



MCB Group Ltd
Annual Report **2014**

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

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

Dear Shareholder,

The Directors of MCB Group Limited are pleased to present its Annual Report for the period ended 30 June 2014.

The Annual Report was approved by the Board of Directors on 30 September 2014.

J. Gérard HARDY

Chairperson

Pierre Guy NOEL

Chief Executive

ABOUT THIS ANNUAL REPORT

Scope and Boundary

The report contains concise, material and transparent information relating to and impacting **MCB Group Limited** (hereinafter referred to as 'MCB Group Ltd' or 'Company'). In general, the report provides an overview and assessment of the operating background, governance structure, inherent functioning, strategic and market positioning and achievements, as well as the financial performances and prospects of the subsidiaries and associates held by MCB Group Ltd. The nature and extent of information delivered depend on the significance of each entity to the Group (with the term 'Group' signifying the consolidation of all the subsidiaries and associates of MCB Group Ltd). Thus, banking activities catered for in and from Mauritius and undertaken under the aegis of The Mauritius Commercial Bank Limited – with the appellation being interchanged with the 'MCB Ltd' or 'Bank' designation – are prominently covered throughout the report. Overall, the period under review generally refers to the financial year spanning 1 July 2013 to 30 June 2014. In some instances and wherever deemed relevant, the report also extends beyond the financial reporting boundary.

Of note, due care has been taken to ensure that the contents of the report comply with the obligations and requirements falling under relevant laws, regulations, codes and standards of good practices. Specifically, the financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and relevant regulatory requirements, have been externally verified by our auditors.

Reporting to Stakeholders

This Annual Report is the primary report to our stakeholders. While it is principally aimed to providers of capital, it duly addresses the information needs and requirements of a diverse range of stakeholders.

Moving towards integrated reporting

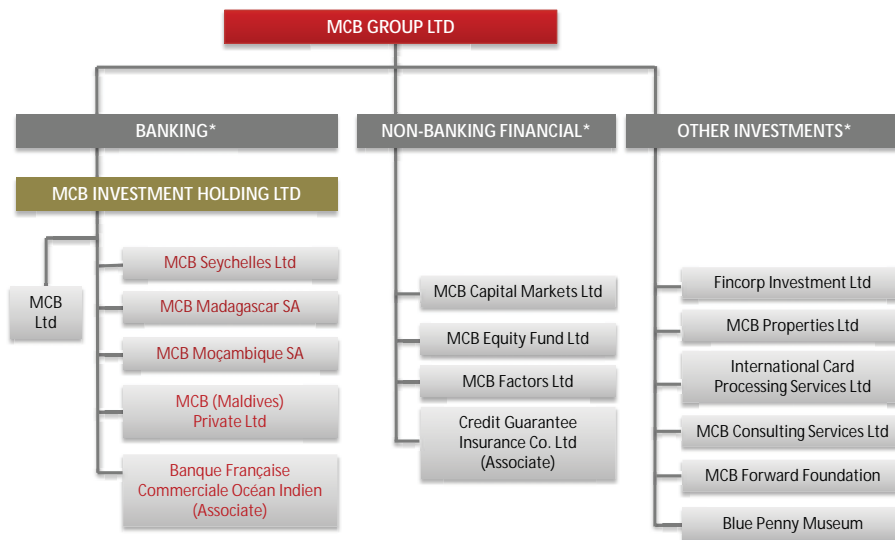
While the Annual Report already goes a noteworthy way towards demonstrating our accountability to our stakeholders and our dedicated commitment to create sustainable value for them, MCB Group Ltd is pursuing its efforts to further improve the reach and depth of information disclosed to the attention of its readers. Our aim is to gradually advance further towards the continuously enhanced quality of our corporate reporting as well as the more extensive adoption of international best practices, notably the principles and guidelines formulated and embraced by the International Integrated Reporting Council.

HIGHLIGHTS

Group Structure

In March 2013, MCB Group set out to separate its banking and non-banking operations to underpin its growth ambitions, while adhering to international standards and domestic regulatory requirements. A key milestone was achieved in April 2014 when, pursuant to the sanctioning of a Scheme of Arrangement by the Supreme Court of Mauritius, shares held by the shareholders of MCB Ltd were exchanged, on a one to one basis, for shares in MCB Group Ltd, the Group's ultimate holding company. As a result of the above exchange, the listing of MCB Ltd ordinary shares was cancelled while the shares of MCB Group Ltd were listed on the Official Market of the Stock Exchange of Mauritius. As part of this restructuring, the shares held by MCB Group Ltd in MCB Ltd were exchanged for shares in MCB Investment Holding Ltd, which was incorporated for the purpose of becoming the intermediary holding company of all the banking investments of the Group.

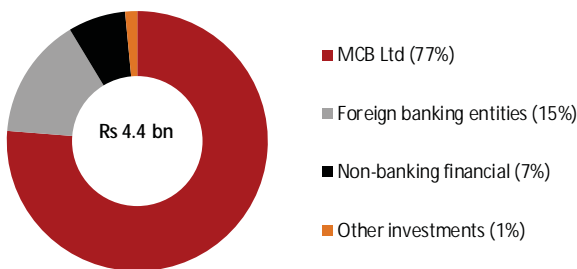
Subsequently, towards the end of June 2014, investments in the non-banking subsidiaries and associates have been unbundled from MCB Ltd into MCB Group Ltd. Subject to relevant regulatory approvals, the overseas banking operations will, in due course, be transferred from MCB Ltd to MCB Investment Holding Ltd in a phased manner. In the end, the Group structure will be shaped as depicted below, with the subsidiaries and associates of MCB Group Ltd operating under three clusters, namely 'Banking', 'Non-banking financial' and 'Other investments'.



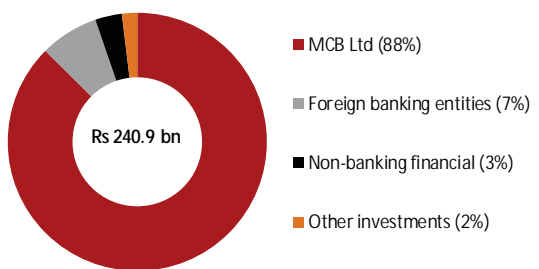
* Refer to clusters ● Not yet unbundled from MCB Ltd

As regards the effective holding of MCB Group Ltd with respect to subsidiaries and associates, please refer to Note 9 in the Financial Statements.

Contribution to Group profit



Distribution of total assets

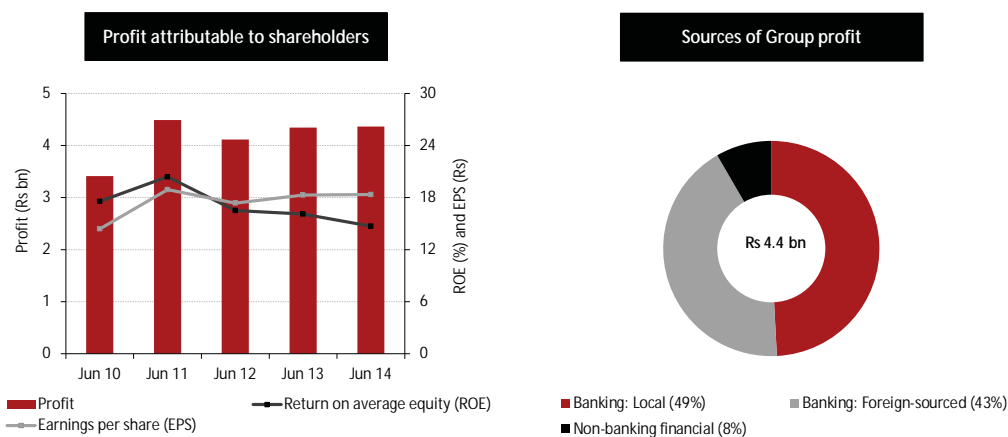


Group Financial Summary

	2014	2013	2012	2011	2010
Income Statement (Rs m)					
Operating profit	4,883	4,980	4,885	5,082	3,817
Profit attributable to ordinary equity holders of the parent	4,365	4,345	4,125	4,491	3,413
Statements of financial position (Rs m)					
Total assets	240,886	216,528	191,283	172,689	162,739
Total loans (net)	154,787	150,914	138,423	122,440	109,442
Total deposits	186,088	166,113	150,877	136,210	132,484
Subordinated liabilities	5,409	-	-	1,279	1,455
Shareholders' funds	30,968	28,506	25,315	23,729	20,319
Performance ratios (%)					
Return on average total assets	1.9	2.1	2.3	2.7	2.2
Return on average equity	14.7	16.1	16.8	20.4	17.6
Loans to deposits ratio	86.5	93.4	93.9	92.3	84.9
Cost to income ratio	43.6	45.0	46.0	42.6	46.5
Financial soundness ratios (%)					
Capital & reserves/Total assets	12.9	13.2	13.2	13.7	12.5
BIS risk adjusted ratio	16.1	13.1	12.8	14.5	14.3
of which Tier 1	12.9	12.2	11.9	12.8	12.3
Asset quality (%)					
Non-performing loans (Rs m)	11,711	7,779	6,277	4,346	4,336
NPL ratio	7.3	5.0	4.4	3.4	3.9
Allowance for loan impairment losses (Rs m)	6,225	4,232	3,272	3,276	3,054
Provision coverage ratio	53.1	54.4	52.1	75.4	70.4

Notes:

- (i) June 2012 and June 2013 figures for capital base as well as those for risk-weighted assets prior to June 2014 have been restated
(ii) Except for the figures related to the financial position as at June 2014, indicators displayed in the above table have been provided on a proforma basis for the financial years considered in order to give a proper understanding and comparative view of the Group performance over time.



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

OUR CORE VALUES

Integrity

Honest and trustworthy at all times

Innovation

Proactively seeking out new opportunities

Customer care

Delivering unrivalled service

Knowledge

Believing in lifelong learning

Teamwork

Working together towards a common goal

Excellence

Being the best we possibly can

CORPORATE INFORMATION

Overview of MCB Group

Listed on the Official Market of the Stock Exchange of Mauritius, MCB Group Ltd has a large and diversified shareholder base, with more than 18,000 shareholders. It has the largest market capitalisation on the local bourse, with a share of some 22%. Additionally, the Group is a 'sustainable' organisation, with its entities adopting wide-ranging initiatives for promoting social welfare and natural resource protection.

The Group is an integrated banking and financial services player offering a comprehensive range of tailored and innovative solutions through dedicated local and foreign subsidiaries and associates. Throughout its 176-year history, the Group has leveraged its sound business model, modern and adapted channel capabilities, and high quality service to assist in the advancement of individuals and corporates. On the domestic scene, the Group has cemented its position as the leading banking sector player, in the process playing a key role in promoting the socio-economic development of Mauritius over time. Furthermore, backed by its ambitious, yet sensible, market diversification agenda, the Group has carved out an increasingly prominent position in the region, while gradually establishing its footprint internationally. Besides, by means of its comprehensive and targeted offerings, the Group has broadened its presence in non-banking financial services, while maintaining its participation in the non-financial field.

Credentials

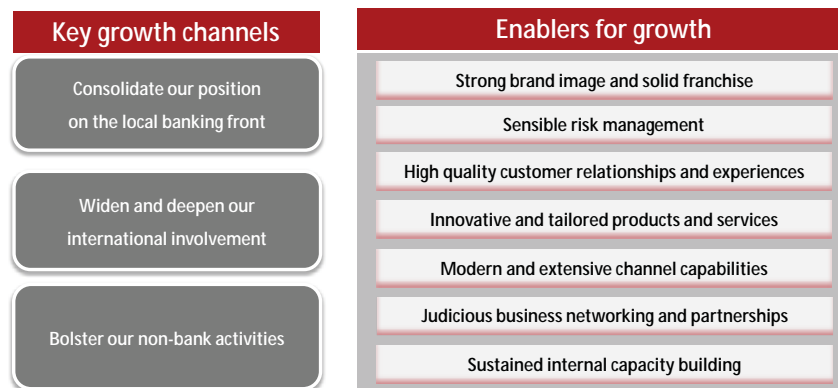
- Moody's ratings (MCB Ltd):

○ Foreign Currency Deposit	Baa1/P-2
○ Foreign Currency Issuer	Baa1
○ Local Currency Deposit	Baa1/P-2
○ Bank Financial Strength	D+
○ NSR Senior Debt – MTN Programme (foreign currency)	Aa3.za
○ NSR Subordinated Debt – MTN Programme (foreign currency)	A3.za

- MCB ranked 691st among the Top 1000 banks in terms of Tier 1 capital, 20th in Africa (1st in East Africa), and only Mauritian bank in the Top 25 African Banks (*The Banker Top 1000 World Banks, July 2014*)
- 50th among the Top 200 banks in Africa in terms of assets (*Jeune Afrique, The Africa Report 2013*)
- Leading regional bank in terms of operating income & profitability (*L'Eco Austral, Top 500 de L'Océan Indien 2014*)
- Best local Bank in Mauritius (*EMEA Finance African Banking Awards 2013*)
- Best Risk Management Disclosures, Best Corporate Governance Disclosures and overall winner in the SEM-7 category (*PricewaterhouseCoopers Corporate Reporting Awards 2014*)
- Performance Excellence Award attributed by *Citibank, J.P. Morgan Chase* and *Wells Fargo* for straight-through processing rate for payments and transfers

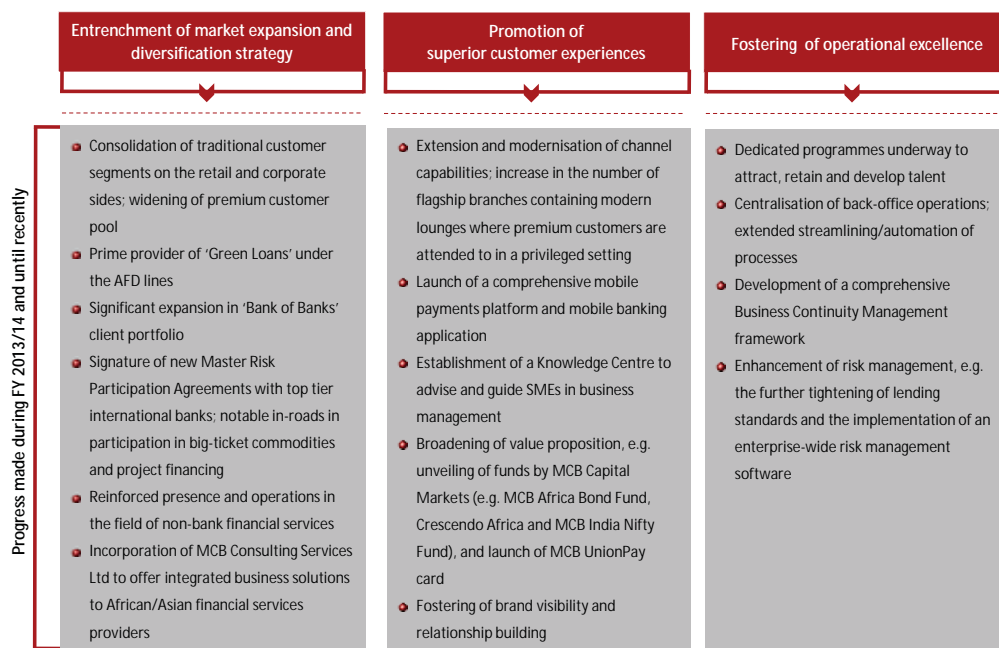
Strategic Orientations

Building on its underlying foundations and innovative culture, the Group strives to understand the changing needs and requirements of customers as well as to connect with them in the most effective manner. Overall, the Group seeks to sustain its balance sheet growth, diversify its revenue streams and preserve its financial soundness, towards maximising returns for shareholders and underpinning its stakeholder engagement.



Executing Our Strategy

In recent periods, the Group has bolstered its foundations and pursued its strategic thrusts. Thus, the restructuring exercise coupled with the sizeable mobilisation of funding resources, notably by MCB Ltd – e.g. subordinated note issue of Rs 4.5 billion secured on the local stock exchange (following a two-fold oversubscription in respect of the initial offer) and the USD 150 million financing package obtained with the African Development Bank (AfDB) – testify to the Group's endeavour to equip itself with adequate means for business development.



Our Value Proposition

Business development is underpinned by the delivery of dedicated financial solutions by the banking and non-banking entities of the organisation. The latter also tap into intra-Group synergies to provide clients with adapted solutions, with examples relating to the provision of investor-related services and the pursuance of the 'Bank of Banks' initiative. In reference to the latter, the Group positions itself as a regional hub in handling trade finance, payments and cards operations outsourcing services amongst others, while also offering business solutions to financial service providers in Africa and Asia, in respect mainly of project management, change management and high-end IT services.

Our Market Operations By Cluster

Banking

Local

Under the aegis of MCB Ltd, domestic markets are catered for by the following business segments.

Retail

Backed by its wide-ranging channel network and enriched value proposition, MCB Retail caters for the day-to-day needs and requirements of various customer segments, including the high net worth clients. Besides, the segment seeks to assist small and medium enterprises across economic sectors to realise their needs, while acting as an ideal coach for supporting their initiation and development.

Corporate

MCB Corporate provides companies across established and emerging economic sectors with flexible and innovative financial solutions and dedicated advice to meet their business development ambitions, thus helping to transform opportunities into winning strategies and supporting clients in their growth endeavours.

Cards

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

Key facts and figures

- Around 920,000 individual and institutional customers
- Market shares of some 40% in respect of domestic credit to the economy and local currency deposits and above 50% of cards issued
- Network of 40 branches/kiosks redesigned as per world-class 'store' concept
- 163 strategically-located ATMs, representing 36% of the national park
- Some 6,700 Point of Sale (POS) terminals, many of which are multi-currency and wireless
- Over 90,000 registered Internet Banking customers (market share of 34%)
- Wide range of mobile services: SMS Banking, Airtime refill through mobile phones, Mobile Banking and Mobile Payments
- Workforce of some 2,500 employees

Foreign

Foreign involvement

Principally through its International division and assisted by representative offices located in Johannesburg and Paris (with a forthcoming one in Nairobi), MCB Ltd leverages its customised solutions, network of international correspondents and access to global finance to widen its footprint in sub-Saharan Africa and internationally. Notably, it is an active promoter of the 'Bank of Banks' initiative, while coordinating the delivery of services structured by other units of the Group to regional clients. Beyond MCB Ltd, the Group's foreign banking subsidiaries in Madagascar, Maldives, Mozambique and Seychelles as well as its overseas associate, i.e. Banque Française Commerciale Océan Indien (BFCOI - operating in Réunion Island, Mayotte and Paris) provide clients with individual and corporate banking solutions that are adapted to local market realities, while capitalising on the core capabilities and internal synergies within the Group.

Key facts and figures

- Network of over 1,600 correspondent banks globally
- Around 60 clients being serviced by the Bank in the context of the 'Bank of Banks' initiative
- Active participation in loan syndication as well as structured commodities and project financing
- Workforce of some 370 at the level of foreign banking subsidiaries and around 400 at BFCOI



Our foreign subsidiaries

As at 30 June 2014	MCB Seychelles	MCB Madagascar	MCB Moçambique	MCB Maldives
No. of outlets	7	6	2	1
No. of employees	175	109	60	30
No. of POS	645	162	225	180
Total assets (Rs bn)	6.8	3.4	2.3	3.0

Non-banking financial

The Group has entrenched its participation in the non-banking financial services field. In addition to offering leasing and factoring solutions, the Group, via MCB Capital Markets Ltd, offers a comprehensive range of tailored investor-related services, while being also actively involved in respect of private equity financing in the region. Overall, the company accompanies clients over the lifetime of their investments by providing fast and flexible solutions through speciality-driven subsidiaries.

Key facts and figures

Workforce of around 100 employees across entities
 15 dedicated funds and structured products offered by MCB Capital Markets Ltd
 Total assets under management attaining around Rs 16 billion

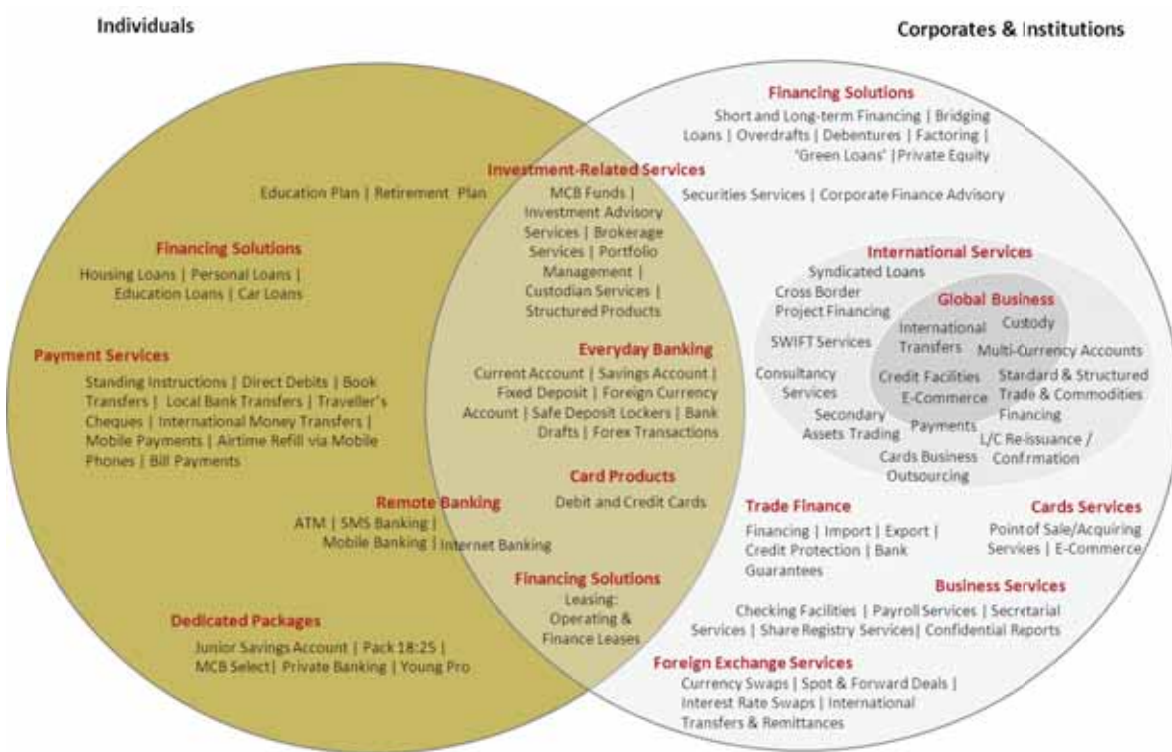
Other investments

Beyond the direct banking and non-banking financial services spheres, the Group is engaged in investment, commercial and ancillary undertakings, thus serving local and foreign markets through dedicated subsidiaries, while having appropriate structures to promote its actions in the corporate social responsibility and philanthropic fields.

Key facts and figures

Workforce of some 70 employees in related subsidiaries
 Some 20 regional clients being serviced by ICPS Ltd in respect of their cards outsourcing needs
 More than Rs 68 million incurred by MCB Forward Foundation on around 70 CSR projects over FY 2013/14

Our Extensive and Customised Financial Solutions



Our Value Creation Model

Our Philosophy

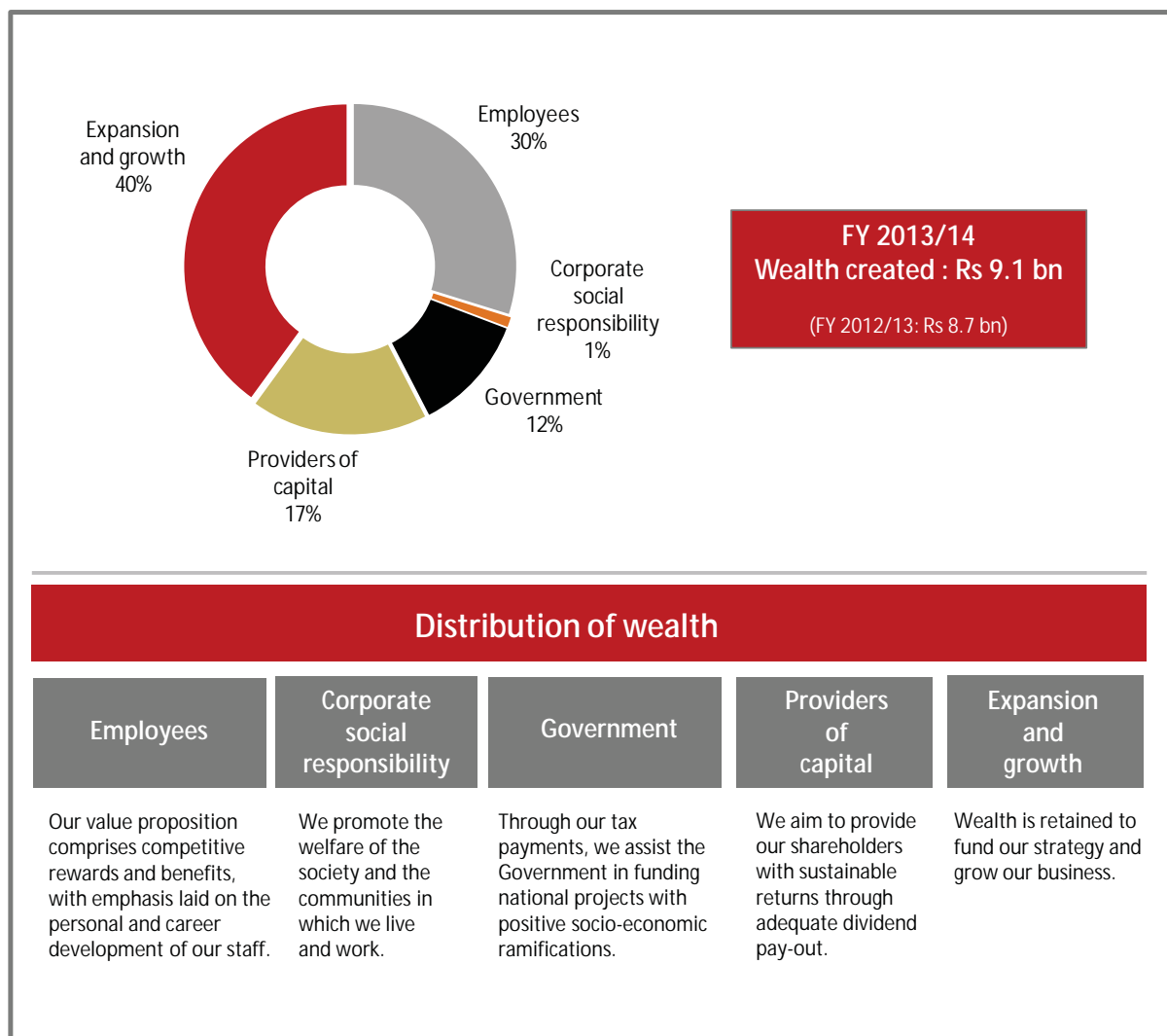
MCB Group Ltd is committed to creating sustained long-term wealth for the benefit of all its stakeholders. Thus, using stocks of available capital, the Group creates and distributes value through its multiple business activities and stakeholder interactions. In fact, leveraging the financial returns generated by the delivery of its services, the Group is intent on creating and growing wealth for the benefit of its shareholders, while also helping individuals, corporations and institutions meet their needs in a gratifying way. In this way and as a responsible corporate citizen, the Group remains an active facilitator in promoting the socio-economic welfare of the countries in which it is involved and present, particularly in reference to Mauritius.

How We Generate Value

For simplified analysis, the model depicted in the table below sheds light on some key business activities that generate revenue and costs for the Group, in support of our stakeholder engagement.

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

How We Deliver Value



BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD

Board of Directors

Non-executive & independent directors

J. Gérard HARDY (*Chairperson*)

Sunil BANYMANDHUB

Navin HOOLOOMANN, c.s.k.

Jean-Louis MATTEI

Jean Pierre MONTOCCHIO

Margaret WONG PING LUN

Executive directors

Pierre Guy NOEL

Gilbert GNANY

Secretary to the Board

MCB Registry & Securities Ltd

(represented by Marivonne Oxenham)

Committees of the Board

Risk Monitoring Committee

Jean-Louis MATTEI (*Chairperson*)

J. Gérard HARDY

Gilbert GNANY

Pierre Guy NOEL

Audit Committee

Sunil BANYMANDHUB (*Chairperson*)

Margaret WONG PING LUN

Remuneration and Corporate Governance Committee

J. Gérard HARDY (*Chairperson*)

Jean Pierre MONTOCCHIO

Navin HOOLOOMANN, c.s.k.

Pierre Guy NOEL

CHAIRPERSON'S STATEMENT

It gives me great pleasure to introduce the first Annual Report of MCB Group Ltd, the new holding company of the Group since April last following the initiation of its restructuring plan. The emergence of the new structure, whereby the operations of the Group are organised under three main clusters, namely, banking, non-banking financial and other investments, is expected to strengthen the operating model that will allow the Group to better support its strategic orientations and, ultimately, drive shareholders' value.

For the year under review, the Group achieved a resilient performance despite having to face up to strenuous economic conditions, excessively high liquidity in the domestic money market, stiff competition, a rise in the special levy applicable to banks locally and an increasingly regulated environment amongst others. Attributable profits stood close to the previous year's level at Rs 4.4 billion in spite of being also hit by a significant rise in impairment charges principally linked to some Indian exposures of the Global Business unit of the Bank, with respect to which corrective actions have already been taken. Whilst benefiting from non-recurrent gains on sale of securities of some Rs 400 million at the level of MCB Ltd, the results in FY 2013/14 reflect the ongoing market development initiatives, which have contributed to a growth of around 11% in operating income. The Group effectively pursued its strategic intents of consolidating its domestic banking position, expanding its non-bank activities and broadening its international involvement with a key axis being the 'Bank of Banks' initiative. In the process, the Group has strengthened its customer base through upgraded financial solutions, superior service quality and enhanced customer proximity. In line with our diversification strategy, foreign-sourced income and non-banking operations accounted for some 50% of profit in FY 2013/14.

With a view to ensuring that its expansion strategy unfolds in a sustainable manner, the Group has sustained its efforts to enhance the competencies of its talent pool and to invest in technology improvements and simplification of processes, while seeking ways to tap into potential synergies among its constituent entities. Moreover, sensible risk management and good corporate governance continue to be key foundations underpinning our strategies as can be gauged by the generally healthy financial soundness metrics notwithstanding recent deterioration in asset quality. Besides, in tune with the fast evolving regulatory environment, the Group has continued to demonstrate its readiness to comply with relevant laws, regulations, guidelines, codes and other requirements. In the same vein, the

PricewaterhouseCoopers Corporate Reporting Awards for the preceding year's annual report publication is yet another accolade for our commitment in promoting transparency vis-à-vis our multiple stakeholders.

Epitomising the sound fundamentals of the organisation and strong investor confidence therein, our share price staged a notable rise of some 16% year-on-year, in the process outstripping the market index. In fact, MCB Group Ltd remains the strongest blue-chip company on the Official Market of the Stock Exchange of Mauritius, with USD 1.7 billion of market capitalisation as at 30 June 2014, representing a market share of some 22%.

Further reflecting our credentials, the Floating Rate Subordinated Notes issued by MCB Ltd in August 2013 resulted in a two-fold oversubscription. In addition, the financing package worth USD 150 million, including USD 30 million in the form of subordinated debt, secured from the African Development Bank speaks of the position of trust enjoyed by the Group vis-à-vis prominent regional fund providers. Besides, the Bank is the only Mauritian bank featuring in the Top 20 African Banks (1st in East Africa) and continues to hold a respectable ranking at the 691st position among the Top 1000 World Banks as per the July 2014 edition of The Banker Magazine.

Looking forward, the operating environment is likely to remain challenging for some time yet, the more so given the uneven recovery patterns globally and difficult market conditions across key segments. In particular, as it stands, the economic situation in Mauritius is not expected to materially improve in the short term at least with private investment remaining subdued in the face of still high uncertainty levels, while the excess liquidity situation continues to persist in the banking system. If left unchecked, these market impediments can have far-reaching implications for the economy and financial system, thus necessitating that adequate measures be undertaken by the authorities.

Against this backdrop, the Group will remain attentive to market as well as regulatory developments and pursue its growth strategy. Backed by its new business configuration and governance structure, the MCB Group will forge ahead on its multi-pronged expansion path with due focus to be laid on making further inroads in Africa and grow its client franchise therein in a coherent manner across the different clusters. On the whole, a notable rise in results is projected in FY 2014/15, boosted by an improvement in the performance within the banking operations on the basis of higher revenues and lower impairment charges, as well as continued growth in non-banking activities.

On another note, the Group remains committed to pursuing its mission of exerting a positive impact on the well-being of the community notably through actions in the domains of social progress and environment protection. In this respect, MCB Forward Foundation, the Group's dedicated vehicle for CSR activities, disbursed some Rs 70 million last year in favour of absolute poverty alleviation and community empowerment as well as socio-economic development through support to vulnerable groups alongside promoting education, health and the welfare of children amongst others. Moreover, the Group has made further headway under its internally-created 'Initiative 175' programme aimed at promoting environment-friendly practices, with, for instance, the Bank being called upon to negotiate a second concessionary line with Agence Française de Développement for the provision of 'Green Loans' after having been, by far, the main drawer on the first line.

Before ending, I would like to thank my fellow directors, the management teams, our shareholders, customers and staff for their continued support and look forward to seeing the Group scale to new heights in the coming years. Indeed, I am confident that the solid values we exercise daily, our teamwork-driven culture centered on our customers and geared towards achieving excellence will help us maintain the momentum successfully created over the years towards achieving higher levels of performance.

J. Gérard HARDY

Chairperson

MCB Group Limited

CHIEF EXECUTIVE'S STATEMENT

The last financial year has been an eventful one with the Group restructuring exercise in particular taking centre stage. Indeed, after the mobilisation of sizeable funds in the form of subordinated debts locally and from AfDB in anticipation of the impact of the restructuring on the capital base of MCB Ltd, a key milestone was reached in April last when the shareholders of MCB Ltd exchanged their shares in the company for shares in the newly created MCB Group Ltd, which became the Group's ultimate holding company and was listed on the Official Market of the Stock Exchange of Mauritius. This has enabled the regrouping of the activities of the Group under three distinct clusters, namely 'Banking', 'Non-Banking Financial' and 'Other Investments'. This new sustainable and flexible Group structure aims at supporting the Group's business development ambitions, alongside adhering to regulatory requirements and international norms. Specifically, via the operation of standalone, locally incorporated and individually capitalised legal entities, the new structure aims at maximising shareholder value and enhancing operational efficiency, anchored on better risk management and ring-fencing of capital. It will also confer to the three clusters greater autonomy in the management of their day-to-day operations and the deployment of their respective market strategies.

From an operational perspective, the Group continued to be confronted by difficult market conditions. Indeed, notwithstanding increasing signs of healing, the global recovery process remained modest and uneven, thus exerting a restraining impact on activities of the Group across markets, albeit to varying degrees depending on country-specific vulnerabilities. Specifically, the Mauritian economy was marked by subdued economic expansion and, more importantly, persisting sluggishness of private investment which dampened the demand for credit, while margins came under heightened pressure amidst the ongoing excess liquidity situation fuelling competitive pressures and causing yields on treasury bills to tread at abnormally low levels. Furthermore, the regulatory landscapes have become ever more challenging through the adoption of a series of new measures aimed at reinforcing regulatory oversight. In the same vein, following the rise in the special levy applicable to banks in Mauritius, Segment A (i.e. locally-gearred) activities of the Bank are now effectively taxed at 25%, thus creating even more distortions in the taxation of the banking industry.

Group results for the last financial year were greatly affected by the substantial increase in the level of charges for credit impairment. This was primarily attributable to the provisions that were constituted in

relation to certain Indian exposures within the Global Business unit of the Bank, which accounted for nearly 75% of the impairment charge of Rs 1,989 million for the year. Necessary steps have been taken to ring-fence these exposures and boost recovery efforts on these files with uncommonly high default rates.

Despite these unfavourable circumstances, the Group managed to post a resilient performance. Attributable profits for the year remained at similar levels to those realised in the previous year, standing at Rs 4,365 million compared to Rs 4,345 million. This performance was supported by an increase of around 11% in operating income, including a non-recurrent gain of some Rs 400 million on sale of securities at the level of MCB Ltd. Core earnings within the banking cluster maintained their upward trend, albeit at a lesser rate at the level of net interest income, while a notable rise was recorded in revenues from non-banking operations amidst ongoing business development initiatives. Moreover, results were boosted by a substantial rise in the share of income of associates, with the combined contribution of BFCOI and of the PAD Group improving from Rs 257 million to Rs 540 million.

The share of foreign-sourced income from banking operations stood at 42.5% of overall profit, despite being pinned down by the increase in impairment charges, spurred by a 22% growth in contribution from our foreign banking entities, whilst the contribution of non-banking activities shot up to 8.3% of Group profits. Besides, underpinned by a healthy business model, the Group sustained an adequate financial soundness position in terms of capitalisation as well as in terms of liquidity and of funding. The deterioration recorded in our asset quality, as a result of the default of some Indian customers of the Bank's Global Business unit, should witness a reversal in trend moving forward, following measures taken to further strengthen risk management.

The Group continued to anchor its development drive on the diversification of its operations and a consolidation of its positioning within established markets. In the banking cluster, MCB Ltd sustained its efforts to enrich the value proposition across segments. Hence, in addition to enhancing the convenience and reach of the delivery channels, the retail segment further diversified its market reach, notably in relation to the high net worth customers. Reflective of its innovative culture, the Bank also launched a comprehensive mobile payments and banking application while introducing MCB UnionPay card as a first in Africa. At the corporate level, MCB Ltd maintained its standing as a trusted business partner of operators while establishing itself as the prime provider of 'Green Loans' under the concessional lines provided by Agence Française de Développement. In the SME segment, the Bank launched a 'Knowledge Centre' in order to provide advice and guidance in business management. On the regional front, the Bank reinforced its market presence by furthering its appeal as a privileged partner for participation in loan syndication and big-ticket direct corporate funding, regional structured trade, commodity and project financing. For their

part, the Group's overseas banking subsidiaries availed of enhancements to existing platforms and capabilities, as well as the replication of some MCB products and services in presence countries.

In respect of non-banking activities, MCB Capital Markets sustained its market expansion and diversified its client base backed by the introduction of new product offerings, namely funds targeting debt and/or equity markets in Africa and India. Besides, the recently created Corporate Finance and Advisory Service unit also gathered momentum, with a rising customer portfolio and the booking of sizeable capital markets operations. Moreover, MCB Consulting Services Limited was incorporated as a new wholly owned subsidiary of the Group to offer integrated business solutions to the entities of the Group, as well as to third-party clients spanning Africa and Asia. Cutting across the organisation, notable inroads were also made during FY 2013/14 in realising the 'Bank of Banks' ambition of establishing the Group as a regional platform for handling trade finance, payments, cards operations outsourcing and undertaking consulting assignments on behalf of counterparts.

These business realisations have been underpinned by a sustained enhancement of customer service quality, continuous capacity building and sensible risk management. Concomitantly, appropriate emphasis continued to be laid on the brand visibility with key actions undertaken in this respect including: (i) the 5th edition of 'Africa Forward Together' seminar which welcomed 51 delegates from 38 banking and financial institutions from 15 countries; (ii) participation, for the first time, as an exhibitor at the SWIFT International Banking Operations Seminar 2013 held in Dubai; and (iii) co-sponsorship of high profile conferences on regional trade and commodity financing, as well as other major events. Beyond its commercial activities, the Group reinforced its stakeholder engagement and bolstered its positioning as a socially responsible organisation through concrete measures, *inter alia*, to foster social welfare and protect the environment.

Challenging times lie ahead considering the relatively slow-moving recovery patterns globally and market difficulties in some countries where the Group is involved. Specifically, the lacklustre evolution of private investment in Mauritius and the excessively high liquidity situation need to be promptly addressed to avoid notable disruptions to the economy and financial system. For instance, the instability in the money market remains a source of apprehension insofar as it could lead to sub-optimal monetary transmission mechanisms and persistently negative real interest rates on treasury bills if unaddressed. Given these ramifications, the Group will maintain its market vigilance and remains attentive to regulatory developments, while sustaining the pursuit of its strategic orientations and creation of long-term value for its stakeholders. A key axis thereof relates to endeavours to extend the Group's regional involvement,

especially in the context of the relatively attractive economic outlook and commercial prospects for the African continent. This will effectively be executed by scaling new heights for the 'Bank of Banks' initiative, as well as intensifying the Group's involvement in direct corporate lending, trade and commodity financing, cross-border asset-backed project financing, notably in relation to deals bridging Africa and Asia. Towards these ends, the Group seeks to harness long-standing relationships with correspondent banks and regional industry players, whilst initiating planned ventures into targeted markets and exploiting synergistic potential among the Group's constituent entities. Moreover, it will shortly establish a foothold in Eastern Africa via a Representative Office in Nairobi in a bid to expand market visibility and tap into business opportunities therein. On a general note, the Group also sets to promptly conclude its restructuring exercise, whilst adequately leveraging the sizeable funding resources recently mobilised to support its growth ambitions and confer adequate capital buffers in the wake of regulatory developments, notably linked to Basel III implementation. All in all, in support of these objectives, the Group will continue to invest in technology, human capital, effective risk management, process optimisation and customer service improvements alongside striving to optimise capital consumption and leveraging its existing capabilities.

Pierre Guy NOEL

Chief Executive

MCB Group Limited

Company secretary's certificate

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

Marivonne OXENHAM

Per MCB Registry & Securities Ltd

Company Secretary

30 September 2014

Statement of compliance

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

Name of Public Interest Entity ('the PIE'): MCB Group Limited

Reporting Period: 5 August 2013 to 30 June 2014

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

J. Gérard HARDY
Chairperson

Pierre Guy NOEL
Director

30 September 2014

CORPORATE GOVERNANCE REPORT

Our Philosophy

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. By promoting the integrity, accountability and transparency of an organisation, adequate corporate governance practices are particularly essential to achieving and maintaining high levels of public trust and confidence in the financial system, which constitute the premise to its effective functioning.

The Board of MCB Group Ltd is committed to upholding the highest standards of corporate governance with the aim of maximising the long-term value creation for its stakeholders. This is ensured through group-wide awareness of its operating ethics and regular monitoring by the Board that management is running the business in accordance with set objectives and policies. Fundamentally, while setting the stage for the organisation to duly meet up with evolving regulatory requirements, the adherence by MCB Group Ltd and its entities to corporate governance best practices provides a core foundation to successfully cope with the challenges posed by the uncertain operating environment. In this respect, the restructuring exercise should allow the Group to effectively respond to the heightened exigencies implied by advocated norms both locally and internationally, through a better ring-fencing of its activities within a flexible and autonomous structure.

