staff cost, which is the major component of the cost base, increased by 7.3% reflecting continued investment to build up human capital. Conversely, in spite of continued investments in capacity building across subsidiaries, amortisation charges declined slightly due to timing effect with regard to the implementation of capital investment at the level of MCB Ltd. Coupled with ongoing operational efficiency initiatives, this has contributed to a contained growth of 4.8% in operating costs which reached Rs 5,789 million for the year under review. Given the relatively higher growth registered in operating income, the cost to income ratio for MCB Group improved to 40.2% in FY 2015/16.

Breakdown of non-interest expense



Cost to income ratio



Impairment charges

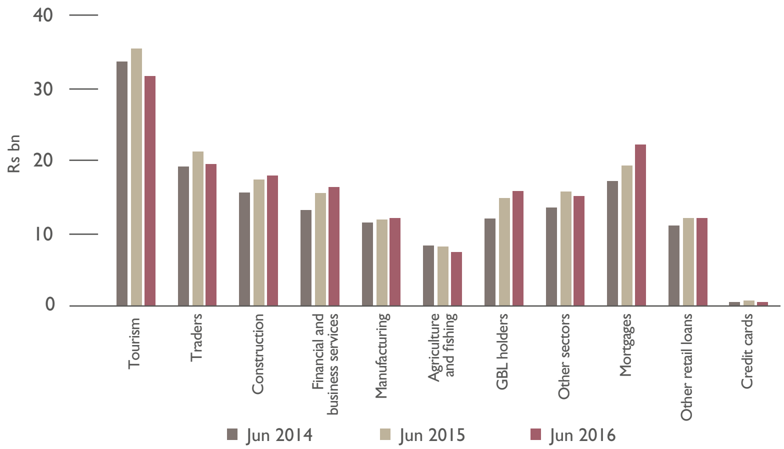
On the back of a fall in net impairment charges at the level of foreign banking subsidiaries, allowance for credit impairment for MCB Group fell by 12.3% to stand at Rs 988 million. Credit impairment charges thus represented 0.57% of the loan portfolio for the year ending June 2016. The NPL for MCB Group was maintained at 6.2% of gross loans while the corresponding ratio in net terms stood at 4.0%.

Financial Position Statement Analysis

Loans and advances

Reflecting the soft economic climate, gross loans of the Group registered a contraction of 1.3% to stand at Rs 173.8 billion as at 30 June 2016 on account of a dampened performance at MCB Ltd level. Indeed, gross loans within the latter decreased marginally to stand at Rs 162.6 billion as at June 2016. At domestic level, credit to customers of the Bank increased by around 3%, supported by a growth of around 9% within the retail segment amidst the sustained momentum in housing loans. For its part, credit to the corporate segment rose by 1.2% in line with the subdued private investment level. Apart from a notable rise in credit to the domestic oriented industry, advances to the main sectors either remained relatively unchanged or witnessed a drop as in the case of tourism amidst capital restructuring initiatives by operators within the sector. As regards foreign-sourced activities, a decline of around 10% was registered in related credit of the Bank in spite of a rise recorded in respect of 'Global Business Licence holders'. This was principally due to a significant fall in foreign currency loans outside Mauritius on account of a decline in regional short term trade financing activities.

Credit exposure by sector



Loans and advances as at June	2016 Rs m	Growth (%)	Mix (%)
Retail customers	36,672	8.2	21.1
Credit cards	*689*	*4.0*	*0.4*
Mortgages	*22,427*	*15.6*	*12.9*
Other retail loans	*13,555*	*(2.0)*	*7.8*
Corporate customers	106,770	(1.1)	61.4
Entities outside Mauritius	26,262	(10.0)	15.1
Government	1,205	(0.4)	0.7
Banks	2,888	(23.9)	1.7
Total loans	**173,796**	**(1.3)**	**100.0**

Business and financial review

Funding

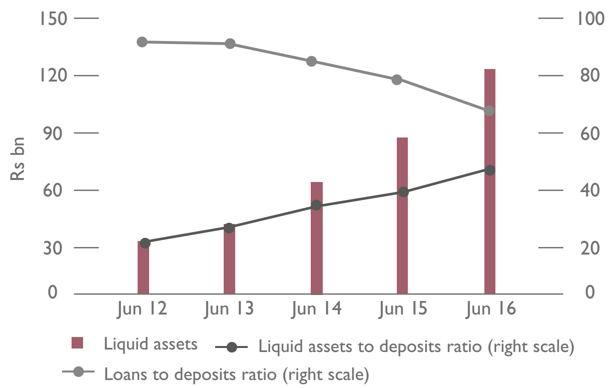
Total deposits, which are the main source of funding for the Group, went up by some 15.4% to reach Rs 255.3 billion as at 30 June 2016. This was driven by a strong growth of 16.6% achieved by MCB Ltd following a 25.2% rise in foreign currency deposits and 11.7% increase in rupee-denominated deposits. Demand deposits of the Group rose by 22.5% while savings deposits grew by 11.0%. 'Other borrowed funds' stood at Rs 5.2 billion as at 30 June 2016, representing a fall of about 33% compared to one year earlier, mainly due to lower recourse by MCB Ltd to LC refinancing credit lines linked to decreasing regional trade finance activities.

Sources of funds as at June	2016 Rs m	Growth (%)	Mix (%)
Total deposits	**255,262**	**15.4**	**95.9**
Deposits from customers	253,424	15.9	95.2
MUR	152,204	11.9	57.2
Demand	*25,111*	*7.9*	*9.4*
Savings	*101,807*	*10.7*	*38.3*
Time	*25,287*	*21.3*	*9.5*
Non-MUR	101,220	22.5	38.0
Deposits from banks	1,838	(23.6)	0.7
Other borrowed funds	**5,193**	**(33.5)**	**2.0**
Subordinated liabilities	**5,620**	**0.4**	**2.1**

Investment securities and cash & cash equivalents

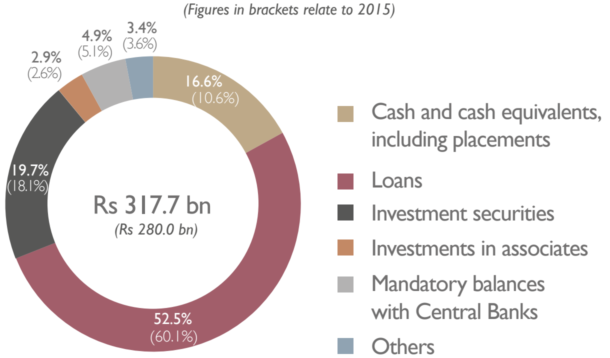
The dampened evolution of the loan portfolio and the strong growth in deposits translated into a significant increase in the Group's total liquid assets. This was reflected by: (i) a rise of 78.6% in cash and cash equivalents including placements, mainly through balances with banks abroad; (ii) an increase of 25.1% in investment in treasury bills and Government securities; and (iii) a growth of 8.6% in mandatory balances at Central Banks. Overall, the share of liquid assets, including placements, in total assets reached 38.7% as at June 2016, with the corresponding ratio as a percentage of deposits standing at 48.1%.

Liquidity position



Assets mix as at 30 June 2016

(Figures in brackets relate to 2015)

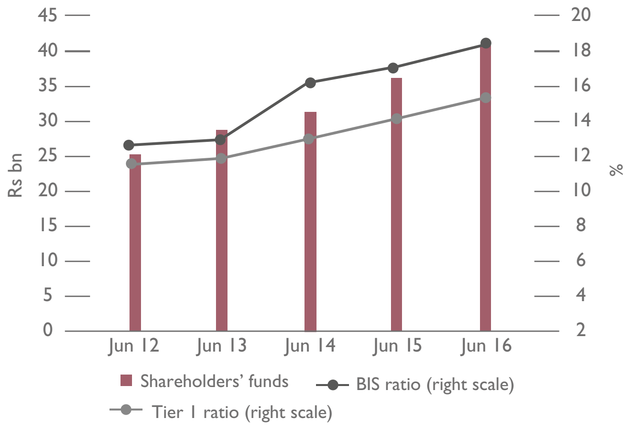


Capital resources

Shareholders' funds of the Group reached Rs 40.7 billion following an increase of Rs 4.8 billion, of which 3.4 billion was in the form of retained earnings for the year. After an interim dividend of Rs 4.00 per share paid in July, a final dividend of Rs 4.75 was declared in September to be payable in December 2016, bringing the total dividend per share to Rs 8.75 for the period under review. This resulted in a dividend payout of some 31%, with earnings per share standing at Rs 27.82.

The Group continues to ensure that adequate buffers are kept at all times to withstand potential shocks and to effectively support its expansion strategy. Indeed, comfortable capitalisation levels were maintained, with the overall capital adequacy ratio standing at 18.3%, with Tier I ratio standing at 15.3%.

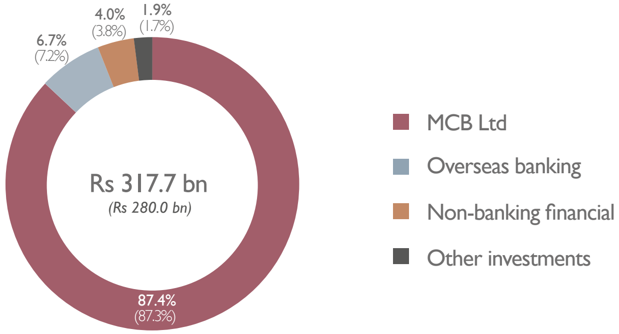
Shareholders' funds and capital adequacy



Note: Capital adequacy figures for June 2014, June 2015 and June 2016 are based on Basel III; figures prior to June 2016 have been restated

Assets - Breakdown by cluster

(Figures in brackets relate to 2015)



Analysis by Cluster

Overview

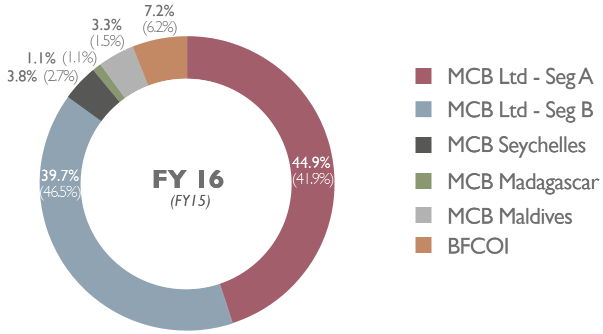
The entities of the Group pursued their growth agenda, albeit in a prudent manner. Alongside maintaining market vigilance, they have bolstered their inherent capabilities to cope with the operating context and take on the new growth cycle over time. The market activities of Group entities were underpinned by the entrenchment of their foothold in established segments and the continued diversification of activities. In the Mauritian banking sector, the Group reinforced its leadership position in servicing individual and corporate clients. Beyond, the Group preserved its prominent regional involvement, while making headway in the provision of non-bank financial services. Concurrently, intra-Group synergies have been leveraged for widening the scope of business development opportunities that can be availed of across the organisation. Thus, emphasis has been laid on (i) tapping into need-based cross-selling avenues; (ii) the replication of client solutions across geographies; and (iii) the provision of bundled solutions emanating from various business lines, particularly in relation to investor-related services and the Group's 'Bank of Banks' value proposition. With regard to the latter, further inroads have been made during the year under review in positioning the Group as a regional platform for handling trade finance, cards outsourcing and undertaking consulting assignments for banking counterparts operating notably in Africa.

Banking cluster

Consolidated results of the banking cluster increased by some 11%, supported by a solid growth by foreign banking entities. However, its share in Group profits declined from 94% in FY 2014/15 to 90% for the year under review, owing mainly to the strong performance in the non-banking operations.

Contribution to profit within the cluster

(Figures in brackets relate to 2015)



Note: In FY16, contribution from our associate, Société Générale Moçambique, was marginally negative (FY15: +0.1%)

Business and financial review

MCB Ltd

The Bank posted a resilient performance in the face of challenges prevailing in the local and regional operating environment. Indeed, profit for the year increased by 12.3% to reach Rs 5,620 million. Results were underpinned by continued growth in operating income despite a drop in net fee and commission income prompted by a decline in revenue from regional trade financing amidst low oil prices. In fact, revenue growth was mainly explained by (i) a rise in net interest income which was partially attributable to the impact of the transfer of the Subordinated Notes from MCB Ltd to MCB Group Ltd, and (ii) a strong growth in profit on exchange. Profit before tax rose by some 16% after accounting for a growth of 4% in operating expenses and relatively flat impairment charges.

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

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

Corporate and Institutional Banking

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

Operational restructuring

In the wake of the implementation of the Bank's Medium Term Growth Strategy, the CIB SBU was created in July 2015 following the merger of its corporate and international segments. After a comprehensive consultative process involving key stakeholders across the Bank, a major milestone was achieved with the official Go-Live of the business line on 1 July 2016. In alignment with the increasingly internationalised and sophisticated business needs of our customers, the new organisation structure of the CIB SBU seeks to: (i) promote a more coordinated and calibrated international market development strategy; (ii) further enhance and harmonise customer experiences across sub-segments through greater emphasis on client proximity and relationship management; (iii) bolster the ability to cost-effectively provide bespoke solutions to domestic and international customers; (iv) promote process and value chain optimisation as well as secure end-to-end operational efficiency gains, underpinned by lower turnaround times; (v) reinforce the human and technical competency line-up in key service areas; and (vi) uphold the Bank's dynamism in responding to changes pertaining to the risk, regulatory and compliance landscapes.
Importantly, the governance framework of the CIB SBU has been geared up. A CIB Management Committee and a CIB Portfolio Review Committee have been set up to enhance coordination in the steering of the function and define portfolio strategies respectively. Relationship management teams attend to CIB customers through four segments, namely Energy & Commodities, Institutional Banking, Corporate Banking and Global Business. Additionally, with respect to credit origination and structuring, dedicated product groups have been created to provide specialised inputs for *inter alia* the structuring, analysis and pricing of deals. Of note also, a Transaction Management and Monitoring team has been established to reinforce controls across the value chain and allow front office functions to tap into shared and well-segregated middle office functions from post-approval to pre-disbursement stages of the credit chain.

Strategic initiatives

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

Servicing domestically-located corporates

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

Catering for foreign corporate and institutional clients

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

Capacity building initiatives

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

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

The Bank of Banks initiative took centre stage at the Africa Forward Together conference

Business and financial review

Looking forward

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

<u>Retail</u>

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

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

Read more on our innovative approach and digital footprint in the 'Operational Excellence and Innovation Report' on pages 121 to 127

- In relation to its customer segments, the Retail SBU made progress in terms of the centralised management of mass customers, backed by the optimisation of branch footprints and formats. Furthermore, via its Business Banking segment, MCB upheld its commitment to accompanying small and medium enterprises (SMEs) and remained the foremost service provider for these clients in Mauritius. In fact, MCB was ranked 1st amongst the 12 banks operating in the country in respect of credit facilities outstanding under the

The winners of the first edition of 'Créateurs d'Entreprises'

Government–backed SME Financing Scheme, with a corresponding market share of around 40% posted during the December 2011 – July 2016 period. In addition to tapping into a range of customised solutions in support of business growth, clients have capitalised on our 'Knowledge Centre', which offers free strategic and financial tools to start, manage and expand businesses. Also, three business meetings were conducted in FY 2015/16, which prompted around 120 leads and ensuing disbursements of some Rs 100 million in the field of trade finance. With a view to encouraging the entrepreneurial spirit and culture, the Bank has, in association with l'Université Paris-Dauphine and Analysis Institute of Management (AIM), launched an innovative training programme, titled 'Créateur d'Entreprise'. Ten potential entrepreneurs were selected for an intense training programme to help them develop their ideas for business implementation.

- Along with the deepening of customer relationships by the MCB Select segment – which caters for the needs of professionals, managers and executives – the Bank has further embedded its involvement vis-à-vis high net worth customers. Backed by its brand and relationship-building drive, the Private Banking segment widened its local and international client base, contributing to a noticeable expansion in assets under management. In order to build durable and trustworthy relationships with clients, the segment offered simplified and fast-tracked solutions to meet their everyday transactional needs, while working with them to identify their financial objectives and develop strategies to achieve the latter. To help the segment in tapping into Africa's pool of high net worth customers in line with the Bank's Medium Term Growth Strategy, several initiatives have been implemented and/or are ongoing, including (i) the revamping of our on-the-ground presence at the level of the Bank's representative offices; (ii) human resource and internal process upgrade; (iii) creation of greater synergies with other stakeholders across the organisation; and (iv) the proper ring-fencing of risk and compliance considerations as well as the formulation of an appropriate governance set-up.
- To support its growth ambitions and the quality of its customer service, the Retail SBU has upgraded the competencies of its staff and its sales force by way of dedicated training programmes. Key initiatives deployed are as follows: (i) development programmes have been designed for front-liners and branch managers; (ii) coaching programmes have been developed to inculcate specialised skills to specific staff, aimed notably at uplifting their knowledge of the more complex client solutions; and (iii) revised career paths have been established for relevant functions, supported by the formulation of a talent management plan. Moreover, inroads have been made with regard to the optimisation and automation of processes to achieve greater operational and sales efficiency. In the latter respect, several sales meetings were conducted, which initially resulted into leads and, eventually, the delivery of loans as well as other products to clients.
- Also, the Bank has regularly sought customer feedback through its (i) Voice of the Customer and Net Promoter Score programmes, which measure and monitor customer satisfaction and advocacy, notably in respect of selected MCB products and services; (ii) systematic client surveys within each customer segment to seek levels of satisfaction and improvement initiatives; and (iii) upgraded 'Complaints Handling Policy', whereby customers are given the opportunity to provide their views via screens placed in the Bank's branch network. Findings are analysed to better understand customer needs and effectively feed in service enhancement initiatives.

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

Cards

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

- The function made further headway in widening its customer base across market segments. In respect of the Bank's 'Juice' mobile banking application, total registered users increased at a fast pace, standing at nearly 80,000 as at end-August 2016, compared to around 39,100 a year before. To foster widespread market penetration of the 'Juice' mobile service, the Bank launched a referral programme to the public at large, whereby both parties are rewarded, with the referrer being also eligible to participate in a lucky draw to win appealing prizes.

- In its quest to provide simplified banking experiences to its customers, the Bank successfully brought its mobile banking application to new heights with its innovative Visa Direct service. This new feature allows customers to transfer money from their MCB account to any Visa card in the fastest way possible anytime and anywhere in the world, which is a first in both Mauritius and Africa.
- Another first mover initiative in Mauritius relates to the enhanced flexibility given to MCB debit cardholders, with the latter being, henceforth, able to enjoy the privilege of making online payments. This initiative, which has been made possible thanks to the longstanding relationship between MasterCard and MCB, is expected to help to grow the customer base of the Bank and further boost transaction volumes of its e-commerce business. More recently, the Bank announced its decision to upgrade its 675,000 debit cards to the latest generation chip technology, with our customers to benefit from enhanced security and added convenience through new features including the contactless payment solution. The roll-out will start as from October 2016, with customers being able to replace their debit card at no additional cost.

MCB will replace 675,000 debit cards with more secure contactless cards

- To promote card usage, the Bank conducted several promotional campaigns in association with MasterCard. The opportunity was given to two adults to spend three nights in the underwater suite at Atlantis The Palm Dubai on an all-inclusive package. Another high profile commercial initiative relates to an offer currently open to all MCB American Express® cardholders to participate in a lucky draw to win an all-new BMW X1.
- Reflective of its market development thrust and innovation mindset, MCB Ltd was awarded the 'Visa Innovation Award' by Visa, for being the first bank to launch MCB Visa Direct via a mobile application in Africa. In addition, MCB won the 'Best Innovative Bank in the Market' accolade from the same organisation, while also obtaining the award for 'Best Bank in Mauritius 2015' from UnionPay International (UPI), a leading credit card issuer in the world, for the commercialisation and promotion of UPI services in Mauritius.

Read more on our innovative approach and digital footprint in the 'Operational Excellence and Innovation Report' that follows

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

MCB Ltd: Operational Excellence and Innovation Report

Introduction

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

Our strategic positioning

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

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

Business and financial review

Innovation is at the heart of our strategy

Our ambitions

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

Our guiding principles

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

Our framework

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

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

Banking Operations

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

Information Technology

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

Business Analysis & Project Management

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

Retracing our Key Milestones

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

Zooming on key milestones of MCB Ltd in Mauritius

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

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

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

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

2012

Enrolment to Home Loans & Cards via iPad and electronic signature

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

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

2009

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

2008

MCB SWIFT Member Concentrator

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

2006

Mobile/GPRS POS terminals for cards transactions acquiring

2005
- Datawarehouse and Analytics
- Full-fledged Treasury system

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

2003

End-to-end Cards Acquiring System

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

1999

Online card transactions with MasterCard and Visa

1998

Internet Banking

1996

Online Signature verification for customer transactions

1994

Telephone Banking

1993

State-of-the-art Data Centre

1989

Online Branch Teller System and Transactions

1988

Credit card

1987

ATM and debit card

Overview of innovative solutions adopted over the past few years

Channel management

Our branch network

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

Our ATMs and POS terminals

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

Our digital channels

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

Fostering seamless multichannel integration

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

Other technological platforms and innovative practices

Key achievements

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

Key process improvements

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

Business and financial review

Foreign banking subsidiaries

MCB Madagascar

The Malagasy economic environment has remained challenging over the last financial year largely due to continued political instability as well as external shocks such as low commodity prices and weather related misfortunes. Nonetheless, the subsidiary posted a 10% increase in profit, to a large extent, explained by lower impairment charges on the back of improved asset quality. As a result, contribution to Group results increased to Rs 65 million.

The financial performance in FY 2015/16 was also supported by a rise of nearly 10% in net interest income amidst better yields on treasury bills and a higher loan to deposit ratio. The latter was due to declining local currency deposits and a growth of 6.3% in the loan book, mainly driven by advances to traders as well as the manufacturing and agricultural sectors. Net fee and commission income went up by 6% notably linked to increased trade finance activity. Yet, operating income dropped by 2.7% reflecting a significant fall in profit on exchange. The impact on cost to income ratio was somewhat contained as a result of a modest 2% rise in expenses in spite of a surge in Information Technology related costs following the operationalisation of the new Core Banking System since May 2015.

MCB Madagascar continued to focus on reinforcing its internal capabilities to support its business strategy. The entity made further progress in enhancing the efficiency of its operations through the successful execution of its transformation programme which entailed the aforementioned upgrade of its Core Banking System to Temenos T24 and the streamlining of processes. Furthermore, continuous efforts have been devoted towards gearing up service levels through human capacity building initiatives backed by ongoing development programmes. In this respect, the subsidiary invested in intensive training courses for its staff delivered by internationally recognised centres in the country. The bank also upheld its market visibility and promoted its brand franchise by participating in various targeted promotional and sponsoring campaigns notably linked to the corporate and high net worth customer segments.

Going forward, MCB Madagascar will closely monitor economic developments amidst the ongoing stabilisation of the political situation with a view to tapping into growth-enhancing opportunities. In order to reinforce its client base within the testing operating landscape, the Malagasy subsidiary will engage in creating the necessary building blocks for the expansion of its retail network and, thus, more closely meet the aspirations of customers.

MCB Maldives

The last year has been challenging both from a financial and operational perspective in the midst of a sharp slowdown in economic growth of Maldives. Despite the difficult operating context, MCB Maldives posted a resilient growth in its business activities in FY 2015/16. The deposit base increased by 14% to MVR 1.6 billion while net loans also grew albeit slightly. Coupled with an ensuing rise in investments in treasury bills and corporate bonds, this evolution contributed to a 17% growth in net interest income. On the other hand, non-interest income fell by 19% during the same period on account of currency shortages in the foreign exchange market, linked to the deterioration in the country's balance of payments position. However, total operating income improved to MVR 161 million, representing a growth of 4% on the previous financial year. The cost to income ratio of MCB Maldives edged up though as operating costs increased by 16%, reflecting the full year amortisation costs of the Core Banking System upgrade completed in late 2014, the expansion of its premises to a new floor for its corporate banking business and a 19% rise in the average headcount. After making allowance for credit impairment charges and a tax charge regularisation for the year 2014, attributable results for the year improved to MVR 84 million, leading to contribution of Rs 198 million to Group results.

MCB Maldives made notable progress in the execution of its business development initiatives during the year under review. As such, the range of products and services was further enriched with the latest innovative addition being the introduction of personalised and attractive bundled package to corporate customers, thus bringing a competitive edge to the bank's sales strategy. Launched a year before, the number of Visa Prepaid Cards issued increased by more than 50% while the number of Internet Banking subscribers rose by some 40%. In its bid to promote superior customer experiences, the bank completed the renovation of its main branch in Malé, enhanced with dedicated counters for MoneyGram transactions and endowed with upgraded physical security level. MCB Maldives will soon open a new branch on Hulhumale Island and is currently shaping up the way for the implementation of our mobile banking and payments platform, i.e. 'Juice', in the coming months to improve the reach and convenience of delivery channels. Besides, efforts are being maintained to diversify the retail customer base by means of increased onboarding of high net worth clients. The bank also continued to lay due emphasis on brand visibility as gauged by its participation in commercial events namely in the 'Hotel Asia 2015 Exhibition' and 'Finance Expo' as well as through sponsorship activities. From an operational efficiency perspective, it has proceeded with an upgrade of its international telecommunications lines that has considerably improved the response time on all applications running on servers in Maldives.

Moving forward, MCB Maldives will seek to strengthen its market positioning through adapted and comprehensive products and services backed by modern delivery channels and improved efficiency. The bank will maintain a key focus on risk management amidst the still tough economic conditions to preserve sound underlying fundamentals.

MCB Seychelles

With the economy remaining resilient, MCB Seychelles sustained its business growth and continued to strengthen its market positioning within the local banking sector. Deposits were up by 29% for the year to June 2016 and although asset transformation on the foreign currency front is constrained by inherent characteristics of the economy, customer loans increased by 10% to reach SCR 1.6 billion. This reflected a strong expansion in advances made to the manufacturing, trade and retail sectors while the tourism sector continues to account for the largest share of the subsidiary's credit. Against this backdrop, a growth of 48.3% to SCR 151 million was registered in net interest income, which also benefited from high yields on Government securities. Net fee and commission income was relatively flat whereas profit from foreign exchange transactions went up by 15%. As a result, operating income rose by some 30% to reach SCR 253 million, leading to a notable drop in the cost to income ratio after factoring in an increase of 3.1% in the cost base. Taking into account a decline in credit impairment charges amidst falling NPL ratios and a significant rise in the tax bill in line with its financial performance, MCB Seychelles achieved a growth of nearly 63% in results, thereby contributing Rs 232 million to Group profits.

The first edition of 'MCB Constance Lemuria Invitational' was held in Seychelles

During the last financial year, MCB Seychelles actively pursued its market development initiatives across business segments. As part of its diversification strategy, the subsidiary launched the 'MCB Green loan' in partnership with Agence Française de Développement to support initiatives in favour of energy saving and the reduction of carbon emissions. Moreover, the bank broadened its retail positioning with its refined housing loan offer being successful and is redesigning some of its branches to pave the way for better customer experience by means of a more convivial and open banking environment. The entity also fostered greater brand visibility notably through the organisation of and participation in various promotional and commercial initiatives. In this context, the bank signed up as the Official Partner of the local team for the 9th Indian Ocean Island Games and leveraged on this regional event to run a '*Go to the Games*' campaign. Concomitantly, much emphasis is being laid on enhancing the enablers for growth, efficiency levels and risk management. As such, the bank completed the technical migration of cards activities to the new Card Management System in line with the Group's harmonisation strategy. Additionally, MCB Seychelles extended its channel capabilities by increasing the number of strategically located ATMs to 17. A new monitoring tool and security upgrade on ATMs, including EMV certification, were implemented to prevent cards fraud, thus reinforcing the security of related transactions. Consistent with the international banking industry best practices and as part of a national initiative, MCB Seychelles is also adopting the International Bank Account Number (IBAN) to promote transactional safety and efficiency. Besides, the bank was the first to benefit from a new platform for credit origination designed for our overseas banking subsidiaries. The platform, which is integrated with the core banking system and displays exhaustive information on retail and corporate credit requests, aims at streamlining and harmonising the credit approval process. On another note, whilst continuously investing in the development of its staff, MCB Seychelles has embarked on a transformation journey meant to redefine its Human Resource organisation structure and revamp processes to more effectively support the implementation of its strategy. As a key achievement and reflecting its strong credentials, the bank was granted the 'Best Banking & Financial Services Award' by the Seychelles Chamber of Commerce & Industry for the third consecutive year.

Looking ahead, MCB Seychelles will maintain its drive to enhance its value proposition in line with the evolving needs of its growing customer base and explore new growth avenues to consolidate its brand positioning. In so doing, the bank will build on grounds covered from recent initiatives, leverage the core capabilities of the Group and gear up its internal resources including its human capital to further anchor its status as an employer of choice.

Business and financial review

Foreign banking associates

Banque Française Commerciale Océan Indien (BFCOI)

Against the backdrop of the restrained evolution of investment, the economy of Reunion Island has expanded at a relatively slow pace in recent times in spite of the steady growth in tourism and banking activities.

