



The Mauritius Commercial Bank Ltd

Annual Report 2014



This report has been prepared to assist relevant stakeholders 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 Bank's business strategy, plans, objectives and financial positions as these statements rely on assumptions and hypotheses which inherently represent an accuracy risk. Actual results, performance and events may differ from those in such statements due to general evolution of economic, political and industry conditions, interest rate levels, currency exchange rates as well as changes in laws and regulations and the extent of competition and technological factors. In addition, The Mauritius Commercial Bank 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.

ABOUT THIS ANNUAL REPORT

Scope and Boundary

The report contains concise, material and transparent information relating to and impacting **The Mauritius Commercial Bank Limited** – hereinafter referred to as ‘**MCB Ltd**’ or ‘**Bank**’ or ‘**Company**’ – as the entity catering for banking operations carried out in and from Mauritius.

In general, the report provides an overview and an assessment of the operating background, governance structure, inherent functioning, strategic and market positioning and achievements, as well as the financial performances and prospects of MCB Ltd. Overall, the period under review corresponds to the financial year spanning 1st July 2013 to 30th June 2014. In some instances and wherever deemed relevant, the report also covers developments extending 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.

The Directors of The Mauritius Commercial Bank Limited are pleased to present its Annual Report for the year ended 30 June 2014.

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

Jean-Philippe COULIER
Chairperson

Antony R. WITHERS
Chief Executive



HIGHLIGHTS

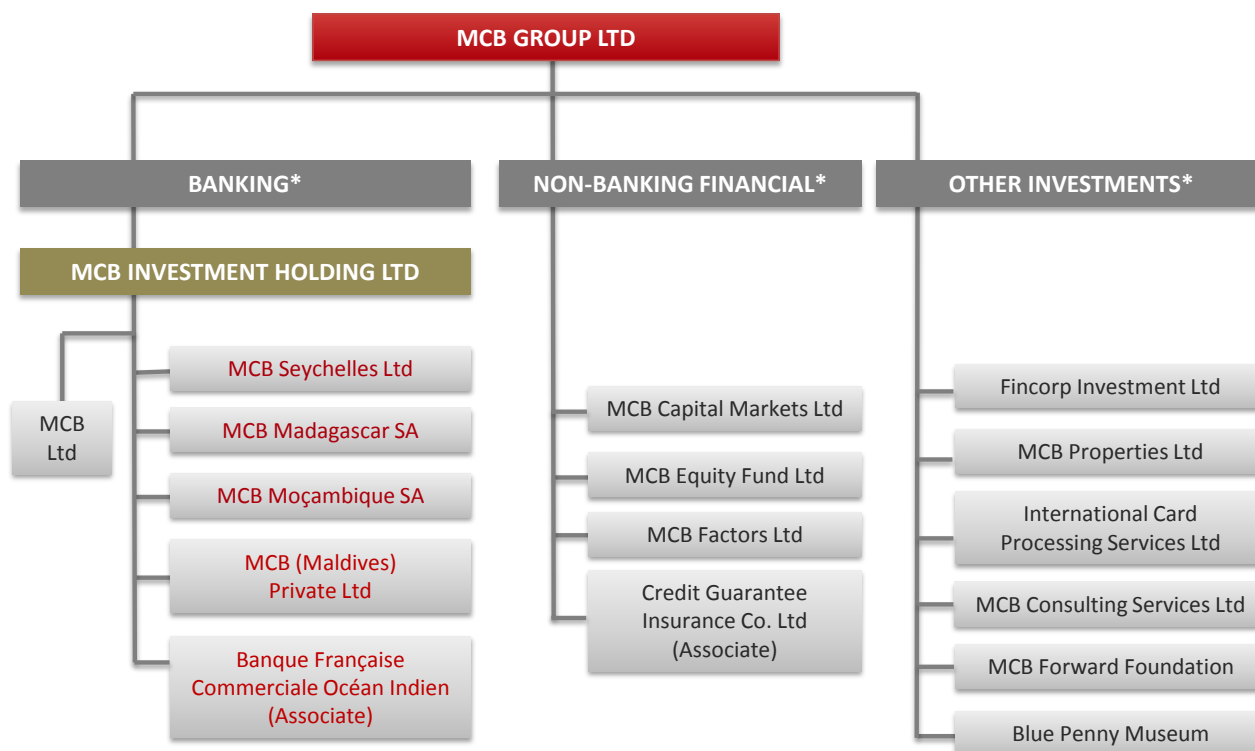
Financial Summary					
	Jun-14	Jun-13	Jun-12	Jun-11	Jun-10
Income statement (Rs m)					
Operating income	10,449	9,587	8,626	8,258	6,881
Profit before tax	4,153	4,408	4,253	4,522	3,572
Profit for the year	3,687	3,791	4,470	3,904	3,104
Statements of financial position (Rs m)					
Total assets	216,632	196,194	173,371	155,297	147,364
Total loans (net)	145,363	141,830	130,466	114,614	103,684
Total deposits	174,720	154,327	140,809	127,679	124,946
Shareholders' funds	22,099	22,693	20,278	17,827	15,159
Tier 1 capital	19,412	20,611	17,451	15,173	12,895
Risk-weighted assets	195,836	192,030	175,267	145,871	133,494
Performance ratios (%)					
Return on average total assets	1.8	2.1	2.7	2.6	2.2
Return on average equity	16.5	17.6	23.5	23.7	21.9
Return on average Tier 1 capital	18.4	19.9	27.4	27.8	25.6
Non-interest income to operating income	37.3	33.9	33.4	35.2	31.9
Loans to deposits ratio	86.6	94.5	94.9	92.2	85.3
Cost to income ratio	42.6	43.0	44.8	41.2	44.9
Capital adequacy ratios (%)					
Capital & reserves/Total assets	10.2	11.6	11.7	11.5	10.3
BIS risk adjusted ratio	13.1	11.4	10.7	12.0	11.4
of which Tier 1	9.9	10.7	10.0	10.4	9.7
Asset quality					
Non-performing loans (Rs m)	10,672	7,132	5,885	4,051	4,111
NPL ratio (%)	7.1	4.9	4.4	3.4	3.9
Allowance for loan impairment losses (Rs m)	5,882	4,059	3,140	3,157	2,925
Provision coverage ratio (%)	55.1	56.9	53.4	77.9	71.2

Note: June 2012 and June 2013 figures for capital base have been restated

Overview of the Organisation Restructuring

In March 2013, the organisation 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

CORPORATE INFORMATION

Overview of MCB Ltd

MCB Ltd is the longest-standing and leading banking institution in Mauritius, while establishing an increasingly prominent foothold in the region. Backed by its sound business model, modern and adapted channel capabilities, and high quality customer service, the Bank has, throughout its history, been true to its guiding principle of assisting in the advancement of individuals, corporates and the country at large, thus playing a key role in the socio-economic development of Mauritius. Furthermore, the Bank has diversified its activities in sub-Saharan Africa and beyond, as notably gauged by its participation in major cross-border deals and transactions as well as the deployment of the 'Bank of Banks' initiative.

Key Facts and Figures

Unmatched Domestic Franchise

- Dedicated business units servicing the local banking market
- Above 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

Entrenched International Activities

- Heightened foreign involvement supported by dedicated business units operating from Mauritius and representative offices located in Johannesburg and Paris (with a forthcoming one in Nairobi), while the Group's overseas reach is also leveraged through its foreign banking subsidiaries and associate
- Network of over 1,600 correspondent banks across the world
- Around 60 clients being serviced by the Bank in the context of the 'Bank of Banks' initiative
- Prominent participation in loan syndication as well as structured commodities and project financing



Credentials

- Moody's ratings:

○ 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

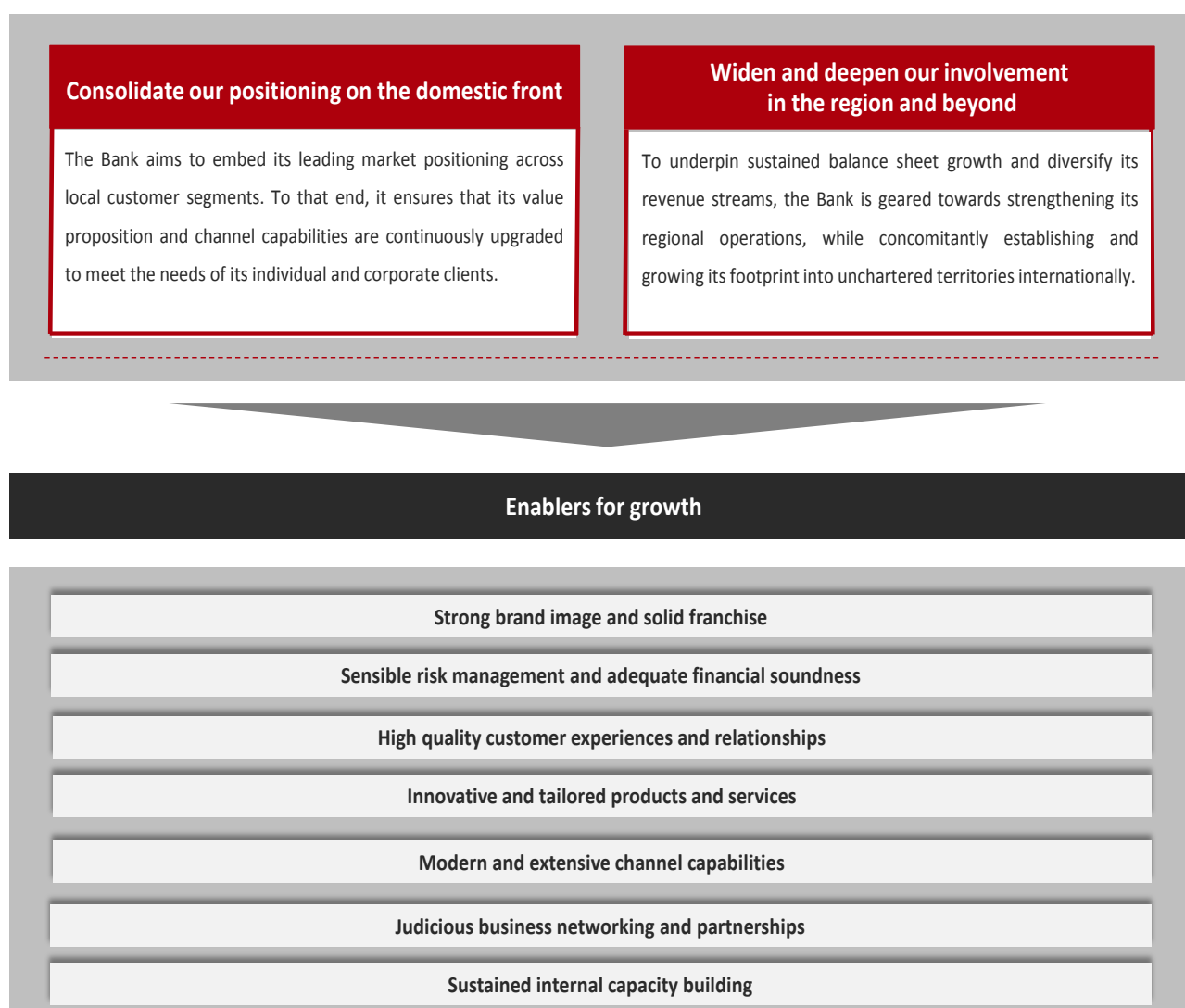
- 691st among the Top 1000 banks in terms of Tier 1 capital, 20th in Africa (1st in East Africa), and only Mauritian bank in the Top 25 African Banks (*The Banker Top 1000 World Banks, July 2014*)
- 50th among the Top 200 banks in Africa in terms of assets (*Jeune Afrique, The Africa Report 2013*)
- 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

