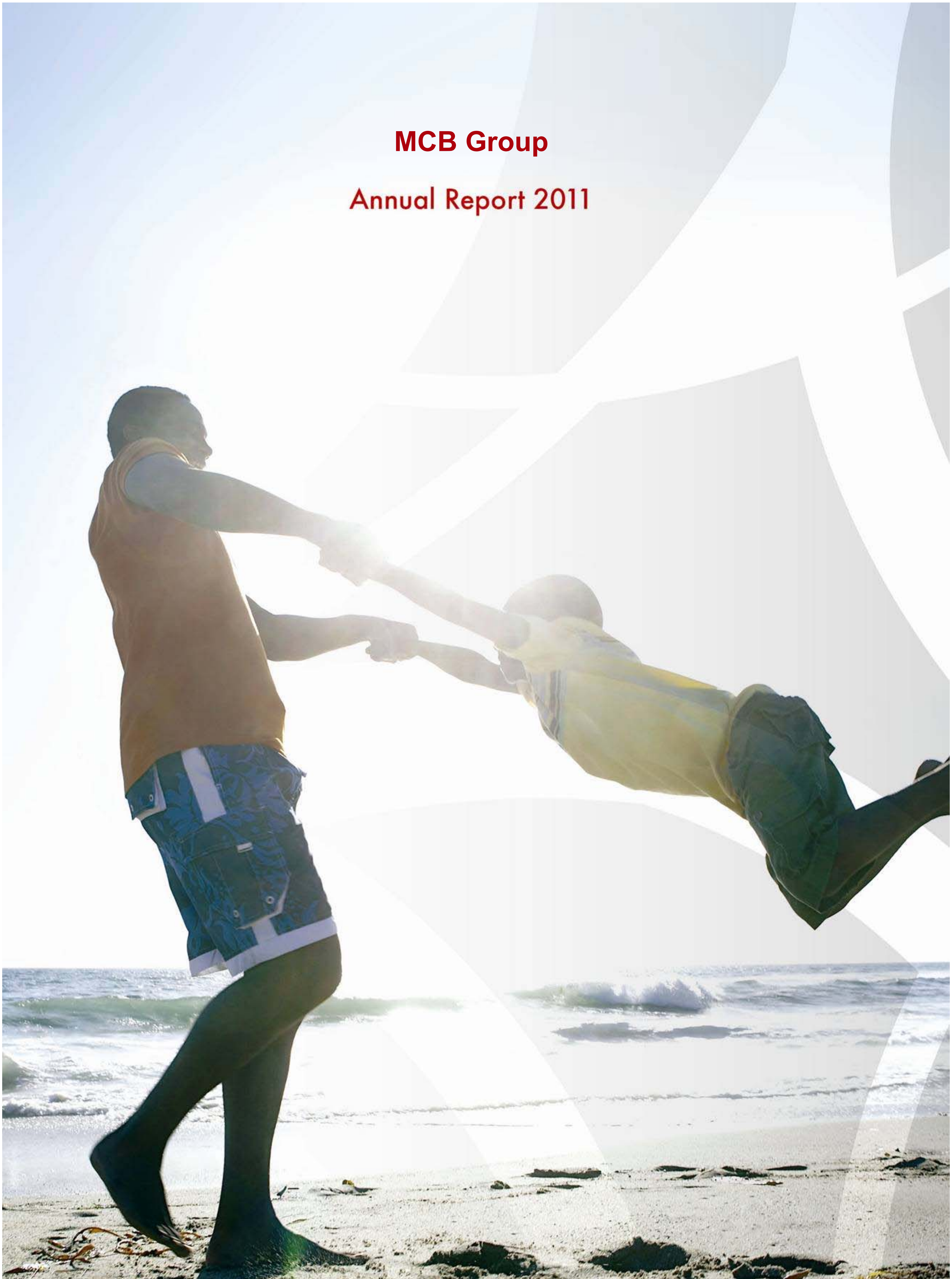
MCB Group

Annual Report 2011



This report has been prepared to assist shareholders to assess the Board's strategies and their potential of success. The statements contained herein may include declarations of future expectations and other forward-looking statements that are based on management's current views and assumptions. These involve risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Readers are advised not to place undue reliance on the forward-looking statements relating to the Group's business strategy, plans, objectives and financial positions as these statements rely on assumptions and hypotheses which inherently represent an accuracy risk. Actual results, performance and events may differ from those in such statements due to general evolution of economic, political and industry conditions, interest rate levels, currency exchange rates as well as changes in laws and regulations and the extent of competition and technological factors. In addition, the MCB Ltd. does not undertake to update any forward-looking statement that may be made from time to time by the organisation or on its behalf.

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VISION

Every day, we will help make something happen

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

CORE VALUES

Integrity	Innovation
Customer care	Knowledge
Teamwork	Excellence

The Year in Review

THE YEAR IN REVIEW

Highlights

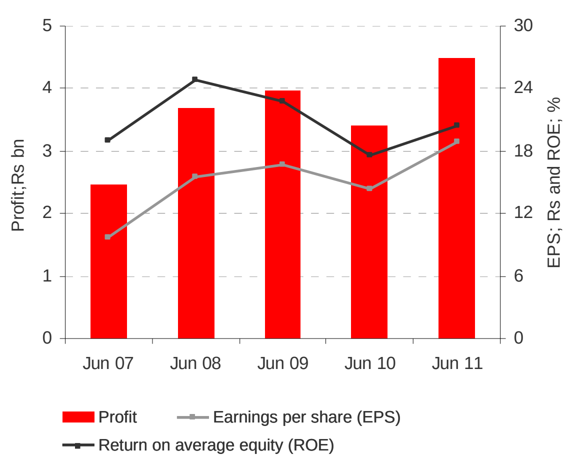
Solid financial performance and enhanced shareholder value…

- Strong recovery in Group profit which rose by 31.6% to Rs 4.5 billion in FY 2010/11, underpinned by non-recurrent gains of nearly Rs 410 million and notable core earnings
- Continued balance sheet growth: gross loans up by 11.8% to Rs 125.7 billion; deposits up by 2.8% to Rs 136.2 billion as at 30 June 2011
- MCB share price of Rs 188 as at 30 June 2011 (2010: Rs 142), Dividends per share of Rs 5.75 (2010: Rs 5.25) and net asset value per share of Rs 99.89 (2010: Rs 85.61)

… notwithstanding challenging conditions

- Testing economic climate despite signs of recovery
- Sluggish growth in private domestic investment
- Difficult money market conditions
- Sub-optimal foreign exchange markets

Profit attributable to shareholders



Note: *Earnings for June 08 and June 11 include non-recurrent gains of Rs 425m and Rs 410m respectively while profit for June 10 is levelled down by a non-recurrent charge of Rs 190m*

The MCB pursued its strategic intent …

Entrenched diversification strategy

- Pursuance of ‘Bank of Banks’ strategy
- Further inroads in regional trade financing
- New branches opened in Madagascar
- Acquired Foreign Institutional Investor status with Securities and Exchange Board of India
- Integrated trading and clearing partner on Global Board of Trade
- Non-bank offerings enriched with new products like non-recourse factoring and the Bond & Currency Fund

Enhanced customer experience

- Entire branch network revamped with offerings matching specificities of locations
- State-of-the-art branch opened in Ebène
- Launch of mobile and SMS banking
- Adoption of a fully-customised complaint management software
- Successful targeted promotional campaigns
- Bolstered customer proximity notably via seminars/business meetings/PR events

Building capacity

- Launch of new core banking system
- Completion of landmark energy-conscious building at St. Jean
- ICPS: Payment Card Industry Data Security Standard (PCI DSS) 2.0 compliant

Focus on sound risk management

- Continued improvement of asset quality
- Roll-out of new debt collection and recovery software

Contribution to sustainable development

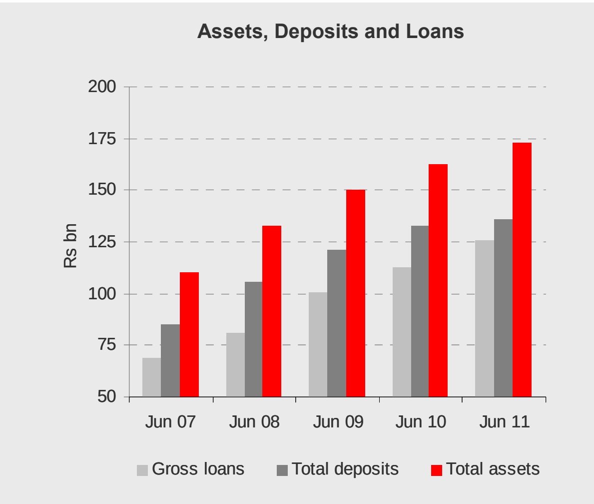
- Prime provider of ‘Green loans’ in partnership with Agence Française de Développement
- Reinforced collaboration with NGOs
- Pursuance of ‘Initiative 175’ in favour of the environment

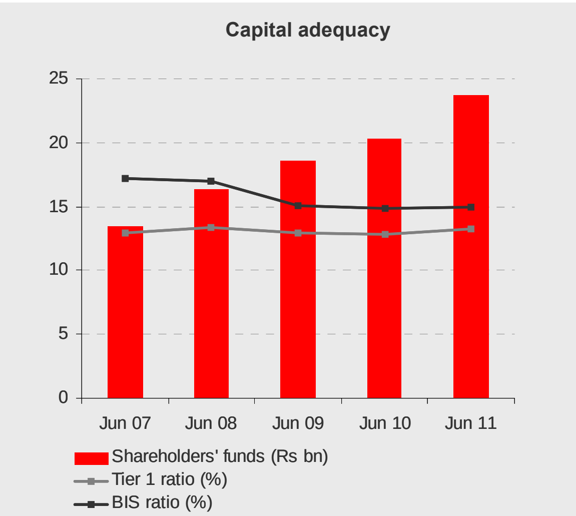
… whilst refreshing its brand

GROUP FINANCIAL SUMMARY

	2011	2010	2009	2008	2007
Income Statement (Rs m)					
Operating profit	5,082	3,817	4,406	3,820	2,693
Profit after tax	4,517	3,420	4,046	3,886	2,547
Profit attributable to ordinary equity holders of the parent	4,491	3,413	3,964	3,694	2,461
Statements of financial position (Rs m)					
Total assets	172,689	162,739	150,476	132,972	110,143
Total loans (net)	122,440	109,442	96,859	77,552	65,768
Total deposits	136,210	132,484	121,241	105,487	84,624
Shareholders' funds	23,729	20,319	18,574	16,346	13,475
Tier 1 Capital	21,772	18,851	17,517	14,704	*11,913
Risk-weighted assets	163,397	146,928	135,222	110,301	91,965
Performance Ratios (%)					
Return on average total assets	2.7	2.2	2.8	3.0	2.3
Return on average equity	20.4	17.6	22.7	24.8	19.1
Return on average Tier 1 capital	22.1	18.8	24.6	27.8	22.3
Non-interest income to operating income	37.7	35.6	39.0	44.0	38.5
Loans to deposits ratio	92.3	84.9	82.7	76.5	81.6
Cost to income ratio	42.6	46.5	42.1	42.9	47.5
Capital Adequacy Ratios (%)					
Capital & reserves/Total assets	13.7	12.5	12.3	12.3	12.2
BIS risk adjusted ratio	15.0	14.9	15.1	16.9	*17.2
of which Tier 1	13.3	12.8	13.0	13.3	*13.0
Asset Quality					
Non-performing loans (Rs m)	4,346	4,336	4,809	4,692	4,833
NPL ratio (%)	3.4	3.9	4.8	5.8	7.0
Allowance for loan impairment losses (Rs m)	3,276	3,054	3,377	3,196	3,246
Provision coverage ratio (%)	75.4	70.4	70.2	68.1	67.2

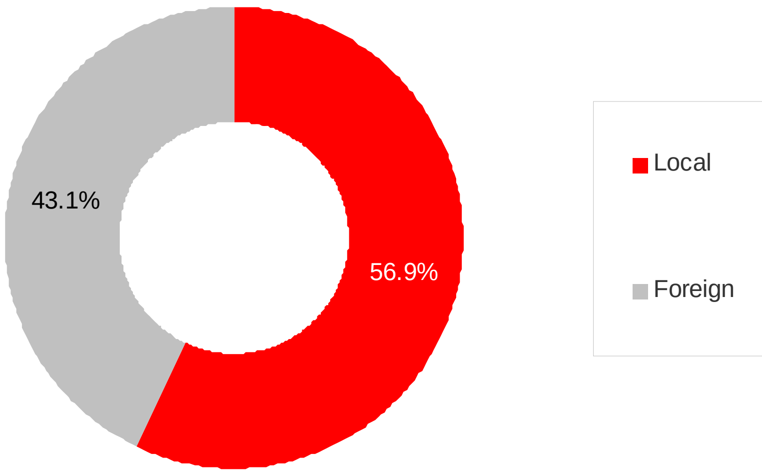
** Figures restated with a view to ensuring comparability except for risk-weighted assets.*





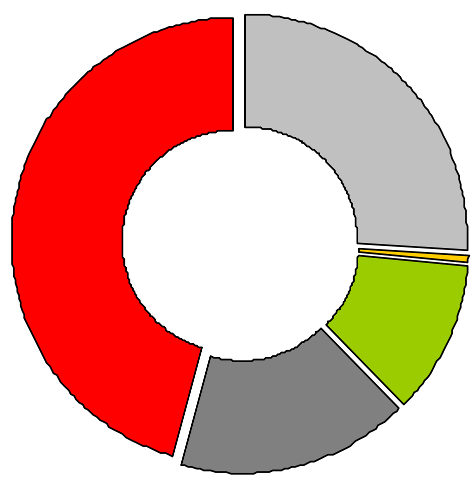
SOURCES OF GROUP PROFIT

FY 2010/11



GROUP VALUE-ADDED STATEMENT

	FY 2010/11
Employees	26%
Corporate Social Responsibility	1%
Government	11%
Providers of Capital	17%
Expansion and Growth	45%



Wealth created Rs 8.2 billion

AWARDS AND RECOGNITION

Bank of the Year 2010

The Banker

Best local bank 2010

EMEA Finance

Quality recognition Awards

for high straight-through processing rate
for payments and transfers

(Citibank and Commerzbank)

International rankings

The Banker (July 2011)

- **716th** among the Top 1000 Banks
- **23rd** in Africa
- **153rd** worldwide in terms of soundness
- **88th** - Return on assets
- **220th** - Profits on average capital

A leading regional bank in terms of profitability

(Eco Austral)

Top Bank in East Africa

(The Banker)

Corporate Information

CORPORATE INFORMATION

ABOUT THE MCB GROUP

The Mauritius Commercial Bank Ltd. (MCB) is the leading banking institution in Mauritius while being a key financial services provider in the region. Besides playing an influential role in the socio-economic development of the country, the MCB consistently relies on its sound business model to pursue a sensible diversification strategy, alongside consolidating its domestic banking operations. Apart from tapping into the potential of non-bank financial and investment services, the Group has established a widening foothold beyond local shores, notably in regional markets. Reflective of its corporate philosophy, the MCB remains intent on providing ever-improving levels of customer experience as well as state-of-the-art financial solutions to individual and corporate clients on the strength of dedicated business segments and extensive delivery channels. Epitomising its prominent brand, the MCB keeps on building lasting relationships with all its stakeholders.

KEY FACTS AND FIGURES

A well-established and strong track record

- Incorporated in 1838
- Initiation of regional expansion in the early 1990s
- Listed on the Stock Exchange of Mauritius (a member of the World Federation of Exchanges) since 1989
- Proclaimed 'Bank of the Year' for Mauritius by The Banker Magazine for the third consecutive year in 2010

Unrivalled domestic franchise

- Market shares of above 40% in respect of credit to the economy and local currency deposits and of over 50% of cards issued in Mauritius
- Highest market capitalisation of around USD 1.5 billion on the local stock exchange, representing a share of nearly 25%
- Approximately 900,000 individual and institutional customers, over 18,000 local and foreign shareholders, more than 115,000 Internet Banking customers, and some 2,700 employees
- Extensive network of 40 branches, entirely redesigned according to world class infrastructure concepts

- 160 ATMs (representing 38% of the local ATM park) and above 4,600 point of sale terminals; facilities for mobile and SMS banking
- Around 1,600 correspondent banks worldwide
- Increased participation in non-bank financial services such as leasing, factoring as well as a comprehensive range of investor services

Increasingly prominent player regionally and beyond

- Presence in 8 countries via subsidiaries, associate and representative offices
- Bolstered regional market presence on account of dedicated service offerings, participation in trade and project finance deals, and reinforced business relationships
- Expanded scope to better tap into global business opportunities

MOODY'S RATINGS

▪ Foreign Currency Deposits	Baa2/P-2
▪ Foreign Currency Issuer	Baa1
▪ Global Local Currency Deposit	Baa1/P-2
▪ Financial Strength	D+
▪ NSR Senior Unsecured MTN-Domestic Currency	Aa3.za
▪ NSR Subordinate MTN-Domestic Currency	Aa3.za

OUR GROUP STRUCTURE

The Mauritius Commercial Bank Ltd.

Corporate Banking | Retail Banking | Cards | International Operations

Global Business | Treasury Operations | Custody Services

Foreign entities

- MCB Seychelles Group (100%)
- MCB Madagascar (85%)
- MCB Moçambique (95%)
- MCB Maldives (99.99%)

- Banque Française Commerciale Océan Indien - *Réunion, Mayotte & Paris* (49.99%)

Representative offices
- *Johannesburg*
- *Paris*

Local subsidiaries and associates

- MCB Capital Markets Ltd. (86.23%)
  - MCB Investment Services (86.23%)
  - MCB Stockbrokers Ltd. (86.23%)
  - MCB Investment Management Co. Ltd. (63.44%)
  - MCB Registry & Securities Ltd. (86.23%)
  - MCB Fund Managers Ltd. (86.23%)
  - MCB Capital Partners Ltd. (86.23%)
  - GHF Futures Ltd. (43.11%)
- MCB Equity Fund Ltd. (100%)
- MCB Factors Ltd. (100%)
- MCB Properties Ltd. (100%)
- Fincorp Investment Ltd. (57.56%)
  - Finlease Co. Ltd. (57.56%)
  - Promotion & Development Ltd. (27.31%)
    - Caudan Development Ltd. (20.38%)
- International Card Processing Services Ltd. (80%)
- Credit Guarantee Insurance Co. Ltd. (40%)
- MCB Forward Foundation (100%)
- Blue Penny Museum (97.88%)

Figures refer to effective holding of the MCB Ltd.

Subsidiaries   Associates

OUR BUSINESS SEGMENTS

Retail – With its wide-ranging distribution channels, the MCB caters for the day-to-day needs of different customer segments as well as small and medium enterprises, while focusing on the requirements of high net worth clients

Corporate – Supporting the needs of operators in established and emerging economic sectors, the MCB provides them with flexible and innovative financial solutions and advice, thus helping to transform opportunities into winning strategies

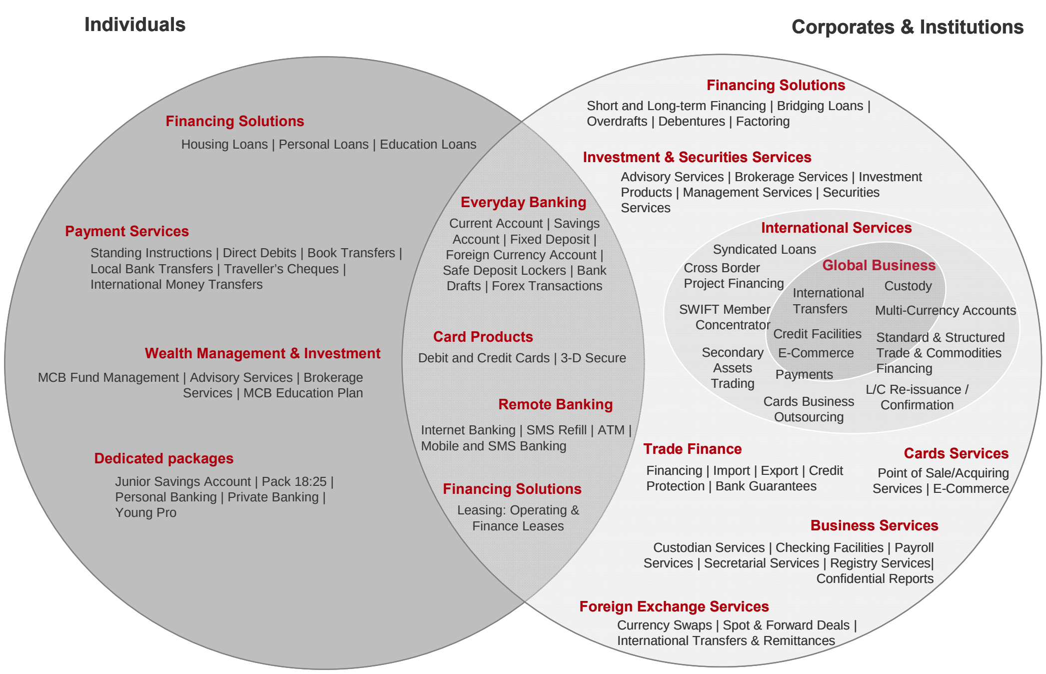
Cards – By means of its advanced technology, global partnerships and extensive merchant network, the MCB acts as a one-stop-shop for all cards related needs of clients

International operations – The MCB leverages on its network of international correspondents and access to global finance to provide custom-made financial solutions. A cornerstone of our regional diversification is the 'Bank of Banks' initiative which aims to position the Bank as a regional hub in handling trade finance, payments and cards operations outsourcing, amongst others, for banking counterparts

Global Business – Taking advantage of Mauritius as a competent Global Business jurisdiction and the MCB's status as a Foreign Institutional Investor vis-à-vis the Securities and Exchange Board of India, the dedicated unit offers a palette of solutions to meet the needs of clients worldwide, notably offshore companies, funds and trusts

Non-bank financial services – The Group has entrenched its participation in non-bank activities like leasing and factoring as well as comprehensive investor services which are offered by the MCB Capital Markets Ltd. The latter arm accompanies clients over the lifetime of their investments by providing fast and flexible solutions through speciality-driven subsidiaries

OUR TAILORED FINANCIAL SOLUTIONS



OUR HISTORY – MAJOR MILESTONES

1838	• Started business on 1st September • Royal Charter by Her Majesty the Queen Victoria under the name of *The Mauritius Commercial Bank*
1920	• First branch in Curepipe
1955	• Registration as a limited liability company • First bank to set up rural operations (in Mahébourg)
1957	• Fincorp Ltd. incorporated
1965	• Breaking the Rs 1 million profit mark
1970	• Industrial Loans Division (equivalent of Corporate Banking BU) to support take-off of emerging/risky economic sectors like textile
1987	• First bank to introduce ATMs
1988	• First bank to issue credit cards
1989	• Listed on the Stock Exchange of Mauritius • MCB Stockbrokers Ltd. • Breaking the Rs 100 million profit mark
1990	• Member and shareholder of SWIFT • MCB Properties Ltd. and MCB Registry and Securities Ltd.
1991	• Opening of representative offices in Paris and Antananarivo
1992	• Acquired a majority interest in BFCOI, already incorporated in France, Réunion, Mayotte and Seychelles • Opening of Union Commercial Bank in Madagascar in association with the Standard Bank of South Africa and Malagasy investors
1994	• MCB Fund Managers Ltd. and Finlease Co. Ltd.
1998	• MCB Investment Management Ltd. • Launch of MCB's website as well as its Internet Banking services
1999	• União Comercial de Bancos (Moçambique) S.A.R.L, in partnership with BFCOI • Setting up of MCB Private Banking to cater for the needs of high net worth clients • First bank to offer factoring services
2001	• Breaking the Rs 1 billion profit mark • Blue Penny Museum
2003	• Joint venture agreement with Société Générale through the sale of 50% of BFCOI • First appearance of the MCB brand outside Mauritius with the incorporation of MCB Seychelles Ltd. • Roll-out of MCB's Business Process Re-engineering exercise whereby the Bank implemented its customer-focused strategies
2005	• Entered the list of Top 1000 World Banks in The Banker magazine • MCB Capital Partners Ltd., MCB Equity Fund Ltd. and MCB Factors Ltd.

2006	• Buy-Back of Lloyd's TSB 11.25% stake in MCB • Introduction of an Employee Share Ownership Scheme • Issue of Rs 1.4 billion of Tier 2 Capital in ZAR 350 million 10-year subordinated bond on the Bond Exchange of South Africa
2007	• Subsidiaries in Madagascar and Mozambique renamed under MCB brand • MCB Capital Markets Ltd. to regroup subsidiaries providing investor services • Initiated the 'Bank of Banks' strategy
2008	• Malé Branch in the Maldives • Representative office in Johannesburg, South Africa • International Card Processing Services Ltd. • Launch of Global Business Desk
2009	• First edition of Africa Forward Together seminar to support the Bank's regional diversification • 'Initiative 175', a 4-year action plan to foster environment-friendly practices internally and nationwide
2010	• MCB Forward Foundation • From Maldives branch to a fully-owned subsidiary, The MCB (Maldives) Private Ltd. • Launch of our new core banking system
2011	• Obtained Foreign Institutional Investor (FII) licence from Securities and Exchange Board of India • Landmark energy-conscious building at St. Jean completed • Branch network entirely revamped via 'Kit of Parts' project • Breaking the Rs 4 billion profit mark • 'Rebranding project' under way

REFRESHING THE MCB BRAND

A rich history and a solid track record spanning over 173 years have earned the MCB a very special place in the hearts and minds of its multiple stakeholders. The Group has successfully embraced change and evolved with time. Its recent initiatives and transformations are clear indications of its proactive stance in the fast-evolving environment in which it operates.

As the MCB approaches new milestones in its history, it has decided to take a fresh look at its brand, its least tangible yet most valuable asset, and drive it to the next level. The branding exercise aims at enabling stakeholders to take full measure of the essence of the MCB Group's identity as well as the distinctiveness of its value proposition. While ensuring the coherence of the brand makes an even bigger difference in the market, the programme will also further strengthen the overall MCB brand equity.

A comprehensive multi-pronged programme was unfurled to refresh and re-energise the brand. An introspective exercise helped identify the MCB's Brand DNA and subsequently craft the Group's new Vision and Mission statements. The development and application of a more coherent and contemporary visual identity – including a new logo - complemented the refurbishment of the branch network.

In the same breath, a series of initiatives was deployed to enhance the Group's service quality and value proposition so as to match the evolving aspirations of its customers and exceed their expectations.

Conscious that the staff is the most important brand touch point, the Group launched its internal communication plan in August 2011. Addressing the entire personnel at the MCB Live event, the Chief Executive Group explained the objectives and rationale of the branding exercise, unveiled the new Vision and Mission statements and reiterated emphasis on the MCB Values, a set of timeless guiding principles.

A series of workshops themed 'Brand At Work' percolated the essence of the refreshed brand across all strata of the organisation by motivating all employees to actively participate in the programme and therefore become full-fledged ambassadors of the brand. The outcome of these workshops will be a key ingredient in the creation of the MCB Brand Book, a handy guide that will inspire all employees to enthusiastically live the brand so as to ensure that *'Everyday, we will help make something happen'.*

MCB Board and Management

MCB BOARD AND MANAGEMENT

BOARD OF DIRECTORS

President

J. Gérard HARDY *(Independent)*

Vice President

E. Jean MAMET *(Independent)*

Members

Herbert COUACAUD, C.M.G.

Anil C. CURRIMJEE

Bertrand DE CHAZAL *(Independent)*

Philippe A. FORGET *(Executive)*

Sanjiv GOBURDHUN *(Independent)*

Navin HOOLOOMANN, C.S.K. *(Independent)*

Jean Pierre MONTOCCHIO *(Independent)*

Pierre Guy NOEL *(Executive)*

Antony R. WITHERS *(Executive)*

Margaret WONG PING LUN *(Independent)*

Secretary to the Board

Jean-François DESVAUX DE MARIGNY

COMMITTEES OF THE BOARD

Supervisory and Monitoring Committee	
Members	J. Gérard HARDY *(Chairperson)*
	E. Jean MAMET
	Philippe A. FORGET
	Pierre Guy NOEL
	Antony R. WITHERS
Secretary	Jean-François DESVAUX DE MARIGNY

Audit Committee	
Members	Bertrand DE CHAZAL *(Chairperson)*
	Anil C. CURRIMJEE
	E. Jean MAMET
	Margaret WONG PING LUN
Secretary	Jean-François DESVAUX DE MARIGNY

Risk Monitoring Committee	
Members	E. Jean MAMET *(Chairperson)*
	Sanjiv GOBURDHUN
	Jean Pierre MONTOCCHIO
	Pierre Guy NOEL
	Antony R. WITHERS
Alternate	Philippe A. FORGET *(to Pierre Guy Noël* and *Antony R. Withers)*
Secretary	Denis MOTET

Nomination and Remuneration Committee	
Members	J. Gérard HARDY *(Chairperson)*
	Herbert COUACAUD, C.M.G.
	Navin HOOLOOMANN, C.S.K.
	Pierre Guy NOEL
	Jean Pierre MONTOCCHIO *(also acts as Secretary)*

Conduct Review Committee	
Members	Margaret WONG PING LUN *(Chairperson)*
	Bertrand DE CHAZAL
	J. Gérard HARDY
Secretary	Jean-François DESVAUX DE MARIGNY

GENERAL MANAGEMENT

CHIEF EXECUTIVE (Group)	Pierre Guy NOEL	
CHIEF EXECUTIVE (Banking)	Antony R. WITHERS	
DEPUTY CHIEF EXECUTIVE (Banking)	Philippe A. FORGET	
CHIEF MANAGERS	Jean-François DESVAUX DE MARIGNY	Head - Group Finance and Company Secretary
	Gilbert GNANY	Group Chief Strategy Officer and Advisor to the Board
	Eddy JOLICOEUR	Head - Group Human Resources
	Marc LAGESSE	Head - Group Capital Markets
	Alain LAW MIN	Head - Retail
	Jean-Michel NG TSEUNG	Head - Corporate
SENIOR MANAGERS	Paul CORSON	Deputy Head - Corporate
	Jean Philippe COUVE DE MURVILLE	Group Chief Engineer
	Jean-Michel FELIX	Head - Group Audit
	Raoul GUFFLET	Head - International
	Denis MOTET	Head - Group Risk
MANAGERS	Jocelyn AH-YU	Managing Director - MCB Seychelles
	Koomaren CUNNOOSAMY	Team Leader - Corporate
	Pratik GHOSH	Head - Global Business
	Kent GRAYSON	Head - Organisation & Systems
	Hemandra Kumar HAZAREESING	Team Leader - Corporate
	Vicky HURYNAG	Head - Strategy, Research & Development
	Vinoba Devi LALLAH	Head - Banking Products
	Roselyne LEBRASSE-RIVET	Goup Inhouse Lawyer / Head - Legal / Money Laundering Reporting Officer
	Steve LEUNG SOCK PING	Head - Marketing
	Binesh MANGAR	Head - Cards
	Didier MERLE	Head - Private Banking
	Bhavish NAECK	Head - Financial Management
	Stephanie NG TSEUNG YUE	Head - Product Marketing
	Abraham RAWAT	Manager - MCB Factors
	André WONG TING FOOK	Head - Accountancy
ADVISERS	Angelo LETIMIER	
	Jacques TENNANT	

Report of the Directors

The Directors of the Mauritius Commercial Bank Ltd. (MCB) are pleased to submit to the shareholders the Annual Report of the Group and of the Bank for the year ended 30 June 2011.

OVERVIEW

Whilst displaying signs of an upturn last year, the world economy has been characterised by a high uncertainty level with recurring evidence that the recovery pattern remains fragile given the depth of the economic woes experienced by developed economies amidst serious sovereign debt problems. In fact, slow-moving private demand in the main export markets continued to represent a drag on activity of the Mauritian export sectors with knock-on effects on the rest of the economy, even though a pick-up in the country's growth rate was registered in 2010 from its particularly low level achieved in the preceding year. Of real concern, the evolution of private domestic investment has been sluggish for some time now while the consumption pattern, albeit improving, remained subdued. The restraining impact of this delicate context on the Group's operations has been compounded by instances of adverse market conditions in the money and foreign exchange markets, heightened competition in specific segments, a still unsteady landscape in respect of investment-linked activities as well as difficulties encountered in some of the countries where the MCB is present.

Nonetheless, building on its strategic positioning to tap into existing business openings, the Group's attributable profits rebounded from the drop registered in FY 2009/10 to rise by 31.6% and reach Rs 4,491 million, while results at Bank level increased by 25.8% to attain Rs 3,904 million. Correspondingly, earnings per share improved from Rs 14.38 to Rs 18.91. Whereas these outcomes were boosted by non-recurrent gains linked to an out-of-court settlement and the exit from an equity investment, which together amounted to nearly Rs 310 million for the Bank and some Rs 410 million for the Group, the underlying growth in profits of 17.1% and 14.3% respectively, when excluding these items as well as the impairment charge on a regional investment in FY 2009/10, testify to the resilience of the MCB in the face of the testing economic and financial environments. This reflects the ongoing thrust of the MCB to deepen and broaden its client base anchored on the efficient provision of adapted solutions, excellent service quality and enhanced customer proximity as well as the entrenchment of the Group's diversification strategy. In fact, besides consolidating its market reach in the domestic banking operations with notable growth being recorded in both the retail and corporate segments, the MCB has made further headway in developing Segment B activities which relates to the provision of international financial services giving rise to foreign sourced income. As such, in spite of dampened results in some overseas subsidiaries as well as our associate, Banque Française Commerciale Océan Indien (BFCOI), in line with unfavourable dynamics in their respective markets, the share of foreign sourced income still accounted for 43.1% of Group attributable profits. As for non-banking activities, although investment-related operations have been confronted by ongoing volatility, their contribution to consolidated profits improved, albeit from a reduced base, even on excluding non-recurrent items.

In pursuing its expansion strategy, the MCB continues to lay due emphasis on sound risk management practices and a strong capital base, as gauged by a further decline in the net NPL ratio to 1.5% and a capital adequacy ratio of 15.0%, that is, well above the regulatory requirement. Furthermore, to duly underpin its growth momentum, the Bank has made significant investments in recent times to reinforce capacity in terms of human capital, technology and infrastructure. In this respect, key milestones have been achieved in the year under review including the conclusion of the entire branch network redesign, the completion of the landmark energy-conscious building in St. Jean and the roll-out of the new core banking system amongst others.

Being a proponent of inclusive and sustainable development, the Group remains closely involved in the community through the MCB Forward Foundation, its dedicated vehicle for Corporate Social Responsibility (CSR) activities. For the year under review, ties have been reinforced with several NGOs in a bid to be more effective in managing related activities while funds have been allocated to various fields relating to the eradication of absolute poverty, support to vulnerable children, the preservation of the environment, education and sports. Conspicuously, the MCB pursued its 'Initiative 175' programme in favour of the environment with further measures undertaken at the micro level to raise awareness among staff and the population at large while enterprise-wide realisations have been made to epitomise and foster environment-friendly behaviours.

In line with its sound fundamentals and observed market trends, the share price of the MCB rallied some 33% over the financial year to close at Rs 188 as at 30 June 2011 with its market capitalisation rising to some USD 1.7 billion, thus cementing its leadership position on the local stock exchange. In fact, mirroring trends observed on international equity markets, the SEMDEX moved upwards in spite of intermittent volatility with the progress being particularly pronounced during the first semester of FY 2010/11, on the back of improved international investor risk appetite and nascent signs of global economic recovery. Subsequently though, affected by an increase in risk aversion on the worldwide stage in the wake of heightened sovereign debt crises in advanced economies as well as some apprehensions pertaining to the domestic economy, the MCB share price, in line with the SEMDEX, drifted downwards to reach Rs 169 as at 29 September 2011. Besides, the MCB gained 27 places in the latest listing of The Banker's Top 1,000 Banks to stand at the 716th position globally while featuring at the 23rd spot in Africa.

ACTIVITIES AND RESULTS

The Group reverted to a positive growth path during FY 2010/11 with activities and results across its business lines registering significant progress.

Notwithstanding relatively soft economic conditions and high competition in specific segments as well as pressures on margins linked to low yields on Treasury Bills and successive hikes in the cash reserve ratio, net interest income of the Group increased by 14.4% to Rs 5,886 million while that of the Bank rose by 14.2% to Rs 5,352 million. This good performance was prompted by sustained balance sheet growth and a contraction in interest expense on the back of a slowdown in deposit growth.

Non-interest income increased by 31.2% for the Bank and 24.9% for the Group to stand at Rs 3,015 million and Rs 3,557 million respectively. Although this included some non-recurrent gains, notably an amount of Rs 250 million received in an out-of-court settlement with our insurers relating to the fraud uncovered in 2003, net fee and commission income increased significantly at Bank level on the strength of improved contributions from international trade finance operations, cards and corporate loan financing amongst others. On the other hand, growth in profit from foreign exchange dealings was hindered by market volatility in several presence countries, although a recovery from the previous year's downturn has been registered at Bank level.

As a result, operating income went up by 19.8% to reach Rs 8,366 million for the Bank, contributing to an increase of 18.1% to Rs 9,443 million at Group level.

Despite being impacted by large-scale capacity-building initiatives in terms of technology and infrastructure, growth in Group operating expenses was contained to 8.3% with the corresponding rise at Bank level standing at 10.3%.

Net income from associates of the Group recorded a drop of 2.3% to Rs 288 million essentially due to the lower contribution from BFCOI more than offsetting improved results by the Promotion and Development Group. Furthermore, whilst remaining very low by international standards, allowance for credit impairment edged up by 15.8% and 38.9% to stand at Rs 315 million and Rs 305 million at Group and Bank level respectively, reflecting higher delinquencies in the retail unsecured loan segment.

