ANNUAL REPORT 2020

MCB GROUP

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Dear Shareholder,

The Directors of MCB Group Limited are pleased to present its Annual Report for the year ended 30 June 2020.

The Annual Report was approved by the Board of Directors on 28 September 2020.

M G Didier HAREL
Chairperson

Pierre Guy NOEL
Chief Executive

The Concept

« Kan de lame tape fer son »

Proverb Kreol morisien

Nou finn dimann bann mam Association of Communication Agencies of Mauritius (Lasosiasion bann lazans kominikasion dan Moris) kree bann ilistrasion pou nou rapor. Plizir lazans inn travay lor sa proze-la. Zot inn servi bann mo ek bann proverb ki reprezant filosofi ki nou panse esansiel pou nou resi travers kontex aktiel. Zot bann kreasion met an valer diversite ek bote nou talan lokal, ek montre a ki pwin nou kapav al pli lwin kan nou met latet ansam.

"It takes two hands to clap"

Mauritian Creole saying

We have asked the members of the Association of Communication Agencies of Mauritius to team up together and create the illustrations you will find throughout this report. Based on keywords or sayings that appropriately sum up the behaviours we felt essential to get us through the current context, these artworks showcase local talent in all its abundance, diversity and beauty, and the full potential of collaborative work.

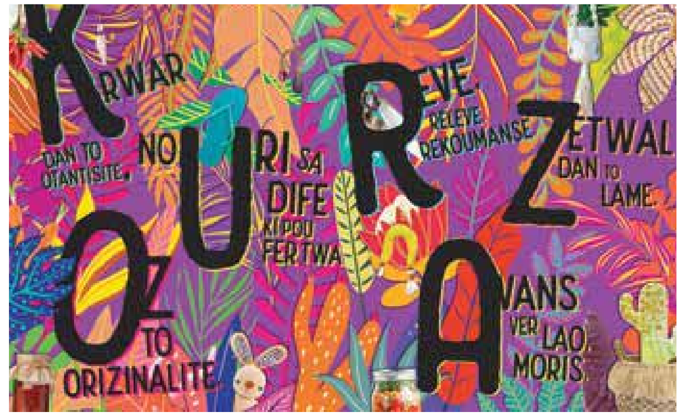
Cover illustration:
Krwar. Trase. Resi.® - *Believe. Strive. Achieve.*

Togetherness

Set your heart on the goal

Solidarity

Creativity



Believe in your dreams

Share our heritage

Energy

Never give up

Pride

MCB Group at a glance

Our identity

MCB Group Limited (referred to as 'MCB Group Ltd' or 'Group') is the holding company of MCB Group, which consists of banking and non-banking subsidiaries and associates. Our main subsidiary, i.e. The Mauritius Commercial Bank Ltd (denoted as 'MCB Ltd', 'MCB' or 'Bank'), is the leading bank in Mauritius. Furthermore, the Group is recognised as a prominent financial services player in the region.

Our purpose-driven approach

Over time, the Group has built an organisation which is worthy of the trust of its customers, shareholders and the community at large. We continuously strengthen our balance sheet and revenue base.

We are intent on diversifying our markets in the region and beyond. In tune with our brand promise and as a responsible entity, we are committed to executing an ambitious sustainability agenda to embed long-term value for our stakeholders.

We relentlessly sharpen our capabilities for growth, while striving to make banking simpler, faster and more convenient to our customers. We actively monitor and assess the operating environment and ensure that we rise up to challenges and opportunities that we are exposed to.

Our reporting suite

The contents of this **Annual Report** are complemented by our **Sustainability Report**, which provides a comprehensive overview of our **Corporate Sustainability Programme, 'Success Beyond Numbers'.** While shedding light on our value creation model and our socio-economic impact in Mauritius, it showcases key strategies and moves aimed at embedding our role as a responsible corporate citizen.

The above reports can be accessed at **mcbgroup.com.** They are available in a digital format and are fully adapted to smartphones, tablets and desktop computers. This allows for a more enjoyable reading experience, while making it easier to share key information from the report. The latter can, thus, be conveniently broadcast on social media platforms such as Twitter and LinkedIn as well as on instant messaging services like WhatsApp.

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

Responding to the COVID-19 crisis and upholding our resilience

An unprecedented context

In 2020, we witnessed the unprecedented impact of the COVID-19 pandemic on economies, businesses, societies, individuals and families as infections stemming from the virus rocketed around the world. Notwithstanding wide-ranging measures taken by the authorities to mitigate the socio-economic crisis, markets in Mauritius, our foreign presence countries and the wider region have not been spared. In Mauritius, following the detection of the first positive cases, the authorities have imposed a lockdown, starting 20 March 2020. A strict curfew order was imposed as from 23 March to break the circuit of transmission of the virus and was ended on 30 May, after which socio-economic activities have gradually resumed across the country. Since 15 June, all business and activity lockdowns have been lifted, but, with the wearing of masks compulsory and our international borders remaining closed, certain sectors of the economy such as those linked to tourism are still operating at sub optimal level.

MCB Group responded to the changing operating landscape in a prompt and orderly manner. With the support of our employees, we took pragmatic steps to ensure continuity of service and have, since, reviewed business development priorities in terms of scope and magnitude to focus on the more immediate needs of our markets.

Our operations and business continuity measures

Guided by our set protocols and the dedication of both our Management teams and employees, business continuity was ensured as regard client transactions processing, while we notably attended to payment of salaries and social welfare allowances. Prior to the lockdown period in Mauritius, we had finalised our Pandemic Preparedness Plan for the organisation as a whole, after discussions with the authorities and aligning ourselves with advocated practices. We set up a Crisis Management Team (CMT) to provide direction and guidance to oversee an effective and coordinated management of action plans and initiatives aimed to cope with the pandemic and consistently ensure minimal service delivery across our Group entities and presence countries. The responsible members of each stream (Staff, Operations, Business, Communication, Risk, Liquidity/Funding, Regulatory, Retail, Overseas and Local Subsidiaries) within the CMT have worked towards ensuring the smooth running of their respective activities. The CMT met virtually on a daily basis to coordinate and manage the activities of the organisation, with regular updates from the Pandemic Operations Team, which was established to ensure a seamless coordination between different areas of the organisation during the lockdown period. Of note, in addition to being guided by business continuity measures, our foreign banking subsidiaries established their own Crisis Management Teams and Pandemic Response Plans to oversee their day-to-day operations, with mechanisms in place being adapted to local circumstances and inherent business realities.

Across Group entities, Work From Home (WFH) practices and split teams were, during lockdown periods, put into place to maintain continuity of business operations and delivery of customer service (albeit to minimal levels) as well as reduce risks of contamination and contagion. Our contingency plan contained well-established processes that facilitated the execution of WFH on a large scale, while maintaining to the minimum possible on-site employees during the peak of the pandemic. The *modus operandi* was put in place in a prompt manner and, despite the very short notice, most of our arrangements worked as planned. With the end of lockdown period, we resumed work on-site in a phased manner, in accordance with internal protocols, with WFH practices still being exercised to the extent feasible. As for our branches across our presence countries, they reviewed their functioning in the wake of the virus spread. In Mauritius, we planned, at the outset and after consultation with the Bank of Mauritius, to cater for customer needs through 14 strategically-positioned branches out of 40 branches and we reviewed their operating hours to help mitigate the virus spread. With the end of the lockdown, all our branches are open as per normal working hours, with robust sanitary measures in place.

Responding to the COVID-19 crisis and upholding our resilience

Safeguarding the health and safety of our employees and clients

The well-being of our stakeholders being a topmost priority, we implemented strict sanitary and hygiene protocols to uphold sound physical environments in our working premises. We put in place a controlled entry system and used calibrated non-contact thermometers for body temperature screenings for all visitors and employees admitted in our premises. We set up social distancing markings at entrances and service counters for better queue management and to mitigate contagion risks. We installed protective glass screens separating customers from tellers to ensure maximum protection. We ensure that staff members as well as customers wear masks. Hydro-alcoholic solutions are dispensed to customers upon entry in our premises. We conduct regular cleansing and disinfection of our premises and equipment, notably across frontline spaces and common areas. We adhere to best practice sanitary and health measures and protocols, with the recommendations of the World Health Organisation and local authorities strictly followed, backed by necessary supportive mechanisms.

Helping our customers ride through difficult times

We are conscious that our valued clients have been facing extraordinary and uncertain times. Against this backdrop, the Group entities have deployed timely efforts and measures to stand by and accompany their individual and corporate customers, while offering appropriate work-around solutions for service delivery and attending to requests for dedicated facilities, notably with regard to servicing of debt obligations and provision of working capital facilities, loan restructuring and credit relief. We closely collaborated with the authorities in our presence countries to help in implementing a number of support measures, to assist all our customers and help them recover.

Bearing in mind the mode of transmission of the COVID-19 virus, we intensified communication and awareness campaigns on social media to encourage our customers and the general public to opt for digital and contactless channels, while sensitising them on phishing and scamming attempts. In Mauritius, our mobile banking platform 'JuiceByMCB' and Internet Banking solutions offer a secure and convenient round-the-clock alternative to our customers for their everyday banking needs from their home. To further promote its digital channels, the organisation deployed additional POS machines and increased its repertoire of 'Juice' merchants, alongside assisting stand-alone e-commerce merchants and online market place operators in their endeavours. We have also promoted the use of our recently-developed payment solution 'Scan to pay' (QR code), which is available on 'JuiceByMCB', to effect transactions. We have increased the limit for contactless payments from Rs 500 to Rs 2,500 since the beginning of the imposed lockdown period, with the number of related transactions more than doubling during the period spanning January to June 2020.

Read more in the 'Fostering our stakeholder engagement' section on pages 55 to 67

Preserving our status as a sound and resilient organisation

Alongside supporting its stakeholders, the Group strengthened its risk management set-up to tackle and mitigate pressures exerted on business activities by the pandemic. It took prompt and proactive steps with the aim to preserve the stability and soundness of its exposures across market segments. In Mauritius, MCB Ltd set up a cross-functional and dedicated Portfolio Assessment Team aimed at evaluating the economic and financial situation of systemic client Groups and SMEs. This enabled the Bank to carry out a vulnerability assessment of its exposures across the most affected economic sectors, thus helping to (i) undertake an informed appraisal of credit needs for relevant remedial actions; and (ii) uphold a generally healthy market positioning across segments. Moreover, the Group implemented adapted measures to ensure an adequate liquidity position and preserve sufficient funding resources in local and foreign currencies.

In FY 2019/20, whereas our business activities and results have been impacted by the challenging circumstances engendered by the COVID-19 pandemic, the Group upheld healthy financial indicators, thanks to its robust fundamentals and its ability to adapt to the constantly and rapidly changing operating landscape.

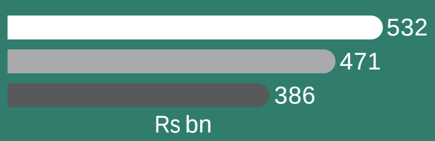
Read more in the 'Risk and Capital Management Report' section on pages 142 to 198 and 'Our performance across entities' section on pages 68 to 85

Financial highlights

Financial performance

Net profit
Rs 7,912 m
-16.1%

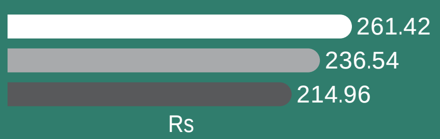
Total assets
Rs 532 bn
+12.9%



Shareholder value

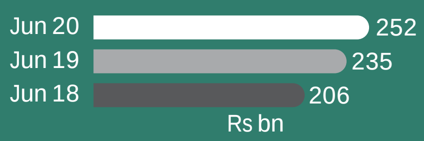
Earnings per share
Rs 33.10
-16.2%

Net Asset Value per share
Rs 261.42
+10.5%

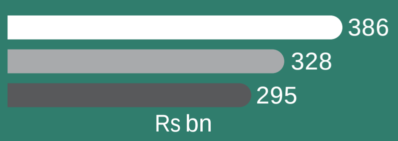


Market positioning

Customer loans
Rs 252 bn
+7.5%

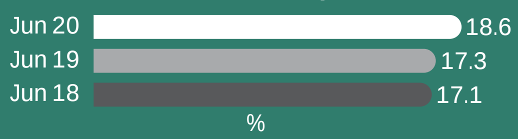


Customer deposits
Rs 386 bn
+17.9%

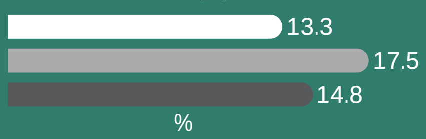


Capital & return ratios

Capital adequacy ratio
18.6%
+124 bp

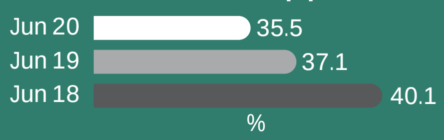


Return on equity
13.3%
-4.2 pp

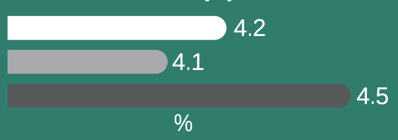


Efficiency & asset quality

Cost to income ratio
35.5%
-1.6 pp



Gross NPL ratio
4.2%
+0.1 pp



Board of Directors

Independent Non-Executive Directors

Didier HAREL *(Chairperson)*

Sunil BANYMANDHUB

Karuna BHOOJEDHUR-OBEEGADOO

Constantine CHIKOSI *(as from November 2019)*

Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE

Georges Michael David LISING

Jean-Louis MATTEI

Alain REY

San T. SINGARAVELLOO

Non-Executive Directors

Jean Michel NG TSEUNG

Margaret WONG PING LUN
(until November 2019)

Executive Directors

Pierre Guy NOEL

Gilbert GNANY

Secretary to the Board

MCB Group Corporate Services Ltd
(represented by Marivonne OXENHAM)

Committees of the Board

Risk Monitoring Committee

Jean-Louis MATTEI *(Chairperson)*

Gilbert GNANY

Didier HAREL

Georges Michael David LISING

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

Pierre Guy NOEL

Remuneration, Corporate Governance, Ethics and Sustainability Committee

Didier HAREL *(Chairperson)*

Karuna BHOOJEDHUR-OBEEGADOO

Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE

Pierre Guy NOEL

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

Supervisory and Monitoring Committee

Didier HAREL *(Chairperson)*

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

Pierre Guy NOEL

Strategy Committee

Didier HAREL *(Chairperson)*

Sunil BANYMANDHUB *(until January 2020)*

Constantine CHIKOSI *(as from January 2020)*

Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE

Gilbert GNANY *(also acts as Secretary)*

Jean-Louis MATTEI

Pierre Guy NOEL

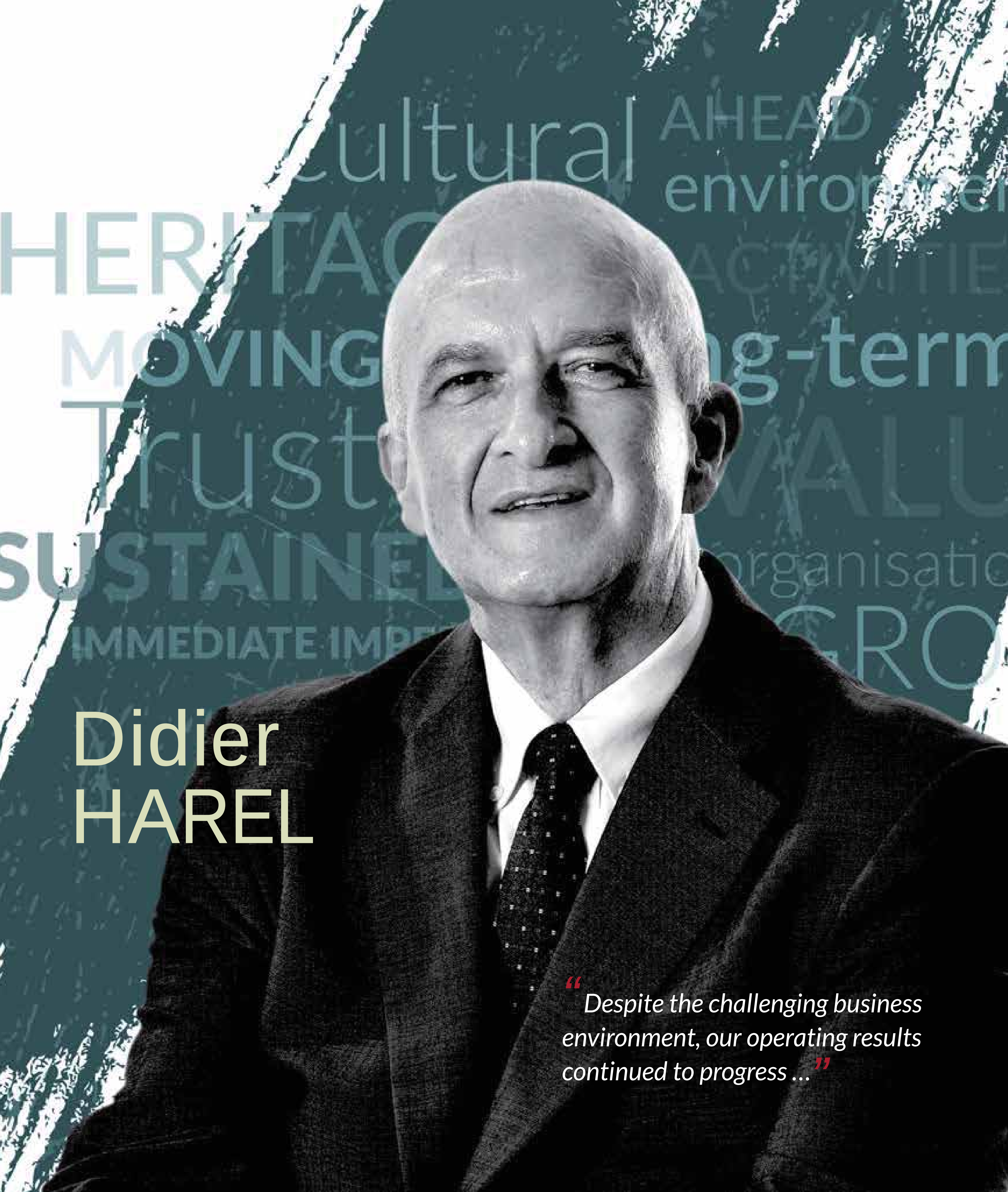
Audit Committee

Alain REY (Chairperson)

Sunil BANYMANDHUB

San T. SINGARAVELLOO

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



Didier HAREL

"Despite the challenging business environment, our operating results continued to progress …"

Reflections from the Chairman

Resilient performance achieved amidst an unprecedented context

The spread of the coronavirus impacted economies, businesses, societies and individuals in ways that are unprecedented. With regard to MCB Group, the far-reaching implications of the pandemic for our customers across business segments have disrupted the solid growth momentum that was sustained during the early part of FY 2019/20. Despite the challenging business environment, our operating results continued to progress, as demonstrated by a growth of 8.5% in operating income, which itself contributed to the cost to income ratio declining to 35.5% in FY 2019/20 from 37.1% in the preceding year. However, the exceptionally high macroeconomic uncertainty levels led to a significant expansion in impairment charges, due to a substantial increase in Expected Credit Losses to cater for heightened credit risk, as a consequence of anticipated economic difficulties. This is directly responsible for a drop of 16.1% in profits attributable to ordinary shareholders, which reached Rs 7,912 million for the year. This overall resilient performance, amidst testing times, is a strong indication that our diversified strategy is working, backed by our sound business model and the dedication of our employees. It must also be noted that the Group has further reinforced its financial soundness and is thus well positioned to confidently confront the ongoing economic crisis. We have strengthened our capital buffers with the overall capital adequacy ratio and the Tier 1 ratio improving to 18.6% and 17.2% respectively. We continue to maintain healthy funding and liquidity positions, notably in foreign currencies, while our key asset quality metrics remained relatively stable in spite of tough market conditions.

Coping with major challenges and pursuing our underlying strategic objectives

As the COVID-19 pandemic began to spread across the countries where we operate, the Group responded immediately to adapt to the rapidly changing landscape. While we entered the crisis on the back of our financial strength, we capitalised on the commitment of our people, our technological capabilities, as well as a robust governance set-up and operational platforms, which enabled an effective and coordinated management of action plans. I am proud of how we managed to ensure the continuity of our services, albeit at reduced levels, alongside catering for proper health and hygiene conditions in our premises. We accompanied our customers in facing up to financial distresses by means of adapted solutions, after close collaboration with authorities within countries in which we are present.

“While leveraging world-class practices and processes, we set forward to harness a competent, engaged, empowered and motivated workforce...“

For the period under review, our financial resilience was bolstered by ongoing diversification of our operations and consolidation of our involvement in established markets, locally and abroad. In fact, entities across clusters maintained the momentum in implementing their growth endeavours, at least till the outbreak of the pandemic, thus helping to position the Group as an integrated financial services provider. While being innovative and ambitious in their approach, entities executed their business expansion strategy in a disciplined and prudent manner. MCB Ltd maintained its market leadership position in Mauritius and widened its regional footprint, notably on the African continent. Our foreign banking subsidiaries have, amidst a demanding operating environment and country-specific challenges, pursued initiatives to support balance sheet growth on the basis of a continuously enriched value proposition. The Group has broadened its involvement in the non-banking field, with entities making headway in tapping into established and emerging growth pillars. Spanning the organisation as a whole, further progress was made in showcasing our ‘Bank of Banks’ initiative, which aims to position the Group as a regional hub for meeting the outsourcing needs of financial service providers, especially those in Africa.

In support of our growth initiatives, we refined and shored up our inherent capabilities. While we strengthened synergies and collaboration amongst entities, we pursued business realignment and transformation initiatives to anchor more impactful operating models within the changing context. We pursued the implementation of our Digital Transformation Programme amidst our aspiration to create the best customer experiences and amplified our drive to becoming even simpler as well as more efficient and agile in the conduct of our operations. Along similar lines, the Group leveraged cutting-edge technologies and innovative channels to step up operational efficiency levels, boost service quality and attend to changing customer needs.

As another key focus area, the organisation made inroads in putting in place its HR Transformation Programme. While leveraging world-class practices and processes, we set forward to harness a competent, engaged, empowered and motivated workforce, in addition to promoting the well-being and professional advancement of our employees. Guided by international consultants and internal discussions, we have, lately, launched our new Performance Management System and revamped our Talent Management framework, while progressing in respect of the strengthening of our strategic talent acquisition and leadership development

Reflections from the Chairman

capabilities in tune with best practices endorsed by major successful corporates globally. In fact, during the period under review, the Group has continued to work on a series of strategic projects and initiatives, with the objective of building distinctive HR capabilities, in order to boost customer loyalty and inspire confidence among key stakeholders, after carefully assessing their specific and evolving requirements and aspirations. The Group is gearing up to this effect, with a view to ensuring that (i) talented employees reinforcing the Group's competitive edge and promoting long-term value creation are properly identified, nurtured and developed; (ii) collective leadership is promoted given its value-creating ability, while generating strength in depth in key leadership populations; and (iii) HR functions operate with 'outside-in' mindsets, tools and expertise, to more productively contribute to the realisation of organisation-wide ambitions and value creation, as well as strive for continued excellence going forward.

We capitalised on a strong risk management and compliance framework to support our prudent and informed business expansion, in alignment with applicable local and international rules, norms and standards. Above all, alongside promoting principles of integrity in our actions and behaviours, we ensure that the Group is anchored on robust and sound corporate governance standards.

In line with its commitment to promoting sustainability principles and reflecting its brand promise, the Group fulfilled its engagement, as a responsible and caring corporate citizen, to continuously promote the well-being of people, societies and nations. In addition to adopting environment-conscious practices in our operations and activities, we implemented further initiatives in the context of our Corporate Sustainability Programme, which is founded on our endeavour to revisit the notion of success beyond the financial performance mantra.

The robust credentials of the Group have been acknowledged and rewarded

"We will continue to create and consolidate the necessary building blocks for achieving sound, diversified and sustained business development."

in several ways. Whereas our market capitalisation on the Official Market of the Stock Exchange of Mauritius has, in light of the ramifications of COVID-19 on market sentiment, experienced a year-on-year drop of approximately 18% as at 30 June 2020 to reach Rs 56 billion, it is interesting to note that our share price reached an all-time intra-day price high of Rs 359.75 in January 2020 and we remain the strongest blue-chip company of the local bourse, with a leading market share of 28%. Further reflecting our performance and as an improvement compared with last year's standing, MCB Group Ltd is now ranked 582nd worldwide as per the latest Top 1000 World Banks survey of The Banker magazine, with the organisation retaining its status as the leading institution in East Africa. In another respect, the Group's achievements and credentials have earned it numerous awards. MCB Ltd was, for the eighth time in 11 years, named the 'Bank of the Year for Mauritius' by The Banker/FT Magazine. The Bank was also recognised as the 'Best Bank in Mauritius' by Euromoney for the seventh time in a row. In addition, it has been named as the 'Best Private Bank in Mauritius' for the fourth consecutive year by PWM/The Banker.

Steering forward in a coherent, disciplined and informed way in view of challenges

As the situation stands, there is little visibility on the scale and depth of the sanitary and economic crisis and the time it will take to meaningfully heal over time. In fact, the operating context would, in all likelihood, stay particularly challenging in the foreseeable future and impact Group activities, with macroeconomic headwinds likely to continue taking their toll on customer segments across markets, albeit to varying degrees. Besides, we are conscious that we live in a rapidly-changing world marked by the advent of disruptive technologies, which are reshaping the way businesses function and customers behave. The demanding regulatory and compliance framework also calls for scrutiny. In the same spirit, we will, as a key consideration, continuously and closely monitor relevant developments and dynamics that can have a potential bearing on the competitiveness and reputation of the Mauritian International Financial Centre.

While attending to immediate needs and closely monitoring the operating environment, the Group has, amidst current unprecedented conditions, reviewed its business development targets and reprioritised its short-term focus areas. Nevertheless, alongside investing for the future and being on the look-out for market development avenues as they unfold, we remain dedicated to pursuing our medium to long-term growth agenda. We will continue to create and consolidate the necessary building blocks for achieving sound, diversified and sustained business development. On the latter front, while being cautious and conservative in our approach, we are intent on pursuing our regional diversification strategies and consolidating our involvement in established markets. In line with our purpose and values, we will continue to execute our Corporate Sustainability Programme amidst our aim to yield a positive impact on society, the environment and the economy, as well as to contribute to the sustained well-being and advancement of people with whom we interact.

Alongside driving operational efficiency, optimising the way we function and ensuring that projects are deployed in a prompt, disciplined and coordinated fashion, we will stay innovative and customer-centric in what we do, supported by the continued implementation of our Digital Transformation Programme and of selective investments in technological innovations, with a view to creating further business enablers. Along the way, we will remain focused on supporting and standing by our customers as a trustworthy partner so as to help them meet their financial needs, notably amidst such difficult times. As a major undertaking, we will, in line with our ongoing HR development initiatives, implement further targeted projects aiming at propping up sustainable workforce capabilities, in tune with the Group's business development aspirations. The key objective is to capitalise on the transformational groundwork accomplished to date, and to continuously strive for excellence in the HR arena.

Last, but not least, we will, when undertaking our market activities, ensure that we remain firmly and securely within the risk parameters that we determined across entities, alongside anchoring our actions on a well-defined and transparent corporate governance framework which provides stability and effective oversight. In line with market realities, we will uphold a liquid and well-funded balance sheet and keep a strong capital position in support of our growth aspirations and as a buffer against potential shocks, going forward.

Concluding remarks

On behalf of the Board, I would like to express my appreciation and gratitude to our customers and shareholders for their continued trust in our organisation. The Management teams and staff across different areas of the Group deserve our special thanks for the commendable efforts, character and determination displayed during this highly challenging period. I commend them for their strong resilience as well as their ability to adapt to the difficult circumstances triggered by the pandemic and uphold the image of the organisation.

I also wish to thank my colleagues on the Board for their valuable counsel and continued support in our endeavours to safeguard, in various ways, the stability, resilience and growth momentum of our organisation in spite of strains associated with the evolving operating environment, while guiding the Group in the right direction. I would like to express my gratitude to Margaret Wong Ping Lun – who retired from the Board in November 2019 – for her invaluable contribution over the years and the strong acumen that she brought to the Group, at Board level. In the same vein, I would like to take this opportunity to extend my warm welcome to Constantine Chikosi, who has been appointed as Director to the Board at last year's Annual Shareholders' Meeting. I am confident that his wide international experience and expertise will help to take the Group forward.

Looking ahead, the Board and I remain focused on delivering the most appealing service proposition for our customers and creating long-term value for the benefit of all our stakeholders. Conscious of the unprecedented turmoil triggered by the pandemic and other challenges, we will provide the Group with the necessary means to demonstrate strength to navigate through such conditions. We will tap into our resilient business model and the continued dedication of our employees with a view to fostering an even stronger and a more resilient organisation.

M G Didier HAREL
Chairperson

About this report

Philosophy of the annual report

As our primary report, this annual report provides a holistic and transparent overview and assessment of our ability to create value in the short, medium and long term. The report demonstrates our commitment to sustain sound and diversified business growth and cater for the well-being of our numerous stakeholders. During the year, we continued to make progress towards comprehensively adhering to the key principles of the International Integrated Reporting Framework of the International Integrated Reporting Council.

Scope and boundary of reporting

Reporting period

The report is published annually. It covers the period spanning 1 July 2019 to 30 June 2020. Material events taking place after this date and until approval of the report by the Board of Directors of MCB Group Ltd on 28 September 2020 have also been communicated.

Financial and non-financial reporting

While extending beyond financial reporting, the report provides insights on the organisation's non-financial performance and positioning in relation to its multiple stakeholders, insofar as the latter shape up our ability to create value.

Specific areas of reporting

The report contains insights on the overall strategic progress achieved by the organisation during the period under review, while delving on our operating environment, business model and strategy, business performance, support to stakeholders, management of risk and adherence to corporate governance principles.

Operating business

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

Reporting requirements

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

Assurance and independent assessment

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

How to go through and read this report

Contents

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

Icons used in this report

Read more in this Annual Report

Read more in the Sustainability Report on our website

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

Value creation

Our capitals

Our relevance as a financial services provider today and in the future depends on our ability to apply forms of capital as inputs to achieve desired outputs and outcomes, e.g. delivery of financial performance and sustainable value creation for our stakeholders.

Financial capital
The pool of funds–derived notably through shareholders' equity as well as funding from investors and clients–that are used by our organisation to underpin its operations and support business activities

Human capital
Our ability to invest in and leverage our people's technical skills, competencies as well as their collective knowledge and motivation to innovate and develop customised solutions for clients

Social and relationship capital
Our involvement in driving social progress and a thriving financial ecosystem by collaborating with relevant institutions and acting on relationships within and between communities as well as groups of stakeholders

Natural capital
The stocks of natural assets or renewable and non-renewable environmental resources, which are, directly or indirectly, impacted by the operations and business activities of our organisation

Intellectual capital
Our knowledge-based intangibles–including our franchise and reputation, intellectual property and strategic partnerships–as well as 'organisational capital' such as tacit knowledge, procedures and protocols

Manufactured capital
The operational paradigms, mechanisms and processes that provide a framework for our services delivery, including our physical infrastructure as well as our information technology and digital platforms

Our key stakeholders

We engage with our internal and external stakeholders in a systematic, coherent and meaningful manner, with a view to promptly responding to their needs/requirements.

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

Materiality and material matters

We apply the concept of materiality to evaluate and determine information reported in this report. The latter lays emphasis on opportunities, challenges and strategic intents that are material in impacting our ability to create value, our commercial viability, brand image, corporate culture and our inherent relevance in the societies and communities in which we operate. Our material matters are continuously assessed and, if need be, reviewed in light of the changing operating environment. In recent times, managing the implications associated with the COVID-19 pandemic has been a key focus area for the organisation, while, in some ways, influencing the scale and depth of our priorities.

Supporting our stakeholders amidst challenging times and fostering resilient business activities	Upholding ethical and good governance standards in our operations	Proactively appraising risks, challenges and opportunities to underpin our endeavours	Providing customers with their preferred choices of financial services
Fostering operational excellence, innovation and the digitalisation of our operations	Creating ecosystems to underpin vibrant and sustainable economies	Promoting the welfare of societies and preserving our environmental and cultural heritage	Harnessing the competence, empowerment and general welfare of our staff

Read more in the Sustainability Report on our website

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

Success Beyond Numbers

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

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STORE

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DEBROUYE !

NOU FINN
RES DIBOUT !

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ANSAM, NOU
PE SIRMONTE,

ANSAM, NOU
POU REFER !

Our corporate profile

Who we are

MCB Group is an integrated financial services provider. Building on its sound business model, the Group offers customised products and services to a wide range of clients through its local and foreign subsidiaries and associates. Through MCB Ltd, which was established in 1838, the Group has cemented its position as the leading banking sector player locally. In addition to that, the Group has actively diversified its activities across geographies, notably in the region, and broadened its footprint in the non-banking field. Listed on the Official Market of the Stock Exchange of Mauritius since its inception in 1989, MCB Group is one of the most traded stocks thereon, representing some 49% of market turnover[1] in FY 2019/20. We have the largest market capitalisation, with a share of some 28%[2]. The Group has a broad and diversified shareholder base, comprising around 13% of foreign shareholding.

[1] *Excluding one-off transactions*
[2] *Excluding foreign-currency denominated, GBC1 and international companies*

Our philosophy and brand image

Our aspirations

Driven by the commitment to our core values and principles, we set forward in a conscientious way to deliver on our strategy with a view to building resilient, profitable and sound businesses. Aided by strong partnerships and interactions with our numerous stakeholders, we help businesses to prosper and enable people to fulfil their dreams and ambitions, alongside doing our best to foster the sustained success and well-being of societies and economies.

Our expertise

Our solid and sustainable business model is anchored on a proven client-centric approach, robust risk management and compliance framework as well as the adoption of cutting-edge channels, tools and practices. Helped by our adaptive mindset, we embrace innovation and excellence in what we do and what we offer to our various clients.

Credit ratings of MCB Ltd

Reflecting its sound growth agenda, our main subsidiary, MCB Ltd., is investment-grade rated. MCB Ltd is the best-rated commercial bank in Africa as per Moody's Investors Service, with a long-term deposit rating of Baa2. Domestically, CARE Ratings (Africa) Private Limited assigns a AAA rating to MCB Ltd with regard to the servicing of financial obligations.

Our functioning, channels and digital platforms

> 1 million Customers

> 3,700 Employees | **50%** Female

> 750 Correspondent banks

60 Branches/Kiosks

206 ATMs

> 11,000 POS terminals

265,000 Internet Banking subscribers

> 340,000 JuiceByMCB subscribers

Our credentials and recognition

Our stock profile

>21,000 Shareholders

Rs 56.5 billion Market capitalisation

Domestic market shares of MCB Ltd

Credit to the economy	39%
Local currency deposits	47%

Accolades

582nd in the world

18th in Africa

1st in East Africa

in terms of Tier 1 capital

The Banker Top 1000 World Banks, July 2020

Mauritius

- **Best Bank of the Year for Mauritius**
  The Banker Bank of the Year Awards 2019
- **Best Bank in Mauritius**
  Euromoney Awards for Excellence 2020
- **Best Commercial Bank of the Year Mauritius**
  International Banker 2020
- **Best Private Bank in Mauritius**
  PWM/The Banker 2019

Africa

- **Best rated commercial bank in Africa** by Moody's Investors Service
  Long-term deposit rating
- **Leading Regional Bank** in terms of operating income and profitability
  L'Eco Austral, Top 500 Regional, Edition 2020
- **31st in Africa** in terms of assets
  Jeune Afrique Top 200 Banks, The Africa Report, September 2019
- **Best Banking and Financial Services Award 2019**
  Awarded to MCB Seychelles Ltd by Seychelles Chamber of Commerce & Industry

Note: Figures above are as at 30 June 2020

Our corporate profile

How we operate

Our strategy execution is underpinned by key pillars, which comprise entities, business lines, and coverage and support functions. Common frameworks and policies shape up the execution of our strategies and ensure that the Group works in an integrated way.

MCB Group Ltd

Banking*

MCB Investment Holding Ltd (100%)

- 100% MCB Ltd
  - 49.99% Banque Française Commerciale Océan Indien (Associate)
  - 35% Société Générale Moçambique (Associate)
  - 80% MCB Madagascar SA
- 10% (MCB Madagascar SA)
- 100% MCB Seychelles Ltd
- 100% MCB (Maldives) Private Ltd

Non-Banking Financial*

- 100% MCB Capital Markets Ltd
- 100% MCB Equity Fund Ltd
- MCB Leasing Ltd (*formely Finlease*) 100%
- 100% MCB Factors Ltd
- 100% MCB Microfinance Ltd
- 40% Credit Guarantee Insurance Co. Ltd (Associate)
- 100% MCB Real Assets Ltd

Other Investments*

- 57.73% Fincorp Investment Ltd
- 100% MCB Properties Ltd
- 80% International Card Processing Services Ltd
- 100% MCB Consulting Services Ltd
- 80% MCB Institute of Finance Ltd
- 100% MCB Group Corporate Services Ltd
- 100% Mascareignes Properties Ltd
- 100% MCB International Services Ltd
- 100% MCB Forward Foundation
- 99.63% Blue Penny Museum 0.37%

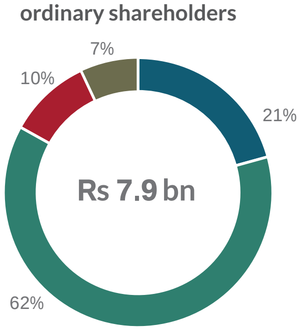
** Relate to clusters*

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

The subsidiaries and associates of the Group operate under three clusters, i.e. 'Banking', 'Non-banking financial', and 'Other investments'. **MCB Investment Holding Ltd**, a wholly-owned subsidiary of MCB Group Ltd, is the holding company of all the banking investments of the Group, namely MCB Ltd and overseas banking subsidiaries and associates.

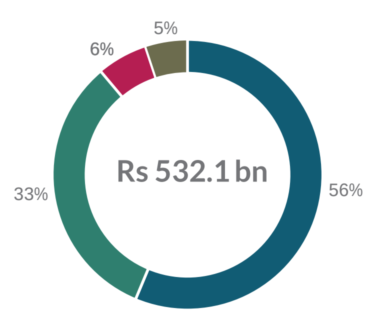
Breakdown of Group performance for FY 2019/20

Profit attributable to ordinary shareholders



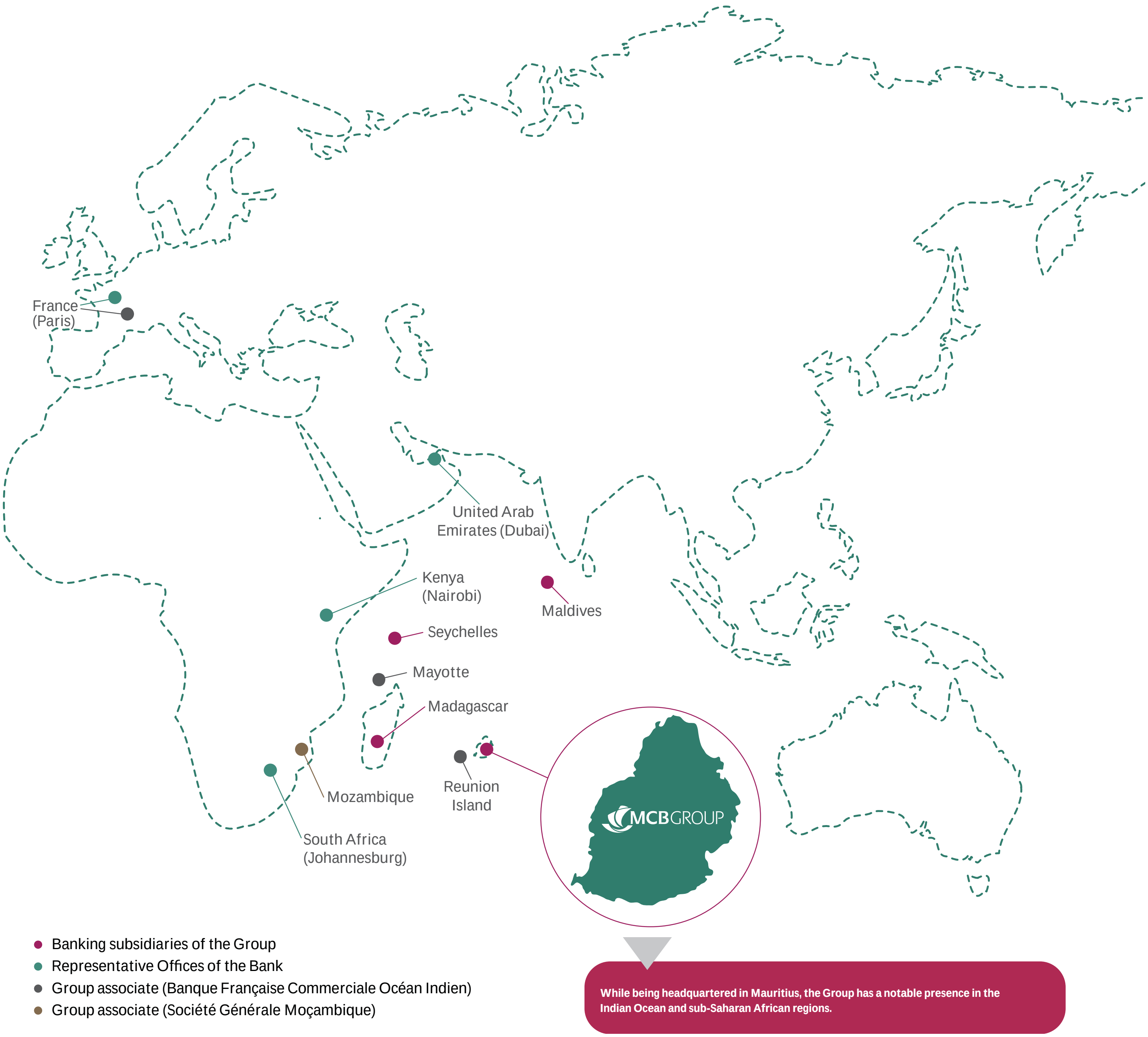
- MCB Ltd - Domestic
- MCB Ltd - Foreign-sourced
- Foreign banking subsidiaries & associates
- Non-banking financial & Other investments

Assets



Our market operations

To further their business growth, Group entities capitalise on their competent workforce, cutting-edge technology and wide-ranging platforms and channels. These include branches, ATMs as well as payment, mobile and Internet Banking platforms. Our entities leverage organisation-wide synergies and collaboration as well as alliances and partnerships with external parties. MCB Ltd also taps into a network of correspondent banks worldwide, including around 175 in Africa. In addition, it capitalises on its Representative Offices located in Johannesburg, Nairobi, Paris and Dubai.



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

Our corporate profile

Our clusters and entities

Banking

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

MCB Ltd

Local

- The Bank caters for the day-to-day and lifetime needs of our retail customers. In addition to credit facilities, convenient deposit facilities and adapted account packages are offered to our individual customers across age and income groups.

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

- The Bank attends to the needs of large corporate and institutional clients in Mauritius by offering them flexible solutions and dedicated advice to meet their growth and capacity building ambitions. Capitalising on the status of Mauritius as an International Financial Centre of substance, the Bank offers dedicated solutions to businesses and investors using Mauritius as a platform for trade and investment between Africa and the rest of the world.

- Recognising their support to the development of Mauritius, the Bank provides small and medium and mid-market enterprises with tailored solutions to meet their growth endeavours and accompany them during their business development cycle.

- The Bank offers innovative digital and payment solutions to help its overall clients manage their money on the go with convenience. Our clients have, at their disposal, multiple channels and platforms to realise their banking needs.

Foreign

- The Bank attends to the needs of diverse customer segments in sub-Saharan Africa and also ventures beyond, supported notably by specialised finance solutions. The Bank is involved across the downstream, midstream and upstream segments of Energy and Commodities financing. It offers structured financing solutions to entities investing and doing business across key sectors in Africa, while tapping into opportunities surfacing beyond. In this field, it provides tailor-made financial solutions via bilateral lending, club deals and syndicated facilities to enable clients fulfil their strategic objectives. To reinforce its status as a strong partner in Africa, the Bank sets out to shift from being mainly a participating bank to positioning itself as the lead arranger for dedicated deals. Via its syndication initiatives, it aims to bridge the gap between the growing need for financing on the continent and institutions willing to contribute to its development.

- The Bank serves foreign high net worth customers and external asset managers through tailored offerings.

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

Overseas entities

- The Group's foreign banking subsidiaries in Madagascar, Maldives and Seychelles as well as its overseas associates, i.e. Banque Française Commerciale Océan Indien (BFCOI)- operating in Réunion Island, Mayotte and Paris- and Société Générale Moçambique provide clients with an array of banking services adapted to local market realities. Key solutions provided include *inter alia* deposit and credit facilities as well as payment services. Our foreign subsidiaries capitalise on Group synergies to position themselves as the preferred banking partner of corporate and individual customers.

Non-banking financial

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

Key entities

- **MCB Capital Markets Ltd** is the investment banking and asset management arm of MCB Group. Led by a dedicated and experienced team of specialists, the entity provides a broad range of investor services under one roof, notably including corporate finance advice, asset management, stockbroking, private equity, structured products and registry services. Based in Mauritius, the team works with clients wishing to start or grow their operations in Africa and helps them develop solutions that meet their financing, strategic and investment objectives.

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

- **MCB Leasing Ltd** brings in a wealth of experience to position itself as a key market player. It offers a wide range of finance and operating leasing solutions, alongside offering attractive rates on fixed deposits.

- **MCB Microfinance Ltd** provides dedicated financial support to micro and small entrepreneurs towards assisting them to unleash their potential as well as implement their ideas and business plans.

Other investments

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

Key entities

- **International Card Processing Services Ltd (ICPS Ltd)** is a joint venture of MCB Group Ltd and Hightech Payment Systems (HPS), a leading payment software company present in more than 90 countries. Leveraging card business and technical specialists, ICPS provides state-of-the-art technology in Switching and Card Management Systems, while enabling banks to achieve economies of scale in outsourcing processing and back office activities. Markets served span some 20 countries in Africa and Asia.

- **MCB Consulting Services Ltd** provides companies with sustainable solutions to help them attain their innovation and business development goals. Its areas of specialisation include the provision of advisory services – which range from strategic planning and execution to risk management – business process reviews and organisation reviews, assistance in the selection, implementation and maintenance of Information Technology solutions, as well as the delivery of training services. The entity has been involved in 35 countries, notably across Africa, Middle East and Asia.

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

- **MCB Institute of Finance Ltd** provides students and professionals alike with the financial know-how via carefully selected courses in partnership with high-calibre educational institutions. It aspires to become an African reference in the emergence and support of financial sector talents.

Read more in the 'Positioning ourselves for growth and success' section on pages 48 to 54

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

Our corporate profile

Our extensive and customised financial solutions

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

Personal financial services

Everyday Banking

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

Savings & Investment

- Education plan/ Retirement plan
- Investment funds
- Portfolio & wealth management
- Custodian services
- Fixed deposits
- Distribution of life insurance plans, treasury bills & government bonds

Banking Channels

- Branch network
- ATM
- Internet banking
- Mobile banking
- SMS banking

Payment Services

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

Financing Solutions

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

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

Corporates & Institutions

Payments & Cash Management Solutions

- Electronic points of sale & cards acquiring services
- Corporate credit cards
- E-commerce
- International transfers
- SWIFT services
- Transfers & remittances
- Cash management solutions, Internet Banking and SmartApprove Application
- QR Payment

Financing Solutions

- Short & long term loans
- Green loans
- Syndicated loans
- Bridging loans
- Private equity
- Mezzanine financing
- Structured finance
- Factoring
- Microfinance
- Operating & finance lease
- Asset-Based lending
- Lokal is beautiful Scheme

Transactional Banking

- Business deposit card
- Deposit accounts
- Multi-currency accounts
- Internet banking
- Bank drafts
- Forex transactions
- Overdrafts
- Mobile banking

International Trade Finance

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

Investment Related Services

- Structured products
- Structured credit
- Investment advisory services
  - Real assets
  - Private equity
- Securities & custodian services
- Brokerage services
- Investment management
- Dual currency deposits

Business Services

- Checking facilities
- Payroll services
- Secretarial services
- Share registry services

Foreign Exchange Services

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

Outsourcing & Advisory Services

- Payments outsourcing
- Consulting & project management services
- Corporate finance advisory

More information on our financial solutions is available on our website

Our corporate profile

What we deliver

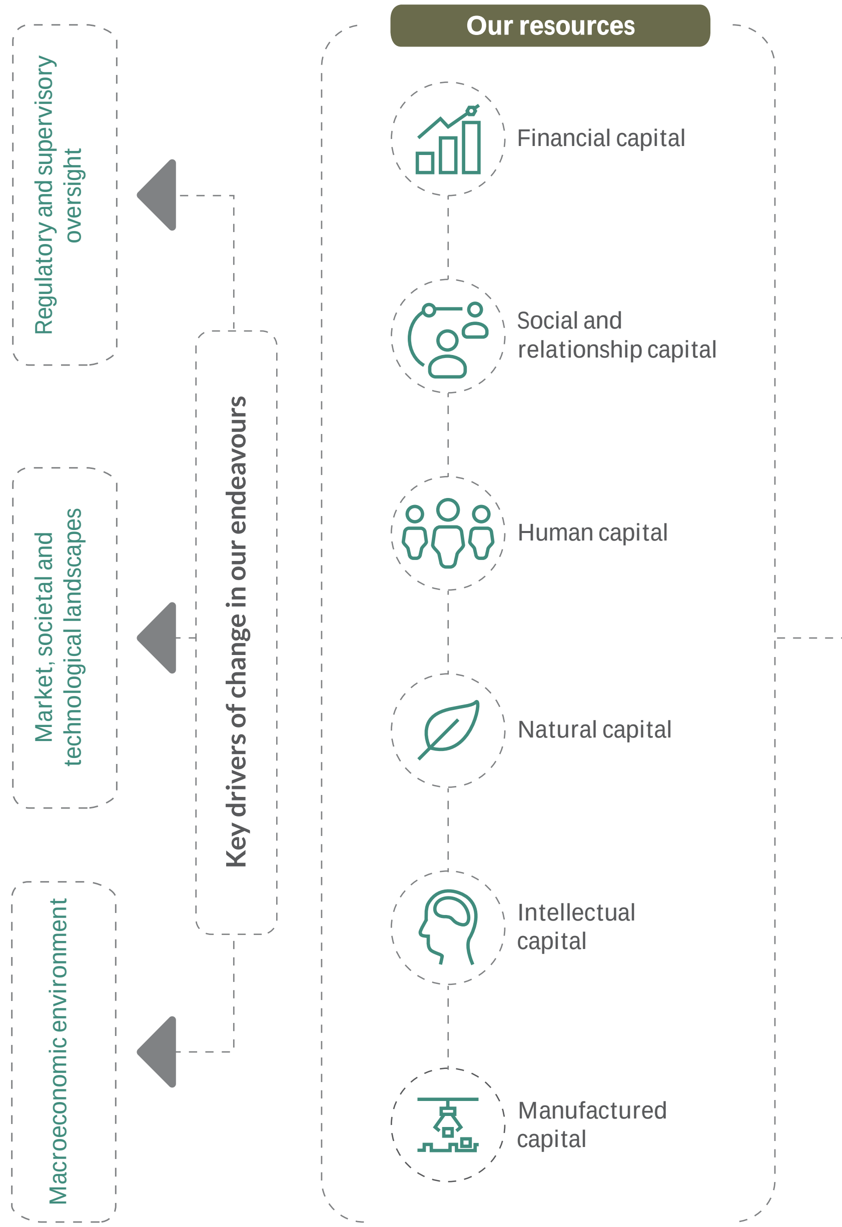
Our value-creating business model

Our business model defines who we are and what we do. We believe in building resilient businesses and creating opportunities for our stakeholders to thrive, while harnessing positive outcomes for the sustained benefit of the societies and communities in which we live and operate.

Our key strategic orientations

- Strengthen our domestic position
- Expand our non-bank activities
- Grow our international footprint

- Build up inherent and sustainable capabilities for diversified and balanced business growth
- Further enrich our value proposition, while capitalising on partnerships, alliances and proximities



Delivering financial outcomes for the Group

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

Our business activities

Our core roles

- Financial intermediation
- Maturity transformation
- Business advisory and outsourcing

- Converting deposits and other funds into lending, leasing and factoring facilities to our clients
- Investing and trading in securities, forex and other financial assets
- Offering transactional, trade-related and risk-mitigation facilities
- Providing investor-related, asset management and corporate finance advisory solutions, as well as private banking and wealth management services
- Meeting the outsourcing needs of financial services providers by means of payments solutions and the provision of dedicated business review and transformation services
- Unleashing a range of other products and services spanning the non-financial field
- Undertaking dedicated actions to promote the welfare and development of the society

Value created

Shareholders and investors

We achieve sustainable growth in our revenue, which helps to provide appreciable and predictable returns for our shareholders and investors.

Customers

We deliver excellent service and appealing digital platforms and solutions to our clients, while seeking to exceed their expectations. Alongside placing customers at the centre of our efforts and activities, we provide products and services that they value and trust.

Societies and communities

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

Authorities and economic agents

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

Employees

We act as an employer of choice and are committed to supporting the development and well-being of our staff.

Executing our Corporate Sustainability Programme

Support a vibrant and sustainable local economy

Promote our cultural and environmental heritage

Invest in the individual and collective well-being

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

Read more in the 'Creating value in a sustainable way for the benefit of our stakeholders' section on pages 53 to 54

Read more in the Sustainability Report on our website

Our corporate profile

Our main areas of strength and differentiation

Our distinctive culture

Responsibility

Guided by a deep sense of responsibility towards our stakeholders, we aim to achieve disciplined, balanced and diversified growth.

Franchise

We nurture a strong brand image and reputation that reinforces our appeal across markets.

Mindset

We are committed to endorsing an innovative and collaborative mindset that thrives on change and adds value in what we do.

Ambitions

We aim to deepen our involvement in existing markets and tap into new markets and segments across geographies.

Passion

We endorse an enthusiastic and dynamic approach to develop our market activities.

Integrity

We adhere to proven integrity and ethical principles when conducting our activities and promote behaviours that inspire trust.

Our flexible and robust functioning

Strategic focus

Our endeavours are backed by our breadth and scale of solutions, tried-and-tested decision-taking models and robust strategic partnerships.

Client centricity

We place clients at the heart of everything we do. We offer them tailored and convenient solutions and experiences that help them realise their ambitions.

Sustainability agenda

Backed by solid frameworks and committed initiatives, we contribute to the welfare of the economies, societies and communities in which we live and operate.

Technology and innovation

We harness digital channels and platforms to improve operational efficiencies, deliver seamless client solutions and strengthen our competitive edge across markets.

Human capital

We maintain a competent, engaged and diverse workforce. We ensure that everyone can realise their full potential and make a positive contribution to our organisation.

Risk management

We exercise strong governance and risk management oversight to foster sound financial ratios, while prudently balancing the risk-return profile of our portfolios.

How we distributed value created

During the last financial year, the Group continued to provide relevant and meaningful ways to promote the interests of its stakeholders and help them prosper, supported by its resilient financial results.

Wealth created by MCB Group

FY 2019/20

Rs 15.2 bn

47.6%

Retention to support growth

Wealth is allocated to support the Group's future growth and sustainability via our retained earnings.

28.7%

Employees

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

0.8%

Society

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

10.4%

Authorities*

Via our direct and indirect tax payments, we support the authorities in fostering the execution of socio-economic development projects.

12.5%

Providers of capital

We provide shareholders with adequate dividend payout.

** Includes the proportion of our CSR contribution remitted to the Mauritius Revenue Authority*

Read more in the 'Our strategic achievements and initiatives' section on pages 55 to 67

Read more in the Sustainability Report on our website

Delivering on our Strategic Objectives

METT LEKER DAN LOUVRAZ

Message from the Chief Executive

Upholding our sound fundamentals amidst testing times

The outbreak of COVID-19 has undoubtedly overshadowed other crises seen in recent history given its wide-ranging implications around the globe. Beyond health concerns and social disruptions, the economic damage is already deemed to be elevated, with the full extent of the impact still difficult to assess at this stage. As in most parts of the world, our presence countries have witnessed notable economic downturn, contributing to highly challenging operating conditions for the Group's entities. Specifically, Mauritius is on course to register its worst contraction in the post-independence era. Whilst some sectors are gradually recovering from the 3-month lockdown, tourism-related activities remain in a quasi-standstill amidst travel constraints, contributing to far-reaching consequences for the economy as a whole in view of their multiplier effect and significance as a foreign exchange earner.

The material deterioration in the operating context since early 2020 has led to a reversal of the strong growth in results recorded by the Group during the first semester of FY 2019/20. Profits attributable to ordinary shareholders dropped by 16.1% to reach Rs 7,912 million for the year ended 30 June 2020, essentially due to a substantial increase in Expected Credit Losses (ECL) resulting from the high level of uncertainty engendered by the COVID-19 crisis. Indeed, additional ECL on the Group's performing asset portfolio amounted to Rs 3,364 million to reflect an inherent increase in credit risks on a forward-looking basis, thus contributing to impairment charges of Rs 5,076 million for the year under review.

Operating results, however, improved on the back of our diversification strategy as demonstrated by a growth of 8.5% in operating income to Rs 21,954 million. Notwithstanding a decline in margins on our international activities, net interest income rose by 11.2%, supported by an expansion in loans and advances and higher investment in Government securities amidst continued high liquidity locally. On the other hand, with business activities being impacted by the difficult market conditions and confinement measures, net fee and commission income declined by 4.7%, mainly due to a reduced contribution from MCB Capital Markets Ltd and lower fees recorded within the banking cluster, particularly during the last quarter of FY 2019/20. 'Other income' increased by 15.0% in spite of lower contribution from MCB Real Assets Ltd, mainly driven by a growth of 22.2% in profit on exchange and net gain from financial instruments carried at fair value.

The resilient performance on the revenue side has led to a further drop in our cost to income ratio which reached 35.5% after accounting for a growth of 3.7% in operating expenses.

The share of profits of associates remained close to the prior year's level, being down only marginally, with improved results posted by BFCOI being offset by a subdued performance recorded at the level of Promotion and Development Ltd.

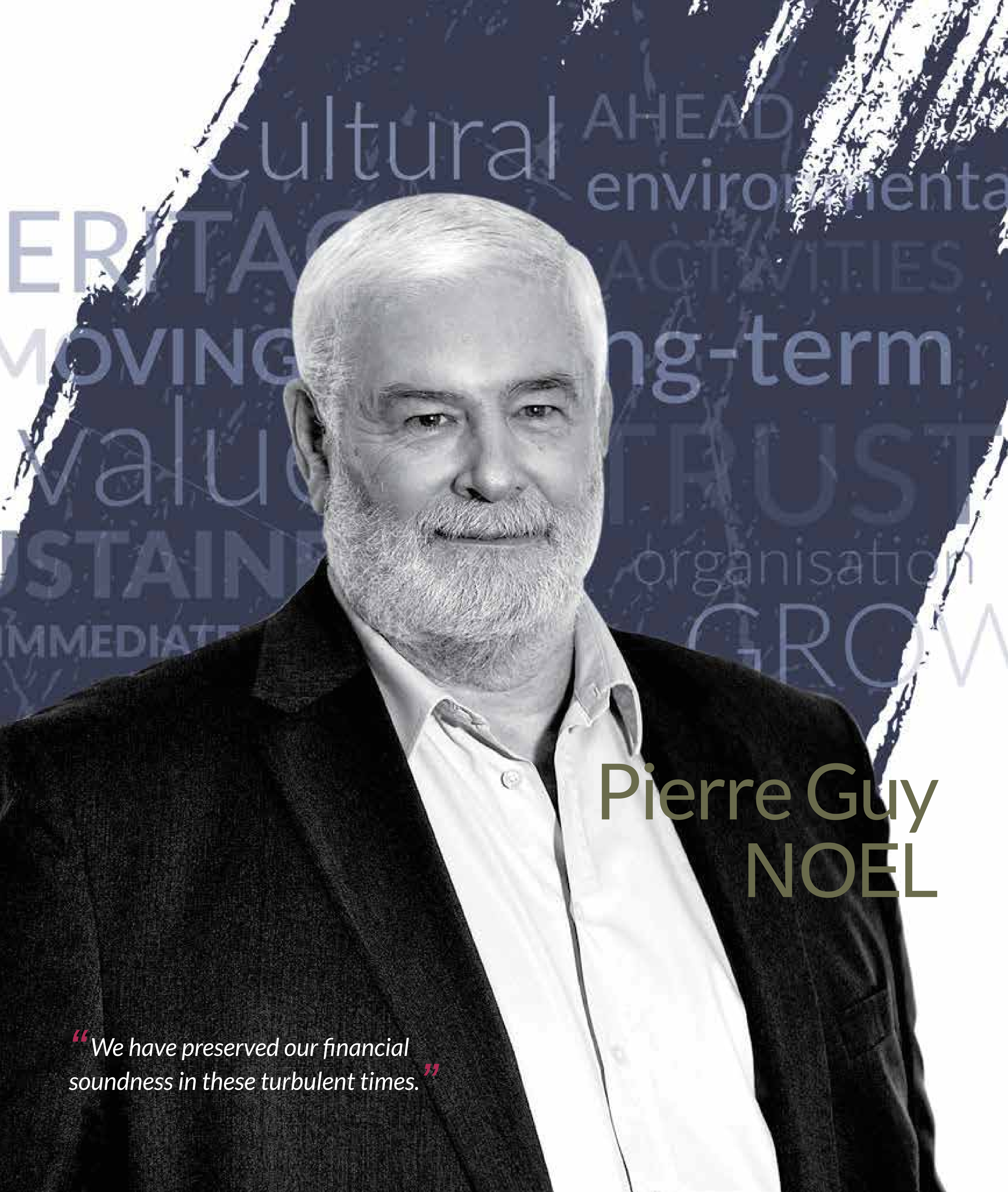
"...the organisation has pursued its underlying growth trajectories across various market segments, alongside further broadening and diversifying its footprint..."

We have preserved our financial soundness in these turbulent times. Whilst asset quality deteriorated slightly with the gross NPL ratio increasing from 4.1% to 4.2%, the Group has maintained strong funding and liquidity positions alongside further strengthening its capital buffer, with the overall capital adequacy and Tier 1 ratios improving to 18.6% and 17.2% respectively. In the current exceptional circumstances and in line with directives issued by banking regulators across presence countries, the Group has not declared any dividend for the period under review.

Encouragingly, MCB preserved its investment-grade credit ratings, albeit with a negative outlook in view of the detrimental impact of the pandemic on market and economic conditions. The credit agencies have acknowledged the Bank's solid franchise and business model, as well as management quality and adequate risk management, in addition to highlighting its resilient financial metrics heading into the crisis.

Addressing immediate imperatives and pursuing our underlying growth strategies

Whilst facing up to unprecedented circumstances linked to the COVID-19 pandemic, including the lockdown periods, the Group has, albeit at reduced levels, maintained its operations and the delivery of services to clients, thanks to the effective deployment of business continuity plans and the dedication and adaptability of its employees. Leveraging our solid technological capabilities, we rapidly adopted Work From Home practices and flexible working arrangements, with minimal operational hiccups observed and customer service quality maintained. Towards those ends, we also capitalised on a robust governance framework and flexible operational platforms. As a major consideration in view of the virus spread, we took the necessary actions to protect the health of our employees and customers within our premises and minimise risks of contagion, after elaborating clear guidelines and protocols. Moreover, attesting to our unflinching endeavours to accompany our clients in good and bad times, we delivered adapted solutions with the aim to help those being exposed to distressed financial conditions to stay afloat and pursue their activities. On this note, we reinforced our collaboration with the relevant authorities with a view to designing and unleashing the



Pierre Guy NOEL

"We have preserved our financial soundness in these turbulent times."

Message from the Chief Executive

most effective means to support our clients. With regard to our business development, the growth momentum of Group entities has, following the onset and spread of the crisis, been, to a varying extent, hampered by heightened economic uncertainty levels, acute market downturns, dampened investor sentiment and the lockdown of populations. For the year as a whole, it is, nevertheless, worth highlighting that the organisation has pursued its underlying growth trajectories across various market segments, alongside further broadening and diversifying its footprint, notably on the African continent. On the domestic front, MCB Ltd has consolidated its leadership position across individual and corporate market segments and pursued its regional diversification agenda. On this note, the Bank made noticeable progress in widening its involvement in respect of Energy and Commodities financing and international structured finance. To underpin its progress, the Bank continuously improved the appeal, convenience and simplicity of its value proposition, while capitalising on major capacity-building initiatives, including its Digital Transformation and HR Transformation Programmes. The Group's foreign banking subsidiaries have pursued their business strategies across targeted and emerging markets, backed by an improved range of solutions, increased brand visibility and reinforced capabilities. As for our non-banking entities, they expanded their activities and were increasingly involved beyond our local shores. While MCB Leasing Ltd and MCB Factors Ltd have pursued their market development initiatives, MCB Capital Markets Ltd registered an increase in assets under management and the successful completion of corporate finance transactions. As for MCB Microfinance Ltd, it made headway in fostering the financial inclusion and empowerment of small entrepreneurs. MCB Institute of Finance Ltd has, since its recent inception and after collaborating with renowned foreign educational partners, positioned itself as a generalist curator with a range of specialist courses in banking and finance, which attracted enrolments from several banks and corporates, both locally and overseas.

"Through our 'Success Beyond Numbers' agenda, we will sustain the support we provide to the societies and communities in which we are involved…."

Furthermore, spanning the organisation as a whole, additional progress has been made towards showcasing our 'Bank of Banks' proposal aimed at positioning the Group as a regional hub for handling trade finance, payments and cards operations outsourcing services, alongside offering business solutions to financial service providers in Africa and Asia.

Moving ahead amidst the tough context

In the wake essentially of the COVID-19 crisis, the operating context remains particularly challenging across market segments, with low visibility on the evolution of the situation going forward. Difficult market and economic conditions are expected to continue taking their toll on customer segments, albeit to varying degrees. Whilst some business segments, notably on the international front, are anticipated to be resilient, our operating results should, in all probability, be down in view of restrained business activities amidst the economic slump and resulting dampened investor confidence as well as squeezed margins. Pressures on asset quality are likely to intensify with the degree of the impact remaining highly dependent on the duration and severity of the COVID-19 pandemic and the effectiveness of support measures from the authorities.

In another light and by virtue of the likely significant implications for our operations and market activities, the Group remains particularly attentive to the increasingly exigent regulatory and compliance environment prevailing locally and internationally. This oversight implies scrutinising developments potentially impacting the competitiveness and reputation of the Mauritius International Financial Centre. A key focus area is the inclusion of Mauritius into the list of 'jurisdictions under increased monitoring' by the Financial Action Task Force (FATF) and its categorisation in the European Commission's new list of High Risk Third Countries. In this context, the major challenge for public and private stakeholders is to work together to foster the timely and adequate execution of measures to address the remaining recommendations of the FATF Action Plan, which can be decisive to remove our jurisdiction from the EU list. Also, Group entities will attend to competitive pressures being faced across specific markets, notably with the advent to new technologies and digital platforms that are influencing the conduct of business operations and reshaping customer behaviours.

On the back of highly challenging operating landscape being witnessed on various fronts, the Group will maintain its market vigilance and closely monitor developments unfolding in presence countries, with a regular assessment of potential scenarios. We will maintain adequate buffers in terms of capital adequacy as well as funding and liquidity ratios. We will, thus, preserve our financial soundness and harness a favourable footing which will support our ongoing and future market development endeavours.

As key priorities, we will remain focused on addressing immediate imperatives, to promote the continuity of our operations and deliver adapted solutions to our vulnerable customers. In this light, we will maintain close engagement and collaboration with the authorities to assist them in implementing measures to support economic players amidst the testing climate. On this front, we look forward to collaborating with the Mauritius Investment Corporation

Ltd (MIC) in respect of support being provided to specific businesses. The MIC will have a key role to play in tackling the vulnerabilities of economic sectors amidst current difficult times, while underpinning banking sector resilience and promoting the country's macroeconomic stability.

As regards our underlying business growth agenda, we have reviewed our short-term market development targets and priorities, as we continue to appraise the operating context and adopt a prudent market development approach. That being said, we remain intent on pursuing our medium to long-term strategic objectives. We will set forward to sharpen our positioning in established markets and diversify our operations, with Africa staying a key target for the Group. To pursue our expansion endeavours, we will enrich our value proposition and provide increasingly connected experiences to our customers. A prime focus is to uphold investments to boost our inherent capabilities and expertise. Alongside contributing to consolidate our fundamentals and further transform the Group, such moves will create favourable conditions to enable us tap into opportunities surfacing when economic recovery conditions kick in. In this context, we will ensure that recently launched projects unfold in an effective and timely manner. Especially, our Digital Transformation Programme should help to foster improved operational agility and deliver a more convenient and appealing banking experience to our clients. Through our HR Transformation Programme, we will further reinforce HR processes, thus allowing us to better support our ongoing growth strategies across entities. Importantly also, we will cater for the continuous reinforcement of our risk management, internal control and compliance frameworks and processes. While forging ahead with our expansion initiatives, we will maintain our selective deal origination policy and ensure that actions undertaken are aligned with our underlying risk appetite.

Moreover, conscious of the socio-economic repercussions of the current crisis on the vulnerable sections of the population, the Group is – as the leading financial services player in Mauritius – dedicated to help the country and its people cope with the testing times. Through our 'Success Beyond Numbers' agenda, we will sustain the support we provide to the societies and communities in which we are involved. We will preserve our dedicated contribution to the development of a vibrant and sustainable local economy, the protection and valorisation of the country's cultural and environmental heritage as well as the promotion of individual and collective well-being. While enhancing our brand image, we will continue adhering to sustainability principles and give a new dimension to the scale and depth of our stakeholder interactions.

"Whereas the implications of the pandemic on our activities should persist for some time, I am convinced that our robust business model, diversified growth agenda and commitment of our people should help the organisation uphold its soundness and resilience..."

Concluding note

First of all, I would like to extend my warmest appreciation to the Management teams of Group entities and all our employees for the hard work, dedication and resolve displayed during the exceptional times triggered by the COVID-19 pandemic. I am proud of their resilience and adaptability to change, which helped us uphold our operations and service quality amidst challenging conditions.

I wish to thank the members of the various Boards of the Group for their contribution and guidance in helping the organisation confront the extraordinary context in a prompt and judicious manner, alongside preserving the stability and progress of the Group.

I extend my sincere thanks to all our stakeholders for their sustained trust in our ability to create long-term value for them. My deep gratitude goes to our valued customers for continuing to partner with us. This crisis has reinforced our proximity and engagement as we try to find ways to help our clients weather the tough conditions and, concomitantly, preserve our sound operations.

Whereas the implications of the pandemic on our activities should persist for some time, I am convinced that our robust business model, diversified growth agenda and commitment of our people should help the organisation uphold its soundness and resilience in the face of difficult operating conditions. I am, likewise, confident in the ability of the Group to, beyond the short-term, emerge stronger from the crisis and regain its growth momentum, after further transforming its operations and boosting its competitiveness levels.

Pierre Guy NOEL
Chief Executive

Delivering on our strategic objectives

Review of the operating context

During the period under review, the Group has navigated highly volatile and demanding operating environment across the segments and countries in which its entities operate. The interplay of established and emerging trends and developments have, in several ways and to different magnitudes, shaped up our business strategies, growth initiatives and ability to create value.

Managing the impact of the COVID-19 pandemic

The key highlight has been the propagation of the COVID-19 pandemic, which is, via multiple channels, exerting significant pressures on our economic and market environments across countries. The operating conditions faced by entities of MCB Group have been extraordinary and unprecedented, thus fuelling our priority attention. We took prompt measures to preserve the soundness and resilience of our activities, while capitalising on support provided by the authorities. As matters stand, high uncertainty levels prevail in the markets in which we operate as stakeholders seek to find ways and means to confront economic and sanitary challenges, with limited visibility as to when the situation will improve and get back to pre-pandemic levels.

Our approach

Integrated thinking is entrenched in the conduct of our business activities and stakeholder engagement. We ensure that our business development moves are in alignment with our operating context, which we continuously assess with a view to identifying and making sense of key trends. Alongside adopting a dynamic, yet thoughtful, approach to maintain our inherent resilience and adaptability to change, we set out to manage threats to our bottom-line and tap into opportunities for business expansion.

Our external landscape

Macroeconomic environment

Recent trends and developments

- After slowing down to an estimated 3.0% last year, the Mauritian economy is set to witness a significant downturn in 2020. In the wake of the COVID-19 outbreak, the nationwide lockdown, closing of our borders and the challenging global context, real GDP growth is projected to contract by around 13% as per the authorities, with the actual outcome to hinge on the unfolding of the economic and sanitary crisis globally, the effectiveness of support measures adopted by authorities locally as well as conditions underpinning the progressive re-opening of the country's borders. The crisis is having a notable bearing on almost all economic sectors. In particular, the tourism and hospitality sector should bear the brunt of the slackened economic environment, high uncertainty levels and the scheduled slow-moving reopening of national borders. Likewise, the pandemic should trigger a major slowdown in export-oriented manufacturing as well as construction and property development, with significant consequences on SMEs. As for financial and business services industry, operators are witnessing headwinds linked to the difficult economic conditions, even though the sound buffers accumulated over the years should assist in partly cushioning the repercussions on value added. Heightened economic uncertainties would dampen nationwide investment, alongside engendering a worsening of unemployment levels in vulnerable sectors. As for headline inflation, it remained at low levels to stand at 1.8% in August 2020, in spite of a relative uptrend lately, partly linked to the depreciation of the rupee.

- The economic outlook for sub-Saharan Africa is set to deteriorate markedly in 2020 on account of the weaker external environment and measures taken to contain the pandemic. Average GDP growth would contract by some 3.2% this year as per the latest IMF estimates, compared to an expansion of 3.1% in 2019. Output should decline by a notable margin in major tourism-dependent and resource-intensive countries, while per capita income, in USD terms, in the region would come close to levels seen nearly a decade ago as per the IMF. Oil prices have plunged sharply during the first quarter of 2020 and reached a historic low in April. Whereas they remain below pre-pandemic levels, oil prices have somewhat recovered since, on the back of the progressive rebound in demand following the easing of the lockdown measures and cut in oil production by OPEC and its partners.

- As regard the foreign countries where the Group is present, a notable economic contraction is anticipated in Maldives in 2020 after four consecutive years during which GDP growth exceeded 5%, with the pandemic causing significant damage on tourism activity as well as on the construction and fisheries industries. Likewise, the fallout of the pandemic is expected to be severe in Seychelles, with the country falling into recession for the first time since 2009 after making allowance for its strong dependence on tourism. As for Madagascar, after expanding by 4.8% in 2019, output is projected to contract by around 1% this year owing to a sharp decline in tourism as well as disruptions to manufacturing and extractive industry exports and the transport, communications and services industries. In Mozambique, growth slowed in 2019 owing to the impact of tropical cyclones and is set to decelerate further in 2020, amidst disruptions triggered by the pandemic. Growth in Reunion Island should be heavily impacted by the marked slowdown in commerce, construction and transport activities in the wake of the confinement, while tourism remains in a standstill in spite of recent hotels reopening. Lately, amidst a resurgence in the number of positive cases, restrictions imposed by the authorities in respect of circulation of people and access to transport facilities should, coupled with closing of public buildings and restaurants, further impact the economy.

Delivering on our strategic objectives

Key economic indicators

Real GDP growth rate (%)

	Average 2014-2018	*2019 (e)*	*2020 (f)*
Global economy	**3.6**	**2.9**	**-4.9**
Sub-Saharan Africa	**3.2**	**3.1**	**-3.2**
Mauritius	3.7	3.0	-13.0
Madagascar	3.8	4.8	-1.0
Seychelles	4.4	3.9	-13.8
Mozambique	5.0	2.2	1.4
Reunion Island	2.9	2.2	-
Maldives	6.0	5.7	-8.1

Selling rates of main currencies vis-à-vis the rupee

	Value as at		Annual average	
	30-Jun-19	30-Jun-20	FY 2018/19	FY 2019/20
USD	36.0	40.4	35.2	37.9
GBP	45.6	49.8	45.4	47.7
EUR	40.9	45.5	40.1	41.9

(e) estimate (f) forecast
Sources: IMF, Statistics Mauritius, Bank of Mauritius, Insee and MCB Staff estimates

Challenges to be tackled

- Adverse repercussions on the revenue-generating capacity and credit-worthiness of businesses across vulnerable economic sectors
- Restrained demand for credit by customers amidst slowdown in activities, dampened investment levels and job losses
- Heightened economic uncertainty levels somewhat affecting the pace and depth of MCB Group's business development projects and endeavours, while reinforcing the need to shore up our market vigilance and endorse a thoughtful business growth agenda
- Volatility of Mauritian rupee potentially impacting forex transactions of locally-based entities and earnings from abroad

Opportunities capturing our attention

- 'New normals' emerging in the wake of the pandemic outbreak (e.g. increased focus on local production, accelerating calls for promoting environment-friendly business practices, investments and behaviours, diversification of supply chains, increasing technological adoption across activities) to create opportunities for MCB Group to unleash new and more adapted products and services, while providing scope to widen market activities and deepen involvement in under-served markets
- Avenues for the Group to further diversify market activities in Africa, particularly amidst a context whereby preferences by international businesses and investors for transacting with the continent happen to gain prominence in the post-COVID-19 era

Market, societal and technological landscapes

Recent trends and developments

- Operators faced up to notable strains on their market activities in the wake of the deteriorating economic context linked to the pandemic. Against this backdrop, the authorities across our presence countries took rapid and pragmatic measures to uphold the resilience of operations, alongside pursuing moves to preserve the stability of banking and financial industries.

- In Mauritius, the banking sector was exposed to pressures on the level and quality of credit demand, whereas the call for working capital facilities stepped up amidst turbulences faced by several sectors and cash flow difficulties faced by businesses. The curtailed availability of foreign currencies following the closing of frontiers and reduced activities by export sectors also warranted attention. On another note, the average weighted yields on short-term securities posted a generally marked downtrend during the last financial year. This reflected the rise in excess liquidity levels in the banking system, notably in rupee terms, amidst the challenging economic conditions and lockdown measures, which contributed to dampen nationwide investment levels and reduce activities by households and businesses. The Key Repo Rate was cut by a cumulative 165 basis points during the financial year, while the Bank of Mauritius (BoM) has halted issuance of its own short-term securities from end-March to mid-August with the aim to maintain sufficient rupee liquidity buffer in the banking system so as to support the flow of credit to the economy.

