Annual Report 2018
This report has been prepared to assist relevant stakeholders to assess the strategies of The MCB Limited and their potential of success. The statements contained herein may include declarations of future expectations and other forward-looking statements that are based on our current views and assumptions.

Readers are advised not to place undue reliance on the forward-looking statements relating to the Bank’s business strategy, plans, objectives and financial positions as these statements rely on assumptions and hypotheses which inherently represent an accuracy risk. Actual results, performance and events may differ from those described in such statements due to unexpected changes in the economic, market, industry political, interest rate and currency market conditions as well as developments in relation to laws and regulations. The MCB Limited does not undertake to update any forward-looking statement that may be made from time to time by the organisation or on its behalf.
The Directors of The Mauritius Commercial Bank Limited are pleased to present its Annual Report for the year ended 30 June 2018.

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

Jean-Philippe COULIER
Chairperson

Alain LAW MIN
Chief Executive Officer
MCB at a glance

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

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

<table>
<thead>
<tr>
<th>Income statement (Rs m)</th>
<th>Jun-18</th>
<th>Jun-17</th>
<th>Jun-16</th>
<th>Jun-15</th>
<th>Jun-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>15,059</td>
<td>13,600</td>
<td>12,463</td>
<td>11,323</td>
<td>10,794</td>
</tr>
<tr>
<td>Operating profit</td>
<td>9,603</td>
<td>8,578</td>
<td>7,823</td>
<td>6,862</td>
<td>6,401</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>8,374</td>
<td>7,628</td>
<td>6,916</td>
<td>5,965</td>
<td>4,558</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>6,762</td>
<td>6,237</td>
<td>5,620</td>
<td>5,004</td>
<td>3,687</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statement of financial position (Rs m)</th>
<th>Jun-18</th>
<th>Jun-17</th>
<th>Jun-16</th>
<th>Jun-15</th>
<th>Jun-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>349,760</td>
<td>313,735</td>
<td>286,514</td>
<td>251,938</td>
<td>216,632</td>
</tr>
<tr>
<td>Total loans (net)</td>
<td>193,852</td>
<td>161,277</td>
<td>155,560</td>
<td>157,422</td>
<td>146,169</td>
</tr>
<tr>
<td>Investment securities</td>
<td>81,884</td>
<td>68,891</td>
<td>56,241</td>
<td>44,995</td>
<td>30,838</td>
</tr>
<tr>
<td>Total deposits</td>
<td>285,532</td>
<td>263,872</td>
<td>243,024</td>
<td>208,447</td>
<td>176,268</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>1,060</td>
<td>1,052</td>
<td>1,082</td>
<td>1,056</td>
<td>5,449</td>
</tr>
<tr>
<td>Other borrowed funds</td>
<td>14,189</td>
<td>5,607</td>
<td>4,866</td>
<td>6,952</td>
<td>7,603</td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>41,292</td>
<td>37,245</td>
<td>32,955</td>
<td>30,289</td>
<td>22,099</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance ratios (%)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on average total assets</td>
<td>2.0</td>
<td>2.1</td>
<td>2.1</td>
<td>2.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Return on average equity</td>
<td>17.2</td>
<td>17.8</td>
<td>17.8</td>
<td>19.1</td>
<td>16.5</td>
</tr>
<tr>
<td>Return on average Tier 1 capital</td>
<td>18.0</td>
<td>18.6</td>
<td>18.6</td>
<td>20.1</td>
<td>17.8</td>
</tr>
<tr>
<td>Non-interest income to operating income</td>
<td>32.9</td>
<td>34.7</td>
<td>33.0</td>
<td>35.1</td>
<td>39.3</td>
</tr>
<tr>
<td>Loans to deposits ratio</td>
<td>70.0</td>
<td>63.3</td>
<td>66.7</td>
<td>78.9</td>
<td>87.1</td>
</tr>
<tr>
<td>Cost to income ratio</td>
<td>36.2</td>
<td>36.9</td>
<td>37.2</td>
<td>39.4</td>
<td>40.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital adequacy ratios (%)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital &amp; reserves/Total assets</td>
<td>11.8</td>
<td>11.9</td>
<td>11.5</td>
<td>12.0</td>
<td>10.2</td>
</tr>
<tr>
<td>BIS risk adjusted ratio</td>
<td>15.0</td>
<td>16.8</td>
<td>16.1</td>
<td>14.9</td>
<td>13.8</td>
</tr>
<tr>
<td>of which Tier 1</td>
<td>14.2</td>
<td>15.8</td>
<td>14.9</td>
<td>13.9</td>
<td>10.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Asset quality</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-performing loans (Rs m)</td>
<td>8,508</td>
<td>9,699</td>
<td>9,516</td>
<td>9,535</td>
<td>10,672</td>
</tr>
<tr>
<td>NPL ratio (%)</td>
<td>4.1</td>
<td>5.9</td>
<td>5.9</td>
<td>5.9</td>
<td>7.0</td>
</tr>
<tr>
<td>Provision coverage ratio (%)</td>
<td>49.2</td>
<td>39.8</td>
<td>49.0</td>
<td>54.8</td>
<td>55.1</td>
</tr>
</tbody>
</table>

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

Independent Non-Executive Directors

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

Non-Executive Director

Jean Michel NG TSEUNG

Executive Directors

Raoul GUFFLET
Alain LAW MIN

*Secretary to the Board*

MCB Group Corporate Services Ltd
*(represented by Marivonne OXENHAM)*
Committees of the Board

**Supervisory and Monitoring Committee**
Jean-Philippe COULIER (*Chairperson*)
Raoul GUFFLET (*also acts as Secretary*)
Alain LAW MIN

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

*Secretary: Frederic PAPOCCHIA*

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

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

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

*Secretary: Frederic PAPOCCHIA*

**Nomination and Remuneration Committee**
Jean-Philippe COULIER (*Chairperson*)
Alain LAW MIN
Philippe LEDESMA (*as from December 2017*)
Simon Pierre REY (*also acts as Secretary*)
Leadership Team

Business Executives

Alain LAW MIN
Raoul GUUFFLET
Vincent CHATARD
Bhavish NAEC
Frederic PAPOCHIA
Mike SOPHIE

Chief Executive Officer
Deputy Chief Executive

Chief Operating Officer
Head – Finance
Chief Risk Officer
Head – Human Resources

Business Leaders

Christophe AYNAUD
Matthieu BENoit
Hema CEDERHAGE
Paul CORSON
Robin CUNDASAWMY
Koomaren CUNNOOSAMY
Vanessa DOGER DE SPEVILLE
Hemendra Kumar HAZAREESING
Marc HAREL
Jean-François HENRI
Patrice HERVE
Vicky HURYNAG
Roselyne LEBRASSE-RIVET
Steve LEUNG SOCK PING
Stephanie NG TSEUNG
Didier MERLE
Vikash NATHOO
Lindley PERRINE
Jovanna PREFUMO-MONTY
Dominic PROVENCAL
Neekeea RAMEN
Abraham RAWAT
Zaahir SULLIMAN
Anju UMROWSING-RAMTOHUL

Head – Permanent Control
Head – Marketing
Head – Securities Services
Deputy Head – Corporate and Institutional Banking
Head – Internal Audit
Head – Corporate Banking
Head – Communications
Head – Global Business
Head – Institutional Banking
Head – Facilities Management and Procurement
Head – IT
Head – Strategy, Research & Development
Head – Legal/In-House Lawyer
Head – Quality Assurance
Head – Cards
Head – Private Banking and Wealth Management
Head – Recovery
Head – Transaction Management and Monitoring
Head – Treasury
Deputy Head – Retail
Head – Credit Management
Head – Retail
Head – Energy and Commodities
Head – Credit Origination and Structuring
Reflections from the Chairman

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

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

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

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

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

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

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

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

In addition, how has the organisation stood out lately?

The appreciable financial performance and solid credentials of the Bank have been widely acknowledged. Notably, MCB was, for the third time in a row, named the ‘Bank of the Year for Mauritius’ by The Banker/FT Magazine last year. Importantly, the outlook for the investment-grade credit rating assigned to us by Moody’s Investors Service was changed from stable to positive. This is an encouraging development that testifies to the sound fundamentals of the Bank and implies that we are moving in the right direction. Building on this good news, the Bank remains committed to adopting the necessary moves with a view to achieving an upgrade in its credit rating in a timely manner. On another note, we pursued dedicated initiatives in favour of our stakeholder engagement agenda. While improving the productivity and wellbeing of our employees, we have worked towards optimising shareholder value and have engaged with the regulatory authorities and rating agencies in a transparent and constructive manner. Furthermore, we strived to make a sound and sustainable contribution to the economy, society and environment towards fulfilling our engagement as a socially responsible and caring corporate entity. This was achieved through our sponsorship and corporate social responsibility activities. As the Group’s dedicated vehicle for the implementation of CSR initiatives, the MCB Forward Foundation has provided extensive support in key focus areas, notably community empowerment and preservation of the natural environment, arts and culture, youth development and sports, as well as education. Lately, we are launching our Sustainable Development Programme, as part of our endeavour to revisit our socio-economic involvement and strengthen the MCB brand. In addition, may I underscore that our commitment to stakeholders goes beyond the above areas and also reflects our endeavours to undertake an extensive and articulate display and assessment of our strategic directions and our ability to create sustainable value. A key headway in this direction relates to the contents and layout of this year’s Annual Report, which have been increasingly aligned with advocated corporate governance and integrated reporting principles.
How do you envision the future for the Bank?

I believe that the future holds good promise for the sound and sustained development of the Bank. Notably, while the operating environment continues to call for scrutiny, the economic climate on the domestic front is showing encouraging healing signs. Against this backdrop, the Bank will continue to build its internal capabilities with a view to improving its operational efficiency, capitalising on growth avenues across markets and further entrenching its regional diversification strategy. Operationally, we will strive to meet the changing and increasingly exigent needs and expectations of our customers. Along the way, the recourse to cutting-edge technologies will stay a key feature of our agenda, with the Bank pursuing its digital transformation. On a more strategic note, we will uphold our sound capital and funding positions to support of our ambitions, backed inter alia by the continuous improvement of our treasury operations. Above all, adherence to good corporate governance and effective risk management practices will stay the backbone of our operations. While pursuing our strategic initiatives in an ambitious way, we are conscious that our regional and international expansion should be undertaken with a prudent approach given the risks and uncertainties that prevail across markets.

Any concluding remarks?

On behalf of the Board, I would like to express my gratitude to our esteemed clients for the opportunity to serve them every day. I want to show my appreciation to my fellow Board members for their continuous support and wisdom in overseeing the direction of the Bank and guiding the organisation forward. On a specific note, I am grateful to Mr Iqbal Rajabhalee and Mr Gilles Gufflet for the strong acumen that they had brought along as members of our Board, before leaving in July and December 2017 respectively. The Board looks forward to benefiting from the wide-ranging experience and expertise of Mr Uday Gujadhur and Mr Philippe Ledesma, who were appointed to the Board in December 2017. Furthermore, I warmly acknowledge the dedication, commitment, loyalty and hard work that the Leadership Team and staff of MCB Ltd have displayed in order to improve the resilience and competitiveness of the Bank. They are, without any doubt, the cornerstone of our success and we remain deeply grateful to them.

In alignment with applicable regulatory stipulations, I am resigning from the Board of MCB Ltd at the end of 2018, after being appointed as a Board member in 2012 and taking office as Chairperson of MCB Ltd in April 2014. Over the years, it has been a truly rewarding experience for me and I am honoured to have had the opportunity to participate in the Bank’s advancement, both in Mauritius and in the region. During my tenure at the organisation, I have witnessed the continued commitment and hard work displayed by our talented employees towards enabling the Bank deliver on its objectives and spearhead to new heights. We have executed our strategy on the back of judicious and, often, courageous decisions that have helped us to continuously improve the way our organisation functions. Looking ahead, I wish every success to the whole team of MCB for its future endeavours. I have no doubt that we will preserve our innovative mindset to achieve set objectives and meet stakeholder requirements, thus building a great Bank that we can all remain proud of.

Jean-Philippe COULIER
Chairperson
Review by the Chief Executive

What are the key highlights of the year?

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

Our net profit rose by 8.4% to attain Rs 6,762 million in FY 2017/18, supported by broad-based revenue streams. As a key source of satisfaction, foreign-sourced income derived mainly from our regional diversification endeavours accounted for 49% of our results as compared to 43% the year before. It is also worth noting that our performance continues to reflect our franchise and the loyalty of our widening client base, with deposits from customers growing by nearly 8% to attain Rs 279 billion and gross loans to customers climbing up by 17% to stand at Rs 194 billion as at 30 June 2018. Our asset quality improved, with our non-performing loan to gross loan ratio dropping from 5.9% to 4.1%. Our cost to income ratio also improved to reach a record low of 36.2%. In addition, we maintained healthy liquidity and funding positions, while our core and total capital ratios have remained above current regulatory norms.

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

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

Our focused business development initiatives brought encouraging results and helped to boost our operating income for the year. We are intent on pursuing our growth pillars and extending our frontiers, within Africa and the region. In addition to consolidating our involvement vis-à-vis individual and corporate clients locally, we have further deepened our regional market footprint, while opportunistically tapping into market development avenues. As a key success, we broadened and deepened our involvement in Energy and Commodities trade financing by developing close relationships with oil traders and majors. We became increasingly engaged in medium-term financing along the oil value chain and entered the African oil and gas structured debt market. In addition, we extended our private banking and wealth management activities and widened our portfolio of structured project finance deals on the regional and international fronts. To support our growth aspirations, we enriched our value proposition and increased client proximity, which
helped us meet the needs of our customer base. Above all, we adopted a prudent approach to grow our business, which helps to uphold the quality of our exposures. In particular, we remained involved in niche market segments where we already have technical expertise and trustworthy relationships whilst being principally engaged in economic sectors that we are well accustomed to. In addition to gearing up the capabilities of our support functions, we ensure that our deals are well-structured and properly monitored and reviewed.

**How is the Bank gearing up for sustainable growth?**

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

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

Innovation is one of our key values of MCB and is, therefore, at the core of who we are and what we do. We made further progress in moving from transactional to relationship banking, while pursuing our voyage towards migrating our customers to alternative self-service channels. Our ‘Juice’ mobile banking service has been revamped to create a more user-friendly interface as well as introduce payments via QR code in order to make the process simpler and faster. Moreover, MCB has introduced yet another innovation with contactless payments solutions in Mauritius with ‘touch and pay’ features. During the year, we embarked on an ambitious Digital Transformation Programme, aimed at improving our operational efficiencies and better reflecting the changing ways customers wish to bank. We are aligning ourselves to the rapidly changing tastes and exigencies of our customers who require simpler financial solutions that are easy to understand, rapidly accessible and conveniently delivered, with mobile phones being a platform of choice. Against this backdrop, we are committed to creating differentiated and delightful customer experiences. To deliver on this programme, we have launched a Digital Factory, which serves as an incubator for embedding truly customer-centric operations across the Bank by redefining end-to-end customer journeys. It, notably, encompasses cross-functional co-located team members working in agile squads. Over time, we will create a startup culture across the Bank to embrace the agile mode of working which will enable us to work collaboratively in order to deliver value for our customers.

**How meaningful is corporate culture for the organisation?**

We made a conscious choice in identifying the need ‘to nurture our values and deliver on our brand promise’ as a key strategic objective. In this respect, we are actively engaged in extending the dissemination of our core values across all layers of the organisation and ensuring alignment of actions for the achievement of common goals. Furthermore, our corporate culture and values shape our stakeholder engagement and reinforce the MCB way of doing things in a professional and ethical manner. While building on progress made over time, we have given a new dimension to our raison d’être amidst a rapidly changing world environment. The launch of our
Sustainable Development Programme should accompany us in enriching our stakeholder interactions, and thus strengthening the MCB brand. It should provide us with the means to better contribute to the development of a vibrant and sustainable local economy, the protection and valorisation of the country’s cultural and environmental heritage, as well as the promotion of individual and collective well-being.

Any concluding note?

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

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

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

With the organisation celebrating its 180-year history this year, I believe that future looks as exciting as ever, for both the Bank and its multiple stakeholders. We will continue to leverage our strong brand image, values and competencies developed over our long history in order to reinforce trust and deliver exceptional service and value to our customers. Moreover, with our innovative spirit and our desire to adapt continuously to our changing world, we are committed to transforming our Bank for it to become increasingly International, Digital and Sustainable. As always, our continuing success lies in our capacity to work together as an engaged community, consistently adding value in each interaction with customers and colleagues and making a difference as a responsible citizen in our society.

Alain LAW MIN
Chief Executive Officer
About this report

Philosophy of the annual report

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

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

Introduction to key concepts

Our stakeholder engagement

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

Our key stakeholders

Our materiality review

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

Reporting period
The report covers the period spanning 1 July 2017 to 30 June 2018. Material events taking place after this date and until approval by the Board of Directors of MCB Ltd on 26 September 2018 have also been communicated. Furthermore, the report contains relevant insights pertaining to the Bank’s financial and strategic outlook and objectives for the short to medium term.

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

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

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

How to go through and read this report

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

1. Our Corporate Profile
2. Our Corporate Strategy
3. Our Performance
4. Corporate Governance Report
5. Risk and Capital Management Report

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

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

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

Overview of the Bank

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

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

Our brand

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

Our investment-grade ratings

<table>
<thead>
<tr>
<th>Agency</th>
<th>Outlook</th>
<th>Long Term</th>
<th>Short Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody’s Investors Service</td>
<td>Positive</td>
<td>Baa3</td>
<td>P-3</td>
</tr>
<tr>
<td>Fitch Ratings</td>
<td>Stable</td>
<td>BBB-</td>
<td>F3</td>
</tr>
</tbody>
</table>

Our expertise

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

Our financial strength

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

~ 976,700
Clients

2,696
Employees

39
Branches

177
ATMs

7,105
POS terminals

~1,300
Correspondent banks

Our key financials:

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

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

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

Rs 279 bn
Customer deposits
(2017: Rs 259 bn)

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

15.0 %
Capital adequacy ratio
(2017: 16.8%)

Note: Figures above are as at 30 June 2018

Read more on our financial performance in the ‘Financial Review’ section on pages 63 to 71
Accolades and recognition

Mauritius

Bank of the Year for Mauritius
The Banker Bank of the Year Awards 2017

Best Bank in Mauritius
Euromoney Awards for Excellence 2018

Best Private Bank in Mauritius
PWM/The Banker 2017

Performance Excellence Award 2017
attributed by JP Morgan Chase for MCB’s straight-through processing rate for payments and transfers

Africa

38th in Africa in terms of assets
Jeune Afrique Top 200 Banks, The Africa Report, September 2018

Leading Regional Bank
in terms of operating income and profitability
L’Eco Austral, Top 500 Regional, Edition 2017
Our transparent and integrated business model

Our purpose

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

What we stand for

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

Our Vision

Everyday, we will help make something happen

Our Mission

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

We will listen to them and help them achieve their goals

We will help people with ideas to be entrepreneurs

We will be worthy of our shareholders’ confidence

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

And we will never go away

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

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

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

- **Integrity**
  - Honest and trustworthy at all times

- **Customer care**
  - Delivering unrivalled service

- **Teamwork**
  - Working together towards a common goal

- **Innovation**
  - Proactively seeking out new opportunities

- **Knowledge**
  - Believing in lifelong learning

- **Excellence**
  - Being the best we possibly can
MCB Ltd is a wholly-owned subsidiary of MCB Investment Holding Ltd, itself a wholly-owned subsidiary of MCB Group Ltd. The latter is the ultimate holding company of MCB Group’s entities.

The subsidiaries and associates of MCB Group Ltd operate under three distinct clusters, namely ‘Banking’, ‘Non-banking financial’, and ‘Other investments’, in line with international standards and regulatory requirements.
Our strategy execution is enabled by **key operating pillars**, which comprise business lines as well as coverage and support functions. Specific frameworks and policies underpin the execution of our strategic intents towards ensuring that the Bank works in an integrated way.