Strategies for Growth

Underlying Philosophy

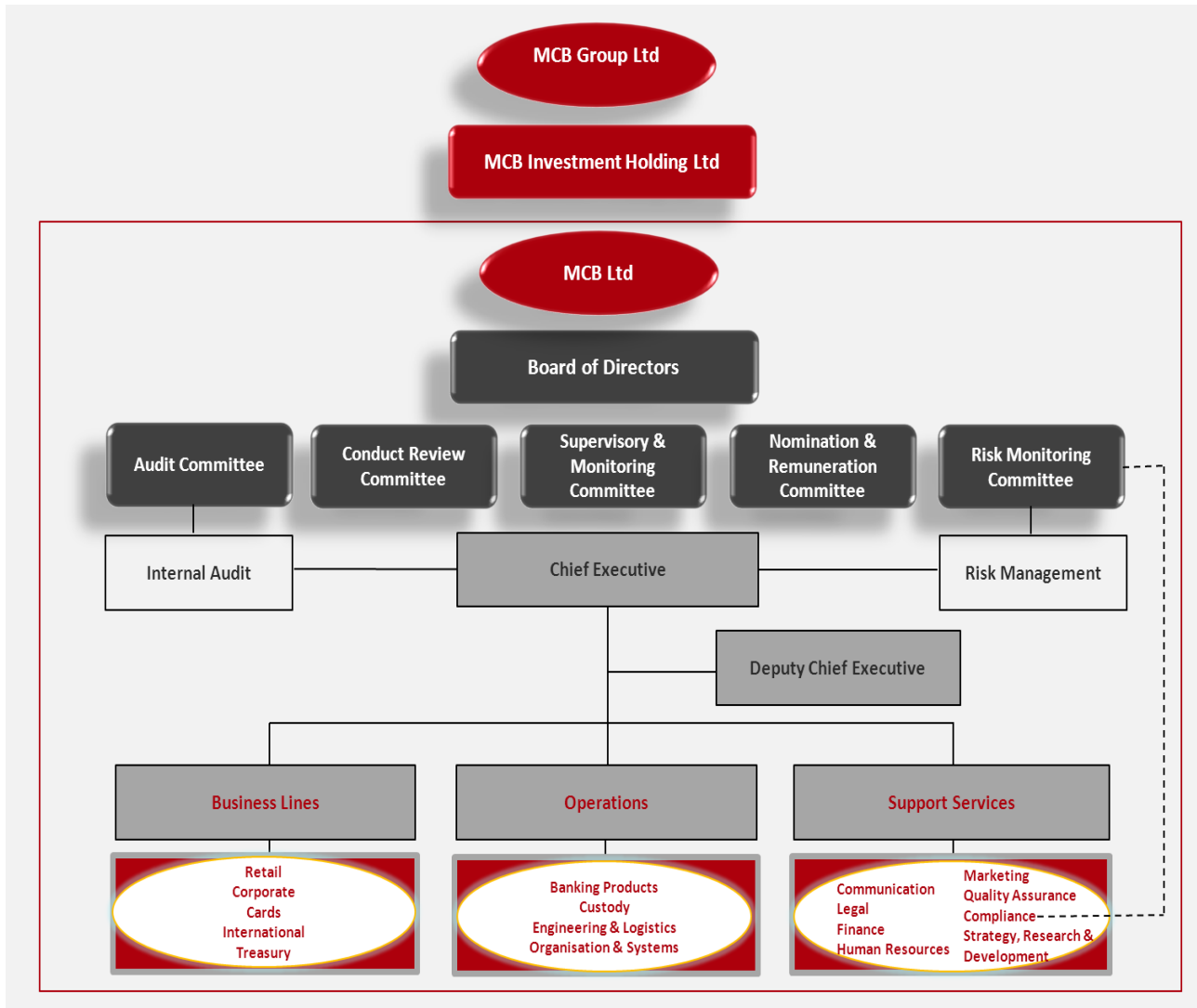
Building on its underlying foundations and innovative culture, the Bank strives to understand the changing needs and requirements of customers as well as to connect with them in the most effective manner. Consequently, alongside managing the risks related to its operations and activities, the Bank is geared towards broadening and diversifying its market involvement, while upholding service quality. All in all, the Bank is intent on pushing its boundaries further on the markets where it is involved, thus realising sustainable business value creation for the benefit of all its stakeholders.

General Orientations



Organisation Chart

In the context of the restructuring exercise, the revisited organisation chart of the Bank has been validated by the Board of Directors in April 2014 with a view to creating an unambiguous set-up in support of enhanced customer service quality and sustained business growth. The configuration, which is illustrated below, demonstrates the relationship of the Bank’s Board of Directors with MCB Investment Holding Ltd as the immediate shareholder, and with MCB Group Ltd as the ultimate shareholder. It also shows that the reporting lines to the Bank’s Executive Directors have been delineated into three distinct clusters: business lines, operations and support services. Beyond MCB Ltd, it can be noted that specific business units of the Bank undertake the delivery of dedicated services to the Group’s subsidiaries.

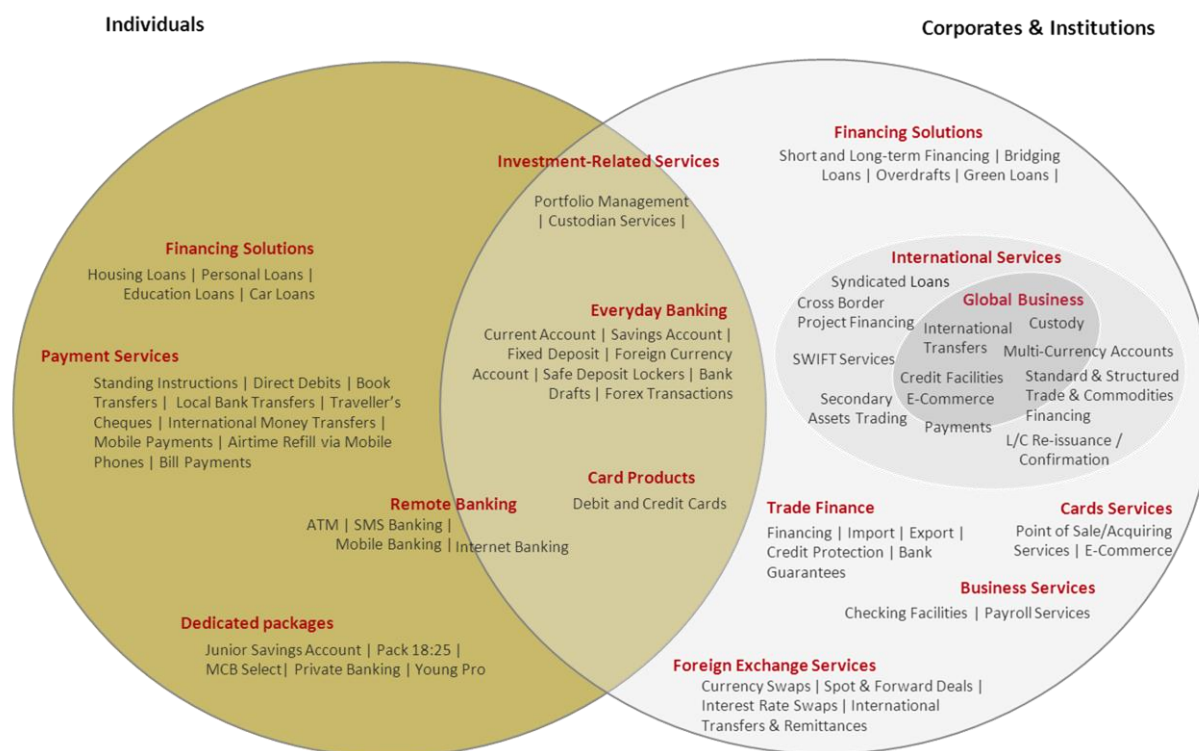


Our Main Segments



Our Products and Services

The financial solutions offered by the business segments of MCB Ltd are shown below. Of note, the Bank also acts as a channel to distribute products and services structured by other entities of the Group.



BOARD AND MANAGEMENT

Board of Directors

Non-executive and independent directors

Jean-Philippe COULIER (*Chairperson*)

Priscilla BALGOBIN-BHOYRUL

Jonathan CRICHTON

Gilles GUFFLET

Iqbal RAJAHBALEE

Simon Pierre REY

Executive directors

Antony R. WITHERS

Jean-François DESVAUX DE MARIGNY

Secretary to the Board

MCB Registry & Securities Ltd

(represented by Marivonne Oxenham)

Note:-

In the wake of the Group's restructuring exercise, J. Gérard HARDY (Chairperson), Jean Pierre MONTOCCHIO, Pierre Guy NOEL and Margaret WONG PING LUN resigned from the Board of MCB Ltd in March 2014. They now form part of the Board of MCB Group Ltd.

Committees of the Board

Supervisory and Monitoring Committee

Jean-Philippe COULIER { *Member as from January 2014* }
 { *Chairperson as from April 2014* }

Jean-François DESVAUX DE MARIGNY (*also acts as Secretary*)

Antony R. WITHERS

● *J. Gérard HARDY (Chairperson until March 2014) & Pierre Guy NOEL*

Audit Committee

Gilles GUFFLET (*Chairperson*)

Priscilla BALGOBIN-BHOYRUL

Simon Pierre REY (*as from January 2014*)

Secretary: MCB Registry & Securities Ltd (represented by Marivonne Oxenham)

● *Margaret WONG PING LUN*

Conduct Review Committee

Simon Pierre REY (*as from January 2014*) (*Chairperson*)

Priscilla BALGOBIN-BHOYRUL

Gilles GUFFLET (*as from January 2014*)

Secretary: Jean-François DESVAUX DE MARIGNY

● *J. Gérard HARDY & Margaret WONG PING LUN (Chairperson until December 2013)*

Nomination and Remuneration Committee

Jean-Philippe COULIER { *Member as from January 2014* }
 { *Chairperson as from April 2014* }

Iqbal RAJAHBALEE

Simon Pierre REY (*also acts as Secretary*)

Antony R. WITHERS (*as from January 2014*)

● *J. Gérard HARDY (Chairperson until March 2014), Jean Pierre MONTOCCHIO & Pierre Guy NOEL*

Risk Monitoring Committee

Jonathan CRICHTON (*as from January 2014*) (*Chairperson*)

Jean-Philippe COULIER

Jean-François DESVAUX DE MARIGNY (*as from January 2014*)

Iqbal RAJAHBALEE

Antony R. WITHERS

Secretary: Denis MOTET

● *Pierre Guy NOEL*

● *Left during the year following the Group restructuring*

General Management

Management Committee

Antony R. WITHERS	Chief Executive
Jean-François DESVAUX DE MARIGNY	Deputy Chief Executive
Raoul GUFFLET	Head – International
Eddy JOLICOEUR	Head – Human Resources
Alain LAW MIN	Head – Retail
Denis MOTET	Chief Risk Officer
Bhavish NAECK	Head – Finance
Jean-Michel NG TSEUNG	Head – Corporate

Other members of General Management

Paul CORSON	Deputy Head – Corporate
Jean Philippe COUVE DE MURVILLE	Chief Engineer
Koomaren CUNNOOSAMY	Team Leader – Corporate
Kent GRAYSON	Head – Organisation & Systems
Hemandra Kumar HAZAREESING	Team Leader – Corporate
Vicky HURYNAG	Head – Strategy, Research & Development
Roselyne LEBRASSE-RIVET	Head – Legal/In-House Lawyer
Steve LEUNG SOCK PING	Head – Quality Assurance
Binesh MANGAR	Head – Cards
Didier MERLE	Head – Private Banking
Stephanie NG TSEUNG-YUE	Head – Marketing
Abraham RAWAT	Head – Banking Products

CHAIRPERSON'S STATEMENT

Since taking office as Chairperson of MCB Ltd in April 2014, I have witnessed the continued commitment displayed by the Bank and the hard work put in by its staff to achieve long-term success for the organisation and its numerous stakeholders.