- While the pandemic entailed increased risks to operators, the BoM stressed that banks have generally adequate cushions to weather the storm and highlighted that operators did not witness any major changes to their funding structure or liquidity situation during the lockdown. Comfortingly, banks already enjoyed relatively high capital and liquidity buffers prior to the pandemic and non-performing loans in affected sectors such as tourism were viewed as being low and well covered. To help contain the impact of the pandemic, the BoM has, other than the review of the regulatory and supervisory framework, launched dedicated programmes and targeted measures to help businesses withstand the crisis and remain afloat, accompany individuals amidst pressures on revenue generation, prevent real sector shocks from permeating to the financial sector and safeguard banks' ability to meet customer needs. See forthcoming pages for further details.

- As regard the banking and financial services industry in general, an adverse development relates to the inclusion of Mauritius into the list of 'jurisdictions under increased monitoring' by the Financial Action Task Force (FATF) and its categorisation in the European Commission's new list of High Risk Third Countries (i.e. those with deemed strategic deficiencies in their AML/CFT regimes). Encouragingly, the authorities demonstrated their high-level political commitment to remove Mauritius from those lists and preserve the competitive positioning of the country's International Financial Centre. A key step in this direction relates to the passing of the Anti-Money Laundering and Combatting the Financing of Terrorism (Miscellaneous Provisions) Act 2020, whose aim is to bring further fundamental reforms in the financial sector and ensure closer compliance with advocated international norms. The authorities continued to provide reassurances to parties at the FAFT and the EU on the constant progress made by the jurisdiction as regard the implementation of the five remaining recommendations under the FATF Action Plan, with a progress report lately submitted as per the agreed timeframe. In the same vein, the period under review saw the Seychelles authorities contemplating remedial measures to be adopted in view of the country's inclusion on the EU's list of non-cooperative jurisdictions and its downgrade by OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes from 'Largely Compliant' to 'Partially Compliant'.

- Banking and non-banking entities of the Group have been exposed to high competitive pressures in some segments, as operators continuously upgraded their solutions, especially in the wake of the challenging economic climate. In the same light, operators set forward to be attuned to the changing lifestyles, behaviours, attitudes and aspirations of customers (further, especially, to the rise of the millennials), who are laying increasing emphasis on personalised solutions and instantly accessible services. This new landscape is closely interrelated to the advent of new technologies and innovative operating platforms, as gauged by the increasing popularity of Artificial Intelligence, Big Data Analytics and Blockchain platforms. In the same light, operators in the banking and financial services industry have been actively investing in digital channels and platforms, which are garnering increasing attention in the context of new realities engendered by the COVID-19 pandemic.

Delivering on our strategic objectives

Key moves taken by the authorities to support individuals, businesses and the economy

In the wake of the COVID-19 pandemic, the authorities in our presence countries deployed several measures:

Mauritius

- The benchmark Key Repo Rate was reduced by 50 basis points to attain 2.85% in March 2020 and by a further 100 basis points to 1.85% a month later.

- The BoM introduced a Special Relief Fund of Rs 5 billion, which is made available through commercial banks to assist corporates in afflicted economic sectors (including SMEs) in meeting cash flow and working capital requirements. The funds are made available to banks at the rate of 1% per annum and are granted to customers at an interest rate of 1.5% per annum, with a repayment period of 48 months and a moratorium of up to 9 months on capital and interest repayments. These facilities are guaranteed by State Investment Corporation (SIC) to the extent of 50% for economic operators other than SMEs and 60% for SMEs.

- The BoM allowed households a moratorium of 9 months on capital repayments on existing loans (excluding overdrafts, credit cards and other credit facilities) as from 1 April 2020, while offering to bear the interest payable by low-income groups on outstanding loans from 1 April to 30 June 2020.

- The BoM made available funding facilities to exporters and importers via banks.

- The regulatory Cash Reserve Ratio applicable to rupee deposits was cut from 9% to 8% to help increase the ability of banks to assist businesses that are directly impacted by the COVID-19.

- As for the Government, it introduced a range of financial and fiscal support measures:
  - provision of financial, leasing and factoring schemes to businesses by the Investment Support Programme Ltd, which operates under the aegis of the Ministry of Finance, Economic Planning and Development;
  - implementation of a Wage Assistance Scheme to support economic operators facing cash flow difficulties, with the scheme being, since July, applicable only to businesses that operate activities in the tourism sector, including hotels, the national airline and restaurants amongst others;
  - provision of a Self-Employed Assistance Scheme for those employed in the informal sector or self-employed.

- The passing of the COVID-19 (Miscellaneous Provisions) Act 2020 brought amendments to various legislations, including the Workers' Rights Act 2019, the Employment Relations Act 2008 and the Bank of Mauritius Act 2004. Regarding the latter, a key objective is to enable the Government to be granted amounts required to assist in fiscal measures to stabilise the economy. Provision was also made for necessary amounts of the official reserves (up to USD 2 billion as officially) to be used in a newly-created company operating under the aegis of the BoM, i.e. Mauritius Investment Corporation (MIC). Its mandate is to provide equity and quasi-equity funding to support affected domestic systemic economic operators as per defined parameters, to ensure that they are kept afloat and preserve jobs. It aims to mitigate contagion of the ongoing economic downturn to the banking sector, thus limiting macroeconomic and financial risks. MIC has been engaged in discussions with eligible companies with a view to appraising and approving funding requests received.

Our foreign presence countries

- Madagascar: (i) Short-term deferral of repayments for consumer loans and mortgages as well as moratorium on repayment of loans to enterprises; (ii) exceptional refinancing instrument of up to three years made available, by the Central Bank, to banks to support Micro, Small and Medium Enterprises with turnover of not more than MGA 5 billion
- Maldives: (i) Short-term credit facility made available to financial institutions as and when required; (ii) banks allowed to provide moratorium of 6 months on loan repayments for those impacted by the current situation; (iii) maintenance of adequate FCY liquidity on the market through a foreign currency swap facility arranged with the Reserve Bank of India; and (iv) reduction in the minimum reserve requirements
- Seychelles: (i) Benchmark policy rate cut by 200 basis points to support the domestic economy; (ii) banks allowed to provide moratorium on principal and interest repayments with respect to credit facilities delivered to impacted sectors and self-employed individuals; (iii) approval, by the Central Bank, of the use of international reserves to provide foreign exchange support to the domestic market; (iv) approval, by the Central Bank, of a cut in the applicable minimum reserve requirement on rupee deposits from 13% to 10% should liquidity conditions warrant same going forward; (v) set up of two credit lines to provide financial support, through banks, to companies impacted by the crisis, with Government guaranteeing 50% of funds disbursed for large enterprises and 70% of funds granted to individuals and businesses operating as the Micro, Small and Medium Enterprises

Key banking sector metrics

Loans and advances Y.o.y. growth (%)

	Jun-18	Jun-19	Jun-20
Mauritius	5.8	7.6	7.0
Madagascar	19.2	18.7	13.2
Maldives	13.4	8.2	7.8
Seychelles	17.1	20.8	23.7

Weighted average yields on Government of Mauritius Treasury Bills/Bank of Mauritius Bills

2019		2020	
Month	Yield (%)	Month	Yield (%)
April	3.28	January	2.26
May	2.95	February	2.19
June	2.77	March	1.42
July	3.17	April	0.43
August	3.09	May	0.19
September	2.70	June	0.78
October	2.63	July	-
November	2.78	August	1.30
December	2.72	September	1.38

Note: There were no issuance during the month of July 2020

Financial soundness indicators

	Mauritius			Madagascar			Maldives			Seychelles		
As at June (%)	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**
Capital-based												
Regulatory capital to risk-weighted assets	18.0	19.9	20.5	n.a.	n.a.	n.a.	43.1	47.4	47.9	21.1	20.7	19.8
Asset quality and liquidity												
Non-performing loans to total gross loans	6.9	6.0	5.9	7.2	7.2	7.2	8.9	9.6	9.3	7.5	4.5	3.5
Liquid assets to total assets	25.4	21.0	26.4	38.5	35.9	34.3	43.8	43.9	44.5	58.6	56.0	55.7
Profitability												
Return on assets	1.5	2.1	1.2	4.6	3.9	3.4	3.3	3.8	2.2	2.9	3.0	2.8
Return on equity	14.6	17.4	10.1	45.3	39.4	34.7	13.9	15.2	8.9	28.8	29.2	26.7

Note: Ratios for Mauritius refer to banks and non-bank deposit-taking institutions and figures for Seychelles in 2020 relate to December 2019

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

Delivering on our strategic objectives

Challenges to be tackled

- Testing conditions instigated by the pandemic and other challenges faced calling for greater resilience and adaptability in the way we operate, respond to stakeholder needs, provide customised responses to meet their requirements and manage risks
- Restrained availability of foreign currency within domestic economic systems calling for intervention by Central Banks to supply FCY to the market
- Competitive market environment warranting that we remain on our toes as well as continuously enrich the quality and convenience of our value proposition, backed by strengthened capabilities and enhanced strategic focus
- Technological developments and increasingly exigent needs of customers demanding more agility and scalability in our functioning, modernisation of our internal systems, platforms and digital channels as well as a redesign of customer experiences, alongside underscoring the need to forge meaningful collaboration and partnerships with stakeholders (notably banks, IT companies and specific clients) with a view to creating and tapping into impactful ecosystems
- Cyber-risks and other risks linked to technological utilisation calling for reinforced risk management and internal control frameworks, backed notably by an improvement in data management and analytics capabilities

Opportunities capturing our attention

- Broadening market space pursuant to the advent of new technologies and the rapid evolution in customer aspirations
- Scope for serving customers in new and more innovative ways, after improving digital capabilities and investing in cyber security
- Possibilities to accompany corporate clients in their restructuring endeavours in view of the changing operating environment
- Avenues to shore up operational efficiencies amidst efforts to provide clients with more simplified and convenient solutions

Regulatory and supervisory oversight

Recent trends and developments

- The regulatory and supervisory framework faced by the Group continued to evolve as the authorities attempt to preserve the soundness and stability of the banking and financial services sectors in the countries where we are present, alongside protecting customers and modernising the set-up on which the delivery of products and services is anchored. Lately, due emphasis was laid on underpinning operations, integrity and resilience of the industry in response to the crisis instigated by the COVID-19 pandemic, with close monitoring of risk indicators by supervisory authorities.

- In Mauritius, new guidelines were issued by the Central Bank. The Guideline on Anti-Money Laundering and Combating the Financing of Terrorism and Proliferation, which supersedes the Guidance Notes on Anti-Money Laundering and Combating the Financing of Terrorism for Financial Institutions, seeks to assist financial institutions in understanding and effectively performing their statutory obligations, while setting out factors to be considered when identifying, assessing and mitigating risks of money laundering and the financing of terrorism and proliferation. The Bank of Mauritius, lately, issued a Guideline on Cross-Border Exposure, which provides a set of additional minimum standards that would need to be followed by banks in respect of their cross-border exposure, while, at the same time, formulating a risk-based management framework to assist operators in mitigating risks faced. On another note, the Guidelines on Complaints Handling Policy and Procedures applicable to Banks and Non-Bank Deposit Taking Institutions licensed by the Bank of Mauritius, as issued by the Ombudsperson for Financial Services, sets out the minimum standards and criteria to be observed when dealing with complaints made by consumers of financial services against financial institutions, so as to give them better protection. On the fiscal front, the Contribution Sociale Généralisée (CSG) Regulations 2020 have been enacted to allow for the creation of a new contributory, participative and collective system to replace the National Pension Fund. Every employer and every participant of the private sector are liable to pay CSG to the Mauritius Revenue Authority on the participant's remuneration and as per prescribed rates.

- To respond to the challenges posed by the COVID-19 pandemic and bolster the ability of banking operators to support the real economy, the BoM took several measures in concertation with relevant stakeholders. Alongside relaxing stipulations relating to the computation of Debt-to-Income Ratio for residential property loans in respect of individuals impacted by the pandemic, additional flexibility was provided to banks by (i) reviewing the allocation of risk weights to certain categories of exposures; (ii) temporarily putting on hold the Guideline on Credit Impairment Measurement and Income Recognition; and (iii) deferring the implementation of the last tranche of the regulatory Capital Conservation Buffer amounting to 0.625% to 1 January 2021 instead of 1 January 2020. While releasing more capital to banks, specific objectives of those initiatives are to increase the latter's leeway in terms of funding capacity and to boost their support to customers facing cash flow and working capital difficulties. Banks were also encouraged to be flexible in the approach guiding the application of IFRS 9, while being called upon to provide moratoriums to existing borrowers to offer them a breather pursuant to pressures exerted on their capacity to honour their obligations. In the same light, it is worth noting that the Banking Act 2004 was amended to strengthen the supervisory and regulatory powers of the Central Bank, with a key development being the empowerment of the latter to vary the mandatory capital adequacy ratio requirements applicable to banking players to a lower level should the need arise or in the wake of exceptional circumstances. With respect to the non-banking financial services sector, a key focus area of the Financial Services Commission has been the systematic oversight of any compliance deficiencies or offences in relation to Anti-Money Laundering/Combating the Financing of Terrorism regulations, while the institution has remained intent to uphold the soundness of business activities amidst crisis times, notably via the establishment of new guidelines or guidance notes.

- Concerning our foreign presence countries, the Central Bank of Seychelles (CBS) pursued efforts to strengthen its regulatory and supervisory framework. Due emphasis was laid on improving the framework for combating anti-money laundering and terrorist financing, with the introduction of a new Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Act 2020 and a Beneficial Ownership Act 2020, pursuant to the launch of a National AML/CFT Strategy. At the same time, the country fostered greater compliance with international norms and codes, notably with the signing of the Foreign Account Tax Compliance Act (FATCA) model 1 Inter-Governmental Agreement and the adoption of the OECD Base Erosion Profit Shifting framework. In Madagascar, the Central Bank remained active to support operators and boost supply of credit to the real economy, while a new Banking Law is in the process of being enacted. In Maldives, the legal framework has been shored up with the aim to prevent Money Laundering and Terrorism Financing and enhance the cybersecurity of the financial system.

Challenges to be tackled

- Increasingly pressing need for banking and financial services operators to acclimatise with the demanding regulatory/supervisorylandscape, alongside ascertaining attendant implications for the nature, depth and competitiveness of their business activities
- Necessity for operators to pragmatically and strategically cope with forbearances and regulatory relaxations allowed for by the authorities, while continuously preserving the soundness of their assets and strengthening their risk management set-up

Opportunities capturing our attention

- Reinforced regulatory and supervisory set-up enabling banks to benefit from ring-fenced and more predictable operating conditions in support of resilient and sound business activities, notwithstanding the testing economic climate
- Increased leeway and flexibility delivered by the authorities to banks with a view to assisting them in adequately dealing with the economic crisis, accompanying customers in their undertakings, sustaining credit supply and upholding revenue generation

Delivering on our strategic objectives

Positioning ourselves for growth and success

Overview

Underlying philosophy and approach

Our strategy is geared towards creating sustainable value. Anchored on our proven business model and while guiding our allocation of resources, our strategy paves the way for delivering sustained earnings growth and sound financial metrics, alongside ensuring that we operate within the precinct of our risk appetite. Amidst our ongoing endeavours to transform the Group into a simpler and better organisation, we aim to deliver exceptional customer service and tap into business development opportunities.

Concomitantly, a key objective of the Group is to embed sustainability principles in the way we function and undertake business, alongside integrating it in our culture, values and processes, in line with our objective to be a responsible corporate citizen.

Adapting to the context

In the context of the COVID-19 pandemic, Group entities have, in line with their own specificities and market realities, undertaken some reprioritisation of market development and capacity-building objectives and initiatives, with a focus on taking care of immediate imperatives in view of coping with the challenging operating context and preserving the resilience of their activities. While we continue to adopt a thoughtful business development approach in current circumstances, we, however, remain focused on executing our strategic pillars and pursuing our medium-term growth agenda, alongside investing for the future.

MCB Group: Main strategic objectives

Strengthen our domestic position

Expand our non-bank activities

Grow our international footprint

Embedding sustainability as a key value driver

General thrusts

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

Short-term imperatives to cope with COVID-19 pandemic

- Do everything we can to preserve the health and safety of our employees and clients
- Increase proximity with customers facing unprecedented hardtimes and deliver customised solutions and advice
- Foster business continuity and the soundness ofouroperations
- Maintain close collaboration with Central Banks and the Governments to implement support measures

Medium to longer-term priorities

- Help promote socio-economic development across geographies in which we are present, while reinforcing risk oversight
- Increase our share of foreign-source income,while positioning the Group as a competitive regional financial player
- Actively and thoughtfully pursue our Africa Strategy, alongside exploring business avenues beyond
- Enrich theappeal of our value proposition, backed by an innovative mindset and convenient digital channels
- Capitalise on synergies and partnerships within the organisation and with external parties

Our promise to creating a differentiating customer experience

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

Our governance and processes

General framework	• MCB Group has a well-defined governance framework as well as coherent processes and practices to facilitate strategy elaboration, execution and review. The Board sets the strategic directions of the Group, approves strategic policies and ensures that they are communicated throughout the organisation. • The Board is assisted by the Strategy Committee which, *inter alia*, makes recommendations on development strategies, assesses strategic opportunities, follows up on Group-wide initiatives and ensures that strategy execution is backed by adequate resources and structures.
Key process	• While ensuring congruence with strategic directions set at Group level, the entities typically formulate their own strategic orientations, which are cast in a 3-year rolling plan and endorsed by the Board at the start of each financial year. • The strategy-setting exercise remains flexible to consequential disruptions in the operating context, as recently observed with the COVID-19 situation, whereby a more pragmatic and focused approach has been adopted. Building on prior consultations held internally with specific stakeholders, shorter term bank-wide priority areas and projects (spanning over a one-year horizon) has been assessed centrally by the Executive Management Team and thereafter, communicated to all business units as they reflect on their respective strategic intents while ensuring alignment with the organisation's strategic focus areas. • Alongside being subject to relevant regulatory and compliance requirements, the entities determine their strategic initiatives after taking on board the inherent specificities and exigencies of the markets in which they operate as well as the relevant challenges and opportunities characterising the businesses they pursue. • When contemplating their strategic directions, entities make allowance for the risk appetite, as formulated across segments, while considering their capital position as well as the scale and proficiency of their physical and human resources. In their functioning, entities capitalise on Group synergies, while the services of external consultants are selectively leveraged to provide entities with competent tools and guidance in order to sustain their thinking and decision-taking process. Of note, amidst challenging times, the focus is mainly oriented around maintaining resilience. Key priorities and performance indicators are formulated with a view to providing clarity and direction towards supporting the smooth deployment of envisioned initiatives.

Delivering on our strategic objectives

Underlying strategic orientations and objectives across clusters and entities

Banking cluster

MCB Ltd

Our long-term destination

A strong and innovative regional financial player within a diversified Group

Our short to medium term strategic orientations

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

General thrusts

- Become more international, digital and sustainable in our approach
- Create a positive impact on people, societies and the environment

Our key objectives and strategic focus areas

- Consolidate the Bank's leadership position domestically
- Further increase the Bank's share of foreign-sourced income, with focus on pursuing its regional diversification agenda
- Help position the Group as a financial hub, after leveraging Mauritius as an International Financial Centre of repute and substance
- Entrench sustainability principles in the Bank's activities and operations

Key intents

- Position MCB Ltd as an Energy and Commodities Hub and widen our reach in the African oil and gas structured debt market
- Develop and offer structured financing solutions to entities investing and doing business across key sectors in Africa
- Transform MCB Ltd as a lead arranger for dedicated deals, while boosting syndication with financial institutions
- Deepen relationships with corporates expanding abroad and with entities within the Global Business sector
- Offer dedicated transactional and outsourcing solutions to banks in Africa, in collaboration with Group entities
- Expand private banking and wealth management activities on the African continent

Foreign banking subsidiaries

- Increase market shares across retail and corporate segments, while positioning the entities as trusted banking partners and upholding their brand image
- Consolidate business relationships with existing core clients and expand activities across new and emerging customer segments, alongside reinforcing proximity with small and medium enterprises
- Diversify loan and deposit portfolios, with focus on key players in sound economic sectors
- Accelerate implementation of digital and innovative practices, backed by the implementation of mobile banking service and upgrades to multi-channel payment platforms (e.g. Internet Banking, ATMs, POS, E-commerce)
- Improve customer experiences and widen the range of offerings to enrich the value proposition across segments, notably relating to card solutions, retail loan facilities as well as new offerings to boost the corporate segment
- Leverage solutions developed by MCB Ltd in the entities' presence countries, backed by service level agreements
- Expand physical footprint for increased market presence, while widening and modernising the branch network in line with customer requirements
- Continue investing in the risk and compliance infrastructure of the entities

'Non-banking financial' and 'other investments' clusters

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

Zoom on selected entities

MCB Capital Markets Ltd

- Focus on advising blue chip clients locally and arranging financing for transactions and projects in Africa
- Broaden investment management activities to alternative assets
- Invest in private equity and hybrid debt opportunities alongside partners in Africa
- Seek strategic alliances with selected partners to expand our distribution channels and strengthen our technical capabilities

MCB Leasing Ltd

- Widen the range of offerings and revamp existing products to enrich the value proposition, alongside diversifying the customer base
- Forge close partnerships with key stakeholders, including car dealers, equipment dealers and fleet management companies
- Maintain and nurture close relationships with business lines of MCB Ltd

MCB Factors Ltd

- Consolidate our position in the receivables finance market by leveraging latest technological solutions and diversifying products
- Offer advisory and 'service-only' solutions that are customised to domestic and international businesses
- Enhance synergies with MCB Ltd to offer best-fit solutions to clients

Delivering on our strategic objectives

MCB Microfinance Ltd

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

MCB Real Assets Ltd

- Develop and invest in a diversified portfolio of prime real assets with a view to seeding property yield funds to be offered to various customer segments

International Card Processing Services Ltd

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

MCB Consulting Services Ltd

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

MCB Institute of Finance

- Develop and nurture strong academic partnerships
- Maintain the spirit of offering ‘World Class Education’ at affordable prices for our target markets
- Support the brand continuously to attract targeted professionals in banking and finance

Creating value in a sustainable way for the benefit of our stakeholders

Our key foundations

Our proactive stakeholder engagement model informs and guides our actions and behaviours. While embracing an integrated vision that aims at providing a solid contribution to the advancement and prosperity of the society and economy, we seek to consistently make sense of and respond to the needs and expectations of our multiple stakeholders.

Read more in the Sustainability Report on our website

The Group has a well-established governance and operational framework to ensure that engagement with stakeholders is managed in a transparent and impactful way, in alignment with international practices and regulatory stipulations. Stakeholders are kept informed about the Group's business and strategy on a regular basis through various channels. Their views and concerns, notably gathered through ongoing dialogues, meetings and surveys, are considered in the Group's decisions, with material issues escalated to the Board. The organisation's activities underlying its stakeholder value creation are anchored on sound foundations. The employees of MCB Ltd abide by the Bank's Code of Conduct and the National Code of Banking Practice. Reflecting its commitment to entrench applicable principles in its strategy and operations, MCB Ltd is an adherent to the United Nations Global Compact at participant level. The latter is the world's largest voluntary corporate responsibility initiative for businesses committed to aligning their operations and strategies with universally accepted principles in the areas of human rights, labour, environment and anti-corruption. Since August 2019, MCB Ltd is one of the founding signatories of the Principles for Responsible Banking of the United Nations Environment Programme – Finance Initiative. The Principles provide the banking industry with a single framework that embeds sustainability at the strategic, portfolio and transactional levels across business areas, thus assisting operators in playing a leading role in achieving society's goals. MCB Group Ltd is one of the constituents of the sustainability index of the Stock Exchange of Mauritius which tracks the market price-performance of listed companies that demonstrate strong sustainability practices. Furthermore, Morgan Stanley Capital International (MSCI) – which assesses the resilience of companies worldwide in relation to long-term, financially relevant environmental, social and governance risks – has upheld the 'A' rating assigned to MCB Group Ltd, reflecting the organisation's strong governance practices and robust internal controls.

Our Corporate Sustainability Programme

Our approach and philosophy

Our mandate and aspiration

Our Corporate Sustainability Programme, titled 'Success Beyond Numbers', was launched in November 2018, with the mandate thereof being to integrate our sustainability vision and principles into our strategy and operations.

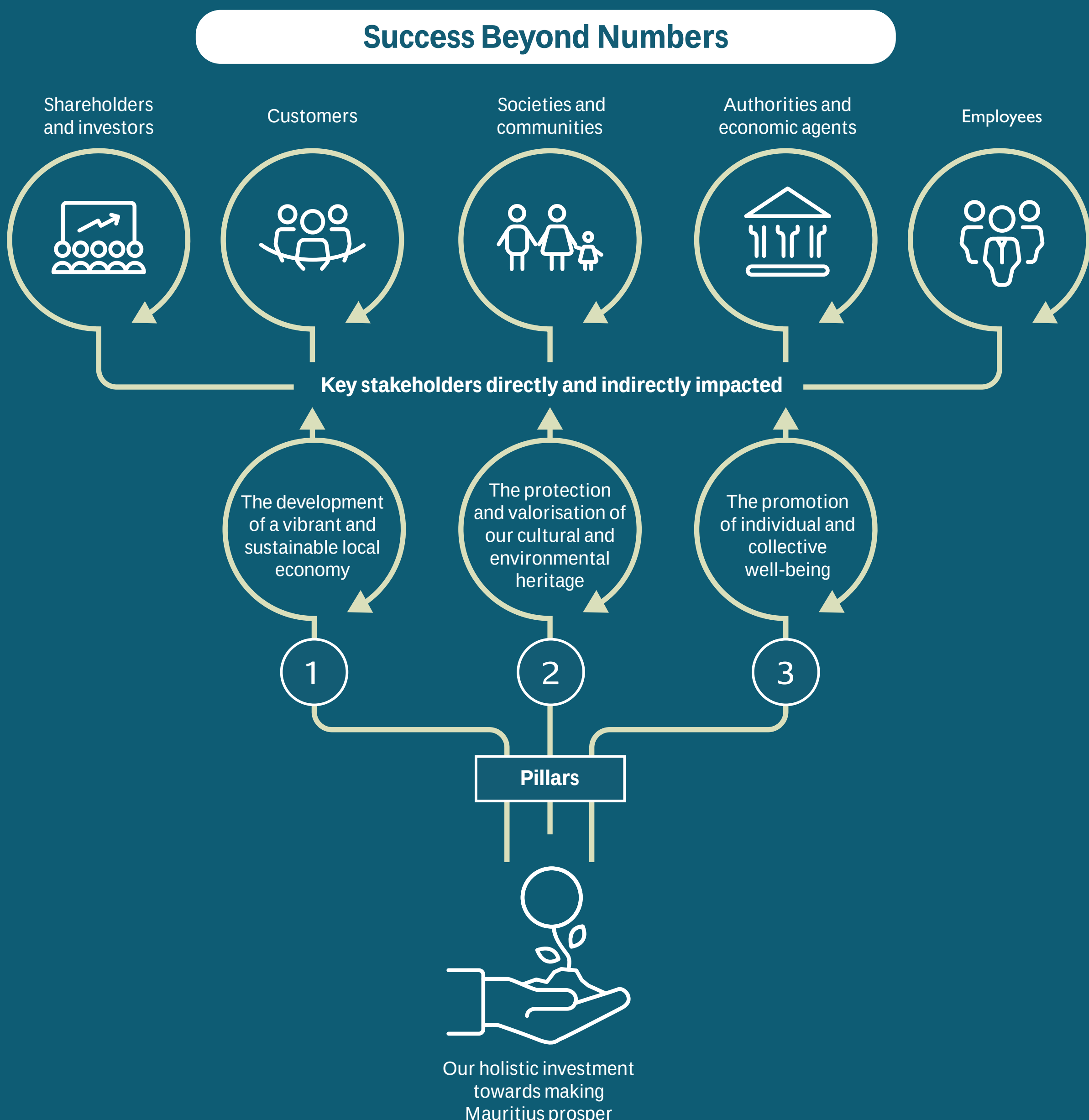
Alongside entrenching sustainability in our DNA and our behaviours, the idea behind the programme is the conviction that, as a financial institution that has, over time, played a critical role in the socio-economic development of Mauritius, MCB Group has a responsibility to contribute to the nation's sustained well-being via multiple and, sometimes, unconventional channels. That is why the Group has redefined the way it measures success. Because it takes more than numbers, 'Success Beyond Numbers' is more than a tagline or a marketing campaign. It has become MCB Group's compass to navigate the increasingly complex and demanding landscape of our times. It is the Group's fundamental reason for acting as a responsible corporate citizen by creating value every day for its stakeholders and helping to make a difference for the economy and its people of the current and upcoming generations.

Key pillars and underpinnings

Our corporate sustainability endeavours revolve around initiatives executed under three pillars: (i) development of a vibrant and sustainable local economy; (ii) protection and valorisation of our cultural and environmental heritage; and (iii) promotion of individual and collective well-being. Our actions are underpinned by governance and operational platforms, while the organisation also capitalises on strategic partnerships forged with external stakeholders, including businesses, NGOs and the authorities.

Delivering on our strategic objectives

Our Corporate Sustainability Programme



Key enablers supporting the operationalisation of the programme

- Governance framework underpinning the overall oversight of the programme
- Operational set-up defining the relevant roles, responsibilities, mandates and accountabilities
- Framework to guide the planning, execution, coordination and management of relevant projects and initiatives
- Roadmap for the timely approval and launch of projects and initiatives
- Structure in place for benefits tracking, monitoring and reporting

Our strategic achievements and initiatives

General overview

During FY 2019/20, while particular emphasis was laid on managing the ramifications of the COVID-19 pandemic on the economic and market environments during the later part of the year, Group entities strived to pursue their business development thrusts and strengthened stakeholder engagement.

Basically, in addition to consolidating its leadership position in servicing individual and corporate clients in the Mauritian banking sector, the Group preserved its prominent regional involvement and made headway in the provision of non-bank financial services. Overall, alongside exercising market vigilance and reinforcing risk management, the Group further diversified its exposures across segments and geographies, while upgrading its inherent capabilities for growth. We continued to leverage synergies, with focus laid on (i) tapping into need-based cross-selling avenues; (ii) the replication of client solutions across geographies; and (iii) provision of bundled solutions emanating from business lines and entities, mainly in relation to investor-related services and the Group's 'Bank of Banks' value proposition. The Group positioned itself as a regional platform for handling trade finance, payments outsourcing and undertaking consulting assignments for banking and financial services counterparts, operating notably in Africa.

Fostering our stakeholder engagement

During the period under review, the Group pursued wide-ranging initiatives to underpin the advancement and welfare of key stakeholders, alongside responding to their needs and requirements. As a key focus area, the Group took dedicated actions to meaningfully reinforce its stakeholder interactions in the wake of the exigent operating environment triggered by the pandemic.

Read more in the 'Our performance across entities' section on pages 68 to 85

Read more in the Sustainability Report on our website

Shareholders and investors

How we have engaged with and served our stakeholders

- We upheld the image and reputation of the Group as a strategically important player. In FY 2019/20, MCB Group posted a resilient financial performance, backed by its robust business model. As a key principle, we aim to generate comfortable earnings to reward our shareholders and investors. For the period under review, however, the Group did not declare any dividend in line with directives by banking regulators across presence countries amidst the current exceptional circumstances.

- The Group promoted open communication with its shareholders to ensure strong and transparent relationships with them. As a key priority, we fostered the availability of timely, concise and detailed information on the positioning and performance of the Group. Furthermore, we regularly engaged with shareholders in order to better understand their perspectives.

- We continued to hold open, constructive and regular dialogues with international rating agencies with a view to reporting on the performance and prospects of MCB Ltd as well as its strategic orientations. Along the way, we shared dedicated analyses to provide comfort as regard our risk management and business growth foundations. During the period under review, MCB Ltd encouragingly preserved its investment-grade credit ratings. However, reflecting the highly challenging environment, the Bank's rating outlooks have been changed from stable to negative. That said, such developments reflect a wide-ranging global phenomenon, whereby many banks across jurisdictions are, almost inevitably, being adversely evaluated by rating agencies due to the detrimental spillover impacts of the coronavirus pandemic on economic and market conditions. Comfortingly, credit agencies have highlighted the Bank's solid franchise and business model, as well as management quality and adequate risk management, in addition to pinpointing its resilient financial metrics heading into the crisis.

Delivering on our strategic objectives

- MCB Ltd has successfully accessed global financial markets towards boosting its funding and liquidity positions. It can notably be observed that, in July 2020, the Bank successfully drew upon a USD 100 million Facility arranged by MUFG Securities EMEA Plc. The facility is being used for general corporate purposes, with the aim of allowing MCB Ltd to deliver on its strategic and financial ambitions, notably on the African continent. This achievement, essentially, reflects the Bank's strong fundamentals, franchise, resilience and well-managed risk profile. It shows that the Bank continues to attract the support of international banks and highlights its capacity to deliver on complex cross-border transactions in spite of the challenging market conditions.

Read more in the 'Corporate Governance Report' on pages on 96 to 140 and the 'Group Financial Performance' section on pages 86 to 94

Responding to COVID-19...

- We reinforced our communication and interactions with investors, credit rating agencies and correspondent banks in order to reassure them of the inherent resilience of our operations and the soundness of our key financial metrics.
- While keeping our external stakeholders abreast of material developments influencing the Group's operations and activities, we have regularly informed them about specific initiatives taken by the organisation to cope with the impact of the pandemic on the organisation as a whole and across our entities and key business segments.
- We continuously liaised with players across global markets amidst our efforts to consolidate our FCY funding resources.

Customers

How we have engaged with and served our stakeholders

- Backed by a thorough understanding of exigencies and requirements across market segments, we provided clients with increasingly simplified and personalised financial solutions to help them meet their goals, thus contributing to their prosperity and financial well-being. We made further headway in building life-long relationships with clients and accompanying them in good and bad times. We pursued the digitalisation of our operations and services, alongside improving the reach and appeal of our wide-ranging channels to allow customers to undertake payments and transactions in an easier, faster and safer way.
- We adopted appropriate and carefully-designed communication and reporting channels vis-à-vis our customers to provide them with transparent and timely advice and information about our offerings as well as effectively attend to their queries. We regularly sought customer feedback on our solutions, notably via surveys and focus group discussions, towards improving our value proposition. We embraced dedicated initiatives to address customer complaints in an efficient and opportune manner. Of note, around 80% of customer complaints registered during FY 2019/20 were resolved within less than five days.
- We preserved the security and confidentiality of transactions, alongside upholding customers' trust in the organisation. Towards this end, we reinforced our internal platforms and processes, including our cyber risk management framework, to foster the safety of our customers' information, while ensuring that they can use our channels in a dependable way.
- We have strengthened client relationships and our market visibility, mainly through the organisation of and participation in various promotional and commercial initiatives, as well as international seminars, conferences and roadshows. Such events enabled the Group to promote its capabilities and value proposition, while gaining insights on international business trends and dynamics. We remained active on social media platforms such as Facebook, Twitter, YouTube, Instagram and LinkedIn.

Responding to COVID-19...

While reinforcing proximity with customers to understand their needs and requirements, Group entities have, amidst the difficult context, taken immediate and short-term measures to assist individual and corporate clients in coping with challenges faced, alleviating their financial burden and sustaining their activities. We delivered well-structured financial solutions after collaborating with Central Banks and the authorities, which helped banking players in their endeavours, notably through guarantees for working capital facilities, execution of relief programmes and provision of funding lines. At the same time, to underpin healthy portfolios and sound operations, entities have, when supporting their client base, been guided by clearly-determined conditions and criteria.

MCB Ltd

Individuals

- Provision of moratorium/repayment holiday offered in respect of capital repayment and, if necessary, interest payment; Launch of a 'COVID-19 Household Support Scheme': Developed in a rapid iterative manner during the lockdown period, the scheme allows customers facing difficult times to apply for relief on their loan repayments (rupee facilities other than overdrafts, credit cards and leasing facilities). Customers can apply on the MCB website for such assistance, with requests being processed digitally from the start of the application to the set-up of the moratorium, backed by unified and scalable business intelligence platforms
- Temporarily waiving of fees to alleviate customers' financial burden, mainly card-related fees and other fees (failed standing instruction and failed direct debit fees, fees on funds transfer between MCB accounts and to another local bank)
- Setting up of a dedicated help desk, which is operational on a 24/7 mode, in order to attend to queries and banking needs of clients who are stranded abroad following the closing of borders

SMEs

- Provision of a working capital facilities with flexible repayment and pricing terms, in order to help companies support critical payments (e.g. maintain payrolls) and honour obligations towards suppliers
- Provision of flexible loan repayment solutions: (i) moratorium/repayment holiday on both capital and interest payments; (ii) rescheduling of existing facilities over a longer period of time to assist clients in withstanding cash flow difficulties
- Offer of a Free Business Deposit Card for the convenience of customers regularly queuing up outside branches during the confinement period, thus allowing them to safely deposit funds at more than 70 ATMs and to save on waiting time
- Establishment of clear processes and mechanisms to quickly handle and respond to client requests

Large corporates

- Provision of MUR working capital facilities with convenient repayment terms and collateral requirements with the aim of assisting clients – deemed to have the ability to steer their way through the crisis, while displaying resilient business models, financial fundamentals and risk management processes – in undertaking critical operating expenses
- Deferment of capital repayments and potentially interest payments to help clients that are exposed to cash flow difficulties
- Provision of treasury services, with the prioritisation of sales of FCY against MUR to clients transacting for the following: imports of pharmaceutical products, payments for medical and educational expenses and urgent salary transfers, etc.

Delivering on our strategic objectives

MCB Ltd (continued)

Promoting digital channels and payment solutions

The organisation has actively promoted its convenient and secure digital channels to underpin the conduct of round-the-clock customer transactions, backed by an intensification of communication and awareness campaigns on the social media. In fact, amidst apprehensions linked to the virus' mode of transmission, the confinement of the population and growing client aspirations to satisfy their banking needs from the comfort of their home in the current context, we ensured that adapted and suitable facilities and services are provided to respond to customer requests for low touch options for making and receiving payments.

- Particular focus laid on encouraging contactless card payments and the payment solution 'Scan to pay' (QR code) available on 'JuiceByMCB' mobile banking application, while sensitising customers on phishing and scamming attempts; increase in the maximum payment value per contactless transaction from Rs 500 to Rs 2,500, with maximum daily ceiling set at Rs 5,000

- Deployment of additional Point-of-Sale terminals and widening of the repertoire of 'JuiceByMCB' merchants; design of a swift onboarding process and provision of dedicated assistance to merchants and online market place operators which are rethinking their business models as well as to adopting or deepening the recourse to digital and online platforms in response to consumers turning to online shopping and bill payments for more safety and convenience; provision, in partnership with a Fintech company, of an e-commerce gateway for small and medium enterprises to assist them in ensuring business continuity during the lockdown period and beyond

- Extension of the validity period of expired cards, given temporary unavailability of postal services for the delivery of renewed cards during the confinement period; waiving of various card-related fees (e.g. cash withdrawal fee when withdrawing from another local bank ATM, credit card late payment and over-limit fees)

Foreign banking subsidiaries

- General moves: (i) Provision of moratorium on principal and/or interest payments for existing loans and delivery of working capital facilities; (ii) promotion of remote banking channels, notably cards mobile banking and Internet Banking services

- MCB Madagascar: Provision of treasury and credit facilities at relatively more advantageous rates and conditions

- MCB Seychelles: (i) Waiving of online domestic transfer fees to encourage related transactions; (ii) establishment of clear decision criteria for the allocation of foreign currency to existing customers and to non-customers as well

- MCB Maldives: (i) Launch of an in-house tool to allow customers to request for appointments online; (ii) rescheduling of existing facilities over a longer period to ease cash flow, with the entity ready to consider other avenues on a case-to-case basis

MCB Factors Ltd

- Suspension or delay of a range of charges and commissions for specific facilities offered

- Launch of dedicated financing schemes for the attention particularly of SME clients (annual turnover of up to Rs 50 million) and MME clients (annual turnover between Rs 50 million and Rs 250 million)

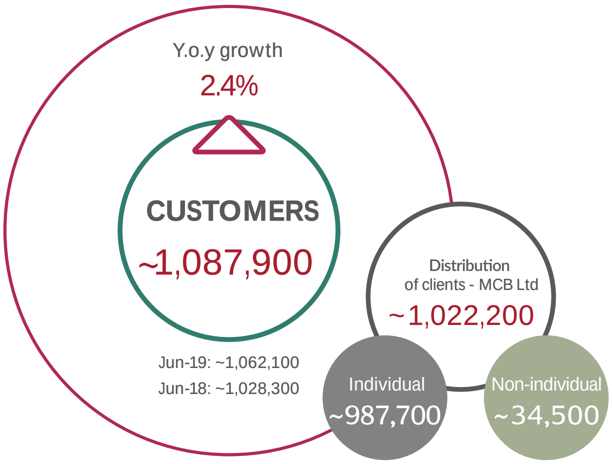
MCB Microfinance Ltd

- Rescheduling of a broad range of customer loans through moratorium

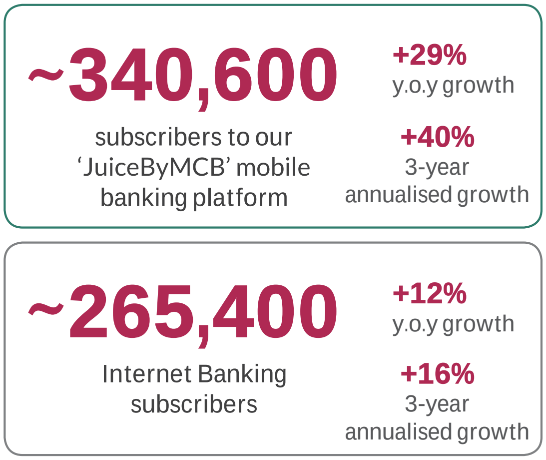
- Disbursement of a new facility, titled 'Relief Loan', which comes with preferential rates and aims to finance the necessary cash-flow needs of businesses to assist and enable them to resume or sustain their activities

Serving a strong and diversified customer base, while leveraging innovative channels

Customer base as at 30 June 2020

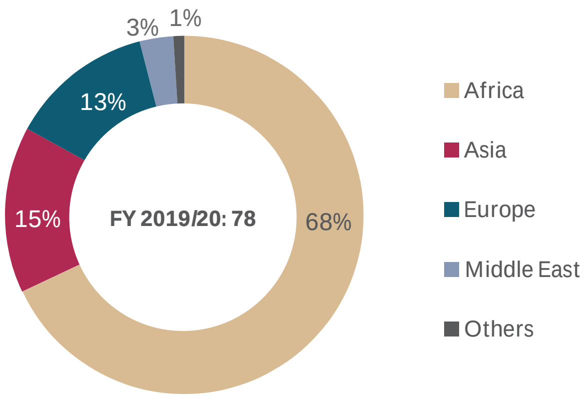


Deploying digital platforms



Note: Figures above are as at 30 June 2020

'Bank of Banks' initiative: Distribution of foreign financial institutions serviced by Group entities across region



Societies and communities

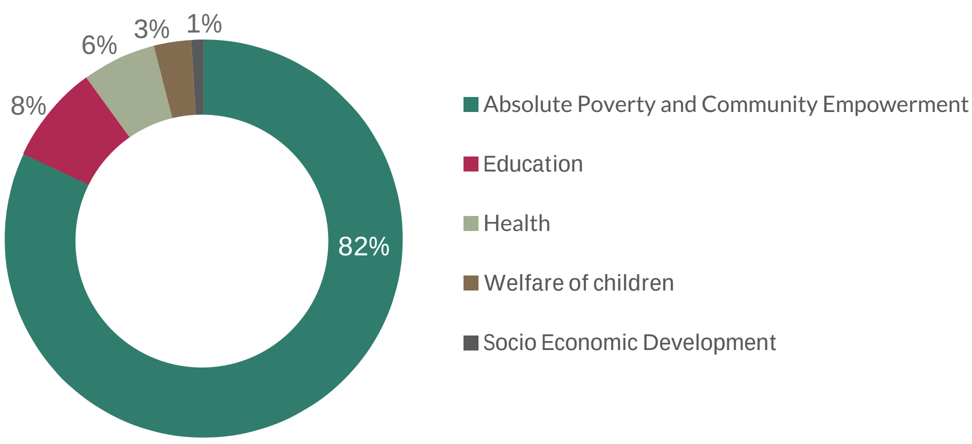
How we have engaged with and served our stakeholders

- The Group has continued to foster the well-being and progress of the societies and communities in which we live and operate. In Mauritius and across other presence countries, we partnered with relevant stakeholders, such as NGOs and public sector entities, towards promoting social welfare. We provided support in key focus areas, notably absolute poverty and community empowerment, preservation of the natural environment, arts and culture, youth development and sports as well as health and education. In respect of the latter, it can be noted that our organisation has, so far, awarded 32 scholarships to Mauritian students ranked next in line with those eligible for the State of Mauritius scholarships on the Economics side at the Higher School Certificate examinations, while 36 students from Rodrigues have been awarded scholarships under the MCB Rodrigues Scholarship, thus enabling them to pursue tertiary studies at the University of Mauritius.

Delivering on our strategic objectives

- Our corporate social responsibility activities are channeled via the MCB Forward Foundation (MCBFF), which is the dedicated vehicle for the efficient and effective design, implementation and management of initiatives meant to embed the Group's engagement with the communities in which it operates. In FY 2019/20, consistent with the authorities' requirement for companies to set up an annual Corporate Social Responsibility (CSR) Fund representing 2% of their chargeable income derived during the preceding year, an aggregate amount of around Rs 93 million was accordingly earmarked by the Group's local entities. As per the standard Government policy, 75% of companies' CSR contributions for projects are to be channelled to the Mauritius Revenue Authority. However, in alignment with the provisions of the recently amended Income Tax Act 1995, MCB Group Ltd was, for the period under review, authorised by the National Social Inclusion Foundation to retain an additional 25% of its earmarked CSR fund to cater for the implementation of programmes initiated prior to 1 January 2019. Accordingly, after making allowance for planned projects that were put on hold in the wake of the confinement and border closures, an amount of some Rs 44.4 million was spent by the MCB Forward Foundation on 19 projects, of which 10 are ongoing. The entity remained actively engaged in undertaking initiatives aimed at meeting a multiple range of nationwide socio-economic development imperatives, aided by mobilisation of necessary logistics and execution of pedagogical programmes. In the same vein, reflecting the endeavour to foster the engagement of employees in carrying out CSR activities, the MCBFF oversaw the implementation of the organisation's 'Social Leave' programme. The latter gives the opportunity to each employee of the Group to, via a one-day paid leave, carry out social work by helping NGOs in their day-to-day activities. In FY 2019/20, 385 employees dedicated 136 hours to 6 NGOs, namely Ebony Forest, Mauritius Wildlife Foundation, Plankton Recycling, SOS Children's Village, Leonard Cheshire Home and Union Park Women Association. On another note, the Group donated Rs 3 million to the Mauritian Wildlife Foundation to help protect the flora and fauna of Ile aux Aigrettes and the South-East area in the wake of the MV Wakashio oil spill. Furthermore, MCB Seychelles has supported 'The Ocean Project Seychelles', which is a local NGO aiming to protect the oceans, through the conduct of sensitisation campaigns.
- It is worth highlighting that no political donations were made during the year under review.
- By means of our personalised solutions and thoughtful channel distribution, we promoted financial inclusion in Mauritius, thus enabling our low-income customers to get access to credit and improve their conditions. We helped individual clients achieve their ambitions, including buying a home/car or paying for personal expenses. With regard specifically to the tailored financial solutions of MCB Ltd: (i) the low minimum balance for account opening and the fact that our savings account bundle bears no cost make the offer extensively accessible; (ii) parents are invited to open Junior accounts to encourage our young generation to be financially responsible and save from a young age; and (iii) our unsecured personal loan offer, which is also available to non-MCB Ltd customers, is often sought by low-income customers to cover for education and housing purposes. We provided innovative and customised solutions to SMEs as well as micro-enterprises and self-employed individuals.

Distribution of amount spent by MCBFF during FY 2019/20



Attending to the needs of our customers across segments

Helping students (MCB Ltd)

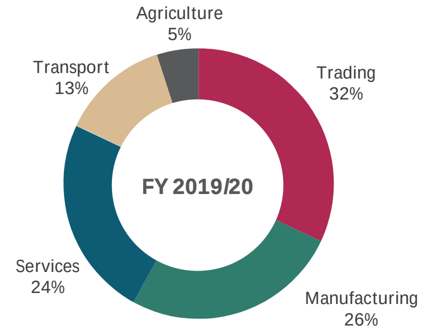
~Rs 1.4 billion representing total student loans approved (under normal banking terms and the Government Guarantee Scheme), account for a market share of **66%** (over the period April 2013 - June 2020)

Helping entrepreneurs (MCB Microfinance Ltd)

~2,230 clients financed

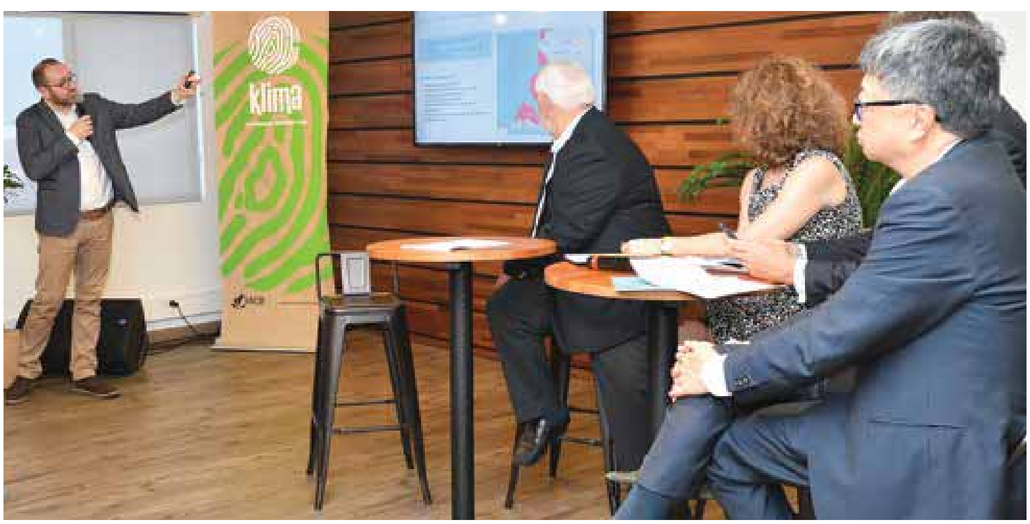
~3,440 loans disbursed for

~Rs 670 million (since inception in July 2016)



Note: Figures in pie chart relate to outstanding loans

- We made further inroads in preserving our cultural heritage, while promoting the dissemination of arts. We took the leading role in sponsoring and/or spearheading the materialisation of key projects aiming to promote local talents at various levels, including music, singing/dance, art and writing, photography, painting and sculpting, as well as theatre and performing arts. We encouraged the adoption of environment-friendly and energy-saving practices in our operations. We worked towards effectively managing our carbon footprint, amidst endeavours to continuously monitor and assess our direct environment footprint in order to minimise the impact of our activities on the environment. In this respect, MCB Ltd is committed to compensate for its annual emissions on a retroactive basis and has accordingly achieved carbon neutrality in its operations for the year 2018. Indeed, CO2 emissions generated from the operations of the Bank in 2018 have been fully offset through afforestation and cookstoves projects in Kenya, Mozambique and Uganda. Of note, the organisation has also successfully offset the CO2 emissions generated by the speakers who travelled by air for the Klima conference organised.



On 4 and 5 February 2020, MCB released its Klima Neutral 2050 report and committed to a zero carbon policy.

- As another key achievement, we progressively reduced energy and water usage in line with objectives and targets set, backed by a systematic monitoring of consumption patterns which helped us in identifying saving opportunities and detecting avenues for the installation of efficient equipment. Furthermore, the organisation remained committed to raising awareness amongst its employees and external stakeholders, while engaging with them to stimulate the adoption of sustainable habits and work towards environmental protection. For instance, towards contributing to efforts for greening the supply chain, the Bank seeks to ensure that all suppliers comply with sustainable procurement standards. Worth noting also, the organisation actively promotes the use of e-statements by customers. The total number of customers subscribing thereto increased by 8% during the financial year.

Delivering on our strategic objectives

- With regard to our business activities, it is worth recalling that, since May 2012, MCB Ltd adopted the Equator Principles, which is a voluntary and internationally recognised risk management framework, espoused by many financial institutions worldwide. This framework stands as the foundation and guiding principle of the Bank's Environmental and Social Policy, which articulates the principles, policies, roles and responsibilities through which the Bank ensures the environmental and social risks management of its lending activities, in particular regarding any project or undertaking entailing loans of an aggregate amount greater than or equal to USD 2 million and with maturity of at least 24 months. Moreover, MCB Ltd remained actively involved in the provision of 'Green loans', pursuant to the third edition of the line of credit availed from Agence Française de Développement (AFD), in the context of the latter's green finance label titled SUNREF (Sustainable Use of Natural Resources and Energy Finance). The key objective of the facility is to stimulate the deployment of renewable energy and energy-efficient technologies, alongside boosting climate change mitigation and adaptation projects and promoting social inclusion and gender equality principles. Our 'Green Loans' have been offered to individual, SME and corporate clients in Mauritius, while we also attended to the needs of customers in some foreign presence countries. Of note also, MCB Ltd is converting materials used for the manufacture of its cards to Polylactic Acid (PLA), thus reducing traditional Polyvinyl Chloride (PVC) use by more than 80%, with the Bank being one of the first 60 financial institutions globally to lead the way towards more sustainable and bio-sourced material for their cards. Another measure that warrants attention is that for each transaction made by clients using an MCB debit card, the Bank contributes 10 cents to the Mauritius Wildlife Foundation, with the stated objective being to help save endangered Mauritian species through the restoration of entire ecosystems.

Read more in the Sustainability Report on our website

Responding to COVID-19...

- The organisation remained committed to helping societies and vulnerable families amidst such difficult times. Notably, MCB Ltd donated Rs 1.7 million to the crowdfunding platform, 'Small Steps Matter', for the distribution of 1,470 food packs to households outside the national Social Register. The MCBFF also made available some 110 food packs to families as part of schemes falling under the aegis of the MCB Football Academy (MCBFA). Additionally, MCBFF contributed Rs 10 million to the COVID-19 Solidarity Fund, which has been put in place by the authorities to support the population in view of the pandemic.
- In order to help children of the MCBFA cope with the lockdown, a personal development programme as well as therapeutic workshops for those with psychological and psychiatric issues were set up. Furthermore, 10 children with special needs received tablets to help them stay connected with their school, while face shields and infrared thermometers were given to 'Association des Parents Deficients Auditifs' (APDA). For its part, MCB Seychelles donated Personal Protective Equipment (PPE) and vital ancillary supplies to the Department of Health to assist in the treatment of patients impacted by the COVID-19 outbreak.

Authorities and economic agents

How we have engaged with and served our stakeholders

- We continued to support our presence countries in their endeavours to promote the development and modernisation of their respective economic sectors and financial jurisdictions. In Mauritius, alongside financing key projects shaping the economic landscape, we sustained our contribution to the real economy and the continued growth of the country's businesses. The organisation remained a dedicated and trusted partner for large corporates and investors, while upholding its commitment to support and accompany small and medium enterprises across a broad range of economic sectors by means of our proactive, tailored and modular solutions. The Group helped to position Mauritius as a credible and competitive International Financial Centre, alongside assisting businesses transiting through our country to conduct business across Africa. On this topic, it is worth recalling that the Group set forward to reassure investors and other stakeholders on the substance of our jurisdiction, while highlighting, in the process, the active measures being deployed by the Government to promptly remove Mauritius from the list of 'jurisdictions under increased monitoring' as per the Financial Action Task Force (FATF) and the European Commission's list of High Risk Third Countries (i.e. those with deemed strategic deficiencies in their AML/CFT regimes).

Helping the economies where we are involved to prosper

Direct contribution of MCB Ltd to the Mauritian economy (FY 2019/20)

Contribution to value added

~ 4.5%
of the total value added generated by the economy

~ 55%
of the total value added by the banking sector

Paying taxes in support of Government revenue mobilisation

~ 10%
of total corporate tax paid across the economy

~ 50%
of special levy paid by banks

Creating jobs on the nationwide scale

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

39%
of the employment in the banking sector

Notes:
(i) Total corporate tax paid includes levies charged on income but excludes our indirect contribution induced by tax paid by our suppliers
(ii) The estimates do not cater for the indirect implications of the Bank's operations and banking activities

Direct contribution of MCB Seychelles to the Seychellois economy (year 2019)

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

~ 30%
of total value added by the financial sector

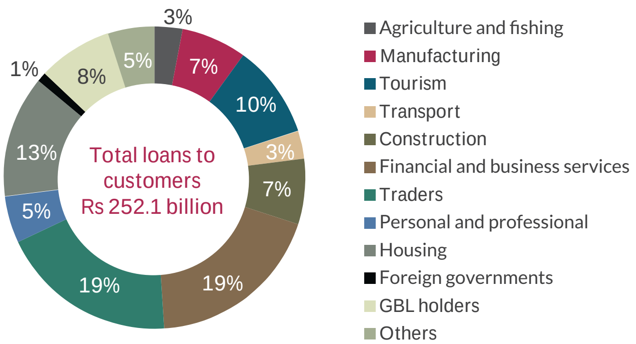
~ 11%
of employment in the financial sector

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

Delivering on our strategic objectives

Helping businesses and economic sectors to grow

Distribution of loans and advances as at 30 June 2020



Helping productive sectors

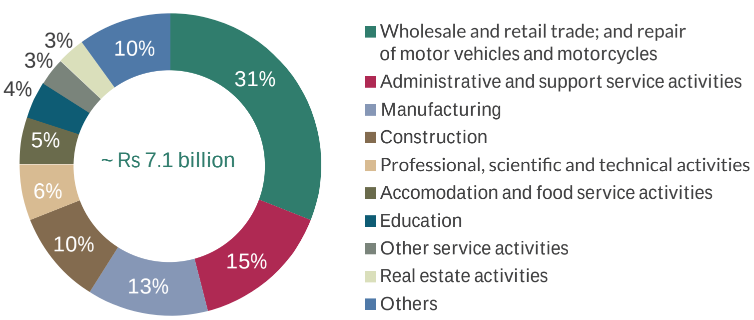
Rs 144 billion

representing loans and advances to corporates in Mauritius as at 30 June 2020, towards enabling them to achieve their ambitions

Note: Figure includes corporate notes

Attending to the needs of SMEs across sectors

Distribution of loans to SMEs as at 30 June 2020 (MCB Ltd)



- We safeguarded the perennity and soundness of our operations, alongside fully coping with specificities and implications of evolving mandatory provisions and requirements. We ensured strict compliance with relevant regulatory limits and guidelines relating notably to business operations, product development, market development and risk management in the jurisdictions within which we operate. We assisted in strengthening the regulatory framework on the basis of our close collaboration with the regulators. We attended to regulatory reviews with notable attention to detail and professionalism, while promptly reacting to matters raised. We submitted reports in a timely manner to regulatory bodies and forged transparent relationships with them to promote adequate monitoring of our activities and informed discussions about relevant issues.

Responding to COVID-19...

- We accompanied small, medium and large-sized businesses facing up to hardships and cash flow difficulties to, as far as possible, remain afloat, pursue their activities and mitigate job losses, thus helping to underpin resilient socio-economic development.
- We interacted and collaborated with Central Banks and the authorities in our presence countries (directly or through banking and relevant business associations) amidst concerted endeavours to implement macro-financial measures that are deemed to be most effective to underpin supply of credit and the delivery of dedicated clients solutions, after making allowance for new realities and requirements engendered by the pandemic.

Employees

How we have engaged with and served our stakeholders

- Towards embedding our position as an employer of choice, we pursued our efforts to attract, develop and retain talents as well as empower them to deliver their best, alongside further developing and capitalising on the collective skills, knowledge and experience of our employees. Concomitantly, the Group has engaged with staff to adequately understand and respond to their needs, via surveys and culture audit. With a view to realising its strategic objectives, the Group continues to implement dedicated projects and programmes, as part of its ongoing HR Transformation Programme. While promoting an environment of trust, high aspiration and achievement as well as fostering strategic talent acquisition, the underlying aim is to reinforce human resource frameworks, in support of enhanced operational efficiencies as well as sound and balanced business growth.
- The subject matters to which the Group is exposed to are getting more complex and client solutions increasingly sophisticated. Against this backdrop and while capitalising on our forward-looking approach, we brought relevant upgrades to our learning and training framework as well as the underlying culture. Dedicated programmes were conducted to step up the quality of our human capital, including training courses and lectures held by international experts at our Learning and Development Centre. Employees continue to benefit from technical training as well as courses meant to develop soft skills, either delivered in-class or online (increasingly so given the current operating context). Worth noting, our range of courses are enriched with those provided by the MCB Institute of Finance.

Key measures deployed during the period under review

- Amidst the ongoing transformation of human resources frameworks with a view to shoring up foundations for growth, the organisation has launched its new Performance Management System (PMS) and Talent Management Programme, titled Grow!. These undertakings – which aim to improve the quality of our human resources and the agility of operations as well as promote endeavours in favour of innovation and our customer-centricity – have been elaborated based on employee feedback obtained via different platforms and the conduct of a Trust Index Survey.
- The Performance Management System seeks to ensure that everyone's contribution to the success of MCB Group is duly recognised and that individual growth is supported, as well as promote an environment where feedback is further encouraged. Grow!, aims to identify, develop and retain competent and engaged people to sustain the current and future success of the organisation, while valuing their contribution. It is scheduled to be rolled out in three phases, with the first two focusing on 'People Managers' to equip them with relevant principles/tools of talent management. The Group has established a dedicated Competency Framework – as the centerpiece of both Talent Management and Performance Management – after all positions have been profiled with the identification of essential and desirable competencies. 'People Managers' are being trained to have a firm grasp of appropriate behaviours linked to competencies required in daily business activities.
- Other measures put in place to further promote learning and talent development are as follows: (i) go-live of a new Strategic Talent Acquisition function within HR SBU of MCB Ltd; (ii) assessment of MCB Group Leadership via a 360-degree survey exercise which has been designed with the help of a renowned international consulting firm, followed by one-to-one debrief sessions; (iii) formulation of learning needs analysis methodology to gather development needs in a centralised form and to facilitate a proactive management of training initiatives and human resource development efforts; and (iv) gradual elaboration of bespoke individual development plans, with pilot programmes already launched in selected SBUs of MCB Ltd.

Delivering on our strategic objectives

- Capitalising on its fair and robust remuneration philosophy, the Group strived to reward its employees adequately, in line with market conditions and meritocracy principles. Also, the Group provides a range of fringe benefits to its employees to help them in their personal life. Additionally, our employee share option scheme (see page 114) provides eligible employees with the opportunity to partake in the growth and prosperity of the Group, through acquisition of its shares.

- The Group has continued to work towards entrenching a balanced and diversified workforce in terms of gender, age group and experience in order to tap into a wide range of knowledge, skills and specialist competencies in view of creating the right conditions to achieve business strategies. In addition, the Group maintained a stimulating work context by fostering secured and healthy environments. While being compliant to legal and regulatory requirements, our occupational safety and health policies aim to foster a sound working environment and system of work for the benefit of its employees, as far as it is reasonable. Moreover, the Group has further deployed programmes to uphold the overall well-being of its employees. In its bid to continuously enhancing staff welfare and promoting work-life balance, the organisation has consolidated its Flexible Working Arrangements (FWA), with the implementation of the 'Work From Home' initiative under specific conditions (thus complementing long-standing arrangements in terms of flexi-time, staggered hours and hot desking).

General stability of our workforce as at 30 June 2020

95.1%

Employee retention rate

5.5%

Employee turnover rate

Definitions:

(i) Retention rate is the ratio of the number of employees that stayed during a specific period to the number of employees at the beginning of the period

(ii) Turnover rate is the ratio of the number of employees that left to the average number of employees during a specific time period

Responding to COVID-19...

Working practices and conditions

The organisation took prompt measures to preserve the health and safety of its employees during and after the lockdown period. It provided them with dedicated facilities that helped them undertake their activities, backed by clear policies and guidelines.

- Phased and thoughtful adoption of Work From Home (WFH) practices and prompt reorganisation of work processes with the operation of split/rotating teams as soon as lockdowns were announced and depending on the category of activities, underpinned by the delivery of dedicated technological and infrastructure support; key objective pursued is to maintain continuity of business operations, uphold the delivery of minimum service to customers and reduce risks of contamination

- Provision of food packs, free meal deliveries and transport shuttles to employees working on-site during the confinement period

- Upholding the adoption of strict health and safety protocols across premises and at all times: (i) compulsory wearing of masks by all staff members and maintenance of social distancing in all branches and sites; (ii) provision of hydro-alcoholic solutions upon entry in our premises and leveraging of a control entrance system with use of calibrated non-contact thermometers for body temperature screenings for all employees admitted in our premises; (iii) installation of protective glass screens separating customers from tellers and set-up of social distancing markings at entrances and service counters to mitigate contagion risks; (iv) conduct of regular cleansing and disinfection of our premises and equipment, notably across frontline spaces and common areas; (v) isolation zones earmarked across premises; (vi) conduct of meetings via conference calls encouraged and strict guidelines imposed for physical meetings and use of lifts; and (vii) provision of gloves and individual sanitisers to front-liners and distribution of around 3,500 masks to employees and their dependents

- Conduct of COVID-19 rapid tests for employees having worked during lockdown period

Communication and support

- Dedicated communication platforms leveraged to keep in touch with employees and reassure them during and after the lockdown period, while disseminating regular information on the virus spread and providing insights on steps taken to protect the health of employees and customers and uphold operations; channels favoured include our enterprise connectivity platform (Workplace), WhatsApp groups and emails from the Chief Executive Officer and key personnel; a weekly newsletter has been disseminated to keep employees abreast of the measures taken by the Group to deal with the crisis

- Creation of a dedicated cell, comprising notably the in-house Psychologist and Wellness Coordinators, with the objective being to help our employees manage the emotional challenges associated with the lockdown and address any related queries

- Availability of tele-medicine services to employees during the confinement period

Key employee statistics for the lockdown period in Mauritius

~1,500
Total number of employees who worked on site

~470
Average number of employees on site daily

~2,200
Number of employees who worked from home

~1,000
Number of COVID-19 tests conducted on our employees

Delivering on our strategic objectives

Our performance across entities

Banking cluster

MCB Ltd

Financial performance

While MCB Ltd pulled off the first half of the year with a strong performance, results posted for FY 2019/20 were impacted by the significant increase in net impairment of financial assets related to the economic downturn triggered by the COVID-19 pandemic. This movement is explained by the significant rise in Expected Credit Losses on our performing assets, as per IFRS 9 requirements, on account of an inherent increase in credit risks and our revised forward-looking assumptions made to reflect the impact of the pandemic on our operations, amidst significant uncertainties on how future developments will unfold. Overall, net profit for the year fell by 15.5% with the Bank's contribution to Group results amounting to Rs 6,755 million.

Reflecting the Bank's sound business model and disciplined growth agenda, operating income increased by 9.6%. This was underpinned by a rise of 9.9% in net interest income, on the back mainly of the rise in its gross loans and advances and increased investment in Government securities. Although net fee and commission income remained relatively unchanged owing to dampened activity levels, non-interest income rose by 9.0%, driven by increases in profit on exchange, net gain from financial instruments carried at fair value as well as net gain on sale of foreign financial instruments. Whilst operating expenses increased up by 5.6% on the back of initiatives to strengthen human capital and technological capabilities, the cost to income ratio declined by more than one percentage point to reach 32.5%. More generally, it is comforting to note that the Bank has, in the face of the demanding environment, preserved its financial soundness in terms of capitalisation, asset quality as well as funding and liquidity.

Our business development

The financial resilience of the Bank was supported by sustained and thoughtful efforts to execute its underlying business expansion agenda, alongside promptly adapting to the highly challenging operating context. Indeed, in the wake of the economic downturn engendered by the COVID-19 pandemic, the Bank has deployed proactive moves in the latter part of the financial year with a view to safeguarding the continuity and stability of its operations as well as underpinning its activities across markets.

Fundamentally, the Bank delivered on its strategic focus areas by consolidating its leading banking position on the local scene and pursuing its regional diversification endeavours across key growth pillars. Nonetheless, business activities were impacted by the increasingly challenging operating context prevailing in the last few months of the financial year owing to the ramifications of the pandemic, including the national lockdown imposed. Locally, the Bank was subject to notable pressures on the level and quality of credit demand in both the retail and corporate segments, on the back of the dampened performances of specific economic sectors, the lockdown of the population, the closing of borders as well as strains on the revenue streams of households and businesses. Beyond domestic shores, it is encouraging to note that, in spite of shocks associated with the turbulent market environment, the Bank's Energy and Commodities as well as international structured finance portfolios have remained resilient to conditions faced, supported by our selective deal origination policy and the series of risk mitigants leveraged. On the operational side, the Bank mobilised the necessary resources to build sustainable capabilities for growth, with guiding considerations being customer focus, an engaged and agile workforce, seamless operations, an innovative culture as well as a robust risk and compliance framework. As a major focus area for the period under review, the Bank pursued business transformation and realignment initiatives with notable organisation-wide implications. Specific business lines and support functions have moved forward to transform their operations towards helping to support MCB's growth ambitions amidst a demanding context. The underlying objectives of such moves are to: (i) optimise and reshape existing operating paradigms for more impactful outcomes; (ii) better respond to the evolving aspirations of an increasingly sophisticated customer base and develop more appealing value propositions; (iii) foster new ways of working that are anchored on agile, innovative and collaborative principles; (iv) bring about increased operational efficiencies; (v) reinforce risk management and oversight; and (vi) uphold the productivity, engagement and advancement of our employees.

Looking ahead, the Bank is conscious that market and economic conditions would, in all probability, remain particularly challenging for some time amidst persisting concerns associated with the pandemic on the local and international fronts and little visibility on the pace at which the situation will heal. Alongside upholding its vigilance and preserving its disciplined market positioning, the Bank will continue to keep track of developments taking place across segments and geographies, with emphasis laid on ensuring balanced business growth and healthy financial soundness metrics. It remains intent on building the bank of the future and pursuing its growth agenda in a thoughtful way, by executing its three-pronged strategic objectives, namely to extend its frontiers, deliver a world-class customer experience through digital, and nurture its values and deliver on its brand promise.

Delivering on our growth pillars

The following sections shed light on underlying initiatives deployed by MCB Ltd to realise its growth aspirations across markets and geographies, while making allowance for the repercussions of the COVID-19 pandemic and the testing operating landscape. Amidst the ongoing crisis, the targeted measures deployed by the Bank to respond to challenges faced as well as accompany and engage with its stakeholders, notably strategic moves to support local and international customers, are shown on pages 55–67.

Extend our frontiers, while consolidating existing markets

Local – Individuals

- Whilst being exposed to competitive pressures across some segments, the Bank pursued its strategic intents and maintained its prominent market positioning. Such headway was underpinned by strengthened operational and commercial capabilities – backed by sales andservice transformation endeavours, moves to transform the branch experience and efforts to boost employee engagement – the recourse to innovative technologies, a continuously refined value proposition and bolstered risk management processes. Amidst our aim to boost omnichannel experiences, we pursued efforts to upgrade and promote our digital channels vis-à-vis our clients towards offering increasingly seamless experiences. We remained active on the payments scene by allowing clients to make and accept payments in a quick and hassle-free way via multiple channels. We have further distributed the Group offerings, with dedicated investment solutions helping to encourage our customers to save and invest.
- Within the mass and mass affluent segments, in addition to upholding our prominent footprint in respect of education loans, we maintained our leadership position in the mortgage field, with our market share for housing loans standing at around 36%as at end-June 2020. It can be noted that MCB has refined the appeal of its mortgage solution, which has been further customised to meet different client needs. We made headway in simplifying the end-to-end customer journeys for loan application and approval, while leveraging agile principles and digital channels. In this spirit, we streamlined the credit value chain for individual customers to enhance experiences, after centralising key tasks such as credit analysis and credit-related documentations. This has contributed to faster approval, document preparation and disbursement of loans. Additionally, in our quest to promote optimal service delivery across segments, we have launched an automated Appointment Booking System, which allows for better planning of specific customer visits across branches.
- The Bank made further progress towards meeting its objective of becoming the trusted lifetime partner for its affluent and high net worth customer base in Mauritius. It capitalised on its differentiating service quality and bespoke offerings, notably its sophisticated range of investment and wealth management solutions. To underpin its strategic thrusts, the Bank bolstered the quality of its human capital, while attracting talents with comprehensive investment expertise, and reinforcing its partnerships with external partners. The Bank pursued dedicated initiatives underpinning product innovation and client service upgrades, helped by strengthened customer interactions and a more conducive operating model. On this note, we set forward to upgrade our dedicated Wealth Management function, offering a full spectrum of solutions from discretionary portfolio management to the establishment of an investment advisory and fund selection service, whilst having the ability to customise investment strategies through an open architecture approach. The aim thereof is to cater for the investment needs of the ultra-high-net-worth individuals. We are currently in the process of upgrading our wealth management software, which will allow our clients unfaltering access to their portfolios and enable them to carry out online trading. With this platform, we expect to generate gains in operational efficiency and uncover sustainable opportunities to scale up business volumes.

Delivering on our strategic objectives

Local – Large corporates

- While we were confronted by a difficult economic environment and dampened investment levels, amidst the virus spread in the second half of the year, we maintained our engagement in attending to the needs of our corporate customers in an informed and sensible manner. To this end, we capitalised on our unique selling propositions and tailored products and services, while further gearing up our operating models and staff capabilities and improving operational efficiency levels. We developed closer relationships with key business players across value chains, alongside leveraging organisational synergies and the promotion of a cross-selling culture across the Group. In addition to helping us increase our penetration in traditional markets, such moves supported the diversification of our customer base, with progress made in meeting the needs of underserved segments, with whom dedicated working arrangements are being defined and implemented. Reflecting our endeavours, we maintained our leading positioning in respect of domestic credit to corporates, with our market share standing at 41% as at 30 June 2020. During the last financial year, we assisted businesses and investors across various segments and contributed to the materialisation of key projects shaping the landscape of Mauritius. We expanded our exposures vis-à-vis various sectors, e.g. financial and business services, tourism and traders. While acting as a trusted business advisor, we accompanied corporate and institutional clients in their capacity building moves, restructuring initiatives and strategic undertakings, including expansion endeavours in the Group's presence countries. Along the way, the Bank widened its involvement in respect of the provision of the third edition of its preferential credit facilities named as 'Green Loans' (see page 62). It remained active in delivering adapted treasury and forex solutions to meet client requirements.
- We made further inroads in attending to the needs of companies leveraging Mauritius as an International Financial Centre (IFC) of substance. In the wake of the testing operating context, we remained vigilant in our undertakings and maintained our thoughtful business growth agenda. We pursued our engagement vis-à-vis global business entities, trusts and foundations after capitalising into the positioning of Mauritius as a gateway for conducting business with other regions. Our market development initiatives have been, essentially, underpinned by adapted solutions and enhanced client interactions.
- Reflecting our aim to deliver increasingly seamless and innovative solutions to our clients, we launched two customer journeys to enrich our digital banking propositions and experiences. To start with, our Internet Banking platform has been endowed with a renewed user interface and revamped functionalities. This led to simplified and secured as well as user-friendly processes for undertaking international transfers, while facilitating online treatment of payment instructions. There is, thus, no cut-off time for processing of payment instructions by MCB, with the bulk of transactions processed and transfers undertaken on a real-time basis and a 24/7 mode. In the same vein, MCB brought about a new payment application, i.e. SmartApprove, on the marketplace. The latter, which is a convenient and secure web-responsive Application, allows authorised signatories to approve transactions via tablet or smartphone. Moreover, backed by further improvement in the process workflow (i.e. from initiation to disbursement) for relevant products and services, we have developed a world-class loan application process which has contributed to boost customer satisfaction levels.

Local – Small and Medium Enterprises (SMEs) and Mid-Market Enterprises (MMEs)

- Backed by a thorough understanding of client requirements, an enriched value proposition and forging of business partnerships, the Bank cemented its positioning as the foremost service provider for SMEs and MMEs in Mauritius. This reflects our ambition to actively promote entrepreneurship and boost local production in the country. MCB is ranked 1st amongst the 12 participating banks in respect of credit facilities outstanding under the Government–backed SME Financing Scheme, with a corresponding market share of 49.5% posted during the December 2011 – June 2020 period.

A first in Mauritius, Juice Pro, the mobile app for SMEs, was launched in June this year.

- We pursued initiatives allowing us to act as trusted business partner towards helping our clients start, manage and grow their businesses. Towards promoting their strategic initiatives and boosting their expertise as well as creating a durable ecosystem, MCB provided its clients with a broader and more customised palette of innovative solutions, alongside gearing up the ease and accessibility of services delivered. We launched the first version of our mobile banking service for SMEs, with our secure 'JuicePro' app setting out to effectively respond to our customers' daily transactional and other banking needs. Key features of this service are as follows: (i) simple, fast and secure login; (ii) view account balances in real time; (iii) view loans at one's convenience; (iv) keep track of last 30 transactions; (v) transfer funds to other MCB accounts or other local banks; (vi) formulate direct feedback just by taking a photo on the app; and (vii) allow users to save and manage beneficiaries that will be reused for future payments. This is the first mobile banking app for SMEs on the market and the Bank is continuously working on new releases. Backed by support from the Bank's Digital Factory, we launched our Business Account Opening Journey. Our SME Online Onboarding exercise provides our clients with the leeway to apply for and create their business account online at their own convenience, with their application treated via a full end-to-end process and only a single in-branch visit to be made for verification of original documents. Conducted in an agile mode, the project resulted in reduced processing time as regard client files and improved customer service. It helped the Bank achieve its promise of opening a business account within 72 hours, instead of 15 days or more.

- We engaged into an ambitious project of setting up SME Hubs across our retail network on the island – with five strategically located branches already being equipped with adapted infrastructures – to increase proximity to and interactions with clients towards better understanding their needs and activities, improving turnaround time and internal efficiency levels, smoothening service delivery and enhancing customer satisfaction. We are experimenting an SME Tribe structure, whereby all forms of digital deliveries, sales, operations and support functions within the Business Banking SBU are being organised into an agile way of working, supported by a fitting operating model. This new structure is allowing us to strengthen our ability to provide value-added and cutting-edge solutions to SMEs, alongside helping to reduce the time to market.