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

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

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

Our main business lines

Corporate and Institutional Banking

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

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

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

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

**Private Banking and Wealth Management**

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

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

*More information on our market operations by cluster is available on the website*
Our extensive and customised financial solutions

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

The Bank works closely alongside its customers to understand their imperatives, challenges and priorities towards crafting solutions adapted to their needs. Also, our business segments offer solutions conceived and managed by other Group entities.
More information on our financial solutions is available on our website.
What we deliver

OUR VALUE CREATION MODEL

AVAILING FORMS OF CAPITAL

Financial capital
- Funds are leveraged to support our activities and invest in pillars of our strategic orientations
  - Key components:
    - Funds internally generated through our productive operations
    - Financing obtained from external sources

Social and relationship capital
- We forge and maintain close-knit and cooperative relationships and linkages with clients and other stakeholders as well as with communities in which we operate
  - Key components:
    - Shared norms, behaviours and values
    - Trust and willingness to build and strengthen engagement with external parties
    - Our organisation’s social engagement

Human capital
- We nurture talented and engaged employees, while harnessing their collective knowledge and expertise
  - Key components:
    - Skills, capabilities knowledge and experience of employees
    - Adaptive mindsets and skill sets
    - Our people’s alignment with and support for the organisation’s operating framework and values
    - Ability to understand and implement strategic orientations
    - Drive to steadily improve and streamline the operating processes, functioning and value proposition of the organisation

Natural capital
- We consider the direct and indirect impact of our operations on natural resources, while sensitising our staff and the general public on key issues
  - Key components:
    - Environment resources
    - Biodiversity and eco-system

Intellectual capital
- We optimally develop our assets such as our brand and reputation, innovation capabilities, etc.
  - Key components:
    - Brand image, reputation, and franchise value
    - Customer loyalty
    - Intellectual property
    - Competencies of our staff
    - IT capabilities and organisational technology

Manufactured capital
- We maintain and develop our infrastructure, plant and equipment for more productive activities
  - Key components:
    - Branches and buildings
    - Plant and equipment
    - Remote and digital channels

GENERATING VALUE-ADDING ACTIVITIES

Provide savings and investment solutions to our clients
- Leverage wholesale funding markets if and when required

Provide lending facilities and advisory services to our clients
- Invest in securities and other assets; place our funds with other banks

Manage the income and wealth of our affluent clients
- Meet the payments, transactional trade-related and risk-mitigation needs of our clients

Invest in cutting-edge technology and processes
- Attract, develop and retain a skilled and talented workforce

Our ecosystem
- We keep track of market trends, challenges and opportunities

Our clients
- Our clients define and shape up the continuous adaptation of our business model

Our strategy
- Our strategy provides the basis to ensure that we function in the appropriate and required way

DELIVERING FINANCIAL OUTCOMES

Interest income net of credit impairment charges
- Interest expense
- Non-interest income = [Net fee and commission revenue + Trading revenue + Other revenue]
- Staff costs

The Mauritius Commercial Bank Limited | annual report 2018
MEETING OUR TARGETS
TRIPLE BOTTOM LINE

PEOPLE
Social progress and individual well-being
- We help to achieve social well-being and progress, while fostering equality and inclusiveness
- We enable individual customers realise their goals, while fostering their well-being
- We help to valorise and preserve our cultural heritage and promote the diffusion of arts
- We ensure that MCB remains an employer of choice, with due focus on equal opportunities
- We help uphold the well-being, advancement and engagement of our employees

PLANET
Environment preservation
- We encourage the adoption of environment-friendly practices in our operations and activities
- We encourage the adoption of sustainable habits by internal and external stakeholders
- We help to promote and facilitate the transition to circular and sustainable economies

PROFIT
Economic prosperity of stakeholders
- We achieve appreciable financial results and significant return on equity
- We stimulate entrepreneurship
- We contribute towards the development and prosperity of businesses and institutions
- We help clients grow their income and wealth
- We contribute towards the advancement of financial sectors and national economies
How we distributed value created

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

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

Providers of capital
We provide shareholders with adequate dividend payout.

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

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

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

Read more on our support to stakeholders in the ‘Creating value in a sustainable way’ section on pages 34 to 56.
Our Corporate Strategy
Positioning ourselves for growth and success

Our strategy

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

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

Our main strategic orientations

Our long-term destination

MCB: A strong and innovative regional financial player within a diversified Group

Our short to medium term strategic orientations

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

Our key objectives and strategic focus areas

• Consolidate the Bank’s leadership position domestically
• Further increase our share of foreign-sourced income, with focus on pursuing our regional agenda
• Help position the Group as a financial hub, after leveraging Mauritius as an International Financial Centre of repute and substance
• Maintain the Bank’s status as a sustainable organisation

Key pillars

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

Key success factors for sound and balanced business growth

Competent execution
Strong customer focus
Operational excellence and agility
Technical expertise
Robust risk and compliance framework
Sound financial strength

Read more on our progress in achieving our strategic trajectories in the ‘Performance against objectives’ section on pages 63 to 66
Our governance and processes

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

Engagement and interactions with stakeholders

The Bank ensures that engagement with its stakeholders is optimally managed. Stakeholders are kept informed about the Bank’s business and strategy on a regular basis through various channels. Their views and concerns, notably gathered through ongoing dialogues, meetings and surveys, are considered in the Bank’s decisions, with material issues escalated to the Board.

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

Our corporate sustainability strategy

Value beyond numbers

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

Our Sustainable Development Programme

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

Key tenets of our underlying sustainability model

<table>
<thead>
<tr>
<th>Key支柱 warnings</th>
<th>People</th>
<th>Planet</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social progress and individual well-being</td>
<td>Environment preservation</td>
<td>Economic prosperity of stakeholders</td>
<td></td>
</tr>
</tbody>
</table>

Overview of our Sustainable Development Programme

<table>
<thead>
<tr>
<th>Key支柱 warnings</th>
<th>The promotion of individual and collective well-being</th>
<th>The protection and valorisation of our cultural and environmental heritage</th>
<th>The development of a vibrant and sustainable local economy</th>
</tr>
</thead>
</table>

Key stakeholders directly and indirectly impacted

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

Read more on our value creation model in 'Our Corporate Profile' section on pages 28 to 29
We aim to deliver on our strategic priorities and achieve sustainable growth in our revenue. By this means, we seek to achieve appreciable and predictable returns for the benefit of our shareholders and investors.

Our specific objectives and targets

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

How we have engaged with and served our stakeholders

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

Profit for the year
- Rs bn
- Jun 16: 5.6
- Jun 17: 6.2
- Jun 18: 6.8

Capital position
- Rs bn
- Jun 16: 16.1
- Jun 17: 16.8
- Jun 18: 15.0

Retained earnings
- Rs bn
- Jun 16: 20.4
- Jun 17: 23.5
- Jun 18: 26.0

Profit distribution in FY 2017/18
- %
- Retained earnings: 19%
- Dividends in cash: 40%
- Transfer to reserves: 41%

Shareholder’s equity
- Rs bn
- Jun 16: 33.0
- Jun 17: 37.2
- Jun 18: 41.3

Return on equity
- %
- Jun 16: 17.8
- Jun 17: 17.8
- Jun 18: 17.2

Our strong financial position
Income available for further business development
Evolution of equity and return generated

Read more on our financial performance in the ‘Financial Review’ section on pages 63 to 71
The quality of customer experience is a key pillar of our strategy. We do our utmost to deliver exceptional service and appealing digital solutions to our clients, while seeking to exceed their expectations. Alongside placing customers at the centre of our efforts and activities, we provide products and services that they value and trust.

**Our specific objectives and targets**

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

**How we have engaged with and served our stakeholders**

- We continuously seek to understand what our individual, corporate and institutional customers want with a view to offering them the products and services they need to achieve their goals. We strive to consistently deliver quality customer service and further enrich the quality of our value proposition across segments. By this means, we contribute to enhance the prosperity and financial well-being of our customers across market segments.

- We provide increasingly simplified, personalised and secure solutions to clients across their fields of activity. We pursue the digitalisation of our operations and services, while improving the scale and appeal of our channels. Notably, this made it easier, faster and safer for clients to undertake their payments and transactions.
- We uphold and strengthen client relationships and market visibility, mainly through (i) our appealing websites and social media presence; and (ii) the organisation of and participation in various promotional and commercial initiatives, as well as international seminars, conferences and roadshows. Furthermore, we regularly seek customer feedback on our products and services, notably via surveys, with a view to improving our value proposition. We adopt appropriate and carefully-designed communication and reporting channels vis-à-vis our customers to provide them with detailed information about our offerings and effectively attend to their queries. We take several initiatives to address customer complaints in an efficient and timely manner, with a key measure relating to the centralisation of grievances across specific platforms.

- We reinforce our internal platforms and processes, including our cyber risk management framework, to ensure the safety of our customers’ information, while ensuring that they can use our channels in a trustworthy way.
Allowing individual customers to undertake transactions in a seamless and convenient way

Deploying digital channels

- 92% of the number of individual cash withdrawals are on average undertaken via our ATMs
- ~180,000 subscribers\(^2\) to our ‘Juice’ mobile banking platform
- \(+45%\) y.o.y growth
- \(+75%\) 3-year annualised growth
- 90% of transfers by individuals are on average carried out via digital channels\(^1\)
- ~192,000 Internet banking registrations\(^2\)
- \(+21%\) y.o.y growth
- \(+21%\) 3-year annualised growth

Addressing customer grievances in a prompt manner

- Estimated average time for resolving customer complaints
- FY 2016/17: 73% (\(< 5\) days: 73%, \(\geq 5\) days)
- FY 2017/18: 80% (\(< 5\) days: 77%, \(\geq 5\) days)

\(^1\) Digital channels include our ‘Juice’ mobile banking service, Internet Banking solution, Contact Centre, kiosks, contactless Point of Sale terminals, deposits and forex ATMs

\(^2\) Figures are as at 30 June 2018
We adopt dedicated initiatives to promote social progress and financial inclusion in the countries where we are involved. At the same time, we acknowledge that the sound management of natural resources is a cornerstone of sustainable development. We carry out our business responsibly, while helping to create thriving societies.

**Our specific objectives and targets**

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

**How we have engaged with and served our stakeholders**

*Doing good for the society*

- The Bank continued to live up to its engagement as a socially responsible organisation. We partnered with the relevant stakeholders to promote societal well-being. Our corporate social responsibility activities are channelled via the MCB Forward Foundation (MCBFF). We also provide funding in earmarked fields through our dedicated sponsorship, while our staff offer a meaningful contribution to help realise our initiatives. Overall, the organisation provides extensive support in key focus areas, notably community empowerment and preservation of the natural environment, arts and culture, youth development and sports, as well as education. In respect of the latter, it can, for instance, be noted that our organisation has, since 1988, awarded 30 scholarships to Mauritian students ranked next in line with those eligible for the State of Mauritius scholarships on the Economics side at the Higher School Certificate examinations.

- Consistent with the authorities’ requirement for companies to set up an annual CSR Fund representing 2% of their chargeable income derived during the preceding year, an amount of Rs 91 million was accordingly earmarked by MCB Ltd. After fostering alignment with the Government measure requiring companies to remit 50% of their CSR Funds to the Mauritius Revenue Authority, an amount of Rs 45.5 million was entrusted to the MCB Forward Foundation. During the year, the latter spent Rs 49.7 million on 32 projects, of which 25 are ongoing. Of note, no political donations were made during the year under review.
Our engagement via the MCB Forward Foundation

Distribution of amount spent by MCBFF during FY 2017/18

<table>
<thead>
<tr>
<th>Large projects financed by MCBFF in FY 2017/18</th>
<th>Rs m</th>
</tr>
</thead>
<tbody>
<tr>
<td>MCB Football Academy</td>
<td>23.3</td>
</tr>
<tr>
<td>Integrated housing project</td>
<td>4.8</td>
</tr>
<tr>
<td>Recycling of glass bottles</td>
<td>4.2</td>
</tr>
<tr>
<td>Support to primary school children out of mainstream system of education</td>
<td>2.5</td>
</tr>
<tr>
<td>MCB Rodrigues Scholarship</td>
<td>2.5</td>
</tr>
<tr>
<td>Service dedicated to children suffering from mental health disorders</td>
<td>2.4</td>
</tr>
</tbody>
</table>

**Zoom on MCB Football Academy: Main achievements since 2008**

- **6 academies** currently in operation, impacting 4 regions in Mauritius and 2 in Rodrigues
- **3,500 children reached and supported** (football training, psychosocial support and/or vocational training)
- **3,000 Family visits**
- **2,533 Families counselled by clinical psychologists**
- **74 Children channelled to Special Needs School**
- **150 Parents empowered to assume their responsibilities**

**Absolute Poverty and Community Empowerment**

- Welfare of children 10%
- Social Housing 10%
- Environment 9%
- Education 8%
- Socio Economic Development 5%
- Health <1%

58%
Supporting social and financial inclusion

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

Helping students

~ Rs 1.0 billion

representing total student loans approved (under normal banking terms and the Government Guarantee Scheme), accounting for a market share of around 66% as at 30 June 2018
Preserving our environmental heritage

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

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

- As a key strategic thrust, the Bank has set out to monitor and assess its direct environment footprint in order to minimise the impact of its activities on the environment. The Bank is committed to influence and engage with its employees and external stakeholders towards managing its direct carbon footprint, driving eco-efficiency performance, and greening the supply chain. On this note, the Bank seeks to ensure that all suppliers comply with sustainable procurement standards. We define sustainable procurement as encompassing the social and environmental aspects of the products that the Bank procures as well as the attitude of the supplier towards sustainability. Also, we have set forward to contribute to the development of the circular economy, which we view as a key future model of procurement.
Managing the environmental impact of our operations and activities

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

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

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

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

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

Encouraging environment-friendly and energy-saving investments

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

Distribution of exposures as at June 2018

Exposures by sector:
- Renewable Energy: 50%
- Agro-Industrial: 3%
- Retail & Commerce: 17%
- Textiles: 4%
- Industry: 21%
- Hotels & Leisure: 3%
- Others (includes Education, Real Estates Development & Services): 2%

Rs 1.8 bn

Exposures by segment:
- Corporate: 94.6%
- Individuals and SMEs: 5.4%

Exposures by geography:
- Mauritius: 93%
- Foreign: 7%

Estimated environmental benefits of projects financed in FY 2017/18:
- 383,206 Kg of Liquefied Petroleum Gas saved
- 7,000 Litres of Diesel saved
- 529,903 M³ of Clean Water saved
- 3,805,551 Litres of Heavy Fuel Oil saved
- 57,600 Tonnes of fly ash recycled
- 51.4 GWh of Electricity saved
- 93,607 Metric tonnes of CO₂ emission reductions
- 14,400 Tonnes of grate ash recycled
- 18,514 M³ of Waste water reduced
- 57,000 Tonnes of import of pozollanic construction material
We forge meaningful relationships with authorities and economic agents, while responding to their requirements. We work together to foster the stability and progress of the financial sector in countries where we operate.

**Our specific objectives and targets**

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

**How we have engaged with and served our stakeholders**

- By means of dedicated actions, we contributed to endeavours undertaken by the authorities to promote the socio-economic development and modernisation of their relevant jurisdictions.
- We have financed key projects shaping our economic landscape and contributed to foster the sustained growth of businesses and economic sectors in countries where we operate. Alongside supporting trade and investment activities on the regional front, we helped to position our jurisdiction as an international financial centre of substance and good repute. We have upheld our commitment to accompany small and medium enterprises by means of our tailored and modular solutions, while remaining a dedicated and trusted partner for large businesses and investors.
Helping the Mauritian economy to prosper (FY 2017/18)

Contribution to value added

- >3% of the total value added generated by the economy
- >50% of total value added by the banking sector

Creating jobs on the nationwide scale

- ~20% of total employment in the financial and insurance activities
- ~35% of the employment in the banking sector

Paying taxes in support of Government revenue mobilisation

- 11% of total corporate tax* paid across the economy
- ~50% of special levy paid by banks

* Including levies charged on income

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

Helping businesses and economic sectors to grow

Distribution of our loan book

Total loans to customers Rs 194.4 bn

- Agriculture and fishing 14%
- Manufacturing 16%
- Tourism 8%
- Transport 19%
- Construction 7%
- Financial and business services 13%
- Traders 5%
- Housing 4%
- Personal and professional 3%
- Foreign governments 1%
- Global Business Licence holders 2%
- Others 3%

Helping productive sectors

Rs 103 billion representing our corporate loan book as at 30 June 2018, towards enabling industries to achieve their ambitions
Helping small and medium enterprises

Rs 940 million

relating to outstanding credit facilities by MCB to SMEs under the Government-backed SME Financing Scheme to assist these clients in their growth strategies (with a market share of 42% as at June 2018)

- We seek to safeguard the perennity and soundness of our operations, alongside fully understanding and coping with specificities and implications of evolving mandatory provisions and requirements. We ensure strict compliance with relevant regulatory limits and stipulations relating notably to business operations, product development, market development and risk management in the jurisdictions within which we operate. As a key move, we undertake the necessary measures to ensure adherence to IFRS 9.

- We help to strengthen the regulatory framework on the basis of our close collaboration with the regulators. We attend to regulatory reviews with notable attention to detail and professionalism, while promptly reacting to matters raised. We submit reports in a timely manner to regulatory bodies, while transparent relationships have been forged to promote adequate monitoring of our activities and informed discussions about relevant issues.

Read more on our efforts to IFRS 9 compliance in the ‘Risk and Capital Management Report’ on pages 117 to 119
Employees

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

Our specific objectives and targets

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

How we have engaged with and served our stakeholders

General undertakings

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

Read more on our HR Transformation Programme in the ‘Transforming our organisation’ section on page 79
Our diversified and competent workforce (as at 30 June 2018)

Number of employees

- Y.o.y growth: 0.5%
- 2,696 employees

Age

- <30 years: 30%
- 30-50 years: 58%
- >50 years: 12%

Employees by generation*

- Baby Boomers: Born 1946 to 1964
- Gen X: Born 1965 to 1979
- Gen Y: Born 1980 to 1995
- Gen Z: Born 1996 and later

Employees by generation*

- Baby Boomers: 57%
- Gen X: 31%
- Gen Y: 7%
- Gen Z: 5%

Gender distribution

- Male: 53%
- Female: 47%

Management position by gender*

- Male: 74%
- Female: 26%

* at senior and middle management level

Qualifications

- Up to secondary level: 40%
- Post-secondary level: 60%

Length of service

- <3 years: 48%
- 3-5 years: 18%
- 6-10 years: 21%
- >10 years: 12%

General stability of our workforce as at 30 June 2018

- Employee retention rate: 95.4%
- Employee turnover rate: 4.4%

Notes:
(i) Retention rate is the ratio of the number of employees that stayed during a specific period to the number of employees at the beginning of the period.
(ii) Turnover rate is the ratio of the number of employees that left to the average number of employees during a specific time period.
• Amongst other moves, the Bank continued to work towards entrenching a balanced workforce in terms of gender, age group and experience in order to tap into a wide range of knowledge, skills and specialist competencies in view of achieving its business strategies. Moreover, the Bank has laid due emphasis on the need to nurture our values as well as further strengthen the purpose and role of each employee within and vis-à-vis the organisation and society. In addition, the Bank has also sought to foster healthy and secured working environments at various levels.

**Remuneration philosophy**

• With human capital viewed as critical to the sustainability of the business, the Bank lays significant emphasis on employing the right people with the right skills and behaviours while rewarding them adequately, in line with market conditions. The remuneration philosophy for employees of the Bank is based on meritocracy and ensures that:
  
  o Full protection is provided, at the lower end of the income ladder, against cost of living increases
  
  o Fairness and equity are promoted throughout the organisation
  
  o Opportunity is given to employees to benefit from the financial results and development of the Bank. Indeed, staff members of the Bank receive an annual bonus based on the performance of the Company as well as an assessment of their contribution thereto. Furthermore, staff members have the added possibility to be incentivised further through a share option scheme

• Generally, the finalisation of remuneration packages is anchored on a range of factors including qualifications, skills scarcity, past performance, individual potential, market practices, responsibilities shouldered and experience. With a view to attaining appropriate remuneration levels, the Bank is guided by the following considerations:
  
  o General market conditions are regularly surveyed in order to ensure that remuneration packages are motivating and competitive
  
  o Superior team performance is stimulated and rewarded with strong incentives
  
  o Remuneration practices are regularly reviewed and restructured where necessary, providing clear differentiation between individuals’ contribution and team performance

• The Bank provides a range of fringe benefits to its employees to help them in their personal life. Examples of such benefits are as follows:
  
  o The Bank currently contributes 18.1% of employees’ basic salaries to an in-house pension scheme to provide for a retirement pension at the end of their professional career
The Bank also provides a medical coverage for all employees and their dependents to assist them in hard times. The Bank organises annual free health checks for its staff for an early screening of potential diseases.