During this financial year, the restructuring of the Group has led to MCB Ltd, the Bank, operating in its own right under MCB Group Ltd as the ultimate holding company and MCB Investment Holding Ltd as the immediate and only shareholder of the Bank. This opens an opportunity for the Bank to enhance its operational flexibility and focus more effectively on its market development goals.

Throughout FY 2013/14, the Bank has had to withstand difficult economic and market conditions. Its sound business model and the dedication of its staff have resulted in a resilient balance sheet growth and continued expansion in core earnings. Results have, thus, stood firm, albeit dropping to Rs 3,687 million compared to the previous year's figure of Rs 3,791 million. This slight decrease is the consequence of significantly higher impairment charges, due to several of the Bank's Indian Global Business exposures becoming non-performing. By now, we have closed this line of business and strongly ring-fenced such exposures by means of notable provisions and active recovery moves.

In general, the Bank pursued its growth trajectory by consolidating its domestic market position and further broadening its foreign activities, notably in Africa. Hence, the Retail and Cards units are, more than ever, centered on the fulfillment of their customer needs and the provision of increasingly personalised and simplified banking experiences to their clientele. In addition to servicing individual customers, the Bank has increased its support to SMEs. Thus, it ranked 1st among 14 banks in respect of credit facilities approved under the Government-backed SME Financing Scheme, with total number of applications approved during the December 2011 to August 2014 period standing at 1,380. For its part, the Corporate unit remained the trusted business partner of all types of companies spanning various economic sectors. Overall, reflecting the continued confidence of the market in the institution, the Bank has maintained its leadership position in the local banking industry as gauged by market shares of around 40% in respect of credit to the economy and local currency deposits, and of some 50% for cards issued. Beyond local shores, MCB has reinforced its market presence in the Indian Ocean and some African countries by means of selective participations in loan syndication, structured commodities and project financing, while sustaining the deployment of the 'Bank of Banks' initiative, which mainly consists in the offering of outsourcing services to various financial institutions in Africa. Given its accomplishments, the Bank is ranked 20th in Africa (1st in East Africa) and is

the only Mauritian bank in the Top 25 African Banks, while standing at the 691st position among the Top 1000 World Banks as per The Banker.

In addition to fostering the well-being and professional advancement of its employees and while contributing to the economic progress of Mauritius, the Bank remains fully committed to the development of the Mauritian community and to the fulfillment of its role as a responsible and caring corporate citizen. In 2014, it has pursued extensive initiatives in favour of the welfare of the vulnerable communities of our society and of the natural environment. Health, education, welfare of children are, especially, promoted.

Moving forward, MCB Ltd is suitably equipped to satisfy its customer needs and confront the challenges of the environment, notably those originating from the difficult economic climate and the heightening of competitive pressures. It will leverage its solid prudential foundations, thus maintaining strong capitalisation levels that are well above the Basel III requirements as well as holding good liquidity and asset quality levels. With regard to the latter, the Bank has, already, terminated the principal sources of NPL and expects a reversal in the trend moving forward on account of measures taken to strengthen risk management. As it has always been the case, adherence to good corporate governance principles will be the mainstay of our operations, thereby helping us to maintain consistency and rigour in our decision-making process and high standards of services to our clientele. Similarly, our underlying approach to risk management remains embodied by an effective control framework, a well-defined segregation of duties, and a strong company culture that fosters integrity and compliance with relevant industry codes and standards. Above all, the Bank will make sure that, while expanding its activities, it remains in a good shape in order to strictly comply with all of the existing and future regulatory requirements.

On behalf of the Board, I wish to express my appreciation to the Management and staff of MCB Ltd for their continued dedication and hard work in developing the Bank activities in the current challenging context. Besides, I would like to thank our fellow members of the Board for their support and contribution.

Jean-Philippe COULIER

Chairperson

MCB Ltd



CHIEF EXECUTIVE'S STATEMENT

The last financial year has been a defining period in MCB's history after the Group restructuring exercise led to MCB Ltd operating as a stand-alone entity. This revised configuration is viewed as a new beginning for the organisation in its quest to enhance the way it operates and connects with its clients. MCB Ltd remains committed to scaling new heights, while delivering strong and sustainable returns for the benefit of its shareholder, clients and other numerous stakeholders. The Bank's loyal, experienced and hardworking staff is totally committed at all levels to raising the level of customer experience and satisfaction. This provides the Bank with a deep knowledge of customers gained over a long period of time and is the basis of enduring customer relationships – these are the foundation of repeat business, a key competitive advantage for the Bank as well as a source of stability in its deposit base, thereby underpinning year-on-year revenue growth.

The sections that follow highlight the key moves that have been undertaken in support of the organisation's long-term growth aspirations, the foundations of the resilient performance delivered by the Bank as well as the vision and strategic intents for accomplishing an even better future amidst multiple challenges.

Underlying revenue growth in FY 2013/14 was 9.0% reaching around Rs 10.5 billion, consisting of 3.4% net interest income growth and 20% rise in non-interest income, albeit the latter figure reflected a non-recurring net gain on securities sold. Operating profit reached Rs 6.0 billion, compared to Rs 5.5 billion in the previous year, although pre-tax profit declined by 5.8% to Rs 4.15 billion compared to Rs 4.41 billion, following a rise in the allowance for credit impairment from Rs 1.06 billion to Rs 1.84 billion arising out of the Bank's Global Business Indian exposures. Overall, the bottom-line net profit of the Bank declined from Rs 3.79 billion to Rs 3.69 billion in FY 2013/14, reflecting an increase in the special levy on the Segment A business of banks to 10%, thus making for an effective tax rate of 25.0% on this business.

Pursuant particularly to the restructuring exercise, the organisation structure and functioning of the Bank have been revisited at various levels. Notably, the reporting lines into the Executive Directors have been clarified into three specific clusters, namely Business Lines, Operations and Support Services, while the General Management team has now been included in the broad banding exercise previously carried out for the Bank. Furthermore, operating under the chairmanship of the Chief Executive and comprising the Heads of key business lines and support functions, a Management Committee has been created to provide a holistic and integrated view to ensure the smooth running of the Bank. The Bank's risk management

framework has been reviewed with specific functions attributed to the Chief Risk Officer and his recently appointed Deputy. In respect of other business units, the assurance functions have been reshaped, the marketing-related units merged, and the Global Business unit revamped in light of its loan impairment issues. The aim of these organisational and operational changes is to convey the necessary clarity in further upgrading the Bank's operational efficiency whilst better attending to the demanding needs and expectations of clients.

Notable pressures were exerted on the Bank's financial performance during the last financial year. Credit demand in Mauritius was affected by the continued slow pace of private sector investment, while interest margins were squeezed by competitive strains in specific segments and the significant drop in yields on Government bonds and treasury bills amidst sharply increased excess liquidity conditions. The Bank has effectively coped with these challenges and pursued its expansion path domestically and abroad, which, as noted above, resulted in its operating income expanding by 9.0%, with the rate attaining some 4.8% after excluding the net gain on the sale of securities. The Bank's underlying revenue growth has, therefore, progressed satisfactorily against the testing operating circumstances and early signs of an improved financial performance have been noticed for the opening months of FY 2014/15. This outcome can be viewed as being generally resilient in the current circumstances.

The significant rise in impairment charges to cover for some sizeable Indian corporate files within our Global Business unit turning out to be non-performing was an unusual setback to our asset quality levels and concerns some specific files that have now been adequately provisioned. The Bank has taken solid and decisive moves to completely ring-fence the impaired exposures and make sure that such cases do not re-occur in the future. Principally, in concurrence with the general strengthening of the Bank's internal risk management processes, the following measures have been taken: (i) the Bank's recovery function has been endowed with enlarged powers to help it in its dedicated task of recovering amounts due by Indian corporates; and (ii) the other clients of the Global Business unit have been absorbed into the Corporate Banking unit following the overhaul. It is worth pointing out that the legal system in India is insufficiently conducive to the crystallisation of security or the winding up of defaulting borrowers, with the consequence that recovery measures will likely be slow to yield results.

The Bank's financial performance has been underpinned by the continued steady growth of its domestic operations and the expansion of its international footprint, notably on the African continent. The Retail unit has broadened its channel capabilities and diversified its market offering, as gauged by the increasing prominence of its Private Banking segment, and the Bank, through its Cards unit, has moved decisively to introduce digital banking in Mauritius by launching 'Juice', which is still the first and only mobile banking

and payments solution in Mauritius. Besides, the Bank launched MCB UnionPay card as a first in Africa. The value proposition to corporates has been broadened, with the Bank becoming a prime provider of 'green' loans under the line provided by Agence Française de Développement and establishing a 'Knowledge Centre' to assist Small and Medium Enterprises in setting up and managing their businesses. Beyond Mauritius, the Bank has managed to (i) strengthen its business relationships and market presence; (ii) diversify its network of correspondent banks worldwide; (iii) further its 'Bank of Banks' initiative; (iv) leverage expertise in asset-based structured project financing; and (v) entrench its appeal as a privileged partner for structured commodity financing. Key actions in support of business growth included: (i) the hosting of the 5th 'Africa Forward Together' seminar (welcoming 55 delegates from 38 financial institutions in 18 countries) to showcase its ability to serve banks in Africa; and (ii) the sponsoring of and participation into key regional and international trade and business networking events. On another note, the Bank's business development has been supported by internal moves to improve the productivity of resources, the attractiveness of financial solutions, the quality of services and the risk-return profile of activities, underpinned specifically by the training of human capital, the centralisation and modernisation of operations, as well as the upgrading of technology.

There are, in the wake of the slow-moving and uneven global economic recovery, no conclusive signs yet of a material healing of the sluggish business environment. The Bank is, however, confident of demonstrating continued solid revenue growth in FY 2014/15 on the back of its market development agenda and application of diligent risk management principles. Simultaneously the Bank will look to achieve a return on capital commensurate with the expectations of its stakeholders given its solid capitalisation combined with amply sufficient funding and liquidity positions that provide a sound base for growth, while returning to previous levels of asset quality. The Bank would welcome the adoption of reform measures by the Mauritian authorities to encourage a greater level of economic growth in Mauritius as well as a review of the special levy imposed on banks and the stabilisation of liquidity and yield conditions in the domestic money market.

The Bank will abide by all regulatory requirements, notably those pertaining to Basel III rules and has taken due cognizance of the 'Banking Your Future: Towards a Fair & Inclusive Banking Sector' report released by the Bank of Mauritius (BoM). It stands ready to adhere to measures concerning the report as announced by BoM.

All in all, by staying true to its principles and policies that shaped and embedded the Bank's success over more than 176 years now, the Bank will keep on unlocking potential and maintaining progress through strengthening its balance sheet, increasing the proficiency of operations, managing costs carefully, and

harnessing an innovative and adaptive approach to serving customers. At the end of the day, by leveraging its strategic assets and capabilities, focus will be put where customers need it the most and where the Bank can meet their expectations better than anyone else, thereby remaining worthy of their trust in us. Thus, the Bank will continue to do its utmost to meet customers' financial needs, generate value for them, and help them succeed.