Regional and international fronts

- The Bank pursued its regional diversification strategy, alongside being involved beyond, backed by a disciplined approach and ongoing mobilisation of FCY funding resources. In addition to embracing an opportunistic stance to diversify its positioning and tap into interesting opportunities, the Bank remained mainly engaged in niche areas where it displays strategic competencies. Overall, MCB deepened its relationships with existing clients and selectively extended its customer base across segments and geographies, thus cementing its position as a dependable and competitive banking player in Africa. To underpin its market development initiatives and foster its strategy of further diversifying its revenue streams, the Bank capitalised on its customised solutions, regularly-updated risk appetite, a network of over 750 correspondent banks worldwide (including around 175 in Africa), Representative Offices as well as the Group's foreign presence via its subsidiaries.

- We widened and deepened our involvement in Energy and Commodities (E&C) financing, backed by (i) our broad experience as one of the leading providers of finance for the importation of Oil & Gas in the Indian Ocean and Africa; and (ii) our solid credentials and expertise (reflected by our full-fledged sectorial product offerings and specialised teams) as a privileged partner for direct and joint financing of Oil & Gas transactions in the region. Beyond consolidating our trade finance segment, we made solid inroads into the African oil and gas structured debt market. We are gradually shifting towards medium-term financing along the value chain, while broadening our involvement across the upstream business. We played a pivotal role in meeting the petroleum products requirements of countries across Africa and beyond. We deepened our market positioning by (i) gearing up our relations with oil traders, national oil companies, oil majors, procurement entities, junior African producers, and importers for wholesale and retail distribution; and (ii) diversifying projects financed, including reserve-based lending, across a wide range of countries.

- MCB made major headway in broadening and diversifying its portfolio of international structured finance deals, after financing major development projects and landmark deals across various sectors, countries and products on the African continent. We accompanied our clients by means of a comprehensive range of tailored working capital and term loan facilities, while taking advantage of in-depth technical capabilities developed across niche sectors, e.g. power, infrastructure, telecommunications and hospitality. We tapped into the continuous strengthening of client relationships and enhancement of our brand visibility.

- The Bank has, in close connection with the Group, remained an active promoter of the 'Bank of Banks' initiative, which consists of providing a palette of adapted solutions to financial institution counterparts, notably those operating in Africa. The Group partnered with and assisted 78 financial institutions worldwide, including over 50 in Africa and spanning 37 countries in FY 2019/20. We enabled clients to gain access to state-of-the-art services offered by various entities, thus helping them to underpin capacity building and business growth initiatives, while accessing industry best practices. To underpin our strategic endeavours, we pursued image- and relationship-building exercises to showcase our value proposition and capabilities. In October 2019, the 10th edition of our 'Africa Forward Together' seminar welcomed around 35 delegates from 17 African countries. The event hosted fast-paced workshops, panels and collaborative discussions, with participants discussing main challenges faced by various African institutions and brainstorming on possible avenues of collaboration and partnership. Following the conduct of our 'Meeting of Minds' workshop, the organisation leveraged and published the insights of around 35 C-suite and senior banking delegates who had identified the biggest challenges facing their respective institutions.

- MCB took dedicated initiatives in line with its aim of positioning itself as a reference in the region for premium banking and wealth management expertise. In spite of being confronted by a challenging operating environment amidst unsteady financial market conditions,

For its 10th edition, Africa Forward Together regrouped more than 40 African bankers around the theme "Beyond numbers".

we set out to reinforce our status as a trusted lifetime partner vis-à-vis our client base by delivering bespoke solutions, notably those that are geared towards the safeguard, growth and transmission of customer assets. Backed by our sophisticated value proposition and active promotional campaigns, we pursued our international expansion through our Representative Offices, business introducers and referrals. In addition, MCB further positioned itself as a unique point of contact for serving External Asset Managers, Multifamily Offices and independent financial advisors, while offering a suite of differentiated investment and banking solutions, from transactional to multi-asset class trading. Interactions with such clients, notably those in Europe, Africa and Dubai, were broadened as we continue to enhance our visibility on the international scene. Major initiatives put in place during the period under review include the: (i) setting up of a dedicated Investment Products and Services function, offering not only discretionary portfolio management but also investment advisory service; and (ii) review of our financial planning services. We have also enhanced our risk management and compliance processes to foster disciplined cross-border activities and market expansion.

Deliver a world-class customer experience through digital

- Alongside further widening and upgrading its digital footprint amidst sustained investments, MCB has, during the period under review, continued to promote operational excellence and innovation as a key underpinning of enriched customer service quality and relationships. The key objective is to ensure that client needs are fulfilled in a fast, convenient and simple manner. We pursued our strategy aiming to transform Mauritius into a cash-lite society by means of our payments solutions and platforms. Along the way, we unleashed dedicated initiatives to encourage migration of customers from branches to digital and payments channels.

Pursuing our Digital Transformation Programme

- We reinforced our human and technological capabilities to execute an ambitious roadmap of initiatives in support of our Digital Transformation Programme. This helped to strengthen the Bank's competitive edge across markets by delivering more convenient and appealing client solutions as well as promoting the conduct of more agile and productive operations.

- We strengthened the operationalisation of our Digital Factory to spearhead our digital transformation. Of note, our Digital Factory is anchored on a culture of start-up, while favouring a co-creation paradigm. It is integral to our objective to becoming an agile organisation and fostering the next phase of our growth journey. It serves as an incubator for embedding truly customer-centric operations across the Bank by redefining and digitising end-to-end customer journeys. During the period under review, beyond launching customer journeys as highlighted earlier, specific initiatives pursued have assisted the Bank in accomplishing the following: (i) fostering operational efficiency gains, while stimulating employee engagement; (ii) enhancing business operations and paving the way for greater innovation in what we do; (iii) increasing the efficiency and scalability in the design and development of our products, backed by the formulation of clear guidelines and principles; and (iv) improving the quality of client solutions and delivering value faster to stakeholders.

- We geared up our Change Management Office, whose mandate is to ensure the successful implementation of parallel customer journeys and transformational moves undertaken throughout the organisation and to support smooth transition phases, fostering business readiness for projects 'Going Live' and assisting in driving post-implementation adoption. During the period under review, the Office helped to develop a Change Management Framework for the Bank, while boosting relevant capabilities to meet earmarked objectives. Alongside leveraging a dedicated communication strategy and ensuring a coherent deployment of identified initiatives, the Office has collaborated with various squads and project teams to cater for the impact of change from a people perspective and has assisted to limit the risks of organisation resistance to change.

- We upgraded the operating model of our Customer Lab, which collaborates closely with product development teams across the Bank. The Customer Lab is involved as soon as the product initiation phase is put into motion, with a key role being to undertake customer research as well as measure customer experiences and behaviours. Such endeavours are underpinned by conduct of surveys and customer interviews as well as the leveraging of organisation data. During FY 2019/20, we worked with more than 2,000 customers to (re)design solutions and experiences. As a key accomplishment, we set up 'The Lab', which is a collaborative and social media-hosted platform. On a first stance, this set-up provides staff members with the opportunity to support the advancement of MCB by means of ideation, co-creation, product testing, sharing of opinions and experiences, etc. In the periods ahead, the Bank aims to extend this tool to its customers, with the dedicated assistance and guidance of its employees.

Our Digital Factory has been set up in view of facilitating MCB's digital transformation and redefining better customer experience through the use of digital technology.

Delivering on our strategic objectives

- Towards promoting availability, reusability and integrity of data for users, the Bank has further shored up its data management capabilities, towards using data as a lever and strategic asset to underpin business growth and risk management. Our Data Office supported business lines, which were provided with management/reporting dashboards and KPIs that enable users to get timely access to client facilities and sales performances data on workstations and mobile devices, thus allowing for improved monitoring and analysis. We established our Advanced Analytics practice, which, notably, helped the Bank to review its Financial Crime Risk Management system after using data-driven approaches to complement ongoing expert reviews. To increase the effectiveness of our Anti-Money Laundering controls and processes, the practice adopted key initiatives, including the formulation of optimised alerts and credit scores in alignment with clients' risk profiles.

- We made progress in entrenching an agile way of working across the organisation to underpin team effectiveness and quality service deliveries, backed by training programmes and alignment with practices already adopted by the Digital Factory.

Read more about digitally-enabled initiatives in the 'Our performance across entities' section on pages 68 to 85

Upgrading our technology platforms to boost customer satisfaction, underpin information security and improve productivity levels

- The Bank avails cutting-edge technologies across the value chain, alongside continuously upgrading its IT systems and infrastructure to further enhance operational efficiency levels and improve customer service quality. Following a complete review of the way technology is managed and delivered to the Bank and its customers, a full-fledged Technology SBU, which adopts agile mind-set and principles, was established via a refined operating model. This set-up – which incorporates Technical and Functional Delivery Domain teams acting in an autonomous and cross-functional mode, Infrastructure Delivery teams which are based on solutions delivered to users and Technology Chapters – aims to (i) deliver value faster to users and customers; and (ii) bolster synergies and cross-collaboration with business segments of the Bank.

- The Bank embarked on a project geared towards the cloudification of its core platforms, as evidenced by the successful migration of its Enterprise Resource Planning (ERP) and the Human Capital Management System (HCMS). MCB is now using a complete and secure Cloud Platform encompassing the latest General Ledger, Accounts Payable, Procurement and Fixed Assets modules and a suite of HR-related modules. This makes us the pioneer and largest organisation in sub-Saharan Africa to implement such a platform on the Cloud. In the process, we have successfully implemented the Oracle Fusion Maintenance Module – as another milestone in our Cloud Technology adoption – which aims to optimise our business operations by means of modern and intuitive maintenance solutions. The Bank achieved the latest PCI certification. We are now compliant with the toughest PCI Data Security Standards. Reflecting the strong credentials of its main Data Centres, the Bank is making steady progress towards achieving Tier 3 certification, while its Disaster Recovery site is already a Tier 4 certified Data Centre. Recently, the Bank's SWIFT Service Bureau achieved compliance with the applicable controls of the Shared Infrastructure Programme, Security and Operational Framework for 2020. The latter defines the operational standards for third-party service bureaux offering SWIFT connectivity, while ensuring service quality, security and reliability. MCB became the second Service Bureau to be certified on this front out of seven in Africa. Other achievements during the period under review can be delineated as follows: (i) upgrade of our Core Banking Platform to the latest technology; (ii) phased rollout of a new Omnichannel platform; (iii) implementation of a state-of-the-art Workflow platform (BPMN 2.0 compliant) for all new business flows and introduction of a new middleware platform to facilitate the integration of our channels and our Core Services layer via APIs; (iv) increased use of Robotic Process Automation to improve the efficiency and resilience of critical back-office operations; and (v) implementation of new Portfolio Management Platform to improve capabilities of our Private Banking and Wealth Management business line.

Nurture our values and deliver on our brand promise

- The Bank remained actively engaged in disseminating its core values across different layers of the organisation to foster alignment in terms of actions deployed to achieve common goals. We strived to ensure that such values are continuously lived up and transposed into the day-to-day attitudes, behaviours and activities of our employees. While the Bank has, during the period under review, focused on immediate imperatives in the wake of the ramifications of the COVID-19 pandemic and, to some extent, reassessed the pace underpinning the unfolding of sustainability initiatives, it maintained its commitment to create a positive impact on our people, society and environment, alongside fostering the well-being of the nation at large.

- MCB made progress in further refining and implementing its Corporate Sustainability Programme (CSP), backed by reinforced capabilities. While being aligned with the United Nations Sustainable Development Goals (SDGs), a long-term Sustainability Strategic Plan is being finalised to more holistically and coherently shape up the Bank's sustainability engagement. The governance structure and relevant functions underpinning the execution of the CSP have been further refined to (i) improve smoothness and coherence of the decision-making process; (ii) render the project workflow more impactful and efficient, alongside fostering improved project execution and management; (iii) allow for a more effective integration of environmental and social risk management topics in operations and financing activities; and (iv) ensure seamless communication amongst internal and external stakeholders. The former Remuneration, Corporate Governance and Ethics Committee of the Group has been endowed with a well-defined 'sustainability' mandate and renamed as Remuneration, Corporate Governance, Ethics and Sustainability Committee, with a view to enabling the organisation to exercise a better oversight of its overarching sustainability strategy. The Project Steering Committee has been renamed as the Sustainability Strategic Council. Chaired by the Deputy Chief Executive of the Bank who acts as the Executive Sponsor, its composition has been redesigned and its mandate is being streamlined with refined responsibilities for increased efficiency. In addition, the Sustainability team, which monitors the implementation of the CSP, has been strengthened with additional resources and expertise.

- In line with our 'Success Beyond Numbers' philosophy, we have executed key initiatives across the three pillars of our CSP: (i) development of a vibrant and sustainable local economy; (ii) protection and valorisation of our cultural and environmental heritage; and (iii) promotion of individual and collective well-being. They reflect our efforts to drive sustainability as a core feature of our way of doing business and make a difference in the societies and communities in which we live and operate. As a key move, the 'Klima' Conference we organised and the 'Klima Neutral 2050' study we commissioned showcased the organisation's ambitious and bold Climate Strategy. The underlying objective is to engage our economic, social and political stakeholders as part of concerted and impactful endeavours that will help to pave the way for Mauritius to progressively achieve carbon neutrality. This is intended to underpin the organisation's contribution to making the country the laboratory of the new climate economy, while we act, ourselves, as a responsible and unifying financial player and look for new sustainable business opportunities. While we are currently reviewing this value proposition, notably in terms of commercial appeal and eligibility criteria, we disseminated our 'Lokal is Beautiful' scheme. Alongside embedding a network providing SMEs and entrepreneurs with strengthened means in order to realise their ambitions, the scheme aims to promote adoption of sustainability principles by the society, alongside underpinning the country's resilience and progress at large. Clients on-boarded as part of this scheme are subject to specific eligibility criteria and have to comply with set environmental, social and governance standards.

Read more in the 'Creating value in a sustainable way for the benefit of our stakeholders' on pages 53 to 54

Read more in the Sustainability Report on our website

Delivering on our strategic objectives

Foreign banking subsidiaries

MCB Madagascar

Financial performance

- On the back of efforts to diversify and strengthen its funding and liquidity position, the bank's deposit base expanded by 16% during FY 2019/20, while the loan book increased by more than 10%, partly driven by the ongoing strategy to on-board key corporate players and conglomerates operating within the jurisdiction. After making allowance for a growth of 41% in investment securities and slightly higher margins overall, net interest income increased by 21%, notwithstanding higher interbank borrowing in both local and foreign currencies. Whilst a decline was registered in net fee and commission income, largely explained by the repercussions of the COVID-19 pandemic on the level of economic and market activities, operating income rose by 15%, underpinned by the increase in net interest income as well as a rise in profit on exchange and a hike in other operating income. In addition to expenditures linked to technological upgrades, the bank witnessed a rise in staff costs in line with the expansion of the branch network and recruitments across support functions. However, the growth in operating expenses was contained to 3%, reflecting the adoption of IFRS 16 which led to a higher reduction in rental expenses than the increase in depreciation charges. Overall, after factoring in heightened impairment charges due to an increase in Expected Credit Losses to reflect the impact of the coronavirus and specific provisions held for some clients, attributable profits for the year increased by 6% to reach MGA 6.5 billion. This led MCB Madagascar to contribute Rs 58 million to MCB Group results.

Main initiatives and achievements

- To reinforce proximity with clients and support its business development aspirations across targeted segments, the bank broadened it market presence, with the opening up of new branches in the new airport terminal and the Santillo commercial centre, thereby bringing the total to 13. In the same vein, the 'Kit of Parts' concept is being adopted across branches, as a first in Madagascar, towards providing a more convivial and modern banking environment that contributes to fostering enhanced customer service levels. The bank's value proposition was further shored up, with the introduction of a new E-commerce platform to bolster the range of online payment services, while functionalities offered by its Internet Banking platform were uplifted. Of note also, the issuance of contactless cards constitutes a major leap towards encouraging the adoption of digital payment solutions and better serving customers. To support its strategic intents and stakeholder engagement, the entity fostered greater brand visibility through participation in key events, as gauged by the launch of promotional campaigns to encourage cards usage as well as moves to highlight the bank's commitment to accompany its customers and the public at large during these difficult times. On the capacity-building front, the bank improved the efficiency of its operations and worked towards overhauling its IT infrastructure, notably through the upgrade of its Core Banking System and implementation of new technological platforms. Additionally, continuous efforts were devoted to gear up service levels through reinforcement of staff competencies as well as the redeployment and strengthening of the sales workforce, backed by tailored training and development initiatives. As a key initiative to reward the best performers and attract talents alongside fostering alignment with advocated Group practices, the bank implemented a new Performance Management System and Reward System.

MCB Maldives

Financial performance

- During the financial year, pursuant to the spread of the COVID-19 pandemic and its ramifications on the economy, MCB Maldives registered a decline of 9% in its deposit base, driven mainly by outflow of USD deposits from some corporate customers. The loan book declined by 8% on the back mainly of (i) subdued demand for credit amidst the delicate economic environment; (ii) the prudent approach being adopted by the bank for the deployment of credit facilities amidst prevailing uncertainties; and (iii) recovery efforts made with respect to non-performing facilities. Investment in securities grew by around 11% on account of (i) high liquidity conditions linked to challenging market and economic conditions; and (ii) pragmatic liquidity management initiatives deployed to uphold adequate buffers in the wake of the demanding operating context and to bolster investment in USD-denominated bills in line with ongoing diversification strategies. Against this backdrop and given fewer releases of interest in suspense as compared to the prior year, net interest income dropped by 9%. This led to operating income falling by 13%, after making allowance for lower net fee and commission income and profit arising from dealing in foreign currencies owing to reduced activities amidst the country's lockdown, the cancellation of tourist bookings as resorts suspended their operations following closing of borders and a relative scarcity in the availability of US dollars, especially in the last quarter of the year. In spite of the sustained execution of capacity building initiatives, operating expenses fell by 14%, mainly explained by (i) the adoption of IFRS 16, which led to a decrease in rent expenses, partly offset by an increase in depreciation charges; and (ii) reduced management fees. Notwithstanding the impact of COVID-19 on Expected Credit Losses, the bank witnessed a notable reduction in impairment charges as compared to last year, helped by the pursuance of active recovery efforts in a testing landscape. Overall, attributable results for the year posted a marked increase of 21% to stand at some MVR 37 million in FY 2019/20, with the bank contributing Rs 87 million to MCB Group results.

Main initiatives and achievements

- Alongside laying emphasis on established clients with proven track record, the bank set forward to widen and diversify its customer base, with some key corporate players in the trade, construction and education sectors being on-boarded. Along the way, it continued to partner with several leading hotel groups. In fact, while leveraging its unique selling propositions, it offered several products and services to such clients. It further engaged with affluent customers, aided by reinforced on-field presence and conduct of tailor-made surveys. Its value proposition for mass affluent customers was further enriched following the issue of a new contactless Visa Classic debit card and provision of personalised services with the assistance of dedicated Relationship Managers. Furthermore, the bank pursued its digital transformation programme, as gauged by the upgrade of its Internet Banking platform with a view to attending to customer needs in a more seamless manner and the launch of a new E-commerce platform to respond to requirements of businesses involved in this field. To support its strategic thrusts, MCB Maldives adopted dedicated moves, including the (i) gearing up of the quality of human resources to foster customer service excellence, underpin improved efficiency with respect to daily activities and bolster risk management (of note, a full time Compliance Officer and an in-house Legal Counsel were recruited); (ii) implementation of a structured marketing and communication plan to uphold brand visibility; and (iii) enhancement of operational processes to foster proper control of activities and underpin timely service delivery. The Bank reinforced its risk management practices to improve credit quality, while shoring up its onboarding exercise and enhancing compliance with applicable rules and standards.

Delivering on our strategic objectives

MCB Seychelles

Financial performance

- During the financial year, MCB Seychelles registered an expansion of 15% in its deposit base, following increases in respect of both the retail and corporate segments, backed notably by the active deployment of market development strategies. In spite of the challenging context, the bank's loan book witnessed a remarkable growth of around 20%, underpinned by further headway in serving retail clients, essentially on the mortgage front, and the expansion in long-term corporate loans provided for the financing of projects within the tourism, transport and construction sectors. Against this backdrop and following an increase of 23% in investment securities linked to investments in treasury bills and Government Solidarity Bonds issued in the wake of the COVID-19 pandemic, net interest income increased by only 10% due to (i) a declining interest rate environment leading to a squeeze in margin; and (ii) the adoption of IFRS 16 leading to the recognition of interest expense on the lease liabilities. Factoring in the decline in net fee and commission income following reduced earnings from credit card-related transactions amidst the tough economic conditions, operating income rose by 6%. Operating expenses remained fairly stable during the year, with the rise in staff and technology-driven expenses being compensated for by the application of IFRS 16, which impacted rental expenses and depreciation charges. Overall, bearing in mind the significant increase in net impairment of financial assets owing to a rise in Expected Credit Losses, based on forward-looking assumptions relating to the impact of the COVID-19 pandemic, attributable profits for the year increased by 2% to reach SCR 84.8 million, with the bank contributing Rs 219 million to MCB Group profits.

Main initiatives and achievements

- The bank broadened its suite of products and services. It launched its new contactless Visa Classic Debit cards as well as Visa Gold and Classic credit cards and allowed customers to undertake purchases in a faster and more practical way via the 'Touch and Pay' option. MCB Seychelles pursued its path towards providing a more innovative value proposition, as gauged by the further extension and enrichment of its digital and channel capabilities. Notably, the user-friendliness and convenience of the 'JuiceByMCB' mobile banking service was further upgraded, with new features added, including bill payment and Other Local Bank transfers. New contactless Point of Sale terminals were launched to offer more convenient and seamless checkout experiences. An additional ATM, which is equipped with enhanced security features and note deposit facilities, was set up at the Anse Royale branch and a Bunch Note Acceptor (BNA) cash deposit ATM was installed at the Caravelle House & Providence Branch. To support its market activities, MCB Seychelles promoted greater brand visibility through organisation of and participation in promotional and commercial initiatives. In terms of capacity building, the bank carried out a staff engagement survey, with findings thereof guiding business units in executing dedicated initiatives to promote staff empowerment. Employees took part in tailored training courses delivered by the MCB Institute of Finance, especially in the fields of Leadership and Retail Banking. It invested in a Forward Graduate Training Programme to attract creative and dynamic individuals with the vision and commitment to lead MCB Seychelles to new heights. 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 sixth time.

Foreign banking associates

Banque Française Commerciale Océan Indien (BFCOI)

- Operating income dropped by 5% on the back of the impact of the COVID-19 outbreak on market activities. While operating expenses were generally well-contained, the bank registered major provision reversals following the recalibration of the ECL models during the year. The impairment provisions were impacted to a lesser extent as a result of the ramifications of COVID-19 pandemic thanks to the loan guarantee schemes deployed by the French Government. Against this backdrop, profits attributable to shareholders grew by a notable extent to attain EUR 22 million during the financial year, thus contributing around Rs 439 million to MCB Group results. BFCOI remained comfortably capitalised, with overall capital adequacy ratio of 17.7%, of which 14.6% in the form of Tier 1 capital.

Société Générale Moçambique

- In the wake of initiatives deployed to strengthen the bank's market involvement, Société Générale Moçambique witnessed a growth of 36% in respect of loans and advances to customers, driven mainly by rising exposures to corporates across several economic sectors, while deposits also increased considerably. Altogether, this led to net interest income rising by 49%. As for operating income, it grew by more than 40%, after also considering (i) a marked rise in net fee and commission income, triggered by increased participation in trade finance, heightened card-related activities and higher credit-related fees on account of the loan book expansion; and (ii) a notable increase in profit arising from dealing in foreign currencies following greater volumes of deals struck and increased margins. Operating expenses rose by 2%, reflecting measures taken to execute strategic intents and reinforce capabilities. Notwithstanding a substantial increase in allowance for credit impairment as a result, essentially, of the widening loan book – as compared to net recoveries in respect of credit impairment charges recorded during the prior year – as well as higher tax expenses in view of the bank's bolstered revenue streams, profits attributable to shareholders rose significantly to stand at MZN 28 million, thus contributing around Rs 6 million to MCB Group results during the period under review. As another source of satisfaction, the bank stays firmly capitalised, with both Tier 1 ratio and overall capital adequacy ratio standing at 17.6% as at 30 June 2020. The bank has, during the year, increased its share capital byv MZN 250 million to support growth strategies and mobilise adequate buffers in view of the operating context.

Non-banking financial cluster

MCB Capital Markets Ltd and its subsidiaries (MCBCM)

- In FY 2019/20, consolidated revenues and profit after tax amounted to Rs 408 million (FY 2018/19: Rs 453 million) and Rs 172 million (FY 2018/19: Rs 231 million) respectively. The decrease in profit after tax is attributable to the crystallisation of a first-loss guarantee in favour of investors in credit-linked notes issued by a special purpose vehicle owned by MCBCM, which resulted in a net impairment of Rs 75 million. Otherwise, MCBCM's results were driven primarily by an increase in assets under management and by the successful completion of corporate finance transactions.

Corporate Finance Advisory

- The Corporate Finance Advisory team continued to build its track record and successfully completed nine debt capital market transactions for an aggregate value of approximately Rs 9 billion. This was achieved in spite of the delays caused by the COVID-19 pandemic, which affected both transaction execution and origination.

- Looking ahead, Corporate Finance Advisory will face strong headwinds as a number of historically active bond issuers that have been affected by the pandemic will find it difficult to tap the debt capital markets and investors become increasingly risk averse. Our activities will be focused on restructuring corporate bonds and on originating and executing new transactions in Africa. Investors will continue to be discerning and their risk appetite is likely to diminish as they focus on a relatively small number of credit-worthy borrowers that have been less affected by the pandemic. This may result in a widening of credit spreads despite the continued excess liquidity situation. All of the above mean that revenues will be negatively affected.

Delivering on our strategic objectives

Investment Management

- Investment management activities generated revenues of Rs 175 million (FY2018/19: Rs 154 million) in FY19/20. In the context of low interest rates, our Collective Investment Scheme (CIS) business continued to grow as investors turned to certain MCB funds in search for yields. The results for FY2019/20 would have been even stronger had it not been for COVID-19, which held back fund inflows in the last quarter of the financial year.

- A notable bright spot in the last financial year has been the growth of our African Domestic Bond Fund (ADBF), an exchange traded fund that invests in local currency African sovereign bonds. ADBF was launched on 18th September 2018 and is managed by MCB Investment Management, with the African Development Bank and MCB Group as anchor investor and sponsor. The fund is denominated and traded in USD, and is listed on the Stock Exchange of Mauritius.

- The fund has continued to produce excellent returns and pay semi-annual dividends in spite of the uncertain economic and volatile market conditions globally. On a total return basis, the fund is up 32.04% since launch and 3.96% year-to-date (both to 15 September 2020), beating its global peers such as USD denominated Emerging Markets, High Yield or even Investment Grade bonds since launch. Unsurprisingly, we are seeing growing investor interest in this niche asset class and MCB Investment Management, the manager, is exploring a potential secondary listing of the fund on another stock exchange in Africa with a view to raising its visibility and attracting local capital.

- The outlook for overall growth in assets under management is bleak as we expect that disposable income will be severely affected by furlough schemes, cuts in salaries and redundancies in the coming years. In Mauritius, the impact on income will be exacerbated by an increase in personal tax announced in the June 2020 National Budget of the authorities. Another budgetary announcement namely the replacement of the National Pension Fund by a new Contribution Sociale Généralisée (CSG) scheme effective from 1 September 2020 would warrant attention in view of the potential impact on our business activities.

- That said, we are actively working on various initiatives to make our funds more attractive and accessible to investors, develop new distribution channels and attract new institutional clients, both locally and regionally, despite the challenging conditions ahead.

Stockbroking

- This year's trading activities were affected by the closure of the Stock Exchange of Mauritius for 10 consecutive sessions in March 2020 as a result of the COVID-19 related lockdown and curfew. Indices crashed in March before partly recovering a few weeks later but overall the bearish view prevailed as the broad market index, SEMDEX, lost 22% over the previous financial year.

- Local investors have stepped in as foreign investors withdrew from frontier markets in the midst of the pandemic, their participation falling from c.35% to c.24% of trading volumes. Higher market volatility led to an increase in trading volumes of approximately 5.2% over the previous year. Despite these turbulent times, MCB Stockbrokers maintained its leading position for the third year in a row, with an increase of approximately 3 percentage points in market share. Turnover improved by 19% over the previous financial year, reflecting an 8% growth in the brokerage business and underwriting activities linked to new product launches. On the other hand, distribution fees were almost at par with FY 2018/19 as unfavourable market conditions and negative investor sentiment affected demand for investment products generally.

- Looking ahead, market activity is expected to remain subdued as foreign investors reduce their exposure to frontier markets, albeit at a lower pace, and the pandemic continues to affect corporate earnings and dividends. Investors' appetite for risk is likely to be held back by the uncertainty triggered by the pandemic, while our core retail client base would also be confronted by pressures on disposable income. Accordingly, we are forecasting a reduction in trading volumes and investment flows compared to last year, which will be reflected in lower brokerage income and distribution fees. Given these headwinds, management continues to actively explore avenues to diversify its sources of income.

Registry & Transfer Agent

- MCB Registry and Securities continued on a sustained growth path, producing revenue growth of 11% while profits were up by 17% as compared to FY 2018/19. These excellent results were underpinned by continued corporate activity in the market along with the company's ability to support new product development launches by MCB Capital Markets. While the company strengthened its team and further upgraded its technology during the year, it achieved good cost control with a reduction of c. 3% in expenses. The company coped well with the disruption caused by the COVID-19 lockdown and provided uninterrupted service to its clients throughout this atypical period. With corporate activity expected to be subdued over the next financial year, the company will prudently sustain its technology investment programme in the light of its assessment of the impact of the pandemic on its clients.

Private Equity

- MCB Equity Fund is a USD 100 million evergreen fund that provides expansion capital to established businesses with solid growth prospects, compelling value propositions and capabilities, and strong management teams in Africa. The fund is managed by MCB Capital Partners Ltd, a wholly owned subsidiary of MCB Capital Markets Ltd.

- In FY 2019/20, we continued to implement the fund's strategy of co-investing alongside partners, including Development Financial Institutions, family offices and private equity firms, and working with them in creating value. In March 2020, the fund acquired a minority stake in the Naivas Group, Kenya's leading retailer in partnership with Amethis.

- The Net Asset Value of MCB Equity Fund Ltd rose to Rs 3.8 billion at the end of the FY 2019/20, having realised net profits of Rs 48 million from the disposal of its financial assets. Unrealised gains on the fair value of its financial assets amounted to Rs 83 million. Dividend income amounted to Rs 15 million in FY 2019/20 compared to Rs 36 million in FY 2018/19.

MCB Leasing Ltd

- During the year under review, MCB Leasing Ltd's operations was heavily impacted by the 3 months lockdown as well as a highly competitive commercial environment. The lease portfolio contracted by 5.2% to reach Rs 3,955 million (2019: Rs 4,173 million), with the finance lease portfolio down by 5.8% to Rs 3,285 million and operating leases down by 3.3% to now stand at Rs 670 million. The reduction in disbursement of new leases during the year caused by the 3 months of national lockdown also led to an increase in liquidity which was invested in financial instruments yielding negligible returns as a result of the significant drop in interest rates during the last quarter of the financial year. The combined impact of lower financial lease portfolio and the significant reduction in interest income resulting from the investment of our excess liquidity led to a decrease in net interest income of 17% to reach Rs 81.5 million. Other income (comprising principally operating lease income net of depreciation charges on leased assets) also decreased by Rs 14.2 million to reach Rs 61.1 million in line with the reduction in the operating lease portfolio and reduced margins in that business segment. The company proceeded with a rebranding exercise and marketing campaign to advertise its new identity. The cost of this campaign coupled with continued capacity building initiatives during the year led to an increase of 16% in operating costs which reached Rs 76.7 million. The year under review was also highly impacted by additional provisioning for Expected Credit Losses of Rs 9.7 million on the back of uncertainties in the local economy as well as the capacity of the company's clients to face the current economic difficulties. As a result of the above, with decreasing operating income and increase in operating expenses, the contribution to MCB Group results profit fell by 24% to Rs 39 million.

MCB Factors Ltd

- MCB Factors Ltd is positioned as a prominent player in the field of factoring in Mauritius. In addition to offering full sales ledger administration service to its customers, the entity provides funding against the assignment of trade receivables. On the domestic market, both recourse and non-recourse factoring are proposed, with the latter implying protection against debtors' insolvency. On the international front, Mauritian importers and exporters are offered import and export factoring solutions. MCB Factors' contribution to Group results for FY 2019/20 dropped to Rs 33 million amidst the COVID-19 crisis, which resulted in a significant fall in activity in the last quarter, and an increase in Expected Credit Loss on the company's performing asset portfolio, in line with the inherent increase in credit risks. For FY 2020/21, emphasis is being laid on improving customer experience, enhancing risk management and further diversifying the palette of invoice finance products.

Delivering on our strategic objectives

MCB Microfinance Ltd

- As part of MCB Group's pledge to fostering the financial inclusion and empowerment of small entrepreneurs, MCB Microfinance Ltd was launched in July 2016 as a wholly-owned subsidiary of MCB Group Ltd. Its aim is to facilitate access to business loans for micro-enterprises and self-employed individuals. Clients have access to two types of micro-loans: (i) working capital loans, which aim at meeting the working capital needs such as raw materials or stock; and (ii) investment loans, which are targeted to meet the capital spending requirements of businesses. The entity lays due emphasis on customer proximity, with its Relationship Officers dedicated to spending adequate time on the field to suitably understand the characteristics and requirements of clients and offer them customised solutions that suit their repayment capacities.

- Since inception, MCB Microfinance has disbursed 3,440 loans until 30 June 2020, corresponding to a gross amount of some Rs 668 million, of which 55% relate to investment loans. Of note, since the creation of its office in Rodrigues, 255 micro-loans have been disbursed corresponding to a gross amount of Rs 34 million. As at 30 June 2020, MCB Microfinance's loans stood at around Rs 287 million. The entity started the year well and was on course to move closer to break-even point before being impacted by the outbreak of the coronavirus. In fact, reduced activity levels amidst the imposition of the national lockdown and higher impairment charges resulting from an increase in Expected Credit Losses led to a loss of around Rs 13.9 million in FY 2019/20.

MCB Real Assets Ltd

- In October 2017, MCB Group announced its real estate investment strategy, whereby the Group will act as seed investor for the acquisition and development of prime real estate assets with a view to giving investing customers access to an attractive income yielding asset class. The real estate investment activity is conducted through MCB Real Assets (MCBRA), a wholly owned subsidiary of MCB Group Ltd. MCBRA owns 93.4% in Compagnie des Villages de Vacances de L'Isle de France Limitée (COVIFRA), owner of the Club Med hotel resort located at La Pointe aux Canonniers, Mauritius (the 'Resort'), which it acquired in 2017. As part of the transaction, MCBRA entered into a triple net lease with Club Med S.A.S. COVIFRA is listed on the Development and Enterprise Market of the Stock Exchange of Mauritius. In FY2017/18, COVIFRA undertook a refurbishment and extension of the Resort, which involved major renovation works and the construction of 108 additional rooms, taking the total to 394. The construction was completed in November 2018 at a cost of approximately Rs 1.6 billion. COVIFRA's investment property was valued in FY 2019 by Jones Lang LaSalle (Pty) Ltd at EUR 99 million, which resulted in a fair value gain of approximately EUR 3 million. In March 2020, COVIFRA was notified by Club Med of a force majeure due to the COVID-19 pandemic and of the closure of the Resort from 22 March 2020. As a result, all Club Med's payment and other obligations have been temporarily suspended and shall result in COVIFRA not receiving any income for the duration of the force majeure. The duration of the force majeure and the resumption date of the hotel activities is as yet unknown. In FY 2019/20, MCBRA received dividends of Rs 46 million (FY2018/19: Rs 75 million) from its investment in COVIFRA. For this period, total contribution of MCB Real Assets to Group results amounted to Rs 116 million (FY 2018/19: Rs 207 million).

Credit Guarantee Insurance Co. Ltd

- This associate, in which MCB has a 40% stake, is a joint venture with La Prudence Holding and provides credit insurance services to its customers by ensuring protection in respect of their trade receivables. For the year ending 30 June 2020, the contribution to Group results was negative at Rs 1 million.

Other investments cluster

Fincorp Investment Ltd

- Fincorp Investment Ltd (Fincorp) is an investment company which is listed on the Official Market of the Stock Exchange of Mauritius Ltd. Its financial performance is directly correlated to that of its main investments, namely MCB Leasing 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 has a 46.5% stake.

- The contribution of Fincorp to MCB Group's results shifted from a profit of Rs 127 million in FY 2018/19 to a loss of Rs 2 million in FY 2019/20. MCB Leasing Ltd's contribution dropped from Rs 51 million to Rs 39 million as explained earlier (see section on MCB Leasing Ltd). The performance of Fincorp was further impacted by a downturn in results at the level of PAD. This reflected the adverse performance of Caudan Development Ltd (a subsidiary of PAD), whose operations have been impacted by the COVID-19 pandemic as well as a difficult start in respect of its Phase 3 building amidst higher financing charges. Medine Ltd, an associate of PAD, posted losses for the period under review as a result of lower land sales and a challenging operating environment characterising the sugar industry.

International Card Processing Services Ltd (ICPS)

- ICPS has successfully moved towards the wide-ranging adoption of digitally-enabled platform and established itself as a prominent player providing multi-channel card, mobile and e-commerce payment solutions across the value chain of issuing, acquiring and switching by providing connectivity to existing card associations. While continuously reviewing its operating model, the entity maintained its market diversification strategy and upheld client service levels. The entity has expanded its new open platform and enhanced it with additional value-added services. Of note also, its uniqueness in providing back office operations puts it in a position where it is considered as a one-stop-shop on the marketplace. Strategically, ICPS continues to reinforce its geographical expansion by strengthening its payment processing capabilities and acting as an enabler for its clients located in Mauritius, the Indian Ocean as well as key African and Asian economies, providing an end-to-end integration of services and functionalities. With proven capabilities in consultancy, business operations outsourcing, training, system implementation, a Card personalisation bureau service and information security advisory services, the company has extended its footprint in 21 markets across Africa and Asia. Reflecting its strategic initiatives, ICPS saw its turnover growing by 30% to reach Rs 354 million in FY 2019/20, in spite of the challenging context triggered by the pandemic. With expenses being restrained due to reduced activity associated with the COVID-19 situation, the contribution of the entity to Group reached Rs 65 million.

MCB Consulting Services Ltd

- MCB Consulting Services Ltd delivers sustainable solutions to companies to enable them achieve their innovation and business development goals. Its key areas of focus include the provision of advisory services – which range from strategic planning and execution to risk management – business process reviews and organisation reviews, assistance in the selection, implementation and maintenance of Information Technology solutions as well as the delivery of training services. MCB Consulting Services Ltd is involved in 37 countries, predominantly across the African, Asian and Middle East regions.

- With more than 95% of its turnover recorded outside the shores of its country of incorporation, MCB Consulting has been severely impacted by heavy travel constraints and border restrictions. Notwithstanding this major business limitation and the difficult pandemic-induced economic and social environment in our main 'working' territories, MCB Consulting achieved a turnover of above USD 7 million in FY 2019/20, backed by its sound risk management, geographical diversification and adapted business development strategies. Previous technological investments made to facilitate the 'work from home' concept and the staff's resilience enabled us to reinvent and readjust our delivery model, with a few marquee projects being successfully executed (e.g. launch of a full-fledged digital commercial bank for a major French telecommunication operator). Building on its core fundamentals and recent brand repositioning, which led to a review of the entity's mission, vision and core values, MCB Consulting crafted a new and ambitious three-year strategic plan, articulated around three key design principles: (i) consolidation in strategic markets by leveraging our proven track record and successes; (ii) innovation by adapting our offerings to the evolving context; and (iii) reinvention by enhancing the effectiveness of the business model across the value chain.

- Inevitably, the company's activities are being adversely impacted by various challenges linked to a murky global economic outlook and muted demand across markets. Additionally, the inherent limitations of not being on our clients' premises warrant attention. However, we remain confident that our reputation on the marketplace, proven ability to be resilient and our tweaked strategic orientations shall enable our business to be truly and positively disruptive.

Delivering on our strategic objectives

MCB Institute of Finance Ltd (MCB IF)

- MCB IF, born out of a shared vision of MCB Group and Uniciti Education Hub, positions itself as a generalist curator with a range of specialist courses in banking and finance, including both online and in-class deliveries leveraging on an astute selection of partners such as Paris II University Panthéon-Assas, the Retail Banking Academy (RBA) International, and the Emeritus Institute of Management. Following inception to June 2020, MCB IF has registered 279 student enrolments in total, featuring participation from banks and corporates both locally and overseas (from countries such as Seychelles, Madagascar, Zimbabwe, Malawi, Botswana and Gabon). Online self-study courses of the Retail Banking Academy (RBA) International were the most preferred courses justifying therefore the launch of other professional courses around retail banking, cards and payments. MCB IF hosted in February 2020 a two-day Execution Leadership Masterclass which focused on the essentials of how to effectively execute a strategic plan, whilst embracing the newest concepts around leadership and industry 4.0. Of note this particular course, crafted by two seasoned and recognised Mauritius based professionals, saw the participation of incumbents from 4 different countries. We remain positive that – in spite of the prevailing business uncertainties and through an enhanced product offering – our ambition to become an emerging African player in supporting talent development in the financial sector shall materialise in the foreseeable future.

Banking mediation, artificial intelligence and digitalisation in the financial world were discussed during a two-day conference hosted by the MCB Institute of Finance (MCB IF). Jean-Louis Guillot and Emmanuel Jouffin, two experts in French banking law, were the guest speakers.

MCB Forward Foundation

- The MCB Forward Foundation is the Group's vehicle responsible for fulfilling its corporate social responsibility. 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 initiatives. As per Government policy, 75% of companies' CSR contributions for projects are channeled to the Mauritius Revenue Authority, thus curtailing the level of financial resources available to MCB Forward Foundation to comprehensively implement its CSR programme. That being said, under the provisions of the amended Income Tax Act 1995, the Group was allowed by the National Social Inclusion Foundation to retain an additional 25% of the CSR contributions to allow for the smooth implementation of programmes started before 1 January 2019. Hence, for FY 2019/20, an aggregate amount of around Rs 46.5 million was entrusted to MCB Forward Foundation, which was spent on a wide range of projects.

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

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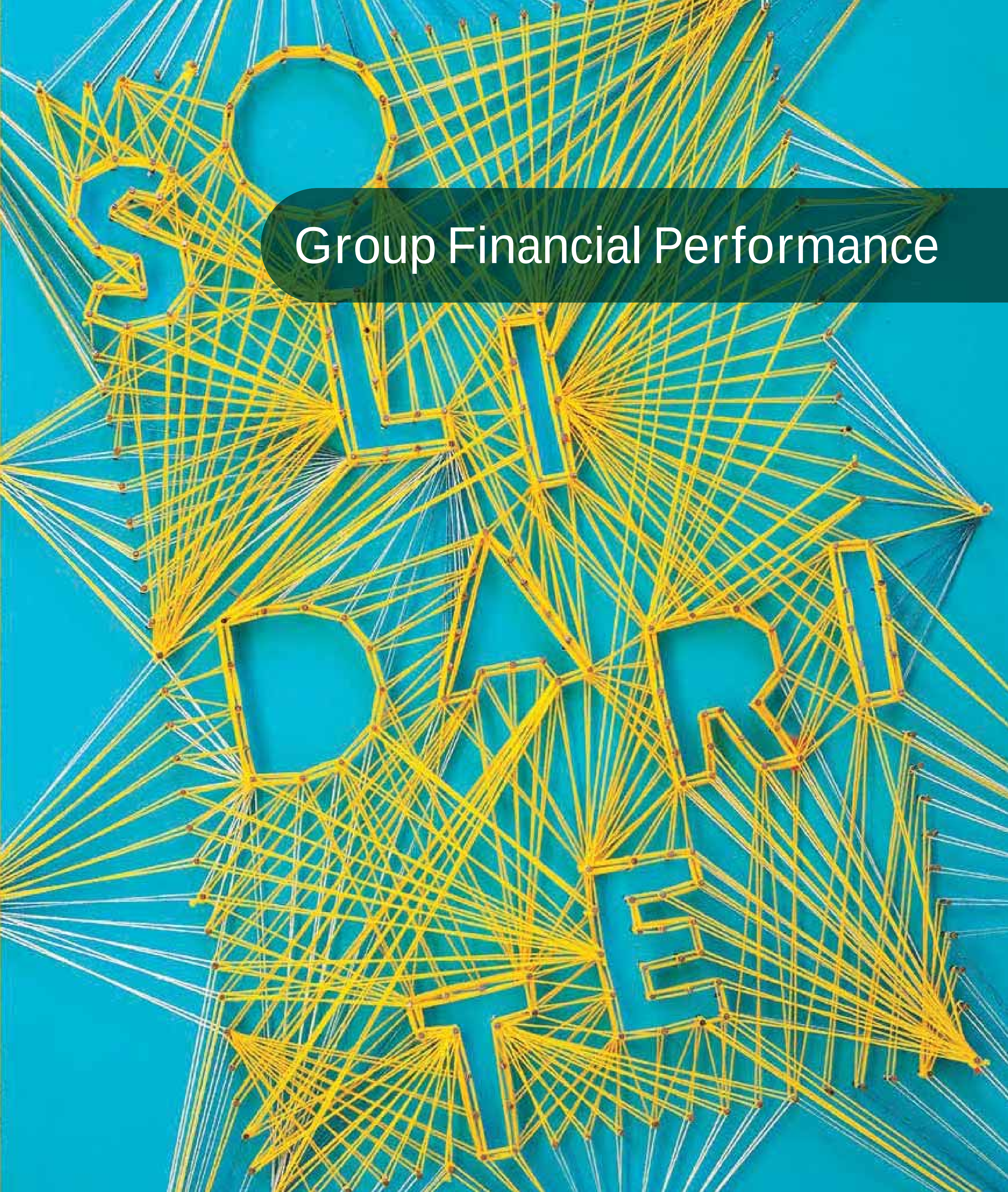


Group Financial Performance

Group financial performance

Group financial highlights

Resilient **Profitability** amidst the COVID-19 crisis

Rs 7.9 billion
Profit

13.3%
Return on Equity

1.6%
Return on Assets

Solid **Capital** Adequacy ratios

18.6%
BIS ratio
(Minimum regulatory requirement: 14.375%)

17.2%
Tier 1 ratio
(Minimum regulatory requirement: 12.375%)

Strong **Liquidity** position

50.7%
Liquid assets to funding base ratio[1]

503%
Liquidity coverage ratio[2]
(Minimum regulatory requirement: 100%)

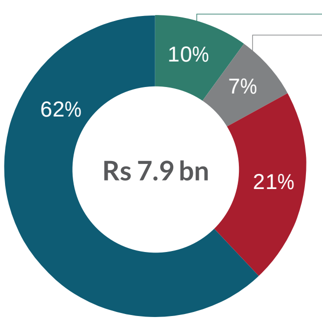
Slightly deteriorating **Asset Quality**

4.2%
Gross NPL ratio

2.9%
Net NPL ratio

[1] *Liquid assets comprise cash, balances with BoM, placements, T-Bills, bonds and Government securities*
[2] *Relates to MCB Ltd*

Contribution to Group profit

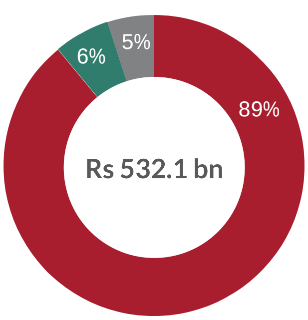


Associates	5.4%
MCB Seychelles	2.7%
MCB Maldives	1.1%
MCB Madagascar	0.7%

MCB Capital Markets	2.1%
MCB Equity Fund	1.8%
MCB Real Assets	1.4%
MCB ICPS	0.8%
MCB Leasing	0.5%
MCB Factors	0.4%

■ MCB Ltd – Domestic ■ Foreign banking subsidiaries & associates
■ MCB Ltd – Foreign sourced ■ Non-banking financial & other investments

Asset breakdown by cluster



■ MCB Ltd
■ Overseas banking
■ Non-banking financial & Other investments

Note: The domestic profit contribution has been impacted by a substantial rise recorded in Expected Credit Losses therein.

Overview of results

Profit

Rs 7,912 million (-1,522 million)

Attributable profit to ordinary shareholders dropped by 16.1% to reach Rs 7,912 million, essentially due to a substantial increase in Expected Credit Losses (ECL), resulting from the high level of uncertainty engendered by the COVID-19 crisis. However, in spite of the impact of the difficult economic context and confinement measures across markets, operating income increased by 8.5% to reach Rs 21,954 million.This is essentially attributable to the effective execution of our diversification strategy.

Financial soundness

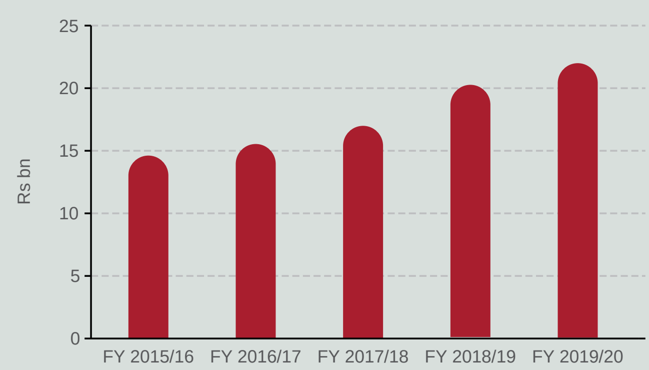
The Group has maintained its financial soundness in the face of the demanding environment. It continues to display comfortable capital adequacy ratios as well as strong funding and liquidity positions whilst asset quality has deteriorated slightly, with the gross NPL ratio rising by some 10 basis points for the period under review.

More information on financial soundness is available in the 'Risk and Capital Management Report' on pages 142 to 198

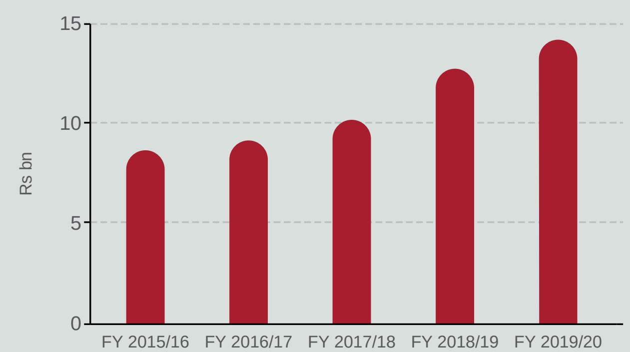
Outlook for FY 2020/21

The operating context remains particularly challenging, with low visibility on the evolution of the situation going forward. Difficult market and economic conditions are expected to continue taking their toll on customer segments across markets, albeit to varying degrees. Whilst some business segments, notably on the international front, are anticipated to be resilient, our operating results are likely to be down in view of restrained business activities amidst the economic slump and resulting dampened investor confidence as well as squeezed margins. Pressures on asset quality are likely to intensify with the degree of the impact remaining highly dependent on the duration and severity of the COVID-19 pandemic and the effectiveness of the support measures from the authorities, including financial assistance from the Mauritius Investment Corporation to economic operators. Against this backdrop, the Group will maintain its market vigilance and monitor the situation closely with regular assessment of potential scenarios. We will seek to maintain adequate buffers in terms of capital adequacy as well as funding and liquidity ratios, thus preserving our financial soundness. Concurrently, while reviewing its short-term priorities, the Group will continue to invest for the future and create the necessary conditions to bounce back when economic conditions start to heal.

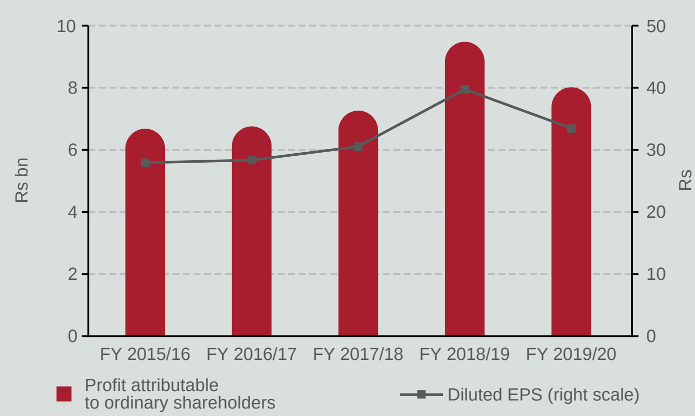
Operating income



Operating profit before impairment



Profit attributable to ordinary shareholders



Group financial performance

Income statement analysis

Net interest income	As a % of average earning assets	
Rs 14,409 million	FY 2018/19	FY 2019/20
(+1,452 million)	3.6%	3.4 %

Net interest income was up by 11.2%, supported by a significant increase in average earning assets, on the back of an expansion in loans and advances and higher investment in Government securities, amidst persistently high liquidity levels domestically, whilst a decline in margin was recorded, essentially linked to our international activities.

Non-interest income	As a % of operating income	
Rs 7,546 million	FY 2018/19	FY 2019/20
(+276 million)	35.9%	34.4 %

Non-interest income went up by 3.8%, with a dampened performance in net fee and commission income being more than compensated for by growth in ‘other income’ as explained below:

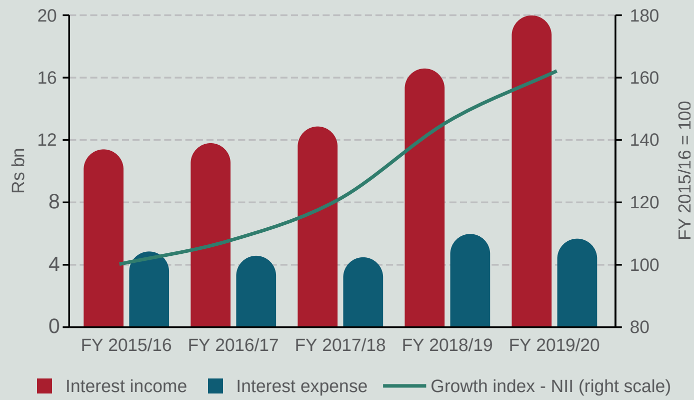
- Net fee and commission income declined by 4.7% to stand at Rs3,937 million reflecting difficult market conditions and dampened activity levels due to confinement measures. Reduced contribution from MCB Capital Markets Ltd was observed and lower fees were recorded by banking subsidiaries, with the performance of MCB Ltd being impacted by decreased revenues from trade finance,cards and wealth management activities, especially during the last quarter of FY 2019/20.

- Notwithstanding lower contribution from MCB Real Assets Ltd,partly reflecting reduced rental income linked to the COVID-19 situation,‘other income’ increased by 15.0%, driven by:

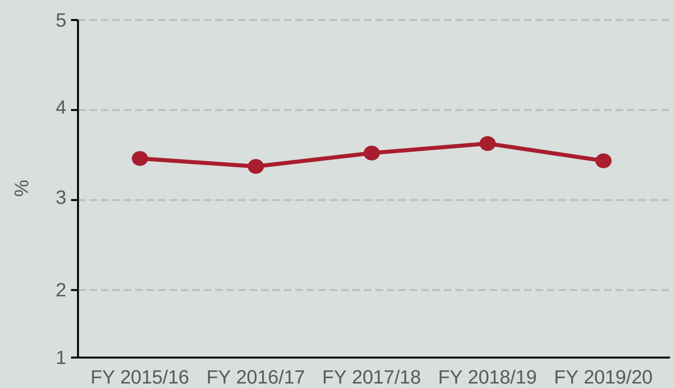
  - A growth of 22.2% in profit on exchange and net gain from financial instruments carried at fair value, notably at the level of MCB Ltd, and partly boosted by the depreciation of the rupee against major currencies.

  - Net gains on sale of financial instruments realised at Bank level and by MCB Equity Fund Ltd as well as higher contribution from International Card Processing Services Ltd.

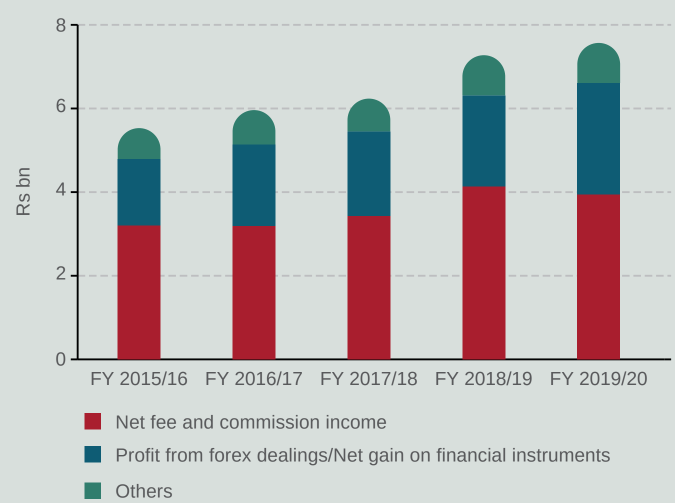
Net interest income



Net interest income to average earning assets



Breakdown of non-interest income



Operating expenses	Cost to income ratio	
Rs 7,792 million	FY 2018/19	FY 2019/20
(+281 million)	37.1%	35.5.%

Operating expenses increased by 3.7%, mainly attributable to the rise of 2.7% in staff costs, on the back of sustained efforts to upgrade human capital and continued investment in technology for the year under review.

Given the growth of 8.5% in operating income, the cost to income ratio improved by 164 basis points.

Impairment charges	As a % of loans and advances	
Rs 5,076 million	FY 2018/19	FY 2019/20
(+3,479 million)	0.59%	1.84%

Impairment charges reached Rs 5,076 million, representing an annualised cost of risk of 184 basis points of gross loans and advances. Specific provisions net of recoveries amounted to Rs 1,712 million, representing 66 basis points of total credit, broadly in line with historical trends. On the other hand, additional ECL on the Group's performing asset portfolio stood at Rs 3,364 million, reflecting the inherent increase in credit risks on a forward-looking basis.

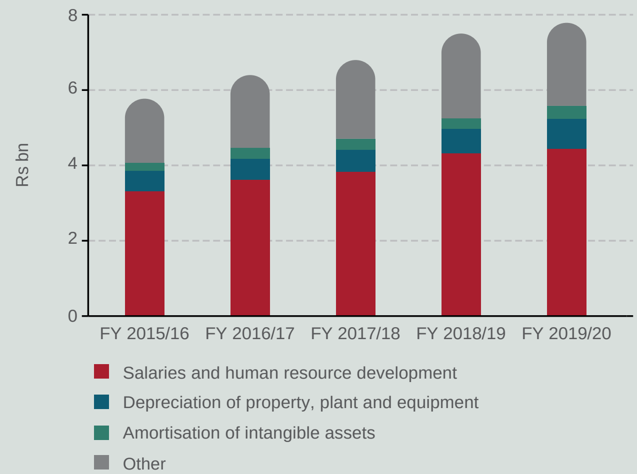
Share of profit of associates	As a % of profit for the year	
Rs 401 million	FY 2018/19	FY 2019/20
(-3 million)	4.2%	5.0%

The share of profit of associates decreased marginally with improved results posted by BFCOI being offset by a subdued performance recorded at the level of Promotion and Development Ltd.

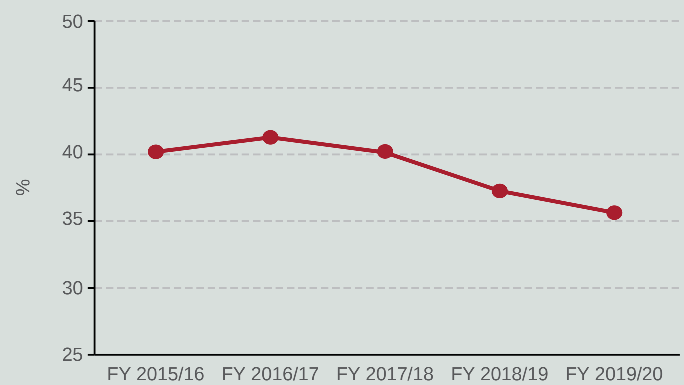
Tax expenses	Effective tax rate	
Rs 1,494 million	FY 2018/19	FY 2019/20
(-484 million)	17.2%	15.7%

Whereas profit before tax declined by 17.7%, a drop of 24.5% was recorded in tax expenses partly due to the fact that the tax charge in FY 2018/19 included a provision for tax assessments of some Rs 163 million.

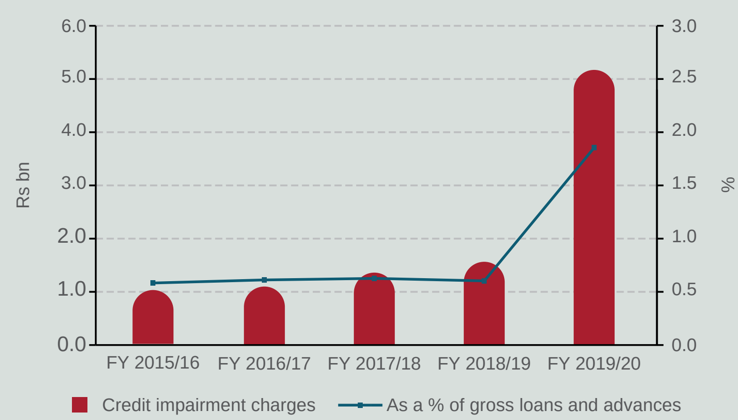
Breakdown of operating expenses



Cost to income ratio



Credit impairment charges*



**Relate to loans & advances (including corporate notes)*

Group financial performance

Financial position statement analysis

Gross loans	Gross NPL ratio	
Rs 255.0 billion	FY 2018/19	FY 2019/20
(+13.4 billion)	4.1%	4.2%

Gross loans of the Group registered a year-on-year growth of 5.6% in FY 2019/20, supported by a broad-based increase across banking subsidiaries. Specifically, a similar growth rate was recorded in gross loans at the level of MCB Ltd over the period under review. This performance was essentially linked to an expansion in its international loan book. Associated credit to customers increased by 15.6%, with structured project financing activities, in particular, witnessing a significant growth while rupee depreciation also weighed in the balance. At domestic level, the overall loan portfolio rose by only 2.1% in line with the challenging operating context. The retail segment exposure remained relatively flat in spite of an expansion in mortgages. In the corporate segment, whereas the loan portfolio grew by 3.3%, the Bank's exposures through corporate notes rose by some 20% to Rs 20.8 billion.

The quality of our credit portfolio deteriorated slightly during the year, with gross NPL ratio increasing from 4.1% to 4.2%, while net NPL ratio stood at 2.9% as at June 2020.

Funding	Loans to funding ratio	
Rs 447.2 billion	FY 2018/19	FY 2019/20
(+51.3 billion)	61.0%	57.0%

Total deposits of the Group increased by 17.8% to attain Rs 390.7 billion as at 30 June 2020, supported by growth within most subsidiaries. In particular, MCB Ltd recorded a rise of 18.2% in itsdeposit base, driven by an increase of 26.2% in foreign currency deposits in line with initiatives undertaken by the Bank, while being also boosted by the depreciation of the rupee against majorcurrencies. Besides, 'other borrowed funds' declined to reach Rs 52.4 billion, following the repayment at the level of MCB Ltd of the Tranche A of the syndicated term loan facility that matured during the year amounting to USD 240 million.

June 2020	Exposures	
	Rs m	Y.o.y. growth (%)
Loans to customers	**252,134**	**7.5**
Agriculture and fishing	7,088	(24.7)
Manufacturing	17,184	32.3
of which EPZ	*2,978*	*(24.1)*
Tourism	25,283	7.7
Transport	8,659	4.2
Construction	18,699	5.2
Traders	47,460	6.3
Financial and business services	48,704	22.8
Personal and professional	44,818	1.2
of which credit cards	*790*	*(35.5)*
of which housing	*31,812*	*4.3*
Global Business Licence holders	19,292	8.0
Others	14,948	(7.5)
Loans to banks	**2,890**	**(58.9)**
Total	**255,023**	**5.6**

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

Loans and advances as at June 2020	Rs m	Y.o.y. growth (%)	Mix (%)
Retail customers	46,670	2.6	18.3
Credit cards	*797*	*(35.3)*	*0.3*
Mortgages	*31,812*	*4.3*	*12.5*
Other retail loans	*14,062*	*2.1*	*5.5*
Corporate customers	120,197	3.7	47.1
Entities outside Mauritius*	83,782	17.1	32.9
Government	1,485	(9.7)	0.6
Banks	2,890	(58.9)	1.1
Total loans	**255,023**	**5.6**	**100.0**
Corporate notes	23,668	25.7	-
Total loans and advances	**278,692**	**19.4**	**-**

** Relate to MCB Ltd*

Off balance sheet items as at 30 June 2020	Rs m	Y.o.y. growth (%)
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	65,477	(5.1)
Commitments	7,318	12.5
Others	107	18.8
Total	**72,901**	**(3.6)**

Investment securities and Cash & cash equivalents	Liquid assets to total assets	
Rs 226.6 billion	**FY 2018/19**	**FY 2019/20**
(+43.7 billion)	38.8%	42.6%

Liquid assets of the Group grew by 23.9% during the financial year. This was due to: (i) an increase of 39.9% in cash and cash equivalents, including placements, mainly through balances with banks abroad and unrestricted balances with Central Bank (ii) a rise of 17.9% in investment securities (excluding shares and corporate notes); and (iii) a growth of 5.4% in mandatory balances with Central Bank.

Overall, the above-mentioned liquid assets as a percentage of funding base stood at 50.7% as at 30 June 2020 (FY 2018/19: 46.2%). Banking subsidiaries generally maintained healthy liquidity positions with MCB Ltd displaying comfortable liquidity ratios in both rupee terms and foreign currencies.

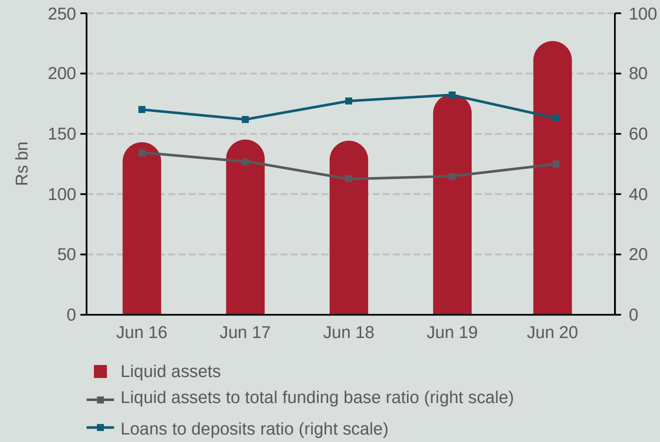
Shareholders' funds	Return on equity	
Rs 62.5 billion	**FY 2018/19**	**FY 2019/20**
(+6.0 billion)	17.5%	13.3%

Shareholders' funds increased by 10.7% on the back of a rise in retained earnings of Rs 5.7 billion. Capital base was further consolidated following the successful conversion of more than 75% of the Subordinated Debt into convertible Preference shares amounting to Rs 3.4 billion, which qualify as Tier 1 capital. The overall capital adequacy ratio and Tier 1 ratio improved to 18.6% and 17.2% respectively, thus remaining comfortably above the minimum regulatory requirements.

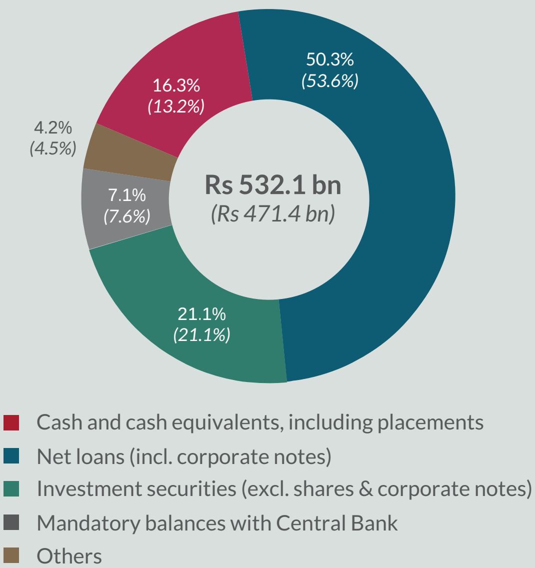
Dividend

For the period under review, in line with directives from banking regulators across presence countries, the Group did not declare any dividend for the period under review amidst the ongoing crisis.

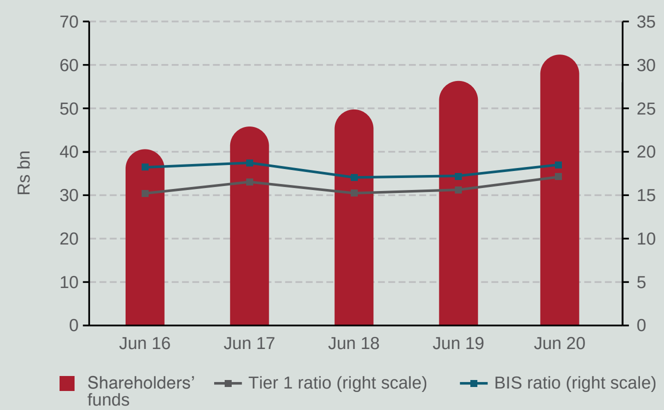
Liquidity position



Assets mix as at 30 June 2020
(Figures in brackets relate to 2019)



Shareholders' funds and capital adequacy



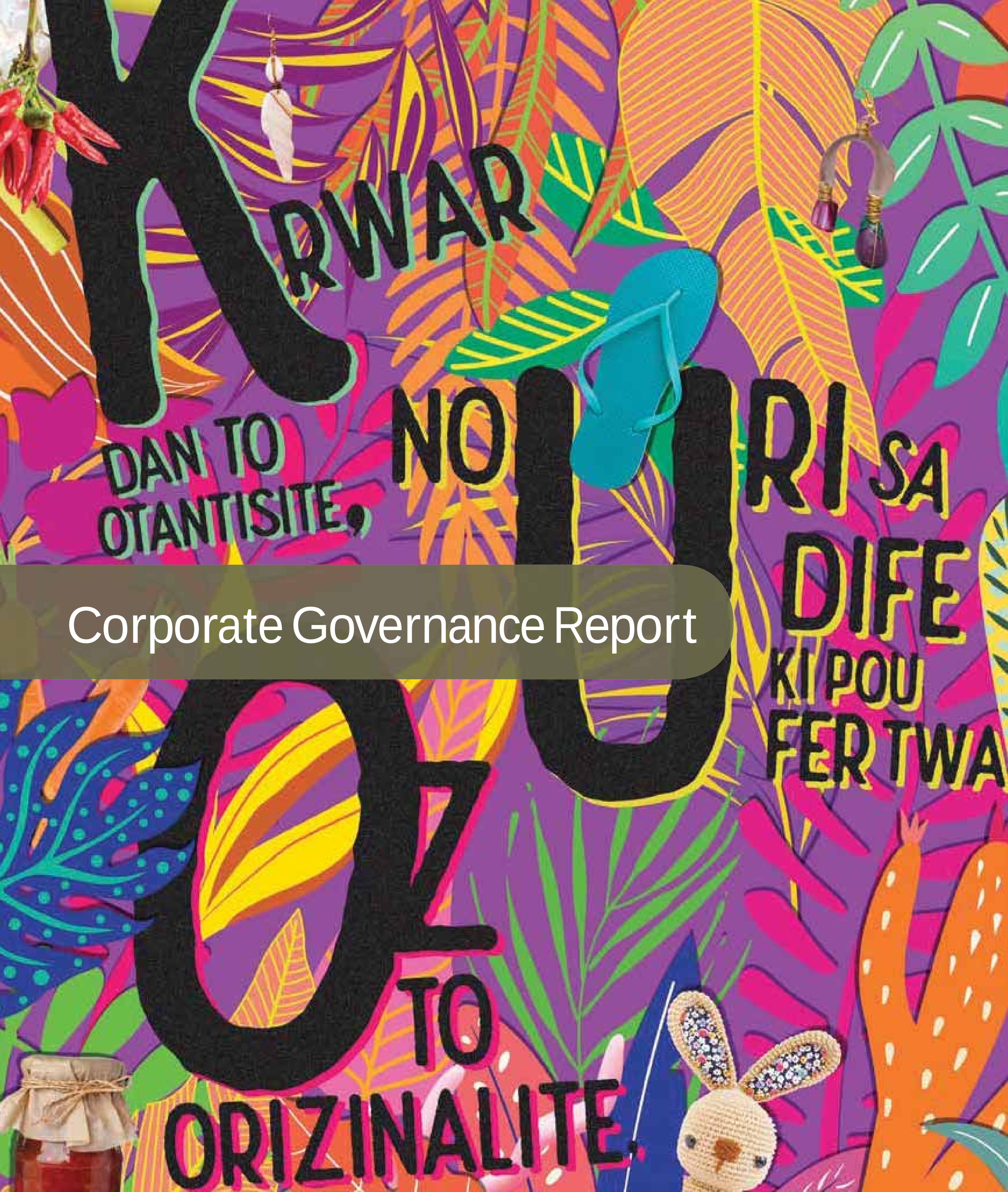
Group financial performance

Group financial summary

Key financial indicators

Statement of profit or loss (Rs m)	Jun-20	Jun-19	Jun-18	Jun-17	Jun-16
Operating income	21,954	20,226	16,951	15,506	14,404
Operating profit before impairment	14,163	12,716	10,149	9,118	8,629
Operating profit	9,087	11,119	8,819	8,054	7,607
Profit before tax	9,488	11,523	9,126	8,392	8,342
Profit attributable to ordinary equity holders of the parent	7,912	9,434	7,221	6,702	6,626
Statement of financial position (Rs m)					
Total assets	532,114	471,418	386,370	345,210	317,705
Total loans (net)	243,821	234,007	204,236	171,887	166,697
Investment securities	148,858	126,204	88,747	74,730	62,735
Total deposits	390,659	331,500	297,719	274,863	255,262
Subordinated liabilities	2,122	5,572	5,592	5,587	5,620
Other borrowed funds	52,444	56,886	14,373	5,968	5,193
Shareholders' funds	62,545	56,509	51,306	45,949	40,730
Performance ratios (%)					
Return on average total assets	1.6	2.2	2.0	2.0	2.2
Return on average equity	13.3	17.5	14.8	15.5	17.3
Loans to deposits ratio	65.3	72.9	70.9	64.8	68.1
Cost to income ratio	35.5	37.1	40.1	41.2	40.1
Capital adequacy ratios (%)					
BIS risk adjusted ratio	18.6	17.3	17.1	18.8	18.3
of which Tier 1	*17.2*	*15.7*	*15.3*	*16.6*	*15.3*
Asset quality					
Non-performing loans (Rs m)	11,722	10,559	9,734	10,882	10,704
NPL ratio (%)	*4.2*	*4.1*	*4.5*	*6.2*	*6.2*

Note: Capital adequacy ratios are based on Basel III



Corporate Governance Report


REVE.
RELEVE.
REKOUMANSE.
ZETWAL
DAN TO
LAME.
AVANS
VER LAO.
MORIS.

Corporate governance report

Our philosophy

The Board of MCB Group Ltd is committed to high standards of corporate governance with a view to upholding the organisation's long-term business sustainability and creating value for its stakeholders whilst acting in a way that is good for the society at large. The Board fosters principles of integrity, accountability and transparency throughout the organisation by way of group-wide awareness of its operating beliefs and values. It constantly reviews and adapts its practices and frameworks in line with the dynamic environment, influenced by, *inter alia*, cultural shifts in the workplace, digital trends, climate change risks, information security requirements, in order to ensure that the Group acts in the best interests of its stakeholders. The Group's sound governance standards and practices are anchored on key pillars as highlighted below.

Strong commitment to ethics and values

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

Strict compliance to rules and regulations

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

Robust risk governance and internal control

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

Continuous multi-stakeholder engagement

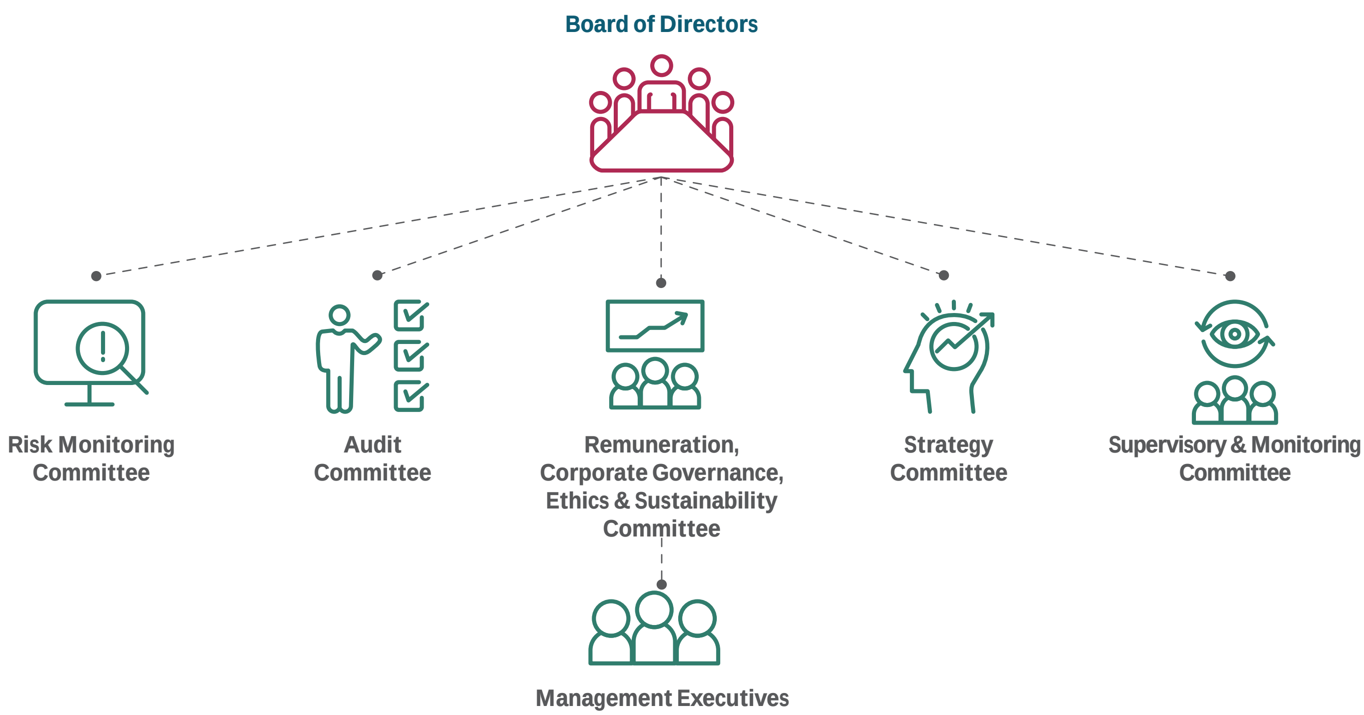
- Ongoing dialogue with the investment community and authorities
- Contribution to economic development by helping customers achieve their goals
- Safeguard of cultural and environmental heritage
- Promotion of community well-being and fostering of staff development and welfare

Corporate governance report

Governance structure

Governance framework

MCB Group Ltd is led by a committed and unitary Board, which is collectively responsible for the leadership, oversight and long-term success of the organisation. The Group operates within a clearly defined governance framework, which provides for delegation of authority and clear lines of responsibility while enabling the Board to retain effective control. In order to carry out its duties effectively, the Board has established five committees, each mandated to provide counsel and specific expertise guidance on matters affecting the Group's activities. While the Board sets out the strategic direction, the operational management and day-to-day running of the organisation are entrusted to the Management Executives, with their performance and effectiveness closely monitored against set objectives and policies. The fundamental relationships among the Board, Board Committees and Management Executives as well as their main roles are illustrated in the following diagram.