To help employees meet their endeavours, the Bank provides them with loans under preferential conditions.

The Bank established a Flexible Working Arrangement (FWA) initiative to support its staff. Employees are offered the flexibility of the start and end hours of work, provided they adhere to the rules of the FWA policy.

The Bank offers its staff the flexibility of saving part of their monthly emoluments for their holidays. Employees can save the equivalent of 6% of their Basic Salary on an annual basis to cater for their holiday expenses, be it abroad or in a resort in Mauritius. This amount is made available at the beginning of each financial year and arrangements can be made to pay directly to our preferred travel agent, or to obtain refund upon presentation of a receipt. Employees also benefit from a tax rebate on this scheme, as prescribed by the Income Tax Act.

Employees of the Bank are entitled to the MCB Group Employee Share Option Scheme (GESOS), which provides them with the opportunity to partake in the growth and prosperity of the Group through an acquisition of a stake therein. This scheme acts as an additional lever to promote a performance culture alongside upholding motivation and commitment across the organisation. Under the scheme, employees are granted non-transferable options to buy MCB Group Ltd shares with up to a maximum of 25% of their annual performance bonus. The options, which can be exercised over a period of one year through four specific windows, carry a retention period of three years. The option price is based on the average of the share price over the quarter prior to the date on which the options are granted, to which a discount of 10% is applied. Members of Management are, however, not entitled to such discount. Once issued, the shares rank pari passu as to dividend, capital, voting rights and in all other respects with the existing shares of MCB Group Ltd. The following table gives details of the options granted to and exercised by employees of the Bank in the last financial year.

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

* Based on initial option price
Employee engagement and training

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

Our learning engagement for 2017/18

Key statistics

- Total training cost: Rs 44.5m*
- Total number of training courses: 224
- Average number of training per employee: 1.9 *

* Including refund by Human Resource Development Council

* Excluding e-learning training

Types of training courses

- Technical courses: 47%
- Soft courses: 30%
- Generic courses: 10%
- Others: 3%

E-learning involvement

- 2 knowledge tests performed with a participation rate of 79% out of a target audience of 682

Internal: 1%
External: 82%
Overseas training: 17%
**Promotion of staff welfare and safety**

- In line with legal and regulatory requirements, the Bank is committed to providing the highest standards of safety and health throughout its business activities as far as it is reasonable. The Bank’s Occupational Health and Safety (OHS) Policy aims to ensure a safe and healthy working environment, system of work and equipment for employees.

- The Leadership Team of the Bank is responsible to ensure the protection of workers’ safety and health by setting up strategies to effectively manage matters encountered. The Management has a critical role in providing adequate resources to achieve standards and practices required for OHS, risk management and compliance with legal obligations. Each Head of Strategic Business Unit (SBU) and Business Unit (BU) manager is responsible for ensuring that operations do not constitute a hazard to the safety and health of employees. The Human Resource SBU is responsible for the coordination of initiatives undertaken to achieve health and safety objectives.

- The organisation has further deployed its wellness programme with the aim of promoting a healthy balance of the mind, body and spirit among its employees. The main activities that were conducted include counselling, Zumba, Football, Squash, nature hikes and Body Combat, Kung Fu and Self Defense, Yoga and Tai chi, as well as off-premises fun day experiences.
Our Performance
The external environment

The general context

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

The economic climate

Recent trends and developments

- On the back of improving global economic conditions, the Mauritian economy has posted a fairly resilient, albeit restrained, performance in recent times. As per our latest estimates, real GDP growth is forecast to stand at close to 3.8% in 2018 when measured at market prices. Whilst some key sectors such as textiles and sugar remain in a challenging zone, economic growth has been benefitting from the good showing of key pillars, notably tourism, financial and business services, ICT and construction. The latter sector is being supported by an upturn in investment, boosted by the execution of large-scale infrastructure projects. As for headline inflation, it pursued an uptrend until March 2018 when the rate stood at 5.0%, before embarking on a downward trajectory to reach 3.7% as at August 2018. In another respect, the rupee has, in effective terms, remained relatively stable vis-à-vis the currencies of the country’s main trading partners amidst a balance of payments surplus, in spite of a high current account deficit in line with a drop in our exports of goods.

- With regard to sub-Saharan Africa, a relative recovery is underway, aided notably by stronger global growth, improved market access and higher commodity prices. Notably, a general major rise in oil prices was witnessed in recent months. On a specific note, economic activity rebounded in West Africa lately, on the back mainly of an improvement in Nigeria, while East Africa continued to grow at a robust pace, backed notably by household consumption and infrastructure investment.

Amidst such developments, we have ...

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

**Mauritius**

**Real GDP growth**

- 2014: 2.5%
- 2015: 2.7%
- 2016: 3.0%
- 2017(e): 3.2%
- 2018(f): 3.5%

**National investment**

- 2014: 18.0%
- 2015: 17.8%
- 2016: 17.5%
- 2017(e): 17.2%
- 2018(f): 16.9%

**Inflation rate**

- 2014: 6.0%
- 2015: 5.9%
- 2016: 5.8%
- 2017(e): 5.7%
- 2018(f): 5.6%

**Currency dynamics**

<table>
<thead>
<tr>
<th>Currency</th>
<th>30-Jun-17</th>
<th>30-Jun-18</th>
<th>FY 2016/17</th>
<th>FY 2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>35.4</td>
<td>35.3</td>
<td>36.4</td>
<td>34.5</td>
</tr>
<tr>
<td>EUR</td>
<td>40.5</td>
<td>41.1</td>
<td>39.7</td>
<td>41.1</td>
</tr>
<tr>
<td>GBP</td>
<td>46.1</td>
<td>46.3</td>
<td>46.2</td>
<td>46.4</td>
</tr>
</tbody>
</table>

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

**Other markets – Real GDP growth**

**World economy and regions**

- 2014: 3.5%
- 2015: 3.7%
- 2016: 3.9%
- 2017(e): 4.1%
- 2018(f): 4.3%

**Sub-Saharan Africa**

- 2014: 3.0%
- 2015: 2.8%
- 2016: 2.6%
- 2017(e): 2.4%
- 2018(f): 2.3%

(e) estimates, (f) forecasts

Sources: IMF, Statistics Mauritius, MCB Staff estimates
The market landscape

Recent trends and developments

General market conditions

- Generally high liquidity levels prevail in the Mauritian banking system, even though a relative decline was registered in excess rupee reserves held by banks at the Central Bank during specific periods, aided by remedial measures taken by the Central Bank through the conduct of open market operations and the issue of Bank of Mauritius securities. Against this backdrop, a generally marked uptrend in yields on short-term securities was noted.

- Partly linked to high liquidity conditions locally, corporate clients continued to take advantage of relatively low rates in the capital markets to refinance part of their bank loans. In the same vein, competitive pressures remained high in some markets, thus impacting banking segments. In Mauritius, such challenges have mainly subsisted in the mortgage and cards segments, while banking sector players enriched their digital and wealth management solutions. Furthermore, banks pursued their regional diversification strategies, with a key axis relating to trade finance.

Demand for credit

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

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

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

Key banking sector metrics

Average weighted yield - Government of Mauritius Treasury bills

Loans & advances and NPL

<table>
<thead>
<tr>
<th></th>
<th>Loans and advances</th>
<th>NPL ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Y.o.y. growth (%)</td>
<td>Mar-17</td>
</tr>
<tr>
<td>Local banking sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mauritius</td>
<td>1.3</td>
<td>6.9</td>
</tr>
<tr>
<td>Domestic</td>
<td>1.8</td>
<td>n.a.</td>
</tr>
<tr>
<td>Foreign-sourced</td>
<td>0.9</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Source: Bank of Mauritius
The legal and regulatory environment

Recent trends and developments

• Notable revisions brought to Bank of Mauritius Guidelines during the year include: (i) rules and standards for the computation and regulatory reporting of the liquidity coverage ratio by banking operators were formulated, in alignment with transitional arrangements and Basel III rules; and (ii) the credit conversion factor for trade-related contingent liabilities changed from flat rate of 20% to a range of 20 – 100%, thus implying a higher risk-weighted assets in respect of related transactions. Besides, all restrictions on commercial banks as regard limits applicable on loans were removed, with loan-to-value ratios no longer applicable as from July last.

• The revised Data Protection Act 2017 is effective since January 2018. While aiming to strengthen the control and personal autonomy of data subjects over their personal data, the new provisions intend to bring the Mauritius data protection framework in line with the General Data Protection Regulation, which was enforced by the European Union in May last.

• In the wake of the Finance (Miscellaneous Provisions) Act 2018, some major fiscal developments are as follows:
  o Effective as from year of assessment 1st July 2020, a new tax system will be applied to banks, with no distinction made with regard to locally and foreign-sourced income. While the precise requirements have yet to be determined in some respects, applicable rates for the Bank will be as follows: (i) a tax rate of 5% on the first Rs 1.5 billion of chargeable income; (ii) 15% for amount exceeding Rs 1.5 billion; and (iii) a reduced tax rate of 5% on the amount of the current year chargeable income exceeding that of the base year if the specified conditions are met. Additionally, effective as from accounting period ending on or after 1 January 2019, the special levy applicable to banks will be administered under the Value Added Tax Act, with net interest income and other income from banking transactions derived from domestic operations charged at (i) 5.5% for income less than Rs 1.2 billion; and (ii) 4% of income exceeding Rs 1.2 billion.
  o The proportion of Corporate Social Responsibility funds to be remitted to the Mauritius Revenue Authority, will, as from January 2019, go up to 75% from the current rate of 50%. However, the revised proportion may be reduced by an amount not exceeding 25% of the CSR Fund set up on or after 1 January 2019 where the company intends to use such an amount to finance a CSR programme which has started before 1 January 2019, subject to prescribed conditions being met.

• Amongst the key amendments made to the Banking Act, provisions were introduced to reinforce the confidentiality of information pertaining to a customer or financial institution, while every financial institution, including its branches and subsidiaries, is called upon to implement programmes against money laundering and terrorism financing.

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

Recent trends and developments

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

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

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

Looking ahead ...

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

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

## Performance against objectives

<table>
<thead>
<tr>
<th>OBJECTIVES FOR FY 2017/18</th>
<th>PERFORMANCE IN FY 2017/18</th>
<th>OBJECTIVES FOR FY 2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Return on average Tier 1</strong></td>
<td>Return on average Tier 1 capital is expected to decline slightly to stand at around 18%. (FY 2016/17: 18.6%)</td>
<td>In line with expectation, return on average Tier 1 capital decreased to 18.0%.</td>
</tr>
<tr>
<td><strong>Return on average assets (ROA)</strong></td>
<td>ROA is likely to remain around the 2% level.</td>
<td>ROA was maintained at 2.0% reflecting an appreciable performance.</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>Net interest income growth is expected to be higher at around 9% driven by expansion in the loan book.</td>
<td>Net interest income rose by 13.8%, fuelled by a robust expansion in our international loan book.</td>
</tr>
<tr>
<td></td>
<td>Higher growth in net fee and commission income is likely to contribute to an increase of around 12% in non-interest income.</td>
<td>Reflecting a lower than expected growth in net fee and commission income and only a slight increase in profit on exchange, non-interest income rose by 4.8%.</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>Cost to income ratio</td>
<td>Loans and advances growth</td>
</tr>
<tr>
<td>--------------------</td>
<td>---------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>Growth in operating expenses is anticipated to be around 12%, fuelled by capacity building endeavours notably linked to digitalisation initiatives.</td>
<td>Operating expenses grew at a lower rate of 8.6%, mainly due to a timing difference in the execution of some earmarked projects.</td>
<td>In line with the implementation of major ongoing projects, operating expenses are expected to increase by around 15%.</td>
</tr>
<tr>
<td>Cost to income ratio is forecast to increase but should remain close to 38%. (FY 2016/17: 36.9%)</td>
<td>The cost to income ratio improved to 36.2%, mainly due to the lower than anticipated expansion in operating expenses.</td>
<td>Cost to income ratio is expected to increase but is forecast to remain below 37%.</td>
</tr>
<tr>
<td>Loans and advances growth</td>
<td></td>
<td>Sustained growth in our foreign currency loans should contribute to an increase of around 15% in the average customer loan book.</td>
</tr>
<tr>
<td>The customer loan book is forecast to grow above 10%, mainly due to an expected pick-up in our foreign currency loan portfolio.</td>
<td>Average customer loans grew by nearly 10%, driven by a strong rise in the foreign loan book notably linked to our Energy &amp; Commodities (E&amp;C) business.</td>
<td></td>
</tr>
<tr>
<td>Deposits growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whilst the low interest rate environment continues to prevail amidst the excess liquidity situation, average customer deposits are expected to grow by some 7%, driven notably by rupee deposits.</td>
<td>Average customer deposits increased by around 8% mainly due to a rise in rupee deposits.</td>
<td>Average customer deposits are expected to grow at around 8%, driven by rupee deposits.</td>
</tr>
<tr>
<td>Asset quality</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for credit impairment charges is anticipated to remain close to FY 2016/17 figures with the NPL ratios remaining within manageable levels. (FY 2016/17: Gross NPL ratio: 5.9%; Net NPL ratio: 4.3%)</td>
<td>Allowance for credit impairment rose by 29.3% compared to the previous year partly linked to the rise in loans and advances. On the other hand, asset quality improved further with gross NPL ratio declining from 5.9% to 4.1%.</td>
<td>Allowance for credit impairment charges is anticipated to remain close to FY 2017/18 but will be subject to the outcome of the new impairment guidelines from the Bank of Mauritius in view of the implementation of IFRS9.</td>
</tr>
</tbody>
</table>
## Capital management

The overall capital adequacy ratio and the Tier 1 ratio are expected to decrease following a notable rise in risk-weighted assets on the back of the growth in loan portfolio and the significant increase in ‘held-for-trading’ instruments linked to the Bank’s primary dealer status. (FY 2016/17: BIS ratio: 16.8%; Tier 1 ratio: 15.8%)

As expected, the overall capital adequacy ratio and the Tier 1 ratio went down to 15.0% and 14.2% respectively whilst remaining comfortably above the prevailing regulatory limits (13.125% and 11.125% respectively).

The overall capital adequacy ratio and the Tier 1 ratio are expected to remain close to the FY 2017/18 level.

## Performance against objectives by lines of business

### Retail Banking

The average loan portfolio of the Retail Banking segment is expected to grow by some 10% despite the ongoing stiff competition in the housing loan segment. Net interest income is forecast to increase by some 8%, thereby contributing to a rise of around 10% in gross operating margin.

Average retail loan portfolio recorded an appreciable rise of nearly 8%, which, nonetheless, was lower than expected in view of heightened competitive pressures. This contributed to a rise of around 6% in net interest income while gross operating margin went up by above 9% with expenses remaining relatively flat.

The average loan portfolio is expected to grow by around 7%. However, net interest income is likely to grow at a slower pace due to reduced margins amidst stiff competition. As a result, gross operating margin is forecast to grow at a relatively moderate pace.

### Private Banking & Wealth Management

Gross operating margin within the Private Banking and Wealth Management segment is anticipated to rise by some 10%, driven by appreciable growth in both net interest income and non-interest income in line with our diversification strategy.

Gross operating margin recorded a growth of slightly below 5%, mainly due to lower fee and commission income.

Supported by an increase in both net interest income and non-interest income, gross operating margin is expected to grow by around 7% with the Bank notably seeking to widen its international client base.
### Corporate and Institutional Banking

Although challenging market conditions are likely to persist, we anticipate a growth of 10% in the average loan portfolio, to a large extent, attributable to our international activities. Both net interest income and overall gross operating margin are expected to grow at a higher pace.

<table>
<thead>
<tr>
<th></th>
<th>Average loan portfolio grew by some 10%, mainly underpinned by our international activities. Net interest income was up by some 16%, thereby contributing to a growth of nearly 18% in gross operating margin.</th>
<th>The average loan book is expected to grow at around 15%, mainly driven by further growth in our foreign activities notably linked to E&amp;C and structured project finance. Gross operating margin is forecast to register a similar growth.</th>
</tr>
</thead>
</table>

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Overview of results

Profit

Rs 6,762 million (+525 million)

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

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

More information on our financial soundness is available in the ‘Risk and Capital Management Report’ on pages 114 to 148

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

Net interest income  As a % of average earnings assets

<table>
<thead>
<tr>
<th></th>
<th>FY 2016/17</th>
<th>FY 2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs 10,109 million (+1,230 million)</td>
<td>3.3%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Net interest income grew by 13.8% on account of:
- A rise of 9.1% in interest income to Rs 13,904 million in line with a significant expansion in our international loan book and increased investments in T-Bills amidst the still high liquidity level in Mauritius.
- A decline of 2.0% in interest expense to Rs 3,795 million reflecting lower average interest rates following a drop in the Key Repo rate over the year under review.

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

Non-interest income  As a % of operating income

<table>
<thead>
<tr>
<th></th>
<th>FY 2016/17</th>
<th>FY 2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs 4,950 million (+229 million)</td>
<td>34.7%</td>
<td>32.9%</td>
</tr>
</tbody>
</table>

Non-interest income went up by 4.8% with the key drivers being:
- A growth of 6.5% in net fee and commission income to reach Rs 2,777 million, driven by higher revenues generated from cards activities and regional trade finance, notably linked to the Energy and Commodities business.
- A rise of 2.8% in ‘other income’ reflecting a subdued rise in profit on exchange taking into account a loss from financial instruments carried at fair value, partly linked to the appreciation of the rupee against the dollar on average during the year under review amidst excess forex supply.
Operating expenses increased by 8.6% mainly explained by:

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

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

**Impairment charges**

<table>
<thead>
<tr>
<th>Rs 1,229 million (+278 million)</th>
<th>As a % of loans and advances</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2016/17</td>
<td>FY 2017/18</td>
</tr>
<tr>
<td>0.57%</td>
<td>0.59%</td>
</tr>
</tbody>
</table>

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

**Tax expenses**

<table>
<thead>
<tr>
<th>Rs 1,612 million (+222 million)</th>
<th>Effective tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2016/17</td>
<td>FY 2017/18</td>
</tr>
<tr>
<td>18.2%</td>
<td>19.2%</td>
</tr>
</tbody>
</table>

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

Gross loans

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

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

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

Funding

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

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

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

<table>
<thead>
<tr>
<th>Credit exposures as at 30 June</th>
<th>2017</th>
<th>2018</th>
<th>Rs m</th>
<th>Rs m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending</td>
<td>199,445</td>
<td>17.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to customers</td>
<td>5,418</td>
<td>313.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture and fishing</td>
<td>8,007</td>
<td>5.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9,364</td>
<td>3.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which EPZ</td>
<td>2,153</td>
<td>5.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism</td>
<td>25,191</td>
<td>(0.4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>5,122</td>
<td>23.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>15,483</td>
<td>9.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traders</td>
<td>37,305</td>
<td>54.9</td>
<td></td>
<td></td>
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<tr>
<td>Financial and business services</td>
<td>31,013</td>
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<td>Personal and professional</td>
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<td>9,95</td>
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<td>26,896</td>
<td>8.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Business Licence holders</td>
<td>15,928</td>
<td>23.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>7,083</td>
<td>(17.7)</td>
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<tr>
<td>Total</td>
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</tr>
</tbody>
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| Loans to banks | 5,418 | 313.7 |

| Mix (%) | 100.0 |

<table>
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<th>Loans to customers</th>
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<th>Y.o.y. growth (%)</th>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

| Loans to funding ratio | 66.4% |

<table>
<thead>
<tr>
<th>Off-balance sheet</th>
<th>Guarantees, letters of credit, endorsements and other obligations on account of customers</th>
<th>41,128</th>
<th>57,852</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitments</td>
<td>6,714</td>
<td>6,078</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>2,347</td>
<td>2,994</td>
<td></td>
</tr>
<tr>
<td>Contingent liabilities</td>
<td>46,289</td>
<td>56,962</td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

‘Other borrowed funds’ increased by Rs 8.6 billion following increased utilisation of LC refinancing credit lines and higher recourse to the lending facility from Agence Française de Développement for the provision of ‘Green Loans’.
In line with the expansion in the loan book, liquid assets of the Bank went down by 1.5% during the last financial year. This was explained by a drop of 18.0% in cash and cash equivalents, including placements, whilst mandatory balances with Central Bank and investment securities (excluding available-for-sale securities and corporate notes) increased by 11.4% and 10.6% respectively.