Alongside endorsing the strategic directions to be pursued across the Group, the Board is responsible for ensuring that the organisation operates in a safe and sound manner. In addition to compliance with relevant laws and regulations, the Board Charter provides for the establishment of appropriate procedures and practices for effective capital and internal controls while catering for clear lines of responsibility and accountability throughout the organisation. In this respect, the Board has set up three committees to help it carry out its duties and responsibilities as well as creating a fitting reporting mechanism whereby matters affecting the affairs and reputation of the Group are duly escalated by these committees and the boards of the subsidiaries. This framework contributes to the maintenance of an effective oversight process with due emphasis laid on risk management. The latter is further reinforced through the adoption of advocated practices and governance structures by the Group's entities as warranted by the nature of their businesses

and industry trends. As such, the banking subsidiaries adhere to the underlying Basel principles while having clearly defined risk policies, as approved by their respective boards, taking into consideration the sector norms and country-specific requirements. As an example, there is a clear separation at MCB Ltd between the executive role of day-to-day decisions relating to credit and the Board's role of setting out the credit policy and ensuring that the business is effectively run in accordance with such policy through an adequate organisational structure, proper control and reporting systems.

The Board also encourages a culture that promotes ethical and responsible decision-making throughout the organisation, as testified by the provision for a corporate code of conduct at the Company as well as by efforts of the Group's entities to abide by the highest standards of business integrity, transparency and professionalism. Indeed, all subsidiaries comply with related provisions in relevant legislations while entities locally also subscribe to the Code of Corporate Governance in Mauritius, which was issued in October 2003. Furthermore, MCB Ltd issued a Code of Conduct, based on the model code of the Joint Economic Council, as appropriately adapted to meet its own specific needs and updated on a regular basis. The Bank also adheres to the revised Mauritius Bankers Association Code of Ethics and of Banking Practice issued in 2013.

By promoting sound principles of corporate governance, MCB Group Ltd wishes to reinforce investor confidence whilst upholding the values, corporate culture, reputation and brand image of the organisation. In fact, while seeking to optimise shareholder value, the Board of MCB Group Ltd strives to secure long-term and ethical stakeholder relationships by striking a balance between achieving adequate business growth for the Group and meeting the expectations of its clients, regulators and society as a whole. To this end, the Group has always supported the generally higher risk businesses associated with new economic initiatives and start-ups whilst contributing to the well-being of the community through an extensive involvement in social actions. Moreover, reflecting its endeavour to foster transparency across the organisation, the Board places due emphasis on the provision of timely and accurate information to its stakeholders through adapted communication channels.

At Board level, necessary steps are taken to ensure that directors execute their duties in the most productive manner. Hence, directors' responsibilities are clearly stated with notably the Chairperson's role being to ensure, amongst others, that the Board is effective in its duties of setting and implementing the Group's direction and strategy while providing leadership thereto alongside supporting and supervising the Chief Executive. The latter's mandate spans the development and execution of the Group's plans and

strategy in line with the policies set by the Board, in addition to being responsible for the day-to-day operations. In this respect, executive directors have to manage the conflict between their management responsibilities and their fiduciary duties as director in the best interests of the Group. Besides, the non-executive and independent directors' role is to collectively contribute to the development of the strategy as well as to analyse and monitor the performance of management against the set objectives. An induction programme is conducted for newly appointed directors about their roles and responsibilities alongside providing them with an overview of the Group's activities, strategy, structure and major policies. Furthermore, the Charter provides for the institution of a mechanism to evaluate the performance of Board members, with periodic review of the process. In the same vein, the Board's structure, size and composition is so established as to achieve an appropriate balance of skills and expertise.

The directors continuously review the implications of corporate governance best practices and are of the opinion that MCB Group Ltd complies with the requirements of the Code of Corporate Governance for Mauritius in all material aspects.

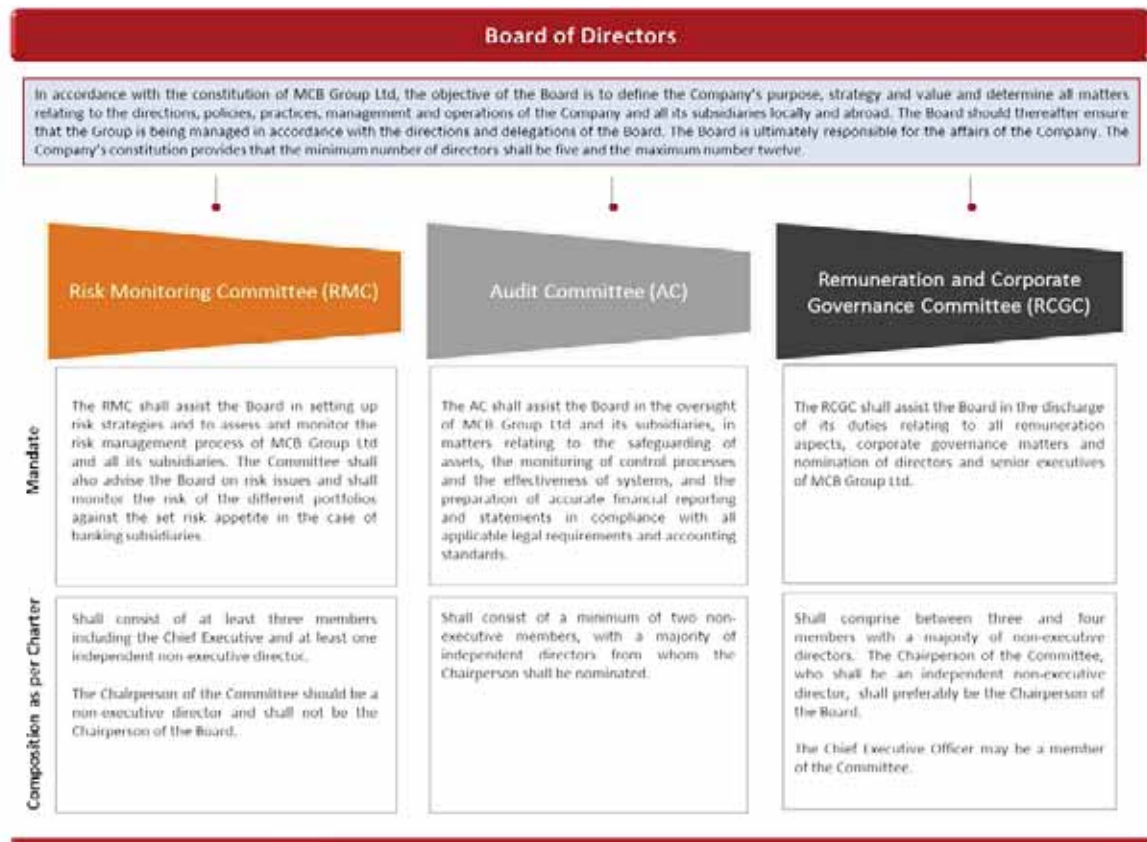
Constitution of MCB Group Limited

The Constitution was adopted on 1 April 2014. The salient features contained therein are highlighted below:

- The Board may, subject to the Companies Act 2001 ('Act') and its Constitution and the terms of issue of any existing shares, issue shares of any Class at any time, to any person and in such numbers as the Board may approve. The Board shall not issue further shares unless such issue has been approved by ordinary resolution;
- fully paid-up shares are freely transferable;
- the shareholders shall approve any issue of shares that are not pro-rata to existing shareholding;
- the Company may purchase or otherwise acquire its own shares in accordance with, and subject to, sections 68 to 74, and 108 to 110 of the Act and may hold the acquired shares in accordance with section 72 of the Act;
- the Board may authorise a distribution by the Company, if it is satisfied on reasonable grounds that the Company will satisfy the Solvency Test immediately after the distribution;
- the quorum for a meeting of the Board is a majority of the directors;
- the Board shall consist of a minimum of five (5) directors and a maximum of twelve (12) directors;

- a director who has declared his interest in a transaction or proposed transaction with the Company, shall not be counted in a quorum present at the meeting;
- the directors have the power at any time to appoint any person to be a director either to fill a casual vacancy or as an addition to the existing directors but so that the total number of directors shall not at any time exceed the number fixed in accordance with the Constitution. The directors appointed shall hold office only until the next following annual meeting of shareholders and shall then be eligible for re-election;
- the Board shall not vote on a shareholders' resolution of The Mauritius Commercial Bank Ltd which would trigger shareholders' rights under sections 105, 108 or 114 of the Act without prior consent of the shareholders. Such shareholders' resolution includes:
 - adoption of a Constitution or the alteration or revocation of the Constitution;
 - reduction of the stated capital of the Company under section 62 of the Act;
 - approval of a major transaction;
 - approval of an amalgamation of the Company under section 246 of the Act;
 - putting the Company into liquidation; and
 - variation of rights attached to a class of shares.
- the quorum for shareholders' meeting is twelve (12) shareholders present or represented;
- the Chairperson of a Meeting of Shareholders shall be entitled to a casting vote;
- at each Annual Meeting, one-third of the directors for the time being, or if their number is not a multiple of three, then the number nearest to, but not exceeding one-third, shall retire from office and shall be eligible for re-election. The directors to retire every year shall be those who have been longest in the office since their last election.

Board Governance Structure



Board of Directors

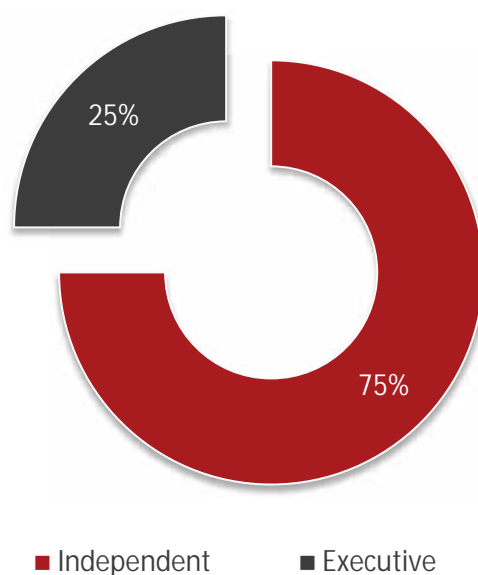
The methods through which the Board exercises its powers and discharges its responsibilities are set out in the Board Charter of MCB Group Ltd which provides, among others, for the following:

- the composition of the Board with an appropriate balance of executive, non-executive and independent directors;
- the Chairperson of the Board to be a non-executive or independent non-executive director;
- the creation of Committees;
- a corporate code of conduct addressing, *inter alia*, issues relating to conflicts of interests;
- the approval of strategic objectives, policies and corporate values as well as their communication throughout the organisation;
- the monitoring of management in respect of implementation of Board plans and strategies and compliance with set policies;

- the existence of clear lines of responsibility and accountability throughout the organisation and compliance with all relevant laws, regulations and codes of business practice;
- Board performance evaluation;
- a formal and transparent directors' remuneration policy;
- the review of procedures and practices to ensure effectiveness of the Group's internal control systems; and
- the provision of timely and accurate information to shareholders, relevant authorities and the public.

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

The Board presently comprises 8 directors, namely 2 executives and 6 non-executives, all of whom are independent.



Committees of the Board

The Board has created three Board Committees to help it in carrying out its oversight function: the Risk Monitoring Committee, the Audit Committee, and the Remuneration and Corporate Governance Committee. The composition of the committees appears on Page 16 of the Annual Report.

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

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

Risk Monitoring Committee	<p>The committee currently consists of four members namely the Chief Executive, the Chief Strategy Officer and two non-executive independent directors, including the Chairperson of the Board. It meets at least quarterly and on an ad hoc basis when required.</p> <p>Its main responsibilities include:</p> <ul style="list-style-type: none"> • overseeing the development of an effective risk management framework for the Group by implementing rigorous internal processes and controls which identify, monitor, measure and report different types of risks; • reviewing the principal risks, including credit, market, liquidity, operational, compliance and reputational risks as well as the actions taken to mitigate them; • reviewing regular information on risk exposures and risk management activities, and make appropriate recommendations to the Board; • setting risk exposure limits, as well as the delegation and authorisation procedures; • monitoring risk portfolios against set limits with respect to, <i>inter alia</i>, risk concentration, asset quality, large and foreign country exposures, in compliance with regulations and internal policies; • ensuring that clear lines of responsibility and accountability exist and are enforced throughout the organisation; • ensuring that the Group complies with all the relevant laws, regulations and codes of business practice; and • reviewing any legal matters that could have a significant impact on the Company's and its subsidiaries business.
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<p>Audit Committee</p>	<p>Consisting of two independent non-executive directors, the committee meets at least four times a year corresponding to the Company's quarterly reporting cycle. In particular, it reviews the quarterly results and annual financial statements, prior to submission and approval by the Board.</p> <p>Its main responsibilities, amongst others, include:</p> <ul style="list-style-type: none"> • reviewing the effectiveness of the Group's internal control and reporting systems; • monitoring the effectiveness of the internal audit function; • assessing audit matters pertaining to the Company and its subsidiaries; • overseeing the financial reporting procedures in accordance with prescribed standards; • making recommendations to the Board on the appointment of external auditors; • monitoring the effectiveness and independence of external auditors and assessing the implications of the supply of non-audit services; • reviewing the overall scope and deliverables of external auditors as well as their remuneration; and • ensuring compliance by the Company and its subsidiaries, with the requirements of relevant constitutions, legislations and regulations.
<p>Remuneration and Corporate Governance Committee</p>	<p>Presided by the Chairperson of the Board who is an independent non-executive director, the committee currently comprises four members including the Chief Executive. The committee meets at least once a year and on an ad hoc basis when required.</p> <p>Its main responsibilities include:</p> <ul style="list-style-type: none"> • identifying and recommending suitable candidates for the boards and committees of the Company and its subsidiaries while ascertaining that potential new directors and senior officers are fit and proper persons; • reviewing the Board structure, size and composition to achieve an appropriate balance of skills and expertise, with a majority of independent non-executive directors; • establishing clear criteria for selecting prospective directors and evaluating the performance of current directors; • setting and developing the Group's general policy concerning the remuneration of directors; • reviewing the remuneration of directors, taking into account their responsibilities and workload; • making recommendations to the Board regarding the use of incentive plans and equity based remuneration; • reviewing the succession plan of senior executives and the list of talents; • determining and developing the Group's general policy on corporate governance in accordance with the applicable Code of Corporate Governance; and • ensuring that no material conflict of interest exists/arises in conducting business.

Directorate

Directors' Profiles

The Board comprises 8 members who have a proven track record in various fields, with the average age of directors standing at 60 years.

J. Gérard HARDY - Age 70

After spending 4 years in London having qualified as Certified Accountant, he moved to Paris in 1969 where he qualified as an 'Expert Comptable'. He worked 8 years with KPMG and 17 years with the IP Group before setting up his own consultancy firm. He returned to Mauritius in June 2001. He was appointed to the Board of MCB Ltd in 2002 and was elected Vice President. In July 2003, at the request of the Board, he chaired the Bank's Management Committee until its dissolution at the beginning of 2005. He was President of the Board of MCB Ltd until March 2014 when he joined the Board of MCB Group Ltd following the restructuring of the Group.

He is currently Chairperson of the Board of MCB Group Ltd and of the Remuneration and Corporate Governance Committee while being a member of the Risk Monitoring Committee.

Sunil BANYMANDHUB - Age 65

Holds a BSc (Honours) First Class in Civil Engineering from the University of Manchester Institute of Science and Technology, a Master's degree in Business Studies from London Business School (UK), and is an Associate of the Institute of Chartered Accountants of England and Wales. He has occupied senior positions in the private sector in Mauritius prior to launching his own transport company in 1990. In 2008, he retired as Chief Executive Officer of the CIM Group, a company engaged in financial and international services, which he joined in 2001. During his career, he has been involved in various private sector organisations. Amongst others, he was President of the Mauritius Employers Federation. He was a Member of the Presidential Commission on Judicial Reform, headed by Lord Mackay of Clashfern, previously UK Lord Chancellor. He is currently a director of a number of domestic and offshore entities, acting either as chairperson or board member, and is also Adjunct Professor at the University of Mauritius.

He has been appointed Director of MCB Group Ltd in April 2014. He is also a member of the Audit Committee.

Directorships in other listed companies

Omnicane Ltd

New Mauritius Hotels Ltd

Gilbert GNANY - Age 52

Holds a Master's degree in Econometrics from the University of Toulouse and a 'DESS' in Management/Micro-Economics from Paris-X. He is currently Chief Strategy Officer of MCB Group Ltd. Previously, he worked as Senior Advisor on the World Bank Group's Executive Board where he was responsible for issues relating mainly to the IFC and to the private and financial sectors. Prior to joining the World Bank, he was the MCB Group Chief Economist after having been the Economic Advisor to the Minister of Finance. During his career, he has been involved in various high-profile boards/committees. Amongst others, he chaired the Stock Exchange of Mauritius as well as the Statistics Advisory Council and has been a member of the Board of Governors of the Mauritius Offshore Business Activities Authority. He was also a member of the IMF Advisory Group for sub-Saharan Africa (AGSA). He is currently Chairperson of the Statistics Board while being a Director on the Board of Investment and a Senate Member of the University of Mauritius. Moreover, he sits on the boards of several companies within the MCB Group.

He was appointed Director of MCB Group Ltd in April 2014. He is also a member of the Risk Monitoring Committee.

Directorships in other listed companies

Caudan Development Ltd

Promotion & Development Ltd

Navin HOOLOOMANN, C.S.K. - Age 55

Holds a First Class Honours degree in Surveying from the University of the West of England and is a Fellow of the Royal Institution of Chartered Surveyors, UK. He has over 25 years of experience in the construction industry internationally. He is the founder and Managing Director of Hooloomann & Associates Ltd, a

construction, project management and cost management consultancy firm operating in Mauritius, Seychelles, Maldives, Sri Lanka, India and West Africa.

He has served on the Board of MCB Ltd for several years since October 2002 and was appointed Director of MCB Group Ltd in April 2014. He is also a member of the Remuneration and Corporate Governance Committee.

Jean-Louis MATTEI - Age 66

Holds a BA and Master's degree in Private Law and is a graduate with a Major in Public Service from the Institut d'Études Politiques and from Centre d'Études Supérieures de Banque, France. He has accumulated wide-ranging experience in the banking sector, having worked for Société Générale Group for some 40 years. Over this period, he has shouldered an array of high-level responsibilities within the group, acting as Chairperson, Director or Chief Executive Officer, in its various offices based worldwide. In 1998, he took charge of Société Générale international retail banking operations and built the group's international network, particularly in northern Africa and in the sub-Saharan region as well as in eastern Europe. He was also the Chairperson of the Audit Committee of Agence Française de Développement. Prior to his retirement in 2013, he was Advisor to the Chairman and Chief Executive of Société Générale Group.

He was appointed Director of MCB Group Ltd in April 2014. He is also the Chairperson of the Risk Monitoring Committee.

Jean Pierre MONTOCCHIO - Age 51

Notary Public since 1990, he has participated in the National Committee on Corporate Governance. He has served on the Board of MCB Ltd for several years since 2001 and was a Director thereof until March 2014, after which he was appointed Director of MCB Group Ltd following the Group's restructuring exercise. He is also a member of the Remuneration and Corporate Governance Committee.

Directorships in other listed companies

Caudan Development Ltd

Fincorp Investment Ltd

Promotion & Development Ltd

New Mauritius Hotels Ltd

Rogers & Co. Ltd

ENL Land Ltd

Les Moulins de la Concorde Ltée

Pierre Guy NOEL - Age 58

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

He was appointed to the Board of MCB Ltd in 2005 and was a director thereof until March 2014 when he joined the Board of MCB Group Ltd following the Group's restructuring exercise. He is also a member of the Risk Monitoring Committee and of the Remuneration and Corporate Governance Committee of MCB Group Ltd.

Margaret WONG PING LUN - Age 60

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

She was appointed to the Board of MCB Ltd in 2004 and was a director thereof until March 2014, after which she joined the Board of MCB Group Ltd following the restructuring of the Group. She is also a member of the Audit Committee.

Directorship in other listed companies

Terra Mauricia Ltd

Board and Committee Attendance

The Board of MCB Group Ltd was effectively established in April 2014 following the restructuring exercise whereby the Company became the parent company of MCB Investment Holding Ltd, which itself became the sole shareholder of MCB Ltd. In the process, the Board of MCB Ltd was reorganised, with some members thereof joining the Board of MCB Group Ltd so as to ensure the smooth transition within the organisation. Of note, the shares of the operational entities of the Group were owned by MCB Ltd until end of June 2014 when the investments in the entities engaged in non-banking operations were transferred to MCB Group Ltd. The unbundling of the investments in the foreign banking entities will occur over the coming months when relevant local regulatory approvals are obtained.

During the transitional phase to June 2014, MCB Group Ltd passed several written resolutions notably pertaining to the restructuring exercise while an induction programme was conducted for the newly appointed directors, providing, *inter alia*, an overview of its activities, strategy and main policies. Up to March 2014, the Board of MCB Ltd was the main decision body of the Group. The table hereafter shows the board and committee attendance by the directors of MCB Ltd for the first nine months of FY 2013/14.

MCB Ltd		Board of Directors	Board Committees				
			Supervisory and Monitoring	Audit	Risk Monitoring	Nomination and Remuneration	Conduct Review
Number of meetings held from July 2013 to March 2014		9	17	3	3	2	3
Meetings attended							
Executive	Pierre Guy NOEL	9	14	-	2	2	-
	Antony R. WITHERS	8	13	-	3	-	-
	Jean-François DESVAUX DE MARIGNY	9	15	-	1	-	-
Independent	J. Gérard HARDY	9	17	-	-	2	2
	Priscilla BALGOBIN-BHOYRUL	7	-	3	-	-	1
	Jean-Philippe COULIER	8	5	2	3	-	-
	Jonathan CRICHTON (<i>as from December 2013</i>)	3	-	-	1	-	-
	Gilles GUFFLET	3	-	3	-	-	3
	Navin HOOLOOMANN, c.s.k. (<i>until December 2013</i>)	6	-	-	-	2	-
	Iqbal RAJAHBALEE	6	-	-	2	2	-
	Simon Pierre REY (<i>as from December 2013</i>)	2	-	1	-	-	1
Others	E. Jean MAMET (<i>until December 2013</i>)	6	11	-	2	-	-
	Jean Pierre MONTOCCHIO	7	-	-	-	2	-
	Margaret WONG PING LUN	8	-	2	-	-	2

Directors' Interests and Dealings In Securities

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

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

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

The following tables give the interests of the directors in the Group's listed securities as at 30 June 2014 as well as related transactions effected by the directors during the year. None of the directors had any interest in the securities of the subsidiaries of MCB Group Ltd other than in the equity of Fincorp Investment Ltd and the Floating Rate Subordinated Notes of MCB Ltd.

Interests in MCB Group Ltd shares as at 30 June 2014	Number of shares	
	Direct	Indirect
J. Gérard HARDY	5,000	-
Gilbert GNANY	105,432	-
Navin HOOLOOMANN, c.s.k.	55,910	959,029
Jean Pierre MONTOCCHIO	1,000	74,533
Pierre Guy NOEL	1,102,395	28,302
Margaret WONG PING LUN	500	12,900

Transactions during the year	Number of shares	
	Purchased	Sold
Gilbert GNANY	5,610	-
Pierre Guy NOEL	13,431	-

Interests in MCB Ltd Subordinated Notes as at 30 June 2014	Number of notes	
	Direct	Indirect
J. Gérard HARDY	-	100
Gilbert GNANY	2,500	200
Jean Pierre MONTOCCHIO	-	2,195

Interests in Fincorp Investment Ltd as at 30 June 2014	Number of shares	
	Direct	Indirect
Gilbert GNANY	25,000	-
Navin HOOLOOMANN, c.s.k.	-	362,200
Jean Pierre MONTOCCHIO	-	12,493
Pierre Guy NOEL	750,166	32,250
Margaret WONG PING LUN	-	10,000

Transactions during the year	Number of shares	
	Purchased	Sold
Gilbert GNANY	8,000	-

Directors' Remuneration

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

Remuneration and benefits received (Rs '000)	From MCB Group Ltd*	From Subsidiaries		Total
		MCB Ltd	Others	
J. Gérard HARDY	405	1,908	-	2,313
Sunil BANYMANDHUB	165	-	-	165
Navin HOOLOOMANN, c.s.k.	105	281	-	386
Jean-Louis MATTEI	165	-	-	165
Jean Pierre MONTOCCHIO	105	356	110	571
Margaret WONG PING LUN	135	491	15	641
Total Non-Executive	1,080	3,036	125	4,241
Pierre Guy NOEL	2,668	19,305	-	21,973
Gilbert GNANY	1,612	-	-	1,612
Total Executive	4,280	19,305	-	23,585
Total (Non-Executive and Executive)	5,360	22,341	125	27,826

* Relate to remuneration received by directors since April 2014 when the Board was constituted.

Additionally, directors of subsidiaries, who did not sit on the Board of MCB Group Ltd during the year, received the following remuneration and benefits. Of note, the figures include remuneration received by directors of MCB Ltd which is now a subsidiary of the Company.

Remuneration and benefits received (Rs '000)	2014
Executive (Full-time)	106,293
Non-Executive	7,880
	114,173

Directors' Service Contracts

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

Related Party Transactions

For related party transactions, please refer to Note 37 of the Financial Statements.

Directors of MCB Group Ltd Subsidiaries

The board composition of the subsidiaries during FY 2013/14 is given hereafter, with the corresponding chairpersons as well as chief executives or managing directors (where applicable) sitting on the board as at 30 June 2014, being mentioned.

MCB INVESTMENT HOLDING LTD (INCORPORATED IN NOVEMBER 2013)

Pierre Guy NOEL (Chairperson)

Jean-François DESVAUX DE MARIGNY

THE MAURITIUS COMMERCIAL BANK LTD

Jean-Philippe COULIER (Chairperson)

Priscilla BALGOBIN-BHOYRUL

Jonathan CRICHTON

Jean-François DESVAUX DE MARIGNY

Gilles GUFFLET

J. Gérard HARDY * (*up to March 2014*)

Navin HOOLOOMANN, C.S.K. (*up to December 2013*)

E. Jean MAMET (*up to December 2013*)

Jean Pierre MONTOCCHIO * (*up to March 2014*)

Pierre Guy NOEL * (*up to March 2014*)

Iqbal RAJAHBALEE

Simon Pierre REY

Antony R. WITHERS (*Chief Executive*) Margaret WONG PING LUN * (*up to March 2014*)

**Resigned from the Board of MCB Ltd in the wake of the restructuring exercise. They now form part of the Board of MCB Group Ltd.*

MCB MADAGASCAR SA

Jean-François DESVAUX DE MARIGNY (*Chairperson*)

Marc DE BOLLIVIER (*Managing Director*)

Raoul GUFFLET

E. Jean MAMET

Pierre Guy NOEL

Michel PICHON

Patrick RAZAFINDRAFITO

MCB (MALDIVES) PRIVATE LTD

Pierre Guy NOEL (*Chairperson*)

Jean-François DESVAUX DE MARIGNY

Gilbert GNANY

Raoul GUFFLET

E. Jean MAMET

Laila MANIK

Gilles MARIE JEANNE (*Managing Director as from January 2014*)

Moossa MOHAMMAD (*Managing Director up to December 2013*)

MCB MOÇAMBIQUE SA**Pierre Guy NOEL (Chairperson)**

Jorge FERRAZ

Raoul GUFFLET

Peter HIGGINS (Managing Director)

MCB SEYCHELLES LTD**Pierre Guy NOEL (Chairperson)**

Jocelyn AH-YU (Managing Director)

Jean-François DESVAUX DE MARIGNY

Gilbert GNANY

Raoul GUFFLET

E. Jean MAMET

MCB INTERNATIONAL SERVICES LTD¹**Jean-François DESVAUX DE MARIGNY (Chairperson)**

Jocelyn AH-YU

MASCAREIGNES PROPERTIES LTD¹**Pierre Guy NOEL (Chairperson)**

Jocelyn AH-YU

Jean-François DESVAUX DE MARIGNY

Raoul GUFFLET

E. Jean MAMET

¹ Incorporated in Seychelles

MCB CAPITAL MARKETS LTD**Pierre Guy NOEL (Chairperson)**

Bertrand DE CHAZAL

Gilbert GNANY

Marc LAGESSE (*until March 2014*)Rony LAM YAN FOON (*as from March 2014*) (*Chief Executive Officer*)

E. Jean MAMET

Jeremy PAULSON-ELLIS

MCB INVESTMENT SERVICES LTD²**Gilbert GNANY (Chairperson)**Joël LAMBERT (*until March 2014*)Rony LAM YAN FOON (*as from March 2014*)Pierre Guy NOEL (*until March 2014*)Vimal ORI (*until March 2014*)

Akesh UMANEE

MCB REGISTRY & SECURITIES LTD²**Gilbert GNANY (Chairperson)**Jean-François DESVAUX DE MARIGNY (*until March 2014*)Rony LAM YAN FOON (*as from March 2014*)Marivonne OXENHAM (*Managing Director*)**MCB STOCKBROKERS LTD²****Gilbert GNANY (Chairperson)**Rony LAM YAN FOON (*as from March 2014*)

Jeremy PAULSON-ELLIS

Shivraj RANGASAMI (*Managing Director*)² A subsidiary of MCB Capital Markets Ltd

MCB CAPITAL PARTNERS LTD²**Gilbert GNANY (Chairperson)**

Raoul GUFFLET

Rony LAM YAN FOON *(as from March 2014)*Garry SHARP *(until February 2014)*

Bernard YEN

MCB INVESTMENT MANAGEMENT CO. LTD²**Gilbert GNANY (Chairperson)**Dean D'SA *(Co-Managing Director)*Ameenah IBRAHIM *(Co-Managing Director)*Hashim JOOMYE *(until March 2014)*Rony LAM YAN FOON *(as from March 2014)*

Michaël NAAMEH

Pierre Guy NOEL *(until March 2014)*

Jeremy PAULSON-ELLIS

MCB STRUCTURED SOLUTIONS LTD²**Gilbert GNANY (Chairperson)**Rony LAM YAN FOON *(as from March 2014)*Pierre Guy NOEL *(until March 2014)***MCB EQUITY FUND LTD****Bertrand DE CHAZAL (Chairperson)**

Jocelyn DE CHASTE AUNEUF

F. Jacques HAREL

E. Jean MAMET

*Alternate:*Pierre Guy NOEL *(to Bertrand DE CHAZAL and E. Jean MAMET)*² A subsidiary of MCB Capital Markets Ltd

MCB FACTORS LTD**E. Jean MAMET (Chairperson)**

Alain LAW MIN

Jean-Michel NG TSEUNG

Margaret WONG PING LUN

MCB PROPERTIES LTD**Jean-François DESVAUX DE MARIGNY (Chairperson)**

Pierre Guy NOEL

FINCORP INVESTMENT LTD**Jean Pierre MONTOCCHIO (Chairperson)**

Herbert COUACAUD, C.M.G.

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

Jocelyn DE CHASTEAUNEUF

Michel DOGER DE SPEVILLE, C.B.E.

FINLEASE CO. LTD³**Jocelyn DE CHASTEAUNEUF (Chairperson)**

Jean-François DESVAUX DE MARIGNY

Thierry KOENIG

E. Jean MAMET

Jean-Michel NG TSEUNG

Louis Eric Wilson RIBOT

INTERNATIONAL CARD PROCESSING SERVICES LTD**Pierre Guy NOEL (Chairperson)**

Mohamed HORANI

Angelo LETIMIER

³ A subsidiary of Fincorp Investment Ltd

MCB CONSULTING SERVICES LTD (INCORPORATED IN JUNE 2014)**Pierre Guy NOEL (Chairperson)**

Gilbert GNANY

BLUE PENNY MUSEUM**Philippe A. FORGET (Chairperson)**

Jean-François DESVAUX DE MARIGNY

J. Gérard HARDY

Damien MAMET (*as from July 2013*)

Pierre Guy NOEL

MCB FORWARD FOUNDATION**J. Gérard HARDY (Chairperson)**

Jean-François DESVAUX DE MARIGNY

Philippe A. FORGET

Gilbert GNANY

Madeleine de MARASSE ENOUF

Pierre Guy NOEL

Shareholder Relations and Communication

The Board is committed to promoting an open and constructive dialogue with its shareholders whilst ensuring their information needs are promptly attended to. In this respect, shareholders as well as other stakeholders are kept abreast of developments at the level of MCB Group Ltd through appropriate communication channels. In addition to official press communiqués, occasional letters to shareholders where appropriate, as well as the holding of investor meetings and road-shows, the Group's website, hosted at www.mcbgroup.com, provides for an adapted and comprehensive self-service interface. Through the latter, shareholders have the possibility to post their queries while having access to relevant information such as updated MCB Group Ltd share price as well as interim and audited financial statements with the key features of the organisation's financial performance being highlighted in the Group Management Statement. Of note, MCB Group Ltd offers to its shareholders the possibility of receiving its corporate communications electronically. Besides, MCB Group Ltd encourages shareholders to attend the

Annual Meeting which provides them with a forum to express their views and to receive direct feedback from Board members.

Shareholders Agreements

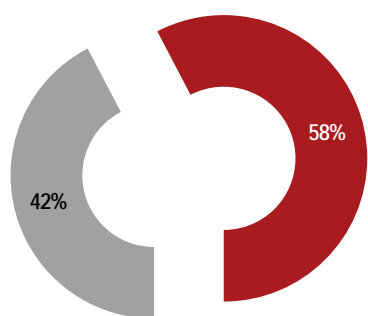
There is currently no shareholders agreement affecting the governance of the Company by the Board.

Shareholding Profile

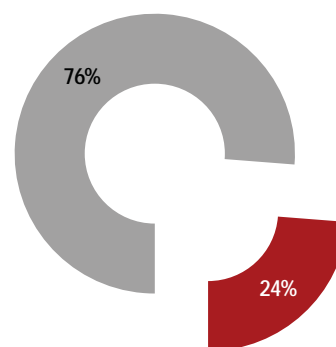
Ownership of ordinary share capital by size and type of shareholding as well as the ten largest shareholders as at 30 June 2014 are illustrated in the following tables:

Largest shareholders	Number of shares owned	% Holding
National Pensions Fund	8,579,518	3.61
The Anglo-Mauritius Assurance Society Ltd	7,568,359	3.18
Promotion and Development Ltd	5,000,000	2.10
SSL c/o SSB Boston Investec Africa Fund	4,248,168	1.79
NTGS LUX A/C The Africa Emerging Markets Fund	4,130,659	1.74
La Prudence Mauricienne Assurances Limitée	4,035,561	1.70
SSB A/C SQM Frontier Africa Master Fund Ltd	3,500,400	1.47
Pictet Europe (A/C Blakeney LP)	3,118,464	1.31
POLICY Ltd	2,953,040	1.24
Mellon Omnibus	2,850,332	1.20

Size of shareholding	Number of shareholders	Number of shares owned	% Holding
1-500 shares	12,015	1,355,180	0.57
501-1,000 shares	1,436	1,064,947	0.45
1,001-5,000 shares	2,320	5,567,596	2.34
5,001-10,000 shares	718	5,121,126	2.15
10,001-50,000 shares	1,190	27,204,363	11.43
50,001-100,000 shares	280	20,236,088	8.50
Above 100,000 shares	389	177,427,961	74.56
Total	18,348	237,977,261	100.00



■ Individuals ■ Non-individuals



■ Local investors ■ Foreign investors

Share Price Statistics and Performance

Figures in the table below relate to MCB Group Ltd for the period April to June 2014 and to MCB Ltd otherwise.

Share Price Statistics	2014	2013	2012	2011	2010
Investor Data					
Earnings per share* (Rs)	18.34	18.28	17.36	18.91	14.38
Earnings yield (%)	8.5	9.8	10.3	10.1	10.1
Price earnings ratio (times)	11.7	10.2	9.7	9.9	9.9
Net asset value per share (Rs)	130.13	119.87	106.52	99.89	85.61
Dividends per share (Rs)	6.35	6.10	5.85	5.75	5.25
Dividend yield (%)	3.0	3.3	3.5	3.1	3.7
Dividend cover (times)	2.9	3.0	3.0	3.3	2.7
Market Data					
Market price per share (Rs) :					
High	223.00	196.25	189.00	191.00	151.00
Low	179.50	160.00	162.00	137.00	119.00
Average	205.03	175.76	168.17	161.81	136.45
Closing (Year end)	215.00	186.00	169.00	188.00	142.00
Value of shares traded (Rs m)	3,575	3,620	2,938	3,357	3,311
Market capitalisation as at 30 June (Rs m)	51,165	46,570	42,313	47,071	35,553
Market capitalisation as a % of total market	22.3	23.9	25.2	24.8	23.6
* Net results used for the calculation of EPS include non-recurrent items					

Note:

As part of the restructuring exercise, the last trading date of MCB Ltd ordinary shares was on 24 March 2014, with the cancellation of the listing thereof on 2 April 2014 and the start of trading of MCB Group Ltd shares on the Official Market as from 3 April 2014, following an exchange of shares on a 1:1 ratio.

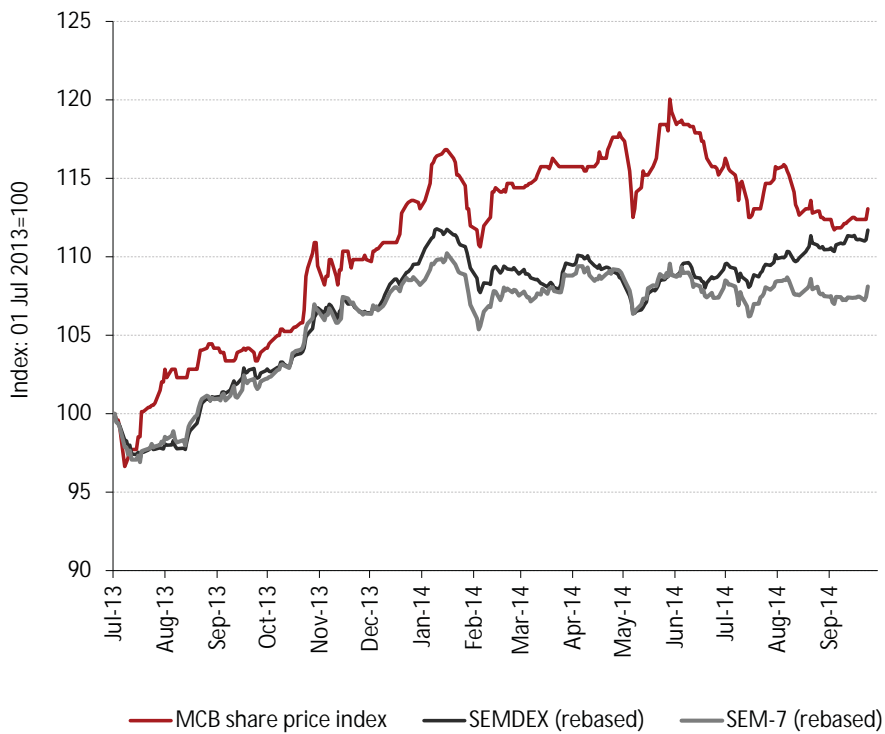
Notwithstanding episodes of investor nervousness linked to tapering of the US monetary stimulus programme and the still delicate economic environment notably in Europe, the main equity indices posted a generally upward trend over the last financial year, albeit remaining volatile, amidst improved sentiment on the back of encouraging economic data especially in the US and the low- yield environment. More recently, however, several stock markets were adversely affected by worries about the prospect of interest rate hikes, worsening geopolitical uncertainty, renewed concerns regarding the health of Eurozone banks and fears over the economic outlook in China.

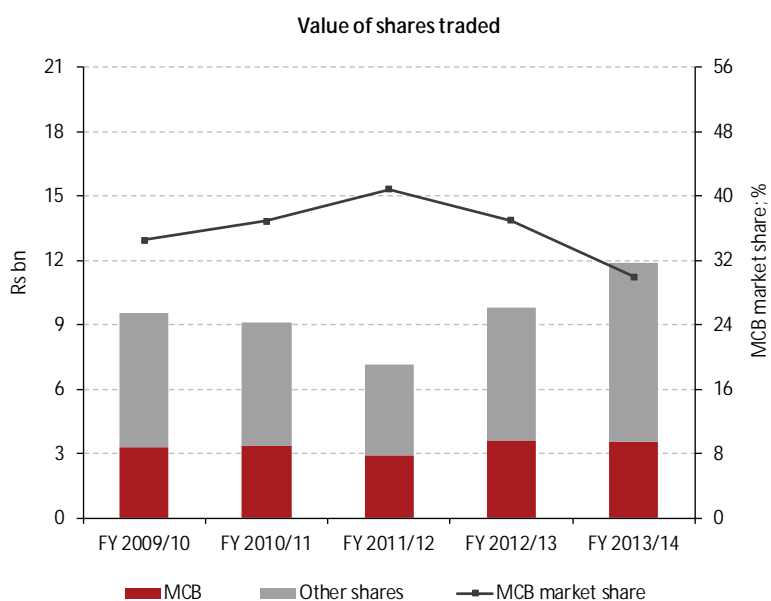
After a marked rise in the semester to December 2013 with investor sentiment being upheld by signs of economic recovery globally, the SEMDEX has been relatively flat since the beginning of 2014 partly

associated with the persistence of challenging economic conditions. On the whole though, the SEMDEX increased by 9.2% over the last financial year, thereby contributing to a rise of 12.9% in the total return index, SEMTRI. Worth highlighting, the latter reached an all-time high of 6,991.6 points on 29 September 2014. As for MCB Group, its share price once again outperformed the SEMDEX and went up by around 16% during FY 2013/14 on the strength of its sound fundamentals, with interest from both local and foreigner investors contributing to a historical peak of Rs 223 on 29 May 2014. As a result, MCB Group Ltd consolidated its leadership position on the local bourse as testified by a market capitalisation of Rs 51.2 billion as at 30 June 2014, representing a market share of around 22%. Listed on the Official Market of the Stock Exchange of Mauritius since 22 August 2013, the Notes issued by MCB Ltd each with a principal amount of Rs 1,000, were trading at Rs 1,052.69 as at 29 September 2014 with an effective yield to maturity of 5.25%.

Looking ahead, in addition to the evolution and prospects of the Mauritian economy, the local stock market should, to a notable extent, be influenced by developments on the international scene, *inter alia*, linked to the pace of economic recovery, monetary policy outlook and the geopolitical situation.