Role of the Board

The Board provides effective leadership and strategic guidance towards the achievement of the Group's strategy within a framework of robust risk management and sound internal controls, alongside ensuring adherence of the Company and its subsidiaries to relevant legislations, policies and norms.

Role of Board Committees

Board Committees facilitate the discharge of the Board's responsibilities and provide in-depth focus on specific areas. In fulfilling their role of providing oversight and guidance, Chairpersons of Board Committees escalate all significant matters impacting the Group to the Board.

Role of Management

Management Executives are responsible for the day-to-day running of the business, with well-defined accountabilities as endorsed by the Board. They regularly report to the Board on the operational and financial performance of the Group.

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

The roles and responsibilities of the Chairperson, executive and non-executive directors as well as the Company Secretary are clearly defined in the Board Charter and Position Statements, which have been approved and are regularly reviewed by the Board. The role of the Chairperson is distinct and separate from that of the Chief Executive and there is a clear division of responsibilities with the Chairperson leading the Board and the Chief Executive managing the Group's business on a day-to-day basis. The Board ensures that the external obligations of the non-executive directors do not hinder the discharge of their duties and responsibilities. In this context, it is worth noting that the external commitments of the Chairperson did not change during the financial year under review.

Key roles and responsibilities

Chairperson

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

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
- Consults regularly the Chairperson and Board on matters which may have a material impact on the Group
- Acts as a liaison between Management and the Board
- Provides leadership and direction to Senior Management
- Builds, protects and enhances the Group's brand value
- Ensures the Group has implemented the necessary frameworks and structures to identify, assess and mitigate risks
- Ensures the maintenance of a sound internal control system

Directors

- Contribute to the development of Group strategy
- Analyse and monitor the performance of Management Executives against the set objectives
- Ensure that the Group has adequate and proper internal controls as well as a robust system of risk management
- Ensure that financial information released to markets and shareholders is accurate
- Actively participate in Board decision-making and constructively challenge, if necessary, proposals presented by Management Executives
- Provide specialist knowledge and experience to the Board
- Remain permanently bound by fiduciary duties which include duties of loyalty, care and disclosure

Company Secretary

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

More information on the key roles is available on the website

Corporate governance report

Constitution of MCB Group Limited

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

The Board

Mandate

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

Key facts (FY 2019/20)

12 Number of Directors	**4-5** Average length of tenure (years)
11 Number of meetings	**92%** Average meeting attendance

Responsibilities

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

- the composition of the Board with an appropriate balance of executive, non-executive and independent directors;
- the Chairperson of the Board who may be an independent non-executive director;
- the creation of Board Committees;
- the adherence to the Group's 'Code of Ethics';
- the approval of strategic objectives, policies and corporate values as well as their communication throughout the organisation;
- the monitoring of Management Executives in respect of the implementation of Board plans and strategies, and compliance with set policies;
- the existence of clear lines of responsibility and accountability throughout the organisation and compliance with all relevant laws, regulations and codes of business practice;
- a formal and transparent directors' remuneration policy;
- the review of procedures and practices to ensure soundness and effectiveness of the Group's internal control systems;
- the existence of a robust Enterprise Risk Management system, with a view to ensuring that key risks across each Group entity are effectively addressed and that risk discussions are elevated to the strategic level;
- the setting of principal policies in respect of risk and conduct of business for the Company; and
- the provision of timely and accurate information to shareholders, relevant authorities and the public.

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

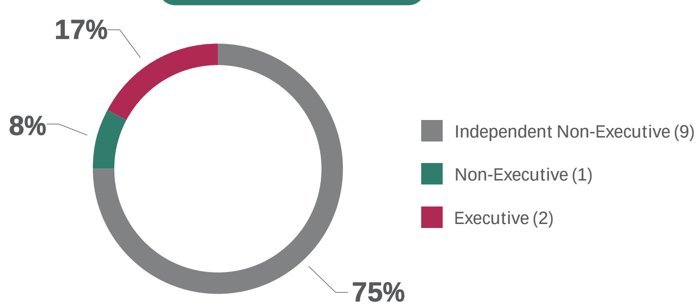
Composition and meetings

Composition

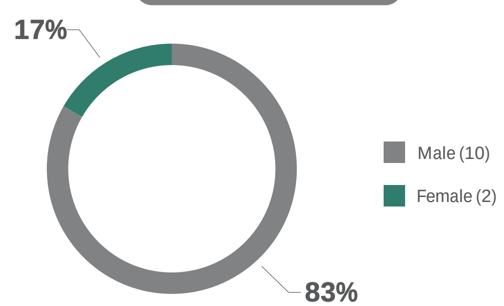
As per the Board Charter, the Board shall consist of a minimum of five and a maximum of twelve directors, with at least two executive directors and two independent directors. The Chairperson of the Board may be independent. The Board, assisted by the Remuneration, Corporate Governance, Ethics and Sustainability Committee (RCGESC), regularly reviews its size, composition, including the independence status of the non-executive directors. Since the last Annual Meeting held in November 2019, Mr Constantine Chikosi has been appointed as Director in replacement of Mrs Margaret Wong Ping Lun who retired. In the same vein, Mr Gilbert Gnany, Mr Jean Michel Ng Tseung, Mr Sunil Banymandhub and Mr Jean Louis Mattei have been re-elected as Directors, in line with the Companies Act 2001 and the Group's Constitution.

As at 30 June 2020, the Board consisted of 12 members, with a diverse mix of skills, knowledge and experience. The average age of Board members stood at around 61 years. The Board composition for the year under review is shown hereafter.

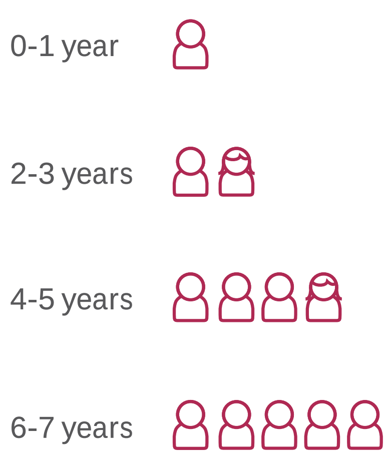
Board Composition



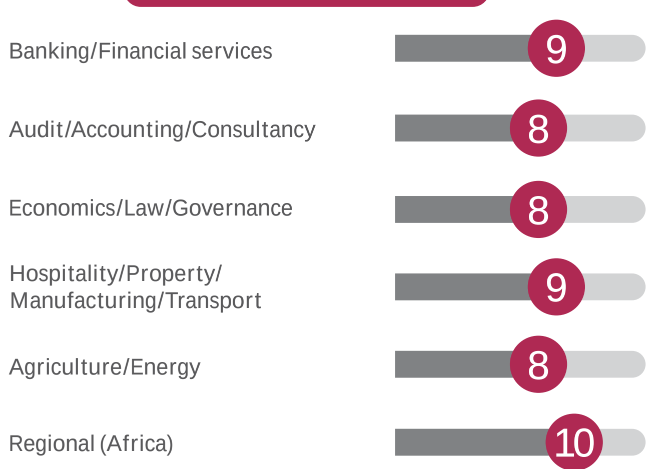
Gender



Length of tenure



Mix of skills and experience

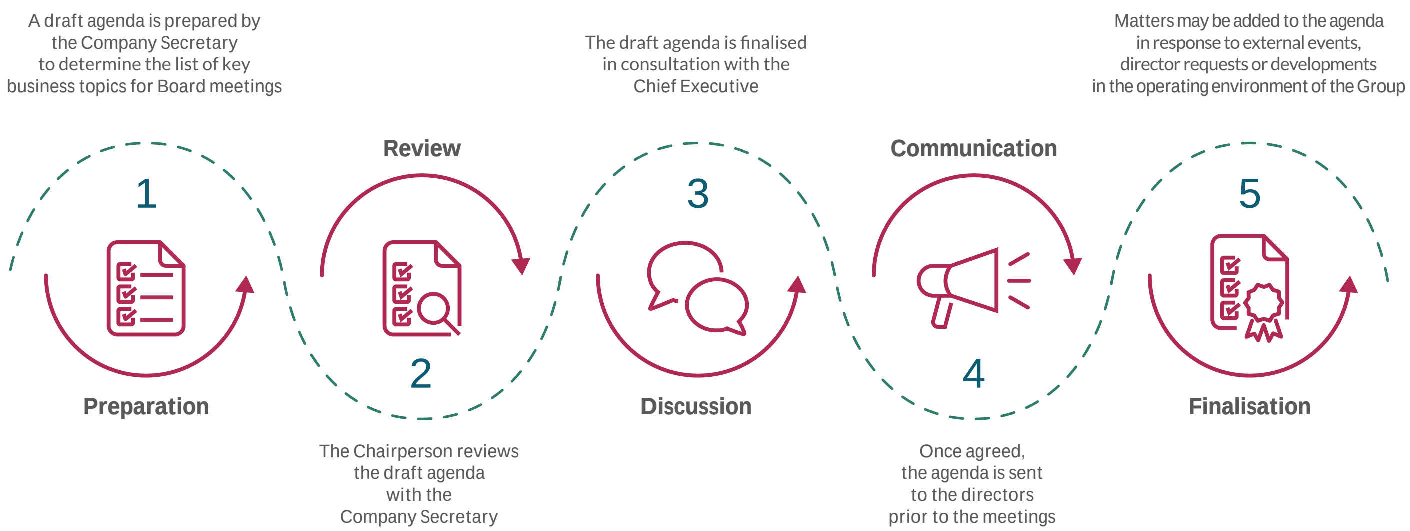


Corporate governance report

Meetings

The Board determines the frequency of Board meetings in such a way as to ensure that it can focus on key issues at the appropriate time. In this respect, the Board Charter requires that meetings be conducted at least on a quarterly basis. Although the Board maintains a scheduled programme of meetings, the agenda for Board meetings remains sufficiently flexible to include specific items as and when required, in order to respond to changing circumstances and emerging business priorities. Meetings are convened so that directors are able to attend and participate in person. In case personal attendance by some or all of the directors is not possible, meetings are conducted by means of audio and/or video conferences, as has been the case since the last quarter of the financial year, due to the COVID-19 pandemic. On another note, members of the Management team and/or external advisors are sometimes invited to attend meetings to discuss topical issues identified by the Board. Directors receive Board papers in a timely manner to facilitate meaningful discussions and help make informed decisions at the meetings. All materials for Board meetings are uploaded onto a secure portal, which can be accessed by directors on tablet devices. The Chairperson presides over the Board meetings to ensure their smooth functioning and promotes open and frank debates where different views emerge, with the ultimate objective of continuously improving the quality of decision-making. The agenda-setting process is described in the diagram hereafter.

Agenda-setting process



Board attendance

The directors who served on the Board and their attendance at Board meetings during FY 2019/20 is provided in the following table:

Members	Board member since	Board status	Meeting attendance
Didier HAREL *(Chairperson as from September 2016)*	**November 2015**	**Independent Non-Executive Director**	**10/11**
Sunil BANYMANDHUB	April 2014	Independent Non-Executive Director	9/11
Karuna BHOOJEDHUR-OBEEGADOO	November 2015	Independent Non-Executive Director	8/11
Constantine CHIKOSI	November 2019	Independent Non-Executive Director	6/6
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	November 2014	Independent Non-Executive Director	10/11
Georges Michael David LISING	November 2018	Independent Non-Executive Director	11/11
Jean-Louis MATTEI	April 2014	Independent Non-Executive Director	8/11
Alain REY	November 2015	Independent Non-Executive Director	10/11
San T. SINGARAVELLOO	November 2018	Independent Non-Executive Director	11/11
Jean Michel NG TSEUNG	November 2016	Non-Executive Director	11/11
Margaret WONG PING LUN *(until November 2019)*	April 2014	Non-Executive Director	5/5
Gilbert GNANY	April 2014	Executive Director	10/11
Pierre Guy NOEL	April 2014	Executive Director	11/11

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

Corporate governance report

Board focus areas

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

STRATEGY AND PERFORMANCE

- Discussed and assessed the impact of COVID-19 on the Mauritian economy and on business activities of the Group
- Reviewed and endorsed the strategic orientations and budget plans of all the banking and non-banking subsidiaries of the Group
- Monitored the progress of the Digital Transformation and HR Transformation projects as well as the revamping of the Treasury and MCB Private Banking & Wealth Management functions
- Briefed on headway made with respect to the Corporate Sustainability Programme (‘Success Beyond Numbers’)
- Approved the hosting of the ‘Klima’ conference and initiatives launched under the ‘Lokal is Beautiful’ campaign
- Updated on the progress of MCB Group’s long-term strategic thinking exercise
- Assessed the development of the growth pillars of MCB Ltd

FINANCIAL

- Assessed and monitored the Group’s financial performance against budget
- Reviewed regular reports from the Audit and Risk Monitoring Committees
- Discussed and approved the dividend payout proposal
- Approved the issue and listing of 339,622,500 redeemable convertible non-voting preference shares to holders of Floating Rate Subordinated Notes Due 2023
- Approved financial budget

GOVERNANCE AND RISK

- Reviewed and approved the structure, size and composition of the Board and Board Committees
- Approved, upon the recommendation of the Remuneration, Corporate Governance and Ethics Committee, the appointment of Mr Constantine Chikosi as Board member
- Approved the recommendation that the Remuneration, Corporate Governance and Ethics Committee shall monitor the Group's Corporate Sustainability Programme and the renaming of the committee to Remuneration, Corporate Governance, Ethics and Sustainability Committee (RCGESC)
- Reviewed the Board and Committee Charters and other constitutive documents
- Reviewed recommendations of the Board evaluation exercise and monitored the implementation of the related action plan
- Approved the risk policy and the Enterprise Risk Management framework of the Group
- Approved the provisioning policy and the methodology adopted in the determination of Expected Credit Loss in the context of the COVID-19 crisis

RECURRENT AGENDA ITEMS

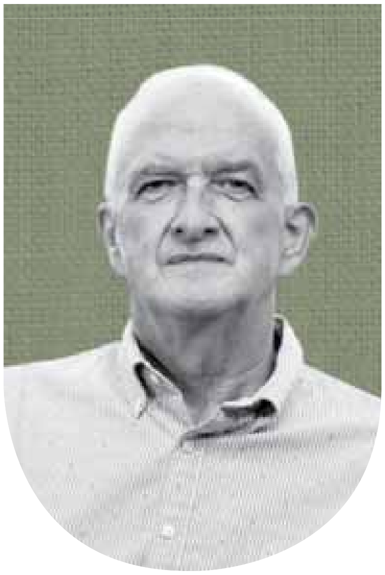
- Approved the minutes of proceedings
- Reviewed reports from Chairpersons of Board Committees
- Reviewed and approved the Group's consolidated accounts on a quarterly basis
- Approved Communiques/Announcements as required by the relevant rules and regulations
- Debriefed on the Annual Meeting of Shareholders
- Updated on developments in the operating environment such as the National Budget 2020-21 and inclusion of Mauritius on the European Union (EU) blacklist

Corporate governance report

Directors' profiles

The Board comprises 12 directors who have a proven track record in various fields. Profiles of directors who held office at the end of the financial year as well as their directorships in other listed companies (where applicable) are given hereafter. Unless otherwise stated in their respective profile, directors reside in Mauritius.

Chairperson



Didier HAREL – Age 68
Independent Non-Executive Director

Date of first appointment: November 2015

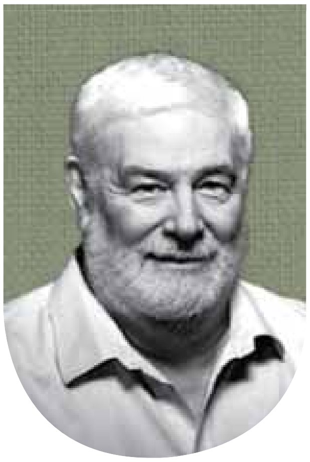
Qualifications: BSc in Chemical Engineering and Chemical Technology (UK) and MBA (INSEAD - France)

Skills and experience: Didier has a track record of over forty years in the downstream sector of the oil industry, having worked for the EXXON and TOTAL Groups. He started his career with Esso in Mauritius in 1974 and was appointed as Managing Director of Esso Reunion in 1982. He was then transferred to the Esso Europe-Africa Services Headquarters in London to head the Supply & International Sales Division from 1985 to 1988. He joined the TOTAL Group in 1988 where he was entrusted several international assignments, initially as Managing Director of TOTAL in Zambia and Zimbabwe and subsequently as Managing Director and Chief Executive Officer of major TOTAL Refining & Marketing subsidiaries in South Africa and in the United Kingdom. He also shouldered an array of senior executive positions in the marketing and logistics arena at TOTAL's Africa and Middle East Head Office in Paris and within TOTAL France, the home-based marketing and distribution company of the group. He was seconded in 2012 by TOTAL S.A as Chairman and CEO of Société Anonyme de Gestion des Stocks Stratégiques, the national oil compulsory stock obligation entity for France.

Board Committee memberships: Risk Monitoring Committee; Remuneration, Corporate Governance, Ethics and Sustainability Committee *(Chairperson)*; Strategy Committee *(Chairperson)*; Supervisory and Monitoring Committee *(Chairperson)*

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

Executive Directors



Pierre Guy NOEL – Age 64
Chief Executive

Date of first appointment: April 2014

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

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

Board Committee memberships: Risk Monitoring Committee; Remuneration, Corporate Governance, Ethics and Sustainability Committee; Strategy Committee; Supervisory and Monitoring Committee

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

Gilbert GNANY – Age 58
Chief Strategy Officer

Date of first appointment: April 2014

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

Skills and experience: Gilbert previously worked as Senior Advisor on the World Bank Group's Executive Board where he was responsible for issues relating mainly to the International Finance Corporation and to the private and financial sectors. Prior to joining the World Bank, he was the MCB Group Chief Economist and Group Head of Strategy, Research & Development after having been the Economic Advisor to the Minister of Finance in Mauritius. During his career, he has been involved in various high-profile boards/ committees. Amongst others, he chaired the Stock Exchange of Mauritius Ltd, the Statistics Advisory Council and the Statistics Board as well as having been a member of the Board of Governors of the Mauritius Offshore Business Activities Authority, a director of the Board of Investment and of the Mauritius Sugar Authority. He was also a member of the IMF Advisory Group for sub-Saharan Africa, a member of the Senate of the University of Mauritius and a director of the Financial Services Institute. He is currently a Board member of several companies within the Group namely MCB Capital Markets Ltd, MCB Seychelles, MCB Maldives, MCB Madagascar, MCB Microfinance Ltd, MCB Consulting Services Ltd and MCB Institute of Finance amongst others. On the institutional side, he is an external IMF expert in statistics, in particular on data dissemination standards and strategy. Moreover, he is a member of the Financial Services Consultative Council and of the Managing Committee of the COVID-19 Solidarity Fund. He also acts as Chairperson on the Statistics Board of Mauritius, the COVID-19 Committee on Economic Recovery and the Economic Commission of Business Mauritius which serves, inter alia, as a platform for public-private sector dialogue.

Board Committee memberships: Risk Monitoring Committee; Strategy Committee *(also acts as Secretary)*

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

Corporate governance report

Independent Non-Executive Directors

Sunil BANYMANDHUB – Age 71

Date of first appointment: April 2014

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

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

Board Committee memberships:
Audit Committee

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

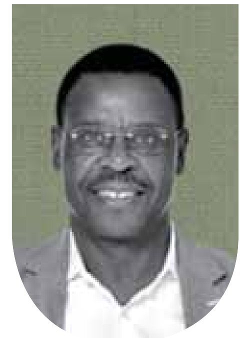
Karuna BHOOJEDHUR – OBEEGADOO - Age 59

Date of first appointment: November 2015

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

Skills and experience: Karuna started her career at the M&G Reinsurance Company in London (now Swiss Re) in 1985 prior to joining the State Insurance Company of Mauritius Ltd (SICOM) as Actuary and Manager of the Life, Pensions and Actuarial departments in 1990 when she was also appointed Actuarial Advisor to the National Pensions Fund and member of its Investment Committee. She has been the Chief Executive of the SICOM Group from 1996 to 2017 and is currently 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. She is currently a director of MCB Equity Fund Ltd, a subsidiary of MCB Group Ltd.

Board Committee membership:
Remuneration, Corporate Governance, Ethics and Sustainability Committee



Constantine CHIKOSI – Age 65

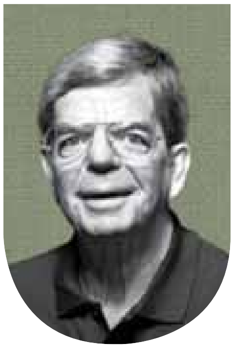
Non-Resident

Date of first appointment: November 2019

Qualifications: Lawyer, MSc in Economics and Chartered Management Accountant (UK)

Skills and experience: In a career spanning over 19 years with the World Bank Group, Constantine has held various operational, strategy and management roles, delivering developmentsolutions forthebank'sclientcountriesthrough analytical work, high level policy dialogue with governments and advising the Board on internal corporate strategy and forward-looking initiatives. He oversaw a threefold growth of the World Bank's investment portfolio in South East Asia and a forty percent improvement in its performance as Chair of committees that shaped the bank's operational strategy and investment portfolios in Cambodia, Laos, Malaysia, Myanmar and Thailand. Constantine led the opening of the World Bank Office in Mauritius where he assisted the Government in developing policy responses to the 2008 global financial crisis and streamlining the country's business regulation to reduce the cost of regulatory compliance. Prior to joining the World Bank, Constantine worked for a global mining company as Business Development Executive and as Company Secretary for a conglomerate listed on the Johannesburg Stock Exchange.

Board Committee memberships:
Strategy Committee



Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE – Age 69
Non-Resident

Date of first appointment: November 2014

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

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

Board Committee memberships:
Strategy Committee; Remuneration, Corporate Governance, Ethics and Sustainability Committee

Georges Michael David LISING – Age 48

Date of first appointment: November 2018

Qualifications: BSc (Honours) in Accounting and Financial Analysis and Chartered Accountant (UK)

Skills and experience: Michael has a long experience in the retail industry. He currently heads the Lising Group and occupies the position of Managing Director. Prior to joining the Lising Group, Michael has worked for Ernst & Young (UK) and De Chazal du Mee (Mauritius) where he was responsible for various consultancy projects and conducted assignments for the World Bank in Rwanda, Tanzania, Madagascar and Burkina Faso. He previously sat on the Council of the University of Mauritius and was a member of the Executive Committee of Young Presidents Organisation. He is also a director of MCB Factors Ltd.

Board Committee membership:
Risk Monitoring Committee

Jean-Louis MATTEI – Age 73
Non-Resident

Date of first appointment: April 2014

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

Skills and experience: Jean-Louis has accumulated wide-ranging experience in the banking sector, having worked for Société Générale Group for some 40 years. Over this period, he has shouldered an array of high-level responsibilities within the group, acting as Chairperson, Director or Chief Executive Officer, in its various offices based worldwide. In 1998, he took charge of Société Générale international retail banking operations and built the group's international network, particularly in Northern Africa and in the sub-Saharan region as well as in Eastern Europe. Prior to his retirement in 2013, he was a member of the Executive Committee of Société Générale Group. Moreover, he was the Chairperson of the Supervisory Board of Société Générale in Morocco, a position which he held until end of 2015. He is currently a member of the Board of Agence Française de Développement and also acts as Chairperson of its Audit Committee and Risk Committee.

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

Corporate governance report

Independent Non-Executive Directors

Alain REY – Age 61

Date of first appointment: November 2015

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

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

Board Committee membership:
Audit Committee *(Chairperson)*

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

San T. SINGARAVELLOO – Age 47

Date of first appointment: November 2018

Qualifications: BSc Economics and Statistics (South Africa), BSc (Hons) Operation Research (South Africa), LLM International Business Law (France) and Fellow of the Institute of Faculty of Actuaries (UK)

Skills and experience: San is a qualified actuary with over 22 years of experience across the sub-Saharan Africa region, the UK and the Netherlands. Her experience spans an array of disciplines in the insurance fields with particular interest in developing markets. She has worked for various regional and international companies including Old Mutual (Cape Town), Hymans Robertson Actuaries and Consultant (Glasgow), PwC (London and Amsterdam). She currently heads the Aon Global Benefits Africa Unit and is a director of Anglo African Investments Ltd.

Board Committee membership:
Audit Committee

Non-Executive Directors

Jean Michel NG TSEUNG – Age 52

Date of first appointment: November 2016

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

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

Board Committee memberships:
Supervisory and Monitoring Committee *(also acts as Secretary)*; Risk Monitoring Committee *(also acts as Secretary)*

Remuneration philosophy

With human capital viewed as critical to the development of its strategy, the Group lays significant emphasis on employing the right people with the right skills and behaviour while rewarding them adequately. A summary of the remuneration philosophy of employees and directors is provided hereafter.

Employees

Employee remuneration policy

Fair remuneration

The Group aims at promoting a fair and competitive staff remuneration that incentivises performance and assists in attracting and retaining talent, amongst others.

Our renumeration policy is based on meritrocracy and ensures that:

- Full protection is provided, at the lower end of the income ladder, against cost of living increases
- Fairness and equity are promoted throughout the organisation
- Opportunity is given to emplyees to benefit from the financial results and development of the group:
  - Staff members of the group receive an annual bonus based on the Group's performance as well as an assessment of their contribution thereto and for demonstrating behaviours in the line with the Group's values
  - Staff members have the added possibility to be incentivised further through a share option scheme

Remuneration package

Generally, the remuneration package is anchored on a range of factors including qualifications, skills scarcity, past performance, individual potential, market practices, responsibilities shouldered and experience.

With a view to attaining appropriate remuneration levels, the Group is guided by the following considerations:

- Market conditions are regularly surveyed in order to ensure that remuneration packages are motivating and competitive
- Superior team performance is strongly encouraged and rewarded with strong incentives
- Remuneration practices are regularly reviewed to reflect the current context while putting due emphasis on both individual and team performances

Employee benefits

The Group provides a range of fringe and other benefits to its employees to help them in their personal life. Examples of such benefits at the level of MCB Ltd are as follows:

- The Bank currently contributes 18.1% of employees' basic salaries to an in-house pension scheme to provide for a retirement pension at the end of their professional career;
- The Bank provides employees with loans under preferential conditions to help them meet their endeavours;
- The Bank grants employees a monthly travelling allowance, with the amount varying according to their job grades;
- The Bank also provides medical coverage for all employees and their dependents; and
- The Bank offers its staff the flexibility of saving part of their monthly emoluments for their holidays. Employees can save the equivalent of 6% of their Basic Salary on an annual basis to cater for their holidays expenses, be it abroad or in a resort in Mauritius. This amount is made available at the beginning of each financial year and arrangements can be made to pay directly to our preferred travel agent, or to obtain refund upon presentation of a receipt. Employees also benefit from a tax rebate on this scheme, as prescribed by the Income Tax Act.

Corporate governance report

The Group Employee Share Option Scheme (GESOS) in place provides eligible employees with the opportunity to partake in the growth and prosperity of the Group through the acquisition of shares in the Company, thereby acting as an additional lever to promote a performance culture alongside upholding motivation and commitment across the organisation. Under the scheme, employees are granted non-transferable options to buy MCB Group Ltd shares with up to a maximum of 25% of their annual performance bonus. The options, which can be exercised over a period of one year through four specific windows, carry a retention period of three years. The option price is based on the average of the share price over the quarter prior to the date on which the options are granted, to which a discount of 10% is applied. Management is, however, not entitled to such discount. Once issued, the shares rank pari passu as to dividend, capital, voting rights and in all other respects with the existing shares of MCB Group Ltd. The following table gives details of the options granted to and exercised by employees of the Group in the last financial year. Of note, employees have not exercised their options under GESOS for the third window given that the exercise price was higher than the prevailing market price.

	Management	Other Employees	Total
Number of options granted in October 2019	**148,552**	**640,057**	**788,609**
Initial option price (Rs)	293.50	264.00	-
Number of options exercised to date	103,139	184,943	288,082
Value (Rs)*	30,271,297	48,824,952	79,096,249
Percentage exercised (%)	69.4	28.9	36.5
Number of employees	20	704	724
Available for the 4th window and expiring in mid-October 2020	**45,413**	**455,114**	**500,527**

**Based on initial option price*

Directors

Executive directors

In line with the policy for employees, remuneration for executive directors consists of a base salary and short-term benefits, which reflect their responsibilities and experience, as well as a variable element in the form of an annual bonus, determined by the performance of both the Group and the individual.

Non-executive directors

The Group's remuneration philosophy concerning non-executive directors, who do not hold an executive position within the Group, is summarised as follows:

- There is a basic retainer fee for each individual non-executive director reflecting the workload, the size and the complexity(national/ international) of the business as well as the responsibility involved;
- The basic retainer fee paid to the non-executive Chairperson commensurately reflects the fact that he has a wider scope of responsibilities and a heavier workload, compared to other non-executive directors;
- Committee basic retainer fees also apply to 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 are paid a higher basic retainer fee than members, in line with the rationale outlined in the previous point;
- There is an attendance fee for non-executive directors in respect to their presence at meetings of the Board and their respective committees as well as the Annual Meeting of Shareholders, and
- No share option or bonus is granted to non-executive directors, except those who hold an executive position within the Group.

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

Remuneration and benefits received (Rs '000)	From the holding company	From subsidiaries	Total
Didier HAREL	3,106	-	3,106
Sunil BANYMANDHUB	676	212	888
Constantine CHIKOSI *(as from November 2019)*	348	-	348
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	840	-	840
George Michael David LISING	618	77	695
Jean-Louis MATTEI	1,050	-	1,050
Karuna BHOOJEDHUR-OBEEGADOO	605	112	718
Jean Michel NG TSEUNG	12,748	15,871	28,619
Alain REY	1,013	91	1,104
San T. SINGARAVELLOO	682	-	682
Margaret WONG PING LUN *(until December 2019)*	188	697	884
Total Non-Executive	*21,874*	*17,060*	*38,934*
Pierre Guy NOEL	40,499	-	40,499
Gilbert GNANY	22,581	-	22,581
Total Executive	*63,080*	-	*63,080*
Total (Non-Executive and Executive)	**84,954**	**17,060**	**102,014**

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

The following tables itemise the interests of the directors in the Group's listed securities as at 30 June 2020 as well as related transactions effected by the directors during the financial 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 Ordinary shares as at 30 June 2020	Number of Ordinary shares	
	Direct	Indirect
Sunil BANYMANDHUB	2,200	-
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	88	-
Gilbert GNANY	267,102	85,000
Georges Michael David LISING	11,722	45,245
Jean Michel NG TSEUNG	36,683	-
Pierre Guy NOEL	1,278,555	29,342
Alain REY	4,840	-
San T. SINGARAVELLOO	-	5,000

Transactions during the year	Number of Ordinary shares			
	Purchases		Sold	
	Direct	Indirect	Direct	Indirect
Gilbert GNANY	10,000	55,000	-	-
Jean Michel NG TSEUNG	18,260	-	-	-
Pierre Guy NOEL	92,930	800	-	-

Interests in MCB Group Ltd Preference shares as at 30 June 2020	Number of Preference shares	
	Direct	Indirect
Gilbert GNANY	-	20,000

Interests in Fincorp Investment Ltd as at 30 June 2020	Number of shares	
	Direct	Indirect
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	550	-
Gilbert GNANY	69,000	-
Pierre Guy NOEL	750,166	32,250

Directors' service contracts

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

Related party transactions

The Board is ultimately responsible for establishing and implementing appropriate policies on conflicts of interests and related party transactions and for administering the process for handling the transactions within the Group. Assisted by the Remuneration, Corporate Governance, Ethics and Sustainability Committee, the Board exercises this responsibility, through:

- monitoring and reporting by Senior Management within the Company and its subsidiaries in respect of related party transactions;
- regular review of related party exposures, including those pertaining to Senior Management at the level of the Company and its subsidiaries; and
- formal review and ratification of the Conflicts of Interest and Related Party Transactions Policy as applicable.

Related party transactions of the Group were conducted in line with relevant internal policies and guidelines. For related party transactions, please refer to Note 38 of the Financial Statements.

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

Board Committees

The Board has delegated authority to various Board Committees to provide specialist guidance and make recommendations, through established reporting mechanisms, on areas and matters delegated to them. Each committee has its own charter, as approved by the Board and reviewed as required, which sets out, *inter alia*, its roles, responsibilities, composition and meetings requirement. The mandate, composition and focus areas covered during the financial year of the five Committees namely Risk Monitoring Committee, Audit Committee, Remuneration, Corporate Governance, Ethics and Sustainability Committee, Strategy Committee and the Supervisory and Monitoring Committee, are set out hereafter.

Risk Monitoring Committee (RMC)

Mandate

As per its Charter, the RMC shall consist of at least three members, including the Chief Executive, with a majority of non-executive directors. The Chairperson of the Committee shall be a non-executive director and shall not be the Chairperson of the Board. The RMC meets at least quarterly and on an ad hoc basis when required.

Key facts (FY 2019/20)

6 Number of Directors	**4-5** Average length of tenure (years)
4 Number of meetings	**96%** Average meeting attendance

Composition and meetings

The RMC assists the Board in elaborating risk mitigation strategies and in assessing and monitoring the risk management process of MCB Group Ltd and all its subsidiaries. It also advises the Board on risk issues and monitors the risk of the different portfolios against the set risk appetite of the subsidiaries.

The directors who served on the RMC and their attendance at committee meetings during FY 2019/20 are provided in the following table:

Members	Committee member since	Board status	Meeting attendance
Jean-Louis MATTEI *(Chairperson)*	**July 2014**	**Independent Non-Executive Director**	**4/4**
Didier HAREL	February 2016	Independent Non-Executive Director	4/4
Georges Michael David LISING	January 2019	Independent Non-Executive Director	3/4
Jean Michel NG TSEUNG *(also acts as Secretary)*	January 2019	Non-Executive Director	4/4
Gilbert GNANY	July 2014	Executive Director	4/4
Pierre Guy NOEL	July 2014	Executive Director	4/4

Focus areas in FY 2019/20

Key topics discussed

- Impact of COVID-19 on asset quality, provisioning, expected credit losses under IFRS 9 and risk appetite of the Group
- The Group's risk appetite
- Risk management framework of the Group and its subsidiaries
- Risk policies of the Group and its subsidiaries
- Reports from the Group's banking entities and non-banking subsidiaries covering the principal risks (notably credit, market, liquidity) and actions taken to mitigate them
- Adequacy of capital, funding and liquidity requirements of the Group and of the banking subsidiaries
- Risk portfolios of the banking subsidiaries against set limits
- Key risks of specific non-banking subsidiaries
- Review of the implementation of the Enterprise Risk Management framework by the subsidiaries of the Group
- Asset quality metrics of the Group
- Review of economic and operating environment locally and in presence countries

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

Audit Committee (AC)

Mandate

As per its Charter, the AC shall consist of a minimum of three non-executive members, with a majority of independent directors from whom the Chairperson shall be nominated. The Chairperson of the Board and the Chief Executive shall not be a member of the AC. The Committee meets at least four times a year corresponding to the Company's quarterly reporting cycle and on an ad hoc basis when required. Moreover, the Committee also holds consultations with the Chairpersons of Audit Committees of subsidiaries as deemed appropriate.

Key facts (FY 2019/20)

3 Number of Directors	**4-5** Average length of tenure (years)
8 Number of meetings	**83%** Average meeting attendance

Composition and meetings

The AC assists the Board in overseeing MCB Group Ltd and its subsidiaries on matters relating to the safeguarding of assets, the monitoring of internal control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

The directors who served on the AC and their attendance at committee meetings during FY 2019/20 are provided in the following table:

Members	Committee member since	Board status	Meeting attendance
Alain REY *(Chairperson)*	**February 2016**	**Independent Non-Executive Director**	**8/8**
Sunil BANYMANDHUB	July 2014	Independent Non-Executive Director	4/8
San T. SINGARAVELLOO	December 2018	Independent Non-Executive Director	8/8

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

Focus areas in FY 2019/20

Key topics discussed

- The COVID-19 Pandemic Response Team Preparedness action plan and the Business Continuity Management plan
- Interim and audited consolidated financial statements published by the Group with recommendations made to the Board
- Reports from internal and external auditors and actions taken accordingly
- Internal and external audit reports of all subsidiaries
- Compliance plans and reports of all subsidiaries
- Operational risk review
- Compliance with AML/CFT regulations
- Update on regulatory changes
- Adequacy of allowance for credit impairment
- Audit plans of internal and external auditors
- Selection of external auditors for MCB Group Ltd and some subsidiaries
- Audit fees for external auditors

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

Corporate governance report

Remuneration, Corporate Governance, Ethics and Sustainability Committee (RCGESC)

Mandate

As per its Charter, the RCGESC shall consist of at least three members, the majority of whom shall be independent non-executive directors. The Chairperson shall be an independent non-executive director and shall normally be the Chairperson of the Board. The Chief Executive may be a member of the Committee. The Committee meets at least twice a year and on an ad hoc basis when required.

Key facts (FY 2019/20)

4 Number of Directors	**4-5** Average length of tenure (years)
3 Number of meetings	**100%** Average meeting attendance

Composition and meetings

The RCGESC assists the Board with respect to all remuneration aspects, corporate governance matters and nomination of directors and senior executives of MCB Group Ltd. Moreover, it oversees succession planning by regularly reviewing the related plan for Group senior executives and continuously updating a pipeline of directors' profiles, for discussion at Board level. The RCGESC also monitors the Corporate Sustainability Programme across the Group.

The directors who served on the RCGESC and their attendance at committee meetings during FY 2019/20 are provided in the following table:

Members	Committee member since	Board status	Meeting attendance
Didier HAREL *(Chairperson)*	**September 2016**	**Independent Non-Executive Director**	**3/3**
Karuna BHOOJEDHUR-OBEEGADOO	February 2016	Independent Non-Executive Director	3/3
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	November 2018	Independent Non-Executive Director	3/3
Pierre Guy NOEL	July 2014	Executive Director	3/3

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

Focus areas in FY 2019/20

Key topics discussed

- Re-election and appointment of directors as Board members
- Board and Board Committees composition
- Review of the Remuneration, Corporate Governance and Ethics Committee (RCGEC) mandate to include the monitoring of the Group's Corporate Sustainability Programme
- Group's general remuneration policy
- Appointment of senior executives and Board members at subsidiaries' level
- Succession plan for leadership roles within the organisation
- Review of the 'Corporate Governance Report' forming part of the Annual Report
- Board evaluation findings and implementation of action plan
- Review of Board/Committee Charters and policies for approval by the Board

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

Strategy Committee (SC)

Mandate

As per its Charter, the SC shall consist of at least five members with a majority of non-executive directors. The Chief Executive shall also be a member of the Committee. The Chairperson of the Committee shall be a non-executive director and shall normally be the Chairperson of the Board. The Committee meets at least four times in a year and on an ad hoc basis when required. The Chairperson of MCB Ltd and Chief Executives of entities of the Group may be invited to attend SC's meetings as and when required.

Key facts (FY 2019/20)

6 Number of Directors	**3-4** Average length of tenure (years)
4 Number of meetings	**100%** Average meeting attendance

Composition and meetings

The SC assists the Board in overseeing the business strategy of MCB Group Ltd and its subsidiaries and measures the latter's performance against set objectives whilst ensuring that capital allocation is appropriate. In addition, it helps the Board in assessing major financial and investment plans and other material issues that affect the development of the Group.

The directors who served on the SC and their attendance at committee meetings during FY 2019/20 are provided in the following table:

Members	Committee member since	Board status	Meeting attendance
Didier HAREL *(Chairperson)*	**November 2016**	**Independent Non-Executive Director**	**4/4**
Sunil BANYMANDHUB *(until January 2020)*	November 2016	Independent Non-Executive Director	3/3
Constantine CHIKOSI	January 2020	Independent Non-Executive Director	1/1
Jean-Jacques DUPONT DE RIVALZ DE ST ANTOINE	November 2016	Independent Non-Executive Director	4/4
Jean-Louis MATTEI	November 2016	Independent Non-Executive Director	4/4
Gilbert GNANY *(also acts as Secretary)*	November 2016	Executive Director	4/4
Pierre Guy NOEL	November 2016	Executive Director	4/4

Focus areas in FY 2019/20

Key topics discussed

- Progress of key strategic initiatives across the Group
- Capital strengthening of the Group
- The Group's international expansion strategy
- Group-wide digital strategic orientations
- The Group's long-term strategy

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

Corporate governance report

Supervisory and Monitoring Committee (SMC)

Mandate

As per its Charter, the SMC shall consist of a minimum of three members, including the Chairperson and the Chief Executive. Chief Executives of the subsidiaries of MCB Group Ltd may be invited to attend SMC's meetings as required. The SMC shall meet regularly and on an ad hoc basis when required.

Key facts (FY 2019/20)

3 Number of Directors	**3** Average length of tenure (years)
14 Number of meetings	**100%** Average meeting attendance

Composition and meetings

The SMC assists the Board in overseeing the overall management of MCB Group Ltd and its subsidiaries as well as in providing direction and guidance on major policy matters. It also monitors and measures the Group's performance against set objectives, in line with the strategic orientations.

The directors who served on the SMC and their attendance at committee meetings during FY 2019/20 are provided in the following table:

Members	Committee member since	Board status	Meeting attendance
Didier HAREL *(Chairperson)*	**July 2017**	**Independent Non-Executive Director**	**14/14**
Jean Michel NG TSEUNG *(also acts as Secretary)*	July 2017	Non-Executive Director	14/14
Pierre Guy NOEL	July 2017	Executive Director	14/14

Focus areas in FY 2019/20

Key topics discussed

- Impact of COVID-19 on the strategy, financial performance and operations of the Group
- Implementation of approved strategies and major policies
- Progress made on major transformation projects
- Major investment decisions
- Capital injection in some subsidiaries as well as the funding structure of MCB Group and its subsidiaries
- Dividend pay-out proposal of the Group for approval by the Board
- Recruitment of potential candidates in senior executive positions within the Group as well as resignations and movements of key senior personnel
- Major litigations and market movements that can have a material/significant impact on the Group
- Legal, operational and compliance matters impacting MCB Group
- Follow-up on the recommendations of the various Board Committees
- Capital market activity including monitoring of foreign shareholding and share price movements

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

Board effectiveness

Nomination process

The Board has a formal and transparent process in place for the nomination and appointment of directors. In fulfilling this duty, the Board is supported by the Remuneration, Corporate Governance, Ethics and Sustainability Committee (RCGESC), which is responsible for overseeing board directorship's renewal and succession planning. The RCGESC reviews the size, structure and composition of the Board on an annual basis or whenever appointments are considered. In so doing, it seeks to promote diversity of perspectives to enable a smooth execution of the Group's long-term strategy in a constantly changing market environment. The RCGESC is responsible for identifying candidates, carrying out interviews and recommending potential directors to the Board for its approval. The selection criteria used to assess prospective candidates relate, amongst others, to their specific skills, expertise, knowledge and experience. The RCGESC also considers gender diversity, time commitment and independence of the candidates in their assessment. The nomination and appointment process of directors for the Board is highlighted in the diagram below.

Whilst seeking to retain a core set of directors with long-standing knowledge, the Board recognises the importance of rotation of Board members to ensure that there is a good balance between continuity and fresh perspectives on the Board. It is worth highlighting that at each Annual Meeting, one third of Board members, notably those who have been longest in office, are required to retire, while being eligible to stand for re-election.

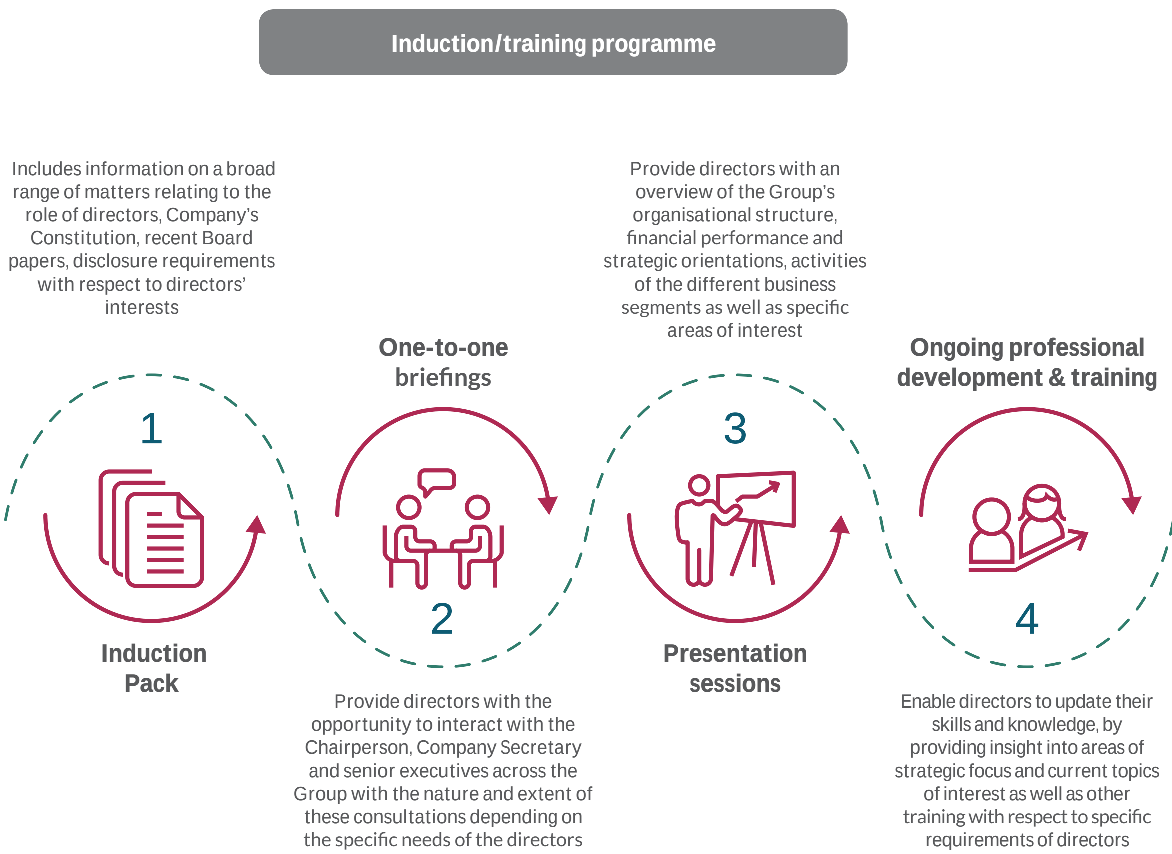
More information on the nomination and appointment process is available on the website

Corporate governance report

Board induction and training

On appointment to the Board, new directors are invited to attend and participate in a comprehensive induction programme. The latter seeks, *inter alia*, to familiarise them with their legal duties and to provide them with an overview of the Group's business operations and their main drivers as well as the operating environment. The programme's objective is to enable directors to be well equipped from the outset to effectively contribute to strategic discussions and oversight of the Group. As part of its commitment for continuous improvement, the Board has established an ongoing training and development programme for directors, which is reviewed on a regular basis to ensure its pertinence, with a training log maintained for each director by the Company Secretary.

During the last financial year, directors attended a presentation delivered by the President of Institute of Chartered Accountants in England and Wales (ICAEW) on the local and international implications of Brexit. Moreover, various interactive sessions were organised to provide directors with a greater understanding of specific strategic focus areas. Furthermore, the Board held deep dive sessions pertaining to the Digital Transformation Programme, with a local site visit to the MCB Digital Factory undertaken in November 2019. An outline of the induction and training programme is set out in the diagram hereafter.

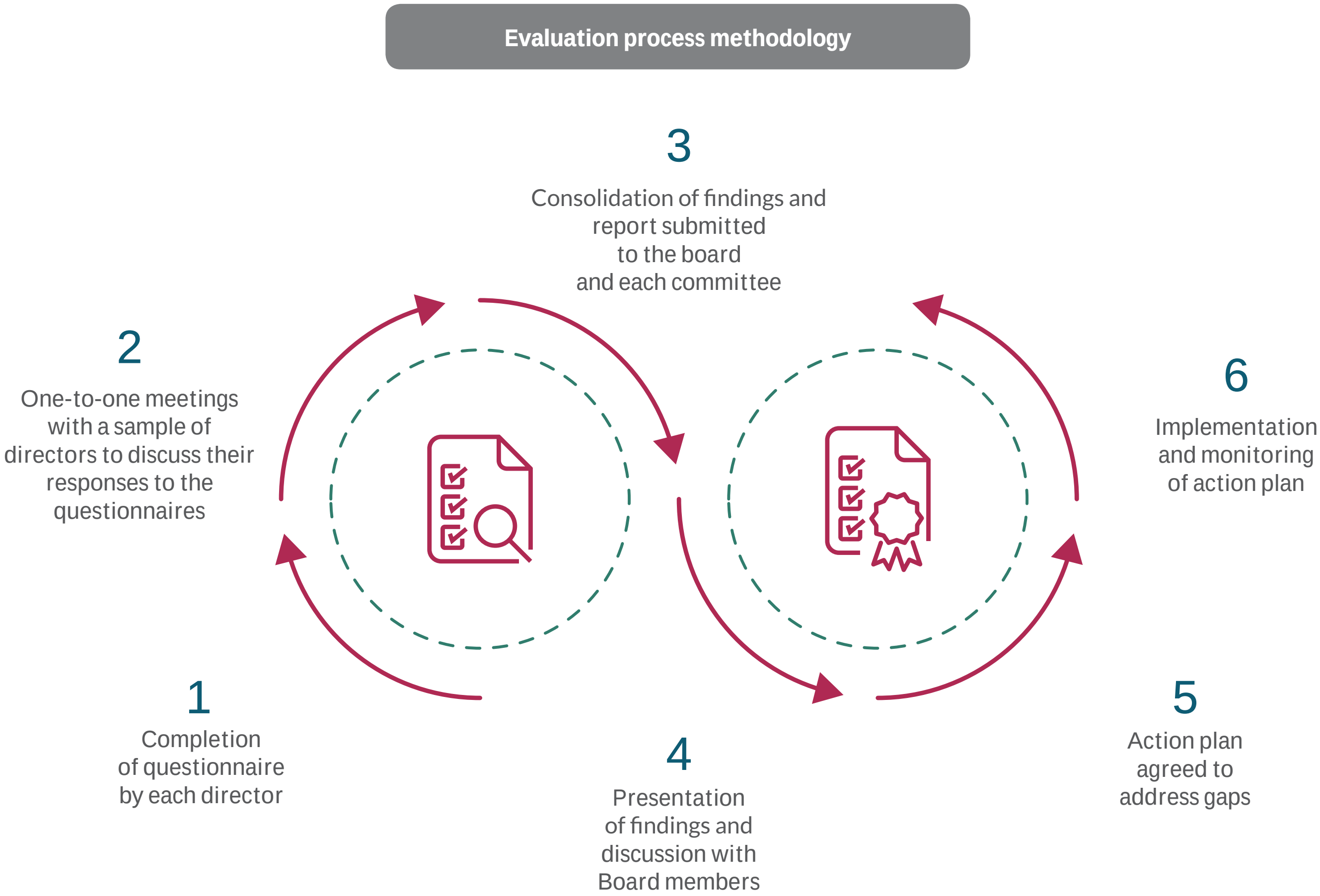


Note: Briefing and reading materials are made available on the Board portal for consultation.

Board/Director's performance

In its quest for continuous improvement, the Board regularly assesses its performance and effectiveness, as well as that of its committees and individual members. The evaluation is undertaken with the support of an independent external facilitator under the oversight of the Remuneration, Corporate Governance, Ethics and Sustainability Committee (RCGESC).

An evaluation exercise was conducted in August 2019 by Ernst and Young Ltd on various governance aspects. The assessment was notably based on a review of governance related documents and views of directors on a range of governance topics. The report concluded that current practices generally exceed the minimum performance and compliance requirements and that key documents required to formalise the governance arrangements are in place. It also contained a few recommendations for enhancing performance, which were presented to the Board, with an action plan subsequently agreed upon. The Chairperson of the Board, with the support of the RCGESC, has been monitoring the implementation of the action plan to ensure that issues identified are given due consideration, within a reasonable timeframe. An outline of the evaluation process methodology used is provided in the diagram hereafter.



Corporate governance report

Risk governance

Risk management and internal control

The Board has the ultimate responsibility to maintain a robust risk management and internal control system, which it regularly reviews to cater for new emerging risks and threats emanating from the operating context. As a key focus area, the Group has, during the period under review, activated its Pandemic Preparedness Plan to help underpin business continuity in the wake of the pandemic spread and the associated lockdown periods, while duly safeguarding the health and safety of its stakeholders.

Supported by the Risk Monitoring Committee, the Board ensures that the necessary structures, processes and methods for identification, evaluation and monitoring of the principal risks faced by the Group are integrated into the latter's overall risk governance framework. Following recommendations from an external consultant on the risk governance framework, the Enterprise Risk Management framework has been implemented or is in the process of being implemented in relevant subsidiaries. The Board has received assurance, through the regular reporting by the Chairpersons of relevant Committees, on the adequacy of the risk management arrangements during the year under review.

The Board, assisted by the Audit Committee, ensures that the internal control framework in place results in an acceptable level of risk exposure whilst guaranteeing compliance with internal established policies and procedures and relevant laws and regulations. The Internal Audit and Compliance functions regularly report to the Audit Committee, which also reviews operational and information risks. Furthermore, whilst receiving feedback from Audit Committees of subsidiaries, the Audit Committee receives reports from the Company's external auditor and has a discussion with the latter without Management Executives being present to ensure that there are no unresolved material issues of concern. Based on the work performed by internal and external auditors, reviews by Management Executives and regular reporting from the Chairperson of the Audit Committee, the Board is of opinion that the internal control systems are adequate and effective.

More information is available in the 'Risk and Capital Management Report' on pages 142 to 198

Information Governance

The Group attaches significant importance to the confidentiality, integrity and availability of information, backed by a robust framework that protects its information asset and upholds the security and performance of information and Information Technology (IT) systems. The Board is responsible for setting and regularly reviewing relevant policies and for ensuring that they are appropriately implemented through adequate structures and processes. In this respect, access to information is only available to authorised parties while physical and logical access controls are in place at all times with staff being regularly made aware of relevant requirements. The Group continues to invest in technology to enhance its operational resilience with significant investments being monitored by the Board. Besides, the Group deployed several initiatives during the year to enhance and assess the robustness of its information security, including cyber-attack simulations on the Bank's information system. The Internal Audit provides for an independent assurance to assess the suitability of the Group entities' information and IT policies while the Audit Committee evaluates the effectiveness of related internal control systems.

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

External auditors

With a view to ensuring the overall adequacy of the Group's internal control framework, the Audit Committee evaluates the independence and effectiveness of the external auditors on an ongoing basis before making a recommendation to the Board on their appointment and retention. The proposal to reappoint PricewaterhouseCoopers (PwC), which was first appointed in November 2015 as external auditor, was approved by shareholders at the Annual Meeting of Shareholders of MCB Group Ltd, held in November 2019. As regards the timeframe, the total duration of the audit assignment is for a period of one year with the possibility of reappointment of the selected firm annually, subject to regulatory provisions and approval at the Annual Meeting of Shareholders of MCB Group Ltd. The latter retains the right to renew and extend the contract following an assessment by the Audit Committee of the external auditor's overall scope, terms of reference and independence.

Non-audit services

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

Auditors' fees and fees for other services

	2020		2019	
	The Group	**The Company**	**The Group**	**The Company**
	Rs '000	Rs '000	Rs '000	Rs '000
Audit fees paid to:				
PricewaterhouseCoopers	20,707	1,103	22,269	1,090
BDO & Co	5,665	-	3,624	-
Other firms	2,788	-	1,724	-
Fees for other services provided by:				
PricewaterhouseCoopers	4,076	-	10,057	-
BDO & Co	-	-	-	-
Other firms	515	-	402	-

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

Directors of MCB Group Ltd subsidiaries

The Board composition of the subsidiaries is given hereafter, with the corresponding Chairpersons as well as Chief Executives or Managing Directors (where applicable) sitting on the respective Boards being mentioned. Changes in the Board composition during the financial year 2019/20 and to date are also highlighted.

MCB INVESTMENT HOLDING LTD

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

THE MAURITIUS COMMERCIAL BANK LTD

Jean-François DESVAUX DE MARIGNY *(Chairperson)*
Jonathan CRICHTON
Raoul GUFFLET *(Deputy Chief Executive Officer)*
Uday Kumar GUJADHUR
Philippe LEDESMA
Alain LAW MIN *(Chief Executive Officer)*
Jean Michel NG TSEUNG
Su Lin ONG *(as from November 2019)*
Simon Pierre REY *(until December 2019)*
Simon WALKER *(as from June 2020)*

MCB MADAGASCAR SA

Jean-François DESVAUX DE MARIGNY *(Chairperson)*
Gilbert GNANY
Raoul GUFFLET
Jean Michel NG TSEUNG
Pierre Guy NOEL
Rony RADAYLALL *(Deputy Managing Director)*
(Acting Managing Director since August 2019)
Patrick RAZAFINDRAFITO

MCB (MALDIVES) PRIVATE LTD

Pierre Guy NOEL *(Chairperson)*
Jean-François DESVAUX DE MARIGNY
Gilbert GNANY
Raoul GUFFLET
Désiré LEO *(Managing Director)*
Laila MANIK
Jean Michel NG TSEUNG

MCB SEYCHELLES LTD

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

MCB INTERNATIONAL SERVICES LTD [1]

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

MASCAREIGNES PROPERTIES LTD [1]

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

MCB CAPITAL MARKETS LTD

Pierre Guy NOEL *(Chairperson)*
Couldip BASANTA LALA
Bertrand DE CHAZAL
Gilbert GNANY
Rony LAM YAN FOON (*Chief Executive Officer)*
Jeremy PAULSON-ELLIS
Catherine SWANEPOEL *(as from September 2020)*
Gilles TRANCART

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
Vimal ORI

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)*
Couldip BASANTA LALA
Rony LAM YAN FOON
Bernard YEN

MCB INVESTMENT MANAGEMENT CO. LTD[2]

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

MCB STRUCTURED SOLUTIONS LTD[2]

Gilbert GNANY *(Chairperson)*
Divya BASANTA LALA *(as from February 2020)*
Rony LAM YAN FOON
Vimal ORI

CM DIVERSIFIED CREDIT LTD[2]

Gilbert GNANY *(Chairperson)*
Divya BASANTA LALA *(as from February 2020)*
Rony LAM YAN FOON
Vimal ORI
Akesh Umanee *(up to August 2020)*

CM STRUCTURED FINANCE LTD[2]

Gilbert GNANY *(Chairperson)*
Divya BASANTA LALA *(as from February 2020)*
Rony LAM YAN FOON
Anish GOORAH
Vimal ORI

CM STRUCTURED PRODUCTS (1) LTD[2]

Gilbert GNANY *(Chairperson)*
Divya BASANTA LALA *(as from February 2020)*
Rony LAM YAN FOON
Vimal ORI

CM STRUCTURED PRODUCTS (2) LTD[2]

Gilbert GNANY *(Chairperson)*
Divya BASANTA LALA *(as from February 2020)*
Rony LAM YAN FOON
Vimal ORI
Akesh UMANEE *(up to August 2020)*

MCB LEVERAGED SOLUTIONS LTD[2]

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

Corporate governance report

MCB EQUITY FUND LTD

Bertrand DE CHAZAL *(Chairperson)*
Karuna BHOOJEDHUR-OBEEGADOO
Pierre Guy NOEL

MCB FINANCIAL ADVISERS[2]

Gilbert GNANY *(Chairperson)*
Rony LAM YAN FOON

MCB FACTORS LTD

Margaret WONG PING LUN *(Chairperson)*
Jean-Philippe COULIER
Koomaren CUNNOOSAMY
Jean-Mée ERNEST *(Managing Director)*
Michael LISING
Pierre Guy NOEL

MCB LEASING LTD[3]

Bernard D'HOTMAN DE VILLIERS *(Chairperson)*
Mulk Raj GUNGAH *(Managing Director)*
Martine Stephanie IP MIN WAN
Alain LAW MIN
François MONTOCCHIO
Anju UMROWSING-RAMTOHUL

MCB MICROFINANCE LTD

Pierre Guy NOEL *(Chairperson)*
Paul CORSON
Jean-Philippe COULIER
Gilbert GNANY
Aurélie LECLEZIO *(Chief Executive Officer)*
Alain REY

FINCORP INVESTMENT LTD

Jean-Pierre MONTOCCHIO *(Chairperson)*
Sunil BANYMANDHUB
Jean-Philippe COULIER
Marivonne OXENHAM
Margaret WONG PING LUN

INTERNATIONAL CARD PROCESSING SERVICES LTD

Pierre Guy NOEL *(Chairperson)*
Jean-Michel FELIX
Mohamed HORANI
Samir KHALLOUQUI
Angelo LETIMIER
Khevin SEEBAH *(Chief Executive Officer)*

MCB CONSULTING SERVICES LTD

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

MCB INSTITUTE OF FINANCE LTD

Pierre Guy NOEL *(Chairperson)*
Marc DESMARAIS
Jean-Michel FELIX
Gilbert GNANY
Dhiren PONNUSAMY *(as from August 2020)*
Thiery SAUZIER *(up to August 2020)*

MCB PROPERTIES LTD

Pierre Guy NOEL *(Chairperson)*
Gilbert GNANY

MCB REAL ASSETS LTD

Margaret WONG PING LUN *(Chairperson)*
Pierre Guy NOEL
Gilbert GNANY

MCB GROUP CORPORATE SERVICES LTD

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

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

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

BLUE PENNY MUSEUM

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

MCB FORWARD FOUNDATION

Didier HAREL *(Chairperson)*
Jean-François DESVAUX DE MARIGNY
Gilbert GNANY
Alain LAW MIN
Madeleine de MARASSE ENOUF
Pierre Guy NOEL

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

Directors of subsidiaries' remuneration

The remuneration and benefits paid to directors of subsidiaries, who did not sit on the Board of MCB Group Ltd during the financial year, are shown below.

Remuneration and benefits received (Rs '000)	2020	2019
Executive (Full-time)	204,674	186,617
Non-executive	11,952	10,744
Total	**216,626**	**197,361**

Corporate governance report

Shareholder relations and communication

The Board recognises the importance of promoting an open and transparent communication with shareholders with a view to building trustworthy relationships with them. The Group maintains an ongoing dialogue with shareholders while providing them with the opportunity to share their views. Shareholders are kept abreast of all material business developments that influence the Group in a transparent and timely manner through various communication channels. In addition to official press announcements and occasional press conferences, the Group's website provides for an adapted and comprehensive self-service interface. The 'Investor Centre' section on the MCB Group's website, regarded as the first port of call for investors, enables the latter to have access to a comprehensive set of corporate documents and publications, e.g. quarterly financial and Group Management statements and other corporate announcements as well as earnings call, analyst meeting, and roadshow presentations, amongst others. In order to receive updates on major corporate events and announcements instantly, shareholders are able to register for email alerts directly on the website. In addition, there is also an 'Investor Enquiry' section on the website, which enables shareholders to post their queries online. Considering its diverse range of shareholders and investors with different communication and engagement needs, there are dedicated teams within the Group to attend to their requirements.

Individual shareholders

The Group's Company Secretary oversees communication with retail shareholders, in collaboration with the Group's Registrar and Transfer Agent, MCB Registry and Securities Ltd. The latter caters for the information needs of retail shareholders that range from sending relevant correspondences to responding to their queries in a timely manner, in strict compliance with applicable rules and regulations. The Company Secretary escalates feedback from retail shareholders to the Board.

Institutional investors

The Group's Investor Relations (IR) Unit acts as the point of contact for institutional investors and is responsible for managing and developing relationships with existing and potential investors, with a view to achieving a stable and diversified shareholder base while supporting high liquidity in and fair valuation of MCB Group shares.

During the financial year, the IR Unit has maintained a comprehensive Investor Relations engagement programme with the aim of promoting active dialogue with investors to exchange with them on the Group's strategy and financial performance as well as developments in the operating context. In addition to our regular interactions with investors through, inter alia, our quarterly results briefings, half-yearly analyst meetings and conference calls, the Group also organised one-to-one audio/video conferences especially during the confinement period linked to the COVID-19 crisis to attend to the concerns and queries from existing shareholders. The Group's Executives also participated in two international virtual roadshows, which attracted various investors around the globe. Investor sentiment and views gathered are regularly communicated to the Board.

An outline of the Group's engagement programme during the last financial year is set out hereafter.

Engaging with investors: what we did in FY 2019/2020

VIRTUAL ROADSHOW

- Participated in virtual Avior roadshow (South Africa) and virtual EFG Hermes roadshow (Dubai) in June 2020
- Interacted with around **60** international institutional investors and active fund managers around the globe

ANALYST MEETING

- Organised in October 2019 after full year results and in February 2020 after half year results
- Some **50** participants on average attended and interacted with MCB Group Executives

ANNUAL MEETING OF SHAREHOLDERS

- Last held in November 2019
- Shareholders who attended, expressed their views, asked questions and received feedback directly from Board members

Earnings call

4

Interactions with over **40** investors per call

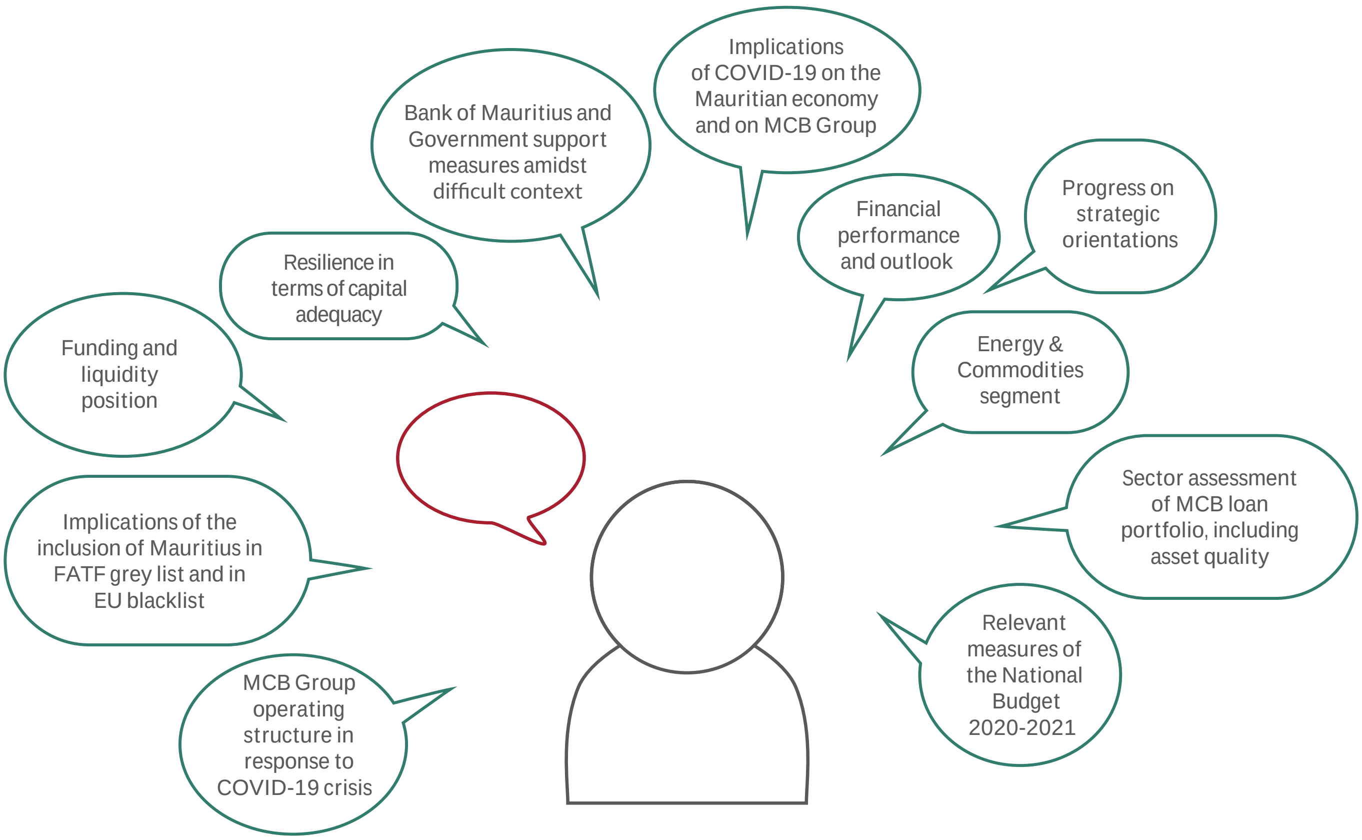
Conference call/One-on-one meeting

>30

Organised on request throughout the year

Corporate governance report

In FY 2019/20, the key topics discussed between Group Executives and investors revolved around, but not limited to the following themes.



Shareholder information

Shareholding profile

Ordinary shareholders

The Group has a diversified ownership base of more than 21,000 shareholders, with foreign shareholding accounting for around 13% of the total.

As at 30 June 2020, outstanding ordinary issued capital of MCB Group Ltd amounted to Rs 2.7 billion, comprising 239.3 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 2020.

Largest shareholders	Number of shareholders	% Holding
National Pensions Fund	16,770,499	7.0
Swan Life Ltd	7,511,156	3.1
Promotion and Development Limited	7,190,573	3.0
State Insurance Company of Mauritius Ltd	6,292,403	2.6
BNYM SA/NV A/C Eastspring Investments SICAV-FIS	4,622,300	1.9
MUA Life Ltd	2,862,923	1.2
Policy Ltd	2,513,535	1.1
SSL C/O SSB Boston A/C Russell Investment Company PLC	2,273,531	1.0
The Mauritius Commercial Bank Ltd Superannuation Fund	2,245,624	0.9
New Mauritius Hotels Group Superannuation Fund	2,002,153	0.8

Size of shareholding	Number of shareholders	% Holding	Number of shares owned	% Holding
1-500 shares	14,017	65.3	1,534,999	0.6
501-1,000 shares	1,636	7.6	1,222,482	0.5
1,001-5,000 shares	2,794	13.0	6,816,164	2.8
5,001-10,000 shares	918	4.3	6,586,370	2.8
10,001-50,000 shares	1,390	6.5	31,781,510	13.3
50,001-100,000 shares	331	1.5	23,793,941	10.0
Above 100,000 share	393	1.8	167,516,772	70.0
Total	**21,479**	**100.0**	**239,252,238**	**100.0**

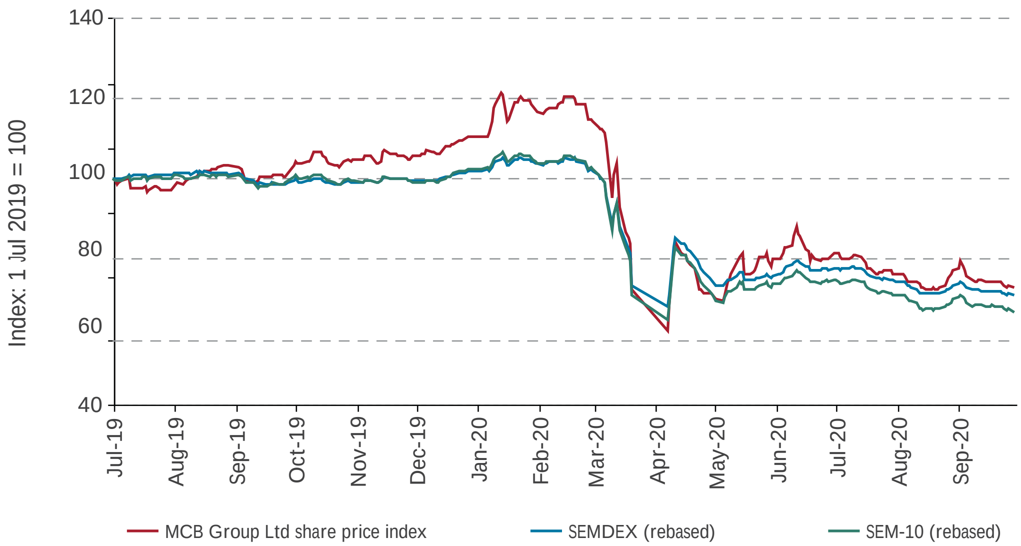
Category	Number of shareholders	% Holding	Number of shares owned	% Holding
Individuals	20,315	94.6	110,510,507	46.2
Other Corporate Bodies	860	4.0	44,215,951	18.4
Investment and Trust Companies	186	0.9	33,407,330	14.0
Pension and Provident Funds	91	0.4	33,023,095	13.8
Insurance and Assurance Companies	27	0.1	18,095,355	7.6
Total	**21,479**	**100.0**	**239,252,238**	100.0

Corporate governance report

Performance of MCB Group

MCB Group Ltd is a constituent of the Stock Exchange of Mauritius Sustainability Index (SEMSI[1])

Performance of MCB Group share price against the market



Year ending June	2018	2019	2020
Share price (Rs)			
High	289.00	290.00	350.00
Low	256.00	262.00	180.00
Average	274.35	274.47	285.57
Closing - Year end	276.00	289.00	236.00
Market capitalisation as at 30 June (Rs m)	65,877	69,042	56,464
Market capitalisation as % of SEMDEX[2]	24.5	27.3	28.0
Value of shares traded (Rs m)	5,095	4,891	4,951
MCB Market[3] share (%)	44	48	49
Earnings per share - Basic (Rs)	30.26	39.51	33.10
Price/NAV ratio (times)	1.3	1.2	0.9
Price earnings ratio (times)	9.1	7.3	7.1
Earnings yield (%)	11.0	13.7	14.0

[1]SEMSI tracks the price-performance of companies demonstrating strong sustainability practices against a set of environmental, social and governance criteria.
[2]excludes foreign currency denominated, GBC1 and international companies
[3]excludes one-off transactions

Note: The local bourse (SEMDEX) was closed for trading as from 20 March 2020 and resumed on 6 April 2020

Preference shareholders

During the period under review, MCB Group offered to the holders of Floating Rate Subordinated Notes Due 2023 (Notes) the option to subscribe for an equivalent nominal amount of Rs 4.5 billion into convertible redeemable non-voting preference shares (Preference shares). Subsequently, more than 75% of the Notes were converted into Preference shares amounting to Rs 3.4 billion (339,622,500 at an issued price of Rs 10 each). Preference shareholders are entitled to an annual fixed non-cumulative preference dividend of 4.7%, payable twice yearly.

Dividend policy

MCB Group Ltd normally seeks to distribute around 30% of its profits in the form of dividends. However, in the current exceptional circumstances and in line with directives issued by banking regulators across presence countries, the Group has not declared any dividend for the period under review.

Shareholders agreements

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

Shareholders' diary

November 2020	Release of Q1 results to 30 September 2020
December 2020	Annual Meeting of Shareholders
February 2021	Release of half-year results
May 2021	Release of results for the 9 months to 31 March 2021
September 2021	Release of full year results to 30 June 2021
November 2021	Release of Q1 results to 30 September 2021 Annual Meeting of Shareholders

Important shareholder and registrar information

REGISTRAR AND TRANSFER OFFICE

MCB REGISTRY & SECURITIES LTD
Raymond Lamusse Building
9-15, Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5640
Email: contact.rs@mcbcm.mu

INVESTOR RELATIONS UNIT

12th Floor MCB Centre
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5134 / (230) 202 5558
Email: investor.relations@mcbgroup.com

Corporate governance report

Statement of Directors' responsibilities

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

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

- ensure that adequate accounting records and an effective system of internal controls and risk management have been maintained;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been adhered to, subject to any material departures disclosed, explained and quantified in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business;
- keep proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Group while ensuring that the Financial Statements fairly present the state of affairs of the Group, as at the financial year end, and the results of its operations and cash flows for that period;
- ensure that the Financial Statements have been prepared in accordance with and comply with International Financial Reporting Standards and the Mauritian Companies Act 2001.

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

The directors report that:

- adequate accounting records and an effective system of internal controls and risk management have been maintained;
- the Financial Statements fairly present the state of affairs of the Group, as at the financial year end, and the results of its operations and cash flows for that period;
- appropriate accounting policies supported by reasonable and prudent judgements and estimates have been consistently used;
- International Financial Reporting Standards and the Mauritian Companies Act 2001 have been adhered to;
- the Financial Statements have been prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

On behalf of the Board.

M G Didier HAREL
Chairperson

Pierre Guy NOEL
Chief Executive

Statement of compliance

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

Name of Public Interest Entity ('the PIE'): MCB Group Limited
Reporting Period: 1 July 2019 to 30 June 2020

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

M G Didier HAREL Chairperson	**Pierre Guy NOEL** Chief Executive

28 September 2020

The disclosures pertaining to the eight principles of the Code have been made in different sections of the Annual Report, as outlined below:

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

Notes:

[1] 'Our Corporate Profile' can be found on pages 20 to 33
[2] 'Risk and Capital Management Report' can be found on pages 142 to 198
[3] 'Delivering on our Strategic Objectives' includes information on our environmental and social performances and can be found on pages 34 to 85
[4] 'Group Financial Performance' provides an assessment of the Group's results and can be found on pages 86 to 94
[5] 'Sustainability Report' provides an overview of our Corporate Sustainability Programme and our engagement with various stakeholders and is available on our website

Company Secretary's certificate

Name of Public Interest Entity ('the PIE'): MCB Group Limited
Reporting Period: 1 July 2019 to 30 June 2020

In our capacity as Company Secretary, we hereby certify that, to the best of our knowledge and belief, the Company has filed with the Registrar of Companies all such returns as are required of the Company under the Companies Act 2001 of Mauritius in terms of section166(d).