Antony R. WITHERS

Chief Executive

MCB Ltd

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'): The Mauritius Commercial Bank Limited

Reporting Period: 1 July 2013 to 30 June 2014

We, the Directors of The Mauritius Commercial Bank 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.

Jean-Philippe COULIER
Chairperson

Antony R. WITHERS
Director

30 September 2014

CORPORATE GOVERNANCE REPORT

Introduction

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 essential to achieving and maintaining high levels of public trust and confidence in the banking system, which constitute the premise to its effective functioning.

The Board of MCB Ltd is fully 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 bank-wide awareness of its operating ethics and the stewardship and close supervision of the management of MCB Ltd by the Board of Directors in line with adopted principles established within MCB Group. Fundamentally, while setting the stage for the organisation to duly meet up with evolving regulatory requirements, the adherence by MCB Ltd to good governance best practices provides a core foundation to effectively cope with the challenges also posed by the uncertain operating environment. In this respect, the restructuring exercise, which has recently entailed the unbundling of non-bank operations from MCB Ltd should effectively equip the Bank to respond to the heightened exigencies implied by advocated norms both locally and internationally with its capital being fittingly ring-fenced within a flexible and autonomous structure.

Towards ensuring that the Bank operates in a safe and sound manner, anchored on appropriate checks and controls, and in compliance with applicable laws and regulations, MCB Ltd has instituted a clear structure for setting out policies and establishing systems of control emanating directly from the Board, which manifestly identify and manage the risks inherent to its businesses. In this context, the Risk Policy as approved by the Board caters for the main risk areas such as credit risk, operational risk and market risk. Specifically, there is a clear separation between the executive role of day-to-day decisions relating to credit and the Board's role of setting out the credit policy and ensuring that the business is effectively run in accordance with such policy through an adequate organisational structure and proper control and reporting systems. Moreover, the Bank adheres to the underlying Basel principles. To this end, MCB Ltd is committed to complying with the new Basel III rules pertaining to eligible capital as contained in guidelines recently issued by the Bank of Mauritius (BoM). Besides, the Bank is guided by its Internal Capital Adequacy

Assessment Process (ICAAP) framework towards ensuring that internal capital targets are aligned with the set risk appetite and has also adopted a formal disclosure policy as defined in the Basel II framework.

The Bank strives to promote the highest standards of business integrity, transparency and professionalism and ensures that all its activities are managed responsibly and ethically. In this respect, the Bank 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 adheres to the revised Mauritius Bankers Association Code of Ethics and of Banking Practice issued in 2013 and subscribes to the Code of Corporate Governance for Mauritius, which was issued in October 2003.

In fact, whilst seeking to optimise shareholder value, MCB Ltd places due emphasis on securing long-term and ethical stakeholder relationships by way of striking a balance between achieving adequate business growth and meeting the expectations of customers, regulators and society as a whole. To this end, the Bank, being particularly conscious of its responsibilities as a major player in Mauritius, 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.

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 Bank'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 Bank. 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. As such, the Bank conducts an induction programme for newly appointed directors as regards their roles and responsibilities alongside providing them with an overview of the Bank's main functions, strategic orientations and main risk areas as well as the Group's activities, strategy, structure and major policies. Furthermore, in line with the BoM Guideline on Corporate Governance, revised in August 2014, a mechanism is in place to evaluate the performance of Board members, with the process being reviewed and periodically refined.

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

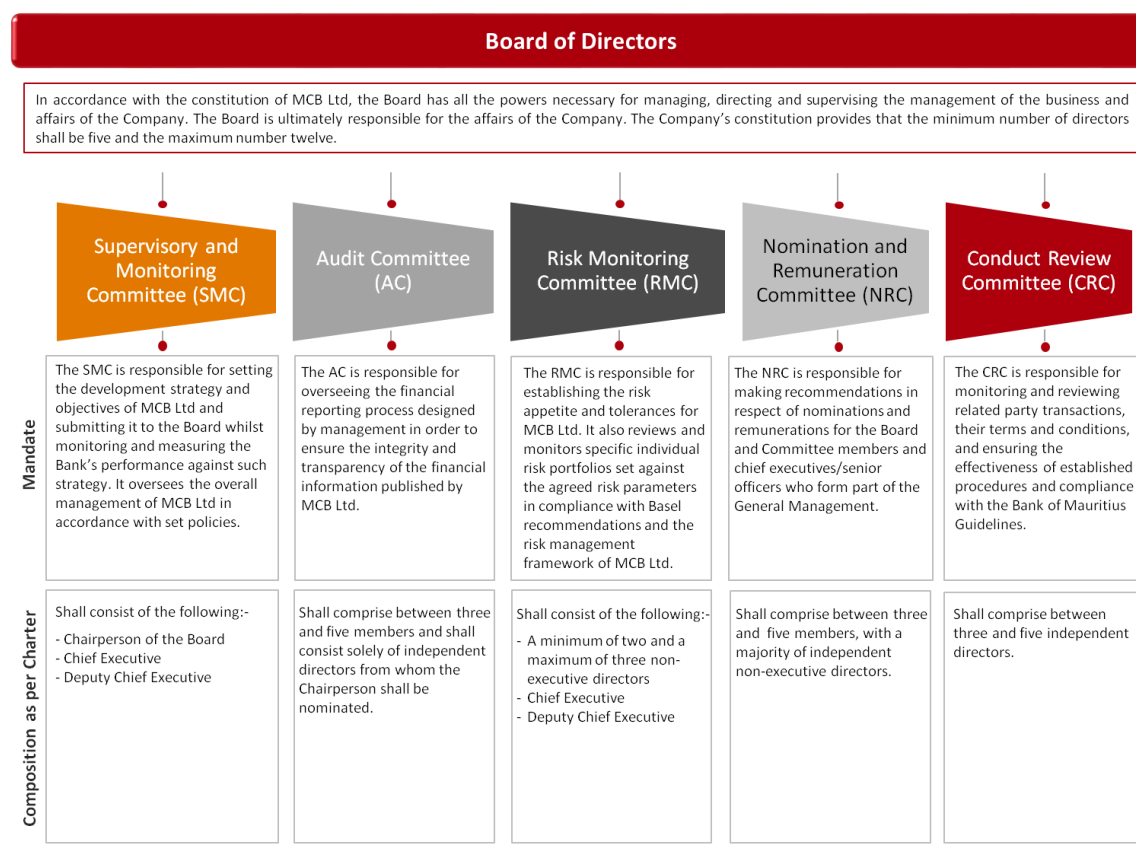
Constitution of The Mauritius Commercial Bank Limited

A new constitution was adopted on 3 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;
- 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;
- subject to the Banking Act, the directors shall have the power at any time to appoint any person to be a director, either to fill a casual vacancy or as an addition to the existing directors but so that the total number of directors shall not at any time exceed the number fixed in accordance with the Constitution. The directors appointed shall hold office only until the next following annual meeting of shareholders and shall then be eligible for re-election;
- no shareholder, director or other officer of the Company may plead ignorance that the Constitution of MCB Investment Holding Limited (MCBIH) provides for Reserved Matters. These provide that the representatives of the shareholders shall not vote on a shareholders’ resolution of The Mauritius Commercial Bank Ltd which would trigger shareholders’ rights under sections 105, 108 or 114 of the Act without prior consent of the shareholders of MCB Group. Such shareholders’ resolutions include:

- adoption of a Constitution or the alteration or revocation of the Constitution;
 - reduction of the stated capital of the company under section 62 of the Act;
 - approval of a major transaction;
 - approval of an amalgamation of the company under section 246 of the Act;
 - putting the company into liquidation; and
 - variation of rights attached to a class of shares.
- at each Annual Meeting, one-third of the directors for the time being, or if their number is not a multiple of three, then the number nearest to, but not exceeding one-third, shall retire from office and shall be eligible for re-election. The directors to retire every year shall be those who have been longest in the office since their last election.

Board Governance Structure



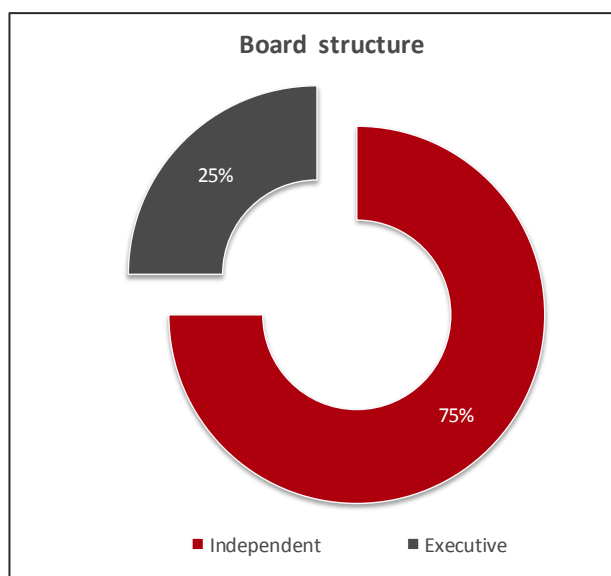
Board of Directors

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

- the composition of the Board with preferably a majority of independent non-executive directors;
- the requirement that the Chairperson of the Board must be an independent non-executive director;
- the creation of Committees;
- a corporate code of conduct addressing, *inter alia*, issues relating to conflicts of interest;
- the establishment of strategic objectives;
- the appointment and remuneration policy of members of the General Management;
- the existence of clear lines of responsibility and accountability throughout the organisation;
- Board performance evaluation; and
- the provision of timely and accurate information to security holders, 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: 2 executive and 6 non-executive, all of whom are independent.



Committees of the Board

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

the Nomination and Remuneration Committee and the Risk Monitoring Committee. Of note, corporate governance matters are taken up at the level of the Board which ensures that related practices established by MCB Group Ltd, the ultimate holding company, are duly adhered to by the Bank.

The composition of the committees appears on Page 12 of the Annual Report.