With the tax charge inclusive of the special levy increasing in line with the expansion in results, Group attributable profits increased by 31.6% to Rs 4,491 million on the back of a rise of 25.8% in Bank results, leading to a rise in earnings per share to Rs 18.91 as at end June 2011. Excluding non-recurrent items, growth in results stood at 14.3% and 17.1% for the Group and the Bank respectively, implying an improvement in earnings per share from Rs 15.18 to Rs 17.34.

This resilient performance was made possible by sustained balance sheet growth with total Group assets increasing to Rs 172.7 billion as compared to Rs 162.7 billion as at June 2010. Furthermore, the Group has comforted its sound financial metrics as gauged by high levels of asset quality, liquidity and capital base.

DIVIDENDS AND CAPITAL RESOURCES

An interim dividend of Rs 2.50 per share was declared and paid in December 2010 while a final dividend of Rs 3.25 per share, declared by the Board in June 2011, was paid in July last. As such, overall dividend per share in FY 2010/11 was 9.5% up as compared to the previous financial year. Total dividends paid during the year under review amounted to Rs 1,365 million, with undistributed profits of Rs 3,126 million carried to reserves. Capitalisation levels remained solid, with Group shareholders' funds increasing by 16.8 % to reach Rs 23.7 billion as at 30 June 2011. The risk-adjusted capital adequacy ratio, computed under Basel II definitions, increased to stand at a comfortable 15% for the Group.

CODE OF CONDUCT

The MCB Group is committed to the highest standards of integrity and ethical conduct in dealings with all its stakeholders. The MCB's Code of Conduct, which is regularly updated, is based on the model code of the Joint Economic Council as adapted to meet the specific needs of the Group.

PROSPECTS

The magnitude of the recent downgrades in the world economic outlook is a clear indication of an ever more challenging operating environment in the period ahead. In fact, weakened activity amidst heightened fiscal and financial uncertainty in major developed countries seriously threatens to impair the already subdued growth pattern of the Mauritian economy and put further pressures on unemployment. This calls for the adoption of clear and timely reforms to tackle the timid evolution of private investment and factors hindering export competitiveness. Although the testing external landscape is likely to compound country-specific vulnerabilities and, hence, have a notable impact on regional economies where the MCB is involved, there would seem to be generally good prospects in Sub-Saharan Africa. Against this background, the MCB will reinforce its market vigilance while pursuing its drive to further refining its value proposition to match the evolving needs of customers and to expand its market reach, especially in the region, in an attempt to capture the right opportunities in both established and new markets. Nonetheless, bearing in mind the restraining impact of the soft economic conditions and prevailing market imperfections as well as expense hikes linked to recent capacity-building investments, results for FY 2011/12 are likely to remain close to current levels of profitability excluding non-recurrent items.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Bank and of the Group. In preparing those Financial Statements, the Directors are required to: ensure that adequate accounting records and an effective system of internal controls and risk management have been maintained; select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business. The Directors confirm that they have complied with these requirements in preparing the Financial Statements. The external auditors are responsible for reporting on whether the Financial Statements are fairly presented. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Group and of the Bank while ensuring that: the Financial Statements fairly present the state of affairs of the Group and of the Bank, as at the financial year end, and the results of its operations and cash flow for that period; and they have been prepared in accordance with and comply with International Financial Reporting Standards as well as the requirements of the Banking Act 2004 and the guidelines issued thereunder. Directors are also responsible for safeguarding the assets of the Group and of the Bank and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities. Other main responsibilities of the Directors include assessment of the General 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 Board of the MCB, recognising that the Group, as a financial organisation, encounters risk in every aspect of its business, has put in place the necessary committees to manage such risks, as required by Basel II. The Board, whilst approving risk strategy, appetite and policies, has delegated the formulation thereof and the monitoring of their implementation to the Risk Monitoring Committee.

The structures, processes and methods through which the Board gains assurance that risk is effectively managed, are fully described in the Risk Report.

AUDITORS

The Auditors, BDO & Co, have expressed their willingness to continue in office and a resolution proposing their re-appointment will be submitted to the Annual Meeting.

ACKNOWLEDGEMENTS

On behalf of The Board and on our own, we wish to express our appreciation to the Group's Management and staff for their dedication and hard work towards achieving excellent financial results in an environment characterised by challenging conditions. We would also like to place on record our thanks to our fellow members of the Board for their support and contribution.

Moreover, we extend our warm welcome to the seven new members having joined the Management team and look forward to fruitful collaboration for the development of the MCB Group.

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED ON ITS BEHALF

J. Gérard HARDY	Pierre Guy NOEL
President	Chief Executive (Group)

Corporate Governance Report

STATEMENT ON CORPORATE GOVERNANCE

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Effective corporate governance practices are essential to achieving and maintaining high levels of public trust and confidence in the banking system.

The Board of the MCB is fully committed to attaining and sustaining the highest standards of corporate governance with the aim of maximising long-term value creation for the shareholders. This is ensured through bankwide awareness of its operating ethics and the stewardship and close supervision of the management of the Bank by the Board of Directors. The precarious state of the global economy amidst the high level of indebtedness of developed countries and the related turmoil in financial markets is generating heightened uncertainty levels as regards growth prospects. In such a difficult environment, the need for observing high levels of transparency, accountability and integrity is crucial, and the Board is dedicated to continuously foster a corporate culture that emphasises good corporate governance.

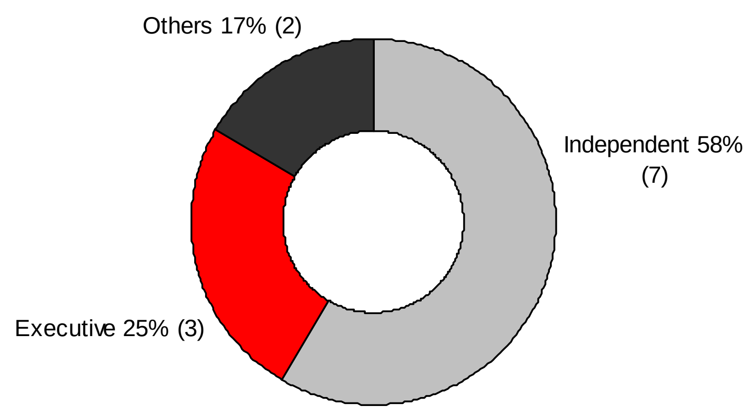
The Company's constitution provides that the minimum number of directors shall be twelve and the maximum number eighteen. In accordance with the constitution, the Board has all the powers necessary for managing, directing and supervising the management of the business and affairs of the Company. The Board is ultimately responsible for the affairs of the Company. The methods through which the Board exercises its powers and discharges its responsibilities are set out in the MCB Board Charter which provides, among others, for the following:

- the composition of the Board with a majority of independent non-executive directors;
- the requirement that the Chairperson of the Board must be an independent non-executive director;
- the creation of Board Committees;
- a corporate code of conduct addressing, *inter alia,* issues relating to conflicts of interests;
- the establishment of strategic objectives;
- the appointment and remuneration policy of members of the General Management;
- the existence of clear lines of responsibility and accountability throughout the organisation;
- Board performance evaluation;
- the provision to shareholders of timely and transparent information relating to material events; and
- the timely communication to shareholders and the public of accurate financial results.

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

The Board presently comprises 12 directors; 3 executives and 9 non-executives, of whom 7 are independent. The President and Vice President of the Board are independent non-executive directors.

Board structure and composition



The Board has created five Board Committees to help it in carrying out its duties and responsibilities: the Supervisory and Monitoring Committee, the Audit Committee, the Conduct Review Committee, the Nomination and Remuneration Committee and the Risk Monitoring Committee.

Each committee has its own charter which has been approved by the Board, such charters being reviewed regularly. Through the deliberations and reporting of its various committees, the Board ensures that Management's daily actions are in line with the Board's objectives and regulatory requirements.

The Board and Senior Management of the MCB are required by the Bank of Mauritius (BoM), the Financial Services Commission and corporate governance best practices to demonstrate, *inter alia*, to the satisfaction of the regulatory authorities, a clear structure for setting out policy and establishing systems of control emanating directly from the Board, which manifestly identify and manage the risks inherent to the businesses of the MCB. To this end, the Board has namely approved the Group Risk Policy relating to credit risk, operational risk and market risk.

In line with such requirements, there is a clear separation between the executive role of day-to-day decisions relating to credit and the Board's role of setting out the credit policy and ensuring that the business is effectively run in accordance with such policy through an adequate organisational structure and proper control and reporting systems.

Regarding risk management in particular, the Bank is compliant with the Basel II Standardised Approach. The Bank has, since 2009, been working proactively on Pillar 2 of the Basel II framework to build capacity with respect to Internal Capital Adequacy Assessment Process (ICAAP) and is thus adhering to the BoM Guideline on Supervisory Review Process. The Bank has also adopted a formal disclosure policy as defined in the Basel II framework.

Besides optimising shareholder value, the Bank, being particularly conscious of its responsibilities as the major player in the local market, has always supported the generally higher risk businesses associated with new economic initiatives and start-ups whilst contributing to the well-being of the community through an extensive involvement in social actions (humanitarian, educational, environmental and cultural).

The Bank is committed to the highest standards of business integrity, transparency and professionalism and ensures that all its activities are managed responsibly and ethically whilst seeking to enhance business value for all stakeholders. In line with this objective, the Bank issued a Code of Conduct in February 2002, based on the model code of the Joint Economic Council, as appropriately adapted to meet its own specific needs and updated on a regular basis. The Bank adheres to the Mauritius Bankers Association Code of Banking Practice issued in 2007 and subscribes to the Code of Corporate Governance for Mauritius, which was issued in October 2003.

The directors continuously review the implications of corporate governance best practices and are of the opinion that the Bank at least complies with the requirements of the Code of Corporate Governance in all material aspects.

DIRECTORATE AND MANAGEMENT

Board of Directors

Directors' Profiles

The Board comprises 12 members who have a proven track record in various fields, with the average age of the directors standing at 58 years.

The profiles of the directors are provided hereafter.

J. Gérard HARDY - Age 67
After spending 4 years in London having qualified as Certified Accountant, he moved to Paris in 1969 where he qualified as an 'Expert Comptable'. He worked 8 years with KPMG and 17 years with the IP Group before setting up his own consultancy firm. He returned to Mauritius in 2001.

He was first appointed to the Board at the shareholders' meeting of October 2002 and was elected Vice President. In July 2003, at the request of the Board, he chaired the Bank's Management Committee until its dissolution at the beginning of 2005. He is currently President of the Board, Chairperson of the Supervisory and Monitoring Committee and of the Nomination and Remuneration Committee while being a member of the Conduct Review Committee.

E. Jean MAMET - Age 68
Certified Accountant since 1975, he has worked for 40 years in the field of auditing, before retiring in 2003 as Senior Partner of Ernst & Young in Mauritius.

He was first appointed to the Board at the shareholders' meeting of December 2003. He is currently Vice President of the Board, Vice Chairperson of the Supervisory and Monitoring Committee, Chairperson of the Risk Monitoring Committee and a member of the Audit Committee.

Directorship in other listed companies
United Basalt Products Ltd.

Herbert COUACAUD, C.M.G. - Age 63
Holds a BSc in Economics and Mathematics from the University of Cape Town (1971). He has actively contributed to the development of the tourism industry in Mauritius and is the Chief Executive Officer of the New Mauritius Hotels Group.

He was first appointed to the Board in 2002. He is a member of the Nomination and Remuneration Committee.

Directorship in other listed companies
Fincorp Investment Ltd.
New Mauritius Hotels Ltd.
Rogers & Co. Ltd.

Anil C. CURRIMJEE - Age 49
Holds a BA in Liberal Arts from Williams College USA (1983) and an MBA from the London Business School (1988). He is a director of a number of companies within the Currimjee Group, whose activities are organised through six main clusters, namely telecommunications, media & IT, real estate, hospitality & tourism, energy, commercial & financial services, manufacturing, as well as marketing & distribution. He is a former Chairperson of the Mauritius Chamber of Commerce and Industry.

He was first appointed to the Board in 2002. He is a member of the Audit Committee.

Bertrand DE CHAZAL - Age 70

Fellow member of the Institute of Chartered Accountants in England and Wales and a 'Commissaire aux Comptes'. After a career with the accounting firm Touche Ross in Paris and then in West Africa, he joined the World Bank in Washington in 1986 from which he retired as Senior Financial Analyst in 2003.

He was first appointed to the Board at the shareholders' meeting of October 2004. He is Chairperson of the Audit Committee and a member of the Conduct Review Committee.

Directorship in other listed companies

Caudan Development Ltd.

Promotion and Development Ltd.

Philippe A. FORGET - Age 61

Holds a BSc (First Class Honours) in Computational and Statistical Science from the University of Liverpool and an MSc (with distinction) in Management & Operational Research from the Imperial College of Science and Technology, London. After working as an economist for 2 years at the Food & Allied Group, he joined the Bank in 1978. He was appointed Assistant General Manager in 1996 and Deputy Chief Executive (Banking) in April 2006. He is a board member of several companies of the MCB Group.

He was first appointed to the Board at the shareholders' meeting of December 2005. He is a member of the Supervisory and Monitoring Committee and also acts as alternate to the Chief Executive (Group) or Chief Executive (Banking) on the Risk Monitoring Committee.

Sanjiv GOBURDHUN - Age 46

Member of the Institute of Directors in UK. He joined Rose Hill Transport Ltd. in 1990 and was appointed Managing Director in 1995. After the restructuring of Rose Hill Transport Ltd. (now RHT Holding Ltd.) into different and diversified clusters, he became Chairman in all of the ensuing seven subsidiaries. He is currently a director of several companies involved in transport, IT, media, real estate development, investments & the insurance sector. He has been a member of the National Committee on Corporate Governance.

He was first appointed to the Board in 2001. He is a member of the Risk Monitoring Committee.

Navin HOOLOOMANN, **C.S.K.** - Age 52

Holds a First Class Honours degree in Surveying from the University of the West of England and is a Fellow of the Royal Institution of Chartered Surveyors, UK, since 1992. He has nearly 25 years of experience in the construction industry in Mauritius. He is the founder and Managing Director of

Hooloomann & Associates Ltd., a construction project management and cost management consultancy firm with offices in Mauritius, Seychelles, Maldives and India.

He was first appointed to the Board at the shareholders' meeting of October 2002. He is a member of the Nomination and Remuneration Committee.

Jean Pierre MONTOCCHIO - Age 48
Notary Public since 1990, he drew up the new constitution of the Bank and has participated on the National Committee on Corporate Governance.

He was first appointed to the Board in 2001. He is a member of the Nomination and Remuneration Committee and of the Risk Monitoring Committee.

Directorship in other listed companies
Caudan Development Ltd. (*Chairperson*)
Fincorp Investment Ltd. (*Chairperson*)
Promotion and Development Ltd. (*Chairperson*)
New Mauritius Hotels Ltd.
Rogers & Co. Ltd.

Pierre Guy NOEL - Age 55
Holds a BSc (Honours) in Economics from the London School of Economics and Political Science and is an Associate of the Institute of Chartered Accountants in England and Wales. From 1981 to 1991, he worked at De Chazal du Mée & Co. where he became a partner in financial consultancy. He joined the MCB in 1992 as Planning and Development Consultant before being appointed General Manager of the Bank in 1996. In July 2005, he was appointed Chief Executive (Group). He is a board member of several companies of the MCB Group acting either as Chairperson or Director of Banque Française Commerciale Océan Indien, MCB Moçambique, MCB Madagascar, MCB Seychelles, MCB Maldives and MCB Capital Markets Ltd. amongst others.

He was first appointed to the Board at the shareholders' meeting of December 2005. He is a member of the Supervisory and Monitoring Committee, the Nomination and Remuneration Committee and of the Risk Monitoring Committee.

Antony R. WITHERS - Age 57
Holds an MA in Economics from Christ's College, Cambridge and was also awarded an MBA by IMD, in Lausanne, Switzerland. He has accumulated wide-ranging experience in the banking sector shouldering an array of high level responsibilities in a number of institutions. These include Citibank, Bank of Montreal, S.G Warburg & Co. Ltd., UBS Securities Ltd., Commerzbank A.G, and Lloyds TSB Bank plc where he was Director and Global Head of Financial Institutions & International Trade

Finance. He was appointed Chief Executive (Banking) in April 2006. He acted as Chairman of the Mauritius Bankers Association between November 2006 and May 2010.

He was first appointed to the Board at the shareholders' meeting of December 2006. He is a member of the Supervisory and Monitoring Committee and of the Risk Monitoring Committee.

Margaret WONG PING LUN - Age 57

Holds a BA (Honours) in Business Studies (UK) and is a fellow member of the Institute of Chartered Accountants in England and Wales. Prior to joining the University of Mauritius in 1991 where she is a lecturer in Accounting and Finance, she was a Senior Manager at De Chazal du Mée's Consultancy Department. She is a member of the Listing Executive Committee of the Stock Exchange of Mauritius.

She was first appointed to the Board at the shareholders' meeting of October 2004. She is currently Chairperson of the Conduct Review Committee and is a member of the Audit Committee.

Secretary to the Board

Jean-François DESVAUX DE MARIGNY - Age 57

Fellow member of the Institute of Chartered Accountants in England and Wales. Following several years of experience as an auditor in Europe, he joined the MCB in 1986. He was involved in the launching of the Stock Exchange of Mauritius in 1989. He has strongly participated in the development of the MCB's regional network and is a director of a number of subsidiaries and associates of the Group. He is presently responsible for the Group's finances and also acts as secretary to the Board of Directors, the Audit Committee, the Conduct Review Committee and the Supervisory and Monitoring Committee.

Committees of the Board of Directors

The composition of the committees of the Board of Directors appears on page 16 of the Annual Report.

Supervisory and Monitoring Committee

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

- the appointment and remuneration of chief executives and of senior officers who, when appointed, shall form part of the General Management of the Bank; and
- the nomination and remuneration of Directors.

The committee is chaired by the President of the Board of Directors. The other members are: the Board Vice President, the Chief Executive (Group), the Chief Executive (Banking) and the Deputy Chief Executive (Banking). The Company Secretary is the secretary of the committee which meets weekly.

The committee's roles and responsibilities include:

- submitting to the Board the development strategy of the Group;
- setting out the corporate values and principal policies, including the credit policy, in respect of the conduct of the business;
- ensuring that the organisation structure is best suited to the implementation and realisation of such policies and strategy while providing for clear lines of responsibility and accountability;
- delegating authority to the chief executives and supervising the delegation of authority by the chief executives to the members of the General Management;
- ensuring that adequate succession planning exists at senior executive level;
- liaising with all the Board Committees;
- reviewing the yearly budget, the quarterly results and yearly financial statements to be submitted to the Board;
- proposing the dividend policy;
- monitoring strategic alliances and major litigation issues; and
- ensuring that the Board is permanently informed of the running of the affairs of the Group.

Audit Committee

The Audit Committee of the Bank consists of four non-executive directors, three of whom are independent including the Chairperson. It meets at least four times a year corresponding to the Bank's reporting cycle and its principal function is to oversee the Bank's financial control and financial reporting processes. In particular, it reviews the quarterly results and annual financial statements before these are approved by the Board.

The activities of the Audit Committee include, *inter alia*, regular reviews and monitoring of the following:

- the effectiveness of the Bank's internal financial control and risk management systems;
- the effectiveness of the internal audit function;
- the independence of the external auditors and the assessment of the external auditors' performance;
- the remuneration of the external auditors and their supply of non-audit services; and
- the Bank's procedures for ensuring compliance with laws and regulations relevant to financial reporting and with its internal code of business conduct.

In carrying out its responsibilities, the committee meets regularly with the Executive Management of the Bank and receives regular reports from both internal and external auditors. Separate sessions are held with both sets of auditors at least four times a year, without Management being present. The committee has fulfilled its responsibilities for the year in compliance with its terms of reference. Of note, in the wake of the implementation of the new IT platform, T24, the Audit Committee sanctioned a special assignment carried out by BDO & Co, the external auditors, who were given the mandate to verify the integrity of the accounting records at 31 December 2010 following the migration of data from the old 'Symbols' platform. The report on this assignment, which was communicated to the Audit Committee in March 2011, did not reveal any material errors or omissions.

Risk Monitoring Committee

The committee, which meets at least quarterly, consists of the Chief Executive (Group), the Chief Executive (Banking) and a minimum of two and a maximum of three non-executive directors appointed by the Board. The committee is chaired by an independent non-executive director. The Head of Group Risk acts as secretary and the Deputy Chief Executive (Banking) acts as an alternate to the Chief Executive (Group) or to the Chief Executive (Banking) in their absence.

The principal responsibilities of the Risk Monitoring Committee are to:

- monitor the credit risk and market risk portfolios of the Bank, set against the agreed risk appetites as well as the operational risk tolerance in compliance with the Basel II Accord;
- oversee the concentration of risk, in respect to the related guideline issued by BoM in 2009;
- monitor the quality of assets by segment and by product;
- scrutinise the risk profile of large exposures;
- monitor the utilisation of capital to make sure that the Bank has, at any time, a capital adequacy ratio corresponding to at least the regulatory minimum while performing regular stress tests thereon in view of the ICAAP implementation;
- ensure that the Group's security structure is adequate and that appropriate levels of protection for people and the Bank's assets are established;
- ensure that the confidentiality, integrity, availability and protection of the Group's information assets are under constant review and that its information systems software and hardware devices that relate to, and support them are adequate and effective;
- ascertain that adequate measures are taken to ensure compliance with all relevant laws, regulations, codes of conduct and standards of good governance; and
- monitor the country exposure limits once these have been approved by the Board following the recommendations of the Country Risk Committee.

The Risk Monitoring Committee receives regular reports and recommendations following work done by the Group Risk SBU, the Executive Credit Committee, the Assets and Liability Committee, the Operational Risk and Compliance Committee, the Security BU and the Country Risk Committee.

Through its chairperson, the committee reports to the Board in a timely manner on all risk issues that could have an impact on the operations or reputation of the Bank.

Nomination and Remuneration Committee

The committee's charter provides that the committee shall consist of four to five members, the majority of which shall be independent non-executive directors. Presently, the committee consists of five members: the Chief Executive (Group), and four non-executive directors, three of whom are independent.

The committee is responsible for making recommendations to the Board on the appointment of directors, chief executives, and senior officers who, when appointed, shall form part of the General Management. This responsibility includes:

- ascertaining whether candidates are fit and proper persons, have the required skills and expertise, and are free from material conflicts of interest;
- reviewing the Board structure, size and composition (including balance between independent/non-executive/executive); and
- reviewing the composition of the Board Committees, including those of wholly-owned subsidiaries.

The committee is also responsible for making recommendations on the level of the directors' fees, including the remuneration of the Board committee members, to be submitted at the shareholders' meeting as well as the remuneration policy for senior executives and members of the Management.

The Nomination and Remuneration Committee meets at least twice a year and on an ad-hoc basis when required. To fulfil its responsibilities during the financial year ended 30 June 2011, the committee met six times with respect to:

- reviewing the Company's remuneration policies for directors, chief executives and members of the General Management;
- determining and submitting, for Board ratification, individual remunerations for directors and chief executives;
- determining individual remunerations of members of the General Management;
- reviewing individual promotion proposals made by chief executives to and within General Management and making recommendations to the Board thereon;
- undertaking the selection and making recommendations in respect of new Board members and the composition of the Board Committees; and
- reviewing the proposals received for the subsidiaries' boards and making recommendations thereon/ratifying them.

Conduct Review Committee

The committee currently comprises three independent non-executive directors. The Company Secretary acts as secretary to the committee. The committee meets four times a year and is responsible for monitoring and reviewing related party transactions, their terms and conditions, and ensuring the effectiveness of established procedures and compliance with the BoM Guidelines.

The mandate of the committee includes:

- ensuring that policies and procedures have been established by Management to comply with the requirements of the Guidelines;
- periodically reviewing the existing procedures to ensure their continuing adequacy; in particular, ascertaining that they are sufficient to identify any transactions with related parties that may have a material effect on the stability and solvency of the Bank and ensuring that such transactions are properly dealt with;
- reviewing and approving credit exposures to related parties and ensuring that market terms and conditions are applied to all related party transactions; and
- reporting on a quarterly basis to the Board of Directors on matters reviewed by it.

Board and Committee Attendance

The following table gives the record of attendance at meetings of the MCB Board and its committees for FY 2010/11.

	Board of Directors	Board Committees				
		Supervisory and Monitoring	Audit	Risk Monitoring	Nomination and Remuneration	Conduct Review
Number of meetings held	**12**	**42**	**4**	**3**	**6**	**4**
Meetings attended						
J. Gérard HARDY	**11**	38	-	-	6	4
E. Jean MAMET	**11**	34	4	3	-	-
Herbert COUACAUD, C.M.G.	**5**	-	-	-	2	-
Anil C. CURRIMJEE	**10**	-	3	-	-	-
Bertrand DE CHAZAL	**10**	-	3	-	-	3
Philippe A. FORGET	**11**	38	-	2	-	-
Sanjiv GOBURDHUN	**9**	-	-	3	-	-
Navin HOOLOOMANN, C.S.K.	**10**	-	-	-	4	-
Jean Pierre MONTOCCHIO	**11**	-	-	3	6	-
Pierre Guy NOEL	**11**	33	-	1	4	-
Antony R. WITHERS	**12**	37	-	1	-	-
Margaret WONG PING LUN	**11**	-	4	-	-	4

Directors' Interests and Dealings in Shares

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

The Company Secretary maintains a Register of Interests which is updated with every transaction entered into by directors and their closely related parties. Such transactions, which have to take place exclusively outside the close periods prescribed by the Stock Exchange Regulations, require the written authorisation of the Board of Directors, through the delegation given to the Supervisory and Monitoring Committee.

All new directors are required to notify in writing to the Company Secretary their holdings in MCB shares as well as those in related corporations. This is entered in the Register of Interests, which is subsequently updated with all relevant movements. The minimum holding of MCB shares required from the directors by the constitution of the Bank is 500.

The following tables give the interests of the directors in the share capital of the Bank and Fincorp Investment Ltd. as well as transactions in MCB shares by directors who have served during the year. None of the directors had any interest in the equity of the subsidiaries of the Bank other than Fincorp Investment Ltd.

Interests in MCB shares as at 30 June 2011	Number of shares	
	Direct	Indirect
J. Gérard HARDY	5,000	-
E. Jean MAMET	149,000	68,523
Herbert COUACAUD, C.M.G.	24,483	223,781
Anil C. CURRIMJEE	5,025	-
Bertrand DE CHAZAL	500	18,628
Philippe A. FORGET	13,826	39,540
Sanjiv GOBURDHUN	1,000	3,274,090
Navin HOOLOOMANN, C.S.K.	55,910	924,029
Jean Pierre MONTOCCHIO	1,000	18,197
Pierre Guy NOEL	1,053,911	28,302
Antony R. WITHERS	53,825	-
Margaret WONG PING LUN	500	9,900

Transactions in MCB shares during the year	Number of shares purchased	Number of shares sold
Philippe A. FORGET	13,826	22,398
J. Gérard HARDY	1,000	
Pierre Guy NOEL	14,443	-
Antony R. WITHERS	13,825	-

Interests in Fincorp Investment Ltd.	Number of shares	
	Direct	Indirect
E. Jean MAMET	15,000	-
Herbert COUACAUD, C.M.G.	41,587	55,075
Navin HOOLOOMANN, C.S.K.	-	362,200
Jean Pierre MONTOCCHIO	-	9,370
Pierre Guy NOEL	750,166	32,250
Margaret WONG PING LUN	-	10,000

Directors' Remuneration

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

Directors	From the Holding Company Rs '000	From Subsidiaries Rs '000	Total Rs '000
J. Gérard HARDY	2,861	-	**2,861**
E. Jean MAMET	2,072	142	**2,214**
Herbert COUACAUD, C.M.G.	541	38	**579**
Anil C. CURRIMJEE	584	-	**584**
Bertrand DE CHAZAL	885	135	**1,020**
Sanjiv GOBURDHUN	553	-	**553**
Navin HOOLOOMANN, C.S.K.	544	-	**544**
Jean Pierre MONTOCCHIO	756	148	**904**
Margaret WONG PING LUN	799	15	**814**
Total Non-executive	***9,595***	***478***	***10,073***
Philippe A. FORGET	18,169	-	**18,169**
Pierre-Guy NOEL	20,144	-	**20,144**
Antony R. WITHERS	18,489	-	**18,489**
Total Executive	***56,802***	***-***	***56,802***
Total (Non-executive and Executive)	**66,397**	**478**	**66,875**

Net fees from companies where executive directors serve as representatives of the MCB Ltd. are reimbursed to the Bank.

Additionally, directors of subsidiaries, who did not sit on the MCB's Board during the year, received the following remuneration and benefits:

	2011 Rs '000	2010 Rs '000
Executive (Full-time)	47,595	46,397
Non-executive	932	697
	48,527	**47,094**

Directors' Service Contracts

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

Executive Management

Management Committees

The conduct of business is entrusted to the Management team of the Group which has the responsibility to operate within the strategic framework, risk appetites and policies set by the Board while adhering to regulatory requirements. To this effect, committees involving the Bank's Senior Management have been set up to deliberate on key issues for informed decision making. In particular, oversight and monitoring of the various risk areas within the business are exercised through dedicated standing committees, namely the Executive Credit Committee, the Operational Risk and Compliance Committee, the Asset and Liability Committee, and the Country Risk Committee.

Senior Management Profile

The profiles of Pierre Guy NOEL, Antony R. WITHERS, Philippe A. FORGET and Jean-François DESVAUX DE MARIGNY appear in the Directors' Profiles section.

Gilbert GNANY – Age 49

Holds a Masters in Econometrics from the University of Toulouse and a 'DESS' in Management/Micro-Economics from Paris-X. He is currently the Chief Strategy Officer of the MCB Group while acting as Advisor to the Board of Directors. Previously, he had a two-year stint as Senior Advisor on the World Bank Group's Executive Board where he was responsible for issues relating mainly to the IFC and to the private and financial sectors. Prior to joining the World Bank, he was the MCB Group Chief Economist after having been the Economic Advisor to the Minister of Finance. During his career, he has been involved in various high-profile boards/committees. Amongst others, he chaired the Stock

Exchange of Mauritius and the Statistics Advisory Council, and has been a member of the Board of Governors of the Mauritius Offshore Business Activities Authority. Furthermore, he is currently the Chairman of the newly set-up Statistics Board and is a member of the IMF Advisory Group for sub-Saharan Africa.

Eddy JOLICOEUR – Age 54

Holds a BA (Honours) in Economics and Social Policy & Administration from the University of Kent and an MSc in Human Resources Management from the University of Surrey. He has known a fulsome career spanning the breadth of the sugar industry namely Deep River-Beau Champ (1983-1990), Mon Desert Alma (1990-1999) and Medine (1999-2000). He joined Rogers & Co. Ltd. in 2000 where he had been the Chief Human Resources Executive until he joined the Bank in August 2008 as Head of Human Resources.

Marc LAGESSE – Age 48

Holds a BSc (Honours) in Statistics and Economics from the University College London (UCL) and an MBA from the London Business School. After graduating from UCL, he spent twelve years on the London International Financial Futures Exchange, the last eight of those as an own account trader in interest rate derivatives. He returned to Mauritius in 1996 to manage the Mauritius Fund Ltd., a London listed closed-end country fund. From 1998 to 2006, he was Managing Director of MCB Investment Management Co. Ltd. He is currently responsible for the MCB Capital Markets Ltd., a subsidiary of the MCB Group which encompasses the entities involved in the investment business - namely MCB Fund Managers Ltd., MCB Investment Services Ltd., MCB Registry & Securities Ltd., MCB Stockbrokers Ltd., MCB Capital Partners Ltd. and MCB Investment Management Co. Ltd.

Alain LAW MIN – Age 52

Graduated in Economics with a BA (Honours) and is an Associate member of the Institute of Chartered Accountants in England and Wales. He also holds an MBA from Cranfield University. He is responsible for the Retail SBU which, *inter alia*, consists of the branch network, the Private Banking BU, the Business Banking BU and the Remote Banking BU that manages the Bank's remote delivery channels. Prior to his current position, he launched the leasing, factoring and private banking services of the MCB. He also acted as Project Director for the Business Process Re-engineering exercise initiated with Accenture. Before joining the Bank, he was Senior Manager at De Chazal Du Mée's consulting division.

Jean-Michel NG TSEUNG – Age 43

Graduated with a First Class Honours in Mathematics at the Imperial College of Science and Technology, London. He qualified as a Chartered Accountant out of the London office of Arthur Andersen in 1990 and was made a partner of its local representative office in Mauritius in 1997, acting during his last 4 years with the firm as Head of the Audit and Business Advisory division. He joined the MCB in July 2003, coming from Ernst & Young and is currently Head of Corporate.

Interests in Shares

The interests of Senior Management in the share capital of the Bank and its subsidiaries at the end of the financial year are given hereafter:

Number of shares as at 30 June 2011	MCB Ltd.		Fincorp Investment Ltd.		MCB Capital Markets Ltd.	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Jean-François DESVAUX DE MARIGNY	278,761	267,307	-	88,225	-	-
Gilbert GNANY	93,534	-	-	-	-	-
Eddy JOLICOEUR	4,489	-	-	-	-	-
Marc LAGESSE	7,830	-	-	-	83,334	-
Alain LAW MIN	143,438	595	51,070	-	-	-
Jean-Michel NG TSEUNG	7,885	-	-	-	-	-

RELATED PARTY TRANSACTIONS

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

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

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

Related party transactions include:

- loans, finance leases and service agreements;
- giving a guarantee on behalf of a related party;
- making an investment in any securities of a related party;

- deposits and placements; and
- professional service contracts.

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

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

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

The Bank's policy on related party transactions sets out the rules governing the identification of related parties, the terms and conditions applicable to transactions entered into with them and reporting procedures to the Conduct Review Committee. Note 37 to the Financial Statements sets out on- and off- balance sheet exposures to related parties as at 30 June 2011.

Aggregate exposure of related parties, excluding exposure of the Bank to subsidiary companies, amounted to Rs 4,921 million (on-balance sheet) and Rs 1,719 million (off-balance sheet), which represented respectively 3.9% and 4.5% of Group loans and Group contingent liabilities as at 30 June 2011.

Exposure of the Bank's top six related parties as at 30 June 2011 were Rs 1,444 million, Rs 945 million, Rs 843 million, Rs 713 million, Rs 661 million and Rs 477 million. These balances represented 9.5%, 6.2%, 5.6%, 4.7%, 4.4% and 3.1% respectively of the Bank's Tier 1 Capital.

Exposure of the Bank to a group of companies put in receivership during the year and which is related to the MCB by virtue of the latter's minority equity holding, amounted to Rs 286 million at year end. Impairment of this exposure at that date, Rs 210 million, was fully provided for in the accounts. Apart from the above, none of the loans granted to related parties was non-performing as at 30 June 2011.

DIRECTORS OF MCB SUBSIDIARIES

The board composition of the Bank's subsidiaries during FY 2010/11 is given hereafter, with the names of corresponding chairpersons as at 30 June 2011 being highlighted.

MCB MADAGASCAR

Jean-François DESVAUX DE MARIGNY
Marc DE BOLLIVIER
Raoul GUFFLET
E. Jean MAMET
Pierre Guy NOEL
Michel PICHON
Patrick RAZAFINDRAFITO

MCB MOÇAMBIQUE

Pierre Guy NOEL
Jean-François DESVAUX DE MARIGNY *(until March 2011)*
Jorge FERRAZ
Philippe A. FORGET
Raoul GUFFLET

MCB MALDIVES

Pierre Guy NOEL
Jean-François DESVAUX DE MARIGNY
Gilbert GNANY
Raoul GUFFLET
E. Jean MAMET
Laila MANIK
Moossa MOHAMMAD

MCB SEYCHELLES

Pierre Guy NOEL
Jocelyn AH-YU
Jean-François DESVAUX DE MARIGNY
Gilbert GNANY
Raoul GUFFLET
E. Jean MAMET

MCB INTERNATIONAL SERVICES LTD.

Jean-François DESVAUX DE MARIGNY
Jocelyn AH-YU

MASCAREIGNES PROPERTIES LTD.

Pierre Guy NOEL

Jocelyn AH-YU

Jean-François DESVAUX DE MARIGNY

Raoul GUFFLET

E. Jean MAMET

MCB EQUITY FUND LTD.

Bertrand DE CHAZAL

Jocelyn DE CHASTEAUNEUF

F. Jacques HAREL

E. Jean MAMET

MCB CAPITAL MARKETS LTD.

Pierre Guy NOEL

Bertrand DE CHAZAL

Gilbert GNANY

Marc LAGESSE

E. Jean MAMET

Jeremy PAULSON-ELLIS

MCB FUND MANAGERS LTD.

Bashirali Abdulla CURRIMJEE, G.O.S.K.

Bernard D'HOTMAN DE VILLIERS

Jocelyn DE CHASTEAUNEUF

Thierry Maurice JAUFFRET

Marc LAGESSE

Shivraj RANGASAMI

Bernard YEN

MCB INVESTMENT SERVICES LTD.

Pierre Guy NOEL

Marc LAGESSE

Vimal ORI

Akesh UMANEE

Alternate:

Gilbert GNANY *(to Pierre Guy Noël)*

MCB Registry & Securities Ltd.

Marc LAGESSE

Jean-François DESVAUX DE MARIGNY

Marivonne OXENHAM

MCB Stockbrokers Ltd.

Marc LAGESSE

Jeremy PAULSON-ELLIS

Raj TAPESAR

MCB Capital Partners Ltd.

Marc LAGESSE

Ziyad BUNDHUN

Gilbert GNANY

Raoul GUFFLET

Garry SHARP

Bernard YEN

MCB Investment Management Co. Ltd.

Pierre Guy NOEL

Jean-François DESVAUX DE MARIGNY

Philippe A. FORGET

Marc LAGESSE

Michaël NAAMEH

Jeremy PAULSON-ELLIS

MCB Factors Ltd.