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



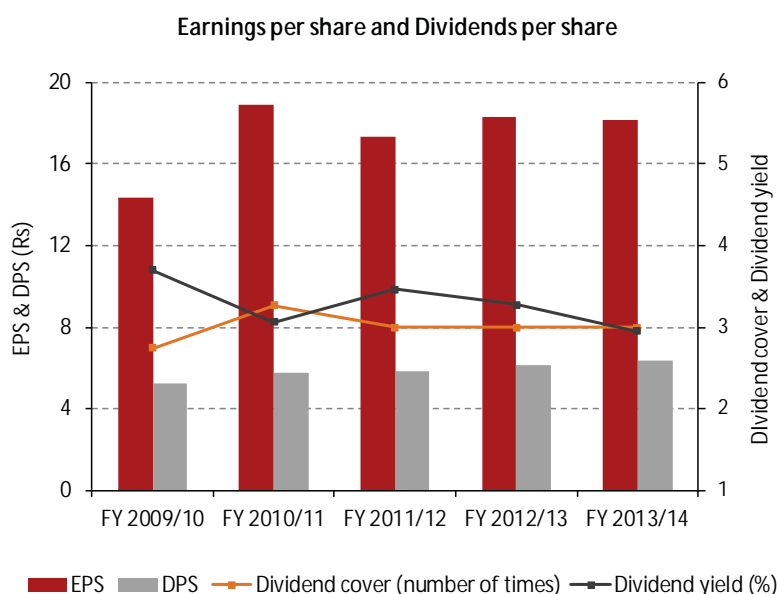


Notes:

(i) In the context of the restructuring exercise, MCB shares were not traded from 25 March to 2 April 2014
 (ii) Value of shares traded excludes one-off transactions

Dividend Policy

MCB Group Ltd aims to supply its shareholders with ongoing returns in the form of a stable and relatively predictable dividend path. An interim dividend of Rs 3.00 per share was declared and paid in December 2013 while a dividend of Rs 3.35 per share was declared in June 2014 and paid in July last. Dividend per share for the year therefore stood at Rs 6.35, representing a rise of 4.1% as compared to FY 2012/13. Key dividend ratios over the past five years are depicted in the following illustration.



Shareholders' Diary

November 2014	Declaration of final dividend and release of first quarter results to 30 September 2014
November 2014	Annual Meeting of Shareholders
December 2014	Payment of final dividend
February 2015	Release of half-year results
May 2015	Release of results for the 9-month period to 31 March 2015
June 2015	Declaration of interim dividend
July 2015	Payment of interim dividend
September 2015	Release of full-year results to 30 June 2015

Statement of Remuneration Philosophy

With human capital viewed as critical to the sustainability of the business, the Group lays significant emphasis on employing the right people with the right skills and behaviours whilst rewarding them properly.

The Group's remuneration philosophy concerning directors provides that:

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

The remuneration philosophy of the Group is based on meritocracy and ensures that:

- full protection is provided, at the lower end of the income ladder, against cost of living increases;
- fairness and equity are promoted throughout the organisation; and
- opportunity is given to employees to benefit from the financial results and development of the Group. Indeed, staff members of the Group receive an annual bonus based on the performance of the Group as well as their own rated contribution thereto. Furthermore, most staff members have the added possibility to be incentivised further through a share option scheme.

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

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

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

Group Employee Share Option Scheme (GESOS)

As a result of the restructuring exercise, the MCB Employee Share Option Scheme (ESOS), introduced in 2006 for staff of the Bank, was replaced by the Group Employee Share Option Scheme (GESOS), with similar underlying principles. By providing eligible employees with the opportunity to partake in the growth and prosperity of the Group through the acquisition of shares in the Company, this scheme acts as an additional lever to promote a performance culture alongside upholding motivation and commitment across the organisation as well as to attract and retain highly skilled staff. Under the scheme, employees are granted non-transferable options to buy MCB Group Ltd shares 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 preceding the first window, to which a discount is applied.

The following table gives details of the options granted to and exercised by employees under the share option scheme.

	Management	Other employees	TOTAL
Number of options granted in October 2013	112,832	427,624	540,456
Initial option price (Rs)	193	174	-
Number of options exercised to date	61,135	97,014	158,149
Value (Rs '000)	11,784	16,832	28,616
Percentage exercised	54.2	22.7	29.3
Number of employees	10	362	372
Available for the 4 th window and expiring in mid-October 2014	51,697	330,610	382,307

Note that from the 540,456 options granted to employees under the ESOS scheme, 124,410 were taken up during the first window. The resulting balance of 416,046 was then transferred to the new scheme GESOS, out of which 33,739 have been exercised.

Audit Fees and Fees for Other Services

	2014	
	The Group	The Company
	Rs '000	Rs '000
Audit fees paid to:		
BDO & Co	18,710	403
Other firms	5,233	-
Fees for other services provided by:		
BDO & Co	3,899	-

Note that the fees for other services relate to internal control review, validation of profit on exchange and the provision of an assurance report in respect of Notes issuance.

Sustainability Reporting

Introduction

The aim of sustainable development is to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. For an organisation like ours, sustainability reporting can be defined as the practice of measuring, disclosing and improving its performance under various sustainability headings with respect to the internal and external stakeholders with whom it interacts.

Epitomising its missions and values, the Group embeds corporate responsibility as a core tenet of its corporate stewardship and strategic and business development orientations. Indeed, while operating within the confines of applicable statutory and regulatory requirements, the Group duly adheres to sustainability principles to fulfil its commitment to making a sound and sustained contribution to the economies, environments and communities in which it chooses to operate. In this context, it continues to nurture close, long-lasting and transparent relationships with its numerous stakeholders, namely, shareholders, customers, human resources, Governments, regulators and other relevant representatives of the social and economic spheres, so as to judiciously respond to their reasonable needs and expectations.

Testifying to the quality of this engagement, the Group garnered noteworthy accolades during FY 2013/14 in respect of its stakeholder interactions including: (i) PricewaterhouseCoopers Corporate Reporting Awards 2014, namely in the 'Risk Management Disclosures', 'Corporate Governance Disclosures' and Overall Best ('SEM-7') categories; (ii) Learning Transformation Award of the Year 2013 from Skillsoft and the LR Management Group (Pty) Ltd; and (iii) Blue Carbon Footprint Certification from Rexizon Consulting for all of MCB's branches and sites, with the latter having successfully passed carbon footprint validation and mitigation assessments.

Our Engagement

The philosophy and practices guiding the Group's conduct of affairs are entrenched in an appropriate operational and governance framework, as well as proper enforcement mechanisms which enable the organisation to efficiently manage its economic, social and environmental performance. For instance, at the level of MCB Ltd, employees abide by the Bank's Code of Conduct and the national Code of Banking Practice. The Bank also adheres to the United Nations Global Compact, the world's largest voluntary corporate responsibility initiative for businesses which are committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption. Besides, MCB Ltd has adopted the Equator Principles, which stand as the governing foundation of the Bank's Environmental and Social Policy in support of its 'responsible financing' of projects.

In addition to underlying policies and systems which have been established over time, the Group has adopted various initiatives during FY 2013/14 till date, in order to further its holistic stakeholder engagement through specific areas of intervention.

Maximising shareholder value

Our pledges

- To optimise long-term shareholder value through the pursuit of a sustainable business growth agenda which assists in appropriately rewarding shareholders via a stable and relatively predictable dividend path
- To provide timely and accurate information to current and potential shareholders in order to facilitate their independent judgement and opinion as regards the actual and forward-looking performance of the Group

Examples of engagement

- Enhancing the Group's revenue generating capacity through the adoption of ambitious, yet judicious, strategic orientations in Mauritius and abroad, backed by improved physical capabilities and operational set-ups, better customer service and adequate recourse to funding resources
- Maintaining open lines of communication to provide coherent, pertinent and updated information

regarding the Group's strategic direction, corporate accomplishments and financial performance by means of carefully-selected channels, platforms and reports

Deepening customer relationships

Our pledges

- To build dedicated and life-long relationships with clients while accompanying them in good and bad times, thus upholding their trust in the organisation and helping them to achieve their goals
- To foster continuous improvements in customer service, in alignment with the desired shift from transactional to relational aspects of banking and clients' evolving business needs alongside effectively responding to their complaints

Examples of engagement

- Anchoring a customer-centric business development approach by enhancing the quality of the value proposition via the (i) widening of the range of financial solutions; (ii) refining and customisation of the products and services offered, in line with market specificities; and (iii) bolstering of the reach and convenience of modern delivery channels in order to provide an increasingly personalised and simplified customer experience
- Upholding and strengthening overall client relationships and market visibility, notably through the continuous showcasing of the image and value proposition of business lines via (i) MCB's appealing websites and social media presence; and (ii) the organisation of and participation in various promotional initiatives, business meetings as well as international seminars, conferences and road shows

Upholding human resource development and staff welfare

Our pledges

- To instil a high performance culture amongst the staff – backed by the endorsement of core values in alignment with the Group’s strategic objectives – so as to contribute to improved operational effectiveness and efficiency across the organisation as well as to foster the attainment of customer service excellence
- To provide fair treatment with regards to staff recruitment and the management of human resources, whilst adhering to the equal opportunity principles and retaining MCB’s status as an employer of choice
- To foster general staff welfare, by catering for their health and safety as well as nurturing a better work-life balance

Examples of engagement

- Designing dedicated programmes to build human capital, as well as to retain and develop talent, notably through the Group’s implementation and refinement of its talent management framework
- Fostering a continuous learning culture across the Group, as exemplified by the: (i) roll-out of an e-learning programme; (ii) completion of its Leadership Development Programme for middle managers and the executive team; and (iii) delivery of technical and soft skills courses to the staff
- Optimising the overall HR performance appraisal system to foster fairer employee assessment
- Promoting flexible working arrangements and offering lectures on stress management and ergonomics at work; conducting regular awareness campaigns on the occupational safety and health of employees and implementing other preventive measures
- Complying with the provisions of the Mauritian Training and Employment of Disabled Persons Act and the guidelines of the Equal Opportunity Commission, as well as maintaining healthy relationships with employee representatives in order to work collectively towards enhancing the work environment and conditions
- Refining the HR Business Partnering model for enhanced value to the business through more active participation in HR strategy elaboration and the execution of supportive initiatives

Training statistics - MCB Ltd

Domestic training statistics from July 2013 to June 2014		
	Internal	External providers
Total man hours of training	23,617	41,758
Total no. of participants	2,230	2,525
<i>Average hours of training per participant</i>	<i>10.6</i>	<i>16.5</i>

Overseas training statistics from July 2013 to June 2014	
Total no. of days of training	120
Total no. of participants	21

Fostering economic growth and prosperity

Our pledges

- To assist in the advancement of individuals and businesses in the countries in which the Group operates, thus supporting the socio-economic prosperity of these nations
- To play an influential role in supporting economic growth and spearheading the growing sophistication of the Mauritian economy, thereby helping to stimulate job creation, broaden the scope for nationwide wealth creation and enhance the population's material well-being
- To support the established sectors of the Mauritian economy and contribute to the take-off of upcoming segments, alongside underpinning the development of Small and Medium Enterprises (SMEs)

Examples of engagement

- Financing key projects shaping the economic landscape and assisting major corporates in their financial restructuring exercise to support their development domestically and beyond local shores, in the process furthering inclusive growth of the country as well as upholding its regional agenda and positioning as an international financial centre of substance and good repute
- Assisting SMEs in their pursuit of growth and business development endeavours. Of note, MCB was ranked 1st amongst the 14 banks operating in the country in respect of credit facilities approved under the Government-backed SME Financing Scheme, with a corresponding market share of around 51% posted during the December 2011 – August 2014 period
- Rallying around the 'Made in Moris' initiative of the Association of Mauritian Manufacturers (AMM), which aims at promoting local expertise and encouraging the population to buy Mauritian products to boost and sustain the local manufacturing industry

Supporting social progress and environment protection

Our pledges

- To uphold MCB's social commitment through the development of and support to initiatives for the benefit of the community in which we live and work
- To foster environmental stewardship by endorsing environmentally conscious practices in the operation and activities of the Group, whilst also sensitising employees, customers and the general public on the matter

Examples of engagement

- Fulfilling our Corporate Social Responsibility (CSR) via the implementation of initiatives by the MCB Forward Foundation, in accordance with the guidelines set by the Government as per its National CSR programme
- Extending additional support, beyond its official mandate, to promote the welfare of the society and protect the environment by means of *inter alia*: (i) the pursuit of its internally-generated 'Initiative 175' programme; and (ii) the undertaking of sponsorship activities spanning the fields of education and sports

Involvement of MCB vis-à-vis the Society and the Environment

Over the past financial year, in line with one of its underlying missions, which is “We will do what we can to make the world a better, greener place”, MCB has further entrenched its social and environmental engagement.

Support through MCB Forward Foundation

The Group’s CSR activities are channelled through the MCB Forward Foundation. The latter, which was formally launched in September 2010, is a dedicated vehicle responsible for the efficient and effective design, implementation and management of specific initiatives which contribute towards embedding the Group’s engagement with the communities in which it operates.

For FY 2013/14, MCB Forward Foundation was entrusted with a fund of Rs 77.9 million, representing the relevant contribution by the Group’s local entities, consistent with the Government’s policy measure requiring companies to set up an annual CSR Fund representing 2% of their chargeable income derived during the preceding year. An amount of Rs 68.4 million was spent on a total of 71 projects over the year under review, after allowing for the Foundation’s administrative costs. Of these, 24 projects were selected from the 88 projects received following the launch of an ‘Appel à Projets’.

In order to ensure the smooth and value-added execution of the projects being catered for, the Foundation took due advantage of MCB’s network of branches, which allowed staff to better and more comprehensively reach out to the community. Besides, it empowered several fund beneficiaries in their day-to-day operations, with NGOs leveraging workshop sessions meant, for instance, to address challenges they are facing in respect of adherence to good governance principles and ethics management, amongst others.

The following table provides a breakdown of expenditure by activity incurred by the Foundation. The aggregate amount relates only to endeavours approved by the National CSR Committee, with the Group’s involvement as a socially responsible institution encompassing a broader sphere. It is also worth noting that no political donations were made during the year.

Breakdown of expenditure	Rs '000
Absolute poverty and community empowerment	21,982
Welfare of children	8,934
Education	6,293
Environment	2,152
Leisure and sports	1,002
Socio-economic development	17,091
Social housing	3,285
Health	7,688
Total	68,427

Key projects funded by MCB Forward Foundation

Absolute poverty and community empowerment

- *Action Familiale*: Prevention of domestic violence
- *Association Culturelle Pour La Sensibilisation et L'Eveil Artistique (ACSEA)*: Promotion of the development and socialisation of vulnerable children through art and theatre
- *Salesiennes Missionnaires de Marie Immaculée*: Construction of a home for the disabled
- *Football Academy*: In 2013, the MCB Football Academy (MCBFA) Programme, which falls under the aegis of the MCB Forward Foundation, celebrated its 5th year of operation. The first football academy in Rodrigues was officially launched in 2014, adding to the other 4 operational football academies set up in Mauritius since 2008. The academy will encourage the social integration of some 100 children aged between 6-10 years from Patate Théophile and 8 neighbouring villages, by offering them access to training and entertainment dispensed by professional trainers on a newly renovated football field. In addition, the MCBFA also selected one of its Mauritian members, the 7-year old Sufyaan Mulang, to attend the 2014 FIFA World Cup. Sufyaan was chosen on the basis of his football skills, academic results and overall behaviour during training sessions. Moreover, in the context of the 5th anniversary of the MCBFA Programme, a review of its current operations was conducted in order to devise a strategic plan for the next 5 years.

Welfare of children

- *Rodrigues Student Needs Association (R.S.N.A)*: Setting up of a home for the provision of care to physically and mentally handicapped adults
- *Southern Handicapped Association Day Care Centre and Special Needs School*: Setting up of technopedagogy innovative learning for handicapped children
- *Étoile Du Berger*: Setting up of supported accommodation for girls in distress

Education

- *Association Les Amis d'Agaléga*: Support to the Residential Unit for secondary students from Agaléga
- *MCB Rodrigues Scholarship*: Award of scholarships to 3 students enabling the latter to pursue their tertiary studies at the University of Mauritius

Environment

- *Bel Ombre Foundation for Empowerment*: Main funder of the 'Plankton Community Recycling Plant' for the promotion of entrepreneurship
- *Mission Verte*: Economic empowerment of vulnerable groups through the creation of products made from recycled glass
- *Mauritius Wildlife Foundation*: Reconstruction of the variability of the Mauritian terrestrial ecosystem by introducing giant tortoises

Health

- *Prévention Information Lutte Contre Le Sida (PILS)*: Alleviation of poverty of people living with HIV/AIDS through enhanced financial autonomy and better health management programmes
- *Etoile D'Espérance - Alcool Femmes*: Development of therapeutic services for the victims of alcohol abuse
- *Consolidation of a multi-sectorial platform on substance abuse*, which capitalises on local experiences and knowledge of the practices of communities impacted by substance abuse, as well as a collaborative bottom-up approach

Socio-economic development

- *Pédostop*: Provision of legal and psychological services to victims of abuse, as well as the undertaking of sensitisation campaigns
- *Association Anou Grandi*: Therapeutic and rehabilitation programme for disabled children
- *Association Des Parents De Déficients Auditifs*: Provision of educational support to children with cochlear implants
- *Association Des Parents Pour La Réhabilitation Des Infirmes Moteurs*: Financing of the enhancement of the current transportation system in order to improve the mobility of disabled persons
- *Lizie Dan La Main/Union des Aveugles de l'île Maurice*: Provision of equipment for visually impaired children
- *Fondation Georges Charles*: Financing of occupational therapy and psychological interventions for children with disabilities

Leisure and sports

- *Trust Fund for Excellence in Sports*: Award of scholarships to 3 sportsmen at national level
- *Faucon Flacq SC*: Provision of equipment for the setting up of a cycling club for vulnerable children in the Eastern Region

Other initiatives

In line with the MCB Group's commitment to promote sustainable development, the progress with regard to its internally-generated 'Initiative 175' has been furthered during the year under review. Indeed, this programme was launched in 2009 with a view to fostering environment-friendly and energy saving practices through a series of micro-level initiatives, whilst also focusing on more prominent developments. The main actions undertaken under the umbrella of the 'Initiative 175' during FY 2013/14 are outlined below:

Encouraging environment-friendly investments

- The Bank has renewed its collaboration with the Agence Française de Développement (AFD) in March 2014 by signing a new EUR 60 million loan agreement, which provides subsidised funding, in foreign exchange or in rupees, in support of the realisation of 'green' projects. In this respect, the Bank

launched the 2nd edition of the preferential credit facilities, named 'Green Loans', in support of projects aiming to save energy and reduce carbon emissions. 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

Fostering energy-efficient buildings

- The Bank has completed its carbon footprint validation and calculation assessment and has received the Blue Carbon Footprint Certification for all of its branches and sites, delivered by Rexizon Consulting

Paving the way for reduced paper utilisation

- Active promotion of e-statements with the number of customers subscribing thereto reaching some 55,000 as at June 2014 compared to about 22,000 one year earlier
- Use of the Electronic Document Management System for the capture of customer information and the automation of the treatment of relevant documentation

Promoting the eco-friendly awareness of the general public

- MCB Group was the Gold Sponsor of the 3rd edition of the daily 5-minute prime-time TV programme 'Eco TV' which was launched in May 2014. The objective of this programme is to sensitise the population and offer them 'green' practical tips
- Launch of the 3rd edition of the 'Make a Wish' primary schools competition, in partnership with the Ministry of Education and Human Resources, which aims at improving the environment and quality of life at school

Sensitisation of staff and business units

- Operation of the eco-digester, which was purchased in May 2013 and allows the canteen at the St. Jean Building to recycle its organic waste

In addition to fostering its environmental stewardship via the above-mentioned activities falling under its 'Initiative 175', the Group provided wide-ranging support for the promotion of education, empowerment of women, youth and sports in the country through the sponsorship of the following:

- *MCB Foundation Scholarship*: awarded to the student ranked next in line to those eligible for the State of Mauritius scholarships on the Economics side upon the announcement of the national Higher School Certificate examination results
- *AIESEC Mauritius*: MCB became the official national sponsor of AIESEC Mauritius, thus providing the opportunity for the Mauritian youth to discover and develop its leadership, entrepreneurship and professional skills. Through its partnership with this organisation, the Group co-sponsored the AIESEC Mauritius Case Challenge Competition 2014, which saw the participation of 152 students, mainly from tertiary institutions, who debated on the theme 'Ethics in the banking sector'. It also sponsored the 4th edition of the Mauritius Youth to Business Forum, a one-day forum where some 200 AIESEC Mauritian tertiary students and young professionals engaged in workshops and a panel discussion on the topic 'Are today's young graduates employable?'
- *SEM Young Investor Award*: MCB was the Gold Sponsor of this competition organised by the Stock Exchange of Mauritius, which aims at inculcating an investment culture amongst college students by giving them a hands-on experience of real time market prices in real share-market conditions. The 2013 edition attracted 940 students split into 188 teams
- *Africa's Most Influential Women in Business and Government Award*: MCB was one of the sponsors of the 2013/14 award which recognised the contribution of women in various sectors of the economy
- *Ti Mambo*: a TV show acting as a springboard for budding singing and dancing talents aged under 13 years
- Competitions organised by the Rajiv Gandhi Science Centre:
 - *Science Quest 2014 and Young Scientists in Action 2014*: attracted 320 college students and 144 primary school students respectively, who were tasked with applying science to devise novel solutions for daily life problems, towards fostering sustainable development
 - *Rodrigues Science Challenge 2014*: aimed at deepening the scientific curiosity of primary and secondary students in Rodrigues and disseminating an innovative culture amongst young people towards finding actionable solutions to raise awareness about sustainable development
 - *Rodrigues Story Telling Competition*: targeted Standard V pupils and encouraged the latter to use imagination and creativity, as well as master confidence in speaking English from an early age
- Sport competitions including: (i) the 2013 edition of *MCB Tour Championship*, the most prestigious golf contest held in Mauritius being the last competition of the *European Senior Tour*; (ii) *Ladies Golf Union*, and (iii) several events linked to judo

Statement of Directors' Responsibilities

Company law requires the directors to prepare Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Group. In preparing those Financial Statements, the directors are required to: ensure that adequate accounting records and an effective system of internal controls and risk management have been maintained; select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business. The directors confirm that they have complied with these requirements in preparing the Financial Statements. The external auditors are responsible for reporting on whether the Financial Statements are fairly presented. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Group while ensuring that: the Financial Statements fairly present the state of affairs of the Group, as at the financial year end, and the results of its operations and cash flow for that period; and they have been prepared in accordance with and comply with International Financial Reporting Standards as well as the requirements of the Banking Act 2004 and the guidelines issued thereunder. Directors are also responsible for safeguarding the assets of the Group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities. Other main responsibilities of the directors include the assessment of the Management's performance relative to corporate objectives; overseeing the implementation and upholding of the Code of Corporate Governance and ensuring timely and comprehensive communication to all stakeholders on events significant to the Group.

The Board of MCB Group Ltd, recognising that the Group, as a financial organisation, encounters risk in every aspect of its business, has put in place the necessary committees to manage such risks, as required by Basel II. The Board, whilst approving risk strategy, appetite and policies, has delegated the formulation thereof and the monitoring of their implementation to the Risk Monitoring Committee.

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

On behalf of the Board.

J. Gérard HARDY

Chairperson

Remuneration and Corporate Governance Committee

Pierre Guy NOEL

Chief Executive

Business and Financial Review

Review of the Operating Environment

Legal and Institutional Environment

During the last financial year, the legal and regulatory landscapes to which entities of the Group are exposed to were subject to various developments aimed at reinforcing the regulatory oversight and modernising the enabling environment to support healthy business growth. At the same time, while continuously gearing up its capabilities in order to suitably cope with the operational and strategic challenges linked to some specific initiatives put into place by the Bank of Mauritius (BoM), the Bank remains attentive to contemplated measures that could have notable implications for its operations if implemented.

Local Banking Sector

To start with, amendments were made to the Banking Act 2004 pursuant to the passing of the Economic and Financial Measures (Miscellaneous Provisions) Act 2013 to provide for the implementation of measures announced in the National Budget 2013. Key provisions in this respect comprise the following: (i) to allow the holding company of a bank which has applied for a transfer of its undertaking or has been required by the Central Bank to restructure its business to use the word 'bank' or any of its derivatives in any language under terms and conditions determined by BoM; (ii) to enable financial institutions licensed by the Central Bank to buy, sell, hold or manage such a pool of assets as determined by BoM; (iii) to provide BoM with the power to grant approval to foreign banks to open a representative office in Mauritius; and (iv) to cater for the application of the 'In duplume rule', whereby, once the accumulated interest rate on an outstanding balance of a non-performing loan or credit facility equals the capital outstanding, interest rate will be equated to the Repo rate determined by the Central Bank and will be charged only on the outstanding capital amount, subject to the terms of the approved contract being met. At another level, the Bank of Mauritius Act 2004 was amended, with major provisions being: (i) to give powers to BoM to regulate the reproduction of currency notes and coins for advertisement purposes amongst others; (ii) to extend the scope of the Mauritius Credit Information Bureau in terms of the range of information it can collect and the purpose for which it can disseminate information; (iii) to promote public understanding of the financial system, including awareness of the benefits and risks associated with different financial products regulated by BoM and allow for the adoption of measures to suppress illegal, dishonourable and improper practices,

market abuse and any potential breach of the banking laws; and (iv) to allow the Central Bank to provide facilities, including intra-day credit to payment, clearing and settlement systems and their participants. Furthermore, the Income Tax Act 1995 was amended to change the basis for the computation of the special levy on banks. In fact, the latter has been increased to 10% of the chargeable income in respect of Segment A activities (as opposed to 3.4% of chargeable income and 1% of operating income as it was the case before), thus implying an effective tax rate of 25% on Segment A activities. Comparatively, the special levy at the Segment B level has been left unchanged. The new levy formula is effective in respect of returns submitted as from 1 January 2014 and will be applicable for 2 years. Moreover, several guidelines have, during the last financial year, been introduced and amended by BoM for various purposes. While it is taking the necessary steps in order to ensure strict compliance with implemented regulatory measures, including the particularly stringent ones, the Bank is, concomitantly, preparing itself for upcoming guidelines that could pose notable challenges as regards its performance and positioning, notably the impending Guideline on Credit Impairment Measurement and Income Recognition.

Besides, several moves undertaken by BoM warranted attention. Notably, following the study commissioned to investigate into the terms and conditions of banking contracts, including fees and charges, the Central Bank has launched a Public Consultation Document entitled 'Banking Your Future: Towards a Fair & Inclusive Banking Sector' in June last. In this light and while no clear indications have yet filtered out regarding their scope and timing, BoM has announced that, pursuant to discussions with stakeholders, it intends to make policy decisions on the basis of recommendations made in the document, with the Bank (i.e. MCB Ltd) standing ready to comply with stipulated requirements that take effect. On a different note, focus is being laid by BoM on cross-country surveillance, as testified by the recent establishment of Supervisory College meetings. This is in line with the Basel Committee on Banking Supervision's requirement in its Core Principle on Home-Host Relationships for home banking supervisors to establish bank-specific supervisory colleges for banking groups with cross-border operations in order to enhance effective oversight. Accordingly, BoM organised Supervisory Colleges in November 2013 for two systemically important banking groups, including MCB Ltd. On a different note, BoM signed a Memorandum of Understanding (MoU) with the Registrar of Cooperative Societies with a view to promoting the effective supervision of credit unions, while the one signed with the Central Bank of Sudan aims at establishing a collaborative framework for supervisory cooperation and information sharing. Other initiatives undertaken by the Central Bank are as follows: (i) it issued polymer banknotes – coming in various denominations and containing numerous security features – which have been put into circulation as from August 2013; and (ii) it invited bids for the supply, installation, implementation as well as the provision of training and support services for a National Payment Switch, with the situation being monitored at the level of the Bank.

Bank of Mauritius Guidelines and Guidance Notes		
Title	Main objectives	Effective date
Basel III Rules		
Guideline on Scope of Application of Basel III and Eligible Capital <i>(Superseded the 2008 Guidelines on Eligible Capital & Basel II)</i>	<ul style="list-style-type: none"> To set out the rules text and timelines to implement some of the elements related to the strengthening of the capital framework; To formulate the definition of regulatory capital, regulatory adjustments, transitional arrangements, disclosure requirements and capital conservation buffer 	1-Jul-14
Guideline for dealing with Domestic – Systemically Important Banks	<ul style="list-style-type: none"> To put in place a reference system for assessing the systemic importance of banks and ensure that the systemically important banks have the capacity to absorb losses through higher capital 	30-Jun-14
Macroprudential Measures		
Guideline on the Computation of Debt-to-Income Ratio for Residential Property Loans <i>(Amended the October 2013 Guideline)</i>	<ul style="list-style-type: none"> To provide guidance to banks to determine borrowers' repayment capacity when granting credit facilities for the purchase/construction of residential properties in Mauritius 	1-Jan-14
Guideline on the Computation of Loan-to-Value Ratio for Residential and Commercial Property Loans <i>(Amended the October 2013 Guideline)</i>	<ul style="list-style-type: none"> To provide guidance to banks for determining the loan to value limits when granting credit facilities for the purchase/construction of commercial/residential properties in Mauritius 	1-Jan-14
Additional Macroprudential Measures		
Risk-Weighted Assets <i>(Incorporated in the revised Guideline on Standardised Approach to Credit Risk)</i>	<ul style="list-style-type: none"> To address the systemic risk posed by loans in the construction sector by assigning higher risk-weights to selected fund-based and non fund-based credit facilities secured by residential property and commercial real estate granted for the purpose of purchase/construction 	1-Jul-14
Additional Portfolio Provisions <i>(Incorporated in the Guideline on Credit Impairment Measurement and Income Recognition)</i>	<ul style="list-style-type: none"> To ensure early provisioning against future credit losses due to rising corporate indebtedness and non-performing loans in some key sectors of the economy by making additional portfolio provision 	1-Jul-14
Sectoral Limits <i>(Incorporated in the revised Guideline on Credit Concentration Risk)</i>	<ul style="list-style-type: none"> To reduce sectoral concentration risk in the economy, by not exceeding certain sectoral limits expressed as a percentage of credit to the private sector (net of credit to GBL companies) 	1-Jul-14

Bank of Mauritius Guidelines and Guidance Notes (Cont'd)

Title	Main objectives	Effective date
Other Guidelines		
New Guidelines		
Guideline on Agent Banking	<ul style="list-style-type: none"> To set out the framework and minimum criteria to be observed by a bank when contracting the services of an entity to provide its services on its behalf or entering into any agency agreement 	30-May-14
Guideline on reproduction of Mauritius currency notes and coins	<ul style="list-style-type: none"> To lay down the procedures for the reproduction of Mauritius currency notes and coins (for any advertisement/publicity) 	5-Feb-14
Guideline on Disclosure of Information to Guarantors	<ul style="list-style-type: none"> To lay down the responsibilities of institutions towards guarantors, set out the framework and prescribe the instances for issuing statements of accounts to credit guarantors 	1-Jan-14
Guidelines on Complaints Handling Procedures	<ul style="list-style-type: none"> To set out the minimum criteria to be observed by financial institutions for the handling of complaints from their customers 	1-Nov-13
Updated/Amended Guidelines		
(1) Guidance Notes on Anti-Money Laundering And Combating The Financing of Terrorism for Financial Institutions <i>(Updated the June 2005 Guideline)</i>		
(2) Guideline on Mobile Banking and Mobile Payment Systems <i>(Amended the February 2013 Guideline)</i>		
(3) Guideline on Fit and Proper Person Criteria <i>(Superseded the March 2005 Guideline)</i>		
(4) Guideline on Transactions or Conditions respecting Well-being of a Financial Institution Reportable by the External Auditor to the Bank of Mauritius <i>(Revised the February 2003 Guideline)</i>		
(5) Guideline on Standardised Approach to Credit Risk <i>(Superseded the March 2008 Guideline)</i>		
(6) Guideline on Credit Concentration Risk <i>(Superseded the March 2000 Guideline)</i>		
(7) Guideline on Maintenance of Accounting and other Records and Internal Control Systems <i>(Superseded the November 1994 Guidance Note)</i>		
(8) Guidelines on Section 46(2) of the Banking Act 2004 – Appointment or Reappointment of Senior Officers <i>(Updated the December 2010 Guideline)</i>		

Local Non-Bank Financial Services Sector

In the wake of the Economic and Financial Measures (Miscellaneous Provisions) Act 2013, the Financial Services Act 2007 was amended, with a key provision related to the imparting of greater flexibility for Category 1 Global Business Companies (GBC1s) to conduct business in Mauritius, in accordance with guidelines issued by the Financial Services Commission (FSC). Furthermore, in January 2014, the FSC has issued the Private Pension Schemes (Investments) Rules 2013 under the Financial Services Act 2007 and Private Pension Schemes Act 2012, the main objective being to ensure that the assets of a private pension scheme in Mauritius are invested in a prudent and efficient manner. In the same vein, the FSC issued the Private Pension Schemes (Returns) Rules 2014. Operational since September 2014, the rules aim to facilitate the submission of returns from private pension schemes. Besides, the FSC became signatory to various MoUs, notably with (i) the Gibraltar Financial Services Commission to enhance cooperation and exchange of information related to the supervision of Alternative Investment Fund Managers' Directive entities; (ii) the International Organisation of Securities Commissions (IOSCO) Africa Middle East Regional Committee (AMERC) to promote collaboration between FSC and its African counterparts; and (iii) the International Association of Insurance Supervisors (IAIS) – the international standard-setting body for more than 200 regulators and supervisors in 140 countries – for promoting assistance and information exchange on various issues. In a different light, the Government of Mauritius signed the reciprocal Model 1 Intergovernmental Agreement (IGA) and a Tax Information Exchange Agreement (TIEA) with the US in December 2013. The aims are to improve international tax compliance through mutual assistance in tax matters and foster compliance by Mauritian financial institutions with the Foreign Account Tax Compliance Act (FATCA) of the US. The latter legislation requires foreign financial institutions (FFIs) to report to the US Internal Revenue Service any information about financial accounts held by US taxpayers or by foreign entities in which US taxpayers hold a substantial ownership interest.

Financial Services Sectors Of Our Foreign Presence Countries

In Maldives, the Prevention and Prohibition of Money Laundering and Terrorism Financing Act is scheduled to come into effect in October 2014. The main objectives of the legislation are to combat money laundering and terrorism financing as well as provide for the establishment of a Financial Intelligence Unit, which will be the central national agency to receive, analyse and disseminate financial transaction information to facilitate the prevention, detection and investigation of such offences. Moreover, a 'Customer Charter' was implemented in 2013, setting key standards of banking practices and providing guidance to banks for adopting a 'Code of Conduct' to enhance customer service delivery. In respect of Seychelles, the National

Payment System Act was approved in August 2014. While catering for the full array of related payment systems activities, products and services, the aim of the law is to provide for the regulation and oversight of the national payment system and for matters connected therewith. In this context and in collaboration with commercial banks and the Seychelles Credit Union amongst others, the Central Bank has launched the Seychelles Electronic Funds Transfer (SEFT) system to facilitate the local interbank funds transfer service as well as further modernise and increase the efficiency of the country's payments systems by extending the new Internet-based online platform from banks to the general public. From a different perspective, the Financial Leasing Act was passed in November 2013 to provide for the regulation of the financial leasing business, including the specification of the rights and duties of lessors, lessees and suppliers of assets. Moreover, the Central Bank now conducts monetary policy using a revised monetary targeting framework, with consistent and forward looking approach being in-built therein aimed at providing greater flexibility in the decision-taking process and, thereby, helping to strengthen the functioning of the monetary transmission mechanism. Furthermore, as per the IMF in its July 2014 Country Report, the Central Bank of Seychelles (CBS) has continued to strengthen bank supervision by establishing a work plan for implementing appropriate core elements of the Basel II and III standards, while the implementation of a macroprudential surveillance framework is being aimed at fostering macro-financial stability. As regards non-bank financial services institutions, their supervision has been reinforced with the establishment of a newly-created Financial Services Authority. The latter provides a modern and effective framework for the regulation and supervision of services that are not under the ambit of the CBS, including the regulation of offshore financial services (i.e. international business companies, Trusts, Foundations, etc.). Concerning Mozambique, in addition to revising the regulations pertaining to the classification of non-performing loans and aligning their definition to international standards as from January 2014, the Central Bank pursued its efforts to enhance banking supervision and strengthen crisis management. In this respect, specific guidelines and regulations are under preparation with a view to catering for the supervision of a range of industry services and operations. Guidelines are, also, being designed to provide for the regulation of banks in the wake of the approval of the Anti-Money Laundering and Combating the Financing of Terrorism Act in August 2013. Further, the Central Bank enhanced its oversight practices in relation to the payment system, by notably revising the regulation on Interbank Clearing and Settlement in December 2013, and creating a new Payment Systems Oversight Unit, which is mandated to perform on-site inspections and produce a monthly report on the payment system to the Board of the Bank of Mozambique. Moreover, a series of reforms have been brought about to promote competition, transparency, and financial literacy in the banking sector, such as the establishment of private credit registries, which are targeted to lower the credit risk to banks and reduce the cost to borrowers in due course. As regards Madagascar, the IMF Country

Report of July 2014 highlighted that the Central Bank is aiming to establish a framework for financial market development, including improved banking system supervision and financial regulation as well as reinforced Central Bank internal audit and control functions, while the strengthening of anti-money laundering policies is also being fostered.

Macroeconomic Overview

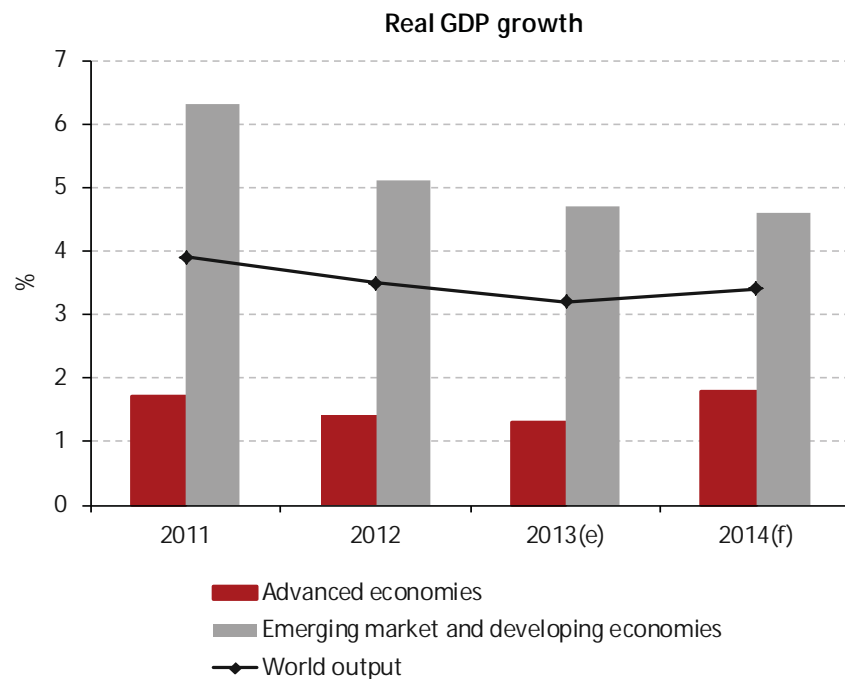
Overview

Overall, the business activities of entities operating under the 'banking', 'non-banking financial', and 'other investments' clusters of the Group have faced up to a generally challenging operating environment. Difficult conditions have characterised the economic landscapes and the financial markets on both the domestic and international scenes, while inherent country-specific vulnerabilities called for close inspection. On the other hand, the creation of noteworthy business expansion avenues has been underpinned by the favourable dynamics prevailing in respect of some specific niche markets. In this respect, the generally positive macroeconomic performances and prospects depicted by sub-Saharan African countries and further in the region can be underscored insofar as they have provided a good basis for the widening and diversification of market development endeavours and the stepping up of revenue generation beyond local shores.

The International Context

As a result of the prevalence of generally weak economic conditions in advanced countries – in particular the euro area – and with emerging market economies witnessing a notable slowdown in their expansion paths, the global economy registered a marked deceleration in its growth performance which attained 3.2% in 2013 as per the IMF's World Economic Outlook released in July last. For 2014, as real and financial sector circumstances ease around the world on the back, essentially, of remedial policy measures put into place at different levels, the growth of the world economy should somewhat improve and reach 3.4% as per latest forecasts, driven to a large extent by the anticipated pick-up occurring in advanced economies, on account of the various brakes hampering activity levels being gradually loosened. In general, key drivers behind the economic healing process on the worldwide scene relate to a moderation of fiscal consolidation and the execution of highly accommodative monetary policy in advanced economies as well as the implementation of structural and financial sector reforms by both developed and developing nations, which notably led to a noticeable easing of financial conditions on the international scale. In this respect

indeed, equity and bond markets have somewhat recovered during the past few months in spite of persisting pressures therein, while fluctuations characterising exchange rates of key economies have relatively stabilised. That said, the global recovery can be viewed with circumspection due to its sluggish and fragile nature, as advanced economies have yet to get fully rid of the legacy of past crises and emerging market economies continue to be confronted by domestically-sourced vulnerabilities and tight financial conditions. Moreover, even if they have somewhat attenuated in recent times pursuant to the implementation of policy decisions, key downside risks to the global growth outlook for 2014 prevail. The major concerns include: (i) increased geopolitical risks that could lead to sharply higher oil prices; (ii) exacerbating financial market dislocations and instabilities stemming from a potential marked rise in long-term interest rates as monetary policy normalisation proceeds and major Central Banks tighten monetary policy; and (iii) the possibility that the euro area could fall prey to entrenched deflation trends that could, eventually, derail the recovery process and suppress growth.