Marivonne OXENHAM
Per MCB Group Corporate Services Ltd
Company Secretary

28 September 2020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Risk and Capital Management Report

Risk and capital management report

Introduction

Our philosophy

Our general approach

The conduct of our businesses and activities inherently exposes our organisation to risks. Managing risks effectively is fundamental to the successful execution of our strategy an d delivery of sustainable value to our multiple stakeholders

Our key objectives

Alongside complying with industry best practices, good corporate governance standards and applicable statutory and regulatory requirements, the Group places prudent and informed risk-taking at the centre of each decision. It ensures that the risks faced are effectively identified, assessed, monitored and managed within acceptable levels. It sets out to continuously improve the risk-return profile of its activities, while creating conducive conditions for tapping into market development opportunities

Our integrated risk management set-up

- While entities are accountable to manage the risks faced at their respective levels, the risk management framework of MCB Group Ltd provides guidance for achieving sustainable business growth within the precinct of the Group-wide risk appetite
- The framework – which sets requirements in terms of responsibility, accountability, independence and transparency – ensures that a holistic, coordinated and systematic approach to risk management is adopted across the organisation

Key directions formulated by the Group's risk management framework for its entities

Articulating an overall framework that calibrates risk management policies and processes to be adopted by the organisation

Providing guidance on the adoption of a dependable and coherent approach to identify, mitigate and manage risk

Promoting the general alignment of methodologies used to manage risks faced

Ensuring alignment in terms of the attitudes and behaviours of employees towards assuming and managing risk

Foundations and focus areas

General orientations

- Ensuring that our risk management principles are anchored on advocated norms and principles
- Adherence by entities to sound capitalisation, asset 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, risk management and compliance services to other entities where appropriate

Other key foundations

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

Risk and capital management report

Positioning and performance of the Group during the period under review

Facing up to and coping with the exceptional circumstances engendered by the COVID-19 pandemic

Significance and ramifications of the pandemic

- The COVID-19 pandemic led to the predominance of an unprecedented and highly challenging operating environment for the Group. Indeed, after provoking major and persisting economic and social disturbances across markets and geographies, the pandemic has – to varying scales and depth – influenced the Group's banking and non-banking entities, with ramifications on their customer base being shaped up by the types of markets being attended to, the diversification and inherent vulnerability/resilience of portfolios and the risk mitigants in place. Whilst the context remains highly dynamic, developments triggered by the pandemic have exerted pressures on the operational, credit as well as liquidity and funding risks faced by the Group, while leading to a relative deceleration of our business growth momentum. The repercussions of the pandemic on our organisation have been engendered by the following: (i) prevalence of lockdown periods and sanitary concerns across presence countries; (ii) dampened revenue generation capabilities of individuals and businesses amidst the deteriorating performances of specific economic sectors (mainly tourism and hospitality, transport, export oriented industries, with SMEs particularly impacted), closing of borders, supply chain disruptions and rising unemployment; (iii) increased volatilities across markets and subdued investor sentiment; and (iv) curtailed inflows of foreign currency within economic systems.

Maintaining the resilience and stability of the Group's operations and business activities

- In spite of the challenges faced, it is encouraging to note that the entities of the Group have upheld their healthy business development across market segments and preserved their general financial soundness. Towards this end, Group entities have capitalised on their robust risk management and internal control frameworks, which enabled them to identify, monitor and mitigate risk exposures in a consistent manner. More contextually, the quality of their portfolios have been generally upheld on the back of specific relief measures implemented to help clients withstand the economic downturn, notably in terms of loan moratoria. Entities also benefitted from support initiatives that are being executed by Central Banks and Governments with a view to sustaining supply of credit to the real economy and bolstering the capacity of commercial banks to help clients in distress.

- Whilst this situation testifies to the soundness of the Group's business model and our proactive stance amidst testing conditions, we are aware that the economic environment prevailing across presence countries and internationally remains difficult. There is very little visibility as to when conditions will normalise and an upturn in activities will gain momentum during the course of the coming quarters and years. This situation, therefore, continues to warrant our close strategic focus and the systematic monitoring of our portfolios and operations, while we stand ready to take adapted measures in view of the evolving operating landscape.

Our financial soundness

- Notwithstanding the difficult context, MCB Group has maintained comfortable capital levels that exceed minimum regulatory levels and support its growth endeavours. It has also managed to preserve generally stable non-performing loan ratios.
- Furthermore, the Group took active and prompt measures that enabled it to post strong liquidity and funding ratios, thus helping the organisation to meet its obligations in a timely manner. Worth noting, MCB ensured that it has adequate FCY resources to fund its regional diversification endeavours, while our foreign banking subsidiaries have maintained long foreign currency positions that offer cushion from a potential structural depreciation of their local currencies.
- Encouragingly, in spite of challenging conditions faced, MCB Ltd preserved its investment-grade credit ratings. However, as it is being the case for an extensive range of banks globally, Moody's Investors Service and Fitch Ratings have assigned a negative outlook to MCB Ltd, after factoring in the impact of the COVID-19 pandemic on the Bank's operating context and downside risks to its financial profile. That said, these agencies have underscored the Bank's healthy fundamentals, solid franchise, business model and management quality, adequate risk management and resilient financial metrics heading into the crisis.

Dedicated moves to tackle the impact of the COVID-19 pandemic

- Given the unprecedented context, MCB Group moved quickly and in an orderly way to preserve its status as a strong and resilient organisation. To cope with the crisis situation, the Group endorsed key operational and strategic moves in a pragmatic manner.
- We fostered the continuity of our operations amidst safe working conditions. We attended to key organisational imperatives, especially relating to governance, resource allocation, deployment of sanitary measures in our premises as well as the regular internal and external communication of initiatives taken during and after the lockdown phase. In parallel, after reviewing our inherent capabilities and preparedness levels, we further strengthened our risk management set-up and internal control processes, alongside gearing up our oversight of market developments. We undertook a systematic monitoring and assessment of the ramifications of the pandemic on economic and market conditions across our presence countries. This assisted us in carrying out a thorough and informed evaluation of the impact of pandemic-related developments on our internal operations and risk profiles.
- In light of the impact of the pandemic on our business activities and commensurate with the uncertain and unpredictable economic environment, MCB Group has materially increased its Expected Credit Losses during the second half of FY 2019/20. This reflects the proactive and prudent approach endorsed in order to assess adequate provisioning levels to be kept in the wake of unfolding operating conditions, underpinned by informed analyses, careful assumptions and thoughtful modelling exercises.

Banking cluster: Impact assessment of the COVID-19 pandemic

MCB Ltd

Portfolio review

- The Bank ran impact analyses on its portfolios, particularly, but not limited to, domestic corporates, SMEs, international structured finance, and Energy and Commodities. This was achieved by undertaking an appraisal of crisis transmission mechanisms and relevant sectorial assessments. Client-specific circumstances prevailing prior to the pandemic as well as the adequacy and impact of support measures adopted by the authorities were assessed. The Bank reviewed its risk appetite for its international business and country risk appetite in order to cater for the evolving economic environment, current business conditions and its strategic endeavours.

- Overall, while the Bank has continued to address underlying vulnerabilities inherent across key local market segments in the wake of turbulences confronting specific economic sectors, it has been, in particular, been comforted by the overall resilience of its Energy and Commodities and international structured finance portfolios amidst the testing operating environment.

Evaluating the soundness of its local portfolios towards delivering tailored support

- MCB Ltd established a Portfolio Assessment Team to undertake an in-depth vulnerability assessment of its exposures in the most affected local sectors and clients. The assignment involved a macroeconomic assessment of the following sectors: (i) Tourism and Hospitality; (ii) Export Oriented Manufacturing and Textile; (iii) Construction and Property Development; and (iv) Small and Medium Enterprises (SMEs). The findings fed the second phase of the exercise, which consisted of a micro-financial assessment of systemic corporate Groups (conglomerates) in Mauritius to appraise difficulties being encountered amidst the crisis.

- This exercise was conducted by cross-functional working groups from various areas of the Bank, namely Strategy, Research and Development, Risk, Corporate and Institutional Banking and Business Banking SBUs. This multidisciplinary approach underpinned an informed assessment of clients' needs, while gauging its capacity to provide long-term support.

- Along with providing a framework for devising longer-term and more definitive restructuring measures and solutions to support its clients, findings gathered from the assignment have so far helped the Bank to plot an initial way forward with respect to its engagement with large customer groups and bring them due relief, especially in respect of capital repayment holidays (and also interest in some cases) for ongoing credit facilities and the delivery of working capital facilities to meet cash flow needs.

Determination of ECL

Quarter ended 31 March 2020

- In line with IFRS 9 requirements, the Bank's ECL incorporated an increase of Rs 1,488 million over the second quarter of FY 2019/20, based on an inherent increase in credit risks and its forward-looking view of the repercussions of the pandemic on its operations.
- While complying with international practices advocating post-model overlays/adjustments in instances where effects of COVID-19 cannot be accurately reflected in models and given relative lack of data, MCB Ltd opted not to alter its models, but, instead, to align one of its most important risk parameters, namely the Probability of Default (PD), to factor in potential ramifications of the pandemic.
- Wholesale portfolio: On the back of the analysis performed and the availability of reasonable information at the onset of the crisis, the Bank has identified two sectors, namely 'Accommodation and Food Service Activities' and 'Textile', as High Risk and effected a 'de-notching' exercise, which consisted of attributing a higher 12-month PD.
- Retail portfolio: MCB Ltd adjusted its forward-looking factor, leading to a major rise in ECL, as compared to 31 December 2019.
- The Bank applied a management overlay, amounting to 30% of the ECL reported for 31 December 2019, to cater for uncertainties, bearing in mind that the ECL adjustment exercise was performed at a very early stage of the crisis.

Quarter ended 30 June 2020

- As the impact of COVID-19 continued to unfold, the Bank reported total ECL of Rs 3,290 million for FY 2019/20 following an increase of Rs 1,735 million as compared to the third quarter of the year. During the quarter, it also performed the annual recalibration of its models, which consisted of incorporating an additional year of historical data, independently of COVID-19 induced outcomes.
- Forward-looking indicators: It updated the forward-looking indicators (consisting of macroeconomic variables such as GDP and unemployment rate forecasts as well as financial variables such as lending rate and credit index) used to determine the Probability of Default as part of the sensitivity analysis. Three types of economic scenarios have been incorporated into the range of reasonably possible outcomes as regard the evolution of macroeconomic indicators over the coming 36 months (bull, bear and baseline scenarios), with probabilities assigned to each, based on judgments regarding economic and market developments and outlooks.
- Wholesale portfolio: Insights from the Portfolio Assessment Team and financial forecasts from key clients, including those under stress, were leveraged in order to conduct creditworthiness assessments. The outcomes were reflected, where deemed necessary and appropriate, in the clients' internal ratings (and, thus, in their 12-month Probability of Default) by means of rating overlays. In a small number of cases, the Bank judged that there were significant increases in credit risk and proceeded with staging overlays (i.e. moving some clients from Stage 1 to Stage 2).
- Retail portfolio: Outcomes of various simulations undertaken to reflect potential surges in the risk profiles of its retail clients triggered an additional general overlay, representing 10% of the overall retail portfolio ECL reported as at 30 June 2020.
- The Bank applied a management overlay, amounting to 10% in respect of total exposures as at 30 June 2020, as an additional buffer for further risk mitigation.

Read more in the 'Credit risk' section of the Risk and Capital Management Report on pages 175 to 180

Foreign banking entities

Portfolio review

- The entities, in their own respects, undertook a review exercise to ascertain the impact of COVID-19 on key sectors, with three risk categories, namely High, Medium and Low Risk, established for classification. They performed an in-depth analysis of three sectors, namely Tourism, Transport and Logistics, and SMEs, since these were classified as High or Medium Risk.

- They assigned a vulnerability rating to each of these three sectors, after taking into consideration the outcome of the afore-mentioned analysis and the appraisal of the impact of dedicated support measures being implemented by the authorities. They reviewed their respective Top 50 credit exposures, after paying particular attention to (i) the nature and extent of banking facilities granted; (ii) the staging classification of such exposures under IFRS 9; (iii) collaterals used to secure such facilities; (iv) clients financial fundamentals; (v) assistance received from Governments in the form of wage assistance or loans guarantees; and (vi) further assistance required from our foreign banking entities in the form of moratoriums or working capital loans.

- In the process, the entities maintained regular interactions with their customers to understand and identify their needs and provide tailor-made solutions to address liquidity issues faced by them. The entities have devised a questionnaire to be filled in by customers requesting such accompanying measures, with the following information being, amongst others, asked for in order to underpin proper assessment of client conditions and requirements: (i) best estimates of their cash-flow forecasts; (ii) efforts made by management in terms of cost cutting, salary reviews or other restructuring measures being implemented by them; (iii) strategies in place to face up to the grim consequences of the pandemic on their operations; (iv) capital injections by the shareholders; and (v) support emanating from the Government.

- Notwithstanding vulnerabilities witnessed in some areas, the entities were comforted by the overall resilience and soundness of their loan portfolios, as gauged by sustained credit quality and the achievement of conservative cost of risk and coverage ratios.

Determination of ECL

- On the basis of the afore-mentioned initiatives, the entities updated their credit modelling tool for the purpose of determining the Expected Credit Losses to reflect heightened credit risks and their forward looking stance. They reassessed their macroeconomic outlooks, with forward-looking indicators (relating to economic and financial variables) being updated and inputted in their credit model to determine the updated lifetime and 12-month Probability of Default for different segments, namely Large Corporates, SMEs and Retail. This enabled the entities to compute their Expected Credit Losses.

- During the exercise, management overlays for specific sectors considered inherently more vulnerable were duly considered. The Expected Credit Losses of the performing portfolio as a percentage of the total loan portfolio of the foreign banking entities were then benchmarked against each other as well as with that of MCB Ltd to ensure coherence and consistency across the Group.

Adopting further moves and initiatives to reinforce overall risk management

Banking cluster

- To enable the Board undertake an informed identification and assessment of the universe of risks that the entities are being exposed to, notably in terms of their pertinence and significance, the Group has, as a key move during the period under review, implemented an Enterprise Risk Management framework and methodology for its foreign banking subsidiaries to allow for a prioritisation of actions and controls in relation to challenges faced. Supported by investment in a digital platform, key objectives of the framework are as follows: (i) formalising the documentation of the Group's Risk Register comprising a description of each risk together with the measurement and recording of the inherent and residual risk exposures around key themes, namely Strategic, Financial, Operational and Compliance; and (ii) monitoring residual risk exposures and mitigating controls to bring such exposures below tolerable levels. As for MCB Ltd, in order to underpin the successful achievement of its business strategies by means of enhanced risk identification, assessment and management, it has initiated the preparation of an overall Risk Heat Map (catering for inherent and residual risks) around the afore-mentioned risks. The project has involved workshops that helped to raise awareness of and prioritise key risks deemed to be relevant to the Bank, while assessing their likelihood of occurrence and potential impacts on its activities as well as ascertaining and reviewing specific controls that need to be endorsed accordingly.

MCB Ltd

- To ensure that it could continue to deliver on its strategic objectives, while abiding by advocated rules and standards, the Bank strengthened its overall risk management set-up, while reinforcing relevant policies and processes. During the period under review, key focus was laid on boosting the Bank's Compliance framework and processes after making allowance for evolving local and international stipulations, codes and norms, alongside bolstering applicable tools and instruments in order to tackle risks linked to Anti-Money Laundering/Fraud Prevention and Combating the Financing of Terrorism. In the same vein, given its growing importance and complexity, the Compliance function – which formerly sat within the Permanent Control function – has been reorganised as a stand-alone SBU. In fact, to foster alignment with its strategic orientations and advocated practices, the Bank conducted operational realignment initiatives to bolster its risk oversight. The Permanent Control function has been integrated within the Risk SBU. This is in line with the requirement from the Bank of Mauritius that the Risk SBU should have oversight on all risk areas across the Bank. Consequently, while it continues to build up capabilities to put in place its new operating model, the Risk SBU is being reorganised under four clusters: (i) Risk Management (comprising Credit Risk, Country Risk, Credit Modelling and Market Risk); (ii) Credit Management; (iii) Permanent Supervision, Operational and Information Risk; and (iv) Special Assets and Recovery.

- While maintaining its market vigilance and adapting its relevant risk management mechanisms to the changing operating environment, the Bank continued to ensure that business deals remain properly selected, structured, ring-fenced and reviewed. As an increasingly prominent focus area in view of the digitalisation of its processes, the Bank has geared up its capabilities and frameworks so as to enhance its information security and increase its resilience in case of potential cybersecurity breach. In the same vein, a review of applicable processes was undertaken to cater for the secure and smooth execution of Work From Home practices amongst employees making use of online devices and platforms for undertaking their activities.

- Reflecting its commitment to pursue its regional expansion strategy amidst reinforced risk oversight, the Bank is in the process of setting up of a dedicated Country Risk function within the Risk SBU. As its core mandate, the function will provide an appropriate and consistent set-up for the identification, assessment, monitoring, management and reporting of country risk faced by the Bank across its activities. It will oversee the governance for the Bank's Country Risk Management Framework, including the setting and monitoring of Country Risk Appetite and Country Limits, and provide advice to the Chief Risk Officer and the Country Risk Committee. Alongside closely collaborating with internal stakeholders and the Bank's Representative Offices, it will capitalise on a network of correspondents in the countries under review to obtain regular updates on risk evolutions within each country.

- To underpin the afore-mentioned initiatives, the Bank pursued ongoing moves to bolster its inherent capabilities to further improve its risk management and compliance set-up. It strengthened its staff expertise and tapped into enhanced synergies amongst relevant functions of the Bank, with the Risk SBU assisting business units to reinforce their respective risk oversight. It upgraded its information systems, notably towards facilitating the online recording, reporting and monitoring of its business activities.

Foreign banking entities

- In light of the changing operating context and regulatory scrutiny, our foreign banking subsidiaries have further strengthened their ability to identify, mitigate and manage risks faced. While endeavours to strengthen the management of credit risks across portfolios have been sustained, KYC remediation efforts have progressed satisfactorily across entities, with a risk-based approach adopted to ensure that records of active customers are regularly updated. The cyber security environment was bolstered through the implementation of new infrastructure, tools and processes, complemented with comprehensive penetration and vulnerability testing carried out by external consultants. Entities pursued the testing of their business continuity management, disaster recovery and relocation processes, to ensure that policies, procedures and processes are effective. As a key ongoing initiative, an Overseas Subsidiary Information Risk Management, Operational Risk and Compliance Committee (IORCC) is being put into place to shore up the reporting, evaluation, oversight and monitoring of risk matters across foreign entities. In this respect, whereas the spread of the COVID-19 pandemic and the lockdown of countries hampered the conduct of earmarked proceedings so far, MCB Seychelles managed to hold a first meeting of its own IORCC in February last, which was attended by its representatives as well as those of MCB Investment Holding and dedicated functions of MCB Ltd, notably at the level of Risk and Compliance SBUs.

- MCB Seychelles further improved its underlying risk monitoring framework and control processes. Efforts have been made to optimise the capacity and utilisation of its Risk-Based Due Diligence tool. The latter, which has become fully functional, allows for the automation of customer risk ratings and the update thereof in view of any changes in periodic scores assigned as per parameters set by the tool. In addition to fostering the adoption of compliance certificates by business units to further embed the permanent control framework, the entity undertook specific policy and procedure reviews with respect to information security, compliance and human resource, in tune with obligations triggered by the evolving regulatory landscape and so as to ensure consistency with Group standards. On the compliance side, in line with endeavours to adopt a risk-based approach to customer and transaction monitoring, due focus has, also, been laid on promoting the adoption of relevant standards and mechanisms, notably relating to risk appetite setting and sanctioning policies. In addition, the entity has made headway in upgrading and documenting its Internal Capital Adequacy Assessment Process (ICAAP) in order to underpin informed assessments of relevant performance metrics and provide comfort to the Central Bank with regard to the appropriateness of capital resources being mobilised, in alignment with Basel standards, regulatory stipulations and the external operating landscape.

- MCB Maldives implemented a Risk-Based Due Diligence module in its Financial Crime Risk Management system, thus leading to a refined evaluation and an increased automation of the customer risk rating process for both the retail and corporate segments as well as a more accurate risk assessment of customer transactions. The ratings, which are available for viewing on the Core Banking System, are dynamically reviewed. Moreover, the entity established an improved credit rating methodology for loan portfolio screening. Also, an onsite audit of its Compliance function was conducted by the Compliance SBU of MCB Ltd in line with the concept of Group Shared Services. Moreover, the entity continued to upgrade and formulate new policies in respect of information security and compliance (notably relating to rules and processes to prevent fraud, bribery and corruption and foster business continuity) towards nurturing alignment with MCB Group standards, industry best practice and local regulations.

- MCB Madagascar has shored up its Compliance and AML/CFT frameworks, supported by dedicated training programmes for staff and the reinforcement of relevant policies, essentially relating to customer on-boarding, anti-bribery and corruption. In addition to strengthening its credit risk team with additional recruitments and bolstering the monitoring of loan portfolios, the entity undertook an overall review exercise for all user access rights on applications in use to optimise and reinforce the security and confidentiality of customers' information. Of note also, the entity has reviewed and upgraded specific policies and procedures in place – notably in relation to information security and compliance – so as to make allowance for the changing operating environment and its growth ambitions, alongside comprehensively implementing its Business Continuity Management framework.

Other entities

- Following the publication of the Anti-Money Laundering and Countering the Financing of Terrorism Handbook 2020 issued by the Financial Services Commission, MCBCM has strengthened its risk management and compliance framework by appointing a Compliance Officer to all licensed entities within MCBCM. The Compliance Officer has a significant role to play, being responsible for the implementation and ongoing compliance of MCBCM with internal controls and procedures in accordance with applicable anti-money laundering laws and regulations, and for reporting to both senior management and the Board of MCBCM. During the course of the financial year, MCBCM appointed Ernst & Young Ltd (EY) to facilitate a risk identification and assessment exercise. EY submitted their report in June 2020 and their findings are being applied to further strengthen, where applicable, the risk management framework of MCBCM.

- International Card Processing Services Ltd (ICPS) continued to reinforce its risk management framework, under the guidance of its Audit and Risk Committee. During the past three years, ICPS adopted an Enterprise Risk Management approach. In this context, business risks workshops have been regularly carried out to enable the organisation manage the potential impact of risks permeating across all processes, activities, stakeholders as well as products and services. Anchored on an appropriate culture, Enterprise Risk Management is a critical component of the entity's plan-based strategy that aims to identify, assess and prepare for any risk that may interfere with its business development goals and objectives, in line with the changing business environment.

See more in the forthcoming sections of the Risk and Capital Management Report

Risk and capital management report

Looking ahead: Endeavours to anchor sound and stable operations and business growth

General targets and intents

- Uphold the soundness of our key financial metrics amidst a challenging operating context, backed by (i) the strengthening of our risk management and compliance framework, aided by continuous upgrades to relevant policies, practices and processes; and (ii) further entrenchment of an adequate risk culture across the organisation to embrace proper attitudes and behaviours

- Ensure that our business development endeavours across segments and geographies materialise in a disciplined manner on the back of effective risk oversight; judiciously and speedily identify, appraise and manage emerging risks to which Group entities are exposed, notably those linked to adoption of technological and digital devices as well as environmental degradation

- Further reinforce the inherent capabilities and operating models of Group entities, notably through the (i) continued upskilling of staff across risk functions and increased automation of processes; (ii) increased synergies amongst risk functions and business lines; and (iii) establishment of dedicated structures and platforms to diligently accompany growth endeavours

- Increase collaboration between Group entities, notably for information sharing purposes and fostering the smooth replication of risk management practices wherever required, alongside ensuring the organisation-wide alignment of policies and processes

Key moves to deal with the ramifications of COVID-19

- Exercise a close scrutiny of the duration and depth of the economic crisis impacting our clients across markets and entities, the more so given that it remains difficult to predict when turbulences linked to the operating context will stabilise and a 'new normal' will emerge

- Foster the sustained engagement of dedicated risk functions with front-line teams to (i) undertake a close and systematic monitoring and management of risks faced by clients; (ii) nurture an in-depth understanding of client needs; and (iii) assess their level of comfort with respect to solutions being proposed to help clients cope with the crisis

- Take further measures to preserve the Group's credit quality by (i) exercising a tight monitoring of our portfolios, particularly with respect to clients to whom we have not granted repayment holidays; and (ii) updating our stress testing capabilities, alongside deriving new stress scenarios to take into consideration the high volatility and severity of the current economic crisis

- Maintain close discussions and interactions with the authorities as well as the Mauritius Investment Corporation and the banking sector generally to find the best possible ways to confront the economic downturn

- Maintain a prudential approach in determining our Expected Credit Losses across entities and the Group so as to keep building a 'buffer' over the coming quarters of FY 2020/21 if deemed necessary, so that we can stay in a strong position to absorb the impact of potential shocks

Financial soundness

Capitalisation

Philosophy

While ensuring that applicable 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 and uphold adequate buffers to confront any untoward circumstances, alongside protecting and maintaining the trust of shareholders and fund providers.

Towards this end, the Group favours internal capital generation through retained earnings while being well positioned to tap into capital markets as and when required, on the basis of its status as the most liquid stock on the local stock exchange. Moreover, it seeks to maintain appropriate discipline over the nature and extent of its market development initiatives and lays due emphasis on optimising the allocation of capital across businesses.

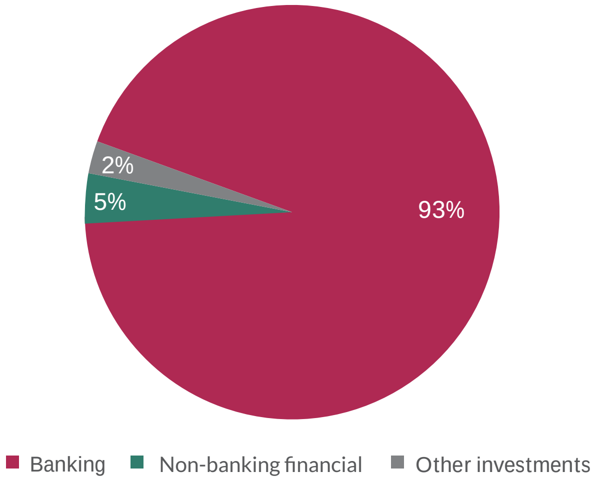
Performance

Over the period under review, the Group has, on a consolidated basis, maintained comfortable capitalisation levels as gauged by the BIS and Tier 1 ratios rising to 18.6% and 17.2% respectively as at 30 June 2020. The increase in the ratios was driven by a notable widening of our capital base on the back of higher retained earnings and the successful conversion of more than 75% of our Subordinated Debt into Convertible Preference Shares amounting to Rs 3.4 billion, which qualify as Additional Tier 1 capital.

The predominant contribution to our capitalisation performance emanated from our banking entities, for which the maintenance of adequate capital levels is a key priority by virtue of their business operations and regulatory responsibilities. Risk-weighted assets of the Group stood at Rs 369 billion as at 30 June 2020, out of which 83% was accounted for by MCB Ltd and some 7% by the foreign banking subsidiaries. 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% of overall risk-weighted assets.

Distribution of risk-weighted assets as at 30 June 2020

By cluster



By type of risk

Risk and capital management report

MCB Group	Jun 19	Jun 20
Capital base	**Rs m**	**Rs m**
Ordinary shares (paid-up) capital	2,608	2,719
Retained earnings	47,972	52,502
Accumulated other comprehensive income and other disclosed reserves	6,076	7,495
Common Equity Tier 1 capital before regulatory adjustments	**56,656**	**62,716**
Regulatory adjustments		
Goodwill and intangible asstes	(1,520)	(1,735)
Deferred tax assets	(261)	(924)
Common Equity Tier 1 capital (CET1)	**54,876**	**60,057**
Additional Tier 1 capital (AT1)	-	3,396
Tier 1 capital (T1 = CET1 + AT1)	**54,876**	**63,453**
Capital instruments	2,229	637
Provisions or loan-loss reserves	3,144	4,169
45% of surplus arising from revaluation of land and buildings	953	1,060
Tier 2 capital before regulatory adjustments	**6,326**	**5,866**
Regulatory adjustments	**(722)**	**(802)**
Tier 2 capital (T2)	**5,604**	**5,064**
Total capital (T1 + T2)	**60,480**	**68,517**

Risk-weighted assets	Rs m	Rs m
Weighted amount of on-balance sheet assets	283,925	303,086
Weighted amount of off-balance sheet exposures	31,439	30,397
Weighted risk assets for operational risk	26,072	29,337
Aggregate net open foreign exchange position	3,012	5,954
Capital charge for trading book position exceeding 5% or more of its total assets	4,259	-
Total risk-weighted assets	**348,707**	**368,775**

Capital adequacy ratios (%)	Jun 19	Jun 20
BIS risk adjusted ratio	17.3	18.6
of which Tier 1	*15.7*	*17.2*

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

Asset quality

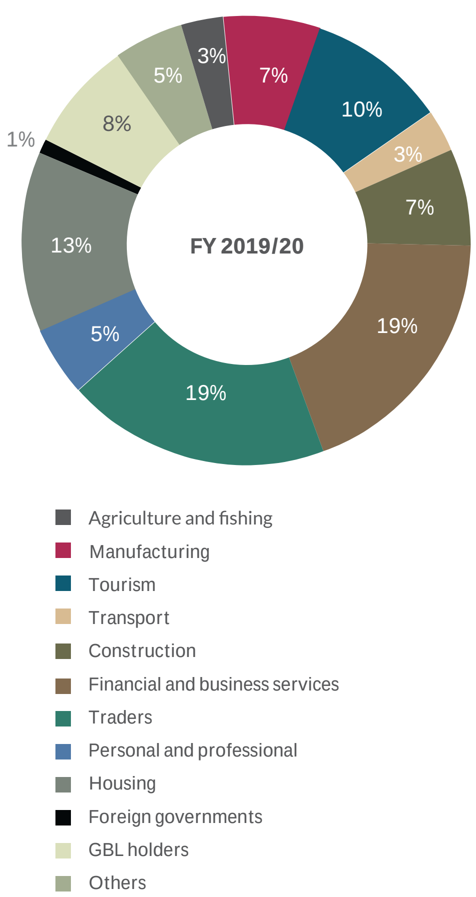
Philosophy

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

Performance

In light of the repercussions of the pandemic on economic and market environments across its presence countries, the Group managed to uphold the general quality of its portfolio on the back of its disciplined market endeavours and dedicated measures taken to face up to the tough conditions witnessed across economic sectors. In fact, the gross NPL ratio of the Group increased slightly by some 10 basis points to attain 4.2% whereas, in net terms, the ratio remained at 2.9% as at 30 June 2020. While the metrics marginally deteriorated at the level of MCB Seychelles and MCB Madagascar, the gross NPL ratio of MCB Ltd remained stable at 3.8%, with the corresponding ratio in net terms declining to 2.6%. The Group's specific coverage ratio increased from 30.3% to 32.9%, with the remaining portion being adequately covered by collateral, suitably discounted to reflect current market conditions and expected recovery time.

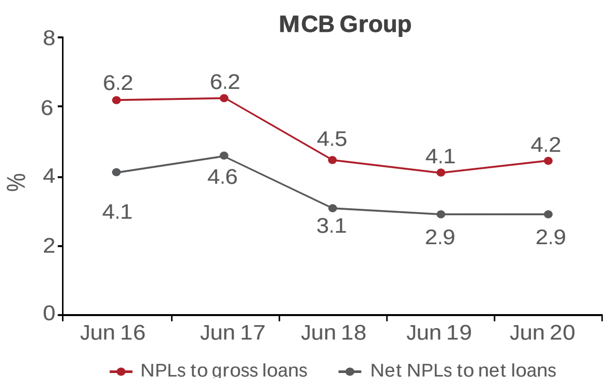
Sectorwise distribution and quality of exposures

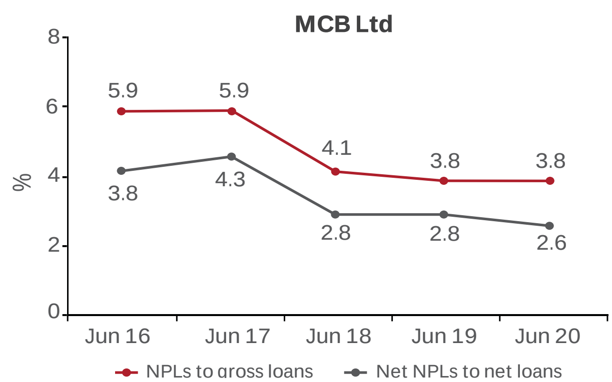


June 2020	Non-performing loans (NPLs)		Allowances for credit impairment	
MCB Group	**Rs m**	*% of loans*	**Expected Credit Loss**	**Incurred Loss**
Loans to customers	**11,632**	*4.6*	**5,401**	**5,780**
Agriculture and fishing	1,228	*18.6*	281	925
Manufacturing	647	*3.8*	349	334
of which EPZ	179	*6.0*	142	121
Tourism	608	*2.4*	1,846	213
Transport	1,497	*18.2*	173	1,635
Construction *(including property development)*	1,466	*7.9*	267	550
Financial and business services	1,279	*2.6*	423	219
Traders	2,678	*5.7*	526	1,024
Personal and professional	1,883	*4.2*	497	706
of which credit cards	*29*	*3.6*	*24*	*20*
of which housing	*1,059*	*3.3*	*100*	*298*
Global Business Licence holders	114	*0.6*	740	63
Others	234	*1.6*	299	109
Corporate notes	**-**	**-**	**366**	**-**
Investments fair valued through other comprehensive income	**90**	*100.0*	**-**	**10**
Loans to banks	**-**	-	**10**	**12**
Total	**11,722**	*4.2*	**5,777**	**5,801**

Notes:
(i) For the computation of asset quality ratios, total exposure include corporate notes and exclude interest in suspense on loans
(ii) Figures may not add up to totals due to rounding

Credit quality





Funding and liquidity

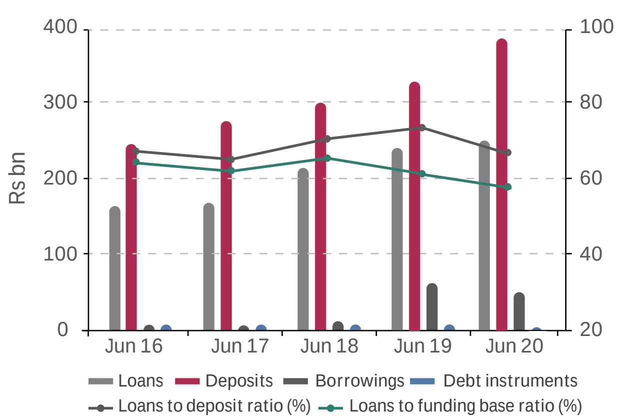
Philosophy

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 time-frame.

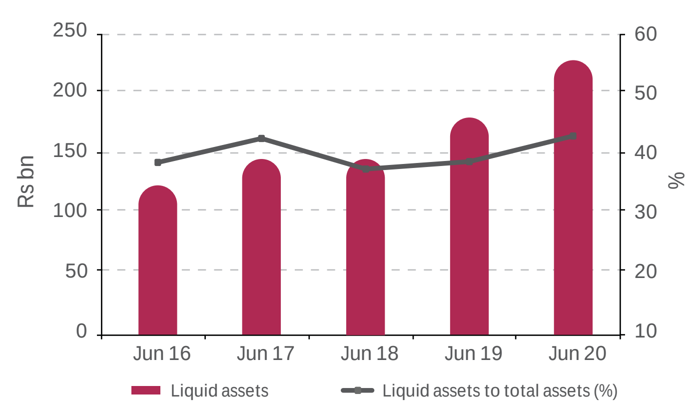
Performance

During the year under review, the Group continued to be exposed to relatively high local-currency liquidity conditions across its presence countries. Against this backdrop and after making allowance for proactive steps taken to maintain comfortable buffers in the wake of the difficult economic environment, the Group posted strong funding and liquidity positions in FY 2019/20, as demonstrated below. We have been active across markets to uphold sufficient funding resources to help our customers ride through the downturn and support our growth ambitions. Notably, reflecting endeavours to hold adequate FCY resources in support of its regional diversification initiatives, MCB Ltd has, during and after the local lockdown period, built up and maintained a good funding buffer in excess of USD 1 billion in the form of placements from banks, trade loans, repos and credit and swap lines with the Bank of Mauritius.

Loan and funding base



Liquid assets



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

MCB Ltd: Key liquidity ratios

In spite of pressures emanating from the challenging landscape, MCB Ltd maintained strong liquidity ratios in both MUR and FCY during FY 2019/20, thanks to its solid deposit base and its foreign lines of credit, which enabled the Bank to duly accompany its customers.

Liquidity Coverage Ratio (LCR)

As at 30 June 2020, the Bank operated comfortably above the stipulated LCR requirements. It reported a consolidated LCR of 503%, which is equivalent to a surplus of around Rs 110 billion over stressed total net cash outflows. At a currency level, the Bank also exceeded the mandatory LCR limits relating to rupee and significant foreign currencies. It posted a comfortable liquidity position in US dollar terms with the US dollar LCR standing at 190% as at 30 June 2020. It can be noted that HQLA eligible for the purpose of calculating the LCR as per set rules consists of cash or assets that can be converted into cash at little or no loss of value in markets. In this light, MCB Ltd maintained suitable levels of investment in sovereign, high-quality corporate and cash liquid assets.

Net Stable Funding Ratio (NSFR)

Though not yet a regulatory standard in Mauritius, MCB Ltd regularly monitors its performance in terms of NSFR, which requires an amount of available stable funding to be maintained in relation to required stable funding. As at 30 June 2020, MCB Ltd reported an NSFR of 124%, which exceeds the minimum level recommended by Basel III, itself set to at least 100% on an ongoing basis.

Risk and capital management report

Our risk management strategy and framework

Main risks faced

To achieve its strategic objectives, the Group adopts a consistent and integrated approach to risk identification, mitigation and management. Material risks that could impact our business model, performance, solvency and liquidity are continuously monitored.

	General definitions	Key objectives
Financial principal risks	**Credit risk**	
	The risk of financial loss should borrowers or counterparties fail to fulfill their financial or contractual obligations as and when they fall due; Credit risk includes counterparty risk, settlement risk and concentration risk, with the latter referring to the risk arising from an excessive build-up of exposures to a counterparty, industry, market or product, amongst others	(i) To foster sound credit risk management principles; (ii) To uphold a well-diversified credit portfolio consistent with the risk profiles defined in the risk appetite as well as the broad characteristics set out in target market criteria; (iii) To achieve the targeted risk-return profile of the portfolio; (iv) To promote, monitor and manage the quality of the credit portfolio
	Country risk	
	The risk of loss arising when political or economic conditions or events in a particular country inhibit the ability of counterparties in that country to meet their financial obligations	To provide for a comprehensive framework and adequate control processes for assessing country risk, determining risk tolerance and allocating exposures across geographies
	Market risk	
	The risk of loss caused by movements in market price parameters (including interest rates, exchange rates as well as stock and commodity prices among others)	To monitor, report and control the overall market risk exposures, including market-contingent risks such as counterparty credit risk as well as profit and loss risks arising from market risk activities
	Interest rate risk	
	The risk arising from changes in interest rates or in the prices of interest rate related securities and derivatives, insofar as they tend to impact the Group's earnings or economic value of equity	To manage the impact of interest rate changes on the overall risk profile both from an earnings and economic value perspective
	Foreign exchange risk	
	The risk of losses on account of adverse foreign currency movements	To detect and manage impact of currency fluctuations, alongside properly managing the Group's net open position
	Funding and liquidity risk	
	Funding risk: The risk linked to a relative lack of availability of funds or the risk that a maturing liability or class of liabilities may not be able to be refinanced (without additional relative cost) over any given period of time *Liquidity risk:* The risk arising from insufficient realisable financial assets to meet the financial commitment as and when they fall due	To maintain adequate liquidity levels and have access to diversified and stable funding sources to rapidly and effectively respond to the demands of our clients and foster our business development
	Equity investment risk	
	The risk of gain or loss arising from adverse changes in the fair value of an investment in a company, fund or any financial instrument, whether listed or unlisted	To protect the Group's value by aligning timing and size of investment to applicable risk appetite

Non-financial principal risks

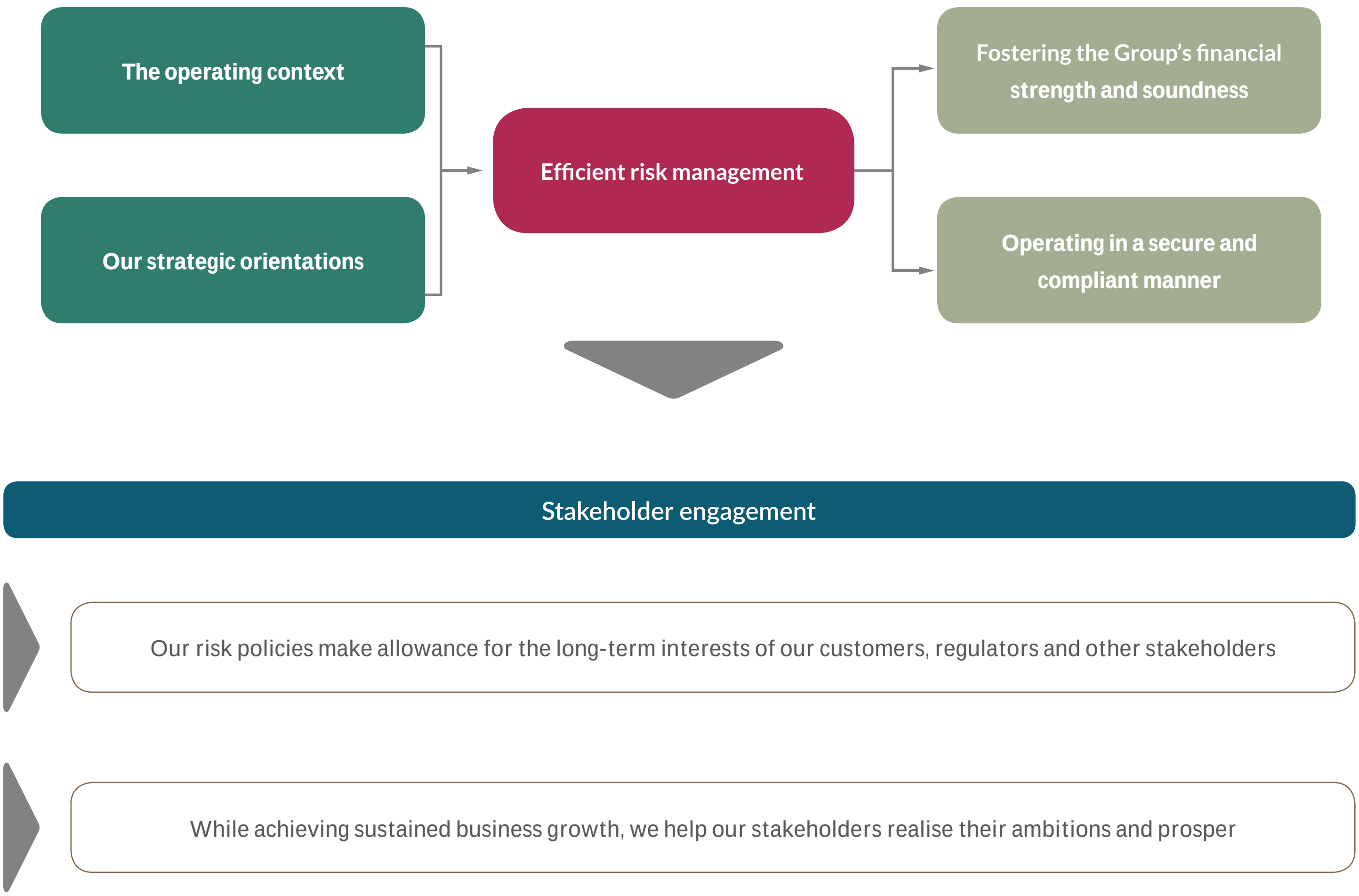
General definitions	Key objectives
Operational risk	
The risk of loss resulting from human factors, inadequate or failed internal processes and systems or external events. It includes fraud and criminal activity, project risk, business continuity, information and IT risk, etc	To identify, mitigate and manage the Group's operational risks in line with acceptable tolerance limits and with a strategic intent to provide our customers with seamless services and foster an adequate risk culture within the organisation
Information risk	
The risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources which would compromise the confidentiality, integrity or availability of information	To maintain the confidentiality, integrity, security and availability of information assets stored, processed and transmitted throughout the organisation
Cyber risk	
The risk of breach of information technology security arising from the malicious or unauthorised use of information systems that may have an adverse effect on the confidentiality, availability, or integrity of information or information systems	To handle and mitigate cyber risks and establish a strong IT platform to aid the delivery of the organisation's strategic objectives, while protecting confidentiality and preventing misuse of systems and business disruptions as well as strenghtening the effectiveness and adequacy of human firewalls
Regulatory and compliance risk	
The risk arising from changes in legislation, regulations and advocated norms on the operation and functioning of the Group. It is the risk of sanction and material financial loss or reputational damage	To comply with all relevant stipulations in force and advocated norms to safeguard the assets of the organisation and shield it from legal and regulatory sanctions and financial / reputation losses
Reputation risk	
The risk arising from the damage to the Group's image caused by negative media coverage, compliance failures, pending litigations or underperformance. Such damage may result in a breakdown of trust, confidence and business relationships, which may impair the Group's ability to retain and generate business	To bolster our brand image and values and ensure that our actions and behaviours are in line with best practice standards
Strategic and business risk	
The risk arising from inappropriate business decisions or strategies in relation to the operating environment. The risk is linked to changes in the business environment, regulatory decisions, client behaviours and technological progress, as well as Group-specific factors such as poor choice of strategy and inflexible cost structures	To set out and deploy our strategic orientations in a judicious and well-thought manner, remain attentive to changes in the operating environment and pay close attention to the current/future exigencies of our customers
Environmental and social risk	
The risk that unforeseen events stemming from changes in our environment and society will result in disruptions in business activities as well as impact our customers and counterparties, while influencing our internal operations	To support decision-making to mitigate and manage environmental and societal impact on our operations so as to evaluate and deploy an effective approach and strategy to deal with such risks, while, in parallel, managing our footprint through environment-friendly and sustainable practices and products

Risk and capital management report

Our business model

Key principles

We consider that, in addition to being a threat, risk can turn out to be a real competitive differentiator if it is managed in a thoughtful way. In line with our business aspirations, we manage risk in an open, transparent and disciplined way, after making due allowance for the exigencies of our stakeholders. Our risk management approach and policies are regularly reviewed and updated to account for changes in the Group's business strategies and the external landscape, notably with regard to legal and regulatory stipulations as well as developments taking place within the economic environment.



Key elements of our risk management set-up

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

The Board has the ultimate responsibility to ensure that risks are properly identified, measured, monitored, mitigated and managed	**Board**		As a major objective, the Board sets the organisation's risk appetite that eventually underpins the formulation of strategic business decisions which are cascaded to business lines
The Board has the authority and mandate to delegate duties for risk identification, monitoring and management	**Board committees**		The committees act upon the specific responsibilities and accountabilities delegated to them by the Board
The Bank ensures that risks are managed in line with the set risk appetite, supported by the risk management framework	**Risk appetite**		The agreed risk appetite is considered in key decision-taking processes to foster the soundness of activities
Risk management is underpinned by dedicated teams and resources with clear mandates	**Governance set-up**		Responsibilities are clearly defined for identifying, assessing, measuring, mitigating, monitoring and managing risks faced at different levels
Responsibilities for risk oversight and assurance are effectively segregated	**Three lines of defence**		Dedicated functions cater for risk control and management, alongside overseeing recovery operations
Policies and standards are clearly defined to measure and monitor risks faced	**Risk measurement and monitoring**	**Risk mitigation and management**	Defined processes exist to mitigate observed risks, with actions undertaken based on informed and robust grounds
We aim to embed risk identification and management in our thinking, attitudes and behaviours	**Risk philosophy**	**Risk resources and capabilities**	Our human capital, processes and systems are continuously upgraded for judicious risk management
	Identification of risks		

Risk and capital management report

Governance and oversight

To ensure that key risks faced by its entities are properly identified, measured and monitored, the Group adopts a robust governance framework, backed by the articulation of coherent responsibilities, reporting lines and oversight across the organisation. The risk management framework of the Group provides high-level direction for each entity on how to manage risk in a consistent and interactive manner, underpinned by broad synchronisation in respect of the approach and methodology used. The allocation of responsibilities across the Group is structured to ensure that decisions are taken at the most appropriate levels, in alignment with the mandates of internal stakeholders and the strategic orientations pursued by the organisation. Overall, the governance set-up of the Group seeks to provide the organisation with optimal resources to foster a sound financial performance and stakeholder value creation. At individual entity level, each subsidiary of the Group is endowed with the autonomy and flexibility to determine and apply its own governance frameworks, in alignment with Group-level orientations, its inherent specificities and prevalent market realities.

Board

- In alignment with its business development orientations, the Board of MCB Group Ltd determines the principal strategies in respect of the risk management of the Company and its subsidiaries, while ensuring that all laws, regulations and codes of business practice are adhered to.
- 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 committees which enable it to properly formulate, review and approve policies on monitoring and managing risk exposures.

Risk Monitoring Committee

- The Risk Monitoring Committee (RMC) advises the Board on risk issues and the monitoring of portfolios against the formulated risk appetite, in particular for the banking subsidiaries. While assigning relevant responsibilities and accountability lines, it ensures that rigorous internal processes and controls are implemented to identify, monitor, measure and report different types of risks.
- The RMC monitors 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.

Other committees

- The Audit Committee caters for the monitoring of internal control processes, while ensuring the preparation of accurate financial reporting and statements in compliance with applicable legal requirements and accounting standards. It also reviews operational and compliance risks and the actions taken to mitigate them.
- The Supervisory and Monitoring Committee continuously oversees the overall management of the Group and is also responsible for the ongoing monitoring of the Group's performance against set objectives.

Read more on the key mandates and focus areas of the Board sub-committees of MCB Group Ltd in the 'Corporate Governance Report' on pages 117 to 122

Our risk appetite framework

A key objective of the Group's risk management strategy is to determine the level and type of risk that the organisation is able and willing to take when executing its business strategies. The risk appetite is established by means of a complementary set of statements that are determined at Group level and cascaded throughout the entities and their business segments. Qualitative statements seek to make sure that the desired risk culture is adhered to across entities. Quantitative statements seek to shield the organisation from potential adverse events in the operating environment. While ensuring congruence with directions established at Group level as well as relevant mandatory requirements, Group entities set their own risk appetite, control and tolerance levels and mechanisms, which they continuously monitor and, if necessary, update to shape up the optimal level of risk that they are willing to take for the sound execution of their short and medium term business strategies.

As an example, key considerations that guide the Group's main subsidiary, i.e. MCB Ltd, for the identification and quantification of risks are as follows:

Framework	• The Bank articulates and monitors its risk appetite on the back of its solid framework and processes. They provide an informed guidance for the management and monitoring of its risk profile in relation to the defined risk appetite, alongside promoting the sound execution of our growth agenda. • The purpose of setting risk appetite is not necessarily to limit risk-taking, but to align the Bank's risk profile and strategic orientations. Its risk appetite is regularly updated to reflect stakeholder aspirations and the context.
Key underpinnings	• MCB *inter alia* defines its risk appetite for (i) credit risk in terms of allocation of range targets for domestic and international credit exposures, exposures by sectors as well as risk profiles and asset quality of portfolios; and (ii) market risk in terms of the splits between domestic and international markets, foreign currency and interest rate exposures, exposure allocation for position-taking and target splits in terms of exposure maturities. • For proper risk identification and quantification, the Bank caters for: (i) continuous monitoring of risk targets; (ii) quarterly risk reporting to RMC; (iii) preparation of risk reports for capital management; and (iv) the application of a stress-testing framework. The size of the internal risk limits is a function of regulatory requirements and the risk appetite set by the Bank, after making allowance for the relevant economic and market environments. In its day-to-day business, the Bank makes use of internally-generated and externally-sourced rating tools for the purpose of risk identification, quantification and monitoring.

Risk and capital management report

Key tenets of MCB Ltd's risk management strategy

Risk capacity

MCB determines the maximum level of risk that it can assume given its current level of resources, relevant regulatory dispositions and stakeholder requirements, to the extent that these dynamics tend to influence its ability to take risk.

Risk appetite

The Bank ensures that its activities are undertaken within the precinct of its risk appetite. The latter is subject to constraints, such as the need to *inter alia* uphold the Bank's financial soundness, foster sound and sustainable revenue growth and preserve its investment-grade credit rating.

Risk tolerance

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

Risk profile

Expressed in terms of quantitative indicators and qualitative interpretations, its risk profile refers to its current net risk exposures for risk categories across customer segments and geographies. Amidst an evolving operating environment, the Bank regularly monitors its risk profile, thereby helping to prevent the level of risk from going beyond the set risk appetite.

Risk control

To maintain the size of its risk profile within its risk appetite, risk control tools and mechanisms are leveraged. Its control activities are notably underpinned by target market criteria and risk limits which place practical constraints on its activities.

Limit structure of MCB Ltd

Regulatory

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

Internal limits and desired risk profile

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

Rating tools used by MCB Ltd

Internally-developed model

- **Country** — **Country rating model**: The rating monitors macroeconomic developments, social unrest, nationalisation and expropriation of assets, Government repudiation of external indebtedness, foreign exchange controls and currency movements amongst others
- **Banks** — **Bank scoring model**: The credit worthiness is assessed by assigning a score based on the bank's financial strength, the probability of receiving affiliate and/or Government support in case of financial stress as well as the sovereign risk of the country in which the institution operates
- **Retail clients** — **Credit scoring model**: The rating assesses the credit standing, source of repayment and debt service ability of the borrower
- **Corporate clients** — **Customer Rating software**: It evaluates the counterparty's financial position and uses MCB's historical default experience to generate ratings and Probability of Defaults

External rating agencies

- **Country and banks** — **International ratings**: Moody's Investors Service, Fitch Ratings, Standard & Poor's and others as deemed appropriate
- **Corporate clients** — **CARE Ratings**: Financial obligations subscribed by the Bank in favour of domestic corporate customers can be rated by CARE Ratings, with capital relief being applicable on investment-grade ratings

Risk and capital management report

Overview of risk management by cluster

General approach

MCB Group Ltd

- The entities of the Group adhere to the overall risk management principles and frameworks validated by the Board of MCB Group Ltd. These entities are monitored in this respect by the Risk Monitoring Committee of the latter.

At entity level

The Board

- Functioning in alignment with the Group's objectives and targets, the Board of each entity supervises its overall risk management, alongside overseeing the establishment of relevant policies, controls, standards, practices and processes, in alignment with the inherent realities of the business. It also acts as the focal point of contact for shaping the relationship with MCB Group Ltd.
- The Board is responsible for strategy formulation in respect of risk-taking, risk appetite and policy setting. It 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.

Delegation of duties

- For each entity, risk governance is executed through the delegation of authority and responsibilities from its Board to dedicated committees and/or the Management. Control processes and reporting lines have been put into place to foster the coherent and sound segregation of duties with regard to risk-taking, processing and control.

Control processes

- The types of risk infrastructure and control processes that are adopted by each entity is a function of the nature, size and complexity of the risk involved.
- The approach and practices embraced by entities to fulfill their risk management obligations are shaped up by the following factors: (i) advocated corporate governance and risk management principles; (ii) the risk-return profiles of markets in which they are involved; (iii) the opportunities and challenges characterising the economic environment; and (iv) relevant legal and regulatory requirements as well as local and international codes and standards impacting the industries and countries in which businesses are carried out.

Intra-Group initiatives

- Entities of the Group leverage the core competences and synergies available throughout the organisation in line with the concept of Group Shared Services. Specific business units of MCB Ltd are engaged in the provision of intra-Group services to the foreign banking subsidiaries as well as the non-banking entities of the Group, backed by the elaboration of clear guidelines and mandates. As per the modalities set out in Service Level Agreements, the business units operating under the aegis of the Internal Audit SBU of the Bank – namely Internal Audit and Anti-Money Laundering and Fraud Prevention – provide technical and advisory assistance in support of the operation and functioning of the Group's local and foreign subsidiaries as per their respective areas of competence. Dedicated support also emanates from the Bank's Risk and Compliance SBUs (notably with regard to Business Continuity Management, cyber-security, information risk management and Permanent Control), in line with activities falling under their purview.
- 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. Its Finance & Risk team supports the conduct of risk management activities, with the Risk SBU of MCB Ltd being involved wherever appropriate. The team engages in risk reporting to the Risk Monitoring Committee of the respective foreign banking subsidiaries as well as that of MCB Group Ltd. It also leads or assists foreign subsidiaries in the development and implementation of risk policies and other risk-related matters. It assists overseas banking subsidiaries as regards credit risk management, notably by reviewing credit files with exposure amounts exceeding a specific threshold, helping to structure or restructure complex credit files and monitoring out-of-order customer files. Moreover, the Operations team provides assistance in terms of project management, alongside offering guidance in respect of the execution and monitoring of risk- and compliance-related initiatives. It also contributes to and monitors the implementation of internal and external audit recommendations.

Risk and capital management report

Banking cluster

Governance

MCB Ltd

Board of MCB Ltd

- The Board of MCB Ltd has the ultimate responsibility for ensuring adequate risk management across the Bank, in line with good corporate governance principles. It provides clear guidance for the setting out and regular review of applicable strategic thrusts, processes and policies for risk management.
- As a key focus area, the Board is responsible to validate the Bank's risk appetite towards achieving its objectives. It delegates authority to Board committees, which formulate the specific responsibilities and required policies for effective risk management.

Board committees

Risk Monitoring Committee (RMC)

- It is the primary board committee overseeing risk matters. It assists the Board in setting up risk strategies as well as assessing and monitoring MCB's risk management process. It recommends to the Board, for approval, of the risk appetite in terms of credit risk and market risk, Asset Liability Management risk as well as for review of risk appetites and tolerances as appropriate. It analyses risk portfolios against the risk appetite, while reviewing and exercising oversight over capital management.
- The RMC is entrusted with the authority of determining the Bank's overall international capital allocation and exposure limits while monitoring country exposures against set limits at least quarterly and on an ad hoc basis when required. It approves country risk policies and proposed amendments and reviews the country risk framework and risk appetite parameters. Five out of the six members of the RMC are non-executive directors, thus strengthening the Bank's independent oversight and control functions.

Other committees

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

Adherence to the three lines of defence approach

1st line of defence	Risk ownership

- The first line owns risks emanating from deployed strategic activities. It is called upon to adopt adequate processes and mechanisms to suitably manage risks faced and escalate knowledge of risks identified in the course of activities for appropriate mitigating actions.
- Employees engaged in client-facing divisions and support functions as well as business line managers have the first-level responsibility for day-to-day risk management in the interest of the Bank.

2nd line of defence	Risk control and compliance

- The second line is mandated to establish the limits, rules and constraints under which the first line activities shall be performed.
- The Risk SBU is responsible to provide independent risk control. The Chief Risk Officer (CRO) has direct oversight on all risk areas across the Bank, while relevant Managers of the SBU establish methodologies and activities for risk measurement and regularly monitor and report risk exposures and profiles. Alongside having an administrative reporting line to the Chief Executive Officer (CEO), the CRO reports to the Audit Committee on risk matters relating to Permanent Supervision, Operational and Information Risk and reports to the Risk Monitoring Committee on matters relating to monitoring and management of other risk areas.
- The Compliance SBU, which is henceforth reorganised as a standalone Strategic Business Unit has a direct reporting line to the Audit Committee and administratively reports to the CEO. This reporting structure confers the required independence to the Head of Compliance to discharge responsibilities to ensure compliance with applicable laws, regulations, codes of conduct and standards of good practice.
- Independent teams oversee the legal and physical security functions. The Head of the Legal SBU acts as the Money Laundering Reporting Officer (MLRO) to ensure strict independence. The Physical Security BU reports to the Chief Operating Officer's office.

3rd line of defence	Risk assurance

- The Internal Audit SBU evaluates and provides independent assurance on the effectiveness of the risk governance, the control environment and risk management processes and mechanisms, in tune with business strategies and the evolving external environment.
- The function provides independent assurance that the control objectives are achieved by the first and second lines of defence in line with the set risk appetite. It has an administrative reporting line to the Chief Executive Officer and is accountable to the Audit Committee.
- While reporting to the Head of Internal Audit, the Anti-Money Laundering/Fraud Prevention (AML/FP) BU promotes staff awareness on fraud and money laundering risks. It conducts enquiries with respect to suspected fraud cases perpetrated internally or by outsiders.

Risk and capital management report

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

Executive committees

Financial principal risks	
Credit risk	
Executive Credit Committees (ECC)	• The ECC (A), which comprises, amongst others, the Chief Executive and Deputy Chief Executive, sanctions/declines credit applications where customer group total commitment exceeds Rs 150 million • The ECC (B) sanctions/declines credit applications with total client commitment of up to Rs 150 million
Credit Committee (CC)	• The CC sanctions/declines credit applications where customer group total commitment is up to Rs 50 million for retail clients and Rs 60 million for corporate clients
Country Risk Committee (CoRC)	• The CoRC, which is chaired by the Chief Executive and comprises the Deputy Chief Executive and Chief Risk Officer as members, is responsible for setting individual country limits within the validated risk parameters as well as reporting any excesses observed to the RMC

Market risk	
Asset and Liability Committee (ALCO)	• The purpose of the ALCO is to oversee the asset/liability position, market risks and overall balance sheet management of the Bank. The ALCO ensures that the overall asset/liability position as well as the resulting market, liquidity and funding risks that the Bank is exposed to are managed within the relevant limits and targets set by its Market Risk Policy, alongside being aligned with guidelines laid down by the Bank of Mauritius, notably stipulations relating to capital adequacy, liquidity coverage and funding stability • The ALCO sets and reviews all trading book limits and banking book targets, in alignment with the diversification and growth of the Bank's balance sheet, whether it is from a domestic, foreign currency or consolidated perspective • The committee, which comprises members of the Bank's Leadership Team, is chaired by the Deputy Chief Executive, with targeted monthly meetings or, as deemed necessary, ad-hoc and special meetings held

Non-financial principal risks	
Information and Operational Risk Committee (IORC)	• The monitoring of the entire operational cycle is entrusted to the IORC, chaired by the Chief Executive. The IORC acts as the focal point and coordinating committee to ensure that management of information and operational risks is in line with the relevant policies, guidelines and procedures of the Bank. Significant risks observed are escalated to the IORC and then, if warranted, to the Audit Committee
Compliance, Anti-Money Laundering and Legal Committee (CALC)	• The CALC is mandated to review and monitor the compliance, anti-money laundering and legal framework of the Bank. The CALC assists Management and the Board through the Audit Committee in fulfilling their oversight responsibilities by reviewing adherence to applicable standards as well as policies/controls to be adopted, based on the identification and assessment of compliance, anti-money laundering and legal risks

Foreign banking subsidiaries

Board and its committees

- The respective Boards exercise their responsibilities in respect of risk management through: (i) the oversight of the risk governance process, including setting risk appetite in line with Group-level orientations; (ii) regular and comprehensive assessment of risks; (iii) the maintenance of sufficient capital adequacy levels in alignment with the Group's framework, the internally-set risk appetite and regulatory requirements; and (iv) clear delegation of authority to relevant committees and management.

- Risk management matters are reported to the Board of each foreign entity through their respective committees, namely the Audit Committee and the Risk Monitoring Committee, while major issues identified are also escalated to the corresponding Board committees of MCB Group Ltd. The management teams of the entities are responsible for conducting business within the strategic framework and risk appetite set by their Board, while monitoring risk portfolios through dedicated committees.

Executive committees

	Key responsibilities
Subsidiary Credit Committee	• It is responsible for the planning, sanctioning, controlling and monitoring of credit risk • It sanctions/declines credit applications for customers with exposures of up to USD 150,000. Exposures from USD 150,000 to USD 1.5 million are approved by a joint MCB Ltd and subsidiary committee. Facilities above this level are channeled to the Executive Credit Committee of MCB Ltd before a final decision is reached
Asset and Liability Committee	• The Asset and Liability Committee of each foreign banking subsidiary is responsible to ensure that overall asset and liability allocation decisions are adequately managed within limits/targets set by the Board and in accordance with local regulations
Overseas Subsidiary Information Risk Management, Operational Risk and Compliance Committee (IORCC)	• The IORCC of each subsidiary reviews and monitors the management and reporting of information, operational and compliance risks, while assisting the entity's Board and Management team to fulfill their responsibilities in respect of such areas. In the process, the IORCC aims to (i) ensure alignment among the entity's underlying risk management framework, risk appetite and tolerance as well as related policies and procedures; and (ii) help ascertain the necessary corrective actions/controls to be adopted to mitigate identified risks. The committee seeks to ensure that the dedicated functions in charge of Information Risk Management, Operational Risk and Compliance within the entity are endowed with adequate resources to achieve their objectives

Risk and capital management report

Key risk areas: Overview and management

Our risk management process

The risk management process is of strategic importance to the Group, notably due to the broadening palette of its offerings and its expanding market footprint. The overall risk management process in place at the Group, which cuts across the entire cycle, allows for the proactive and disciplined identification, measurement, monitoring, mitigation, management and reporting of risks.

1 Identification

Identification of internal and external risks related to the Group, which may directly or indirectly influence our business performance, our ability to achieve set targets as well as our overall viability over time

2 Measurement

Assessment, by means of proven methodologies, of the likelihood of identified risks to materialise (under existing or stressed conditions) as well as their likely impact and materiality under different scenarios; review of the default rates of specific products; determination of capital requirements across risk types

3 Monitoring

Analysis of the sources and specificities of risks faced; appraisal of outcomes posted following the management of risks faced, while factoring in the risk appetite and set KPIs; verifying whether risk controls are efficient in both their design and operation; finding ways and means to further enhance the efficiency of risk assessment and mitigation

4 Mitigation

Adoption of measures to reduce the level of risks faced, while deploying actions that minimise the impact should there be contrary events; establishment of an appropriate internal control framework to deal with specific risk situations

5 Management and reporting

Stress testing the resilience of selected portfolios and ensuring that sufficient capital is available to withstand potential losses; regular elaboration of accurate and relevant information on pertinent risk characteristics and trends; ensuring urgent escalation of observed events and outcomes to internal parties and the authorities, wherever applicable

Our approach, processes and methodologies

Credit risk

General approach and objectives

- Credit risk represents the main type to which the Group's banking subsidiaries are exposed in view of the nature of their operations and activities.

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

- The Credit Risk Policy of the banking entities, which is approved and reviewed by their respective Boards and relevant sub-committees, sets forth the principles by which they conduct their credit risk management activities. The policy formulates the roles and responsibilities whereby credit risk is to be managed across business segments. It provides guidance in the formulation of the appropriate structures and architectures that work towards ensuring that business generation is harmonised with the established target market criteria. The modus operandi shaping up the credit risk management set-up is governed by rules set out in Central Bank Guidelines. At the level of MCB Ltd, these include Guideline on Credit Risk Management, Guideline on Standardised Approach to Credit Risk, Guideline on Credit Concentration Risk, Guideline on Credit Impairment Measurement and Income Recognition, Guideline on Country Risk Management and Guideline for the write-off of non-performing assets.

Risk measurement and monitoring

- Credit risk measurement by banking entities consists of appraising the track record of customers as appropriate for the prediction of likely future behaviours of existing accounts. Credit facilities granted are guided by the credit standing, source of repayment and debt servicing ability of the borrower. As a fundamental credit principle, the banking entities do not generally grant credit facilities solely on the basis of the collateral provided. Collateral is taken whenever possible to mitigate the credit risk assumed while additionally, being monitored periodically depending on the type, liquidity and volatility of the collateral value.

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

Risk and capital management report

Banking cluster: Risk-weighted assets

Risk-weighted on-balance sheet assets		Jun 20		Jun 19
	Amount	Weight	Weighted Assets	Weighted Assets
	Rs m	%	Rs m	Rs m
Cash items	3,273	0 - 20	66	98
Claims on sovereigns	101,250	0 - 100	3,327	3,038
Claims on central banks	60,440	0 - 100	7,312	11,239
Claims on banks	46,102	20 - 100	15,997	15,001
Claims on non-central government public sector entities	2,176	0 - 100	0	0
Claims on corporates	192,819	20 - 150	179,768	163,142
Claims on retail segment	12,376	75	7,977	8,061
Claims secured by residential property	32,793	35 - 125	13,060	14,786
Claims secured by commercial real estate	16,016	100 - 125	18,893	19,166
Fixed assets/other assets	15,303	100 - 250	22,088	17,719
Past due claims	10,258	50 - 150	12,666	11,467
Total			**281,154**	**263,718**

Non-market related off-balance sheet risk-weighted assets			Jun 20			Jun 19
	Nominal Amount	Credit Conversion Factor	Credit Equivalent Amount	Weight	Weighted Amount	Weighted Amount
	Rs m	%	Rs m	%	Rs m	Rs m
Direct credit substitutes	2,243	100	2,126	0 - 100	2,035	9,201
Transaction-related contingent items	37,360	50	18,425	0 - 100	17,470	11,884
Trade related contingencies	26,534	20 - 100	6,702	0 - 100	6,516	7,049
Outstanding loans commitment	7,050	20 - 50	3,275	0 - 100	3,275	2,687
Total					**29,296**	**30,821**

Market-related off-balance sheet risk-weighted assets			Jun 20				Jun 19
	Nominal Amount	Credit Conversion Factor	Potential Future Exposure	Current Exposure	Credit Equivalent Amount	Weighted Assets	Weighted Assets
	Rs m	%	Rs m	Rs m	Rs m	Rs m	Rs m
Interest rate contracts	30,128	0 - 1.5	419	679	1,098	570	117
Foreign exchange contracts	21,417	1 - 7.5	239	260	499	264	154
Total						**833**	**271**

	Jun 20	Jun 19
	Rs m	Rs m
Total credit risk-weighted assets	**311,283**	**294,809**

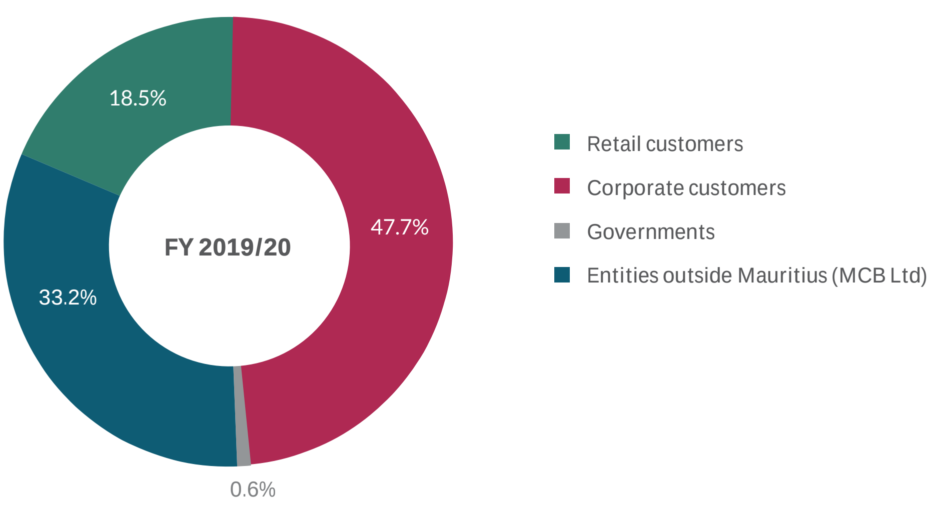
Risk mitigation and management

- 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 to ensure capital adequacy; 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. Several credit mitigation techniques are adopted by the banking entities in the course of their activities. These include security/collateral, netting, guarantees, credit insurance and political risk covers. Exposures arising from foreign exchange and derivatives are mainly mitigated through agreements e.g. the International Swaps and Derivatives Association (ISDA) Master Agreements and Credit Support Annex (CSA) documentation.

- The banking entities are intent on diversifying 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.

Banking cluster: Loans and advances by customer segment



Concentration of exposures at MCB Ltd

Bank of Mauritius Guideline on Credit Concentration Risk

Credit concentration limits (% of Bank's Tier 1 capital)	Regulatory requirements	MCB Ltd 30 June 2020
Aggregate credit exposure to any single customer	Not exceed 25%	19.6%
Aggregate credit exposure to any group of connected counterparties	Not exceed 40%	30.3%
Aggregate large credit exposures* to all customers and groups of connected counterparties	Not exceed 800%	372.5%

*Note: *Refer to exposures over 10% of the financial institution's Tier 1 capital*

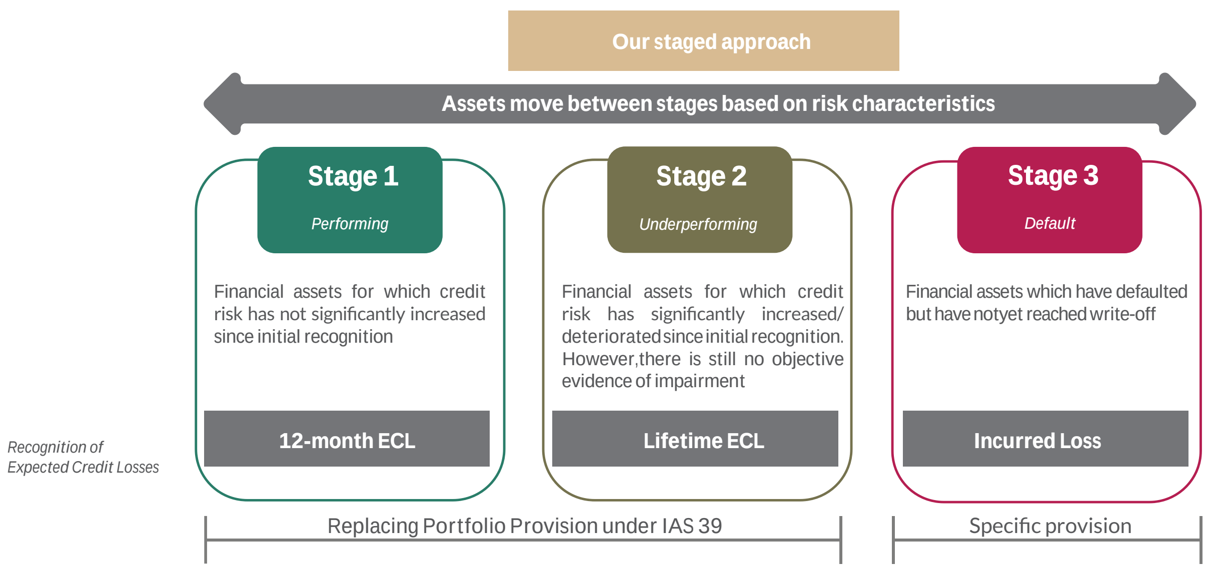
Gross exposure as at 30 June 2020	Total gross exposure	Risk capital consumed	*Risk capital consumed as a % of total credit risk capital*
	Rs bn	Rs bn	%
Top 5 customers / customer groups	61.4	6.0	14.5
Total large credit exposures	190.7	12.6	30.7

- With regard to the determination and review of impairment and provisioning levels, the banking entities undertake their respective exercises on a regular basis, while being subject to appropriate oversight. The entities adhere to relevant regulatory stipulations, alongside aligning themselves to advocated standards. At the level of MCB Ltd, the exercise is undertaken on a quarterly basis and involves the collaboration of several stakeholders. After being reviewed and agreed upon by the RMC as well as validated by the Board, the figures are submitted to the Bank of Mauritius (BoM). The BoM Guideline on Credit Impairment Measurement and Income Recognition aims at aligning regulatory prudential rules as regard asset classification and provisioning requirements with international accounting norms (i.e. IFRS 9). The aim is to ensure that financial institutions have adequate processes for determining allowance for credit losses in a timely manner and the carrying amounts of credit portfolio recoverable values. While ensuring adherence to prudential norms which define credit as impaired if it is past due for more than 90 days, the Bank also assesses facilities granted to clients as being impaired on case-by-case basis above a certain materiality threshold. Furthermore, loans are written off by the Bank when the prospect of recovery is poor and the loss can be reasonably determined, with MCB complying with the BoM guideline for the write-off of non-performing assets. While MCB Ltd continues to adhere to key principles therein, it is worth noting that – as part of support measures to allow commercial banks continue supporting enterprises facing cash flow and working capital difficulties in the context of COVID-19 – BoM has put on hold the Guideline on Credit Impairment Measurement and Income Recognition.

MCB Ltd: Adherence to IFRS 9 requirements

- In measuring Expected Credit Losses (ECL), three main parameters are considered and estimated, namely: (i) Probability of Default (PD), which represents the likelihood of a default event occurring; (ii) Loss Given Default (LGD), which denotes the estimated losses in the event that a default event occurs; and (iii) Exposure at Default (EAD), which reflects the exposure at risk at a point of default. In addition, IFRS 9 requires that allowance be made of forward-looking information in the calculation of ECL, taking into consideration past, actual and future insights on customer behaviours and macroeconomic indicators.

- A three-stage approach to the impairment calculation of financial assets is applied under IFRS 9. To determine the staging status of the asset, IFRS 9 requires an assessment of whether or not there has been a significant increase in credit risk since initial recognition. This dictates the basis on which its ECL is calculated, as illustrated below.



- In determining whether there has been significant increase in credit risk or credit deterioration, an entity considers reasonable and supportable information that is relevant and available without undue cost or effort. At MCB, quantitative and qualitative information are taken into account, based on the Bank's historical customer experience and credit risk assessment. A financial asset is credit impaired and is in Stage 3 when (i) contractual payments or accounts in excess are past due by more than 90 days; and/or (ii) other quantitative and qualitative factors indicate that the obligor is unlikely to honour its credit obligations.

- MCB segmented its financial assets into nine portfolios for ECL calculation, which are described as follows: (i) Retail: housing loans, other secured loans, unsecured and revolving facilities, SMEs; and (ii) Wholesale: corporate, financial institution, sovereign, project finance, and Energy & Commodities.