E. Jean MAMET

Alain LAW MIN

Jean-Michel NG TSEUNG

Margaret WONG PING LUN

MCB Properties Ltd.

Jean-François DESVAUX DE MARIGNY

Philippe A. FORGET

Pierre Guy NOEL

Fincorp Investment Ltd.

Jean Pierre MONTOCCHIO

Herbert COUACAUD, C.M.G.
Bashirali Abdulla CURRIMJEE, G.O.S.K.
Jocelyn DE CHASTEAUNEUF
Michel DOGER DE SPEVILLE, C.B.E.

FINLEASE CO. LTD.

Jocelyn DE CHASTEAUNEUF
Jean-François DESVAUX DE MARIGNY
Jean-Michel FELIX *(until Dec. 2010)*
Philippe A. FORGET
Thierry KOENIG *(appointed in Dec. 2010)*
Alain LAW MIN *(until Dec. 2010)*
E. Jean MAMET
Jean Pierre MONTOCCHIO *(until Dec. 2010)*
Jean-Michel NG TSEUNG
Louis Eric Wilson RIBOT *(appointed in Dec. 2010)*

INTERNATIONAL CARD PROCESSING SERVICES LTD.

Pierre Guy NOEL
Mohamed HORANI
Angelo LETIMIER
Alternates:
Philippe A. FORGET *(to Pierre Guy Noël)*
Jean-François DESVAUX DE MARIGNY *(to Angelo Letimier)*

BLUE PENNY MUSEUM

Philippe A. FORGET
Jean-François DESVAUX DE MARIGNY
J. Gérard HARDY
Pierre Guy NOEL

MCB FORWARD FOUNDATION

J. Gérard HARDY
Jean-François DESVAUX DE MARIGNY
Philippe A. FORGET
Gilbert GNANY
Madeleine de MARASSE ENOUF
Pierre Guy NOEL

SHAREHOLDER RELATIONS AND COMMUNICATION

The Board aims to properly understand the information needs of all shareholders and places great importance on an open and meaningful dialogue with all those involved with the Company. It ensures that shareholders are kept informed on matters affecting the MCB. Besides official press communiqués, occasional letters to shareholders where appropriate as well as the holding of investor meetings and road shows, the Bank's website, hosted at www.mcb.mu, is used to disseminate, on a timely and regular basis, updated information about the Bank's share price, interim and audited financial statements including the quarterly Group Management Statement which highlights the key features of the organisation's financial performance; amongst others. Overall, open lines of communication are maintained to ensure transparency and optimal disclosure. All Board members are requested to attend the Annual Meeting to which all shareholders are invited.

Material Clauses of the Constitution

There are no clauses of the constitution deemed material enough for special disclosure.

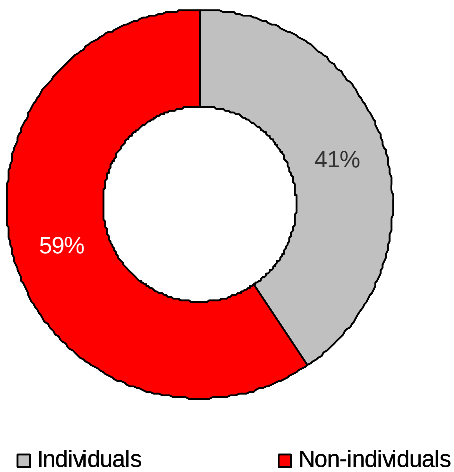
Shareholders Agreements

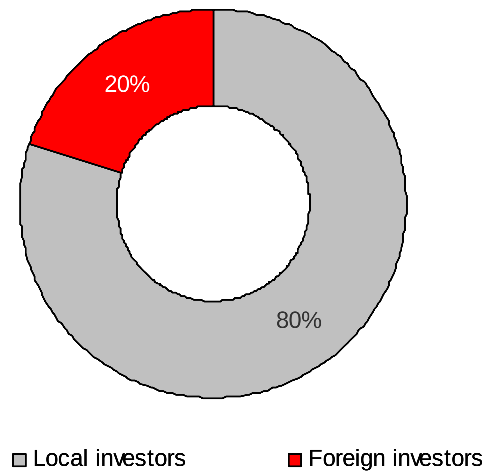
There is currently no shareholders agreement affecting the governance of the Company by the Board.

Shareholding Profile

Ownership of ordinary share capital by size and type of shareholding as well as the ten largest shareholders as at 30 June 2011 are illustrated hereafter:

Size of shareholding	Number of shareholders	Number of shares owned	% Holding
1-500 shares	11,901	1,396,910	0.56
501-1,000 shares	1,495	1,115,413	0.45
1,001-5,000 shares	2,346	5,661,613	2.26
5,001-10,000 shares	721	5,185,033	2.07
10,001-50,000 shares	1,166	26,957,291	10.77
50,001-100,000 shares	303	21,886,736	8.74
Above 100,000 shares	381	175,356,260	70.04
The MCB Ltd. (Treasury shares)	1	12,816,339	5.12
Total	**18,314**	**250,375,595**	**100.00**





Largest shareholders	Number of shares owned	% Holding
The Anglo-Mauritius Assurance Society Ltd.	7,406,385	2.96
State Street Bank and Trust Co. (A/C The Africa Emerging Markets Fund)	6,300,410	2.52
Promotion and Development Ltd.	5,000,000	2.00
SSLN c/o SSB Boston Old Mutual Life Assurance Co. (South Africa) Ltd.	4,346,535	1.74
La Prudence Mauricienne Assurances Limitée	3,888,261	1.55
National Pensions Fund	3,885,631	1.55
POLICY Ltd.	3,585,640	1.43
Pictet et Cie. (A/C Blakeney LP)	3,475,264	1.39
Rose Hill Transport Investments Ltd.	3,272,090	1.31
SSL c/o SSB Boston Investec Africa Fund	3,231,137	1.29

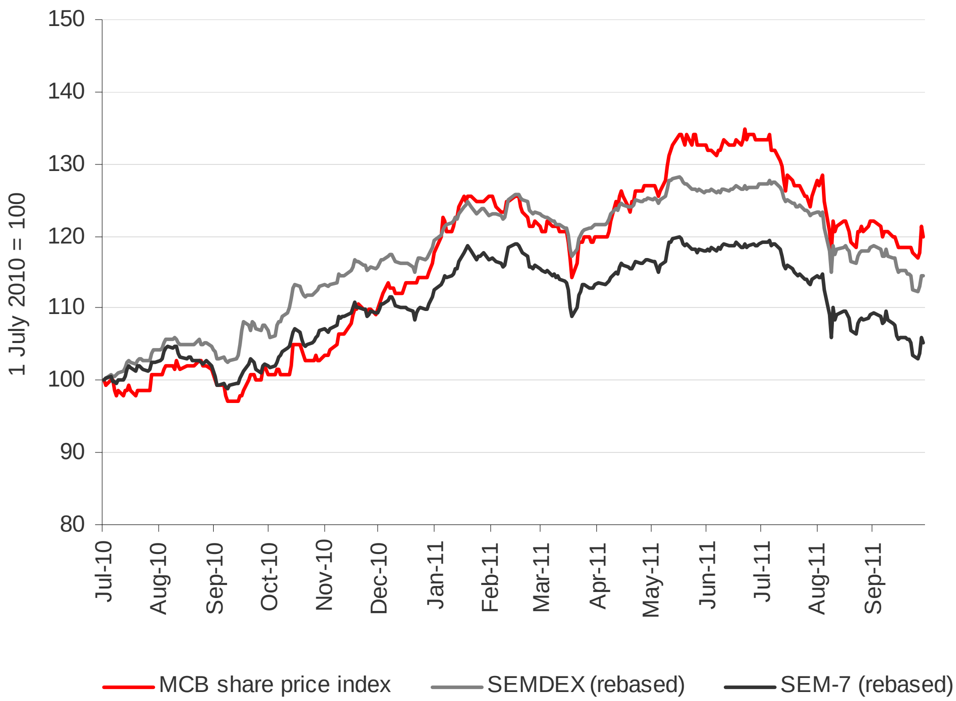
Share Price Statistics and Performance

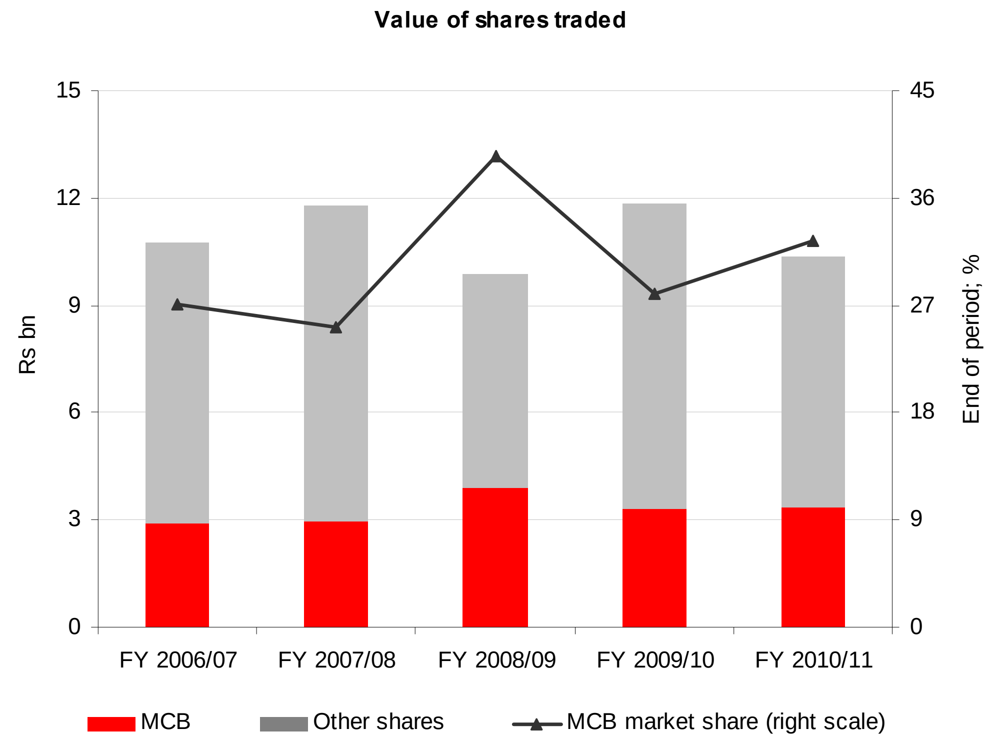
	2011	2010	2009	2008	2007
Investor Data					
Earnings per share* (Rs)	18.91	14.38	16.71	15.58	9.74
Earnings yield (%)	10.1	10.1	13.3	9.1	9.5
Price earnings ratio (times)	9.9	9.9	7.5	11.0	10.6
Net assets value per share (Rs)	99.89	85.61	78.29	68.90	56.87
Dividends per share (Rs)	5.75	5.25	5.25	4.55	2.90
Dividend yield (%)	3.1	3.7	4.2	2.6	2.8
Dividend cover (times)	3.3	2.7	3.2	3.4	3.4
Market Data					
Market price per share (Rs) :-					
High	191.00	151.00	172.00	195.00	109.00
Low	137.00	119.00	82.00	101.00	56.00
Average	161.81	136.45	125.41	151.75	85.49
Closing (Year end)	188.00	142.00	126.00	172.00	103.00
Value of shares traded (Rs m)	3,357	3,311	3,906	2,977	2,910
Market capitalisation as at June (Rs m)	47,071	35,553	31,547	43,065	25,789
Market capitalisation as a % of total market	24.8	23.6	24.1	25.2	19.4

** Net results used for the calculation of EPS include non-recurrent items*

Notwithstanding frequent periods of volatility on the back of the general unsteadiness of the global financial context, the local bourse was characterised by a generally bullish mood, particularly during the first half of FY 2010/11. This partly reflected emerging signs of upturn in the international economic landscape and the relative resilience displayed by the Mauritian economy against exogenous shocks. On the whole, the SEMDEX, the benchmark index, rallied some 27% on a point-to-point basis over the financial year to close at 2,097.74, whilst the SEMTRI, the total return index, portrayed notable strength by edging up by 31% in rupee terms over the same period. Mirroring domestic trends, the MCB share price appreciated by around 33% over the last financial year, hence noticeably outperforming the correspondingly lower rise of 19% in the 'blue-chips' SEM-7 index. In the process, driven by its solid financial fundamentals and strong investor confidence in the institution, the MCB consolidated its leadership position on the stock exchange as gauged by a market capitalisation of Rs 47.1 billion as at 30 June 2011, which represented a market share of over 24%. Subsequently though, the overall domestic stock market index caught the tail winds of jittery global equity markets and drifted downwards as from July 2011, albeit to a lesser extent than those witnessed elsewhere. Apart from concerns about the vulnerability of the domestic economy and its main economic sectors against the backdrop of recurrent economic disturbances, the stock market performance was predominantly influenced by a rapid exacerbation of worldwide risk aversion levels, to a large extent linked to heightened sovereign debt crises suffered by some key economies. Going forward, the evolution of the local stock market will continue to be subject to the testing international economic climate, whilst the extent to which the local economy will exhibit resistance to difficult macroeconomic conditions in our main export markets and to any competitive-hindering factors will, more than ever, need to be closely monitored.

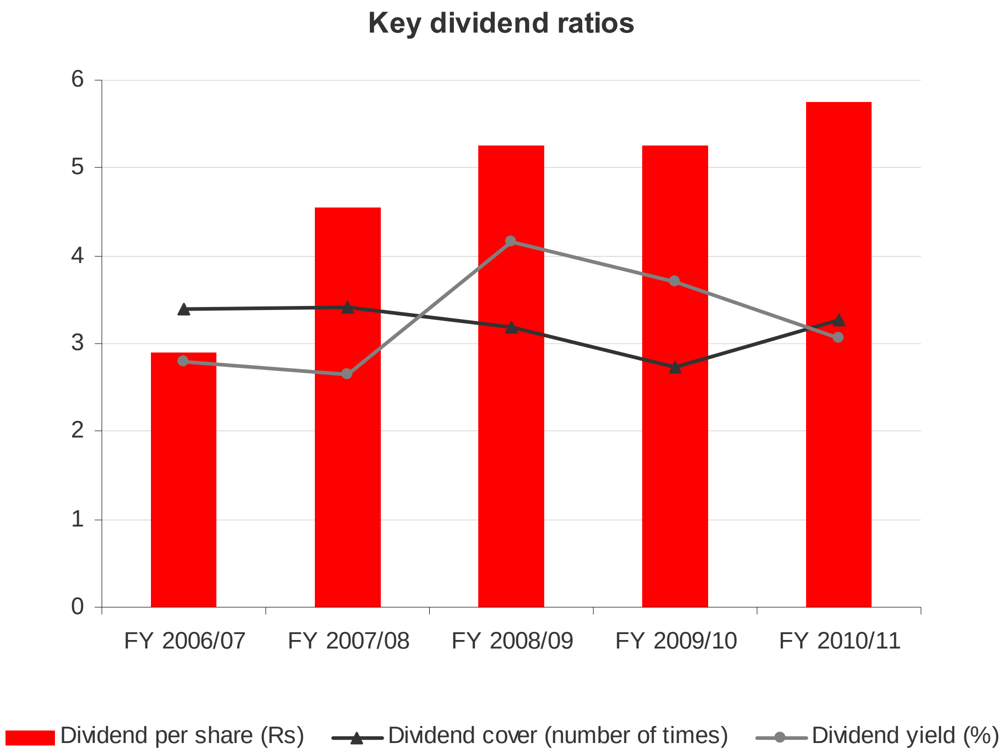
Performance of MCB share price vis-à-vis the market

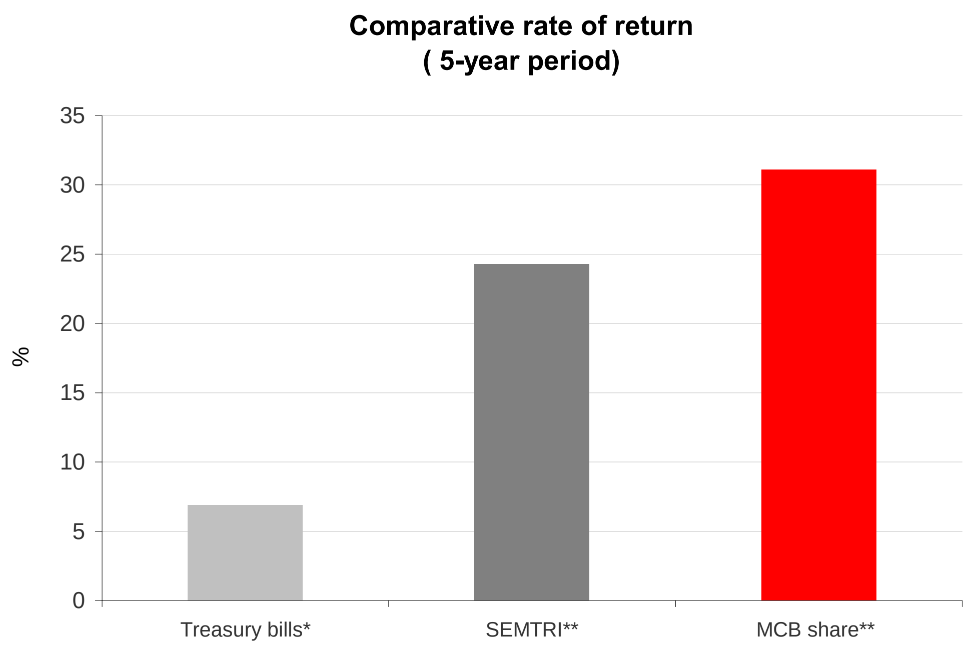




Dividend Policy

The MCB aims to supply its shareholders with ongoing returns in the form of a stable and relatively predictable dividend path. Interim dividends are declared in November, based on best estimates of half-yearly results to 31 December while the final dividends, which are paid towards the end of July, are announced by the Board just before the end of the financial year, when the trend in Group profitability is more firmly established. Key dividend ratios as well as an analysis of the annualised return on investment in MCB shares compared to Treasury Bills and the SEMTRI over the past five years are depicted in the following illustrations.





Note:

* *91-day T-bills rate compounded over a 5-year period*

** *Based on total return which combines both capital gains / losses and dividends that are assumed to be re-invested*

Shareholders' Diary

November 2011	Declaration of interim dividend and release of first quarter results to 30 September 2011
December 2011	Annual Meeting of Shareholders
December 2011	Payment of interim dividend
February 2012	Release of half-year results
May 2012	Release of results for the 9-month period to 31 March 2012
June 2012	Declaration of final dividend
July 2012	Payment of final dividend
September 2012	Release of full-year results to 30 June 2012

STATEMENT OF REMUNERATION PHILOSOPHY

The Company's remuneration philosophy concerning directors, as proposed by the Nomination and Remuneration Committee and approved by the Board provides that:

- there should be a retainer fee for each individual director reflecting the workload, the size and the complexity (national/international) of the business as well as the responsibility involved. This retainer fee is, however, not meant to differentiate between executive and non-executive directorships;
- the President and Vice President, having wider responsibilities and being present on a weekly basis at the Bank, should have consequential remunerations;
- there should be committee fees for non-executive directors with the fees differing in accordance with the time required for preparation, the frequency and the duration of meetings. Chairpersons of committees should be paid a higher remuneration than members; and
- no share option or bonus should be granted to non-executive directors.

The remuneration philosophy for Management and staff is based on meritocracy and ensures that:

- full protection is provided against rise in cost of living at the lower end of the income ladder;
- fairness is promoted throughout the organisation; and
- opportunity is given to all employees to benefit from the financial results and development of the Group. Indeed, all staff members of the Bank receive an annual bonus based on the performance of the Company and Group as well as their own rated contribution thereto.

Since 2006, all staff members have the added possibility to be incentivised further through a share option scheme.

Generally, the finalisation of remuneration packages is anchored on a range of factors including qualifications, skills scarcity, past performance, personal potential, market norms, responsibilities shouldered, matching belief sets and experience.

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

- general market conditions are regularly surveyed in order to ensure that remuneration packages are motivating and competitive;
- superior team and Group performance is stimulated and rewarded with strong incentives; and
- remuneration practices are regularly reviewed and restructured where necessary, providing clear differentiation between individuals' contribution to Group performance.

EMPLOYEE SHARE OPTION SCHEME

Since 2006, the Bank has introduced an Employee Share Option Scheme with a view to aligning employees' interests with those of the organisation and shareholders. Under this scheme, the Bank provides its employees with the opportunity to participate in the growth and prosperity of the organisation through the acquisition of a stake in the latter, whilst concomitantly seeking to enhance their commitment, motivation and performance. All employees of the Bank are thereby granted options exercisable through four specific time windows over a one-year period. They can assign up to 25% of their annual performance bonus towards the purchase of MCB shares, with a vesting period of 3 years. The option price is based on the average of the MCB share price over the quarter preceding the first window, to which a discount is applied. As detailed in the following table, of the 586,276 options granted in October 2010, 200,554 options have been exercised before the final window which will lapse in mid-October 2011.

	Management	Other employees	TOTAL
Number of options granted in October 2010	**117,337**	**468,939**	**586,276**
Initial option price (Rs)	142	128	-
Number of options exercised to date	90,092	110,462	**200,554**
Value (Rs '000)	12,793	14,139	**26,932**
Percentage exercised	76.8	23.6	**34.2**
Number of employees	14	333	**347**
Available for the 4th window and expiring in mid-October 2011	27,245	358,477	**385,722**

AUDITORS' FEES AND FEES FOR OTHER SERVICES

	Group		Bank	
	2011	2010	**2011**	2010
	Rs '000	Rs '000	**Rs '000**	Rs '000
Audit fees paid to:				
BDO & Co	**14,901**	14,672	**13,225**	13,225
Other firms	**4,497**	4,574	**-**	-
Fees for other services provided by:				
BDO & Co	**6,176**	2,207	**5,902**	1,870

SUSTAINABILITY REPORTING

Introduction

By international norms, the aim of sustainable development is to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. For an organisation, sustainability reporting can be defined as the practice of measuring, disclosing and improving its performance under various sustainability headings with respect to internal and external stakeholders with whom it interacts. Generally, stakeholders are identified as the entities and individuals that can be sensibly affected by the company's operational activities and market undertakings, as well as those impacting the organisation's ability to properly realise its objectives.

As the leading financial services provider in the country, the MCB places due emphasis on the practical implementation of measures to promote sustainable development. In fact, the Group fully acknowledges the need for socio-economic development to be sustainable so that future generations are not negatively impacted by our present actions. As such, epitomising the core values and its unique culture, the MCB embeds corporate responsibility as a core tenant of its overall business strategy. Indeed, the Group ensures that it continues to make a sound and sustained contribution to the economy, society and environment via its stakeholder engagement.

Overview of our stakeholder engagement

As an underlying basis for spearheading efforts in favour of its sustainable development aspirations, the MCB embraces key principles to guide the conduct of its affairs and the behaviour of its staff. Hence, backed by proper enforcement mechanisms, staff at all levels abides by the Bank's Code of Conduct and the national Code of Banking Practice, while living our core values in our daily activities. Moreover, the MCB adheres to the United Nations Global Compact, the world's largest voluntary citizenship initiative, which requires companies to endorse underlying values in the areas of human rights, labour standards, environment and anti-corruption.

With the above philosophy in place, the MCB continues to demonstrate its willingness to forge and strengthen close and long-lasting relationships with numerous stakeholders, namely shareholders, customers, its human resources, the Government, and other relevant representatives of the social and economic spheres. Basically, whilst being committed to the highest standards of integrity and ethical conduct as well as the holding of constant dialogue with different parties, the MCB is dedicated to responding to the reasonable expectations and interests of its stakeholders, in line with its strategic objectives and within the confines of the legal and regulatory requirements. Towards this end, supported by the establishment of clearly-defined policies and frameworks, the systematic and transparent stakeholder engagement process of the Group is catered for by (i) the adoption of concrete and timely initiatives across several fields, and (ii) the establishment of proper and regular communication with relevant partners. Consequently, whilst underpinning sound business value creation, our holistic and integrated approach to sustainability seeks to foster public accountability, alongside reinforcing the trust and confidence of the multiple stakeholders with whom we interact.

Specific areas of intervention by objective

Maximisation of shareholder value

The MCB is committed to maximising its long-term shareholder value through the pursuit of a diversified and sustainable business growth agenda with a view to eventually achieving a superior risk-return and appropriately rewarding investors. Moreover, in line with its best practice corporate governance philosophy, the Group espouses transparent and proactive strategic corporate reporting practices in order to bolster the trust of its shareholders. As such, the timely dissemination of coherent and pertinent messages via carefully-selected channels and platforms is meant to duly assist shareholders in developing their own independent opinion with regards to the Group's actual and forward-looking performance. Above all, the MCB places much importance on open and meaningful communication/dialogue with its shareholders. Details of such engagement are found in the ‘Shareholder Relations and Communication’ section on page 48.

Deepening of customer relationships

Over the years, the MCB has built dedicated and lifelong relationships with its clients, having earned customers’ trust, a cornerstone to the sustainability of any banking business. Indeed, by constantly listening to the needs of customers, understanding their requirements and addressing their complaints, alongside delivering customised products and services, the Bank has upheld its strategic thrust to promote continuous improvement in customer service. Indeed, apart from the refinement of its value proposition to meet the requirements of specific market segments, the MCB has consistently enriched the range and responsiveness of the financial solutions being offered to individual and corporate customers, while bolstering the reach and convenience of its delivery channels. Of late, the same key mission requiring the Bank to meet the needs of customers and help them achieve their goals has led to a material shift of business focus from the transactional to the relational aspects of banking, in parallel with a completely redesigned branch network. As regards its foreign operations, the MCB strengthened its interactions with counterparts on the African continent in line with its ‘Bank of Banks’ initiative, while expanding the array of products and services being offered in presence countries and to players related to the global business field. The MCB has also catered for the requirements of non-banking operators by offering a widening choice of investment avenues. All in all, the MCB anchored its client interactions on reinforced internal capabilities for greater operational efficiency as gauged by the upgrade of the technological set-up and the streamlining of processes. Further information on our value proposition to customers is provided in the ‘Corporate Information’ section (pg 7) as well as in the ‘Management Discussion and Analysis’ (pgs 66-116).

Promoting human resource development and staff welfare

Whilst fostering alignment with the Group’s corporate culture, the strategy of the MCB in respect of its human capital is based on the endorsement of core values and best practice policies to create and maintain a motivated, flexible and competent workforce, alongside sustaining staff wellbeing. More pertinently, the MCB lays due emphasis and invests strongly on the personal and career development of its staff. In this spirit, with a view to instilling a high performance culture for greater organisational effectiveness and efficiency, the MCB Development Centre acts as a key strategic underpinning to promote continuous learning, with its move to the new MCB building at St. Jean set to offer improved service. Moreover, promoting meritocracy, the MCB is an equal opportunity employer and does not discriminate in any way with regard to race, religion or gender. Employment opportunities are openly advertised with recruitment procedures being fair and transparent. Appropriate measures are also in place to ensure a sound working environment catering for the health and safety of staff. In recent years, the MCB has witnessed the transformational role of its HR function in driving a number of key initiatives which take into account the needs of the employer and the interest of its employees amidst a perpetually changing operating environment. Specifically, in addition to a review of the Performance Management System and the replication of HR practices across overseas subsidiaries to facilitate staff mobility and reinforce partnership cultures between the Head Office and our foreign entities, a noticeable development relates to the unfolding of the Broadbanding initiative which included a comprehensive review of the compensation structure and benefits. Besides, a new competency framework has been implemented to provide the basis for the adoption of a talent management programme to attract, retain, develop and deploy people with the right levels of energy, passion and skill, whilst the provision of self-service functionalities to staff via the implementation of a new HR Intranet-based software by the name of 'Empower' has facilitated the generation of more comprehensive and consistent information management, leading to better decision-taking. As regards staff welfare and quality of life, measures put in place comprise (i) a wellness programme to encourage, for instance, staff to reduce smoking, (ii) introduction of the flexi-time concept in some business units, and (iii) the recruitment of a part-time psychologist to help staff cope with their work and life problems.

Fostering economic growth and prosperity

By means of tailor-made financial support to various economic sectors and, to some extent, via a notable fiscal contribution, the MCB has, over decades, played a pivotal role in the economic transformation of Mauritius, thereby helping to create the enabling conditions for notable job creation, broadening the scope for nationwide wealth generation and underpinning the general rise in the material well-being of the population. Indeed, ever more since the country's independence in 1968, the Bank has drawn on its intimate local knowledge and business relations to amplify its support to established and emerging primary, secondary and tertiary economic sectors in response to ever evolving development needs of the nation. Specifically, the MCB has been pivotal in ensuring the take-off of a number of sectors of activity which were, at inception, considered either unfashionable or subjectively risky. From tourism to textiles, local manufacturing to Freeport activities, from Information and Communication Technology to seafood, the MCB has always been present to support smart ideas and turn fledging segments into pillars of the economy. In recent years, alongside an internal restructuration to better assist small and medium enterprises in their endeavours and helping people with ideas to become entrepreneurs, the MCB has also been a keen supporter of major players spearheading the development and growing sophistication of the national economy, notably those operating in the export-oriented manufacturing, hospitality, property development and construction sectors, while fittingly attending to the needs of the sugar industry pursuant to key initiatives taken to transform the latter into a more viable and sustainable multi-pillar cluster. In fact, in spite of the ramifications of recurring global crises on the performances and prospects of different sources of economic activity, the MCB continued to offer adequate support to its customers, reflecting the confidence of the Group in the nationwide economic resilience as well as the strength of relationships nurtured with operators. Overall, the noteworthy involvement of the MCB is reflected by its market share of just below 45% as regards credit to the private sector as at June last.

Gearing up for social progress and environment protection

Summary

Whilst positioning itself as a *'sustainable organisation'*, the MCB has remained committed to further its contribution to socially responsible development and to promote its environmental stewardship. The aim is to foster the welfare of society in line with one of the missions of the Group namely: *'We will do what we can to make the world a better, greener place.'*

Over time, the MCB unleashed a wide range of initiatives to fulfil its corporate social responsibility, with interventions of recent years being largely shaped by the guidelines set by the Government as per its National CSR Programme and by the internally-generated 'Initiative 175'. The latter, which is a four-year programme culminating on the MCB's 175th anniversary in 2013, contains a series of concerted and protracted initiatives in favour of energy saving, renewable energy production and the environment. In this respect, apart from specific micro-level initiatives highlighted later on in this section, the MCB has transformed its pledges in favour of sustainable development into prominent accomplishments such as the recent completion of our eco-friendly and energy-efficient building in the vicinity of the Ebène Cybercity, which qualified – for the first time in Mauritius – for the BREEAM certification. Besides, in collaboration with Agence Française de Développement, the MCB offers 'Green Loan' facilities to help firms save energy and reduce carbon emissions, with six firms having, to date, benefited from such facilities for a total value of Rs 235 million. More recently, a special scheme to support small power producers was successfully implemented. The following table provides estimates of the benefits which are likely to be realised from the relevant projects.

Estimated annual environment benefits of projects financed	
Details	**Amount**
Electricity saved	9,551 MWh
CO_2 emissions reductions	12,807 tons
Transport savings	2,500 lorry trips
Water saved	169,225 cubic metres
Diesel saved	256,912 litres
Ship fuel saved	130 tons
Liquefied petroleum gas saved	103,210 kg

From another perspective, in line with its own philosophy and following commitments taken with international financial partners, the MCB has developed an Environmental and Social Policy. The purpose of the latter is to set out the principles, policies, roles and responsibilities whereby the Bank should ensure that the social and environmental impacts of any specific project – i.e. one to which loans of an aggregate amount greater than or equal to USD 2 million and with a maturity of at least 24 months have been provided – are being identified and evaluated in a systematic manner. This should assist in adopting a more holistic approach to risk management, deepen relationships with stakeholders and increase opportunities in the international finance arena. After being initially approved by the Supervisory and Monitoring Committee in January 2011, the policy is set to be fully implemented during the course of FY 2011/12. At the same time, building on notable progress already made at both the strategic and operational levels to strengthen our state of readiness, the Bank will adopt the Equator Principles which stand as a governing principle of the Environmental and Social Policy. Equator Principles relate to a voluntary and internationally-recognisable set of standards which are used by many financial institutions around the world for determining, appraising and managing the environmental and social risk in project financing.

Corporate Social Responsibility

After being officially launched in September 2010 to more effectively and efficiently manage the Corporate Social Responsibility (CSR) activities of the Bank, the MCB Forward Foundation today acts as an adequate point of convergence for the design and implementation of specific initiatives to further our engagement with society. The value proposition of the Foundation is as follows.

MCB Forward Foundation	
Vision	To be instrumental in the creation of sustainable value for the social, environmental and economic well-being of the community
Mission	To develop and support sustainable initiatives for the benefit of the community in which we live and work

Overall, pursuant to the Government's measure mandating companies to set up an annual CSR Fund representing 2% of their book profit derived during the preceding year, the Foundation was entrusted with a fund of Rs 43.9 million for FY 2010/11, representing the relevant contribution by the MCB Ltd. and its local subsidiaries. After allowing for administrative costs, a global sum of Rs 40.9 million was spent on a total of 69 projects. Of these, 49 were selected from the 212 projects submitted following the launch of an 'Appel à Projets' by the MCB in September 2010 and the subsequent meetings conducted by the Foundation with some 80 non-governmental organisations (NGOs) to listen to their difficulties and to make out how to meet their needs more effectively.

Besides, the Foundation has, during the year under review, built up and reinforced its strategic partnerships with other stakeholders, notably other CSR organisations, the Government and public sector entities, and international bodies such as the United Nations and the European Union. In the same vein, with a view to bolstering its capacity to discharge its duties, the Foundation set up two dedicated platforms on the themes of 'education' and 'substance abuse' which resulted in strong networking with private sector institutions and fostered the sharing of knowledge on best practices. A perceptible achievement thereof is the setting up, in association with various other companies and NGOs, of a Technical NGO Platform to advocate for the formulation by Government of a National Drug Control Masterplan. Looking beyond such collaboration, the Foundation anchored its involvement with its stakeholders on fitting enablers, notably (i) the empowerment of fund beneficiaries via specialist training to NGOs in order to equip them with the right tools to successfully complete projects for which they are responsible, and (ii) the leveraging on the network of branches across the country to sensitise staff on social realities and to encourage them to get involved in projects, alongside doing the utmost to comprehensively reach out to the community.

The following table provides an overview of the breakdown of expenditure by activity for the total amount of Rs 40.9 million spent by the Foundation as previously mentioned. This figure only relates to endeavours approved by the National CSR Committee although the Bank's involvement as a socially responsible and caring institution encompasses a broader sphere. It is also worth noting that no political donations were made.

Breakdown of expenditure	Rs '000
Eradication of Absolute Poverty	15,499
Vulnerable Children	15,038
Education	6,810
Environment	2,956
Sports	500
Others	100
Total	**40,903**

<u>Some examples of support</u>

Eradication of Absolute Poverty

- MCB Football Academy (MCBFA) - Football is viewed as a means to encourage the social integration of children. Conditional upon school attendance, training sessions are provided to more than 600 vulnerable children aged between 7-10 years from the regions of St. Hilaire, Poste de Flacq, Grand Bay and Camp Levieux every Saturday. A fifth Academy was officially launched in June 2011 at Pailles. In May 2011, a new Academy was set up in Rodrigues at Patate Theophil, with 140 children being registered. Also, community projects have been initiated to assist family members to move out of poverty and become economically empowered

- ‘Association Femme Agricultrice Nouvelle Découverte Rodrigues’ - Integrated Farming Project to alleviate poverty
- United Skills Workers Cooperative Society Ltd. - Purchase of a Button Hole Industrial Machine to generate income for members with a physical handicap

Vulnerable Children

- ‘Association des Malades et Handicapés de L’Est’ - Empowerment of physically and mentally handicapped children through physiotherapy sessions
- ‘Joie de Vivre Universelle’ - Setting up of specialised education programme for children suffering from mental deficiencies
- ‘Nou Nouvo Baz’ - Educational Support to 12 pre-primary and 8 primary school children of teenage mothers
- ‘Centre de L'Amitié’ - Ensuring the proper foundation for learning and development of underprivileged pre-primary school children
- ‘Collège du St. Esprit Rivière Noire’ - Bridging the gap between the school and parents to raise awareness on importance of education for the social and economic progress of their children

Education

- MCB Rodrigues Scholarship - Awarded to three students from vulnerable groups to pursue post-secondary studies at the University of Mauritius
- ‘Les Amis de Zippy’ - A Programme to promote the social and emotional wellbeing of the school community
- Loreto College Port Louis - Restructuring the school garden and setting up a hydroponic green house

Environment

- ‘Association Pour Le Développement Durable’ - Replanting of mangroves, with the collaboration of Group Risk SBU staff, in the coastal region of Le Morne to enhance marine biodiversity
- ‘Mission Verte’ - Organic composting in rural areas

Staff Involvement

- ‘A Nou Pren Kont Nou Zenfan’ - MCB Staff offered assistance to parents and children of MCBFA Camp Levieux during sessions of Functional Literacy and Parental Life Skills Programmes
- MCB Veterans Football Club spent half a day with children of MCBFA Pailles to reinforce values of integrity, teamwork, trust and respect among others; organisation of the MCB Football Academy Challenge Cup by staff, with the tournament involving the MCBFA of five regions

As aforementioned, several other initiatives beyond the CSR budget were implemented, specifically in the fields of education and environment protection. Indeed, apart from the MCB Foundation Scholarship – awarded to the student ranked next in line to those eligible for the State of Mauritius scholarships on the economics side – the following actions were undertaken as part of the 'Initiative 175' programme.