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

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

<p>Supervisory and Monitoring Committee</p>	<p>Presided by the Chairperson of the Board, who is an independent non-executive director, the committee also consists of the Chief Executive and Deputy Chief Executive, as per its charter. It usually meets on a weekly basis.</p> <p>The committee is, subject to any decision which the Board may take from time to time, competent to exercise all or any powers, authorities and discretions vested in or exercisable by the Board with the exception of those set out in the Seventh Schedule of the Companies Act 2001 and those relating to: (i) the appointment and remuneration of chief executives and of senior officers who, when appointed, shall form part of the General Management of the Bank; and (ii) the nomination and remuneration of directors.</p> <p>Its main responsibilities include:</p> <ul style="list-style-type: none"> • submitting to the Board the development strategy of the Bank; • setting out the corporate values and principal policies, including the credit policy, in respect of the conduct of the business; • ensuring that the organisation structure is best suited for the implementation and realisation of such policies and strategy while providing for clear lines of responsibility and accountability; • ensuring that the Chief Executive and Deputy Chief Executive are managing the Bank in accordance with set policies and strategy; • liaising with all the Board Committees; • proposing the dividend policy and any change in the share capital; • monitoring strategic alliances and major litigation issues; and • ensuring that the Board is permanently informed of the running of the affairs of the Bank and of the major subjects and decisions.
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<p>Audit Committee</p>	<p>The committee currently consists of three non-executive independent directors. It meets at least four times a year corresponding to the Bank's quarterly reporting cycle. In particular, it reviews the quarterly results and annual financial statements before these are approved by the Board.</p> <p>The activities of the Audit Committee include, <i>inter alia</i>, regular reviews and monitoring of the following:</p> <ul style="list-style-type: none"> • the effectiveness of the Bank's internal financial control and risk management systems; • the effectiveness of the internal audit function; • the independence of the external auditors and the assessment of their performance; • the remuneration of the external auditors and their supply of non-audit services; and • the Bank's procedures for ensuring compliance with laws and regulations relevant to financial reporting and with its internal code of business conduct. <p>In carrying out its responsibilities, the committee meets regularly with the Executive Management of the Bank and regular reports are received from both internal and external auditors. During the course of its regular meetings, the committee also receives oral reports from the Managers of the main business units and, more particularly, from the Chief Risk Officer and Head of Internal Audit. Separate sessions are also regularly held with the external auditors, without Management being present. The terms of reference of the Audit Committee have been approved by the Board and are reviewed as necessary. The committee has satisfied its responsibilities for the year in compliance with its terms of reference.</p>
<p>Risk Monitoring Committee</p>	<p>Consisting of five members including three non-executive independent directors, the committee meets at least on a quarterly basis. The Chief Risk Officer acts as Secretary.</p> <p>The main responsibilities of the Risk Monitoring Committee include:</p> <ul style="list-style-type: none"> • monitoring the credit risk and market risk portfolios of the Bank, as well as the operational risk tolerance in compliance with the Basel II Accord; • overseeing the credit concentration risk, in respect to the related BoM Guideline, applicable as from 2009 and subsequently revised in 2011 and 2013; • monitoring the quality of assets by segment and by product; • scrutinising the risk profile of large exposures; • monitoring the utilisation of capital to make sure that the Bank has, at any time, a capital adequacy ratio corresponding to at least the regulatory minimum while performing regular stress tests thereon as part of the ICAAP; • ensuring that the Bank's security structure is adequate and that appropriate levels of protection for people and the Bank's assets are established; • ensuring that the confidentiality, integrity, availability and protection of the Bank's information assets are under constant review and that related information systems software and hardware devices are adequate and effective; • ascertaining that adequate measures are taken to ensure compliance with all relevant laws, regulations, codes of conduct and standards of good governance; and • monitoring the foreign country exposure limits once these have been approved by the Board following the recommendations of the Country Risk Committee. <p>The committee receives regular reports and recommendations following work done by the Risk Strategic Business Unit (SBU), the Executive Credit Committee, the Assets and Liability Committee, the Information and Operational Risk and Compliance Committee, the Security Business Unit (BU) and the Country Risk Committee. Through its Chairperson, the committee reports to the Board in a timely manner on all risk issues that could have an impact on the operations and/or reputation of the Bank.</p>

<p>Nomination and Remuneration Committee</p>	<p>The committee currently consists of four members namely the Chief Executive and three non-executive independent directors, including the Chairperson of the Board. The committee meets at least twice a year and on an ad hoc basis when required.</p> <p>Its main responsibilities include:</p> <ul style="list-style-type: none"> ascertaining whether the potential directors, chief executives and senior officers are fit and proper persons, have the required skills and expertise, and are free from material conflicts of interest, and ensuring that an induction programme is provided to new directors; reviewing the Board structure, size and composition (including balance between independent/non-executive/executive) and the composition of Board Committees; reviewing, for submission to the Board, remunerations for directors and executives/senior officers as well as proposals of promotion to the General Management; and reviewing the succession plan of senior executives and the list of talents.
<p>Conduct Review Committee</p>	<p>Consisting of three non-executive independent directors, the committee meets four times a year.</p> <p>Its main responsibilities include:</p> <ul style="list-style-type: none"> ensuring that related party transactions' policy and procedures have been established by Management to comply with the requirements of the BoM Guidelines and ensuring that the policy is approved by the Board; periodically reviewing the existing procedures to ensure their continuing adequacy; in particular, ascertaining that they are sufficient to identify any transactions with related parties that may have a material effect on the stability and solvency of the Bank and ensuring that such transactions are properly dealt with; reviewing and approving credit exposures to related parties and ensuring that market terms and conditions are applied to all related party transactions; and reporting on a quarterly basis to the Board of Directors on matters reviewed by it, including exceptions to policies, processes and limits.

Directorate

Directors' Profiles

The Board consists of 8 members who are experienced professionals with expertise in a variety of fields. The average age of directors stands at 59 years.

Priscilla BALGOBIN-BHOYRUL – age 39

Holds an LLB (Honours) from the London School of Economics and Political Science and a Higher Diploma in Law from City University, UK. She was called to the Bar of England and Wales in 1998 and is a member of the Middle Temple. She is also a member of the International Bar Association, American Bar Association

and Mauritian Bar Association. Priscilla is part of Balgobin Chambers and specialises mostly in civil, commercial, banking and industrial law matters. She is a past director of the Mauritius Union Assurance Company Limited, where she also sat on the Audit Committee. She occupies various positions within local and international organisations and is presently the National President of the World Jurist Association and a member of the Public Bodies Appeal Tribunal.

She was first appointed to the Board of Directors of MCB Ltd at the shareholders' meeting of December 2012. She is currently a member of the Audit Committee and of the Conduct Review Committee.

Jean-Philippe COULIER – age 65

Holds a 'DESS' in Law from Paris II and a Diploma in Political Science from Sciences Po, Paris. During his career, he has accumulated extensive experience in the banking sector, having worked for the Société Générale Group for some 40 years. Over this period, he has assumed a range of high-level responsibilities within the group, acting as Director, Chief Operating Officer and Chief Executive Officer in its various offices based worldwide. Before his retirement from Société Générale in early 2013, he was the Vice Chairman and Managing Director of the National Société Générale Bank in Cairo, Egypt.

He was first appointed to the Board of Directors of MCB Ltd at the shareholders' meeting of December 2012. He is currently Chairperson of the Board of Directors. He also acts as Chairperson of the Nomination and Remuneration Committee and of the Supervisory and Monitoring Committee, whilst being a member of the Risk Monitoring Committee.

Jonathan CRICHTON – age 59

Holds a Combined Honours degree in History and Politics from the University of Exeter and a Diploma from the 'Institut Européen des Hautes Études Internationales' Nice University. He is a Fellow of the Financial Services Institute of Australia and an Associate of the Institute of Financial Services, UK. He retired from HSBC after 32 years of service. As an International Manager, he held a wide range of high-level responsibilities within the group and gained extensive experience in banking. He has led various divisions in the Europe and Asia-Pacific regions of HSBC, whilst sitting on the board of several of the latter's subsidiary companies either as Chairperson or Member.

He was first appointed to the Board of Directors of MCB Ltd at the shareholders' meeting of December 2013. He is currently the Chairperson of the Risk Monitoring Committee.

Jean-François DESVAUX DE MARIGNY – age 60

Fellow of the Institute of Chartered Accountants in England and Wales, he joined MCB in 1986 after several years of experience as an auditor in Europe. He was involved in the launching of the Stock Exchange of Mauritius in 1989. He has participated in the development of MCB's regional network and is a director of a number of the Group's subsidiaries and associates.

He is currently the Deputy Chief Executive of MCB Ltd and a member of the Supervisory and Monitoring Committee and of the Risk Monitoring Committee.

Gilles GUFFLET – age 69

Fellow of the Institute of Chartered Accountants in England and Wales, he has accumulated wide-ranging experience in the financial services and auditing fields. From 1967 to 2001, he worked at Coopers & Lybrand, France, where he acted as a partner since 1974. In fact, he has shouldered an array of high-level responsibilities during his stint there. Whilst being a Board member and a member of the Executive Committee, he headed the Audit as well as the Finance and Administration departments and has also served on several committees of Coopers & Lybrand International. Following the merger that created PricewaterhouseCoopers in 1997, he became a member of the new firm's 50 strong Global Leadership team and acted as Financial Controller for Europe, the Middle-East and Africa.

He was first appointed to the Board of Directors of MCB Ltd at the shareholders' meeting of December 2011. He is currently the Chairperson of the Audit Committee and a member of the Conduct Review Committee.

Iqbal RAJAHBALEE – age 60

Holds an LLB and LLM from the London School of Economics and Political Science. He is a Senior Counsel, with over 25 years of practice at the Mauritius Bar, during which he, amongst others, advised on a variety of cross-border transactions in the financial services industry. He is a founder of the Mauritius offshore industry and served as the first Executive Director of the former Mauritius Offshore Business Activities Authority. He was appointed as the first Chief Executive of the Financial Services Commission, the non-bank regulatory body in Mauritius. Iqbal served for more than 10 years at the Attorney General's Office, which he left as Assistant Solicitor General. He is often called upon by the Government to advise on financial law matters and was responsible for drafting numerous pieces of legislation, notably the Trusts Act, the Securities Act, the Financial Services Development Act and the Insurance Act. Iqbal has led several government delegations in relation to issues such as international taxation and trading agreements.

He was first appointed to the Board of Directors of MCB Ltd at the shareholders' meeting of December 2012. He is currently a member of the Risk Monitoring Committee and of the Nomination and Remuneration Committee.

Simon Pierre REY – age 61

Holds a BA (Honours) in Economics from the University of Essex and is a Member of the Institute of Chartered Accountants in England and Wales. He has worked for some 25 years with Ireland Blyth Limited in the finance field until his retirement in December 2012. Over this period, he has occupied important ranks within the group, notably as Group Finance Director/Controller, Company Secretary and Chief Operating Officer, amongst others. Furthermore, he was a board member of various companies within the Ireland Blyth Group, whilst serving on several board committees of these entities, namely the Audit and the Corporate Governance Committees.

He was a non-executive director of MCB Ltd from 1994 to 1996 and in 2000. He was re-appointed to the Board of Directors of MCB Ltd at the shareholders' meeting of December 2013. He is currently Chairperson of the Conduct Review Committee, whilst being a member of the Audit Committee and of the Nomination and Remuneration Committee.

Antony R. WITHERS – age 60

Holds an MA in Economics from Christ's College, Cambridge and was also awarded an MBA by IMD, in Lausanne, Switzerland. He is currently Chief Executive of MCB Ltd, which he joined in April 2006. He has accumulated wide-ranging experience in the banking sector shouldering an array of high-level responsibilities in a number of institutions. These include Citibank, Bank of Montreal, S.G Warburg & Co. Limited, UBS Securities Limited, Commerzbank A.G, and Lloyds TSB Bank plc where he was Director and Global Head of Financial Institutions & International Trade Finance. He acted as Chairman of the Mauritius Bankers Association between November 2006 and May 2010.

He was first appointed to the Board of Directors of MCB Ltd at the shareholders' meeting of December 2006. He also sits on various board committees of the Bank, namely the Supervisory and Monitoring Committee, the Risk Monitoring Committee and the Nomination and Remuneration Committee.