(e) estimates (f) forecasts
 Source: IMF World Economic Outlook Update - July 2014

The Mauritian Economy

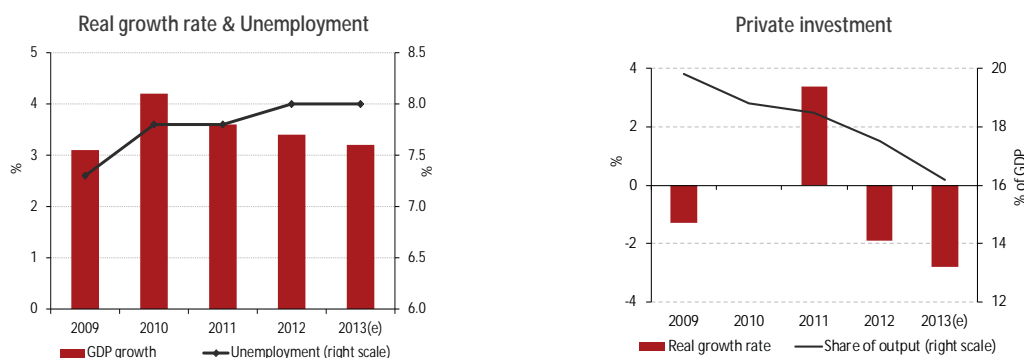
In general, the Mauritian economy remained in a generally difficult territory lately in the wake of protracted global pressures and persisting productivity hindrances domestically, *inter alia*, relating to the extensiveness and quality of the public infrastructure set-up, public sector support to business

undertakings, the functioning and efficiency of labour markets, and other tenets of the business facilitation framework. Conspicuously, in spite of the robust performances exhibited by the financial and business services as well as the ICT sectors, economic growth slowed down to 3.2% in 2013, on the back notably of the lingering pressures exerted on export sectors and the lacklustre evolution of private investment. For this year, notwithstanding the statistical impact of several years of under-par economic performances, economic growth is anticipated to remain in a sub-par zone, bearing in mind the slow-moving and fragile nature of the recovery process unfolding in respect of the main export markets of Mauritius and the prevalence of domestic imbalances. In fact, real GDP growth is, as per current indications, anticipated to stand at 3.3% in 2014, basically weighed down by sluggish investment trends and strains exerted on economic sectors. From a broader angle and in case the national reform agenda is not extensively upgraded, the economy's restrained growth path can be viewed with some concern as it would tend to inhibit the expansion of nationwide wealth generation as measured by GDP, thereby encumbering avenues for investments meant to achieve greater national productive capacity and employment creation over the short to medium term. All in all, backed by clear and coherent strategic orientations, an ambitious revitalisation of the national reform agenda is called for so as to mobilise private sector investment and gear up the country's competitiveness internationally, thus engaging economic growth onto a higher path.

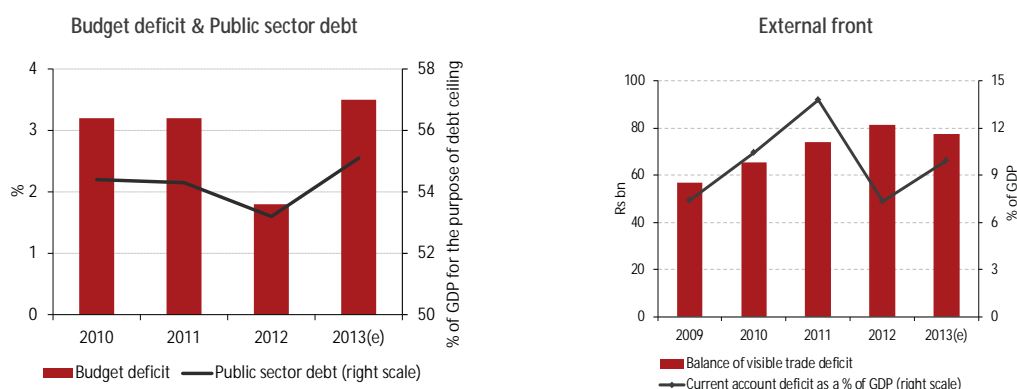
Of particular relevance to the portfolio growth of MCB Ltd, the evolution in the demand for credit has been unfavourably affected by restrained capital spending by businesses and investors as a result of persisting economic uncertainties and hampered revenue generation due to the soft economic climate. Indeed, for the second year in a row, private sector investment contracted in 2013, with the negative growth rate even attaining as high as around 7% after excluding the purchase of marine vessels. For 2014, bearing in mind that the sizeable private sector ventures hitherto approved by the Fast Track Committee set up by the Government to expedite the processing of permits and clearances for large projects would take time to extensively materialise, economic difficulties and uncertainties should, once again, be a key factor contributing to a contraction in private investment. All in all, after taking into consideration the noticeable and lingering implementation bottlenecks that have, for some time now, been hampering the execution of public sector spending, the country's investment ratio is likely to drop further to reach close to 20% of GDP this year, which is well underneath the 27–30% advocated to gratifyingly realise the country's socio-economic objectives in terms of productive value generation in the economy and job creation.

Photography of the economic landscape

Hampered, to a notable extent, by the unfavourable trends characterising private sector investment, the growth of the Mauritian economy is anticipated to remain below-par in the near-term at least. Consequently, after factoring in lingering labour market imperfections, nationwide unemployment is expected to stay quite elevated at around the 8% mark this year, with some key concerns relating to women and the youth.



Notwithstanding under-spending linked to earmarked capital outlays as a result of project implementation delays, the budget deficit – which has picked up lately and led to a deteriorating public sector debt as per most recent estimates – continues to be confronted by the ramifications of the soft economic climate. Against this backdrop, it can, additionally, be noted that the balance of trade and current account deficits would continue to be sizeable this year. Nonetheless, as gauged by recent trends depicted so far, the balance of payments is likely to maintain its surplus position, underpinned by notable capital inflows.

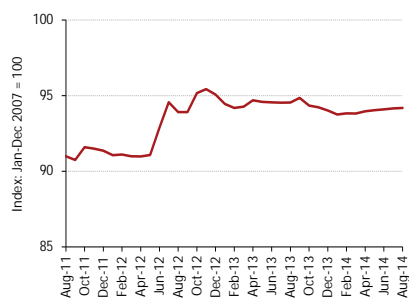


While still deemed to be slightly overvalued in relation to the country's fundamentals and the trends that have been depicted by the currencies of some of our external competitors, the effective exchange rate of the rupee has been relatively stable in recent times, in spite of facing up to the marked upward pressures that have, over time, been exerted on the pound sterling.

Foreign exchange rate

	Selling rates of main currencies vis-a-vis the rupee			
	Value as at		Annual average	
	28-Jun-13	30-Jun-14	FY 2012/13	FY 2013/14
USD	31.35	30.70	31.23	30.76
GBP	47.75	52.13	48.97	51.77
EUR	40.86	41.77	40.38	41.65

Effective exchange rate (MERI2)



(e) estimates

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

As another source of worry for the Mauritian economy in view of its long-term growth aspirations, the gross domestic saving ratio was close to 12% in 2013, with the gross national savings (GNS) estimated at nearly 13% of GDP after incorporating the positive net primary income and net transfer from the rest of the world. While being linked to adverse outcomes with regard to households due to the challenging economic environment and high unemployment backdrop, the persistently low saving rate can, to a large degree, be explained by subdued trends on the corporate side, especially given that the latter is viewed as the most important contributor to total national saving. For 2014, the below-par trajectories characterising the country's saving position are not likely to improve materially, mainly given the sub-optimal economic climate.

On a sectorial basis, mixed fortunes are being witnessed in respect of value added generated. While the financial performances posted by businesses have hinged on the dynamics characterising the industries in which they primarily operate, their revenue-generating ability has, in various instances, been shaped up by their involvement in diversified and ancillary domestic activities (e.g. sugar companies turning towards the property development and energy segments) and the entrenchment of their foreign involvement (e.g. tourism and textile operations in the region). As regards industries in respect of which MCB Ltd exhibits relatively higher exposures, the construction sector has maintained its downward trend and should contract yet again this year, as a result of the completion of some key ventures as well as the testing economic climate, with the latter hindering the ability and willingness of businesses to engage in big-ticket projects. On the other hand, the tourism sector should, after growing by a moderate rate during the preceding year, post a rather improved performance in 2014, owing, notably, to inroads made to tap into emerging markets and a relative mending of economic conditions in the euro area. However, the likely expansion in arrivals and the evolution of per capita spending would remain hindered by the slow-moving recovery in private expenditure in key markets and heightened competitive pressures, notably in the region. Reflecting the difficult economic landscape, the wholesale and retail trade segment has been growing at a somewhat restrained pace lately, with a relative enhancement in conditions being expected for this year. Likewise, the agricultural sector has been evolving at a tempered pace, partly due to a reorientation of the productive activities of the sugar industry, even though the non-sugar segment would, in all probability, fare notably well this year. Conversely, in spite of market access uncertainties and distortions being witnessed in some instances and bearing in mind the soft economic conditions prevailing domestically and internationally, the financial and business services sector continues to leverage its competitiveness headway and sound fundamentals to sustain notable value added growth. Concerning the other sources of the Bank's sectorwise credit distribution, the export oriented manufacturing industry

would, as a whole, post a sluggish growth in 2014 after last year's contraction, notwithstanding support emanating from the increased diversification of markets beyond established spheres and productive efficiency gains. Specifically, contrary to the seafood segment which is likely to bounce back quite strongly from the slight negative growth registered in 2013 on the back of market access inroads and capacity-building investments incurred, value added generated by the textiles sector should continue to grow at a modest pace on account of the fact that our main trading partners remain confronted by difficult operating conditions and given hindrances to the external competitiveness of operators. Moreover, after registering a notable growth last year, essentially due to measures taken by the authorities to gear up the intrinsic capabilities of SMEs, value added generated by the domestic oriented sector is expected to evolve at a relatively tempered speed in 2014, thereby putting into light the productivity limitations and intrinsic fragility of the industry.

Sectoral real growth rates (%)	2011	2012	2013(e)
Sugarcane	+3.5	-7.3	-1.9
Other agriculture & fishing	+4.4	+3.7	+1.7
Manufacturing	+0.7	+2.2	+4.4
<i>Sugar</i>	+3.8	-6.4	-1.0
<i>Food (excluding sugar)</i>	-1.4	+7.6	-0.3
<i>Textile</i>	+3.0	-1.1	+2.6
<i>Domestic oriented industries</i>	-2.8	+3.0	+9.1
Electricity, gas, steam & air conditioning supply	+4.4	+4.5	+4.4
Construction	-2.0	-3.0	-9.4
Wholesale & retail trade	+3.3	+3.5	+2.7
Transportation & storage	+2.5	+2.1	+2.0
Accommodation & food service activities	+3.5	0.0	+2.5
Information & communication	+9.0	+8.6	+6.9
Financial and insurance activities	+5.6	+5.7	+5.4
<i>Monetary intermediation</i>	+6.3	+6.3	+5.5
<i>Insurance, reinsurance and pension</i>	+4.5	+4.6	+4.9
Real estate activities	+2.9	+2.8	+2.9
Professional, scientific and technical activities	+7.3	+7.8	+7.2
Memorandum items			
Export oriented enterprises ¹	+6.1	+1.4	-3.0
Sea food ²	-1.7	+6.5	-1.1
ICT ³	+9.4	+9.1	+7.0

(e) Revised estimates

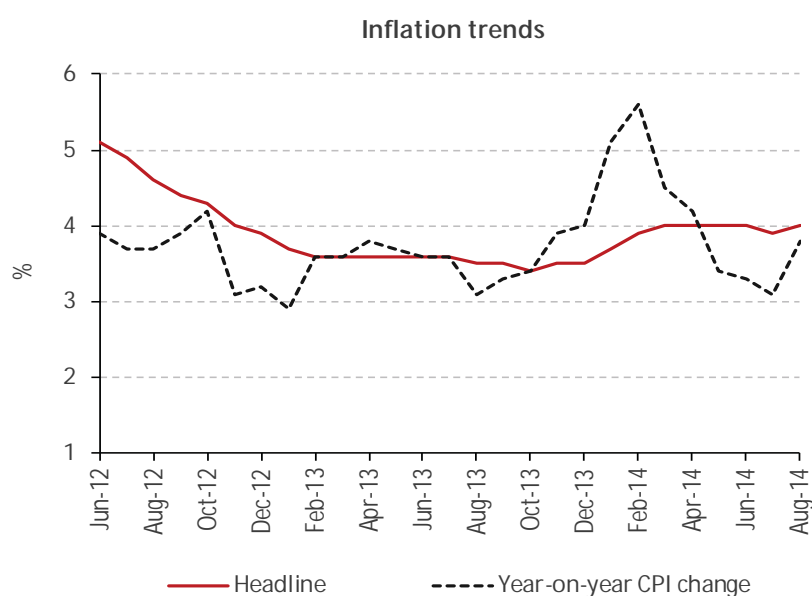
¹ Export Oriented Enterprises (EOE) comprise manufacturing enterprises formerly operating with an export certificate and those export manufacturing enterprises holding a registration certificate issued by the BOI.

² Covers mainly the activities of 'fishing' and 'fish processing'.

³ Covers components of 'Manufacturing', 'Wholesale and retail trade', 'Information & communication' and 'Call centres', related to ICT.

Source: Statistics Mauritius

For its part, the evolution of headline inflation has, as a key source of satisfaction for the Mauritian economy, been relatively restrained in recent times. Thus, after starting off at 3.6% at the beginning of the period, inflation reached 4.0% as at the end of FY 2013/14. Basically, in spite of facing up to the demand-pull impact of salary increases in the public sector, movements in the consumer price index have been tempered, amongst others, by the evolution of commodity prices being kept under check by the difficult global economic environment – even though they remained quite elevated in some instances – the relative rupee strength against the US dollar, particularly during the second half of 2013, and drops in telecommunication costs. From a policy perspective, after balancing the risks to growth due to the testing global context against prospects that headline inflation would pick up in the near term, the benchmark key Repo Rate of the Central Bank has, during the last financial year, been kept unchanged at the various representations of the Monetary Policy Committee (MPC). A similar decision was taken at the July last meeting of the MPC, with the dampened global economic conditions and subdued domestic inflationary pressures cited as the underlying motives. Worth noting, while standing ready to review its decision in case of unexpected price and real sector developments, the MPC added that it foresees maintaining its monetary policy stance up to the end of 2014 on assuming that headline inflation will stay at or below 4% and year-on-year inflation at or below 3.5%. Besides, the need to initiate the process of interest rate normalisation in the periods ahead has been spelt out, even though both the pace and timing of its execution remain to be agreed upon. While future monetary policy decisions will deserve due attention given their impact on economic activity levels, the effectiveness of the tool should be adequately catered for, notably in the wake of the adverse impact that the current high liquidity levels can have in hampering the smooth operation of the monetary transmission mechanism.



Partly attributable to the sub-par evolution of exports amidst the still dampened, albeit improving, trends characterising private demand in our major trading partners' economies, the balance of trade deficit was sizeable in 2013, with the situation not likely to improve materially this year. With a drop in gross tourist receipts being registered amidst the difficult context, the current account deficit to GDP has hovered around the 10% mark last year and is expected to remain high in 2014. Nevertheless, the balance of payments has been posting strong surpluses, mainly underpinned by notable capital flows linked to foreign direct investment. This situation warrants attention as it renders the country vulnerable to abrupt shifts in investor sentiment and any unexpected large capital outflows that could detrimentally impact financial and real sector stability.

Performance Of Sub-Saharan Africa

Basically, the sub-Saharan African region pursued its appreciable growth path in 2013. According to the IMF, this performance was mainly driven by domestic demand, supported by continued strong credit growth to the private sector in some countries. A major contribution to growth has been derived from buoyant public and private investment in mining activities, infrastructure for transport and communication, and energy production. These investments were accompanied by a general expansion in trade, communications, and other services, while several countries benefited from improved agricultural production. For 2014, economic growth for sub-Saharan Africa is anticipated to improve to 5.4%, underpinned by enhanced prospects in a large number of countries, including most oil exporters and several low-income countries and fragile states. In fact, economic activity in the region continues to be driven by large investments in infrastructure and mining as well as maturing investments in various sectors. However, the favourable near-term outlook for the region is subject to some non-negligible downside risks, stemming from both external factors (e.g. slower-than-envisaged growth in emerging market economies that could eventually lead to lower export demand and adversely impact the prices of commodities) and domestic dynamics (e.g. rising fiscal imbalances that could reduce the space available to duly cope with any economic and financial shocks and spur growth). As per latest updates and as an additional threat, the Ebola epidemic could, as indicated by the IMF, badly hit the budgetary resources and growth rates of the countries that are, currently, being directly affected.

Real GDP growth (%)	2011	2012	2013(e)	2014(f)
Sub-Saharan Africa	5.5	5.1	5.4	5.4
Oil-exporting countries	6.1	5.2	5.7	6.6
Middle-income countries	4.9	3.4	2.7	3.0
Low-income countries	6.5	6.2	6.8	6.9
Fragile states	3.3	7.5	6.0	7.1

(e) estimates (f) forecasts

Sources: IMF World Economic Outlook - April 2014; Regional Economic Outlook (Sub-Saharan Africa) - April 2014; World Economic Outlook Update - July 2014

Overview Of Our Foreign Presence Countries

In Maldives, real GDP growth is expected to accelerate to 4.2% in 2014 as compared to 3.7% in 2013, driven mainly by the growth in the tourism sector and higher public sector investment. While pursuing its economic progress, the country, nonetheless, remains prey to events characterising its main export markets and domestic imbalances. As for Seychelles, real GDP growth accelerated to reach 3.6% in 2013, backed principally by a significant rise in tourist arrivals as well as the appreciable performances depicted by the seafood and telecommunications industries. For this year, growth is expected to improve moderately to stand at around 3.7%, backed by a resilient performance of the tourism industry and foreign direct investment. Yet, the country continues to face up to important risks and potential sources of vulnerabilities, including high public sector debt, notable pressures on the current account deficit and balance of payments, unfavourable exchange rate dynamics, difficult external environment as a result, essentially, of key markets facing economic and geopolitical uncertainties, and domestic factors such as infrastructure bottlenecks and skills mismatch in the labour market. Concerning Mozambique, in spite of facing up to global pressures and the impact of floods, a notable growth rate of 7.1% was posted in 2013 on account of the strong performances depicted by the coal mining, construction, transport and communications and financial services industries. This positive momentum should prevail in 2014, with real GDP growth projected to accelerate to 8.3%, backed by increasing coal production and infrastructure spending. At the same time however, Mozambique is exposed to non-negligible risks, including exogenous pressures such as climate disasters, commodity price shocks, and dwindling global demand for its major export commodities. For its part, Madagascar has, in recent years, experienced a difficult period of political transition and ensuing high economic uncertainty levels. In 2013, real GDP growth attained 2.4% as per the IMF, pinned down by the testing operating environment which, notably, affected private sector investment

and value added creation by economic sectors. For 2014, real GDP growth is projected to improve to around 3%, supported, in large part, by mining projects that are reaching commercial output, recovering rice production, and a relatively less uncertain political environment. However, the economy remains vulnerable to any repeat of economic and political shocks, while the prevailing large fiscal and current account deficits could get into the way of a robust economic recovery if not promptly addressed.

Real GDP growth (%)	2011	2012	2013(e)	2014(f)
MCB foreign presence countries				
Maldives	6.5	0.9	3.7	4.2
Seychelles	7.9	2.8	3.6	3.7
Mozambique	7.3	7.2	7.1	8.3
Madagascar	1.5	2.5	2.4	3.0

(e) estimates (f) forecasts

Source: IMF World Economic Outlook Update - July 2014

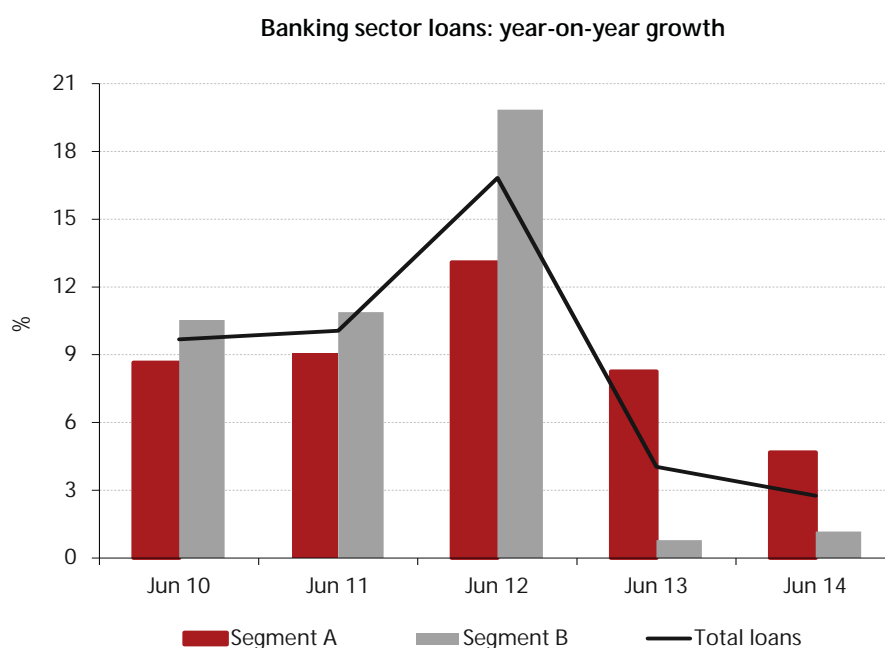
Market Environment

Entities of the Group have been subject to mixed market conditions across the countries where they are present, be it in the banking or non-banking fields.

Local Banking Sector

Against the backdrop of the difficult global and domestic economic climate, the banking sector in Mauritius has faced up to a challenging context during the last financial year, with additional strains emanating from the sub-optimal conditions prevalent in the money and foreign exchange markets. In the process, pressures exerted on business activities and revenue generation of individual operators have been somewhat exacerbated by the heightened competitive landscape. Indeed, banking sector players have been particularly active on the marketplace, as can be gauged by the provision of a widened spectrum of products and services – notably in the housing and private banking spheres – and the diversification of their domestic involvement across market segments. Besides, with a view to pursuing their business growth path and broadening their revenue streams, commercial banks attempted to widen the scope and depth of their operations and presence beyond local shores, with Africa being especially targeted given its generally appreciable macroeconomic outlook. All in all, commercial banks managed to preserve their general financial soundness, backed by their healthy business models and the due emphasis laid on diligent

risk management. In a different light, in line with regulatory recommendations and to support growth endeavours, the two leading banks have initiated relevant moves to separate their banking and non-banking operations in the wake of their organisational restructuring. Moreover, BoM granted banking licences to two new banks to carry on private banking business in Mauritius in April last, thus taking the total number of organisations that are allowed to undertake banking business in the country to 23. Particularly impacted by the testing economic environment, total gross loans posted a dwindling growth rate of around 3% during the last financial year and reached Rs 580 billion as at 30 June 2014. This performance has been instigated by the dimmed outcomes registered at both Segment A and Segment B levels. In respect of the latter which relates to exposures giving rise to foreign sourced income, loans and advances continued to move at a relatively subdued pace. In fact, in spite of cross-border exposures to Africa being underpinned by the noticeable opportunities to invest therein as well as the conclusion of several double tax avoidance treaties, foreign currency loans outside Mauritius have contracted, while double-digit growth rates were registered in foreign currency bills and credit to Global Business Licence (GBL) holders, despite the latter being confronted by lingering uncertainties over the Double Taxation Avoidance Agreement between Mauritius and India.



In fact, the growth in advances to GBL holders paved the way for a resilient growth trajectory for credit to the economy. However, the expansion in Segment A advances stood at a sub-par 4.7% in FY 2013/14 – which is nearly half the corresponding outcome witnessed in the preceding year – hampered, notably, by

the restrained demand for credit in the wake of persistently sluggish private investment. At a disaggregated level, generally favourable dynamics have prevailed on the retail side, as reflected by notable growth rates of some 10% with respect to both the 'housing' and 'personal and professional' segments, to some extent driven by accentuated moves by operators to gain market share by means of upgraded value propositions and more competitive pricing. On the corporate side, a robust growth was achieved in exposures to 'traders', while resilient expansions were observed in respect of the 'agriculture and fishing' and 'tourism' industries as well as the 'export oriented' sector in order to cater for capacity-building and restructuring endeavours. On the other hand, in addition to the nearly flat evolution of loans to 'construction' (excluding housing) on account of the completion of some key projects and the slowdown in capital spending by businesses, credit to the economy was hindered by contractions in loans to the 'transport', 'financial and business services', 'public nonfinancial corporations', and 'domestic oriented' sectors. The latter, nonetheless, benefited from credit facilities provided under the Government-backed Small and Medium Enterprises Financing Scheme, with outstanding loans totalling some Rs 1.4 billion as at June 2014, of which around 46% have been accounted for by MCB Ltd.

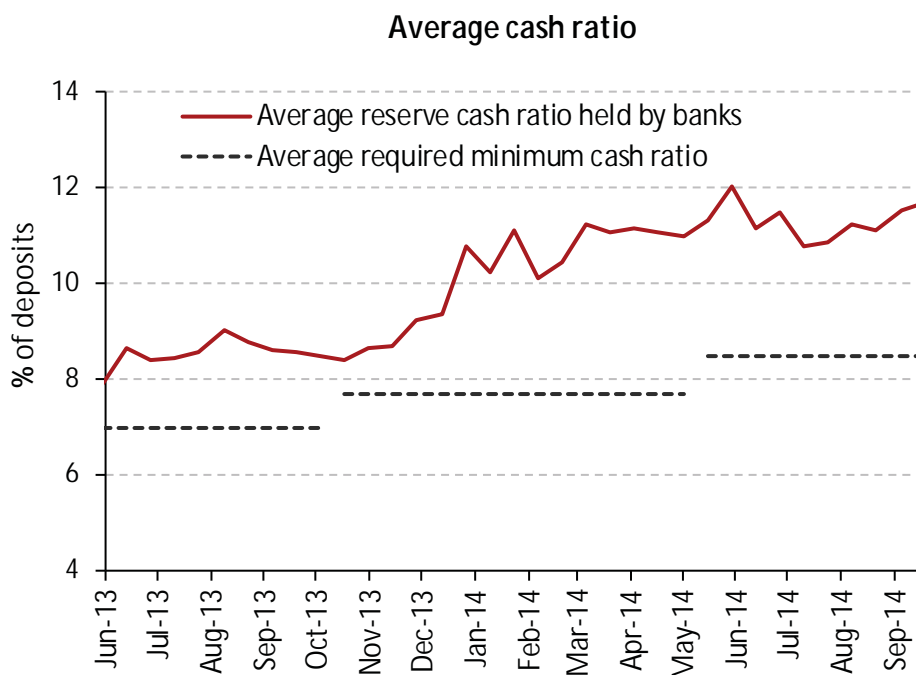
Credit to the economy (June 2014)			
Sectors	Rs m	Mix %	Y.o.y. change %
Agriculture and fishing	18,347	6.1	7.1
Export oriented industry	5,947	2.0	5.0
Domestic oriented industry	12,162	4.0	(4.1)
Tourism	48,211	15.9	4.9
Transport	4,873	1.6	(15.1)
Construction	76,698	25.4	6.5
<i>Housing</i>	47,030	15.5	10.4
<i>Others</i>	29,668	9.8	1.0
Traders	31,393	10.4	13.6
Information & Comm. Technology	1,227	0.4	(10.8)
Financial & business services	23,363	7.7	(7.5)
Infrastructure	4,333	1.4	(4.3)
Global Business Licence holders	34,494	11.4	34.9
Personal & professional	31,320	10.4	9.6
Public nonfinancial corporations	3,452	1.1	(38.8)
Others	6,717	2.2	0.7
Total	302,539	100.0	6.4

In respect of the sources of funds, after the double-digit expansion registered during the preceding financial year, a sharp deceleration was observed in the growth rate depicted by total deposits which rose by only 2.1% to attain Rs 705 billion as at 30 June 2014. This was attributable to a drop of some 3% at the level of foreign currency deposits – which account for more than half of total deposits – on the back of the continuing volatilities and vulnerabilities characterising the real and financial sectors globally. On the other hand, despite the relatively low-interest environment and restrained nationwide income generation, rupee deposits expanded by some 10% during the year under review, reflecting the sustained market confidence in the banking sector. Furthermore, while total borrowings declined by around 7%, loan capital nearly doubled to reach more than Rs 16 billion. In fact, as part of capital raising plans in the context of initiated organisation restructuring exercises and to support business growth aspirations, the country's two leading banks, including MCB Ltd, have mobilised sizeable funding resources on the Stock Exchange of Mauritius, through the issue of floating rate subordinated notes and bonds, which, it should be underlined, were all largely oversubscribed.

Deposits in the banking sector (June 2014)			
Types of deposits	Rs m	Mix %	Y.o.y. change %
Rupee	296,507	42.1	10.2
<i>Savings</i>	167,155	23.7	9.3
<i>Demand</i>	47,476	6.7	19.1
<i>Time</i>	81,876	11.6	7.5
Foreign currency	408,533	57.9	(3.1)
Total	705,041	100.0	2.1

With regard to the money market, excess liquidity conditions have prevailed during the last financial year, mainly attributable to dampened demand for credit as a result of sluggish private sector investments, the execution of the Operation Reserves Reconstitution Programme by BoM to accumulate foreign exchange reserves, and the Government's recourse for the foreign financing of its debt. This situation has warranted close attention insofar as its persistence contributed to a general and notable drop in yields on treasury bills and impacted the revenue generation ability of banking sector operators, in addition to heightening the risks to monetary and financial stability. With respect to remedial measures, successive increases were brought in the regulatory cash reserves ratio by BoM in its bid to sterilise excess liquidity. In the same light

and acting as agent of the Government, the Central Bank has, in recent months, come forward with the offer for sale of the following savings-related notes for retail investors: (i) July 2014: five-year Government of Mauritius savings bonds, which are either inflation-linked or offered at a fixed coupon rate; and (ii) August 2014: three-year Government of Mauritius savings notes at fixed coupon rate. For its part, the Government has contributed in combating excess liquidity by reviewing its debt management policies, increasing deposits held at BoM instead of commercial banks, and devised strategies aimed at spurring private sector investment. Notwithstanding some relief provided by these measures, the excess liquidity conditions prevailed over time. Thus, the excess cash holdings of commercial banks – i.e. the non-remunerated reserves held over and above the required minimum cash balances required by the Central Bank – attained nearly Rs 10 billion as at 30 June 2014, before rising to some Rs 10.9 billion as at mid-September 2014 as per latest available data. Comparatively, these figures are much higher than earlier trends, with excess cash reserves standing at less than Rs 5 billion two and three years earlier. Accordingly, due to the notable undersupply of securities and the liquidity glut, the weighted average yields on treasury bills threaded onto a sustained downward trend to close in at 2.48% as at the end of the last financial year, before sliding further to reach around 1% in more recent times.



On the whole though, banks have managed to cushion the after-effects of the challenging economic context and maintained their generally healthy financial soundness metrics in recent times. According to the BoM Financial Stability Report of August 2014, stress tests carried out have indicated that the industry

is resilient to adverse shocks to their business activities. Specifically, sufficient capital is maintained by the industry so as to provide adequate buffer to withstand potential strains as gauged by the capital adequacy ratio standing at a comfortable average rate of 17.6% as at March 2014, which largely overshoots the minimum requirement of 10%. For its part, while it has risen over the past quarters as a result of the fragile economic climate, the non-performing loan ratio has remained at relatively manageable levels. Besides, funding and liquidity risks are considered as low, as banks operate with adequate funding from domestic and international sources, with most operators relying mainly on customer deposits as opposed to wholesale funding, as a stable and reliable source to finance their balance sheet growth. Furthermore, banks have continued to depict appreciable profitability levels.

Selected financial stability indicators (%)					
	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14
Capital-based					
Regulatory capital to risk-weighted assets	17.4	16.4	16.9	17.3	17.6
Regulatory Tier 1 capital to risk-weighted assets	15.9	15.0	14.8	15.1	15.3
Asset quality					
Non-performing loans to total gross loans	3.9	4.0	4.1	4.2	4.4
Earnings and profitability					
Return on assets	1.2	1.2	1.1	1.2	1.3
Return on equity	15.7	15.2	13.5	14.1	15.6
Liquidity					
Liquid assets to total assets	19.1	19.4	17.5	22.5	22.6
Liquid assets to short-term liabilities	27.9	28.0	26.5	31.0	30.7
Sensitivity to market risk					
Net open position in foreign exchange to capital	2.2	2.3	2.3	2.1	3.1

Source: Bank of Mauritius, Financial Stability Reports - February & August 2014

Local Non-Bank Financial Services Sector

In spite of market activities being impacted by challenging economic and financial sector conditions, several dynamics have positively shaped up the positioning and performances of operators involved in the

provision of non-bank financial services to local and foreign clients. In particular, the demand for non-equity investment products has been geared up on account of the relatively low interest rate environment prevailing in the banking sector, excess liquidity conditions persisting in the money market and, to a lesser extent, the reduction in trading costs implemented by the Stock Exchange of Mauritius in relation to bonds, which have, altogether, contributed to bring down the overall cost of raising finance in the financial system. Therefore, local corporates have increasingly been using the debt capital markets for refinancing their existing debts and raising new funding at relatively lower rates via corporate bonds and notes, which have either been listed on the local bourse or issued as private placements to the attention of institutional investors. Besides, major local groups opted to having recourse to wider-level financial restructuring initiatives, both in terms of debt and equity, in order to foster their adequate capitalisation against the backdrop of the current difficult economic and market circumstances. Additionally, to diversify their undertakings and bolster their revenue streams, corporates have been seeking to pursue strategic investments regionally and across the African continent, thus setting out to gather the necessary advice and financial flexibility in order to achieve set objectives. In respect of equity stocks, the market environment faced up to the persistence of the soft economic conditions, especially in the second half of the last financial year. Yet, the SEMDEX has posted a non-negligible year-on-year growth during the last financial year, partly due to net purchases by foreigners. In the process, specific stocks fared quite well as a result of the improved financial results and attractive prospects of the listed companies, while the initial public offering of a company involved in the lottery business turned to be one of the most popular capital-raising events on the local bourse, with an over-subscription ratio of nearly three times. All in all and from a revenue generating perspective, conditions characterising the portfolio investment markets have, to a notable extent, benefited companies being involved in the administration, structuring and/or trading of the relevant stocks. Moreover, while private equity financing opportunities in Africa have remained generally attractive on the grounds of the latter's appealing economic prospects, it can be observed that European and US investors are depicting a mounting interest to diversify their investment portfolios into the continent, with various asset classes being scrutinised.

Financial Services Sectors of Our Foreign Presence Countries

With regard to countries where the foreign banking subsidiaries of the Group are present, the market environments of the respective banking fields have been characterised by diverging conditions during the last financial year. With respect to Maldives, while the growth in deposits was notable – driven, to a large extent, by corporate foreign currency demand deposits held across all major banks – asset quality problems faced by commercial banks remained recurrent, thus somewhat dampening the lending appetite and

resulting in operators placing their excess local currency funds in investments such as treasury bills and placements in banks abroad. According to the Maldives Monetary Authority, the increased investment in lower-risk and more liquid assets has led to the maintenance of healthier liquidity positions in the banking industry. Besides, the risk posed to the capital position of banking operators has been, largely, mitigated by a rise in loan loss provisions put aside. Of note also, on account of the sustained growth in total assets, the banking sector's profitability levels have not been greatly impacted by the high NPL conditions, with earnings growth assisting to bolstering the capital strength of banks towards increasing their capacity to cope with potential shocks. In Seychelles, principally generated by the build-up of foreign exchange reserves, excess liquidity conditions prevailing in the money market have, to some extent, been mitigated through treasury bills issuance for monetary purposes and liquidity-absorbing operations by the Central Bank. In addition, buttressed by non-negligible increases in exposures to households as well as the real estate and tourism industries, credit to the economy recovered by a notable margin in recent times. Concerning Mozambique, private sector credit growth has been underpinned by the country's appreciable economic performance and the prevailing monetary policy stance. Furthermore, in its May 2014 Country Report, the IMF stressed that the results of the new round of stress test show that the banking system remains resilient to shocks on balance sheet and shocks to deposit distress, but credit portfolio concentration remains the main threat. As regards Madagascar, while the difficult political and economic environment has impacted the growth in business activities of banks as well as the general quality of their client portfolios, there appears to be no immediate problems in the banking sector as per the latest observations of the IMF, with the industry being viewed as having remained relatively liquid and profitable.

The following tables provide an overview of the evolution of selected metrics in the banking industries of the Group's foreign presence countries, based on latest available information.

Key banking indicators												
Year-on-year growth	Maldives			Seychelles			Mozambique			Madagascar		
	Dec 12	Dec 13	Jun 14	Dec 12	Dec 13	Jun 14	Dec 12	Dec 13	Jun 14	Dec 12	Dec 13	Jun 14
	%	%	%	%	%	%	%	%	%	%	%	%
Credit to the economy	-9.9	0.9	0.1	8.5	4.5	13.3	19.7	29.1	27.7	5.4	15.7	11.9
Deposits	4.3	16.7	19.3	4.5	18.8	9.5	31.9	16.4	19.7	8.6	5.3	9.8

Financial soundness indicators												
As at December	Regulatory capital to risk-weighted assets			Non-performing loans to gross loans			Return on equity			Liquid assets to total assets		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
	%	%	%	%	%	%	%	%	%	%	%	%
Seychelles	24.2	26.7	26.7	8.1	9.3	9.4	61.6	29.8	19.6	58.8	52.0	54.7
Mozambique	17.1	17.9	16.9	2.6	3.2	2.8	26.5	19.6	20.0	27.8	33.4	30.9
Madagascar	15.3	15.2	14.5	14.6	14.2	13.8	22.9	25.4	30.2	49.7	50.4	43.2

Notes:

(i) For Maldives and Seychelles, credit to the economy is captured by claims on the private sector

(ii) No comprehensive data is available in respect of the financial soundness of the banking industry in Maldives

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

Group Financial Review

In the sections that follow, analysis of the Group performance has been based on proforma figures based on the audited financial statements, except for the indicators relating to the financial position as at 30 June 2014. The aim is to provide for a proper understanding and comparative view of the consolidated performances of the subsidiaries and associates of MCB Group Ltd over time.

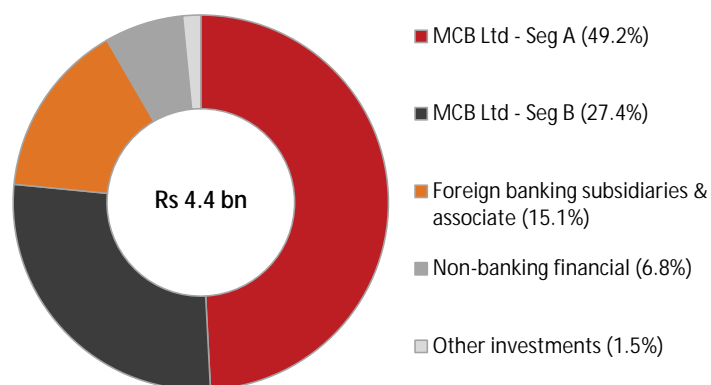
Overview of Results

As highlighted in the previous section, MCB Group evolved within a difficult operating environment across markets, having to face up to tough economic conditions, high liquidity in the money market in Mauritius in particular and intense competition amongst others. Nonetheless, the deployment of a multi-pronged development strategy enabled the Group to weather these challenges and grow its revenue base further. Indeed, operating income went up by 11.4% to stand at Rs 12,275 million, supported by continued growth

in core earnings and boosted by profits on sale of securities of Rs 611 million, including a one-off gain of some Rs 400 million realised at the level of MCB Ltd. Excluding the latter, operating income still posted a notable increase of 7.7%.

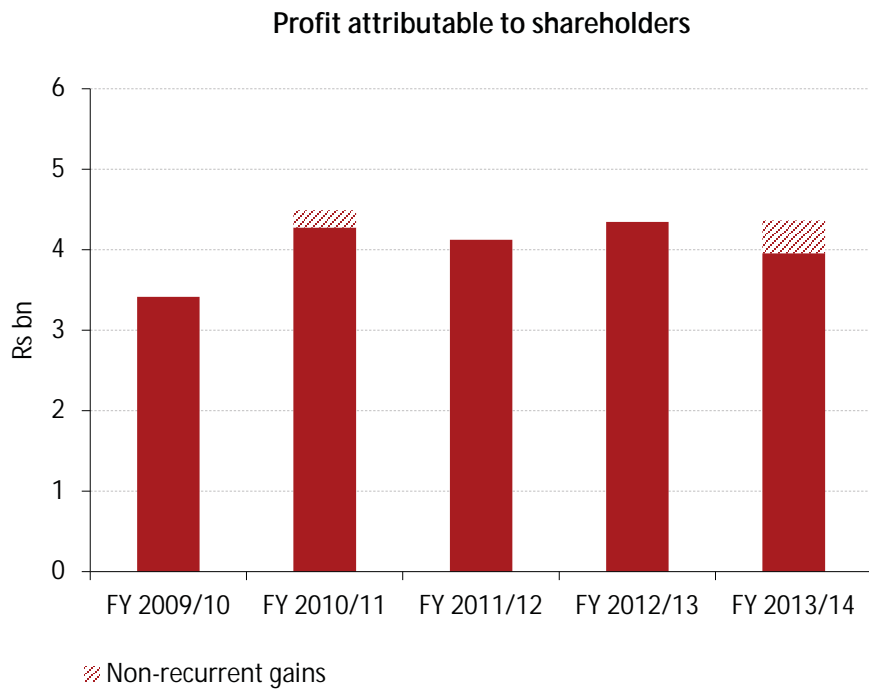
Whilst the increase in operating expenses was contained to 7.9%, impairment charges rose sharply to reach the unprecedented level of Rs 1,989 million, primarily due to the default of certain Indian corporate clients of the Global Business unit of the Bank, which together accounted for nearly 75% of credit impairment charges for the year. As a result, despite a healthy growth in operating income, operating profit dropped by 2.0% compared to the previous financial year. However, with the share of profit from associates more than doubling following improved contribution from both BFCOI and PAD Group, profit before tax edged up by 3.5% to Rs 5,423 million. On the whole, attributable profits of the Group remained close to the previous year's results to stand at Rs 4,365 million (compared to Rs 4,345 million in 2013) after factoring an increase in tax charges to Rs 970 million, mainly due to the rise in the special levy on the Segment A (domestically-oriented) business of MCB Ltd to 10%, thus subjecting its local operations to an effective corporate tax rate of 25%. The vast majority of the Group profit remained sourced from the banking operations, driven by MCB Ltd with the share of foreign-sourced income standing at 42.5% in spite of being impacted by abnormally-high impairment charges while non-banking activities accounted for 8.3%.