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

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

Our business development

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

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

Key strategic achievements across business areas

Corporate and Institutional Banking

Local

- Leveraging our unique selling propositions and tailored solutions, we continued to assist businesses and investors across various segments, while contributing to the materialisation of key projects reshaping the landscape of Mauritius. In fact, we positioned ourselves to effectively tap into the relative upturn in nationwide investment and demand for credit, thus reinforcing our status as the premier business partner of companies. Our market share in respect of domestic credit to corporates increased by more than one and a half percentage points during the year under review to reach 43.7% as at 30 June 2018.
During the last financial year, we have expanded our exposures vis-à-vis various economic sectors, particularly tourism, property development, construction, and financial and business services. We accompanied corporate and institutional clients in their growth endeavours, capacity building moves and restructuring initiatives, by acting as a trusted business advisor. Along the way, the Bank widened its involvement in respect of the provision of the second edition of its preferential credit facilities named as ‘Green Loans’, pursuant to the lending facility availed from Agence Française de Développement (AFD) to stimulate the deployment of renewable energy and energy-efficient technologies, save energy and reduce carbon emissions. Building on the success of the previous lines, the Bank is on course to sign a third line of credit with AFD. Additionally, we delivered a broadening range of adapted treasury solutions to meet the evolving requirements of clients, with a key example relating to structured forex products, alongside further disseminating our MCB Wave solution, which treasurers leveraged as an all-in-one digital and day-to-day tool to manage trading requirements. Also, as an authorised Primary Dealer appointed by the Bank of Mauritius, the Bank has actively traded on the primary and secondary markets.

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

International

To extend the Bank’s frontiers, we actively, yet cautiously, pursued our regional diversification strategy, while prospecting business opportunities beyond the continent. We remained mainly involved in niche areas where we display strategic competencies. We have continued to deepen our relationships with our existing customers and selectively extended our customer base.

As a major achievement, we furthered our Energy and Commodities (E&C) strategy. In terms of our market positioning, we made inroads across several African countries and increasingly tapped into markets internationally. We further consolidated the structured trade finance segment of our portfolio, alongside adding key relationships to our books. We stroke landmark deals in the E&C field, with the Bank making significant progress in shifting from solely structured trade financing to medium-term financing along the oil value chain. The year under review witnessed E&C’s entry into the African oil and gas structured debt market. As another area of satisfaction, the Bank is henceforth recognised as a Commodity Trade Finance bank on the African scene on the basis inter alia of its service quality, risk appetite and strong relationship with key players across the value chain, notably traders, oil majors and procurement entities.

We broadened our portfolio of structured project finance deals across Africa and beyond. We have been involved across a target range of economic sectors and countries where we have expertise and within our risk parameters, with our pipeline of deals witnessing a noticeable expansion in recent times. We notably attended to the needs of clients investing or doing business in Africa, including Mauritian and non-Mauritian corporates, with a selective approach adopted in respect of our lending.

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

- Capitalising on its everyday and adapted solutions, the Bank has serviced individual clients across age and income groups. We provided simplified offerings for customers to save and invest, while distributing the Group’s products (e.g. leasing and investment). We remained active on the payments scene, thus allowing customers to set up payments and transfer money in a smart, quick, secure and hassle-free manner. We also adopted dedicated initiatives to accelerate the migration of customers from branches to digital channels.

- We deepened relationships vis-à-vis the mass and mass affluent customer segments. Noticeably, in addition to strengthening our prominent footprint in the education loans segment and while facing up to high competitive pressures, we have, as a key achievement, bolstered our leadership market position with regard to mortgage. Our market share for housing loans rose further to stand at around 39% as at end-June 2018, on the back of a growth of around 9% in our loan book. In recent periods, MCB has refined the appeal and specificities of its housing loan value proposition, with the latter being increasingly customised to meet different client needs. We have provided attractive repayment terms to our clients, alongside offering them the flexibility to withhold repayment for a certain period.

- The Bank further accompanied small and medium enterprises (SMEs) in their activities and growth initiatives, thus remaining their foremost service provider in Mauritius. MCB was ranked 1st amongst the 13 banks operating in the country in respect of credit facilities outstanding under the Government–backed SME Financing Scheme, with a corresponding market share of some 42% posted during the December 2011 – August 2018 period. During the last financial year, our value proposition was revamped, with the creation of two distinct SME account packages, the provision of a Business Deposit Card for free cheque and cash deposits at the Bank’s ATMs, and the introduction of a working capital loan and unsecured overdraft to help clients ease cash flow management. Lately, to enhance client support, we further simplified account opening procedures, made inroads with regard to the digitalisation of client onboarding processes in the wake of the Bank’s Digital Transformation Programme, and improved the accessibility of our palette of products and services to small businesses by means of the strategic deployment of Relationship Executives across branches.

- As a landmark move in Mauritius, MCB introduced contactless payments solutions for the benefit of its cardholders, while reinforcing relationships with merchants. Following the upgrading exercise undertaken, we have delivered more than 607,000 new MasterCard Debit Chip cards to our customers. Importantly, their market appeal is underpinned by the fact that they offer the highest level of security to users thanks to a layered security technology approach, which includes the latest generation and state-of-the-art chip technology. Currently, more than 100 outlets operate with our contactless terminals, including fast food outlets, bakery and coffee shops, groceries, supermarkets and pharmacies. Customers, who can now ‘touch and pay’, are able to undertake purchases in a fast and practical way, without having to fumble with cash. Interestingly, the customer can use his/her MasterCard Debit Chip card at any MasterCard contactless-enabled point of sale (POS) device worldwide. Backed by active promotional campaigns, MCB has, in recent months, witnessed a sustained rise in the number of contactless transactions being undertaken via POS terminals.

- The Bank has further enriched its suite of mobile banking solutions. In addition to offering the ability to effect cardless ATM transactions, make instant payments, undertake P2P money transfer, money transfer to any Visa cardholder worldwide, access
selected PayPal services, our ‘Juice’ mobile banking service was lately endowed with a new interface and broadened functionalities. They include the validation of transactions by means of Touch ID and payments via QR code. As at end August 2018, our service boasted around 190,000 subscribers, including some 57,650 being recorded over the past year. As another innovation, the Bank lately launched a Soft Token service to further ease banking operations of customers requiring to effect payments/transfers of above Rs 250,000. While maintaining a safe and secured banking experience, the application, which can be downloaded via Google Play or App Store, will further facilitate transactions on our online platforms, i.e. MCB Internet Banking and JuiceByMCB.

**Private Banking and Wealth Management**

- During FY 2017/18, the Bank made further progress in entrenching its objective of acting as the trusted lifetime partner for its affluent and high net worth customer base, helped by its differentiating service quality and bespoke offerings, notably relating to our increasingly sophisticated range of investment and wealth management solutions. Against this backdrop, the Bank has nearly doubled its assets under management, while positing a rise of around 10% as regard its loans and advances, helped by a sustained increase in its client base across different market segments.

- A major achievement of the Bank is its increasingly prominent positioning as a reference in the region for premium banking and wealth management expertise, in line with a key growth pillar of the Bank, which is to expand private banking into Africa. Interactions with External Asset Managers and Financial Intermediaries, notably those in Africa, have been broadened as we provided them with trading, custody and transactional services. We also grew our business further on the international front, notably in Europe and specific markets such as Middle East. With regard to the local scene, the Bank has pursued its business activities across various segments. As a key success story, we further deployed our Lombard loan, which enables clients to utilise a wide spectrum of credit products, which are secured against their existing investment portfolios.

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

To support the execution of our business strategies, we continuously reinforced our internal capabilities, as shown in the following sections. Fundamentally, we have, as highlighted before, embarked on a journey to transform the Bank. We onboarded key projects to gear up for the future, reinforce productivity levels and enhance customer service quality. Apart from our Sustainable Development Programme and some realignment exercises, the main projects unfolding include our Digital Transformation Programme and HR Transformation Programme, with relevant details thereon being provided on pages 78 and 79.

Deepening stakeholder relationships and reinforcing our brand

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

‘Africa Forward Together’ Seminar

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

Africa CEO Forum

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

MCB InovApp Challenge

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

Processes, systems and platforms

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

Human capital

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

Organisational synergies and collaboration

- The Bank ensured that synergies between its business units are judiciously tapped into, while fostering increased collaboration with other Group entities. Notably, we remained active in allowing our clients benefit from the full spectrum of products and services offered by various units of the Bank and entities of MCB Group. In another light, the Bank has lately set up an Africa Desk, as a joint collaboration between our private banking and wealth management as well as corporate and institutional banking arms. While aiming to expand our international footprint, the desk seeks to attend to the needs of the African entrepreneurs segment, helped by the delivery of an integrated and coherent value proposition.
As an important move, MCB embarked on an ambitious Digital Transformation Programme (DTP). Within the DTP, the objective set by the Bank is to deliver a world-class customer experience through digital. In a nutshell, the DTP is a three-year programme whose target is to digitise customer journeys, prioritised on value to the Bank and its customers, in order to deliver a more convenient and appealing experience to our clients, insofar they are, themselves, becoming increasingly ‘digital’. A renowned international consultant is guiding us to implement the project and craft customer journeys. Strategically, while upholding our competitive edge and putting us at the cutting-edge of financial services, the DTP aims to better position the Bank to (i) respond to customer needs almost instantly through technology enablement; (ii) make the lives of customers, intermediaries and staff painless by reducing paper usage, queues in branches and manual effort across multiple channels; (iii) instil a bottom-up innovation and client-centric culture across the organisation; (iv) deliver digital customer journeys in a nimble and cross-functional way; and (v) improve efficiencies through enhanced employee productivity and cost effectiveness across the delivery team.

As a major preliminary outcome of the DTP and a first step towards gearing up for the future we envision, MCB launched a Digital Factory to serve as an incubator for embedding truly customer-centric operations across the Bank. The Digital Factory encompasses cross-functional co-located team members working in agile squads. Key tasks include end-to-end customer journey definition and redesign, process redesign in parallel with tech redesign as well as engagement with key external collaborators and vendors. Towards these ends, the Bank is investing significantly in skills development and capacity building towards reinforcing digital capabilities and forging an adapted culture and mindset. It is recruiting new talents to fill in several key roles, from data analytics and user experience design to user interface design and full stack developers amongst others.
The organisation has boarded onto a HR Transformation Programme (HRTP) with a view to upgrading its human capital, while enabling it to better support ongoing growth strategies. A key target is to develop a new operating model for the organisation towards further enhancing with effectiveness of human resource frameworks and systems. The Bank aims to create propitious grounds for efficiently delivering essential HR services and ensuring that all MCB employees and HR processes work in close alignment to build customer connectivity, innovation and talent capabilities across the organisation.

From a specific angle, the project seeks to help us better understand our human resource development challenges and priorities in order to develop adapted and pragmatic action points for the organisation, whilst establishing a proper learning journey that is best adapted to the context and environment in which we want to operate. It aims to provide improved assistance to the business towards anchoring strong customer focus, high workforce engagement and seamless operations. Of note, towards formulating the HRTP, we retained the services of a world-renowned HR consulting practice.

**Key objectives**

- Develop enterprise wide talent management strategies such as succession planning, workforce planning, professional development programs
- Provide strategic partnering, guidance and assistance to business leaders to directly support key capabilities of the business
- Ensure optimal and cost-effective HR Operations to enhance the efficiency and effectiveness of operational processes
- Reinforce HR practices which will deliver key capabilities and address business needs

Alain LAW MIN  
Chief Executive Officer

Raoul GUFFLET  
Deputy Chief Executive
Corporate Governance Report
Compliance with the National Code of Corporate Governance for Mauritius (2016)

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

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

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<tr>
<th>Principles of the Code</th>
<th>Relevant sections of the Annual Report</th>
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<td><strong>Principle 1: Governance Structure</strong></td>
<td>• Our Corporate Profile</td>
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<td>• Corporate Governance Report</td>
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<td><strong>Principle 2: The Structure of the Board and its Committees</strong></td>
<td>• Corporate Governance Report</td>
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<td><strong>Principle 3: Director Appointment Procedures</strong></td>
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<td><strong>Principle 4: Director Duties, Remuneration and Performance</strong></td>
<td>• Our Corporate Strategy</td>
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<td></td>
<td>• Corporate Governance Report</td>
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<td><strong>Principle 5: Risk Governance and Internal Control</strong></td>
<td>• Corporate Governance Report</td>
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<td></td>
<td>• Risk and Capital Management Report</td>
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<td><strong>Principle 6: Reporting with Integrity</strong></td>
<td>• Our Corporate Strategy</td>
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<td></td>
<td>• Corporate Governance Report</td>
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<td><strong>Principle 7: Audit</strong></td>
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<td>• Risk and Capital Management Report</td>
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<tr>
<td><strong>Principle 8: Relations with Shareholders and Other Key Stakeholders</strong></td>
<td>• Our Corporate Strategy</td>
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<td></td>
<td>• Corporate Governance Report</td>
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Note: The sections ‘Our Corporate Profile’, ‘Our Corporate Strategy’ and ‘Risk and Capital Management Report’ can be found on pages 17 to 30, pages 31 to 56 and pages 114 to 148 respectively.
Our philosophy

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

- **Strong commitment to ethics and values**
  - Adherence to the Mauritius Bankers Association’s Code of Ethics and Banking Practice (2016)
  - Application of the Group’s ‘Code of Ethics’, approved and monitored by the Board
  - Whistleblowing Policy allowing employees to report matters of concern in strict confidentiality

- **Strict compliance to rules and regulations**
  - Compliance with the National Code of Corporate Governance for Mauritius (2016)
  - Adherence to Bank of Mauritius Guidelines
  - Compliance with relevant international reporting requirements
  - Adoption of the underlying Basel principles

- **Robust risk governance and internal control**
  - Board responsible for oversight and monitoring of risk profile against risk appetite through adapted frameworks
  - Dedicated functions in place to ensure risks are properly identified, measured and monitored
  - Provision of independent assurance by both internal and external auditors

- **Continuous multi-stakeholder engagement**
  - Help customers achieve their goals and support economic development
  - Promotion of community well-being and adoption of environment-friendly practices
  - Fostering of human resource development and staff welfare
  - Ongoing dialogue and transparent communication with the investment community
Governance structure

Governance framework

MCB Ltd is led by a committed and unitary Board, which has the ultimate collective responsibility for the overall stewardship and oversight of the organisation. The Bank operates within a clearly defined governance framework, which provides for delegation of authority and clear lines of responsibility without abdicating the Board’s responsibility. In order to carry out its duties effectively, the Board has established five Committees mandated to provide specific expertise to the Board in matters affecting the Bank’s business and affairs. Through this framework, the Board sets out the strategic directions of the Bank and has entrusted the day-to-day running of the organisation to the Leadership Team, with their performance against set objectives and policies closely monitored. The fundamental relationships among the Board, Board Committees and Leadership Team as well as their main respective roles are illustrated in the following diagram.
The Board Charter and the Position Statements, which have been approved by the Board and are regularly reviewed, provide for a clear definition of the roles and responsibilities of the Chairperson, executive and non-executive directors as well as the Company Secretary. The role of the Chairperson is distinct and separate from that of the Chief Executive and there is a clear division of responsibilities with the Chairperson leading the Board and the Chief Executive managing the Bank’s business on a day-to-day basis. The Board ensures that external obligations of non-executive directors do not hinder the discharge of their duties and responsibilities. In this respect, it is to be noted that the external commitments of the Chairperson did not change during the financial year 2017/18.

**Key roles and responsibilities**

<table>
<thead>
<tr>
<th>Chairperson</th>
<th>Chief Executive</th>
<th>Directors</th>
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<tbody>
<tr>
<td>• Provides overall leadership to the Board</td>
<td>• Manages the day-to-day operations</td>
<td>• Contribute to the development of Bank’s strategy</td>
</tr>
<tr>
<td>• Ensures that the Board is effective in its duties of setting out and implementing the Bank’s strategy</td>
<td>• Develops and executes the plans and strategy of the business in line with the policies set by the Board</td>
<td>• Analyse and monitor the performance of the Leadership Team against the set objectives</td>
</tr>
<tr>
<td>• Ensures that committees are properly structured with appropriate terms of reference</td>
<td>• Consults regularly with the Chairperson and Board on matters which may have a material impact on the Bank</td>
<td>• Ensure that the Bank has adequate and proper internal controls as well as a robust system of risk management</td>
</tr>
<tr>
<td>• Presides and conducts meetings effectively</td>
<td>• Acts as a liaison between the Leadership Team and the Board</td>
<td>• Ensure that financial information released to markets and shareholder is accurate</td>
</tr>
<tr>
<td>• Advises and provides support and supervision to the Chief Executive</td>
<td>• Provides leadership and direction to Business Executives</td>
<td>• Actively participate in Board decision-making and constructively challenge, if necessary, proposals presented by Management</td>
</tr>
<tr>
<td>• Ensures that directors receive accurate, timely and clear information</td>
<td>• Builds, protects and enhances the Bank’s brand value</td>
<td>• Provide specialist knowledge and experience to the Board</td>
</tr>
<tr>
<td>• Ensures that development needs of the directors are identified and that appropriate training is provided to continuously update their skills and knowledge</td>
<td>• Ensures the Bank has implemented the necessary frameworks and structures to identify, assess and mitigate risks</td>
<td>• Remain permanently bound by fiduciary duties and duties of care and skill</td>
</tr>
<tr>
<td>• Oversees the succession planning process</td>
<td>• Ensures the maintenance of a sound internal control system</td>
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<tr>
<td>• Maintains sound relations with the shareholder</td>
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</table>

**Company Secretary**

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

*More information on the key roles is available on the website*
Constitution of The Mauritius Commercial Bank Limited

The salient features of the Bank’s Constitution are highlighted below:

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

More information on the Constitution is available on the website
The Board

Mandate

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

Responsibilities

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

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

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

Composition

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

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

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th>Financial</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Assessed and monitored the Bank’s financial performance against budget</td>
<td></td>
</tr>
<tr>
<td>• Approved declaration of interim and final dividends</td>
<td></td>
</tr>
<tr>
<td>• Reviewed reports from the Audit Committee</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recurrent agenda items</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Approved the minutes of proceedings</td>
<td></td>
</tr>
<tr>
<td>• Reviewed reports from Chairpersons of Committees</td>
<td></td>
</tr>
<tr>
<td>• Reviewed and approved the Bank’s accounts on a quarterly basis</td>
<td></td>
</tr>
<tr>
<td>• Updated on developments in the operating environment</td>
<td></td>
</tr>
</tbody>
</table>
Directors’ profiles

The profiles of the Board members as at end of the financial year under review are given hereunder. Their directorships in other listed companies (where applicable) are also provided. Unless otherwise stated in their respective profile, directors ordinarily reside in Mauritius.

Chairperson

Jean-Philippe COULIER – Age 69
Independent Non-Executive Director

Date of first appointment: December 2012

Qualifications: ‘Diplôme d’Études Supérieures en Droit’ and ‘Diplôme de l’Institut d’Études Politiques de Paris’ (France)

Skills and experience: During his career, Jean-Philippe has accumulated extensive experience in the banking sector, having worked for the Société Générale Group for some 40 years. Over this period, he has assumed a range of high-level responsibilities within the group, acting as Director, Chief Operating Officer and Chief Executive Officer in its various offices based worldwide. Before his retirement from Société Générale in early 2013, he was the Vice Chairman and Managing Director of the National Société Générale Bank in Cairo, Egypt. He currently sits on the Board of MCB Forward Foundation, a subsidiary of MCB Group Ltd.