Loans to customers posted a year-on-year growth of some 5% to reach EUR 1.5 billion as at 30 June 2016, while deposits grew by 2% to reach some EUR 1 billion. Gross operating income increased marginally to EUR 77 million, while operating expenses were contained at EUR 46 million, with the cost to income ratio thus standing at just above 60%. The cost of risk improved significantly with some material clawbacks on prior years leading to a net release EUR 1.2 million for the year ending 30 June 2016. The contribution of BFCOI to MCB Group's profits were up to Rs 439 million, compared to Rs 346 million last year, mainly on the back of recoveries in allowances for impairment losses and despite operational results remaining relatively flat year-on-year. BFCOI remained comfortably capitalised, with its capital adequacy ratio standing at 17.1% as at 30 June 2016, of which 13.5% by way of tier 1 capital.

Société Générale Moçambique

After expanding at an appreciable pace in 2015, the Mozambican economy has faced difficult economic conditions this year, partly linked to lower commodity prices and dampened demand for the country's exports. While pressures have been exerted on the foreign exchange market, inflation has been rising fast.

The year under review was marked by a new partnership with Société Générale whereby the latter injected MZN 828 million of capital into the bank, thus diluting MCB Group's effective shareholding down to 35% and leading to the entity being rebranded as Société Générale Moçambique. The latter's financial performance in FY 2015/16 was supported by a rise of 18% in operating income to MZN 243 million. The growth in the loan book contributed to a notable increase in net interest income. On the other hand, net fee and commission income declined as a result of reduced trade activity. Operating expenses posted significant increases across categories, mainly due to investment in human capital and technology to support the growth strategy of Société Générale Moçambique. Besides, a surge in impairment charges was witnessed due to the ongoing challenging economic context. As a result, the contribution of the bank to Group results was negative at Rs 4 million.

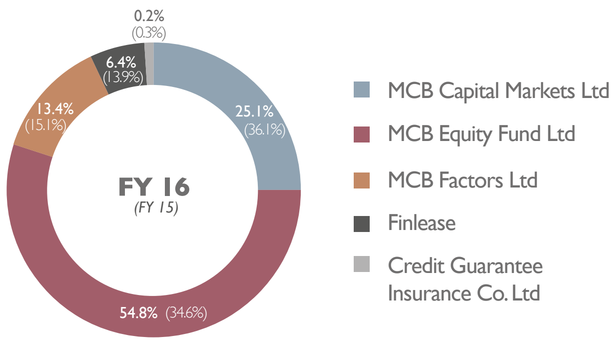
Going forward, Société Générale Moçambique will closely monitor the economic developments, while pursuing its capacity building and business development efforts. In addition to extending its branch network, it will reinforce its staff base as well as widen its product offerings and client portfolio across both the retail and corporate segments.

Non-banking financial cluster

The share of this cluster in Group profits improved to some 7% following a rise of around 39% in its contribution mainly due to gain on an exit from an investment by MCB Equity Fund Ltd and enhanced results by MCB Factors Ltd.

Contribution to profit within the cluster

(Figures in brackets relate to 2015)



MCB Capital Markets Ltd and its subsidiaries (MCBCM)

In FY 2015/16, total income of MCBCM amounted to Rs 409.1 million (2015: Rs 328.8 million) and consolidated profit after tax attained Rs 116.9 million (2015: Rs 121.6 million). The results continued to be driven primarily by the successful completion of corporate finance transactions, strong demand for capital-guaranteed products and an increase in assets under management.

Corporate Finance Advisory

During the last financial year, the Corporate Finance Advisory team successfully executed capital raising transactions totalling approximately Rs 5 billion for corporate clients, with the excess liquidity situation in the domestic market providing a conducive environment to such deals.

The Structured Solutions team maintained its thrust to widen its product range in FY 2015/16. It launched and successfully marketed two MCB-backed capital-guaranteed products, taking advantage of high liquidity amongst retail banking customers and offshore clients.

Crescendo SmartTech and Crescendo Global Security are both 5-year dollar and rupee-denominated capital-guaranteed products, providing up to 180% exposure to Commerzbank AG SmartTech Strategy and 70-170% exposure to the Commerzbank AG Global Security Strategy respectively. Building on our track record and expertise, we will continue in the period ahead to advise existing and new clients on their financing needs, both locally and overseas.

Investment Management

The investment management team achieved excellent results with turnover increasing from Rs 86.4 million in FY 2014/15 to Rs 106.2 million in FY 2015/16. Despite relatively sluggish domestic market conditions, assets under management rose from Rs 16.0 billion to Rs 17.4 billion as at 30 June 2016 on account of good client retention, new client mandates and the launch of additional funds.

A key achievement for this financial year was the launch of the MCB India Sovereign Bond Exchange Traded Fund (ETF), the first ETF to have been structured in Mauritius. The ETF is listed on the Stock Exchange of Mauritius with Indian sovereign bonds as underlying asset. This product aims to facilitate investment into the Indian bond market which has traditionally been difficult for foreign investors to access because of minimum investment thresholds, ceilings on foreign holdings and other regulatory hurdles. India's sovereign bond market is one of the world's largest and most attractive with outstanding issuances in excess of USD 650 billion.

Furthermore, we expanded our range of Africa-focused funds with the launch of the MCB Africa Equity Fund, which gives investors exposure to listed African equities. We also started a USD cash management fund, a low cost product aimed at improving the yield that investors receive on their cash balances while maintaining a high level of liquidity. Both funds have been very well received by the investment community and our team looks forward to managing them successfully.

Looking forward, we will endeavour to draw upon our strong investment skills, established infrastructure and powerful brand to tap into niche opportunities outside Mauritius and grow assets under management.

Stockbrokers

This financial year saw a sharp reduction in overall trading activity with the sell-off by foreign investors dragging market volumes down by approximately 33%. Despite this challenging context, our stockbroking business performed well as gauged by a rise in its market share of local trading volumes and a growth of 7% in brokerage income. MCB Stockbrokers continued to implement its strategy of diversifying its sources of revenue and grew its turnover by 5% to Rs 78 million.

The company started the financial year with two successful transactions – the underwriting of a rights issue as well as the structuring and private placement of a bond for two major listed companies for a combined transaction value of Rs 2.8 billion. Besides, the two new issues of the Crescendo capital-guaranteed notes were successfully placed with investors in November 2015 and April 2016, raising a total of approximately Rs 1 billion. In May 2016, the company won a mandate to act as market maker for two new S&P-benchmarked ETFs that are listed on the local stock exchange. MCB Stockbrokers also contributed significantly to the launch of the MCB India Sovereign Bond ETF by listing the product on the Stock Exchange of Mauritius last June.

Looking ahead, trading activity is anticipated to remain subdued due to challenging global market conditions. However, we are optimistic that the company will be able to further increase its share of the local market as we continue to improve the quality of our offering and service. Diversification will be key to increasing revenues and profits in this difficult environment.

Registry & Transfer Agent

The business posted a satisfactory performance amidst subdued market conditions, with an increase of 3.3% in revenue from Rs 32.7 million in FY 2014/15 to Rs 33.8 million for the financial year under review. The business processed a number of corporate events on the back of restructuring exercises undertaken by some clients and

MCB Registry celebrated its silver jubilee in February 2016 was also solicited to administer bond issues for both existing and new clients. Growth in turnover is expected to be sustained, albeit remaining moderate, in future years as corporate clients continue to tap into the capital markets for financing and new products are listed on the stock exchange. The team has also acquired new mandates for the Corporate Secretarial services, thus diversifying its portfolio of clients. Opportunities to offer the services of MCB Registry & Transfer Agent outside Mauritius are also currently being explored.

Private Equity Management

The private equity team manages the unlisted portion of the investment portfolio of MCB Equity Fund Ltd, an evergreen private fund that is wholly owned by MCB Group Ltd. Total assets under their management, on a fair value basis, stood at Rs 2.5 billion as at 30 June 2016. MCB Equity Fund provides expansion and buy-out capital to established businesses with solid growth prospects and strong management teams. The fund is opportunistic in its approach, with much emphasis being laid on Africa and the Indian Ocean region for investment opportunities.

MCB Equity Fund Ltd

MCB Equity Fund Ltd's net asset value rose from Rs 2.8 billion in FY 2014/15 to Rs 3.0 billion in FY 2015/16. During the year under review, the fund realised net profits of Rs 246.9 million, which includes a profit on disposal linked to the Fund's exit from an investment in the automotive fast-fit services industry in France. Dividend income amounted to Rs 31.0 million in FY 2015/16 compared to Rs 49.3 million in FY 2014/15.

During FY 2015/16, the Fund partnered with Duet Private Equity Group in the acquisition of Société Africaine des Produits Laitiers (SAPLED), one of the largest dairy and fruit juice processing companies in Ivory Coast. The Fund also acquired a stake in Partnering Technologies, a French entity involved in the robotics and high-tech printing services sectors.

MCB Factors Ltd

MCB Factors Ltd is positioned as a prominent player in the field of factoring in Mauritius. In addition to offering financing solutions to its clients against the assignment of their trade receivables, the entity takes charge of the complete sales ledger administration service and the credit control management of the debtors' books. On the domestic landscape, by capitalising on its rich business experience and its deep market knowledge, the company proposes both recourse and non-recourse factoring services, which provide protection against potential bad debts. On the international front, MCB Factors provides factoring services through the Factors Chain International, which is a global network of leading factoring companies. During FY 2015/16, the net profit of the company chalked an increase of 24.6% to attain Rs 61 million, boosted by a robust expansion in the assignment of invoices. This performance was mainly underpinned by a continuous enhancement of customer service delivery and the strengthening of risk management practices, whilst keeping costs under control.

Credit Guarantee Insurance Co. Ltd

This associate, in which MCB has a 40% stake, is a joint venture with La Prudence Holding and provides credit insurance services to its customers by ensuring protection in respect of their trade receivables. On the back of continued growth in business activities, profit for the year to 30 June 2016 rose to reach Rs 2.0 million.

Other investments cluster

Contribution from this cluster improved significantly to reach Rs 214 million, primarily explained by much improved results at the level of Fincorp Investment Ltd.

Fincorp Investment Ltd

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

In FY 2015/16, Finlease Co Ltd registered a contained business growth, with finance leases growing by 6.4% to Rs 3.9 billion and operating leases increasing by 4.7% to Rs 473 million. After factoring in higher depreciation charges relating to operating leases, operating income increased at a lesser rate of 2.8% for the year. This was mainly attributable to a compression of margins as a result of the combined effect of (i) deploying leases at lower yields against the backdrop of a declining interest rate environment and the persistence of excess liquidity conditions in the system; and (ii) a rise in average funding costs in the wake of the cancellation of the Lease and Equipment Modernisation Scheme refinancing facility. Operating costs of Finlease Co Ltd increased by Rs 23.4 million. This was driven mainly by a rise of Rs 10.1 million in impairment costs, of which Rs 3.6 million related to higher statistical portfolio provisions required by the Bank of Mauritius, and one-off costs of some Rs 10.3 million associated with the implementation of a new core leasing system which is now fully operational. The bottom line of Finlease Co Ltd declined to Rs 51.8 million compared to Rs 75.9 million in the preceding year.

The profits attributable to shareholders of PAD amounted to Rs 798.3 million, up from Rs 60.9 million in FY 2014/15. The significant improvement in the profitability performance of PAD has been largely triggered by the disposal of shares of a major hotel group, which generated a surplus of Rs 363 million. Another major contributor to the results relates to the fair value revaluation of the investment properties of its associate Medine Ltd, which coupled with higher land sales, resulted in PAD's share of profit therefrom increasing to Rs 267 million, compared to Rs 54 million in the preceding year. Overall, PAD contributed some Rs 370 million to the group results of Fincorp Investment Ltd.

Caudan Development Ltd, which is PAD's subsidiary that owns and manages a large waterfront property in Port Louis, posted an improved performance during the period under review, benefiting from increased occupancy rates with regard to both commercial and office units.

The consolidated results of Fincorp Investment Ltd rose significantly to attain Rs 382.4 million for the financial year compared to Rs 67.0 million in the previous period. Subsequently, the contribution of the entity to profits of MCB Group, after deduction of minority interests of 43%, went up significantly to attain Rs 220 million in FY 2015/16 compared to Rs 40 million in FY 2014/15. The net asset value per share, boosted by an increase of Rs 1,046 million in its share of other comprehensive income of associates, stood at Rs 49.04 as at 30 June 2016, compared to Rs 36.17 a year before.

International Card Processing Services Ltd (ICPS)

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

ICPS Ltd acts as an end-to-end enabler for its clients located in Mauritius and key African economies leveraging its system features and functionalities including fraud management and chargeback processing. Over the past few years, ICPS Ltd has also enhanced its capabilities for training deliveries, system implementation and Information Security advisory services. The company's footprint now spans 10 key African economies i.e. Ghana, Rwanda, Congo, Malawi, Tanzania, Kenya, Swaziland, Namibia, Mozambique and Zambia, whilst support is provided to all the foreign banking subsidiaries of the Group. Backed by an integrated Card Management System as well as a dedicated team of business and IT professionals with core expertise in the delivery of added value across the card payment lifecycle, ICPS has registered strong business growth over the past years. During FY 2015/16, ICPS has continued to make significant progress as gauged by a solid revenue growth of 18% and a contribution of Rs 19 million to the Group's profits. Key achievements include the migration of all of MCB's Point of Sale terminals (POS) to its Card Management System and inroads in field of information security.

Going forward, backed by the consolidation and development of its talent pool as well as effective cost management through the streamlining of business activities, ICPS will deploy active efforts in respect of the retention of its client base by way of dedicated relationship management and the provision of customised and scalable card payment solutions. The entity will also look for additional clients for the provision of dedicated products and services, including EMV (chip technology) issuing and acquiring as well as transaction processing, EMV debit, credit, corporate and prepaid card issuance, EMV card personalisation, Chip-enabled ATM/POS driving, etc. Additionally, ICPS will seek to expand its reach in Africa by capitalising on its position as a recognised Cards business enabler and becoming a partner of choice for the creation of innovative and relevant payment solutions for end users.

MCB Consulting Services Ltd

Established in June 2014 as a fully-owned subsidiary of MCB Group Ltd, MCB Consulting Services Ltd (MCB Consulting) is the dedicated consulting arm of the Group. During the year under review, the company, building on success stories mentioned last year, has further consolidated its business eco system through new strategic partnerships and landmark assignments. As at 30 June 2016, MCB Consulting has worked with 50 different clients spread across 21 countries, including Botswana, Ghana, Lebanon, Maldives, Malawi, Palestine, Senegal, and Trinidad and Tobago. The pertinence of its business model coupled with an astute business development strategy as well as strong partnership agreements have enabled the entity to undertake some sizeable and strategic assignments across the globe (over 100 during the current year under review), articulated around three pillars: process, people and information technology. Such assignments encompassing full IT outsourcing, first R15 African implementation of the T24 (Temenos) core banking system, training and specific strategic advisory deliveries have translated into a turnover of USD 9 million over the last two years, out of which 25% were generated outside the MCB Group (45% for FY 2015/16). It is also interesting to note that, in December 2015,

MCB Consulting Services participated in various events around the world

MCB Consulting has obtained the ISO 9001:2015 accreditation further ensuring that quality is well entrenched in our core values and growth drivers. Mindful of the above and given the uniqueness of our value proposition in this market space, the future of our consulting arm looks excitingly promising, despite the bumpy and extremely competitive industry in which it operates.

MCB Microfinance Ltd

As part of its commitment to fostering the financial inclusion of small entrepreneurs, the Group invested in a greenfield microfinance institution. Indeed, as a first in the domestic financial landscape, MCB Microfinance Ltd was launched in July 2016 as a wholly-owned subsidiary of MCB Group Ltd. Its aim is to assist micro and small entrepreneurs as well as self-employed people to get easier access to loans to support their business activities. Clients have access to two types of loans: (i) 'Micro Loan Working Capital', which aims at meeting working capital needs such as raw materials or stock; and (ii) 'Micro Loan Investissement', which is to be targeted to meet the capital spending requirements of businesses. The entity lays due emphasis on customer proximity, with its relationship officers dedicated to spending adequate time on the field to suitably understand the characteristics and requirements of clients with a view to offering them customised solutions that suit their repayment capacities.

MCB Microfinance was launched in July 2016

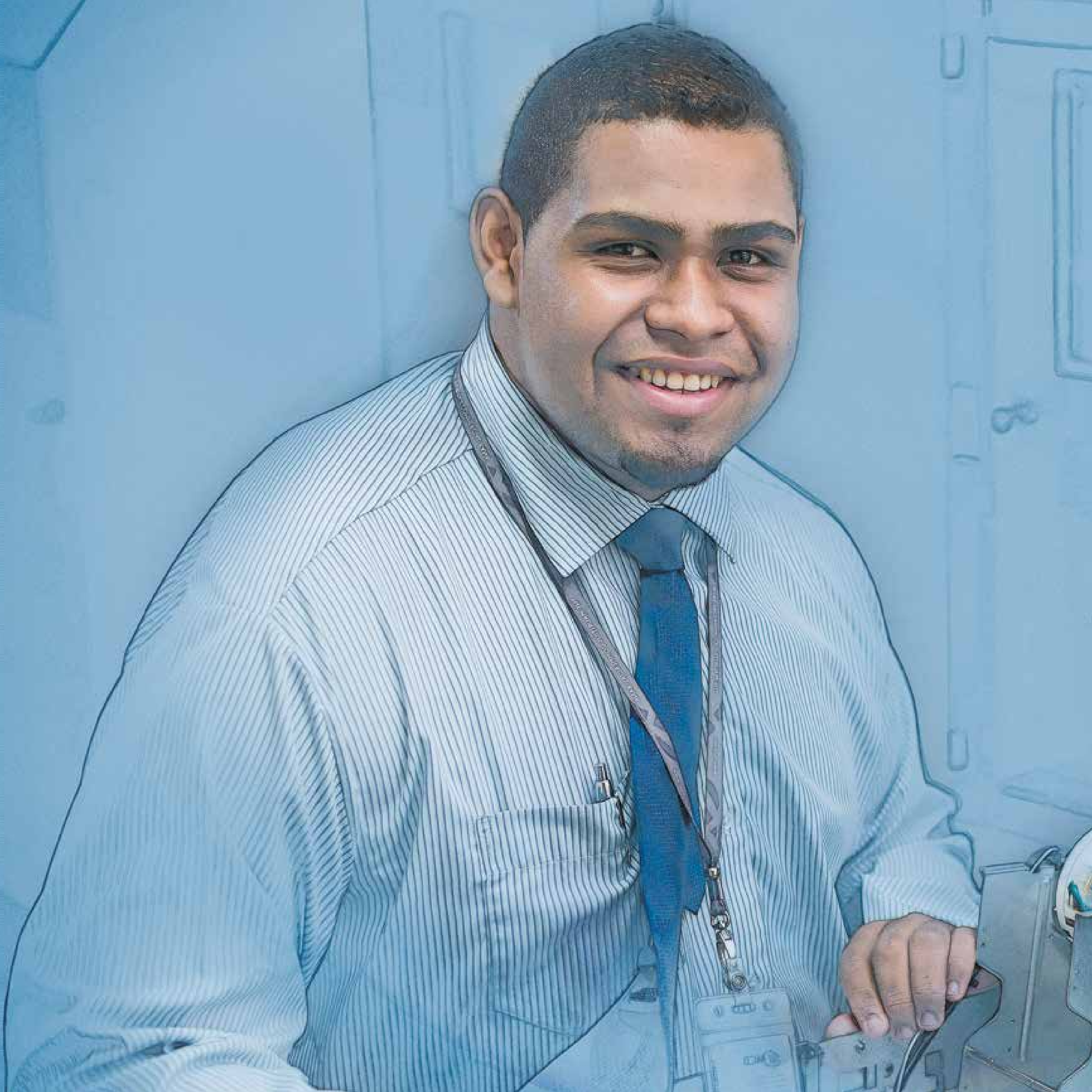
MCB Forward Foundation

The MCB Forward Foundation is the Group's dedicated vehicle responsible for fulfilling its engagement as a caring corporate citizen. Basically, its vision is to be instrumental in the creation of sustainable value for the social, environmental and economic well-being of society through the provision of human, logistical and financial resources in support of specific corporate social responsibility initiatives. For FY 2015/16, the Group contributed 2% of chargeable income derived from the preceding year to the MCB Forward Foundation, representing a sum of around Rs 72 million. A full report on the Foundation's activities during the year can be found in the Corporate Governance Report on pages 80 to 81.

Blue Penny Museum

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

Pierre Guy NOEL
Chief Executive



Risk Management Report

Risk Management Report

Risk Management Philosophy

Our Business Model

MCB Group Ltd views sound risk management as a key foundation of the long-lasting and healthy business growth of the entities operating under its aegis. It is committed to adopting a holistic, coordinated and systematic approach to risk management throughout the Group.

Our Corporate Objectives

Alongside complying with industry best practices, good corporate governance standards and any statutory and regulatory requirements, the Group ensures that risks faced are effectively identified, assessed, monitored and managed within acceptable levels. Thus, it aims to continuously improve the risk-return profile of its activities, while concurrently upholding an environment which is conducive to the creation and nurturing of business growth opportunities.

Risk Management Strategy and Framework

Main Risks Faced

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

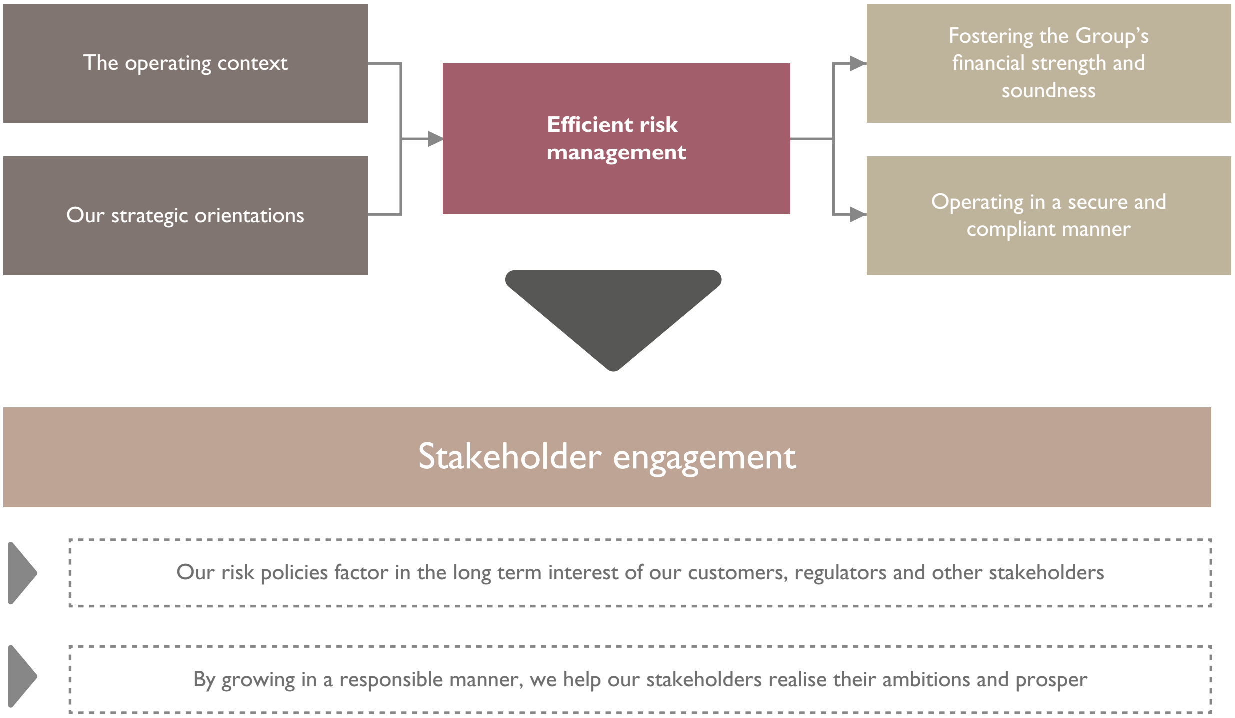
	Principal risks	General definitions
FINANCIAL RISK	**Credit risk**	The risk of financial loss should borrowers or counterparties fail to fulfill their financial or contractual obligations to the Group as and when they fall due; credit risk typically includes counterparty risk, settlement risk and concentration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

Risk management report

Our Risk Vision and Culture

Value creation

Managing risk is fundamental to delivering sustainable value to our shareholders and multiple stakeholders spanning our presence countries. In line with our business aspirations, we manage risk in an open, transparent and disciplined way, after making due allowance for the exigencies of our stakeholders. Our view is that, in addition to being a threat, risk can turn out to be a real competitive differentiator for the Group if it is managed in a thoughtful way.



Read more on the value creation model of the Group on pages 24 to 25 of the 'Corporate Profile' section

Key principles of our risk philosophy

General orientations

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

Governance framework

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

Overview of other key foundations

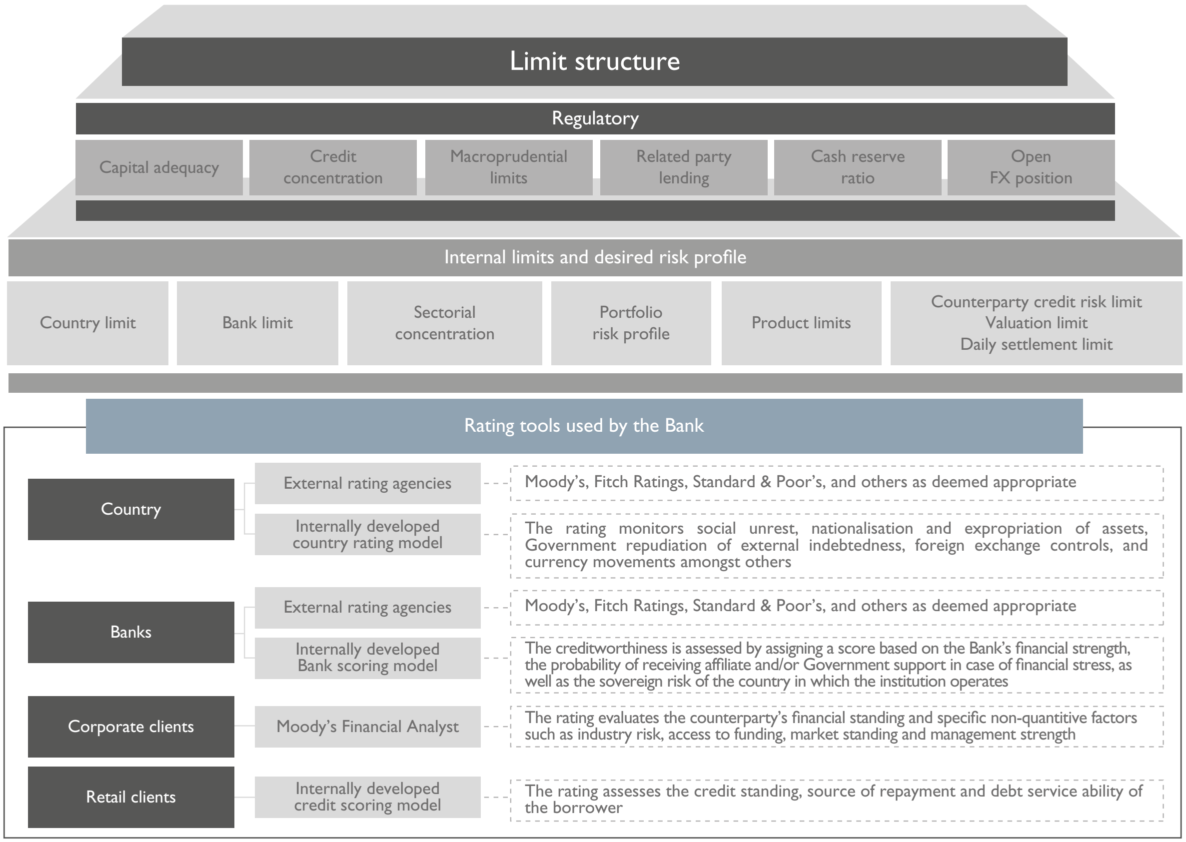
- Regular review and update of risk management practices to ensure consistency with business activities and relevance to financial strategies, while catering for changes in the economic and market landscapes
- Adoption of policies and processes that are clear and simple to be understood and executed,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

Risk management report

Pillars of our risk appetite and strategy

One of the objectives of the Group's risk management strategy is to determine the quantity and type of risk that the organisation is able and willing to take and deems as being reasonable in the course of the execution of its business strategies. The purpose of setting risk appetite is not necessarily to limit risk-taking, but to cater for an alignment between the Group's risk profile and its strategic orientations. The Group formulates appropriate risk limits, targets and tolerance levels, alongside ensuring that business development ambitions and strategic intents are in alignment with them. While ensuring congruence with directions established at Group level, the entities set their own risk appetite and risk tolerance levels, which they continuously monitor and, if necessary, update to shape up the optimal level of risk that they are willing to take with a view to fostering the smooth execution of short and medium term strategies.