- For recycling purposes: Specific paper bins placed in all business units at the MCB for the collection of waste paper; boxes placed at the canteen to gather used batteries and mobiles, following our participation in the Mission Verte / Mauritius Telecom initiative; used cartridges and toners were also collected
- Composting of the organic waste of the Bank's canteen
- Sponsorship of daily 5-minute prime-time TV programme, Eco TV, to sensitise the population and offer them 'green' practical tips
- Account statements being printed on both sides, with clients having the possibility to receive the PDF version of their statements by email
- Carbon footprint measurement exercise completed over two working sites, namely the Data Centre and Rose Hill branch, while the overall plan is to extend this initiative Bank-wide as soon as possible
- Sensitisation of staff on environment issues by four NGOs (Mauritian Wildlife Foundation, Mission Verte, Vallée de Ferney Conservation Trust and Reef Conservation) in the context of the World Environment Day
- Induction course to educate new staff on sustainable development principles, the Bank's initiatives in favour of the latter and how employees can personally contribute to that effect

At another level, the MCB continued to display its support to major events through sponsorship activities as highlighted below.

- Official Bank of the 8th 'Jeux des Iles de l'Océan Indien' held in Seychelles
- Organisation of the 2nd edition of the MCB Open 2010, a prestigious golf competition, in association with Constance Belle Mare Plage Hotel
- Main sponsor of the 'SEM Young Investor Award' organised by the Stock Exchange of Mauritius for secondary students and involving more than 125 teams

Jean-François DESVAUX DE MARIGNY
Company Secretary

COMPANY SECRETARY'S CERTIFICATE

I certify that, to the best of my knowledge and belief, the company has filed with the Registrar of Companies all such returns as are required of the company under the Companies Act 2001 in terms of section 166(d).

Jean-François DESVAUX DE MARIGNY
Company Secretary
Head Office
9 – 15, Sir William Newton Street
Port Louis
29 September 2011

Management Discussion and Analysis

ACHIEVEMENTS AND PROSPECTS

Recovering from the downturn registered in the previous financial year, the MCB recorded a material increase in its financial results for FY 2010/11, despite being confronted by a challenging operating environment as a result of still below-par economic activity as well as sub-optimal conditions in money and foreign exchange markets. Overall, profit attributable to the equity holders rose by 31.6% to reach some Rs 4.5 billion at Group level, leading to an increase in earnings per share to Rs 18.91. The results benefited from non-recurrent gains of some Rs 410 million in respect of the sale of an equity investment and an out-of-court settlement with our insurers. However, even on excluding these items and the sizeable impairment of an equity investment incurred in FY 2009/10, Group profit grew by a notable 14.3%, assisted by diligent strategic orientations across different market spheres. Basically, whilst contribution of non-bank operations to consolidated earnings somewhat improved from last year's low base despite ongoing tepid investor sentiment, the net results of the Group were underpinned by markedly improved achievements at the Bank level in relation to both Segment A and B activities. Hence, the contribution of foreign sourced income to net profit remained above the 40% mark even though difficult country-specific conditions somewhat impinged on income generated by some of our foreign subsidiaries and that of our Réunion-based associate, BFCOI. By and large, taking advantage of its time-tested business model, the MCB maintained the soundness of its financial metrics as regards asset quality, capitalisation as well as funding and liquidity, whilst concurrently gearing up capacity for sustained and balanced growth.

In support of its expansion thrust amidst pressures emanating from heightened market competition and subdued economic conditions in several fields, the MCB pursued multi-pronged initiatives to enrich customer relationships and experiences across diversified markets. On the domestic front, besides expanding its value proposition and extending the reach of its delivery channels to foster better alignment with customer expectations, the retail segment completed the redesign of its entire branch network to attune service standards to world class norms. Furthermore, the MCB reinforced its support to traditional and upcoming economic sectors, whereas increased investment opportunities were created for customers in respect of non-bank activities. With reference to its international operations, alongside making headway in positioning itself as a prominent Mandated Lead Arranger and partner in the financing of major deals, the MCB has made further progress in realising its 'Bank of Banks' ambition, establishing itself as a dependable partner for handling wide-ranging transactions on behalf of African banking counterparts. By relying on the credentials of the country as a trustworthy offshore jurisdiction, the MCB Global Business Desk has further entrenched its association with key market players, namely with the acquisition of the Foreign Institutional Investor Licence for undertakings in India, which is likely to provide added scope for business expansion. From a general perspective, the Group enhanced its brand visibility locally and regionally via targeted commercial actions as well as the conduct of business meetings and seminars.

To reinforce foundations for sound and lasting business growth, the MCB pursued its efforts to foster greater operational capacity and efficiency. In this respect, key initiatives during the year included: (i) the launch of the new core banking system of the Bank, which is equipped with flexible functionalities to cater for the quick and efficient streamlining of processes and improved productivity of operations; (ii) the adoption of a fully-customised software for registering and acting upon complaints/feedback from customers; (iii) the roll-out of a debt collection and recovery software to improve related processes; and (iv) the completed construction of our new landmark and energy-conscious building at St. Jean to house our labour-intensive back-office operations closer to where the majority of our staff live and to provide the Group with state-of-the-art training facilities. In respect of its human capital, the MCB adopted various measures to promote specialised training, talent management, improvement of the recruitment process, and work-life balance. Finally, in pursuance of its firm commitment to duly support the healthy development of the island, the Group adopted targeted market undertakings and crafted general policies and frameworks to promote socially and environmentally responsible behaviours from stakeholders. Whilst the MCB Forward Foundation acted as the dedicated unit for designing and implementing nationwide initiatives in line with official guidelines, the internally-generated 'Initiative 175' programme upheld the momentum of its actions in favour of the natural environment. A key achievement relates to the awareness created by the measurement of carbon footprints for two of the Bank's buildings, with the overall plan being to extend this initiative at the Bank-wide scale as soon as possible.

On the basis of its achievements, the MCB, which represents nearly a quarter of market capitalisation of the local stock exchange, reaffirmed its leadership position in the provision of financial services in Mauritius as gauged, namely, by prominent market shares in respect of credit to the economy, local currency deposits and cards issued. Besides, in 2010, the MCB received the Bank of the Year Award for Mauritius from The Banker Magazine for the third year in a row. Moreover, the MCB made noticeable inroads to cement an ever more influential involvement regionally, with the institution being the only East African Bank to feature in the Top 25 African Banks according to the aforementioned publication.

Looking ahead, the mounting fiscal and financial turbulences experienced by advanced economies threaten to produce notable spillover effects on real sectors worldwide, while the performance of the Mauritian economy remains marred by structural imbalances. Alongside being watchful of the vulnerabilities and uncertainties inherent to this demanding context, the MCB is intent on continuously improving service quality and internal capabilities to further tap into economic opportunities, namely through a consolidation of traditional banking business, an expansion of non-bank financial services and an increase in its international footprint. To achieve these ends, the Group is committed to suitably synchronise its image and actions with the shifting and often complex exigencies of the environment in which it operates. Amongst others, this can be exemplified by the ongoing broad-ranging programme to refresh the MCB Brand and provide for the staff training that goes with it. All in all, the MCB is well-geared to cope with the testing times and to maximise long-term shareholder value, whilst adding its contribution to the sustainable development of Mauritius.

EXTERNAL FORCES REVIEW

Legal and Institutional Environment

During the last financial year, various measures were put into place to bolster the regulatory and institutional framework of the financial services sector with a view to improving corporate governance and risk management practices as well as facilitating market development in specific areas, alongside fostering the transparency and accountability of operations. As such, the authorities pursued their efforts to reinforce the soundness and good reputation of the sector against the backdrop of the multiple exigencies flowing from a demanding operating environment. Overall, whilst the measures adopted can be positively viewed, it is deemed important that the precise stipulations and implementation modes of some of them be sensibly determined by duly taking into consideration the specificities of the domestic economy and its components.

In respect of the requirements put forward by the Bank of Mauritius (BoM), a Guideline on the Fair Valuation of Financial Instruments came into force in August 2010 in order to assist operators in establishing strong governance and control processes as regards fair value measurement. In December 2010, as already referred to in the Banking Act 2004, the BoM came forward with more detailed guidelines pertaining to the appointment or reappointment of Senior Officers in the event of the identification, through inspection or supervision, of deficiencies in the practices of financial institutions. In March 2011, an addendum to the Guideline on Public Disclosure of Information was brought about to set out the minimum disclosure standards in respect of financial reporting required from financial institutions carrying out Islamic Banking business. More recently, the Guidance Notes on Anti-Money Laundering and Combating the Financing of Terrorism for Financial Institutions were updated in August 2011 to reflect changing circumstances. Besides, the Central Bank is currently working on a revised Guideline on Corporate Governance to review the minimum standards that are expected from commercial banks on the matter, with a draft thereof being published in November 2010. The BoM is also engaged in discussions with the operators with a view to finalising the proposed Guideline on Credit Concentration Risk.

On the legal front, the Finance Act 2010 provides for a one-off charge on the operations of banks for an amount equivalent to 0.5% of turnover plus 1.25% of book profit relating primarily to banking transactions at the Segment A level, representing their contribution to the private equity fund set up by the Government to support industries. Besides, the mandate of the BoM was widened to include (i) the development of the foreign exchange and derivatives markets, (ii) the implementation of appropriate intervention policies in the foreign exchange market, and (iii) the development of the Islamic money market through the issue of Shariah-compliant instruments. Furthermore, pursuant to the passing of the Economic and Financial Measures (Miscellaneous Provisions) Act 2011 to provide for the implementation of measures announced in the National Budget Speech 2011, some amendments were made to the Bank of Mauritius Act 2004 and Banking Act 2004, in relation especially to the disclosure of information by the Central Bank to the national statistical body and the reinforcement of the Mauritius Credit Information Bureau's oversight of transactions.

As regards the functioning of the BoM, the latter strengthened its collaboration with foreign institutions, with the signing of various agreements with a view to building capacity and promoting exchange of information. Of note, the BoM signed an Investment Management and Consulting Agreement with the International Bank for Reconstruction and Development for the management of part of its foreign exchange reserves, while benefiting from technical advisory services. From a different angle, in order to set the stage for a clearer assessment of the performance and soundness of the local banking sector, the BoM started publishing its CAMEL ratings on a quarterly basis as from March 2011, reporting on the achievements of banks, based on the evaluation of several metrics, namely capital adequacy, asset quality, management quality, earnings and liquidity.

As a support to business development, the Cheque Truncation System of Mauritius – a joint initiative of the BoM and the Mauritius Bankers Association – was launched in September 2011 to foster greater transactional safety, efficiency and effectiveness through a process by which physical cheques presented for payment are converted into electronic form, thus ensuring only the transmission of cheque images to the clearing house for processing and payment. As regards headway made in developing Islamic Banking business, an International Islamic Liquidity Management Corporation – of which the BoM became a founding member, along with ten other central banks and two multilateral organisations – was established in October 2010. This supranational entity is mandated to issue Shariah-compliant financial instruments at national level and across borders, thereby helping institutions offering Islamic financial services to better address their liquidity management as well as facilitate greater investment flows for the Islamic financial services industry.

Concerning non-banking activities, the Global Board of Trade (GBOT), the first international multi-asset class exchange from Mauritius, was launched in October 2010, offering commodity as well as currency derivatives products on its electronic exchange platform. Noticeably, Thomson Reuters, a leading worldwide source of information to businesses and professionals, started to offer real time prices and data from GBOT. At another level, in line with ongoing efforts to promote Mauritius as an International Financial Centre of global repute, the Limited Partnerships Bill is intended to provide a modern framework for the development of specialised collective investment schemes. For its part, the local bourse has revamped its existing Official Market Listing Rules by introducing a new chapter which caters for the listing of specialist companies and debt instruments. On a different note, an amendment to the Financial Services Act 2007 now allows a corporation holding a Category 1 Global Business Licence to conduct business in Mauritius as well as deal with a person resident in the country or with an entity holding a Category 2 Licence.

Macroeconomic Overview

Salient features

Though there were some noticeable improvements in some areas as compared to previous trends, by and large, the operating environment in countries where the MCB is present or is involved in has remained quite challenging during the last financial year in the wake of recurrent global economic shocks and inherent imbalances. While it appreciably recovered from the after-effects of the international economic crisis of 2008 and other exogenous developments, the Mauritian economy performed in a rather sub-optimal manner, with the interplay of hostile conditions in our main export markets and lingering country-specific impediments on the local front piling pressures on the real, fiscal and external sectors. For its part, sub-Saharan Africa depicted a solid macroeconomic performance in 2010, with many countries growing at rates close to their pre-crisis levels according to the International Monetary Fund (IMF) in its World Economic Outlook publication of September 2011. Besides, it is anticipated that the region will sustain its expansion drive this year on the strength of robust private consumption and public expenditure, partly due to accommodative policy conditions, though it remains exposed to potential adverse implications on growth flowing from mounting global instabilities. In respect of our presence countries specifically, the performance of Madagascar remained sluggish last year, with the country still in the midst of a political stalemate which notably constrained the domestic private sector and foreign investment. A relative improvement of economic conditions is anticipated for 2011 in line with some positive signs being observed as regards the extractive industries and the tourism sector in particular. For its part, underpinned by exceptionally high foreign direct investment (FDI) and a rebound in tourist arrivals, the Seychelles economy recovered strongly in 2010 from the aftershocks of the debt and balance of payments crisis that spanned several years. For 2011, despite a volatile global environment and surges in commodity prices, the country’s real GDP growth is thus projected to be appreciable, supported, in the main, by the tourism industry. On the east African seaboard, Mozambique weathered the adverse external events of recent years fairly well. Indeed, assisted by relatively buoyant export demand, further investments in extractive industries and a supportive monetary policy stance, economic growth remained high in 2010 and is projected to stay favourable this year, reflecting strong activity in mining industries and stepped-up public investment. Finally, the Maldives economy bounced back in 2010 on account of a sharp recovery in tourism activity, with the latter on course to support growth in 2011, though the country faces difficult fiscal and external positions.

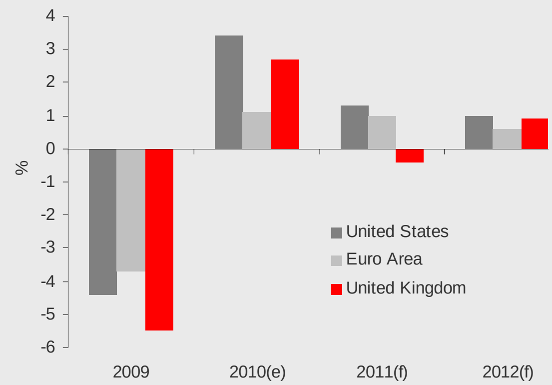
Photography of economic landscape

Subdued economic conditions prevail in our main export markets, with prospects deteriorating

IMF World Economic Outlook – September 2011

Annual percentage change	2009	2010(e)	2011(f)	2012(f)	*Difference from June 2011 Projections* 2011	2012
World output	**-0.7**	**5.1**	**4.0**	**4.0**	***-0.3***	***-0.5***
Advanced economies	-3.7	3.1	1.6	1.9	*-0.6*	*-0.7*
United States	-3.5	3.0	1.5	1.8	*-1.0*	*-0.9*
Euro area	-4.3	1.8	1.6	1.1	*-0.4*	*-0.6*
Germany	*-5.1*	*3.6*	*2.7*	*1.3*	*-0.5*	*-0.7*
France	*-2.6*	*1.4*	*1.7*	*1.4*	*-0.4*	*-0.5*
Italy	*-5.2*	*1.3*	*0.6*	*0.3*	*-0.4*	*-1.0*
Spain	*-3.7*	*-0.1*	*0.8*	*1.1*	*0.0*	*-0.5*
United Kingdom	-4.9	1.4	1.1	1.6	*-0.4*	*-0.7*

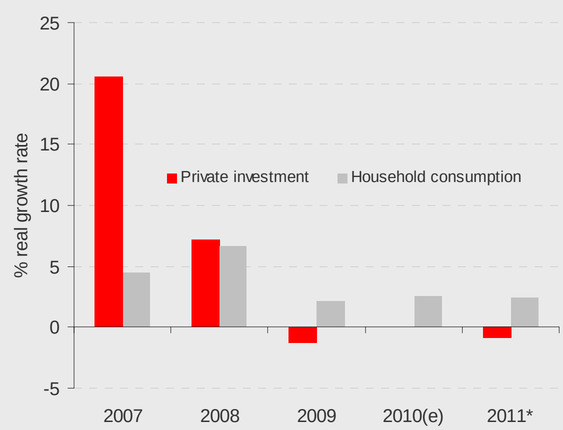
Total domestic demand



Given pressures on private demand, the expansion of the domestic economy is being restrained

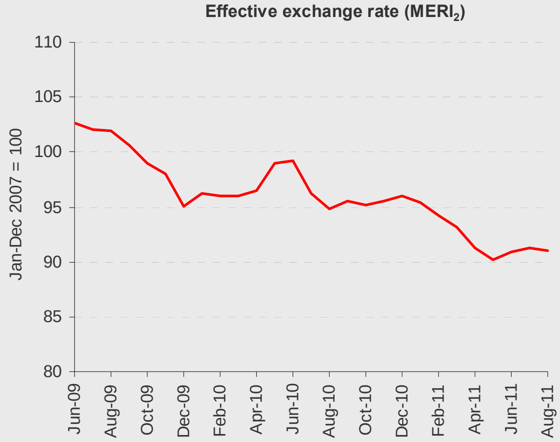
Domestic growth

Private expenditure



Besides, marked rupee appreciation and non-negligible inflationary pressures warrant our attention

Effective exchange rate ($MERI_2$)

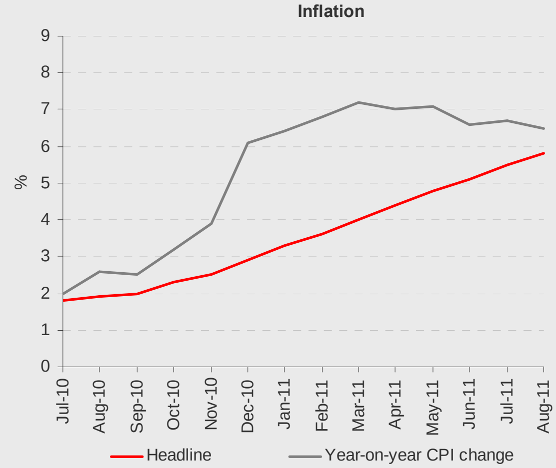


Note:

(i) The $MERI_2$, which is a weighted average of bilateral exchange rates for the Mauritian rupee, is based on the currency distribution of merchandise trade and tourism earnings

(ii) An increase/decrease in the index indicates a depreciation/appreciation of the rupee

Inflation



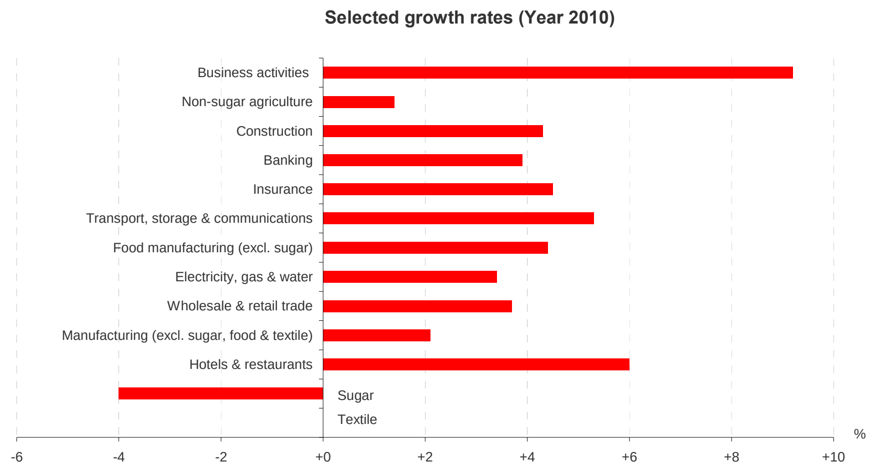
** MCB forecast* *(e): estimates* *(f): forecasts*

Sources: Bank of Mauritius, Statistics Mauritius, IMF & MCB staff estimates

Performance of the Mauritian economy

Underpinned by the general healing of the global economy, harnessed competitiveness headway made by some sectors as well as accommodative macroeconomic management, the domestic economy expanded by 4.2% in 2010, representing an upturn from the 3.1% figure posted a year earlier. This somewhat improved economic growth was supported by the relative rebound in the tourism and trade sectors as well as the good performances displayed by the business and financial services, construction, seafood and ICT industries. Overall however, the real growth rate remained modest in comparison to historical standards, pinned down by the continued vulnerabilities in the international economic landscape and the persistence of domestic structural imbalances. Conspicuously, even though large-scale public sector investment in infrastructure projects provided notable support, the performance of the Mauritian economy was significantly held back by the sluggish growth of private investment which bore the brunt of lingering economic difficulties, with mixed policy signals further impacting on business confidence.

As the situation stands, the country is finding it quite challenging to duly confront the recurring, far-reaching and prolonged nature of the international economic and financial complications. According to latest observations by the IMF, the slow-moving recovery witnessed so far in respect of global activity has further weakened lately, whilst investor confidence has declined sharply pursuant to the exacerbation of fiscal and financial shocks endured by advanced economies and mounting signs of spillovers to real economies worldwide. Consequently, considering the impact of material economic difficulties and uncertainties on external demand for exports of goods and services as well as the evolution of private domestic investment, the Mauritian economy should register a growth rate of close to 4% in 2011, which can be perceived as being below potential when compared to previous trends and medium-term aspirations. As mentioned, apart from facing adverse exogenous forces, the Mauritian economy is being confronted by inherent factors and developments that are, in some respects, hampering the productivity and external competitiveness of the country. These impediments include (i) supply-side bottlenecks associated with the public infrastructure set-up, the business facilitation framework and the operation of parastatal bodies, (ii) prolonged periods of rupee strength, (iii) upward pressures on business costs, and (iv) a sub-optimal macroeconomic management owing to policy reversals as well as occasionally unclear and conflicting messages. If not properly tackled, the vulnerabilities and imperfections of the Mauritian economy threaten to impair output growth over time, thus worsening the gap observed during the past few years between the actual GDP path and its targeted level – the latter being based on the advocated annual real growth rate of 6% – thereby restraining the capacity of the country to sustain appropriate levels of job creation and wealth generation nationally. Against this background, it is crucial to adopt a pragmatic and pro-growth policy stance, with due focus on the timeliness, coherence and clarity of measures. The latter should seek to promote a number of overarching objectives to re-ignite private investment and enhance nationwide competitiveness with a view to establishing a firm and broad-ranging foothold leading to high, balanced and inclusive economic growth.



From a sectoral perspective, after expanding by a notable rate in 2009 mainly on the strength of a prominent increase in the manufacture and export of refined and special sugars, real value added in the sugar industry decreased last year following a decline in production to 452,473 tonnes. This output is anticipated to slide further to an estimated 420,000 tonnes in 2011, thereby causing the sugar industry to contract again. Moving forward, the diversification and sophistication of its offerings in line with the aim to create a multi-pillar cane cluster requires that the currently-unfolding reform process be duly reinforced and accelerated, backed by an unambiguous endorsement/communication of strategic priorities for the development of value-added products, including ethanol, and the design of a more conducive investment framework. As for the textile and clothing industry, performance therein was rather flat in 2010, reflecting the continuing instabilities in prominent export markets. It should, however, grow by a notable margin this year owing to further progress made as regards market expansion, although potential adverse exchange rate developments, rising input costs and concerns over supply-chain management should be closely monitored. As another pillar of the economy, the tourism sector benefited from the relative upturn in the global economic environment and market diversification strategies to register an increase of more than 7% in arrivals to 934,827 in 2010, an outcome which can nevertheless be viewed as being somewhat below-par in comparison to the pre-crisis performance since being largely achieved at the expense of revenue per room sold. For 2011, the strategic positioning of key operators should support a further growth in arrivals, thereby testifying to the fundamental resilience of the tourism industry. Nonetheless, the latter remains confronted by notable challenges springing from weak global demand conditions and heightened international competition, whilst revenue generation should be hindered by marked downward pressures on account of rupee strength and price discounting measures adopted by operators. These circumstances thus call for broad-based and prompt policies in the form notably of an ambitious and well-calibrated air access strategy, whilst due attention should be paid to the persisting general strength of the rupee. At another level, whereas below-par economic activity as well as apprehensions linked to the review of some clauses of the double taxation avoidance treaty between Mauritius and India remained causes for concern, the business and financial services sector confirmed its noteworthy expansion drive in 2010 owing to competitive headway in various markets, with a broadly similar achievement likely to be sustained this year.

Whilst posting a rebound in 2010 from its poor showing in the preceding year, the outcome in the trade sector continues to be restrained by the anticipated sub-par real growth rate of household consumption expenditure as a result of strains on disposable income, partly linked to heightened inflationary pressures nationwide. This private consumption pattern, coupled with pressures on the input costs of enterprises, is also having an impact on the performance of the domestic oriented industry. As regards the construction sector, whereas the unfolding of public sector ventures provided some support to activity levels last year, real growth therein should be weak this year, when considering the reinforced base level, some delays in the implementation of Government projects and dampened private investment. On the other hand, the ICT industry has been sustaining its impressive drive on the basis of the breadth of value-added services being offered and further market development, notwithstanding supply-side constraints related to the cost of connectivity services and the availability of appropriately skilled human resources. Similarly, the seafood hub maintained an appreciable expansion rate although some apprehensions subsist going forward given the delicate economic environment and the status of fish stocks.

As mentioned before, a perceptible impediment to the realisation of a high and sustained economic growth pattern for the country relates to the tepid evolution of private investment against the backdrop of the soft economic environment, a wait-and-see attitude linked to heightened uncertainty levels and the restrained revenue generation capability of enterprises amongst others. As such, notwithstanding sizeable expenditure by the Government on public infrastructure projects, national investment as a share of GDP declined by one and a half percentage points to undershoot the 25% mark in 2010. The ratio is projected to fall further in 2011, considering that (i) capital spending by private operators is likely to contract slightly in real terms as a result of persisting vulnerabilities in the operating environment and the completion of some property development ventures, and (ii) lingering delays hinder the materialisation of several public sector projects. Yet, the resource gap as a percentage of output is expected to remain relatively high with the savings ratios being at fairly low levels despite a marginal improvement being foreseen. From a policy perspective, it is essential to further improve the quality and adaptability of the business framework, while resolutely pushing forward for the endorsement of the ‘Public-Private Partnership’ concept to increase the efficiency and reduce the financial implications of investment endeavours. By strengthening gross domestic fixed capital formation in the economy, these measures should act as an influential driver to bolster the production capacity and external competitiveness of the country, thereby eventually helping to foster material job creation in various sectors of activity. This is all the more warranted given indications that the nationwide unemployment rate soared by fifty basis points to reach 7.8% in 2010 and could further deteriorate in 2011 given the detrimental impact of the unsteady economic landscape and labour market imperfections on the net job creation capacity of enterprises. Noticeably, the persisting double-figure unemployment rate among women appears quite worrisome and demands dedicated action on the part of the stakeholders.

The testing economic situation of recent times has been compounded by rapidly increasing price levels. Indeed, after experiencing a drawn-out downtrend in prior periods, headline inflation pursued a marked upward trajectory during the last financial year to reach 5.1% in June 2011 in spite of a strong rupee. This movement was prompted by (i) sustained increases in international commodity prices against the backdrop of the relative global recovery and supply-side disturbances, and (ii) hikes in the prices of regulated items on the domestic scene and second-round transmission effects thereof. Against this background, the BoM has resumed its monetary tightening stance and raised the key Repo rate by a cumulative 75 basis points. Nevertheless, it is worth noting that the Monetary Policy Committee kept the benchmark interest rate unchanged at its last meeting, after balancing the mounting risks to economic growth pursuant to global developments against expectations that headline inflation would maintain its upward thrust until year-end after having reached 5.8% as at August 2011. Looking ahead, it is important that future policy decisions be properly calibrated and backed by pragmatic principles, allocating due weights to factors such as the dynamism and sustainability of economic activity growth amidst worsening strains on the global front.

From a fiscal perspective, in spite of pressures linked to economic difficulties, the budget deficit undershot initial estimates and was contained to 3.2% of GDP in 2010, mostly due to enhanced tax collection and delays incurred in the execution of public infrastructure projects. The latter factor should again contribute to a lower than budgeted fiscal deficit this year even though repercussions of the delicate economic context on revenue generation would continue to warrant attention. By and large, while heeding the need to boost domestic production, the authorities should pursue their efforts to foster fiscal consolidation, by means of structural reforms, properly-supervised and more effective cost management as well as further improvement in revenue collection.

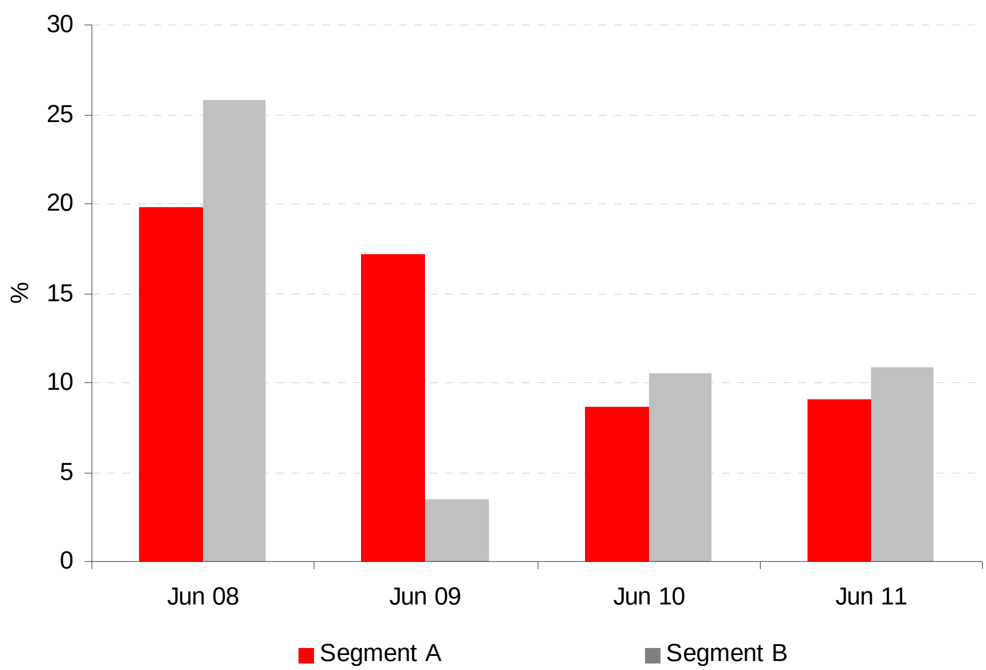
On the external front, the country continued to be characterised by high imbalances as gauged by a deficit of Rs 65.8 billion on the balance of trade – representing a deterioration of some Rs 9 billion from the previous year – as a result of heightened prices of imported goods coupled with restrained demand for our exports in line with subdued consumption patterns abroad and general rupee appreciation. This contributed to an increase in the current account deficit to 8.2% of GDP, but still the balance of payments depicted a surplus of Rs 6.2 billion last year on the strength of strong capital and financial inflows as well as important net errors and omissions. The latter, coupled with a favourable shift in portfolio investment and improving balances on the services, income and current transfers accounts, has again contributed to a notable surplus on the balance of payments during the first semester of 2011. However, it remains to be seen for how long this situation will be sustained bearing in mind the declining level of FDI flows observed lately as well as adverse pressures pertaining to the merchandise account. Against the backdrop of the positive balance of payments position, the rupee has followed a generally appreciating trajectory with the IMF indicating in its 2011 Article IV Consultation report for Mauritius, that rupee overvaluation increased to about 10% in 2010. As it stands, this situation continues to warrant vigilance given the need to preserve our competitiveness on international markets.

Selling rates of main currencies vis-à-vis the rupee				
	Value as at		Annual average	
	30-Jun-10	30-Jun-11	FY 2009/10	FY 2010/11
USD	33.10	28.85	31.85	30.44
GBP	49.89	46.47	50.37	48.38
EUR	40.45	41.85	44.26	41.45

Market Environment

During FY 2010/11, the banking industry depicted generally satisfactory performance levels, with its sound fundamentals and reinforced capacity-building as well as the relatively appreciable economic prospects of some sectors enabling it to somewhat recover from the overall activity slowdown registered a year before. Nonetheless, the sector faced multiple challenges stemming from the impact of below-par economic evolution, low investment and sub-optimal conditions in money and foreign exchange markets. Competition continued to be fierce for all lines of business and there were two new banking licences delivered during the year, including one to the first full-fledged Islamic bank in Mauritius, which brought the total number of banks in operation to 20.

Banking sector loans: year-on-year growth

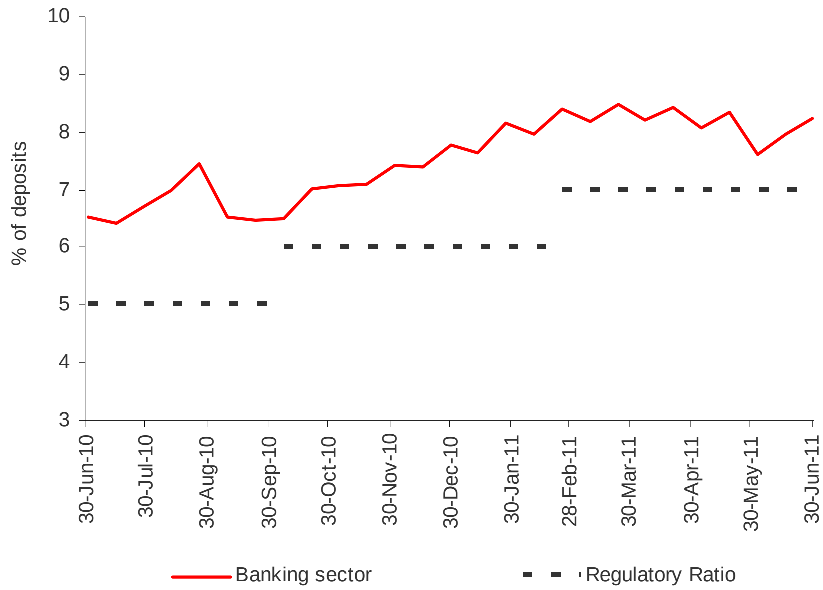


Credit to the economy (June 2011)			
Sectors	**Rs m**	**Mix %**	**Y.o.y. change %**
Agriculture and fishing	13,727	5.8	(5.7)
Export oriented industry	6,070	2.5	(12.2)
Domestic oriented industry	12,117	5.1	12.6
Tourism	42,205	17.7	19.5
Transport	2,185	0.9	2.6
Construction	49,696	20.9	14.5
of which Housing	*30,838*	*12.9*	*21.5*
Traders	25,186	10.6	12.6
Information & Comm. Technology	1,176	0.5	(4.9)
Financial & business services	24,471	10.3	19.5
Infrastructure	4,870	2.0	5.3
Global Business Licence holders	21,697	9.1	12.8
Personal & professional	21,144	8.9	8.2
Public nonfinancial corporations	7,084	3.0	(30.9)
Others	6,642	2.8	6.0
Total	**238,272**	**100.0**	**9.8**

Overall, whilst the unsteady market landscape somehow dampened activity levels, total gross loans of the banking sector still recorded a nominal growth of some 10% in FY 2010/11 to stand at around Rs 465 billion. Specifically, exposures at Segment B level – i.e. lending giving rise to foreign sourced income – registered an expansion of almost 11% to reach around Rs 256 billion mainly on the basis of a relatively solid second semester performance. Credit in this segment was boosted by a rise in foreign currency loans outside Mauritius, emanating principally from cross-border exposures of foreign-owned banks to Asia. As regards domestic activities, although anaemic growth in private investment continued to restrain the market development thrust, particularly in the second half of FY 2010/11, relevant exposures rose by 9% during the year to reach some Rs 208 billion, on the back of product diversification initiatives by operators and given the attractiveness of the lower interest rate environment on average. When including claims on Global Business Licence holders, overall credit to the economy expanded by nearly 10% over the year. By and large, this accomplishment was anchored on fairly wide-ranging foundations as perceptibly illustrated by the double-digit expansion rates recorded by several productive sectors, namely tourism, financial and business services, trade and the domestic oriented industry. This relatively good performance was explained by (i) the unfolding of several capital projects in the commercial and property development fields in particular, (ii) initiatives put in place to boost internal capacity and market positioning in response to the competitive environment and business development opportunities, and (iii) growing rescheduling and cash flow bridging of some forex earning sectors. Conversely, besides public nonfinancial corporations, negative growth rates were registered by the 'Agriculture and fishing' segment, largely on account of a notable dip in the evolution of credit to non-sugar sub-sectors following the significant expansion rate registered a year before, whilst claims on the export oriented industry sustained their downward trend, bearing in mind the impact of dampened external demand on activity and performance. In respect of the retail segment, whereas loans and advances to the 'Personal and professional' market grew by some 8% during FY 2010/11, housing loans witnessed a noticeable expansion of more than 20% over the year. In fact, investments by households in residential buildings were materially whipped up by means of enhanced product offerings and the launch of dedicated promotional campaigns by several banks. In effect, these market development actions were undertaken on a large scale by banking operators as corporate lending prospects weakened in the face of elevated liquidity levels in the banking system, as explicated below.