Board and Committee Attendance

		Board of Directors	Board Committees				
			Supervisory and Monitoring	Audit	Risk Monitoring	Nomination and Remuneration	Conduct Review
Number of meetings held during FY 2013/14		11	25	4	4	3	4
Meetings attended							
Executive	Pierre Guy NOEL (<i>until March 2014</i>)	9	14	-	2	2	-
	Antony R. WITHERS	10	21	-	4	1	-
	Jean-François DESVAUX DE MARIGNY	11	21	-	2	-	-
Independent	J. Gérard HARDY (<i>until March 2014</i>)	9	17	-	-	2	2
	Priscilla BALGOBIN-BHOYRUL	9	-	4	-	-	2
	Jean-Philippe COULIER	10	9	2	4	1	-
	Jonathan CRICHTON (<i>as from December 2013</i>)	5	-	-	2	-	-
	Gilles GUFFLET	5	-	4	-	-	4
	Navin HOOLOOMANN, c.s.k. (<i>until December 2013</i>)	6	-	-	-	2	-
	Iqbal RAJAHBALEE	8	-	-	3	3	-
	Simon Pierre REY (<i>as from December 2013</i>)	4	-	2	-	1	2
Others	E. Jean MAMET (<i>until December 2013</i>)	6	11	-	2	-	-
	Jean Pierre MONTOCCHIO (<i>until March 2014</i>)	7	-	-	-	2	-
	Margaret WONG PING LUN (<i>until March 2014</i>)	8	-	2	-	-	2

Directors' Interests and Dealings in Securities

Following the restructuring exercise, the directors no longer hold shares of their own company given that MCB Investment Holding Ltd is henceforth the sole direct shareholder of MCB Ltd. As regards directors' dealings in securities of companies within the Group, 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

interest 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 the transactions effected by them during the year.

Interests in MCB Group Ltd shares as at 30 June 2014	Number of shares	
	Direct	Indirect
Jean-Philippe COULIER	500	-
Priscilla BALGOBIN-BHOYRUL	500	-
Jean-François DESVAUX DE MARIGNY	286,307	267,307
Gilles GUFFLET	500	-
Iqbal RAJAHBALEE	500	-
Simon Pierre REY	8,636	-
Antony R. WITHERS	102,879	-

Transactions during the year	Number of shares	
	Purchased	Sold
Simon Pierre REY	4,300	-
Antony R. WITHERS	12,879	-

Interests in MCB Ltd Subordinated Notes as at 30 June 2014	Number of notes	
	Direct	Indirect
Simon Pierre REY	4,525	7,367
Antony R. WITHERS	5,000	-

Note that 3,675 MCB Ltd Subordinated Notes were held by Simon Pierre Rey as at the date of issue of the Notes in August 2013.

Interests in Fincorp Investment Ltd	Number of shares	
	Direct	Indirect
Jean-François DESVAUX DE MARIGNY	-	88,225

Directors' Remuneration

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

Remuneration and benefits received	From MCB Ltd Rs '000	From Subsidiaries Rs '000	Total Rs '000
J. Gérard HARDY (<i>until March 2014</i>)	1,908	-	1,908
Jean-Philippe COULIER	1,420	-	1,420
Priscilla BALGOBIN-BHOYRUL	634	-	634
Jonathan CRICHTON (<i>as from December 2013</i>)	330	-	330
Gilles GUFFLET	852	-	852
Navin HOOLOOMANN, c.s.k. (<i>until December 2013</i>)	281	-	281
E. Jean MAMET (<i>until December 2013</i>)	954	70	1,024
Jean Pierre MONTOCCHIO (<i>until March 2014</i>)	356	83	439
Iqbal RAJAHBALEE	723	-	723
Simon Pierre REY (<i>as from December 2013</i>)	420	-	420
Margaret WONG PING LUN (<i>until March 2014</i>)	491	11	502
Total Non-Executive	8,369	164	8,533
Pierre Guy NOEL (<i>until March 2014</i>)	19,305	-	19,305
Antony R. WITHERS	20,998	-	20,998
Jean-François DESVAUX DE MARIGNY	14,567	-	14,567
Total Executive	54,870	-	54,870
Total (Non-Executive and Executive)	63,239	164	63,403

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

Directors' Service Contracts

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

Executive Management

The conduct of business is entrusted to the Management team of the Bank which has the responsibility to operate within the strategic framework, risk appetites and policies set by the Board while adhering to regulatory requirements. To this end, various committees involving the Bank's senior officers are in place to deliberate on key issues for informed decision making. In particular, following the institution of a reviewed



organisation chart for the Bank as approved by the Board in the wake of the restructuring exercise, a Management Committee has been set up to assist the Chief Executive and Deputy Chief Executive to manage the day to day running of the Bank's business and affairs. Of note also, oversight and monitoring of the various risk areas within the business are exercised through other dedicated standing committees, namely the Executive Credit Committee, the Information and Operational Risk and Compliance Committee, the Asset and Liability Committee, and the Country Risk Committee.

Management Committee Member Profile

The profiles of the members of the Management Committee, excluding those for Antony R. WITHERS and Jean-François DESVAUX DE MARIGNY which appear in the Directors' Profiles section, are given hereunder.

Raoul GUFFLET – Age 46

Holds a Master Degree in Economics from the University of Paris, Panthéon-Sorbonne and a 'DESS' in International Finance from Paris-XIII. He currently heads the International Division of MCB Ltd and shoulders various responsibilities, *inter alia*, relating to the oversight of the Group's foreign banking subsidiaries, the management of international structured project finance, commodities structured trade finance activities and the coordination of the correspondent banking relationships of MCB. He also sits on the Board of all the foreign banking subsidiaries. Moreover, he is an active member of the Investment Committee of MCB Equity Fund, the captive Private Equity Fund of the Group whilst being a Board member of its investment company, MCB Capital Partners Ltd. Prior to joining MCB in April 2004, he spent eleven years with PricewaterhouseCoopers holding various positions therein namely as Auditor, Corporate Finance Advisor and Management Consultant.

Eddy JOLICOEUR – Age 57

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

Alain LAW MIN – Age 55

Graduated in Economics with a BA (Honours) and is an Associate member of the Institute of Chartered Accountants in England and Wales. He also holds an MBA from Cranfield University. He is responsible for the Retail SBU which, *inter alia*, consists of the branch network, the Private Banking BU, the Select Banking

BU, the Business Banking BU and the Bank's remote delivery channels. Prior to his current position, he launched the leasing, factoring and private banking services of MCB. He also acted as Project Director for the Business Process Re-engineering exercise initiated with Accenture. Before joining the Bank, he was Senior Manager at De Chazal Du Mée's Consulting division.

Denis MOTET – Age 53

Holds a BTS Action Commerciale and a 'Diplôme d'Enseignement Supérieur Commercial Administratif et Financier' from Ecole De Commerce Amiens, France. He worked 4 years in Paris before joining MCB in 1990. He is currently the Chief Risk Officer of MCB Ltd and is directly responsible for the Credit Management BU, Credit Risk BU, Information Risk Management BU, Market Risk BU, Operational Risk BU and Security BU. Prior to his current position, he worked in various divisions within the Bank namely International, Corporate and Credit Risk as well as in the Group's overseas banking subsidiaries based in Mozambique and Seychelles. He also acted as Project Leader for the Basel II project which was implemented in 2005.

Bhavish NAECK – Age 43

First MCB Foundation scholar. Holds a BSc (Honours) in Economics with specialisation in Accounting and Finance from the London School of Economics and Political Science and is a Fellow of the Institute of Chartered Accountants in England and Wales. After qualifying as a Chartered Accountant in 1996, he spent some years in Singapore, working in the Audit and Business Advisory division of Deloitte & Touche and then, as Financial Controller at JDA Asia, subsidiary of a listed NASDAQ entity. After a stint at Sun Resorts, he joined MCB in May 2000 and also worked as Project Leader on the Business Process Re-engineering project. He presently heads the Finance SBU where he is responsible for the provision of internal and external financial reports, budgeting and forecasting and provides key support to the Asset and Liability Committee of the Bank.

Jean-Michel NG TSEUNG – Age 46

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

Interests in Shares

The following table gives the interests of members of the Management Committee in the Group's listed securities at the end of the financial year.

Interests as at 30 June 2014 (number)	MCB Group Ltd shares		MCB Ltd Subordinated Notes		Fincorp Investment Ltd shares	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Raoul GUFFLET	28,965	15,718	-	-	-	-
Eddy JOLICOEUR	18,230	-	-	2,000	-	-
Alain LAW MIN	160,678	595	-	3,000	51,070	-
Denis MOTET	71,069	1,561	500	-	-	-
Bhavish NAECK	16,544	2,729	1,000	1,500	-	-
Jean-Michel NG TSEUNG	7,885	-	-	-	-	-

Related Party Transactions

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

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

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

Related party transactions include:



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

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

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

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

The Bank's policy on related party transactions sets out the rules governing the identification of related parties, the terms and conditions applicable to transactions entered into with them and reporting procedures to the Conduct Review Committee. Note 39 to the Financial Statements sets out on- and off-balance sheet exposures to related parties as at 30 June 2014.

Aggregate exposure of related parties, including exposure of the Bank to subsidiary companies amounted to Rs 5,656 million (on-balance sheet) and Rs 703 million (off-balance sheet), which represented respectively 3.7% and 1.0% of Bank loans and Bank contingent liabilities as at 30 June 2014.

Exposure of the Bank's top six related parties as at 30 June 2014 were Rs 1,578 million, Rs 1,017 million, Rs 734 million, Rs 495 million, Rs 395 million and Rs 391 million. These balances represented 8.1%, 5.2%, 3.8%, 2.5%, 2.0% and 2.0% respectively of the Bank's Tier 1 capital.

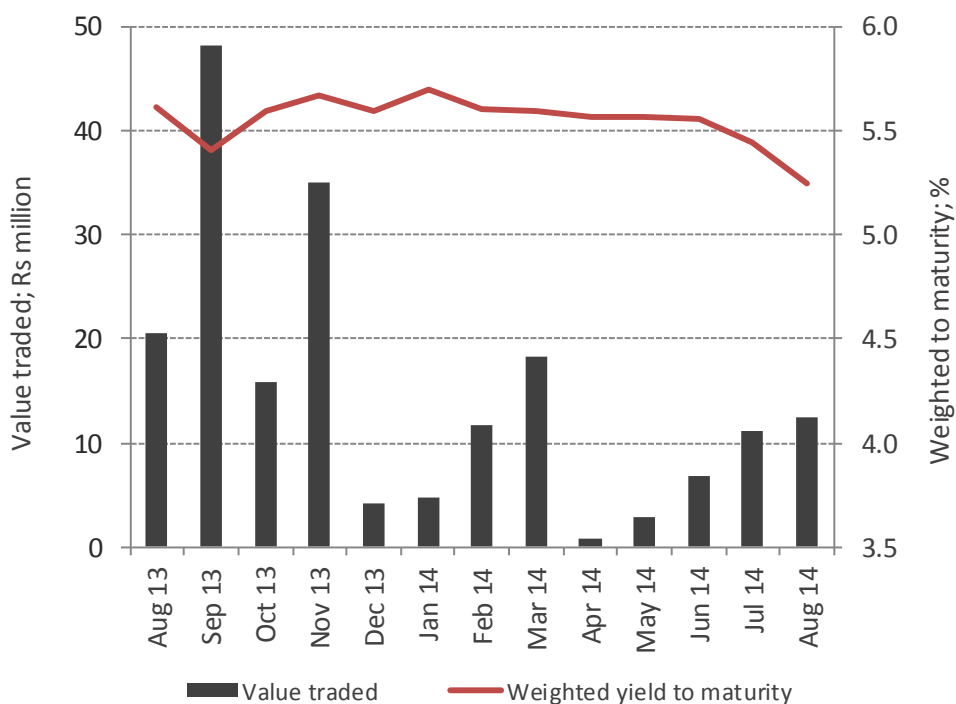
None of the loans granted to related parties was non-performing as at 30 June 2014, except for an exposure of Rs 472 million on a group of companies where one of the Group's directors has a minority stake. This group of customers has entered into a scheme of arrangement with its creditors. Interest on this group's debts has been suspended and expected losses have been provided for in the financial statements.