Board Committee memberships: Nomination and Remuneration Committee (Chairperson); Supervisory and Monitoring Committee (Chairperson); Risk Monitoring Committee

Executive Directors

Alain LAW MIN – Age 59
Chief Executive Officer

Date of first appointment: August 2015

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

Skills and Experience: Prior to being appointed Chief Executive Officer in 2017, Alain was the Head of the Retail SBU, responsible for the Affluent, Individual and Business customer segments, the multi-channel distribution, including the branch network, as well as the ‘Retail Product’ and ‘Operations and Service’ units. He previously launched the leasing, factoring and private banking services of MCB Ltd and acted as Project Director for the Business Process Re-engineering exercise initiated with Accenture in 2001. Before joining the Bank, he was Senior Manager at De Chazal Du Mée’s Consulting division. He is currently a director of Finlease Co. Ltd and MCB Forward Foundation, both subsidiaries of MCB Group Ltd.

Board Committee memberships: Supervisory and Monitoring Committee; Risk Monitoring Committee; Nomination and Remuneration Committee
Raoul GUFFLET – Age 50
Deputy Chief Executive

Date of first appointment: August 2015

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

Skills and experience: Since joining MCB Ltd in 2004, Raoul has had a long experience in the debt market, helped set-up the MCB Equity Fund and was Head of International. In 2016, he was appointed Head of Corporate and Institutional Banking after overseeing the merger of the domestic and international wholesale banking segments. Earlier in his career, he worked with PricewaterhouseCoopers where he spent several years in auditing, strategy consulting, restructurings and corporate advisory in France and East Europe. He has been exposed to financial institutions in both developed and transitional economies through several World Bank and European Bank Reconstruction Development institutional strengthening studies. He is currently the Chairperson of the Assets & Liabilities Committee of the Bank and is a Board member of several entities within the Group, namely Société Générale Moçambique, MCB Madagascar, MCB Seychelles and MCB Maldives amongst others.

Board Committee membership: Supervisory and Monitoring Committee (also acts as Secretary)

Non-Executive Director

Jean Michel NG TSEUNG – Age 50

Date of first appointment: August 2015

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

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

Board Committee membership: Risk Monitoring Committee
Independent Non-Executive Directors

Priscilla BALGOBIN-BHOYRUL – Age 43

Date of first appointment: December 2012

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

Skills and experience: Priscilla practices as a barrister in Mauritius and has been called to the Bar of England and Wales as well as to the Mauritian Bar. She specialises mostly in civil, commercial, banking and industrial law matters. Priscilla has been a director of the Mauritius Union Assurance Company Ltd, where she also sat on the Audit Committee and is the former Chairperson of the Sugar Investment Trust Property Development Ltd. She occupies various positions within local and international organisations and is presently the National President of the World Jurist Association as well as a board member of Global Finance Mauritius.

Board Committee memberships: Audit Committee; Conduct Review Committee

Jonathan CRICHTON – Age 63

Date of first appointment: December 2013

Qualifications: Combined Honours Degree in History and Politics (UK), ‘Diplôme IEHEI’ (France), Associate of the Institute of Financial Services (UK), and Fellow of Finsia (Australia)

Skills and experience: Jonathan retired in 2012 from HSBC after 32 years as an International Manager. He held a wide range of senior positions in the EMEA and Asia Pacific regions of the group covering corporate and retail banking as well as control support functions such as Audit and Risk. He was a board member and Chairperson of several HSBC bank subsidiaries.

Board Committee membership: Risk Monitoring Committee (Chairperson)

Uday GUJADHUR – Age 63

Date of first appointment: December 2017

Qualifications: Chartered Certified Accountant (UK)

Skills and experience: Uday has over 40 years of professional experience in the fields of auditing, taxation, consulting and structuring. He has been involved in advising both local and international firms in various business sectors including investment funds seeking listing on the Stock Exchange of Mauritius. Between 1986 and 1994, he carried out several audits of companies and projects financed by the World Bank and African Development Bank in African countries. Until October 2008, he was the Chief Executive Officer, Director and shareholder of a major Trust and Fiduciary company in Mauritius. He also served as a board member of Global Finance Mauritius, a company regrouping various stakeholders in the Financial Services Industry. He was a member of the Consultative committee set up by the Government of Mauritius to advise on the reforms to the non-banking financial services sector in 2000 which led to the setting up of the Financial Services Commission and the enactment of a new legal and regulatory framework in 2001. He is the Founder member of the International Fiscal Association IFA (Mauritius branch) and currently serves as an independent non-executive director of companies including investment funds and entities listed on the Stock Exchange of Mauritius.
Board Committee memberships: Audit Committee (Chairperson); Conduct Review Committee

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

Philippe LEDESMA – Age 60

Date of first appointment: December 2017

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

Skills and experience: Philippe has more than 25 years practice as a tax and business law adviser for governments, international financial institutions, banks and private groups in various countries. He has a dual experience both as an in-house lawyer and as a lawyer within large consultancy groups and specialises in mergers and acquisitions, restructuring and privatisation process, drafting of new legal frameworks, negotiation and drafting of commercial agreements and in tax planning, particularly through offshore vehicles registered in Mauritius. Previously, he has been a Counsellor for the French Foreign Trade and has advised a French world leader of the hotel industry as well as a French group of investors for the setting up of a five star hotel and real estate program in Mauritius. He has also been the leading counsel of the Malagasy authorities in respect of the privatisation process of a state owned company having a quasi-monopoly for marketing locally produced cotton. Furthermore, he was highly involved in a legal feasibility study in respect of an airline company to be created between the French West Indies and Metropolitan France and has also advised the Banque des Etats d’Afrique Centrale (BEAC) for the setting up of a regional stock exchange common to the six member States of the Central African Economic and Monetary Community (CEMAC) within a consortium led by the Stock Exchange of Mauritius.

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

Simon Pierre REY – Age 65

Date of first appointment: Was a non-executive director from 1994 to 1996 and in 2000. Re-appointed in December 2013

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

Skills and experience: Simon Pierre has worked for some 25 years with Ireland Blyth Limited in the finance field until his retirement in December 2012. During this period, he has occupied important ranks within the group, notably as Group Finance Director/Controller, Company Secretary and Chief Operating Officer, amongst others. Furthermore, he was a board member of various companies within the Ireland Blyth Group, whilst serving on several board committees of these entities, namely the Audit and the Corporate Governance Committees.

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

Directorships in other listed companies: ENL Commercial Ltd; ENL Land Ltd
Directors’ remuneration

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

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

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

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

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

Remuneration and benefits received by Jean Michel NG TSEUNG are paid by MCB Investment Holding Ltd in his capacity as Chief Executive of the latter.
Directors’ interests and dealings in securities

MCB Investment Holding Ltd being the sole direct shareholder of MCB Ltd, the directors do not hold shares of their own company. However, regarding directors’ dealings in the Group’s securities, the directors confirm that they have followed the absolute prohibition principles and notification requirements of the model code for securities transactions by directors as detailed in Appendix 6 of the Stock Exchange of Mauritius Listing Rules.

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

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

<table>
<thead>
<tr>
<th>Interests in MCB Group Ltd shares as at 30 June 2018</th>
<th>Number of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct</td>
</tr>
<tr>
<td>Jean-Philippe COULIER</td>
<td>20,500</td>
</tr>
<tr>
<td>Priscilla BALGOBIN-BHOYRUL</td>
<td>500</td>
</tr>
<tr>
<td>Raoul GUFFLET</td>
<td>69,503</td>
</tr>
<tr>
<td>Uday GUJADHUR</td>
<td>-</td>
</tr>
<tr>
<td>Alain LAW MIN</td>
<td>196,216</td>
</tr>
<tr>
<td>Philippe LEDESMA</td>
<td>-</td>
</tr>
<tr>
<td>Jean Michel NG TSEUNG</td>
<td>18,423</td>
</tr>
<tr>
<td>Simon Pierre REY</td>
<td>21,936</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transactions during the year</th>
<th>Number of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Purchased</td>
</tr>
<tr>
<td>Raoul GUFFLET</td>
<td>31,305</td>
</tr>
<tr>
<td>Alain LAW MIN</td>
<td>15,838</td>
</tr>
<tr>
<td>Jean Michel NG TSEUNG</td>
<td>10,538</td>
</tr>
<tr>
<td>Simon Pierre REY</td>
<td>59,300</td>
</tr>
</tbody>
</table>
Directors’ service contracts

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

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

Supervisory and Monitoring Committee (SMC)

Mandate

The SMC assists the Board in setting the development strategy and objectives of MCB Ltd and submitting it to the Board whilst monitoring and measuring the Bank’s performance against such strategy. It oversees the overall management of the Bank in accordance with set policies.

Composition and meetings

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

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

<table>
<thead>
<tr>
<th>Members</th>
<th>Committee member since</th>
<th>Board status</th>
<th>Meeting attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jean-Philippe COULIER <em>(Chairperson)</em></td>
<td>January 2014</td>
<td>Independent Non-Executive Director</td>
<td>25/25</td>
</tr>
<tr>
<td>Raoul GUFFLET <em>(also acts as Secretary)</em></td>
<td>July 2015</td>
<td>Executive Director</td>
<td>19/25</td>
</tr>
<tr>
<td>Alain LAW MIN</td>
<td>July 2015</td>
<td>Executive Director</td>
<td>24/25</td>
</tr>
</tbody>
</table>
Focus areas in FY 2017/18

Key topics discussed

- Progress on key organisation wide initiatives such as the HR and Digital Transformation projects
- Prospective candidates for senior positions
- Development of the growth pillars of the Bank
- Operating environment of the Bank
- Strategic orientations and alignment of Treasury activities
- Major credit risk issues
- Legal, operational and compliance issues
- Initiation of the Sustainable Development Project
- Large credit exposures ratification

Audit Committee (AC)

Mandate

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

Composition and meetings

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

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

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

Secretary: MCB Group Corporate Services Ltd (represented by Marivonne OXENHAM)
Focus areas in FY 2017/18

Key topics discussed

- Interim and audited financial statements published by the Bank with recommendations made to the Board
- Reports from internal and external auditors and actions taken accordingly
- Audit plans of internal and external auditors
- Compliance work plan/reports and actions taken
- Operational and information risk reports
- Adequacy of allowance for credit impairment
- Progress on the implementation of IFRS9
- Ongoing activities of some selected business segments

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

Risk Monitoring Committee (RMC)

Mandate

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

Composition and attendance

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

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

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

Secretary: Frederic PAPOCCHIA (Chief Risk Officer)
Focus areas in FY 2017/18

<table>
<thead>
<tr>
<th>Key topics discussed</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Bank’s risk appetite</td>
</tr>
<tr>
<td>Country risk limits</td>
</tr>
<tr>
<td>Risk portfolios against set limits</td>
</tr>
<tr>
<td>Principal risks such as credit, market, information and operational risks and actions taken to mitigate them</td>
</tr>
<tr>
<td>The stress testing results in terms of capital adequacy as part of ICAAP</td>
</tr>
<tr>
<td>Progress on the implementation of IFRS 9</td>
</tr>
<tr>
<td>Governance of the Permanent Control function</td>
</tr>
<tr>
<td>Credit Risk policy review</td>
</tr>
</tbody>
</table>

Nomination and Remuneration Committee (NRC)

Mandate

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

Composition and meetings

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

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

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

More information on the Risk Monitoring Committee Charter is available on the website
Focus areas in FY 2017/18

Key topics discussed

- Review of Board composition with recommendations made to the Board for replacement of two directors for approval at the Annual Meeting of Shareholders
- Induction programme for new directors
- Board Committees composition
- Performance evaluation and reward system of the Bank
- Directors’ fees for Board and Board Committees
- Review of the appointment of senior officers to the Leadership Team with proposal submitted to the Board

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

Conduct Review Committee (CRC)

Mandate

The CRC assists the Board in monitoring and reviewing related party transactions, their terms and conditions, and ensuring the effectiveness of established procedures and compliance with the Bank of Mauritius Guidelines.

Composition and meetings

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

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

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

Secretary: Frederic PAPOCCHIA (Chief Risk Officer)
Focus areas in FY 2017/18

Key topics discussed

- Credit facilities granted to related parties
- Reporting to the BoM on related party exposures
- Reports with respect to deposits of related parties
- Financial positions (exposures and deposits) relating to external auditor as well as partners in charge of the audit of the Bank

Board effectiveness

Nomination process

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

More information on the nomination and appointment process is available on the website
Board induction and training

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

Induction/training programme

- **Handbook** which includes information on a broad range of matters relating to the role of directors, constitutive documents, recent Board papers, disclosure requirements with respect to directors’ interests and details of applicable procedures.

- **Induction pack**

- **One-to-one briefings**

- **Presentation sessions**

- **Ongoing professional development and training**

Enable directors to update their skills and knowledge, by providing insight into specific areas of strategic focus and current topics of interest as well as other training with respect to specific requirements of directors.

Provide directors with the opportunity to interact with the Chairperson, Company Secretary and senior executives across the Bank with the nature and extent of these consultations depending on the specific needs of the directors.

Provide directors with an overview of the Bank’s organisational structure, financial performance and strategic orientations, activities of the different business segments as well as specific areas of interest.

Briefing and reading materials are made available on the Board Portal for consultation.
Board/Directors’ performance

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

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

Risk management and internal control

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

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

More information is available in the ‘Risk and Capital Management Report’ on pages 114 to 148

Information governance

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

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

With a view to ensuring the overall adequacy of the Bank’s internal control framework, the Audit Committee evaluates the independence and effectiveness of the external auditor on an ongoing basis before making a recommendation to the Board on their appointment and retention. The proposal to reappoint PricewaterhouseCoopers (PwC), which was first appointed in 2015 as external auditor, was approved by shareholders at the Annual Meeting of Shareholders of MCB Ltd, held in December 2017. As regards the timeframe, the total duration of the audit assignment is for a period of one year with the possibility of reappointment of the selected firm/s annually, subject to regulatory provisions and approval at the Annual Meeting of Shareholders of MCB Ltd. The latter retains the right to renew and extend the contract following an assessment by the Audit Committee of the external auditor’s overall scope, terms of reference and independence.

**Non-audit services**

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

**Auditor’s fees and fees for other services**

<table>
<thead>
<tr>
<th></th>
<th>MCB Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td></td>
<td>Rs '000</td>
</tr>
<tr>
<td>Audit fees paid to:</td>
<td></td>
</tr>
<tr>
<td>PricewaterhouseCoopers</td>
<td>18,597</td>
</tr>
<tr>
<td>Fees for other services provided by:</td>
<td></td>
</tr>
<tr>
<td>PricewaterhouseCoopers</td>
<td>3,240</td>
</tr>
</tbody>
</table>

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

**Business executives**

The conduct of business is entrusted to the Leadership Team of the Bank which has the responsibility to operate within the strategic framework, risk appetites and policies set by the Board while adhering to regulatory requirements. To this end, various committees involving the Bank’s senior officers are in place to deliberate on key issues for informed decision making. Business Executives assist the Chief Executive Officer and Deputy Chief Executive to manage the day-to-day running of the Bank’s business and affairs. Of note also,
oversight and monitoring of the various risk areas within the business are exercised through dedicated standing committees, namely the Executive Credit Committee, the Information Risk, Operational Risk and Compliance Committee and the Asset and Liability Committee.

Profiles of business executives

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

Vincent CHATARD – Age 54
Chief Operating Officer

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

*Skills and experience:* Vincent was appointed Chief Operating Officer in September 2015 and since February 2018, he is also steering the Digital Transformation Programme. He has accumulated wide-ranging experience in the banking sector, having occupied a number of senior executive positions in international banks. He spent 7 years working for Crédit Lyonnais International before joining KPMG France as a Management Consultant in 1995. In 1997, he was appointed as Head of Information Technology and Organisation of Banque Robeco France (a Personal Banking Unit of the Rabobank Group). From 2000 to 2008, he was appointed Chief Information Officer and Senior Vice-President Business Development of ING Direct, to establish the units both in France and the UK. From 2008 to 2011, he launched and was the Chief Operating Officer of BforBank, the direct banking unit of Crédit Agricole. He then acted as Chief Operating Officer, Chief Business Development Officer and Executive Board Director of Mediterranean Bank, a privately owned investment and wealth bank operating in Malta and Belgium prior to joining MCB Ltd.

Mike SOPHIE – Age 49
Head of Human Resources

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

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

Bhavish NAECK – Age 47
Head of Finance

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

*Skills and experience:* Bhavish, who is the first MCB Foundation scholar, spent some years in Singapore, working in the Audit and Business Advisory division of Deloitte & Touche and as Financial Controller at JDA Asia, a subsidiary of a listed NASDAQ entity. After a
stint at Sun Resorts, he joined MCB in May 2000 as Manager – Investment Administration and then worked as Project Leader on the Business Process Re-engineering project in 2001. Since January 2014, he heads the Finance SBU where he is responsible for the provision of internal and external financial/regulatory reports, budgeting and forecasting and provides key support to the main committees of the Bank.

Frederic PAPOCCHIA – Age 44
Chief Risk Officer

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

Skills and experience: Frederic was appointed Chief Risk Officer in January 2016. He joined MCB in July 2012 as a Consultant to the Group Chief Executive and worked on various projects in the risk arena. He then took office as Deputy Chief Risk Officer in April 2014 and currently oversees the Credit Risk, Credit Management, Credit Modelling, Recovery Business and Market Risk Units of the Bank. As part of his ongoing responsibilities, he also acts as Secretary to the Executive Credit Committee of the Bank and to the Conduct Review Committee of the Board. Prior to joining MCB, he had accumulated extensive experience in management consultancy particularly in areas of risk management and regulation, during which he engaged with several large banks such as Bank of America, Société Générale and BNP Paribas, working on various assignments including the implementation of the Basel 2 and Basel 2.5 reforms, the development of stress-testing frameworks and the review of credit origination frameworks.

Interests in shares

The following table gives the interests of Business Executives in the Group’s listed securities at the end of the financial year.

<table>
<thead>
<tr>
<th>Interests as at 30 June 2018 (number)</th>
<th>MCB Group Ltd shares</th>
<th>MCB Group Ltd Subordinated Notes</th>
<th>MCB Group Ltd Floating Rate Senior Unsecured Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct</td>
<td>Indirect</td>
<td>Direct</td>
</tr>
<tr>
<td>Bhavish NAECK</td>
<td>22,444</td>
<td>5,194</td>
<td>1,000</td>
</tr>
<tr>
<td>Frederic PAPOCCHIA</td>
<td>7,673</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mike SOPHIE</td>
<td>1,119</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

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

Remuneration

The aggregate amount paid to the Business Executives in terms of remuneration can be found in Note 36 of the Financial Statements.
Related party transactions

For the purposes of these Financial Statements, parties are considered to be related to the Bank if they have the ability, directly or indirectly, to control the Bank or exercise significant influence over the Bank in making financial and operating decisions, or vice versa, or if they and the Bank are subject to common control. Related parties may be individuals or other entities. The Bank of Mauritius Guideline on Related Party Transactions, issued in January 2009 and revised in June 2015, is articulated around three main elements:

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

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

Related party transactions include:

- loans, finance leases and service agreements;
- guarantees issued on behalf of a related party;
- investments in any securities of a related party;
- deposits and placements; and
- professional service contracts.

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

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

Category 3 above, as well as exposures representing less than 2% of the institution’s Tier 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 34 to the Financial Statements sets out on- and off-balance sheet exposures to related parties as at 30 June 2018.

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

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

None of the loans granted to related parties was non-performing as at 30 June 2018, except for an exposure of Rs 196 million on a group of companies where one of the Group’s directors has a minority stake. This group of customers has entered into a scheme of arrangement with its creditors. Interest on this group’s debts has been suspended and expected losses have been provided for in the financial statements.