The money market, during the last financial year, was marked by a net redemption of Government securities and a relative undersupply of Treasury Bills by the Central Bank during prolonged periods. This has contributed to the persistence of relatively high liquidity levels in the banking sector as gauged by excess reserves held by operators at the BoM even if the regulatory limit has increased over time. Consequently, this situation exerted pressures on the weighted average yield on Treasury Bills, with the Bank rate even dropping below the savings rate during part of the year, reaching a period-low of 2.41% in March 2011, thereby adversely impacting the operations and income generating ability of banks. As referred to above, in an attempt to address the situation and to lower liquidity at levels which are deemed more reasonable, the BoM increased its regulatory cash reserve ratio from 5.0% to 6.0% in October 2010 and by an additional percentage point to 7.0% in February 2011. This has, of course, reduced the excess cash holdings of banks which fell underneath the Rs 2 billion mark in July last – as compared to a peak of just under Rs 7 billion in February 2011 – with mandatory cash balances held with the Central Bank, however, increasing to around Rs 20 billion. Apart from the above-mentioned policy measures, the BoM also issued longer-dated instruments than those normally issued for liquidity management. Furthermore, whilst banks are deemed to have generally maintained comfortable foreign exchange liquidity positions recently according to the authorities, some instances of market volatility were noted during the year.

Cash ratio by banks



Evolution of key interest rates (%)				
	As at		Weighted average	
	30-Jun-10	30-Jun-11	FY 10	FY 11
Repo rate	5.75	5.50	5.75	5.13
Lending rate	10.06	9.58	10.07	9.45
Deposits rate	4.57	4.25	4.61	4.03
Bank rate	3.96	4.47	4.39	3.48

Concerning the sources of funds, after having registered a double-digit expansion rate during FY 2009/10, there was a pronounced deceleration in the growth pattern of total deposits which rose by only 3.3% during FY 2010/11 in line with the challenging context at different levels. In particular, to the extent that they represent nearly two thirds of total deposits, foreign currency deposits weighed considerably in the balance by posting an increase of less than 2% over the period under review, reflecting movements in some volatile funds, linked partly to the global economic and financial climate, and to the relative attractiveness of rupee deposits amidst the strength of the domestic currency. As regards local currency deposits, the below-par evolution of the national disposable income and reduced interest rate environment on average contributed to dampen the growth momentum observed in previous years as gauged by a relatively restrained increase of some 6% during FY 2010/11, with virtually no growth registered during the second semester. Specifically, even if growth rates in demand and savings deposits remained broadly in line with recent trends, the evolution of rupee deposits was somewhat stifled by a noteworthy contraction of nearly 7% in respect of time deposits.

Deposits in the banking sector (June 2011)			
Types of deposits	**Rs m**	**Mix %**	**Y.o.y. change %**
Rupee	229,999	35.9	6.1
Savings	*126,340*	*19.7*	*12.2*
Demand	*33,241*	*5.2*	*16.1*
Time	*70,418*	*11.0*	*(6.8)*
Foreign currency	411,103	64.1	1.8
Total	**641,102**	**100.0**	**3.3**

According to the August 2011 Financial Stability Report of the BoM, the banking sector has shown sustained resilience and operators were able to maintain the soundness of their financial metrics. For instance, reflecting the capacity of banks to provide protection against potential shocks to their activities, the overall capital adequacy ratio stood at a comfortable average rate of 17.2% as at March 2011 compared to 16.7% one year earlier, while balance sheet growth has been supported by internally generated capital. Underpinned by prudent portfolio monitoring, the non-performing loan ratios of banks were maintained at low levels, whilst funding and liquidity risks were well controlled as reflected by the predominant share of deposits in the funding mix of banks. Finally, the profitability level of banks has been appreciable in recent times, with some operators improving their performance on a year-on-year basis.

Selected financial stability indicators					
Core set of financial soundness indicators (%)	**Mar 10**	**Jun 10**	**Sep 10**	**Dec 10**	**Mar 11**
Capital-Based					
Regulatory capital to risk-weighted assets	16.7	16.5	15.9	15.8	17.2
Regulatory Tier 1 capital to risk-weighted assets	14.6	14.2	13.6	13.6	15.0
Non-performing loans net of provisions to capital	8.1	7.6	8.6	9.1	8.2
Asset Quality					
Non-performing loans to total gross loans	2.7	2.4	2.5	2.8	2.8
Earnings and Profitability					
Return on assets	1.7	1.5	1.2	1.4	1.4
Return on equity	21.4	19.5	16.7	20.0	19.3
Interest margin to gross income	67.6	69.3	70.5	67.1	70.0
Non-interest expenses to gross income	39.9	40.9	43.0	38.9	39.3
Sensitivity to Market Risk					
Net open position in foreign exchange to capital	3.8	1.8	4.3	7.0	2.6

Source: Bank of Mauritius, Financial Stability Report - August 2011

Going forward, the weakening of the already sluggish world economic growth prospects and its potential ramifications on domestic activities are likely to play a non-negligible role in affecting the market potential of banks. However, the banking industry appears sufficiently sound to withstand shocks, whilst pursuing a sustainable and balanced growth path.

REVIEW OF MCB OPERATIONS

Local Banking Activities

Corporate

Notwithstanding still challenging market conditions, which have, among other things, translated into adverse pressures on earnings of operators and private investment levels, MCB Corporate Banking consolidated its position as a steady and dependable financial partner to its stakeholders during FY 2010/11. Consequently, by duly assisting the established and emerging economic sectors in good and bad times, the Bank maintained its committed support to the economic growth and development of the country. In effect, whilst heeding the quality of its portfolios, MCB Corporate Banking has effectively expanded its market reach, underpinned to a large extent by the diversified business model adopted, its overriding focus on service excellence, strengthened interactions and relationships with customers, targeted market development campaigns and the deployment of a team of experienced and competent staff. From a different perspective, the difficult circumstances against which it operated and the operational changes brought about by the implementation of the new core banking system have prompted the division to reinforce its focus on bolstering customer proximity while finding new ways to be more efficient and innovative in better addressing customer needs.

Overall, the gross operating margin of MCB Corporate Banking increased by nearly 20% over the previous year on the strength of a resilient performance as regards loans disbursements. Specifically, apart from the financing of several large-scale projects in the hospitality and property development industries in particular, MCB Corporate Banking posted notable market development accomplishments in several fields. As such, the MCB positioned itself as a prime provider of ‘Green loans’ in the country, pursuant to the ‘soft lending’ facility of 40 million euros made available to selected banks by the ‘Agence Française de Développement’ (AFD). This has enabled our corporate customers to benefit from a grant of 12% of the amount borrowed under the scheme. A number of enterprises have, to date, taken advantage of this facility which is in support of the realisation of ‘green’ projects and there is an increasing pipeline of projects which are currently being finalised for submission to the AFD. Moreover, a significant increase was observed in the utilisation of our ‘Credit Protection’ solution which provides insurance to our corporate clients against the risk of protracted default by their debtors, hence facilitating trade, both locally and internationally, especially in these times of high uncertainty.

Looking ahead, considering the persistently tepid expansion in private investment amidst heightened financial and economic nervousness abroad, principally in our main export markets, MCB Corporate Banking is well aware that navigating through an exigent climate deserves utmost vigilance. Bearing this in mind, the division is confident that it can leverage on its core competencies in order to withstand the difficult times and subsequently maintain its market and product development thrust, backed by a strong pledge to be consistent in its approach with its clients as well as an uncompromising emphasis on customer service and quality. Specifically, a key commitment of the division is to offer a wider breadth and variety of tailor-made and innovative products and services to more closely match the requirements of customers, whilst promoting cross-selling capabilities.

Retail

During FY 2010/11, MCB Retail continued to face a delicate context which led to a sub-par expansion of private domestic demand and heightened competitive pressures. Besides, there were some difficulties encountered by some niche segments as gauged notably by the persistently sluggish demand for ventures in relation to the Integrated Resorts Scheme. Overall though, taking advantage of its strategy aimed at offering a customer-centric service and continuously enhancing the deployment of adapted delivery channels, MCB Retail sustained a robust performance. Indeed, the notable expansions of the average balances for deposits and loans eventually led to a growth of close to 10% in gross operating margin, in spite of the dampened performance in respect of commission income and upward pressures on operating expenses in line, noticeably, with the improvement of the layout of branches. Whilst the division was confronted by the challenging implementation of the

Bank’s new core banking system, frontline staff maintained adequate levels of support to customers, with the assistance of the entire Bank.

A landmark achievement of MCB Retail in the last financial year has been the on-time and within-budget completion of the entire branch network overhaul/redesign as per the Kit of Parts (KoP) project which was initiated some years back. Consequently, with our franchise being equipped with world-class infrastructure concepts and service levels, customers benefit from a more gratifying banking environment and experience, aided by (i) the deployment of Teller Cash Recyclers to foster greater operational efficiency and hence enhanced service quality, (ii) the setting up of ‘Express Service’ desks for quick transactions, and (iii) the implementation of the ‘active waiting’ concept. The latter relates to the creation of new open spaces which expose waiting customers to posters, brochures and digital screens as well as branch greeters and advisers who, apart from directing people to the appropriate counter, approach them to propose new products and services. Consequently, whilst providing a more open, proactive and modern proposition to clients, MCB Retail made more significant headway in shifting its focus from ‘transactional’ to ‘relational’ banking. A striking feature of this philosophy relates to a re-adjustment of the configuration of the nationwide network in order to duly cater for the specific and evolving needs and aspirations of clients. Towards this end, apart from the conversion of two branches into Bank kiosks that allow self-service on a 24/7 basis, a new branch was opened in Ebène, wherein customers, notably premium and business-related ones, have access, amongst others, to a lounge facility, wi-fi connection and a coffee shop.

Furthermore, MCB Retail Banking improved the range and visibility of product offerings during the last financial year. As regards the expansion and refinement of the value proposition, mobile banking offerings were launched – whereby customers can take advantage of services linked to Mobile Internet Banking, SMS Banking, SMS Refill and mobile application for Smartphones – whilst ‘Young Pro’, a dedicated package of products and services adapted to the lifestyles of young professionals, has more recently been initiated. Besides, the offerings of the Private Banking unit were enriched with services such as financial planning and portfolio under management. For its part, the Business Banking unit reinforced its collaboration, as a financial partner and coach, to small and medium enterprises in terms of more customised products and services. In order to reap better results from its market development strategies, MCB Retail pursued commercial and promotional events on multiple fronts. In line with the departmental store concept, the Bank created large promotional spaces, regularly used for joint commercial activities with third party vendors whereas campaigns to promote specific products, such as the ‘Home Sweet Loan’ offering, were launched and met with a very good response. Additionally, the MCB hosted the Mauritius International Education Fair 2011, organised by the Overseas Education Centre, to promote ‘MCB Campus’, our educational loan to students wishing to pursue tertiary studies locally and abroad. At a different level, to broaden and sharpen the visibility of the MCB, seminars and other gatherings were organised, which included the conduct of business meetings with SMEs as well as the creation of a Wine and Business Club to reinforce relationships with private banking customers in particular. Globally, the MCB supported its strategic undertakings with bolstered capabilities at the level of human resources, systems and processes. For instance, in addition to the provision of generic courses to staff, comprehensive training was provided to more than 770 employees with respect to the KoP project. Besides, as part of measures to upgrade technology and streamline processes, (i) users of the branch network have been migrated to the CITRIX system – one of the world's most advanced virtualisation technologies – which allows faster response on different applications, and (ii) a fully-customised complaint management software has been put in place to better act upon any complaint or feedback received from customers.

Looking ahead, MCB Retail is intent on pursuing the comprehensive implementation of its business strategies in an operating environment which is likely to remain quite challenging at different levels. Overall, backed by a continuing upgrade of back-office operations and reinforced emphasis on training leading to a more dynamic sales force, the division is well geared to refine its general value proposition to customers, backed by enhanced service levels associated with an even better segmentation as well as diversification and visibility of product offerings. In the same vein, the division should maintain its efforts to leverage on remote banking channels and to further tap into cross-selling opportunities.

Cards

Card operations at the MCB once again posted a resilient performance in the face of the ongoing difficult economic context. Positive results were driven by multiple initiatives to boost revenue lines notably through innovative product offerings and by careful management of operating expenses.

The sustained growth momentum of MCB Cards is anchored on creative initiatives undertaken to enhance the already extensive suite of related card payment offerings with a comprehensive range of solutions being provided to meet the varying needs of customers, including debit and fleet cards as well as personal and corporate credit cards. In this respect, the last financial year has seen the launch of the new MCB Premium Card Collection, consisting of an American Express (AMEX) Card, a MasterCard Gold Card and a Visa Gold Card, aimed at providing further added value to high-end customers on the strength of distinctive benefits, which, amongst others, comprise the 'Priority Pass' feature giving AMEX cardholders access to VIP airport lounges across the world.

Particular emphasis was laid during the year on promoting card usage at points of sale (POS) through the conduct of several promotional campaigns. In addition to the traditional end-of-year event, which was themed '*2 voitures à gagner avec la MCB!'* with the opportunity for two customers to win a car each, the Cards Strategic Business Unit (SBU) paired up with key international partners to undertake exclusive commercial initiatives for the benefit of its customers. As such, a campaign was organised around the UEFA Champions League® in association with MasterCard, an official sponsor of this competition. Besides the launch of the limited edition UEFA Champions League® cards, MCB customers had the possibility to win an all-inclusive package for two people to live the fascinating experience of watching the final at Wembley Stadium and availing to unique opportunities related to this event as well as being offered a USD 600 pre-paid MasterCard card amongst others. Moreover, the MCB Visa Dining campaign was launched to encourage cardholders to use their cards at selected restaurants which are MCB merchants by giving them the chance to win an all-inclusive package for two people for a trip to Paris where they would stay at a prestigious hotel and live memorable gastronomic experiences at renowned locations. All in all, these promotional initiatives met with great success as gauged by a double-digit growth in card utilisation as compared to the previous year.

The rise in volume of card payment transactions was also supported by the thrust of MCB Cards to optimise the POS park through active management thereof and a targeted commercial approach in alignment with foreseen spending patterns. Conspicuously, this drive continued to be underpinned by the competitive edge enjoyed by the Bank vis-à-vis local merchants on account of its quality service, exclusive acquirer status for American Express, China UnionPay and Diners Club alongside acceptance of the MasterCard and Visa payment franchises on its POS.

Besides, the e-commerce acquiring business of the Bank sustained its positive evolution in line with an uptrend in related spending and the provision of additional services, such as recurring payments, to its merchants. In fact, on the basis of its secure payment gateway and dedicated business development team, the MCB has made further headway towards establishing itself as the acquiring bank of choice for Mauritius e-commerce start-up merchants, allowing them to take advantage of the numerous benefits of doing business on-line.

Moving forward, the forthcoming execution of key projects should ensure that MCB Cards maintains its growth impetus and reinforces its leadership position in the years to come by way of bolstering internal capabilities and facilitating the provision of world class products and services to customers.

Delivery Channels

Backed by awareness and promotional campaigns as well as dedicated training of staff, the MCB further enhanced the reach and convenience of its delivery channels over the last financial year, thus underpinning the smooth and efficient implementation of its business strategy. Inspired by modern and proactive banking concepts, the channels are empowered with a rich selection of transaction options and infrastructures that assist in offering more rapid and flexible services to clients. To start with, apart from the completed redesign of all branches in line with the KoP project, efforts to offer a more gratifying banking experience which is adapted to the specific needs of clients have led to the opening of a state-of-the art branch in Ebène and the conversion of two branches into Bank kiosks. On the other hand, the closing down of the unit at Mont Choisy reflects the focus laid on the continued reassessment of needs and rationalisation of the overall branch network. A cornerstone of the Bank's quest to provide seamless service relates to the ongoing promotion of an ever greater remote access for its customers. In this respect, in addition to the deployment of remote channels in all branches, namely ATMs, Internet Banking and Fidelis, a key milestone was reached during the last financial year with the launch of the relevant platforms and facilities for the provision of mobile banking services.

The broadening of the multiplicity of delivery options of the MCB during the year can be illustrated by an expansion of the network of merchant terminals to above 4,600 and a widening of the ATM park to 160 (including 11 Forex ATMs which enable customers to convert their foreign currencies in rupees), representing a market share of 38%. Of note, the functionalities of ATMs have been upgraded to allow instructions in Chinese characters for non-MCB cards. Concurrently, the increasing prominence of the Internet Banking service of the MCB – allowing customers to perform their banking operations in a climate of trust, privacy and confidentiality – is represented by a near doubling of the number of registered customers to more than 107,000 as at 30 June 2011, which translates into a share of around 60% of the market. Conspicuously, the Bank continued to enhance its online banking service which now allows, amongst others, clients of MCB Stockbrokers to view their investment portfolios on the stock market in real time. The following table depicts the growth in the volume of transactions undertaken with regard to ATMs, merchant terminals and Internet Banking over time.

Number of transactions ('000)			
	FY 2008/09	**FY 2009/10**	**FY 2010/11**
Automated Teller Machines	33,367	33,140	33,781
Merchant Point of Sale	8,381	8,946	9,987
Internet Banking	419	584	645

Note: The restrained evolution of ATM transactions can be explained by moves to discourage the printing of balance enquiries and mini-statements as part of 'Initiative 175' in favour of environmental protection

Going forward, the Group is committed to further bolster the reach and quality of its delivery channels towards fostering higher levels of customer satisfaction while catering for the cost efficiency of related operations.

Foreign Activities

International Operations

Against the backdrop of persisting vulnerabilities and uncertainties globally and in the region, the Group's outbound operations, driven by its international arm, sustained their growth impetus as testified by a rise of some 30% in related gross operating margin.

In fact, the Group is reaping the benefits of ongoing initiatives intended to strengthen its strategic positioning and credentials beyond the local shores, duly underpinned by a sensible diversification of its overseas exposures. As such, in line with the vision to position the Group as a prominent regional

Mandated Lead Arranger, notable growth has been observed in fee-based income derived from the proactive development of risk participation and syndication agreements concluded with top tier international banks. Moreover, the Bank is ever more solicited by its African banking counterparts as a privileged partner for joint ventures in the financing of major deals in the region while increasingly acting as the gateway for direct corporate funding and the partaking of big-ticket structured cross-border transactions.

Importantly, as part of the Group's thrust to establish itself as the regional platform for handling trade finance, payments and cards operations on behalf of regional banking counterparts, the 'Bank of Banks' initiative has attained cruising speed amidst heightened solicitations, with noteworthy achievements during the year including the design of a holistic product offering, as well as the creation of a coordination cell and dedicated email address. Concomitantly, on the back of its long-standing expertise and robust enabling infrastructure with respect to SWIFT operations, the Group has reaffirmed its foothold as the first SWIFT Member Concentrator in sub-Saharan Africa and the Indian Ocean region, with new banks subscribing to its comprehensive services line-up. Besides, the MCB's International arm has been actively enhancing the visibility of the Group's offerings on the regional marketplace, a prime example of which relates to the hosting of the Africa Forward Together Seminar for the second consecutive year. This edition of the seminar capitalised on the resounding success of the first one and welcomed 37 participants from 31 African banks spanning 17 countries. It showcased the distinctive internal capabilities and product offering of the Group, whilst enabling regional networking and contributing towards further entrenching the MCB brand awareness in the region, as evidenced by the ensuing materialisation of major trade-related deals and new avenues for business partnerships. Concurrently, the MCB benefited from positive offshoots of enhanced field visibility, namely through participation in various road-shows and the initiation of image building activities, such as the hosting of an MCB stand at the May 2011 SWIFT African Regional Conference held in Mauritius.

The International SBU has, during the year under review, relentlessly retained strategic focus on its calling to act as the project management arm for the MCB overseas subsidiaries, namely by fostering the effective alignment and replication of our product offerings in presence countries. Of note, the opening of two new branches in Madagascar, bringing the number of our branches therein to six, bears testimony of the MCB's resolute commitment to further consolidate and broaden the base of its commercial operations in the region. Moreover, another key milestone was achieved in December 2010 when MCB Seychelles started acquiring cards for China UnionPay, the biggest card network company in China. Alongside these business development initiatives, a series of enhancements have been brought to the existing platforms and technological infrastructures in our overseas subsidiaries, including cards technology upgrades and the introduction of wireless terminals making use of GPRS networks for MCB Maldives. In the same vein, major strides have also been accomplished with respect to the streamlining and harmonisation of overseas subsidiaries' operational systems and processes. Besides, no efforts were spared to capitalise on internal collaboration among the different Business Units of the Group and judiciously exploit synergistic potential among its local operations, overseas subsidiaries and outbound entities. This is exemplified by the conduct of the annual ‘Subsidiaries Day’, which enabled the management teams of the MCB’s foreign subsidiaries to discuss their strategic orientations during facilitated work sessions with the heads of key functions within the Group.

All these achievements have been enabled by the allocation of significant resources to shore up internal capabilities, especially in terms of human capital, via a comprehensive programme of generic and specialised in-house and external training courses, coupled with an intensification of successful staff exchange programmes and hands-on experiences involving overseas subsidiaries and the MCB Head Office. The Group has also consolidated its risk appetite setting and management framework, taking into account the intrinsic characteristics of the different operating environments of the countries where the MCB operates, as well as the need for further portfolio diversification.

Going forward, comforted by its recent accomplishments and endowed with upgraded system capabilities and human resources, the International SBU will continue to pursue its business growth strategy, whilst following sound risk management practices. It will endeavour to further diversify its country, product and client portfolio and increase the share of foreign sourced income by further capitalising on the Group’s extensive correspondent banking network alongside identifying and securing new businesses in both presence and non-presence territories in the region and beyond.

Global Business Desk

Building on significant progress made in terms of market penetration since its inception three years ago, the MCB Global Business Desk maintained a high growth momentum during FY 2010/11 to post a 30% increase in operating earnings despite lingering global financial instability. This performance was supported by a 50% jump in client portfolio, mirroring the Bank’s aim to establish itself as a prominent and reliable partner for global business companies, funds and trusts in the region. Leveraging the credentials of Mauritius as an offshore jurisdiction of good repute and substance, the Desk has further entrenched its value proposition which revolves around the delivery of tailored and efficient services, anchored on the availability of a palette of banking and financial solutions; a structure conducive to swift decision-taking; ground knowledge and network in Africa and India; appropriate risk management diligence, and alliances with top-of-the-range service providers.

Business activity during the year benefited from the Bank’s competencies garnered in the field of trade finance with a notable increase observed in related deals while increasing proximity with Management Companies helped in generating attractive new leads. Concurrently, the Desk has embarked on reinforcing its internal capabilities to better service its clients and make the most of the vast potential in this segment. In this respect, the operational set-up has been reorganised around three units namely, trade finance and lending services, transactional and cash management services, and deposits and investment management services. Moreover, the team has been reinforced by the recruitment of relevant specialists and due emphasis has continuously been laid on upgrading the technical knowledge base through attendance to specialised training courses and conferences.

A major breakthrough likely to widen and deepen the Bank's involvement with global business players in the future pertains to the acquisition of the Foreign Institutional Investor licence granted by the Securities and Exchange Board of India under the Investment Advisory Category. As such, the MCB is now better positioned to tap into 'big-ticket transactions' given that, subject to certain conditions, the licence allows the Bank to invest, on behalf of its global customers, in approved investment instruments on the vibrant Indian capital markets, such as equity shares, derivatives, money market securities and corporate bonds.

Going forward, with the necessary framework and tools in place, the Desk remains focused on pursuing its business development initiatives, alongside continuously refining and aligning its offerings to international standards and consolidating its internal capacity. As such, notwithstanding concerns linked to the world economy and the DTA agreement with India, the Bank is confident to make further inroads towards capturing business opportunities and, thence, extending its market reach in the global business sector.

MCB Madagascar

There would seem to have been little progress made during the year towards finding a solution to the political crisis which has been affecting Madagascar since 2009. In spite of repeated public announcements from the authorities supporting the return to democratic process, general elections have not yet taken place, leaving the country with the burden of international sanctions which have had adverse consequences on economic activity.

Although some sectors of the economy, notably the manufacturing industry, have shown signs of recovery and there has been a timid growth in the number of tourist arrivals, overall economic activity is still sluggish and continues to affect performance of the banking sector.

Nevertheless, profits of MCB Madagascar for calendar year 2010 reached MGA 6 billion, a 23% improvement on the previous year. In contrast, the performance of the bank for the current year has been below par with disappointing results of MGA 2.5 billion recorded for the 6 months to 30 June 2011. As a result, contribution to Group profits for the year was down 11% to Rs 63 million. The MCB remains committed to further developing its activities in Madagascar, as evidenced by the opening of 2 new branches in Antananarivo during the year. It is hoped that the much expected return to political stability will eventually help the country's economic recovery, which, in turn, should boost MCB Madagascar's earnings.

MCB Moçambique

The Mozambican economy fared rather well during the year, fuelled by external demand and a strong mining industry. Nonetheless, after posting very encouraging results in 2009 and early 2010, on the back of strong balance sheet growth and exceptional foreign exchange gains, MCB Moçambique had a slower start to FY 2010/11. As such, although calendar year 2010 results were, at MZN 93 million, 60% up on 2009, the major part of this was realised in the first semester, thus boosting Group profits in FY 2009/10. Profits for the first six months of 2011, which did not include any exceptional earnings from foreign exchange operations, reached MZN 24.6 million. This relatively subdued performance, coupled with a fast depreciation of the local currency, the metical, meant that this subsidiary's contribution to consolidated results decreased by 58% to Rs 42 million.

MCB Seychelles

The country's recent troubles, which included going through an IMF adjustment program to restructure its foreign debts, appear to have abated with the local currency reaching a certain degree of stability. Supply of foreign currency on the local market is less of an issue nowadays and the tourism industry seems to be picking up again, even in the current turbulent international context. This rebound, allied to a surge in foreign direct investment has led to a GDP growth of 6.2% in 2010.

MCB Seychelles' underlying operations were relatively stable, with the balance sheet growing by around 6% during the year to 30 June 2011. Results for calendar year 2010 were positively affected by currency movements which led to large foreign exchange profits while the bank was gradually liquidating its long currency position. Consequently, MCB Seychelles posted healthy profits of SCR 47.4 million for the year to 31 December 2010. The first six months of 2011 have been more stable, with profits for that period just over the SCR 12 million mark. Contribution to Group results for the year to 30 June 2011 reached Rs 100 million, up 25% from the preceding year.

MCB Maldives

The Maldivian economy has shown appreciable signs of recovery in 2010, with GDP growth of around 7% and an increase of 17% in tourism receipts. Forecasts for 2011 are encouraging but there are warning signals as regards the fiscal deficit and dwindling foreign exchange reserves.

Activities of MCB Maldives continued to show a steady rate of progress with the subsidiary, capitalising on its expanding relationships with local groups, some of which had already been customers of the MCB International SBU's Cross-Border Desk for a number of years. Balance sheet growth of MCB Maldives exceeded 40% while profits for calendar year 2010 reached MVR 20.5 million, up from MVR 7.6 million in 2009. Results for the six months to 30 June 2011 climbed to MVR 17.1 million and contribution to consolidated profits at that date was Rs 64 million, representing an increase of 78% over FY 2009/10.

Banque Française Commerciale Océan Indien (BFCOI)

For the first time in many years, this associate, a joint venture with Société Générale, suffered a contraction of its balance sheet in 2010. The ongoing financial crisis has severely affected economic activity in Réunion Island, BFCOI's main place of business, as the French State cut down on public expenditure, freezing several large scale infrastructure projects which normally represent the backbone of economic growth in its overseas island territories.

In spite of this marked slowdown, operating results of BFCOI were relatively stable but net profits were largely affected by impairment charges which more than doubled in calendar year 2010 when compared to 2009, due essentially to the financial difficulties faced by one large local group in Réunion Island.

The trend noted during 2010 has somewhat persisted in the current year, with no growth observed in the balance sheet over the 12 months period to 30 June 2011. Operating income for the first semester of 2011 has been flat when compared to the previous year but net results have improved, owing to a drop in impairment charges. All in all, contribution to MCB Group's profits in FY 2010/11 fell by 14% to Rs 272 million.

Non-Bank Activities

MCB Capital Markets Ltd.

MCB Capital Markets Ltd. (MCBCM) is the holding company for all the subsidiaries of the MCB Group involved in the investment business. The international context last year again created a challenging operating and investment environment as markets both domestically and internationally see-sawed dramatically throughout the year. Risk appetite ebbed and flowed, creating significant volatility in underlying asset markets. Against this backdrop, all the MCBCM teams and subsidiaries had to work hard to stay on top of the rapidly shifting conditions. Volatility provides opportunity however, and as a Group, MCBCM was able to make significant moves forward in its development.

One of the most exciting initiatives last year was the development of foreign fixed income and currency investment capabilities within the investment management arm. Investment and trading decisions covering the fixed income and currencies of the G20 countries are now made in-house following the recruitment of an experienced manager from the UK. This has already brought direct benefit to our major institutional clients and also allowed MCB Fund Managers Ltd. to successfully launch a CIS version of this strategy in March 2011. Last year also saw MCBCM co-hosting, along with Crown Agents Training of the UK, an inaugural workshop aimed at the African Pension Fund market.

At an operational level, MCB Registry and Securities Ltd. successfully implemented a new share and unit trust registry system, which has already proved hugely beneficial to the efficiency of operations. The new system has provided a secure, scaleable and modern platform on which to build the future growth of the business. New systems are also being implemented currently in the investment and fund management arms as part of continuing efforts to equip the teams with the best technical tools available.

On a consolidated basis, MCBCM made a profit after tax of Rs 4.1 million in FY 2010/11 (2010: Net loss of Rs 1.5 million) with total income amounting to Rs 129.3 million (2010: Rs 108.5 million). These numbers are encouraging given the notable investment made in Human and IT resources during the year. Indeed, the building phase of MCBCM is now more or less complete after 5 years of restructuring, recruitment, capacity building, new projects and system modernisation. The 19% growth in group revenues this year demonstrates the traction that the new and existing businesses are starting to achieve. With revenues expected to continue to grow across all the subsidiaries, and major capital expenditure and other expenses mostly behind us, the profitability of the MCBCM is foreseen to improve significantly going forward.

MCB Investment Management Co. Ltd.

The last financial year saw the completion of a number of initiatives which had been planned since some time back. Firstly, MCB Investment Management Co. Ltd. (MCBIM) reached another milestone in its development with the setting-up of a Fixed Income Desk, dedicated to cater for foreign fixed income and currency management. The launch of this function – previously outsourced – has been made possible by investing in the appropriate human and system resources and it is firmly believed that the fixed income team will be a major source of revenue generation forwarding the periods ahead.

Secondly, MCBIM conducted an inaugural four-day residential workshop, hosted jointly with Crown Agents Training of the UK, to discuss the ‘Investment of Pension Fund Assets’. Participants were exposed to the Global and African Pension Investment environment as well as some of the governance, actuarial and technical issues facing the regional industry. This workshop, which welcomed delegates from nine different African countries, was a resounding success.

Also this year, MCBIM initiated the implementation of an integrated fund management software, the benefits of which will be enduring to both clients and staff. At this crucial juncture of its expansion phase, building in-house expertise and sharing it with clients will remain a priority for MCBIM. As at 30 June 2011, funds under management stood at Rs 9.8 billion, up from Rs 8.8 billion last year, whilst profit after tax rose from Rs 19.8 million last year to reach Rs 20.6 million.

MCB Registry & Securities Ltd.

The major achievement of MCB Registry & Securities Ltd. (MCBRS) this year has been the implementation of a new IT system in June 2011 to manage its share and unit registries. Apart from operational efficiencies and optimisation of resources, the new system has also led to significant reduction in the utilisation of paper, in line with the Group's 'Initiative 175'. Turnover was satisfactory for the year and profit after tax stood at Rs 257,837 despite higher costs incurred for the IT system. The solid professional reputation which has been gained over the years, coupled with the newly implemented IT system, has allowed MCBRS to consolidate its leadership position in the registry market. New business lines and mandates are being sought to further enhance profitability.

MCB Stockbrokers Ltd.

Overall trading conditions on the stock exchange remained difficult during the year under review with market turnover declining by 20.8% over the period while foreign trades as a percentage of the total fell from 25.0% to 18.0%. Within the context of this very challenging environment, MCB Stockbrokers Ltd. (MCBSB) performed satisfactorily with turnover growing by 15.7% to Rs 17.5 million whereas profit after tax fell from Rs 2.8 million to Rs 1.9 million on the back of higher human resource investment. MCBSB was able to increase its share of value traded on the market during the year alongside broadening its local client base and cementing its leading position in terms of overall CDS accounts opened in Mauritius with a 30% market share. The international trading service has also performed well although the current volatility and turmoil on the main international markets is having an impact on clients' risk appetite. Besides, MCBSB achieved another important first on the local market in the last financial year by successfully launching, in partnership with the MCB Ltd., the online viewing of local share portfolios through the Bank's internet banking service. Furthermore, MCBSB has enhanced the appeal of its website through additional tools and information. Although the unsteady market environment is expected to continue, these innovations, coupled with better synergies with the extensive network of the MCB, should help MCBSB to consolidate its position among the market leaders and improve profitability.

MCB Fund Managers Ltd.

MCB Fund Managers Ltd. (MCBFM) continued to diversify its product offering during the year with the launch of a sixth fund under the MCB Unit Trust umbrella, namely the 'MCB Bond & Currency Fund'. The latter, denominated in USD, is designed for investors looking for diversified exposure to global (G20) fixed income securities and currencies in a low risk portfolio. In less than four months, the Fund has raised more than USD 5 million and is expected to grow even faster in the coming year given the low interest rate environment internationally.

The company recruited an experienced financial adviser during the year with a view to promoting the products and services in a more personalised way. This initiative, coupled with significant commercial efforts to market the extended fund range and good investment performance, resulted in assets under management growing by more than 50% to exceed the Rs 1 billion mark for the first time. One of the key products of the company, the MCB Education Plan which was launched in November 2009, also met with remarkable popularity as the number of plans sold doubled over the year with some 2,850 plans in issue as at year-end.

Against this background, the turnover of MCBFM increased by an appreciable 33% over last year, contributing close to Rs 10 million to MCBCM group revenue. More capacity will be added over the next months to focus on growing the assets under management through client acquisition, product consolidation and service enhancement. This should result in the company renewing with profitability as from next year.

MCB Capital Partners Ltd.

MCB Capital Partners Ltd. (MCBCP) manages the unlisted investments of the MCB Equity Fund Ltd. Revenues in FY 2010/11 were up by 9% (2010: increase of 15%) to Rs. 24.1 million, prompted by new investments worth Rs 449.6 million made by the Fund, with funds under management now standing at Rs 1.8 billion (2010: Rs 2.2 billion) on a fair value basis. The administration costs for FY 2010/11 increased to Rs 19.2 million as compared to Rs 16.5 million a year before, mainly attributable to rises in salaries and professional fees. Overall, profit for the year decreased from Rs 5.3 million to Rs 2.4 million, impacted mainly by non-recoverable project development costs of Rs 2.8 million related to an investment in the communications sector.

MCB Investment Services Ltd.

MCB Investment Services Ltd. (MCBIS) acts as a shared services company for the MCBCM group subsidiaries, in the process providing legal, finance, IT and strategic management services. Total income for the financial year under review stood at Rs 12.4 million, with revenues consisting of shared service fees, while expenses and salaries amounted to Rs 16.1 million. As such, MCBIS incurred a net loss of Rs 3.0 million during the FY 2010/11 as compared to a shortfall of Rs 5.6 million in the preceding year.

GHF Futures Ltd.

GHF Futures Ltd., a 50/50 joint venture with GHF Holdings Ltd., currently employs 25 traders in Mauritius with 5 trading Brent Crude Oil futures, 7 trading Gas Oil on the Intercontinental Exchange Europe, 7 trading NYBOT Sugar and 6 trading LIFFE Cocoa and Coffee. Other than the training of traders, capacity building remains the main focus of activity, with numerous recruitment sessions being held at the various tertiary education establishments in Mauritius as well as at the office in Ebène. As part of the recruitment drive and brand development, the company launched a competition for university students, called ‘Trade Mogul’, which ran for three weeks over March and April 2011. The competition proved to be a resounding success with 1,261 students participating, trading a total of 11,532 contracts. Three of the top performers were subsequently offered trading positions with the company upon completion of their degrees. In total, the company recruited an additional 13 traders during the year (from over 300 applicants), while further sessions are scheduled over the coming periods to meet the target of 45 full-time traders by 2012. GHF Futures Ltd. posted much reduced losses totalling Rs 16.1 million for FY 2010/11 (FY 2009/10: losses of Rs 31.4 million), on the back of significant operational and infrastructure costs at a time when new traders are learning their trade. The last seven months of the year were particularly encouraging as the firm posted a trading profit in each of those seven months despite the traders still being relatively inexperienced. This augurs well for the future and the financial performance is expected to improve with the profits from the more experienced traders somewhat mitigating the costs of the recruitment and training of the new batches.

MCB Equity Fund Ltd.

The Fund realised a net profit of Rs 117.7 million (2010: net loss of Rs 175.8 million) in the last financial year. While the previous year's loss had arisen out of the full impairment of one of the Fund's investments in the media sector, the year under review saw the successful exit from an investment in the hospitality sector which generated a net profit of Rs 102.2 million. Specifically, total income for FY 2010/11 increased to Rs 62.3 million compared to Rs 45.4 million realised in the preceding financial year, principally attributable to an increase in interest income from Rs 6.0 million to Rs 26.2 million. For its part, management fees increased to Rs 27.4 million (2010: Rs 24.5 million) during the year. Capital calls for FY 2010/11 aggregated to Rs 220.0 million (2010: Rs 164.0 million) with no redemptions recorded for this year. The fair value reserves of the Fund rose from Rs 177.2 million at the close of FY 2009/10 to Rs 296.4 million at the end of FY 2010/11, represented principally by net fair value gains in respect of available-for-sale investments. The fair value of the portfolio increased in aggregate by Rs 339.7 million or 16% to Rs 2.5 billion over the year against a drop of 3% in 2010.

MCB Factors Ltd.

MCB Factors Ltd. provides funding to clients against assignment of trade receivables as well as full sales ledger administration of the debtors book. Both recourse and non-recourse factoring are offered, the latter implying protection against debtors' insolvency. The year under review has seen an appreciable growth in assignment of invoices to the company, with profit reaching Rs 33.8 million. Pursuant to the challenging economic environment, notable emphasis continues to be placed on keeping costs under control, enhancing risk management, improving the quality of customer service and diversifying markets. In the latter respect, the product offering of MCB Factors Ltd. is to be further widened to offer both export factoring and import factoring.