Stakeholders' Relations and Communication

The Board of MCB Ltd places high importance on an open and meaningful dialogue with all those involved with the Bank whilst ensuring that their information needs are promptly attended to. In this respect, relevant stakeholders and the public at large are duly kept informed of notable developments at the Bank through appropriate communication channels. In addition to official press announcements, occasional press conferences, the Bank's website, hosted at www.mcb.mu, provides for an adapted and comprehensive self-service interface. Specifically, through the latter, noteholders are provided with relevant information pertaining to the Subordinated Notes issued by the Bank, with the price together with the related yield to maturity being updated regularly during the day.

MCB Floating Rate Subordinated Notes

As part of the restructuring exercise and to provide adequate capacity for future growth, the Bank offered for subscription Rs 3 billion Floating Rate Subordinated Notes due in 2023 to the public. Following a two-fold oversubscription, MCB eventually raised Rs 4.5 billion with the Notes, each with a principal amount of Rs 1,000, being listed on the Official Market of the Stock Exchange of Mauritius since 22 August 2013. Until 30 June 2014, the total value traded of the Notes amounted to Rs 168.9 million. The Notes were traded at Rs 1,052.69 as at 29 September 2014 with an effective yield to maturity of 5.25%.



Shareholders Agreements

There is currently no shareholders agreement affecting the governance of the Company by the Board, except as mentioned in shareholders' resolution under the Constitution of The MCB Limited.

Dividend Policy

Although there is no formal dividend policy, the Company aims to supply its shareholders with ongoing returns in the form of a stable and relatively predictable dividend path.

Time Table of Important Events

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

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

- there should be a retainer fee for each individual director reflecting the workload, the size and the complexity (national/international) of the business as well as the responsibility involved;
- the Chairperson, having wider responsibilities and being present on a weekly basis at the Bank, 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 for Management and staff 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 all employees to benefit from the financial results and development of the Bank. Indeed, all staff members of the Bank receive an annual bonus based on the performance of the Company as well as their own rated contribution thereto. In addition, all staff members have the added possibility to be incentivised further through a share option scheme.

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

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

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

Employee Share Option Scheme

In the context of the restructuring, the MCB Employee Share Option Scheme (ESOS), introduced in 2006, was replaced by the Group Employee Share Option Scheme (GESOS) with similar underlying principles. By providing MCB staff with the opportunity to partake in the growth and prosperity of the Group through an acquisition of a stake therein, this scheme acts as an additional lever to promote a performance culture alongside upholding motivation and commitment across the organisation as well as to attract and retain talents. Under the scheme, the Bank's 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 4 specific windows, carry a retention period of 3 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 4th 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.

Auditors' Fees and Fees for Other Services

	MCB Ltd	
	2014	2013
	Rs '000	Rs '000
Audit fees paid to:		
BDO & Co	16,100	15,698
Fees for other services provided by:		
BDO & Co	3,795	2,300

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.

Corporate Social Responsibility

The Bank remains committed to promoting sustainable economic development principles and, as such, continues to fulfill its engagement as a socially responsible and caring corporate entity. Indeed, the Bank has, throughout its history, been heavily involved in promoting the interests of the community, as gauged by its unrelenting support to worthy causes through several initiatives to contribute to the welfare of society at large.

Consistent with the authorities' requirement for companies to set up an annual CSR Fund representing 2% of their chargeable income derived during the preceding year, an amount of about Rs 60 million for FY 2013/14 was entrusted by MCB Ltd to MCB Forward Foundation, the dedicated vehicle responsible for the design and implementation of CSR initiatives of MCB Group. These funds contributed to finance 71 projects during the year notably 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. It is also worth noting that no political donations were made during the year.

Actually, MCB's corporate social responsibility extends beyond the above-mentioned endeavours which are subject to approval by the National CSR Committee. In particular, the Bank pursued its internally-generated 'Initiative 175' programme aimed at promoting environment-friendly practices among staff, customers and the population at large. The following actions were undertaken during the year:



- launch of the 2nd edition of the preferential credit facilities, named 'Green Loans', to help firms save energy and reduce carbon emissions, following the renewal of MCB's collaboration with the Agence Française de Développement (AFD) in March 2014 through the signature of a new EUR 60 million loan agreement;
- completion of the carbon footprint validation and calculation assessment leading to the obtention of Blue Carbon Footprint Certification from Rexizon Consulting for all branches and sites;
- active deployment of endeavours aimed at reducing paper utilisation notably via the use of the Electronic Document Management System to automate specific processes and the 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;
- sponsorship of the 3rd edition of the daily 5-minute prime-time TV programme 'Eco TV' to raise awareness about the need to protect the environment while giving practical tips to this end;
- launch of the 3rd edition of the 'Make a Wish' competition, in partnership with the Ministry of Education and Human Resources, towards embellishing the environment at primary schools; and
- operation of an eco-digester, allowing the canteen at the St. Jean Building to recycle its organic waste.

Moreover, the Bank continued to provide wide-ranging support to promote education and sports as well as art and culture through sponsorship of:

- *MCB Foundation Scholarship*, awarded to the student ranked next in line to those eligible for the State of Mauritius scholarships on the Economics side at the Higher School Certificate examinations;
- *AIESEC Mauritius*, providing the opportunity for the Mauritian youth to discover and develop its leadership, entrepreneurship and professional skills with backing provided for specific events;
- *SEM Young Investor Award*, competition organised by the Stock Exchange of Mauritius aimed 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;
- *Africa's Most Influential Women in Business and Government 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;
- Contests organised by the Rajiv Gandhi Science Centre, such as, *Science Quest 2014* and *Young Scientists in Action 2014* as well as *Rodrigues Science Challenge 2014* and *Rodrigues Story Telling Competition*;
- 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 Bank. In preparing those Financial Statements, the directors are required to: ensure that adequate accounting records and an effective system of internal controls and risk management have been maintained; select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business. The directors confirm that they have complied with these requirements in preparing the Financial Statements. The external auditors are responsible for reporting on whether the Financial Statements are fairly presented. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank while ensuring that: the Financial Statements fairly present the state of affairs of the Bank, as at the financial year end, and the results of its operations and cash 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 Bank and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities. Other main responsibilities of the directors include assessment of Management's performance relative to corporate objectives, overseeing the implementation and upholding of the Code of Corporate Governance and ensuring timely and comprehensive communication to all stakeholders on events significant to the Bank.

The Board of MCB Ltd, recognising that the Bank, 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 Board

Jean-Philippe COULIER

Chairperson

Antony R. WITHERS

Chief Executive



MANAGEMENT DISCUSSION AND ANALYSIS

Review of the Operating Environment

Legal and Institutional Environment

During the last financial year, the legal and regulatory landscapes to which the Bank is 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.

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 LTV 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>		

Macroeconomic Overview

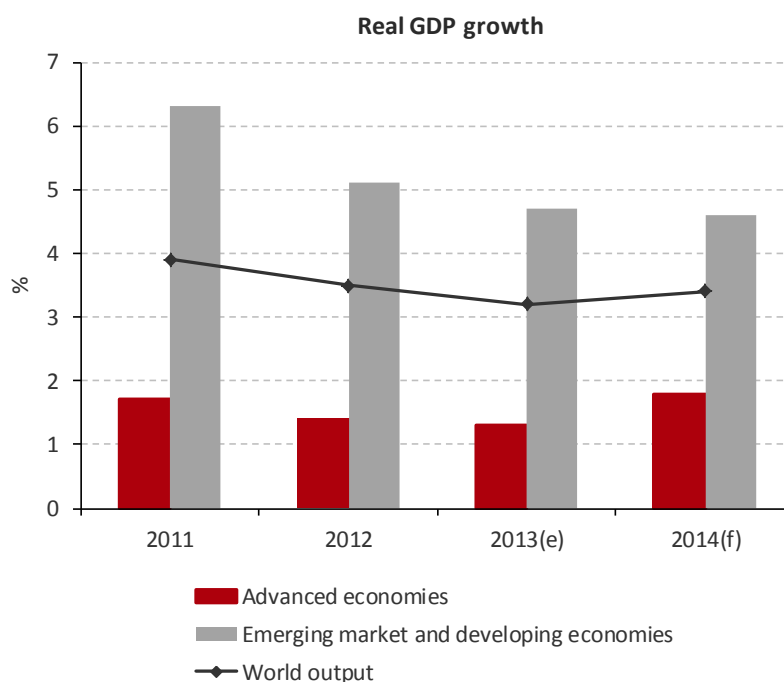
Overview

Overall, the Bank has faced up to a generally challenging operating environment. Difficult conditions have characterised the economic landscapes on both the domestic and international scenes. 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.

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

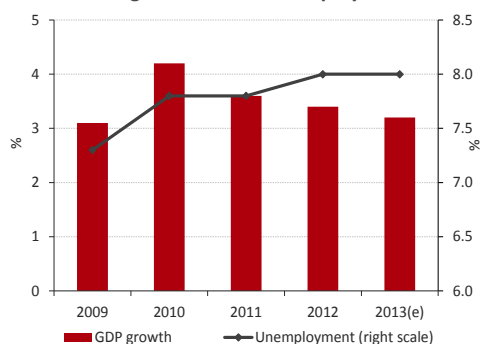
The Mauritian Economy

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

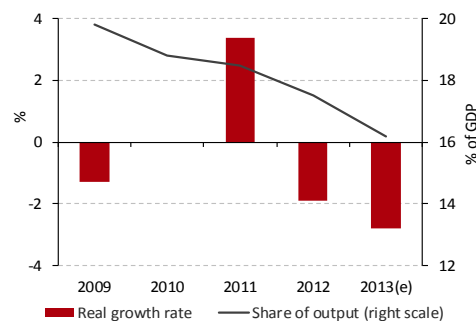
Photography of the economic landscape

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.

Real growth rate & Unemployment

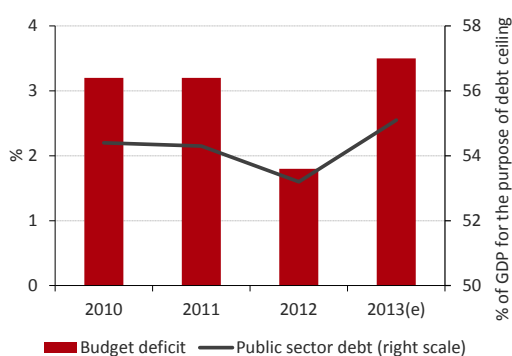


Private investment

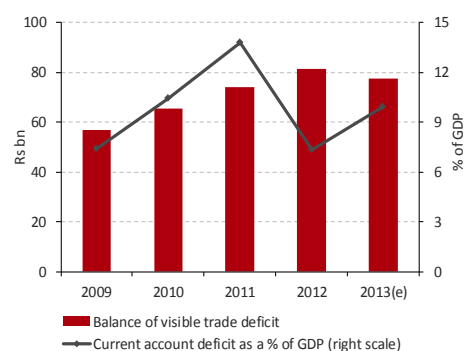


Notwithstanding under-spending linked to earmarked capital outlays as a result of project implementation delays, the budget deficit – which has picked up lately and led to a deteriorating public sector debt as per most recent estimates – continues to be confronted by the ramifications of the soft economic 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.