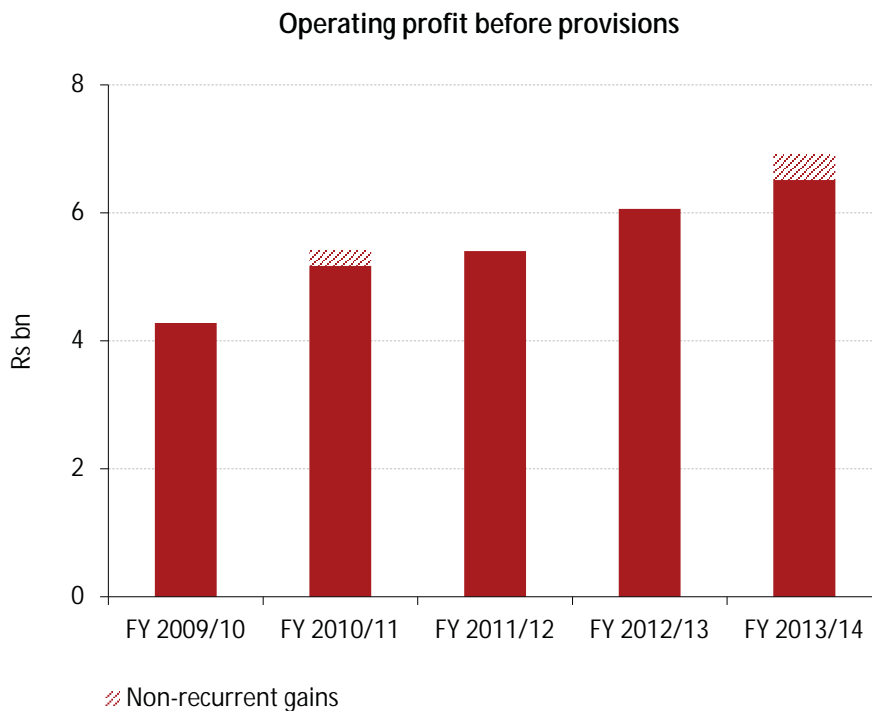
Contribution to Group profit



Backed by a sensible business model and diligent risk management, the Group sustained generally healthy financial soundness indicators in FY 2013/14 in terms of capitalisation as well as liquidity and funding. On the other hand, asset quality was adversely impacted by the higher level of impaired loans posted by the Bank's Global Business unit. Of note, measures have already been deployed to further strengthen risk management processes at various levels, which should contribute to a reversal in the trend moving forward.

At Company level, MCB Group Ltd received dividend income of Rs 3,198 million from its subsidiaries, including a special Group Restructuring dividend of Rs 2,340 million in specie as part of the unbundling of the investments previously held by MCB Ltd in the non-banking entities of the Group. The investments in the foreign banking subsidiaries and associate of the Group were still held by MCB Ltd as at 30 June 2014 and will be unbundled in favour of MCB Investment Holding Ltd once relevant local regulatory authorisations have been obtained. After allowing for operating expenses of Rs 13.1 million, profit for the Company stood at Rs 3,185 million for the period ending 30 June 2014. Total assets of the Company amounted to some Rs 5,585 million, with investment in subsidiaries and associates standing at Rs 4,723 million as at June 2014.





Outlook

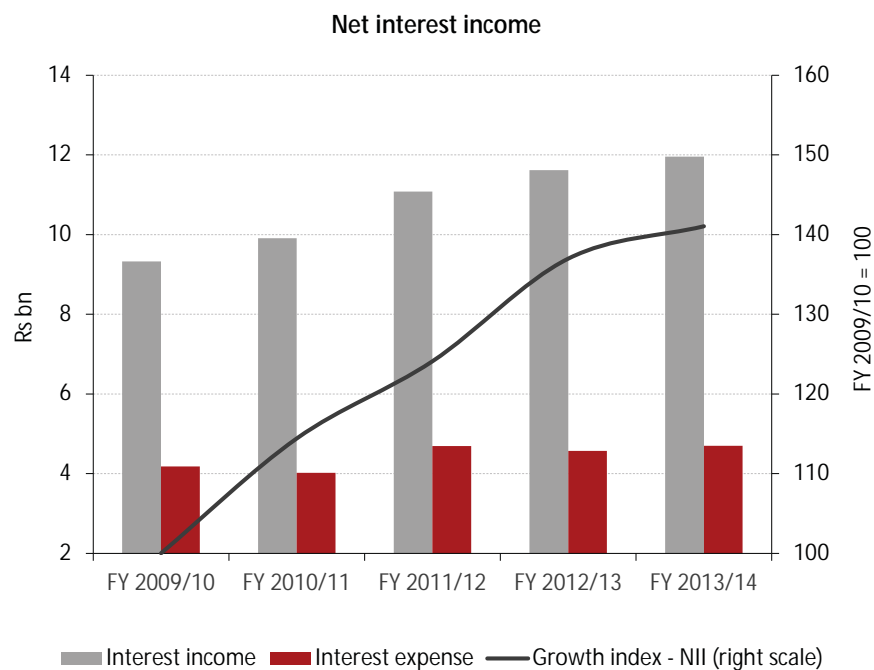
Looking ahead, the operating environment facing the Group is likely to remain challenging for some time yet against the backdrop of the slow-moving global recovery as well as the prevalence of inherent country vulnerabilities. In particular, the economic climate in Mauritius is likely to stay difficult as gauged by the ongoing sluggishness of private investment, while the high liquidity situation in the banking system remains to be conclusively addressed. However, the Group should sustain its income growth momentum on the back of its expansion strategy with due focus on the extension of the Group's regional involvement. On the whole, results are projected to improve in FY 2014/15, boosted by an upturn in the performance within the banking operations on the basis of higher revenues and lower impairment charges as well as by further growth in non-banking activities.

Income Statement Analysis

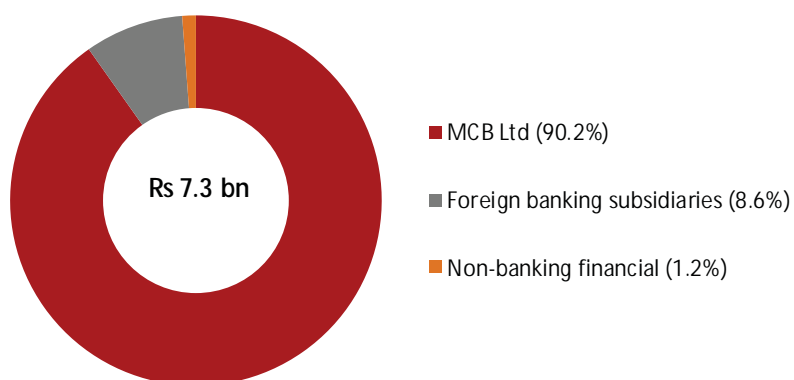
Net Interest Income

Against the backdrop of the restrained growth in the overall loan portfolio in line with the difficult economic context and pressures on margins emanating from high competition levels and excess liquidity particularly in Mauritius, interest income for the Group rose by 2.9% to Rs 11,954 million in FY 2013/14. For its part, total interest expense witnessed a similar growth, on the back of payments made in respect of

subordinated liabilities, namely the Floating Rate Subordinated Notes issued locally and the USD 30 million debt obtained from the African Development Bank. Consequently, net interest income increased by 3.0% to reach Rs 7,256 million during the year under review, with a strong growth being registered in revenues from international activities. As such, net interest margin – as measured by net interest income to average earning assets – stood at 3.7%, down from some 4% in FY 2012/13.



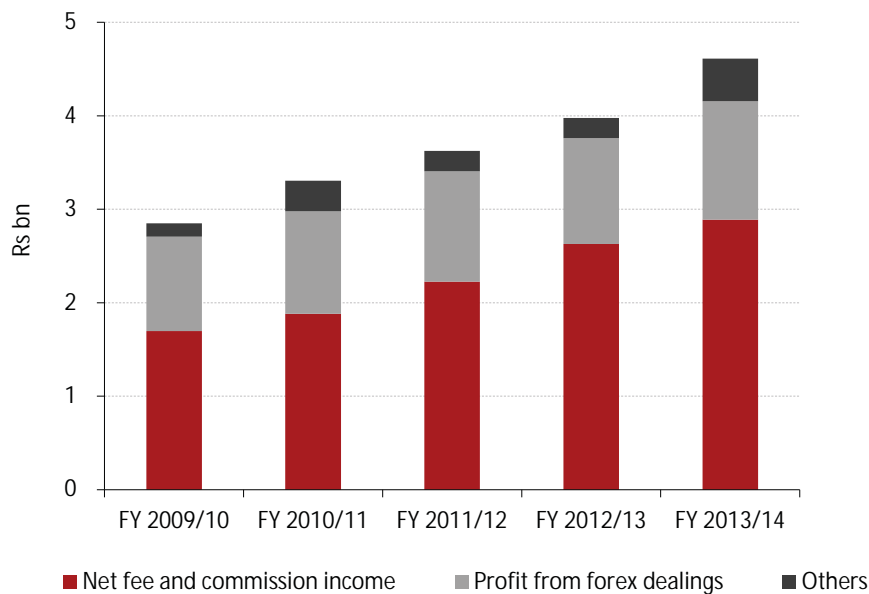
Net interest income by cluster



Non-Interest Income

In line with ongoing product and market diversification, net fee and commission income for MCB Group increased by 9.8% to reach Rs 2,888 million. In addition to headway made in the non-banking fields, this performance reflects growth in revenues derived from the cards services and, in particular, enhanced portfolio management fees from the Bank's Private Banking segment, while international trade finance operations continue to be a notable source of income. Besides, strong growth in 'other income' was registered, boosted by gains of Rs 611 million on sale of securities, including a one-off gain of some Rs 400 million at the level of MCB Ltd. Profit on exchange grew by an appreciable 12.1% with some foreign subsidiaries posting a notable upturn whereas a growth of some 4% was registered by MCB Ltd. Overall, non-interest income for MCB Group registered a substantial growth rate of 26.2% to attain Rs 5,019 million in FY 2013/14, with the expansion rate reaching 16.0% on excluding the non-recurrent gain on sale of securities by MCB Ltd.

Breakdown of non-interest income



Note:

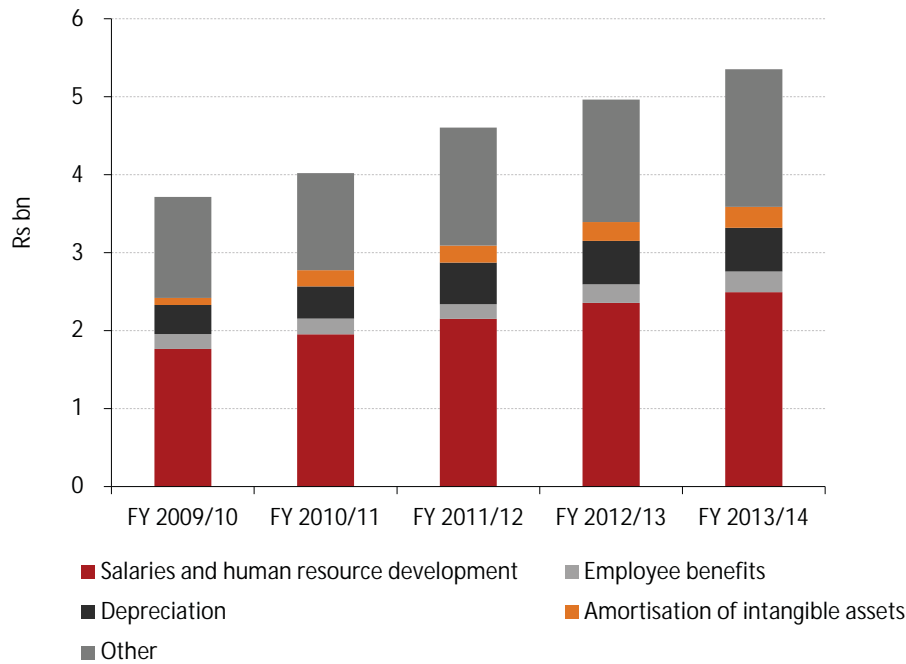
Figures for FY 2010/11 and FY 2013/14 exclude non-recurrent gains.

Non-interest income	Net fee and commissions	Others
	Rs m	Rs m
Banking	2,635	1,765
Non-banking financial	354	225
Other investments	-	174
Eliminations	(101)	(33)
Total	2,888	2,131

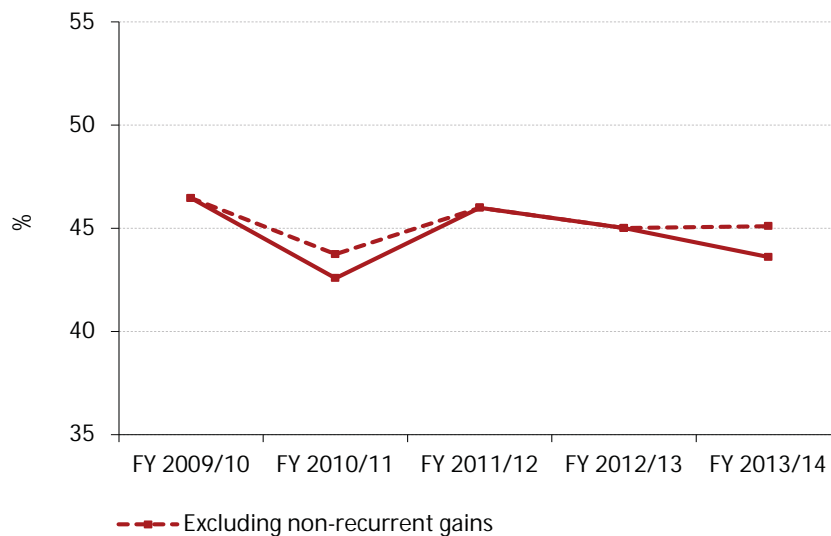
Operating Expenses

On the back of diligent cost management and enhanced operational efficiency, growth in operating costs was contained to 7.9%. As such, expenses reached Rs 5,353 million for the year under review, fuelled by continued capacity building by the Group's subsidiaries across clusters. Regarding MCB Ltd in particular, in addition to expenditures linked to technology investments and key organisational undertakings pertaining to the restructuring exercise including the issue of notes, the rise in operating costs was, to a notable extent, triggered by marketing and product development initiatives. As a result, the cost to income ratio for the Group decreased to 43.6%, with the ratio, however, edging up to 45.1% when excluding the non-recurrent gain on sale of securities.

Breakdown of non-interest expense



Cost to income ratio



Impairment Charges

Allowance for credit impairment recorded a significant rise to reach Rs 1,989 million as at 30 June 2014. Whilst a certain deterioration was recorded in respect of our subsidiaries in Maldives and Mozambique, this adverse evolution was primarily linked to impaired Indian corporate exposures within the Global Business unit of MCB Ltd. In fact, specific impairment charges relative to these Indian exposures represented close

to 75% of the total Group credit impairment charge for the year. On the whole, allowance for credit impairment represented 1.2% of the loan portfolio as at 30 June 2014. On another note, impairment losses of Rs 50 million were incurred by MCB Equity Fund Ltd, mainly linked to the closure of a local listed company.

Financial Position Statement Analysis

Loans and Advances

Although an appreciable rise was registered at the level of the portfolio of our foreign banking subsidiaries, total loans and advances of the Group increased at a restrained rate of 3.8% to reach Rs 161.0 billion, as a result of the Bank's corresponding metric growing at a decelerating pace during FY 2013/14. Indeed, gross loans and advances to customers at MCB Ltd level registered a growth of only 2.2% to attain Rs 146.2 billion as at end June 2014 on account of the soft economic climate and increased competitive pressures. Domestically, while being confronted by the sluggish evolution of private sector investment, Segment A loans increased by 4.3%. Whereas the retail segment posted an appreciable growth of some 7.0% amidst the sustained momentum in housing loans, advances to corporate customers increased by 3.4%, with the rise being mainly underpinned by disbursements made to the export oriented manufacturing sector as well as to the tourism and trade industries. On the other hand, despite a rise in the specific segment of 'Global Business Licence holders', credit extended to customers at the Segment B¹ level registered a drop of 3.2%, owing to a notable fall in foreign currency loans outside Mauritius, with the latter trend being partly attributable to a contextual decline in respect of regional short term financing of trade-related operations. However, this drop in customer lending was compensated for by an increase in loans to banks, thus enabling the overall Segment B lending to increase by 2.2%.

The non-performing loans ratios at Group level registered a marked increase to reach 7.3% in gross terms and 4.2% in net terms as at 30 June 2014 compared to 5.0% and 3.0% respectively a year earlier. The deterioration has primarily been prompted by the evolution at the level of MCB Ltd, with its corresponding metrics standing at 7.1% and 4.0% respectively compared to 4.9% and 2.9% as at the end of the preceding financial year. The cover ratio of the NPLs by specific provisions at the Bank stood at 45.4% at the year end,

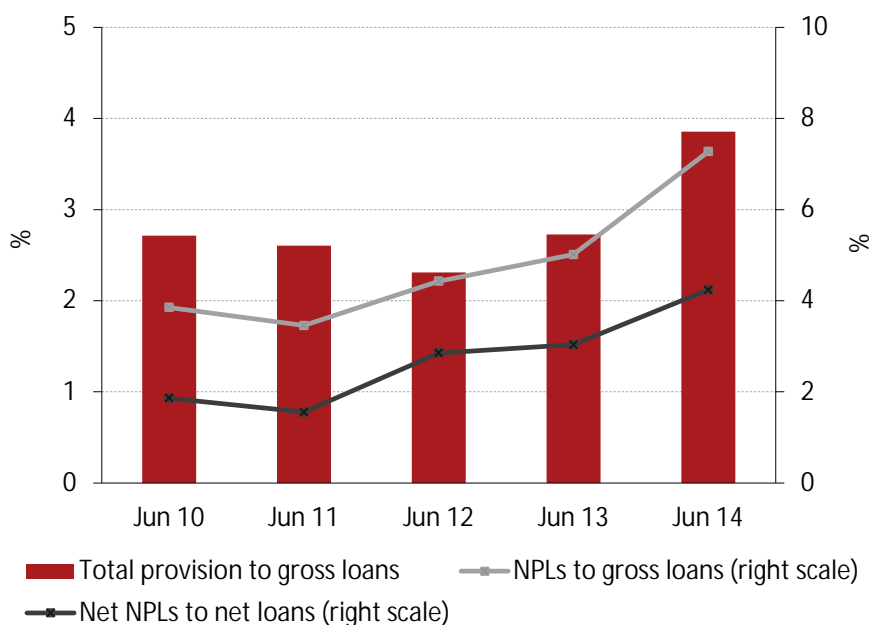
¹ Refers to the provision of international financial services that give rise to foreign-sourced income.

with the uncovered portion being more than adequately covered by collateral, suitably discounted to reflect current market conditions and recovery time.

The loan book of the Bank has, in fact, been further impacted this year by yet more non-performing loans, characterised by an uncommonly high incidence of default and representing predominantly Indian corporate exposures from our Global Business unit. The legal system in India is, unfortunately, insufficiently conducive to crystallisation of security or winding up of defaulting borrowers and so recovery measures will be slow to yield results. Overall, the problem has been largely ring-fenced and little, if any, additional exposure to Indian companies is contemplated in future. Measures taken in consequence include the setting up of a new Recovery Team in the Risk SBU to take charge of recovery efforts, strengthening of internal risk management and disbursement procedures. The Bank believes it has now adequately addressed the issue of Indian corporate loans and that, with the proper recovery effort being applied and the further reinforcement of risk procedures, impairment charges and NPL ratios will start to fall back to more reasonable levels in the very short term, thus paving the way for a return to a normal situation.

June 2014	Exposures		Non-performing loans (NPLs)		Allowances for credit impairment		
	Rs m	Y.o.y growth (%)	Rs m	% of loans	Rs m	% of loans	% of NPLs
MCB Group							
Loans to customers							
Agriculture and fishing	8,137	0.3	83	1.0	34	0.4	40.5
Manufacturing	11,568	3.7	762	6.6	520	4.5	68.3
<i>of which EPZ</i>	5,066	102.1	118	2.3	109	2.1	92.5
Tourism	33,676	7.8	1,239	3.7	302	0.9	24.4
Transport	3,917	7.1	765	19.5	444	11.3	58.0
Construction	15,687	(1.6)	2,065	13.2	742	4.7	35.9
Traders	19,262	6.2	2,019	10.5	1,176	6.1	58.2
Financial and business services	13,048	(21.9)	203	1.6	119	0.9	58.8
Personal and professional	29,046	6.5	2,839	9.8	1,284	4.4	45.2
<i>of which credit cards</i>	790	6.2	73	9.3	69	8.7	94.0
<i>of which housing</i>	17,158	6.4	1,072	6.2	237	1.4	22.1
Global Business Licence holders	12,071	67.8	1,355	11.2	1,382	11.4	101.9
Others	9,897	(22.8)	383	3.9	206	2.1	53.7
Loans to banks	4,703	62.8	-	-	17	0.4	-
Total	161,011	3.8	11,711	7.3	6,225	3.9	53.1

Provision and credit quality

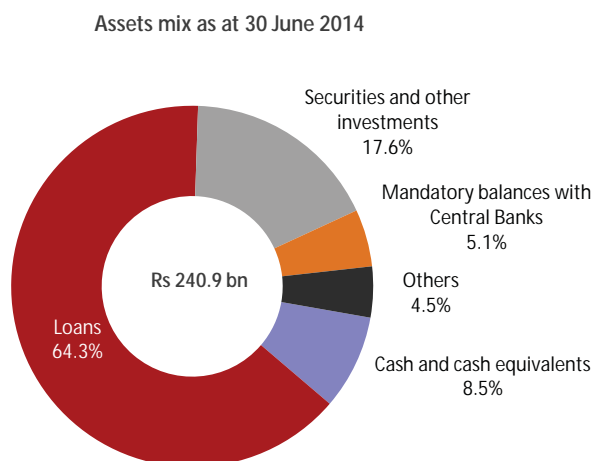


Loans and advances as at June	2014 Rs m	Growth (%)	Mix (%)
Retail customers	30,199	5.1	18.8
<i>Credit cards</i>	690	(8.3)	0.4
<i>Mortgages</i>	17,158	6.4	10.7
<i>Other retail loans</i>	12,350	4.1	7.7
Corporate customers	99,636	6.7	61.9
Entities outside Mauritius	25,228	(12.4)	15.7
Government	1,246	(5.3)	0.8
Banks	4,703	62.8	2.9
Total loans	161,011	3.8	100.0

Other Assets

Reflective of the high liquidity situation prevailing notably in Mauritius, the liquid assets of the Group went up by an important margin. Hence, cash and cash equivalents rose by some 25%, principally on account of a material increase in placements with banks abroad. In the same vein, investment in Government securities rose by about 70% while mandatory balances at the Central Bank witnessed a hike of 25% in line with successive increases in the regulatory cash reserve ratios by the Bank of Mauritius coupled with a rise

in deposits. All in all therefore, the share of the Group's liquid assets, including placements, to deposits went up significantly to reach 34.2% as at 30 June 2014, with the corresponding ratio as a percentage of assets standing at 26.4%.



Funding

Total deposits, which are the predominant source of funding for the Group, went up by some 12% to reach Rs 186.1 billion as at 30 June 2014, mainly supported by funding mobilised at the level of MCB Ltd. Indeed, the latter registered a rise of 13.2% in its deposits which reached Rs 174.7 billion over the period under review, notably supported by a growth of around 27% in foreign currency deposits and, to a relatively lesser extent, by a rise of 7.3% in rupee-denominated deposits. The latter have been boosted by an increase of 11% in demand deposits, while savings deposits, which account for a share of nearly 70% of the total amount, rose by some 9% in spite of the low interest environment and the restrained expansion in the country's national income level. Besides, reflecting their continued market attractiveness, deposits accumulated by foreign banking subsidiaries have also posted a noteworthy increase.

Furthermore, the financial year has seen the organisation stepping up its recourse to wholesale funding to suitably finance its ambitious business development objectives. Indeed, subordinated liabilities amounted to some Rs 5.4 billion, following Rs 4.5 billion raised by the Bank through the issue of Floating Rate Subordinated Notes on the local bourse and a loan of USD 30 million obtained from the African Development Bank. On the other hand, there was a drop of 33.7% in 'other borrowed funds' explained essentially by a noticeable decline in utilisation of refinancing credit lines from overseas banking correspondents.

Sources of funds as at June	2014 Rs m	Growth (%)	Mix (%)
Total deposits	186,088	12.0	92.9
Deposits from customers	184,428	12.2	92.0
<i>Demand</i>	<i>64,243</i>	<i>29.6</i>	<i>32.1</i>
<i>Savings</i>	<i>82,936</i>	<i>8.7</i>	<i>41.4</i>
<i>Time</i>	<i>37,250</i>	<i>(3.3)</i>	<i>18.6</i>
Deposits from banks	1,660	(4.5)	0.8
Other borrowed funds	8,879	(33.7)	4.4
Subordinated liabilities*	5,409	-	2.7

* Subordinated liabilities were nil as at June 2013

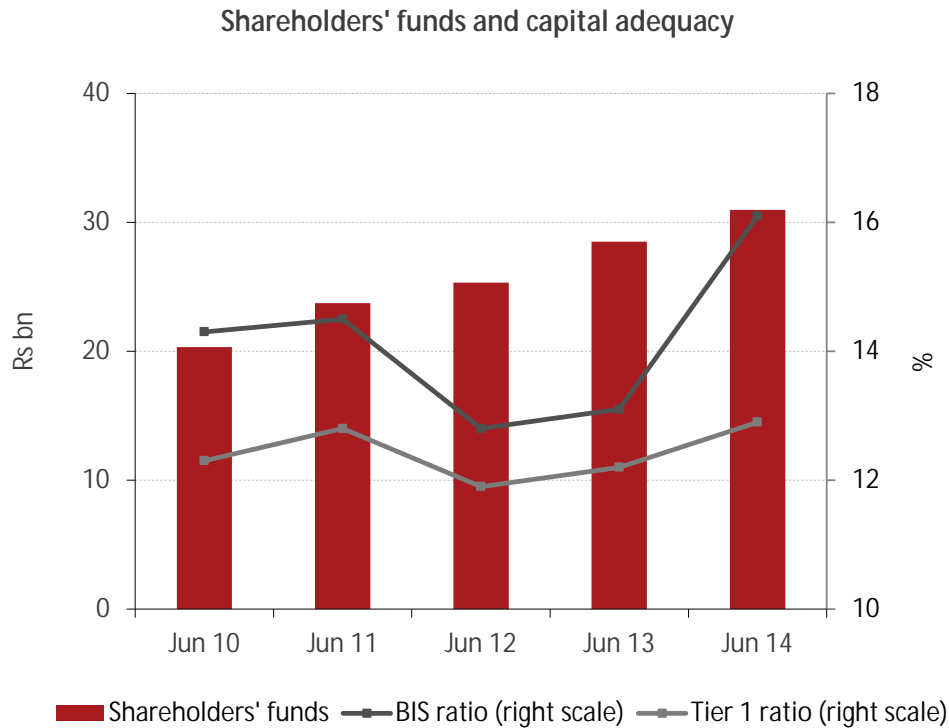
Capital Resources

Shareholders' funds of the Group increased by 8.6% to reach around Rs 31 billion as at 30 June 2014. Actually, retained earnings, which have been impacted by prior year adjustments to reflect the revision in International Accounting Standards (IAS) 19 pertaining to employee benefits, maintained its organic growth, with a rate of 12.8% being posted after accounting for net profit for the current year to the tune of Rs 4.4 billion and the dividend pay-out of Rs 1.5 billion. In reference to the latter, dividend per share was Rs 6.35 for the year under review as compared to Rs 6.10 one year earlier, implying a payout ratio of 34.6% with earnings per share standing at Rs 18.34. Of note, as part of the restructuring exercise, treasury shares were cancelled, thus leading to a drop in share capital.

The Group's net asset value per share thus increased from Rs 120 to Rs 130. Accordingly, the MCB share price continued to trade at a significant premium, somewhat reflecting the perceived potential of the Group, from a market standpoint, to uphold value creation for its shareholders.

Testifying to its ability to withstand potential shocks and fuel business growth aspirations, the Group maintained adequate capitalisation levels. Overall, capital adequacy increased from 13.1% to 16.1%, to a large extent prompted by a rise of 240 basis points in the Tier 2 ratio following sizeable funding resources mobilised on the local Stock Exchange and from the African Development Bank. Correspondingly, Tier 1 ratio edged up from 12.2% to 12.9%. Going forward, the Group will continue to ensure that adequate

capital buffers are, at all times, kept to effectively support its expansion and foster compliance with regulatory guidelines, more particularly those relative to the Basel III requirements pertaining to eligible capital and Domestic Systemically Important Banks (DSIB), as issued by the Bank of Mauritius recently. Actually, on a proforma basis, the Tier 1 and overall capital adequacy ratios of the Group under Basel III would stand at 13.6% and 16.1% as at June 2014, which are comfortable above the advocated norms.



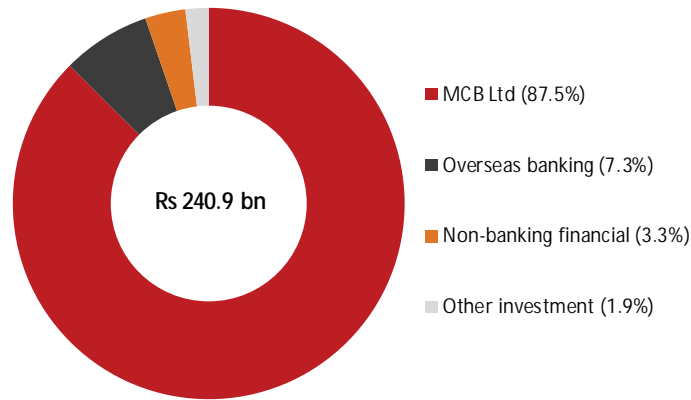
Analysis by Cluster

Overview

During FY 2013/14, business activities of entities operating under the different clusters were underpinned by the entrenchment of the Group's foothold in established segments and continued diversification in operations. In addition to reinforcing its leadership position in servicing individual and corporate clients in the domestic banking sector, the Group further broadened its regional involvement, while making further headway in the provision of non-bank financial services. Overall, the deployment of these strategic thrusts was supported by a sustained enhancement of customer service quality, sensible risk management, and continuous capacity building in terms of people, processes and technology.

As illustrated below, the banking cluster, driven by MCB Ltd, is the most significant contributor to the activities and operations of the Group.

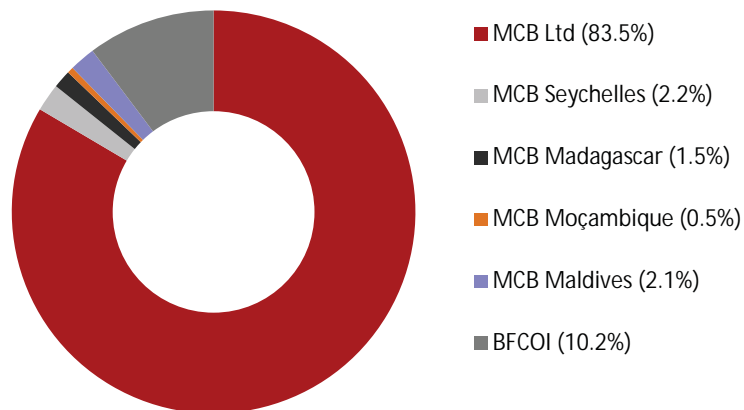
Assets - Breakdown by cluster



Banking Cluster

Despite an increase of more than 20% in the combined contribution of the foreign banking entities, driven by a significant growth in the share of income of BFCOI, the overall contribution of the banking cluster to Group results dropped by some 6%, on account of a decline in the corresponding figure for MCB Ltd, which nonetheless remained the dominant source of earnings for the cluster.

Contribution to profit within the cluster



MCB Ltd

While being confronted by challenging market conditions, the Bank has effectively capitalised on its sound fundamentals and business diversification drive to sustain the growth in its business activities during the last financial year. As a result, with its leading banking position being further consolidated domestically and its regional footprint broadened, operating income rose by around 9% during the period, with the rate standing at nearly 5% on excluding the non-recurrent gains of around Rs 400 million from the sale of shares. Overall, the positive trend characterising the evolution of core earnings has been sustained by another positive growth in net interest income, while net fee and commission income expanded by a notable rate on account of business development initiatives across segments. Of note also, further headway made in respect of Segment B activities supported overall revenue generation by the Bank. All in all, the more so considering the heightened competitive landscape across market segments, the financial performance of the Bank can be favourably viewed when taking cognizance of the market strains that have persistently prevailed domestically, owing especially to sluggish private investment trends and declining yields on treasury bills linked to the lingering excess liquidity situation in the money market. Conversely, impaired loans in the Global Business field again prompted high provision levels. Thus, with impairment charges growing significantly, the net profit of the Bank from continuing operations declined by 9.9% during FY 2013/14. On the whole though, only a moderate decline in results was noted when allowing for improved revenues coming from discontinuing operations, essentially underpinned by incomes received from BFCOI and MCB Equity Fund Ltd.

Local Activities

Corporate

The operating environment of the Corporate Strategic Business Unit (SBU) remained particularly challenging during the last financial year. Persisting sluggishness of private investment continued to restrain growth in demand for credit domestically while adverse pressures on business earnings linked to economic difficulties somewhat raised credit risks in some sectors. Although these factors continued to exert some influence on margins, activity within this segment evolved positively as the Bank reaffirmed its role of being the trustworthy and prominent partner in the key development projects of the country.

The financial resilience displayed by this business line reflects its diligent strategic positioning that effectively promotes its unique selling propositions. In this respect, capitalising on expertise garnered over the years, the Bank was again involved in several structured financing deals across both established and

emerging sectors in FY 2013/14. Furthermore, the Bank has been active in financing 'green' projects, on its own, drawing 70% of the EUR 40 million concessional lending facility made available to selected banks by Agence Française de Développement (AFD) since 2009. Given such a performance, MCB was recently called upon by AFD to negotiate a new credit line of EUR 60 million, of which at least EUR 30 million has been earmarked for the Bank which is expected to be drawn down without too much difficulty based on the current pipeline as well as the interest manifested by our corporate customers after the recent launch of this new line of credit. Besides, the unit has proactively harnessed need-based cross-selling opportunities notably by building on the capabilities of the Group's entities, with a case in point being the association with MCB Capital Markets to help local businesses in their corporate finance endeavours.

The Bank continued to embed its business development impetus on professional customer service and client proximity with due emphasis on the quality of interactions. To this end, apart from on-going PR and client events, an online newsletter was recently launched as a way to further enhance communication with the corporate clients. In the same vein, notable resources were devoted during the year to shore up the productivity of operations alongside promoting efficient risk management practices by way of process streamlining and enhancement projects. Besides, constantly gearing up human capital remained high on the agenda as evidenced by the provision of specialised and targeted training to staff.

Bearing in mind the delicate economic environment, the unit will maintain its market vigilance when pursuing its business development drive moving forward to preserve the quality of its portfolio and meet regulatory imperatives. Leveraging its core competencies, the unit seeks to explore appealing opportunities to further diversify its revenue streams in this segment. On the whole, it remains committed to duly assisting corporates in the established and emerging sectors in good and bad times, backed by effective risk management practices, operational efficiency and adequate investment in people while unleashing synergistic possibilities with the various functions of the Group.

Retail

While the challenging economic context and heightened competitive landscape continued to impact activities, the Retail SBU registered a notable performance as gauged by an appreciable rise in the gross operating margin. In addition to benefiting from the offshoots of underlying business development thrusts unclenched for some years now, the unit has leveraged the further upgrading of customer service quality, broadened market diversification, targeted promotional and sponsoring campaigns – relating particularly to regular commercial activities with third-party vendors – and strengthened operational capabilities. Hence, credit to the 'housing' and 'personal and professional' segments posted noteworthy expansions, while the contribution by the Private Banking segment to revenue generation increased significantly, with its bolstered market positioning leading to a major rise in assets under management.

During the last financial year, the Retail SBU further enriched its customer experiences and relationships. In fact, while upgrading the reach and convenience of delivery channels (see details later) in line with the

pursuance of the Bank's multichannel strategy, efforts were maintained to refine the value proposition as exemplified by upgraded features of the housing loan. Besides, service delivery was improved across branches and market segments, backed by enhanced cash management processes and complaints handling management, increased sales efficiency levels following the diligent recourse to the newly implemented Contact Management System and judicious customer portfolio management, continuous investment in technology and infrastructural capabilities, as well as bolstered human capital formation. At the same time, the unit strived to sustain the soundness of its activities by upholding its market vigilance and catering for better risk management. With regard to the Retail sub-segments, notable resources have been devoted to better service the up-market customer groups. In addition to the deepening of customer relationships by MCB Select, the Private Banking unit further embedded its involvement vis-à-vis high net worth customers by way of targeted market development. In fact, leveraging the provision of bespoke and internationally recognised financial solutions in its role as a one-stop-shop for meeting the sophisticated needs and expectations of clients, the unit witnessed another noticeable rise in its domestic and international customer base, by notably widening its presence on the Asia-African corridor towards capturing flows between emerging market economies. Key underpinnings for the growth in business activities relate to a broadened value proposition, reinforced capabilities – e.g. the setting up of an External Asset Managers Desk to more effectively service clients across various parts of the world – as well as strengthened brand and relationship-building. In this respect, customer proximity has been fostered by (i) the Bank's sponsoring of recent high-profile events (e.g. MCB Tour Championship, which is the last competition of the annual European Senior Tour and the most prestigious golf contest held in Mauritius); and (ii) the participation in and organisation of key roadshows and conferences. At another level, the Business Banking unit widened its client base with respect to SMEs by upgrading and better marketing its value proposition in line with the evolving needs and requirements of the marketplace and by fostering superior customer relationships. For instance, the unit witnessed the launch of its dedicated Knowledge Centre which provides a wide-ranging suite of online resources to advise operators on starting, managing and growing their businesses. Notably, access is provided to online videos containing insights on specific business-related themes such as entrepreneurship and innovation.

Looking ahead, the Retail business line will seek to duly cope with challenges linked to the economic and competitive environments, ongoing and future regulatory developments, and prevailing socio-demographic dynamics such as the growing prominence of social media and the increasing sophistication of customer needs. For this purpose and while diligently managing the risks associated with its activities, the unit will bring about further improvements in respect of the quality of its customer service, the range and attractiveness of its value proposition as well as the appeal and convenience of its delivery channels in order to sustain and diversify its business growth across different customer segments.

Delivery channels

Introduction

The underlying objective of multichannel management at the Bank is to enhance the speed and flexibility to which it responds to customers and delivers value to them, with a view to fostering simplified and personalised banking experiences. In this light, objectives set by the Bank are: (i) to continuously modernise the lay-out and convenience of traditional physical channels; and (ii) to accelerate migration to integrated online and self-service channels.

Recent initiatives and achievements

Over the years and backed by notable technology investments, the Bank embraced multichannel management as a core axis of its general market development strategy. As a prominent achievement, it can be recalled that the Bank redesigned its network of 40 branches as per world-class 'department store' standards. Furthermore, MCB has been the first bank in Mauritius to launch a comprehensive mobile payments platform and a mobile banking application.

Specific moves and performance insights

Building on past accomplishments and using the best-of-breed technologies, the Bank has achieved further inroads in entrenching its multichannel strategy during the last financial year. In support of moves undertaken, several Bank-wide workshops have been carried out (i) to brainstorm about multichannel strategies so as to come up with a shared vision of the channel strategy that is most desirable for adoption across the organisation; and (ii) to design a comprehensive, coherent and integrated multichannel strategy execution to underpin seamless customer service.

- Accounting for 36% of the national park, the total number of ATMs stood at 163 (including 9 Forex ATMs), while the network of merchant terminals (including multi-currency and wireless POS) widened to reach some 6,700 lately.

Number of transactions ('000)			
	FY 2011/12	FY 2012/13	FY 2013/14
Automated Teller Machines	34,287	34,299	35,426
Merchant Point of Sale	12,008	13,907	16,456
Internet Banking	821	1,205	1,592

- Our 40 branches now contain around 250 digital screens displaying information on the Bank's promotional offers. Besides, the Bank increased to 5 the number of branches situated in areas with a high concentration of affluent individuals and featuring modern lounges for Private Banking customers, who have the opportunity to meet their bankers in a privileged setting. Also, front-liners at some branches capture loan and card applications on tablets.
- More than 90,000 customers are now logged on to our Internet Banking platform. Lately, the list of extensive and secure functionalities therein has been widened to enable customers: (i) to view their investment portfolios online (thus offering them a holistic view of products and services detained with the MCB Group as a whole); and (ii) to open accounts without having to come to a branch. Given the notable phishing attempts recorded, regular security awareness campaigns are conducted to educate customers on online banking and increase channel security.
- Some 10,000 subscribers avail to services provided in relation to the Bank's mobile banking and payments solution.
- MCB websites have been comprehensively revamped, with the application of web content management solutions rendering them more dynamic and effective for the coherent dissemination of information and online marketing.
- The Bank actively promoted its brand and its value proposition on the social media, namely Facebook (e.g. regular contests are organised on the fan page), Twitter and YouTube (e.g. the MCB channel contains promotional videos).
- Targeted email campaigns have been deployed to promote products and services. Besides, daily and periodic e-newsletters have been sent to our Corporate and Private Banking customers amongst others to provide information relating to our value proposition and key developments within the economic environment and financial markets.
- From a cross-sectional perspective, various initiatives have been taken to foster the integration of channels and the migration of customers towards self-service networks, backed by the utilisation of new technologies and channel collaboration efforts (e.g. customers can already subscribe to mobile payments and mobile banking through our Internet Banking platform and can undertake cardless ATM withdrawals through their mobile application).

Cards

Despite the difficult economic environment and pressures in the tourism industry, the cards business maintained an appreciable double digit growth, with performance being underpinned by sustained local market development thrust, notably anchored on continuous field visibility. In fact, several campaigns were run during the year by leveraging the privileged association of the Cards SBU with key global partners. These reinforced our strategy of being the largest local bank embracing the largest global properties. Revolving around international sporting and entertainment events, these commercial initiatives contributed to uphold card usage on the Point of Sale terminals. The end-of-year campaign hit a sweet note by enabling two lucky customers to attend the 56th Grammy Awards in Los Angeles. It was a priceless package by MasterCard. In March 2014, customers were offered the opportunity to win a package for two to go to the final of UEFA Champions League in collaboration with MasterCard. Finally, as the Official Mauritian Bank of the FIFA World Cup™ 2014 in conjunction with Visa, MCB has been very active in promoting the event while pushing for increased utilisation of its products with several clients winning all-inclusive packages to attend the competition in Rio de Janeiro.

Moreover, the year under review has seen ground-breaking additions to the panoply of services provided by the Cards unit. In July 2013, in line with MCB's innovative culture and commitment to pioneer the use of technology, the Bank introduced 'Juice', its mobile payments platform which also offers users the convenience of mobile banking features. Through this application, customers can make payments, transfer money and effect cash removal instantly and securely (including card-less ATM withdrawals) by means of a smart phone with Internet data access. In our tradition of market firsts, this was and is still the first and only mobile banking and payments solution in Mauritius. To date, some 10,000 subscribers avail of these services which, worth highlighting, are free to them. The Cards SBU also launched the first UnionPay card in Africa, whereby, instead of carrying cash for travel or business purposes, clients can already load their prepaid cards in Renminbi or US dollar, thus getting access to over 8 million ATMs and retailers in China and further worldwide.