  - **Retail:** PD, LGD and EAD parameters are calculated on a portfolio-based approach, i.e. facilities having homogeneous characteristics are assumed to have similar risk behaviours and can reasonably be assigned same parameter values.

  - **Wholesale:** MCB uses a combination of internal models and external benchmarking for the calculation of PDs, LGDs and EADs. Internal historical default rates and losses have been used to calibrate PDs and LGDs respectively. For portfolios where MCB has historically experienced low or no default, external benchmarking has been used for calibrating corresponding ECL parameters. Of note, PDs leverage ratings model for all wholesale portfolios, which is mapped to an Internal Master Rating Scale. As for EAD calculation, either amortisation schedules or historical data and regulatory credit conversion factors have been used as EAD ratios.

As highlighted before, MCB Ltd witnessed a major increase in its Expected Credit Losses in FY 2019/20, reflecting the difficult context.

ECL as at 30 June 2019

Stages	Retail portfolios	Wholesale portfolios				
		Corporate	Financial institution	Project finance	Sovereign	Energy & Commodities
	Rs m	*Rs m*	*Rs m*	*Rs m*	*Rs m*	*Rs m*
Stage 1						
Exposures	50,431	126,449	50,752	14,861	100,956	70,760
Expected Credit Losses	106	1,209	179	176	31	115
Coverage ratio (%)	0.2	1.0	0.4	1.2	0.0	0.2
Stage 2						
Exposures	440	12,781	0	268	0	3,288
Expected Credit Losses	17	528	0	6	0	91
Coverage ratio (%)	3.9	4.1	-	2.4	-	2.8
Stage 3						
Exposures	1,836	5,176	69	688	0	1,575
Incurred losses	483	1,408	0	141	0	464
Coverage ratio (%)	26.3	27,2	0.2	20.5	-	29.5

ECL as at 30 June 2020

Stages	Retail portfolios	Wholesale portfolios				
		Corporate	Financial institution	Project finance	Sovereign	Energy & Commodities
	Rs m	*Rs m*	*Rs m*	*Rs m*	*Rs m*	*Rs m*
Stage 1						
Exposures	48,527	135,981	53,271	8,905	135,728	76,858
Expected Credit Losses	427	1,220	46	199	28	111
Coverage ratio (%)	0.9	0.9	0.1	2.2	0.0	0.1
Stage 2						
Exposures	1,733	26,465	0	241	0	6,647
Expected Credit Losses	356	3,093	0	45	0	224
Coverage ratio (%)	20.6	11.7	-	18.8	-	3.4
Stage 3						
Exposures	2,340	5,826	0	57	0	1,489
Incurred losses	555	2,156	0	5	0	281
Coverage ratio (%)	23.7	37.0	-	8.6	-	18.9

Notes:

(i) Stage 1 comprises both on- and off-balance sheet exposures while stages 2 and 3 comprise only on-balance sheet exposures

(ii) Incurred losses do not include interest in suspense on loans and overdrafts

(iii) Stage 3 exposures exclude credit impaired investments fair valued through other comprehensive income

(iv) Figures in the above tables have been audited

Country risk management at MCB Ltd

General approach

- The Bank applies a coherent approach and a comprehensive framework to formulate its risk tolerance and determine exposures assigned to markets, alongside adhering to the Bank of Mauritius Guideline on Country Risk Management and the recentlyreleased Guideline on Cross-Border Exposure.

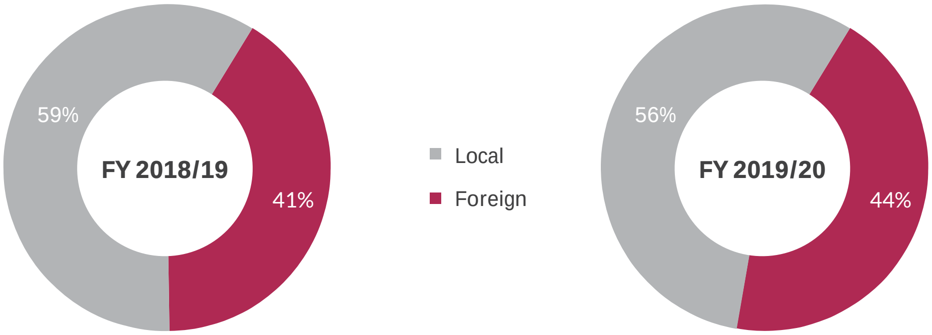
- With a view to fostering sound country risk management, the Bank lays emphasis on the following: (i) the thoughtful and regular determination and review of its risk appetite, after making allowance for the evolving operating environment and its strategic ambitions; (ii) diversified exposures across countries and sectors; (iii) undertaking activities in a selective and, in some cases, opportunistic manner, while favouring areas that the Bank is well accustomed to and for which it nurtures strategic competencies and technical expertise; and (iv) ensuring that its deals are appropriately selected, structured and ring-fenced (with specialised people handling complex deals), backed by the application of a series of risk mitigants and robust methodologies.

Risk measurement and monitoring

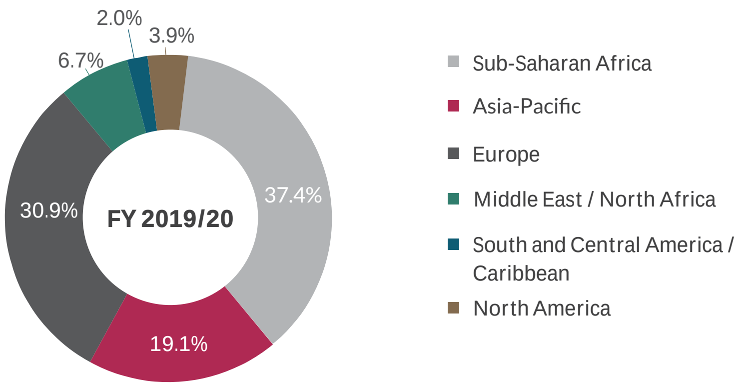
- MCB Ltd articulates a coherent risk appetite framework, with business units guided by clearly-established parameters and limits to assist them tap into markets. Target risk profiles are set at Bank level as well as for each portfolio and are complemented by target maturity profiles, consequently ensuring that its credit exposure portfolio is at all times balanced in terms of its risk profile.

- The Bank carefully monitors country risk events, including macroeconomic developments, sovereign credit worthiness, and specific occurrences such as social unrest, nationalisation and expropriation of assets, foreign exchange controls and currency depreciation/ devaluation. Foreign country exposure limits are set by the Bank on the basis of (i) its current exposures and growth ambitions; (ii) assigned capital for international exposures; (iii) the prevailing economic and market environments and sizes of economies under review; (iv) sovereign ratings; (v) its areas of expertise as far as its business involvement is concerned; and (vi) its knowledge of the economies. The Bank ensures the proactive monitoring of country risk exposures against country limits and sub-limits that have been set, while promptly reviewing such levels in case of unexpected events. MCB Ltd established a list of 'priority countries' to focus on appealing business opportunities identified therein, whilst the Bank also set up a list of 'restricted countries'. No limits are set up for the latter countries, with activities only conducted with approval of the RMC.

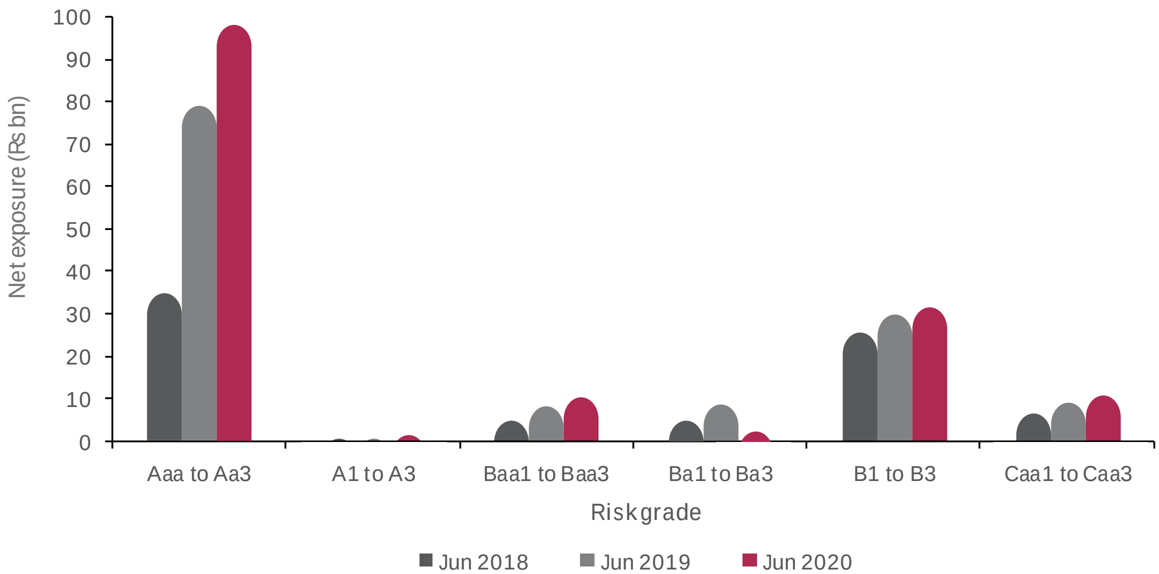
Distribution of MCB Ltd's customer loan portfolio



Total risk-weighted exposures by region
(Excluding Mauritius)



Country risk exposures



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

Market risk

General approach

- The banking entities of the Group seek to minimise the risk of losses in on- and off-balance sheet positions arising from activities undertaken in or impacted by financial markets. This includes both market price risk and ancillary risks such as liquidity and funding (liability) risks. The entities ensure that an appropriate framework is in place to systematically identify, assess, monitor, control and report, within pre-defined limits, the market risk exposures across their trading and banking books.

- At the level of MCB Ltd, the market risk management approach and framework of the Bank is aligned with applicable Bank of Mauritius Guidelines as well as internationally recommended practices. The Market Risk Policy purview encapsulates both the trading and banking books. It sets out the policies, principles and main functional responsibilities in relation to the management of market risk and liquidity risk. As stipulated in the Guideline on Measurement and Management of Market Risk and the Guideline on Liquidity Risk Management respectively, the Policy ensures that market risk origination, settlement and control are appropriately segregated and that liquidity risk oversight is conducted independently of the risk-taking units. Of note, the Policy ensures that the broad principles set out in the FX Global Code are complied with. The latter is a set of global principles of good practice, which have been developed – by means of the partnerships forged between central banks and market participants from different jurisdictions worldwide – to provide a common set of guidelines to promote the integrity and effective functioning of the wholesale foreign exchange market. The Risk Monitoring Committee (RMC) approves and reviews the Market Risk Policy. It meets at least quarterly and on an ad hoc basis when required and reviews a summary of market risk and liquidity risk exposures and metrics, while assessing regulatory and other developments affecting both the traded and non-traded books of the Bank. The Market Risk BU undertakes the monitoring and management of market risks, while providing financial position and risk analysis information to the Asset and Liability Committee and RMC.

- Our foreign banking subsidiaries operate within the precinct of their Market Risk Polices which put forward the relevant processes and controls to mitigate interest rate, foreign exchange as well as funding and liquidity risks faced. Market risk sanctioning mandates are delegated to Management for the conduct and monitoring of relevant day-to-day operations and activities. They are assisted by the Global Markets and Treasury Management SBU of MCB Ltd in the deployment of their undertakings. The latter function services both their foreign exchange and money market requirements by delivering advisory services through direct access to its traders, who share their views about market trends and provide notifications on relevant updates.

Risk measurement and management

Interest rate risk

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

- MCB Ltd also incurs interest rate risk in the trading book by virtue of (i) its primary dealership status in the local Government and/or BoM securities market; (ii) its trading positions in international fixed income securities; and (iii) the holding of net open positions in derivatives that are subject to daily revaluation. To constrain its exposure to interest rate risk in the trading book, the Bank sets DV01 limits. Basically, the latter, which is a measure of the impact of price volatility on portfolio value, aims at limiting the loss in dollar terms of a parallel upward shift of one basis point in applicable interest rates.

Foreign exchange risk

- The entities are subject to foreign exchange (FX) risk from an on-balance sheet perspective, i.e. as a result of imbalances witnessed between the foreign currency composition of their assets and liabilities. The risk to which they are exposed can also be viewed from an off-balance sheet angle through the Bank's outstanding positions, mainly in respect of 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.

Risk and capital management report

Liquidity and funding risk

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

Cash flow management

- The entities create a time ladder of continuous assets and liabilities cashflows, while avoiding undue accumulation of cashflows in any time segment, especially those expected to fall due in the close future.
- They use cash and liquidity gap profiles in both local and significant foreign currencies to monitor the impact of projected disbursements by lines of business.
- They undertake the behavioural analysis of its non-maturity current and savings balances so as to assign an actuarial maturity profile which reflects the stickiness of such account balances.

Liquid assets buffer maintenance

- The entities hold a stock of high quality and unencumbered assets that it can rapidly dispose of in case required. The aim is to meet unexpected outflows of funds or substitute expected inflows of funds (such as loan instalments) that do not eventually materialise at little or no loss in market value.

Funding management

- The entities maintain diversified liability bases across different categories of depositors, alongside also covering a spectrum of short to medium term funding.
- While it pursues its efforts to mobilise FCY deposits as a primary and relatively stable source of funding, to underpin its regional diversification endeavours, MCB Ltd remains committed to continuously optimising and diversifying its short and medium-term funding profile. Alongside exercising close scrutiny of market developments and investor sentiment, we are committed to entering into international wholesale markets whenever required, while capitalising on its technical experiences as well as the relationships developed by dedicated teams dealing with financial institutions and banks. At the end of the day, the key consideration for the Bank is to diligently manage the funding and maturity profile of its balance sheet in order to ensure that it can successfully deploy its strategic endeavours over the short and longer runs.

Liquidity ratios computed at MCB Ltd

Liquidity Coverage Ratio (LCR)

- In alignment with Basel III rules, the objective of the LCR is to promote the short-term resilience of a bank's liquidity risk profile by ensuring that it maintains an adequate stock of unencumbered High Quality Liquid Assets (HQLA) in order to meet its liquidity requirements. As per regulatory stipulations in the Mauritian banking system, the LCR is computed as the ratio of the stock of unencumbered HQLA to the net cash outflows over the next 30 days in the event of an acute liquidity stress scenario. Under the transitional arrangements set by the BoM, the minimum regulatory ratio rose to 100% as from 31 January 2020 for MUR, material foreign currencies and consolidated LCR. To denote the dynamic nature of liquidity, the reporting timeframe was also increased since July 2019 from month-end to fortnightly basis.

Net Stable Funding Ratio (NSFR)

- Under Basel III, the NSFR aims to promote the resilience of a bank over a longer time horizon by requiring the latter to fund its activities with sufficiently stable sources of funding so as to mitigate any future funding stress. The NSFR effectively recognises a bank's maturity transformation role in the credit creation and resource allocation process. It seeks to limit the bank's overreliance on short-term wholesale funding or the running of large funding gaps meant to sustain rapid balance sheet growth.

Operational risk

General approach

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

- Towards determining the operational risk tolerance levels, the entities set risk acceptance and mitigation limits in respect of the principal categories of operational risk as appropriate. Operational risk sanctioning mandates and day-to-day oversight responsibilities are entrusted to Management. The latter is responsible for the application and effectiveness of the operational risk policy. The key duties are to (i) ensure compliance with underlying objectives set in terms of the management of such types of risk; and (ii) foster the development, implementation and documentation of internal controls and processes.

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

Risk measurement and monitoring

- The determination of the risk exposures is anchored on the regular review of the operational risk inherent in internal processes and client solutions, with monitoring thereof performed against acceptable tolerance limits.

- With respect to MCB Ltd, it applies the Alternative Standardised Approach for calculating and reporting its operational risk capital charge.

Risk mitigation and management

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

- The management of operational risks by the foreign banking entities is also underpinned by recourse to specific tools and systems that are adopted by MCB Ltd, notably the incident reporting system, as tailored to the subsidiaries' business realities. In addition, staff leverage training courses, whereby the Technology SBU as well as the Anti-Money Laundering/Fraud Prevention BU from MCB Ltd provide assistance on specific risk management needs.

Risk ownership	Risk control	Independent assurance
Business units	**Audit Committee/IORC/ Operational Risk BU**	**Internal/External Audit**
• Implement internal control procedures • Identify inherent risks in products, activities, processes and systems • Initiate actions and apply mitigation strategies • Report risk incidents	• Oversee the implementation 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

Business Continuity Management (BCM)

General approach

- The banking entities of the Group adopt a robust and proactive approach to Business Continuity Management to ensure that they continue to conduct their operations and deliver products and services in case of unforeseen events or business disruptions at acceptable pre-defined levels.

- The entities aim to minimise the potential damage that such disruptions can cause to people and business activities, while setting forward to safeguard their reputation and the interests of key stakeholders by effectively planning for and responding to incidents.

Framework and initiatives

- The Business Continuity Management framework of the banking entities is encapsulated in their respective BCM policies. The latter outline the applicable governance structure as well as the roles and responsibilities of each actor involved in the BCM programme. As an integral part of the Operational Risk Management Framework in place, the BCM framework is centrally coordinated and controlled by the entities' Risk functions, in collaboration with relevant support functions. A dedicated Crisis Management Team consisting of key members of Management shoulders central command during a crisis. Specific business segments, through designated business continuity champions, are the BCM process owners and are responsible for designing, reviewing and maintaining up-to-date recovery plans at their respective levels, in alignment with entities' specificities.

- With the outbreak of the COVID-19 virus across our presence countries, the operational preparedness levels of the banking entities were put to test. Their Pandemic Preparedness Plan was activated, with key initiatives successfully executed in order to ensure continuity of activities during these uncertain times and amidst lockdown periods. Actions deployed also helped to safeguard the safety and health of employees and clients, backed by (i) guidance and direction of the Crisis Management Team of each entity and that of MCB Group as a whole, with support emanating from dedicated crisis-related tactical and operational teams; and (ii) the dissemination of clear and coherent procedures and guidelines to ensure compliance by relevant parties and stakeholders. On another note, the banking entities conduct regular Disaster Recovery simulation exercises to test the operability of critical systems hosted on servers that are located at dedicated sites. The exercise confirmed the Recovery Time Objectives identified for the entities' critical activities and consolidated their ability to resume their critical operations from their Disaster Recovery site.

Permanent control

General approach

- The banking entities of the Group are committed to effectively supervising transactions and processes embedded in their regular activities, backed by adequate control mechanisms and procedures. The permanent control/internal control approach is governed by several rules and standards prevailing locally, notably (i) regulatory requirements and guidelines; (ii) guidance provided and principles formulated by the Committee of Sponsoring Organization of the Treadway Commission (in the case specifically of MCB Ltd), which is a joint initiative to combat corporate fraud and was established in the US by private sector organisations; and (iii) relevant Basel requirements. The entities adhere to dedicated internal control policies, which formulate the key principles and underlying governance framework underpinning the efficient development, deployment and monitoring of control activities undertaken by different sections of the organisation. The applicable framework sets out the relevant roles, responsibilities and reporting mechanisms to assist in fostering sound and stable operations within the entity.

Risk and control measurement and management

- The determination of risk exposures is anchored on the regular review of the operational controls applicable to processes and client solutions, with the entities actively monitoring the applicability and effectiveness of actions deployed. Regarding MCB Ltd, information on operational control events is recorded in a centralised database, which enables systematic root cause and trend analysis for necessary corrective actions and to strengthen the adequacy and effectiveness of the internal control mechanism.

- Internal control forms part of the day-to-day responsibilities of Management and employees at different levels of the banking entities. The internal control mechanism relies on appropriate processes and systems, backed by clear segregation of duties, dual control and regular verification and reconciliation of transactions. The control environment is based on an appropriate risk culture, fostered through risk awareness sessions targeting relevant audiences. Internal control deficiencies are managed in a timely and effective manner through adherence to established procedures and proper monitoring of reinforcement measures implemented.

- During the period under review, actions have been taken to further improve the application of the internal control framework and relevant processes across the banking entities. With the advent of the COVID-19 pandemic, the operational processes were reviewed to adjust to Work From Home conditions and realities, with adequate controls defined to monitor whether new procedures are being adhered to. Furthermore, dedicated awareness sessions have been conducted to enhance our staff's social engineering awareness with a view to enabling them properly and promptly recognise and react to social engineering attacks.

- In the case of MCB Ltd, following the implementation of a Permanent Control framework to ensure that critical controls are performed and are effective, the dedicated team of Business Risk Correspondents across key SBUs and the network of Business Risk Champions regularly report events observed to the Risk SBU, while ensuring timely escalation of findings to Heads of SBUs, IORC and Audit Committee. Our foreign banking entities have further embedded Permanent Control framework and processes as part of the ongoing and dynamic exercise to strengthen the internal control set-up, alongside adhering to clearly-defined procedures and dashboards for controlling and mitigating the effects of operational risks faced. The introduction of compliance certificates to be submitted monthly by business units provides assurance that the identified controls are functioning adequately.

Information risk

General approach

- The entities adopt a dedicated approach to uphold their information security, alongside ensuring that they are prepared to respond to potential cyber-attacks and threats to its information assets in a timely and effective manner. They conduct regular assessments to identify issues that can potentially harm their assets, with adequate mitigating controls being deployed.

Risk mitigation and management

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

- At MCB Ltd, the Information Risk Management (IRM) BU is responsible for developing and maintaining information security policies, in line with the evolving operating landscape as well as requirements set by the authorities and other stakeholders. The key objective is to ensure that an adequate level of security is maintained to protect private and confidential information held by the Bank. To mitigate and manage risks faced, several processes have been assigned to assist in identifying and analysing the business need to access logical information, restrict the information deployed to the relevant requirements as well as monitor and control access to such information. The pertinence of any major information security expenditure is evaluated and discussed at several hierarchical levels before finally escalating to Senior Management and, if needed, to the Board for approval.

- The banking entities are guided by road-maps that have been developed in order to ensure that policies and processes to effectively cope with challenges posed by increasing cyber threats are continuously geared up. At the level of MCB Ltd, several initiatives have been deployed to strengthen and ensure the robustness of its information security: (i) the Bank enhanced its security events monitoring and response capabilities, which have been regularly tested; (ii) MCB Ltd's critical infrastructure (which includes customer-facing applications) has been independently tested and assessed from a cyber security perspective; (iii) actions have been taken to enhance the staff's cyber security awareness in order to recognise and properly react to cyber-attacks; (iv) cyber-attacks on the organisation have been simulated in order to test and enhance its defences and response capabilities; (v) the Bank's compliance to laws and regulations relating to data protection has been regularly assessed with a view to identifying any gaps and gearing up its capabilities to adhere to relevant stipulations; (vi) the set of critical controls underpinning MCB Ltd's cyber security resilience were continuously monitored; and (vii) the risk assessment framework and information security management systems and processes were upgraded to foster alignment with internationally-recognised standards. As for our foreign banking entities, dedicated initiatives were taken to enhance the protection of critical information pertaining to the bank and its customers, in line with relevant laws and regulations. Main examples are as follows: (i) adoption of updated information security policies so as to provide a framework for ongoing and future undertakings; (ii) conduct of information security awareness campaigns for both employees and clients; (iii) independent assessment of the entities' information systems to address information security vulnerabilities; (iv) implementation of regular controls to proactively identify and address any vulnerabilities witnessed; and (v) systematic upgrade of information systems and infrastructure in place.

Compliance risk

General approach and objectives

- The compliance strategy of the Group seeks to ensure consistency between the conduct of business operations and the observance of relevant laws, rules and standards of good market practices, through continued identification of compliance-related risks, and ongoing assessments and understanding of such risks as well as the design of adequate controls. The aim is to shield the organisation from legal/regulatory sanctions as well as financial/reputation losses.

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

Risk mitigation and management

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

Core principles guiding compliance risk management

- Paying continuous attention to and undertaking regular reviews of ongoing developments as regard local and relevant international laws and regulations, accurately understanding their impact and coming up with necessary responses;
- Upholding a governance framework that ensures adequate oversight, and accountabilities by Management and the Board;
- Fostering a compliance control mechanism to pave the way for standardised processes and operations;
- Adopting a risk-based due diligence approach and methodology to underpin appropriate scrutiny and monitoring of activities
- Conducting enterprise-wide money laundering and terrorist financing risk assessment exercises to evaluate inherent risks faced and the effectiveness of the control environment designed to mitigate such risks
- Maintaining a set of policies to promote strong ethical behaviour by staff as well as to prevent and manage conflicts of interests;
- Promoting the awareness of Directors, Management and staff on requirements arising out of new/amendments to laws and regulations and other compliance-related matters;
- Providing adequate training to the compliance officers to ensure that they have the necessary knowledge and skills to accomplish their duties;
- Maintaining close working arrangements and communication with business lines through the dissemination of compliance-related information, provision of advisory services and delivery of dedicated training courses to staff;
- Fostering trusted relationships with regulatory and supervisory bodies by maintaining productive and value-adding dialogue with them to uphold effective two-way communication.

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

Risk and capital management report

- The compliance frameworks of our banking entities have been reinforced through the adoption of continuous permanent control mechanisms. Our overseas banking entities are assisted by the Compliance function of MCB Ltd via the following forms:

Key areas of support by MCB Ltd to overseas entities

- Compliance risk assessments: It extends support to the Compliance Officers of the foreign entities in the performance of compliance risk assessments and through compliance-related training provided to them
- Money Laundering and Terrorist Financing Enterprise Wide Risk Assessment: It conducts risk assessments for selected entities
- Advisory services: It maintains an open line of communication with afore-mentioned Compliance Officers and encourages them to seek advice/guidance whenever they are in need of same
- Staff training: It provides AML/CFT training to staff of the entities when called for, in addition to reviewing materials that the Compliance Officers have prepared for the purpose of staff training
- Compliance monitoring: It elaborates compliance monitoring programmes whereby the Compliance Officers have to perform compliance tests, prepared at the level of the Compliance BU, to ascertain adherence to procedures
- Project execution: It assists entities embarking on the implementation of IT tools to ensure compliance risk management
- Other areas: It reviews operational procedures to ensure that they meet set standards and that all applicable legal and regulatory requirements are incorporated therein. Its services are also solicited for the implementation of international applicable legal requirements and the resolution of regulatory-related matters

Risk Assurance: Internal Audit

General approach

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

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

Strategy and objectives

- The foreign banking entities of the Group rely on their locally-based internal auditors, alongside leveraging the services provided by the Internal Audit SBU of MCB Ltd to, amongst others, disseminate internal audit best practices and standardise the quality of related audit work. While factoring in the work done by the locally-based internal auditors, the Internal Audit SBU carries out regular assignments to assist these entities to better manage their risks as well as improve the quality of their control systems and processes, with advice being delivered on different aspects in line with the nature of projects being executed. In line with its continuous efforts to enhance its efficiency levels, the function increased the use of data analytics as part of the audit execution exercise, which has proved to be helpful in the current context, whereby international travel has not been possible.

- In line with good governance principles, the Internal Audit SBU of MCB Ltd reports to the Audit Committee, which approves and monitors the internal audit plan and recommendations. Internal audit findings and agreed action plans are reported to the Audit Committee and Board of relevant subsidiaries, with matters escalated to the Audit Committee of MCB Group Ltd if required. The key pillars which the function relies upon to roll out a disciplined approach to evaluate and improve the effectiveness of risk management and control processes are: (i) the implementation of regularly updated audit work programmes addressing, as far as possible, identified residual audit risks; (ii) increased usage of data analytics; and (iii) automation of tasks namely relating to reports preparation, working papers and follow-up of recommendations. The Internal Audit SBU continues to invest in the upskilling of its team members, with professional certifications being encouraged. Based on its assessments, the Internal Audit function is presently not aware of any significant area of the Bank where there are no internal controls. The function does not believe that there are deficiencies in internal controls that could give rise to risks that could eventually jeopardise the operations of the Bank.

Capital management

The framework

In line with regulatory rules, Basel requirements and industry best practices, the capital management objective of the banking cluster, which is aligned with Group-level directions, is to ensure that adequate capital resources are available to operate effectively, foster sustained business growth, preserve or enhance credit ratings and cope with adverse situations. Capital management policies and practices aim to maintain a strong capital position that is consistent with stakeholder expectations and requirements.

Backed by the adoption of a forward-looking approach and a sensible governance framework, banking entities determine the level and composition of capital after making allowance for multiple factors. They include the legal and regulatory landscape across countries, the business environments, the Group's strategic orientations, conditions prevailing across economies and financial markets, etc.

Our process

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 wherever applicable; (ii) capital reporting, budgeting and analysis; and (iii) management of capital consumption against budgets. For instance, MCB Ltd is guided by its Internal Capital Adequacy Assessment Process (ICAAP) in determining the capital planning exercise and formulating the risk appetite. This provides the framework to ensure that adequate capital is kept beyond core minimum requirements to support business activities.

Internal Capital Adequacy Assessment Process of MCB Ltd

Framework	• The ICAAP framework has been developed and applied at the Bank pursuant to the issue of the Bank of Mauritius (BoM) Guideline on Supervisory Review Process in April 2010. • The key objectives of ICAAP are as follows: (i) to provide an informative description of the methodology and procedures that the Bank uses to assess and mitigate its risks; and (ii) to make sure that adequate capital resources are kept to support risks faced beyond core minimum requirements. The ICAAP document, which is reviewed periodically, delineates the process through which the Bank assesses the required minimum capital to support its activities. It seeks to ensure that MCB remains well capitalised after considering material risks.
Assessment and planning	• Through the ICAAP, the Bank assesses its forecast capital supply and demand relative to its regulatory and internal capital targets under various scenarios. The Bank's capital plan is defined every year during the budgeting and strategic planning exercise, while financial year risk appetite limits are set by the Board. As for the Bank's exposures, they are monitored on a quarterly basis against those limits, with related insights being reported to the RMC. • The capital plan includes a crisis management plan. The latter makes allowance for various measures that should help to rapidly mobilise additional capital if the need arises, with discussions thereon being held at Board level.

Risk and capital management report

Stress testing at MCB Ltd

Framework

Risk identification	• To detect and address existing or potential vulnerabilities such as unidentified and Bankwide 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 on the back of forward-looking risk assessments; this helps 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 the significance of risk faced during different phases, notably (i) during periods of favourable economic and financial conditions given the subsequent lack of visibility over potentially negative future developments; and (ii) during periods of business expansion when innovation leads to new products and services for which no historical data is available for forecasting future trends
Risk mitigation	• To facilitate development of risk mitigation or contingency plans across stressed conditions • To spur debates on and the awareness of the various risk aspects of our client portfolios among Management, helped by (i) a well organised surveying of the operating context; (ii) an identification of the most important risk factors; and (iii) a scanning of the horizon for potential stressful events

Performance

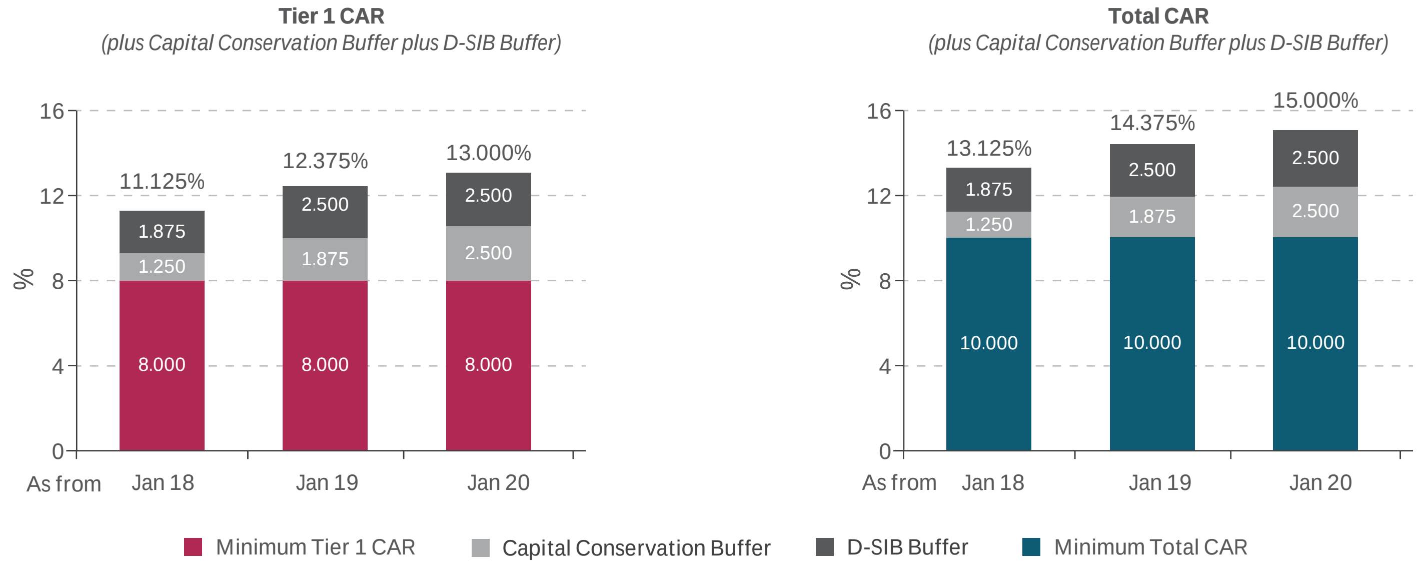
In FY 2019/20, the Bank conducted stress testing under various historical and stress test scenarios to assess the impact of unfavourable scenarios on its capital position. Examples are provided hereafter. The scenarios are regularly reviewed and fine-tuned to ensure that they remain relevant to the Bank's risk profile, activities as well as prevailing and forecasted economic conditions. The stress test results are reported and discussed at the RMC and the Board prior to being submitted to the BoM. Barring extreme cases, our recent analyses revealed that the Bank's capital adequacy ratio does not fall below the regulatory requirements in any of the nine scenarios below.

Scenario 1	External risk - Brexit
Scenario 2	Reputation risk - MCB Ltd credit rating downgrade
Scenario 3	Concentration risk - Two domestic conglomerates default
Scenario 4	Concentration risk - Three large single foreign clients default
Scenario 5	Shocks in the local tourism sector
Scenario 6	Domestic property market crash
Scenario 7	Liquidity risk - Withdrawal of USD current account deposits
Scenario 8	Liquidity risk - Withdrawal of Global Business Licence depositors
Scenario 9	Interest rate risk - 2% increase in interest rates

Our capital position

The banking subsidiaries of the Group foster strict compliance with mandatory stipulations set by the regulators of their jurisdictions. In respect of MCB Ltd, the Bank uses the Basel II Standardised Approach to manage its credit and market risk exposures, with the Alternative Standardised Approach used for operational risk. As for determination of its capital resources, the Bank adheres to the BoM Guideline on Scope of Application of Basel III and Eligible Capital. It also complies with the Guideline for dealing with Domestic- Systemically Important Banks (D-SIB). Under the latter, banks are required to hold a capital surcharge or D-SIB buffer ranging from 1.0% to 2.5% of their risk-weighted assets depending on their systemic importance. The assessment for determining domestic-systemically important banks is carried out on a yearly basis on end-June figures. As per the assessment carried out by the Central Bank, MCB Ltd features among the five banks that have been determined to be systemically important in our jurisdiction, based on the assessment of five factors, namely size, exposure to large groups, interconnectedness, complexity and substitutability.

Minimum regulatory ratios applicable to MCB Ltd



Note: To provide additional flexibility to banks to support economic stakeholders, households and individuals impacted by the COVID-19 outbreak, the Bank of Mauritius deferred the capital conservation buffer of 2.5% which was effective as from 1 January 2020 to 1 January 2021 such that banks will be required to maintain a capital conservation of 1.875% until 31 December 2020. In addition, the regulatory risk weights on certain categories of exposures including retail and residential mortgages were reviewed.

Risk and capital management report

Minimum regulatory ratios applicable to the foreign banking entities

	MCB Seychelles	MCB Maldives	MCB Madagascar
As at 30 June 2020	%	%	%
Capital adequacy ratio	12.0	12.0	8.0
Tier 1 ratio	6.0	6.0	-

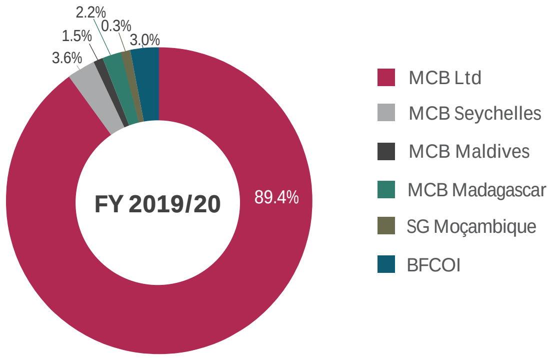
Performance of the consolidated banking cluster

During FY 2019/20, the banking entities have maintained their respective capital adequacy ratios comfortably above the applicable regulatory requirements. The capital adequacy ratio of the banking cluster – as measured at the level of MCB Investment Holding Ltd on a consolidated basis – increased by 90 basis points to reach 17.0% as at June 2020. The capital base was primarily made up of core capital, with the Tier 1 ratio standing at 15.9% as at June 2020, up from 15.1% a year earlier. The following illustrations depict the capital adequacy ratios posted by the banking cluster and shed light on the distribution of risk-weighted assets by entity.

Distribution of capital metrics

	Banking cluster	
	Jun 19	Jun 20
	Rs m	Rs m
Capital base	**52,327**	**57,726**
Tier 1	49,235	53,990
Tier 2	3,092	3,736
Risk-weighted assets	**325,512**	**340,366**
Capital adequacy (%)	**16.1**	**17.0**
of which Tier 1	*15.1*	*15.9*

Risk-weighted assets by entity



Capital adequacy	MCB Ltd	MCB Seychelles	MCB Maldives	MCB Madagascar
	%	%	%	%
Capital adequacy ratio				
As at 30 June 2019	16.6	15.2	40.0	17.2
As at 30 June 2020	17.5	15.1	46.0	17.0
Tier 1 ratio				
As at 30 June 2019	15.7	13.2	28.6	13.7
As at 30 June 2020	16.5	13.3	35.7	13.6

Non-banking clusters

- While adhering to good corporate governance principles, entities within the non-banking cluster of the Group adopt appropriate risk management frameworks that allow for an effective identification and management of risks they face in the course of their respective business activities.

Non-banking financial cluster

- Certain subsidiaries of MCB Capital Markets Ltd (MCBCM) are regulated by the Financial Services Commission. MCBCM, which complies with the National Code of Corporate Governance for Mauritius (2016), seeks to implement best practice risk management standards. The ultimate responsibility for managing risks rests with the Board of each subsidiary and material issues are escalated to the main Board via the Risk & Audit Committee. To ensure strong governance, several sub-committees have been set up to oversee critical areas of MCBCM's operations. An example is the management and administration of Collective Investment Schemes (CIS), where MCBCM has appointed a CIS Supervisory Committee with the responsibility to review and assess all aspects relating to CIS management, including risk, investment and administration.

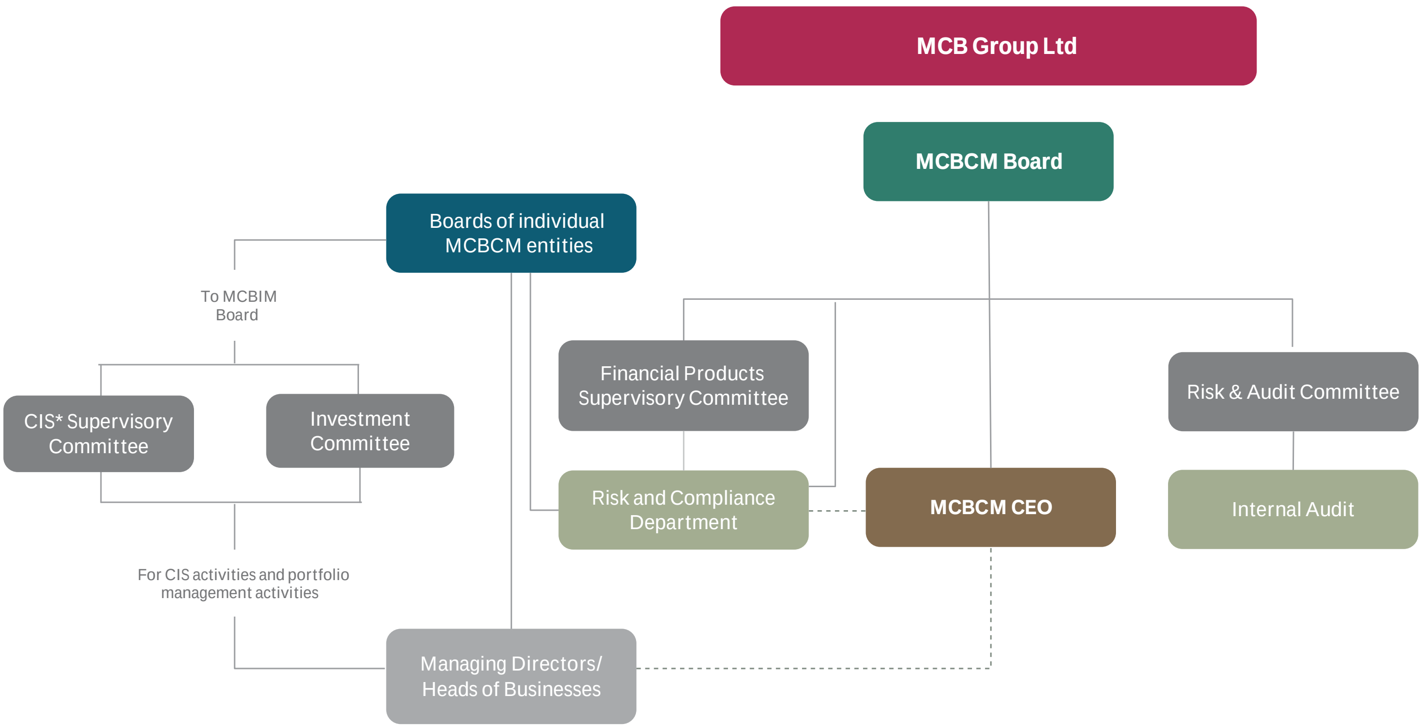
- MCBCM recognises that financial products are becoming increasingly complex and regulated. Accordingly, it has strengthened its governance framework through the establishment of a Financial Products Supervisory Committee, that comprises all independent directors of MCB Investment Management Ltd, and is responsible to oversee all new product launches.

- An Investment Committee meets on a quarterly basis and scrutinises the portfolios and investment management processes of MCB Investment Management. A Risk & Audit Committee has also been set up as a sub-committee of MCBCM.

- Day-to-day risk management is delegated to the management team of each MCBCM subsidiary and to MCBCM's Risk & Compliance (R&C) function, whose primary responsibilities are to *inter alia*: (i) assess all legal and regulatory obligations of MCBCM's businesses, ensuring compliance with all applicable laws, regulations and policies; (ii) provide risk-related advice, recommendations and compliance assurance to members of the boards and committees of MCBCM; (iii) coordinate of all risk management and compliance matters; and (iv) investigate client complaints and any breaches of applicable laws, regulations and procedures.

- The Head of R&C reports directly to the Chief Executive Officer of MCBCM and also has direct reporting lines to certain Boards of subsidiaries and sub-committees of MCBCM in line with best practice. R&C submits a compliance report to the Boards of relevant MCBCM entities every six months, and has the discretion to escalate critical issues on a more frequent basis, as necessary. All entities of MCBCM are subject to annual independent internal and external audits. The Risk & Audit Committee meets at least twice a year to review *inter alia* R&C's risk report, audit findings, progress on previously identified issues and the audited financial statements of all legal entities. The MCBCM governance framework is set out below.

Risk and capital management report



** Relates to Collective Investment Schemes*

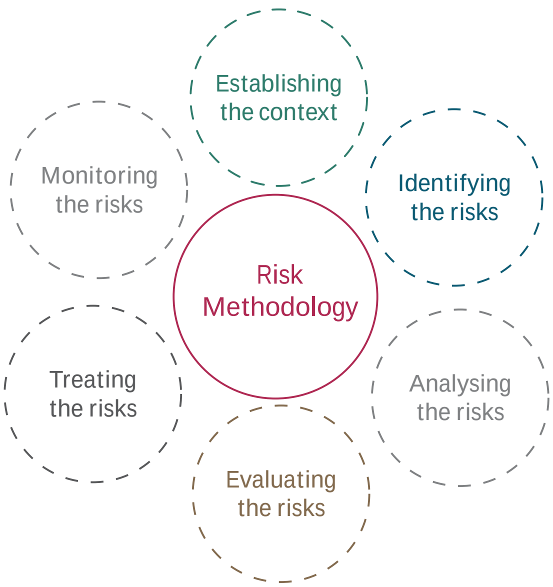
Key principles and considerations for risk management

Legal and regulatory

- Recognising the need to adhere to international governance codes and standards, MCBCM has put in place a framework to manage its legal and regulatory risks. This is summarised below:
  - Regular review of applicable laws and regulations to identify compliance gaps;
  - Active involvement of MCBCM's Risk & Compliance and legal teams in the development of new products and services to ensure that they are in compliance with applicable laws and regulations prior to being launched;
  - Monitoring of changes to the legal and regulatory frameworks and initiation of corrective actions as necessary; and
  - Bi-annual monitoring exercises undertaken by the Risk & Compliance team to assess the level of compliance with laws and regulations, particularly with respect to anti-money laundering.

Operations (people, processes and systems)

- A significant proportion of R&C's resources is allocated to the management of operational risks. The methodology, which places particular emphasis on high volume businesses, is set out below.



- The initial stage of the above methodology includes *inter alia* formal reviews of procedures and processes, analysis of complaints and incident reports and review of new products and services. The output is then used to update MCBCM's risk maps, which address all material risks faced by the business and their pre-control ratings. These risks are eventually re-assessed taking into account existing controls and additional controls that are required to arrive at a post-control rating. Any residual post-control risks deemed material will lead to a re-design of the relevant controls until such risks are adequately addressed, mitigated or eliminated.

Financial risks

- MCBCM, through its brokerage business, offers underwriting services to corporate clients and is thus subject to financial risks. Such risks are managed by a formal process that involves:
  - A technical assessment of all requests for underwriting by a group comprising MCBCM's Chief Financial Officer, Head of Risk and Compliance, Head of Legal and the Managing Director of MCB Stockbrokers;
  - A two-tiered approval process, with the first level approval being provided jointly by the CEO of MCBCM and the Chairperson of the Board of MCB Stockbrokers, and the second level approval provided by the management of MCB Group.

- MCBCM, through its brokerage business, also acts as market-maker or liquidity provider in respect of certain securities listed on the Stock Exchange of Mauritius (SEM). Relevant safeguards have been implemented to ensure that any risks arising from this activity are properly mitigated.

- MCBCM, through various subsidiaries, is involved in the structuring, issuance and management of Credit Linked Notes (CLNs). The latter are long-dated debt instruments but have been structured so as to provide targeted investors with regular exit windows hence improving the liquidity of these financial products. Associated financial risks being borne by MCBCM require some degree of active funding and liquidity management, mainly through adequate levels of capitalisation and access to appropriate funding and credit lines.

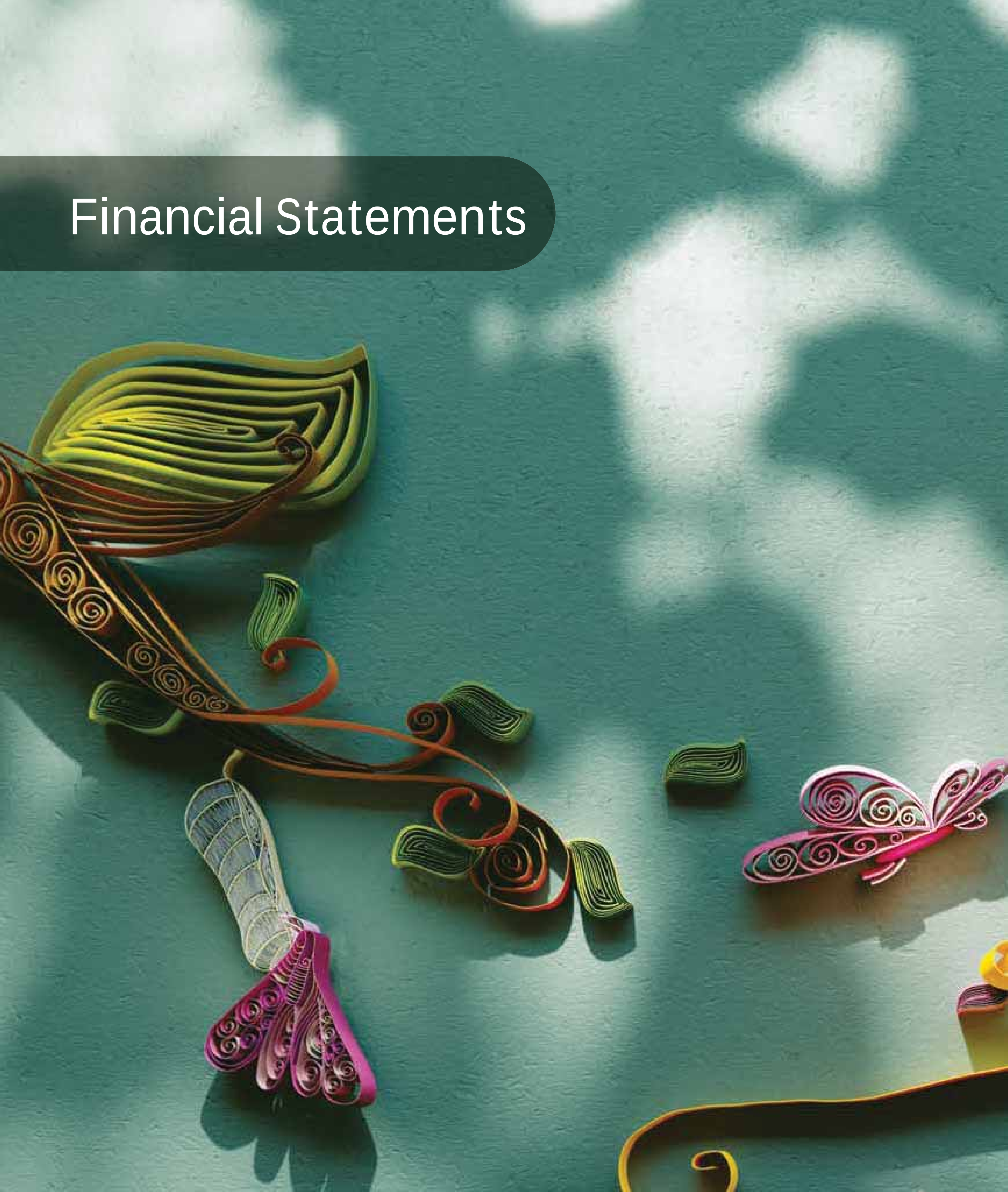
Other investments cluster

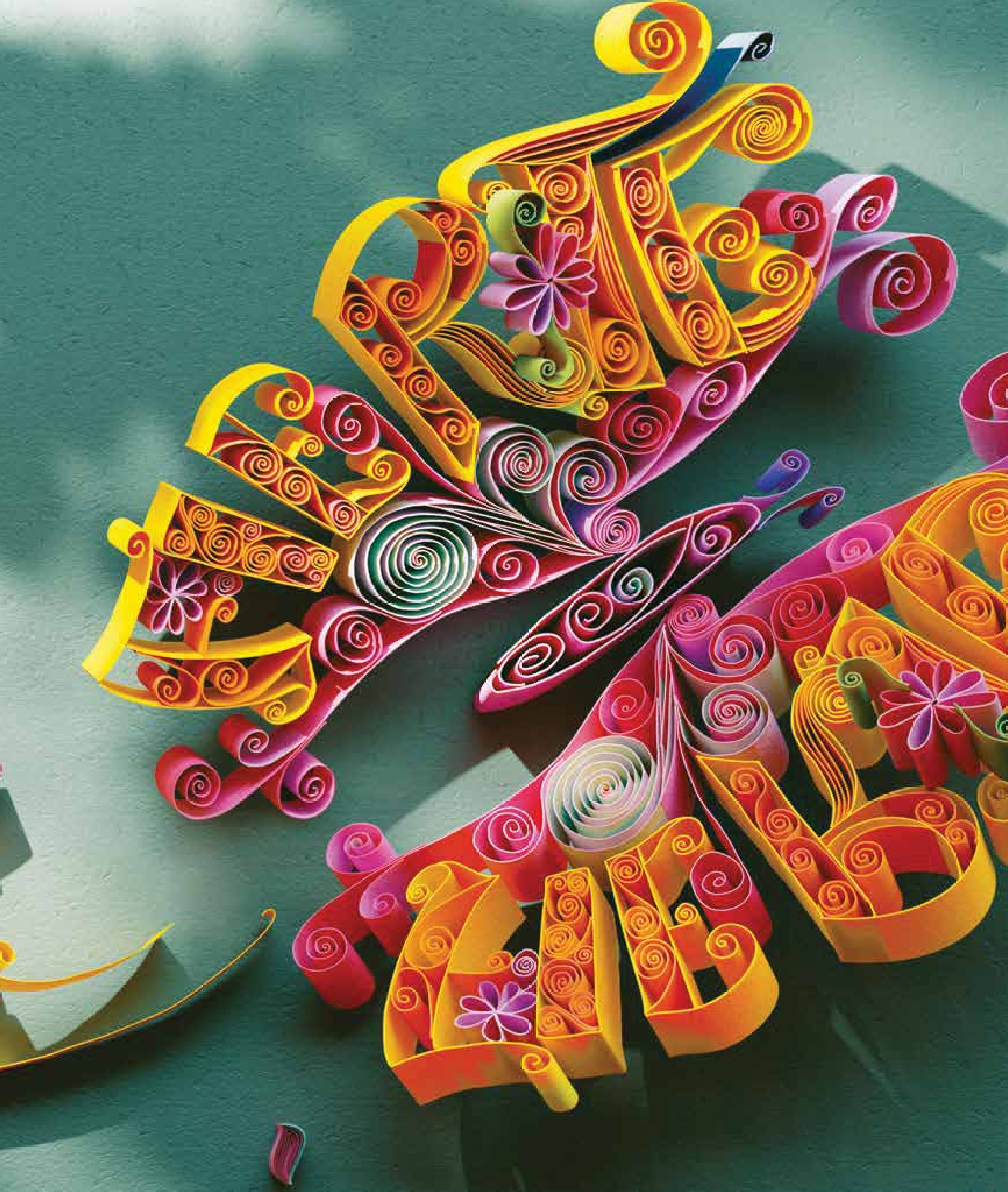
Elsewhere, in line with principles determined at Group level, risk management policies and structures have, in varying capacities, been designed in order to ensure that business activities are carried out in a sound manner, depending on the types of market undertakings being engaged into as well as the range and depth of risks faced. Fundamentally, the Board of each entity has the ultimate responsibility to ensure that risks are properly identified and managed, with relevant functions being mandated to provide clear and coherent assistance to help it in the fulfillment of its duties. In the process, the entities adhere to coherent and robust control mechanisms that enable them to achieve strategic objectives in a sustained and sound manner, backed by a thorough investigation of clients' risk profiles and the diversification of undertakings where applicable. The Internal Audit function of MCB Ltd, having a Group wide mandate, provides assurance over these controls systems and reports on those via the Audit Committee and/or Board of each individual entity. The findings are consolidated and presented to the MCB Group Audit Committee for an integrated view of the effectiveness of risk management, control and governance processes.

Jean-Louis MATTEI
Director
Chairperson Risk Monitoring Committee

Pierre Guy NOEL
Chief Executive

Financial Statements





Independent Auditor's Report

To the Shareholders of MCB Group Limited (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements

Our Opinion

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of MCB Group Limited (the "Company") and its subsidiaries (together the "Group") and of the Company standing alone as at 30 June 2020, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001.

What we have audited

MCB Group Limited's accompanying consolidated and separate financial statements comprise:

- the statements of financial position as at 30 June 2020;
- the statements of profit or loss for the year then ended;
- the statements of comprehensive income for the year then ended;
- the statements of changes in equity for the year then ended;
- the statements of cash flows for the year then ended; and
- the notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

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

Independence

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

Independent Auditor's Report

To the Shareholders of MCB Group Limited (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion ther eon, and we do not provide a separate opinion on these matters.

Key audit matter relating to the consolidated financial statements	How our audit addressed the key audit matter relating to the consolidated financial statements
Allowance for expected credit losses on the Group's financial assets held at amortised cost and debt instruments carried at fair value through other comprehensive income and judgements applied due to the COVID-19 pandemic	
Management continues to monitor the impact of the IFRS 9 - Financial Instruments ('IFRS 9'), Expected Credit Loss ('ECL') methodology and refine inputs and judgements made to ensure that output of the ECL models are aligned to the requirements of the accounting standard and industry developments. The Group's ECL models are reliant on internal and external data and this required significant judgements and estimates in relation to the determination of forward-looking information, defining a Significant Increase in Credit Risk ("SICR") and hereby, staging. Further, the rapidly developing COVID-19 pandemic across the world has meant that assumptions regarding the economic outlook and the consequent impact on the Group's exposures is uncertain, increasing the degree of judgement required to be exercised in calculating ECL. We considered this a key audit matter owing to the subjective and complex judgements made by the Group in recognising allowances for expected credit losses including: • Recalibration of the ECL statistical model components (Probability of Default "PD", Loss Given Default "LGD" and Exposure at Default "EAD") used to estimate the timing and amount of the forecasted cash flows based on historical default data, days past due, client risk group, credit ratings and recoveries.	Given the complexity and significant judgements applied in the models used for the ECL calculation, we have performed among others, the following audit procedures, together with the expertise of our actuarial team: • Assessed the appropriateness of the ECL models methodology, assumptions and discounted cash flows against accepted theory and general market practice that support the impairment of significant wholesale and retail exposures; • Assessed the reasonableness, reliability and accuracy of key data inputs used in the ECL models components against relevant source documentation; • Examined the reasonableness of the assumptions used in the forward-looking economic models, by assessing the forecasts, assumptions and probability weightings allocated to the different macro-economic scenarios (bear, bull and base) and compared these to independent market data; • Obtained an understanding of and evaluated management's process in determining whether there was an evidence of a SICR for the main exposures of the Group, with a particular focus on the most impacted sectors due to COVID-19. We examined the appropriateness of the relevant staging of clients based on market information available at the end of the reporting period.

To the Shareholders of MCB Group Limited (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Key Audit Matters (Continued)

Key audit matter relating to the consolidated financial statements	How our audit addressed the key audit matter relating to the consolidated financial statements
• Determination and weightage of assumptions used in the forward-looking economic model. Three forward-looking scenarios (bull, bear and base) were probability weighted by management to determine the ECL. Variables that were used to project future changes in the macro-economic environment were the credit index, the real Gross Domestic Product, the lending rate, the unemployment rate and the Consumer Price Index. These scenarios were then linked to PDs to derive a forward-looking ECL. • Evidence of significant increase in credit risk and hence the relevant staging and credit ratings of the Group's exposures. A top-down assessment was performed by the relevant portfolios of the main exposures whereby management analysed these either by their industry, sector and/or nature of business activities at the level of each individual client to reflect the more pervasive impact of COVID-19. The Group applied event driven management overlays and increased the results produced by the ECL models for events not yet captured. The Group also applied judgement and estimates in determining the impairment provision on its stage 3 financial assets to estimate the loss event, the amount and timing of its expected future cashflows as well as the determination of the value of collaterals, when taking into account the impact of COVID-19. For instance, a longer period of time that it will take to recover the collaterals held by the Group. Relevant references in the consolidated financial statements Refer to notes 2(d) (Critical accounting estimates and judgements – Measurement of expected credit loss allowance) and 3(b) (Financial Risk Management – Credit Risk) to the consolidated financial statements. **Relevant references in the financial statements** Refer to notes 2(d) (Critical accounting estimates and judgements – Measurement of expected credit loss allowance), 3(b) (Financial Risk Management – Credit Risk) and 18 (Further disclosures with adoption of new international financial reporting standards – Transitional Disclosures with adoption of IFRS 9).	• Assessed the reasonableness of event driven overlays applied by management on the staging and credit ratings on a portfolio basis as well as those made for events not yet captured by the ECL models, by applying our understanding of the industry, emerging risks, inherent business risks and regulatory changes. We considered the need for any other overlays not considered by management through independent research and by considering qualitative and quantitative criteria which may impact the staging of the financial assets and consequently ECL. For ECL calculated on stage 3 financial assets, we considered the significant financial difficulty of the Group's customers and number of days in arrears for repayment. We also considered the assumptions applied by management in its assessment of the recoverability of the exposure. We independently recalculated the ECL, on a sample basis, based on our assessment of the expected cash flows and recoverability of collateral at an individual counterparty level. Where collaterals were used, we assessed, on a sample basis, the reasonableness of the time taken into account to realise those collaterals and the objectivity and qualifications of the respective independent appraisers. We also reviewed the appropriateness of the Group's disclosures against the requirements of IFRS 9.

Independent Auditor's Report

To the Shareholders of MCB Group Limited (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Key Audit Matters (Continued)

Key audit matter relating to the consolidated financial statements	How our audit addressed the key audit matter relating to the consolidated financial statements
Valuation of unquoted financial assets held at fair value MCB Group Limited holds several unlisted investments through its subsidiaries. The fair values of these investments are determined by applying different valuation methodologies. The valuation of these investments requires management to exercise significant judgements and to make significant assumptions. These valuations of the level 3 investments involve complex valuation models where limited external evidence and unobservable inputs are used in the valuation. Due to the magnitude of the investments, the estimation uncertainties in the assumptions, and the degree of judgement required, the assessment of the fair value of the underlying investment in the subsidiaries is considered to be a matter of most significance to our audit. **Relevant references in the consolidated financial statements** Refer to notes 2(b) (Critical accounting estimates and judgements – Fair value of securities not quoted in an active market), 3(d) (Financial Risk Management – Fair value estimation) and 7 (Investment securities) to the consolidated financial statements.	We have assessed the design and operating effectiveness of the Group's key controls supporting the valuation of financial assets. For the valuations which depend on unobservable inputs, we validated the assumptions, methodologies and models used by the Group. We have also involved our valuation experts to assess the appropriateness of the valuation methodologies used. We have tested that the valuation techniques adopted reflect the best appropriate basis for valuation of the investments.

In connection with the separate financial statements, we have determined that there are no key audit matters to communicate in our report.

Independent Auditor's Report

To the Shareholders of MCB Group Limited (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

In addition to the responsibilities described above and our work undertaken in the course of the audit, the Financial Reporting Act 2004 requires us to report certain matters as described below.

Corporate Governance Report

Our responsibility under the Financial Reporting Act 2004 is to report on the compliance with the Code of Corporate Governance (the "Code") disclosed in the annual report and assess the explanations given for non-compliance with any requirement of the Code. From our assessment of the disclosures made on corporate governance in the annual report, the Company has, pursuant to section 75 of the Financial Reporting Act 2004, complied with the requirements of the Code.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

The directors are responsible for overseeing the Group's and Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

Independent Auditor's Report

To the Shareholders of MCB Group Limited (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report

To the Shareholders of MCB Group Limited (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Mauritian Companies Act 2001

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

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

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

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

Mauritian Banking Act 2004

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

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

Other Matter

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

PricewaterhouseCoopers
28 September 2020

Gilles Beesoo, licensed by FRC

Statements of financial position

as at 30 June 2020

		GROUP			COMPANY	
	Notes	As at 30 June 2020 RS'M	As at 30 June 2019 (Restated) RS'M	As at 01 July 2018 (Restated) RS'M	As at 30 June 2020 RS'M	As at 30 June 2019 RS'M
ASSETS						
Cash and cash equivalents	4	**71,573.3**	49,333.5	35,888.2	**141.0**	357.8
Derivative financial instruments	5	**1,449.3**	695.8	512.8	**-**	-
Loans to and placements with banks	6(a)	**18,115.9**	19,672.8	18,858.9	**-**	-
Loans and advances to customers	6(b)	**240,953.4**	227,040.4	198,073.2	**-**	-
Investment securities	7	**148,858.0**	126,204.0	88,763.8	**878.6**	395.2
Investments in associates	8	**10,834.1**	9,961.5	9,637.2	**142.9**	118.7
Investments in subsidiaries	9	**-**	-	-	**11,151.0**	11,113.5
Investment properties	10	**4,444.3**	3,991.7	2,861.1	**-**	-
Goodwill and other intangible assets	11	**1,678.2**	1,462.9	1,238.8	**-**	-
Property, plant and equipment	12	**6,874.9**	6,437.8	6,194.8	**227.1**	224.7
Deferred tax assets	13	**1,262.5**	548.6	591.0	**-**	-
Other assets	14	**26,070.3**	26,069.0	22,609.2	**11.3**	1,679.7
Total assets		**532,114.2**	471,418.0	385,229.0	**12,551.9**	13,889.6
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Deposits from banks	15(a)	**4,314.1**	3,850.9	3,157.7	**-**	-
Deposits from customers	15(b)	**386,344.5**	327,649.5	294,560.9	**-**	-
Derivative financial instruments	5	**1,412.8**	935.0	883.4	**-**	-
Other borrowed funds	16	**52,443.9**	56,886.3	14,372.5	**-**	-
Debt securities	17	**2,007.0**	2,012.7	2,012.7	**2,007.0**	2,012.7
Subordinated liabilities	18	**2,122.2**	5,571.8	5,591.8	**1,108.9**	4,531.7
Preference shares	19	**3,396.2**	-	-	**3,396.2**	-
Current tax liabilities		**1,444.3**	986.6	1,000.2	**0.5**	0.2
Deferred tax liabilities	13	**338.6**	287.9	236.4	**0.1**	0.2
Post employee benefit liability	20	**1,169.8**	360.1	203.0	**-**	-
Other liabilities	21	**12,026.8**	13,842.6	10,874.2	**61.6**	1,363.5
Total liabilities		**467,020.2**	412,383.4	332,892.8	**6,574.3**	7,908.3
Shareholders' equity						
Stated capital		**2,718.7**	2,608.3	2,547.9	**2,718.7**	2,608.3
Retained earnings		**50,460.2**	44,791.6	39,528.0	**3,217.0**	3,350.2
Other components of equity		**9,365.8**	9,109.5	7,813.7	**41.9**	22.8
Equity attributable to the equity holders of the parent		**62,544.7**	56,509.4	49,889.6	**5,977.6**	5,981.3
Non-controlling interests		**2,549.3**	2,525.2	2,446.6	**-**	-
Total equity		**65,094.0**	59,034.6	52,336.2	**5,977.6**	5,981.3
Total equity and liabilities		**532,114.2**	471,418.0	385,229.0	**12,551.9**	13,889.6
CONTINGENT LIABILITIES	24	**72,900.9**	75,595.3	67,182.6		

These financial statements were approved for issue by the Board of Directors on the 28 September 2020.

Pierre Guy NOEL
Director
Chief Executive

Didier HAREL
Director
Chairperson

Alain REY
Director
Chairperson Audit Committee

The notes on pages 222 to 313 form part of these financial statements.
Auditor's report on pages 202 to 208.

Statements of profit or loss

for the year ended 30 June 2020

	Notes	GROUP Year ended 30 June 2020 RS'M	GROUP Year ended 30 June 2019 (Restated) RS'M	COMPANY Year ended 30 June 2020 RS'M	COMPANY Year ended 30 June 2019 RS'M
Interest income	25	**19,994.7**	18,841.4	**17.1**	5.5
Interest expense	26	**(5,586.1)**	(5,884.6)	**(217.6)**	(288.3)
Net interest income		**14,408.6**	12,956.8	**(200.5)**	(282.8)
Fee and commission income	27	**5,339.8**	5,480.8	**-**	-
Fee and commission expense	28	**(1,403.1)**	(1,348.9)	**-**	-
Net fee and commission income		**3,936.7**	4,131.9	**-**	-
Other income					
Profit arising from dealing in foreign currencies		**1,616.3**	1,470.6	**2.8**	0.3
Net gain/(loss) from financial instruments	29	**1,039.4**	702.9	**(0.7)**	-
		2,655.7	2,173.5	**2.1**	0.3
Dividend income	30	**83.4**	95.7	**2,100.4**	3,370.2
Net gain on sale of financial instruments		**216.2**	33.7	**-**	-
Other operating income		**653.7**	834.8	**-**	-
		3,609.0	3,137.7	**2,102.5**	3,370.5
Operating income		**21,954.3**	20,226.4	**1,902.0**	3,087.7
Non-interest expense					
Salaries and human resource costs	31(a)	**(4,431.6)**	(4,315.0)	**(83.9)**	(108.0)
Depreciation of property, plant and equipment		**(810.1)**	(655.9)	**(2.6)**	(2.4)
Amortisation of intangible assets		**(328.6)**	(264.7)	**-**	-
Other	31(b)	**(2,221.3)**	(2,275.1)	**(77.9)**	(53.9)
		(7,791.6)	(7,510.7)	**(164.4)**	(164.3)
Operating profit before impairment		**14,162.7**	12,715.7	**1,737.6**	2,923.4
Net impairment of financial assets	32	**(5,075.7)**	(1,596.9)	**-**	-
Operating profit		**9,087.0**	11,118.8	**1,737.6**	2,923.4
Share of profit of associates		**400.6**	403.9	**-**	-
Profit before tax		**9,487.6**	11,522.7	**1,737.6**	2,923.4
Income tax expense	33	**(1,494.0)**	(1,978.2)	**(0.9)**	(0.6)
Profit for the year		**7,993.6**	9,544.5	**1,736.7**	2,922.8
Profit for the year attributable to:					
Ordinary equity holders of the parent		**7,912.2**	9,434.2	**1,682.9**	2,922.8
Preference shareholders		**53.8**	-	**53.8**	-
Non-controlling interests		**27.6**	110.3	**-**	-
		7,993.6	9,544.5	**1,736.7**	2,922.8
Earnings per share:					
Basic (Rs)	35(a)	**33.10**	39.51		
Diluted (Rs)	35(b)	**33.10**	39.50		

The notes on pages 222 to 313 form part of these financial statements.
Auditor's report on pages 202 to 208.

Statements of comprehensive income
for the year ended 30 June 2020

	Note	GROUP		COMPANY	
		Year ended 30 June 2020	Year ended 30 June 2019 (Restated)	Year ended 30 June 2020	Year ended 30 June 2019
		RS'M	RS'M	RS'M	RS'M
Profit for the year		**7,993.6**	9,544.5	**1,736.7**	2,922.8
Other comprehensive (expense)/income:					
Items that will not be reclassified to profit or loss:					
Net fair value (loss)/gain on equity instruments		**(3.1)**	(57.1)	**19.1**	22.8
Remeasurement of defined benefit pension plan, net of deferred tax	33(b)	**(671.4)**	(404.5)	**-**	-
Share of other comprehensive (expense)/income of associates		**(19.3)**	69.1	**-**	-
		(693.8)	(392.5)	**19.1**	22.8
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		**543.3**	55.8	**-**	-
Reclassification adjustments on disposal of investments at fair value		**-**	(25.3)	**-**	-
Net fair value gain on debt instruments		**5.0**	81.7	**-**	-
Share of other comprehensive income of associates		**1.2**	10.6	**-**	-
		549.5	122.8	**-**	-
Other comprehensive (expense)/income for the year		**(144.3)**	(269.7)	**19.1**	22.8
Total comprehensive income for the year		**7,849.3**	9,274.8	**1,755.8**	2,945.6
Total comprehensive income attributable to:					
Ordinary equity holders of the parent		**7,740.7**	9,163.9	**1,702.0**	2,945.6
Preference shareholders		**53.8**	-	**53.8**	-
Non-controlling interests		**54.8**	110.9	**-**	-
		7,849.3	9,274.8	**1,755.8**	2,945.6

The notes on pages 222 to 313 form part of these financial statements.
Auditor's report on pages 202 to 208.

Statements of changes in equity
for the year ended 30 June 2020

	Notes	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 equity holders of the parent								
GROUP										
At 01 July 2018, before restatement		**2,547.9**	**39,224.4**	**2,227.4**	**(395.0)**	**5,980.8**	**0.5**	**49,586.0**	**2,445.0**	**52,031.0**
Deferred tax adjustment	41	-	303.6	-	-	-	-	303.6	1.6	305.2
At 01 July 2018, as restated		**2,547.9**	**39,528.0**	**2,227.4**	**(395.0)**	**5,980.8**	**0.5**	**49,889.6**	**2,446.6**	**52,336.2**
Profit for the year		-	9,434.2	-	-	-	-	9,434.2	110.3	9,544.5
Other comprehensive (expense)/income for the year		-	(400.7)	71.9	58.5	-	-	(270.3)	0.6	(269.7)
Total comprehensive income for the year		-	9,033.5	71.9	58.5	-	-	9,163.9	110.9	9,274.8
Dividends to ordinary shareholders	34	-	(2,602.9)	-	-	-	-	(2,602.9)	(48.4)	(2,651.3)
Investment in subsidiary		-	-	-	-	-	-	-	4.0	4.0
Impact of rights issue exercised by minority shareholders in subsidiary		-	-	-	-	-	-	-	13.3	13.3
Issue of shares following the exercise of Group Employee Share Options Scheme		60.4	-	-	-	-	-	60.4	-	60.4
Transactions with owners		60.4	(2,602.9)	-	-	-	-	(2,542.5)	(31.1)	(2,573.6)
Share of transfer by associate		-	37.3	(37.3)	-	-	-	-	-	-
Share of other movements in reserves of associate		-	(1.6)	-	-	-	-	(1.6)	(1.2)	(2.8)
Transfer to general banking reserve		-	(248.7)	-	-	-	248.7	-	-	-
Transfer to statutory reserve		-	(954.0)	-	-	954.0	-	-	-	-
At 30 June 2019		**2,608.3**	**44,791.6**	**2,262.0**	**(336.5)**	**6,934.8**	**249.2**	**56,509.4**	**2,525.2**	**59,034.6**
Profit for the year		**-**	**7,966.0**	**-**	**-**	**-**	**-**	**7,966.0**	**27.6**	**7,993.6**
Other comprehensive (expense)/income for the year		**-**	**(673.6)**	**(27.5)**	**529.6**	**-**	**-**	**(171.5)**	**27.2**	**(144.3)**
Total comprehensive income/(expense) for the year		**-**	**7,292.4**	**(27.5)**	**529.6**	**-**	**-**	**7,794.5**	**54.8**	**7,849.3**
Dividends to ordinary shareholders	34	**-**	**(1,816.1)**	**-**	**-**	**-**	**-**	**(1,816.1)**	**(31.4)**	**(1,847.5)**
Dividends to preference shareholders	34	**-**	**(53.8)**	**-**	**-**	**-**	**-**	**(53.8)**	**-**	**(53.8)**
Impact of change in effective holding in subsidiary		**-**	**(0.2)**	**-**	**-**	**-**	**-**	**(0.2)**	**0.2**	**-**
Issue of shares following the exercise of Group Employee Share Options Scheme		**110.4**	**-**	**-**	**-**	**-**	**-**	**110.4**	**-**	**110.4**
Transactions with owners		**110.4**	**(1,870.1)**	**-**	**-**	**-**	**-**	**(1,759.7)**	**(31.2)**	**(1,790.9)**
Share of transfer by associate		**-**	**4.7**	**(4.7)**	**-**	**-**	**-**	**-**	**-**	**-**
Share of other movements in reserves of associate		**-**	**4.8**	**(4.3)**	**-**	**-**	**-**	**0.5**	**0.5**	**1.0**
Transfer from general banking reserve		**-**	**249.2**	**-**	**-**	**-**	**(249.2)**	**-**	**-**	**-**
Transfer to statutory reserve		**-**	**(12.4)**	**-**	**-**	**12.4**	**-**	**-**	**-**	**-**
At 30 June 2020		**2,718.7**	**50,460.2**	**2,225.5**	**193.1**	**6,947.2**	**-**	**62,544.7**	**2,549.3**	**65,094.0**

The notes on pages 222 to 313 form part of these financial statements.
Auditor's report on pages 202 to 208.

Statements of changes in equity
for the year ended 30 June 2020 (Cont'd)

COMPANY	Note	Stated Capital RS'M	Retained Earnings RS'M	Capital Reserves RS'M	Total Equity RS'M
At 01 July 2018		**2,547.9**	**3,030.3**	**-**	**5,578.2**
Profit for the year		-	2,922.8	-	2,922.8
Other comprehensive income for the year		-	-	22.8	22.8
Total comprehensive income for the year		-	2,922.8	22.8	2,945.6
Dividends to ordinary shareholders	34	-	(2,602.9)	-	(2,602.9)
Issue of shares following the exercise of Group Employee Share Options Scheme		60.4	-	-	60.4
Transactions with owners		60.4	(2,602.9)	-	(2,542.5)
At 30 June 2019		**2,608.3**	**3,350.2**	**22.8**	**5,981.3**
Profit for the year		**-**	**1,736.7**	**-**	**1,736.7**
Other comprehensive income for the year		**-**	**-**	**19.1**	**19.1**
Total comprehensive income for the year		**-**	**1,736.7**	**19.1**	**1,755.8**
Dividends to ordinary shareholders	34	**-**	**(1,816.1)**	**-**	**(1,816.1)**
Dividends to preference shareholders	34	**-**	**(53.8)**	**-**	**(53.8)**
Issue of shares following the exercise of Group Employee Share Options Scheme		**110.4**	**-**	**-**	**110.4**
Transactions with owners		**110.4**	**(1,869.9)**	**-**	**(1,759.5)**
At 30 June 2020		**2,718.7**	**3,217.0**	**41.9**	**5,977.6**

The notes on pages 222 to 313 form part of these financial statements.
Auditor's report on pages 202 to 208.