The Group's risk appetite is entrenched within policies, authorities, limits and targets. It ensures that its strategic objectives match its risk tolerance levels. The latter are translated into relevant risk limits as appropriate for different activities and customer segments, with set parameters expressed qualitatively and quantitatively in specific instances. The size of internal risk limits is guided by regulatory requirements and the risk appetite set by the Board, after considering the economic and market environment. As an illustration, the limit structure and rating tools used by MCB Ltd for risk identification and quantification are provided below.



Governance and Oversight

To ensure that the full spectrum of risks facing its entities are properly identified, measured and monitored, the Group adopts a robust governance framework, backed by the articulation of coherent responsibilities, reporting lines and oversight across the organisation. The risk management framework of the Group provides high-level direction for each entity on how to manage risk in a consistent and interactive manner, underpinned by broad synchronisation in respect of the approach and methodology used. Overall, the governance set-up seeks to provide the organisation with optimal resources to foster a sound financial performance and generate value for the ultimate benefit of its stakeholders.

Risk Management Framework

MCB Group Ltd

Board

Risk Monitoring Committee	Audit Committee	Remuneration and Corporate Governance Committee
• Implements rigorous internal processes and controls which identify, monitor, measure and report different types of risks • Reviews risks faced and actions to mitigate them; sets risk exposure limits and monitors risk portfolios against the latter • Assigns relevant responsibility and accountability lines	• Caters for the monitoring of control processes and the effectiveness of systems • Ensures preparation of accurate financial reporting and statements in compliance with applicable legal requirements and accounting standards	• Develops the Group's general policy on corporate governance • Ensures that no material conflict of interest exists/arises in conducting business

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

Risk management report

Positioning and Performance of the Group

Overview

During FY 2015/16, MCB Group Ltd continued to embed a strong risk management culture within the organisation. In view of the challenging operating environment, the entities of the Group have upheld their market vigilance and strengthened their risk management capabilities. This contributed to the orderly deployment of market initiatives in support of quality business growth. Thus, the key financial soundness ratios posted by the Group have remained healthy.

Key Achievements

The main initiatives taken by the entities of the Group with regard to their management of risks are described below.

MCB Ltd

- The Bank updated its risk appetite in May 2016 to reflect its reviewed Medium Term Growth Strategy amidst notable changes taking place in the macroeconomic environment. While maintaining its market diversification agenda, the Bank has factored in heightened regional challenges, particularly linked to the marked decline in oil prices. Thus, we set out to reinforce our risk management approach to foster the progressive and balanced execution of our strategic orientations.
- Enhanced risk management has been a key pillar in the creation of the new Corporate and Institutional Banking (CIB) SBU with risk functions involved throughout the exercise to ensure a smooth execution thereof. Among others, the new structure seeks to establish stronger governance and better segregation of tasks. In the wake of this reorganisation, the Credit Management BU of the Risk SBU has been restructured to be in tune with the changes brought within the business. The Bank's credit policy was also reviewed to foster alignment with the organisation structure of the CIB SBU while making allowance for the updated risk appetite and amendments in relevant regulatory guidelines. Furthermore, the Risk SBU has worked towards the specialisation of its teams and reinforced the competency base of its human capital. In addition to the conduct of career development programmes, emphasis has been laid on the recruitment of talents who are well-versed with the business growth pillars embraced by MCB Ltd. Steps have also been taken to help relevant staff to gather in-depth information on files at an early stage of the credit management cycle.
- The Bank has embarked on assessing the implications and challenges of IFRS 9, in particular the adoption of an 'expected credit loss' model to determine provision levels. A well-established international accounting firm was appointed to perform an IFRS 9 Readiness Assessment Roadmap and a Quantitative Impact Assessment on the Bank's impairment allowances. The findings have recently been submitted and a project team has been set up to ensure compliance with the new standard when it will be applicable i.e. as from 2018.
- During the period under review, the Bank has preserved the investment grade ratings assigned to it by Moody's and Fitch Ratings on the basis of its sound strategic positioning and financial performance/prospects.

Foreign banking entities

- A key development relates to the ongoing refinement of the credit sanctioning process for individual and corporate customer requests, with adjustments brought to authorising bodies and delegation of powers. While technological enhancements implemented to underpin such changes should trigger an improvement in the time-to-market and the efficiency levels embedded in the credit sanctioning process, the higher involvement of relevant actors across different stages of the credit risk management cycle should generate more informed credit allocation decisions.
- A gap analysis has been undertaken with regard to the overall risk policy of overseas entities to identify and eventually implement, relevant updates and reinforcements in relation to the processes and practices in place for managing credit, market and operational risks.
- Other noteworthy actions undertaken during the year include: (i) MCB Seychelles adopted a new tool for the proactive monitoring of card transactions to prevent related frauds on ATMs and merchant terminals and performed a security upgrade on all ATMs using new anti-skimming devices; and (ii) MCB Maldives used new online tools to reinforce KYC processes for customer onboarding and other stages of related update exercises.

Non-banking entities

- The non-banking subsidiaries of the Group, such as MCB Capital Markets Ltd, MCB Consulting Services Ltd and MCB Factors Ltd, have anchored their business growth on the diversification of their exposures across types of clients, assignments and geographies.
- MCB Capital Markets Ltd has further reinforced the scope and effectiveness of its risk controls and practices to support business growth. Key initiatives adopted include: (i) leveraging of upgraded technology to enhance the monitoring of compliance to the US Foreign Account Tax Compliance Act (FATCA); (ii) increase in the frequency of checks carried out with regard to the settlement process for the brokerage business; (iii) strengthening of procedures for the management of access rights on key systems as well as the opening and monitoring of accounts held by Politically Exposed Persons (PEPs); (iv) conduct of a business risk assessment workshop, involving the management team; and (v) recruitment of an additional Compliance and Risk Officer to strengthen the management of operational risks.
- International Card Processing Services Ltd made further headway in the field of information security by garnering world-class certifications such as: (i) renewal of ISO 27001 accreditation; (ii) compliance with version 3.1 of the Payment Card Industry Data Security Standard (PCI DSS); and (iii) award of the PCI PIN Security and Business Continuity – BCMS ISO 22301 certifications.

Risk management report

Financial Soundness

Capitalisation

Philosophy

While ensuring that applicable and evolving regulatory requirements are met at all times, the capital management approach of the Group is to ensure that its subsidiaries are adequately capitalised to help achieve sound and sustained business growth, alongside protecting and maintaining the trust of shareholders and providers of fund. Towards this end, the Group aims to leverage internal capital generation through retained earnings, while remaining ready to enter wholesale markets if need be. In addition, it seeks to maintain appropriate discipline over the nature and extent of its market development initiatives and lays due emphasis on optimising the allocation of capital across businesses.

Performance

Over the period under review, the Group has, on a consolidated basis, further improved its already comfortable capitalisation metrics, as gauged by its capital adequacy and tier 1 ratios rising to reach 18.3% and 15.3% respectively as at June 2016. The predominant contribution thereto has obviously emanated from the banking entities of the Group, for which the maintenance of adequate capital levels is a key priority by virtue of their business operations and regulatory responsibilities. These entities represent the mainstay of the business activities and primarily make up the risk profile of the Group. Risk-weighted assets of the Group stood at around Rs 252.8 billion as at 30 June 2016, out of which some 83% was accounted for by MCB Ltd and nearly 7% by the foreign banking subsidiaries. For its part, the Group's overseas associates, namely Société Générale Moçambique and Réunion-based BFCOI – whose investments have been risk-weighted at 250% in line with applicable Basel III rules – represented 3.5% of its overall risk-weighted assets.

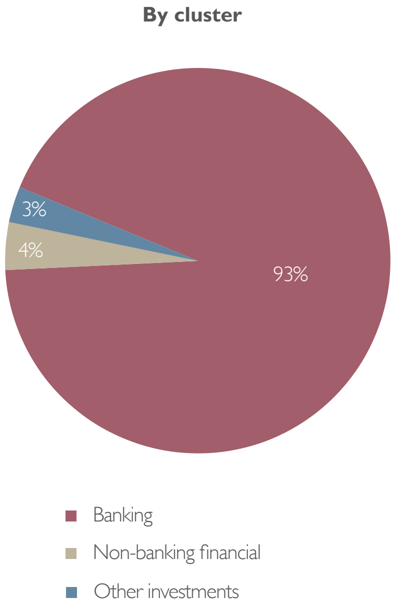
Components of capital adequacy

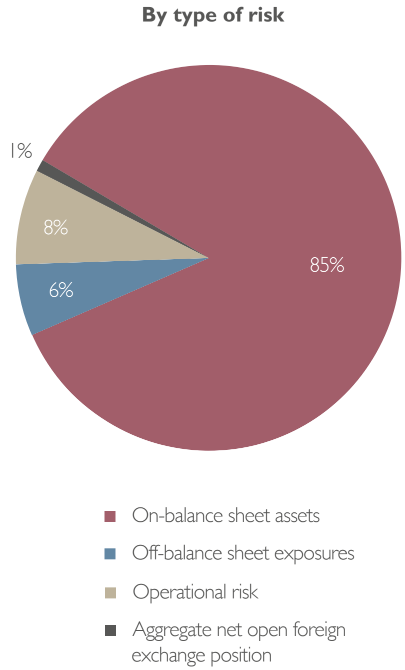
	MCB Group Ltd	
	Jun 15	**Jun 16**
	Rs m	**Rs m**
Capital base	**42,126**	**46,273**
Tier 1		
Ordinary shares (paid-up) capital	2,397	2,427
Retained earnings	28,326	32,162
Other reserves (excluding revaluation surpluses on land and building assets)	5,162	5,267
Common Equity Tier 1 capital: regulatory adjustments		
Goodwill and intangible assets	(897)	(954)
Deferred tax assets	(237)	(246)
	34,751	**38,656**
Tier 2		
Subordinated debt	*5,000*	*4,496*
Provisions or loan-loss reserves	*1,918*	*2,145*
45% of surplus arising from revaluation of land and buildings	*457*	*977*
	7,375	**7,618**

	Jun 15	**Jun 16**
Risk-weighted assets	**246,703**	**252,780**
Credit risk		
Weighted amount of on-balance sheet assets	203,935	214,890
Weighted amount of off-balance sheet exposures	22,397	16,149
Operational risk		
Weighted risk assets for operational risk	17,953	19,386
Market risk		
Aggregate net open foreign exchange position	2,417	2,355
Capital adequacy (%)	17.1	18.3
of which Tier 1	*14.1*	*15.3*

Note: Figures have been restated for June 2015

Distribution of risk-weighted assets as at 30 June 2016





Asset quality

Philosophy

Backed by continued market vigilance as well as the careful formulation and diversification of its strategic orientations, the Group is committed to preserving the soundness of its exposures. Emphasis is laid on (i) healthy loan portfolio through strong credit discipline; (ii) prudent market penetration and sensible strategy execution; (iii) cautious loan origination and disbursements; and (iv) active efforts for debt collection and recovery.

Performance

Asset quality was preserved within reasonable levels during the year under review, with the gross and net NPL ratios of the Group standing at 6.2% and 4.0% as at 30 June 2016. The overall metrics reflected corresponding ratios of 5.9% and 3.8% at the level of MCB Ltd. The allowance for credit impairment of the Group amounted to Rs 988 million, which was equivalent to 0.6% of gross loans and advances.

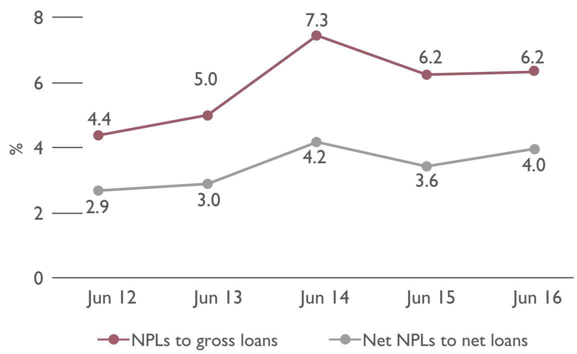
Asset quality

Sectorwise distribution

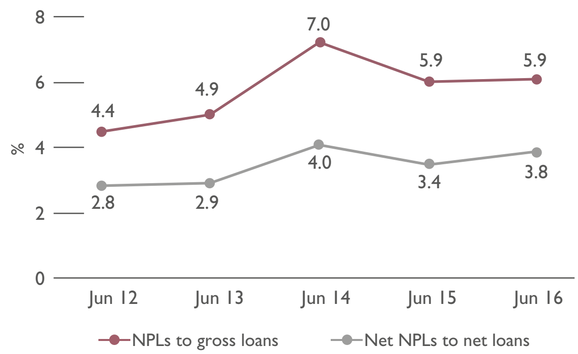
June 2016	Exposures		Non-performing loans (NPLs)		Allowances for credit impairment	
MCB Group Ltd	**Rs m**	***Mix (%)***	**Rs m**	***% of loans***	**Specific provision**	**Portfolio provision**
Loans to customers	**170,909**	***98.3***	**10,704**	***6.3***	**5,938**	**1,143**
Tourism	31,512	*18.1*	893	*2.9*	457	69
Traders	19,430	*11.2*	1,311	*6.8*	757	147
Construction *(including property development)*	17,675	*10.2*	2,162	*12.7*	1,536	209
Financial and business services	16,163	*9.3*	124	*0.8*	91	49
Manufacturing	11,962	*6.9*	829	*7.0*	405	131
of which EPZ	*4,920*	*2.8*	*33*	*0.7*	*14*	*22*
Agriculture and fishing	7,645	*4.4*	1,128	*15.0*	155	8
Transport	4,471	*2.6*	1,038	*23.3*	158	28
Personal and professional	35,226	*20.3*	2,232	*6.4*	1,282	227
of which credit cards	*689*	*0.4*	*60*	*8.7*	*56*	*14*
of which housing	*22,427*	*12.9*	*960*	*4.3*	*372*	*84*
Global Business Licence holders	15,948	*9.2*	666	*4.2*	834	201
Others	10,877	*6.3*	322	*3.0*	262	74
Loans to banks	**2,888**	***1.7***	**-**	**-**	**-**	**18**
Total	**173,797**	***100.0***	**10,704**	***6.2***	**5,938**	**1,161**

Credit quality

MCB Group



MCB Ltd



Funding and liquidity

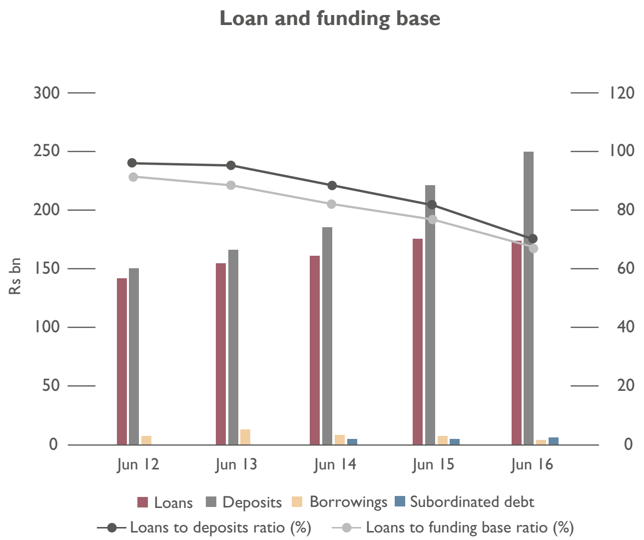
Philosophy

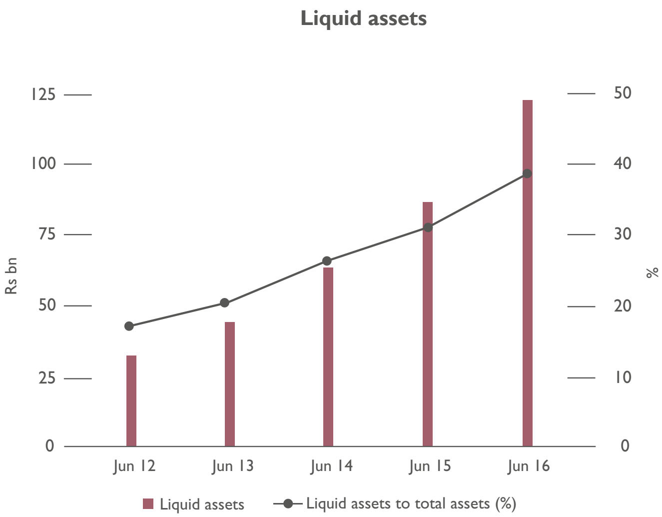
The Group seeks to keep sound funding and liquidity positions in support of its business development ambitions. While accessing wholesale markets as and when required, the banking entities of the Group maintain cost-efficient, diversified and stable sources of funding which predominantly comprise customer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

Performance

During FY 2015/16, amidst notably the persistence of excess liquidity conditions in the Mauritian banking sector, the Group maintained its comfortable liquidity and funding positions, as demonstrated below. Of note, while adhering to Basel III stipulations in spite of the latter not having yet been enforced in Mauritius, the liquidity coverage ratio and net stable funding ratio of MCB Ltd stood at 450% and 115% respectively as at 30 June 2016.

Funding and liquidity





Risk management report

Overview of Risk Management by Cluster

General Approach

Board supervision

The entities of the Group adhere to the overall risk management principles and frameworks validated by the Board of MCB Group Ltd. They are monitored in this respect by the Risk Monitoring Committee of the latter. The Board of each entity supervises its risk management and acts as the focal point of contact for shaping the relationship with MCB Group Ltd. Indeed, while fostering congruence with Group-level directions and after adapting its controls to inherent realities of the business, the Board of each entity oversees the establishment of its own policies, infrastructures, standards, practices and processes.

Key underpinnings

For each entity, risk governance is executed through the delegation of authority and responsibilities from its Board to dedicated committees and/or the management. Control processes and reporting lines have been put into place to foster the segregation of duties regarding risk taking, processing and control. The types of risk infrastructure and control processes that are adopted by each entity is a function of the nature, size and complexity of the risk involved. The approach and practices embraced by entities to fulfill their risk management obligations are shaped up by the following factors: (i) advocated corporate governance and risk management principles; (ii) the risk-return profiles of markets in which they are involved; (iii) the opportunities and challenges characterising the economic environment; and (iv) relevant legal and regulatory requirements as well as local and international codes and standards impacting the industries and countries in which businesses are carried out.

Intra-Group Level

The entities of the Group leverage the core competences and synergies available throughout the organisation in line with the concept of Group Shared Services. Specific business units of MCB Ltd are engaged in the provision of intra-Group services to the foreign banking subsidiaries as well as the entities operating under the 'non-banking financial' and 'other investments' clusters of the Group, backed by the elaboration of clear guidelines and mandates. Hence, as per the modalities set out in Service Level Agreements, the Internal Audit function of the Bank provides technical and advisory assistance in support of the operation and functioning of the Group's local and foreign subsidiaries. For its part, MCB Investment Holding Ltd seeks to foster more focused and integrated stewardship with regard to the operations and performance of the Group's foreign banking subsidiaries. In particular, its Finance & Risk team supports the conduct of risk management activities, with Risk SBU of MCB Ltd being involved wherever appropriate. The team engages in risk reporting to the Risk Monitoring Committee of the respective foreign banking subsidiaries as well as that of MCB Group Ltd. It also leads or assists foreign subsidiaries in the development and implementation of risk policies and other risk related matters, alongside providing support in the resolution of internal and external auditors' recommendations. Additionally, it assists overseas banking subsidiaries with regard to their credit risk management, particularly by reviewing credit files with exposure amounts exceeding a specific threshold, helping to structure or restructure complex credit files and monitoring out-of-order customer files.

Banking Cluster

Governance

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

With regard to MCB Ltd, the Board has the ultimate responsibility of ensuring that risks faced are adequately identified, measured, monitored and managed, in line with embraced corporate governance principles. The Board discharges its duty through policies and frameworks as well as specialised committees. The primary Board committee overseeing risk matters at the Bank is the Risk Monitoring Committee. The latter works towards setting the risk appetite for various countries, sectors and porfolios, after taking into account factors such as prevailing economic conditions and risk profiles, whilst also monitoring the effectiveness of the Bank's credit and country risk management structure. Furthermore, the Management of the Bank is accountable to the Board for ensuring the effectiveness of risk management and adherence to risk appetite. The Risk SBU, under the aegis of the Chief Risk Officer (CRO), bears the responsibility on a day-to-day basis for providing independent risk control as well as managing credit, market, operational and information risks, alongside overseeing the credit management and recovery operations. The CRO is accountable to the Risk Monitoring Committee for the monitoring and management of risk areas. A strong risk control framework is also fostered through independent teams overseeing the internal audit, legal and physical security functions as well as compliance with laws, regulations, codes of conduct and standards of good practice. As for the foreign banking subsidiaries, their respective Boards exercise their responsibilities in respect of risk management through: (i) the dedicated oversight of the risk governance process, including setting risk appetite in line with Group-level orientations; (ii) regular and comprehensive assessment of risks; (iii) the maintenance of sufficient capital adequacy levels in alignment with the Group's framework, the internally-set risk appetite and regulatory requirements; and (iv) clear delegation of authority to relevant committees and management. Risk management matters are reported to the Board of each foreign entity through their respective sub-committees, namely the Audit Committee and the Risk Monitoring Committee, while major issues identified are escalated to the corresponding Board sub-committees of MCB Group Ltd. The management teams of the foreign entities are responsible for conducting business within the espoused strategic framework as well as the risk appetite and policy set by their Board, while exercising oversight of risk portfolios through dedicated committees.

Key responsibilities of Board committees for the management of risk

Risk Monitoring Committee

MCB Ltd

- To review and make recommendation to the Board with respect to the setting of risk appetite;
- To monitor the utilisation of capital to make sure that the Bank has, at any time, a capital adequacy ratio corresponding to at least the regulatory minimum while performing regular stress tests thereon as part of the ICAAP;
- To monitor the credit risk and market risk portfolios of the Bank;
- To review the Bank's operational risk tolerance as well as the business continuity plans to ensure that they are up-to-date;
- To monitor the quality of assets by segment and by product;
- To recommend impairment and provisioning to the Audit Committee;
- To recommend foreign country exposure limits to the Board and monitoring actual exposures against these limits once validated;
- To ascertain that adequate measures are taken to ensure compliance with all relevant laws, BoM Guidelines and regulations, codes of conduct and standards of good governance; and
- To ensure that the confidentiality, integrity, availability and protection of the Bank's information assets are under constant review and that related information systems software and hardware devices are adequate and effective

Foreign banking subsidiaries

- To adopt the risk appetite, as set by the Board, in the context of capital adequacy;
- To recommend such changes to the agreed risk appetite as may be appropriate in the light of changing circumstances and conclusions from their reviews;
- To monitor the utilisation of capital and current capital adequacy;
- To review the credit risk portfolio against the agreed credit risk appetite;
- To review the market risk portfolio against the agreed market risk appetite;
- To receive and consider recommendations from the business for changes to the Risk Policy Manual or to instigate such changes when they become necessary;
- To receive relevant reports from internal and external auditors in respect of specific risk events; and
- To receive relevant Compliance reports

Audit Committee

MCB Ltd

- To ensure adequacy, compliance and effectiveness of policy throughout the Bank;
- To review and monitor the Bank's procedures for ensuring compliance with laws and regulations relevant to financial reporting and with its internal code of ethics;
- To monitor the financial performance of the Bank, and veracity of public reporting thereof;
- To review and monitor the effectiveness of the Bank's internal financial control and risk management systems;
- To review and monitor the effectiveness of the internal audit function;
- To review and monitor the independence of the external auditors and the assessment of their performance; and
- To review and monitor the remuneration of the external auditors and their supply of non-audit services

Foreign banking subsidiaries

- To monitor bank's compliance with laws and regulations applicable;
- To review external auditor's report on the bank's financial statements and report audit committee's findings to Board before its approval;
- To review reports on operational risk against set tolerance levels;
- To review accounting procedures, internal controls regarding financial reporting and risk management, and internal and external audit plans with Board and, thereafter, provide recommendation to Board;
- To recommend an auditor for appointment;
- To provide oversight for bank's internal and external auditors;
- To review report of internal and external auditors and implementation of recommendations; and
- To report, at least annually, to shareholders at the general meetings on its activities

Risk management report

Management of key risks

Credit risk

<u>Key objectives</u>

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

<u>Governance and oversight</u>

- At the level of MCB Ltd, the Board has ultimate control and oversight of credit risk management as well as credit risk policies and their deployment through dedicated committees. The Board delegates authority to the RMC for setting the overall direction and policy for managing credit risk. In the same vein, the Board is responsible for the setting out and regular review of the strategic thrusts, policies and procedures for country risk management. It approves country exposure limits on an annual basis. The RMC is entrusted, by the Board, with the authority for determining the risk appetite for foreign exposures and monitoring the latter against set limits on a quarterly basis.
- The Bank's Supervisory and Monitoring Committee is accountable to the Board for the setting of the principal credit management policies guiding the conduct of businesses. In line with the segregation of duties within the credit risk management architecture, the Executive Credit Committee (ECC) is responsible for the planning, sanctioning, control and monitoring of credit risk. Decisions taken by the ECC in respect of credit applications for 'large exposures' – i.e. those exposures to customers or groups of closely-related customers that are above 15% of the Bank's capital base – are regularly reported to the Supervisory and Monitoring Committee.
- The model governing the Bank's credit risk management approach and principles caters for regulatory requirements as encompassed in applicable Bank of Mauritius guidelines. These include the Guideline on Standardised Approach to Credit Risk, the Guideline on Credit Concentration Risk and the Guideline on Credit Impairment Measurement and Income Recognition. The latter, which came into effect in July 2016, incorporated new sections, notably relating to impairment provisions and loan restructuring.
- With regard to the foreign banking subsidiaries, the respective Boards of the entities have the ultimate control and oversight of credit risk management as well as credit risk policies and their deployment. The Boards delegate their authority to relevant committees and/or management for the setting of the overall strategy for managing credit risk at the enterprise level. In this respect, each entity has a Subsidiary Credit Committee as approved by its Board and in line with the Group's risk management approach. This committee has the direct responsibility for the planning, sanctioning, controlling and monitoring of credit risk. In addition to approving individual delegated mandates, its role is to sanction or decline credit applications for customers with exposures of up to a certain threshold. Facilities above this level are channelled to the Executive Credit Committee for a final decision following prior review by the Finance & Risk team of MCB Investment Holding Ltd.

<u>Risk measurement and monitoring</u>

- Credit risk measurement by the banking entities consists of appraising the track record of customers as appropriate for the prediction of likely future behaviours of existing accounts. Ultimately, the entities assess whether individual business areas provide sufficient contribution to the targeted risk-return profile. The aim is to ensure that capital allocation generates an optimum return for the entity. This is achieved by channelling risk capital from low-return to high-return business areas, commensurate with the risks shouldered.
- The entities measure credit risk capital requirements by applying appropriate risk weights to both on-balance sheet and off-balance sheet exposures in line with regulatory requirements. With respect to MCB Ltd, the capital adequacy indicators and the return on capital levels for the individual risk categories of portfolios are regularly monitored by its RMC against the overall risk-bearing capacity of the Bank. The objective is to ensure that the latter, at all times, maintains adequate capital to provide for its growth and to support a reasonable measure of unexpected losses. The Bank has established a credit rating framework that enables the extensive usage of ratings for its corporate and institutional portfolios, not only in respect of loan approval but also in relation to credit review and monitoring as well as for the purpose of the stress testing and limits determination exercises. In the same vein, at the level of the foreign banking entities, relevant credit risk metrics are measured and reviewed against set limits by the respective Boards on a quarterly basis.