Fincorp Investment Ltd.

This subsidiary, a quoted company on the Stock Exchange of Mauritius, in which the MCB has a 57.6% stake, has on its books two strategic investments: Finlease, the leasing arm of the MCB Group, which is a fully owned subsidiary, and Promotion and Development Ltd. (PAD), another quoted company having diversified interests, including a majority stake in Caudan Development Ltd.

(Caudan), a property company that owns and manages the waterfront real estate development in Port Louis, and a holding of about 30% in Medine Ltd.

Finlease's results progressed very significantly during the year. Profits for the previous two financial years had been affected by an imbalance in the financial structure, on the back of an excess liquidity situation within a context of falling interest rates, which led to a drop in margins, as new leases were being financed by relatively expensive deposits. Additionally, the accounts for FY 2009/10 included an exceptionally high impairment charge of nearly Rs 17 million. The liquidity issue has now been resolved, with the cost of funding back to acceptable levels. The portfolio of leases grew by around 11% during the year to 30 June 2011 and current prospects are encouraging. In the end, operating income in FY 2010/11 increased by 15% over the previous year and net results reached Rs 43.3 million, up from the low point of Rs 15.7 million achieved in FY 2009/10.

On the other hand, PAD had a relatively subdued year, both in terms of activities and profits. Income from quoted investments was affected, to a certain extent, by the ongoing international financial crisis and its knock-on effects on the results of some of the companies on the local stock exchange. Nonetheless, dividend income was virtually unchanged from the previous year.

Caudan, which completed the second phase of its development in Port Louis two years ago, is still finding it hard to achieve better rates of floor space occupation, both in the commercial and office segments. This has led to a relatively disappointing financial performance, the Caudan Group posting results of Rs 53 million for the year, representing an increase of only 7% over FY 2009/10 when a sharp fall in profits was recorded. Medine Ltd., whose results are somewhat dependent on the realisation of real estate and property developments, made a relatively marginal contribution to PAD's Group profits given that some of the current projects have been delayed. In FY 2009/10, PAD's accounts had further been impacted by an impairment charge of Rs 71 million, hence contributing to a loss at the level of Fincorp Group. Although the results in FY 2010/11 were characterised by a notable improvement with a profit of Rs 35 million, the situation does not reflect the underlying potential of PAD's activities. This enhanced performance, along with Finlease's positive showing, has led to a contribution of Rs 13 million from Fincorp to consolidated results of the MCB compared to a loss of Rs 21 million in FY 2009/10.

Credit Guarantee Insurance Ltd.

This associate, in which MCB has a 40% stake, is a joint venture with La Prudence Holding and essentially provides credit insurance services to its customers by ensuring protection in respect of their trade receivables.

The company had its first full year of operations in 2010 and has been gradually building up its capacity and portfolio of customers. It made a loss of close to Rs 5 million for the year ended 31 December 2010. However, the first six months of 2011 have been more promising, the operations approaching a break-even situation with losses of Rs 700,000 for the period.

International Card Processing Services Ltd. (ICPS)

Operational since November 2008, ICPS is a 80:20 joint venture between the MCB and Hightech Payment Services based in Morocco respectively. ICPS has positioned itself as a card business enabler by offering an array of services ranging from card personalisation for private label and branded cards (magnetic stripe/chip card) to full issuer and acquirer services, inclusive of POS and ATMs driving as well as transactions switching/processing for banks in Mauritius and Africa. This allows banks to achieve economies of scale in outsourcing their card processing needs.

During FY 2010/11, ICPS Ltd. has again successfully achieved major milestones in the space of Information Security. The company managed to be ISO 27001 certified in December 2010 while receiving, in June 2011, the prestigious certificate of PCI DSS Ver 2.0 (Payment Card Industry Data Security Standard) as mandated by Visa/MasterCard International. ICPS has thus joined the elite group of card processing service providers that meet the highest standards of card data security. In terms of business development, another two banks went live on ICPS Card processing platform. Overall, the turnover of the company doubled to reach Rs 59 million, leading to an improvement in the profitability level. The staff count has been increased to 31 on the basis of the very promising market outlook with new contracts extending the reach of ICPS beyond the network of MCB affiliates to Ghana, Namibia, Kenya and Zimbabwe.

MCB Properties Ltd.

This company owns a number of properties housing mostly banking premises of the MCB Group. Profits for the year reached just above Rs 6 million, representing net rentals receivable.

Blue Penny Museum

This company, which runs the museum located in the Caudan Waterfront, represents one of the contributions of the MCB Group towards the promotion of arts and culture and, more generally, the protection of the National Heritage of Mauritius.

MCB Forward Foundation

Officially launched in September 2010, the company aims to more efficiently serve the local communities amidst which the MCB operates. Basically, its vision is to be instrumental in the creation of sustainable value for the social, environmental and economic well-being of the society through the provision of human, logistical and financial resources in support of dedicated initiatives. The MCB Group contributes 2% of its book profits derived from the preceding year to the MCB Forward Foundation on an annual basis, representing a sum of Rs 43.9 million for FY 2010/11. A full report on the Foundation’s activities during the year can be found in the Corporate Governance Report.

Group key financial indicators

Income statement

Profit attributable to shareholders
Rs 4,491 m
2010: Rs 3,413 m; +31.6%

Net interest income
Rs 5,886 m
2010: Rs 5,145 m; +14.4%

Operating income
Rs 9,443 m
2010: Rs 7,994 m; +18.1%

Non-interest expense
Rs 4,022 m
2010: Rs 3,714 m; +8.3%

Financial position

Total assets
Rs 172.7 bn
2010: Rs 162.7 bn; +6.1%

Loans and advances
Rs 125.7 bn
2010: Rs 112.5 bn; +11.8%

Deposits
Rs 136.2 bn
2010: Rs 132.5 bn; +2.8%

Shareholders' equity
Rs 23.7 bn
2010: Rs 20.3 bn; +16.8%

Performance and earnings

Return on average equity
20.4%
2010: 17.6%

Return on average assets
2.7%
2010: 2.2%

Earnings per share
Rs 18.91
2010: Rs 14.38; +31.5%

Dividend per share
Rs 5.75
2010: Rs 5.25; +9.5%

Soundness and efficiency

Capital adequacy ratio
15.0%
2010: 14.9%

NPL ratio
3.4%
2010: 3.9%

Liquid assets to total assets
17.4%
2010: 22.1%

Cost to income ratio
42.6%
2010: 46.5%

Note:

(i) Non-recurrent items are included in the relevant figures above

(ii) Liquid assets comprise cash, balances with BoM, placements, T-Bills and Government securities

FINANCIAL REVIEW

Performance against objectives

OBJECTIVES FOR FY 2010/11	PERFORMANCE IN FY 2010/11	OBJECTIVES FOR FY 2011/12
Return on average equity (ROE) With difficult economic conditions persisting during the coming year, ROE is not expected to materially recover, although it is hoped that the trend is bottoming out.	ROE, based on Tier 1 capital, improved to 22.1%, being boosted by net non-recurrent gains of some Rs 370 million. Excluding the latter, the ratio stood at 20.1% in line with resilient performances in key segments.	In view of the prevailing challenging conditions, ROE is likely to fall marginally below 20%, on prudent estimates.
Return on average assets (ROA) ROA expected to increase marginally (FY 2009/10: 2.2%)	ROA recovered from the preceding year's drop caused by some difficult circumstances and increased to 2.7% with the ratio standing at 2.5% when the non-recurrent items are left out.	ROA is expected to remain at the current level, on the back of sluggish demand for credit.
Operating income While customer generated interest income growth will reflect the projected increase in average loan portfolio, net interest income will be affected by the abnormally low yields on Government securities and is forecast to grow at a low pace of close to 5 %.	Despite the restraining impact of the subdued economic climate and downward pressures on Treasury Bills' yields amidst a high liquidity situation, net interest income rose by 14.4% on the back of a notable expansion in average loan book.	With the expected slowdown in the rate of balance sheet growth, net interest income is forecast to follow the same trend, with a projected increase of just above 5%.

Although profit from foreign currency dealings are likely to remain under pressure, owing to sub-optimal market conditions, fees and commissions, more particularly from international and card operations, are expected to boost non-interest income, which could show a growth rate of up to 20% for the year.	Barring non-recurrent gains, non-interest income grew by 10.5%. This rise was supported by an increase of around 11% in net fee and commission whilst profit on foreign exchange dealings grew at a lower pace of 8.5%, with lesser contributions from foreign subsidiaries.	Non-interest income, excluding non-recurrent profits, is expected to grow by about 15% ,on the back of healthy contributions from cross-border trade finance deals and other income generated through the 'Bank of Banks' initiative.
Operating expenses The coming year will bear the full impact of depreciation and maintenance charges linked to the substantial investments realised in the past two years. Consequently, operating expenses are anticipated to grow by about 15%.	Notwithstanding a surge in depreciation and amortisation charges following the capacity-building drive, growth in operating expenses was contained to 8.3% on the basis of careful cost control and improved efficiency.	The MCB will continue its drive for the optimisation of cost control. However, with the full impact of IT investments being felt for the first time and with the added costs of the new building at St. Jean coming on stream, operating expenses are forecast to increase by more than 15%.
Cost to income ratio In view of the rise in operating costs, cost to income ratio of the Bank is forecast to slightly deteriorate in the next year (FY 2009/10: 46.5%), before reversing the trend as from the following period.	Underpinned by the rise in operating income, the cost to income ratio of the Group went down by almost 4 percentage points with the non-recurrent gains accounting for around half of this improvement.	With the delays observed in the coming into operation of large capital investment projects, the rise in the cost to income ratio, which was expected in FY 2010/11, will also be put forward in time, with a likely increase to around 45%.
Loans and advances growth With the drying up of	Despite the restraining impact	In view of the depressed

international inter-bank markets, disbursements of foreign currency loans are expected to slow down. However, with some large projects from our corporate customers materialising, loans and advances are expected to grow by about 12%.	of the still subdued economic environment, the average loan book posted a growth of 14% at Bank level, underpinned by corresponding increases of 15% and 12% with respect to foreign currency loans and rupee loans respectively. Total loans for the Group expanded by 12% over the last financial year.	climate for private investment, growth in the local currency loan book will certainly be slower than in recent years. Although cross-border lending opportunities will be fully exploited, loan expansion is expected to be lower than 10%.
Deposits growth The current liquidity situation, which is not conducive to the mobilisation of deposits, is not expected to change in the short term. Consequently, deposit growth for the year is not forecast to exceed 10%.	In line with industry trends, growth in average customer deposits registered a slowdown at Bank level mainly linked to foreign currency deposits given that rupee deposits went up by 9.2%. Group deposits increased by 2.8% in FY 2010/11.	Reflecting the persisting liquidity situation on the local market, deposits are expected to increase by around 6% on average.
Asset quality The quality of the loan portfolio having shown spectacular progress over the last few years, NPL ratios have now reached international standards. The Bank will pursue its efforts to follow stringent risk management practices, which should ensure that NPL ratios are kept at or below current levels. (FY 2009/10: gross – 3.9%, net – 1.9%)	Gross and net NPL ratios at Group level pursued a downward trend to reach 3.4% and 1.5% respectively on the strength of sound credit risk management.	NPL ratios are now thought to conform to best practice. The MCB will continue to apply its high standards of control to maintain these ratios at current levels.
Capital management The MCB Group believes in	The BIS capital adequacy	The uncertain international

the necessity to keep relatively high levels of capital to not only support growth but guard against any operating or regulatory requirements. Capital adequacy ratios will thus be maintained around current levels (FY 2009/10: BIS – 14.9%, Tier 1 – 12.8%), which are far beyond even Basel III requirements.	ratio for the Group remained well above the regulatory requirement at 15.0%, with Tier 1 ratio standing at a comfortable 13.3%.	climate having put into question the level of capitalisation of banks worldwide, the MCB's stated belief that it should maintain comfortable levels of capital has been further comforted. No change in policy is forecast in the short term.

Performance against objectives by Lines of Business – MCB (Bank)

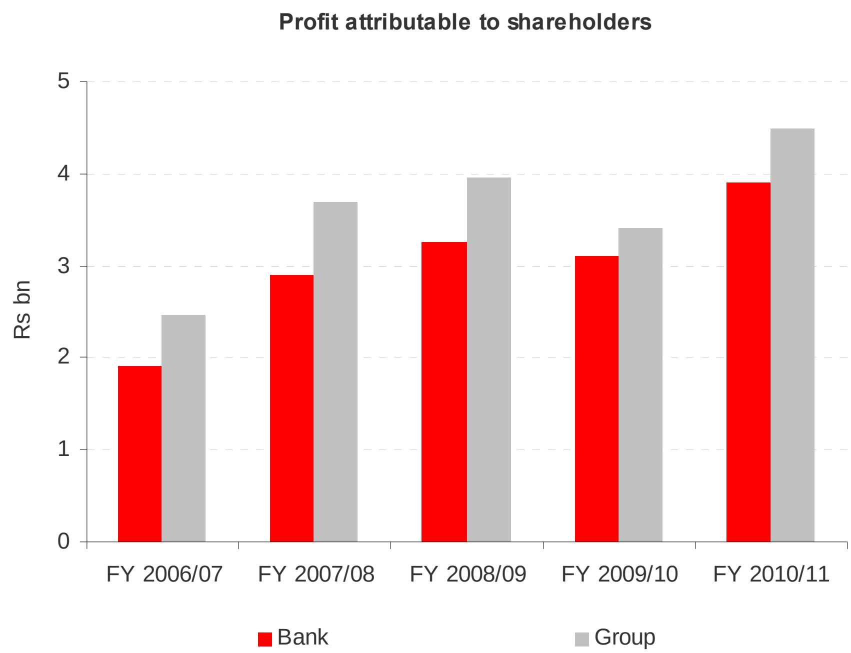
OBJECTIVES FOR FY 2010/11	PERFORMANCE IN FY 2010/11	OBJECTIVES FOR FY 2011/12
Retail Supported by endless efforts to align product and service delivery to market realities, average loans are projected to rise further by around 15% in spite of the subdued economic trend. As such, net interest income on advances is forecast to grow by some 13%.	Despite an exigent operating context characterised by high competition and slow-moving private domestic demand, the retail segment had a strong performance, largely due to its strategy based on customer centricity. Indeed, average loans and associated net interest income posted a growth rate of some 11%.	With continued focus being laid on reinforcing the value proposition to customers, average retail loans and interest margin on advances are expected to increase by 14%, even if the challenging environment is likely to impact on operations.
Corporate Whilst high market uncertainty levels should continue to hold back activity, the Bank seeks to increase average corporate loan portfolio by 12% on the strength of projected disbursements and a proactive stance, backed by sound risk	A strong growth of above 25% has been registered in net interest income on advances, supported by a 14% rise in average corporate loan balances. This reflects notable disbursements to support the unfolding of some large-scale	The enduring financial and economic uncertainty abroad and the ensuing tepid growth in private investment locally should take their toll in demand for corporate credit with an observed drying up of the current pipeline of projects.

management and customised offerings. Accordingly, related net interest income is expected to post an increase of 15%.	projects, hence reinforcing the Bank's position as a steady and reliable financial partner to its stakeholders amidst the still testing market conditions.	However, underpinned by customer proximity and provision of tailored financial solutions, it is expected that the average loan portfolio will still expand by 8%, contributing to an increase of some 5% in interest margin on advances.
International Backed by continued efforts of the Bank to broaden its market base and enhance its product offerings, average advances are expected to expand by around 15% with recuperating international capital and trade flows potentially providing further support. Therefore, a rise of around 12% is forecast in net interest income.	While being confronted by persisting vulnerabilities on the worldwide scene, this segment (including global business activities) maintained its growth momentum with the average loan portfolio and related net interest income registering an increase of around 17%. Moreover, fee-based income, which represents a significant proportion of revenue in this segment, posted a robust growth, reflecting a relative upturn in activity at regional level and headway made by the MCB in terms of market penetration.	The MCB will sustain its thrust to further deepen and broaden its involvement beyond domestic shores, especially in the region where interesting business openings exist. As a result, average advances and associated net interest income are projected to rise by some 15% while net fee and commission income should again record a solid growth.

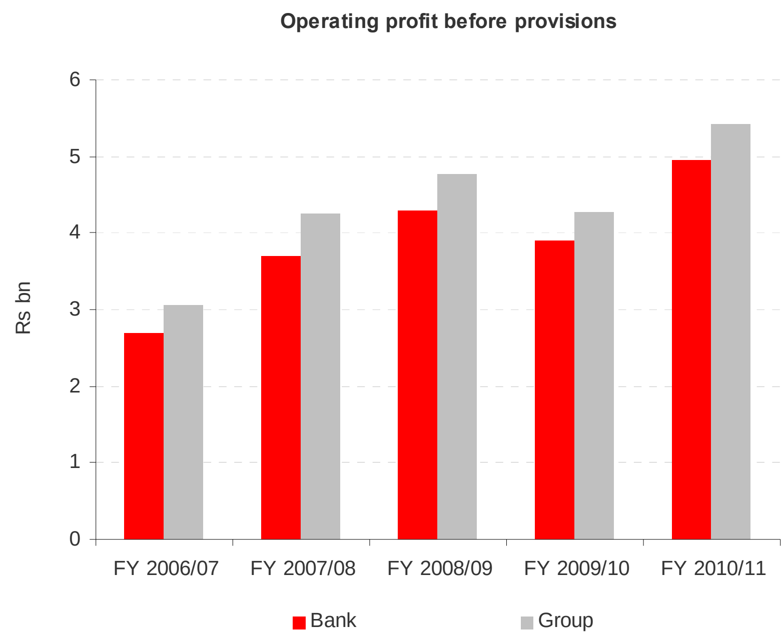
Review by Financial Priority Area

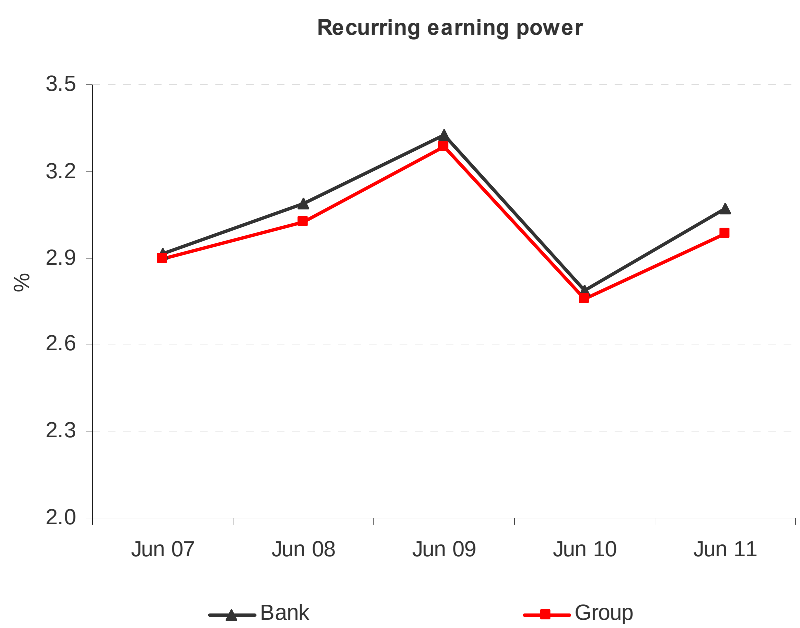
Analysis of Results

After witnessing a downturn in FY 2009/10 brought about by particularly difficult circumstances, Group attributable profit increased by 31.6% to Rs 4,491 million in the last financial year, underpinned by an improvement of 25.8% to Rs 3,904 million in Bank profit. Whilst these results were boosted by non-recurrent gains totalling some Rs 310 million and Rs 410 million at Bank and Group level respectively, linked to an out-of-court settlement of an insurance claim relating to the fraud uncovered in 2003 and to the exit from a regional equity investment in the hospitality sector, core earnings recovered by a notable margin. Indeed, on excluding these non-recurrent items and the sizeable impairment charge of Rs 190 million on an equity investment in FY 2009/10, growth in results still stood at 17.1% and 14.3% for the Bank and the Group respectively. The MCB has effectively withstood the implications of a persistently challenging environment, as evidenced by sub-par economic and investment conditions as well as unfavourable dynamics in the money and foreign exchange markets, on the basis of its successful execution of its strategic orientations aimed at consolidating its foothold in established markets alongside expanding its horizons through sensible diversification initiatives. Hence, in addition to a reinforced market involvement in the domestic retail and corporate segments, the Bank made further progress in establishing itself as a prominent player on the regional scene with Segment B activities maintaining a strong growth path. As a result, despite reduced contribution from some of our overseas subsidiaries and our Réunion-based associate amidst inherent market difficulties, the foreign sourced element in Group profit remained above 40%. In the same vein, results relating to non-bank operations somewhat recovered in spite of ongoing market uncertainty.



In line with the headway made in terms of market development and considering the one-off gains previously mentioned, operating income of the Bank recorded a solid growth of 19.8% to reach Rs 8,366 million, contributing to an increase of 18.1% to Rs 9,443 million at Group level. With the rise in expenses being contained to fairly reasonable levels, operating profit before provisions expanded by 27.3% to Rs 4,961 million for the Bank and 26.7% to Rs 5,422 million for the Group. As such, recurring earning power, defined as the ratio of pre-provision profit excluding net income from financial instruments and sale of securities to average assets, picked up to reach some 3.0% which is deemed appreciable by international standards.





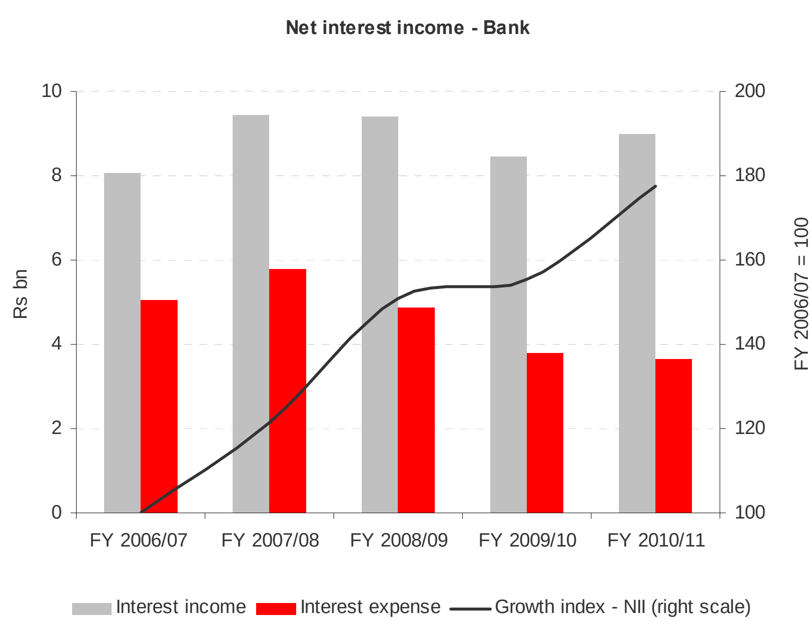
On the other hand, reflecting higher delinquencies and provisions in respect of retail unsecured loans, allowance for credit impairment increased by 38.9% and 15.8% to stand at Rs 305 million and Rs 315 million at Bank and Group level respectively, which nonetheless represented less than 0.3% of the loan portfolio. The Bank's profit before tax posted a strong growth of 26.0% to stand at Rs 4,631 million, leading to an increase of 30.6% to Rs 5,370 million at Group level in spite of reduced income from associates, with a fall in the results of BFCOI more than offsetting an improvement noted at PAD Group. Mirroring increased profitability, the tax charge, inclusive of the special levy applicable to banks operating in Mauritius, went up by a significant margin to reach Rs 727 million and Rs 853 million at Bank and Group level respectively.

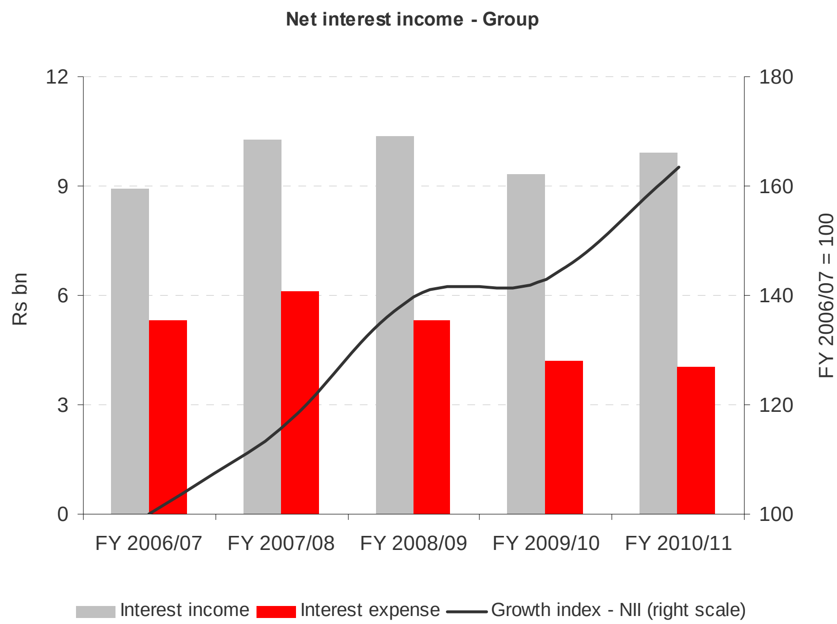
The expansion in business activity as gauged by sustained balance sheet growth has been anchored on sound business principles and diligent risk management practices. As such, the MCB remains characterised by healthy fundamentals with further improvement being observed in asset quality metrics while comfortable levels of capitalisation and liquidity have been maintained.

Revenue Growth

Net Interest Income

Continued growth in the loan book contributed to an increase of 6.3% in the Bank's interest income to Rs 8,995 million in FY 2010/11 despite a 24.6% fall in related revenue on Treasury Bills reflecting adverse pressures on yields as well as a negative volume variance partly due to the tight supply especially at the shorter end of the maturity spectrum. Interest expense on the other hand contracted by 3.5% to reach Rs 3,643 million following a relative slowdown in deposits growth and lower average interest rates due to the significant monetary policy easing towards the end of 2010 even though a reversal in the stance has occurred in the second semester of the financial year. As a result, net interest income at Bank level experienced a rise of 14.2% to reach Rs 5,352 million with notable increases being observed at both Segment A and Segment B levels. This strong performance has translated into net interest income for the Group going up from Rs 5,145 million to Rs 5,886 million. As such, the net interest margin edged up by 30 basis points at both Bank and Group level to 3.96% and 4.09% respectively, highlighting more productive lending operations, especially on the foreign currency book, as well as heightened riskiness linked to prevalent uncertainty. In parallel, the ratios for net interest income to average assets improved to 3.54% and 3.51% correspondingly.

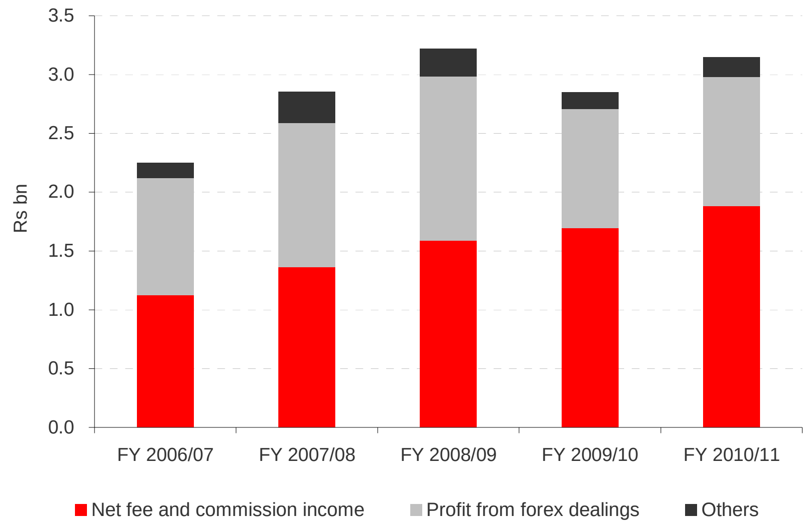




Non-interest income

Non-interest income during the year benefited from substantial non-recurrent gains linked to the out-of-court settlement of an insurance claim and the successful exit from a regional equity investment in the hospitality sector. Excluding these items, non-interest income still rose by around 18% and 11% to reach Rs 2,709 million and Rs 3,147 million for the Bank and the Group respectively, mainly supported by corresponding increases of 18.7% and 10.9% in net fee and commission income in line with ongoing market and product diversification endeavours. Indeed, a strong performance was recorded in respect of trade financing on the strength of further headway made in tapping into regional flows while associated cards revenue maintained a notable growth momentum and fee income on loan financing posted a solid increase reflecting the relatively high disbursements on longer lead time projects at the corporate level in particular. On the other hand, despite being confronted by sub-optimal market conditions, profit from foreign exchange dealings at Bank level recovered from the downturn registered in FY 2009/10 to grow by some 20% but reduced contribution from foreign subsidiaries entailed a much lower growth of 8.5% at Group level.

Breakdown of non-interest income - Group

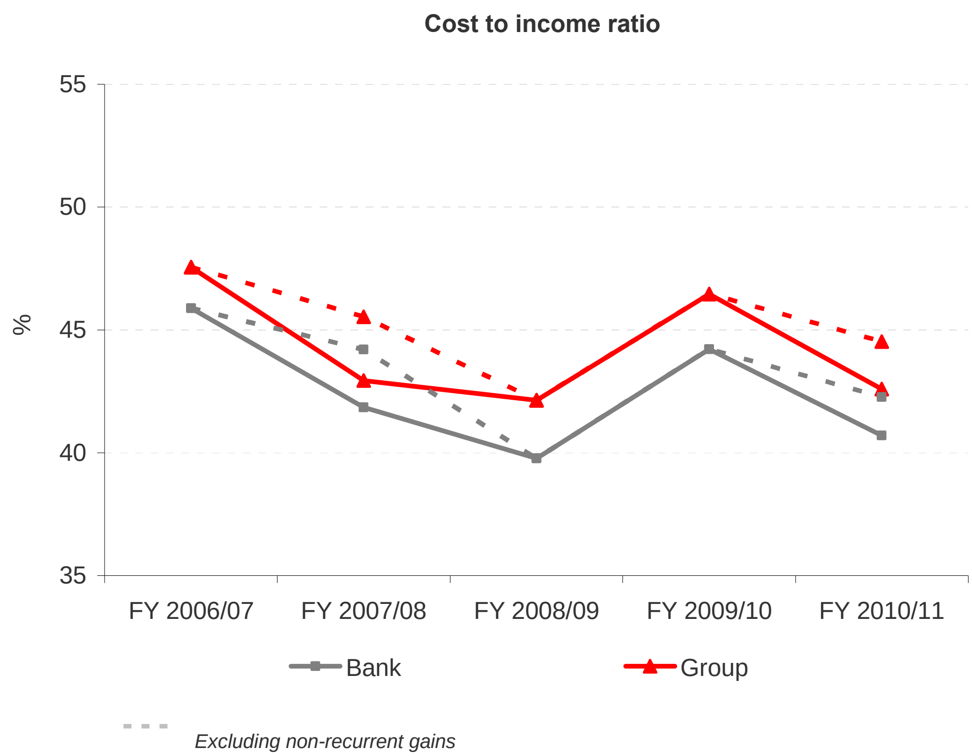


Note: Figures for FY 2007/08 and FY 2010/11 exclude non-recurring items of Rs 425m and Rs 410m respectively

Cost control

Whilst bearing the brunt of ongoing initiatives to build capacity, operating expenses grew by a reasonable rate of 8.3% to reach Rs 4,022 million for the Group with the corresponding increase at Bank level standing at 10.3%, reflecting careful cost management and efficiency gains in some areas. The rising costs have been fuelled by a surge in system and communication costs to a large extent attributable to the implementation of the new core banking system as well as by a notable growth in HR-related expenses on account of continued investment in human capital. Of note, stationery costs of the Bank went down partly owing to measures undertaken to promote the protection of the environment as part of 'Initiative 175'.

Considering the high earnings growth, the cost to income ratio improved substantially to 40.7% and 42.6% at Bank and Group level respectively during FY 2010/11. When the non-recurrent gains are excluded, the ratio recorded an appreciable drop of nearly 2 percentage points to 42.3% for the Bank and 44.5% for the Group.



Credit exposure

Despite the restraining impact of the soft economic environment, gross loans at Group level posted a year-on-year growth of 11.8% to stand at Rs 125.7 billion as at June 2011, underpinned by diligent market positioning. This performance was supported by a resilient outcome at Bank level in spite of sluggish private domestic investment, with associated credit exposures expanding by 10.5% to reach Rs 117.8 billion. The rise in the Bank's loan portfolio was broad-based across its business lines, through both local and foreign sourced activities. Hence, Segment A loans and advances went up by 9.6% spurred by an expansion in credit on the corporate front, fuelled by significant disbursements made in relation to large-scale projects in the hospitality industry and property development ventures. In the retail segment, total credit increased by 7.7% between June 2010 and June 2011 mainly on account of continued buoyancy in respect of housing loans. At Segment B level, loans and advances rose by 13.4% on the back of notable expansion of 9.1% and 39.5% registered in relation to entities outside Mauritius and Global Business licence holders respectively.

June 2011	Total loans		Non-performing loans (NPLs)		Allowances for credit impairment		
MCB Bank	Rs m	*Y.o.y growth (%)*	Rs m	*% of loans*	Rs m	*% of loans*	*% of NPLs*
Segment A	90,749	*9.6*	3,934	*4.3*	2,881	*3.2*	*73.3*
Segment B	27,022	*13.4*	118	*0.4*	268	*1.0*	*227.4*
Total	**117,771**	***10.5***	**4,051**	***3.4***	**3,149**	***2.7***	***77.7***

June 2011	Loans to customers		Non-performing loans (NPLs)		Allowances for credit impairment		
MCB Group	Rs m	*Y.o.y growth (%)*	Rs m	*% of loans*	Rs m	*% of loans*	*% of NPLs*
Agriculture and fishing	9,039	*6.6*	97	*1.1*	81	*0.9*	*83.5*
Manufacturing	10,574	*5.9*	770	*7.3*	461	*4.4*	*59.8*
of which EPZ	*3,307*	*(0.0)*	*163*	*4.9*	*126*	*3.8*	*77.3*
Tourism	27,666	*12.2*	92	*0.3*	121	*0.4*	*130.3*
Construction	8,613	*0.5*	248	*2.9*	333	*3.9*	*134.5*
Traders	17,330	*22.1*	639	*3.7*	566	*3.3*	*88.7*
Financial and business services	11,407	*18.4*	260	*2.3*	274	*2.4*	*105.3*
Personal and professional	21,762	*9.4*	1,899	*8.7*	1,090	*5.0*	*57.4*
of which credit cards	*403*	*(9.0)*	*29*	*7.2*	*30*	*7.4*	*103.4*
Global Business Licence holders	8,647	*39.5*	56	*0.6*	125	*1.4*	*224.3*
Others	8,132	*(9.6)*	286	*3.5*	218	*2.7*	*76.3*
Total	**123,169**	***11.4***	**4,346**	***3.5***	**3,268**	***2.7***	***75.2***

Note: Personal and professional segments include housing loans

Group credit exposures as at 30 June	2009	2010	2011
On-Balance Sheet	**Rs m**	**Rs m**	**Rs m**
Lending	100,236	112,496	125,716
Loans to customers	*97,912*	*110,600*	*123,169*
Loans to banks	*2,324*	*1,896*	*2,547*
Trading	3,401	3,350	4,140
Investments	20,822	22,142	20,156
	124,458	**137,988**	**150,012**

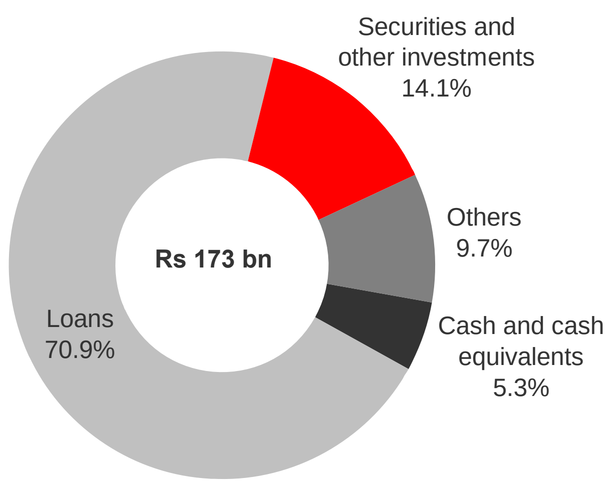
Off-Balance Sheet	**Rs m**	**Rs m**	**Rs m**
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	22,647	26,796	33,143
Commitments	7,473	6,450	3,922
Other	1,247	1,097	1,316
Contingent liabilities	**31,367**	**34,344**	**38,382**

Other Assets

In terms of liquid assets, the Bank's portfolio of Government securities dropped from Rs 14.2 billion to Rs 12.4 billion in a market marked by chronic undersupply, while a significant decline of 40.0% was observed in cash and cash equivalent at Group level in conjunction with a fall in foreign currency deposits on the liability side. The corresponding balances at Group level declined to Rs 13.4 billion and Rs 9.2 billion respectively. On the other hand, reflecting successive increases in the cash ratio by the BoM, mandatory balances with central banks increased by Rs 2,206 million and Rs 2,695 million at Bank and Group level respectively to reach Rs 6,263 million and Rs 7,475 million. All in all, the liquid assets to deposits ratio stood at 21.1% for the Bank and 22.1% for the Group respectively.