Statements of cash flows

for the year ended 30 June 2020

	Notes	GROUP Year ended 30 June 2020 RS'M	GROUP Year ended 30 June 2019 (Restated) RS'M	COMPANY Year ended 30 June 2020 RS'M	COMPANY Year ended 30 June 2019 RS'M
Operating activities					
Net cash flows from trading activities	37	**13,954.2**	18,125.1	**3,364.5**	2,652.1
Net cash flows from other operating activities	38	**14,742.0**	182.7	**-**	-
Dividends received from associates		**79.6**	249.4	**-**	-
Dividends paid to ordinary shareholders		**(3,106.2)**	(2,386.9)	**(3,106.2)**	(2,386.9)
Dividends paid to preference shareholders		**(53.8)**	-	**(53.8)**	-
Dividends paid to non-controlling interests in subsidiaries		**(31.4)**	(48.4)	**-**	-
Income tax paid		**(1,606.5)**	(1,803.8)	**(0.7)**	(0.6)
Net cash flows from operating activities		**23,977.9**	14,318.1	**203.8**	264.6
Investing activities					
Investment in associates		**(74.1)**	(99.9)	**(24.2)**	(1.5)
Purchase of investment property		**(71.5)**	(925.0)	**-**	-
Purchase of property, plant and equipment		**(903.3)**	(838.1)	**(5.0)**	(2.2)
Purchase of intangible assets		**(611.5)**	(393.0)	**-**	-
Proceeds from sale of property, plant and equipment		**89.8**	69.0	**-**	-
Investment in subsidiaries		**-**	-	**(37.5)**	(41.0)
Net subordinated loan granted to subsidiaries		**-**	-	**-**	(272.9)
Net investment in securities		**-**	-	**(464.3)**	(172.4)
Net cash flows from investing activities		**(1,570.6)**	(2,187.0)	**(531.0)**	(490.0)
Net cash flows before financing activities		**22,407.3**	12,131.1	**(327.2)**	(225.4)
Financing activities					
Shares issued/employee share options exercised		**110.4**	60.4	**110.4**	60.4
Impact of right issue exercised by minority shareholders in subsidiary		**-**	13.3	**-**	-
Loan from associate		**-**	1,168.6	**-**	-
Lease payments		**(116.0)**	-	**-**	-
Refund of subordinated liability		**(137.2)**	(51.4)	**-**	-
Net cash flows from financing activities		**(142.8)**	1,190.9	**110.4**	60.4
Increase/(Decrease) in cash and cash equivalents		**22,264.5**	13,322.0	**(216.8)**	(165.0)
Net cash and cash equivalents at 01 July		**49,328.9**	35,896.1	**357.8**	522.8
Effect of foreign exchange rate changes		**(452.0)**	110.8	**-**	-
Net cash and cash equivalents at 30 June	4	**71,141.4**	49,328.9	**141.0**	357.8

The notes on pages 222 to 313 form part of these financial statements.
Auditor's report on pages 202 to 208.

General information

The MCB Group Limited ("the Company") was incorporated as a public company limited by shares on 05 August 2013. Its registered office is situated at 9-15, Sir William Newton Street, Port-Louis, Mauritius.

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

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

Index to notes to the financial statements

Index to notes to the financial statements
(Cont'd)

Index to notes to the financial statements

(Cont'd)

1. Significant accounting policies

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

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the Mauritian Companies Act 2001.

Where necessary, comparative figures have been amended to conform with changes in presentation, or in accounting policies in the current year.

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

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

New and amended standards adopted by the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on 01 July 2019, and have not been applied in preparing these financial statements. None of these is expected to have a significant and material effect on the financial statements of the Group in the current reporting period. For this financial year, the following has been adopted:

IFRS 16 Leases

Until 30 June 2019, the leases of property, plant and equipment of the Group did not have a significant portion of risks and rewards of ownership being transferred, hence these were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income.

IFRS 16, 'Leases' resulted in all leases being recognised in the financial statements as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right-of-use leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases which are treated in the same way as it was before the adoption. The standard is mandatory for financial years commencing on 01 July 2019.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty;
- that the entity should assume a tax authority, will examine the uncertain tax treatments and have full knowledge of all related information, i.e. detection risk should be ignored;
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment;

1. Significant accounting policies (Cont'd)

(a) Basis of preparation (Cont'd)

- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

The application of this IFRIC does not have any significant impact on the Group

New standards, amendments and interpretations issued but not effective for the financial year and not adopted early

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning 01 July 2020, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group, except the following set out below.

Amendments to IAS 1 and IAS 8 effective 1 January 2020: Definition of material

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

For the current reporting year, the Group has assessed that the standard does not have a material impact on the financial statements. There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

1. Significant accounting policies (Cont'd)

(b) Basis of consolidation and equity accounting

(1) (i) Subsidiaries

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

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

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

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

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

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

(ii) Separate financial statements of the Company

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

(iii) Transactions with non-controlling interests

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

1. Significant accounting policies (Cont'd)

(b) Basis of consolidation and equity accounting (Cont'd)

Disposal of subsidiaries

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

(2) Associates

An associate is an entity over which the Group has significant influence but no control, or joint control, generally accompanying a shareholding between 20% and 50% of the voting rights.

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

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

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

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

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

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

1. Significant accounting policies (Cont'd)

(c) Foreign currency translation

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

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

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when the items are remeasured.

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

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

1. Significant accounting policies (Cont'd)

(d) Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially at fair value and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Where the derivatives are managed with debt securities issued by the Group that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

(e) Offsetting financial instruments

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

(f) Interest income

Interest income is calculated by applying the effective interest rate to gross carrying amount of financial assets, except for :

(i) Purchased or originated credit-impaired ('POCI') financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(ii) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

(g) Fees and commissions

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

(h) Sale and repurchase agreements

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

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

1. Significant accounting policies (Cont'd)

(i) Investments, other financial assets and financial liabilities

Recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVPL), transaction costs that are incremental and directly attributable to the acquisition of the financial asset or financial liability. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investment is in debt instruments measured at fair value through other comprehensive income, as described in note 7, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the differences as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, treasury bills, government and corporate bonds.

Classification and subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost and effective interest rate

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in interest income using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets - assets that are credit-impaired at initial recognition- the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in net gain on sale of financial instruments in the statement of profit or loss. Impairment losses are presented as separate line item in the statement of profit or loss.

1. Significant accounting policies (Cont'd)

(i) Investments, other financial assets and financial liabilities (Cont'd)

Loans originated by the Group by providing money directly to the borrower (at draw-down) are categorized 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.

FVOCI

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the fair value are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in net gain on sale of financial instruments. Interest income from these financial assets is included in interest income using the effective interest rate method. Foreign exchange gains and losses are presented in profit arising from dealing in foreign currencies in the statement of profit or loss and impairment expenses are presented as separate line item in the statement of profit or loss.

FVPL

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented in net gain on sale of financial instruments in the statement of profit or loss in the year in which it arises.

Classification

The Group classifies its financial assets in the following measurement categories:
- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

Debt instruments

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows, that is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

1. Significant accounting policies (Cont'd)

(i) Investments, other financial assets and financial liabilities (Cont'd)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

For assets measured at fair value, all gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held-for-trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.
The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through comprehensive income. The group's policy is to designate equity instruments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as dividend income when the Group's right to receive payments is established.

Gains or losses on equity investments at FVPL are included in the 'Net gain on sale of financial instruments' line in the statement of profit or loss.

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

(i) If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

(ii) Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

(iii) Significant extension of the loan term when the borrower is not in financial difficulty.

(iv) Significant change in the interest rate.

(v) Change in the currency the loan is denominated in.

(vi) Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

1. Significant accounting policies (Cont'd)

(i) Investments, other financial assets and financial liabilities (Cont'd)

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the assets. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss in net impairment of financial assets.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The impact of modifications of financial assets on the expected credit loss calculation is discussed in note 3.

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

1. Significant accounting policies (Cont'd)

(i) Investments, other financial assets and financial liabilities (Cont'd)

Financial Liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives financial instruments, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit and loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in statement of profit or loss (the remaining amount of change in the fair value of the liability.) This is applicable unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in statement of profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:
- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

1. Significant accounting policies (Cont'd)

(i) Investments, other financial assets and financial liabilities (Cont'd)

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as describe in note 24). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instruments.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

(j) Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

1. Significant accounting policies (Cont'd)

(k) Investment properties

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

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

(l) Goodwill

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

Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the gains and losses on disposal. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(m) Property, plant and equipment

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

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

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

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.
Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of property, plant and equipment are determined by reference to their disposal proceeds and their carrying amounts and are recognised as income or expense in profit or loss. Repairs and renewals are charged to profit or loss when the expenditure is incurred.

1. Significant accounting policies (Cont'd)

(n) Computer software development costs

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

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

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

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

(o) Finance leases

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

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

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

(p) Accounting for leases - where the subsidiary is the lessor

Finance leases

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

(q) Cash and cash equivalents

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

1. Significant accounting policies (Cont'd)

(r) 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.

(s) 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.

(t) Employee benefits

The Group operates a number of defined benefit and defined contribution plans and provides for the requirements under the Workers' Rights Act (WRA) 2019. The defined benefit plan is fully funded. The assets of the funded plan are held independently and administered by The Mauritius Commercial Bank Limited Superannuation Fund.

(i) Defined contribution plans

Short term obligations

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

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

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

(ii) Defined benefit plans

Gratuity on retirement

For employees who are not covered (or who are insufficiently covered by the above pension plans), the net present value of gratuity on retirement payable under the Workers' Rights Act (WRA) 2019 is calculated by a qualified actuary and provided for. The obligations arising under this item are not funded.

1. Significant accounting policies (Cont'd)

(t) Employee benefits (Cont'd)

Termination benefits

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

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

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The main assumptions made in the actuarial valuation of the pension fund are listed in note 20 to the financial statements.

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

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

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

As from 01 July 2015, the Bank has introduced a Defined Contribution Cash Balanced scheme (DCCB) for its employees.
With the introduction of DCCB, new employees automatically join the DCCB scheme, whilst existing employees had a one-time opportunity to choose from one of the options listed below:

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

Option B: To keep the accrued past pension benefits until 30 June 2015 in the DB scheme and join the DCCB scheme as from 01 July 2015.

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

1. Significant accounting policies (Cont'd)

(u) Current and deferred income tax

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

(i) Current income tax

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

(ii) Deferred income tax

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

Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the end of the reporting period and are expected to apply in the period when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

(v) 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.

(w) Dividend declared and unpaid

Dividend declared and unpaid to the Company's shareholders at reporting date is recognised as a liability in the period in which dividend is declared.

(x) 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.

(y) Operating segments

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

Detailed analysis of segment reporting is shown in note 39 to the financial statements.

1. Significant accounting policies (Cont'd)

(z) Stated capital

(i) Ordinary shares are classified as equity.

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

(aa) 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.

(ab) Impairment of non-financial assets

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

(ac) Share-based payments

Share-based compensation benefits are provided to all employees via the Group Employee Share Option Scheme (GESOS). Information relating to this scheme is set out in note 31 (c).

The fair value of options granted under the GESOS is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions,
- excluding the impact of any service and non-market performance vesting conditions, and
- including the impact of any non-vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Social security contributions payable in connection with an option grant are considered an integral part of the grant itself and the charges are treated as cash-settled transactions.

(ad) Earnings per share

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

2. Critical accounting estimates and judgements

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

Critical accounting estimates and judgements

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

(a) Pension benefits

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

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

Additional disclosure on pension benefits are shown in Note 20.

(b) 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.

(c) Asset lives and residual values

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

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

(d) Measurement of expected credit loss allowance

The measurement of expected credit loss allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g the likelihood of customers defaulting and the resulting losses). Explanations of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in the Risk and Capital Management report, which also sets out the key sensitivities of the ECL to changes in those elements. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of ECL
- Establishing the number and relative weightings of forward looking scenarios for each type of market and associated ECL
- Establishing groups of similar financial assets for the purposes of measuring ECL

Detailed information about the judgements and estimates made by the Group in above areas is set out in the Risk and Capital Management report.

Impact of COVID-19

The ECL models set up by the Group are driven by internal and external data and this required significant judgements and estimates in relation to the determination of forward-looking information, defining elements of a significant increase in credit risk and staging of financial instruments.

The economic outlook of the markets in which the Group is present has been impacted by the ongoing COVID-19 pandemic. The consequent impact on the Group is uncertain, thereby increasing the degree of judgement required to be exercised in calculating ECL:

- Models used to calculate ECL are inherently complex and judgement is applied in determining the appropriateness of the ECL model.
- A number of inputs assumptions are made by the Group concerning the values of inputs to the models and how the inputs correlate with one another; including the incorporation of the current macro-economic scenario through the forward-looking information.
- Evidence of significant increase in credit risk and hence the relevant staging and credit ratings of the Group's clients. These were analysed either by industry sector and nature of business activities at the level of each individual client to reflect the more pervasive impact of COVID-19, data and model limitations.

The Group also applied judgement and estimates in determining the impairment provision on its stage 3 financial assets to estimate the loss event, the amount and timing of their expected future cashflows as well as the determination of the value of collaterals, when taking into account the impact of COVID-19.

(e) Significant influence in Banque Française Commerciale Ocean Indien

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

3. Financial risk management

(a) Strategy in using financial instruments

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

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

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

(b) Credit risk

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

Credit related commitments

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

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

Credit quality

The Bank allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of risk of default and applying experienced credit judgement. For the wholesale portfolio, credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of the borrower. It involves assigning a rating to each counterparty according to an internal scale of 1 to 20.

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

The following table presents the Bank's internal rating scale and the corresponding scale of Moody's Investors Service.

Internal rating	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Moody's equivalent rating	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	D

Credit quality

The following tables set out the credit quality of exposures measured at amortised cost by different segments.

At 30 June 2020

	Performing			Under performing			Non-performing			
	Gross exposure	Expected credit loss	Net exposure	Gross exposure	Expected credit loss	Net exposure	Gross exposure	Lifetime expected credit loss (credit impaired)	Interest in suspense	Net exposure
Portfolio:	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Retail	48,527.3	427.0	48,100.3	1,733.1	356.4	1,376.7	2,339.7	554.9	290.8	1,784.8
Wholesale	410,743.2	1,603.4	409,139.8	33,353.2	3,361.8	29,991.4	7,371.9	2,441.8	1,362.7	4,930.1
Total	459,270.5	2,030.4	457,240.1	35,086.3	3,718.2	31,368.1	9,711.6	2,996.7	1,653.5	6,714.9
Retail										
Housing loans	29,520.0	64.8	29,455.2	626.3	59.8	566.5	1,053.2	220.4	80.4	832.8
Small and medium enterprise	9,197.8	78.5	9,119.3	732.8	177.9	554.9	643.3	139.2	92.6	504.1
Unsecured and revolving	5,044.2	219.5	4,824.7	114.5	51.2	63.3	278.6	129.6	43.9	149.0
Other secured loans	4,765.3	64.2	4,701.1	259.5	67.5	192.0	364.6	65.7	73.9	298.9
Total retail	48,527.3	427.0	48,100.3	1,733.1	356.4	1,376.7	2,339.7	554.9	290.8	1,784.8

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality (Cont'd)

At 30 June 2020

	Performing			Under performing			Non-performing			
	Gross exposure	Expected credit loss	Net exposure	Gross exposure	Expected credit loss	Net exposure	Gross exposure	Lifetime expected credit loss (credit impaired)	Interest in suspense	Net exposure
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Portfolio										
Wholesale										
Sovereign	135,728.4	28.3	135,700.1	-	-	-	-	-	-	-
Financial institutions	53,270.7	45.7	53,225.0	-	-	-	0.2	0.1	11.7	0.1
Project finance	8,905.5	198.5	8,707.0	240.7	45.2	195.5	57.0	4.9	0.1	52.1
Energy & commodities	76,857.8	111.2	76,746.6	6,647.0	223.5	6,423.5	1,488.9	281.2	95.4	1,207.7
Corporate	135,980.8	1,219.7	134,761.1	26,465.5	3,093.1	23,372.4	5,825.8	2,155.6	1,255.5	3,670.2
Total wholesale	410,743.2	1,603.4	409,139.8	33,353.2	3,361.8	29,991.4	7,371.9	2,441.8	1,362.7	4,930.1

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality (Cont'd)

An analysis of credit exposures using the Bank's grading system is given below

At 30 June 2020

	Gross exposure			Expected credit loss			Net exposure		
	12 months	Lifetime not credit impaired	Lifetime credit impaired	12 months expected credit loss	Lifetime expected credit loss (not credit impaired)	Lifetime expected credit loss (credit impaired)	12 months	Lifetime not credit impaired	Lifetime credit impaired
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Internal Rating									
Total Wholesale									
3	4,990.6	-	-	0.2	-	-	4,990.4	-	-
4	6.1	-	-	-	-	-	6.1	-	-
5	15,228.1	-	-	2.9	-	-	15,225.2	-	-
6	140,847.4	-	-	10.3	-	-	140,837.1	-	-
7	6,446.2	-	-	2.0	-	-	6,444.2	-	-
8	700.2	-	-	0.4	-	-	699.8	-	-
9	13,571.2	-	-	3.0	-	-	13,568.2	-	-
10	2,418.8	-	-	1.5	-	-	2,417.3	-	-
11	13,190.4	-	-	7.0	-	-	13,183.4	-	-
12	42,709.4	9.8	-	117.9	0.1	-	42,591.5	9.7	-
13	54,530.1	701.1	-	175.0	11.1	-	54,355.1	690.0	-
14	37,486.9	1,934.4	-	218.0	29.8	-	37,268.9	1,904.6	-
15	55,428.1	13,910.4	-	496.9	1,421.0	-	54,931.2	12,489.4	-
16	18,371.8	9,087.1	-	320.0	1,001.4	-	18,051.8	8,085.7	-
17	2,005.4	2,986.1	-	112.3	158.9	-	1,893.1	2,827.2	-
18	1,930.1	3,455.3	-	65.9	451.0	-	1,864.2	3,004.3	-
19	882.4	1,269.0	-	70.1	288.5	-	812.3	980.5	-
20	-	-	7,371.9	-	-	2,441.8	-	-	4,930.1
Total	410,743.2	33,353.2	7,371.9	1,603.4	3,361.8	2,441.8	409,139.8	29,991.4	4,930.1
Sovereign									
6	134,736.2	-	-	9.7	-	-	134,726.5	-	-
14	690.6	-	-	2.0	-	-	688.6	-	-
18	301.6	-	-	16.6	-	-	285.0	-	-
Total	135,728.4	-	-	28.3	-	-	135,700.1	-	-

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality (Cont'd)

At 30 June 2020

	Gross exposure			Expected credit loss			Net exposure		
	12 months	Lifetime not credit impaired	Lifetime credit impaired	12 months expected credit loss	Lifetime expected credit loss (not credit impaired)	Lifetime expected credit loss (credit impaired)	12 months	Lifetime not credit impaired	Lifetime credit impaired
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Internal Rating									
Financial Institutions									
3	4,577.1	-	-	0.2	-	-	4,576.9	-	-
4	6.1	-	-	-	-	-	6.1	-	-
5	15,228.1	-	-	2.9	-	-	15,225.2	-	-
6	6,111.2	-	-	0.6	-	-	6,110.6	-	-
7	6,446.2	-	-	2.0	-	-	6,444.2	-	-
8	203.8	-	-	0.1	-	-	203.7	-	-
9	13,571.2	-	-	3.0	-	-	13,568.2	-	-
10	1,251.8	-	-	0.4	-	-	1,251.4	-	-
11	9.8	-	-	-	-	-	9.8	-	-
12	518.9	-	-	2.0	-	-	516.9	-	-
13	482.9	-	-	2.8	-	-	480.1	-	-
14	241.0	-	-	1.3	-	-	239.7	-	-
15	634.5	-	-	1.3	-	-	633.2	-	-
16	2,625.4	-	-	7.9	-	-	2,617.5	-	-
17	119.2	-	-	0.1	-	-	119.1	-	-
18	1,243.5	-	-	21.1	-	-	1,222.4	-	-
20	-	-	0.2	-	-	0.1	-	-	0.1
Total	53,270.7	-	0.2	45.7	-	0.1	53,225.0	-	0.1

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality (Cont'd)

At 30 June 2020

	Gross exposure			Expected credit loss			Net exposure		
	12 months	Lifetime not credit impaired	Lifetime credit impaired	12 months expected credit loss	Lifetime expected credit loss (not credit impaired)	Lifetime expected credit loss (credit impaired)	12 months	Lifetime not credit impaired	Lifetime credit impaired
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Internal Rating									
Project Finance									
12	1,033.1	-	-	3.8	-	-	1,029.3	-	-
13	1,352.8	-	-	2.8	-	-	1,350.0	-	-
14	623.5	-	-	6.2	-	-	617.3	-	-
15	3,232.8	-	-	61.3	-	-	3,171.5	-	-
16	2,056.6	-	-	75.4	-	-	1,981.2	-	-
17	378.4	-	-	25.2	-	-	353.2	-	-
18	135.0	240.7	-	9.2	45.2	-	125.8	195.5	-
19	93.3	-	-	14.6	-	-	78.7	-	-
20	-	-	57.0	-	-	4.9	-	-	52.1
Total	8,905.5	240.7	57.0	198.5	45.2	4.9	8,707.0	195.5	52.1

Energy & Commodities									
3	413.5	-	-	-	-	-	413.5	-	-
8	496.4	-	-	0.3	-	-	496.1	-	-
11	6,222.4	-	-	0.5	-	-	6,221.9	-	-
12	8,476.4	-	-	5.0	-	-	8,471.4	-	-
13	16,212.5	436.9	-	16.1	2.4	-	16,196.4	434.5	-
14	10,325.0	769.0	-	12.7	6.4	-	10,312.3	762.6	-
15	28,165.4	2,288.3	-	41.4	22.9	-	28,124.0	2,265.4	-
16	6,546.2	1,213.7	-	35.2	59.5	-	6,511.0	1,154.2	-
17	-	950.9	-	-	28.5	-	-	922.4	-
18	-	988.2	-	-	103.8	-	-	884.4	-
20	-	-	1,488.9	-	-	281.2	-	-	1,207.7
Total	76,857.8	6,647.0	1,488.9	111.2	223.5	281.2	76,746.6	6,423.5	1,207.7

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality (Cont'd)

At 30 June 2020

	Gross exposure			Expected credit loss			Net exposure		
	12 months	Lifetime not credit impaired	Lifetime credit impaired	12 months expected credit loss	Lifetime expected credit loss (not credit impaired)	Lifetime expected credit loss (credit impaired)	12 months	Lifetime not credit impaired	Lifetime credit impaired
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Internal Rating									
Corporate									
10	1,167.0	-	-	1.1	-	-	1,165.9	-	-
11	6,958.2	-	-	6.5	-	-	6,951.7	-	-
12	32,681.0	9.8	-	107.1	0.1	-	32,573.9	9.7	-
13	36,481.9	264.2	-	153.3	8.7	-	36,328.6	255.5	-
14	25,606.8	1,165.4	-	195.8	23.4	-	25,411.0	1,142.0	-
15	23,395.4	11,622.1	-	392.9	1,398.1	-	23,002.5	10,224.0	-
16	7,143.6	7,873.4	-	201.5	941.9	-	6,942.1	6,931.5	-
17	1,507.8	2,035.2	-	87.0	130.4	-	1,420.8	1,904.8	-
18	250.0	2,226.4	-	19.0	302.0	-	231.0	1,924.4	-
19	789.1	1,269.0	-	55.5	288.5	-	733.6	980.5	-
20	-	-	5,825.8	-	-	2,155.6	-	-	3,670.2
Total	135,980.8	26,465.5	5,825.8	1,219.7	3,093.1	2,155.6	134,761.1	23,372.4	3,670.2

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality (Cont'd)

At 30 June 2019

	Performing			Under performing			Non-performing			
	Gross exposure	Expected credit loss	Net exposure	Gross exposure	Expected credit loss	Net exposure	Gross exposure	Lifetime expected credit loss (credit impaired)	Interest in suspense	Net exposure
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Portfolio										
Retail	50,430.8	106.2	50,324.6	439.9	17.1	422.8	1,835.6	483.0	293.1	1,352.6
Wholesale	363,778.2	1,710.2	362,068.0	16,336.4	625.3	15,711.1	7,507.9	2,012.7	1,666.7	5,495.2
Total	**414,209.0**	**1,816.4**	**412,392.6**	**16,776.3**	**642.4**	**16,133.9**	**9,343.5**	**2,495.7**	**1,959.8**	**6,847.8**
Retail										
Housing loans	29,175.9	19.5	29,156.4	180.5	4.6	175.9	759.1	182.9	93.2	576.2
Small and medium enterprise	8,688.4	44.0	8,644.4	118.1	6.8	111.3	500.5	103.2	82.6	397.3
Unsecured and revolving	7,223.5	34.6	7,188.9	78.7	3.7	75.0	290.2	129.2	46.5	161.0
Other secured loans	5,343.0	8.1	5,334.9	62.6	2.0	60.6	285.8	67.7	70.8	218.1
Total retail	**50,430.8**	**106.2**	**50,324.6**	**439.9**	**17.1**	**422.8**	**1,835.6**	**483.0**	**293.1**	**1,352.6**
Wholesale										
Sovereign	100,956.1	31.3	100,924.8	-	-	-	-	-	-	-
Financial institutions	50,752.4	178.8	50,573.6	-	-	-	69.3	0.1	7.6	69.2
Project finance	14,860.6	175.7	14,684.9	267.6	6.4	261.2	687.7	140.6	64.7	547.1
Energy & commodities	70,759.8	114.9	70,644.9	3,287.6	91.3	3,196.3	1,575.2	464.4	40.8	1,110.8
Corporate	126,449.3	1,209.5	125,239.8	12,781.2	527.6	12,253.6	5,175.7	1,407.6	1,553.6	3,768.1
Total wholesale	**363,778.2**	**1,710.2**	**362,068.0**	**16,336.4**	**625.3**	**15,711.1**	**7,507.9**	**2,012.7**	**1,666.7**	**5,495.2**

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality (Cont'd)

At 30 June 2019

	Gross exposure			Expected credit loss			Net exposure		
	12 months	Lifetime not credit impaired	Lifetime credit impaired	12 months expected credit loss	Lifetime expected credit loss (not credit impaired)	Lifetime expected credit loss (credit impaired)	12 months	Lifetime not credit impaired	Lifetime credit impaired
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Internal Rating									
Total Wholesale									
3	958.3	-	-	0.1	-	-	958.2	-	-
4	445.8	-	-	0.1	-	-	445.7	-	-
5	5,640.6	-	-	1.0	-	-	5,639.6	-	-
6	105,778.3	-	-	8.4	-	-	105,769.9	-	-
7	3,798.0	-	-	0.9	-	-	3,797.1	-	-
8	4,616.2	-	-	0.9	-	-	4,615.3	-	-
9	5,025.2	-	-	2.0	-	-	5,023.2	-	-
10	8,268.5	-	-	4.0	-	-	8,264.5	-	-
11	21,483.7	640.2	-	39.8	3.2	-	21,443.9	637.0	-
12	61,969.7	313.6	-	130.7	0.6	-	61,839.0	313.0	-
13	39,994.0	110.4	-	110.7	1.4	-	39,883.3	109.0	-
14	44,544.4	384.2	-	372.1	4.9	-	44,172.3	379.3	-
15	38,603.8	5,140.3	-	464.0	211.6	-	38,139.8	4,928.7	-
16	14,275.1	4,965.3	-	317.7	143.1	-	13,957.4	4,822.2	-
17	3,644.8	890.9	-	87.3	64.6	-	3,557.5	826.3	-
18	1,424.0	1,201.9	-	37.0	92.4	-	1,387.0	1,109.5	-
19	3,307.8	2,689.6	-	133.5	103.5	-	3,174.3	2,586.1	-
20	-	-	7,507.9	-	-	2,012.7	-	-	5,495.2
Total	**363,778.2**	**16,336.4**	**7,507.9**	**1,710.2**	**625.3**	**2,012.7**	**362,068.0**	**15,711.1**	**5,495.2**
Sovereign									
5	0.8	-	-	-	-	-	0.8	-	-
6	99,809.9	-	-	7.1	-	-	99,802.8	-	-
13	220.0	-	-	0.2	-	-	219.8	-	-
14	611.4	-	-	2.2	-	-	609.2	-	-
18	314.0	-	-	21.8	-	-	292.2	-	-
Total	**100,956.1**	**-**	**-**	**31.3**	**-**	**-**	**100,924.8**	**-**	**-**

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality (Cont'd)

At 30 June 2019

	Gross exposure			Expected credit loss			Net exposure		
	12 months	Lifetime not credit impaired	Lifetime credit impaired	12 months expected credit loss	Lifetime expected credit loss (not credit impaired)	Lifetime expected credit loss (credit impaired)	12 months	Lifetime not credit impaired	Lifetime credit impaired
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Internal Rating									
Financial Institutions									
3	958.3	-	-	0.1	-	-	958.2	-	-
4	445.8	-	-	0.1	-	-	445.7	-	-
5	3,512.5	-	-	1.0	-	-	3,511.5	-	-
6	5,968.4	-	-	1.3	-	-	5,967.1	-	-
7	3,798.0	-	-	0.9	-	-	3,797.1	-	-
8	3,979.3	-	-	0.4	-	-	3,978.9	-	-
9	4,595.3	-	-	2.0	-	-	4,593.3	-	-
10	6,639.5	-	-	1.1	-	-	6,638.4	-	-
11	1,887.4	-	-	1.9	-	-	1,885.5	-	-
12	5,693.1	-	-	4.6	-	-	5,688.5	-	-
13	1,903.9	-	-	2.5	-	-	1,901.4	-	-
14	448.9	-	-	5.6	-	-	443.3	-	-
15	3,978.4		-	19.7			3,958.7		-
16	3,134.9	-	-	35.2	-	-	3,099.7	-	-
17	914.0	-	-	-	-	-	914.0	-	-
18	626.4	-	-	9.1	-	-	617.3	-	-
19	2,268.3	-	-	93.3	-	-	2,175.0	-	-
20	-	-	69.3	-	-	0.1	-	-	69.2
Total	**50,752.4**	**-**	**69.3**	**178.8**	**-**	**0.1**	**50,573.6**	**-**	**69.2**

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality (Cont'd)

At 30 June 2019

	Gross exposure			Expected credit loss			Net exposure		
	12 months	Lifetime not credit impaired	Lifetime credit impaired	12 months expected credit loss	Lifetime expected credit loss (not credit impaired)	Lifetime expected credit loss (credit impaired)	12 months	Lifetime not credit impaired	Lifetime credit impaired
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Internal Rating									
Project Finance									
13	4,563.1	-	-	17.1	-	-	4,546.0	-	-
14	3,878.3	-	-	40.1	-	-	3,838.2	-	-
15	4,718.1	31.4	-	88.6	1.2	-	4,629.5	30.2	-
16	1,701.1	-	-	29.9	-	-	1,671.2	-	-
18	-	236.2	-	-	5.2	-	-	231.0	-
20	-	-	687.7	-	-	140.6	-	-	547.1
Total	**14,860.6**	**267.6**	**687.7**	**175.7**	**6.4**	**140.6**	**14,684.9**	**261.2**	**547.1**
Energy & Commodities									
5	2,127.2	-	-	-	-	-	2,127.2	-	-
8	636.9	-	-	0.5	-	-	636.4	-	-
11	649.0	515.9	-	0.2	2.0	-	648.8	513.9	-
12	22,666.2	-	-	5.5	-	-	22,660.7	-	-
13	11,450.7	-	-	3.2	-	-	11,447.5	-	-
14	13,955.8	-	-	11.6	-	-	13,944.2	-	-
15	15,910.9	1,830.0	-	75.8	3.3	-	15,835.1	1,826.7	-
16	1,900.6	-	-	18.1	-	-	1,882.5	-	-
17	1,452.8	-	-	-	-	-	1,452.8	-	-
18	-	941.7	-	-	86.0	-	-	855.7	-
19	9.7	-	-	-	-	-	9.7	-	-
20	-	-	1,575.2	-	-	464.4	-	-	1,110.8
Total	**70,759.8**	**3,287.6**	**1,575.2**	**114.9**	**91.3**	**464.4**	**70,644.9**	**3,196.3**	**1,110.8**

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality (Cont'd)

At 30 June 2019

	Gross exposure			Expected credit loss			Net exposure		
	12 months	Lifetime not credit impaired	Lifetime credit impaired	12 months expected credit loss	Lifetime expected credit loss (not credit impaired)	Lifetime expected credit loss (credit impaired)	12 months	Lifetime not credit impaired	Lifetime credit impaired
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Internal Rating									
Corporate									
9	429.9	-	-	0.1	-	-	429.8	-	-
10	1,629.0	-	-	2.9	-	-	1,626.1	-	-
11	18,947.4	124.3	-	37.8	1.2	-	18,909.6	123.1	-
12	33,610.4	313.6	-	120.6	0.6	-	33,489.8	313.0	-
13	21,856.2	110.4	-	87.6	1.4	-	21,768.6	109.0	-
14	25,649.9	384.2	-	312.5	4.9	-	25,337.4	379.3	-
15	13,996.4	3,278.9	-	279.9	207.0	-	13,716.5	3,071.9	-
16	7,538.6	4,965.3	-	234.6	143.1	-	7,304.0	4,822.2	-
17	1,278.1	890.9	-	87.4	64.6	-	1,190.7	826.3	-
18	483.8	24.1	-	6.3	1.4	-	477.5	22.7	-
19	1,029.6	2,689.5	-	39.8	103.4	-	989.8	2,586.1	-
20	-	-	5,175.7	-	-	1,407.6	-	-	3,768.1
Total	**126,449.3**	**12,781.2**	**5,175.7**	**1,209.5**	**527.6**	**1,407.6**	**125,239.8**	**12,253.6**	**3,768.1**

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality (Cont'd)

Restructured financial assets

The Bank defines the "rescheduling" as any amendment to or restructuring or rescheduling of any exposure and includes the concession, relaxation, forgiveness or postponement of any material term or condition of the original sanction. The underlying allowance for credit loss is realised wherever there is a material economic loss.

The following table provides information on financial assets which were restructured while they had a loss allowance measured at an amount equal to lifetime ECL.

	2020 RS'M	2019 RS'M
Amortised cost before restructure	**595.2**	3,844.1
Net modification gain or loss	**19.7**	38.2
Gross carrying amount at the end of the reporting year when the loss allowance was measured at an amount equal to lifetime ECL and for which the loss allowance has changed during the year to an amount of 12 months ECL	**1.6**	28.5

Assets obtained by taking possession of collateral

Details of assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances and held at year end are shown below:

	RS'M	RS'M
Property	**60.0**	60.6

Maximum exposure to credit risk - Financial instruments measured at fair value through profit or loss:

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. At fair value through profit or loss).

	GROUP	
	2020 RS'M	2019 RS'M
Derivative financial instruments	**1,449.3**	695.8
Investment securities	**14,521.9**	17,529.9
Total	**15,971.2**	18,225.7

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality (Cont'd)

Collateral held and other credit enhancements

Our potential credit losses are mitigated through a range of instruments including collaterals and credit protection such as cash, real estate, marketable securities, inventories, standby letters of credit and other physical and/or financial collateral.

Credit risk policies are in place to determine the eligibility of collateral to mitigate the credit risk assumed and appropriate haircuts are applied to the market value of collateral, reflecting the underlying nature, quality and liquidity of the collateral.

In the event of default, the Bank has the ability to call on the different types of collaterals which in turn are driven by portfolio, product or counterparty type. Fixed and floating charges on properties and other assets constitute the bulk of our collateral while cash and marketable securities are immaterial.

Long-term finance and lending to corporate entities are generally secured whilst revolving individual credit facilities are generally unsecured. When the borrower's credit worthiness is not sufficient to justify an extension of credit, corporate guarantees are required.

In extending credit facilities to small and medium sized enterprises, the Bank often takes continuing guarantees as a form of moral support from the principal directors. Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset-backed securities.

For derivatives, repurchase agreements with financial market counterparties, collateral arrangements are covered under market-standard documentation such as International Swaps and Derivatives Association Agreements (ISDA) and Master Repurchase Agreements.

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit quality (Cont'd)

Sensitivity analysis

As part of IFRS 9, the Group needs to convert the Through The Circle (TTC) PDs to Point In Time (PIT) PDs.

This conversion of TTC PDs to PIT PDs entailed the inclusion of forward-looking scenarios for both wholesale and retail portfolios.

Macroeconomic variables used for the Forward-Looking PDs (Probability of Default)

Wholesale Portfolio

The variables used for the inclusion of forward-looking aspects to our PDs i.e. for the conversion of TTC PDs to PIT PDs are as follows:

- Credit index (-2)*
- Credit index (-1)*
- GDP growth
- In (lending rate)

Retail Portfolio

The retail portfolio is broken into SME, housing, secured and unsecured.
The following macroeconomic variables have been used for the respective portfolio:

(a) SME	Ln (GDP at basic prices) Average Lending rate
(b) Housing	Ln (GDP at basic prices) Unemployment rate for the year
(c) Secured	Ln (GDP at market prices) Average lending rate
(d) Unsecured	Ln (GDP at basic prices) Average CPI Average lending rate

3. Financial risk management (Cont'd)

(c) Market risk

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

(i) Price risk

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

	GROUP	
	2020 RS'M	**2019 RS'M**
Financial assets at fair value through other comprehensive income	**1,090.9**	1,141.5
Financial assets at fair value through profit or loss	**956.6**	1,089.8
	2,047.5	2,231.3

(ii) Currency risk

Currency risk is defined as the risk that movements in foreign exchange rates adversely affect the value of the Bank's foreign currency positions. Exposure resulting from trading activities is monitored through the use of limits. Limits are given to the individual trader and monitored by the Head of Global Markets & Treasury Management SBU. Such limits include daily stop-loss and position limits. Overall exposure to foreign exchange including those resulting from non-trading activities is monitored against both the regulatory guideline and an internal target validated by the Asset and Liability Management Committee

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

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

VaR Analysis - Foreign Exchange Risk

	GROUP			
	As at 30 June	**Average**	**Maximum**	**Minimum**
2020 (RS'M)	**(26.0)**	**(19.4)**	**(48.7)**	**(7.0)**
2019 (RS'M)	(15.8)	(27.6)	(48.0)	(15.8)

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(ii) Currency risk (Cont'd)

Concentration of assets, liabilities and off-balance sheet items

GROUP

At 30 June 2020	EURO RS'M	USD RS'M	GBP RS'M	MUR RS'M	OTHER RS'M	TOTAL RS'M
Financial assets						
Cash and cash equivalents	12,472.3	27,985.7	2,023.2	23,180.0	2,483.0	68,144.2
Derivative financial instruments	249.1	400.8	84.2	263.2	-	997.3
Loans to and placements with banks	1,782.6	11,312.2	-	6,115.7	164.1	19,374.6
Loans and advances to customers	26,053.3	98,097.4	436.8	111,882.1	75.7	236,545.3
Investment securities	1,396.5	19,613.7	1.0	115,262.3	-	136,273.5
Other financial assets	911.3	1,858.3	166.6	17,533.3	136.8	20,606.3
	42,865.1	159,268.1	2,711.8	274,236.6	2,859.6	481,941.2
Less allowances for credit impairment						(10,164.8)
						471,776.4
Subsidiaries, net of eliminations						29,779.8
Total						501,556.2
Financial liabilities						
Deposits from banks	1,137.1	5,684.1	203.8	417.3	158.0	7,600.3
Deposits from customers	36,836.6	95,692.5	5,031.0	221,790.6	4,657.0	364,007.7
Derivative financial instruments	-	747.0	58.6	155.7	-	961.3
Other borrowed funds	1,950.2	48,417.2	314.5	1.5	133.4	50,816.8
Debt securities	-	-	-	2,007.0	-	2,007.0
Subordinated liabilities	-	1,013.3	-	1,108.9	-	2,122.2
Preference shares	-	-	-	3,396.2	-	3,396.2
Other financial liabilities	168.7	411.3	47.9	2,263.4	30.4	2,921.7
	40,092.6	151,965.4	5,655.8	231,140.6	4,978.8	433,833.2
Subsidiaries, net of eliminations						25,731.3
Total						459,564.5
Net on-balance sheet position	2,772.5	7,302.7	(2,944.0)	43,096.0	(2,119.2)	48,108.0
Less allowances for credit impairment						(10,164.8)
Subsidiaries, net of eliminations						4,048.5
						41,991.7
Off balance sheet net notional position	8,628.4	37,945.0	5,409.2	-	292.8	52,275.4
Credit commitments	4,365.0	47,386.1	8.1	14,665.3	1,972.9	68,397.4
Subsidiaries						4,396.9
						125,069.7

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(ii) Currency risk (Cont'd)

Concentration of assets, liabilities and off-balance sheet items

GROUP
At 30 June 2019

	EURO RS'M	USD RS'M	GBP RS'M	MUR RS'M	OTHER RS'M	TOTAL RS'M
Financial assets						
Cash and cash equivalents	10,179.2	17,988.8	3,590.1	10,971.0	2,686.9	45,416.0
Derivative financial instruments	187.1	-	13.3	68.9	-	269.3
Loans to and placements with banks	1,012.4	11,386.9	-	8,276.0	144.6	20,819.9
Loans and advances to customers	21,571.5	85,202.8	389.2	112,594.3	63.1	219,820.9
Investment securities	1,349.2	20,453.3	-	94,694.5	-	116,497.0
Other financial assets	797.0	2,367.4	388.1	16,878.2	70.4	20,501.1
	35,096.4	137,399.2	4,380.7	243,482.9	2,965.0	423,324.2
Less allowances for credit impairment						(6,605.8)
						416,718.4
Subsidiaries, net of eliminations						26,729.2
Total						**443,447.6**
Financial liabilities						
Deposits from banks	1,119.7	5,595.1	220.6	384.7	55.8	7,375.9
Deposits from customers	26,890.2	76,105.9	4,541.2	195,624.5	3,838.8	307,000.6
Derivative financial instruments	59.4	158.7	30.5	260.2	-	508.8
Other borrowed funds	5,205.5	50,194.3	-	2.3	3.7	55,405.8
Debt securities	-	-	-	2,012.7	-	2,012.7
Subordinated liabilities	-	1,040.1	-	4,531.7	-	5,571.8
Other financial liabilities	269.3	191.7	48.0	2,219.4	29.2	2,757.6
	33,544.1	133,285.8	4,840.3	205,035.5	3,927.5	380,633.2
Subsidiaries, net of eliminations						23,572.6
Total						**404,205.8**
Net on-balance sheet position	1,552.3	4,113.4	(459.6)	38,447.4	(962.5)	42,691.0
Less allowances for credit impairment						(6,605.8)
Subsidiaries, net of eliminations						3,156.6
						39,241.8
Off balance sheet net notional position	7,867.4	17,339.7	2,993.3	-	771.9	28,972.3
Credit commitments	3,371.1	52,625.4	22.0	14,157.4	1,492.5	71,668.4
Subsidiaries						3,837.2
						104,477.9

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iii) Interest rate risk

Interest rate risk refers to the potential variability in the Group's financial condition owing to changes in the level of interest rates. It is the Group's policy to apply variable interest rates to lending and deposit taking. Fixed interest rates are applied to deposits in foreign currencies; however maturities in this regard are only short-term.

Interest rate risk earnings impact analysis

The Bank incurs interest rate risk (IRR) mainly in the form of repricing risk and uses an interest rate risk gap analysis as shown below to measure and monitor this source of risk. Amongst other methodologies, it applies BOM framework of a 200 basis point parallel shift in interest rates to estimate the one-year earnings impact on a static balance sheet basis as shown below. The basis of preparation has been refined in the current year following the implementation of a new software.

	GROUP	
	2020 RS'M	2019 RS'M
Impact on Earnings	**493.8**	391.5

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iii) Interest rate risk (Cont'd)

Interest sensitivity of assets and liabilities - repricing analysis

GROUP At 30 June 2020	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
Financial assets								
Cash and cash equivalents	8,365.0	55.7	-	-	-	-	59,723.5	68,144.2
Derivative financial instruments	-	0.1	0.2	0.4	1.3	4.8	990.5	997.3
Inflow	-	*3.7*	*5.6*	*13.0*	*44.6*	*176.4*	*990.5*	*1,233.8*
(Outflow)	-	*(3.6)*	*(5.4)*	*(12.6)*	*(43.3)*	*(171.6)*	-	*(236.5)*
Loans to and placements with banks	2,515.5	7,342.4	3,160.6	5,970.1	-	304.2	81.8	19,374.6
Loans and advances to customers	133,908.8	33,822.2	26,710.5	19,782.4	6,885.0	3,903.4	11,533.0	236,545.3
Investment securities	8,206.5	11,030.2	18,488.9	17,032.8	31,861.6	46,008.3	3,645.2	136,273.5
Other financial assets	-	-	-	-	-	-	20,606.3	20,606.3
	152,995.8	52,250.6	48,360.2	42,785.7	38,747.9	50,220.7	96,580.3	481,941.2
Less allowances for credit impairment								(10,164.8)
								471,776.4
Subsidiaries, net of eliminations								29,779.8
Total								501,556.2
Financial liabilities								
Deposits from banks	3,763.3	874.2	1,429.3	200.7	-	-	1,332.8	7,600.3
Deposits from customers	225,005.3	7,285.0	3,816.9	2,287.9	159.5	25,968.7	99,484.4	364,007.7
Derivative financial instruments	-	-	-	-	-	-	961.3	961.3
Other borrowed funds	3,197.1	11,452.9	28,742.2	6,416.8	267.3	105.4	635.1	50,816.8
Debt securities	-	-	-	-	-	2,000.0	7.0	2,007.0
Subordinated liabilities	-	-	993.3	-	-	1,103.8	25.1	2,122.2
Preference shares	-	-	-	-	-	-	3,396.2	3,396.2
Other financial liabilities	-	-	-	-	-	-	2,921.7	2,921.7
	231,965.7	19,612.1	34,981.7	8,905.4	426.8	29,177.9	108,763.6	433,833.2
Subsidiaries net of eliminations								25,731.3
Total								459,564.5
Net on balance sheet interest sensitivity gap	(78,969.9)	32,638.5	13,378.5	33,880.3	38,321.1	21,042.8	(12,183.3)	48,108.0
Less allowances for credit impairment								(10,164.8)
Subsidiaries, net of eliminations								4,048.5
								41,991.7

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iii) Interest rate risk (Cont'd)

Interest sensitivity of assets and liabilities - repricing analysis

GROUP At 30 June 2019	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
Financial assets								
Cash and cash equivalents	16,162.9	2,715.8	-	-	-	-	26,537.3	45,416.0
Derivative financial instruments	-	-	-	-	-	10.1	259.2	269.3
Loans to and placements with banks	5,279.7	4,881.1	1,683.3	2,484.1	6,254.7	124.6	112.4	20,819.9
Loans and advances to customers	129,950.5	26,377.2	16,327.4	9,713.5	12,296.8	22,404.0	2,751.5	219,820.9
Investment securities	6,635.3	17,394.6	21,772.0	12,128.8	26,784.3	27,710.7	4,071.3	116,497.0
Other financial assets	-	-	-	-	-	-	20,501.1	20,501.1
	158,028.4	51,368.7	39,782.7	24,326.4	45,335.8	50,249.4	54,232.8	423,324.2
Less allowances for credit impairment								(6,605.8)
								416,718.4
Subsidiaries, net of eliminations								26,729.2
Total								**443,447.6**
Financial liabilities								
Deposits from banks	3,888.7	1,621.1	1,416.6	-	-	-	449.5	7,375.9
Deposits from customers	194,284.6	7,014.0	2,518.0	1,173.7	692.2	15,299.9	86,018.2	307,000.6
Derivative financial instruments	-	-	-	-	-	-	508.8	508.8
Other borrowed funds	5,521.0	14,043.9	32,922.2	1,786.7	-	709.8	422.2	55,405.8
Debt securities	-	-	-	-	-	2,000.0	12.7	2,012.7
Subordinated liabilities	-	1,015.0	-	-	-	4,500.0	56.8	5,571.8
Other financial liabilities	-	-	-	-	-	-	2,757.6	2,757.6
	203,694.3	23,694.0	36,856.8	2,960.4	692.2	22,509.7	90,225.8	380,633.2
Subsidiaries, net of eliminations								23,572.6
Total								**404,205.8**
Net on balance sheet interest sensitivity gap	(45,665.9)	27,674.7	2,925.9	21,366.0	44,643.6	27,739.7	(35,993.0)	42,691.0
Less allowances for credit impairment								(6,605.8)
Subsidiaries, net of eliminations								3,156.6
								39,241.8

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iv) Liquidity risk

Liquidity risk can be defined as the risk of a funding crisis, notably a lack of funds to meet immediate or short term obligations in a cost-effective way. There are two aspects of liquidity risk management:

(a) cash flow management to ensure a balanced inflow and outflow of funds on any one specific day.

(b) the maintenance of a stock of liquid assets to ensure that the Group has a constantly available store of value, which can be utilised in the event of an unexpected outflow of funds.

The Bank has a documented liquidity policy compliant with the Bank of Mauritius Guideline on Liquidity. Treasury Strategic Business Unit manages liquidity in accordance with this policy, on a day-to-day basis.

The amounts disclosed in the following table are undiscounted.

Maturities of assets and liabilities

GROUP At 30 June 2020	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
Financial assets								
Cash and cash equivalents	40,900.5	55.8	-	-	-	-	27,188.7	68,145.0
Derivative financial instruments	0.3	0.6	0.8	1.6	5.5	1.3	944.1	954.2
Loans to and placements with banks	2,542.8	7,359.9	3,177.6	6,379.0	69.1	322.7	-	19,851.1
Loans and advances to customers	47,179.5	17,350.9	14,164.5	20,881.0	59,177.8	97,963.8	7,870.0	264,587.5
Investment securities	5,661.6	9,987.0	18,277.3	12,949.7	31,706.2	52,261.1	3,911.8	134,754.7
Other financial assets	-	-	-	-	-	-	20,606.2	20,606.2
	96,284.7	34,754.2	35,620.2	40,211.3	90,958.6	150,548.9	60,520.8	508,898.7
Less allowances for credit impairment								(10,164.8)
								498,733.9
Subsidiaries, net of eliminations								29,779.8
Total								528,513.7
Financial liabilities								
Deposits from banks	5,090.5	842.2	1,632.8	0.2	0.8	38.8	-	7,605.3
Deposits from customers	327,233.1	9,494.8	5,390.7	7,223.8	11,322.2	3,865.6	179.3	364,709.5
Derivative financial instruments	-	-	-	-	-	-	923.4	923.4
Other borrowed funds	3,651.4	11,380.9	849.6	29,298.2	2,321.1	4,140.6	-	51,641.8
Debt securities	-	-	-	-	-	2,007.0	-	2,007.0
Subordinated liabilities	-	-	190.3	180.1	522.8	1,278.7	-	2,171.9
Preference shares	-	-	-	-	-	-	3,396.2	3,396.2
Other financial liabilities	-	-	-	-	-	-	2,921.7	2,921.7
	335,975.0	21,717.9	8,063.4	36,702.3	14,166.9	11,330.7	7,420.6	435,376.8
Subsidiaries, net of eliminations								25,731.3
Total								461,108.1
Net liquidity gap	(239,690.3)	13,036.3	27,556.8	3,509.0	76,791.7	139,218.2	53,100.2	73,521.9
Less allowances for credit impairment								(10,164.8)
Subsidiaries, net of eliminations								4,048.5
								67,405.6

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iv) Liquidity risk (Cont'd)

Maturities of assets and liabilities

GROUP At 30 June 2019	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
Financial assets								
Cash and cash equivalents	30,102.7	2,728.6	-	-	-	-	12,627.8	45,459.1
Derivative financial instruments	-	-	-	-	-	-	243.9	243.9
Loans to and placements with banks	5,408.2	4,517.5	1,712.1	2,762.3	6,889.9	-	-	21,290.0
Loans and advances to customers	41,908.3	18,255.3	12,451.8	17,231.2	55,497.1	110,016.0	19,638.4	274,998.1
Investment securities	4,644.0	16,906.6	19,390.1	13,550.9	31,841.6	39,959.2	3,408.2	129,700.6
Other financial assets	-	-	-	-	-	-	20,501.1	20,501.1
	82,063.2	42,408.0	33,554.0	33,544.4	94,228.6	149,975.2	56,419.4	492,192.8
Less allowances for credit impairment								(6,605.8)
								485,587.0
Subsidiaries, net of eliminations								26,729.2
Total								**512,316.2**
Financial liabilities								
Deposits from banks	4,321.4	1,636.5	1,436.4	-	-	-	-	7,394.3
Deposits from customers	268,944.1	9,216.5	4,945.7	6,399.1	14,643.7	4,526.3	8.2	308,683.6
Derivative financial instruments	-	-	-	-	-	-	504.9	504.9
Other borrowed funds	4,354.6	9,207.1	1,235.1	12,529.4	25,695.4	4,920.5	-	57,942.1
Debt securities	-	-	-	-	-	2,012.7	-	2,012.7
Subordinated liabilities	-	143.1	-	140.5	511.5	4,886.5	-	5,681.6
Other financial liabilities	-	-	-	-	-	-	2,757.6	2,757.6
	277,620.1	20,203.2	7,617.2	19,069.0	40,850.6	16,346.0	3,270.7	384,976.8
Subsidiaries, net of eliminations								23,572.6
Total								**408,549.4**
Net liquidity gap	(195,556.9)	22,204.8	25,936.8	14,475.4	53,378.0	133,629.2	53,148.7	107,216.0
Less allowances for credit impairment								(6,605.8)
Subsidiaries, net of eliminations								3,156.6
								103,766.8

3. Financial risk management (Cont'd)

(d) Fair value estimation

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

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

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

Specific techniques used to value financial instruments include:

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

The carrying value of the assets kept at amortised cost approximate their fair values.

(e) Capital risk management

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

3. Financial risk management (Cont'd)

(f) Financial instruments by category:

	Amortised cost	Fair value through profit or loss		Fair value through other comprehensive income		Total
		Designated	Mandatory	Debt instrument	Equity instrument	
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
GROUP						
At 30 June 2020						
Financial assets						
Cash and cash equivalents	71,573.3	-	-	-	-	71,573.3
Derivative financial instruments	-	-	1,449.3	-	-	1,449.3
Loans to and placements with banks	18,115.9	-	-	-	-	18,115.9
Loans and advances to customers	240,953.4	-	-	-	-	240,953.4
Investment securities	107,909.5	19,131.5	-	19,773.9	2,043.1	148,858.0
Other financial assets	24,318.2	-	-	-	-	24,318.2
Total	462,870.3	19,131.5	1,449.3	19,773.9	2,043.1	505,268.1
Financial liabilities						
Deposits from banks	4,314.1	-	-	-	-	4,314.1
Deposits from customers	386,344.5	-	-	-	-	386,344.5
Derivative financial instruments	-	-	1,412.8	-	-	1,412.8
Other borrowed funds	52,443.9	-	-	-	-	52,443.9
Debt securities	2,007.0	-	-	-	-	2,007.0
Subordinated liabilities	2,122.2	-	-	-	-	2,122.2
Preference shares	3,396.2		-			3,396.2
Other financial liabilities	7,523.8	-	-	-	-	7,523.8
Total	458,151.7	-	1,412.8	-	-	459,564.5
Net on-balance sheet position	4,718.6	19,131.5	36.5	19,773.9	2,043.1	45,703.6

3. Financial risk management (Cont'd)

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

	Amortised cost	Fair value through profit or loss		Fair value through other comprehensive income		Total
		Designated	Mandatory	Debt instrument	Equity instrument	
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
GROUP						
At 30 June 2019						
Financial assets						
Cash and cash equivalents	49,333.5	-	-	-	-	49,333.5
Derivative financial instruments	-	-	695.8	-	-	695.8
Loans to and placements with banks	19,672.8	-	-	-	-	19,672.8
Loans and advances to customers	227,040.4	-	-	-	-	227,040.4
Investment securities	81,578.9	21,795.0	-	20,754.9	2,075.2	126,204.0
Other financial assets	24,592.7	-	-	-	-	24,592.7
Total	**402,218.3**	**21,795.0**	**695.8**	**20,754.9**	**2,075.2**	**447,539.2**
Financial liabilities						
Deposits from banks	3,850.9	-	-	-	-	3,850.9
Deposits from customers	327,649.5	-	-	-	-	327,649.5
Derivative financial instruments	-	-	935.0	-	-	935.0
Other borrowed funds	56,886.3	-	-	-	-	56,886.3
Debt securities	2,012.7	-	-	-	-	2,012.7
Subordinated liabilities	5,571.8	-	-	-	-	5,571.8
Other financial liabilities	7,299.6	-	-	-	-	7,299.6
Total	**403,270.8**	**-**	**935.0**	**-**	**-**	**404,205.8**
Net on-balance sheet position	**(1,052.5)**	**21,795.0**	**(239.2)**	**20,754.9**	**2,075.2**	**43,333.4**

4. Cash and cash equivalents

	GROUP		COMPANY	
	2020 RS'M	2019 RS'M	2020 RS'M	2019 RS'M
Cash in hand	**3,127.9**	2,993.5	**141.0**	58.2
Foreign currency notes and coins	**360.3**	200.4	**-**	-
Unrestricted balances with Central Banks*	**28,933.2**	13,297.9	**-**	-
Balances due in clearing	**379.6**	494.5	**-**	-
Balances with local banks	**7.4**	471.9	**-**	-
Treasury bills	**174.7**	2,648.7	**-**	299.6
Money market placements	**6,134.7**	15,520.0	**-**	-
Balances with banks abroad	**32,473.5**	11,740.5	**-**	-
Interbank loans**	**-**	1,985.9	**-**	-
	71,591.3	49,353.3	**141.0**	357.8
Allowances for credit impairment	**(18.0)**	(19.8)	**-**	-
	71,573.3	49,333.5	**141.0**	357.8

Allowances for credit impairment

	GROUP
	12 months expected credit loss RS'M
At 01 July 2019	**19.8**
Exchange adjustment	**(0.1)**
Provision for credit impairment for the year	**6.5**
Provision released during the year	**(4.7)**
Financial assets that have been derecognised	**(3.5)**
At 30 June 2020	**18.0**
At 01 July 2018	14.8
Exchange adjustment	(1.0)
Provision for credit impairment for the year	10.9
Provision released during the year	(2.7)
Financial assets that have been derecognised	(2.2)
At 30 June 2019	19.8

* Unrestricted balances with Central Banks represent amounts above the minimum cash reserve requirements.

** Interbank loans represent loans with banks having an original maturity of less than three months.

Cash and cash equivalents as shown in the statements of cash flows:

	GROUP		COMPANY	
	2020 RS'M	2019 RS'M	2020 RS'M	2019 RS'M
Cash and cash equivalents as per above	**71,591.3**	49,353.3	**141.0**	357.8
Other borrowed funds (note 16(a))	**(449.9)**	(24.4)	**-**	-
Net cash and cash equivalents	**71,141.4**	49,328.9	**141.0**	357.8
Change in year	**21,812.5**	13,432.8	**(216.8)**	(165.0)
Effect of foreign exchange rate changes	**452.0**	(110.8)	**-**	-
Increase/(Decrease) in cash and cash equivalents as per the statements of cash flows	**22,264.5**	13,322.0	**(216.8)**	(165.0)

5. Derivative financial instruments

The Group utilises the following derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk:

- Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- Currency swaps and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, or interest rates, or a combination of all these.

Except for certain currency swaps, no exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Warrant is a derivative financial instrument which gives the right, but not the obligation to buy or to sell a specific amount of a given stock, currency, index or debt, at a specified price (the strike price) during a specified period or on a specified date.

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

	GROUP		
	Contractual/ Nominal Amount RS'M	Fair value assets RS'M	Fair value liabilities RS'M
Fair value through profit or loss - Level 2			
At 30 June 2020			
Derivative Instruments			
Currency forwards	**5,738.1**	**142.7**	**62.2**
Interest rate swaps	**30,128.1**	**725.4**	**805.6**
Currency swaps	**18,538.0**	**127.2**	**93.5**
Warrants	**1,916.3**	**451.9**	**451.5**
Others	**101.4**	**2.1**	**-**
	56,421.9	**1,449.3**	**1,412.8**
Fair value through profit or loss - Level 2			
At 30 June 2019			
Derivative Instruments			
Currency forwards	8,472.1	61.3	34.8
Interest rate swaps	14,211.9	200.4	248.9
Currency swaps	11,715.4	6.1	224.2
Warrants	2,864.0	426.5	426.2
Others	223.2	1.5	0.9
	37,486.6	695.8	935.0

6. Loans

(a) Loans to and placements with banks

	GROUP	
	2020	2019
	RS'M	RS'M
(i) Loans to and placements with banks		
in Mauritius	**6,292.9**	10,707.9
outside Mauritius	**50,460.4**	38,749.0
	56,753.3	49,456.9
Less:		
Loans and placements with original maturity less than 3 months and included in cash and cash equivalents	**(38,615.6)**	(29,718.3)
	18,137.7	19,738.6
Less:		
Allowances for credit impairment	**(21.8)**	(65.8)
	18,115.9	19,672.8
(ii) Remaining term to maturity		
Up to 3 months	**8,965.3**	8,396.8
Over 3 months and up to 6 months	**3,163.4**	2,037.3
Over 6 months and up to 1 year	**6,007.3**	3,089.8
Over 1 year and up to 5 years	**-**	6,214.7
Over 5 years	**1.7**	-
	18,137.7	19,738.6

(iii) Allowances for credit impairment

	GROUP		
	12 months expected credit loss	Lifetime expected credit loss (credit impaired)	Total
	RS'M	RS'M	RS'M
At 01 July 2019	**58.3**	**-**	**58.3**
Provision for credit impairment for the year	**5.3**	**-**	**5.3**
Provision released during the year	**(5.8)**	**-**	**(5.8)**
Financial assets that have been derecognised	**(47.7)**	**-**	**(47.7)**
At 30 June 2020	**10.1**	**-**	**10.1**
Interest in suspense	**-**	**11.7**	**11.7**
Provision and interest in suspense at 30 June 2020	**10.1**	**11.7**	**21.8**
At 01 July 2018	100.5	31.3	131.8
Exchange adjustment	-	1.2	1.2
Provision for credit impairment for the year	46.2	-	46.2
Provision released during the year	(56.5)	(23.7)	(80.2)
Financial assets that have been derecognised	(31.9)	(8.8)	(40.7)
At 30 June 2019	58.3	-	58.3
Interest in suspense	-	7.5	7.5
Provision and interest in suspense at 30 June 2019	58.3	7.5	65.8

6. Loans (Cont'd)

(b) Loans and advances to customers

	GROUP 2020 RS'M	GROUP 2019 RS'M
(i) Loans and advances to customers		
Retail customers:		
Credit cards	**796.6**	1,231.8
Mortgages	**31,811.8**	30,495.4
Other retail loans	**14,061.6**	13,776.8
Corporate customers	**120,197.3**	115,864.4
Governments	**1,484.6**	1,643.2
Entities outside Mauritius	**83,781.6**	71,567.5
	252,133.5	234,579.1
Less:		
Allowances for credit impairment	**(11,180.1)**	(7,538.7)
	240,953.4	227,040.4

Finance lease receivable included in Group loans amounts to Rs 3,283.8 million as at 30 June 2020 (2019: Rs 3,486.7 million).

(ii) Remaining term to maturity

	2020 RS'M	2019 RS'M
Up to 3 months	**66,303.6**	67,998.0
Over 3 months and up to 6 months	**4,994.0**	6,790.4
Over 6 months and up to 1 year	**14,546.3**	6,837.1
Over 1 year and up to 5 years	**74,720.3**	64,553.7
Over 5 years	**91,569.3**	88,399.9
	252,133.5	234,579.1

(iii) Allowances for credit impairment

GROUP	12 months expected credit loss RS'M	Lifetime expected credit loss (not credit impaired) RS'M	Lifetime expected credit loss (credit impaired) RS'M	Total RS'M
At 01 July 2019	**1,459.3**	**720.7**	**2,966.2**	**5,146.2**
Exchange adjustment	**(1.3)**	**(3.0)**	**213.0**	**208.7**
Transfer to 12 month ECL	**151.7**	**(63.0)**	**(88.7)**	**-**
Transfer to lifetime ECL not credit impaired	**(203.1)**	**232.7**	**(29.6)**	**-**
Transfer to lifetime ECL credit impaired	**(28.7)**	**(25.2)**	**53.9**	**-**
Provision for credit impairment for the year	**484.6**	**2,726.3**	**2,435.9**	**5,646.8**
Provision released during the year	**(590.6)**	**(104.3)**	**(277.0)**	**(971.9)**
Financial assets that have been derecognised	**(172.6)**	**(43.9)**	**(412.9)**	**(629.4)**
Write offs	**-**	**-**	**(1,298.5)**	**(1,298.5)**
Changes in models /risk parameters	**774.5**	**86.5**	**10.2**	**871.2**
At 30 June 2020	**1,873.8**	**3,526.8**	**3,572.5**	**8,973.1**
Interest in suspense	**-**	**-**	**2,207.0**	**2,207.0**
Provision and interest in suspense at 30 June 2020	**1,873.8**	**3,526.8**	**5,779.5**	**11,180.1**
At 01 July 2018	1,645.3	898.1	2,690.0	5,233.4
Exchange adjustment	(5.1)	(10.3)	39.3	23.9
Transfer to 12 month ECL	198.6	(99.4)	(99.2)	-
Transfer to lifetime ECL not credit impaired	(59.0)	82.0	(23.0)	-
Transfer to lifetime ECL credit impaired	(9.4)	(273.7)	283.1	-
Provision for credit impairment for the year	1,015.8	482.2	2,336.8	3,834.8
Provision released during the year	(892.1)	(202.6)	(291.9)	(1,386.6)
Financial assets that have been derecognised	(198.6)	(36.7)	(253.7)	(489.0)
Write offs	-	-	(1,715.2)	(1,715.2)
Changes in models /risk parameters	(236.2)	(118.9)	-	(355.1)
At 30 June 2019	1,459.3	720.7	2,966.2	5,146.2
Interest in suspense	-	-	2,392.5	2,392.5
Provision and interest in suspense at 30 June 2019	1,459.3	720.7	5,358.7	7,538.7

6. Loans (Cont'd)

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

(iv) Allowances for credit impairment by industry sectors

	GROUP 2020					
	Gross amount of loans RS'M	Non performing loans RS'M	12 months expected credit loss RS'M	Lifetime expected credit loss (not credit impaired) RS'M	*Lifetime expected credit loss (credit impaired) RS'M	Total provision RS'M
Agriculture and fishing	**7,087.6**	**1,228.3**	**35.9**	**245.1**	**925.3**	**1,206.3**
Manufacturing	**17,183.9**	**646.6**	**132.8**	**216.4**	**333.7**	**682.9**
of which EPZ	***2,978.0***	***179.0***	***19.2***	***122.9***	*120.8*	***262.9***
Tourism	**25,282.9**	**608.0**	**295.4**	**1,550.3**	**212.9**	**2,058.6**
Transport	**8,658.9**	**1,496.7**	**106.3**	**66.9**	**1,635.4**	**1,808.6**
Construction	**18,698.5**	**1,465.9**	**243.1**	**23.7**	**550.4**	**817.2**
Financial and business services	**48,703.6**	**1,278.9**	**249.0**	**174.1**	**218.5**	**641.6**
Traders	**47,460.1**	**2,677.5**	**229.3**	**296.9**	**1,024.2**	**1,550.4**
Personal	**43,552.6**	**1,739.9**	**333.0**	**113.5**	**627.5**	**1,074.0**
of which credit cards	***790.0***	***28.5***	***22.0***	***1.8***	*19.8*	***43.6***
of which housing	***31,811.8***	***1,059.3***	***65.6***	***34.1***	*297.8*	***397.5***
Professional	**1,265.3**	**142.7**	**13.4**	**36.7**	**78.8**	**128.9**
Foreign governments	**1,484.6**	**-**	**1.0**	**-**	**-**	**1.0**
Global Business Licence holders	**19,291.8**	**114.1**	**96.5**	**643.3**	**63.4**	**803.2**
Others	**13,463.7**	**233.5**	**138.1**	**159.9**	**109.4**	**407.4**
	252,133.5	**11,632.1**	**1,873.8**	**3,526.8**	**5,779.5**	**11,180.1**

	GROUP 2019					
	Gross amount of loans RS'M	Non performing loans RS'M	12 months expected credit loss RS'M	Lifetime expected credit loss (not credit impaired) RS'M	*Lifetime expected credit loss (credit impaired) RS'M	Total provision RS'M
Agriculture and fishing	9,410.3	1,126.5	17.6	98.1	478.7	594.4
Manufacturing	12,987.1	655.1	104.1	95.8	264.1	464.0
of which EPZ	*3,924.1*	*510.8*	*11.9*	*12.8*	149.1	*173.8*
Tourism	23,481.1	378.7	335.9	23.3	348.9	708.1
Transport	8,308.7	1,243.7	33.9	3.9	1,139.3	1,177.1
Construction	17,775.4	2,038.4	178.9	9.5	876.1	1,064.5
Financial and business services	39,652.1	1,114.1	249.9	18.6	433.4	701.9
Traders	44,658.4	1,986.9	228.3	125.9	681.7	1,035.9
Personal	43,191.1	1,349.2	63.7	15.7	593.6	673.0
of which credit cards	*1,224.4*	*29.6*	*4.2*	*0.3*	23.6	*28.1*
of which housing	*30,495.4*	*773.3*	*22.3*	*5.9*	274.7	*302.9*
Professional	1,092.0	211.1	3.2	0.7	123.9	127.8
Foreign governments	1,643.2	-	1.2	294.7	-	295.9
Global Business Licence holders	17,858.1	167.9	153.0	22.9	311.4	487.3
Others	14,521.6	217.8	89.6	11.6	107.6	208.8
	234,579.1	10,489.4	1,459.3	720.7	5,358.7	7,538.7

* Lifetime expected credit loss (credit impaired) includes interest in suspense.

6. Loans (Cont'd)

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

(v) Credit concentration of risk by industry sectors

Corporate notes and credit facilities extended by the Group to any closely-related customers for amounts aggregating more than 10% of its Tier 1 capital, classified by industry sectors.

	GROUP	
	2020	**2019**
	RS'M	**RS'M**
Agriculture and fishing	**311.7**	7,093.7
Manufacturing	**969.6**	1,380.0
of which EPZ	*46.2*	*100.4*
Tourism	**9,563.3**	15,720.6
Transport	**7,296.4**	7,507.3
Construction	**8,832.5**	9,640.4
Financial and business services	**47,303.9**	25,025.3
Traders	**39,040.9**	41,827.0
Global Business Licence holders	**8,261.3**	8,294.7
Others	**6,261.6**	6,533.6
	127,841.2	123,022.6

7. Investment securities

	GROUP	
Investment securities	**2020 RS'M**	**2019 RS'M**
Amortised cost	**108,275.9**	81,690.5
Fair value through other comprehensive income	**21,817.0**	22,830.1
Fair value through profit or loss	**19,131.5**	21,795.0
	149,224.4	126,315.6
Less:		
Allowances for credit impairment	**(366.4)**	(111.6)
	148,858.0	126,204.0

Credit impaired investments at fair valued through other comprehensive income amounted to Rs 90M. Allowances for credit impairment: Rs 10.1M in 2020 (2019:nil)

	COMPANY	
Fair value through other comprehensive income	**2020 RS'M**	**2019 RS'M**
Non-voting non-cumulative preference shares issued by MCB Leasing Limited	**200.0**	200.0
Shares - Quoted level 1	**214.3**	195.2
	414.3	395.2
Fair value through profit or loss		
Credit linked note	**464.3**	-
	878.6	395.2

(a) Amortised cost

	GROUP	
	2020 RS'M	**2019 RS'M**
Government of Mauritius and Bank of Mauritius bonds	**72,394.2**	49,996.3
Treasury bills	**11,502.3**	12,213.3
Foreign bonds	**386.8**	338.2
Notes	**23,668.3**	18,833.3
Indexed linked note	**324.3**	309.4
	108,275.9	81,690.5

(i) Remaining term to maturity

	2020					
	Up to 3 months RS'M	**3-6 months RS'M**	**6-12 months RS'M**	**1-5 years RS'M**	**Over 5 years RS'M**	**Total RS'M**
Government of Mauritius and Bank of Mauritius bonds	**3,444.5**	**1,834.8**	**6,715.5**	**40,463.6**	**19,935.8**	**72,394.2**
Treasury bills	**4,855.7**	**3,190.0**	**2,563.0**	**722.6**	**171.0**	**11,502.3**
Foreign bonds	**-**	**-**	**-**	**238.5**	**148.3**	**386.8**
Notes	**-**	**-**	**2,725.4**	**11,580.2**	**9,362.7**	**23,668.3**
Indexed linked note	**-**	**-**	**-**	**324.3**	**-**	**324.3**
	8,300.2	**5,024.8**	**12,003.9**	**53,329.2**	**29,617.8**	**108,275.9**

	2019					
	Up to 3 months RS'M	**3-6 months RS'M**	**6-12 months RS'M**	**1-5 years RS'M**	**Over 5 years RS'M**	**Total RS'M**
Government of Mauritius and Bank of Mauritius bonds	1,217.9	2,823.4	3,575.4	32,755.1	9,624.5	49,996.3
Treasury bills	5,427.4	3,260.9	3,328.7	142.6	53.7	12,213.3
Foreign bonds	-	-	-	214.7	123.5	338.2
Notes	976.2	-	-	8,989.8	8,867.3	18,833.3
Indexed linked note	-	-	-	-	309.4	309.4
	7,621.5	6,084.3	6,904.1	42,102.2	18,978.4	81,690.5

7. Investment securities (Cont'd)

(a) Amortised cost (Cont'd)

(ii) Allowances for credit impairment

	GROUP		
	12 months expected credit loss	Lifetime expected credit loss (not credit impaired)	Total
	RS'M	RS'M	RS'M
At 01 July 2019	**111.6**	**-**	**111.6**
Exchange adjustment	**0.5**	**-**	**0.5**
Transfer to lifetime ECL not credit impaired	**(43.6)**	**43.6**	**-**
Provision for credit impairment for the year	**10.8**	**213.8**	**224.6**
Provision released during the year	**(20.2)**	**-**	**(20.2)**
Financial assets that have been derecognised	**(4.7)**	**-**	**(4.7)**
Changes in models/risk parameters	**46.1**	**8.5**	**54.6**
At 30 June 2020	**100.5**	**265.9**	**366.4**
At 01 July 2018	53.1	-	53.1
Exchange adjustment	(0.4)	-	(0.4)
Provision for credit impairment for the year	78.3	-	78.3
Provision released during the year	(40.7)	-	(40.7)
Changes in models/risk parameters	21.3	-	21.3
At 30 June 2019	111.6	-	111.6

(b) Fair value through other comprehensive income by levels

	GROUP	
	2020	2019
	RS'M	RS'M
Quoted - Level 1		
Official list : shares	**939.9**	1,064.8
Bonds	**19,140.9**	20,201.0
Foreign shares	**455.4**	389.6
	20,536.2	21,655.4
Unquoted - Level 2		
Investment fund	**633.0**	553.9
Shares	**99.8**	57.5
	732.8	611.4
Unquoted - Level 3		
Shares	**548.0**	563.3
	21,817.0	22,830.1

Reconciliation of level 3 fair value measurements

	GROUP	
	RS'M	RS'M
At 01 July	**563.3**	544.4
Movement in fair value	**(0.6)**	16.9
Exchange adjustments	**(14.7)**	2.0
At 30 June	**548.0**	563.3

7. Investment securities (Cont'd)

(c) Fair value through profit or loss by levels

	GROUP	
	2020	2019
	RS'M	RS'M
Quoted - Level 1		
Local bonds	**553.5**	10.7
Local shares	**560.4**	594.1
Foreign bonds	**1.0**	732.5
Foreign shares	**2,091.9**	1,666.5
	3,206.8	3,003.8
Unquoted - Level 2		
Government of Mauritius & Bank of Mauritius bonds	**893.1**	864.4
Treasury bills	**11,852.8**	14,995.0
Investment funds	**735.2**	861.9
	13,481.1	16,721.3
Unquoted - Level 3		
Local shares	**1,618.5**	1,702.8
Foreign shares	**338.8**	301.7
Debt	**486.3**	65.4
	2,443.6	2,069.9
	19,131.5	21,795.0

Reconciliation of level 3 fair value measurement

	GROUP	
	2020	2019
	RS'M	RS'M
At 01 July	**2,069.9**	1,962.2
Additions	**267.7**	104.5
Disposals	**(3.9)**	(46.4)
Movement in fair value	**109.9**	49.6
At 30 June	**2,443.6**	2,069.9

8. Investments in associates

(a) The Group's interests in its associates are as follows:

	Nature of business	Principal place of business	Country of incorporation	Holding %	
				Direct	Indirect
2020					
Banque Française Commerciale Ocean Indien	**Banking & financial services**	**Réunion**	**Réunion**	**-**	**49.99**
Société Générale Moçambique	**Banking & financial services**	**Mozambique**	**Mozambique**	**-**	**35.00**
Promotion and Development Ltd	**Investment and property development**	**Mauritius**	**Republic of Mauritius**	**0.13**	**46.36**
Caudan Development Ltd	**Property development, investment and provision of security services**	**Mauritius**	**Republic of Mauritius**	**6.07**	**38.08**
Credit Guarantee Insurance Co Ltd	**Insurance services**	**Mauritius**	**Republic of Mauritius**	**40.00**	**-**
2019					
Banque Française Commerciale Ocean Indien	Banking & financial services	Réunion	Réunion	-	49.99
Société Générale Moçambique	Banking & financial services	Mozambique	Mozambique	-	35.00
Promotion and Development Ltd	Investment and property development	Mauritius	Republic of Mauritius	0.13	46.39
Caudan Development Ltd	Property development, investment and provision of security services	Mauritius	Republic of Mauritius	4.87	38.10
Credit Guarantee Insurance Co Ltd	Insurance services	Mauritius	Republic of Mauritius	40.00	-

(i) The above associates are accounted for using the equity method.

(ii) Except for Credit Guarantee Insurance Co Ltd, the other above associates are held through subsidiaries.