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

Stakeholders’ relations and communication

The Board is committed to building open and trusted relationships with stakeholders and the public at large through regular engagement. All material business developments that influence the Bank are communicated to stakeholders in a transparent and timely manner through various communication channels. In addition to official press announcements, occasional press conferences, the Bank’s website, hosted at www.mcb.mu, provides for an adapted and comprehensive self-service interface.

Shareholders agreement

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

Dividend policy

Although there is no formal dividend policy, the Company aims to supply its shareholder with adequate returns to meet the objective of the Group to have a stable and relatively predictable dividend path.
Statement of Directors’ responsibilities

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

- ensure that adequate accounting records and an effective system of internal controls and risk management have been maintained;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been adhered to, subject to any material departures disclosed, explained and quantified in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business;
- keep proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank while ensuring that the Financial Statements fairly present the state of affairs of the Bank, as at the financial year end, and the results of its operations and cash flows for that period; and
- ensure that the Financial Statements have been prepared in accordance with and comply with International Financial Reporting Standards, the Mauritian Companies Act 2001 as well as the requirements of the Banking Act 2004 and the guidelines issued thereunder.

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

The directors report that:

- adequate accounting records and an effective system of internal controls and risk management have been maintained;
- the Financial Statements fairly present the state of affairs of the Bank, as at the financial year end, and the results of its operations and cash flows for that period;
- appropriate accounting policies supported by reasonable and prudent judgements and estimates have been consistently used; and
- International Financial Reporting Standards, the Mauritian Companies Act 2001, as well as the requirements of the Banking Act 2004 and the guidelines issued hereunder have been adhered to;
- the Financial Statements have been prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

On behalf of the Board.

Jean-Philippe COULIER
Chairperson

Alain LAW MIN
Chief Executive Officer
Statement of Compliance

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

**Name of Public Interest Entity ('the PIE'):** The Mauritius Commercial Bank Limited

**Reporting Period:** 1 July 2017 to 30 June 2018

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

Jean-Philippe COULIER
Chairperson

26 September 2018

Alain LAW MIN
Director

Company Secretary’s certificate

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

Marivonne OXENHAM
Per MCB Group Corporate Services Ltd
Company Secretary

26 September 2018
Risk and Capital Management Report
Introduction

Our philosophy

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

Our key targets and objectives

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

Our guiding principles

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

Our financial soundness

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

<table>
<thead>
<tr>
<th>Risk-weighted assets by type of risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit risk</td>
</tr>
<tr>
<td>89%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FY 2017/18: Our risk profile</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital adequacy ratio</strong></td>
</tr>
<tr>
<td>15.0% (2017: 16.8%)</td>
</tr>
<tr>
<td><strong>Tier 1 capital ratio</strong></td>
</tr>
<tr>
<td>14.2% (2017: 15.8%)</td>
</tr>
<tr>
<td><strong>Liquidity coverage ratio</strong></td>
</tr>
<tr>
<td>203% (2017: 186%)</td>
</tr>
<tr>
<td><em><em>Liquid assets</em> to deposits ratio</em>*</td>
</tr>
<tr>
<td>47.5% (2017: 52.2%)</td>
</tr>
<tr>
<td><strong>Gross NPL ratio</strong></td>
</tr>
<tr>
<td>4.1% (2017: 5.9%)</td>
</tr>
<tr>
<td><strong>Provision coverage ratio</strong></td>
</tr>
<tr>
<td>49.2% (2017: 39.8%)</td>
</tr>
</tbody>
</table>

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

- The Bank has moved forward to ensure its readiness for the timely implementation of IFRS 9, notably the adoption of ‘Expected Credit Loss’ (ECL) models to determine allowances for credit impairment. The new standard has become effective as from financial period beginning on or after 1 January 2018. Consequently, our first financial accounts to be produced under IFRS 9 will pertain to the financial year beginning 1 July 2018. As a key step to foster adherence to the new reporting standards, the Bank set up a Credit Modelling BU. The latter, operating under the aegis of the Chief Risk Officer, is responsible for analysing data as well as developing, maintaining and validating models for credit application, Basel Capital Accord reporting and IFRS 9 modelling purposes. It is also mandated to identify new opportunities to enhance credit decisions and risk management processes, in line with the strategic objectives of the Risk SBU and the Bank.

- The Bank ensured that strict adherence is fostered with relevant amendments made recently to legal and regulatory stipulations. Notably, the Bank of Mauritius (BoM) has issued a revised version of its Guideline on Liquidity Risk Management, effective November 2017, whereby it introduced minimum phased-in standards for the Liquidity Coverage Ratio (LCR). Basically, whilst we were already calculating and monitoring our LCR in previous years despite the rules not having been enforced in Mauritius, we have lately reinforced our ability to comply with the new instructions. In particular, alongside fostering judicious treasury management, we held additional FCY balances at the BoM and recorded higher investments in US treasury bills during the course of the year with a view to upholding appropriate levels of High Quality Liquid Assets in our books. In addition, we adopted the necessary moves in order to underpin our operations, with a key case in point being the upgrade of our liquidity risk information system.

- A key achievement of the Bank is the setting up of a Permanent Control function. The aim is to reinforce the risk monitoring process and improve the internal control system towards assisting the Bank in pursuing its business growth in a sound way. Key focus areas are as follows: (i) supervise the permanent monitoring of internal control processes across the Bank and cater for the development of an adequate risk culture; (ii) analyse, mitigate and manage the operational, information and compliance risks, alongside ensuring that corrective measures are identified and implemented; and (iii) strengthen procedures and controls with regard to KYC, anti-money laundering and combating the financing of terrorism, along with the analysis of client transactions.

- The year was also marked by the reinforcement of our capabilities and relevant frameworks to tackle emerging risks, notably cyber risks associated with the increased digitalisation of our operations. Dedicated training sessions to foster staff awareness of the matter have been conducted. A Cyber War game, involving Board members, the Leadership Team and senior staff was organised. On another note, the Bank further reinforced its management of compliance risk. Notably, while compliance officers were further empowered towards more effectively discharging their responsibilities, the dedicated function exercised appropriate oversight over the revision/implementation of relevant processes and systems enhancements aimed at fostering the Bank’s compliance with the amended Data Protection Act and advocated international standards, such as the European Union’s Markets in Financial Instruments Directive (MiFID) and the Common Reporting Standards elaborated by the OECD. Besides, specific committees were established at the level of the Bank’s business lines with a view to shoring up the customer onboarding process.
Project implementation

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

Progress status

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

- As to date, the project team has finalised the classification and measurement framework as well as the credit models underpinning the calculation of ECL. A review of the credit impairment policy was also conducted to ensure that the new processes put into place as well as the new impairment mechanisms operate within an appropriate governance framework.
Key focus areas for FY 2018/19

- Shore up our risk management framework and internal control system by reviewing, wherever relevant, policies, practices and processes, alongside ensuring adherence to legal and regulatory stipulations; appropriately calibrate our operations and processes for ensuring compliance with international norms, codes and standards; our key focus areas to notably include the following: (i) the operationalisation of relevant Permanent Control structures with a view to fostering the permanent monitoring of internal control plans performed across the organisation and ensure a risk culture development; and (ii) the reinforcement of our client onboarding and monitoring frameworks and processes.

- Ensure that our business expansion endeavours, notably on the international front, materialise in a sensible manner, backed by a close structuring of deals, adherence to an adapted risk appetite and systematic scrutiny of clients’ operating context.

- Set up the appropriate system architecture in order to support the comprehensive disclosure of IFRS 9 requirements; explore relevant opportunities engendered by the IFRS project to enhance the sophistication of MCB’s underwriting and risk management mechanisms, alongside building or reinforcing capabilities in the field of data analytics, statistical analysis, credit modelling and credit management.

- Judiciously take stock of, appraise and manage emerging risks, notably those linked to technological utilisation and recourse to innovative platforms, while bringing about relevant upgrades to the framework in terms of tools and processes.
Our risk management strategy

Key elements of our risk management set-up

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

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

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

The risk management framework of MCB Ltd defines the roles and responsibilities as well as the reporting lines for its business units. The allocation of responsibilities and segregation of duties are structured in a way to ensure that decisions are taken at the most appropriate levels, in alignment with the mandates of internal stakeholders and the strategic orientations pursued by the organisation. We adopt a robust three-lines-of-defence approach to effectively manage risks, based on transparency and accountability principles.

The Board of MCB Ltd has the ultimate responsibility to ensure that risks faced by the Bank are adequately identified, measured, monitored and managed in line with good corporate governance principles. It provides clear guidance as regard the setting out and regular review of applicable strategic thrusts, processes and policies for risk management. As a key focus area, the Board is responsible for the validation of the Bank’s risk appetite towards achieving its strategic objectives. The Board delegates authority to the Board committees to enable them formulate the specific responsibilities and required policies for effective risk management.

The Risk Monitoring Committee (RMC) is the primary Board committee overseeing risk matters. It assists the Board in setting up risk strategies as well as to assess and monitor the risk management process of the Bank. It recommends the risk appetite for credit and market risks to the Board for approval. It analyses risk portfolios against the set risk appetite, while also reviewing and exercising oversight over capital management. Regarding our market diversification strategy, the RMC is entrusted with the authority of determining the Bank’s overall international capital allocation and exposure limits while monitoring country exposures against set limits on a quarterly basis. Besides, it approves country risk policies and proposed amendments thereto, alongside reviewing the country risk framework and risk appetite parameters. Target risk profiles are set at Bank level as well as for each portfolio and are complemented
by target maturity profiles. Of note, four out of the five members of the RMC are non-executive directors, thus strengthening the Bank’s independent oversight and control functions.

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

Adherence to the three-lines-of-defence approach

<table>
<thead>
<tr>
<th>1st line of defence</th>
<th>Risk ownership</th>
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<tbody>
<tr>
<td>The first line owns risks emanating from deployed strategic activities. It is called upon to adopt adequate processes and mechanisms to suitably manage risks faced and escalate knowledge of risks identified in the course of activities for appropriate mitigating actions.</td>
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<tr>
<td>Employees engaged in client-facing divisions and support functions as well as business line managers have the first-level responsibility for day-to-day risk management in the interest of the Bank.</td>
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<table>
<thead>
<tr>
<th>2nd line of defence</th>
<th>Risk control and compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>The second line is mandated to establish the limits, rules and constraints under which the first line activities shall be performed.</td>
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</tr>
<tr>
<td>The Risk SBU bears the responsibility for providing independent risk control. It manages credit and market risks, alongside overseeing the credit management and recovery operations. While having an administrative reporting line to the Chief Executive, the CRO is accountable to the RMC for the monitoring and management of assigned risk areas. Managers catering for the latter are dedicated to establishing methodologies for risk measurement, while carrying out the regular monitoring and reporting of the Bank’s risk exposures and profiles.</td>
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<tr>
<td>The Permanent Control function, which reports to the Audit Committee, ensures that activities at the operational level are correctly handled and secured, alongside ensuring that compliance with relevant laws, regulations and codes of conduct is fostered.</td>
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</tr>
<tr>
<td>Independent teams oversee the legal and physical security functions. The Head of the Legal SBU acts as Money Laundering Reporting Officer to ensure strict independence. The Physical Security BU reports to the Chief Operating Officer’s office.</td>
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<thead>
<tr>
<th>3rd line of defence</th>
<th>Risk assurance</th>
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<tbody>
<tr>
<td>The Internal Audit SBU evaluates and provides independent assurance on the effectiveness of the risk governance, the control environment and risk management processes and mechanisms, in tune with business strategies and the evolving external environment.</td>
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<tr>
<td>The Internal Audit SBU provides independent assurance that the control objectives are achieved by the first and second lines of defence in line with the set risk appetite. From a governance perspective, the Internal Audit function, which has an administrative reporting line to the Chief Executive of the Bank, is accountable to the Audit Committee.</td>
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<tr>
<td>While reporting to the Head of Internal Audit, the Anti-Money Laundering/Fraud Prevention BU seeks to promote staff awareness on fraud risks and conducts enquiries with respect to cases of suspected fraud perpetrated internally or by outsiders. The function also provides assistance to the Money Laundering Reporting Officer as regards filing of suspicious transaction reports to the Financial Intelligence Unit.</td>
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The risk management framework also allows for dedicated committees to assist in the oversight and monitoring of various risk areas within the business.

<table>
<thead>
<tr>
<th>Sub-committees</th>
<th>Key responsibilities</th>
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<tr>
<td><strong>Credit risk</strong></td>
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</table>
| Executive Credit Committee (ECC)                       | • The ECC (A), which comprises, amongst others, the Chief Executive and Deputy Chief Executive, sanctions/declines credit applications where Group Total Commitment exceeds Rs 150 million  
  • The ECC (B) sanctions/declines credit applications with Total Client Commitment of up to Rs 150 million |
| Credit Committee                                       | • It sanctions/declines credit applications where Group Total Commitment is up to Rs 50 million for retail clients and Rs 60 million for corporate clients |
| Country Risk Committee (CRC)                           | • The CRC, which is chaired by the Chief Executive and comprises the Deputy Chief Executive and Chief Risk Officer as members, is responsible for setting individual country limits within the validated risk parameters as well as reporting any excesses observed to the RMC |
| **Market risk**                                        |                                                                                                                                                      |
| Asset and Liability Committee (ALCO)                   | • The purpose of the ALCO is to review and validate decisions – in consultation with relevant Heads of lines of business wherever relevant and applicable – in relation to the balance sheet structure of MCB. These decisions are taken with respect to the various dimensions of market, liquidity and funding risks faced by the Bank, while also making allowance for funds transfer pricing  
  • ALCO sets and reviews all trading book limits and banking book targets, in alignment with the diversification and growth of the Bank’s balance sheet, especially in terms of domestic and foreign currencies as well as from a consolidated perspective  
  • The committee, which comprises members of Executive Management, is chaired by the Deputy Chief Executive, with targeted monthly meetings or, as deemed necessary, ad-hoc and special meetings being held |
| **Operational risk**                                   |                                                                                                                                                      |
| Information Risk, Operational Risk and Compliance Committee (IORCC) | • The monitoring of the entire operational cycle is exercised through the IORCC, which is chaired by the Chief Executive. The IORCC acts as the focal point and coordinating committee with a view to ensuring that operational risk management is in line with the Operational Risk Policy. Significant operational risks are escalated to the IORCC and then, if warranted, to the RMC  
  • The responsibility for the implementation of strategies and monitoring of Business Continuity Management (BCM) is delegated to the IORCC |

**Our risk appetite and strategy**

The Bank clearly articulates its risk appetite framework to provide an informed guidance for the management and monitoring of its risk profile in relation to the defined risk appetite, alongside paving the way for the sound execution of its market development endeavours.

The purpose of setting risk appetite is not necessarily to limit risk-taking, but to cater for an alignment between the Bank’s risk profile and its strategic orientations. The Bank’s risk appetite is regularly updated to reflect the aspirations of its stakeholders and the operating environment. MCB _inter alia_ defines (i) its appetite for credit risk in terms, for example, of the allocation of range targets for domestic and international credit exposures, exposures by sectors, portfolios’ asset quality as well as the risk profile of the different portfolios; and (ii) its appetite for market risk in terms of the splits between domestic and international markets, foreign currency and interest rate exposures, exposure allocation for position-taking and target splits in terms of maturities of exposure. To underpin proper risk identification and quantification, the Bank caters for: (i) continuous monitoring of approved risk targets; (ii) quarterly risk reporting to RMC; (iii) preparation and use of risk reports for capital management purposes; and (iv) application of a stress-testing framework.
The Bank determines the maximum level of risk that it can assume given its current level of resources, relevant regulatory dispositions and stakeholder requirements, to the extent that these dynamics tend to shape and restrict the ability of the organisation to take risk.

The Bank ensures that its activities and operations are undertaken within the precinct of its risk appetite, which is the reasonable quantity and type of risk that the organisation is broadly able and willing to take in the pursuit of its operational, strategic and financial objectives.

The risk appetite is subject to constraints which are guided by the need to inter alia preserve credit quality, foster sound and sustainable revenue growth, and maintain good credit ratings.

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

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

To maintain the size of our risk profile within our risk appetite, risk control tools and mechanisms are leveraged. Our control activities are notably underpinned by the establishment of target market criteria and risk limits which places practical constraints on our business activities.
The size of the internal risk limits set by the Bank is a function of regulatory requirements and the risk appetite set by the Bank, after making allowance for the relevant economic and market environments. In its day-to-day business, the Bank makes use of internally-generated and externally-sourced rating tools for risk identification, quantification and monitoring.

### Limit structure

<table>
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<tr>
<th>Regulatory</th>
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<tr>
<td>Capital adequacy</td>
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<td>Credit concentration</td>
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<td>Macroprudential limits</td>
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<td>Related party lending</td>
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<td>Cash reserve ratio</td>
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<td>Liquidity Coverage Ratio</td>
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<td>Open FX position</td>
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### Internal limits and desired risk profile

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<tr>
<td>Country limit</td>
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<tr>
<td>Bank limit</td>
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<tr>
<td>Sectorial concentration</td>
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<tr>
<td>Portfolio risk profile</td>
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<td>Product limits</td>
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<tr>
<td>Counterparty credit risk limit</td>
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<tr>
<td>Valuation limit</td>
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<tr>
<td>Daily settlement limit</td>
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### Rating tools used by the Bank

#### Internally-developed model

- **Country rating model**
  - The rating monitors social unrest, nationalisation and expropriation of assets, Government repudiation of external indebtedness, foreign exchange controls and currency movements amongst others.

- **Bank scoring model**
  - The credit worthiness is assessed by assigning a score based on the Bank’s financial strength, the probability of receiving affiliate and/or Government support in case of financial stress as well as the sovereign risk of the country in which the institution operates.

- **Credit scoring model**
  - The rating assesses the credit standing, source of repayment and debt service ability of the borrower.

- **Customer rating software**
  - It evaluates the counterparty’s financial position and uses MCB’s historical default experience to generate ratings and Probability of Defaults.

#### External rating agencies

- **Moody’s Investor Service, Fitch Ratings, Standard & Poor’s and others as deemed appropriate**

- **CARE Ratings**
  - Financial obligations subscribed by the Bank in favour of corporate customers can be rated by CARE Ratings, with capital relief being applicable on investment-grade ratings.
Management of key risks

Credit risk

General approach

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

Risk measurement and monitoring

- Our credit risk measurement consists of appraising the track record of customers as appropriate for the prediction of likely future behaviours of existing accounts. Ultimately, the Bank assesses whether individual business areas provide sufficient contribution to the targeted risk-return profile. The aim is to ensure that capital allocation generates an optimum return for the Bank. This is achieved by channelling risk capital from low-return to high-return business areas, commensurate with the risks shouldered.
Key principles

- Credit facilities granted are guided by the credit standing, source of repayment and debt servicing ability of the borrower. As a fundamental credit principle, the Bank does not generally grant credit facilities solely on the basis of the collateral provided. Collateral is taken whenever possible to mitigate the credit risk assumed while additionally, being monitored periodically depending on the type, liquidity and volatility of the collateral value.
- The Bank has established credit rating frameworks that enable the extensive usage of ratings for its different portfolios. These ratings are leveraged not only in respect of loan approval but also in relation to credit review, monitoring of risk profiles and determining business strategies. They are also used for the purpose of the stress testing and limits determination exercises.

Retail

- Credit comprising mainly residential mortgages, unsecured loans and credit cards are managed on a portfolio basis. The exposures are assessed through credit scoring models, records from the Mauritius Credit Information Bureau, customers’ behavioural records as well as the application of relevant risk acceptance criteria. In collaboration with the Retail SBU, the Risk SBU regularly analyses default trends, identifies the underlying root causes and subsequently channels recommendations to Senior Management. The objective of such initiatives is to eventually fine-tune the relevant credit scoring parameters.

Corporate

- Large corporate credits are assessed on an individual basis with the support of an internally-developed Customer rating software. The latter evaluates the counterparty’s financial position and uses MCB’s historical default experience. The ratings and probability of default rates generated are typically used to measure the risk profile of the customers which consumes a sizeable proportion of capital resources and to calculate Expected Credit Losses (ECL). The counterparty risk rating assigned to smaller businesses is primarily based on their financial strength and account performance.