Alongside being attentive to developments in the operating environment, the unit remains intent on maintaining its leadership position locally and seeks to further probe regional ventures within set competency areas. In this context, due emphasis is being laid on reinforcing human capital, processes and systems to ensure that the value proposition is attuned to customers' needs as well as market and technological trends.

International Activities

While being confronted by the slow-moving global economic recovery and lingering socio-political vulnerabilities prevailing across some foreign markets, the Bank has furthered its regional expansion strategy by tapping into attractive business opportunities in Africa and the region. In particular, the International SBU recorded a resilient performance by reaping the benefits of on-going initiatives intended to strengthen the Bank's strategic positioning and credentials beyond local shores, duly underpinned by a sensible diversification of its exposures.

In terms of business development, the International SBU continued to spearhead the deployment of the 'Bank of Banks' initiative, which aims at positioning the organisation as a regional platform offering bundled banking and financial industry capabilities to its counterparts. Tellingly, during FY 2013/14, the initiative led to increases of over 45% and 20% in its client portfolio size and related revenues respectively, spurred by the consolidation and nurturing of business relationships with correspondent banks, as well as direct taking of bank risks. In addition, the business unit shored up its regional market presence through enhanced participation in loan syndication, namely via funded deals in African countries, as well as in the secondary market for the purchase and sale of risks, buoyed by the proactive signing of risk participation agreements with top tier international banks. The year under review has also seen considerable grounds covered in terms of portfolio diversification into under-tapped as well as new territories in Africa and Asia. Additionally, notwithstanding an increasingly competitive environment in the region, the Bank has made major strides in terms of structured finance across the commodity trade value chain, with activities revolving around the provision of bespoke self-liquidating finance facilities to regional oil traders and importers, as well as to some of the world's top commodity traders. The unit is also increasingly viewed as a privileged partner for asset-based structured project finance on the back of its customer-centric approach and diversified exposures in big-ticket projects in sectors ranging from energy and power generation, infrastructure, telecommunications to hospitality across sub-Saharan Africa and the region.

All in all, the business realisations have been enabled by a sustained momentum as regards promotional and market development endeavours. Indeed, the International SBU has been actively fronting initiatives aiming at further entrenching the MCB brand franchise, a prime example of which being the hosting of the flagship 'Africa Forward Together' seminar for the 5th consecutive year. Of note, the 2013 edition welcomed 51 representatives from 38 banking and financial institutions spanning 15 countries. The event showcased the distinctive internal capabilities and product offerings of the Group to delegates, whilst outlining the benefits for their respective institutions and clients of working with MCB. It also provided a

networking forum for regional finance professionals to share market experiences, as well as deepen constructive discourse on the future of the African banking industry and avenues for better collaboration and close-knit business interactions. Simultaneously, the International SBU made further progress in promoting MCB's brand awareness on the regional and international marketplace, especially by augmenting field presence, actively conducting business prospecting missions and road trips in targeted markets, as well as co-sponsoring 3 prominent conferences on Africa and Asia trade and commodity finance.

Furthermore, true to its mandate of acting as the coordinating unit spearheading initiatives for the Group's overseas banking subsidiaries, the International SBU, through its Subsidiaries Desk, collaborated with key internal stakeholders and entities to support the implementation of selected projects and the replication of the Group's product and services line-up in foreign countries. In effect, this translated into the achievement of market firsts by MCB Seychelles, which notably became the first institution to accept China UnionPay International cards at all of its ATMs and Point of Sale terminals, as well as to launch the first stand-alone ATM in the country at the national airport. Other major accomplishments include the following: (i) introduction of 'Electronic Funds Transfer' and revamping of Internet Banking functionalities in Seychelles; and (ii) extension of the range of card services offered in Madagascar, through the issuance of the Visa International debit card. Besides, assistance was provided to bring a series of refinements to the existing platforms and technological infrastructure, as well as to the operational processes of the overseas entities, towards fostering effective harmonisation with those of the Group. Of note, in the wake of the Group restructuring exercise, there has lately been a revisiting of the Subsidiaries Desk, which aims at ensuring greater efficiency and a more focused and integrated stewardship to MCB's outbound entities.

At another level, the Corporate SBU pursued its international strategy through the financing of the regional expansion endeavours of its domestic clients. This effectively bore fruition through the materialisation of several deals, bridging equity financing as well as the oil and real estate sectors, which were secured in the sub-Saharan Africa and South Asian regions. On the other hand, pursuant to notable strains being faced by the unit in view of the significant increase in impairment charges related to specific exposures, the Global Business unit has been overhauled, with most files transferred to the reviewed Corporate SBU to, *inter alia*, benefit from increased synergies, greater operating efficiency and higher standards of service delivery.

Looking ahead, international activities will remain an important axis of the Bank's business growth, with the African region remaining the key target in view of its generally appealing economic prospects. Active

foreign market diversification will be underpinned by: (i) enhanced business relationship management; (ii) continuous business process improvements; and (iii) the proactive leveraging of funding resources mobilised, especially the sizeable financial package extended to MCB Ltd by the African Development Bank during FY 2013/14. Moreover, the forthcoming launch of a Representative Office in Nairobi, Kenya, is set to provide MCB with a foothold for the promotion of the whole spectrum of its financial products and services across the East African markets. All in all, whilst pursuing its business growth, the Bank will follow sound risk management practices, particularly through adequate customer segmentation and country risk analysis, whilst taking into account the intrinsic competitive features of markets being serviced.

Foreign Banking Entities

MCB Madagascar

The prolonged political and economic uncertainties have impacted Madagascar's growth performance in recent years. With stagnating investment and slowing activity in key economic sectors, the lending opportunities for MCB Madagascar have been relatively restrained.

In this difficult environment, our Malagasy subsidiary has seen its loan book contract by about 5% during calendar year 2013, with a corresponding drop in the profit level to MGA 3.0 billion for the year. However, this trend reversed in 2014, with the loan book expanding marginally by 3% and net results standing at a respectable MGA 3.8 billion for the first six months. As a result, contribution to Group profits was up by 41% to Rs 58 million for the year to 30 June 2014.

Amidst the ongoing normalisation of the political situation, a close monitoring of the recovery of the still-sluggish economy is being undertaken by MCB Madagascar, coupled with the adoption of a prudent business development approach in order to seize any attractive business opportunities.

MCB Moçambique

Mozambique's economy remains buoyant and recovered quickly from the severe floods that hit the country in early 2013, on the back notably of strong performance in coal mining, construction, transport and communications and financial services. The overall positive trend is expected to persist in 2014, backed by the stepping up of coal production and infrastructure spending.

Against this backdrop, net profit for calendar year 2013 realised by MCB Moçambique was up by 11% to around MZN 62 million, with the second semester's results affected by impairment charges. Results for the first half of 2014 were again largely impacted by a surge in provisions, resulting in losses of MZN 10 million being recorded. As a result, contribution to Group results for the year to 30 June 2014 was only Rs 20 million, down 63% from the previous year.

Looking ahead, MCB Moçambique is well geared towards capitalising on its client base and network of contacts to fully tap into the buoyant macroeconomic and commercial prospects opening up in the country and in the region.

MCB Seychelles

Economic growth in Seychelles continues to remain resilient to the testing global environment, supported, to a large extent by the notable expansion registered in tourist arrivals, improvements in production of canned tuna, and a strong performance by the telecommunication sector. Growth is expected to remain stable in the short-term, although risks emanating mainly, from high public debt and external disturbances warrant attention.

MCB Seychelles has continued to grow its loan portfolio at a satisfactory pace, with an expansion of 22% being achieved for 2013, while further strengthening its brand in both the retail and corporate segments. Results for the year ended 31 December 2013 were, however, down by 16% to SCR 37 million due to a major growth in expenses, attributable to continuous initiatives to invest in human capital and technology. The bank went live on the new core banking system T24 and adopted a sophisticated Internet Banking platform in January 2014, hence increasing its palette of products and services in Seychelles. Nevertheless, it has been a slow start to the year, with net results for the first six months reaching only SCR 14 million. Overall contribution to Group results attained Rs 89 million for the year to 30 June 2014, representing a drop of 27% over the preceding year.

Going forward, MCB Seychelles will endeavour to further entrench its market positioning and foster an enhanced contribution to domestic socio-economic progress by providing an increasing array of banking services in line with the evolving customer needs of Seychelles' economic operators, thus further supporting the established and emerging economic sectors.

MCB Maldives

The Maldivian economy maintained a robust growth in 2013, owing to continuing increases in the tourism arrivals, notably from Asia. This positive trend in the tourism sector is expected to drive growth in 2014, alongside strong government budgeted expenditure. However, the economy remains vulnerable to domestic imbalances as well as risks of slowdown in its main export markets.

MCB Maldives has continued to grow at a satisfactory pace, albeit more slowly than in previous years. Loan portfolio has expanded by 40% during calendar year 2013 and profit for that period reached MVR 39 million, a modest 2.7% rise over 2012. Performance for the six months to 30 June 2014 was satisfactory, with a net profit of MVR 22 million achieved for that period. The overall contribution towards MCB consolidated results for the year under review was down 3.4% at Rs 83 million.

MCB Maldives is committed to sustaining its diversified and balanced business growth momentum across various customer segments, by bolstering the productivity of its operations and competitiveness of its value proposition, whilst maintaining financial soundness and being attentive to evolving economic and market circumstances.

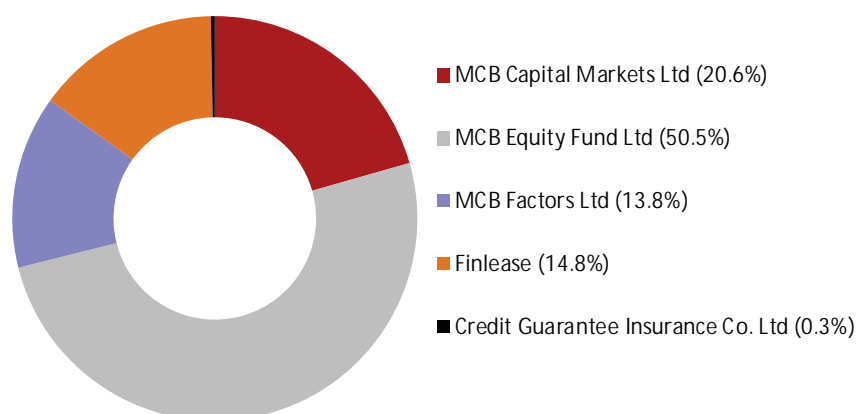
Banque Française Commerciale Océan Indien

Réunion Island, on which BFCOI carries out the major part of its operations, is still suffering from a rather depressed economic and social environment, with low level of public investment and very high unemployment. Although the bank has managed to grow its deposit base and reduce its dependence on wholesale funding, the loan book has been relatively static during the period. However, net results have been positive, with impairment charges greatly reduced and operating costs being well contained, thus leading to a drop in cost to income ratio. BFCOI achieved a profit of EUR 17 million for the calendar year 2013, a 53% increase over the previous year. The trend for the first semester of 2014 has been relatively appreciable, with positive results of EUR 9.4 million, mainly driven by a further drop in impairment charges. Contribution to Group profits for the year to 30 June 2014 was Rs 410 million, up from Rs 238 million in FY 2012/13.

Non-Banking Financial Cluster

Contribution by this cluster to Group profits increased substantially in FY 2013/14 with the performance of all entities going up. In particular, results were boosted by gain on sale of securities by MCB Equity Fund and a strong growth at the level of MCB Capital Markets Ltd.

Contribution to profit within the cluster



MCB Capital Markets Ltd and its subsidiaries (MCBCM)

Results of MCBCM improved during the year on the back of buoyant capital markets activity and the team's focus on giving sound and objective advice to clients, executing transactions efficiently and launching innovative products. Total income amounted to Rs 220.2 million (2013: Rs 129.2 million) with consolidated profit after tax of Rs 66.4 million (2013: Rs 13.9 million) for the financial year 2013/14.

Corporate Finance Advisory

The Corporate Finance Advisory team was set up in 2012 with the aim of advising clients primarily on strategic initiatives, M&A and capital raising transactions. For 176 years, MCB has supported, financially and in numerous other ways, a large number of individual clients and corporates which today have developed sizeable businesses. As these clients pursue strategic initiatives and expand overseas, MCBCM's priority is to draw upon these long and trusting relationships to accompany its clients on their new journey.

To achieve this objective, MCBCM has recruited an experienced advisory team and has been drawing upon the Group's 'Bank of Banks' network of over 80 financial institutions and corporates in 28 countries in Africa. We are confident that both existing and new clients will see the benefits of having a supportive adviser with strong in-country relationships by their side as they venture into new markets.

During the last financial year, the team completed several transactions, including the provision of advisory services to:

- a major hotel group on a debt issue, structured as 1, 2 and 3 year notes denominated in euro and Mauritian rupee;
- a major seafood producer listed on the Paris Stock Exchange, acting as lead manager on the issue of perpetual bonds worth USD 24.6 million;
- MCB Ltd on its Rs 4.5 billion public issue of subordinated notes denominated in local currency and their listing on the Stock Exchange of Mauritius; and
- an integrated resort group on its financial restructuring.

Meanwhile, the Structured Solutions team completed the second issue of 'Crescendo' MAST, a guaranteed capital note denominated in Mauritian rupee, and the first issue of 'Crescendo Africa', a capital guaranteed note linked to selected African equity funds and denominated in both Mauritian rupee and US dollar.

Going forward, the key objective will be to find solutions that will assist clients' ventures in Africa. We will continue to build our advisory team as we execute more transactions and expand our client base.

Investment Management

FY 2013/14 was another successful year for our investment management team as it continued to build its client base and assets under management (AUM) through sound investment strategies. Both the retail and non-retail collective investment vehicles (MCB Funds) attracted new clients while the team secured new segregated pension fund mandates from domestic and multinational companies during the year. As a result, AUM rose by 19.3% to Rs 13.6 billion at 30 June 2014, including the impact of market movements. Throughout the year, client portfolios as well as risks and return performances were closely monitored and managed by our investment and risk teams to effect better investment decisions.

The family of MCB branded funds continues to appeal to a wide cross-section of investors as evidenced by rising subscription levels and widening investor profiles. In particular, the MCB Education Plan and MCB Retirement Plan have shown remarkable resilience in the face of intense competition with net contributions maintaining their upward trend. Our existing range of MCB Funds was reinforced last year by the launch of a new product, the MCB Africa Bond Fund, an innovative fund which is managed by MCBCM's in-house Fixed Income team. It aims to generate positive returns by investing predominantly in local currency debt issued by African governments and corporations.

Over the next financial year, the team will further expand its fund range to provide investors with a wider choice of products that meet their investment objectives while our distribution efforts will be strengthened to improve product segmentation, visibility and accessibility.

On the pension front, the Private Pension Schemes Act has been introduced with the primary aim of strengthening regulations governing the management and administration of local pension schemes. In particular, the Act sets out legal requirements on licensing of pension fund managers and administrators, regulatory reporting and investment statements, and defines the roles and responsibilities of industry participants. A strongly regulated pension industry is in the public's interest; we therefore welcome the introduction of legislation and expect it to benefit pension scheme members and the local pension industry at large. In the course of the year, our team has started implementing internal processes to comply with the relevant provisions of the Act. This exercise is on-going and is expected to be completed by June 2015.

Stockbrokers

The last financial year has proven to be one of the busiest periods for our Brokerage and Investment business. It successfully handled two major IPOs and the distribution of the first two 'Crescendo' Capital Guaranteed Notes.

The year started with MCB's Rs 4.5 billion issue of subordinated notes and their listing on the Stock Exchange of Mauritius, where MCB Stockbrokers acted as Lead Broker. The offer was over two times over-subscribed by local individual and institutional investors within three weeks of opening. In April 2014, MCB Stockbrokers was appointed as one of three co-sponsoring brokers for the national lottery company, which attracted over 12,000 investors of which 7,000 were new to the stock exchange. The brokerage team played an instrumental role in placing the offer, which raised over Rs 2.5 billion in only two weeks and was nearly three times over-subscribed.

MCB Stockbrokers acted as the primary broker for the first issue of Crescendo MAST, a five-year rupee denominated note with 100% capital guarantee by MCB Ltd, which it successfully placed within five weeks of launch. The team also placed the first issue of Crescendo Africa, a rupee and US dollar denominated note again offering 100% capital guarantee by MCB Ltd.

The year was also marked by the 'Home Trading, Away Brazil' campaign, which saw one of our clients being rewarded with an all-inclusive package for a semi-final match of the FIFA World Cup 2014. Each client had the opportunity to enter the draw and was awarded one lottery ticket for each multiple of Rs 10,000 traded on the local Stock Exchange through MCB Stockbrokers during the period from September 2013 to March 2014.

Registrar & Transfer Agent

During the last financial year, the business continued to grow its client base and handled a range of corporate events, including the successful processing of the first and largest issue of listed subordinated notes in Mauritius. Overall, results have improved compared to the previous financial year. Looking ahead, the team is confident of drawing upon its experience and infrastructure to take advantage of the development of listed securities in the region and service clients outside of Mauritius.

Private Equity Management

The private equity team manages the unlisted investments of MCB Equity Fund Limited. Total assets under management, on a fair value basis, increased marginally from Rs 1.9 billion in FY2012/13 to Rs 2.0 billion in FY 2013/14. Looking ahead, the team will continue to evaluate investment opportunities in Mauritius and East Africa by drawing upon MCB's network of contacts across the region.

MCB Equity Fund Ltd

During FY 2013/14, MCB Equity Fund Limited realised a net profit of Rs 130.8 million compared to Rs 7.7 million in the previous financial year. This result mainly reflects the disposal of quoted investments during the year. Dividend income also improved from Rs 27.8 million in FY 2012/13 to Rs 45.4 million in FY 2013/14. It is worth highlighting that this overall performance has been achieved despite impairment losses of Rs 50 million related to the closure of a local listed company.

Management fees payable remained stable at Rs 25 million while investments made during the year, primarily in quoted investments amounted to Rs 61 million. A partial exit was achieved from one of our unquoted investments with the majority of the proceeds being settled in the form of quoted securities.

MCB Factors Ltd

MCB Factors Ltd provides a full sales ledger administration service to its customers as well as funding against assignment of their trade receivables. On the domestic market, both recourse and non-recourse factoring services are proposed, with the latter offerings implying protection against debtors' insolvency. Besides, local importers and exporters are offered import and export factoring solutions. The year under review has seen an appreciable growth in the assignment of invoices to the company, thus causing net profit posted by MCB Factors Ltd to attain Rs 43 million. This performance was, mainly, underpinned by a continuous improvement of customer service, the diversification of the range of tailor-made invoice finance products, the broadening of markets served, due control over operating expenses, and the enhancement of risk management.

Credit Guarantee Insurance Co. Ltd

This associate, in which MCB has a 40% stake, is a joint venture with La Prudence Holding and provides credit insurance services to its customers by ensuring protection in respect of their trade receivables. Although the company is expanding its activities in a very satisfactory manner, the operations have been affected by a number of claims which resulted in a disappointing profit of Rs 1.7 million for the year to 30 June 2014.

Other Investments Cluster

Results of 'other investments' were characterised by a strong rebound in the performance of Fincorp Investment Ltd on the back of improved results of the Promotion and Development Group, while the Group's cards outsourcing business witnessed a strong growth in profit during the year under review.

Fincorp Investment Ltd

This subsidiary, a quoted company on the Stock Exchange of Mauritius, in which MCB Group Ltd has a 57.6% stake, has on its books the following main investments: Finlease, the leasing arm of MCB Group, which is a fully owned subsidiary, and Promotion and Development Ltd (PAD), another quoted company having diversified interests, including a majority stake in Caudan Development Ltd (Caudan), a property company that owns and manages the waterfront real estate development in Port Louis, and a holding of about 35% in Medine Ltd.

The performance of Finlease, engaged in non-banking financial services, has been, once again, satisfactory, with the lease portfolio expanding by 16% during the year, operating income increasing by 2.4% to Rs 215 million and net profit reaching Rs 80.3 million, an increase of nearly 10% over FY 2012/13.

PAD achieved consolidated results of Rs 275 million for the year against a relatively small loss in FY 2012/13. While operating results were rather flat, this spectacular progress was essentially due to profits of around Rs 161 million on disposal of shares and to a contribution of Rs 76 million from associated companies.

Consolidated results of the Fincorp Group were up nearly six-fold for the year to reach Rs 158 million, which represent a contribution of Rs 93 million to MCB Group profit.

MCB Properties Ltd

This company, which has owned over the years several properties, some of which housed banking premises of MCB Group, is gradually winding down its operations. Results for the year have not been significant.

International Card Processing Services Ltd (ICPS)

Operational since November 2008, ICPS is an 80:20 joint venture between MCB and Hightech Payment Services (HPS) from Morocco. ICPS represents the interests of the Group in Africa as a cards business enabler and a processing centre providing a state-of-the-art Card Management System platform that enables banks to achieve economies of scale in outsourcing their card processing activities. Since its inception, ICPS has witnessed a notable growth in business activities, backed by its solid capabilities. Indeed, ICPS is crewed by seasoned business and technical specialists possessing a proven track record in cards, EMV, fraud, chargeback and reconciliation/settlement. Strategically, ICPS is intent on expanding and

entrenching its footprint in Africa by positioning itself as a partner of choice for the card outsourcing needs of clients, by notably catering for matters such as card personalisation, EMV (chip technology), debit, credit and prepaid card issuance, acceptance of all card payment scheme brands, driving chip-enabled ATM/POS, PCI certification assistance, as well as training/consultancy. Reflecting its committed approach, its certifications in Payment Card Industry Data Security Standard ('PCI DSS') version 2.0 and ISO 27001 have been renewed lately. ICPS has, thus, maintained its position in the elite group of card processing service providers that meet the highest standards of card data security.

During FY 2013/14, ICPS posted an appreciable revenue growth, while managing to secure interesting partnerships with new banks in Africa and the Indian Ocean. Its contribution to Group results more than doubled to reach some Rs 22 million. Looking ahead, ICPS is intent on bolstering its staff base and strengthening its capabilities towards achieving the anticipated further growth in its business activities. In fact, it is committed to pursuing its key strategic orientations, the more so given generally promising economic outlook exhibited by Africa. In this way, ICPS will seek to further consolidate its positioning as a recognised card business enabler, by leveraging its tailored and diversified solutions as well as its best-of-breed systems and technologies.

MCB Consulting Services Ltd

Incorporated in June 2014 as a fully-owned subsidiary of MCB Group Ltd, MCB Consulting Services Ltd (MCBCS) is the dedicated consulting arm of the Group. The operation of the entity, which encapsulates the natural evolution of the Group's Project Management Office, is anchored upon the specific competencies that have, over time, being harnessed pursuant to the successful unfolding of prominent Group-level ventures, notably the re-engineering of the core banking system and the upgrading of operational processes within banking entities. Specifically, consistent with good governance principles adopted by the Group and in line with the restructuring exercise initiated during FY 2013/14, MCBCS was created to provide integrated business solutions to financial service providers in emerging markets in Africa and Asia, over and above servicing the entities operating under the aegis of MCB Group Ltd. A distinctive comparative advantage of MCBCS relates to the accumulated years of experience of its staff – in both the technical and functional fields – across the banking and financial services industry. In a nutshell, the value proposition of the entity relates to the provision of advisory services which are articulated around the following: (i) project management; (ii) change management, including training; and (iii) high-end IT services. As such, MCBCS fits in the overarching strategy of the Group to continuously diversify its services and increasingly move into new markets, while complementing the 'Bank of Banks' initiative. Looking

ahead, the company shall build on the Group's vast business network to penetrate new markets, while partnering with major service and software providers to build and enhance its credentials.

MCB Forward Foundation

Officially launched in September 2010, the MCB Forward Foundation aims to more efficiently serve the local communities amidst which the Group operates. Basically, its vision is to be instrumental in the creation of sustainable value for the social, environmental and economic well-being of society through the provision of human, logistical and financial resources in support of dedicated initiatives. For FY 2013/14, the Group contributed 2% of chargeable income derived from the preceding year to the MCB Forward Foundation, representing a sum of Rs 77.9 million. A full report on the Foundation's activities during the year can be found in the Corporate Governance Report on Pages 62-68.

Blue Penny Museum

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

Pierre Guy NOEL
Chief Executive

RISK MANAGEMENT REPORT

Risk Management Philosophy

Our business model

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

Our corporate objective

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

Key underpinnings

Our risk management mandate ...

... is anchored on adherence to a strong risk management culture, which is instilled in our behaviours and actions

Our underlying foundations ...

... encompass: (i) determination of acceptable risk appetite and tolerance levels; (ii) design of appropriate support structures and processes, adequate internal control systems, as well as up-to-date and extensive risk policies; and (iii) adherence to any regulatory set-up

Adherence to core principles

Strong governance standards

- Ultimate Board responsibility
- Supervision through Board sub-committees
- Well-established risk policy
- Comprehensive risk management processes
- Independent teams of internal audit, compliance and legal functions at MCB

Adequate capital levels

- Organic growth through retained earnings
- Judicious exploration of funding sources to support strategic objectives
- Good capital cushion to withstand potential shocks

Sufficient funding and liquidity

- Diversified/stable funding sources by type and nature
- Deposits represent the primary source of funding for banking entities
- Low involvement in overly volatile markets
- Funds at reasonable cost to meet obligations in a timely manner

Satisfactory asset quality

- Healthy loan portfolio through a strong credit discipline
- Prudent market penetration
- Efficient and cost effective debt collection and recovery

Risk-return profile and shareholder value

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

Key Risks Faced

The main risks to which the Group is exposed in the course of its operations are depicted in the table below, with their significance for the different entities being dependent on the nature of their businesses. The specific steps that are, as and when required, taken for their mitigation have, also, been delineated.

	Principal risks	General definitions	Our strategic objectives	Key risk mitigating actions
FINANCIAL RISK	Credit risk	The risk of financial loss should borrowers or any counterparty fail to fulfill their financial or contractual obligations to the Group as and when they fall due; Credit risk, typically, includes counterparty risk, settlement risk and concentration risk, with the latter referring to the risk that the institution faces from the lack of diversification of its lending portfolio due to the excessive build-up of exposures to a counterparty, industry, market or product amongst others	To abide by sound credit risk management principles; to uphold a well-diversified credit risk portfolio consistent with broad characteristics set out in target market criteria; to achieve the targeted risk-return profile of the portfolio; to maintain the quality of the credit portfolio	Setting of risk appetite in line with strategic orientations and capital management objectives; formulation of a suitable credit policy; execution of credit assessment, structuring and monitoring process; definition of limits, roles and responsibilities along the credit management process; clear delegation of decision-making authority for approval of loans amongst others; establishment of prudent lending criteria to foster appropriate and responsible lending; regular review of loan portfolio to proactively manage any delinquency and minimising any undue credit concentrations; updates of the lending policy; development of risk-response strategies and undertaking of credit management and recovery actions if deemed necessary
	Country risk	The risk of loss arising when political or economic conditions or events in a particular country inhibit the ability of counterparties in that country to meet their financial obligations	To provide for a comprehensive framework and adequate control processes for assessing country risk, determining risk tolerance and allocating exposures across geographies	Proactive monitoring of country risk exposures against country risk limits determined on the basis of MCB's expertise and intimate knowledge of the country's economy amongst others; prompt review of country limits against the backdrop of adverse unexpected events
	Market risk	The risk arising from a change in the market value of earnings of a portfolio of financial instruments caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, etc. The risk mainly comprises interest rate risk, foreign exchange risk as well as liquidity and funding (liability) risk	To monitor, report and control within limits and targets the overall market risk exposures, across both the trading and banking books, including market-contingent risks such as counterparty credit and operational risks arising from the Group's market risk activities	Adopting internal limits for mix of assets and liabilities; setting and reviewing asset and liability allocation objectives and targets to sustain both the diversification and growth of the institution's balance sheet from a market, funding and profitability perspective; setting of a range of stop loss limits for trading book activities
	Interest rate risk	The risk arising from changes in interest rates, or the prices of interest rate related securities and derivatives, impacting on the Group's earnings or economic value of equity	To manage the impact of interest rate changes on the Group's overall risk profile both from an earnings and economic value perspective	Application of floating interest rates linked to an index; repricing gap analysis techniques used to monitor structural interest rate risk in the banking book
	Funding and liquidity risk	Funding risk: The risk that a maturing liability or class of liabilities may not be able to be refinanced (without additional relative cost) over any given period of time Liquidity risk: The risk arising from insufficient realisable financial assets to meet the financial obligations as they fall due	To maintain adequate liquidity levels and have access to diversified funding sources to rapidly and effectively respond to the demands of our clients and foster our business development	Maintenance of a diversified liability base across different categories of depositors; adoption of cash flow management to avoid undue accumulation of maturities in any one time band; maintenance of adequate and regularly monitored liquid assets portfolio
	Equity Investment risk	The risk of gain or loss arising from adverse changes in the fair value of an investment in a company, fund or any other financial instrument, whether listed or unlisted	To protect the Group's shareholder value by aligning the timing and size of investment to our risk appetite	Investing in a portfolio which is well diversified across industries and geographies and carrying weakly correlated source of returns

	Principal risks	General definitions	Our strategic objectives	Key risk mitigating actions
OPERATIONAL RISK	Operational risk	The risk of loss or costs resulting from human factors, inadequate or failed internal processes and systems or external events. It includes fraud and criminal activity, project risk, business continuity, information and IT risk, etc.	To provide our personal customers with 24/7 access to the widest range of services so as to enable them to pursue their financial goals, whenever and wherever they want	Prompt identification of risk incidents, followed by the initiation of appropriate mitigating actions and the reporting thereon; proactive assessment of risk (operational risk maps) and design of control framework, containing clear steps for the implementation of mitigating actions as and when required; continuous review of the IT system architecture in order, for instance, to ensure systems are resilient, readily available for our customers and secure from cyber attack
	Regulatory and compliance risk	The risk that is primarily linked to the failure to take appropriate actions to protect the assets of the organisation. It is the risk of statutory or regulatory sanction and material financial loss or reputational damage, which eventually results in the risk of losses, fines or penalties linked to the failure to comply with any applicable laws, regulations or supervisory requirements	To comply with all relevant regulations and legislations in force to safeguard the assets of the organisation	Overall risk managed by leveraging the institution's internal or external legal advisors as well as the compliance function; compliance risk mitigated through adoption of proper processes and procedures to meet various regulatory requirements; continued investment in people, processes and IT systems to enable the organisation to meet its regulatory commitments; development of plans for regulatory changes and the tracking of progress against those plans
OTHER RISKS	Strategic and business risk	The risk to current or prospective earnings arising from inappropriate business decisions or inadequate future business strategies in relation to the operating environment. The risk is, usually, caused by inflexible cost structures, changes in the business environment, Government or international regulatory decisions, client behaviour and technological progress, and Group-specific factors such as poor choice of strategy; the risk includes strategic risk, business risk, reputational risk, and environmental, social and governance risks	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	Development of appropriate platforms for judicious strategic planning and the implementation of flexible business development plans that assign due focus on ongoing changes in the operating environment; setting out of risk appetite in line with internal capabilities and external activity growth avenues; enhancement of the range and adaptability of internal capabilities in terms of systems and processes
	Reputation risk	The risk of loss resulting from reputational damage to the Group's image caused by a negative media coverage, compliance failures, pending litigations or underperformance. Such damage may result in a breakdown of trust, confidence and business relationships, which may impair the Group's ability to retain and generate business	To bolster our brand image and ensure that our actions and behaviours are in line with best practice standards	Undertaking of tailored exercises (e.g. road-shows and promotional campaigns) to promote the brand image of the organisation; consistent and regular monitoring of the Group's reputation by anticipating the financial impact of reputation risk; proactive management of high risk situations

Positioning and Performance of the Group

The Context

During the last financial year, in addition to facing up to the increasing complexity of their operations, the entities of the Group remained confronted by market strains and fragilities, stemming essentially from the difficult economic climate prevailing domestically and abroad. In respect specifically of the activities of MCB Ltd, regulatory standards have, as highlighted before, been tightened by the Bank of Mauritius (BoM). Notably, the latter clarified its stance with respect to the implementation of Basel III rules by banks through the Guideline on Scope of Application of Basel III and Eligible Capital, while the Guideline for dealing with Domestic-Systemically Important Banks seeks to ensure that such banks have the capacity to absorb losses through higher capital. In addition, BoM introduced a series of macroprudential measures for implementation by banks.

Recent Developments

Against the backdrop of the challenging operating context, the entities of the Group have, during the year under review, further strengthened the reach and quality of their risk management set-up and processes in order to support their sound and sustainable business growth. Alongside exerting a close monitoring of its strategy execution across markets, the Group geared up its internal capabilities towards judiciously and proactively responding to changing market conditions and coping with the operational and strategic implications of new regulatory requirements. During FY 2013/14 and until recently, the underlying strategic moves and specific initiatives that have assisted the Group to strengthen its risk management framework, uphold its fundamentals, optimise the risk-return profile of its activities and maintain its financial soundness are as follows:

- To start with and from an overarching perspective, the organisation restructuring exercise is, alongside promoting advocated standards of transparency and accountability, paving the way for improving and strengthening the risk management frameworks of the Group's entities by fostering (i) greater financial and operational flexibility through the operation of standalone and individually capitalised legal entities; (ii) the ring-fencing of capital across various types of operations; and (iii) an optimisation of capital allocation across the Group and an appropriate platform for the monitoring of the return on capital for individual business segments.

- MCB Ltd has witnessed the successful roll-out of Phase I of its new state-of-the-art Enterprise Management System. In particular, the platform has enabled the Bank to improve its capital calculation capability, thus assisting it in optimising its capital allocation and preserving its market competitiveness under Basel III requirements. Further, the targeted completion of Phase II of the project, scheduled for around end-2014, aims at (i) gearing up the Bank's capacity to perform capital stress testing and scenario analyses; and (ii) facilitating the review of the impact of changes in both business strategy and external factors through user-defined scenarios and the simulation of capital requirements in line with regulatory recommendations. Another noticeable development for the Bank relates to the implementation of a comprehensive Business Continuity Management framework. The underlying objective is to ensure that the necessary conditions subsist for maintaining the availability of critical business activities at acceptable pre-defined service levels, towards safeguarding the Bank's reputation as well as the interests of its stakeholders.
- In the wake of some sizeable Indian exposures of the Bank's Global Business unit turning out to be non-performing, the recovery function of the Bank has been reinforced. The function, operating under the aegis of the Risk Strategic Business Unit (SBU), is endowed with accrued powers that enable it to *inter alia* take charge of the management of the above-mentioned files and to spearhead relevant recovery efforts.
- In addition, specific measures taken to assist the Bank in enhancing the quality of its risk management practices and further tightening its credit allocation standards include the following: (i) the improvement of credit portfolio management processes and reinforcement of risk controls, a key move being the gearing up of the depth and thoroughness of financial and risk analyses performed on credit files; (ii) the implementation of a dedicated risk dashboard to adequately appraise and monitor the status of exposures; (iii) the deployment of more effective collaboration with business segments for a better assessment and management of risk areas, backed by the forging of an appropriate *modus operandi*; and (iv) the execution of dedicated training programmes and tailored workshops for staff at different levels, in line with the objective to foster the adoption of an effective risk management culture at the Bank.
- With regard to the foreign banking subsidiaries of the Group, the underlying risk management frameworks have, in alignment with the principles embraced by the Group, been reviewed across all entities, in order to more closely reflect their inherent specificities and duly cater for the conditions

prevailing in the markets in which their activities are being carried out. The Risk Policy Manual of each of the foreign banking subsidiaries has been comprehensively documented, prior to ratification by their respective Boards. Fundamentally, while taking on board the statutory and regulatory requirements as well as the business codes prevalent in each presence country, the Risk Policy Manual spells out internal guidelines regarding the governance of risk, the risk management infrastructure, as well as the processes for credit, market and operational risk management. In the same vein, the modalities for the operation of the sub-committees of the respective Boards have been clarified, especially regarding their constitution and responsibilities, while the credit sanctioning powers of the Subsidiary Credit Committee and Managing Directors have been reviewed. Finally, a timeline has been set for the implementation of the Risk Policy Manual by each subsidiary and for all relevant changes to be entailed by the execution of such guidelines.

Financial Soundness

During the last financial year, while fostering its market development, the Group managed to preserve the general soundness of its financial metrics by exerting adequate market vigilance and judiciously capitalising on its comprehensive risk management framework and processes.

On the capitalisation front, the Group set out to mitigate the anticipated impact of the unbundling of certain investments from MCB Ltd as part of the restructuring exercise undertaken in order to reorganise the operations of the Group under three distinct business clusters, namely banking, non-banking financial and other investments. Thus, in anticipation of the resulting overall reduction in the Bank's capital base and to provide adequate capacity for future business growth, MCB Ltd has undertaken the following capital raising initiatives during the last financial year: (i) it raised Floating Rate Subordinated Notes for Rs 4.5 billion on the local bourse; and (ii) it obtained a USD 30 million subordinated debt from the African Development Bank as part of a larger financial package. This notable rise in Tier 2 capital has more than compensated for the realised shortfall of around Rs 2.4 billion in the Bank's capital base as a result of its investments in non-banking subsidiaries and associates being unbundled. All in all, the Bank exhibited the following capital adequacy ratios as at the end of FY 2013/14: (i) the core capital ratio remained reasonably high at nearly 10%, while comfortably exceeding the minimum threshold of 6.5% advocated by BoM – as per its Guideline on Scope of Application of Basel III and Eligible Capital – for application as from 1 July 2014; and (ii) the total capital base of MCB Ltd increased by a notable margin, thus taking its overall capital adequacy ratio to 13.1%, which is well above the minimum regulatory level of 10%. Furthermore, after making allowance for metrics displayed at the Bank level and suitable capital accumulation by the Group's

foreign banking subsidiaries and associate, it is worth underscoring that, as a source of satisfaction and a measure of the underlying healthiness of its positioning, the Tier 1 and capital adequacy ratios of the 'banking' cluster stood at 11.0% and 14.4% respectively as at 30 June 2014. Correspondingly, the ratios for the Group were 12.9% and 16.1% respectively as at 30 June 2014, thereby demonstrating that the organisation, as a whole, continues to keep adequate buffers to effectively confront any unforeseen circumstances and remains endowed with ample resources to effectively realise its business development aspirations. The evolution in the key capitalisation metrics for MCB Group and its 'banking' cluster is depicted as follows.

Group			
	Jun 12	Jun 13	Jun 14
	Rs m	Rs m	Rs m
Capital base	25,440	28,629	36,521
Tier 1	23,664	26,659	29,148
Tier 2	1,776	1,970	7,373
Risk-weighted assets	198,679	217,937	226,398
Capital adequacy (%)	12.8	13.1	16.1
of which Tier 1	11.9	12.2	12.9

Note: June 2012 and June 2013 figures for capital base and risk-weighted assets have been restated

	MCB Ltd (Standalone basis)			Banking cluster
	Jun 12	Jun 13	Jun 14	Jun 14
	Rs m	Rs m	Rs m	Rs m
Capital base	18,699	21,981	25,662	30,324
Tier 1	17,451	20,611	19,412	23,230
Tier 2	1,248	1,370	6,249	7,094
Risk-weighted assets	175,267	192,030	195,836	210,561
Capital adequacy (%)	10.7	11.4	13.1	14.4
of which Tier 1	10.0	10.7	9.9	11.0

Note: For MCB Ltd, figures for June 2014 cater for the unbundling of non-banking subsidiaries and associate from the entity

At another level, the asset quality of the Group has been impacted by impaired loans emanating predominantly from Indian corporate exposures of the Bank's Global Business unit. Consequently, the

Group's gross and net non-performing loan ratios have deteriorated to stand at 7.3% and 4.2% respectively as at 30 June 2014. As the situation stands, besides taking actions to appropriately ring-fence the above-mentioned exposures, the Group expects a reversal in its NPL trends going forward on account of the further reinforcement of its risk procedures. Moreover, while duly catering for credit risk faced, the Bank ensures that its operational, market as well as funding and liquidity risks are suitably managed.

Looking Ahead

To cater for its balanced and continuous market development, MCB Group Ltd is committed to ensuring that the risk metrics of its entities are managed within acceptable and suitable thresholds. Basically, while remaining vigilant to and effectively responding to the unfolding developments characterising the economic, market and business environments across geographies, the Group will reinforce its practices and policies so as to judiciously deploy its strategic orientations and effectively meet up with any applicable statutory and regulatory changes. In respect specifically of MCB Ltd, the entity will reinforce its practices and policies so as to judiciously deploy its strategic orientations and effectively meet up with regulatory developments, notably the recently-unveiled guidelines relating to specific Basel III rules and pertaining particularly to the definition, treatment and allocation of capital. Against this backdrop, alongside ensuring that relevant ratios stay above stipulated levels, the Bank is intent on keeping core capital metrics that provide ample buffers against potential shocks and suitable resources to support business development ambitions. For that purpose, MCB Ltd will underpin its capital position by leveraging the organic growth of its earnings and tapping into funding resources whenever required, while monitoring the utilisation of capital and maintaining the risk profile of its portfolio within the set risk appetite.