The substantial investments made to reinforce capacity in terms of technology and infrastructure have contributed to a growth rate of 43% and 26% in the intangible and fixed assets of the Group, which reached Rs 1,079 million and Rs 5,918 million respectively as at June 2011. It is also worth noting that investment in subsidiaries recorded an expansion of around 7% mainly on account of capital calls of Rs 220 million by MCB Equity Fund Ltd.

Assets mix (MCB Group)



Credit Quality

In a year which has seen the deepening of the global financial crisis, the challenges facing the local and regional economies have far from abated and the MCB Group's customers have not been finding operating conditions any easier.

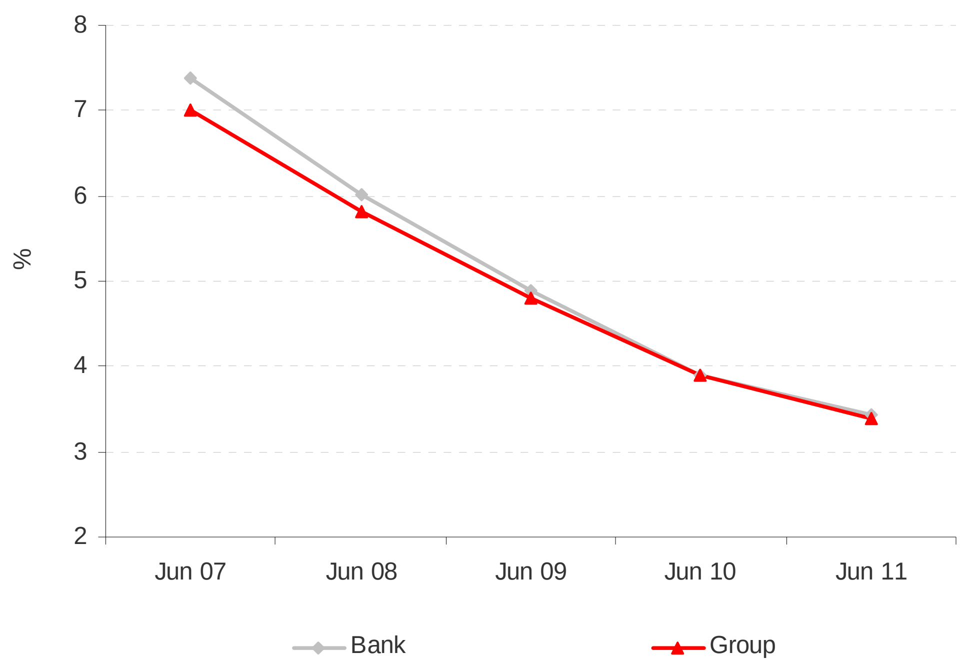
In spite of this difficult environment, the MCB's credit risk management has continued to show excellent results, in line with the trend noted in recent years. Although there has been an increase in delinquencies and provisions in respect of retail unsecured loans, this was not unexpected, as this segment of our portfolio carries, by nature, relatively more risk, the latter being compensated by an interest premium. This has been the main factor explaining the rise in specific impairment charges, which reached Rs 228 million for the Bank and Rs 236 million for the Group, an increase of Rs 89 million and Rs 46 million respectively. It should be pointed out, however, that the Group charge only represents 0.2% of the consolidated loan portfolio as at 30 June 2011, an excellent performance by international standards.

The ratio of gross non-performing loans (NPLs) as a percentage of total loans fell to 3.4%, both at Group and Bank levels, a drop of 0.5% over the year and a measure of the coherence and consistency of the risk policies and discipline applied by MCB. The net NPL ratio (net NPLs as a percentage of total loans minus provisions) was down to around 1.5% as at 30 June 2011, indicative of an improvement in the specific cover ratio of impaired loans. Indeed, the latter improved by nearly five percentage points to around 58%. The uncovered portion of the NPL portfolio is, however, catered for by a more than suitable level of collateral, written down in value, when necessary, to reflect current market conditions and recovery time.

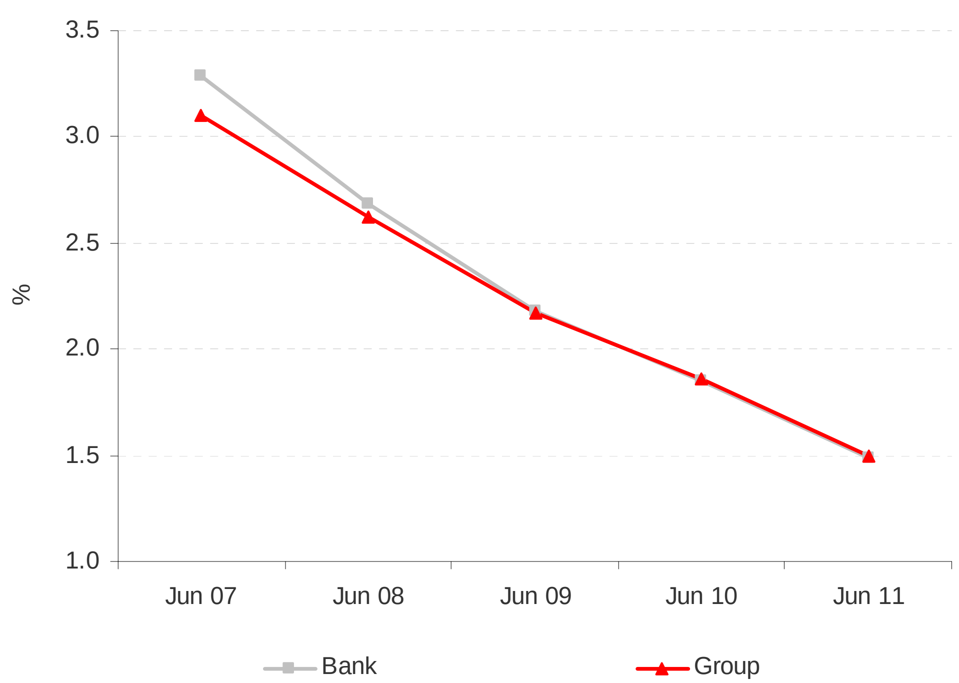
Additionally, the Bank, in conformity with the Bank of Mauritius Guideline on Credit Impairment Measurement and Income Recognition, gives due weight to the varying degrees of risk attached to the different components of its loan portfolio. Loans are thus analysed by sector, each sector having similar characteristics, and a statistical provision is assigned to each sector based on past loss experience and current attributes and outlook. The Group portfolio provision increased by Rs 77 million as at 30 June 2011.

Provisioning and asset quality	**Group**			**Bank**		
Movement in allowances for credit impairment (Rs m)	**2009**	**2010**	**2011**	**2009**	**2010**	**2011**
Provisions at start	3,196	3,377	3,054	3,101	3,280	2,925
Provisions made during the year	393	263	656	374	191	627
of which specific charge	*236*	*190*	*236*	*226*	*139*	*228*
Provisions released during the year	(78)	(116)	(112)	(60)	(89)	(103)
Amounts written off	(135)	(471)	(322)	(135)	(457)	(293)
Provisions at end	3,377	3,054	3,276	3,280	2,925	3,157
Key ratios (%)						
Income Statement charge (specific) to total loans	0.2	0.2	0.2	0.2	0.1	0.2
Total provision to non-performing loans	70.2	70.4	75.4	71.0	71.2	77.9
Total provision to total loans	3.4	2.7	2.6	3.5	2.7	2.7

NPLs to gross loans



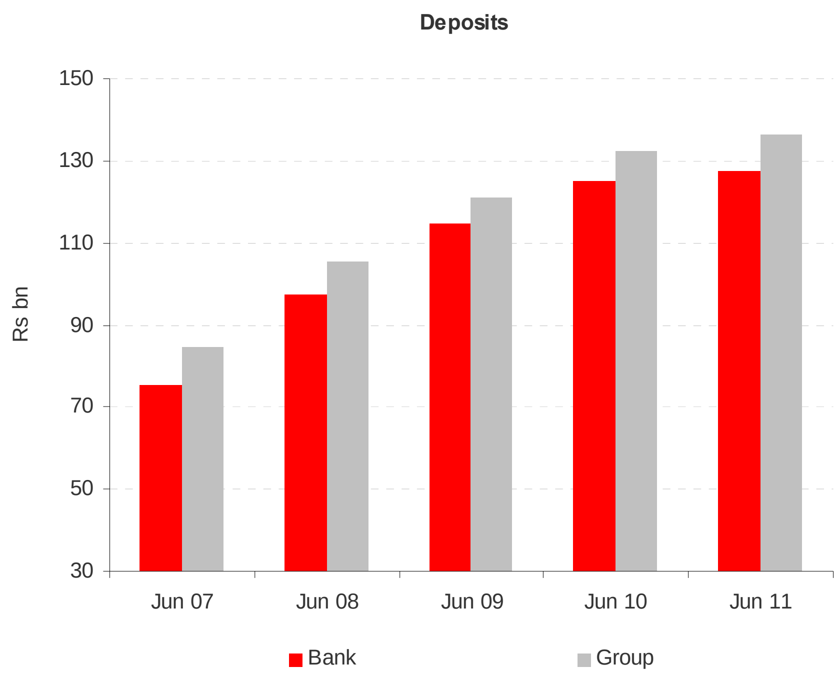
Net NPLs to net loans



Funding

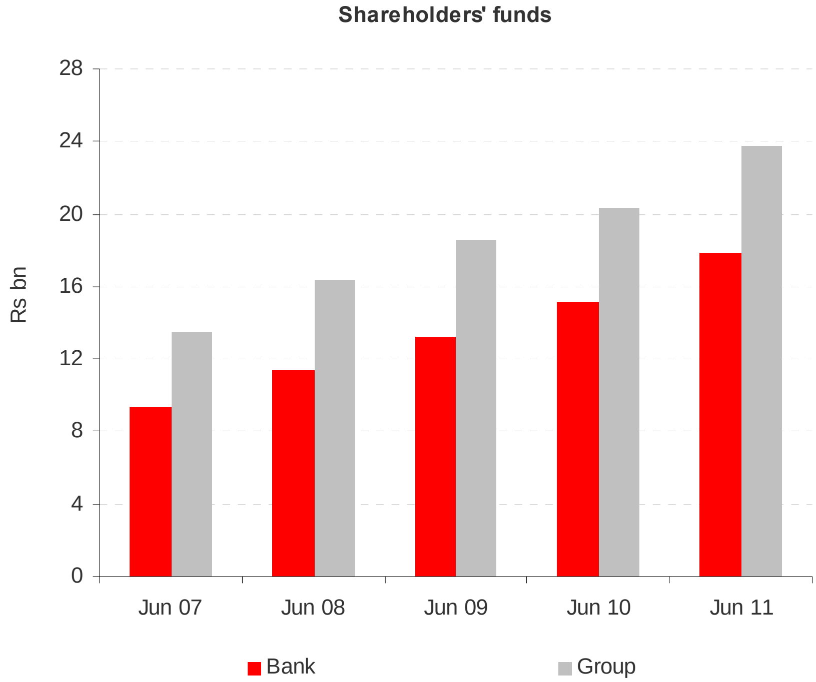
Deposits and borrowings

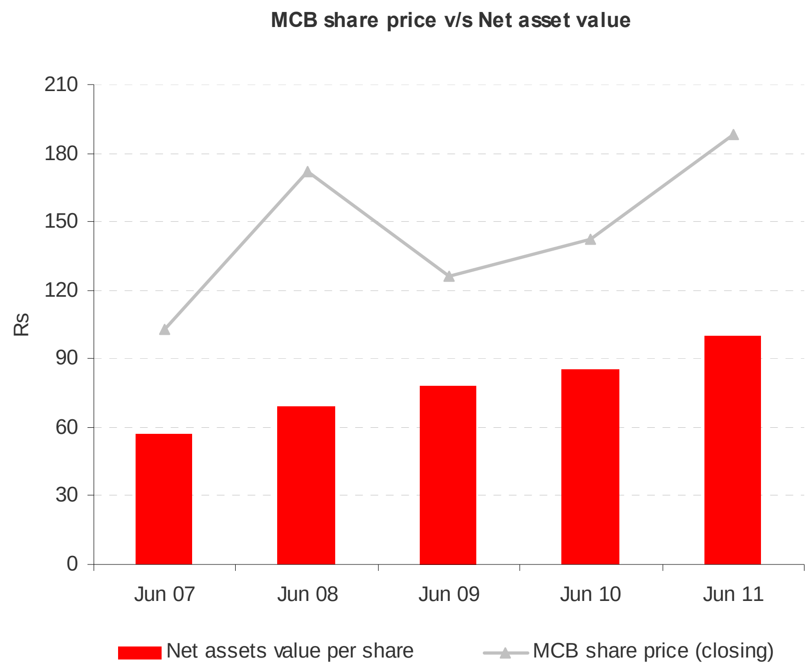
In line with industry trends, total deposits of the Bank increased by only 2.2% to reach Rs 127.7 billion, mainly attributable to a contraction in foreign currency deposits following the outward movements of some short-term volatile funds. On the other hand, notwithstanding the restrained national income growth, rupee deposits increased by 9.2%, underpinned by a 15% rise in savings deposits, which accounted for around two-thirds of the total, and a growth of 10% in demand deposits as opposed to a drop in time deposits. Reflecting the deposit evolution at Bank level, total deposits for the Group went up by 2.8% to reach Rs 136.2 billion as at June 2011.On the other hand, the year under review has seen a significant increase of Rs 3.7 billion in borrowings from abroad principally linked to LC refinancing credit lines which provide the support for trade financing deals. Of note, the fall of around 12% observed with respect to subordinated liabilities during FY 2010/11 represented a revaluation difference, following the appreciation of the rupee against the US dollar.



Capital resources

The strong financial results during the last financial year contributed to an increase of 22.7% in retained earnings after accounting for dividend payments of Rs 1.4 billion. As a result, Group shareholders' fund expanded by 16.8% to reach Rs 23.7 billion as at 30 June 2011, leading to an improvement in net asset value per share from Rs 85.61 to some Rs 100. Considering the premium at which the share is being traded, this partly reflects the perceived potential of the Group from the market standpoint to create value for its shareholders on a sustained basis. On the whole, the capitalisation of the Group remained at comfortable levels providing adequate cushion against possible adverse shocks. In fact, the equity-to-assets ratio rose to 13.7% while the risk-weighted capital adequacy ratio stood at 15.0%, as per Basel II definition.





Pierre Guy NOEL
Chief Executive (Group)

Antony R. WITHERS
Chief Executive (Banking)

Risk Report

INTRODUCTION

The MCB ensures that all risks inherent in its business activities are identified and allocated to one of the four primary risks namely, credit, operational, market and liquidity risks and three secondary generic risk categories comprising strategic, business and reputation risk in a systematic manner. This is supported by clearly defined policies, roles and responsibilities which are documented and subject to regular review. The MCB's pursuit of stringent risk management practices have contributed to (i) a consolidation of the capital base of the Group, predominantly through the organic growth of its core capital, (ii) an improvement in the credit quality of the loan portfolio notably as a result of progress in the measurement and pricing of risks, and (iii) the effective management of funding and liquidity in all currencies while achieving a superior risk-return relationship in spite of competitive business conditions and of the challenging economic environment.

With a view to enhancing its risk management capabilities, the MCB has, in recent times, undertaken some key initiatives including:

(i) the review of the delegated lending authority framework with the objective to increase the effectiveness of the credit approval process,

(ii) the systematic deployment of a credit scoring model for use as an automatic decision-making tool to improve the lead-time in the retail segment,

(iii) the implementation of a debt collection and recovery software towards enhancing processes as well as performing timely actions in collecting past due balances,

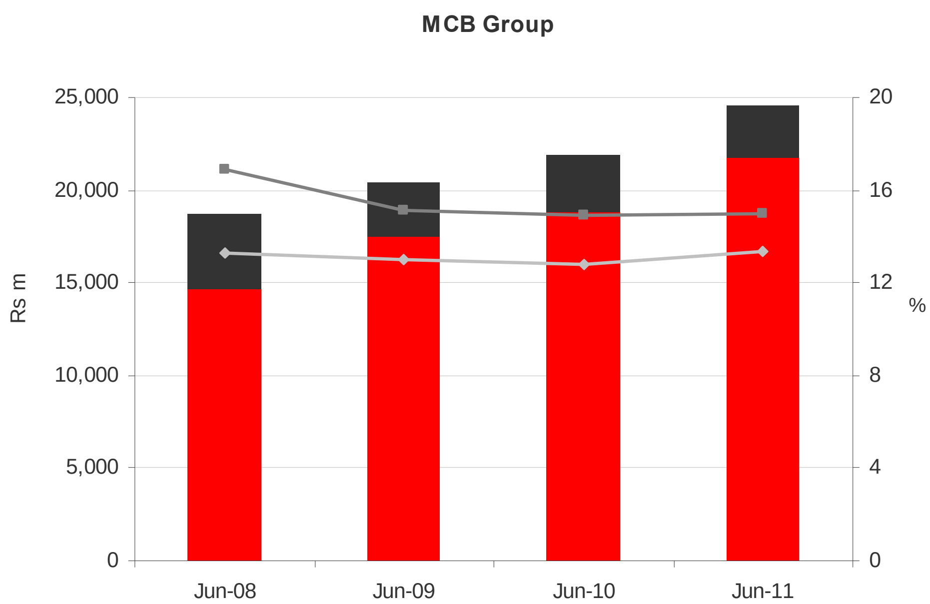
(iv) progress with respect to adherence to the Bank of Mauritius (BoM) Guideline on Supervisory Review Process,

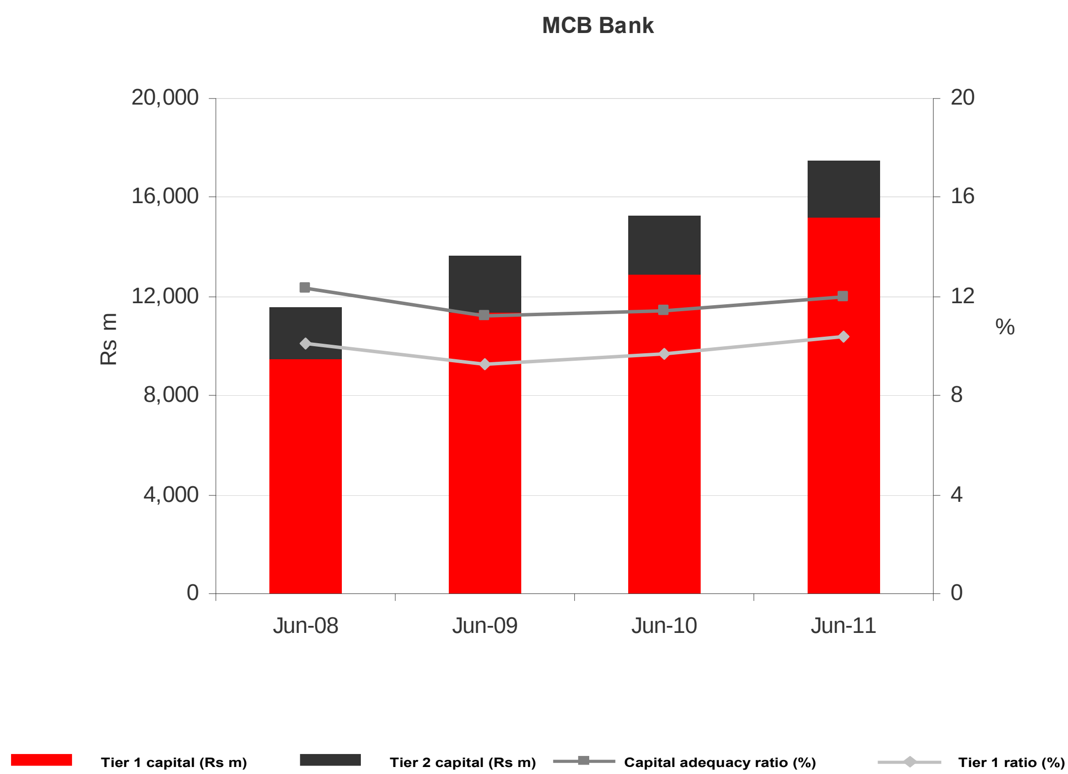
(v) the reinforcement of the Country Risk Management framework in line with the requirements of the related BoM Guideline and in view of the Bank's regional expansion strategy, and

(vi) the adoption of the Bank's Environmental and Social Policy which elaborates its commitment to promote environmentally sound and sustainable development in line with 'Initiative 175'.

The continued improvement in asset quality through tight credit discipline and prudential market penetration contributed in lowering the non-performing loan ratio to 3.4% as at 30 June 2011 at Group level. The portfolio of credit exposures of the MCB, which is well diversified across lines of business, economic sectors and countries, was assigned sufficient capital cushion. Credit risk, operational risk and market risk represented 92.5%, 6.8% and 0.7% of the Group's risk weighted assets respectively. Overall, the capital adequacy ratio stood at 15.0% at Group level, reflecting the capability to effectively withstand potential shocks and also support the growth strategy of the MCB.

The graphs below provide a historical overview of the capital adequacy for the Group and the Bank respectively.





RISK MANAGEMENT PHILOSOPHY

The mission of risk management at the MCB is:

To identify, assess and manage the credit, operational, market and information risks to which the Group is exposed, thereby improving the risk-return profile of its activities while upholding an environment conducive to attracting and promoting business opportunities.

…whilst its goal is:

To enhance stakeholders' confidence with respect to the management of current and potential credit, operational, market and information risks through:

- adequate internal control mechanisms,
- up-to-date and comprehensive risk policies,
- adherence to legal and regulatory requirements and
- reliable decision-making support.

Key underpinnings

Strong governance standards

- Ultimate responsibility of the Board
- Supervision by the Board through sub-committees
- Risk appetite set and monitored by the Risk Monitoring Committee
- Well-established risk policy
- Comprehensive risk management processes
- Independent teams overseeing Group internal audit, compliance, physical security and legal functions

Comfortable capital levels

- Organic growth through retained earnings
- Ample capital cushion to withstand potential shocks
- Enough resources to support strategic objectives

Sufficient funding and liquidity

- Expanding deposits as the primary funding source
- Well-diversified funding sources by type and nature
- Low involvement in overly volatile markets
- Funds at reasonable cost to meet obligations in a timely manner

Sound asset quality

- Low non-performing loan ratios
- Prudential market penetration
- Healthy loan portfolio through fitting credit discipline
- Efficient and cost effective debt collection and recovery

Risk-return profile and shareholder value

- Well-diversified portfolio of exposures
- Adequate pricing of risk to achieve appropriate return
- Due emphasis on long term shareholder value creation

Strategy and objectives

The Board of Directors seeks to ensure that its business strategies are clearly linked to its risk appetite towards ensuring that capital resources of the Group are optimally managed. Indeed, effective risk management is a key component of the delivery of sustainable returns to its shareholders, achieved mainly by maximising the risk-adjusted rate of return whilst maintaining risk exposures within acceptable parameters. The risk management approach adopted by the MCB is guided by four key principles:

Risk management principles

Principle 1	Principle 2	Principle 3	Principle 4
Comprehensive definition and identification of risk	Risk governance	Segregation of duties	Pricing of risk

Principle 1: Comprehensive definition and identification of risk

The overall definition of risk used within the Group is:

Risk is the outcome of uncertainty in the future course of events resulting from decisions or actions taken at any specific point in time. Risk has a financial consequence which can only be quantified with certainty after the event, but which must be estimated or assessed as best as possible in advance.

The Group ensures that all risks are identified, assessed, managed and controlled in a systematic manner, with clearly defined policies, roles and responsibilities which are documented and subject to regular review.

Principle 2: Risk governance

The governance structure and policy framework seek to foster the embedding of risk considerations in existing business processes and ensure that consistent standards exist across the Group's operating units. A description of the framework for risk governance, roles and responsibilities and lines of accountability for the various risk categories is provided later in the report.

Principle 3: Segregation of duties

Segregation of duties and management oversight are key components of the Group's risk management process. There is a clear segregation of duties between the three risk aspects namely:

- Risk taking comprises the involvement of the lines of business with customers, and the actions which give rise to risks for the Bank as a result of delivering products and services to those customers. These mainly relate to Corporate Banking, Retail Banking, Cards and International Banking including Global Business.
- Risk processing refers to the actions which turn a risk taking decision into a series of financial actions, often referred to as back office operations. Some examples of such functions are trade finance, treasury back office and central operations.
- Risk control includes all the actions required to ensure that risk taking is undertaken within agreed boundaries, and that the consequences of all risk taking and risk processing are analysed through time for their actual risk outcome. For instance, Group Risk, Group Internal Audit and Legal are referred to as risk control functions.

Principle 4: Pricing of risk

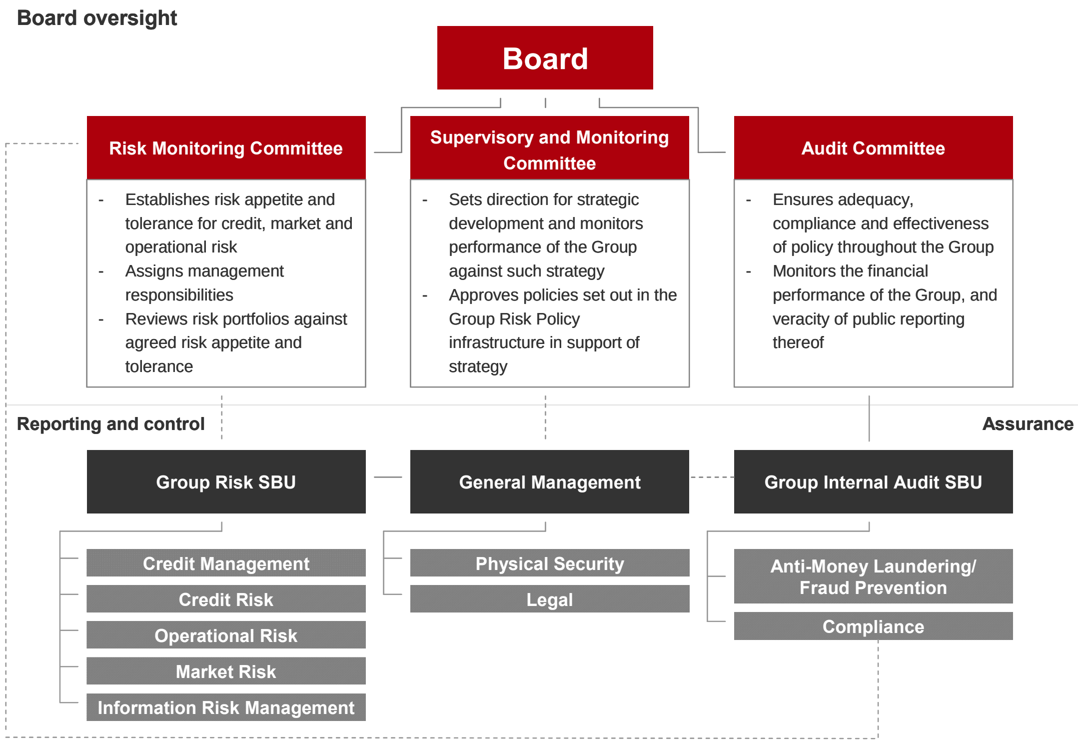
A key objective of risk management is to ensure that shareholders receive an appropriate return for the risks that are being undertaken on their behalf. The following pricing principles underpin the MCB's approach to the pricing of risk:

- The price that is charged to clients is reasonable in relation to the relative riskiness of the exposure. In applying this principle while ensuring sustainable returns, the Bank uses the risk-based profitability metric, referred to as the return on risk adjusted capital (RORAC), which provides the measure of net income as a proportion of the allocated capital commensurate with the risk undertaken.
- A reasonable expectation of return is established at the outset of any transaction where the Bank assumes a risk for its own account, an example being proprietary trading.

GOVERNANCE AND STRUCTURE

In line with the corporate governance structure adapted by the MCB, the Board has the ultimate responsibility of ensuring that risks are adequately identified, measured, monitored and managed. The Board discharges its duty through policies and frameworks as well as specialised committees as illustrated in the chart that follows.

MCB Risk Management Framework



The Group risk framework clearly defines the roles, responsibilities and reporting lines for various business units whilst aiming at safeguarding the Bank's assets and resources as well as ensuring compliance to regulatory norms. The delegation of authority, control processes and operational procedures are documented and disseminated to staff.

The primary Board committee overseeing risk matters is the Risk Monitoring Committee (RMC) which reviews and assesses a wide range of areas including capital adequacy, effectiveness of risk management and control activities, alongside ensuring that Basel Capital Accord requirements are met. Several members of the RMC are non-executives, thereby strengthening the MCB's independent risk oversight and control functions. Management is accountable to the Board for ensuring the effectiveness of risk management and the adherence to the risk appetite established by the Board.

A strong risk management capability is seen as vital for the success of a well-managed bank. The Group Risk function is central for driving such capabilities at the MCB. It has the functional responsibility, on a day-to-day basis, for providing independent risk control and managing credit, market, operational and information risks. Within the division, risk managers reporting to the Head of Group Risk are dedicated to establishing risk measurement and methodology as well as monitoring and regularly reporting the Bank's various risk exposures, profiles, concentration, and trends to the RMC and Senior Management for discussion and appropriate actions.

A fitting risk control framework is also fostered through independent teams overseeing the internal audit function, the compliance with all applicable laws, regulations, codes of conduct and standards of good practice, the physical security and the legal function across the Group. It can be noted that the Compliance Business Unit (BU) and the Anti-Money Laundering/Fraud Prevention BU report to the Head of the Group Internal Audit Strategic Business Unit (SBU), while the responsibility to act as the Money Laundering Reporting Officer is entrusted to the Head of the Legal SBU, thus ensuring the strict independence required for this position.

The existing risk structure enables the Group to reinforce the linkage between capital requirements and the level of risks undertaken whilst progressively migrating from the Basel II Standardised Approach to the Internal Ratings-Based Approach. The Group continues to monitor developments arising from Basel III and refine its risk management capabilities to duly position itself for the far-reaching consequences of such reforms.

MANAGEMENT OF KEY RISK AREAS

Credit risk

Credit risk is defined within the MCB as per international norms as:

> The risk of loss arising from any failure by a borrower or a counterparty to fulfil its financial obligations as and when they fall due.

Governance

The Board has ultimate control and oversight of credit risk management as well as credit risk policies and their deployment through the Supervisory and Monitoring Committee (SMC) and the Executive Credit Committee (ECC). In particular, the SMC, in consultation with line management, is accountable to the Board through the normal chain of operational command and control for ensuring the proper and prudential segregation of duties within the credit risk management architecture of the MCB. The Board delegates its authority to the Risk Monitoring Committee for the oversight of all credit matters. It monitors the effectiveness of the Group's credit and country risk management structure, be it in terms of framework, people, processes, information, infrastructure, methodologies or systems.

Management and monitoring

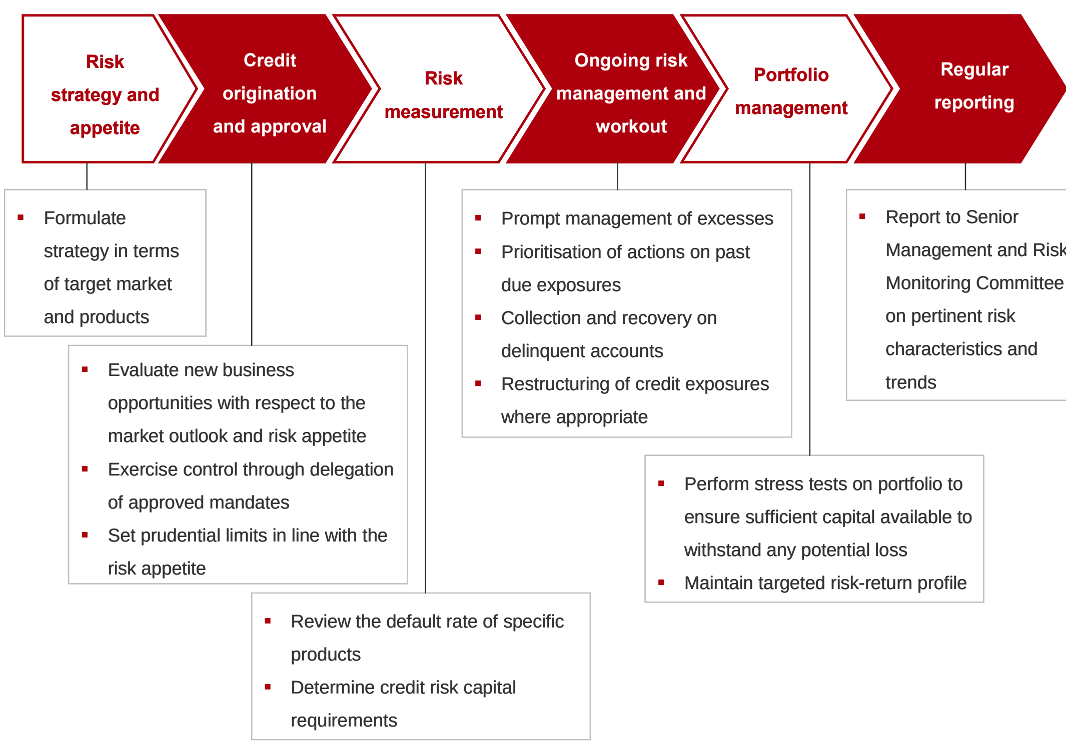
The credit risk management framework enables the Bank to manage credit risks within its risk appetite, develop risk-response strategies as well as optimise risk-taking by anticipating and acting on potential opportunities or threats. Specifically, it relies on the Bank's well-established dual control structure, sound credit processes and clear delegation of decision-making authority amongst other things for the approval of loans.

Credit risk exposures are in fact managed through a robust credit assessment, structuring and monitoring process. The latter, under the responsibility of the Credit Management BU, involves the daily monitoring of credit limit excesses as well as the review of all exposures, the frequency of which is increased in accordance to the size and likelihood of potential credit losses to ensure the timely detection of possible problem loans. Deteriorating higher-risk exposures are referred to a dedicated team for closer scrutiny where appropriate. The Bank's disciplined approach to provisioning and loan loss assessment is based on the Guideline on Credit Impairment Measurement and Income Recognition issued by the BoM.

The Credit Risk BU, for its part, provides an independent and regular review of the aggregate loan portfolio to proactively manage any delinquency and minimise undue credit concentrations. The significant trends including the credit risk profile of its top 20 borrowers are reported to Senior Management and the RMC at least on a quarterly basis.

An enterprise-wide credit risk policy, approved and reviewed by the SMC, sets forth the principles by which the Group conducts its credit risk management activities. The policy ensures consistency in credit risk assessment across the Group, and provides guidance in the formulation of business-specific target market criteria.

The credit risk management practices adopted by the MCB cut across the entire credit cycle, as depicted in the following diagram.



Measurement

Credit risk measurement consists of appraising the track record of customers as appropriate to predict the likely future behaviour of existing accounts for ongoing credit risk management. Ultimately, the Bank assesses whether individual business areas provide sufficient contribution to the targeted risk-return profile in order to determine the capital allocation that yields the optimum return, achieved by channelling risk capital away from low-return to high-return business areas.

As part of its ongoing efforts to refine its credit risk management capabilities, the Bank makes use of the Moody's Financial Analyst software which analyses a combination of factors such as the financial condition of the borrower, the economic outlook and management quality to risk-rate its major corporate borrowers and accordingly measures the risk profile of the corporate banking customer segment which consumes a sizable proportion of the MCB's capital resources. The active deployment of a credit scoring model alongside default ratings assigned to specific products aims at quantifying the risk for the retail segment. Similarly, risk grades of customers are used to set tolerance limits for the enhanced management of excesses.

The Bank measures the credit risk capital requirements by applying the appropriate risk weights to both on-balance sheet and off-balance sheet exposures in line with the Guideline on Scope of Application of Basel II and the Guideline on Standardised Approach to Credit Risk issued by the BoM. The capital adequacy and return on capital levels for the individual risk categories of the Bank's portfolio are regularly monitored by the RMC against the overall risk-bearing capacity of the Bank, in order to ensure that the Group is, at all times, maintaining adequate capital to provide for its growth and to support a reasonable measure of unexpected losses.

Mitigation

As a fundamental credit principle, the Group generally does not grant credit facilities solely on the basis of the collateral provided. All credit facilities are granted based on the credit standing, source of repayment and debt servicing ability of the borrower. Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically, with the frequency of valuation depending on the type, liquidity and volatility of the collateral value. On the whole, the main credit risk mitigation techniques applied by the MCB include security/collateral, netting, guarantees and political risk covers, all of which contribute to a reduction in the MCB's credit risk exposures.

Concentration

The Group's risk management processes aim to ensure that an acceptable level of risk diversification is maintained across the Group on an ongoing basis. Limits are established and regularly monitored in respect of country exposures and sectors, as well as for single counterparty exposures. Control structures are in place to ensure that appropriate limits are set, exposures are monitored against such limits, and suitable actions are taken if limits are breached.

The Bank complies with the Guideline on Credit Concentration which sets out the regulatory limits as follows:

a. Credit exposure to any single customer shall not exceed 25% of the Bank's/Group's capital base.
b. Credit exposure to any group of closely-related customers shall not exceed 40% of the Bank's/Group's capital base.
c. The aggregate large credit exposures to all customers and groups of closely-related customers shall not exceed 800 per cent of the Bank's/Group's capital base.

It is the policy of the MCB to limit credit risk exposures and concentrations within the constraints of the Bank's capital base. The Bank thus regularly monitors the credit risk concentration aggregating to more than 15% of its capital base, classified by industry sector, to ensure that its risk-bearing capacity is not jeopardised. Note 5b (v) to the Financial Statements provides the total amount of credit facilities including guarantees, acceptances and other similar commitments extended by the Bank to any one customer or group of closely-related customers for amounts aggregating to more than 15% of its capital base, classified by sector. The Group also has a prudential guideline which specifies that the aggregate large credit exposures to all customers and groups of closely related customers shall not exceed 600% of the Bank's capital base without due notification to the SMC.