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

Banking cluster	Jun 16 Amount	Jun 16 Weight	Jun 16 Weighted Assets	Jun 15 Weighted Assets
Risk-weighted on-balance sheet assets	**Rs m**	**%**	**Rs m**	**Rs m**
Cash items	2,654	0-20	90	65
Claims on sovereigns	52,614	0-100	2,336	2,100
Claims on central banks	24,721	0-100	5,311	4,674
Claims on banks	46,283	20-100	19,285	10,959
Claims on non-central government public sector entities	183	100	183	0
Claims on corporates	98,056	20-150	96,604	103,456
Claims on retail segment	10,980	75	7,091	7,037
Claims secured by residential property	24,241	35-125	11,535	10,159
Claims secured by commercial real estate	17,323	100-125	20,144	19,388
Fixed assets/other assets	12,904	100-250	18,687	17,092
Past due claims	13,778	50-150	18,215	15,077
Total			**199,481**	**190,007**

Banking cluster	Jun 16 Nominal Amount	Jun 16 Credit Conversion Factor	Jun 16 Credit Equivalent Amount	Jun 16 Weight	Jun 16 Weighted Amount	Jun 15 Weighted Amount
Non-market related off-balance sheet risk-weighted assets	**Rs m**	**%**	**Rs m**	**%**	**Rs m**	**Rs m**
Direct credit substitutes	2,552	100	2,515	0-100	2,515	5,251
Transaction-related contingent items	22,593	50	11,045	0-100	10,635	12,588
Trade related contingencies	8,331	20	1,551	0-100	1,376	2,058
Outstanding loans commitment	2,914	20-50	1,457	0-100	1,457	2,317
Total					**15,983**	**22,213**

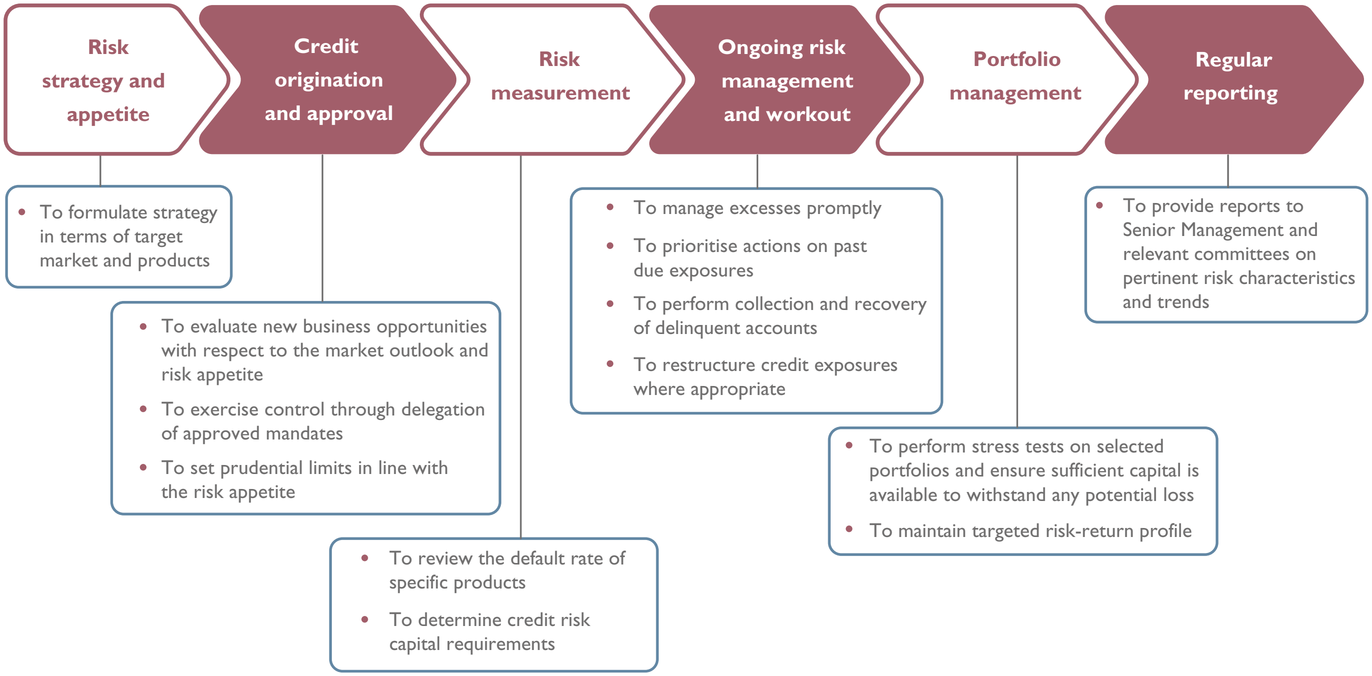
Banking cluster	Jun 16 Nominal Amount	Jun 16 Credit Conversion Factor	Jun 16 Potential Future Exposure	Jun 16 Current Exposure	Jun 16 Credit Equivalent Amount	Jun 16 Weighted Assets	Jun 15 Weighted Assets
Market-related off-balance sheet risk-weighted assets	**Rs m**	**%**	**Rs m**	**Rs m**	**Rs m**	**Rs m**	**Rs m**
Interest rate contracts	1,525	0-1.5	16	8	24	11	16
Foreign exchange contracts	7,389	1-7.5	93	133	226	155	168
Total						**166**	**184**

	Jun 16	Jun 15
	Rs m	**Rs m**
Total credit risk-weighted assets	**215,630**	**212,405**

Risk management report

Risk mitigation and management

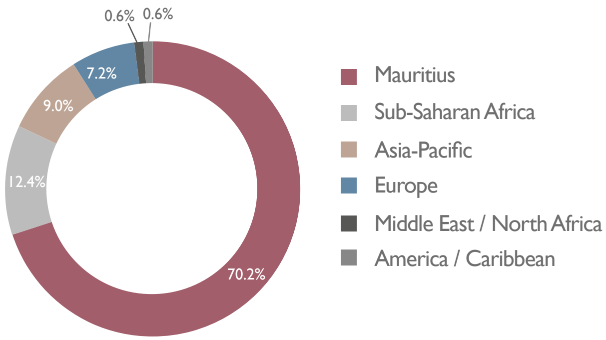
- The credit risk management framework enables the entities to manage credit risk within the limits of their defined risk appetite, to develop risk-response strategies and to optimise risk-taking by anticipating and acting on potential opportunities or threats. This framework encompasses the following: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



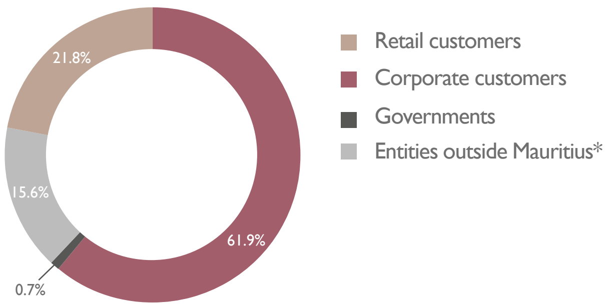
- The banking entities focus on the diversification of their lending portfolios by setting relevant exposures limits to ensure that their performances are not negatively impacted, for instance, by a large sectoral exposure default. It is the policy of the Group's entities to limit credit risk exposures and concentrations within the constraints of their capital base, while complying with regulatory stipulations, notably relating to aggregate large exposures and single borrower limits. Stress tests are, in some instances, performed on portfolios to ensure that sufficient capital is held to withstand any loss arising from significant exposure to a sector, single customer and group of closely-related customers. In respect of MCB Ltd, its foreign country exposure limits are determined on the basis of its areas of expertise, its knowledge of the local economy in presence countries, its business development ambitions, and the operating environment, while making allowance for the risk appetite of the Bank and the BoM Guideline on Country Risk Management. The Bank ensures the proactive monitoring of country risk exposures against country limits and sub-limits set and promptly reviews such levels in case of adverse unexpected events.
- Credit facilities are granted based on the credit standing, source of repayment and debt servicing ability of the borrower. As a fundamental principle, the entity does not grant credit facilities solely on the basis of the collateral. Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically, with the frequency of valuation depending on the type, liquidity and volatility of the collateral.

Distribution of loans and advances

Total credit risk-weighted exposures by region



Loans and advances by customer segment



*Pertains to MCB Ltd

Risk management report

Market risk

Key objectives

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

Governance and oversight

- At the level of MCB Ltd, the Board is responsible for setting risk appetite in respect of market risk, in compliance with guidelines set by BoM. The framework of policies, principles and main functional responsibilities in relation to the market risk management is established in the Bank's revised Market Risk Policy. The latter, which is approved by the Risk Monitoring Committee and reviewed periodically, establishes a comprehensive framework of policies, principles and functional responsibilities within which market risk origination, processing and valuation are appropriately segregated and undertaken. Operating within this framework, the Asset and Liability Committee (ALCO) reviews and takes decisions with regard to the overall mix of assets and liabilities within the balance sheet of MCB Ltd. This includes the monitoring/review of all market and liquidity risk related limits and targets, and other key balance sheet indicators. ALCO meets on a monthly basis under the chairmanship of the Chief Executive. It is attended by Heads of relevant SBUs and the Chief Risk Officer. For its part, the Market Risk BU of the Risk SBU exercises control and monitoring of market and liquidity risks within MCB Ltd, alongside providing financial position and risk analysis information to the ALCO and RMC.
- With regard to the foreign banking subsidiaries, after keeping track of regulatory requirements, the respective Boards are entrusted with the duty to determine the market risk governance process and appetite, while market risk sanctioning mandates are delegated to management for the conduct and monitoring of relevant day-to-day operations and activities. From an operational angle, the Asset and Liability Committee of each foreign banking subsidiary is responsible to ensure that overall asset and liability allocation decisions are adequately managed within limits/targets set by the Board and in accordance with local regulations. Moreover, the foreign subsidiaries are assisted by the Treasury BU of MCB Ltd in the deployment of their undertakings. The business unit services both their foreign exchange and money market requirements by delivering advisory services through direct access to its traders, with the latter sharing their views about market trends and notifying them of relevant updates.

Risk measurement, monitoring and management

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

- Interest rate risk: The entities are, mainly, exposed to repricing risk in its banking book due to timing differences between the interest reset dates of the Bank's on- and off-balance sheet exposures and liabilities. Bearing this in mind, interest rate risk is limited by the fact that the assets and liabilities are generally indexed on the same floating rate.
- Foreign exchange risk (FX risk): It may be incurred both from (i) an on-balance sheet perspective, that is, as a result of imbalances between the foreign currency composition of assets and liabilities; and (ii) an off-balance sheet angle, through the execution of derivatives such as foreign exchange forwards. Exposure to FX risk is monitored against both regulatory stipulations and internal targets, which are, especially, applied to metrics such as the net foreign risk exposure in any single currency and the aggregation of the net foreign exchange risk exposure.
- Funding and liquidity risk: The banking subsidiaries ensure that they (i) can meet their financial obligations as they fall due in the course of normal business; (ii) maintain an adequate stock of high liquid assets to be able to meet unexpected funding needs at short notice; and (iii) maintain sufficiently stable and diversified sources of funding.

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

- Cash flow management: The entities create a continuously maturing stream of assets and liabilities through time. This enables them to identify concentration of maturities in any one-time bucket.
- Liquid assets buffer maintenance: The entities hold a stock of high quality and unencumbered assets which they can rapidly dispose of in case of need in order to meet unexpected outflows of funds or to substitute expected inflows of funds, such as loan instalments, that do not materialise.
- Liability base diversification: The entities maintain diversified liability bases across different categories of depositors and fully exploits the funding potential of wholesale markets.

Operational risk

Key objectives

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

Governance and oversight

- At MCB Ltd, the Board retains the ultimate responsibility for ensuring that operational risk is adequately managed throughout the Bank by providing clear guidance with respect to policies and processes for day-to-day operations. The Board delegates authority to the Risk Monitoring Committee with respect to operational risk tolerance as well as the regular review of business continuity plans. As described in the Operational Risk Policy, the responsibility for implementing the Operational Risk Management Framework is entrusted to Senior Management. The monitoring of the entire operational cycle is exercised through the Information Risk, Operational Risk and Compliance Committee (IORCC), which is chaired by the Chief Executive. The IORCC acts as the focal point and coordinating committee which ensures that operational risk management conforms to the Operational Risk Policy. Significant operational risks observed are escalated to the IORCC and then, if warranted, to the RMC. The Board, through its RMC, is ultimately responsible for the execution of the Business Continuity Management (BCM) programme of the Bank. The responsibility for the implementation of strategies and the monitoring of BCM is delegated to the IORCC.
- In the same vein, the respective Boards of the foreign banking subsidiaries are called upon, notably through their Audit Committee, to determine the operational risk tolerance levels. In the process, due emphasis is laid on (i) the levels at which they set limits in respect of risk acceptance, risk mitigation and risk rejection; and (ii) the principal categories of operational risk and management targets in respect of such categories. Moreover, operational risk sanctioning mandates and day-to-day oversight responsibilities are entrusted to management. The latter is responsible for the application and effectiveness of the operational risk policy. The key duties are to (i) ensure compliance with underlying objectives set in terms of the management of such types of risk; and (ii) foster the development, implementation and documentation of internal controls and processes.

Risk measurement and monitoring

- The determination of the risk exposures of the banking entities is anchored on the regular review of the operational risk inherent in their processes and client solutions, with the monitoring thereof performed against acceptable tolerance limits. With respect to MCB Ltd, the Basic Indicator Approach provides a conservative and efficient approach for the calculation and reporting of the operational risk capital charge. Information on risk events is recorded in a centralised database, which enables systematic root cause and trend analysis for corrective actions.

Risk mitigation and management

- At the level of MCB Ltd, the Operational Risk BU of the Risk SBU is responsible for the implementation of policies for identification, assessment and management of related risks. Operational risk mitigation relies on appropriate policies, processes and systems, backed by the clear segregation of duties, dual control as well as the regular verification and reconciliation of transactions. The control environment is also based on an appropriate risk culture which is fostered through risk awareness sessions targeting relevant audiences. Operational risk is managed in a timely and effective manner through adherence to good practices for the prompt identification of risk incidents, the initiation of appropriate remedial actions and the reporting of such incidents to the Operational Risk function. The Operational Risk Cartography is leveraged not only for the assessment of operational risks and relevant controls but also for the identification and empowerment of Operational Risk Champions within each SBU of the Bank as the first point of contact for escalating risks to the Operational Risk BU.
- As regards the foreign banking entities, they adhere to clearly-defined controls and procedures for controlling and mitigating the effects of operational risks. The management thereof is underpinned by the recourse to specific tools and systems adopted by MCB Ltd, notably the incident reporting system, as tailored to the subsidiaries' specific realities. Staff, also, leverage training courses whereby the Information Technology SBU as well as the Anti-Money Laundering/Fraud Prevention BU from MCB Ltd provide assistance on specific risk management needs.
- The operational risk management framework relies on three primary lines of control as depicted below.

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

Risk management report

Business Continuity Management

- A comprehensive Business Continuity Management policy is in place at MCB Ltd. The aim is to effectively plan for and respond to incidents and business interruptions in order to maintain availability of the Bank's critical business activities at acceptable pre-defined service levels, thus safeguarding its reputation and the interests of key stakeholders. The Bank's BCM policy outlines the prevailing governance structure as well as the roles and responsibilities of each actor involved in the BCM programme. The BCM strategy is continuously refreshed to reflect changes in the business landscape and ensure that mission critical activities are able to resume in accordance with set recovery objectives and stakeholders' expectations. Workaround procedures and recovery plans are well-established within the Bank and are regularly revised to assist business units to continue with or recover their activities with minimal disruption. During the last financial year, the Bank has further consolidated its business continuity preparedness and resilience through dedicated measures. From a holistic perspective, a list of mission critical activities has been defined, while an incident crisis management process has been established in order to ensure an incident or impending crisis is handled in the most efficient manner. This is further enhanced by a series of BCM awareness sessions conducted across the Bank.
- The foreign banking subsidiaries of the Group strive to adopt the underlying principles enshrined in MCB's BCM policy while ensuring alignment with the specificities of their operating environments.

Compliance

Key objectives

- The compliance strategy of the Group seeks to ensure consistency between the conduct of business operations and the observance of relevant laws, rules and standards of good market practices. The aim is to shield the organisation from legal/regulatory sanctions as well as financial/ reputation losses.

Strategy and guiding principles

- The Board of each banking entity is responsible to ensure that adequate systems and procedures have been established and that sufficient resources have been put into place to ensure that it is adequately equipped to live up to the increasing exigent levels of regulation as well as the exercise of greater scrutiny by regulators and law enforcement authorities. As for the relevant compliance function, its aims is to protect the entity's reputation, ensure fair treatment of customers and identify potential breaches of applicable standards of ethics and behaviour. Regular monitoring exercises are carried out to verify compliance with policies, procedures and controls. Compliance risk management is anchored on the following core principles:
  - o Paying continuous attention to latest developments as regards laws and regulations (including extra territorial laws), accurately understanding their impact and coming up with necessary responses so that the entity can effectively address the risks arising from such changes;
  - o Maintaining close working arrangements and communications with lines of business, notably through the dissemination of compliance-related information and strategic guidance on related matters;
  - o Fostering good relationships with regulatory and supervisory bodies by keeping productive and value-adding dialogue with them to uphold effective two-way communication; and
  - o Assisting employees and members of management to promote a culture of integrity and ensure that both to the letter and spirit of relevant laws, regulations, and codes and standards of good practices are adhered to
- MCB Ltd implemented its Whistleblowing Policy, whereby an alternative reporting process is established for use by all employees without the risk of subsequent victimisation, discrimination or disadvantage. Whistleblowing at the Bank is intended to assist employees who are deemed to have discovered malpractices or impropriety. The reporting of undesirable conduct can be made to the Anti-Money Laundering/ Fraud Prevention BU (AMLFP BU) by using the Bank's whistleblowing hotline, by email or directly to either: (i) the manager of the AMLFP BU; (ii) the Head of the Compliance BU; or (iii) the Chief Executive. Depending on its nature, the concern will be investigated by either the AMLFP BU or the Compliance BU. Subject to no external legal action being instigated further to the disclosure of the concern, the investigation team maintains the confidentiality of anyone reporting a concern and provides reasonable feedback to the latter's originator. Furthermore, it is worth noting that the Whistleblowing Policy is also applied by the foreign banking subsidiaries of the Group, with interactions made with relevant stakeholders at the Bank to ensure that objectives are met.

Internal audit

Key objectives

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

Strategy and guiding principles

- Functionally reporting to the Audit Committee, the Internal Audit SBU of MCB Ltd has conscientiously geared up its efforts over time towards implementing a risk-centric model, whilst taking into consideration the need for adopting a purely compliance approach to some specifically-identified business areas. The main building blocks which the function uses to adopt a disciplined and systematic approach in evaluating and improving the effectiveness of risk management and control processes are as follows: (i) the implementation of audit work programmes addressing, as far as possible, identified residual audit risks; (ii) increased reliance on data analytics through a world-wide recognised audit software; and (iii) automation of some audit-related administrative tasks relating to time sheets, reports and working papers. Based on its assessments, the Internal Audit function is not aware of any significant area of the Bank where there are no internal controls. The function does not believe that there are deficiencies in internal controls that could give rise to risks that could eventually jeopardize the operations of the Bank. As mentioned before, the internal audit function of MCB Ltd also services the foreign banking subsidiaries, with regular assignments carried out to assist them in better managing their risks as well as improving the quality of their control systems and processes. Internal audit findings are reported to the Audit Committee and Board of relevant subsidiaries, with matters escalated to the Audit Committee of MCB Group Ltd if required.

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

Capital management

Framework

In line with Basel requirements, the capital management objective of our banking cluster, which is aligned with general directions determined at Group level, is to ensure that adequate capital resources are available to foster sustained business growth and cope with adverse situations. At the same time, the capital management policies provide a proper backdrop for maximising return on capital employed and long-term shareholder value creation, alongside meeting the requirements of stakeholders, notably regulators, rating agencies, correspondent banks, the authorities and customers.

Structure

Commensurate with the strategic orientations, risk appetite and risk management framework approved by the Board of MCB Group Ltd, the entities operating under the banking cluster abide by their internal policies and practices for undertaking their capital management initiatives, including (i) capital planning and allocation across business segments and geographies; (ii) capital reporting, budgeting and analysis; and (iii) management of capital consumption against budgets. For instance, MCB Ltd is guided by its Internal Capital Adequacy Assessment Process (ICAAP) in determining the capital planning exercise and formulating the risk appetite. This provides the framework to ensure that adequate capital is kept beyond core minimum requirements towards supporting business activities. Concomitantly, the banking subsidiaries of the Group foster strict compliance with mandatory stipulations set by the regulators of their jurisdictions. As such, MCB Ltd adheres to the BoM Guideline on Scope of Application of Basel III and Eligible Capital. As per the phase-in arrangements, the minimum total capital adequacy ratio required by the Central Bank for banks operating in Mauritius presently stands at 10% of risk-weighted assets. As from 1 January 2017, banks will be further required to constitute a capital conservation buffer, which aims to ensure that operators build up cushion outside periods of stress. This buffer will grow gradually before attaining 2.5% as from 1 January 2020. Besides, MCB Ltd complies with the Guideline for dealing with Domestic-Systemically Important Banks. MCB Ltd is among the five banks identified as falling under this category as per BoM, based on the assessment of five factors, namely size, exposure to large groups, interconnectedness, complexity and substitutability. In this respect, the core capital ratio of MCB Ltd is, as from 30 June 2016, subject to additional loss absorbency requirements, with the rate applied being 0.625% of risk-weighted assets. The equivalent rate will be applicable in a phased manner and become fully effective at 2.5% as from 1 January 2019. As for the foreign banking subsidiaries and in line with applicable regulatory requirements in the respective countries, MCB Seychelles adheres to Basel II rules, while MCB Madagascar is compliant with Basel I requirements.

Risk management report

Internal Capital Adequacy Assessment Process of MCB Ltd

The framework

MCB Ltd is guided by its ICAAP in determining its capital planning and formulating its risk appetite process. The ICAAP sets the stage for the implementation of the BoM Guideline on Supervisory Review Process. The latter's aim is to ensure that banks have adequate capital to support all the risks they are exposed to in their business and to encourage banks to develop and use better risk management techniques in managing their risks. The ICAAP document, which is approved by the Board and the RMC, is reviewed periodically to ensure that the Bank remains well capitalised after considering all material risks.

The overall purpose

The ICAAP document provides an informative description of the methodology and procedures that the Bank uses to assess and mitigate its risks towards ensuring that adequate capital is kept to support its risks beyond the core minimum requirements. It delineates the process through which the Bank assesses the extent to which it holds sufficient capital in order to duly support its business activities. Specifically, through the ICAAP, the Bank assesses its forecast capital supply and demand relative to its regulatory and internal capital targets under various scenarios. The Bank's capital plan is defined every year during the budgeting and strategic planning exercise whilst financial year risk appetite limits are set by the Board. Exposures are monitored on a quarterly basis against those limits and reported to the RMC. The capital plan also includes a crisis management plan whereby measures to rapidly mobilise additional capital, should the need arise, are discussed at Board level.

Stress testing

Stress testing is a risk management exercise that forms an integral part of the ICAAP. Enabling conditions have been created at MCB Ltd for the development of sound stress testing practices through robust objectives-setting and oversight, proper scenario selection, and suitable methodologies. Recent analyses undertaken by the Bank revealed that the capital adequacy of the Bank does not fall below the regulatory limit in any of the stress test scenarios undertaken.

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

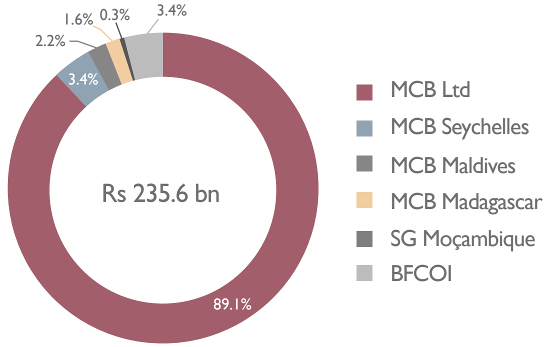
Performance

During FY 2015/16, the banking entities maintained their respective capital adequacy ratios comfortably above the applicable regulatory requirements. The core and total equity capital bases of the banking cluster as a whole increased during the period. The capital adequacy ratio rose by around 115 basis points to reach 16.6% as at June 2016 on the back of organic capital accumulation linked to the improvement in financial results. The capital base was primarily made up of core capital, with the tier 1 ratio rising from 14.3% to 15.4%. The following tables depict the levels and evolution of the capital adequacy ratios posted by the banking cluster, while shedding light on the distribution of risk-weighted assets by entity.

Distribution of capitalisation metrics - banking cluster

	Banking cluster	
	Jun 15	**Jun 16**
	Rs m	**Rs m**
Capital base	**35,754**	**39,168**
Tier 1	32,928	36,228
Tier 2	2,826	2,941
Risk-weighted assets	**231,068**	**235,621**
Capital adequacy (%)	**15.5**	**16.6**
of which Tier 1	*14.3*	*15.4*

Risk-weighted assets by entity



As at 30 June 2016	MCB Ltd	MCB Seychelles	MCB Maldives	MCB Madagascar
	%	%	%	%
Capital adequacy				
Regulatory	10.625	12.0	12.0	8.0
Actual	16.3	18.1	26.8	16.0
Tier 1 ratio				
Regulatory	8.0	6.0	6.0	8.0
Actual	14.9	14.8	23.6	16.0

Notes:
MCB Ltd adheres to Basel III rules as contained in the Guideline on Scope of Application of Basel III and Eligible Capital while the foreign banking subsidiaries comply with their local regulatory requirements

Risk management report

Non-Banking Clusters

While adhering to good corporate governance principles, entities within the non-banking clusters of the Group adopt robust risk management frameworks that allow for an effective identification and management of risks they face in the course of their respective business activities. Relevant risk indicators are regularly measured and monitored against set targets.

The following table provides an overview of the credit risk-weighted exposures of the 'Non-banking financial' and 'Other investments' clusters of the Group.

Evolution of risk-weighted exposures

Non-banking financial cluster	Jun 16			Jun 15
	Amount	Weight	Weighted Assets	Weighted Assets
Risk-weighted on-balance sheet assets	Rs m	%	Rs m	Rs m
Cash items	36	0-20	7	5
Claims on corporates	4,162	20-150	4,162	4,434
Claims on retail segment	352	75	264	483
Fixed assets/other assets	3,398	100-250	3,398	3,174
Past due claims	66	50-150	99	36
Total			**7,929**	**8,131**

Other investments cluster	Jun 16			Jun 15
	Amount	Weight	Weighted Assets	Weighted Assets
Risk-weighted on-balance sheet assets	Rs m	%	Rs m	Rs m
Fixed assets/other assets	7,028	100-250	7,480	5,796
Past due claims	0	50-150	0	0
Total			**7,480**	**5,796**

Non-banking financial entities

Governance

The respective Boards of Directors of the entities, including their relevant sub-committees, have the ultimate responsibility to ensure that risks are properly identified and managed. Relevant risk management matters are escalated to either the Risk Monitoring Committee or Audit Committee of MCB Group Ltd. Independent assurance is provided by the Internal Audit function which carries out regular assignments at MCB Capital Markets Ltd, Finlease Co. Ltd and MCB Factors Ltd to assist them in managing their risks and maintain the quality of the internal control systems.

Focus on MCB Capital Markets Group

MCB Capital Markets Ltd (MCBCM) and its subsidiaries are regulated by the Financial Services Commission and comply with the national Code for Corporate Governance. MCBCM also implements advocated risk management practices, with ultimate responsibility for managing risks resting with the Board of each subsidiary of MCBCM and significant issues being escalated to the Board of MCBCM. In order to ensure strong governance, a number of sub-committees have been put in place to oversee critical aspects of MCBCM's operations. One such critical aspect of MCBCM's operations is the management and administration of Collective Investment Schemes (CISs) by MCBCM's investment management arm. Given the high level of regulatory supervision for CISs, MCBCM has put in place a CIS Supervisory Committee whose main responsibility is to review and assess all aspects relating to CIS management and ensure that investment strategies are effectively managed and the CISs effectively administered. Moreover, MCBCM recognises that financial products are becoming more complex and are being increasingly scrutinised by regulators. It has, thus, further strengthened its governance framework through the setting-up of a Financial Products Supervisory Committee which oversees all financial products launched by MCBCM entities.

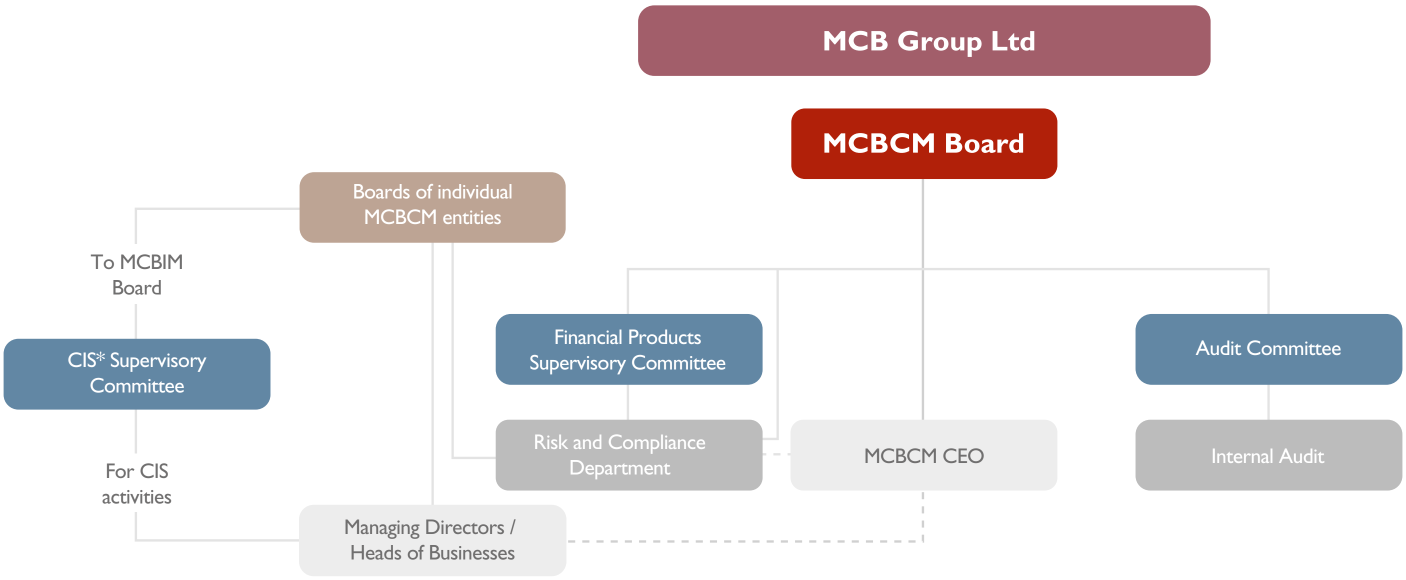
Day-to-day management of risks is delegated to the management team of each subsidiary and to MCBCM's Risk & Compliance department (R&C). The latter is responsible for, *inter alia* the:

- Assessment of all legal and regulatory obligations of MCBCM's businesses and ensuring compliance with applicable laws, regulations, rules and policies;
- Provision of risk-related recommendations, advice and compliance assurance to the boards of all entities within MCBCM;
- Coordination of all risk management and compliance measures within MCBCM; and
- Investigation of all breaches and violations of MCBCM's risk-related policies and procedures.