Risk mitigation and management

- Credit risk exposures are managed through the Bank’s robust credit assessment, structuring and monitoring process. The latter, under the responsibility of the Credit Management BU, involves the daily monitoring of credit limit excesses as well as review of all exposures, the frequency of which is increased in accordance to the size and likelihood of potential credit losses to ensure the timely detection of possible problem loans. Exposures showing signs of deterioration are placed on a watch list and referred to a dedicated team for closer scrutiny where appropriate.
- With respect to the determination and review of impairment and provisioning, the relevant exercise is undertaken on a quarterly basis by MCB and involves the collaboration of several internal stakeholders. After being reviewed, agreed upon by the RMC and validated by the Board, the figures are submitted to the Bank of Mauritius in line with regulatory reporting requirements. The BoM Guideline on Credit Impairment Measurement and Income Recognition aims to bring a balance between the application of international accounting norms (i.e. IAS 39) and regulatory prudential norms with a view to ensuring that financial institutions have adequate processes for determining allowance for credit losses in a timely manner and the carrying amounts of credit portfolio recoverable values. Whilst ‘objective evidence’ is considered under IAS 39 in determining whether an asset is impaired, prudential norms define credit as impaired if it is past due for more than 90 days. At MCB, loans are assessed as being impaired on case-by-case basis above a certain materiality threshold. Loans are written off when the prospect of recovery is poor and the loss can be reasonably determined. Furthermore, a financial institution is under the aforementioned guideline required to compute credit impairment provisions in terms of both the applicable accounting standard and the prudential provisioning norm prescribed by the Bank of Mauritius. As at 30 June 2018, MCB’s specific provision computed under accounting standard was higher than that determined by the prudential provisioning norm. Hence, as per BoM requirements, the entire specific provision computed under the accounting standard was treated as an expense in the statement of profit or loss account.
While being responsible for risk portfolio monitoring and risk measurement methodologies, the Credit Risk BU provides an independent and regular review of the aggregate loan portfolio in order to proactively manage the portfolio risk profile and minimise undue credit concentrations. Significant trends are regularly reported to the RMC as well as Senior Management and other relevant platforms such as the Corporate and Institutional Banking Portfolio Review Committee and the Retail Portfolio Forum. These, amongst others, relate to the credit risk profile of portfolios, segments and products including those pertaining to corporates and SMEs, as well as the financing structure of our Energy and Commodities portfolio and that of banks.

The main credit risk mitigation techniques applied by the Bank include security/collateral, netting, guarantees, credit insurance and political risk covers. Exposures arising from foreign exchange and derivatives are typically mitigated through agreements e.g. the International Swaps and Derivatives Association (ISDA) Master Agreements and Credit Support Annex (CSA) documentation.

**Country risk management**

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

**Concentration risk management**

The Bank promotes the diversification of its lending portfolio by setting industry sector limits based on forecasts spanning a five-year horizon with a view to ensuring that its performance is not negatively impacted by a large sectoral exposure default. Regular stress tests are performed on the portfolio to ensure that the Bank holds sufficient capital to withstand any loss arising from significant exposure to a sector, single customer and group of closely-related customers. Essentially, the Bank limits credit risk exposures and concentrations within the constraints of its Tier 1 capital, while complying with applicable regulatory instructions.

**Key metrics and outcomes**

During the year under review, the Bank has, alongside sustaining its business growth, set out to mitigate the riskiness of its activities, with the profiles of its exposures remaining within the precincts of its risk appetite. We held a diversified positioning across markets, which helped us remain well positioned in terms of credit concentration when compared to regulatory limits.

In spite of the challenging context in some markets, our asset quality metrics improved by an appreciable margin, backed by our prudent market development approach and active recovery efforts. The gross NPL ratio of the Bank fell by 170 basis points to reach 4.1% in FY 2017/18, while the corresponding ratio in net terms declined by 150 basis points to attain 2.8%. The overall cover ratio of NPLs by provisions stood at 49.2% at year end. The remaining portion is more than adequately covered by collateral, suitably discounted to reflect current market conditions and expected recovery time. The breakdown of specific and portfolio provision by industry is provided in Note 6(b) of the Financial Statements. Besides, additional provision for credit losses notably linked to the macroprudential policy measure set by the Bank of Mauritius is catered for in the Bank’s general banking reserves.
Notes:
(i) Risk exposures to banks relate to placements, advances and financial guarantees.
(ii) In FY 2017/18, exposures to banks fell considerably, with part thereof being shifted towards higher quality assets to meet LCR limits, while funding our international activities.
(iii) For each country/bank, the worst of the ratings assigned by Moody’s Investor Service, Standard & Poor’s and Fitch Ratings was selected and converted into a Moody’s equivalent rating; countries/banks unrated by the above rating agencies have been assigned a rating determined by our in-house models.

Diversification of exposures

Total risk-weighted exposures by region
(Excluding Mauritius, Maldives, Seychelles and Madagascar)

Sectorial distribution of credit to the private sector

Sub-Saharan Africa
Asia-Pacific
Europe
Middle East / North Africa
South and Central America / Caribbean
North America

Tourism
Traders
Construction (including property development)
Financial and business services
Manufacturing
Agriculture and fishing
Other sectors
Mortgages
Other retail loans
Credit cards

Net exposure (Rs bn)
Risk grade
Net exposure (Rs bn)

Jun 2016
Jun 2017
Jun 2018

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

#### Bank of Mauritius Guideline on Credit Concentration Risk

<table>
<thead>
<tr>
<th>Credit concentration limits (% of Bank’s Tier 1 capital)</th>
<th>Regulatory requirements</th>
<th>MCB Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate credit exposure to any single customer</td>
<td>Not exceed 25%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Aggregate credit exposure to any group of connected counterparties</td>
<td>Not exceed 40%</td>
<td>38.0%</td>
</tr>
<tr>
<td>Aggregate large credit exposures* to all customers and groups of connected counterparties</td>
<td>Not exceed 800%</td>
<td>279.2%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Gross exposure as at 30 June 2018</th>
<th>Total gross exposure</th>
<th>Risk capital consumed</th>
<th>Risk capital consumed as a % of total credit risk capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs bn</td>
<td>Rs bn</td>
<td>%</td>
</tr>
<tr>
<td>Top 5 customers / customer groups</td>
<td>45.5</td>
<td>4.5</td>
<td>13.7</td>
</tr>
<tr>
<td>Total large credit exposures</td>
<td>110.4</td>
<td>9.3</td>
<td>28.5</td>
</tr>
</tbody>
</table>

### Quality of exposures

<table>
<thead>
<tr>
<th>June 2018</th>
<th>Exposures</th>
<th>Non-performing loans (NPLs)</th>
<th>Allowances for credit impairment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs m</td>
<td>Mix (%)</td>
<td>Rs m % of loans</td>
</tr>
<tr>
<td>MCB Ltd</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to customers</td>
<td>194,445</td>
<td>94.0</td>
<td>8,508</td>
</tr>
<tr>
<td>Agriculture and fishing</td>
<td>8,007</td>
<td>3.9</td>
<td>616</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9,364</td>
<td>4.5</td>
<td>383</td>
</tr>
<tr>
<td>of which EPZ</td>
<td>3,153</td>
<td>1.5</td>
<td>57</td>
</tr>
<tr>
<td>Tourism</td>
<td>25,191</td>
<td>12.2</td>
<td>573</td>
</tr>
<tr>
<td>Transport</td>
<td>5,122</td>
<td>2.5</td>
<td>1,138</td>
</tr>
<tr>
<td>Construction (including property development)</td>
<td>15,483</td>
<td>7.5</td>
<td>1,408</td>
</tr>
<tr>
<td>Traders</td>
<td>37,305</td>
<td>18.0</td>
<td>1,569</td>
</tr>
<tr>
<td>Financial and business services</td>
<td>31,013</td>
<td>15.0</td>
<td>233</td>
</tr>
<tr>
<td>Personal and professional</td>
<td>39,948</td>
<td>19.3</td>
<td>1,744</td>
</tr>
<tr>
<td>of which credit cards</td>
<td>995</td>
<td>0.5</td>
<td>22</td>
</tr>
<tr>
<td>of which housing</td>
<td>26,896</td>
<td>13.0</td>
<td>774</td>
</tr>
<tr>
<td>Global Business Licence holders</td>
<td>15,928</td>
<td>7.7</td>
<td>428</td>
</tr>
<tr>
<td>Others</td>
<td>7,083</td>
<td>3.4</td>
<td>235</td>
</tr>
<tr>
<td>Corporate notes</td>
<td>7,049</td>
<td>3.4</td>
<td>-</td>
</tr>
<tr>
<td>Loans to banks</td>
<td>5,418</td>
<td>2.6</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>206,911</td>
<td>100.0</td>
<td>8,508</td>
</tr>
</tbody>
</table>

*Note: Figures may not add up to totals due to rounding*
Market risk

General approach

- All businesses involved in market risk activities of any kind are subject to the Bank’s Market Risk Policy. The latter covers the policies, principles and main functional responsibilities in relation to the management of market risk. It ensures that market risk origination, processing and valuation are appropriately segregated and undertaken. The Policy is approved by the Risk Monitoring Committee (RMC) and is reviewed periodically. The RMC meets on a quarterly basis and reviews a summary of market risk exposures, including regulatory and other developments affecting both the trading book and wider balance sheet of the Bank. Of note, the Market Risk BU is primarily focused on exercising overall control, monitoring and management of market and liquidity risks within MCB Ltd while assisting with the provision of financial position and risk analysis information to the ALCO and RMC.

- Our market risk management approach is governed by regulatory requirements, including those that are encompassed in applicable Bank of Mauritius Guidelines. They notably include the Guideline on Measurement and Management of Market Risk, the Guideline of Liquidity Risk Management and the Guideline on the Operational Framework for Primary Dealers.

Risk measurement and management

Interest rate risk

- MCB is mainly exposed to repricing risk in its banking book on account of the reset date of its on and off-balance sheet assets not coinciding exactly with that of its on and off-balance sheet liabilities. The Bank monitors the resulting mismatch through the conduct of interest rate risk gap analysis on both an earnings and economic value impact basis. It limits this source of risk through the application, in most cases, of floating interest rates that are linked to an index.

- The Bank also incurs interest rate risk in the trading book by virtue of (i) its primary dealership status in the local Government and/or BoM securities market; (ii) its trading positions in international fixed income securities of high credit quality; and (iii) the holding of net open positions in derivatives that are subject to daily revaluation. To constrain its exposure to interest rate risk in the trading book, the Bank sets Basis Point Value limits. Basically, the latter, which is a measure of the impact of price volatility on portfolio value, aims at limiting the loss in value as a result of a parallel upward shift of one basis point in applicable interest rates.

Foreign exchange risk

- Foreign exchange (FX) risk may be incurred from an on-balance sheet perspective, i.e. as a result of imbalances witnessed between the foreign currency composition of the Bank’s assets and liabilities. It can also be viewed from an off-balance sheet angle through the deployment of derivatives such as foreign exchange forwards.

- Exposure to FX risk is monitored against both the regulatory guideline and an internal target validated by the ALCO. Besides, several individual trading, transactional and periodic stop-loss limits, also reviewed annually by the ALCO, are set at individual desk and trader levels. The limits are system-embedded, with automatic email alerts launched to notify any breaches on a real-time basis to designated Bank personnel. We conduct Value-at-Risk (VaR) analyses linked to our main foreign exchange risk positions. We use a historical observation period of one year, with a 99% one-tailed confidence interval and a holding period of 10 days.

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1 Information in this section has been audited
Liquidity and funding risk

- The Bank manages the liquidity profile of its balance sheet through both short term liquidity management and long term strategic funding, while covering both local and foreign currencies. Towards this, the Bank operates mutually supporting lines of defence:

  o Cash flow management: MCB creates a continuously maturing stream of assets and liabilities through time, while avoiding undue accumulation of maturities in any one time band, especially those expected to mature in the close future. The Bank uses cash and liquidity gap profiles in both local and significant foreign currencies to monitor the impact of projected disbursements by lines of business. It also conducts the behavioural analysis of its non-maturity current and savings balances so as to assign an actuarial maturity profile which reflects the stickiness of such deposits.

  o Liquid assets buffer maintenance: The Bank holds a stock of high quality and unencumbered assets which it can rapidly dispose of in case required. The aim is to meet unexpected outflows of funds or substitute expected inflows of funds (such as loan instalments) that do not eventually materialise at little or no loss in market value. The stock of liquid assets is proactively managed to not only cover day-to-day cash management, but to also provide for an adequate coverage of the risk-weighted cash outflows associated with the standardised crisis scenario under the Basel III framework.

  o Funding management: The management of funding risk at the Bank relies, in particular, on the maintenance of a diversified liability base across different categories of depositors, alongside also covering a spectrum of short to medium term funding. The Bank also resorts to wholesale markets whenever required.

Key metrics and outcomes

Liquidity coverage ratio (LCR)

- In alignment with Basel III rules, the objective of the LCR is to promote the short-term resilience of a bank’s liquidity risk profile by ensuring that it maintains an adequate stock of unencumbered High Quality Liquid Assets (HQLA) in order to meet its liquidity requirements. As per regulatory stipulations in the Mauritian banking system, the LCR is computed as the ratio of the stock of unencumbered HQLA to the net cash outflows over the next 30 days in the event of an acute liquidity stress scenario. Under the transitional arrangements as set by the BoM, the stipulations that will unfold for the coming years are described in the table thereafter.

- As at 30 June 2018, the Bank comfortably overshot stipulated LCR requirements. It reported a consolidated LCR of 203%, which is equivalent to a surplus of around Rs 45 billion over stressed total net cash outflows. At a more granular level, we exceeded the mandatory LCR limits relating to rupee and significant foreign currencies. It can be recalled that HQLA eligible for the purpose of calculating the LCR under the BoM Guideline consist of cash or assets that can be converted into cash at little or no loss of value in markets. In this light, MCB maintained suitable levels of investment in sovereign, high-quality corporate and cash liquid assets.
### Bank of Mauritius: Transitional arrangements for Liquidity Coverage Ratio (LCR)

<table>
<thead>
<tr>
<th></th>
<th>As from 30 November 2017</th>
<th>As from 31 January 2018</th>
<th>As from 31 January 2019</th>
<th>As from 31 January 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>LCR in MUR</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>LCR in material foreign currencies</td>
<td>60%</td>
<td>70%</td>
<td>80%</td>
<td>100%</td>
</tr>
<tr>
<td>Consolidated LCR (in either MUR or USD)</td>
<td>60%</td>
<td>70%</td>
<td>80%</td>
<td>100%</td>
</tr>
<tr>
<td>Reporting timeframe</td>
<td>Within 20 working days from month end</td>
<td>Within 10 working days from month end</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### MCB Ltd: Liquidity coverage ratio

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

- Under Basel III, liquidity risk is also tackled by means of the NSFR, which aims to promote the resilience of a bank by requiring the latter to fund its activities with sufficiently stable sources of funding in such a way as to mitigate any future funding stress. The NSFR effectively recognises a bank’s maturity transformation role in the credit creation and resource allocation process. It seeks to limit its overreliance on short-term wholesale funding or the holding of large funding gaps to sustain rapid balance sheet growth.

- Though not yet a regulatory requirement in Mauritius, MCB regularly monitors its performance in terms of NSFR, which requires an amount of available stable funding to be maintained in relation to required stable funding. As at 30 June 2018, MCB Ltd reported an NSFR of 108%, which exceeds the minimum level recommended by Basel III, which is set to be at least 100% on an ongoing basis.

Operational risk

General approach

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

Risk measurement and monitoring

- The determination of the Bank’s risk exposure is anchored on the regular review of the operational risk inherent in processes and client solutions with monitoring thereof performed against acceptable tolerance limits. The use of the Basic Indicator Approach by the Bank provides a conservative and efficient approach for the calculation and reporting of the operational risk capital charge.

- The information on operational risk events is recorded in a centralised database, which enables systematic root cause and trend analysis for necessary corrective actions.

Risk mitigation and management

- As described in the Operational Risk Policy, the responsibility for implementing the Operational Risk Management Framework is entrusted to Senior Management. The Operational Risk BU is responsible for the implementation of policies for the identification, assessment and management of related risks. From a more holistic angle, operational risk management forms part of the day-to-day responsibilities of the Leadership Team and employees at all levels of the organisation.

- Operational risk mitigation relies on appropriate policies, processes and systems, backed by the clear segregation of duties, dual control as well as the regular verification and reconciliation of transactions. The control environment is also based on an appropriate risk culture which is fostered through risk awareness sessions targeting relevant audiences. An overview of both operational risk and Business Continuity Management is provided to new staff at the onset of their career through induction courses. The Operational Risk Management Framework relies on three primary lines of control as depicted below.
Operational risk is managed in a timely and effective manner through adherence to good practices for the prompt identification of risk incidents, the initiation of appropriate remedial actions and the reporting of such incidents to the Operational Risk function. The Operational Risk Cartography is leveraged not only for the assessment of operational risks and relevant controls but also for the identification and empowerment of Operational Risk Champions within each SBU of the Bank as the first point of contact for escalating risks to the Operational Risk BU. Risk transfer is, to some extent, executed through the insurance or outsourcing of non-banking activities where appropriate.

**Business Continuity Management (BCM)**

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

**Health and safety**

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

Information risk

General approach

- The Bank undertakes the regular conduct of information risk assessments so as to identify issues that can potentially harm the organisation’s information assets and recommend adequate mitigating controls.

Risk mitigation and management

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

Compliance risk

General approach

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

Risk mitigation and management

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

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

- In terms of our AML/CFT obligations, we ensure that the Bank has adequate processes, systems and controls to render its services inaccessible to criminals, including money launderers and terrorists or their financiers, alongside paving the way for suspicious activities to be tracked down. We inter alia ensure that staff is given appropriate training to help them identify suspicious transactions in keeping with legal and regulatory requirements.
- The Bank has also implemented a Whistleblowing Policy, whereby an alternative reporting process is established for use by all employees in confidence, without the risk of subsequent retaliation, victimisation, discrimination or disadvantage. The Whistleblowing Framework at MCB is designed to assist employees deemed to have discovered malpractices or impropriety.

**Risk Assurance: Internal Audit**

**General approach**

- The established framework of the internal audit activity at the Bank is risk-based. It seeks to continuously ensure that the Bank’s risk management, governance and internal control processes are operating effectively in alignment with the organisation’s goals.
• As a key thrust, the Bank aims to gather the necessary audit and risk insights in order to support its strategic orientations, notably its digital transformation endeavours and regional market diversification ambitions. More generally, while keeping in mind the expectations of internal stakeholders and external parties, the dedicated Internal Audit function undertakes the necessary actions to ensure that it delivers impactful advice on critical issues with a view to generating positive outcomes for the organisation.

Strategy and initiatives

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

• The Institute of Internal Auditors (IIA) requires each internal audit function to have an external quality assessment conducted at least once every five years. The Internal Audit SBU has been assessed twice, namely in 2009 and 2013, by an internationally recognised auditing firm. In both cases, it was confirmed as being compliant with the International Standards for the Professional Practice of Internal Audit issued by the above-mentioned institute. The next independent assessment is programmed by end 2018.

• Operationally, the main outcomes of the Bank’s audit assignments, including a risk-based grading of the relevant issues, are submitted to relevant functional heads and line managers as well as to the Executive Directors. Quarterly or more frequent meetings are scheduled with the Audit Committee. The annual audit plan, the status of audit assignments, identified audit issues, progress regarding implementation of identified initiatives and resource requirements are typical items on the agenda. The business model of the Internal Audit function ensures a continual and strict adherence to International Standards for the Professional Practice of Internal Auditing and approved processes through *inter alia*:
  o The conduct of quality assurance assignments, which contribute to enhance the effectiveness of the Quality Assurance and Improvement Program (QAIP);
  o Greater communication with Risk SBU and Compliance BU to consolidate compliance and regulatory assurance;
  o Improved use of data analytics to facilitate the implementation of continuous and near real-time auditing that paves the way for a more timely identification of errors and other irregularities;
  o Encouraging internal auditors to obtain professional certifications from globally-recognised sources such as IIA’s Certified Internal Auditor (CIA) or ISACA’s Certified Information Systems Auditor (CISA) – as to date, 2 Internal Audit staff members are CIA certified and another 6 are CISA certified; and
  o The implementation of an appropriate human resource development programme for the auditors, including the provision of specific and high-calibre training, to cater for complete and up-to-date skill sets and competences.