To ensure that the performance of the Group is not negatively impacted by a large sector exposure default, the MCB focuses on the diversification of its lending portfolio by setting sectoral limits based on forecasts spanning over a five-year horizon. Additionally, regular stress tests are performed on the portfolio to ensure that the Group holds sufficient capital to withstand any losses arising from significant exposure to a sector or single customers.

Country risk

Country risk arises when the Group is unable to receive payments from customers as a result of political or economic events in the country. These events include political and social unrest, nationalisation and expropriation of assets, government repudiation of external indebtedness, and currency depreciation or devaluation amongst others.

Country exposure limits are determined on the basis of the Bank's areas of expertise, its intimate knowledge of the local economy in presence countries and its strategy to increase its regional presence, with the maximum risk limit being determined by the risk appetite of the Bank. Country limits are approved annually by the Board and monitored quarterly by the RMC. Where necessary, sub-limits relating to short term trading operations in strategic commodities are set. The upgrade of the Bank's management information systems enables the generation of detailed reports for the identification, measurement and proactive monitoring of country risk exposures against country risk limits as approved by the Board.

Operational Risk

Operational risk is defined within the MCB as per international norms as:

> 'The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk'.

Operational risk is inherent in all banking products, activities, processes and systems. The loss event type categories as per Basel II are provided below.

Basel II loss event type categories
▪ Execution, delivery and process management
▪ Business disruption and system failures
▪ Clients, products and business practices
▪ Employment practices and workplace safety
▪ Internal fraud
▪ External fraud
▪ Damages to physical assets

Overall, the many disparate sources of operational risk faced by the MCB require a cohesive and integrated approach for prompt identification, assessment, control, reporting and monitoring thereof through the adherence to sound operational risk management practices adopted by employees at all levels of the hierarchy. Grounded on sound corporate governance, internal controls, policies, procedures and adapted contingency plans, the Group Operational Risk Policy provides a comprehensive, systematic and consistent framework towards operational risk management within the MCB.

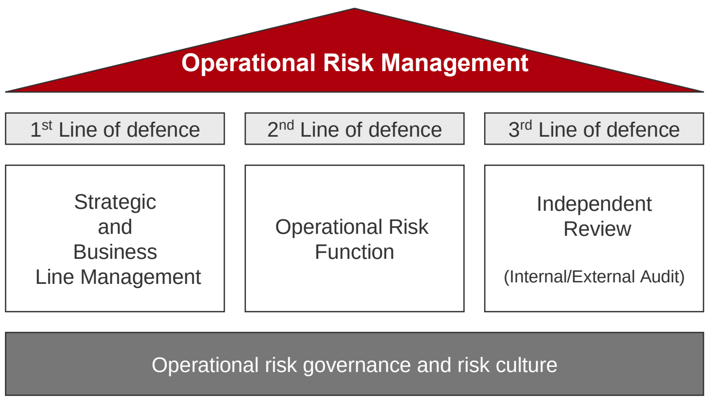
Governance

The governance process by which the Board defines the key objectives and oversees the progress towards their achievement lies at the heart of the Group's operational risk management framework which provides clear guidance with respect to policies and processes for the day-to-day operations. The Board bears overall responsibility for the framework within which operational risk is managed throughout the MCB whilst delegating authority for the oversight of the conduct of policy to the RMC.

The responsibility for implementing the integrated operational risk management framework that covers all the categories of inherent risks is entrusted to Senior Management and is exercised through the Operational Risk and Compliance Committee (ORCC), chaired by the Chief Executive (Banking). The ORCC monitors the effectiveness of the operational risk management framework, reviews operational risk data including material losses in business lines, and makes recommendations towards continuous improvement for such risk management and mitigation.

Sound internal governance which forms the foundation for an effective operational risk management framework relies on three lines of defence within the MCB.

Operational Risk Management Framework



The strategic and business line management composed of the various business units responsible for the day-to-day operational activities throughout the Bank, act as the first line of defence towards identifying the risk inherent in the products, activities, processes and systems for which they are accountable. The line management of individual business units is responsible, on a day-to-day basis, for prompt decisions and responses to critical, high and medium operational risk events including the implementation of corrective measures in their respective area. The implementation of appropriate internal control procedures is crucial in proactively addressing operational events that may lead to potential losses.

The second line of defence through the independent operational risk function complements the business lines' operational risk management activities by assessing and reporting on the inherent risks embedded in processes. Besides its advisory role on operational risk matters to the business lines, the operational risk function is also responsible for measuring the operational risk capital requirements and highlighting the main operational risk issues to the management while regularly reporting to the ORCC on such matters.

The third line of defence relies on the independent verification of the effectiveness of the overall operational risk framework by the internal and external audit functions.

A strong risk culture and good communication among the three lines of defence are important characteristics of good operational risk governance. The operational risk function supports the promotion of an operational risk management culture throughout the Bank by conducting awareness sessions targeting relevant audiences.

Risk exposure and measurement

Products, services and processes are subject to operational risk assessment and review in determining the Bank's risk exposure for regular monitoring against acceptable limits. The MCB computes and measures the regulatory capital for operational risk using the Basel II Standardised methodology for the Bank, whereby gross income within each business line serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines, and the Basic Indicator Approach for overseas subsidiaries and local entities.

Mitigation

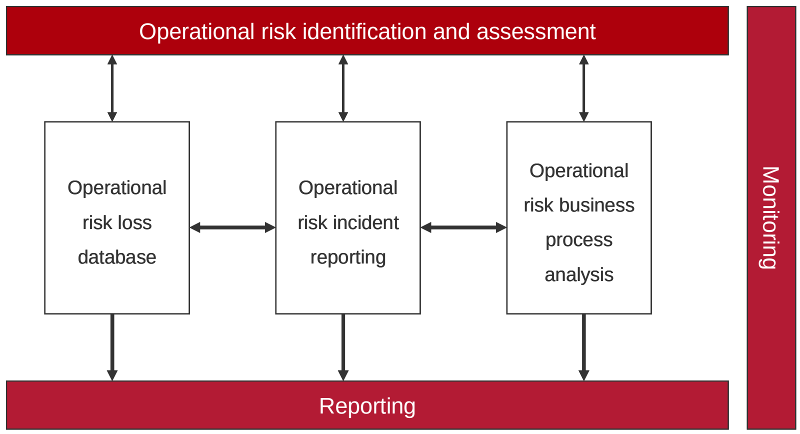
The control environment at the MCB comprises a combination of policies, processes and systems that enable adapted strategies for risk mitigation such as clear segregation of duties, dual control, regular verification, reconciliation of transactions and/or risk transfer through insurance, where appropriate.

Business continuity plans are designed and reviewed to limit losses in the event of a severe disruption and ensures the ability to operate on an ongoing basis. Business continuity management includes regular tests to ensure the recovery and resumption objectives set in the business continuity plans are met. During FY 2010/11, a review of the business continuity plans was undertaken alongside the implementation of the new core system in October 2010. Key training and awareness programmes are regularly set up to ensure that the staff can execute the contingency plans besides the continuous development of existing business continuity capability.

Management and monitoring

Operational risk management is an iterative process of continuous improvement that is best embedded into existing practices and business processes. The MCB seeks to ensure that key operational risks are managed on a timely basis and in an effective manner. The main elements of the operational risk management process are illustrated in the following diagram.

Operational Risk Management Process



Incident reporting

The operational risk function has set up an incident reporting process which contributes to reinforce visibility and understanding of the Bank's overall operational risk profile. This process plays a catalytic role in embedding operational risk management practices in the day-to-day business activities. The operational risk incident reporting serves to report, track and escalate operational risk issues within the Bank and supports educated decision making and timely resolution. All staff members are expected to report any operational risks, incidents, losses or near misses that they have knowledge of.

The operational risk function verifies that the incident and loss data reports are comprehensively documented for recording and analysis of the root cause of losses and incidents. Depending on the results of the analysis, corrective or preventive measures are taken to reduce the exposure to the inherent operational risk and hence improve controls. All significant incidents are reported periodically to the ORCC and RMC. Operational risk reports include mitigation strategies and improvement actions put in place to avoid recurrence of such operational loss events.

Business process analysis

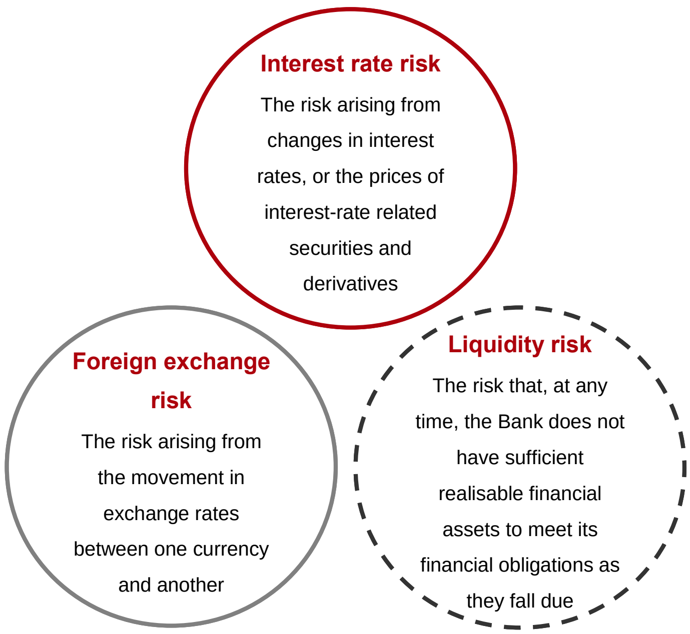
The operational risk function is developing an operational risk business mapping process to identify and review steps in business processes, highlight key risk points and risk interdependencies, and review effectiveness of controls. Proposed recommendations are presented to the business unit management for consideration and implementation and also presented for action by the appropriate operational risk committee. This multi-layered, yet centralised, approach to operational risk management and monitoring is critical in ensuring that all activities that impact important operational risk data at the core of the organisation are monitored.

Market risk

In line with international norms, the MCB defines market risk as:

> The risk of gain or loss arising from activities undertaken in, or impacted by, financial markets generally. This includes both market price risk as well as ancillary risk such as liquidity and funding (liability) risk.

The main categories of market risk to which the MCB is exposed are defined below:



Governance

The Board has ultimate control and oversight of market risk through RMC, SMC and Audit committee as well as the Asset and Liability Committee (ALCO) and other executive committees. A clear segregation of reporting lines and duties is maintained between the different risk aspects relating to market risk namely, risk taking, risk processing and risk control. Primary surveillance of market risk rests with the Market Risk BU, which also monitors credit and operational risk arising from market activities within the MCB. The market risk function plays an important role in assisting with the provision of balance sheet and market risk analysis to ALCO, consolidation of the Group market risk regulatory returns, as well as overseeing all treasury related market documentation such as the International Swaps and Derivatives Association schedules.

Asset and Liability Committee

The purpose of ALCO, chaired by the Chief Executive (Banking) and attended by key members of Senior Management, is to ensure that the overall asset/liability and market risk mix within the MCB is constantly managed within set targets, and in accordance with guidelines laid down by the BoM. Further, its objective is to identify new areas of risk which might appear, either to exploit such risks for profit or to manage any potential negative impact on the business. It is also responsible for initiating action to update or amend existing risk policies as a result of the identification of new sources of market risk.

Against the persistent delicate global economic climate, ALCO remains vigilant with regards to the foreign currency funding and liquidity management of the MCB. Counterparty risk analysis is reinforced while liquidity mismatch analysis and stress test scenarios are being strengthened to manage possible risks in a proactive way. Liquidity projections are regularly monitored, underpinned by prudent loan-to-deposit target ratios. To gauge the potential spill-over effects of the economic environment on the money markets, interbank lines are regularly tested for accessibility. Adequate liquid assets are maintained on a cautionary basis, taking into account the behaviour and profile of the MCB’s deposit base.

Risk exposure and appetite

The Group incurs market risk as an active risk mainly through its financial market trading, money placement and treasury investment activities. However, it also faces market risk as a passive risk in its balance sheet as a result of its general banking activities.

The Board is responsible for setting the risk appetite at Group level, in the context of overall business strategy. ALCO sets and monitors asset allocation objectives within the overall risk appetite of the Board and targets for the Bank balance sheet in the light of changing market and customer circumstances, and in furtherance of the MCB’s longer-term strategic goals.

Measurement and management

The MCB policy requires that all active market risk be complied with regulatory requirements notably as set out in relevant BoM Guidelines or internal limits/targets as set by ALCO. A range of limits is set, including:

- Daily overall foreign exchange exposure and single currency exposure limit as per regulatory guideline
- Individual trading limits such as position and stop-loss limits

- Counterparty credit risk limits in respect of trading or other market risk activities such as money market limits, valuation and settlement limits
- Repricing interest rate gap and earnings sensitivity analysis
- Liquidity mismatch gap and ratio analysis such as loan to deposit and liquid asset ratios

The above limits are supplemented by stress tests and scenario analyses and are periodically reported to ALCO.

In the conduct of its risk measurement activities, the MCB also utilises Value at Risk (VaR) modelling, whereby current exposures are measured against historic volatilities over a given period. VaR which is based on the statistical quantification of risk, is a probabilistic estimate of future risk, where the assumptions underlying the probabilities are central to the calculations and estimates. In line with Basel II recommendations, the MCB currently uses a historical observation period of one year, with a 99% one-tailed confidence interval and a holding period of 10 days. The VaR analysis of the MCB with respect to foreign exchange risk is provided in Note 2 (c) to the Financial Statements.

Information risk management

The Information Risk Management function (IRM) serves to enhance the security surrounding the MCB's data assets. IRM performs risk assessments with respect to information confidentiality, integrity and availability, while being involved in recommending new controls and improvements to existing information controls where applicable. Additionally, IRM monitors and addresses the security of the Bank's technical infrastructure in collaboration with other business units, as well as carrying out operational activities pertaining to highly sensitive and critical information. As a business partner, IRM aligns itself with business activities, initiatives and strategies, whilst adopting appropriate industry standards and best practices.

The year under review has seen the collaboration of IRM through dedicated advice in the evaluation and recommendation of the security features of specific projects and new systems in the organisation. The recent creation of supporting roles within the IRM function continues to reinforce the level of quality control over a range of information security related areas within the Bank.

Moving forward, IRM, through continuous improvement of its logical access and technical security monitoring operations, plans to strengthen its controls frameworks whilst ensuring compliance with policies, requirements and critical information infrastructure protection.

Physical security

In its commitment to promote a secure banking experience on top of outstanding service quality, the MCB pursued its unrelenting efforts in upgrading and enforcing related standards to protect its employees, customers and other assets. Towards this end, physical security practices and procedures, documented in the physical security manual, are regularly reviewed and updated with enhanced preventive measures where necessary, alongside ensuring their alignment to international standards, notably through specialised training and the deployment of state-of-the art technology.

The year under review has seen the setting up of a comprehensive security solution for the MCB building at St. Jean which provides open plan workspaces for 750 employees. Besides, the Bank maintained its collaboration with the Mauritius Police Force and financial institutions as part of ongoing crime prevention and awareness campaigns. Improved synergy has also been developed within the MCB between the different control functions with a view to promoting sound security practices while minimising disruption to the business. In addition, the appropriate policies, processes and systems have been meticulously monitored to ensure diligent adherence thereto while reinforcing the ongoing security arrangements. Security audits were also carried out to ensure compliance to security policies.

No major incident was reported at the MCB over the year under review.

Legal

The MCB has over time consistently endeavoured to strengthen its capabilities and operations to duly address and manage legal risks which remain a salient feature in the delivery of financial services. By drawing on its nurtured specialist competencies, the Legal SBU acts as a central advisory unit to business lines through expert support which caters for their evolving and increasingly complex needs with a view to upholding the interests of the Group from a legal standpoint. Specifically, the regrouping of legal functions in recent years has paved the way for enhanced effectiveness and efficiency in the provision of in-house services in terms of adapted legal solutions, on-the-spot counselling, legal representation and advocacy as well as vetting of contract and security documentation amongst others. The Legal SBU further fulfils its mandate through the conduct of regular tailor-made training sessions for staff on the legal aspects of banking transactions.

Towards promoting congruence across the MCB Group, the Legal SBU has, during the year, set up a legal unit in MCB Seychelles so as to foster fast and upfront legal intervention with respect to banking matters in the subsidiary. Besides, building on its rich experience derived from specialised and targeted training in the past, the MCB has furthered its collaboration with Professors from law faculties of French universities to embark on the challenging task to prepare a ‘Manuel de Droit Bancaire’ which is designed to be a comprehensive legal tool on banking and is likely to be published by the end of 2011.

ASSURANCE FUNCTIONS

The regrouping of the three control units - Group Internal Audit, Compliance BU and Anti Money Laundering/Fraud Prevention BU - under the same Head has brought some significant synergistic and efficiency gains, not unusual to organisations moving to combined assurance functions. This streamlining has also enabled each of these distinct units to exercise a better focus and add more value to the Group as a whole.

Internal audit

The Group Internal Audit SBU – whose Head reports directly to the Audit Committee for direction and accountability and to the Executive Directors for administrative interface and support – ensures that the quality of internal audit services of the MCB is aligned with recognised best practices. Over the past few years, it has conscientiously and scrupulously geared up its efforts towards implementing a risk centric model whilst taking into consideration the challenged need for a purely compliance approach for some carefully identified business areas. A systematic and disciplined approach, notably through the use of Mauritius Qualifications Authority approved control self assessments whilst championing the introduction of Enterprise Risk Management throughout the Group, computer aided audit techniques, well focussed audit work programs and an audit software provides the necessary platform to evaluate and improve the effectiveness of risk management control and governance processes.

The outcomes of the different audit assignments, including a risk-based grading of the relevant issues, are periodically presented to functional heads, line managers and Executive Directors. The Group Internal Audit SBU communicates a summarised implementation status of all issues to the Executive Directors on a monthly basis for discussion if need be. Quarterly or more frequent meetings are scheduled with the Audit Committee. The annual audit plan, identified issues, progress regarding implementation thereof, and resource requirements are typical items on the agenda.

The Institute of Internal Auditors currently requires each internal audit function to have an external quality assessment conducted at least once every five years. This exercise was carried out two years ago for the MCB by an internationally recognised auditing firm which has confirmed the Group's full compliance with the International Standards for the Professional Practice of Internal Audit issued by the above mentioned institute. Obviously, our current business model ensures a continual and strict adherence to the expected standards and approved processes through, for example, the introduction of internal peer reviews and quality assurance assignments by the Head of Group Internal Audit.

Mindful of the increased expectations of different internal and external stakeholders and capitalising on its current achievements, the Group Internal Audit SBU will strive 'doing more of the same', while providing the necessary audit and risk insights towards furthering the strategic orientations of the Group, including the 'Bank of Banks' project.

Compliance

The MCB defines compliance risk as:

> The risk arising from failure by companies of the Group to comply with laws, regulations, codes of conduct, and standards of good practice relevant to their respective business environment in the countries in which they operate.

The MCB's compliance strategy is geared towards ensuring consistency between the conduct of its business operations and observance of relevant laws, rules and standards of good market practices to shield itself from legal and regulatory sanction, financial or reputation losses.

The Group's approach to compliance risk is fourfold:

1. Paying continuous attention to latest developments as regards related laws and regulations, accurately understanding their impact and coming up with necessary responses to guarantee that the Group addresses the risks arising from such changes;
2. Ascertaining compliance into the way the MCB does business - through close working arrangement with the business lines with the view to, *inter alia*, ensuring that adherence to legal and regulatory requirements are achieved at all times and enabling early identification of breaches of significant regulations;
3. Fostering good relationship with regulators - by keeping productive dialogue with regulatory and supervisory bodies to ensure continued effective two-way communication; and
4. Assisting management in nurturing and promoting a culture of integrity and ensuring that staff adhere to both the letter and spirit of relevant laws, regulations, codes and standards of good practices.

In keeping with the foregoing, the aim of the Compliance BU is to reduce costs associated with non-compliance. Therefore, its focus has been on prevention. Initiatives that were taken as part of this endeavour include raising awareness of Management and staff on requirements arising out of new (or amendments made to existing) laws/regulations, undertaking proactive reviews with the view to ensuring on-going adherence to the principles of good corporate governance, elaborating a set of comprehensive AML/CFT procedures for the Bank, designing a set of policies to promote ethical behaviours by staff and exercising oversight over customer related complaints with the view to ensuring fair treatment of customers.

The Board of Directors bears final responsibility for compliance even if authority is delegated to line management through the RMC and the General Management.

With regard to the AML/CFT obligations of the Bank, the Compliance function is duty-bound to ensure that the MCB Group has adequate processes to ward off AML/CFT risk. The function is also mandated to ensure that 'tailored' training is provided to staff in keeping with legal and regulatory requirements.

The MCB’s Anti Money Laundering/Fraud Prevention BU is involved in designing and implementing appropriate training programmes to promote staff awareness on fraud risks as well as conducting enquiries with respect to cases of suspected fraud perpetrated internally or by outsiders. The function also assists the Money Laundering Reporting Officer in investigating into suspicious transaction reports submitted by Bank employees.

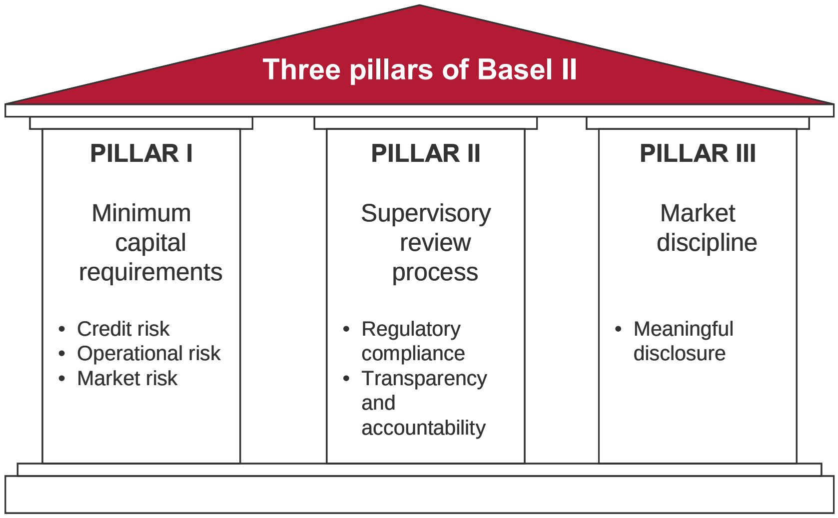
COMPLIANCE WITH BASEL II

Capital Structure

The Group’s capital management objective is to maintain a strong capital position consistent with the expectations of various stakeholders, i.e. customers, investors, rating agencies and regulators, while delivering returns to shareholders and ensuring adequate capital resources are available for business growth, investment opportunities as well as adverse situations.

The MCB is required by the BoM to maintain a minimum capital adequacy ratio of 10% at both the Bank and the Group levels. In addition, the banking operations in jurisdictions outside Mauritius are subject to local regulations. The MCB and each of its regulated banking entities were in compliance with all prescribed capital ratios throughout the financial period. Since April 2007, the MCB has implemented the Basel II Standardised Approach to the measurement of credit, market and operational risk. The Group views Basel II as part of its continuing efforts to strengthen its risk management culture and ensure that business growth is pursued across targeted segments and markets with the appropriate risk management discipline, practices and processes in place.

The risk management framework proposed in Basel II seeks to ensure that the strategies formulated by a bank are clearly linked to its risk appetite, so that its capital resources are managed at an optimal level to support both its risk and strategic objectives. Basel II is anchored on three pillars as illustrated in the following diagram.



1. **Pillar 1** of the Basel II framework provides for the general requirement for banks to hold total capital equivalent to at least 8% of their risk-weighted assets, entailing risk-sensitive capital requirements that are both conceptually sound and adaptable to the existing supervisory and accounting systems in individual member countries. Three options are available to allow banks and supervisors to choose an approach that seems most appropriate for the sophistication of a bank's activities and internal controls.

   Specifically, under the Standardised Approach to credit risk, banks that engage in less complex form of lending and credit underwriting and that have simpler control structures may use external measures of credit risk to assess the credit quality of their borrowers for regulatory capital purposes.

2. **Pillar 2** of the capital framework recognises the necessity of exercising effective supervisory review of banks' internal assessments of their overall risks to ensure that bank management is exercising sound judgement and has set aside adequate capital for these risks. Supervisors evaluate the activities and risk profiles of individual banks to determine whether those organisations should hold higher levels of capital than the minimum requirements specified in Pillar 1 and see whether there is any need for remedial actions.

3. **Pillar 3** leverages the ability of market discipline to motivate prudent management by enhancing the degree of transparency in banks' public reporting. It sets out the public disclosures that banks must make that lend greater insight into the adequacy of their capitalisation.

The following table shows the capital adequacy ratios determined in accordance with the requirements of the BoM which include the definitions for Tier 1 and Tier 2 capital, the deductions required for goodwill, intangible assets, and capital investments in associates and insurance subsidiaries, as well as the methodologies available for computing risk-weighted assets.

MCB Bank	June 09	June 10	June 11
CAPITAL BASE	**Rs m**	**Rs m**	**Rs m**
Paid up or assigned capital	2,504	2,504	2,504
Share premium	41	51	78
Statutory reserve	2,545	2,555	2,582
Other disclosed free reserves including undistributed balance in Income Statement	5,797	7,793	9,652
Current year's retained profit	2,007	1,859	2,512
Other intangible assets	(276)	(611)	(919)
Deferred tax	(26)	(9)	13
Treasury shares	(376)	(373)	(367)
Core capital	**12,216**	**13,768**	**16,055**
50% of investment in unconsolidated banking and financial subsidiary companies	(418)	(442)	(442)
50% of investments in capital of other banks and financial institutions	(457)	(431)	(440)
Net core capital (A)	**11,340**	**12,895**	**15,173**
General banking reserve	534	534	534
Portfolio provision	650	736	813
Reserves on revaluation of securities not held for trading	543	508	829
Subordinated debt	1,472	1,455	1,023
Supplementary capital	**3,198**	**3,232**	**3,199**
50% of investment in unconsolidated banking and financial subsidiary companies	(418)	(442)	(442)
50% of investments in capital of other banks and financial institutions	(457)	(431)	(440)
Net supplementary capital (B)	**2,322**	**2,358**	**2,317**
Capital base (A + B)	**13,662**	**15,253**	**17,490**
Total Risk Weighted Assets	121,881	133,494	145,871
CAPITAL ADEQUACY RATIOS (%)			
BIS risk adjusted ratio	11.2	11.4	12.0
of which Tier 1	9.3	9.7	10.4

MCB Group	June 09	June 10	June 11
CAPITAL BASE	**Rs m**	**Rs m**	**Rs m**
Tier 1 Capital	17,517	18,851	21,772
Tier 2 Capital	2,858	3,028	2,747
Capital Base	20,375	21,878	24,519
Total Risk Weighted Assets	135,222	146,928	163,397
CAPITAL ADEQUACY RATIOS (%)			
BIS risk adjusted ratio	15.1	14.9	15.0
of which Tier 1	13.0	12.8	13.3

Credit risk capital

In computing the credit risk capital requirements for the Group under the Standardised Approach to credit risk, the risk-weighted on-balance sheet exposures are determined according to the category of borrower mainly composed of sovereign, bank, corporate and retail with each category of borrower having a specific risk weight structure. For instance, a claim on a corporate borrower is risk weighted at 100% whereas an exposure on a bank attracts a risk weight ranging from 20% to 100% depending on the external risk rating of the bank. The MCB uses external ratings of Standard & Poor's, Moody's and Fitch as required under the BoM Guideline on the Recognition and Use of External Credit Assessment Institutions.

The risk-weighted assets of the off-balance sheet are computed based on a combination of credit conversion factors and the risk weights applicable to the counterparty. The three broad categories of off-balance sheet transactions are (i) direct credit substitutes, (ii) transaction-related contingent items, and (iii) trade related contingent items. The table on risk weighted assets below shows the credit conversion factor associated with each of these three categories.

Risk Weighted Assets

MCB Bank	June 2011 Amount	June 2011 Weight	June 2011 Weighted Assets	June 2010 Weighted Assets	June 2009 Weighted Assets
Risk Weighted On-Balance Sheet Assets	**Rs m**	**%**	**Rs m**	**Rs m**	**Rs m**
Cash items	1,744	0 - 20	66	44	42
Claims on sovereigns	12,647	0 - 100	286	1,771	1,792
Claims on central banks	6,465	0 - 100	0	0	0
Claims on banks	9,328	20 - 100	3,564	5,529	5,956
Claims on non-central government public sector entities	35	0 - 100	35	34	904
Claims on corporates	87,583	100	87,345	78,704	68,660
Claims on retail segment	10,226	75	6,955	6,279	5,566
Claims secured by residential property	8,491	35 - 100	2,995	2,942	2,467
Fixed assets/other assets	10,207	100	10,207	7,979	7,188
Past due claims	8,090	50 - 150	10,936	7,761	8,290
On-balance sheet total	**154,815**		**122,390**	**111,045**	**100,865**

MCB Bank	June 2011 Nominal Amount	June 2011 Credit Conversion Factor	June 2011 Credit Equivalent Amount	June 2011 Weight	June 2011 Weighted Amount	June 2010 Weighted Amount	June 2009 Weighted Amount
Risk Weighted Off-Balance Sheet Assets	**Rs m**	**%**	**Rs m**	**%**	**Rs m**	**Rs m**	**Rs m**
Direct credit substitutes	3,113	100	3,038	0 - 100	3,039	2,005	701
Transaction-related contingent items	14,789	50	7,217	0 - 100	6,700	7,079	7,197
Trade related contingencies	13,725	20	2,742	0 - 100	2,153	1,391	820
Outstanding loans commitment	3,832	20 - 50	1,917	100	1,917	3,062	3,558
Foreign exchange contracts	8,329	1	135	20 - 100	75	74	131
Off-balance sheet total	**43,788**				**13,884**	**13,612**	**12,406**

MCB Group	June 2011 Amount	June 2011 Weight	June 2011 Weighted Assets	June 2010 Weighted Assets	June 2009 Weighted Assets
Risk Weighted Assets	**Rs m**	**%**	**Rs m**	**Rs m**	**Rs m**
On-balance sheet	172,689	0 - 150	136,066	121,123	111,129
Off-balance sheet	45,480	0 - 100	15,061	14,509	13,035
Total Group Risk Weighted Assets			**151,127**	**135,632**	**124,163**

Geographical distribution of exposures

The following table shows the distribution of exposures by country of operation to which exposures have been booked. While the Bank is steadily diversifying its exposure, the bulk of credit risk concentrations continue to be in its domestic market, where it holds exposures to the various local economic sectors. The cross border operations of the Group accounted for 29% of total exposures as at 30 June 2011.

MCB Group	Local Operations				Overseas Operations				
June 11 (Rs m)	Bank		Non-Bank	Total	Madagascar	Seychelles	Mozambique	Maldives	Total
	Resident	Non-Resident							
On-Balance Sheet	129,309	25,506	6,972	**161,787**	3,509	3,938	1,689	1,767	**10,902**
Off-Balance Sheet	19,162	24,626	0	**43,788**	1,074	189	314	115	**1,692**
Total Exposures	**148,471**	**50,132**	**6,972**	**205,575**	**4,583**	**4,127**	**2,002**	**1,882**	**12,594**

Specific and portfolio allowances

Credit impairment allowances consist of specific and portfolio provisions. The amount of specific provision more than adequately covers for the shortfall between the carrying amount of loans and their recoverable amounts. On the other hand, potential losses as a result of current economic conditions as well as general historical patterns of losses are assigned comfortable levels of portfolio provision allowances. The breakdown of specific and portfolio provision by industry is provided in Note 5(b) of the financial statements.

Credit risk mitigation

The Standardised Approach increases the risk sensitivity of the capital framework by recognising that the different counterparties within the same loan category present different risks to the lending institution. Thus the Standardised Approach takes into account the credit rating of the borrower and additional risk mitigation collaterals. The MCB applies a conservative approach in its calculation as it does not take into account all credit risk mitigation techniques referred to in part III of the BoM Guideline on Standardised Approach to Credit Risk. The MCB thus only considers cash pledged and guarantees as eligible credit risk mitigations in its calculation. The reduction in the MCB Group credit exposures in the calculation of risk-weighted assets arising from the application of eligible credit risk mitigation techniques is shown below.

MCB Group	Jun-11
Impact	**Rs m**
On-Balance Sheet	1,333
Off-Balance Sheet	886

Operational risk capital

The Bank adopts the Basel II Standardised Approach in determining the required operational risk capital. According to this approach, banks' activities are divided into eight business lines namely; trading & sales, commercial banking, retail banking, agency services, corporate finance, payment & settlement, asset management, and retail brokerage. Only the first four business lines are relevant to the Bank's business activities. Gross income within each business line serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines.

The appropriate capital charge for each business line applicable to the MCB is thus arrived at by multiplying the gross income by the corresponding beta factor, as stipulated by the Standardised Approach. The three-year average of the simple summation of the regulatory capital charges across each of the business lines in each year amounts to the total operational risk capital charge. In contrast, the measurement of operational risk at the subsidiaries level follows the Basel II Basic Indicator Approach whereby the capital charge is arrived at by applying 15% to the Bank's average annual gross income over previous 3 years.

MCB Bank	Beta Factor	Weighted Gross Income		
Line of Business	**β**	**June 09**	**June 10**	**June 11**
	%	**Rs m**	**Rs m**	**Rs m**
Trading and Sales	18	(40)	(122)	(86)
Commercial Banking	15	390	457	654
Retail Banking	12	537	519	518
Agency Services	15	6	8	10
Total Yearly Weighted Gross Income		893	862	1,097

	June 09	June 10	June 11
	Rs m	**Rs m**	**Rs m**
Capital charge for Operational Risk (Bank)	755	842	951
Capital charge for Operational Risk (Group)	898	1,009	1,118

Market risk capital

Internationally active banks are required, under the 'Market Risk Amendment', to hold regulatory capital against the market risk actively undertaken within their business activities. Two broad approaches are allowed for calculating the market risk capital charge namely, the Standardised Measurement Method (SMM), and the Alternative Advanced Methodology. The MCB has adopted the SMM in compliance with the BoM Guideline on the Measurement and Management of Market Risk for regulatory capital allocation. The Bank submits market risk returns on a quarterly basis to the BoM, prepared both on a bank stand-alone and consolidated Group basis.

The following table provides the comparative figures for the aggregate net open foreign exchange position.

Market Risk	June 09	June 10	June 11
Aggregate net open foreign exchange position	**Rs m**	**Rs m**	**Rs m**
Bank	1,056	416	89
Group	2,075	1,206	1,090

In line with the BoM Guideline on Measurement and Management of Market Risk, the Group prepares separate interest rate risk gap analysis for each currency accounting for 5% or more of the Bank's total assets or liabilities. Notes 2(f) to the Financial Statements show the interest rate sensitivity gaps for the Group.

Supervisory review process

Internal Capital Adequacy Assessment Process (ICAAP)

A key tool for capital management is the Internal Capital Adequacy Assessment Process (ICAAP) which sets the stage for the implementation of the BoM guideline on Supervisory Review Process. The aim of this framework is to ensure that banks have adequate capital to support all the risks they are exposed to in their business, and to encourage banks to develop and use better risk management techniques in monitoring and managing their risks. The Supervisory Review process rests on the following four principles:

Principle 1 – Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels.

Principle 2 – Supervisors should review and evaluate banks' internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure their compliance with regulatory capital ratios. Supervisors should take appropriate supervisory action if they are not satisfied with the result of this process.

Principle 3 – Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum.

Principle 4 – Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank and should require rapid remedial action if capital is not maintained or restored.

Through the ICAAP, the MCB assesses its forecast capital supply and demand relative to its capital targets, under various scenarios, including stress scenarios of differing scope and severity, over a three-year horizon.

Stress testing

In line with the BoM Guideline on Supervisory Review Process, stress tests are performed on the MCB's risk portfolio at least semi-annually in order to assess the impact of possible adverse events on key income statement and balance sheet ratios as well as on the Bank's ability to meet capital requirements at distinct stages of the economic cycle.

Basel III

In December 2010, the Basel Committee on Banking Supervision (BCBS) published its reforms to capital and liquidity rules in the aftermath of the financial crisis that began in 2007. Basel III strengthens the Basel II framework rather than replaces it. Whereas Basel II focused on the asset side of the balance sheet, Basel III mostly addresses the liabilities side i.e. capital and liquidity. In summary, banks will have to operate under more stringent capital, funding and liquidity requirements given in the proposed Basel III regulations.

Until the BoM sets up a working group for discussion on the BCBS proposals on capital and liquidity, the MCB will continue to monitor developments arising from Basel III and will manage its capital resources accordingly to achieve its capital management objective namely through improved internal capital adequacy assessments with expanded coverage and further refined methodologies for Basel II Pillar 2.

E. Jean MAMET
Director
Chairman Risk Monitoring Committee

Pierre Guy NOEL
Chief Executive (Group)

Administrative Information

and

Local Branch Network

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Rose Hill	• Quatre Bornes • Saint Pierre • Beau Bassin • Stanley • Flic en Flac • Rivière Noire • Candos • Ebène	• Rose Hill • Flic en Flac • Le Morne • Rivière Noire	• Réduit • Trianon
Curepipe	• Vacoas • Mahébourg • Phoenix • Floréal • Chemin Grenier • Plaine Magnien • Rivière des Anguilles • Rose Belle • La Caverne • Curepipe Road	• Curepipe • SSR International Airport	
Flacq	• Rivière du Rempart • Bel Air • Lalmatie • Montagne Blanche	• Belle Mare • Trou d'Eau Douce	
Grand Bay	• Goodlands • Triolet • Plaine des Papayes • Pamplemousses	• Grand Bay • Trou aux Biches	
	• Rodrigues (Port Mathurin)	• Port Mathurin	