The Head of R&C reports to the Chief Executive Officer of MCBCM and, in line with best practice, to the Boards and sub-committees of MCBCM and its subsidiaries, as applicable. R&C submits a compliance report to the Boards of all MCBCM entities every six months, with the possibility of escalating critical issues on a more frequent basis, if required.

All entities of MCBCM are subject to annual independent audits from external and internal auditors. In line with good corporate governance, MCBCM has also set-up an Audit Committee which meets at least twice every year to review, *inter alia*, audit findings, progress on the resolution of any identified issues and audited financial statements of all entities within MCBCM. The MCBCM governance framework is as follows.

Risk management report



**Relates to Collective Investment Schemes*

Risk management within MCBCM targets the following three broad areas:

- Legal and regulatory (including anti-money laundering - AML) Recognising the ever increasing complexity of the legal and regulatory environment locally and the need to adhere to international codes and standards, MCBCM has put in place a framework to properly manage its legal and regulatory risks. This framework can be summarised as follows:
  - Regular review of applicable laws and rules to identify compliance gaps;
  - Active involvement of R&C and MCBCM's legal team in the development of new products and services to ensure that same comply with applicable laws and regulations prior to implementation;
  - Monitoring of changes to the legal and regulatory framework and initiation of corrective actions as relevant; and
  - Ongoing semi-annual monitoring exercises by R&C to assess level of compliance with laws and regulations particularly with respect to AML.

- Operations (people, processes and systems)
  A significant proportion of R&C's resources is being deployed for the management of operational risks. The methodology, which lays particular focus on businesses involving heavy processing, is depicted below.

  The initial stages of the above methodology include formal reviews of procedures and processes, analysis of complaints and incident reports as well as reviews of new products and services. The output from these reviews and analysis are used to update MCBCM's risk maps which includes all major risks faced by MCBCM businesses as well as ratings of those risks on a pre-control basis. These risks are then re-assessed taking into account controls currently in place or additional controls being contemplated to arrive at a post-control rating. Any residual post-control risks deemed material lead to a re-design of the relevant controls until such risks are eliminated.

- Financial risks
  MCBCM, through its brokerage business, offers underwriting services to corporate clients and, as such, is subject to active financial risks. MCBCM has implemented a robust process for the management of these risks which includes a technical assessment of all requests for underwriting services by a team comprising of the Chief Financial Officer, Head of Risk and Compliance, Head of Legal and the Managing Director of the brokerage business of MCBCM. A two-tiered approval process is also availed of before providing any underwriting services with first level approval being provided jointly by the CEO of MCBCM and the Chairperson of the Board of MCB Stockbrokers Ltd and second level approval provided by the management of MCB Group Ltd. MCBCM, again through its brokerage business, also acts as market-maker for the MCB India Sovereign Bond ETF which is listed on the Stock Exchange of Mauritius. Relevant safeguards have been put in place to ensure that any risks arising from this activity are properly mitigated. There are no other active material financial risks that are being borne by entities of MCBCM, though some credit and market risks are being taken by the brokerage business due to the manner in which settlement is carried out on the Stock Exchange of Mauritius.

Entities within the 'Other Investments' cluster

Elsewhere, consistent with the underlying principles determined at Group level, risk management policies and structures have, in varying capacities, been designed in order to ensure that business activities are carried out in a sound manner, depending on the types of market undertakings being engaged into as well as the range and depth of risks faced. Fundamentally, the board of each entity has the ultimate responsibility to ensure that risks are properly identified and managed, with other functions being mandated to provide clear and coherent assistance to help it in the fulfillment of its duties. In the process, the entities adhere to coherent and robust control mechanisms that enable them to achieve strategic objectives in a sustained and sound manner, backed by a thorough investigation of clients' risk profiles and the diversification of undertakings where applicable.

Risk management report

Looking Ahead

Our main ambitions

While complying fully with the ever more stringent regulatory regime where applicable, the objective of the Group is to effectively absorb the signals of the complex environment in which it operates. Against this backdrop and with a view to fostering its financial soundness, it will raise up its game to further strengthen the management of risk by all entities across the organisation. It will ensure that the risk metrics of these entities are managed within acceptable and suitable thresholds. While comfortably exceeding relevant minimum regulatory ratios for capital adequacy and meeting other statutory rules at all times, the aim is to underpin the orderly execution of the Group's strategic orientations.

Key strategic focus areas

The key objectives being pursued by the Group are as follows:

- Ensuring alignment of our operations/activities to new regulatory stipulations as well as to applicable international codes and standards, such as FATCA, OECD standards for automatic information exchange and IFRS 9 as applicable
- Leveraging technology to boost the operational efficiency of control functions, automate their reporting, and provide for a holistic perspective for decision-taking in support of sound business growth
- Enhancing the operational and human resource capacity of risk functions to better ascertain and manage typical and emerging risks, notably those related to increasing use of technological systems and digital channels
- Further replicating risk management methodologies, tools and practices across the entities of the Group with a view to enhancing the efficiency of operations and fostering a more integrated execution of risk controls
- Strengthening the risk culture and consciousness across all levels of the organisation

Jean-Louis MATTEI
Director
Chairperson Risk Monitoring Committee

Pierre Guy NOEL
Chief Executive

Financial Statements

Independent auditors' report

To the Shareholders of MCB Group Limited

This report is made solely to the shareholders of MCB Group Limited (the "Company"), as a body, in accordance with Section 205 of the Mauritian Companies Act 2001. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, for our audit work, for this report, or for the opinions we have formed.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of MCB Group Limited and its subsidiaries (together the "Group") and separate financial statements of the Company which comprise the Group's and the Company's statements of financial position as at 30 June 2016 and their respective statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Independent auditors' report

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

Report on the Financial Statements (Cont'd)

Opinion

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

Report on Other Legal and Regulatory Requirements

Mauritian Companies Act 2001

The Mauritian Companies Act 2001 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

(a) we have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors and dealings in the ordinary course of business;

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

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

Financial Reporting Act 2004

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

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

PricewaterhouseCoopers

Gilles Beesoo
Licensed by FRC

29th September 2016

BDO & Co

Ameenah Ramdin
Licensed by FRC

Statements of financial position

as at 30th June 2016

	Notes	GROUP 2016 RS'M	GROUP 2015 RS'M	COMPANY 2016 RS'M	COMPANY 2015 RS'M
ASSETS					
Cash and cash equivalents	4	33,305.6	24,528.6	49.4	51.8
Derivative financial instruments	5	315.4	426.1	-	-
Loans to and placements with banks	6(a)	22,419.1	8,851.5	-	-
Loans and advances to customers	6(b)	163,827.3	164,443.5	-	-
Investment securities	7	62,734.8	50,689.3	-	-
Investments in associates	8	9,151.9	7,254.6	26.5	20.6
Investments in subsidiaries	9	-	-	9,253.2	9,233.0
Goodwill and other intangible assets	10	897.4	840.4	-	-
Property, plant and equipment	11	5,892.8	6,033.5	6.9	3.2
Deferred tax assets	12	311.3	287.0	-	-
Other assets	13	18,849.2	16,658.3	1,071.1	1,089.2
Total assets		317,704.8	280,012.8	10,407.1	10,397.8
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits from banks	14(a)	1,837.7	2,405.0	-	-
Deposits from customers	14(b)	253,423.9	218,735.0	-	-
Derivative financial instruments	5	307.2	309.6	-	-
Other borrowed funds	15	5,193.0	7,806.4	-	-
Subordinated liabilities	16	5,619.9	5,595.6	4,537.6	4,504.4
Current tax liabilities		812.1	539.7	-	-
Deferred tax liability	12	65.4	50.2	0.4	0.1
Other liabilities	18	7,437.0	6,889.1	1,000.4	930.5
Total liabilities		274,696.2	242,330.6	5,538.4	5,435.0
Shareholders' Equity					
Stated capital		2,426.8	2,397.2	2,426.8	2,397.2
Retained earnings		30,886.1	27,501.6	2,441.9	2,565.6
Other components of equity		7,417.0	6,034.5	-	-
Equity attributable to the ordinary equity holders of the parent		40,729.9	35,933.3	4,868.7	4,962.8
Non-controlling interests		2,278.7	1,748.9	-	-
Total equity		43,008.6	37,682.2	4,868.7	4,962.8
Total equity and liabilities		317,704.8	280,012.8	10,407.1	10,397.8

	Notes	GROUP 2016 RS'M	GROUP 2015 RS'M
CONTINGENT LIABILITIES			
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers		32,130.8	45,697.1
Commitments		2,913.5	4,633.0
Tax assessments		836.9	797.2
Other		1,431.7	1,293.9
	20	37,312.9	52,421.2

These financial statements were approved for issue by the Board of Directors on the 29th September 2016.

Pierre Guy NOEL
Director
Chief Executive

J. Gérard HARDY
Director
Chairperson

Sunil BANYMANDHUB
Director
Chairperson Audit Committee

The notes on pages 184 to 259 form part of these financial statements.
Auditors' report on pages 170 and 171.

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

	Notes	GROUP Year ended 30th June 2016 RS'M	GROUP Year ended 30th June 2015 RS'M	COMPANY Year ended 30th June 2016 RS'M	COMPANY Year ended 30th June 2015 RS'M
Interest income	21	**13,643.6**	12,844.3	**-**	-
Interest expense	22	**(4,753.3)**	(4,690.1)	**(262.8)**	(4.4)
Net interest income		**8,890.3**	8,154.2	**(262.8)**	(4.4)
Fee and commission income	23	**4,036.5**	4,148.1	**-**	-
Fee and commission expense	24	**(845.2)**	(783.7)	**-**	(0.1)
Net fee and commission income		**3,191.3**	3,364.4	**-**	(0.1)
Other income					
Profit arising from dealing in foreign currencies		**1,672.6**	1,101.7	**-**	-
Net (loss)/gain from financial instruments carried at fair value	25	**(100.5)**	147.8	**-**	-
		1,572.1	1,249.5	**-**	-
Dividend income	26	**76.4**	86.2	**2,204.0**	1,887.9
Net gain on sale of securities		**301.1**	97.3	**-**	-
Other operating income		**386.6**	262.6	**-**	-
		2,336.2	1,695.6	**2,204.0**	1,887.9
Operating income		**14,417.8**	13,214.2	**1,941.2**	1,883.4
Non-interest expense					
Salaries and human resource development	27(a)	**(3,311.0)**	(3,084.4)	**(68.6)**	(51.8)
Depreciation		**(520.6)**	(512.7)	**(1.9)**	(0.8)
Amortisation of intangible assets		**(219.1)**	(247.0)	**-**	-
Other	27(b)	**(1,738.3)**	(1,681.5)	**(29.4)**	(22.6)
		(5,789.0)	(5,525.6)	**(99.9)**	(75.2)
Operating profit before impairment		**8,628.8**	7,688.6	**1,841.3**	1,808.2
Net impairment of financial assets	28	**(1,021.9)**	(1,163.1)	**-**	-
Operating profit		**7,606.9**	6,525.5	**1,841.3**	1,808.2
Share of profit of associates		**735.0**	374.8	**-**	-
Profit before tax		**8,341.9**	6,900.3	**1,841.3**	1,808.2
Income tax expense	29	**(1,537.0)**	(1,129.1)	**(0.3)**	(0.1)
Profit for the year		**6,804.9**	5,771.2	**1,841.0**	1,808.1
Profit for the year attributable to:					
Ordinary equity holders of the parent		**6,625.5**	5,722.0	**1,841.0**	1,808.1
Non-controlling interests		**179.4**	49.2	**-**	-
		6,804.9	5,771.2	**1,841.0**	1,808.1
Earnings per share:					
Basic and diluted (Rs)	31	**27.82**	24.04		

The notes on pages 184 to 259 form part of these financial statements.
Auditors' report on pages 170 and 171.

Statements of Comprehensive income

for the year ended 30th June 2016

	GROUP		COMPANY	
	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M
Profit for the year	**6,804.9**	5,771.2	**1,841.0**	1,808.1
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit pension plan, net of deferred tax	**(173.7)**	95.2	**-**	-
Share of other comprehensive income/(expense) of associates	**664.0**	(0.1)	**-**	-
	490.3	95.1	**-**	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	**(129.0)**	(31.5)	**-**	-
Reclassification adjustments on disposal of available-for-sale investments	**(268.5)**	71.0	**-**	-
Net fair value gain on available-for-sale investments	**77.5**	762.9	**-**	-
Share of other comprehensive income/(expense) of associates	**382.1**	(44.7)	**-**	-
	62.1	757.7	**-**	-
Other comprehensive income for the year	**552.4**	852.8	**-**	-
Total comprehensive income for the year	**7,357.3**	6,624.0	**1,841.0**	1,808.1
Total comprehensive income attributable to:				
Ordinary equity holders of the parent	**6,752.1**	6,579.9	**1,841.0**	1,808.1
Non-controlling interests	**605.2**	44.1	**-**	-
	7,357.3	6,624.0	**1,841.0**	1,808.1

The notes on pages 184 to 259 form part of these financial statements.
Auditors' report on pages 170 and 171.

Statements of changes in equity

for the year ended 30th June 2016

	Note	Stated Capital RS'M	Retained Earnings RS'M	Capital Reserve RS'M	Translation Reserve RS'M	Statutory Reserve RS'M	General Banking Reserve RS'M	Total RS'M	Non-controlling Interests RS'M	Total Equity RS'M
		Attributable to ordinary equity holders of the parent								
GROUP										
At 1st July 2014		**2,383.3**	**24,234.9**	**1,526.8**	**(205.5)**	**2,414.1**	**614.1**	**30,967.7**	**1,736.6**	**32,704.3**
Profit for the year		-	5,722.0	-	-	-	-	5,722.0	49.2	5,771.2
Other comprehensive income/(expense) for the year		-	95.1	780.5	(17.7)	-	-	857.9	(5.1)	852.8
Total comprehensive income/(expense) for the year		-	5,817.1	780.5	(17.7)	-	-	6,579.9	44.1	6,624.0
Dividends	30	-	(1,630.5)	-	-	-	-	(1,630.5)	(25.4)	(1,655.9)
Effect of increase in shareholding in subsidiary		-	2.3	-	-	-	-	2.3	(6.4)	(4.1)
Issue of shares following the exercise of Group Employee Share Options Scheme		13.9	-	-	-	-	-	13.9	-	13.9
Transactions with owners in their capacity as owners		13.9	(1,628.2)	-	-	-	-	(1,614.3)	(31.8)	(1,646.1)
Share of transfer by associate		-	3.7	(3.7)	-	-	-	-	-	-
Share of other movements in reserves of associate		-	(1.5)	1.5	-	-	-	-	-	-
Transfer to general banking reserve		-	(166.7)	-	-	-	166.7	-	-	-
Transfer to statutory reserve		-	(757.7)	-	-	757.7	-	-	-	-
At 30th June 2015		**2,397.2**	**27,501.6**	**2,305.1**	**(223.2)**	**3,171.8**	**780.8**	**35,933.3**	**1,748.9**	**37,682.2**
Profit for the year		**-**	**6,625.5**	**-**	**-**	**-**	**-**	**6,625.5**	**179.4**	**6,804.9**
Other comprehensive (expense)/income for the year		**-**	**(175.2)**	**428.4**	**(126.6)**	**-**	**-**	**126.6**	**425.8**	**552.4**
Total comprehensive income/(expense) for the year		**-**	**6,450.3**	**428.4**	**(126.6)**	**-**	**-**	**6,752.1**	**605.2**	**7,357.3**
Dividends	30	**-**	**(1,964.7)**	**-**	**-**	**-**	**-**	**(1,964.7)**	**(35.1)**	**(1,999.8)**
Effect of increase in shareholding in subsidiaries		**-**	**(20.4)**	**-**	**-**	**-**	**-**	**(20.4)**	**(40.3)**	**(60.7)**
Issue of shares following the exercise of Group Employee Share Options Scheme		**29.6**	**-**	**-**	**-**	**-**	**-**	**29.6**	**-**	**29.6**
Transactions with owners in their capacity as owners		**29.6**	**(1,985.1)**	**-**	**-**	**-**	**-**	**(1,955.5)**	**(75.4)**	**(2,030.9)**
Share of transfer by associate		**-**	**(35.1)**	**35.1**	**-**	**-**	**-**	**-**	**-**	**-**
Share of other movements in reserves of associate		**-**	**3.1**	**(3.1)**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer to general banking reserve		**-**	**(200.2)**	**-**	**-**	**-**	**200.2**	**-**	**-**	**-**
Transfer to statutory reserve		**-**	**(848.5)**	**-**	**-**	**848.5**	**-**	**-**	**-**	**-**
At 30th June 2016		**2,426.8**	**30,886.1**	**2,765.5**	**(349.8)**	**4,020.3**	**981.0**	**40,729.9**	**2,278.7**	**43,008.6**

The notes on pages 184 to 259 form part of these financial statements.
Auditors' report on pages 170 and 171.

Statements of changes in equity

for the year ended 30th June 2016

COMPANY	Note	Stated Capital RS'M	Retained Earnings RS'M	Total Equity RS'M
At 1st July 2014		**2,383.3**	**2,388.0**	**4,771.3**
Profit for the year		-	1,808.1	1,808.1
Total comprehensive income for the year		-	1,808.1	1,808.1
Dividends	30	-	(1,630.5)	(1,630.5)
Issue of shares following the exercise of Group Employee Share Options Scheme		13.9	-	13.9
Transactions with owners in their capacity as owners		13.9	(1,630.5)	(1,616.6)
At 30th June 2015		**2,397.2**	**2,565.6**	**4,962.8**
Profit for the year		**-**	**1,841.0**	**1,841.0**
Total comprehensive income for the year		**-**	**1,841.0**	**1,841.0**
Dividends	30	**-**	**(1,964.7)**	**(1,964.7)**
Issue of shares following the exercise of Group Employee Share Options Scheme		**29.6**	**-**	**29.6**
Transactions with owners in their capacity as owners		**29.6**	**(1,964.7)**	**(1,935.1)**
At 30th June 2016		**2,426.8**	**2,441.9**	**4,868.7**

The notes on pages 184 to 259 form part of these financial statements.
Auditors' report on pages 170 and 171.

Statements of cash flows

for the year ended 30th June 2016

	Notes	GROUP Year ended 30th June 2016 RS'M	GROUP Year ended 30th June 2015 RS'M	COMPANY Year ended 30th June 2016 RS'M	COMPANY Year ended 30th June 2015 RS'M
Operating activities					
Net cash flows from trading activities	33	**6,717.7**	7,568.7	**1,904.3**	1,604.3
Net cash flows from other operating activities	34	**7,973.3**	4,833.0	**-**	-
Dividends received from associates		**256.0**	131.9	**-**	-
Dividends paid		**(1,904.6)**	(1,535.0)	**(1,904.6)**	(1,535.0)
Dividends paid to non-controlling interests in subsidiaries		**(35.1)**	(25.4)	**-**	-
Income tax paid		**(1,259.4)**	(1,074.2)	**-**	-
Net cash flows from operating activities		**11,747.9**	9,899.0	**(0.3)**	69.3
Investing activities					
Purchase of available-for-sale investments		**(946.8)**	(2,333.8)	**-**	-
Proceeds from sale of available-for-sale investments		**690.8**	465.3	**-**	-
Investment in associates		**(5.9)**	(5.0)	**(5.9)**	(5.0)
Investment in subsidiaries		**-**	-	**(20.2)**	(4,525.6)
Cash and cash equivalents of subsidiary upon loss of control	35	**(760.6)**	-	**-**	-
Purchase of property, plant and equipment		**(514.0)**	(532.4)	**(5.6)**	(4.0)
Purchase of intangible assets		**(421.8)**	(160.8)	**-**	-
Proceeds from sale of property, plant and equipment		**47.4**	60.9	**-**	-
Net cash flows from investing activities		**(1,910.9)**	(2,505.8)	**(31.7)**	(4,534.6)
Net cash flows before financing activities		**9,837.0**	7,393.2	**(32.0)**	(4,465.3)
Financing activities					
Shares issued/employee share options exercised		**29.6**	13.9	**29.6**	13.9
Shares bought back and cancelled by subsidiary		**(21.9)**	-	**-**	-
Refund of subordinated loan by associate		**180.3**	-	**-**	-
Acquisition of non-controlling interest in subsidiary		**(50.6)**	(4.1)	**-**	-
Subordinated liabilities transferred		**-**	-	**-**	4,500.0
Net debt securities matured		**-**	(1,793.0)	**-**	-
Net cash flows from financing activities		**137.4**	(1,783.2)	**29.6**	4,513.9
Increase/(decrease) in cash and cash equivalents		**9,974.4**	5,610.0	**(2.4)**	48.6
Net cash and cash equivalents at 1st July		**23,287.5**	17,483.5	**51.8**	3.2
Effect of foreign exchange rate changes		**(46.8)**	194.0	**-**	-
Net cash and cash equivalents at 30th June	4	**33,215.1**	23,287.5	**49.4**	51.8

The notes on pages 184 to 259 form part of these financial statements.
Auditors' report on pages 170 and 171.

General information

The MCB Group Limited ("the Company") was incorporated as a public company limited by shares on 5th August 2013. Its registered office is situated at 9-15, Sir William Newton Street, Port-Louis, Mauritius.

The Company is listed on The Stock Exchange of Mauritius Ltd.

The main activities of the Company and those of its subsidiaries ("the Group") consist in providing a whole range of banking and financial services in the Indian Ocean region and beyond.

Incorporation and Scheme of Arrangement

MCB Group Limited, is a legal entity incorporated on 5th August 2013. On 17th February 2014, following the resolutions voted by the shareholders of The Mauritius Commercial Bank Ltd ("MCB") at the Special Meeting held in December 2013, The Supreme Court (Bankruptcy Division) approved the Scheme of Arrangement (the "Scheme") under Sections 261 to 264 of the Companies Act 2001, effective on 21st February 2014. Accordingly, the shareholders of MCB exchanged their ordinary shares held in MCB for ordinary shares in MCB Group Limited ("MCBG") on a 1:1 ratio. Following the above exchange MCBG exchanged all its shares held in MCB for ordinary shares in MCB Investment Holding Limited ("MCBIH").

This separate legal entity, MCB Investment Holding Limited ("MCBIH") was incorporated on 4th November 2013 as a wholly owned subsidiary of MCB Group Limited to be the intermediate holding of the group's banking subsidiaries and associates.

Index to notes to the financial statements

Index to notes to the financial statements
(continued)

Index to notes to the financial statements
(continued)

1. Significant accounting policies

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

(a) Basis of preparation

The financial statements of MCB Group Limited comply with The Mauritian Companies Act 2001 and have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

The financial statements include the consolidated financial statements of the parent company and its subsidiary companies (The Group) and the separate financial statements of the parent company (The Company).

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

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

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

Standards, Amendments to published Standards and Interpretations issued but not yet effective

Certain standards, amendments to published standards and interpretations issued are effective for accounting periods beginning on or after 1st July 2016, but which the Group has not early adopted.

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

IFRS 9 Financial Instruments
IFRS 14 Regulatory Deferral Accounts
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
IFRS 15 Revenue from Contract with Customers
Clarifications to IFRS 15 Revenue from Contracts with Customers
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
Equity Method in Separate Financial Statements (Amendments to IAS 27)
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
Annual Improvements to IFRSs 2012-2014 Cycle

1. Significant accounting policies (Cont'd)

(a) Basis of preparation (Cont'd)

Standards, Amendments to published Standards and Interpretations issued but not yet effective (Cont'd)

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
Disclosure Initiative (Amendments to IAS 1)
IFRS 16 Leases
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
Amendments to IAS 7 Statement of Cash Flows
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

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

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

Classification and measurement

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

Impairment

The impairment requirements apply to financial assets measured at amortised cost, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3'.

1. Significant accounting policies (Cont'd)

(a) Basis of preparation (Cont'd)

Impairment (Cont'd)

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

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

Hedge accounting

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

Transition

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

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

(b) Basis of consolidation

(1) (i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

1. Significant accounting policies (Cont'd)

(b) Basis of consolidation (Cont'd)

(1) (i) Subsidiaries (Cont'd)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of (a) the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (b) the net of the acquisition-date amounts of identifiable assets acquired and the liabilities and contigent liabilities assumed measured in accordance with IFRS 3 is recorded as goodwill. In the case of a bargain purchase (excess of (b) over (a)), the resulting gain is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Separate financial statements of the Company

In the separate financial statements of the Company, investments in subsidiary companies are carried at cost. The carrying amount is reduced to recognise any impairment in the value of individual investments.

(iii) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests without loss of control are also recorded in equity.

1. Significant accounting policies (Cont'd)

(b) Basis of consolidation (Cont'd)

(1) (iii) Transactions and non-controlling interests (Cont'd)

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(2) Associates

An associate is an entity over which the Group has significant influence but not control, or joint control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method except when classified as held-for-sale (see below). Investments in associates are initially recognised at cost as adjusted by post acquisition changes in the group's share of the net assets of the associate less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities recognised at the date of acquisition is recognised as goodwill, which is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of identifiable assets and liabilities over the cost of acquisition, after assessment, is included as income in the determination of the Group's share of the associate's profit or loss.

When the Group's share of losses exceeds its interest in an associate, the Group discontinues recognising further losses, unless it has incurred legal or constructive obligation or made payments on behalf of the associate.

Unrealised profits and losses are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, appropriate adjustments are made to the financial statements of associates to bring the accounting policies used in line with those adopted by the Group. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

In the separate financial statements of the Company, the investment in associates is carried at cost (which includes transaction costs). The carrying amount is reduced to recognise any impairment in the value of the individual companies.

1. Significant accounting policies (Cont'd)

(c) Foreign currency translation

The foreign subsidiaries' statement of financial position are translated to Mauritian Rupees at the closing rate at the end of the reporting period. Their statements of profit or loss, the statements of comprehensive income and statements of cash flows are translated at the average rate for the period unless the average is not a reasonable approximation of the cumulative effects of the rates prevailing at the transaction dates, in which case income and expenses are translated at the rates prevailing on the dates of the transactions. Any resulting exchange differences are recognised in other comprehensive income. On disposal of a foreign entity, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using Mauritian rupee, the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated and seperate financial statements are presented in Mauritian rupees, which is the Company's functional currency. All amounts are in million, rounded to one decimal place except as otherwise stated.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when the items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

1. Significant accounting policies (Cont'd)

(d) Derivative financial instruments

Derivative financial instruments include mainly foreign exchange contracts and currency swaps. These are initially recognised at fair value on the date the derivative contracts are entered into and subsequently remeasured at their fair values. Fair values of derivatives between two external currencies are based on interest rate differential between the two currencies. Fair values of forwards are based on treasury bills rate or LIBOR. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Transaction costs are charged immediately through profit or loss.

The Group's derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in profit or loss.

The fair values of derivative financial instruments held for trading are disclosed in note 5.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(f) Interest income and expense

Interest income and expense are recognised in profit or loss for all interest bearing instruments using the effective interest method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

(g) Fees and commissions

Fees and commissions are generally recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with the related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

(h) Sale and repurchase agreements

Securities sold subject to linked repurchase agreements ("repos") are retained in the statements of financial position as Government securities and Treasury bills and the counterparty liability is included in amount due to other banks or deposits, as appropriate.

Securities purchased under agreements to resell ("reverse repos") are recorded as amount due from other banks or loans and advances, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repos agreements using the effective interest method.

1. Significant accounting policies (Cont'd)

(i) Investment securities

The Group classifies its investment securities as financial assets at fair value through profit or loss, held-to-maturity or available-for-sale assets. The directors determine the appropriate classification of its investments at the time of the purchase. Investment securities with fixed maturity where the directors have both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale, which may be sold.

Investment securities are initially recognised at fair value plus, in the case of those not at fair value through profit or loss, transaction costs. Available-for-sale listed financial assets are subsequently remeasured at fair value. Fair values for unlisted equity securities are estimated using maintainable earnings or net assets bases refined to reflect the specific circumstances of the issuer. Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income and cumulated in a separate reserve, capital reserve.