(iii) Banque Française Commerciale Ocean Indien, Société Générale Moçambique and Credit Guarantee Co Ltd are unquoted.
The other associates are quoted and the Group's interest in the quoted associates based on SEM bid price at 30 June are as follows:
Promotion and Development Ltd : Rs 1,628.3M (2019: Rs 1,816.5M)
Caudan Development Ltd : Rs 901.1M (2019: Rs 885.2M)

	GROUP	
	2020 RS'M	2019 RS'M
Group's share of net assets	**9,975.6**	9,180.1
Goodwill	**56.9**	56.9
Subordinated loans to associate	**801.6**	724.5
	10,834.1	9,961.5

(b) Summarised financial information in respect of material entities, included for Group reporting

Banque Française Commerciale Ocean Indien

(i) Summarised statement of financial position:

Current assets	**14,980.0**	9,742.6
Non current assets	**82,009.6**	66,263.1
Current liabilities	**23,829.6**	21,558.8
Non current liabilities	**65,044.9**	47,991.8

(ii) Summarised statement of profit or loss and other comprehensive income:

Revenue	**4,026.6**	4,136.1
Profit	**877.2**	482.4
Total comprehensive income	**877.2**	482.4

8. Investments in associates (Cont'd)

(b) Summarised financial information in respect of material entities, included for Group reporting (Cont'd)

Promotion and Development Ltd

(i) Summarised statement of financial position:

	GROUP	
	2020 RS'M	2019 RS'M
Current assets	**168.7**	250.7
Non current assets	**14,159.7**	14,223.8
Current liabilities	**862.5**	758.0
Non current liabilities	**1,437.6**	1,410.9
Non-controlling interest	**1,203.8**	1,200.9

(ii) Summarised statement of profit or loss and other comprehensive income:

	2020 RS'M	2019 RS'M
Revenue	**587.3**	599.1
(Loss)/Profit	**(77.7)**	302.6
Other comprehensive (expense)/income	**(35.2)**	158.6
Total comprehensive (expense)/income	**(112.9)**	461.2

(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/ (loss) RS'M	Other comprehensive (expense)/ income 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
2020											
Banque Française Commerciale Ocean Indien	**6,455.1**	**877.2**	**-**	**782.8**	**-**	**8,115.1**	**49.99%**	**4,056.7**	**56.9**	**801.6**	**4,915.2**
Promotion and Development Limited	**11,104.7**	**(77.7)**	**(35.2)**	**(116.7)**	**(50.6)**	**10,824.5**	**46.49%**	**5,032.3**	**-**	**-**	**5,032.3**
2019											
Banque Française Commerciale Ocean Indien	6,610.4	482.4	-	(272.4)	(365.3)	6,455.1	49.99%	3,226.9	56.9	724.5	4,008.3
Promotion and Development Limited	10,800.3	302.6	158.6	(8.9)	(147.9)	11,104.7	46.52%	5,165.9	-	-	5,165.9

8. Investments in associates (Cont'd)

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

	GROUP	
	2020	2019
	RS'M	RS'M
Carrying amount of interests	**886.6**	787.3
Share of (loss)/profit	**(1.8)**	22.0
Share of other comprehensive (expense)/income	**(1.7)**	5.9

AT COST

	COMPANY	
	2020	2019
	RS'M	RS'M
At 01 July	**118.7**	117.2
Additions	**24.2**	1.5
At 30 June	**142.9**	118.7

9. Investments in subsidiaries

(a) The Group has the following main subsidiaries:

	Country of incorporation/ operation	Principal activities	Stated capital		Effective Holding 2020 %	Proportion of ownership interests held by non-controlling interests 2020 %	Effective Holding 2019 %	Proportion of ownership interests held by non-controlling interests 2019 %	Cost of Investment COMPANY 2020 RS'M	Cost of Investment COMPANY 2019 RS'M
BANKING										
Direct										
MCB Investment Holding Ltd	Republic of Mauritius	Activities of holding companies, without managing	**Rs'M**	**6,879.6**	**100.00**	**-**	100.00	-	**6,879.6**	6,879.6
Indirect										
The Mauritius Commercial Bank Limited	Republic of Mauritius	Banking & Financial services	**Rs'M**	**6,879.6**	**100.00**	**-**	100.00	-	**-**	-
MCB Seychelles Ltd	Seychelles	Banking & Financial services	**SRS'M**	**20.0**	**100.00**	**-**	100.00	-	**-**	-
MCB Madagascar SA	Madagascar	Banking & Financial services	**MGA'bn**	**13.6**	**90.00**	**10.00**	90.00	10.00	**-**	-
MCB (Maldives) Private Ltd	Republic of Maldives	Banking & Financial services	**MVR'M**	**150.0**	**100.00**	**-**	100.00	-	**-**	-
NON-BANKING FINANCIAL										
Direct										
MCB Equity Fund Ltd	Republic of Mauritius	Private Equity Fund	**Rs'M**	**2,084.6**	**100.00**	**-**	100.00	-	**2,084.6**	2,084.6
MCB Capital Markets Ltd	Republic of Mauritius	Investment Holding Company	**Rs'M**	**73.0**	**100.00**	**-**	100.00	-	**73.0**	73.0
MCB Factors Ltd	Republic of Mauritius	Factoring	**Rs'M**	**50.0**	**100.00**	**-**	100.00	-	**50.0**	50.0
MCB Microfinance Ltd	Republic of Mauritius	Credit Finance	**Rs'M**	**125.0**	**100.00**	**-**	100.00	-	**125.0**	100.0
MCB Real Assets Ltd*	Republic of Mauritius	Investment Holding Company	**Rs'M**	**-**	**100.00**	**-**	-	-	**-**	-
OTHER INVESTMENTS										
Direct										
International Card Processing Services Ltd	Republic of Mauritius	Providing card system facilities, card embossing and encoding services	**Rs'M**	**100.0**	**80.00**	**20.00**	80.00	20.00	**80.0**	80.0
Fincorp Investment Ltd	Republic of Mauritius	Investment Company	**Rs'M**	**103.4**	**57.73**	**42.27**	57.73	42.27	**28.7**	28.7
MCB Properties Ltd	Republic of Mauritius	Property ownership & development	**Rs'M**	**14.6**	**100.00**	**-**	100.00	-	**14.6**	14.6
Blue Penny Museum	Republic of Mauritius	Philatelic museum	**Rs'M**	**13.5**	**99.63**	**0.37**	97.88	2.12	**13.5**	1.0
MCB Group Corporate Services Ltd	Republic of Mauritius	Company secretarial services	**Rs'M**	**2.0**	**100.00**	**-**	100.00	-	**2.0**	2.0
MCB Consulting Services Ltd	Republic of Mauritius	Consulting, advisory, support and maintenance services	**USD'M**	**1.5**	**100.00**	**-**	100.00	-	**49.7**	49.7
MCB Institute of Finance	Republic of Mauritius	To develop the financial know-how of professionals and students	**Rs'M**	**20.0**	**80.00**	**20.00**	80.00	20.00	**16.0**	16.0
Others**	Seychelles	Property rental & other financial services		**-**	**100.00**	**-**	100.00	-	**0.2**	0.2
									9,416.9	9,379.4
Subordinated loans to subsidiaries									**1,734.1**	1,734.1
									11,151.0	11,113.5

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 1,190.4 million at 30 June 2020 (2019: Rs 1,473.8 million).

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

** 'Others' relates to Mascareignes Properties Ltd involved in property rental and MCB International Services Ltd involved in other financial services in which the Group has an effective holding of 100%. The stated capital of both entities are negligible.

9. Investments in subsidiaries (Cont'd)

(b) Movement in investments in subsidiaries

	COMPANY	
	2020 RS'M	2019 RS'M
At 01 July	**9,379.4**	9,338.4
Additions	**37.5**	41.0
	9,416.9	9,379.4
Subordinated loans to subsidiaries	**1,734.1**	1,734.1
At 30 June	**11,151.0**	11,113.5

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

	(Loss)/Profit attributable to non-controlling interests RS'M	Net assets attributable to non-controlling interests RS'M
GROUP		
2020	**(2.1)**	**2,423.6**
2019	84.5	2,437.2

(d) Summarised financial information for Fincorp Investment Ltd included for Group reporting

	GROUP	
	2020 RS'M	2019 RS'M
(i) Summarised statement of financial position:		
Current assets	**1,795.9**	1,592.5
Non current assets	**9,236.2**	9,191.1
Current liabilities	**2,734.7**	1,545.1
Non current liabilities	**2,563.9**	3,472.7
(ii) Summarised statement of profit or loss and statement of comprehensive income:		
Revenue	**487.7**	501.4
(Loss)/Profit	**(5.0)**	199.9
Other comprehensive (expense)/ income	**(193.9)**	1.4
Total comprehensive (expense)/ income	**(198.9)**	201.3
(iii) Summarised statement of cash flows:		
Net cash flows from operating activities	**885.5**	303.7
Investing activities	**(374.4)**	(334.0)
Financing activities	**(186.7)**	(228.1)
Taxation	**(3.3)**	(22.5)
Net increase/(decrease) in cash and cash equivalents	**321.1**	(280.9)

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

10. Investment properties

	GROUP	
	2020 RS'M	2019 RS'M
At 01 July	**3,991.7**	2,861.1
Additions	**71.5**	925.0
Exchange adjustment	**381.1**	87.6
Revaluation	**-**	118.0
Fair value of land and buildings at 30 June	**4,444.3**	3,991.7
Rental income	**226.4**	276.9

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

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

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

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

-Valuation technique: Income approach

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

Unobservable input: Discount rate

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

11. Goodwill and other intangible assets

(a) Goodwill

	GROUP	
	2020 RS'M	2019 RS'M
01 July	**391.9**	390.9
Exchange adjustment	**-**	1.0
At 30 June	**391.9**	391.9

The directors are satisfied that there are no indications requiring an impairment of goodwill.

(b) Other intangible assets

	GROUP		
	Computer software RS'M	Work in progress RS'M	Total RS'M
Cost			
At 01 July 2018	3,633.1	158.5	3,791.6
Additions	115.1	277.9	393.0
Scrap/Impairment	(1,810.1)	-	(1,810.1)
Transfer	366.4	(351.4)	15.0
Exchange adjustment	(0.2)	0.1	(0.1)
At 30 June 2019	**2,304.3**	**85.1**	**2,389.4**
Additions	**126.6**	**484.9**	**611.5**
Scrap/Impairment	**(700.5)**	**(21.8)**	**(722.3)**
Transfer	**275.2**	**(264.7)**	**10.5**
Exchange adjustment	**-**	**(1.6)**	**(1.6)**
At 30 June 2020	**2,005.6**	**281.9**	**2,287.5**
Accumulated amortisation			
At 01 July 2018	2,943.7	-	2,943.7
Scrap/Impairment	(1,810.1)	-	(1,810.1)
Charge for the year	264.7	-	264.7
Amortisation adjustment	(80.5)	-	(80.5)
Exchange adjustment	0.6	-	0.6
At 30 June 2019	**1,318.4**	**-**	**1,318.4**
Scrap/Impairment	**(700.5)**	**-**	**(700.5)**
Charge for the year	**328.6**	**-**	**328.6**
Amortisation adjustment	**58.2**	**-**	**58.2**
Exchange adjustment	**(3.5)**	**-**	**(3.5)**
At 30 June 2020	**1,001.2**	**-**	**1,001.2**
Net book values			
At 30 June 2020	**1,004.4**	**281.9**	**1,286.3**
At 30 June 2019	985.9	85.1	1,071.0
Total			
At 30 June 2020			**1,678.2**
At 30 June 2019			1,462.9

The Group reviews the useful lives of fully depreciated assets, and if appropriate, makes a reinstatement of the useful lives.

12. Property, plant and equipment

	GROUP				
	Land and buildings	Computer and other equipment	Furniture, fittings and vehicles	Work in progress	Total
	RS'M	RS'M	RS'M	RS'M	RS'M
Cost					
At 01 July 2018	**5,117.4**	**3,750.1**	**2,011.5**	**56.5**	**10,935.5**
Additions	9.2	291.3	356.1	181.5	838.1
Scrap/Disposals	(3.0)	(731.7)	(162.5)	(1.1)	(898.3)
Exchange adjustment	9.4	3.2	1.5	0.2	14.3
Transfer	-	58.4	26.7	(100.1)	(15.0)
At 30 June 2019	**5,133.0**	**3,371.3**	**2,233.3**	**137.0**	**10,874.6**
Recognition of right-of-use assets on initial application of IFRS16	**449.9**	**-**	**-**	**-**	**449.9**
Additions of property, plant and equipment	**85.9**	**242.2**	**241.4**	**333.8**	**903.3**
Additions of right-of-use assets	**23.7**	**-**	**-**	**-**	**23.7**
Scrap/Disposals	**(6.5)**	**(114.6)**	**(226.1)**	**-**	**(347.2)**
Exchange adjustment	**(70.0)**	**(12.5)**	**(7.7)**	**(3.1)**	**(93.3)**
Transfer	**37.1**	**133.4**	**55.0**	**(236.0)**	**(10.5)**
At 30 June 2020	**5,653.1**	**3,619.8**	**2,295.9**	**231.7**	**11,800.5**
Accumulated depreciation					
At 01 July 2018	**934.5**	**2,853.0**	**954.2**	**-**	**4,741.7**
Charge for the year	85.2	355.4	215.3	-	655.9
Scrap/Disposal adjustment	(0.8)	(731.5)	(94.1)	-	(826.4)
Exchange adjustment	2.4	2.6	(0.2)	-	4.8
Depreciation adjustment	-	(126.5)	(12.7)	-	(139.2)
At 30 June 2019	**1,021.3**	**2,353.0**	**1,062.5**	**-**	**4,436.8**
Charge for the year	**87.2**	**379.7**	**241.7**	**-**	**708.6**
Depreciation of right-of-use assets	**101.5**	**-**	**-**	**-**	**101.5**
Scrap/Disposal adjustment	**(5.3)**	**(110.7)**	**(150.2)**	**-**	**(266.2)**
Exchange adjustment	**(11.8)**	**(9.5)**	**(3.9)**	**-**	**(25.2)**
Depreciation adjustment	**-**	**(38.8)**	**8.9**	**-**	**(29.9)**
At 30 June 2020	**1,192.9**	**2,573.7**	**1,159.0**	**-**	**4,925.6**
Net book values					
At 30 June 2020	**4,460.2**	**1,046.1**	**1,136.9**	**231.7**	**6,874.9**
At 30 June 2019	4,111.7	1,018.3	1,170.8	137.0	6,437.8

Following the adoption of IFRS 16, the Group has presented right-of-use assets within 'property and equipment' – i.e. the same line item in which it presents underlying assets of the same nature that it owns.

The Group reviews the useful lives of fully depreciated assets, and if appropriate, makes a reinstatement of the useful lives.

12. Property, plant and equipment (Cont'd)

	COMPANY		
	Land and buildings	Furniture, fittings and vehicles	Total
	RS'M	RS'M	RS'M
Cost			
At 01 July 2018	**221.8**	**9.7**	**231.5**
Additions	-	2.2	2.2
At 30 June 2019	**221.8**	**11.9**	**233.7**
Additions	**-**	**5.0**	**5.0**
At 30 June 2020	**221.8**	**16.9**	**238.7**
Accumulated depreciation			
At 01 July 2018	**-**	**6.6**	**6.6**
Charge for the year	-	2.4	2.4
At 30 June 2019	**-**	**9.0**	**9.0**
Charge for the year	**-**	**2.6**	**2.6**
At 30 June 2020	**-**	**11.6**	**11.6**
Net book values			
At 30 June 2020	**221.8**	**5.3**	**227.1**
At 30 June 2019	221.8	2.9	224.7

Following the adoption of IFRS 16, the Group has presented right-of-use assets within 'property and equipment' – i.e. the same line item in which it presents underlying assets of the same nature that it owns.
The Group reviews the useful lives of fully depreciated assets, and if appropriate, makes a reinstatement of the useful lives.

13. Deferred tax assets/(liabilities)

	GROUP						
	Balance as at 01 July	Restatement*	As restated	Exchange adjustments	Recognised in Statements of profit or loss	Recognised in Statements of comprehensive income	Balance as at 30 June
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
At 30 June 2020							
Deferred tax assets:							
Provisions and post retirement benefits	**304.2**	**-**	**-**	**-**	**(83.6)**	**100.4**	**321.0**
Provisions for credit impairment	**502.6**	**-**	**-**	**20.7**	**621.2**	**-**	**1,144.5**
Tax losses carried forward	**6.4**	**-**	**-**	**(0.1)**	**(3.2)**	**-**	**3.1**
Leases	**-**	**-**	**-**	**-**	**1.2**	**-**	**1.2**
Accelerated tax depreciation	**(264.6)**	**-**	**-**	**(5.1)**	**62.4**	**-**	**(207.3)**
	548.6	**-**	**-**	**15.5**	**598.0**	**100.4**	**1,262.5**
Deferred tax liabilities:							
Accelerated tax depreciation	**(349.4)**	**-**	**-**	**2.6**	**(132.2)**	**-**	**(479.0)**
Fair value of investment property	**(20.5)**	**-**	**-**	**-**	**20.5**	**-**	**-**
Tax losses carried forward	**58.4**	**-**	**-**	**-**	**59.9**	**-**	**118.3**
Leases	**23.6**	**-**	**-**	**-**	**(1.5)**	**-**	**22.1**
	(287.9)	**-**	**-**	**2.6**	**(53.3)**	**-**	**(338.6)**
At 30 June 2019							
Deferred tax assets:							
Provisions and post retirement benefits	245.9	-	245.9	-	(24.6)	82.9	304.2
Provisions for credit impairment	263.3	305.2	568.5	4.1	(70.0)	-	502.6
Tax losses carried forward	5.3	-	5.3	-	1.1	-	6.4
Accelerated tax depreciation	(228.7)	-	(228.7)	0.4	(36.3)	-	(264.6)
	285.8	305.2	591.0	4.5	(129.8)	82.9	548.6
Deferred tax liabilities:							
Accelerated tax depreciation	(245.8)	-	(245.8)	(0.8)	(102.8)	-	(349.4)
Fair value of investment property	(18.0)	-	(18.0)	-	(2.5)	-	(20.5)
Tax losses carried forward	3.9	-	3.9	-	54.5	-	58.4
Leases	23.5	-	23.5	-	0.1	-	23.6
	(236.4)	-	(236.4)	(0.8)	(50.7)	-	(287.9)

* More details are disclosed in note 41.

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

	COMPANY		
	Balance as at 01 July	Recognised in Statements of profit or loss	Balance as at 30 June
	RS'M	RS'M	RS'M
At 30 June 2020			
Deferred tax liability:			
Accelerated tax depreciation	**(0.2)**	**0.1**	**(0.1)**
At 30 June 2019			
Deferred tax liability:			
Accelerated tax depreciation	(0.1)	(0.1)	(0.2)

14. Other assets

	GROUP		COMPANY	
	2020	2019	2020	2019
	RS'M	RS'M	RS'M	RS'M
Mandatory balances with Central Banks	**22,211.0**	21,075.1	**-**	-
Prepayments & other receivables	**1,343.8**	1,060.1	**11.3**	1,679.7
Credit Card Clearing	**183.2**	139.9	**-**	-
Non-banking assets acquired in satisfaction of debts*	**60.0**	60.6	**-**	-
Impersonal and other accounts	**2,288.0**	3,749.5	**-**	-
	26,086.0	26,085.2	**11.3**	1,679.7
Less allowance for credit impairment	**(15.7)**	(16.2)	**-**	-
	26,070.3	26,069.0	**11.3**	1,679.7

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

14. Other assets (Cont'd)

Allowances for credit impairment

	GROUP			
	12 months expected credit loss	Lifetime expected credit loss (not credit impaired)	Lifetime expected credit loss (credit impaired)	Total
	RS'M	RS'M	RS'M	RS'M
At 01 July 2019	**7.2**	**9.0**	**-**	**16.2**
Exchange adjustment	**0.7**	**-**	**-**	**0.7**
Provision for credit impairment for the year	**0.7**	**1.3**	**0.4**	**2.4**
Provision released during the year	**-**	**(2.3)**	**(1.3)**	**(3.6)**
At 30 June 2020	**8.6**	**8.0**	**(0.9)**	**15.7**
At 01 July 2018	1.9	-	-	1.9
Provision for credit impairment for the year	5.3	9.0	-	14.3
At 30 June 2019	7.2	9.0	-	16.2

15. Deposits

	GROUP	
	2020	2019
	RS'M	RS'M
(a) Deposits from banks		
Demand deposits	**3,006.3**	1,855.5
Money market deposits with remaining term to maturity:		
Up to 3 months	**504.6**	1,286.0
Over 3 months and up to 6 months	**803.2**	709.4
	1,307.8	1,995.4
	4,314.1	3,850.9

15. Deposits (Cont'd)

	GROUP	
	2020	2019
	RS'M	RS'M
(b) Deposits from customers		
(i) Retail customers		
Demand deposits	**43,060.4**	31,444.5
Savings deposits	**158,741.0**	137,465.3
Time deposits with remaining term to maturity:		
Up to 3 months	**5,506.3**	5,605.0
Over 3 months and up to 6 months	**2,580.9**	2,436.9
Over 6 months and up to 1 year	**5,199.8**	4,960.7
Over 1 year and up to 5 years	**12,350.7**	14,189.1
Over 5 years	**57.3**	45.0
	25,695.0	27,236.7
	227,496.4	196,146.5
(ii) Corporate customers		
Demand deposits	**130,096.0**	105,517.5
Savings deposits	**5,526.0**	5,842.1
Time deposits with remaining term to maturity:		
Up to 3 months	**13,247.6**	10,699.6
Over 3 months and up to 6 months	**3,387.6**	1,814.2
Over 6 months and up to 1 year	**2,309.4**	1,159.8
Over 1 year and up to 5 years	**3,658.6**	5,456.9
Over 5 years	**1.2**	31.4
	22,604.4	19,161.9
	158,226.4	130,521.5
(iii) Government		
Demand deposits	**459.5**	819.8
Savings deposits	**154.4**	152.9
Time deposits with remaining term to maturity:		
Up to 3 months	**5.2**	8.8
Over 3 months and up to 6 months	**2.6**	-
	7.8	8.8
	621.7	981.5
	386,344.5	327,649.5

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

16. Other borrowed funds

(a) Other borrowed funds comprise the following:

	GROUP	
	2020 RS'M	2019 RS'M
Borrowings from banks:		
in Mauritius	**17,537.1**	12,067.6
abroad	**34,906.8**	44,818.7
	52,443.9	56,886.3
Other borrowed funds include borrowings with original maturity of less than 3 months as shown in note 4	**449.9**	24.4

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

(b) Remaining term to maturity:

On demand or within a period not exceeding 1 year	**43,828.2**	24,460.8
Within a period of more than 1 year but not exceeding 2 years	**352.5**	23,930.1
Within a period of more than 3 years	**8,263.2**	8,495.4
	52,443.9	56,886.3

17. Debt securities

Debt securities comprise the following:

	GROUP		COMPANY	
	2020 RS'M	2019 RS'M	2020 RS'M	2019 RS'M
Rs 2.0 billion floating rate senior unsecured notes maturing in 2023 at an average interest rate of 3.0% (2019:3.5%) (Level 1)	**2,007.0**	2,012.7	**2,007.0**	2,012.7

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

18. Subordinated liabilities

Subordinated liabilities comprise the following:

		GROUP		COMPANY	
		2020 RS'M	2019 RS'M	2020 RS'M	2019 RS'M
Floating rate subordinated notes maturing in August 2023 at an average interest rate of 4.4 % (2019:4.9%) (Level 1)	(i)	**1,108.9**	4,531.7	**1,108.9**	4,531.7
USD30M subordinated debt maturing in August 2023 at an average interest rate of 5.2% (2019:5.8%) (Level 3)	(ii)	**1,040.1**	1,068.0	**-**	-
Repayment of USD3.75M during the year (2019:USD 1.5M)		**(137.2)**	(51.4)	**-**	-
Exchange adjustment		**110.4**	23.5	**-**	-
		2,122.2	5,571.8	**1,108.9**	4,531.7

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

(i) These notes are quoted on the Official Market of the Stock Exchange of Mauritius Ltd and are presently available to individual and institutional investors for secondary trading.

During the year, the holders of the 'Floating Rate Subordinated Notes Due 2023' were given the option to subscribe for convertible redeemable non-voting preference shares in the ratio of 100 preference shares for every 1 note held on the record date, being 26 February 2020. The subscription amount was settled by the cancellation of the Notes held by the noteholders. At 30 June 2020, the outstanding notes amounted to Rs 1.1M. The details of the preference shares are disclosed in note 19.

(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.

19. Preference shares

	GROUP		COMPANY	
	2020 RS'M	2019 RS'M	2020 RS'M	2019 RS'M
339,622,500 convertible redeemable non-voting preference shares (Level 1)	**3,396.2**	-	**3,396.2**	-

During the year ended 30 June 2020, 339,622,500 convertible redeemable non-voting preference shares of no par value were issued at an issue price of Rs 10. each. Subject to a non-conversion period of two years, starting on the issue date and upon receipt of a conversion notice, the eligible preference shareholders shall have the option of converting some or all of their preference shares into ordinary shares of the company based on the conversion price at the specified conversion date. The preference shares shall rank junior to all secured and unsecured creditors of the Group but ahead of the ordinary shares. Redemption is at the option of the Company after the tenth anniversary of the Issue Date. Subject to the number of preference shares in issue being less than fifty million, and all applicable laws, the Company may, by serving a Redemption Notice, redeem on a Redemption Date, all (but not part of) the preference shares.

Classification

As a compound financial instrument, the preference shares have both equity and liability components upon issuance. During the non-conversion period, the equity component has been assessed as being immaterial and therefore the entire instrument has been classified as a liability at 30 June 2020.

Preference dividend

Subject to dividends being declared by the Board and to the applicable laws, the preference shareholders, at the close of the preference dividend record date, shall be entitled to a fixed annual non-cumulative dividend of MUR 0.47 per share. During the non-conversion period, dividends to preference shareholders are recognised in the statement of changes in equity.

20. Post employee benefit liability

		GROUP	
		2020 RS'M	2019 RS'M
	Post employee benefit liability:		
(a)	Staff superannuation fund	**1,040.9**	300.7
(b)	Residual retirement gratuities	**128.9**	59.4
		1,169.8	360.1
(a)	**Staff superannuation fund**		
	Reconciliation of net defined benefit liability		
	Opening balance	**300.7**	152.0
	Amount recognised in statements of profit or loss	**261.3**	211.2
	Amount recognised in statements of comprehensive income	**715.3**	486.7
	Less employer contributions	**(236.4)**	(232.2)
	Less capital injection	**-**	(317.0)
	Closing balance	**1,040.9**	300.7
	Reconciliation of fair value of plan assets		
	Opening balance	**7,687.9**	7,193.3
	Interest income	**459.7**	461.1
	Employer contributions	**236.4**	232.2
	Benefits paid	**(310.2)**	(294.1)
	Return on plan assets below interest income	**(518.5)**	(221.6)
	Capital injection	**-**	317.0
	Closing balance	**7,555.3**	7,687.9
	Reconciliation of present value of defined benefit obligation		
	Opening balance	**7,988.6**	7,345.3
	Current service cost	**230.1**	218.6
	Interest expense	**471.9**	453.7
	Past service cost	**19.0**	-
	Benefits paid	**(310.2)**	(294.1)
	Liability experience gain	**(12.6)**	-
	Liability loss due to change in financial assumptions	**209.4**	265.1
	Closing balance	**8,596.2**	7,988.6
	Components of amount recognised in statements of profit or loss		
	Current service cost	**230.1**	218.6
	Past service cost	**19.0**	-
	Net interest on net defined benefit liability	**12.2**	(7.4)
	Total	**261.3**	211.2
	Components of amount recognised in statements of comprehensive income		
	Return on plan assets below interest income	**518.5**	221.6
	Liability experience gain	**(12.6)**	-
	Liability loss due to change in financial assumptions	**209.4**	265.1
	Total	**715.3**	486.7

20. Post employee benefit liability (Cont'd)

(a) Staff superannuation fund (Cont'd)

	GROUP	
	2020	2019
Allocation of plan assets at end of year	**%**	%
Equity - Local quoted	**30**	34
Equity - Local unquoted	**1**	1
Debt - Overseas quoted	**1**	2
Debt - Local quoted	**12**	8
Debt - Local unquoted	**5**	11
Property - Local	**6**	4
Investment funds	**31**	34
Cash and other	**14**	6
Total	**100**	100
Allocation of plan assets at end of year	**%**	%
Reporting entity's own transferable financial instruments	**8**	9
Property occupied by reporting entity	**6**	3
Other assets used by reporting entity	**4**	2
Principal assumptions used at end of year		
Discount rate	**3.2%**	6.0%
Rate of salary increases	**1.0%**	3.5%
Rate of pension increases	**0.5%**	3.3%
Average retirement age (ARA)	**63**	63
Average life expectancy for:		
Male at ARA	**17.3 years**	17.3 years
Female at ARA	**21.7 years**	21.7 years

	2020	2019
	RS'M	RS'M
Sensitivity analysis on defined benefit obligation at end of year		
Increase due to 1% decrease in discount rate	**1,617.1**	1,486.6
Decrease due to 1% increase in discount rate	**1,254.0**	1,168.7

20. Post employee benefit liability (Cont'd)

(a) Staff superannuation fund (Cont'd)

The sensitivity analysis has been carried out by recalculating the present value of obligation at the end of the period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation. It has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

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

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

The Mauritius Commercial Bank Limited sponsors a final salary defined benefit pension plan for its staff and some staff of the Group. The plan is self-administered and funded separately from the bank . The Mauritius Commercial Bank Limited has recognised a net defined benefit liability of Rs 1,040.9 M, as at 30 June 2020 for the plan (2019: Rs 300.7M).

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.

The Mauritius Commercial Bank Limited has a residual obligation imposed by the Workers' Rights Act (WRA) 2019 on top of its Defined Contribution (DC) plan. It is therefore particularly exposed to investment under-performance of the DC plan.

There has been no plan amendment, curtailment or settlement during the year, except for data adjustments.

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) : **258.5M**
Weighted average duration of the defined benefit obligation : **17 years**

As from 01 July 2015, The Group has introduced a Defined Contribution Cash Balanced Scheme "DCCB" for its employees.
Existing employees had the choice of either remaining in the Defined Benefit Scheme or to join the new scheme.

Note: Employee benefits obligations have been provided for based on the report from Aon Hewitt Ltd., Actuaries and Consultants.

20. Post employee benefit liability (Cont'd)

(b) Residual retirement gratuities

	GROUP	
	2020 RS'M	2019 RS'M
Reconciliation of net defined benefit liability		
Opening balance	**59.4**	51.0
Amount recognised in statements of profit or loss	**13.0**	7.7
Amount recognised in statements of comprehensive income	**56.5**	0.7
Closing balance	**128.9**	59.4
Reconciliation of present value of defined benefit obligation		
Opening balance	**59.4**	51.0
Current service cost	**9.5**	4.7
Interest expense	**3.4**	3.0
Past service cost	**0.1**	-
Liability experience	**47.4**	-
Liability loss due to change in financial assumptions	**9.1**	0.7
Closing balance	**128.9**	59.4
Components of amount recognised in statements of profit or loss		
Current service cost		
Past service cost	**9.5**	4.7
Net interest on net defined benefit liability	**0.1**	-
Total	**3.4**	3.0
	13.0	7.7
Components of amount recognised in statements of comprehensive income		
Liability expense loss	**47.4**	-
Liability loss due to change in financial assumptions	**9.1**	0.7
Total	**56.5**	0.7
Principal assumptions used at end of year		
Discount rate	**3.2%**	6.0%
Rate of salary increases	**1.0%**	3.5%
Rate of pension increases	**0.5%**	3.3%
Average retirement age(ARA)	**63**	63

	2020 RS'M	2019 RS'M
Sensitivity analysis on defined benefit obligation at end of year		
Increase due to 1% decrease in discount rate	**41.8**	27.0
Decrease due to 1% increase in discount rate	**33.1**	19.2

The Mauritius Commercial Bank Limited has recognised a net defined liability of Rs 128.9M as at 30 June 2020 (2019: Rs 59.4) for all employees whose pension benefits are not expected to fully offset the company's retirement gratuity obligations under the Workers' Rights Act (WRA) 2019 and who are therefore entitled to residual retirement gratuities under the Workers' Rights Act (WRA) 2019.

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

Future cash flows
The funding policy is to pay benefits out of the reporting entity's cash flow as and when due.

Expected employer contribution for the next year (RS'M) : **Nil**
Weighted average duration of the defined benefit obligation: **24 years**

21. Other liabilities

	GROUP		COMPANY	
	2020	2019	2020	2019
	RS'M	RS'M	RS'M	RS'M
Impersonal & other accounts	6,655.7	7,673.8	61.6	73.4
Structured products notes*	4,602.1	4,542.0	-	-
Proposed dividend	-	1,290.1	-	1,290.1
Lease liabilities	494.5	-	-	-
Allowances for credit impairment on off-balance sheet exposures	274.5	336.7	-	-
	12,026.8	13,842.6	61.6	1,363.5

* These structured products notes were issued at the level of our subsidiaries.

The Lease liabilities can be analysed as follows:

	GROUP
	2020
	RS'M
Up to 3 months	2.2
Over 3 months and up to 6 months	2.2
Over 6 months and up to 1 year	0.2
Over 1 year and up to 5 years	281.8
Over 5 years	208.1
	494.5

Allowances for credit impairment on off-balance sheet exposures

	GROUP			
	12 months expected credit loss	Lifetime expected credit loss (not credit impaired)	Lifetime expected credit loss (credit impaired)	Total
	RS'M	RS'M	RS'M	RS'M
At 01 July 2019	333.8	2.9	-	336.7
Exchange adjustment	(0.6)	-	-	(0.6)
Provision for credit impairment for the year	29.2	-	3.2	32.4
Provision released during the year	(246.7)	(1.8)	-	(248.5)
Changes in models/risk parameters	154.5	-	-	154.5
At 30 June 2020	270.2	1.1	3.2	274.5
At 01 July 2018	289.6	-	-	289.6
Exchange adjustment	6.1	-	-	6.1
Provision for credit impairment for the year	321.2	4.9	32.7	358.8
Provision released during the year	(253.7)	(2.0)	(32.7)	(288.4)
Changes in models/risk parameters	(29.4)	-	-	(29.4)
At 30 June 2019	333.8	2.9	-	336.7

22. Leases

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements. The Group is adopting IFRS 16 Leases as from financial year 2020 with no restatement of comparatives for 2019 as permitted under the specific transition provisions in the standard. The adjustments arising from the new leasing rules have been recognised in the statement of financial position as from financial year 2020. The new accounting policies are disclosed in note 1.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's borrowing rate as of 01 July 2019. The lessee's borrowing rate applied to the lease liabilities on 01 July 2019 ranged from 5% to 10%.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of less than 12 months as at 01 July 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation in Determining whether an Arrangement contains a Lease.

(ii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied.

(iii) Lessor Accounting

The Group did not make adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

(iv) Amounts recognised in the financial statements at 30 June 2020:

Impact on statement of financial position

On transition to IFRS16, the Group recognised additional lease liabilities. The impact on transition is summarised below:

	GROUP
	2020 RS'M
Amount in statement of financial position as at 30 June 2020	
Recognition of right-of-use assets/ lease liabilities at 01 July 2019	449.9
Depreciation of right-of-use assets	101.5
Carrying amount of right-of-use assets	348.4
Amount in statement of profit or loss for the year ended 30 June 2020	
Interest on lease liabilities	40.7
Expenses related to short term leases	2.3
Expenses relating to low value leases	15.9
Expenses relating to variable leases	5.9
Amount in statement of cash flows for the year ended 30 June 2020	
Cash payment for reduction of the outstanding lease liabilities	116.0
Interest payments	40.7
Total outflow for lease	156.7

23. Stated capital and reserves

(a) Stated capital

	Number of shares
At 01 July 2018	**238,683,096**
Issue of shares following the exercise of Group Employee Share Options Scheme	217,565
At 30 June 2019	**238,900,661**
Issue of shares following the exercise of Group Employee Share Options Scheme	**351,577**
At 30 June 2020	**239,252,238**

Fully paid ordinary shares carry one vote per share and the right to dividend.
The shares have no par value and rank 'pari passu' in all respects with the existing ordinary shares of the Company.

(b) Reserves

(i) Capital reserve

The capital reserve represents the cumulative net change in:
(a) the fair value of investment securities until the securities are derecognised or impaired.
(b) revaluation surplus on land and factory buildings where applicable, until it is derecognised.

(ii) Translation reserve

The translation reserve represents all foreign currency differences arising from the translation of the results and financial position of foreign operations.

(iii) Statutory reserve

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

(iv) General banking reserve

The Group makes an appropriation to a General banking reserve for unforeseen risks and future losses.

24. Contingent Liabilities

		GROUP	
		2020 RS'M	2019 RS'M
(a)	**Instruments**		
	Acceptances on account of customers	**534.1**	555.0
	Guarantees on account of customers	**24,617.3**	21,397.5
	Letters of credit and other obligations on account of customers	**38,774.8**	45,290.5
	Other contingent items	**1,550.3**	1,759.5
		65,476.5	69,002.5
(b)	**Commitments**		
	Loans and other facilities, including undrawn credit facilities	**7,317.8**	6,503.1
(c)	**Tax assessments ***	**106.6**	89.7
		72,900.9	75,595.3

*The Mauritius Commercial Bank Limited (the Bank) received income tax assessments relating to financial years ended 30 June 2007 to 30 June 2015 against which the Bank has objected.

The basis of the assessment raised by the Mauritius Revenue Authority ("MRA") were around a number of areas and during the year ended 30 June 2019, an agreement was reached between the two parties for the income tax assessments relating to financial years ended 30 June 2007 to 30 June 2014.

On the basis of the agreement reached, the Bank has, during the year, submitted amended income tax returns for the years ended 30 June 2016 to 30 June 2018.

In addition, the Bank received several assessments under the Value Added Tax Act for the periods beginning April 2006 to June 2017 against which the Bank also objected.

Based on the settlement previously reached on income tax assessments and ongoing discussions held with the MRA, a provision was made for the estimated likely charge for the remaining periods.

The Bank is of the opinion that the likelihood of incurring additional payment to the MRA beyond the amount provided is not probable for those assessments still in front of the Assessment Review Committee. As a result, the maximum liability that could arise from these assessments that have not been provided for amounted to Rs 98.3 million.

During the year, MCB Leasing Limited, another subsidiary of the Group, received an income tax assessment relating to financial year ended 30 June 2019. The maximum liability that could arise amounted to Rs 8.3 million.

25. Interest income

	GROUP		COMPANY	
	Year ended 30 June 2020	Year ended 30 June 2019 (Restated)	Year ended 30 June 2020	Year ended 30 June 2019
	RS'M	RS'M	RS'M	RS'M
Interest income using the effective interest method:				
Loans to and placements with banks	**832.7**	1,085.0	**-**	-
Loans and advances to customers	**14,405.9**	13,980.2	**-**	-
Investments at amortised cost	**3,912.9**	2,674.1	**9.1**	0.2
Investments at fair value through other comprehensive income	**354.2**	313.4	**-**	-
Other	**-**	-	**5.5**	5.3
	19,505.7	18,052.7	**14.6**	5.5
Investments at fair value through profit or loss	**396.6**	773.8	**2.5**	-
Other	**92.4**	14.9	**-**	-
	19,994.7	18,841.4	**17.1**	5.5

26. Interest expense

Deposits from banks	**0.8**	106.6	**-**	-
Deposits from customers	**3,637.4**	4,161.7	**-**	-
Other borrowed funds	**1,651.4**	1,273.0	**1.6**	-
Debt securities	**60.9**	70.0	**60.9**	70.0
Subordinated liabilities	**194.9**	273.3	**155.1**	218.3
Leases	**40.7**	-	**-**	-
	5,586.1	5,884.6	**217.6**	288.3

27. Fee and commission income

Retail and private banking fees	**698.6**	724.3	**-**	-
Corporate banking fees	**957.0**	936.9	**-**	-
Guarantee fees	**354.2**	276.5	**-**	-
Interbank transaction fees	**81.6**	64.6	**-**	-
Brokerage	**96.1**	60.7	**-**	-
Asset management fees	**224.1**	192.1	**-**	-
Rental income	**204.7**	194.6	**-**	-
Cards and other related fees	**1,983.0**	2,012.4	**-**	-
Trade finance fees	**647.4**	750.3	**-**	-
Others	**93.1**	268.4	**-**	-
	5,339.8	5,480.8	**-**	-

The Mauritius Commercial Bank Limited has restated certain income previously included in 'profit arising from dealing in foreign currencies' to 'fees and commission income', since this better reflects the nature of the underlying transactions. The restatement was made to the prior year comparatives since this provides the users of the financial statements with more transparent and fair information of the effects of the transactions in accordance with the requirements of IAS1 ' Presentation of financial statements'. The impact of the restatement to amounts previously reported is as follows:

Increase in fee and commission income	-	345.8	-	-
Decrease in profit arising from dealing in foreign currencies	-	(345.8)	-	-

28. Fee and commission expense

Interbank transaction fees	**62.2**	43.2	**-**	-
Cards and other related fees	**1,040.0**	1,045.2	**-**	-
Corporate banking and trade finance fees	**241.9**	174.1	**-**	-
Others	**59.0**	86.4	**-**	-
	1,403.1	1,348.9	**-**	-

29. Net gain/(loss) on financial instruments

	GROUP		COMPANY	
	Year ended 30 June 2020 RS'M	Year ended 30 June 2019 RS'M	Year ended 30 June 2020 RS'M	Year ended 30 June 2019 RS'M
Financial instruments	**507.3**	89.6	**-**	-
Investment securities at fair value through profit or loss	**532.1**	613.3	**(0.7)**	-
	1,039.4	702.9	**(0.7)**	-

30. Dividend income

Income from quoted investments:				
Subsidiary	**-**	-	**35.8**	35.8
Others	**57.5**	64.3	**0.1**	4.1
Income from unquoted investments:				
Subsidiaries	**-**	-	**2,041.5**	3,320.2
Others	**25.9**	31.4	**23.0**	10.1
	83.4	95.7	**2,100.4**	3,370.2

31. Non-interest expense

(a) Salaries and human resource costs

	GROUP		COMPANY	
	Year ended 30 June 2020 RS'M	Year ended 30 June 2019 RS'M	Year ended 30 June 2020 RS'M	Year ended 30 June 2019 RS'M
Wages and salaries	**3,109.5**	3,156.8	**83.9**	108.0
Defined benefit plan	**261.3**	211.2	**-**	-
Residual retirement gratuities	**13.0**	7.7	**-**	-
Defined contribution plan	**156.7**	126.1	**-**	-
Compulsory social security obligations	**95.0**	82.5	**-**	-
Equity settled share-based payments	**11.2**	4.1	**-**	-
Other personnel expenses	**784.9**	726.6	**-**	-
	4,431.6	4,315.0	**83.9**	108.0
Number of employees at the end of the year	**3,729**	3,598		

(b) Other non-interest expense

	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Legal and professional fees	**478.1**	411.6	**34.7**	14.9
Rent, repairs, maintenance costs and security charges	**375.8**	412.7	**1.2**	0.6
Software licensing and other information technology costs	**551.7**	441.6	**-**	-
Electricity, water and telephone charges	**302.1**	285.1	**-**	-
Advertising and marketing costs	**176.9**	268.1	**-**	-
Postage, courier and stationery costs	**163.4**	160.9	**1.8**	1.6
Insurance costs	**104.9**	104.9	**-**	-
Others	**68.4**	190.2	**40.2**	36.8
	2,221.3	2,275.1	**77.9**	53.9

(c) Share-based payments

During FY 2014, the Group proposed a Group Employee Share Option Scheme (GESOS) to all employees.

The Board of Directors has the authority to issue up to 5 million shares to the employees. In October 2019, a further offer of 788,609 options was made on similar terms.

	GROUP			
	2020		2019	
	Weighted avg exercise price RS	Number of options	Weighted avg exercise price RS	Number of options
Outstanding and exercisable at 01 July	**244.82**	**490,035**	252.51	523,284
Expired during the year	**243.92**	**(426,540)**	252.80	(500,112)
Granted during the year	**269.56**	**788,609**	246.70	684,428
Exercised during the year	**270.28**	**(351,577)**	250.90	(217,565)
Outstanding and exercisable at 30 June		**500,527**		490,035

The options outstanding at 30 June 2020 under GESOS have an exercise price in the range of Rs 266.75 to Rs 297.75 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 FY 19/20 was Rs 315.77(2019:Rs 277.03).

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 293.50 (2019:Rs 268.00).

32. Net impairment of financial assets

	GROUP	
	Year ended 30 June 2020 RS'M	Year ended 30 June 2019 RS'M
Net allowance for credit impairment		
Cash and cash equivalents	**(1.7)**	6.0
Loan and advances		
Loans to and placements with banks	**(48.2)**	(74.7)
Loans and advances to customers	**4,916.7**	1,604.1
Investment securities		
Amortised cost	**254.3**	58.9
Fair value through other comprehensive income	**9.9**	(6.4)
Other assets - receivables	**(1.2)**	14.3
Off-balance sheet exposures	**(61.6)**	41.0
	5,068.2	1,643.2
Bad debts written off for which no provisions were made	**72.1**	1.8
Recoveries of advances written off	**(64.6)**	(48.1)
	5,075.7	1,596.9

33. Income tax expense

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

	GROUP		COMPANY	
	Year ended 30 June 2020 RS'M	Year ended 30 June 2019 (Restated) RS'M	Year ended 30 June 2020 RS'M	Year ended 30 June 2019 RS'M
Income tax based on the adjusted profit	**1,383.1**	998.6	**0.9**	0.4
Deferred tax	**(544.7)**	180.5	**(0.1)**	0.1
Special levy on banks	**563.1**	510.5	**-**	-
Corporate Social Responsibility contribution	**111.7**	102.2	**0.1**	0.1
(Over)/Under provision in previous years	**(19.2)**	23.3	**-**	-
Provision for tax assessments	**-**	163.1	**-**	-
Charge for the year	**1,494.0**	1,978.2	**0.9**	0.6

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

	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Profit before tax	**9,487.6**	11,522.7	**1,737.6**	2,923.4
Less share of profit of associates	**(400.6)**	(403.9)	**-**	-
	9,087.0	11,118.8	**1,737.6**	2,923.4
Tax calculated at applicable rates	**1,363.1**	1,667.8	**260.6**	438.5
Effect of different tax rates	**(263.7)**	58.0	**-**	-
Impact of:				
Income not subject to tax	**(738.7)**	(132.8)	**(317.4)**	(506.1)
Expenses not deductible for tax purposes	**477.7**	361.4	**57.6**	68.1
Tax credits	**-**	(775.3)	**-**	-
Special levy on banks	**563.1**	510.5	**-**	-
Corporate Social Responsibility contribution	**111.7**	102.2	**0.1**	0.1
(Over)/Under provision in previous years	**(19.2)**	23.3	**-**	-
Provision for tax assessments	**-**	163.1	**-**	-
Tax charge	**1,494.0**	1,978.2	**0.9**	0.6

Corporate Social Responsibility (CSR) tax
Corporate Social Responsibility (CSR) tax was legislated by the Government of Mauritius in July 2009. The Group is required, via its local subsidiaries, to allocate a percentage of its chargeable income of the preceding year to a CSR programme approved by the National Social Inclusion Foundation (formerly known as National CSR Foundation) and the remaining to the Mauritius Revenue Authority.

Bank Levy
The Group, via The Mauritius Commercial Bank Limited, is liable to pay a special levy as a percentage of its leviable income from resident, excluding Global Business Licence holders.

Applicable Tax Rates
As from 01 July 2020, the Segment A and Segment B regime has been abolished for income tax purposes and a new tax regime is applicable for the banking sector. The Mauritius Commercial Bank Limited is now being taxed at 5% on the first Rs1.5 billion of its chargeable income, at 15% of its chargeable income between Rs1.5 billion and the base year chargeable income, and at 5% on the remainder, subject to prescribed conditions.

(b) The tax credit related to statements of comprehensive income is as follows:

	GROUP	
	Year ended 30 June 2020 RS'M	Year ended 30 June 2019 RS'M
Remeasurement of defined benefits pension plan	**771.8**	487.4
Deferred tax credit	**(100.4)**	(82.9)
Remeasurement of defined benefit pension plan, net of deferred tax	**671.4**	404.5

34. Dividends

	COMPANY	
	2020 RS'M	2019 RS'M
Ordinary shares		
Paid on 13 December 2019 at Rs 7.60 per share (FY 2019: Rs 5.50 per share)	**1,816.1**	1,312.8
Paid on 30 July 2019 at Rs 5.40 per share*	**-**	1,290.1
	1,816.1	2,602.9
Preference shares		
Paid on 30 June 2020 at Re 0.16 per preference share from the issue date 28 February 2020 to 30 June 2020	**53.8**	-
	1,869.9	2,602.9

* No dividends have yet been declared in respect of financial year ended 30 June 2020.

35. Earnings per share

(a) Basic earnings per share

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

	GROUP	
	Year ended 30 June 2020	Year ended 30 June 2019
Profit attributable to the ordinary equity holders of the parent (Rs' 000)	**7,912,200**	9,434,200
Weighted average number of ordinary shares (thousands)	**239,072**	238,791
Basic earnings per share (Rs)	**33.10**	39.51

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after adjustment for the effects of all dilutive potential ordinary shares.

The Company has only one category of dilutive potential ordinary shares which is share options.

For share options, the proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period is treated as an issue of ordinary shares for no consideration.

During the year, the company issued convertible redeemable non-voting preference shares which are subject to a non-conversion period of two years from the issue date. These shares have not been used in the calculation of diluted EPS.

	GROUP	
	Year ended 30 June 2020	Year ended 30 June 2019
Profit attributable to the ordinary equity holders of the parent (Rs' 000)	**7,912,200**	9,434,200
Weighted average number of ordinary shares - basic (thousands)	**239,072**	238,791
Effect of share options in issue (thousands)	**-**	75
Weighted average number of ordinary shares - diluted (thousands) at year end	**239,072**	238,866
Diluted earnings per share (Rs)	**33.10**	39.50

36. Commitments

(a) Capital commitments

	GROUP	
	Year ended 30 June 2020 RS'M	Year ended 30 June 2019 RS'M
Expenditure contracted for but not incurred	**129.4**	137.1
Expenditure approved by the Board but not contracted for	**172.8**	143.3

(b) Securities pledged

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

	GROUP	
	2020 RS'M	2019 RS'M
Government of Mauritius bonds with Bank of Mauritius	**5,800.0**	5,014.1
Government of Mauritius bonds with other financial institutions	**9,087.0**	1,800.0
	14,887.0	6,814.1

37. Net cash flows from trading activities

	GROUP		COMPANY	
	Year ended 30 June 2020 RS'M	Year ended 30 June 2019 RS'M	Year ended 30 June 2020 RS'M	Year ended 30 June 2019 RS'M
Operating profit	**9,087.0**	11,118.8	**1,737.6**	2,923.4
Decrease/(Increase) in other assets	**121.1**	(3,455.3)	**1,668.4**	(292.3)
(Decrease)/Increase in other liabilities	**(1,035.5)**	2,492.6	**(44.1)**	18.6
Net increase in derivative financial instruments	**(275.7)**	(131.4)	**-**	-
Net decrease in investment securities at fair value through profit or loss	**2,663.5**	6,549.8	**-**	-
Additional/(Release of) provision for employee benefits	**24.9**	(21.0)	**-**	-
Provision for residual retirement gratuities	**13.0**	7.7	**-**	-
Net allowance for credit impairment on:				
Cash and cash equivalents	**(1.7)**	6.0	**-**	-
Loans and advances	**4,868.5**	1,529.4	**-**	-
Investment securities at amortised cost	**254.3**	58.9	**-**	-
Investment securities at fair value through other comprehensive income	**9.9**	(6.4)	**-**	-
Other assets - receivables	**(1.2)**	14.3	**-**	-
Off-balance sheet exposures	**(61.6)**	41.0	**-**	-
Exchange loss	**(2,643.7)**	(541.6)	**-**	-
Depreciation of property, plant and equipment	**810.1**	655.9	**2.6**	2.4
Amortisation of intangible assets	**328.6**	264.7	**-**	-
(Profit)/Loss on disposal of property, plant and equipment	**(8.8)**	2.9	**-**	-
Loss on scrapped intangible assets	**21.8**	-	**-**	-
Profit on disposal of investment securities	**(195.4)**	(25.1)	**-**	-
Bargain purchase on business combinations	**(24.9)**	(1.1)	**-**	-
Capital injection in MCB Superannuation fund	**-**	(317.0)	**-**	-
Revaluation gain on investment properties	**-**	(118.0)	**-**	-
	13,954.2	18,125.1	**3,364.5**	2,652.1

38. Net cash flows from other operating activities

	GROUP	
	Year ended 30 June 2020 RS'M	Year ended 30 June 2019 (Restated) RS'M
Net increase in deposits	**60,289.8**	33,527.0
Net increase in loans and advances	**(17,824.0)**	(31,222.6)
Purchase of investments at fair value through other comprehensive income	**(63,848.6)**	(39,697.2)
Proceeds from sale of investments at fair value through other comprehensive income	**67,685.7**	21,158.5
Net increase in investment securities at amortised cost	**(26,647.0)**	(24,933.4)
Net (decrease)/increase in other borrowed funds	**(4,913.9)**	41,350.4
	14,742.0	182.7

39. Operating segments

Operating segments are reported in accordance with the internal reporting provided to the Supervisory and Monitoring Committee, whose responsibility is to allocate capital and resources to the reportable segments and assessing their performance.

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

The Group's income, expenses, assets and liabilities are derived mainly through its Mauritian operations.

Year ended 30 June 2020

	GROUP RS'M	Banking RS'M	Non-Banking Financial RS'M	Other Investments RS'M	Eliminations RS'M
Income:					
External gross income	**28,943.5**	27,701.8	1,551.1	561.6	(871.0)
Expenses	**(14,780.8)**	(14,165.9)	(875.5)	(451.5)	712.1
Operating profit before impairment	**14,162.7**	13,535.9	675.6	110.1	(158.9)
Net impairment of financial assets	**(5,075.7)**	(4,966.2)	(103.9)	(5.5)	(0.1)
Operating profit	**9,087.0**	8,569.7	571.7	104.6	(159.0)
Share of profit/(loss) of associates	**400.6**	444.3	(0.5)	(43.2)	-
Profit before tax	**9,487.6**	9,014.0	571.2	61.4	(159.0)
Income tax expense	**(1,494.0)**				
Profit for the year	**7,993.6**				
Other segment items:					
Segment assets	**518,339.4**	512,159.0	20,118.7	1,551.6	(15,489.9)
Investments in associates	**10,834.1**	5,327.0	20.2	5,499.5	(12.6)
Goodwill and other intangible assets	**1,678.2**				
Deferred tax assets	**1,262.5**				
Total assets	**532,114.2**				
Segment liabilities	**457,711.9**	454,573.4	12,385.8	1,522.0	(10,769.3)
Unallocated liabilities	**9,308.3**				
Total liabilities	**467,020.2**				

39. Operating segments (Cont'd)

Year ended 30 June 2019

	GROUP RS'M	Banking RS'M	Non-Banking Financial RS'M	Other Investments RS'M	Eliminations RS'M
Income:					
External gross income	**27,459.9**	26,439.1	1,671.3	525.3	(1,175.8)
Expenses	**(14,744.2)**	(14,026.5)	(836.7)	(466.4)	585.4
Operating profit before impairment	**12,715.7**	12,412.6	834.6	58.9	(590.4)
Net impairment of financial assets	**(1,596.9)**	(1,579.4)	(12.5)	(5.2)	0.2
Operating profit	**11,118.8**	10,833.2	822.1	53.7	(590.2)
Share of profit of associates	**403.9**	241.9	0.3	161.7	-
Profit before tax	**11,522.7**	11,075.1	822.4	215.4	(590.2)
Income tax expense	**(1,978.2)**				
Profit for the year	**9,544.5**				
Other segment items:					
Segment assets	**459,445.0**	457,541.3	19,778.5	1,334.1	(19,208.9)
Investments in associates	**9,961.5**	4,363.2	19.6	5,587.3	(8.6)
Goodwill and other intangible assets	**1,462.9**				
Deferred tax assets	**548.6**				
Total assets	**471,418.0**				
Segment liabilities	**402,234.3**	399,390.5	12,636.7	1,491.8	(11,284.7)
Unallocated liabilities	**10,149.1**				
Total liabilities	**412,383.4**				

39. Operating segments (Cont'd)

Year ended 30 June 2020

	GROUP RS'M	Net interest income RS'M	Net fee and commission income RS'M	Dividend income RS'M	Forex profit and others RS'M
Operating income:					
Banking	**20,769.6**	14,232.8	3,590.5	244.1	2,702.2
Non-Banking Financial	**1,255.8**	168.9	631.8	23.4	431.7
Other Investments	**559.4**	6.9	13.1	1.4	538.0
Eliminations	**(630.5)**	-	(298.7)	(185.5)	(146.3)
	21,954.3	14,408.6	3,936.7	83.4	3,525.6
Segment assets	**447,974.2**	441,321.5	-	6,652.7	-
Investments in associates	**10,834.1**				
Goodwill and other intangible assets	**1,678.2**				
Deferred tax assets	**1,262.5**				
Unallocated assets	**70,365.2**				
Total assets	**532,114.2**				

Year ended 30 June 2019

	GROUP RS'M	Net interest income/ (expense) RS'M	Net fee and commission income RS'M	Dividend income RS'M	Forex profit and others RS'M
Operating income:					
Banking	**19,312.8**	12,857.1	3,648.1	649.3	2,158.3
Non-Banking Financial	**1,357.7**	134.9	676.0	33.7	513.1
Other Investments	**481.2**	(35.2)	10.3	8.8	497.3
Eliminations	**(925.3)**	-	(202.5)	(596.1)	(126.7)
	20,226.4	12,956.8	4,131.9	95.7	3,042.0
Segment assets	**403,311.5**	396,971.2	-	6,340.3	-
Investments in associates	**9,961.5**				
Goodwill and other intangible assets	**1,462.9**				
Deferred tax assets	**548.6**				
Unallocated assets	**56,133.5**				
Total assets	**471,418.0**				

40. Related party transactions

(a) The Group

	Associated companies	Directors and Key Management Personnel	Enterprises in which Directors and Key Management Personnel have significant interest	Defined benefit plan
	RS'M	RS'M	RS'M	RS'M
Cash equivalents, loans and advances				
Balance at year end:				
30 June 19	3,781.3	291.1	372.2	-
30 June 20	**3,041.2**	**303.8**	**332.7**	**-**
Deposits				
Balance at year end:				
30 June 19	117.3	235.3	277.9	882.4
30 June 20	**194.0**	**328.5**	**406.0**	**1,006.1**
Amounts due from/(to)				
Balance at year end:				
30 June 19	(1,145.7)	-	-	-
30 June 20	**(1,198.6)**	**-**	**-**	**-**
Off Balance sheet items				
Balance at year end:				
30 June 19	629.3	-	2.8	-
30 June 20	**160.8**	**-**	**5.1**	**-**
Interest income				
For the year ended:				
30 June 19	95.8	6.7	20.3	-
30 June 20	**103.0**	**5.8**	**15.0**	**-**
Interest expense				
For the year ended:				
30 June 19	23.7	6.8	-	5.8
30 June 20	**32.0**	**4.2**	**0.1**	**1.7**
Fees and commissions and Other income				
For the year ended:				
30 June 19	34.7	3.3	2.2	7.3
30 June 20	**24.6**	**1.7**	**3.7**	**3.3**

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

Credit facilities granted to related parties are secured except for credit cards, money market lines and facilities provided to related financial institution counterparties in accordance with our policy and are settled from the underlying obligor's operating cash flows.

40. Related party transactions (Cont'd)

(a) The Group (Cont'd)

The figures for "Fee and commission income" and "Other income" from Associated Companies includes, where applicable, an annual amount in respect of management fees charged to Banque Francaise Commerciale Ocean Indien ('BFCOI') and fees charged to SG Moçambique in respect of IT, Systems and Cards services support by International Cards Processing Services Ltd, MCB Consulting Services Ltd and MCB Ltd.

During the year, 125,905 share options were exercised under the Group Employee Share Option scheme by Key Management Personnel, including Executive Directors amounting to Rs36.5M (FY2018/2019: 74,120 share options for Rs19.9M).

(b) The Company

In addition to the amounts disclosed in (a) above, the following information relate to subsidiaries and associates of the Company:

(i) Balances as at 30 June :

	Amount owed by RS'M	Amount owed to RS'M
Subsidiaries		
2019	1,933.6	3.7
2020	**352.0**	**3.9**
Associates		
2019	4.0	-

(ii) Income and expenses for the period ended 30 June:

	Dividend income RS'M	Interest income RS'M	Other expense RS'M
Subsidiaries			
2019	3,356.1	5.5	12.1
2020	**2,077.4**	**5.5**	14.6
Associates			
2019	4.1	-	-
2020	**0.1**	**-**	**-**

(c) Key Management Personnel compensation

	GROUP		COMPANY	
	2020 RS'M	2019 RS'M	2020 RS'M	2019 RS'M
Remuneration and other benefits relating to Key Management Personnel, including Directors, were as follows :				
Salaries and short term employee benefits	**264.2**	224.3	**91.1**	82.8
Post employment benefits	**17.3**	16.4	**4.5**	4.8
	281.5	240.7	**95.6**	87.6

41. Restatement

Restated amounts represents deferred tax adjustment on ECL following the adoption of IFRS 9.

As from 01 July 2018, IFRS 9 'Financial Instruments' was applied and this resulted in an ECL provision. The ECL provisions are not allowable for tax purposes in the year these are recognised and leads to a temporary difference.

In the current financial year, the Group has recognised the deferred tax impact arising on ECL provision since this provides more transparent information to the users of the financial statements. Therefore, the opening balances as of 1 July 2018 and the comparatives for the year ended 30 June 2019 have been restated for the deferred tax impact on ECL provision.

	GROUP		
	As at 01 Jul 2018	Impact of deferred tax adjustment	As at 01 Jul 2018 (Restated)
	RS'M	RS'M	RS'M
Impacted items:			
Deferred tax assets	285.8	305.2	591.0
Retained earnings	39,224.4	303.6	39,528.0
Non-controlling interests	2,445.0	1.6	2,446.6

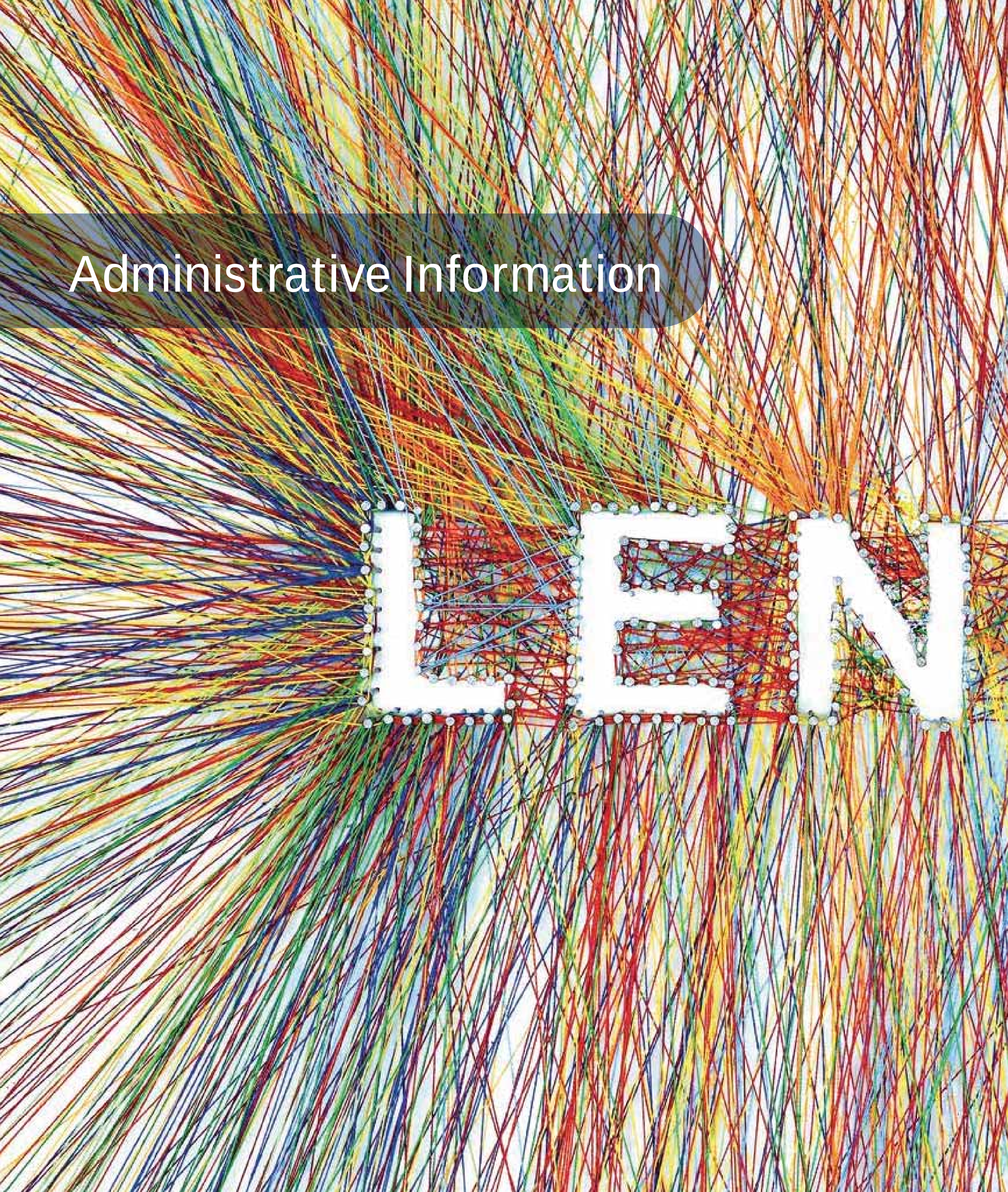

PAR

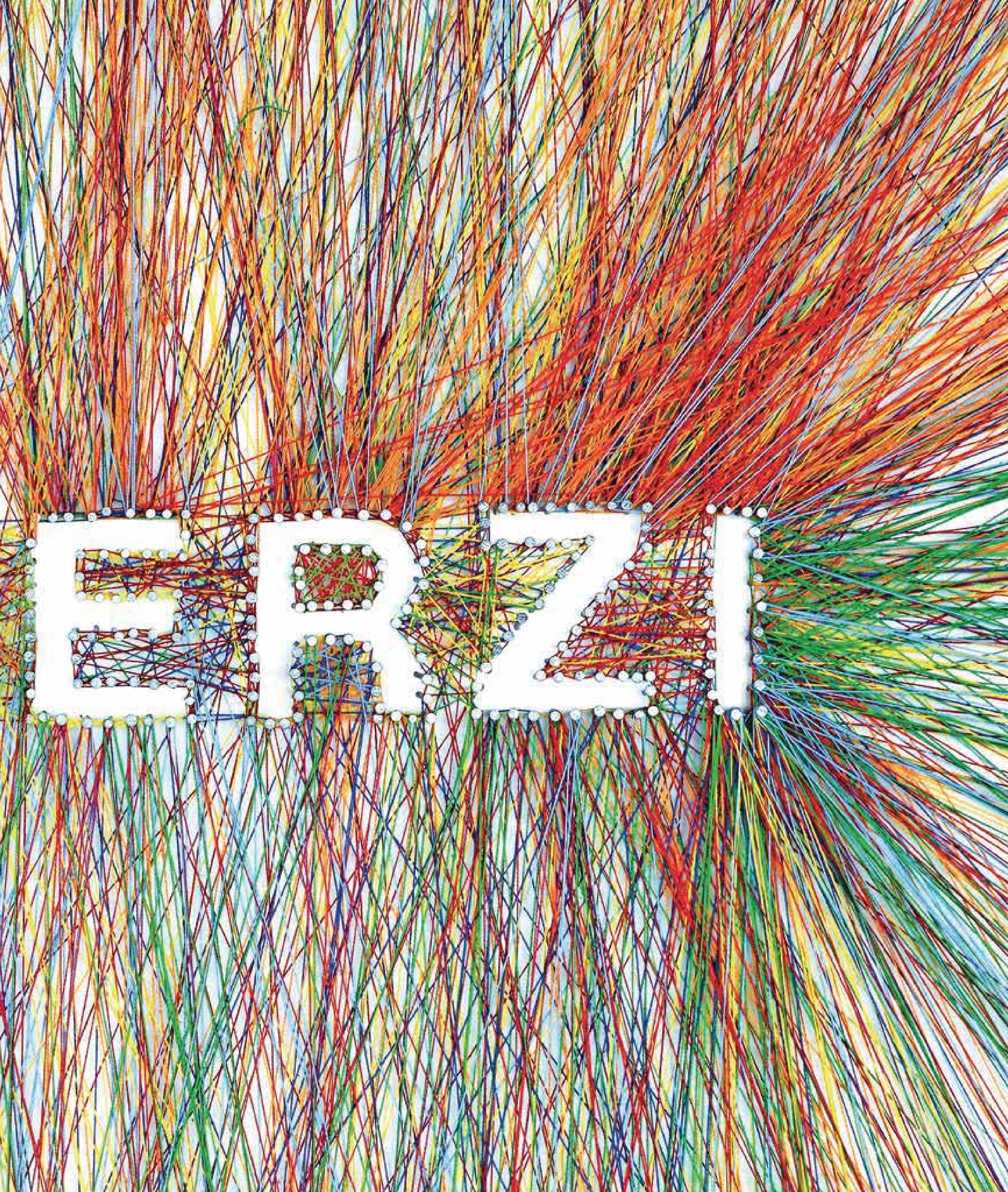
Our Commitment

On Wednesday 5th February 2020, MCB Group hosted the 'Klima Neutral 2050' conference, which gathered major stakeholders such as the Ministry of Environment, Solid Waste Management and Climate Change, leading sustainable businesses, The Indian Ocean Commission (IOC), among others. On that day, MCB Group launched a report, "Klima-Neutral 2050", containing solutions in order to curb down carbon emissions in Mauritius to 2.8% by 2050. MCB Group's Chief Executive, Pierre Guy Noël, laid emphasis on the fact that carbon neutrality can be a major boost to the economy of the country.


MERCI
klima-neutral.com

Administrative Information




ERZI

Administrative Information

MCB Group Ltd

Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000 – Fax: (230) 208 0248
Email: contact@mcbgroup.com
Website: www.mcbgroup.com

Banking

MCB INVESTMENT HOLDING LTD

Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000 – Fax: (230) 208 0248
Email: contact@mcbih.mu
Website: www.mcbgroup.com

THE MAURITIUS COMMERCIAL BANK LTD

HEAD OFFICE – PORT LOUIS

PO Box 52 – 9-15, Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000 – Fax: (230) 208 7054
Swift Code: MCBLMUMU
Email: contact@mcb.mu
Website: www.mcb.mu

Foreign representative offices

PARIS – FRANCE

16, Place de la Madeleine – 75008 Paris
Tel: (33) 1 43 12 90 05
Email: paris.repoffice@mcb.mu

JOHANNESBURG – SOUTH AFRICA

3rd Floor 'Atrium on 5th'
East Tower, Sandton City
Corner of Maude and 5th Streets
Sandton Central 2146
Tel: (27) 10 730 0500
Email: rsa.repoffice@mcb.mu

NAIROBI – KENYA

7th Floor Pramukh Towers
52, Westlands Road
Nairobi
Tel: (254) 709 796 000
Email: ken.repoffice@mcb.mu

DUBAI

Unit 41 Level 15 The Gate (East)
Dubai International Financial Centre
PO Box 121208 - Dubai
United Arab Emirates
Tel: (971) 4 401 9550
Email: difc.repoffice@mcb.mu

Foreign banking subsidiaries

THE MAURITIUS COMMERCIAL BANK (MADAGASCAR) SA

HEAD OFFICE – ANTANANARIVO

Rue Solombavambahoaka Frantsay 77 - Antsahavola
BP 197 – Antananarivo 101
Republic of Madagascar
Tel: (261) 20 22 272 62 – Fax: (261) 20 22 322 82
Swift Code: MCBLMGMG
Email: contact@mcbmadagascar.com
Website: www.mcbmadagascar.com

THE MAURITIUS COMMERCIAL BANK (MALDIVES) PRIVATE LTD

HEAD OFFICE – MALE

H. Sifa Building, Boduthakurufaanu Magu – Malé
Republic of Maldives
Tel: (960) 330 5656 – Fax: (960) 330 5757
Swift Code: MCBLMVMV
Email: contact@mcbmaldives.com
Website: www.mcbmaldives.com

THE MAURITIUS COMMERCIAL BANK (SEYCHELLES) LTD

HEAD OFFICE – VICTORIA

Caravelle House – Manglier Street
PO Box 122 – Victoria – Mahé
Republic of Seychelles
Tel: (248) 4284 555 – Fax: (248) 4322 676
Swift Code: MCBLSCSC
Email: contact@mcbseychelles.com
Website: www.mcbseychelles.com

Foreign banking associates

BANQUE FRANÇAISE COMMERCIALE OCÉAN INDIEN

HEAD OFFICE – RÉUNION

58 Rue Alexis de Villeneuve – CS 21013
97404 Saint Denis Cedex
Tel: (262) 409 900
Swift Code: BFCORERXXXX
Email: reunion@bfcoi.com
Website: www.bfcoi.com

PARIS BRANCH – FRANCE

16, Place de la Madeleine – 75008 Paris
Tel: (33) 1 43 12 90 05
Swift Code: BFCOFRPPXXX
Email: agencepar@bfcoi.com
Website: www.bfcoi.com

MAYOTTE

Route de l'Agriculture – BP 222 – 97600 Mamoudzou
Tel: (269) 269 609 900
Swift Code: BFCOYTYTXXX
Email: contacts@bfcoi.com
Website: www.bfcoi.com

BANCO SOCIÉTÉ GÉNÉRALE MOÇAMBIQUE S.A.

HEAD OFFICE & MAPUTO

Av. Julius Nyerere, Nº 140, 4º Andar
CP 1568 – Maputo
Republic of Mozambique
Tel: (258) 21 48 19 00
Swift Code: SOGEMZMA
Email: contact-mz@socgen.com
Website: www.societegenerale.co.mz

Non-Banking Financial

MCB CAPITAL MARKETS LTD

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcbis@mcbcm.mu
Website: www.mcbcapitalmarkets.mu

MCB INVESTMENT SERVICES LTD

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcbis@mcbcm.mu
Website: www.mcbcapitalmarkets.mu

MCB REGISTRY & SECURITIES LTD

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcbrs@mcbcm.mu
Website: www.mcbcapitalmarkets.mu

Administrative Information

MCB STOCKBROKERS LTD

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcbsb@mcbcm.mu
Website: www.mcbcapitalmarkets.mu

MCB CAPITAL PARTNERS LTD

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcbcp@mcbcm.mu
Website: www.mcbcapitalmarkets.mu

MCB INVESTMENT MANAGEMENT CO. LTD

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcbim@mcbcm.mu
Website: www.mcbcapitalmarkets.mu

MCB STRUCTURED SOLUTIONS LTD

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcbis@mcbcm.mu
Website: www.mcbcapitalmarkets.mu

CM DIVERSIFIED CREDIT LTD

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcbis@mcbcm.mu
Website: www.mcbcapitalmarkets.mu

CM STRUCTURED FINANCE LTD

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcbis@mcbcm.mu
Website: www.mcbcapitalmarkets.mu

CM STRUCTURED PRODUCTS LTD

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcbis@mcbcm.mu
Website: www.mcbcapitalmarkets.mu

MCB LEVERAGED SOLUTIONS LTD

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcbis@mcbcm.mu
Website: www.mcbcapitalmarkets.mu

MCB FINANCIAL ADVISERS

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: corporate.finance@mcbcm.mu
Website: www.mcbcapitalmarkets.mu

MCB EQUITY FUND LTD

c/o MCB Capital Partners Ltd
Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcbcp@mcbcm.mu
Website: www.mcbcapitalmarkets.mu

MCB FACTORS LTD

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5701
Email: mcb.factors@mcb.mu
Website: www.mcbfactors.mu

MCB LEASING LTD

Raymond Lamusse Building
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5504
Email: contactmcbleasing@mcb.mu
Website: www.mcbleasing.mu

MCB MICROFINANCE LTD

5th Floor Currimjee Arcades
256 Royal Road
Curepipe – Republic of Mauritius
Tel: (230) 203 2744
Email: contact@mcbmicrofinance.mu
Website: www.mcbmicrofinance.mu

MCB REAL ASSETS LTD

MCB Centre
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: corporateservices@mcbgcs.mu

CREDIT GUARANTEE INSURANCE CO. LTD*

United Docks Business Park
Kwan Tee Street
Port Louis – Republic of Mauritius
Tel: (230) 213 2741
Email: customer.relations@cgi.mu
Website: www.cgi.mu

Other Investments

FINCORP INVESTMENT LTD

MCB Centre
9-15 Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000 – Fax: (230) 208 0248
Website: www.fincorp.mu

PROMOTION AND DEVELOPMENT LTD*

8th Floor Dias Pier Building
Le Caudan Waterfront
Port Louis – Republic of Mauritius
Tel: (230) 211 9430 – Fax: (230) 211 0239
Email: corporate@promotionanddevelopment.com
Website: www.promotionanddevelopment.com

CAUDAN DEVELOPMENT LTD*

8th Floor Dias Pier Building
Le Caudan Waterfront
Port Louis – Republic of Mauritius
Tel: (230) 211 9430 – Fax: (230) 211 0239
Email: corporate@promotionanddevelopment.com
Website: www.caudan.com

INTERNATIONAL CARD PROCESSING SERVICES LTD

Anse Courtois Street
11220 Les Pailles – Republic of Mauritius
Tel: (230) 405 0850 – Fax: (230) 286 0232
Email: contact@icps.mu
Website: www.icps.mu

MCB CONSULTING SERVICES LTD

3rd Floor Harbour Front Building
President John Kennedy Street
Port Louis - Republic of Mauritius
Tel: (230) 204 7298 – Fax: (230) 208 7427
Email: contactus@mcbcs.mu
Website: www.mcbconsulting.mu

*Local associate

Administrative Information

MCB INSTITUTE OF FINANCE LTD

Uniciti Education Hub
Royal Road, Pierrefonds
Republic of Mauritius
Tel: (230) 401 2400
Email: info@mcb-if.com
Website: www.mcb-if.com

MCB GROUP CORPORATE SERVICES LTD

MCB Centre
Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: corporateservices@mcbgcs.mu

MCB FORWARD FOUNDATION

1st Floor Raymond Lamusse Building
9-15 Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5000
Email: mcb.forwardfoundation@mcb.mu
Website: www.mcbforwardfoundation.org

BLUE PENNY MUSEUM

Le Caudan Waterfront
Port Louis – Republic of Mauritius
Tel: (230) 210 9204
Fax: (230) 210 9243
Email: info@bluepennymuseum.mu
Website: www.bluepennymuseum.com

KEY CONTACT INFORMATION

Shareholder and Noteholder Enquiries

REGISTRAR AND TRANSFER OFFICE

MCB Registry & Securities Ltd
Sir William Newton Street 9-15
Port Louis – Republic of Mauritius
Tel: (230) 202 5640
Email: contact.rs@mcbcm.mu

INVESTOR RELATIONS UNIT

Sir William Newton Street
Port Louis – Republic of Mauritius
Tel: (230) 202 5134 and (230) 202 5558
Email: investor.relations@mcbgroup.com

Our Sustainability Report is available here:

report.mcbgroup.info