Risk Management Framework

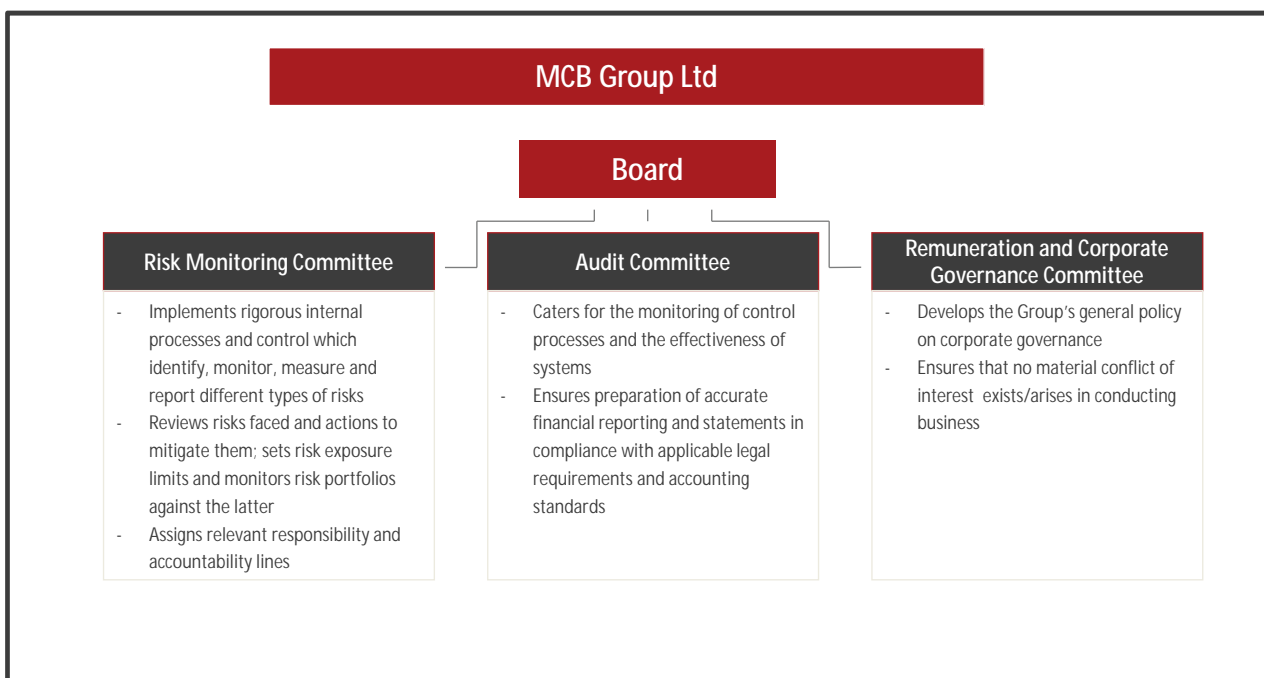
The risk management framework of the Group provides a robust and consistent approach to the management of risks by its different entities, backed by the articulation of clear and coherent responsibilities and reporting lines for risk management and oversight across the organisation.

Governance at Group level

Towards realising the objective of building sustainable value for shareholders and meeting up with the expectations of other stakeholders and in alignment with set business development orientations, the Board of MCB Group Ltd determines the principal strategies in respect of the risk management of the Company

and its subsidiaries, while ensuring that all laws, regulations and codes of business practice are duly abided by. In the same vein, underpinned by the establishment and enforcement of clear lines of responsibility and accountability throughout the organisation, it ensures that the relevant procedures and practices are in place with a view to protecting the company's assets and reputation. With regard to the discharge of its duties, the Board is assisted by sub-committees which enable it to properly formulate, review and approve policies on monitoring and managing risk exposures. Specifically, the Risk Monitoring Committee is mandated to advise the Board on risk issues as well as to monitor the risk of relevant portfolios against the formulated risk appetite in the case of the banking subsidiaries. For its part, a key mandate of the Remuneration and Corporate Governance Committee is to determine the general policy of the Group with regard to the adoption of corporate governance practices.

Risk management framework



Management Of Risks By Cluster

Overview

Fundamentally, the entities of the Group are guided by the core principles enshrined in the risk management policies validated by the Board of MCB Group Ltd. Bearing this in mind and while being monitored in this respect by the Risk Monitoring Committee, these entities align their portfolios with the

risk appetites and limits that have been approved at their respective levels. Hence, wherever applicable, the relevant strategies and policies that seek to ensure that risk assessment, mitigation and monitoring exercises are carried out in a systematic and effective manner are validated by their respective boards and Board committees before being executed. As underpinnings, control processes and reporting lines have been put into place, with emphasis being laid on the segregation of duties regarding risk-taking, processing and control. In general, the approach and practices adopted by entities of the Group to fulfill their risk management obligations are shaped up by the following factors and dynamics: (i) advocated corporate governance and risk management principles; (ii) the nature and scope of businesses; (iii) the risk-return profiles of markets in which they are involved; (iv) the challenges characterising the economic environment; and (v) any statutory and regulatory requirements as well as business codes and standards impacting the industries and countries in which businesses are carried out.

Banking

The risk framework of MCB Ltd clearly defines the roles, responsibilities and reporting lines for various business segments, while aiming at ensuring compliance to requirements set by the Bank of Mauritius. By virtue of its significance for the Group, detailed insights into the way the risk management framework of the Bank is designed and deployed are provided further on. At another level, alongside being generally attuned with the directions articulated at Group level, the risk management frameworks that have been designed for the Group's foreign banking subsidiaries make appropriate allowance for the entities' intrinsic specificities and cater closely for conditions prevailing in the markets in which business activities are carried out. Of note, the risk management framework for each such entity has, lately, been adjusted and harmonised in order to enhance their extensiveness and significance in support of business growth imperatives. As an example, the paradigm and policies that have been determined for MCB Seychelles are shown below, with several announced developments to be fully operational soon.

Risk management framework determined for MCB Seychelles

Governance of risk

Takes into account the mandate of the Board as well as the roles and responsibilities of the Board sub-committees (namely the Risk Monitoring Committee, the Nomination and Remuneration Committee and the Audit Committee) and the dedicated Subsidiary Credit Committee and the Asset and Liability Committee

Risk management foundation

Covers the principles of risk management (such as the segregation of risk functions), the role of the risk policy, the different risk appetites (in respect of credit risk, market risk and operational risk) to be set, and also the adherence to capital requirements (comprising expected regulatory capital and additional capital conservation requirement)

Risk management infrastructure

Assigns the responsibility and authority of the different stakeholders (such as the Board of Directors) and defines the role of MCB Ltd in respect of the provision of intra-Group services; also provides details regarding the credit sanctioning mandates and exposures-related policies, including the setting of risk limits and the monitoring of the risk exposures when compared to the capital base as well as the execution of necessary mitigating actions for dealing with exposure concentration levels

Credit risk management

Covers the steps to be followed from initiation to sanction, from sanction to drawdown and the post drawdown phase; details are also provided regarding information gathering, risk opinions, credit risk mitigation (securities/collaterals), the documentation and segregation of duties, as well as renewals and renegotiations

Market risk management

Concerns restrictions in relation to trading book activities, interest rate risk and foreign exchange rate risk policies, the liquidity and liability/funding risk policy (maturity mismatch, liquid assets target and loan to deposit ratio); also defines the different roles and responsibilities in the context of market risk management by the entity

Operational risk management

Assigns the responsibilities (Management and staff) and provides the details of the various Operational Risk Control Functions (such as Risk Unit, Internal Audit and Information Security Management); also covers anti-money laundering as well as data collection, analysis and recording with respect to operational risk events

Non-Banking Financial

MCB Capital Markets Group

Alongside fostering compliance with the national Code for Corporate Governance and regulatory requirements set by the Financial Services Commission, MCB Capital Markets Ltd (MCBCM) – under which the Group's entities providing investor-related services operate – allocates due consideration to best practice risk management principles. Ultimate responsibility for managing risks rests with the boards of each individual subsidiary of MCBCM, with significant issues being escalated to the Board of MCBCM. Day-to-day management of risks is delegated to the management team of each subsidiary and to MCBCM's Risk & Compliance department (R&C). The latter is responsible for the design, implementation and monitoring of all risk, compliance and anti-money laundering policies and procedures of the company. The Head of R&C has a dual reporting line to the Chief Executive Officer of MCBCM and to the boards of each subsidiary within MCBCM. Besides, R&C is required to submit a compliance report to the boards of the MCBCM's entities on a semi-annual basis with the possibility of escalating urgent issues on a more frequent basis if required. Given the continuous strengthening of the regulatory framework along with the steady growth in both complexity and volume of the operations of the MCBCM's entities, R&C is planning to recruit additional staff so as to more effectively cope with the challenges posed by its changing operating environment. On a different note, entities of MCBCM are subject to annual independent audits from external and internal auditors. In October 2012, the governance framework has been further strengthened with the creation of an Audit Committee at the level of MCBCM. The committee is mandated to report major issues raised by both the external and internal auditors to the MCBCM board and the Audit Committee of MCB Group. The compliance status of MCBCM can be assessed against the following three broad areas:

a) Legal and regulatory (including anti-money laundering - AML)

The process in place within MCBCM to manage legal and regulatory risks includes:

- Regular review of applicable laws and rules to identify compliance gaps;
- Monitoring of changes to the legal and regulatory framework and initiation of corrective actions as relevant; and
- Ongoing semi-annual monitoring exercises by R&C to assess level of compliance with laws and regulations particularly with respect to AML.

b) Operations (people, processes and systems)

Management of operational risks is the area on which a significant proportion of R&C's resources is being deployed. The approach, which lays particular focus on businesses involving heavy processing, is set as follows:

- To identify risk areas through the review of processes/procedures, by analyzing client complaints and incident reports and by being closely involved in the design and implementation of new products and services;
- To ensure that the risks are being properly managed through the implementation of risk-mitigating controls at critical points within key processes; and
- To carry-out semi-annual monitoring exercises to ensure that all controls are working properly.

A number of actions are being planned over FY 2014/15 with the aim of further strengthening the management of operational risks. They include the following:

- Investment in technology with the implementation of robust systems for businesses with high volume of transactions. As such, a shareholder management system has already been implemented within the Registrar business, while the implementation of a multi-currency asset management system is currently being finalised for the investment management business. The brokerage & investments segment has also initiated a project for the replacement of its current system;
- Full review and (where applicable) formalisation of key processes and procedures which will, among others, enable better identification of risks; and
- A full risk-mapping exercise to be carried out to provide additional guarantee that all material risks have been identified and are being properly managed.

c) Financial risks

Currently, no active material financial risks are being borne by entities of MCBCM, though some credit and market risks are being taken by the brokerage business due to the manner in which settlement is carried out on the Stock Exchange of Mauritius. In the process, it can be highlighted that MCBCM is planning, through its brokerage and investment business and subject to regulatory approval, to offer underwriting services to corporate clients.

Other Non-Banking Financial Entities

While adhering to good corporate governance principles, the other companies within the non-banking financial cluster of MCB Group adopt robust risk management frameworks that allow for an effective identification and management of risks they face in the course of their respective business activities. Fundamentally, the ultimate responsibility for the management of these risks lies at the level of the

respective Boards and of their sub-committees, backed by effective control systems and clear segregation of duties. Specifically, this approach is adopted by MCB Factors Ltd and Finlease Co. Ltd which allocate due consideration to regulatory stipulations, alongside making allowance for business and market specificities when managing risk.

Other Investments

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

Intra-Group Level

With a view to fostering the adoption of best practice risk management standards, the entities of the Group leverage the core competences and synergies available throughout the organisation in line with the concept of Group Shared Services. By means of its dedicated business units and segments, MCB Ltd is actively engaged in the provision of intra-Group services to the foreign banking subsidiaries as well as the entities operating under the 'non-banking financial' and 'other investments' clusters of the Group, backed by the elaboration of clear guidelines and mandates. Notably, in addition to the assistance being provided by the Risk SBU amongst others, clearly-defined support is provided by the International SBU to foster a more focused and integrated stewardship with regard to the operation and performance of our overseas subsidiaries. Thus, to assist the latter in better identifying and managing their risks and to, consequently, leverage the required platforms that will enable them to effectively tap into growth avenues, two new desks have, in the wake of the Group restructuring exercise, been created under the aegis of the International SBU. These relate to: (i) a Subsidiaries Operations Desk so as to provide daily support services, notably in respect of the banking operations and legal aspects; and (ii) a Subsidiaries Finance and Risk Desk that, amongst others, offers assistance in respect of the monitoring of management information, financial reporting and risk coordination. Besides, as per the modalities set out in Service Level Agreements, the

Internal Audit BU and Legal SBU of the Bank provide technical and advisory assistance in support of the operation and functioning of the Group's local and foreign subsidiaries, with regular assignments being carried out assisting these entities in better managing their risks as well as improving the quality of their control systems and processes.

Capital Management

Philosophy

In line with its strategic ambitions and relevant regulatory requirements, the capital management philosophy of the Group seeks to ensure that its entities have the necessary capital resources to duly support their sound and sustained business development, alongside setting the stage for their adequate capitalisation to appropriately cover for risks associated with their activities and to withstand any potential market stresses. In fact, taking into account the demand for capital in light of business growth trajectories as well as the availability of capital-raising options, the capital management policies and practices of the Group provide an adequate backdrop for maximising return on capital employed and, subsequently, for optimising long-term shareholder value creation, alongside meeting up with the expectations and requirements of stakeholders, notably supervisory bodies. On the regulatory front in fact, the Group's banking subsidiaries adhere to regulatory requirements in place in their country of operation. With regard specifically to MCB Ltd, the minimum capital adequacy ratio set by BoM for banks presently stands at 10% of risk-weighted assets, with newly-unveiled Basel III rules coming in force as from 1 July 2014, in relation to the Guideline on Scope of Application of Basel III and Eligible Capital as well as the Guideline for dealing with Domestic – Systemically Important Banks. Overall, MCB Ltd is committed to complying with the stipulated thresholds, including capital limits and buffers that will be phased-in in forthcoming years as per the transitional arrangements defined by the Central Bank. For that purpose, the Bank is intent on continuously gearing up its inherent operational capabilities, alongside making any necessary moves to bolster its capitalisation levels.

Governance and Structure

The general objective of the Group's capital management framework is to provide for the necessary platforms to foster the adequate capitalisation of its entities. Accordingly, commensurate with the strategic orientations, risk appetite and risk management framework approved by the Board of MCB Group Ltd, the

entities operating under the 'banking', 'non-banking financial', and 'other investments' clusters abide by their internal policies and practices for undertaking their capital management initiatives, including (i) capital planning and allocation across business segments, geographies and deals; (ii) capital reporting, budgeting and analysis; (iii) capital-raising on relevant markets; and (iv) management of capital consumption against budgets. In this respect, MCB Ltd has established its Internal Capital Adequacy Assessment Process (ICAAP), which provides assistance in respect of the capital planning exercise and to formulate the risk appetite, towards ensuring that adequate capital is kept beyond core minimum requirements and, thence, supporting business activities in a sound and sustained manner.

Capital Position

The following table sheds light on the determination and evolution of the capital base of the Group on a consolidated basis and as per Basel II rules.

MCB Group	Jun 12	Jun 13	Jun 14
Capital base	Rs m	Rs m	Rs m
Paid up or assigned capital	2,504	2,504	2,383
Share premium	90	112	-
Statutory reserve	2,615	2,644	2,414
General reserve	(253)	(100)	(205)
Other disclosed free reserves including undistributed balance in Income Statement	16,097	18,694	21,562
Current year's retained profit	2,725	2,865	2,761
Minority interest	1,553	1,622	1,737
Goodwill	(110)	(110)	(110)
Other intangible assets	(924)	(925)	(858)
Deferred tax	83	76	(167)
Treasury shares	(365)	(360)	-
Core capital	24,014	27,022	29,517
50% of investments in capital of other banks and financial institutions	(350)	(363)	(369)
Net core capital (A)	23,664	26,659	29,148
General banking reserve	598	605	614
Portfolio provision	941	1,034	1,071
Reserves on revaluation of securities not held for trading	587	694	648
Subordinated debt	-	-	5,409
Supplementary capital	2,126	2,333	7,742
50% of investments in capital of other banks and financial institutions	(350)	(363)	(369)
Net supplementary capital (B)	1,776	1,970	7,373
Capital base (A + B)	25,440	28,628	36,521

MCB Group	Jun 12	Jun 13	Jun 14
Weighted risk assets			
Weighted amount of on-balance sheet assets	161,874	177,735	177,680
Weighted amount of off-balance sheet exposures	20,997	23,673	30,859
Weighted risk assets for operational risk	13,551	15,029	16,358
Aggregate net open foreign exchange position	2,257	1,500	1,501
Total risk-weighted assets	198,679	217,937	226,398
Capital adequacy ratios (%)			
BIS risk adjusted ratio	12.8	13.1	16.1
<i>of which Tier 1</i>	<i>11.9</i>	<i>12.2</i>	<i>12.9</i>

In line with regulatory developments, a comparison has been undertaken below between the actual capital adequacy ratios of the Group and the proforma figures determined under Basel III. Overall, the data provided shows that the Group remains suitably capitalised.

MCB Group (Jun 14)	Basel II	Basel III
Capital adequacy ratios	%	%
BIS risk adjusted ratio	16.1	16.1
<i>of which Tier 1</i>	<i>12.9</i>	<i>13.6</i>

From an overarching perspective, the Board of MCB Group Ltd has, as the ultimate holding company of the Group, the authority to determine the principal strategies in respect of the risk management of the company and its subsidiaries, while delegating tasks to sub-committees. With regard specifically to MCB Ltd, its Board of Directors has, in concordance with the directions set by the Board of MCB Group Ltd, the ultimate responsibility of ensuring that risks faced by the organisation are adequately identified, measured, monitored and managed, in line with embraced corporate governance principles. The Board discharges its duty through policies and frameworks as well as specialised committees. The primary Board committee overseeing risk matters at the Bank is the Risk Monitoring Committee (RMC). The latter works towards determining the risk appetite for various countries, sectors and counterparties, after taking into account factors such as prevailing economic conditions, whilst also monitoring the effectiveness of the Bank's credit and country risk management structure, be it in terms of framework, people, processes, information, infrastructure, methodologies or systems. Three out of the five members of the RMC are non-executive directors, thus strengthening the Bank's independent risk oversight and control functions. Furthermore, Management is accountable to the Board for ensuring the effectiveness of risk management and the adherence to the set risk appetite. For its part, the Risk SBU of the Bank, under the aegis of the Chief Risk Officer (CRO), bears the responsibility, on a day-to-day basis, for providing independent risk control as well as managing credit, operational, market, information and physical security risks, alongside catering for the Recovery operations. The CRO is assisted by a Deputy who oversees the functions of market risk, credit risk, information risk and operational risk. Risk managers in these areas are dedicated to establishing methodologies for risk measurement and for ensuring the regular monitoring and reporting of the Bank's various risk exposures, profiles, concentration, and trends to the RMC and Senior Management for discussions and the formulation of appropriate actions.

Furthermore, a fitting risk control framework is fostered across the Bank through the functioning of independent teams that oversee the internal audit function, the compliance with laws, regulations, codes of conduct and standards of good practice, and the legal function. Following adjustments to the overall risk management chart, the assurance functions of the Bank have been reviewed, with the Internal Audit and Compliance functions no longer falling under the same SBU. The latter units have administrative reporting lines to the Executive Directors of the Bank, while remaining accountable to the Audit Committee and Risk Monitoring Committee respectively. On another note, the responsibility to act as Money Laundering Reporting Officer is entrusted to the Head of the Legal SBU, to foster the strict independence required for this position.

The existing risk structure enables the Bank to reinforce the linkage between capital requirements and the level of risks undertaken in line with regulatory requirements.

Management of Key Risks

Risk Appetite and Strategy

The Board of Directors of MCB Ltd seeks to ensure that its business strategies are clearly linked to its risk appetite, thus ensuring that capital resources of the Bank are optimally managed. The risk appetite refers to the amount of risk the Bank is able and willing to take or tolerate in pursuit of its business objectives. The objective of setting risk appetite is not necessarily to limit risk-taking, but to ensure that the risk profile of the Bank is aligned to its business strategy. For its part, the risk management strategy is targeted at ensuring ongoing risk identification and achieving effective capital management. To this end, MCB Ltd *inter alia* defines (i) its appetite for credit risk in terms of, for example, allocation range targets for domestic and international credit exposures as well as exposures by sectors; 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. Key mechanics employed by the Bank for proper risk identification and quantification include the following: (i) deployment of a strategic planning process and a continuous monitoring process with respect to the approved risk targets; (ii) quarterly risk reporting to the Risk Monitoring Committee; (iii) preparation and use of risk reports for capital management purposes; and (iv) application of a stress testing framework. The risk appetite framework of MCB Ltd is updated and approved annually by the Risk Monitoring Committee. The risk management approach adopted by MCB Ltd is guided by four key principles as delineated in the following illustration.

Risk management principles

Principle 1: Comprehensive definition and identification of risk

The overall definition of risk used within MCB Ltd is:

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

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

Principle 2: Risk governance

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

Principle 3: Segregation of duties

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

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

Principle 4: Pricing of risk

The following principles underpin the approach adopted by MCB Ltd to the pricing of risk:

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

Credit Risk

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

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

Governance and Oversight

The Board has ultimate control and oversight of credit risk management as well as credit risk policies and their deployment through the Supervisory and Monitoring Committee (SMC), the Risk Monitoring Committee (RMC) and the Executive Credit Committee (ECC) which is responsible for the planning, sanctioning, control and monitoring of credit risk. In particular, the SMC is accountable to the Board through the normal chain of operational command and control for ensuring the appropriate segregation of duties within the credit risk management architecture of MCB Ltd. The Board delegates its authority to the RMC for the setting of the overall direction and policy for managing credit risk at the enterprise level.

The model governing the Bank's credit risk management duly caters for regulatory requirements, as encompassed in key applicable guidelines relating to the Guideline on Standardised Approach to Credit Risk, the Guideline on Credit Impairment Measurement and Income Recognition, and the Guideline on Credit Concentration Risk. Of note, these guidelines have, lately, been revised to incorporate new macroprudential measures introduced by BoM. Effective since 1 July 2014, these pertain to (i) application of higher risk-weights to selected funded and non-funded credit facilities; (ii) allocation of additional portfolio provisions against future credit losses; and (iii) determination of sectoral limits expressed as a percentage of credit to the private sector for the commercial, tourism and personal market segments. As for additional macroprudential measures applied by BoM, mention can be made of the Guideline on the Computation of Debt-to-Income Ratio for Residential Property Loans and the Guideline on the Computation of Loan-to-Value Ratio for Residential and Commercial Property Loans, which all came into effect as from 1 January 2014.

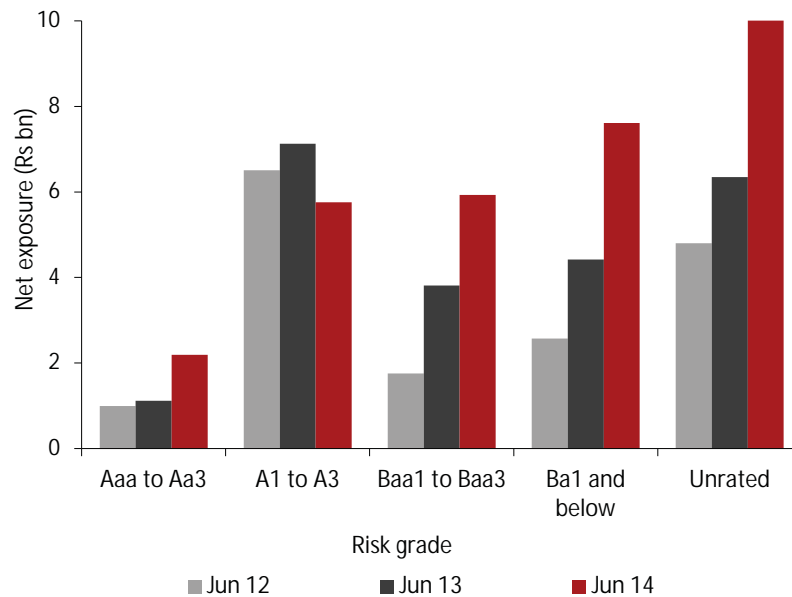
Management and Monitoring

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

Credit risk exposures are, in fact, 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 the review of all exposures, the frequency of which is increased in accordance to the size and likelihood of potential credit losses to ensure the timely detection of possible problem loans. Exposures showing signs of deterioration are placed on a watch list and referred to a dedicated team for closer scrutiny where appropriate. The Bank's disciplined approach to provisioning and loan loss assessment is based on the Guideline on Credit Impairment Measurement and Income Recognition issued by BoM.

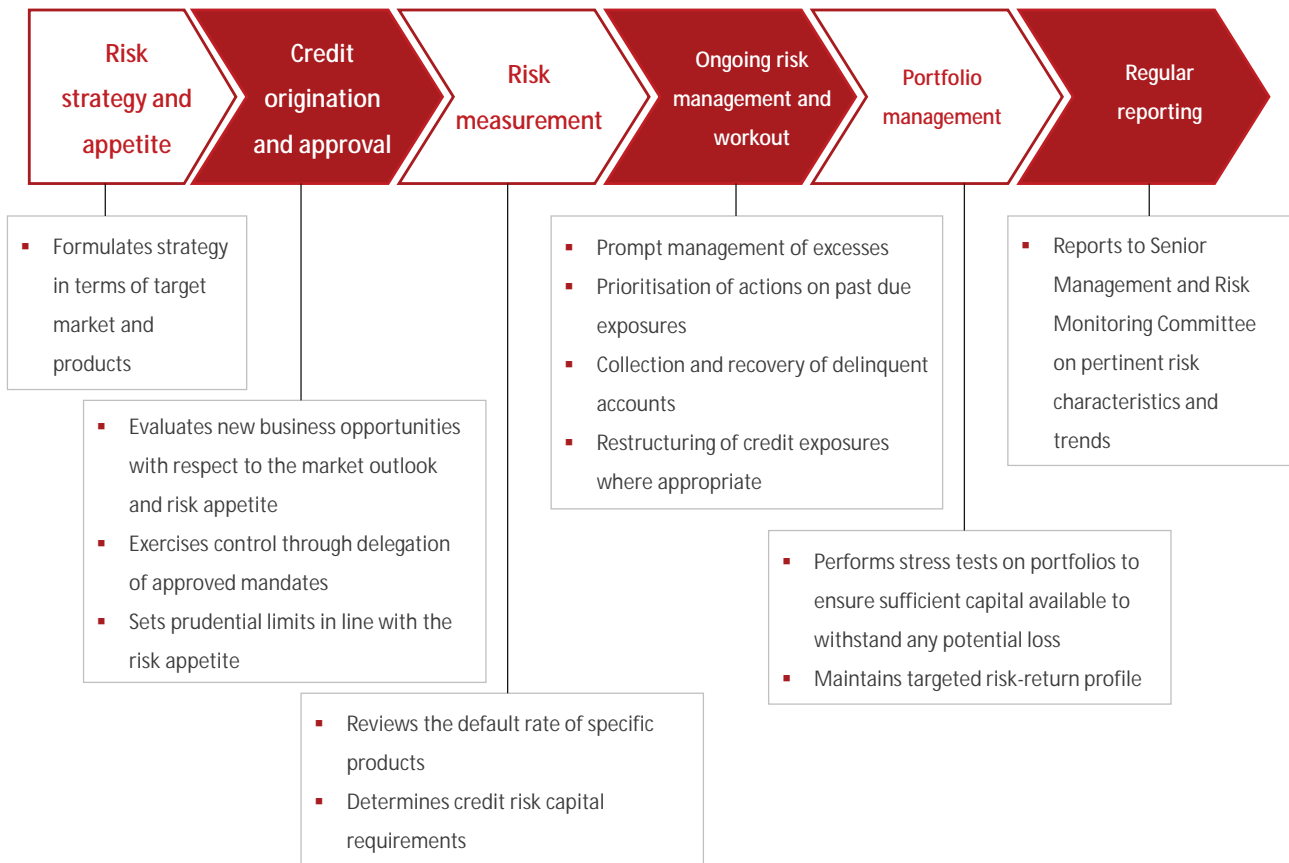
For its part, the Credit Risk BU is responsible for risk portfolio monitoring and risk measurement methodologies. It also provides an independent and regular review of the aggregate loan portfolio to proactively manage any delinquency and minimise undue credit concentrations. Significant trends in that respect are reported to Senior Management and the RMC on a regular basis, notably in relation to the credit risk profile of counterparties, including corporates and small businesses as well as banks. In respect of the latter, the risk exposures (via placements and advances) are indicatively shown in the following diagram.

Risk exposure to banks



The enterprise-wide credit risk policy, approved and reviewed by the SMC, sets forth the principles by which the Bank conducts its credit risk management activities. The policy provides guidance in the formulation of the appropriate structure by which business generation is harmonised with risk management requirements, referred to as target market criteria.

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



Measurement

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

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 II – superseded by the Guideline on Scope of Application of Basel III and Eligible Capital as from 1 July 2014 – and the Guideline on Standardised Approach to Credit Risk issued by BoM. The capital adequacy and return on capital levels for the individual risk categories of the Bank's portfolio are regularly monitored by the RMC against the overall risk-bearing capacity of the Bank in order to ensure that the Bank is, at all

times, maintaining adequate capital to provide for its growth and to support a reasonable measure of unexpected losses.

Retail

Retail credit comprising mainly residential mortgages, unsecured loans and credit cards are managed on a portfolio basis and assessed, based on credit scoring models, records from the Mauritius Credit Information Bureau, customers' behavioural records, as well as the application of relevant risk acceptance criteria. To ensure the robustness and adequacy of the scoring models, the Credit Risk BU independently conducts formal validation of those models at least annually. 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, with the aim being to eventually fine-tune the relevant credit scoring parameters.

Corporate

Large corporate credits are assessed using the Moody's Financial Analyst software which evaluates the counterparty's financial standing and specific non-quantitative factors such as industry risk, access to funding, market standing and management strength. The ratings generated by this software are typically used to measure the risk profile of the corporate banking customer segment which consumes a sizeable proportion of capital resources of MCB Ltd and also to set tolerance limits for the enhanced management of excesses. The counterparty risk rating assigned to smaller business borrowers is primarily based on the counterparty's financial position and strength. Of note, MCB Ltd is in the process of establishing a credit rating framework to enable extensive usage of ratings not only in respect of loan approval, but, also, in relation to credit review, monitoring as well as the stress testing and limits determination exercise.

Mitigation

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

another level, exposures arising from foreign exchange and derivatives are typically mitigated through agreements such as the International Swaps and Derivatives Association (ISDA) Master Agreements and the Credit Support Annex (CSA) documentation.

Concentration

MCB Ltd focuses on the diversification of its lending portfolio by setting industry sector limits based on forecasts spanning a five-year horizon to ensure that its performance is not negatively impacted by a large sectoral exposure default. Additionally, 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.

Overall, it is the policy of MCB Ltd to limit credit risk exposures and concentrations within the constraints of its capital base, whilst complying with the BoM Guideline on Credit Concentration Risk, which has been revised in November 2013, with stipulated limits shown below.

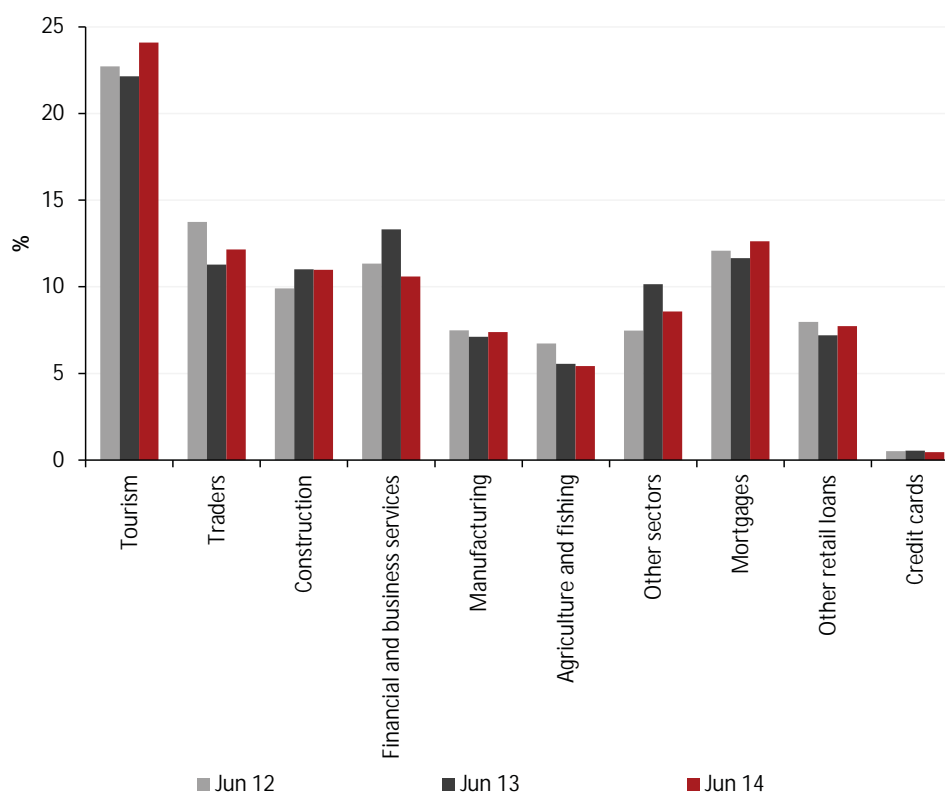
Guideline on Credit Concentration Risk	
Credit concentration limits	% of Bank's capital base
Credit exposure to any single customer	Not exceed 25%
Credit exposure to any group of closely-related customers	Not exceed 40%
Aggregate large credit exposures* to all customers and groups of closely-related customers	Not exceed 600%
Sector concentration limits	% of credit to the private sector
Fund-based exposures (Segment A activities)	As from Jul 14 As from Jul 15 As from Jul 16
Tourism sector	25% 24% 22.5%
Personal sector	15% 12.5% 12.5%
Commercial, residential and land parcelling sector (classified under Construction)	15% 12.5% 12.5%

* Refer to exposures over 15% of the financial institution's capital base.

Given the above regulatory limits, MCB Ltd is currently well positioned with regard to its credit concentration levels. Notably, our aggregate large credit exposure ratio stands at some 271%, which is largely underneath the prevailing prudential threshold and portends well as regards our compliance to future thresholds, bearing in mind that the corresponding regulatory ratio will move down to 400% as from January 2015, as indicated by BoM. Over time, the organisation is committed to keeping a vigilant eye on

its credit concentration towards meeting regulatory requirements. Notably, it will regularly monitor the credit concentration risk aggregating to more than 15% of its capital base, classified by industry sector, to ensure that its risk-bearing capacity is not jeopardised. Furthermore, the Bank diligently oversees its exposures against sectoral concentration limits set by BoM. In this respect, it has taken active steps in prudently managing its exposures and ensuring that its loan book is judiciously diversified, while periodically conducting stress tests to assess the resilience of its portfolios in case of unfavourable events. The Bank's credit exposure as a proportion of its total exposure to the private sector (excluding credit to Global Business Licence (GBL) companies) by industry sector over the past three years is provided in the following diagram. It shows that the Bank is well positioned in terms of its sectoral exposure mix.

Credit exposure expressed as a percentage of credit to the private sector



At a more disaggregated level, the following table provides information on our large credit exposures as at 30 June 2014, relating to exposures to customers or groups of closely-related customers that are over 15% of the capital base of the Bank.

Gross exposure as at 30 June 2014	Total gross exposure	Risk capital consumed	<i>Risk capital consumed as a % of total credit risk capital</i>
	Rs bn	Rs bn	%
Top 5 customers / customer groups	35.5	2.7	14.9
Total large credit exposures	69.4	4.60	25.2

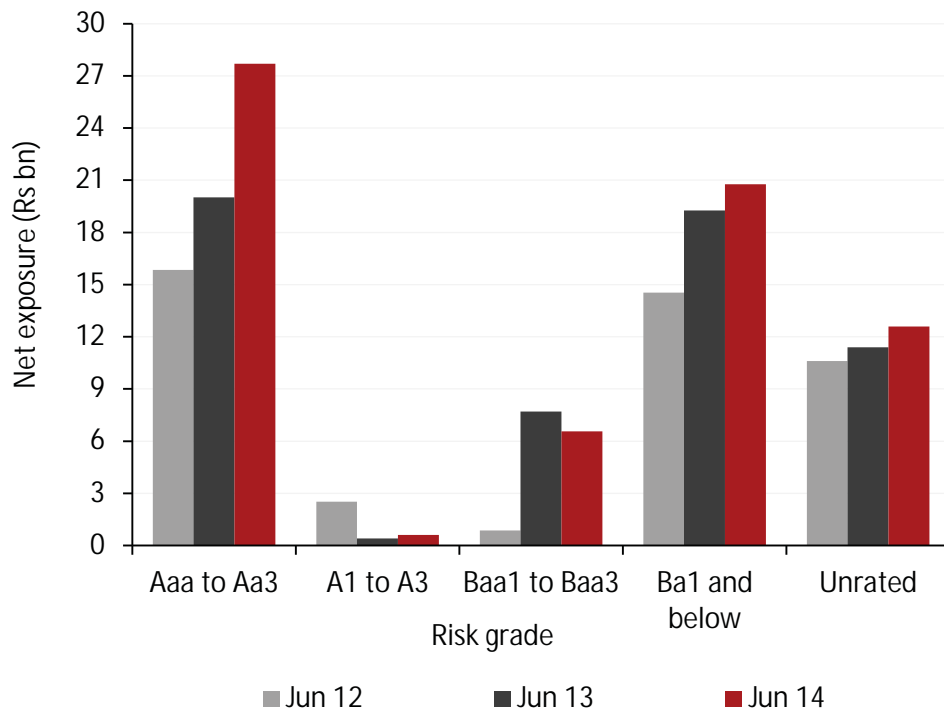
Country Risk

Country risk is defined within MCB Ltd as per international norms as:

The risk of loss arising from the inability of the Bank to receive payments from customers as a result of political or economic events in a particular country.

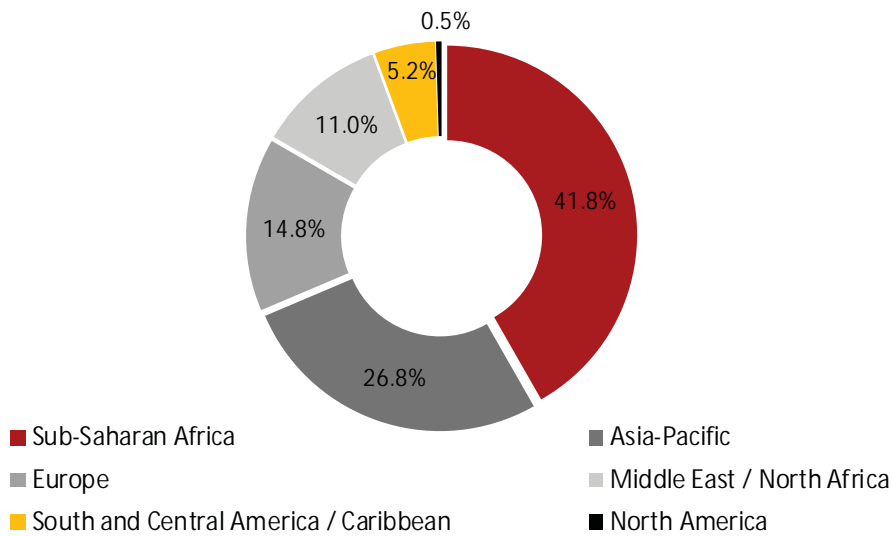
The specific country risk events that are monitored include social unrest, nationalisation and expropriation of assets, Government repudiation of external indebtedness, foreign exchange controls, and currency depreciation/devaluation amongst others. Overall, the foreign country exposure limits at the Bank are determined on the basis of its areas of expertise, its intimate knowledge of the local economy in presence countries, its strategy to foster further business development in the region and beyond, and the nature of operating environment, while concurrently making allowance for the risk appetite of the Bank and the BoM Guideline on Country Risk Management. Country limits are approved annually by the Board and monitored quarterly by the RMC. Where necessary, sub-limits relating to short-term trading operations in strategic commodities are set. The continuous improvements to the Bank's management information systems enables the generation of detailed reports for the identification, measurement and proactive monitoring of country risk exposures against limits approved by the Board. The following chart shows the country risk exposures of MCB Ltd by rating.

Country risk exposure by rating



The distribution of risk-weighted assets by country other than Mauritius is provided in the following pie chart.

Total risk-weighted exposures by country (excluding Mauritius)



Operational Risk

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

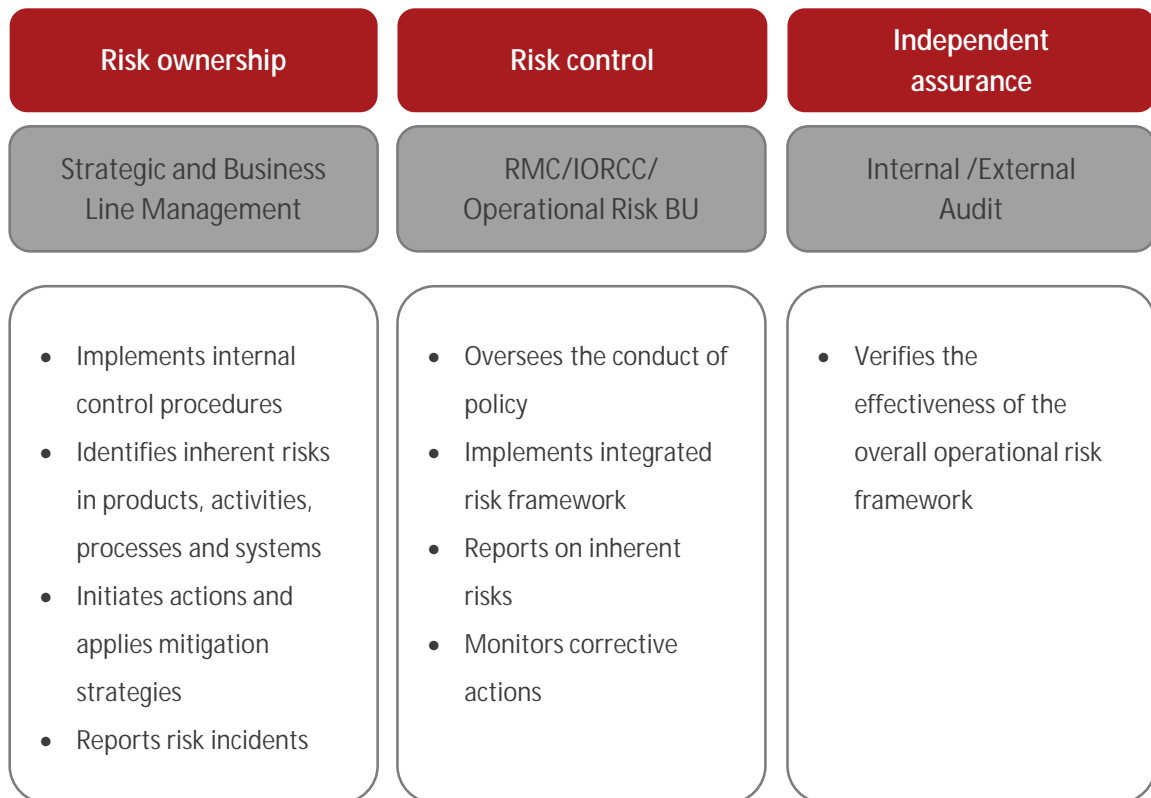
The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Operational risk exists in the normal course of business activity given that it is inherent in all banking products, activities, processes and systems. Therefore, the management of operational risk requires an integrated approach for the prompt identification, assessment, control, reporting and monitoring thereof through the adherence to sound practices adopted by employees at all levels of the hierarchy. An overarching framework is in place for fostering the systematic and consistent management of operational risk at the Bank. The set-up consists of policies, standards, procedures and adapted contingency plans that are spelt out in the Operational Risk Policy, with the latter delineating the roles and responsibilities of key stakeholders in respect of business support and control functions.