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

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

If the Group were 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 entity 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 Group commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

(j) Trading securities

Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at fair value (which excludes transaction costs) and measured at subsequent reporting dates at fair value. All related realised and unrealised gains and losses are recognised in profit or loss for the year.

(k) Loans and provisions for loan impairment

Loans originated by the Group by providing money directly to the borrower (at draw-down) are categorised as loans by the Group and are carried at amortised cost which is defined as the fair value of cash consideration given to originate these loans as is determinable by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

1. Significant accounting policies (Cont'd)

(k) Loans and provisions for loan impairment (Cont'd)

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

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

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

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

(l) Impairment of financial assets

(i) Assets carried at amortised cost

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

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

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

1. Significant accounting policies (Cont'd)

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(ii) Assets classified as available-for-sale

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

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

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

(m) Goodwill

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity over the fair value of the net identifiable assets is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase. Goodwill on acquisition of subsidiaries is included in Goodwill and other Intangible Assets.

Gain on bargain purchase represents the excess of the Group's interest in the net fair value of the acquiree's net identifiable asset over cost of acquisition is recognised in profit or loss. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the gains and losses on disposal. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

1. Significant accounting policies (Cont'd)

(n) Property, plant and equipment

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

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

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

Land is not depreciated.
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.
Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

(o) Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly attributable with the design of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criterias are met:

- it is technically feasible to complete the software product so that it will be available for use;
- the directors intend to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, but not exceeding a period of eight years.

1. Significant accounting policies (Cont'd)

(p) Finance leases

Assets acquired under finance leases are accounted for at the present value of the minimum lease payments and depreciated over their estimated useful lives. A corresponding liability is recorded as outstanding lease obligations.

Lease payments are apportioned between the liability and the finance charge so as to achieve a constant periodic rate of interest on the outstanding lease obligations.

Leased assets are depreciated over the shorter of the useful life of the asset and the lease terms.

(q) Accounting for leases - where the Subsidiary company is the lessor

Finance leases

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable, the amount being equal to the net investment in the leases after specific provision for impairment loss in respect of all identified impaired leases in the light of periodical reviews. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Operating leases

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income is recognised on a straight-line basis over the lease term.

(r) Cash and cash equivalents

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

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1. Significant accounting policies (Cont'd)

(t) Deposits from banks and customers

Deposits from banks and customers are classified as financial liabilities at amortised cost. They are initially measured at fair value and subsequently carried at amortised cost.

(u) Employee benefits

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

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

(i) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Payments to defined contribution plans are recognised as an expense when employees have rendered service that entitled them to the contributions.

(ii) Defined benefit plans

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

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The main assumptions made in the actuarial valuation of the pension fund are listed in note 17 to the financial statements.

The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset), taking into account any changes in the net defined liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense/(income) is recognised in profit or loss.

1. Significant accounting policies (Cont'd)

(u) Employee benefits (Cont'd)

(ii) Defined benefit plans (Cont'd)

Service costs comprising current service cost, past service cost, as well as gains and losses on curtailments and settlements are recognised immediately in profit or loss.

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

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

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

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

(v) Current and deferred income tax

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

Current income tax

The current income tax charge is based on taxable income for the year calculated on the basis of tax laws enacted or substantively enacted by the end of the reporting period.

Deferred income tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

1. Significant accounting policies (Cont'd)

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

Deferred income tax (Cont'd)

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.

(w) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(x) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are declared.

(y) Acceptances

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

(z) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Supervisory and Monitoring Committee to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Detailed analysis of segment reporting are shown in note 36 to the financial statements.

1. Significant accounting policies (Cont'd)

(aa) Stated capital

Ordinary shares are classified as equity.

(i) *Share issue costs*

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

(ii) *Treasury shares*

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

(ab) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised until such time as the assets are substantially ready for their intended use or sale.
Other borrowing costs are expensed.

(ac) Impairment of non-financial assets

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

2. Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

(a) Held-to-maturity investments

The Group follows the guidance of International Accounting Standard (IAS) 39 - "Recognition and Measurement" on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value; not at amortised cost.

(b) Impairment of available-for-sale financial assets

The Group follows the guidance of IAS 39 on determining when an available-for-sale investment has had a significant or prolonged decline in the fair value below cost. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost.

(c) Pension benefits

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

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 17.

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

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

(d) Fair value of securities not quoted in an active market

The fair value of securities not quoted in an active market may be determined by the Group using valuation techniques including third party transaction values, earnings, net asset value or discounted cash flows, whichever is considered to be appropriate. The Group would exercise judgement and estimates on the quantity and quality of pricing sources used. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(e) Asset lives and residual values

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

(f) Impairment of assets

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

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

(g) Impairment loss on loans and advances

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

3. Financial risk management

(a) Strategy in using financial instruments

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

The Group also seeks to raise its interest margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. The Group's exposures are not restricted to just on-balance sheet loans and advances but, also, to guarantees and other commitments such as letters of credit, performance and other bonds.

Given that The Mauritius Commercial Bank Limited comprises a significant portion of the Group, the details provided below relate mainly to The Mauritius Commercial Limited (the Bank).

(b) Credit risk

Credit risk arises when customers or counterparties are not able to fulfill their contractual obligations. Credit Risk Management at the Bank is under the responsibility of the Credit Risk Business Unit (CRBU). The CRBU has the task of reviewing the Bank's credit policies and guidelines to ensure that best lending practices are upheld at all times. Risk assessments are carried out to assist in portfolio management decisions including exposure levels and the constitution of required provisions.

Credit related commitments

The main purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank to pay a third party, on behalf of its customers up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality of loans and advances

	GROUP	
	2016 RS'M	2015 RS'M
Neither past due nor impaired	155,874.9	158,780.4
Past due but not impaired	7,217.5	6,498.0
Impaired	10,704.1	10,754.8
Gross	173,796.5	176,033.2
Less Allowances for credit impairment	(7,099.4)	(7,811.0)
Net	166,697.1	168,222.2
Fair Value of collaterals of past due but not impaired loans	8,554.6	8,167.0
Fair Value of collaterals of impaired loans	10,046.2	6,771.0

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

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

	GROUP	
	2016 RS'M	2015 RS'M
Up to 3 months	1,254.5	1,646.0
Over 3 months and up to 6 months	2,537.1	1,911.0
Over 6 months and up to 1 year	759.4	2,383.0
Over 1 year	2,666.5	558.0
	7,217.5	6,498.0

Loans and advances negotiated

	GROUP	
	2016 RS'M	2015 RS'M
Loans and advances negotiated	13,137.0	15,768.0
Fair value of collaterals	13,137.0	15,064.0

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

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

	GROUP	
	2016 RS'M	2015 RS'M
Credit risk exposures relating to on - balance sheet assets are as follows :		
Cash and cash equivalents	31,101.3	22,416.2
Derivative financial instruments	315.4	426.1
Loans to and placements with banks	22,419.1	8,851.5
Loans and advances to customers	163,827.3	164,443.5
Investment securities	62,734.8	50,689.3
Other financial assets	14,578.1	12,732.4
Credit risk exposures relating to off - balance sheet assets are as follows :		
Financial guarantees	32,130.8	45,697.1
Loans committed and other credit related liabilities	2,913.5	4,633.0
Total	330,020.3	309,889.1

3. Financial risk management (Cont'd)

(c) Market risk

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

(i) Price risk

The Group is exposed to equity securities price risk because of investments held and classified as available-for-sale financial assets. The table below summarises the impact of increases/decreases in fair value of the investments on the Group's and the Company's equity. The analysis is based on the assumption that the fair value had increased/decreased by 5%.

	GROUP	
	2016 RS'M	2015 RS'M
Available-for-sale financial assets	375.7	371.9

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(ii) Currency risk

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

A major methodology which the Bank uses for the measurement of market price risk is Value-at-Risk (VaR). VaR is the statistical representation of financial risk, expressed as a number, based on consistent modelling of past data and/or simulation of possible future movements, applied to a particular risk position, asset, or portfolio.

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

VaR Analysis - Foreign Exchange Risk

	As at 30th June	Average	Maximum	Minimum
2016 (RS'M)	**(12.4)**	**(28.3)**	**(38.3)**	**(12.4)**
2015 (RS'M)	(25.8)	(17.6)	(30.3)	(10.2)

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(ii) Currency risk (Cont'd)

Concentration of assets, liabilities and off-balance sheet items

GROUP

At June 30, 2016	EURO	USD	GBP	MUR	OTHER	TOTAL
Financial assets	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Cash and cash equivalents	12,117.6	10,347.8	1,273.3	3,201.0	5,036.0	31,975.7
Derivative financial instruments	18.2	-	-	157.6	-	175.8
Loans to and placements with banks	1,632.0	12,220.5	1,483.9	5,987.3	1,179.9	22,503.6
Loans and advances to customers	14,411.7	41,033.9	793.0	103,223.7	145.4	159,607.7
Investment securities	595.5	1,627.8	789.8	53,128.6	99.5	56,241.2
Other financial assets	722.6	1,091.1	196.7	12,462.6	105.1	14,578.1
	29,497.6	66,321.1	4,536.7	178,160.8	6,565.9	285,082.1
Less allowances for credit impairment						(6,623.4)
						278,458.7
Subsidiaries						18,721.6
Total						297,180.3
Financial liabilities						
Deposits from banks	884.7	3,305.0	227.2	153.7	142.0	4,712.6
Deposits from customers	26,682.2	52,482.8	3,973.9	148,763.7	6,408.9	238,311.5
Derivative financial instruments	23.8	5.0	5.3	88.3	-	122.4
Other borrowed funds	3,486.5	1,363.8	-	9.1	6.5	4,865.9
Subordinated liabilities	-	1,082.3	-	4,537.6	-	5,619.9
Other financial liabilities	211.2	255.2	232.5	1,460.9	23.8	2,183.6
	31,288.4	58,494.1	4,438.9	155,013.3	6,581.2	255,815.9
Subsidiaries						15,599.4
Total						271,415.3
Net on-balance sheet position	(1,790.8)	7,827.0	97.8	23,147.5	(15.3)	29,266.2
Less allowances for credit impairment						(6,623.4)
Subsidiaries						3,122.2
						25,765.0
Off balance sheet net notional position	3,257.3	8,283.7	917.5	-	591.9	13,050.4
Credit commitments	3,789.1	15,177.9	30.3	13,407.9	324.7	32,729.9
Subsidiaries						7,073.8
						52,854.1

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(ii) Currency risk (Cont'd)

Concentration of assets, liabilities and off-balance sheet items

GROUP At June 30, 2015 Financial assets	EURO RS'M	USD RS'M	GBP RS'M	MUR RS'M	OTHER RS'M	TOTAL RS'M
Cash and cash equivalents	1,846.6	8,477.2	3,411.8	4,333.5	4,930.8	22,999.9
Derivative financial instruments	17.9	-	-	251.0	-	268.9
Loans to and placements with banks	1,244.5	1,246.9	0.4	5,930.0	1,081.8	9,503.6
Loans and advances to customers	14,912.8	46,060.8	1,002.7	97,960.0	191.8	160,128.1
Investment securities	220.1	2,156.6	107.3	42,408.8	102.5	44,995.3
Other financial assets	379.4	930.2	103.0	11,319.8	-	12,732.4
	18,621.3	58,871.7	4,625.2	162,203.1	6,306.9	250,628.2
Less allowances for credit impairment						(7,136.7)
						243,491.5
Subsidiaries						18,179.9
Total						**261,671.4**
Financial liabilities						
Deposits from banks	585.9	3,457.1	126.2	201.5	133.6	4,504.3
Deposits from customers	24,176.8	34,563.1	4,566.2	133,097.3	7,539.2	203,942.6
Derivative financial instruments	17.0	1.8	-	94.2	-	113.0
Other borrowed funds	3,407.1	3,533.2	0.1	11.8	0.1	6,952.3
Subordinated liabilities	-	1,055.7	-	4,539.9	-	5,595.6
Other financial liabilities	123.3	352.2	17.3	2,887.3	23.3	3,403.4
	28,310.1	42,963.1	4,709.8	140,832.0	7,696.2	224,511.2
Subsidiaries						15,455.3
Total						**239,966.5**
Net on-balance sheet position	(9,688.8)	15,908.6	(84.6)	21,371.1	(1,389.3)	26,117.0
Less allowances for credit impairment						(7,136.7)
Subsidiaries						2,724.6
						21,704.9
Off balance sheet net notional position	3,525.1	17,496.5	944.0	-	502.6	22,468.2
Credit commitments	4,983.3	32,894.9	243.6	12,136.1	650.0	50,907.9
Subsidiaries						4,613.9
						77,990.0

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iii) Interest rate risk

Interest rate risk refers to the potential variability in the Group's financial condition owing to changes in the level of interest rates. It is the Group's policy to apply variable interest rates to lending and deposit taking. Fixed interest rates are applied to deposits in foreign currencies; however maturities in this regard are only short-term.

Interest rate risk earnings impact analysis

The bank incurs interest rate risk (IRR) mainly in the form of repricing risk and uses an interest rate risk gap analysis as shown in Note 3(c)(iii) to measure and monitor this source of risk. Amongst other methodologies, it applies BOM framework of a 200 basis point parallel shift in interest rates to estimate the one-year earnings impact on a static balance sheet basis as follows:

	GROUP	
	2016 RS'M	2015 RS'M
Decrease in Earnings	**(653.8)**	(444.4)

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iii) Interest rate risk (Cont'd)

Interest sensitivity of assets and liabilities - repricing analysis

GROUP At June 30, 2016 Financial assets	Up to 1 month RS'M	1-3 months RS'M	3-6 months RS'M	6-12 months RS'M	1-3 years RS'M	Over 3 years RS'M	Non-interest bearing RS'M	Total RS'M
Cash and cash equivalents	10,011.7	-	-	-	-	-	21,964.0	31,975.7
Derivative financial instruments	-	-	-	-	-	6.3	169.5	175.8
Loans to and placements with banks	5,214.8	7,151.2	2,677.4	6,348.1	1,000.0	-	112.1	22,503.6
Loans and advances to customers	116,528.3	23,621.7	6,424.2	1,373.4	1,854.3	7,124.5	2,681.3	159,607.7
Investment securities	2,548.9	4,851.1	4,466.3	12,352.6	17,288.1	11,681.3	3,052.9	56,241.2
Other financial assets	-	-	-	-	-	247.4	14,330.7	14,578.1
	134,303.7	35,624.0	13,567.9	20,074.1	20,142.4	19,059.5	42,310.5	285,082.1
Less allowances for credit impairment								(6,623.4)
								278,458.7
Subsidiaries								18,721.6
Total								297,180.3
Financial liabilities								
Deposits from banks	2,773.2	483.1	938.4	24.8	280.2	-	212.9	4,712.6
Deposits from customers	211,467.5	2,597.4	767.6	1,956.4	609.2	2,285.9	18,627.5	238,311.5
Derivative financial instruments	-	-	-	-	-	-	122.4	122.4
Other borrowed funds	2,320.4	-	1,383.3	9.0	-	1,124.1	29.1	4,865.9
Subordinated liabilities	1,064.4	-	-	-	-	4,537.6	17.9	5,619.9
Other financial liabilities	-	-	-	-	-	326.7	1,856.9	2,183.6
	217,625.5	3,080.5	3,089.3	1,990.2	889.4	8,274.3	20,866.7	255,815.9
Subsidiaries								15,599.4
Total								271,415.3
On balance sheet interest sensitivity gap	(83,321.8)	32,543.5	10,478.6	18,083.9	19,253.0	10,785.2	21,443.8	29,266.2
Less allowances for credit impairment								(6,623.4)
Subsidiaries								3,122.2
								25,765.0

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iii) Interest rate risk (Cont'd)

Interest sensitivity of assets and liabilities - repricing analysis

GROUP **At June 30, 2015** **Financial assets**	**Up to 1 month** **RS'M**	**1-3 months** **RS'M**	**3-6 months** **RS'M**	**6-12 months** **RS'M**	**1-3 years** **RS'M**	**Over 3 years** **RS'M**	**Non-interest bearing** **RS'M**	**Total** **RS'M**
Cash and cash equivalents	10,247.9	-	-	-	-	-	12,752.0	22,999.9
Derivative financial instruments	-	-	-	-	-	-	268.9	268.9
Loans to and placements with banks	1,016.8	2,084.3	2,167.5	4,018.9	176.0	-	40.1	9,503.6
Loans and advances to customers	109,133.2	34,679.1	-	4,307.2	3,089.7	5,590.6	3,328.3	160,128.1
Investment securities	529.6	4,826.2	5,348.6	5,384.6	17,562.0	8,425.2	2,919.1	44,995.3
Other financial assets	0.1	1.0	-	-	0.7	-	12,730.6	12,732.4
	120,927.6	41,590.6	7,516.1	13,710.7	20,828.4	14,015.8	32,039.0	250,628.2
Less allowances for credit impairment								(7,136.7)
								243,491.5
Subsidiaries								18,179.9
Total								**261,671.4**
Financial liabilities								
Deposits from banks	3,466.4	372.5	337.5	-	66.9	-	261.0	4,504.3
Deposits from customers	182,591.0	2,116.0	1,330.7	235.9	1.8	2,103.6	15,563.6	203,942.6
Derivative financial instruments	-	-	-	-	-	-	113.0	113.0
Other borrowed funds	3,336.0	524.8	2,082.9	11.7	-	952.6	44.3	6,952.3
Subordinated liabilities	1,055.7	4,539.9	-	-	-	-	-	5,595.6
Other financial liabilities	131.3	-	-	-	-	-	3,272.1	3,403.4
	190,580.4	7,553.2	3,751.1	247.6	68.7	3,056.2	19,254.0	224,511.2
Subsidiaries								15,455.3
Total								**239,966.5**
On balance sheet interest sensitivity gap	(69,652.8)	34,037.4	3,765.0	13,463.1	20,759.7	10,959.6	12,785.0	26,117.0
Less allowances for credit impairment								(7,136.7)
Subsidiaries								2,724.6
								21,704.9

Other disclosures on IRR are available in the Risk Management Report.

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iv) Liquidity risk

Liquidity risk can be defined as the risk of a funding crisis, notably a lack of funds to meet immediate or short term obligations in a cost-effective way. There are two aspects of liquidity risk management: (a) cash flow management to ensure a balanced inflow and outflow of funds on any one specific day, (b) the maintenance of a stock of liquid assets to ensure that the Group has a constantly available store of value, which can be utilised in the event of an unexpected outflow of funds. The MCB has a documented liquidity policy compliant with the Bank of Mauritius Guideline on Liquidity. The Bank Treasury manages liquidity in accordance with this policy, on a day-to-day basis.

The assets disclosed in the following table are discounted.

Maturities of assets and liabilities

GROUP At June 30, 2016 Financial assets	Up to 1 month RS'M	1-3 months RS'M	3-6 months RS'M	6-12 months RS'M	1-3 years RS'M	Over 3 years RS'M	Non-maturity items RS'M	Total RS'M
Cash and cash equivalents	31,525.3	-	-	-	-	-	450.4	31,975.7
Derivative financial instruments	112.2	21.4	14.3	9.7	-	6.3	11.9	175.8
Loans to and placements with banks	5,153.9	7,151.2	2,703.0	6,377.3	1,006.0	-	112.2	22,503.6
Loans and advances to customers	35,271.3	3,223.0	4,612.0	4,194.4	15,926.8	93,566.6	2,813.6	159,607.7
Investment securities	2,478.1	4,528.8	4,711.2	12,545.5	17,536.7	12,123.1	2,317.8	56,241.2
Other financial assets	13,688.6	-	-	-	-	247.4	642.1	14,578.1
	88,229.4	14,924.4	12,040.5	23,126.9	34,469.5	105,943.4	6,348.0	285,082.1
Less allowances for credit impairment								(6,623.4)
								278,458.7
Subsidiaries								18,721.6
Total								297,180.3
Financial liabilities								
Deposits from banks	2,975.8	376.6	1,045.5	25.4	282.4	-	6.9	4,712.6
Deposits from customers	203,047.3	4,434.4	3,555.3	7,446.6	8,719.0	10,545.5	563.4	238,311.5
Derivative financial instruments	41.4	22.1	14.7	10.0	-	-	34.2	122.4
Other borrowed funds	6.4	-	-	9.0	-	4,827.9	22.6	4,865.9
Subordinated liabilities	-	-	-	-	-	5,602.0	17.9	5,619.9
Other financial liabilities	-	-	-	-	-	326.7	1,856.9	2,183.6
	206,070.9	4,833.1	4,615.5	7,491.0	9,001.4	21,302.1	2,501.9	255,815.9
Subsidiaries								15,599.4
Total								271,415.3
Net liquidity gap	(117,841.5)	10,091.3	7,425.0	15,635.9	25,468.1	84,641.3	3,846.1	29,266.2
Less allowances for credit impairment								(6,623.4)
Subsidiaries								3,122.2
								25,765.0

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iv) Liquidity risk (Cont'd)

Maturities of assets and liabilities

GROUP At June 30, 2015 Financial assets	Up to 1 month RS'M	1-3 months RS'M	3-6 months RS'M	6-12 months RS'M	1-3 years RS'M	Over 3 years RS'M	Non-maturity items RS'M	Total RS'M
Cash and cash equivalents	22,688.5	-	-	-	-	-	311.4	22,999.9
Derivative financial instruments	210.5	22.8	12.5	5.2	-	-	17.9	268.9
Loans to and placements with banks	2,140.7	2,282.1	652.6	4,034.5	176.0	177.6	40.1	9,503.6
Loans and advances to customers	35,893.8	8,098.0	3,046.7	3,945.2	14,878.9	90,372.5	3,893.0	160,128.1
Investment securities	509.9	3,870.0	6,200.8	5,485.6	17,626.3	8,696.7	2,606.0	44,995.3
Other financial assets	-	4.4	2.7	7.7	183.3	121.9	12,412.4	12,732.4
	61,443.4	14,277.3	9,915.3	13,478.2	32,864.5	99,368.7	19,280.8	250,628.2
Less allowances for credit impairment								(7,136.7)
								243,491.5
Subsidiaries								18,179.9
Total								**261,671.4**
Financial liabilities								
Deposits from banks	3,436.9	380.8	468.7	151.1	66.8	-	-	4,504.3
Deposits from customers	173,989.6	4,308.2	3,899.4	5,920.3	7,533.9	7,158.0	1,133.2	203,942.6
Derivative financial instruments	13.4	65.0	11.4	4.3	-	-	18.9	113.0
Other borrowed funds	1,239.4	182.5	215.5	450.9	-	4,827.5	36.5	6,952.3
Subordinated liabilities	-	-	-	-	-	5,595.6	-	5,595.6
Other financial liabilities	-	-	-	0.1	-	-	3,403.3	3,403.4
	178,679.3	4,936.5	4,595.0	6,526.7	7,600.7	17,581.1	4,591.9	224,511.2
Subsidiaries								15,455.3
Total								**239,966.5**
Net liquidity gap	(117,235.9)	9,340.8	5,320.3	6,951.5	25,263.8	81,787.6	14,688.9	26,117.0
Less allowances for credit impairment								(7,136.7)
Subsidiaries								2,724.6
								21,704.9

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

3. Financial risk management (Cont'd)

(d) Fair value estimation

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

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

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

Specific techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest swaps is calculated as the present value of the estimated future cashflows based on observable yield curves;
- The fair value of foreign exchange contracts is determined using forward 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 determined fair value for the remaining financial instruments. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cashflows at the current market interest rate that is available to the Group for similar financial instruments.

(e) Capital risk management

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

3. Financial risk management (Cont'd)

(f) Financial instruments by category:

	Held-to-Maturity	Loans and receivables	Available-for-sale	Financial instruments at fair value through profit or loss		Other financial instruments at amortised cost	Total
				Held-for-trading	At initial recognition		
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
GROUP							
At 30th June 2016							
Financial assets							
Cash and cash equivalents	-	33,305.6	-	-	-	-	33,305.6
Derivative financial instruments	-	-	-	315.4	-	-	315.4
Loans to and placements with banks	-	22,437.0	-	-	-	-	22,437.0
Loans and advances to customers	-	170,908.8	-	-	-	-	170,908.8
Investment securities	54,494.6	-	7,514.7	722.7	2.8	-	62,734.8
Other financial assets	-	14,578.1	-	-	-	-	14,578.1
	54,494.6	241,229.5	7,514.7	1,038.1	2.8	-	304,279.7
Less allowances for credit impairment							(7,099.4)
Total							297,180.3
Financial liabilities							
Deposits from banks	-	-	-	-	-	1,837.7	1,837.7
Deposits from customers	-	-	-	-	-	253,423.9	253,423.9
Derivative financial instruments	-	-	-	307.2	-	-	307.2
Other borrowed funds	-	-	-	-	-	5,193.0	5,193.0
Subordinated liabilities	-	-	-	-	-	5,619.9	5,619.9
Other financial liabilities	-	-	-	-	-	5,033.6	5,033.6
Total	-	-	-	307.2	-	271,108.1	271,415.3

3. Financial risk management (Cont'd)

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

	Held-to-Maturity	Loans and receivables	Available-for-sale	Financial instruments at fair value through profit or loss		Other financial instruments at amortised cost	Total
				Held-for -trading	At initial recognition		
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
GROUP							
At 30th June 2015							
Financial assets							
Cash and cash equivalents	-	24,528.6	-	-	-	-	24,528.6
Derivative financial instruments	-	-	-	426.1	-	-	426.1
Loans to and placements with banks	-	8,868.1	-	-	-	-	8,868.1
Loans and advances to customers	-	172,237.9	-	-	-	-	172,237.9
Investment securities	43,249.7	-	7,438.9	-	0.7	-	50,689.3
Other financial assets	-	12,732.4	-	-	-	-	12,732.4
	43,249.7	218,367.0	7,438.9	426.1	0.7	-	269,482.4
Less allowances for credit impairment							(7,811.0)
Total							**261,671.4**
Financial liabilities							
Deposits from banks	-	-	-	-	-	2,405.0	2,405.0
Deposits from customers	-	-	-	-	-	218,735.0	218,735.0
Derivative financial instruments	-	-	-	309.6	-	-	309.6
Other borrowed funds	-	-	-	-	-	7,806.4	7,806.4
Subordinated liabilities	-	-	-	-	-	5,595.6	5,595.6
Other financial liabilities	-	-	-	-	-	5,114.9	5,114.9
Total	**-**	**-**	**-**	**309.6**	**-**	**239,656.9**	**239,966.5**

4. Cash and cash equivalents

	GROUP		COMPANY	
	2016 RS'M	2015 RS'M	2016 RS'M	2015 RS'M
Cash in hand	**2,044.6**	1,960.8	**49.4**	51.8
Foreign currency notes and coins	**159.7**	151.6	**-**	-
Unrestricted balances with Central Banks	**1,226.8**	2,911.2	**-**	-
Balances due in clearing	**485.2**	347.0	**-**	-
Balances with local banks	**6.7**	39.9	**-**	-
Money market placements	**10,080.3**	10,673.6	**-**	-
Balances with banks abroad	**19,012.3**	8,444.5	**-**	-
Interbank loans	**290.0**	-	**-**	-
	33,305.6	24,528.6	**49.4**	51.8

Cash and cash equivalents as shown in the statements of cash flows:

	GROUP		COMPANY	
	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M
Cash and cash equivalents	**33,305.6**	24,528.6	**49.4**	51.8
Other borrowed funds (note 15(a))	**(90.5)**	(1,241.1)	**-**	-
Net cash and cash equivalents	**33,215.1**	23,287.5	**49.4**	51.8
Change in year	**9,927.6**	5,804.0	**(2.4)**	48.6

5. Derivative financial instruments

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

Except for certain currency swaps, no exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Warrant is a derivative financial instrument which gives the right, but not the obligation to buy or to sell a specific amount of a given stock, currency, index or debt, at a specified price (the strike price) during a specified period or on a specified date.