• Based on assessments, the internal audit function is presently not aware of any significant area of the Bank where there are no internal controls. We do not believe that there are deficiencies in internal controls that could give rise to risks that could jeopardise the Bank’s operations.

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

Our objective

- Our capital management objective, which is aligned with general directions determined at Group level, is to ensure that the Bank has adequate capital resources to operate effectively, foster sustained business growth and preserve or enhance its credit ratings. We aim to maintain a strong capital position that is consistent with the expectations and requirements of our numerous stakeholders, notably the regulators and authorities, rating agencies, correspondent banks and customers.
- Backed by the adoption of a forward-looking approach and a sensible governance framework, we determine the level and composition of our capital after making allowance for multiple factors. They include the legal and regulatory landscape, the business environment, the Bank’s strategic orientations, conditions prevailing across the economy and financial markets, etc.

Our Internal Capital Adequacy Assessment Process

The framework

- MCB Ltd is guided by its Internal Capital Adequacy Assessment Process (ICAAP) in determining its capital planning and formulating its risk appetite process. The ICAAP framework has been developed and applied at the Bank pursuant to the issue of the BoM Guideline on Supervisory Review Process in April 2010. The purpose of ICAAP is to (i) provide an informative description of the methodology and procedures that the Bank uses to assess and mitigate its risks; and (ii) make sure that adequate capital is kept to support its risks beyond core minimum requirements. It delineates the process through which the Bank assesses the required minimum level capital to support its activities. The document which is reviewed periodically seeks to ensure that the Bank remains well capitalised after considering all material risks. Through the ICAAP, the Bank assesses its forecast capital supply and demand relative to its regulatory and internal capital targets under various scenarios. The Bank’s capital plan is defined every year during the budgeting and strategic planning exercise, while financial year risk appetite limits are set by the Board. Exposures are monitored on a quarterly basis against those limits and reported to the RMC. The capital plan also includes a crisis management plan whereby measures to rapidly mobilise additional capital, should the need arise, are discussed at Board level.

Stress testing

- Stress testing is a key risk management tool used by the Bank and is an integral part of our ICAAP. The aim of the Bank’s stress testing framework is to identify, quantify, evaluate and make sense of the potential impact of specific changes in risk factors on the business development and financial strength of the Bank. Forecasts are made over a three-year horizon, taking into account the Basel Pillar I and II stresses. The ICAAP provides for an assessment of the Pillar I risk types (i.e. credit, operational, market risks) and Pillar II risk types (i.e. concentration of risk, liquidity risk, interest rate risk, strategic risks and so on). These assessments are conducted with a view to understanding the sensitivity of the key assumptions of the capital plan to the realisation of plausible stress scenarios. This helps the Bank to evaluate how it can continue to maintain adequate capital under such scenarios.
## Stress-testing at MCB Ltd

<table>
<thead>
<tr>
<th>Process</th>
<th>Relevance of stress-testing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk identification</td>
<td>• To detect and address existing or potential vulnerabilities such as unidentified and Bank-wide risk concentrations or interactions among various types of risk, many of which may be overlooked when relying purely on statistical risk management tools based on historical data</td>
</tr>
<tr>
<td>Risk assessment</td>
<td>• To promote a deep understanding of organisational vulnerabilities following forward-looking assessments of risk, to make risk more transparent via an estimation of scenario-based losses, and to prevent the development of any false sense of security about the Bank's resilience</td>
</tr>
<tr>
<td></td>
<td>• To evaluate risk during different phases, notably (i) during periods of favourable economic and financial conditions given a resulting lack of visibility over potentially negative future settings; and (ii) during periods of expansion when innovation leads to new products and services for which no historical data is available for forecasting future trends</td>
</tr>
<tr>
<td>Risk mitigation</td>
<td>• To facilitate and assess the development of risk mitigation or contingency plans across a range of stressed conditions</td>
</tr>
<tr>
<td></td>
<td>• To spur debates on and awareness of different risk aspects of banking portfolios among Management on the strength of (i) a well organised surveying of the operational environment; (ii) an identification of the most important risk factors; and (iii) a scanning of the horizon for potential stressful events</td>
</tr>
</tbody>
</table>

During the year under review, the Bank has conducted stress testing under various historical and stress test scenarios to assess the impact of unfavourable scenarios on its capital position. Examples of stress tests conducted lately are provided hereafter. The scenarios are regularly reviewed and fine-tuned to ensure that they remain relevant to the Bank’s risk profile, activities and prevailing and forecasted economic conditions. The results of stress tests are reported and discussed at the RMC and the Board prior to being submitted to the BoM. Barring extreme cases, our recent analyses have revealed that the capital adequacy of the Bank does not fall below the regulatory requirements in the nine scenarios below.

- **Scenario 1**
  - **Country risk – Eurozone recession**

- **Scenario 2**
  - **Strategic risk – Major African economies underperform**

- **Scenario 3**
  - **Concentration risk – Top borrowers default**

- **Scenario 4**
  - **Credit risk – Global business entities de-locate from Mauritius**

- **Scenario 5**
  - **Credit risk – Collapse of a commodities trading house**

- **Scenario 6**
  - **Reputation risk – MCB Ltd becomes non-investment grade**

- **Scenario 7**
  - **Liquidity risk – Stress on LCR run-off factors**

- **Scenario 8**
  - **Liquidity risk – Major withdrawal from GBL depositors as well as off balance sheet commitments becoming funded**

- **Scenario 9**
  - **Interest rate risk – Interest rate risk-based on a permanent increase of 2% in interest rates across all currencies**

- **Worst case scenario**
  - **Worst case scenario – A combination of specific scenarios**
Our capital position

Adherence to Basel rules

The Bank uses the Basel II Standardised Approach to manage its credit and market risk exposures, with the Basic Indicator Approach used for operational risk. As for determination of its capital resources, the Bank adheres to the BoM Guideline on Scope of Application of Basel III and Eligible Capital. It also complies with the Guideline for dealing with Domestic-Systemically Important Banks. Under the latter, banks are required to hold a capital surcharge ranging from 1.0% to 2.5% of their risk-weighted assets depending on their systemic importance. The assessment for determining domestic-systemically important banks is carried out on a yearly basis on end-June figures. As per the assessment that has recently been carried out by the Central Bank, MCB Ltd features among the five banks that have been determined to be systemically important in our jurisdiction, based on the assessment of five factors, namely size, exposure to large groups, interconnectedness, complexity and substitutability. Overall, the transitional arrangements set out by the Central Bank in respect of capital adequacy are summarised below, with the mandatory limits having edged up further as from 1 January 2018.

As at 30 June 2018

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

- A ratio of 11.25% of risk-weighted assets as per the BoM Guideline on Scope of Application of Basel III and Eligible Capital, including a capital conservation buffer of 1.25%; and
- An additional 1.875% as per the BoM Guideline on Domestic Systemically-Important Banks, since the Bank lies in bucket 4 on the basis of its systemic importance (of note, banks are segregated in buckets ranging from 1 to 5 based on their systemic importance scores, with those in lower buckets attracting lower capital surcharge)

As from 1 January 2020

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

- A ratio of 12.5% of risk-weighted assets as per the BoM Guideline on Scope of Application of Basel III and Eligible Capital, including a capital conservation buffer of 2.5%; and
- An additional 2.5% as per the BoM Guideline on Domestic Systemically-Important Banks, assuming that the Bank continues to lie in bucket 4 on the basis of its systemic importance
The capital position of the Bank has remained generally strong during the last financial year, while comfortably overshooting current mandatory limits. Our core and total capital ratios stood at 14.2% and 15.0% respectively as at June 2018. These figures, nonetheless, represent a relative decline when compared to our last year’s performance on account of a notable increase in our risk-weighted assets, which can be mainly explained by our expanding international loan book and the regulatory application of higher credit conversion factors for medium to long term trade-related contingent items. They, in fact, changed from a flat rate of 20% to a range of 20 – 100%, thus implying a higher risk-weighted assets in respect of related transactions.
## Determination and evolution of the capital adequacy ratios of MCB Ltd

<table>
<thead>
<tr>
<th>MCB Ltd</th>
<th>Jun 17</th>
<th>Jun 18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital base</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares (paid-up) capital</td>
<td>6,880</td>
<td>6,880</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>23,463</td>
<td>25,995</td>
</tr>
<tr>
<td>Accumulated other comprehensive income and other disclosed reserves</td>
<td>6,065</td>
<td>7,324</td>
</tr>
<tr>
<td><strong>Common Equity Tier 1 capital before regulatory adjustments</strong></td>
<td>36,408</td>
<td>40,199</td>
</tr>
<tr>
<td><strong>Regulatory adjustments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>(580)</td>
<td>(545)</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>(144)</td>
<td>(104)</td>
</tr>
<tr>
<td>Defined benefit pension fund assets</td>
<td>(99)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Common Equity Tier 1 capital (CET1)</strong></td>
<td>35,585</td>
<td>39,550</td>
</tr>
<tr>
<td><strong>Additional Tier 1 capital (AT1)</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Tier 1 capital (T1 = CET1 + AT1)</strong></td>
<td>35,585</td>
<td>39,550</td>
</tr>
<tr>
<td><strong>Tier 2 capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital instruments</td>
<td>631</td>
<td>530</td>
</tr>
<tr>
<td>Provisions or loan-loss reserves</td>
<td>1,999</td>
<td>2,453</td>
</tr>
<tr>
<td><strong>Tier 2 capital before regulatory adjustments</strong></td>
<td>2,630</td>
<td>2,983</td>
</tr>
<tr>
<td><strong>Regulatory adjustments</strong></td>
<td>522</td>
<td>674</td>
</tr>
<tr>
<td><strong>Tier 2 capital (T2)</strong></td>
<td>2,108</td>
<td>2,309</td>
</tr>
<tr>
<td><strong>Total capital (T1 + T2)</strong></td>
<td>37,693</td>
<td>41,859</td>
</tr>
<tr>
<td><strong>Risk-weighted assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted amount of on-balance sheet assets</td>
<td>179,920</td>
<td>214,730</td>
</tr>
<tr>
<td>Weighted amount of off-balance sheet exposures</td>
<td>18,619</td>
<td>33,599</td>
</tr>
<tr>
<td>Weighted risk assets for operational risk</td>
<td>18,342</td>
<td>20,399</td>
</tr>
<tr>
<td>Aggregate net open foreign exchange position</td>
<td>2,927</td>
<td>2,330</td>
</tr>
<tr>
<td>Capital charge for trading book position exceeding 5% or more of its total assets</td>
<td>4,984</td>
<td>7,479</td>
</tr>
<tr>
<td><strong>Total risk-weighted assets</strong></td>
<td>224,792</td>
<td>278,538</td>
</tr>
<tr>
<td><strong>Capital adequacy ratios (%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BIS risk adjusted ratio</td>
<td>16.8</td>
<td>15.0</td>
</tr>
<tr>
<td>of which Tier 1</td>
<td>15.8</td>
<td>14.2</td>
</tr>
</tbody>
</table>

*Note: Figures in the above table have been audited*
Determination of risk-weighted assets

Credit risk

- The Bank measures the credit risk capital requirements by applying appropriate risk weights to both on-balance sheet and off-balance sheet exposures in line with the Guideline on Scope of Application of Basel III and Eligible Capital and the Guideline on Standardised Approach to Credit Risk issued by the BoM. The risk-weighted exposures under the Standardised Approach to credit risk are based on the category of borrower, its risk weight and the credit conversion factor of the underlying facility. The Bank uses external ratings from Standard & Poor’s, Moody’s Investor Service and Fitch Ratings for credit exposures to its sovereign and bank portfolios.

- The Standardised Approach recognises the use of a number of techniques to mitigate the credit risks to which banks are exposed. For example, exposures may be collateralised by first priority claims, in whole or in part with cash or securities. Banks may agree to net loans owed to them against deposits from the same counterparty. On a conservative basis, for the purpose of calculating its capital requirements, the Bank considers only cash pledged and guarantees as eligible credit risk mitigations in its calculations.

Market risk

- MCB adheres to the Standardised Approach as outlined by the BoM in its Guideline on Measurement and Management of Market Risk. As per this methodology, which is closely aligned with Basel II Standardised Measurement Method, a bank is required to hold additional capital whenever its overall position in trading book activities exceeds 5% or more of its total assets. A bank is encouraged to hold a capital buffer that adequately covers the interest rate risk exposures arising from non-trading activities. As at 30 June 2018, MCB’s trading book exposures were above 9% of total assets and consisted mainly of foreign exchange risk and interest rate risk arising from net positions in securities and derivatives held for trading. Subsequently, an additional capital charge was held.

- Separate interest rate risk gap analysis schedules are prepared and submitted to the BoM on a quarterly basis for the Bank’s significant currencies (MUR, USD and EUR) and on a consolidated basis. The Bank held a capital buffer commensurate with the aggregate banking book interest rate risk both from an earnings and economic value perspective as defined by the aforementioned guideline. The one-year earnings impact arising from a 200 basis points parallel shift in interest rates, using the earnings perspective framework prescribed by the BoM is shown in Notes 3(c) (iii) to the Accounts.

Operational risk

- The Bank applies the Basic Indicator Approach to determine its operational risk capital, mainly driven by its more conservative results and ease of computation. The capital charge under this approach is arrived at by applying 15% (denoted as alpha) to the average of positive annual gross income over the previous three years. This percentage is set by the BoM and relates to the industry-wide level of required capital.
### Risk-weighted on-balance sheet assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Jun 18 Amount</th>
<th>Jun 18 Weight</th>
<th>Weighted Amount</th>
<th>Jun 17 Amount</th>
<th>Jun 17 Weight</th>
<th>Weighted Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash items</td>
<td>2,792</td>
<td>0 - 20</td>
<td>85</td>
<td>2,792</td>
<td>0 - 20</td>
<td>85</td>
</tr>
<tr>
<td>Claims on sovereigns</td>
<td>46,072</td>
<td>0 - 100</td>
<td>1,408</td>
<td>46,072</td>
<td>0 - 100</td>
<td>1,408</td>
</tr>
<tr>
<td>Claims on central banks</td>
<td>48,406</td>
<td>0 - 100</td>
<td>8,748</td>
<td>48,406</td>
<td>0 - 100</td>
<td>8,748</td>
</tr>
<tr>
<td>Claims on banks</td>
<td>20,651</td>
<td>20 - 100</td>
<td>11,154</td>
<td>20,651</td>
<td>20 - 100</td>
<td>11,154</td>
</tr>
<tr>
<td>Claims on non-central government public sector entities</td>
<td>2,058</td>
<td>0</td>
<td>0</td>
<td>2,058</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Claims on corporates</td>
<td>152,373</td>
<td>20 - 150</td>
<td>155,523</td>
<td>122,253</td>
<td>20 - 150</td>
<td>122,253</td>
</tr>
<tr>
<td>Claims on retail segment</td>
<td>11,734</td>
<td>75</td>
<td>7,426</td>
<td>6,946</td>
<td>75</td>
<td>6,946</td>
</tr>
<tr>
<td>Claims secured by residential property</td>
<td>28,112</td>
<td>35 - 125</td>
<td>12,581</td>
<td>11,559</td>
<td>35 - 125</td>
<td>11,559</td>
</tr>
<tr>
<td>Fixed assets/other assets</td>
<td>8,766</td>
<td>100 - 250</td>
<td>10,366</td>
<td>9,795</td>
<td>100 - 250</td>
<td>9,795</td>
</tr>
<tr>
<td>Past due claims</td>
<td>6,079</td>
<td>50 - 150</td>
<td>7,439</td>
<td>8,855</td>
<td>50 - 150</td>
<td>8,855</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>214,730</strong></td>
<td><strong>179,920</strong></td>
<td><strong>214,730</strong></td>
<td><strong>179,920</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Non-market related off-balance sheet risk-weighted assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Nominal Amount</th>
<th>Credit Conversion Factor</th>
<th>Jun 18 Credit Equivalent Amount</th>
<th>Jun 18 Weight</th>
<th>Weighted Amount</th>
<th>Jun 17 Credit Equivalent Amount</th>
<th>Jun 17 Weight</th>
<th>Weighted Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct credit substitutes</td>
<td>9,011</td>
<td>100</td>
<td>8,822</td>
<td>0 - 100</td>
<td>8,753</td>
<td>1,285</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transaction-related contingent items</td>
<td>22,593</td>
<td>50</td>
<td>10,930</td>
<td>0 - 100</td>
<td>10,915</td>
<td>9,855</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade related contingencies</td>
<td>23,800</td>
<td>20 - 100</td>
<td>10,872</td>
<td>0 - 100</td>
<td>10,773</td>
<td>3,896</td>
<td></td>
<td></td>
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<tr>
<td>Outstanding loans commitment</td>
<td>6,078</td>
<td>20 - 50</td>
<td>3,039</td>
<td>100</td>
<td>3,039</td>
<td>3,357</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33,480</strong></td>
<td></td>
<td><strong>18,393</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Market-related off-balance sheet risk-weighted assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Nominal Amount</th>
<th>Credit Conversion Factor</th>
<th>Potential Future Exposure</th>
<th>Jun 18 Credit Equivalent Amount</th>
<th>Jun 18 Weight</th>
<th>Credit Conversion Factor</th>
<th>Potential Future Exposure</th>
<th>Jun 17 Credit Equivalent Amount</th>
<th>Jun 17 Weight</th>
<th>Weighted Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate contracts</td>
<td>677</td>
<td>0 - 1.5</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td>0 - 1.5</td>
<td>3</td>
<td>2</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange contracts</td>
<td>14,494</td>
<td>1 - 7.5</td>
<td>162</td>
<td>70</td>
<td>232</td>
<td>1 - 7.5</td>
<td>162</td>
<td>117</td>
<td>181</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>119</strong></td>
<td></td>
<td><strong>226</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>226</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total credit risk-weighted assets**

<table>
<thead>
<tr>
<th></th>
<th>Jun 18 Amount</th>
<th>Jun 17 Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td><strong>248,329</strong></td>
<td><strong>198,539</strong></td>
</tr>
</tbody>
</table>

Note: Figures may not add up to totals due to rounding
## Risk-weighted exposures for on-and off-balance sheet assets

### Exposures covered by cash and bank guarantees which qualify as a zero risk-weight

<table>
<thead>
<tr>
<th>Exposures covered by credit risk mitigation as at 30 June 2018</th>
<th>Eligible collateral</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>On-balance sheet</strong></td>
<td>Rs m</td>
</tr>
<tr>
<td>Corporate</td>
<td>961</td>
</tr>
<tr>
<td>Retail</td>
<td>2,060</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,021</td>
</tr>
<tr>
<td><strong>Off-balance sheet</strong></td>
<td>Eligible collateral</td>
</tr>
<tr>
<td>Direct credit substitutes</td>
<td>191</td>
</tr>
<tr>
<td>Transaction-related contingent items</td>
<td>414</td>
</tr>
<tr>
<td>Trade-related contingencies</td>
<td>175</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>780</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,801</td>
</tr>
</tbody>
</table>

### Aggregate net open foreign exchange position

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

### Operational risk capital charge

<table>
<thead>
<tr>
<th>MCB Ltd</th>
<th>Basic indicator approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line of business</td>
<td>Alpha factor ((\alpha))</td>
</tr>
<tr>
<td>Total yearly weighted gross income</td>
<td>%</td>
</tr>
<tr>
<td>(\alpha = 15)</td>
<td>1,825</td>
</tr>
<tr>
<td>Capital charge for operational risk</td>
<td>1,662</td>
</tr>
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### Our local branch network

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<th>Branches</th>
<th>Kiosks</th>
<th>Bureaux de Change / Forex ATMs</th>
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<td>Plaine Verte</td>
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<td>La Galette</td>
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<td>SSR International Airport</td>
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*The Mauritius Commercial Bank Limited* | *annual report 2018*
Administrative information

Registered address

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Website: www.mcb.mu