Governance

A fitting governance structure is an evident prerequisite for managing operational risk effectively. With regard to MCB Ltd, the Board retains the ultimate responsibility for ensuring that operational risk is adequately managed throughout the Bank – notably through the delegation of authority to the RMC – by providing clear guidance with respect to policies and processes for day-to-day operations. Furthermore, the responsibility for implementing the operational risk framework which addresses inherent risks is entrusted to Senior Management, while the monitoring of the entire operational cycle is exercised through the Information Risk, Operational Risk and Compliance Committee (IORCC), chaired by the Chief Executive. The IORCC acts as the focal point and coordinating committee which ensures that operational risk management conforms to the policy set out in the Operational Risk Policy.

The operational risk management framework relies on three primary lines of control as depicted in the following diagram. The control environment at MCB Ltd is based on a combination of adapted policies, processes and systems as well as an appropriate risk culture which is fostered through operational risk awareness sessions targeting relevant audiences. In addition, an overview of both Operational Risk and Business Continuity Management is provided to new staff at the onset of their career through induction courses.



Risk Exposure and Measurement

The determination of the Bank's risk exposure is anchored on the regular assessment and review of operational risk embedded in products, services and processes with the monitoring thereof being 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.

Management and Monitoring

MCB Ltd seeks to ensure that key operational risks are managed on a timely basis and in an effective manner. This is backed by the 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 information on operational risk events is recorded in a centralised database which enables systematic root cause and trend analysis, for necessary corrective actions. Significant operational risks are escalated to the IORCC and then, if warranted, to the RMC.

Mitigation

Operational risk mitigation relies on appropriate policies, processes and systems throughout the Bank that lead to adequate risk mitigation through clear segregation of duties, dual control, regular verification and reconciliation of transactions. Moreover, risk transfer is, to some extent, executed through the insurance or outsourcing of solutions where appropriate.

Business Continuity Management

Business Continuity Management (BCM) is an integral part of the Operational Risk Management framework of MCB Ltd. As per the assigned policy of the Bank, BCM is defined as follows:

The ability of MCB Ltd to effectively plan for and respond to incidents and business interruptions in order to maintain availability of the Bank's critical business activities at acceptable pre-defined service levels, thus safeguarding its reputation and interests of key stakeholders.

The prevailing governance structure together with the underlying lines of control that illustrate responsibilities for ownership, oversight and assurance seek to ensure that BCM is well embedded into the Bank's organisational culture. The Board, through its Risk Monitoring Committee, has the responsibility to ensure that BCM is properly executed at the Bank. Responsibility for the implementation of relevant strategies and the monitoring of BCM is delegated to a BCM Committee which meets semi-annually. The BCM programme is centrally coordinated and controlled by the Operational Risk BU, in collaboration with other support functions of the Bank. Individual business units, through designated business continuity champions, are the BCM process owners and are, hence, responsible for coming forward with, reviewing and maintaining up-to-date recovery plans and procedures at their respective levels. Assurance on the programme is provided by the Internal Audit function. Lately, MCB Ltd has accelerated its efforts for the implementation of the BCM, with the BCM Policy being widely disseminated to stakeholders and the relevant roles and responsibilities of the latter being clarified and communicated.

The BCM framework lies on 6 pillars which are regularly reviewed and exercised. The pillars are shown in their chronological order in the following illustration.



While ensuring adherence to regulatory stipulations and audit requirements, the Bank's BCM policy outlines the objectives of the Bank's BCM process and defines the roles and responsibilities of all actors involved. Recovery objectives and impacts of disruption on the mission critical activities are documented and reviewed to ensure they remain relevant and well within acceptable boundaries and stakeholder expectations. Workaround procedures and recovery plans are readily available to enable business operations to continue at set service level thresholds or resume within pre-defined timeframes. These plans and procedures, which are tested on a regular basis, are revised whenever there are any changes to processes or the business landscape.

Market Risk

In line with international standards, MCB Ltd defines market risk as follows:

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

Governance and Risk Appetite

The Board is ultimately responsible for setting risk appetite in respect of market risk, in compliance with the prudential guidelines set by BoM. Operating within this framework, the Asset and Liability Committee (ALCO) reviews and takes decisions with regards to the overall mix of assets and liabilities within the balance sheet of MCB Ltd. ALCO, notably, sets and reviews liability allocation objectives and targets to

sustain both the diversification and growth of the Bank's balance sheet and income statement from a funding, market and profitability perspective, while taking into account the changing economic and competitive landscapes. The Committee, which meets on a monthly basis under the chairmanship of the Chief Executive, is attended by Heads of key SBUs, with the Chief Risk Officer acting as Secretary. Furthermore, under the Risk SBU, the Market Risk BU acts as the primary risk control and risk-monitoring function related to market risk activities, including counterparty credit and operational risk arising therefrom. The Market Risk BU plays an important role in the provision of Financial Position and market risk analysis information to ALCO, as well as the collation of market risk related information elsewhere at the Bank. It is, also, responsible for all treasury related market documentations and agreements aimed at mitigating related counterparty credit risk.

The framework of policies, principles and main functional responsibilities in relation to the management of market risk at the Bank is established as per the Market Risk Policy, as approved by the Supervisory and Monitoring Committee and reviewed periodically.

Measurement and Management

Insights pertaining to the main sources of market risk to which the Bank is exposed and their management are provided below.

- Interest rate risk arises from changes in interest rates or the prices of interest rate related securities and derivatives, which impacts the Bank's earnings or economic value of equity. A major driver of interest rate risk arises from the timing differences between the rate reset dates of bank assets, liabilities and off-balance sheet positions. This risk is limited by the application, in most cases, of floating interest rates linked to an index. The Bank uses re-pricing gap analysis techniques to monitor structural interest rate risk in its banking book as well as sensitivity measures such as duration and basis point value for exposures in its trading book which remain within the significance level of 5% of total assets.
- Foreign exchange risk pertains to the risk arising from unanticipated changes in exchange rates between two currencies. MCB Ltd incurs this risk either from off-balance sheet, through the execution of derivatives such as foreign exchange forwards, or on-balance sheet, as a result of mismatches between the foreign currency position of its assets and liabilities. The Bank monitors the overall foreign exchange risk against both the official regulatory limit and an internal target, while also setting a range of trading, transactional and periodic individual stop loss limits that are reviewed on an annual basis.

- Liquidity risk is the risk that, at any time, the Bank does not have sufficient realisable financial assets to meet its financial obligations as they fall due. To manage liquidity risk, MCB Ltd operates mutually supporting lines of defence, namely:
 - Cash flow management – whereby MCB Ltd creates a continuously maturing stream of assets and liabilities through time, avoiding undue accumulation of maturities in any one time band, especially those maturing in the close future. Liquidity gap schedules and other forecast cash flow projections with resultant impact on available balance and liquidity metrics are closely monitored on a monthly basis by ALCO, which is very attentive to liquidity considerations against the challenging domestic and global economic backdrop.
 - Maintenance of a liquid assets portfolio – which is achieved by holding a stock of high quality unencumbered assets which the Bank can realise at very short notice to meet unexpected outflows of funds or to replace expected inflows of funds, such as loan installments, that do not materialise. As at 30 June 2014, the Bank maintained a comfortable liquid assets (comprising of cash in hand, balances with BoM, Treasury Bills and Government securities) ratio of 27% to total assets.
- Funding or liability risk is the risk that a particular maturing liability or class of liabilities may not be able to be refinanced (without additional relative cost) over any given period of time. The management of funding risk at MCB Ltd relies notably on the maintenance of a diversified liability base across different categories of depositors and fully exploits the funding potential of the wholesale markets whenever required. Furthermore, the risk associated with liquidity mismatch should be viewed in the light of the overall stickiness of deposits, with savings and current account balances considered as being non-volatile and granular. MCB Ltd also conducts Value-at-Risk (VaR) analyses linked to its main foreign exchange and interest rate risk positions. VaR is a probabilistic estimate of future risk, where the assumptions underlying the probabilities are central to the calculations and estimates. In line with Basel II recommendations, MCB Ltd uses a historical observation period of one year, with a 99% one-tailed confidence interval and a holding period of 10 days. In broad terms, over a year consisting of 250 working days, the Bank would expect to lose an amount equivalent to around 2 to 3 times of the VaR estimates. Whereas VaR reflects the potential loss under conditions of normalcy, stress testing is used to assess its vulnerability to extreme movements in market prices and economic shifts.

Information Risk Management

In line with its mandate to protect the organisation's sensitive information assets against potential threats, attacks and vulnerabilities, the Information Risk Management (IRM) BU of MCB Ltd has pursued its efforts

in actively upgrading the quality and standards of its information systems. Building on the initiatives from the previous year and while consistently and closely aligning its risk management framework in place with its core mission, the business unit laid particular emphasis on streamlining the way it manages its logical access control framework, performs information risk assessments and monitors its technical infrastructure for security events, thus bringing value addition to the organisation by more efficiently adapting control structures to business specificities. Besides, in compliance with international best practices and regulatory requirements and in collaboration with relevant stakeholders, the re-engineering of all information security and related risk management processes is currently being finalised to cater for a more proactive identification, monitoring and control of possible risk elements, while at the same time reviewing all baseline activities and establishing new ones where relevant and appropriate. The year under review has also witnessed, via the holding of specialised and targeted security awareness sessions, a stepping up of efforts to educate and sensitise system and application users on adequate security behaviours to adopt in order to protect and preserve the confidentiality, integrity and availability of the Bank's information assets. Moving forward, whilst ensuring compliance with policy, regulations and requirements, the unit is intent on promoting an information risk culture across the Bank and strengthening its control frameworks by further improving its operations.

Physical Security

The year under review has seen the continuous gearing up and enhancement of the Bank's physical security policies to protect its employees, customers and other assets in an effective and sustainable way, in line with the strategy of ensuring a secure and convenient banking experience and fostering an outstanding quality of service to customers. To this end, in the light of relevant developments taking place locally and abroad, the Bank's physical security agenda is reviewed and updated on an on-going basis, with continuously enhanced preventive measures being identified and implemented, where relevant, in respect of the related practices and procedures mentioned in the physical security manual, whilst at the same time ensuring their alignment with advocated international standards as well as the Bank's corporate culture and business goals. Besides, in order to promote a thorough adherence to established control and security structures as well as to ensure the prompt identification and correction of operational deficiencies, regular and formalised audit exercises are being conducted across the network. Of note also, to further strengthen the Bank's Emergency Plan, awareness campaigns and training sessions are regularly organised for the staff of MCB Ltd on specific topics, including but not restricted to, evacuation and fire drills as well as health and safety procedures. Moreover, alongside ensuring compliance with Bank of Mauritius regulations and

Contingency Planning, MCB Ltd continues, in support of the judicious delivery of its services, to leverage the deployment of state-of-the-art technology to complement its pool of trained security officers. In this respect, major initiatives undertaken during the past financial year include the completed upgrading of the CCTV system so as to meet the 90 days recording requirements set by the Central Bank and the launching of CCTV link-up from branches to the Control Room of the Bank. Besides, the latter has upheld its collaboration with the Mauritius Police Force and financial institutions as part of the conduct of ongoing crime prevention and awareness campaigns.

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

Legal

The general mandate of the Legal SBU is to uphold, secure and defend, from a legal standpoint, the supreme interests of MCB Ltd. During the last financial year, while capitalising on its role as central advisory unit for the Bank, the Legal function geared up its capabilities and operations to more effectively meet up with the exigencies of the operating context, in terms of regulations (e.g. complex law reforms) and business requirements (e.g. increasing complexity and sophistication of the Bank's business activities). Generally, the unit has improved the provision of its dedicated in-house services, thus managing to better respond to evolving stakeholder needs. To realise its objectives, the Legal SBU has fostered close proximity with and developed greater flexibility towards lines of business in order to better identify the latter's needs and requirements. The unit has, also, tapped into its internal capabilities to judiciously address the increasing volume and complexity of requests for advice on an array of business deals and transactions. Notably, it has pursued the continuous upgrade of its knowledge and competency base of its staff, underpinned by the conduct of regular and tailor-made training sessions pertaining to the legal aspects of banking transactions amongst others. Looking ahead, the Legal SBU is intent on fostering stronger relationships with business lines and acting as facilitators in the shaping up of business decisions, backed by operational improvements, that include the further consolidation of staff competencies and skills through sustained and continuous specialised training, improved centralisation of the legal function and harmonisation of the control process. The overriding aim is to better support the Bank's operations and business development agenda in Mauritius and the region.

Assurance Functions

The Bank ensures that its assurance functions provide dedicated oversight and support to further reinforce the risk management of activities and add more value to the organisation.

Internal Audit

The Internal Audit BU – reporting directly to the Audit Committee for direction and accountability and to the Executive Directors for administrative interface and support – ensures that the quality of internal audit services of the Bank is aligned with recognised best practices. Over the past few years, it has conscientiously and scrupulously geared up its efforts towards implementing a risk-centric model, whilst taking into consideration the need for adopting a purely compliance approach to some specifically identified business areas.

The main building blocks which have helped and shall continue to prompt the function to adopt a disciplined and systematic approach in evaluating and improving the effectiveness of risk management control and governance processes are as follows: (i) the implementation of audit work programmes addressing as far as possible identified residual audit risks, (ii) heavy reliance on data analytics via a world-wide recognised audit software, and (iii) automation of some audit related administrative tasks relating to time sheets, reports and working papers. The outcomes of the different audit assignments, including a risk-based grading of the relevant issues, are regularly submitted to relevant functional heads and line managers. The Internal Audit function communicates, on a needs basis, a summarised implementation status of the main issues to the Executive Directors for discussion and, more importantly, for reaching a consensus on corrective actions. Quarterly or more frequent meetings are scheduled with the Audit Committee. The annual audit plan, the actual status of audit assignments, identified audit issues, progress regarding implementation thereof, and resource requirements are typical items on the agenda.

The Institute of Internal Auditors currently requires each internal audit function to have an external quality assessment conducted at least once every five years. Following exercises carried out by an internationally recognised auditing firm, it is worth noting that MCB Ltd has, twice during the past 5 years, been confirmed as being compliant with the International Standards for the Professional Practice of Internal Audit issued by the above mentioned institute. The current business model of the Internal Audit function ensures a

continual and strict adherence to the expected standards and approved processes through, for example, the introduction of internal peer reviews and quality assurance assignments.

Looking ahead, the Internal Audit BU will maintain its efforts to further enhance the effectiveness and efficiency of its operations, alongside being attentive to the evolving and more demanding expectations of internal stakeholders and external parties. Besides, without falling into the common traps of assurance fatigue and pure check-list based auditing, the function will, in the quest for more impactful risk management, be engaged in the mobilisation of internal stakeholders, with secondments and the guest audit concept remaining key features of strategic undertakings. Moreover, the function will pursue its endeavour to diligently provide the necessary audit and risk insights to further the strategic orientations of the Bank, including the 'Bank of Banks' project.

Compliance

MCB Ltd defines compliance risk as:

The volatility in the Bank's earnings resulting from failure to comply with laws, regulations, codes of conduct, and standards of good practice relevant to the business environment in which it operates.

The compliance strategy of MCB Ltd is crafted with the view to ensuring consistency between the conduct of its business operations and the ongoing observance of relevant laws, rules and standards of good market practices. The aim is to shield the Bank from legal and regulatory sanction, financial or reputation losses. The Board, through the RMC, and the Management team are responsible to ensure that adequate systems and procedures have been established and that sufficient resources are committed to enable compliance with the requirements of laws, regulations and the industry best practices.

The Bank's approach to managing compliance risk is fivefold:

1. Paying continuous attention to latest developments as regards related laws and regulations, accurately understanding their impact and coming up with necessary responses to guarantee that the Bank addresses the risks arising from such changes;

2. Ascertaining compliance in the way MCB Ltd does business, by maintaining close working arrangements with the business lines with the view to, *inter alia*, ensuring adherence to legal and regulatory requirements and/or enabling early identification of breaches of relevant regulations;
3. Making use of state-of-the-art technology to monitor adherence to the legal and regulatory requirements and thereafter giving the necessary assurances to Management and the Board regarding the state of compliance;
4. Fostering good relationship with regulatory and supervisory bodies by keeping productive and value-adding dialogue with them in order to uphold effective two-way communication; and
5. Assisting Management in nurturing and promoting a culture of integrity and ensuring that MCB Ltd and its staff adhere both to the letter and spirit of relevant laws, regulations, codes and standards of good practices.

In keeping with the foregoing, the aim of the Compliance BU is also to keep non-compliance incidents at bay. Initiatives that have been taken as part of this endeavour included the following: (i) promoting awareness of Management and staff on requirements arising out of new or amendments to laws/regulations; (ii) undertaking reviews with the aim of ensuring ongoing adherence to the principles of good corporate governance; (iii) shoring up the manner in which the Bank performs its business to mitigate the risk of money laundering and financing of terrorism; (iv) designing a set of policies to promote strong ethical behaviours by staff; and (v) exercising oversight over customer related complaints. Overall, the aim is to protect the Bank's reputation, ensure fair treatment of customers and identify potential breaches of the Bank's standards of ethics and behaviour, underpinned by the conduct of regular tests and assignments. Some of the major initiatives successfully achieved by the Compliance BU during FY 2013/14 are as follows.

- Implementation of specific processes that enable the Compliance BU to prepare a Statement of Compliance report – providing confirmation of the compliance of each relevant business unit to existing laws and regulations or any exception thereof – that is, then, made available to the Chairman of MCB Ltd to be submitted to Board members.
- Registration of the Bank and the other subsidiaries of MCB Group Ltd as Participating Financial Foreign Institutions with the US Internal Revenue Service for FATCA purposes;
- Assessment of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) procedures of more than 50 correspondent banks and providing AML/CFT certifications to some 60 other correspondent banks, in accordance with international standards;

- Improvement of existing compliance policies such as the Gifts, Entertainment and Other Benefits Policy and the Complaints Handling Policy;
- Review and validation of new and amended process flows by ensuring that related regulatory requirements are duly incorporated in the way business is done; and
- Training of staff through classroom sessions and/or e-learning sessions on topical subjects.

With regard to the AML/CFT obligations of the Bank, the Compliance function is duty-bound to ensure that the Bank has adequate processes rendering its services inaccessible to criminals, including money launderers and terrorists or their financiers. To that end, the function, *inter alia*, ensures that staff is given appropriate training to help them identify suspicious transactions in keeping with legal and regulatory requirements. The Bank has also invested extensively in automated systems to assist in tracking transactions with an underlying pattern that is not commensurate with declared activities of the customer, thus helping to identify counterparties or customers that are subject to economic and financial sanctions by the international community. Another assurance function pertains to the Anti-Money Laundering/Fraud Prevention unit, which is involved in designing and implementing appropriate training programmes to promote staff awareness on fraud risks as well as conducting enquiries with respect to cases of suspected fraud perpetrated internally or by outsiders. The function also assists the Money Laundering Reporting Officer in investigating suspicious transaction reports submitted by Bank employees.

Capital Management

Capital Structure

Internal Capital Adequacy Assessment Process

MCB Ltd is guided by its Internal Capital Adequacy Assessment Process (ICAAP) in determining its capital planning and formulating its risk appetite process. Overall, the purpose of the ICAAP document is to provide an informative description of the methodology and procedures that the Bank uses to assess and mitigate its risks and to make sure that adequate capital is kept to support its risks beyond the core minimum requirements. It delineates the process through which the Bank assesses the extent to which it holds sufficient capital in order to duly support its business activities. Specifically, through the ICAAP, the Bank assesses its forecast capital supply and demand relative to its regulatory and internal capital targets, under various scenarios. The Bank's capital plan is defined every year during the budgeting and strategic planning exercise 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

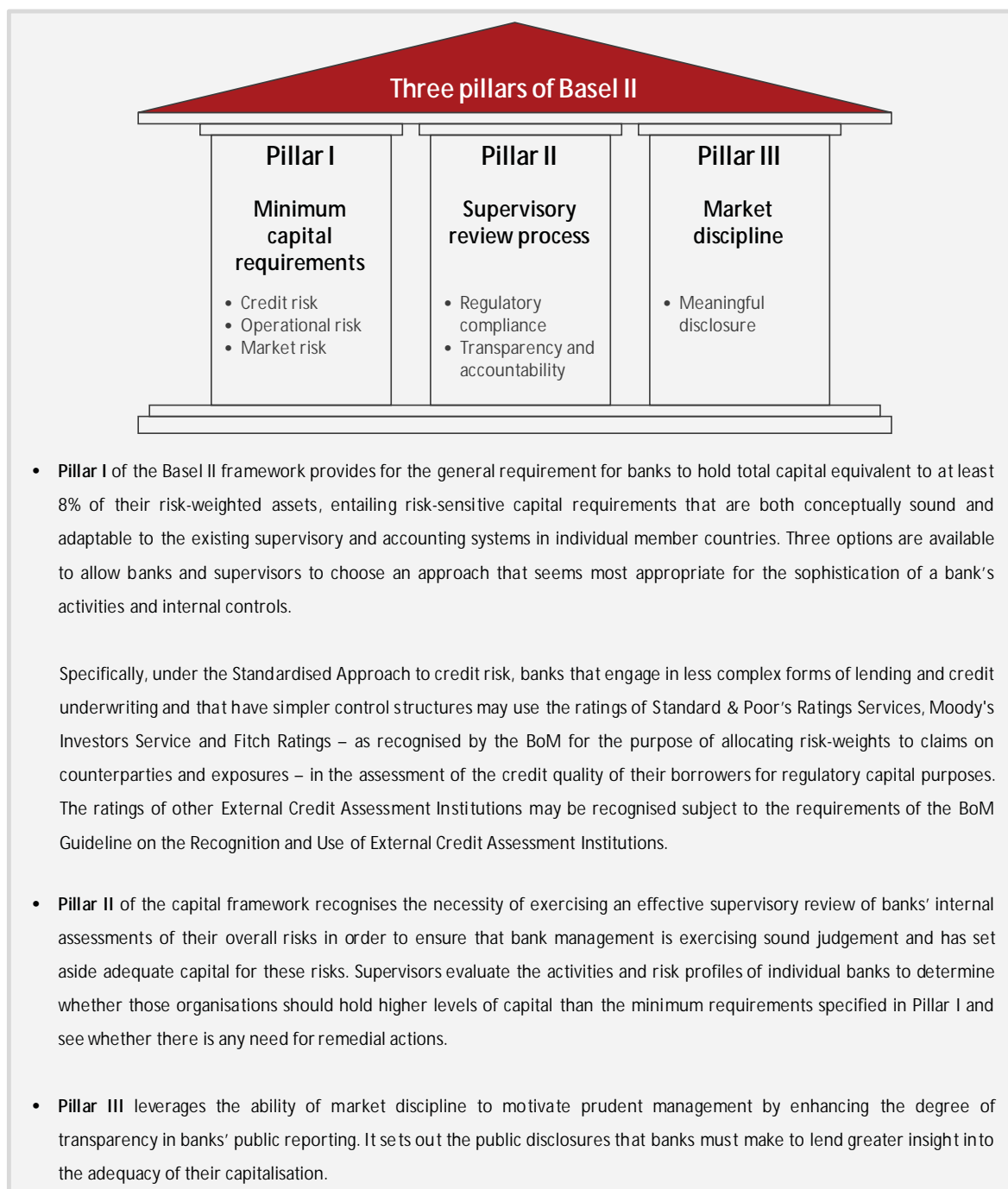
management plan whereby measures to rapidly mobilise additional capital, should the need arise, are discussed at Board level.

Actually, 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 document, which is approved by the Board and RMC, is reviewed periodically to ensure that the Bank remains well capitalised after considering all material risks.

Stress testing is a risk management exercise that forms an integral part of the ICAAP. As part of the Bank's ICAAP, 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 and in order to evaluate how the Bank can continue to maintain adequate capital under such scenarios. The overriding aim of the stress testing framework of MCB Ltd is to ensure that risk management exercises are firmly embedded in the organisation's overall governance culture. This helps to bolster the observance of regulatory requirements with regard to risk management, while contributing to the competitive positioning of MCB Ltd.

Adherence to Basel II rules

In respect of its exposures, the Bank uses the Basel II Standardised Approach to manage its credit and market risk, while resorting to the Basic Indicator Approach for its operational risk. The risk management framework adopted by MCB Ltd under Basel II seeks to ensure that the strategies formulated are clearly linked to its risk appetite, so that capital resources are managed at an optimal level in supporting both risk and strategic objectives. Basel II is anchored on three pillars.



In line with BoM requirements, the following table depicts the determination and evolution of the capital adequacy ratios of the Bank, with allowances made for the definitions for Tier 1 and Tier 2 capital, the deductions required for goodwill, intangible assets, and capital investments in associates and insurance subsidiaries as well as the methodologies for computing risk-weighted assets.

MCB Bank	Jun 12	Jun 13	Jun 14
Capital base	Rs m	Rs m	Rs m
Paid up or assigned capital	2,504	2,504	2,380
Share premium	90	112	-
Statutory reserve	2,593	2,616	2,380
Other disclosed free reserves including undistributed balance in Income Statement	11,343	15,213	16,585
Current year's retained profit	3,058	2,289	(262)
Other intangible assets	(819)	(692)	(523)
Deferred tax	(81)	(114)	(194)
Treasury shares	(365)	(360)	-
Core capital	18,323	21,568	20,365
50% of investment in unconsolidated banking and financial subsidiary companies	(442)	(442)	-
50% of investments in capital of other banks and financial institutions	(431)	(516)	(952)
Net core capital (A)	17,451	20,611	19,412
General banking reserve	534	534	534
Portfolio provision	917	1,007	1,041
Reserves on revaluation of securities not held for trading	671	787	217
Subordinated debt	-	-	5,409
Supplementary capital	2,121	2,328	7,201
50% of investment in unconsolidated banking and financial subsidiary companies	(442)	(442)	-
50% of investments in capital of other banks and financial institutions	(431)	(516)	(952)
Net supplementary capital (B)	1,248	1,370	6,249
Capital base (A + B)	18,699	21,981	25,662
MCB Bank	Jun 12	Jun 13	Jun 14
Weighted risk assets			
Weighted amount of on-balance sheet assets	142,580	155,828	151,887
Weighted amount of off-balance sheet exposures	19,810	22,703	29,381
Weighted risk assets for operational risk	11,653	13,005	14,110
Aggregate net open foreign exchange position	1,224	493	458
Total risk-weighted assets	175,267	192,030	195,836
Capital adequacy ratios (%)			
BIS risk adjusted ratio	10.7	11.4	13.1
of which Tier 1	10.0	10.7	9.9

Notes:

- June 2012 and June 2013 figures relating to capital base and risk-weighted assets have been restated.
- June 2014 figures cater for the fact that foreign banking subsidiaries and associate will, in due course, be unbundled from MCB.

During the last financial year, the capital adequacy ratio of MCB Ltd increased by a non-negligible margin, mainly explained by the mobilisation of sizeable funding resources to support business growth against the backdrop of the regulatory landscape, while coping with the impact of the Group restructuring exercise. Thus, as it can be recalled, the Bank had raised Rs 4.5 billion worth of subordinated notes on the local Stock Exchange and obtained a subordinated loan of USD 30 million from the African Development Bank, with these issues qualifying as Tier 2 capital. As per BoM's Guideline on Scope of Application of Basel III and Eligible Capital, both issues will be subject to transitional arrangements, whereby their recognition as Tier 2 capital will be capped at 90% as from 1 July 2014, with the cap reduced by 10 percentage points on 1 January of each subsequent year.

Credit Risk

The risk-weighted exposures under the Standardised Approach to credit risk are based on the category of borrower, its associated risk weight and the credit conversion factor of the underlying credit facility. The Bank uses the external ratings from Standard & Poor's, Moody's and Fitch for credit exposures to its sovereign and bank portfolios. Following the introduction of macroprudential measures by the BoM, the Guideline on Standardised Approach to Credit Risk was amended in December 2013. Moreover, in the wake of the macroprudential measures put in place and effective 1 July 2014, relatively higher risk weights have been stipulated for fund-based and non fund-based credit facilities secured by residential property and commercial real estate for the purpose of purchase/construction in Mauritius. Examples of applicable risk weights are: (i) 100% for outstanding housing loan amounts greater than Rs 5 million and up to Rs 12 million, and 125% for amounts above Rs 12 million; (ii) 125% for outstanding commercial property loans exceeding Rs 75 million.

The following table provides comparative figures for the risk-weighted exposures for both on-balance sheet and off-balance sheet assets.

MCB Bank	Jun 14			Jun 13	Jun 12
	Amount	Weight	Weighted Assets	Weighted Assets	Weighted Assets
Risk-weighted on-balance sheet assets	Rs m	%	Rs m	Rs m	Rs m
Cash items	2,716	0 - 20	68	86	77
Claims on sovereigns	28,888	0 - 100	379	388	471
Claims on central banks	12,096	0 - 100	542	0	0
Claims on banks	19,760	20 - 100	10,390	7,672	5,274
Claims on non-central government public sector entities	69	0 - 100	69	38	38
Claims on corporates	108,285	100	107,935	109,504	98,659
Claims on retail segment	9,687	75	6,400	7,638	7,175
Claims secured by residential property	17,279	35 - 100	8,113	3,776	3,453
Fixed assets/other assets	6,647	100	6,647	10,246	10,343
Past due claims	8,738	50 - 150	11,343	16,480	17,089
Total			151,887	155,828	142,580

MCB Bank	Jun 14			Jun 13	Jun 12
	Nominal Amount	Credit Conversion Factor	Credit Equivalent Amount	Weighted Amount	Weighted Amount
Non-market related off-balance sheet risk-weighted assets	Rs m	%	Rs m	Rs m	Rs m
Direct credit substitutes	7,783	100	7,783	5,577	6,108
Transaction-related contingent items	32,302	50	16,151	12,033	9,870
Trade related contingencies	22,161	20	4,432	2,296	1,370
Outstanding loans commitment	4,355	20 - 50	2,178	2,511	2,260
Total				29,183	19,608

MCB Bank	Jun 14					Jun 13	Jun 12
	Nominal Amount	Credit Conversion Factor	Potential Future Exposure	Current Exposure	Credit Equivalent Amount	Weighted Assets	Weighted Assets
Market-related off-balance sheet risk-weighted assets	Rs m	%	Rs m	Rs m	Rs m	Rs m	Rs m
Interest rate contracts	970	0 - 1.5	5	27	32	29	35
Foreign exchange contracts	21,291	1 - 7.5	213	97	310	169	251
Total					198	286	202

Credit Quality

Against a backdrop of persisting economic difficulties locally and increased credit risk on some specific Global Business exposures, the overall credit quality of MCB Ltd was adversely impacted, while total risk-weighted assets increased by 2.0% in FY 2013/14 compared to FY 2012/13. Asset growth has been relatively balanced, achieved through proactive and disciplined risk management as reflected in the broadly stable average risk weights.

Specific and Portfolio Allowances

Credit impairment allowances consist of specific and portfolio provisions. The amount of specific provision more than adequately covers for the shortfall between the carrying amount of loans and their recoverable amounts. On the other hand, potential losses as a result of current economic conditions as well as general historical patterns of losses are assigned comfortable levels of portfolio provision allowances. The breakdown of specific and portfolio provision by industry is provided in Note 6(b) of the Financial Statements.

Credit Risk Mitigation

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. Additionally, 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, MCB Ltd considers only cash pledged and guarantees as eligible credit risk mitigations in its calculations.

The following table summarises the credit exposures secured by cash and bank guarantees which qualify for a zero risk-weight. Cash collateral is generally more commonly used by the Retail as opposed to the Corporate asset class.

Exposures covered by credit risk mitigation as at 30 June 2014	
On-balance sheet	Eligible collateral
	Rs m
Corporate	395
Retail	1,261
	1,656
Off-balance sheet	Eligible collateral
	Rs m
Direct credit substitutes	19
Transaction-related contingent items	259
Trade-related contingencies	7
	285
Total	1,941

Operational Risk

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

MCB Bank	Basic indicator approach			
Line of business	Alpha factor (α)	Jun 12	Jun 13	Jun 14
	%	Rs m	Rs m	Rs m
Total yearly weighted gross income	$\alpha = 15$	1,284	1,427	1,522
Capital charge for operational risk		1,165	1,301	1,411

Market Risk

MCB Ltd currently follows the Standardised methodology outlined in the BoM Guideline on Measurement and Management of Market Risk, which is closely based on Basel II Standardised Measurement Method.

As per BoM guideline, a bank is required to hold additional capital whenever its overall position in trading book activities exceeds 5% or more of its total assets. Furthermore, a bank is encouraged to hold a capital buffer that adequately covers the interest rate risk exposures arising from the banking book. As at 30 June 2014, the trading book exposures of MCB Ltd were confined within the 5% significance level and consisted mainly of foreign exchange risk. Separate interest rate risk gap analysis schedules are prepared and submitted to BoM quarterly for the Bank's main currencies (MUR, USD and EUR). As at 30 June 2014, 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 guideline.

Market risk	Jun 12	Jun 13	Jun 14
Aggregate net open foreign exchange position	Rs m	Rs m	Rs m
Bank	1,224	493	458

Supervisory Review Process

As mentioned before, the ICAAP sets the stage for the implementation of the BoM Guideline on Supervisory Review Process. The aim of this framework is to ensure that banks have adequate capital to support all the risks they are exposed to in their business, and to encourage banks to develop and use better risk management techniques in monitoring and managing their risks.

The Supervisory Review process rests on the following four principles:

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

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

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

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

The ICAAP, which goes beyond regulatory requirements, enables the assessment of capital adequacy levels based on the indigenous complexity and risk exposures of banks whilst facilitating:

1. the link between business strategy, risk introduced and capital required to support the strategy;
2. the establishment of frameworks, policies and procedures for the effective management of material risks; and
3. the development of plausible stress tests to provide useful information which acts as early warning signs and triggers so that contingency plans can be implemented.

Stress Testing

Enabling conditions have been created at MCB Ltd for the development of sound stress testing practices through robust objectives-setting and oversight, proper scenario selection, and suitable methodologies. The relevance of stress testing in the risk management process is depicted in the following table.

Process	Relevance of stress testing
Risk identification	<ul style="list-style-type: none"> 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 concealed when relying purely on statistical risk management tools based on historical data
Risk assessment	<ul style="list-style-type: none"> To promote a deep understanding of organisational vulnerabilities following forward-looking assessments of risk, to make risk more transparent via an estimation of scenario-based losses, and to prevent the development of any false sense of security about the Bank's resilience To evaluate risk during different phases, notably (i) during periods of favourable economic and financial conditions given a resulting lack of visibility over potentially negative future settings; and (ii) during periods of expansion when innovation leads to new products and services for which no historical data is available for forecasting future trends
Risk mitigation	<ul style="list-style-type: none"> To facilitate and assess the development of risk mitigation or contingency plans across a range of stressed conditions To spur debates on and awareness of different risk aspects of banking portfolios among management on the strength of (i) a well-organised surveying of the operational environment; (ii) an identification of the most important risk factors; and (iii) a scanning of the horizon for potential stressful events

The Bank has, during the year under review, conducted stress testing under various historical and stress test scenarios to assess the impact of unfavourable scenarios on its capital position. A sample of stress tests which are conducted regularly at MCB Ltd is provided hereafter.

Scenario 1: Risk concentration – Exposure to a large corporate group becomes impaired

Scenario 2: Credit risk – a crash in the property market in Mauritius

Scenario 3: Reputation risk – MCB Ltd rating downgraded by two notches

Scenario 4: Liquidity/liability risk – Withdrawal of top 10 depositors

Scenario 5: Interest rate shock

Worst case scenario: A combination of some of the above scenarios

The above 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 in RMC as well as with the Board of directors prior to being submitted to the BoM. Overall, barring the extreme cases, our recent analyses have revealed that the capital adequacy of the Bank does not fall below the regulatory ratio of 10% in any of the above-mentioned scenarios.

Adherence to Basel III Rules

After issuing draft documents and holding consultations with banking sector operators for some time, BoM recently came up with its final guidelines in relation to the implementation of Basel III rules in Mauritius with a view to strengthening the regulation, supervision and risk management of the banking sector. The stipulations found therein have warranted our notable attention, given the direct implications with respect to our underlying capital management position and policies.

To start with, BoM issued a Guideline on Scope of Application of Basel III and Eligible Capital. Superseding the Guideline on Eligible Capital issued in April 2008 and the Guideline on Scope of Application of Basel II issued in May 2008, the document aims to promote a more resilient banking sector and improve the latter's ability to absorb shocks arising from financial and economic stresses. For that purpose, the guideline aims at improving the quality, consistency and transparency of the capital base and to strengthen the risk coverage of the capital framework. Specifically, the guideline sets out the rules text and timelines to implement some of the elements related to the strengthening of the capital framework. It also formulates the characteristics that an instrument must have in order to qualify as regulatory capital, and the various adjustments that have to be made in determining the regulatory capital of a bank. Moreover, the document lays down the limits and minima of the different capital components, while stipulating that banks should apply a capital conservation buffer to ensure that operators build up adequate buffers above the minimum during normal times, to be drawn down should losses be incurred during a stressed period. Additionally, the transitional arrangements for implementing the elements of the Basel III capital framework have been formulated, with the phase-in provisions relating to capital requirements for banks operating in Mauritius seeking to ensure that the banking sector meets the higher capital standards through reasonable earnings retention and capital raising, while supporting lending to the economy. The minimum capital requirements will be phased in between 1 July 2014 and 1 January 2016.

Furthermore, in alignment with the Basel III framework for assessing such banks and determining their loss absorbency requirements on the global scale, BoM issued a Guideline for Dealing with Domestic-Systemically Important Banks recently. The objective is to identify banks that are significant to the Mauritian economy – i.e. those whose failure could adversely affect the financial system and the real

economy – and ensure that they have the capacity to absorb losses through higher capital. With regard to the methodology, only banks having total Segment A assets that represent at least 3.5% of the GDP are classified as domestic systemically important banks. Subsequently, the relative importance of every such bank is evaluated, based on specific factors that comprise size, exposure to large groups, interconnectedness, substitutability/financial institutions infrastructure, and complexity. Then, the level of capital surcharge is calculated, with its application across banks effected in a graded manner in line with their degree of systemic importance. The higher capital requirements applicable to these banks will be applicable as from 1 January 2016 and will be increased over time before becoming fully effective from 1 January 2019.

Phase-in arrangements of capital requirements for banks operating in Mauritius

Guideline on Scope of Application of Basel III and Eligible Capital

Basel III timetable							
	2014	2015	2016	2017	2018	2019	2020
	1 July -----(All dates are as of 1 January)-----						
Minimum CET 1 CAR	5.5%	6.0%	6.5%	6.5%	6.5%	6.5%	6.5%
Capital Conservation Buffer				0.625%	1.25%	1.875%	2.5%
Minimum CET 1 CAR plus Capital Conservation Buffer	5.5%	6.0%	6.5%	7.125%	7.75%	8.375%	9.0%
Phase-in of deductions from CET 1*		50%	50%	60%	80%	100%	100%
Minimum Tier 1 CAR	6.5%	7.5%	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum Total CAR	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Minimum Total CAR plus Capital Conservation Buffer	10.0%	10.0%	10.0%	10.625%	11.25%	11.875%	12.5%
Capital instruments that no longer qualify as Tier 1 capital or Tier 2 capital	Phased out over 10 year horizon beginning 1 July 2014						

*Applicable to significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation.

Guideline for dealing with Domestic-Systemically Important Banks

Additional loss absorbency requirement ¹				
Bucket ²	1-Jan-16	1-Jan-17	1-Jan-18	1-Jan-19
	----- (Per cent) -----			
5 (Empty)				3.5
4	0.625	1.25	1.875	2.5
3	0.5	1.0	1.5	2
2	0.375	0.75	1.125	1.5
1	0.25	0.5	0.75	1.0

¹ Relates to additional Common Equity Tier 1 (CET1) as a % of risk-weighted assets of Domestic-Systemically Important Banks (D-SIBs)

² D-SIBs segregated into different buckets, based on their systemic importance scores

Backed by its solid capital base and continuously upgraded internal capabilities, MCB Ltd does not foresee any difficulty in maintaining its compliance with the new Basel III standards over time, particularly those relating to the evolving capital ratios and additional capital buffers. While sustaining its efforts for comprehensively evaluating the operational/strategic implications of regulatory developments, the Bank will continue to gear up its risk management policies and practices, notably in relation to the quality of its risk and finance data platform and the readiness of its systems and processes. Overall, while ensuring that minimum regulatory capital ratios are reasonably exceeded at all times and that other stipulated Basel III rules are adhered to, the Bank will judiciously manage its capital resources to foster their effective deployment across business segments, while concomitantly maximising returns from its business activities.

The following table compares the capital adequacy ratios of MCB Ltd as at 30 June 2014 with the corresponding proforma figures determined under Basel III, as derived from analyses undertaken to assess the impact of the new capital requirements on the Bank. Thus, it can be observed that the latter remains suitably capitalised, with relevant ratios being well above specified standards.

MCB Ltd (Jun 14)	Basel II	Basel III
CAPITAL ADEQUACY RATIOS	%	%
BIS risk adjusted ratio	13.1	13.6
<i>of which Tier 1</i>	<i>9.9</i>	<i>10.6</i>

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NON-BANKING FINANCIAL**MCB CAPITAL MARKETS LTD**

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Email: mcbis@mcbcm.mu

Website: www.mcbccapitalmarkets.mu

MCB INVESTMENT SERVICES LTD

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 Website: www.mbcapitalmarkets.mu

MCB REGISTRY & SECURITIES LTD

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MCB STOCKBROKERS LTD

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MCB CAPITAL PARTNERS LTD

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MCB INVESTMENT MANAGEMENT CO. LTD

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MCB EQUITY FUND LTD

c/o MCB Capital Partners Ltd
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MCB FACTORS LTD

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CREDIT GUARANTEE INSURANCE CO. LTD*

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Email: customer.relations@cgi.mu
Website: www.cgi.mu

FINLEASE CO. LTD

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OTHER INVESTMENTS

FINCORP INVESTMENT LTD

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PROMOTION AND DEVELOPMENT LTD*

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 Website: www.promotionanddevelopment.com

CAUDAN DEVELOPMENT LTD*

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INTERNATIONAL CARD PROCESSING SERVICES LTD

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MCB CONSULTING SERVICES LTD

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MCB FORWARD FOUNDATION

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BLUE PENNY MUSEUM

Le Caudan Waterfront

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Tel: (230) 210 8176 and (230) 210 9204 – Fax: (230) 210 9243

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