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

GROUP	Contractual/ Nominal Amount RS'M	Fair value assets RS'M	Fair value liabilities RS'M
Derivatives held-for-trading			
Year ended 30th June 2016			
Foreign Exchange & Interest Rate Derivatives			
Currency forwards	**2,898.5**	**71.0**	**75.9**
Interest rate swaps	**1,524.8**	**11.9**	**22.2**
Currency swaps	**8,951.2**	**92.8**	**24.2**
Warrants	**4,759.6**	**139.7**	**184.9**
	18,134.1	**315.4**	**307.2**
Year ended 30th June 2015			
Foreign Exchange & Interest Rate Derivatives			
Currency forwards	3,928.1	49.5	35.9
Interest rate swaps	847.6	17.9	18.7
Currency swaps	18,841.8	201.6	58.3
Warrants	1,986.4	157.1	196.7
	25,603.9	426.1	309.6

6. Loans

(a) Loans to and placements with banks

	GROUP 2016 RS'M	GROUP 2015 RS'M
(i) Loans to and placements with banks		
in Mauritius	**6,277.3**	3,226.1
outside Mauritius	**45,549.0**	24,800.0
	51,826.3	28,026.1
Less:		
Loans and placements with original maturity less than 3 months and included in cash and cash equivalents	**(29,389.3)**	(19,158.0)
	22,437.0	8,868.1
Less:		
Allowances for credit impairment	**(17.9)**	(16.6)
	22,419.1	8,851.5
(ii) Remaining term to maturity		
Up to 3 months	**12,350.7**	4,228.6
Over 3 months and up to 6 months	**2,703.0**	251.5
Over 6 months and up to 1 year	**6,377.3**	4,034.5
Over 1 year and up to 5 years	**1,006.0**	176.0
Over 5 years	**-**	177.5
	22,437.0	8,868.1

(iii) Allowances for credit impairment

	GROUP RS'M
Portfolio Provision:	
At 1st July 2014	17.4
Provision released during the year	(0.8)
At 30th June 2015	**16.6**
Provision for credit impairment for the year	**1.3**
At 30th June 2016	**17.9**

6. Loans (Cont'd)

(b) Loans and advances to customers

	GROUP	
	2016 RS'M	2015 RS'M
(i) Loans and advances to customers		
Retail customers:		
Credit cards	**689.2**	662.6
Mortgages	**22,427.4**	19,401.1
Other retail loans	**13,555.1**	13,825.0
Corporate customers	**106,770.4**	107,970.7
Governments	**1,204.6**	1,209.2
Entities outside Mauritius	**26,262.1**	29,169.3
	170,908.8	172,237.9
Less:		
Allowances for credit impairment	**(7,081.5)**	(7,794.4)
	163,827.3	164,443.5

Finance lease receivable included in Group loans amounts to Rs 3,812 million as at 30th June 2016 (2015: Rs 3,585 million).

(ii) Remaining term to maturity

	2016 RS'M	2015 RS'M
Up to 3 months	**44,618.9**	49,941.7
Over 3 months and up to 6 months	**5,081.9**	4,182.7
Over 6 months and up to 1 year	**4,958.8**	5,806.0
Over 1 year and up to 5 years	**43,812.1**	44,863.3
Over 5 years	**72,437.1**	67,444.2
	170,908.8	172,237.9

6. Loans (Cont'd)

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

(iii) Allowances for credit impairment

	Specific RS'M	Portfolio RS'M	Total RS'M
GROUP			
At 1st July 2015	**3,701.2**	**1,120.1**	**4,821.3**
Exchange adjustment	**0.7**	**-**	**0.7**
Provision for credit impairment for the year	**1,635.1**	**23.3**	**1,658.4**
Provision released during the year	**(681.3)**	**-**	**(681.3)**
Amounts written off	**(1,670.7)**	**-**	**(1,670.7)**
Adjustment following loss of control in subsidiary	**(122.2)**	**-**	**(122.2)**
At 30th June 2016	**2,862.8**	**1,143.4**	**4,006.2**
Interest suspense	**3,075.3**	**-**	**3,075.3**
Provision and interest suspense at 30th June 2016	**5,938.1**	**1,143.4**	**7,081.5**
At 1st July 2014	4,078.8	1,053.9	5,132.7
Exchange adjustment	121.4	-	121.4
Provision for credit impairment for the year	1,050.7	66.2	1,116.9
Provision released during the year	(51.3)	-	(51.3)
Amounts written off	(1,498.4)	-	(1,498.4)
At 30th June 2015	3,701.2	1,120.1	4,821.3
Interest suspense	2,973.1	-	2,973.1
Provision and interest suspense at 30th June 2015	6,674.3	1,120.1	7,794.4

6. Loans (Cont'd)

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

(iv) Allowances for credit impairment by industry sectors

	GROUP					
	2016					2015
	Gross amount of loans RS'M	Non performing loans RS'M	Specific provision and Interest suspense RS'M	Portfolio provision RS'M	Total provision RS'M	Total provision RS'M
Agriculture and fishing	7,645.4	1,128.2	155.3	8.1	163.4	48.5
Manufacturing	11,961.6	828.9	405.3	130.6	535.9	453.4
of which EPZ	*4,920.4*	*32.7*	*14.2*	*21.7*	*35.9*	*85.7*
Tourism	31,512.2	893.3	456.5	69.0	525.5	482.9
Transport	4,470.7	1,037.6	158.3	28.0	186.3	793.4
Construction	17,675.0	2,161.7	1,536.4	209.0	1,745.4	1,475.2
Financial and business services	16,163.2	123.6	90.9	49.3	140.2	156.6
Traders	19,430.4	1,310.7	757.2	146.9	904.1	1,095.7
Personal	34,117.1	2,100.1	1,220.9	206.9	1,427.8	1,618.7
of which credit cards	*689.2*	*59.9*	*56.2*	*13.6*	*69.8*	*56.2*
of which housing	*22,427.4*	*960.3*	*372.2*	*102.4*	*474.6*	*394.5*
Professional	1,108.8	131.4	61.4	20.1	81.5	224.1
Foreign governments	1,204.6	-	-	-	-	-
Global Business Licence holders	15,947.8	666.2	833.9	201.2	1,035.1	1,118.0
Others	9,672.0	322.4	262.0	74.3	336.3	327.9
	170,908.8	10,704.1	5,938.1	1,143.4	7,081.5	7,794.4

6. Loans (Cont'd)

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

(v) Credit concentration of risk by industry sectors

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

	GROUP	
	2016 RS'M	2015 RS'M
Agriculture and fishing	**2,129.7**	1,202.7
Manufacturing	**2,528.0**	2,305.1
of which EPZ	***1,695.0***	*1,637.7*
Tourism	**12,061.9**	11,116.7
Transport	**62.6**	108.3
Construction	**4,240.4**	2,086.8
Financial and business services	**3,784.2**	12,230.2
Traders	**10,621.2**	16,447.7
Global Business Licence holders	**8,822.2**	7,880.3
Others	**68.3**	739.4
	44,318.5	54,117.2

7. Investment securities

	GROUP	
	2016 RS'M	2015 RS'M
Held-to-maturity	54,494.6	43,249.7
Available-for-sale	7,514.7	7,438.9
Held-for-trading	722.7	-
At fair value through profit or loss	2.8	0.7
	62,734.8	50,689.3

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

(a) (i) Held-to-maturity

Government of Mauritius and Bank of Mauritius bonds	35,695.9	26,998.0
Treasury bills	17,453.5	15,491.3
Foreign bonds	879.9	731.0
Other	465.3	29.4
	54,494.6	43,249.7

(ii) Remaining term to maturity

	2016					
	Up to 3 months RS'M	3 - 6 months RS'M	6 - 12 months RS'M	1 - 5 years RS'M	Over 5 years RS'M	Total RS'M
GROUP						
Government of Mauritius and Bank of Mauritius bonds	1,008.9	99.7	7,288.0	21,040.9	6,258.4	35,695.9
Treasury bills	6,966.9	4,409.1	5,866.6	210.9	-	17,453.5
Foreign bonds	-	107.5	574.0	198.4	-	879.9
Other	30.9	-	-	250.8	183.6	465.3
	8,006.7	4,616.3	13,728.6	21,701.0	6,442.0	54,494.6

7. Investment securities (Cont'd)

(b) (i) Available-for-sale

	GROUP	
	2016 RS'M	2015 RS'M
Quoted - Level 1		
Official list: shares	**1,637.4**	1,598.8
Bonds	**1,185.3**	1,243.9
Development and Enterprise Market: shares	**550.9**	628.9
Foreign shares	**779.5**	723.4
	4,153.1	4,195.0
Unquoted - Level 2		
Investment fund	**584.2**	725.8
Unquoted - Level 3		
Shares	**2,248.5**	1,766.6
Debts	**104.2**	339.6
Investment fund	**215.9**	203.1
Inflation - indexed Government of Mauritius bonds	**208.8**	208.8
	2,777.4	2,518.1
	7,514.7	7,438.9

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

	GROUP
	2016 RS'M
At 1st July 2014	2,741.5
Additions	571.2
Disposals	(306.9)
Fair value	165.2
Transfers	(651.8)
Exchange adjustments	(1.1)
At 30th June 2015	**2,518.1**
Additions	**345.4**
Disposals	**(93.8)**
Fair value	**14.9**
Adjustment following loss of control in subsidiary	**(6.9)**
Exchange adjustments	**(0.3)**
At 30th June 2016	**2,777.4**

The book value approximates the fair value.

8. Investments in associates

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

	Nature of business	Principal place of business	Country of incorporation	Holding %	
				Direct	Indirect
2016					
Banque Française Commerciale Ocean Indien	**Banking & financial services**	**Reunion**	**France**	**-**	**49.99**
Société Générale Moçambique	**Banking & financial services**	**Mozambique**	**Mozambique**	**-**	**35.00**
Promotion and Development Ltd	**Investment and Property development**	**Mauritius**	**Mauritius**	**0.13**	**46.37**
Caudan Development Ltd	**Property development, investment and provision of security services**	**Mauritius**	**Mauritius**	**0.61**	**34.51**
Credit Guarantee Insurance Co Ltd	**Insurance services**	**Mauritius**	**Mauritius**	**40.00**	**-**
2015					
Banque Française Commerciale Ocean Indien	Banking & financial services	Reunion	France	-	49.99
Promotion and Development Ltd	Investment and Property development	Mauritius	Mauritius	0.13	46.37
Caudan Development Ltd	Property development, investment and provision of security services	Mauritius	Mauritius	-	34.51
Credit Guarantee Insurance Co Ltd	Insurance services	Mauritius	Mauritius	40.00	-

(i) The above associates are accounted for using the equity method.

(ii) Except for Credit Guarantee Insurance Co Ltd, the other above associates are held through subsidiaries.

(iii) Banque Française Commerciale Ocean Indien, Société Générale Moçambique and Credit Guarantee Co Ltd are unquoted.
The other associates are quoted and the market value of the quoted associates was based on SEM bid price at 30th June as follows:
Promotion and Development Ltd : Rs 1,619.4 M (2015:Rs 1,719.0 M)
Caudan Development Ltd : Rs 58.0 M (2015: Rs 60.8 M)

GROUP	GROUP	
	2016 RS'M	2015 RS'M
Group share of net assets	**8,390.8**	6,496.7
Goodwill	**56.9**	56.9
Subordinated loans to associate	**704.2**	701.0
	9,151.9	7,254.6

8. Investments in associates (Cont'd)

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

	GROUP	
	2016 RS'M	2015 RS'M
Banque Française Commerciale Ocean Indien		
(i) Summarised statement of financial position:		
Current assets	**9,963.2**	9,587.0
Non current assets	**58,997.9**	56,281.1
Current liabilities	**21,212.2**	19,530.8
Non current liabilities	**41,460.5**	40,521.2
(ii) Summarised statement of profit or loss and other comprehensive income:		
Revenue	**4,170.0**	4,259.0
Dividend received	**210.8**	95.8
Profit	**877.6**	691.5
Other comprehensive income/(expense)	**38.6**	(271.7)
Total comprehensive income	**916.2**	419.8
Promotion and Development Ltd		
(i) Summarised statement of financial position:		
Current assets	**223.9**	252.0
Non current assets	**12,516.1**	10,033.5
Current liabilities	**308.1**	738.0
Non current liabilities	**1,007.5**	1,078.3
Non controlling interest	**1,088.5**	1,083.9
(ii) Summarised statement of profit or loss and other comprehensive income/(expense):		
Revenue	**584.7**	518.9
Profit	**798.3**	60.9
Other comprehensive income/(expense)	**2,249.6**	(91.6)
Total comprehensive income/(expense)	**3,047.9**	(30.7)

8. Investments in associates (Cont'd)

(c) Reconciliation of summarised financial information

Reconciliation of the above summarised financial information to the carrying amount recognised in the financial statements:

	Opening net assets RS'M	Profit RS'M	Other Comprehensive Income/ (expense) RS'M	Other Movements in Reserves RS'M	Dividend RS'M	Closing net assets RS'M	Ownership Interest %	Interest in Associates RS'M	Goodwill RS'M	Subordinated Loan RS'M	Carrying Value RS'M
2016											
Banque Française Commerciale Ocean Indien	**5,816.1**	**877.6**	**38.6**	**-**	**(443.9)**	**6,288.4**	**49.99%**	**3,143.6**	**56.9**	**704.2**	**3,904.7**
Promotion and Development Limited	**7,385.3**	**798.3**	**2,249.6**	**-**	**(97.3)**	**10,335.9**	**46.50%**	**4,806.2**	**-**	**-**	**4,806.2**
2015											
Banque Française Commerciale Ocean Indien	5,598.1	691.5	(271.7)	-	(201.8)	5,816.1	49.99%	2,907.5	56.9	701.0	3,665.4
Promotion and Development Limited	7,492.4	60.9	(91.6)	1.4	(77.8)	7,385.3	46.50%	3,434.2	-	-	3,434.2

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

	GROUP 2016 RS'M	GROUP 2015 RS'M
Carrying amount of interests	**441.0**	155.0
Share of (loss)/profits	**(74.9)**	0.8
Share of other comprehensive expense	**-**	(2.2)

AT COST

	COMPANY 2016 RS'M	COMPANY 2015 RS'M
At 1st July	**20.6**	15.6
Additions	**5.9**	5.0
At 30th June	**26.5**	20.6

9. Investments in subsidiaries

(a) The Group has the following main subsidiaries:

	Country of incorporation/ operation	Principal activities	Stated capital RS'M	Effective Holding 2016 %	Proportion of ownership interests held by non-controlling interests 2016 %	Effective Holding 2015 %	Proportion of ownership interests held by non-controlling interests 2015 %	Cost of Investment Company 2016 RS'M	Cost of Investment Company 2015 RS'M
BANKING									
Direct									
MCB Investment Holding Ltd	Mauritius	Activities of holding companies, without managing	**6,879.6**	**100.00**	**-**	100.00	-	**6,879.6**	6,879.6
Indirect									
The Mauritius Commercial Bank Limited	Mauritius	Banking & Financial services	**6,879.6**	**100.00**	**-**	100.00	-	**-**	-
MCB Seychelles Ltd	Seychelles	Banking & Financial services	**38.1**	**100.00**	**-**	100.00	-	**-**	-
MCB Madagascar SA	Madagascar	Banking & Financial services	**130.2**	**85.00**	**15.00**	85.00	15.00	**-**	-
MCB (Maldives) Private Ltd	Republic of Maldives	Banking & Financial services	**355.7**	**100.00**	**-**	100.00	-	**-**	-
NON-BANKING FINANCIAL									
Direct									
MCB Equity Fund Ltd	Mauritius	Private Equity Fund	**2,084.6**	**100.00**	**-**	100.00	-	**2,084.6**	2,084.6
MCB Capital Markets Ltd	Mauritius	Investment Holding Company	**73.0**	**100.00**	**-**	96.06	3.94	**73.0**	73.0
MCB Factors Ltd	Mauritius	Factoring	**50.0**	**100.00**	**-**	100.00	-	**50.0**	50.0
MCB Micro Finance Ltd	Mauritius	Credit Finance	**20.0**	**100.00**	**-**	n/a	n/a	**20.0**	n/a
OTHER INVESTMENTS									
Direct									
International Card Processing Services Ltd	Mauritius	Providing card system facilities, card embossing and encoding services	**100.0**	**80.00**	**20.00**	80.00	20.00	**80.0**	80.0
Fincorp Investment Ltd	Mauritius	Investment Company	**103.4**	**57.73**	**42.27**	57.73	42.27	**28.7**	28.7
MCB Properties Ltd	Mauritius	Property ownership & development	**14.6**	**100.00**	**-**	100.00	-	**14.6**	14.6
Blue Penny Museum	Mauritius	Philatelic museum	**1.0**	**97.88**	**2.12**	97.88	2.12	**1.0**	1.0
MCB Consulting Services Ltd	Mauritius	Consulting, advisory, support and maintenance services	**24.8**	**100.00**	**-**	100.00	-	**21.5**	21.5
Others*	Seychelles	Property rental & other financial services	**-**	**100.00**	**-**	100.00	-	**0.2**	-
								9,253.2	9,233.0

Except for Fincorp Investment Ltd which is quoted, the other above companies are unquoted.
The fair value of the Company's interest in Fincorp Investment Ltd was Rs 1,157.5 million at 30th June 2016(2015: Rs 1,211.2 million).

* 'Others' relates to Mascareignes Properties Ltd involved in property rental and MCB International Services Ltd involved in other financial services in which the Group holds an effective holding of 100%. The stated capital of both entities are negligible.

9. Investments in subsidiaries (Cont'd)

(b)

	COMPANY	
	2016 RS'M	2015 RS'M
At 1st July	**9,233.0**	4,707.4
Additions	**20.2**	4,525.6
At 30th June	**9,253.2**	9,233.0

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

	Profit attributable to non-controlling interests RS'M	Net Assets attributable to non-controlling interests RS'M
GROUP		
2016	**144.9**	**2,084.9**
2015	29.1	1,587.2

(d) Summarised financial information for Fincorp Investment Ltd which has material non-controlling interests.

	GROUP	
	2016 RS'M	2015 RS'M
(i) Summarised statement of financial position:		
Current assets	**1,502.3**	1,522.5
Non current assets	**8,993.4**	7,369.6
Current liabilities	**1,856.0**	2,702.7
Non current liabilities	**3,571.3**	2,451.3
(ii) Summarised statement of profit or loss and other comprehensive income:		
Revenue	**464.2**	421.6
Profit	**382.4**	67.0
Other comprehensive income	**1,009.8**	20.8
Total comprehensive income	**1,392.2**	87.8
Dividend paid to non-controlling interests	**26.2**	19.7
(iii) Summarised statement of cash flows:		
Net cash flows from operating activities	**421.7**	(64.1)
Investing activities	**(255.4)**	(58.2)
Financing activities	**(359.8)**	348.8
Taxation	**(6.4)**	(20.0)
Net (decrease)/increase in cash and cash equivalents	**(199.9)**	206.5

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

10. Goodwill and other intangible assets

(a) Goodwill

	GROUP	
	2016 RS'M	2015 RS'M
At 1st July	**52.8**	52.8
Adjustment following loss of control in subsidiary	**(46.7)**	-
At 30th June	**6.1**	52.8

(b) Other intangible assets

	GROUP	
	2016 RS'M	2015 RS'M
Computer Software		
Cost		
At 1st July	**3,066.9**	2,903.3
Additions	**421.8**	160.8
Scrap/impairment	**(55.3)**	(12.8)
Exchange adjustment	**(15.4)**	15.6
Adjustment following loss of control in subsidiary	**(133.4)**	-
At 30th June	**3,284.6**	3,066.9
Amortisation		
At 1st July	**2,279.3**	2,044.9
Scrap/impairment	**(53.1)**	(12.8)
Charge for the year	**219.1**	247.0
Exchange adjustment	**(4.0)**	0.2
Adjustment following loss of control in subsidiary	**(48.0)**	-
At 30th June	**2,393.3**	2,279.3
Net book value	**891.3**	787.6
TOTAL	**897.4**	840.4

The only material intangible assets for the Group are the core banking systems. The remaining useful lives range from 4 years to 6 years.

11. Property, plant and equipment

	Land and buildings RS'M	Computer and other equipment RS'M	Furniture, fittings and vehicles RS'M	Work in progress RS'M	Total RS'M
GROUP					
Cost					
At 1st July 2014	4,844.8	3,088.5	1,452.5	65.0	9,450.8
Additions	10.6	172.4	298.5	50.9	532.4
Disposals	-	(71.3)	(153.2)	-	(224.5)
Exchange adjustment	22.6	8.8	(2.0)	-	29.4
Transfer	(0.9)	81.3	10.0	(90.4)	-
At 30th June 2015	**4,877.1**	**3,279.7**	**1,605.8**	**25.5**	**9,788.1**
Additions	**4.9**	**124.6**	**211.2**	**173.3**	**514.0**
Disposals	**(0.7)**	**(170.7)**	**(139.7)**	**-**	**(311.1)**
Exchange adjustment	**(5.3)**	**(4.2)**	**(0.3)**	**-**	**(9.8)**
Transfer	**-**	**60.2**	**3.7**	**(63.9)**	**-**
Assets written off by subsidiary	**-**	**-**	**(25.8)**	**-**	**(25.8)**
Adjustment following loss of control in subsidiary	**(67.9)**	**(44.3)**	**-**	**-**	**(112.2)**
At 30th June 2016	**4,808.1**	**3,245.3**	**1,654.9**	**134.9**	**9,843.2**
Accumulated depreciation					
At 1st July 2014	653.9	2,112.2	639.4	-	3,405.5
Charge for the year	79.7	276.3	156.7	-	512.7
Disposal adjustment	-	(69.4)	(100.2)	-	(169.6)
Exchange adjustment	6.1	3.0	(3.1)	-	6.0
At 30th June 2015	**739.7**	**2,322.1**	**692.8**	**-**	**3,754.6**
Charge for the year	**76.3**	**275.7**	**168.6**	**-**	**520.6**
Disposal adjustment	**-**	**(164.9)**	**(96.1)**	**-**	**(261.0)**
Exchange adjustment	**(0.5)**	**(2.9)**	**-**	**-**	**(3.4)**
Assets written off by subsidiary	**-**	**-**	**(15.4)**	**-**	**(15.4)**
Adjustment following loss of control in subsidiary	**(8.9)**	**(36.1)**	**-**	**-**	**(45.0)**
At 30th June 2016	**806.6**	**2,393.9**	**749.9**	**-**	**3,950.4**

11. Property, plant and equipment (Cont'd)

	Land and buildings RS'M	Computer and other equipment RS'M	Furniture, fittings and vehicles RS'M	Work in progress RS'M	Total RS'M
GROUP					
Net book values					
At 30th June 2016	**4,001.5**	**851.4**	**905.0**	**134.9**	**5,892.8**
At 30th June 2015	4,137.4	957.6	913.0	25.5	6,033.5
COMPANY					
Cost					
Additions	-	-	4.0	-	4.0
At 30th June 2015	**-**	**-**	**4.0**	**-**	**4.0**
Additions	**-**	**-**	**5.6**	**-**	**5.6**
At 30th June 2016	**-**	**-**	**9.6**	**-**	**9.6**
Accumulated depreciation					
Charge for the year	-	-	0.8	-	0.8
At 30th June 2015	**-**	**-**	**0.8**	**-**	**0.8**
Charge for the year	**-**	**-**	**1.9**	**-**	**1.9**
At 30th June 2016	**-**	**-**	**2.7**	**-**	**2.7**
Net book values					
At 30th June 2016	**-**	**-**	**6.9**	**-**	**6.9**
At 30th June 2015	**-**	**-**	**3.2**	**-**	**3.2**

12. Deferred tax assets/(liability)

	Balance as at 1st July RS'M	Exchange adjustments RS'M	Recognised in Statements of profit or loss RS'M	Recognised in Statements of comprehensive income RS'M	Adjustment following loss of control in subsidiary RS'M	Balance as at 30th June RS'M
GROUP						
The movement on the deferred income tax account is as follows :-						
Year ended 30th June 2016						
Deferred tax assets:						
Provisions and post retirement benefits	**236.6**	**-**	**(13.4)**	**30.7**	**-**	**253.9**
Provision for credit impairment	**221.2**	**(0.1)**	**4.3**	**-**	**-**	**225.4**
Tax losses carried forward	**2.3**	**-**	**-**	**-**	**-**	**2.3**
Accelerated tax depreciation	**(173.1)**	**-**	**15.0**	**-**	**(12.2)**	**(170.3)**
	287.0	**(0.1)**	**5.9**	**30.7**	**(12.2)**	**311.3**
Deferred tax liability:						
Accelerated tax depreciation	**(50.2)**	**0.1**	**(15.3)**	**-**	**-**	**(65.4)**
Year ended 30th June 2015						
Deferred tax assets :						
Provisions and post retirement benefits	254.1	-	(0.7)	(16.8)	-	236.6
Provision for credit impairment	132.9	1.8	86.5	-	-	221.2
Tax losses carried forward	15.7	-	(13.4)	-	-	2.3
Accelerated tax depreciation	(177.0)	5.3	(1.4)	-	-	(173.1)
	225.7	7.1	71.0	(16.8)	-	287.0
Deferred tax liability:						
Accelerated tax depreciation	(59.1)	(0.2)	9.1	-	-	(50.2)

12. Deferred tax assets/(liability) (Cont'd)

	Balance as at 1st July RS'M	Recognised in Statements of profit or loss RS'M	Balance as at 30th June RS'M
COMPANY			
Year ended 30th June 2016			
Deferred tax liability :			
Accelerated tax depreciation	**(0.1)**	**(0.3)**	**(0.4)**
Year ended 30th June 2015			
Deferred tax liability :			
Accelerated tax depreciation	-	(0.1)	(0.1)

13. Other assets

	GROUP		COMPANY	
	2016	2015	2016	2015
	RS'M	RS'M	RS'M	RS'M
Mandatory balances with Central Banks	**15,498.8**	14,270.1	**-**	-
Prepayments & other receivables	**684.9**	987.5	**1,071.1**	1,089.2
Credit Card Clearing	**109.5**	245.8	**-**	-
Non-banking assets acquired in satisfaction of debts	**51.9**	57.5	**-**	-
Impersonal and other accounts	**2,504.1**	1,072.4	**-**	-
Receivable from Mauritius Union Assurance Co Ltd	**-**	25.0	**-**	-
	18,849.2	16,658.3	**1,071.1**	1,089.2

14. Deposits

	GROUP	
	2016	2015
	RS'M	RS'M
(a) Deposits from banks		
Demand deposits	**1,283.2**	2,156.5
Money market deposits with remaining term to maturity:		
Up to 3 months	**192.2**	248.5
Over 6 months and up to 1 year	**362.3**	-
	554.5	248.5
	1,837.7	2,405.0

14. Deposits (Cont'd)

	GROUP	
	2016 RS'M	2015 RS'M
(b) Deposits from customers		
(i) Retail customers		
Demand deposits	27,071.0	21,943.1
Savings deposits	99,759.1	88,225.8
Time deposits with remaining term to maturity:		
Up to 3 months	3,785.9	4,194.9
Over 3 months and up to 6 months	2,079.4	2,273.3
Over 6 months and up to 1 year	5,084.2	5,171.4
Over 1 year and up to 5 years	13,783.6	11,833.1
Over 5 years	7.3	56.5
	24,740.4	23,529.2
	151,570.5	133,698.1
(ii) Corporate customers		
Demand deposits	76,124.5	62,241.2
Savings deposits	5,709.3	6,847.0
Time deposits with remaining term to maturity:		
Up to 3 months	5,624.6	5,994.5
Over 3 months and up to 6 months	2,077.7	2,238.0
Over 6 months and up to 1 year	3,081.4	2,072.4
Over 1 year and up to 5 years	5,502.5	1,531.5
Over 5 years	2,791.7	2,782.5
	19,077.9	14,618.9
	100,911.7	83,707.1
(iii) Government		
Demand deposits	509.7	492.1
Savings deposits	52.2	28.6
Time deposits with remaining term to maturity:		
Up to 3 months	379.8	688.6
Over 3 months and up to 6 months	-	108.7
Over 6 months and up to 1 year	-	11.8
	379.8	809.1
	941.7	1,329.8
	253,423.9	218,735.0

15. Other borrowed funds

(a) Other borrowed funds comprise the following:

	GROUP	
	2016 RS'M	2015 RS'M
Borrowings from banks:		
in Mauritius	**9.3**	765.7
Abroad	**5,183.7**	7,040.7
	5,193.0	7,806.4
Other borrowed funds include borrowings with original maturity of less than 3 months as shown in note 4	**90.5**	1,241.1

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	**165.8**	2,229.6
Within a period of more than 1 year but not exceeding 2 years	**58.1**	231.2
Within a period of more than 2 years but not exceeding 3 years	**45.8**	214.5
Within a period of more than 3 years	**4,923.3**	5,131.1
	5,193.0	7,806.4

16. Subordinated liabilities

(a) Subordinated liabilities comprise the following:

		GROUP		COMPANY	
		2016 RS'M	2015 RS'M	2016 RS'M	2015 RS'M
Rs 4.5 billion floating rate subordinated note maturing in August 2023 at an average interest rate of 5.8%(2015:6.0%) (Level 1)	(i)	**4,537.6**	4,539.9	**4,537.6**	4,504.4
USD30M subordinated debt maturing in August 2023 at an average interest rate of 3.8 %(2015:3.5%) (Level 3)	(ii)	**1,082.3**	1,055.7	**-**	-
		5,619.9	5,595.6	**4,537.6**	4,504.4

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

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

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

These notes are quoted on the Official Market of the Stock Exchange of Mauritius Ltd and are presently available to individual and institutional investors for secondary trading.

(ii) The Mauritius Commercial Bank Limited obtained a USD30M 10-year subordinated debt from the African Development Bank. This facility forms part of a wider package of USD150M granted by the latter to allow The Mauritius Commercial Bank Limited to increase its foreign currency lending to clients operating in the region and in mainland Africa.

17. Post employee benefits liabilities

Amounts recognised in the financial statements at end of year

	GROUP	
	2016 RS'M	2015 RS'M
Reconciliation of net defined benefit liability		
Opening balance	**1,034.2**	1,151.0
Amount recognised in statements of profit or loss	**268.0**	309.5
Amount recognised in statements of comprehensive income	**204.4**	(112.0)
Less capital injection	**(1,000.0)**	-
Less employer contributions	**(256.9)**	(314.3)
Liability as shown in note 18	**249.7**	1,034.2
Reconciliation of fair value of plan assets		
Opening balance	**5,297.9**	4,703.3
Interest income	**365.7**	379.9
Capital injection	**1,000.0**	-
Employer contributions	**256.9**	314.3
Benefits paid	**(317.3)**	(220.5)
Return on plan assets excluding interest income	**(400.5)**	120.9
Closing balance	**6,202.7**	5,297.9
Reconciliation of present value of defined benefit obligation		
Opening balance	**6,332.1**	5,854.3
Current service cost	**201.7**	229.7
Interest expense	**432.0**	459.7
Other benefits paid	**(317.3)**	(220.5)
Liability experience (gain)/loss	**(2.7)**	20.8
Liability gain due to change in financial assumptions	**(193.4)**	(11.9)
Closing balance	**6,452.4**	6,332.1
Components of amount recognised in statements of profit or loss		
Current service cost	**201.7**	229.7
Net interest on net defined benefit liability	**66.3**	79.8
Total	**268.0**	309.5
Components of amount recognised in statements of comprehensive income		
Return on plan assets below/(above) interest income	**400.5**	(120.9)
Liability experience (gain)/loss	**(2.7)**	20.8
Liability gain due to change in financial assumptions	**(193.4)**	(11.9)
Total	**204.4**	(112.0)

17. Post employee benefits liabilities (Cont'd)

	GROUP	
	2016	2015
Allocation of plan assets at end of period	%	%
Equity - Local quoted	21	22
Equity - Local unquoted	1	2
Debt - Overseas quoted	9	9
Debt - Local quoted	6	4
Debt - Local unquoted	1	3
Property - Local	3	4
Investment funds	31	39
Cash and other	28	17
Total	100	100
Allocation of plan assets at end of period	%	%
Reporting entity's own transferable financial instruments	6	6
Property occupied by reporting entity	1	2
Other assets used by reporting entity	25	11
Principal assumptions used at end of period		
Discount rate	6.5%	7.0%
Rate of salary increases	4.5%	5.0%
Rate of pension increases	3.7%	4.5%
Average retirement age (ARA)	62	62
Average life expectancy for:		
Male at ARA	18.0 years	18.0 years
Female at ARA	22.5 years	22.5 years
	2016 RS'M	2015 RS'M
Sensitivity analysis on defined benefit obligation at end of period		
Increase due to 1% decrease in discount rate	1,222.0	1,219.2
Decrease due to 1% increase in discount rate	947.2	942.7

The above sensitivity analysis has been carried out by recalculating the present value of obligation at end of period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation. It has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

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

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

17. Post employee benefits liabilities (Cont'd)

The Mauritius Commercial Bank Limited sponsors a defined benefit pension plan for its staff which is self-administered and funded separately from the bank . The Mauritius Commercial Bank Limited has recognised a net defined benefit liability of Rs 249.7M as at 30 June 2016 for the plan (2015 : Rs 1,034.2M).

The Mauritius Commercial Bank Limited operates a final salary defined benefit pension plan for its employees. The plan exposes the bank to normal risks associated with defined benefit pension plans such as investment, interest, longevity and salary risks.

Investment risk: The plan liability is calculated using a discount rate determined by reference to government bond yields; if the return on plan assets is below this rate , it will create a plan deficit and if it is higher, it will create a plan surplus.

Interest risk: A decrease in the bond interest rate will increase the plan liability; however, this may be partially offset by an increase in the return on the plan's debt investments and a decrease in inflationary pressures on salary and pension increases.

Longevity risk: The plan liability is calculated by reference to the best estimate for the mortality of plan participants both during and after their employment . An increase in life expectancy of the plan participants will increase the plan liability.

Salary risk: The plan liability is calculated by reference to the future projected salaries of plan participants. As such, an increase in the salary of the plan participants above the assumed rate will increase the plan liability whereas an increase below the assumed rate will decrease the liability.

There has been no plan amendment, curtailment or settlement during the year.

Future cash flows

The funding policy is to pay contributions to an external legal entity at the rate recommended by the entity's actuaries

Expected employer contribution for the next year (Rs M)	**238.4**
Weighted average duration of the defined benefit obligation	**17 years**

Capital injection

During the year, The Mauritius Commercial Bank Limited has injected Rs 1,000.0 M into the Superannuation Fund in order to finance the shortfall of the Fund.

Note: Employee benefits obligations have been provided for based on the report from Aon Hewitt Ltd., Actuaries and Consultants.

18. Other liabilities

	GROUP		COMPANY	
	2016 RS'M	2015 RS'M	2016 RS'M	2015 RS'M
Post employee benefits liability (note 17)	**249.7**	1,034.2	**-**	-
Proposed dividend	**952.8**	892.7	**952.8**	892.7
Crescendo notes*	**2,850.0**	1,711.5	**-**	-
Impersonal & other accounts	**3,384.5**	3,250.7	**47.6**	37.8
	7,437.0	6,889.1	**1,000.4**	930.5

*These notes were issued by one of our subsidiary whereby the capital and/or return are guaranteed.

19. Stated capital and reserves

(a) Share Capital

	Number of shares
At 1st July 2014	237,977,261
Issue of shares following the exercise of Group Employee Share Options Scheme	68,818
At 30th June 2015	**238,046,079**
Issue of shares following the exercise of Group Employee Share Options Scheme	**141,093**
At 30th June 2016	**238,187,172**

The shares have no par value and rank 'pari passu' in all respects with the existing ordinary shares of the company.

(b) Reserves

(i) Capital reserve
The capital reserve represents the cumulative net change in the fair value of:
(a) available-for-sale investment securities until the securities are derecognised or impaired.
(b) land until it is derecognised.

(ii) Translation reserve
The translation reserve represents all foreign currency differences arising from the translation of the results and financial position of foreign operations.

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

(iv) General banking reserve
The Group makes an appropriation to a General banking reserve for unforeseen risks and future losses.

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

20. Contingent liabilities

	GROUP	
	2016 RS'M	2015 RS'M
(a) Instruments		
Acceptances on account of customers	**166.8**	275.3
Guarantees on account of customers	**18,998.1**	16,654.8
Letters of credit and other obligations on account of customers	**9,269.6**	16,878.9
Other contingent items	**3,696.3**	11,888.1
	32,130.8	45,697.1
(b) Commitments		
Loans and other facilities, including undrawn credit facilities	**2,913.5**	4,633.0
(c) Tax assessments*	**836.9**	797.2
(d) Other		
Inward bills held for collection	**428.0**	490.3
Outward bills sent for collection	**1,003.7**	803.6
	1,431.7	1,293.9
	37,312.9	52,421.2

*During the period December 2011 to June 2016, The Mauritius Commercial Bank Limited, one of our subsidiary, received income tax assessments relating to six consecutive years starting with financial year ended 30th June 2007 to 30th June 2012 against which The Mauritius Commercial Bank Limited has objected.

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

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

21. Interest income

	GROUP		COMPANY	
	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M
Loans to and placements with banks	**367.1**	227.9	**-**	-
Loans and advances to customers	**11,313.1**	11,150.7	**-**	-
Held-to-maturity investments	**1,875.5**	1,419.8	**-**	-
Available-for-sale investments	**75.6**	35.3	**-**	-
Other	**12.3**	10.6	**-**	-
	13,643.6	12,844.3	**-**	-

22. Interest expense

Deposits from banks	**11.1**	6.3	**-**	-
Deposits from customers	**4,344.4**	4,253.4	**-**	-
Subordinated liabilities	**303.8**	304.9	**262.8**	4.4
Other borrowed funds	**94.0**	125.5	**-**	-
	4,753.3	4,690.1	**262.8**	4.4

23. Fee and commission income

Retail banking fees	**626.4**	662.7	**-**	-
Corporate banking fees	**575.3**	581.0	**-**	-
Guarantee fees	**222.6**	223.2	**-**	-
Interbank transaction fees	**51.5**	51.5	**-**	-
Brokerage	**18.1**	22.6	**-**	-
Asset management fees	**135.1**	112.5	**-**	-
Rental income	**134.1**	110.8	**-**	-
Cards and other related fees	**1,469.1**	1,391.9	**-**	-
Trade finance fees	**498.4**	666.8	**-**	-
Others	**305.9**	325.1	**-**	-
	4,036.5	4,148.1	**-**	-

24. Fee and commission expense

Interbank transaction fees	**34.7**	31.9	**-**	-
Cards and other related fees	**722.2**	664.9	**-**	-
Others	**88.3**	86.9	**-**	0.1
	845.2	783.7	**-**	0.1

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

	GROUP		COMPANY	
	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M
Net (loss)/gain from derivatives financial instruments	**(232.2)**	78.8	**-**	-
Investment securities at fair value through profit or loss	**130.4**	69.0	**-**	-
Investment securities held-for-trading	**1.3**	-	**-**	-
	(100.5)	147.8	**-**	-

26. Dividend income

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Cash				
Income from quoted investments:				
Subsidiary	**-**	-	**35.8**	35.8
Others	**53.4**	41.4	**0.1**	0.1
Income from unquoted investments:				
Subsidiary	**-**	-	**2,168.1**	1,852.0
Others	**23.0**	44.8	**-**	-
	76.4	86.2	**2,204.0**	1,887.9

27. Non-interest expense

(a) Salaries and human resource development

	GROUP		COMPANY	
	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M
Wages and salaries	**2,373.2**	2,246.5	**68.6**	51.8
Defined benefit plan	**268.0**	309.5	**-**	-
Defined contribution plan	**44.3**	-	**-**	-
Compulsory social security obligations	**60.5**	60.0	**-**	-
Equity settled share-based payments	**1.6**	1.5	**-**	-
Other personnel expenses	**563.4**	466.9	**-**	-
	3,311.0	3,084.4	**68.6**	51.8
Number of employees	**3,220**	3,135	**-**	-

(b) Other non-interest expense

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Software licensing and other information technology cost	**254.9**	258.5	**-**	-
Others	**1,483.4**	1,423.0	**29.4**	22.6
	1,738.3	1,681.5	**29.4**	22.6

(c) Share-based payments

During FY 2014, the Group proposed to all employees a Group Employee Share Option Scheme (GESOS).

The Board of Directors has the authority to issue up to 5 million shares to the employees. In October 2015, a further offer of 675,055 options was made on similar terms.

	GROUP			
	2016		2015	
	Weighted avg exercise price RS	Number of options	Weighted avg exercise price RS	Number of options
Outstanding and exercisable at 1st July	**194.24**	**463,778**	176.47	399,032
Expired during the year	**193.64**	**(409,477)**	176.29	(373,659)
Granted during the year	**195.75**	**675,055**	193.85	507,223
Exercised during the year	**194.27**	**(141,093)**	185.88	(68,818)
Outstanding and exercisable at 30th June		**588,263**		463,778

The options outstanding at 30th June 2016 under GESOS have an exercise price in the range of Rs 194 to Rs 218 and a weighted average contractual life of 3½ months.

The weighted average share price at the date the share options were exercised under GESOS during F/Y 15/16 was Rs 209.33 (2015:Rs 203.09).

The fair value of services in return for share options granted is based on the fair value of the share options granted measured by the average market price of the share of the last three months, as may be adjusted by the Board of Directors of MCB Group Limited. The fair value at measurement date is Rs 212.75 (2015:Rs 210.75).

28. Net impairment of financial assets

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

	GROUP	
	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M
Allowance for credit impairment	**988.0**	1,126.8
Impairment of available-for-sale investment securities	**33.9**	36.3
	1,021.9	1,163.1
Allowance for credit impairment		
Provision for bad and doubtful debts:		
Loans to and placements with banks	**1.3**	-
Loans and advances to customers	**1,658.4**	1,116.9
Bad debts written off for which no provisions were made	**34.8**	89.3
Provision released during the year:		
Loans to and placements with banks	**-**	(0.8)
Loans and advances to customers	**(681.3)**	(51.3)
Recoveries of advances written off	**(25.2)**	(27.3)
	988.0	1,126.8

29. Income tax expense

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

	GROUP		COMPANY	
	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M
Income tax based on the adjusted profits	**938.7**	790.3	**-**	-
Deferred tax	**9.4**	(80.1)	**0.3**	0.1
Special levy on banks	**428.3**	362.6	**-**	-
Corporate Social Responsibility contribution	**151.4**	66.9	**-**	-
Under/(Over) provision in previous years	**9.2**	(10.6)	**-**	-
Charge for the year	**1,537.0**	1,129.1	**0.3**	0.1

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

Profit before tax	**8,341.9**	6,900.3	**1,841.3**	1,808.2
Less share of profit of associates	**(735.0)**	(374.8)	**-**	-
	7,606.9	6,525.5	**1,841.3**	1,808.2
Tax calculated at a rate of 15%	**1,141.0**	978.8	**276.2**	271.2
Effect of different tax rates	**101.6**	53.3	**-**	-
Impact of:				
Income not subject to tax	**(197.0)**	(162.1)	**(330.6)**	(283.3)
Expenses not deductible for tax purposes	**144.4**	168.0	**54.7**	12.2
Tax credits	**(241.9)**	(327.8)	**-**	-
Special levy on banks	**428.3**	362.6	**-**	-
Corporate Social Responsibility contribution	**151.4**	66.9	**-**	-
Under/(Over) provision in previous years	**9.2**	(10.6)	**-**	-
Tax charge	**1,537.0**	1,129.1	**0.3**	0.1

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

	GROUP	
	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M
Remeasurement of defined benefits pension plan	**204.4**	(112.0)
Deferred tax (credited)/charge	**(30.7)**	16.8
	173.7	(95.2)

30. Dividends

	COMPANY	
	2016 RS'M	2015 RS'M
Paid on 17th December 2015 at Rs 4.25 per share (FY 2015: Rs 3.10 per share)	**1,011.9**	737.8
Paid on 29th July 2016 at Rs 4.00 per share (FY 2015: Rs 3.75 per share)	**952.8**	892.7
	1,964.7	1,630.5

31. Earnings per share

(a) Basic earnings per share

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

	GROUP	
	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M
Profit attributable to the ordinary equity holders of the parent	**6,625.5**	5,722.0
Weighted average number of ordinary shares (thousands)	**238,125**	238,014
Basic earnings per share (Rs)	**27.82**	24.04

(b) Diluted earnings per share

Diuted earnings per share is calculated by dividing the profit attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after adjustment for the effects of all dilutive potential ordinary shares.

The Company has only one category of dilutive potential ordinary shares which is share options.

For share options, the proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period is treated as an issue of ordinary shares for no consideration.

	GROUP	
	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M
Profit attributable to the ordinary equity holders of the parent	**6,625.5**	5,722.0
Weighted average number of ordinary shares basic (thousands)	**238,125**	238,014
Effect of share options in issue (thousands)	**42**	49
Weighted average number of ordinary shares diluted (thousands) at year end	**238,167**	238,063
Diluted earnings per share (Rs)	**27.82**	24.04

32. Commitments

(a) Capital commitments

	GROUP	
	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M
Expenditure contracted for but not incurred	**217.8**	117.6
Expenditure approved by the Board but not contracted for	**348.1**	304.4

(b) Securities pledged

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

	GROUP	
	2016 RS'M	2015 RS'M
Government of Mauritius bonds	**3,041.0**	2,941.3

33. Net cash flows from trading activities

	GROUP		COMPANY	
	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M
Operating profit	**7,606.9**	6,525.5	**1,841.3**	1,808.2
(Decrease)/increase in other assets	**(1,942.2)**	(1,800.5)	**18.1**	(230.3)
Increase in other liabilities	**1,315.7**	1,490.5	**43.0**	25.6
Capital injection in MCB Superannuation Fund	**(1,000.0)**	-	**-**	-
Net decrease/(increase) in derivatives	**108.3**	(528.7)	**-**	-
Increase in investment securities held-for-trading	**(722.7)**	-	**-**	-
Increase in investment securities at fair value through profit or loss	**(2.1)**	(0.6)	**-**	-
Additional/(release) provision for employee benefits	**11.1**	(4.8)	**-**	-
Charge for credit impairment	**1,659.7**	1,116.9	**-**	-
Release of provision for credit impairment	**(681.3)**	(52.1)	**-**	-
Exchange (profit)/loss	**(31.5)**	134.3	**-**	-
Depreciation	**520.6**	512.7	**1.9**	0.8
Amortisation of intangible assets	**219.1**	247.0	**-**	-
Loss/(profit) on disposal of property, plant and equipment	**2.7**	(6.0)	**-**	-
Impairment of available-for-sale investments	**33.9**	36.3	**-**	-
Impairment of intangible assets	**2.2**	-	**-**	-
Profit on disposal of available-for-sale investments	**(282.9)**	(97.3)	**-**	-
Assets written off by subsidiary	**10.4**	-	**-**	-
Profit following loss of control in former subsidiary	**(98.4)**	-	**-**	-
Gain on a bargain purchase	**(11.8)**	(4.5)	**-**	-
	6,717.7	7,568.7	**1,904.3**	1,604.3

34. Net cash flows from other operating activities

	GROUP	
	Year ended 30th June 2016 RS'M	Year ended 30th June 2015 RS'M
Net increase in deposits	**35,856.8**	32,655.9
Net increase in loans and advances	**(14,978.3)**	(17,013.6)
Increase in held to maturity investment securities	**(11,442.5)**	(12,179.6)
Net (decrease)/increase in other borrowed funds	**(1,462.7)**	1,370.3
	7,973.3	4,833.0

35. Loss of control in former subsidiary

On 18th March 2015, the company's subsidiary, The Mauritius Commercial Bank Limited, entered into an investment agreement with Société Générale whereby the latter would, subject to regulatory approval, subscribe to additional capital in MCB Moçambique SA.

On 2nd October 2015, MCB's equity stake in MCB Moçambique decreased from 95% to 35% and MCB Moçambique SA, renamed as Société Générale Moçambique, became an associate from that date. Accordingly since, the assets and liabilities of the former subsidiary were derecognised and MCB Group Limited accounted for the retained interest in Société Générale Moçambique using the equity method.

The assets and liabilities derecognised were as follows:

	GROUP 2016 RS'M
Assets	
Cash and cash equivalents	760.6
Loans and advances to customers	988.1
Investment securities	192.4
Goodwill and other intangible assets	132.1
Property, plant and equipment	67.2
Deferred tax assets	12.2
Other assets	182.2
Total assets	**2,334.8**
Liabilities	
Deposits from customers	1,649.3
Other liabilities	16.0
Borrowings	179.2
Total liabilities	**1,844.5**
Net assets derecognised	**490.3**

The loss of control in MCB Moçambique SA resulted in a gain of Rs 98.4M as follows:

The fair value of retained interest in MCB Moçambique at the date control was lost	448.7
Contingent consideration	140.0
	588.7
Less net assets derecognised	(490.3)
Gain recognised as "other operating income" in the Statement of Profit or Loss	**98.4**

36. Operating segments

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

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

The Group's income, expenses, assets and liabilities are derived mainly through its Mauritian operations.

Year ended 30th June 2016

	GROUP RS'M	Banking RS'M	Non-Banking Financial RS'M	Other Investments RS'M	Eliminations RS'M
Income:					
External gross income	**20,016.3**	19,131.7	1,347.5	356.2	(819.1)
Expenses	**(11,387.5)**	(10,764.3)	(775.9)	(356.8)	509.5
Operating profit before impairment	**8,628.8**	8,367.4	571.6	(0.6)	(309.6)
Net impairment of financial assets	**(1,021.9)**	(968.8)	(53.1)	-	-
Operating profit	**7,606.9**	7,398.6	518.5	(0.6)	(309.6)
Share of profit of associates	**735.0**	362.2	0.8	372.0	-
Profit before tax	**8,341.9**	7,760.8	519.3	371.4	(309.6)
Income tax expense	**(1,537.0)**				
Profit for the year	**6,804.9**				
Other segment items:					
Segment assets	**307,344.2**	308,195.8	10,178.3	1,107.8	(12,137.7)
Investments in associates	**9,151.9**	4,169.0	16.0	4,980.8	(13.9)
Goodwill and other intangible assets	**897.4**				
Deferred tax assets	**311.3**				
Total assets	**317,704.8**				
Segment liabilities	**267,246.0**	267,130.0	8,332.8	1,250.3	(9,467.1)
Unallocated liabilities	**7,450.2**				
Total liabilities	**274,696.2**				

36. Operating segments (Cont'd)

Year ended 30th June 2015

	GROUP RS'M	Banking RS'M	Non-Banking Financial RS'M	Other Investments RS'M	Eliminations RS'M
Income:					
External gross income	18,688.0	18,028.2	1,032.2	298.4	(670.8)
Expenses	(10,999.4)	(10,483.3)	(625.5)	(308.2)	417.6
Operating profit before impairment	7,688.6	7,544.9	406.7	(9.8)	(253.2)
Net impairment of financial assets	(1,163.1)	(1,156.7)	(6.4)	-	-
Operating profit	6,525.5	6,388.2	400.3	(9.8)	(253.2)
Share of profit of associates	374.8	345.7	0.7	28.4	-
Profit before tax	6,900.3	6,733.9	401.0	18.6	(253.2)
Income tax expense	(1,129.1)				
Profit for the year	5,771.2				
Other segment items:					
Segment assets	271,630.8	271,329.9	8,738.3	765.8	(9,203.2)
Investments in associates	7,254.6	3,665.4	15.1	3,590.0	(15.9)
Goodwill and other intangible assets	840.4				
Deferred tax assets	287.0				
Total assets	280,012.8				
Segment liabilities	235,252.4	234,449.8	7,124.5	1,162.6	(7,484.5)
Unallocated liabilities	7,078.2				
Total liabilities	242,330.6				

36. Operating segments (Cont'd)

Year ended 30th June 2016

	GROUP RS'M
External gross income:	
Banking	19,131.7
Non-Banking Financial	1,347.5
Other Investments	356.2
Eliminations	(819.1)
	20,016.3

	GROUP RS'M	Net interest income/(expense) RS'M	Net fee and commissions RS'M	Dividend income RS'M	Forex profit and others RS'M
Operating income:					
Banking	13,727.7	8,780.6	2,873.6	446.5	1,627.0
Non-Banking Financial	937.3	145.2	458.7	34.2	299.2
Other Investments	326.9	(35.5)	27.0	0.8	334.6
Eliminations	(574.1)	-	(168.0)	(405.1)	(1.0)
	14,417.8	8,890.3	3,191.3	76.4	2,259.8
Segment assets	278,685.9	273,469.6		5,216.3	
Investments in associates	9,151.9				
Goodwill and other intangible assets	897.4				
Deferred tax assets	311.3				
Unallocated assets	28,658.3				
Total assets	317,704.8				

36. Operating segments (Cont'd)

Year ended 30th June 2015

	GROUP RS'M
External gross income:	
Banking	**18,028.2**
Non-Banking Financial	**1,032.2**
Other Investments	**298.4**
Eliminations	**(670.8)**
	18,688.0

	GROUP RS'M	Net interest income/(expense) RS'M	Net fee and commissions RS'M	Dividend income RS'M	Forex profit and others RS'M
Operating income:					
Banking	**12,714.4**	8,051.1	3,096.6	284.4	1,282.3
Non-Banking Financial	**736.0**	141.3	437.5	51.6	105.6
Other Investments	**243.6**	(38.2)	(7.9)	3.3	286.4
Eliminations	**(479.8)**	-	(161.8)	(253.1)	(64.9)
	13,214.2	8,154.2	3,364.4	86.2	1,609.4
Segment assets	**243,568.4**	238,850.7		4,717.7	
Investments in associates	**7,254.6**				
Goodwill and other intangible assets	**840.4**				
Deferred tax assets	**287.0**				
Unallocated assets	**28,062.4**				
Total assets	**280,012.8**				

37. Related party transactions

(a) The Group

	Associated companies	Directors and Key Management Personnel	Enterprises in which Directors and Key Management Personnel have significant interest	Defined benefit plan
	RS'M	RS'M	RS'M	RS'M
Loans and Advances				
Balance at year end:				
30th June 2015	3,217.0	73.7	616.5	-
30th June 2016	**3,767.6**	**178.9**	**644.0**	**-**
Leases receivable				
Balance at year end:				
30th June 2015	-	-	0.6	-
30th June 2016	**-**	**-**	**0.5**	**-**
Deposits				
Balance at year end:				
30th June 2015	170.3	241.3	41.6	664.3
30th June 2016	**75.1**	**304.5**	**106.1**	**1,614.9**
Amounts due from				
Balance at year end:				
30th June 2015	3.9	-	-	-
30th June 2016	**3.0**	**-**	**-**	**-**
Off Balance sheet items				
Balance at year end:				
30th June 2015	-	-	5.4	-
30th June 2016	**487.8**	**-**	**-**	**-**
Interest income				
For the year ended:				
30th June 2015	106.8	2.6	10.2	-
30th June 2016	**122.0**	**5.6**	**11.0**	**-**
Interest expense				
For the year ended:				
30th June 2015	4.2	2.8	0.4	22.5
30th June 2016	**3.1**	**3.6**	**0.1**	**15.9**
Other income				
For the year ended:				
30th June 2015	9.6	0.5	0.5	2.6
30th June 2016	**13.9**	**0.8**	**0.5**	**2.3**

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

37. Related party transactions (Cont'd)

(a) The Group (Cont'd)

The figure for "Other income" from Associated Companies includes an element, representing management fees charged to associated companies in respect of salaries, notional rental of office space and provision of technical, administrative and other assistance to local Group companies. It also includes an amount of Rs 3.9 M for both 2016 and 2015 in respect of management fees charged to Banque Francaise Commerciale Ocean Indien('BFCOI').

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

In addition, for the period October 2015 to June 2016, the following subsidiaries of MCB Group Ltd claimed fees from SG Moçambique in respect of IT, Systems and Cards services support: USD91,015 by International Cards Processing Services Ltd, USD785,323 by MCB Consulting Services Ltd and USD112,760 by MCB Ltd. These amounts have been recognised as Income in our subsidiaries' and consolidated Group profit or loss. .

During the year, no share options were exercised under the Group Employee Share Option scheme by key management personnel, including executive directors (FY2014/2015: 7,588 share options for Rs 1.5M).

(b) The Company

In addition to the amounts disclosed in (a) above, the following information relate to subsidiaries and associate of the Company:

(i) Balances as at 30th June:

Subsidiaries	Amount owed by RS'M	Amount owed to RS'M
2015	1,138.0	12.8
2016	**1,068.6**	6.7

(ii) Income and expenses for the period ended:

	Dividend income RS'M	Other expense RS'M
Subsidiaries		
30th June 2015	1,887.8	13.2
30th June 2016	**2,203.9**	8.0
Associate		
30th June 2015	0.1	-
30th June 2016	**0.2**	-

(c) Key Management Personnel compensation

	GROUP		COMPANY	
	2016 RS'M	**2015 RS'M**	**2016 RS'M**	**2015 RS'M**
Remuneration and other benefits relating to Key Management Personnel, including Directors, were as follows:				
Salaries and short term employee benefits	**173.1**	154.8	**44.4**	38.3
Post employment benefits	**17.8**	18.4	**4.3**	4.2
	190.9	173.2	**48.7**	42.5

2016 in retrospect

Rodrigues Scholarship

The 2016 MCB Rodrigues Scholarships were awarded to Jean Alberto Sunglee and Louis Philippe Allas

MCB Foundation Scholarship

The 2016 MCB Foundation Scholarship was awarded to Yasiirah Allykhan

Make A Wish

Grand River South-East primary school opened its museum, courtesy of MCB's Make A Wish competition

Creation of CIB

Corporate and International SBUs merged to create Corporate and Institutional Banking SBU

Visa Direct

Casting of 'Juice' customers for the Visa Direct campaign

SEMYIA

Queen Elizabeth College won the 2016 Stock Exchange of Mauritius Young Investor Award

MCB Tour Championship

Golf legend Colin Montgomerie won the 2015 MCB Tour Championship

India Sovereign Bond ETF

MCB Capital Markets launched the first India Sovereign Bond Exchange Traded Fund

CE Address

The Chief Executive of MCB Ltd communicated the Bank's strategy to the whole staff

Porlwi by light

MCB was one of the main sponsors of the Porlwi by light event which attracted 475,000 persons

2016 in retrospect

Spelling Bee

The English Speaking Union's Spelling Bee Competition was held at MCB St Jean

Business Meetings

MCB organised a series of business breakfasts, meetings and conferences

OVEC Fair

Port Louis Main Branch was a one-stop-shop for tertiary education during the OVEC Fair

'Juice' on Stage

'Juice' supported a series of cultural events including *'The Voice à Maurice'*.

Management Development

54 staff members followed the Management Development Programme run in partnership with the University of Stellenbosch - Executive Development

Plan 12-17

Winners of the first Plan 12-17 lucky draw

MCB Equity Fund

MCB Equity Fund invested in Partnering Technologies, a French high-tech printing and robotics business run by Ramesh Caussy, the Mauritian inventor of Diya One, the air purifying robot.

Golf

MCB sponsored the 2016 Indian Ocean Amateur Golf tournament

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