Budget deficit & Public sector debt



External front

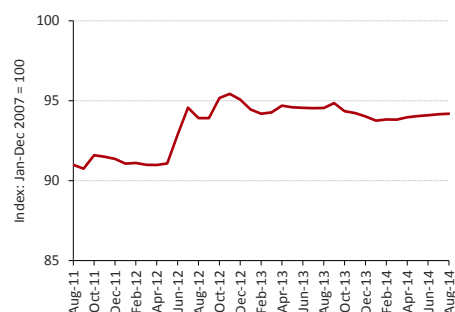


While still deemed to be slightly overvalued in relation to the country's fundamentals and the trends that have been depicted by the currencies of some of our external competitors, the effective exchange rate of the rupee has been relatively stable in recent times, in spite of facing up to the marked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

Foreign exchange rate

	Selling rates of main currencies vis-à-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

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. 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 saving (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 subdued 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.

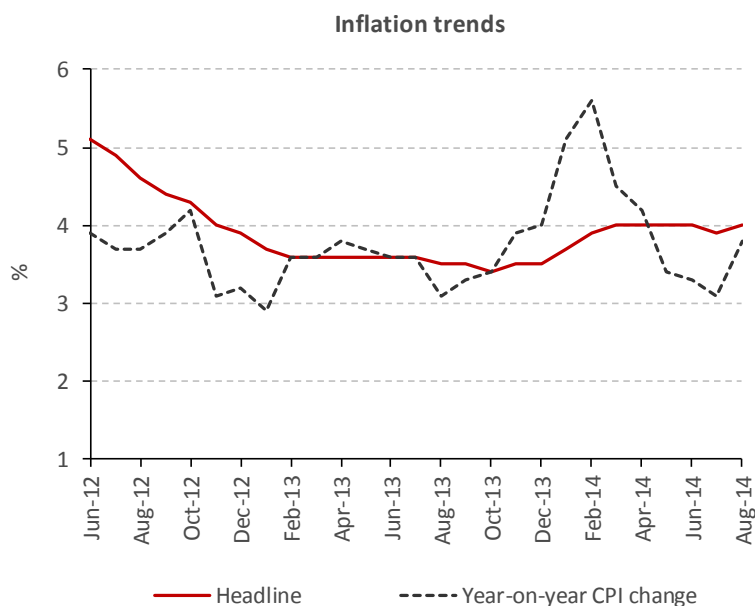
² Covers mainly the activities of 'fishing' and 'fish processing'.

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

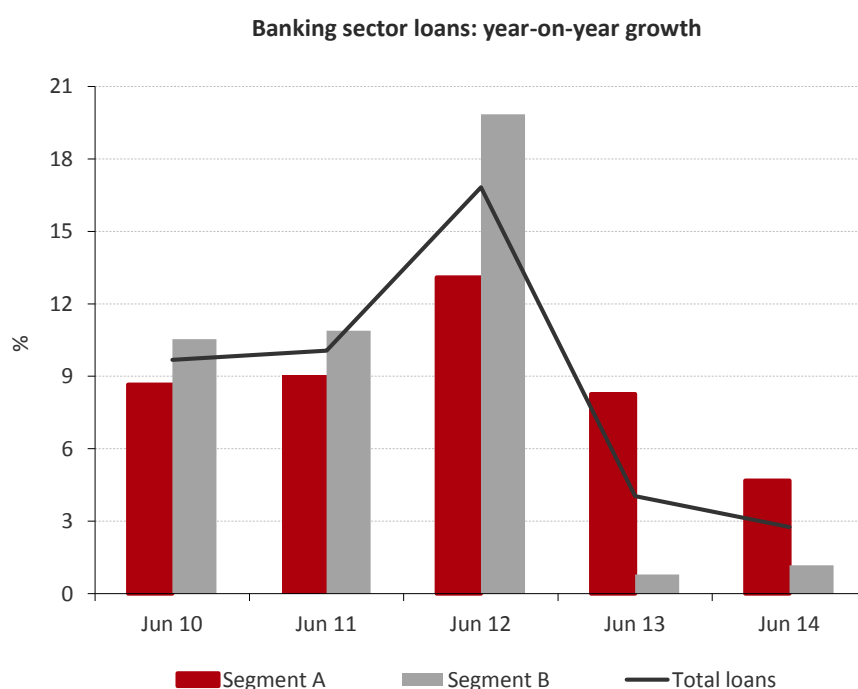
(e) estimates (f) forecasts

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

Market Environment

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.

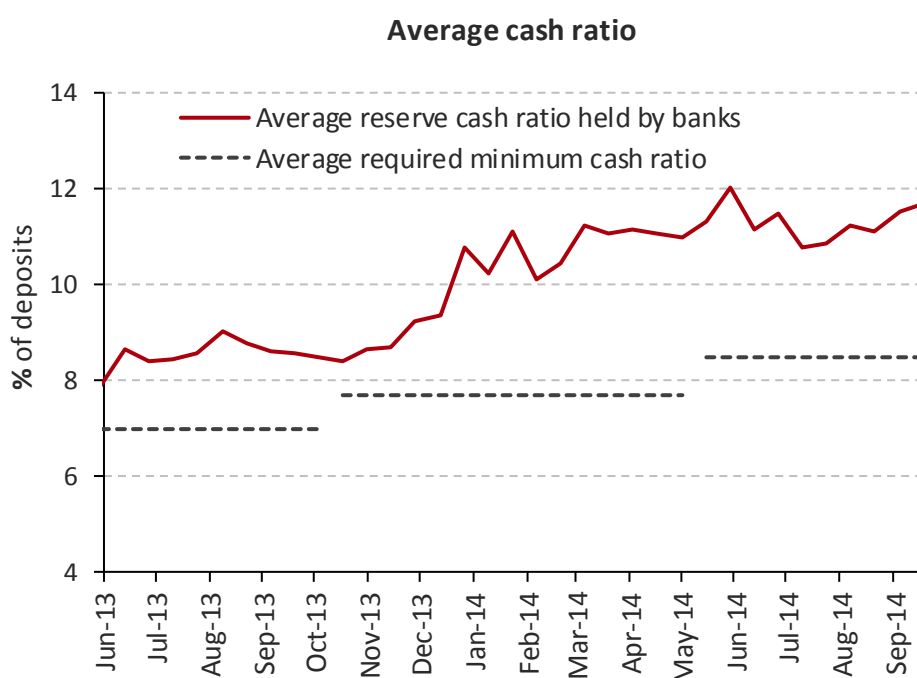
Credit to the economy (June 2014)			
Sectors	Rs m	Mix %	Y.o.y. change %
Agriculture and fishing	18,347	6.1	7.1
Export oriented industry	5,947	2.0	5.0
Domestic oriented industry	12,162	4.0	(4.1)
Tourism	48,211	15.9	4.9
Transport	4,873	1.6	(15.1)
Construction	76,698	25.4	6.5
<i>Housing</i>	47,030	15.5	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 just above 1% in August last.



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

Review of Operations

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 corporates 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-Africa 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.

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

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 Banking 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.

Financial Review

Performance against Objectives

OBJECTIVES FOR FY 2013/14	PERFORMANCE IN FY 2013/14	OBJECTIVES FOR FY 2014/15
<p>Return on average equity (ROE)</p> <p>In view of the current environment, ROE should stay around the same level (19.9%) as FY 2012/13.</p>	<p>With results being dampened by the difficult operating environment and a rise in impairment charges, the Bank ROE, based on Tier 1 capital, dropped to 18.4%, inclusive of non-recurrent income from dividends and sale of securities.</p>	<p>Following the fall in equity due to the unbundling of some investments and given an expected better performance, return on average Tier 1 capital should improve in FY 2014/15.</p>
<p>Return on average assets (ROA)</p> <p>ROA to be maintained above the 2% level.</p>	<p>Similarly, the overall ROA fell from previous year's level to 1.8%.</p>	<p>ROA is likely to go back above the 2% level.</p>
<p>Operating income</p> <p>Net interest income to rise within a range of 8-10%, on the back of a sustained strong growth in loan book, with a slight drop in margins caused by a shift in the currency split of the balance sheet away from the rupee.</p> <p>The rate of increase of non-interest income is expected to slow down to about 6%. While the momentum gathered in collecting fee and commission income from our international operations is expected to continue, treasury profits are not expected to grow during the year.</p>	<p>Notwithstanding a notable growth in the average foreign currency loan portfolio, net interest income increased by only 3.4% in line with a slowdown in our rupee loan book and pressures on margins amidst the excess liquidity situation.</p> <p>Non-interest income of the Bank rose by about 7% on excluding non-recurrent gains, underpinned by a 10% growth in net fee and commission income linked to diversification moves while profits on exchange edged up by some 4%.</p>	<p>In spite of low yields on treasury bills, net interest income is anticipated to grow by more than 10% for the year, spurred by better Balance Sheet management, with a lesser impact of interest suspended from non-performing loans being foreseen.</p> <p>Treasury profits are not expected to grow during the year. With fees and commissions rising by about 10%, on the back of strong contributions from our international operations, non-interest income is expected to rise within a range of 6-8%, excluding non-recurring income booked in FY 2013/14.</p>
<p>Operating expenses</p> <p>Operating expenses are expected to increase by around 10-11%, spurred by a rise in staff expenses and system costs.</p>	<p>The growth in operating expenses was contained to 8% on the back of diligent cost management and enhanced operational efficiency.</p>	<p>Growth in operating expenses is expected to be contained to around 5% for the year.</p>

<p>Cost to income ratio</p> <p>On current estimates, and in view of the slowdown in local revenue growth, cost to income ratio will probably edge up slightly in FY 2013/14. (FY 2012/13: 43%)</p>	<p>The cost to income ratio excluding revenue from discontinuing operations went down to 42.6% with the ratio, however, increasing to 44.3% when non-recurrent gains on sale of securities are not taken into account.</p>	<p>Excluding non-recurring income which had a positive effect on the cost to income ratio in FY 2013/14, the latter should decrease for the year and be well below the level achieved in FY 2012/13.</p>
<p>Loans and advances growth</p> <p>Growth in the average loan book is expected to stay about the same in percentage terms as that of FY 2012/13 of 13%, with the strong performance of our international business more than offsetting the below par increase in the local corporate portfolio.</p>	<p>Notwithstanding a slowdown in the loan portfolio lately in line with the sluggish evolution of private investment locally, average loan expanded by around 9% reflecting market development initiatives across segments.</p>	<p>Advances in rupees should pick up slightly from the stagnating growth rate registered in FY 2013/14, while the increase in the non-rupee portfolio is forecasted to be around 10%, down from the much higher rates registered in previous years. Globally, the average growth rate of advances should be around the 6% mark.</p>
<p>Deposits growth</p> <p>With the excess liquidity situation persisting in the rupee market and funding of our foreign currency book to be reliant on some level of wholesale funding, more than was previously the case, deposits are not expected to grow by more than 8 to 9%.</p>	<p>Average customer deposits rose by some 15%, driven by a 21% increase in foreign currency deposits and, to a lower extent, by a growth of 11% in rupee deposits.</p>	<p>The excess liquidity situation locally is expected to persist for some time yet. Consequently, the Bank will not be actively involved in the rupee deposit market. In spite of some unavoidable organic growth, the increase in customer deposits is expected to be below 10% for the year.</p>
<p>Asset quality</p> <p>Barring unexpected circumstances, the ratios of non-performing loans (FY 2012/13: 4.9%) should not continue to rise and it is forecast that impairment charges (FY 2012/13: Rs 1 billion) will show a marked drop in FY 2013/14.</p>	<p>In view of the challenging operating context and impaired loans posted by the Global Business unit, NPL ratios deteriorated in both gross and net terms to reach 7.1% and 4.0% respectively. Simultaneously, impairment charges reached Rs 1.8 billion for the year.</p>	<p>After the unexpected sharp rise in non-performing loans over the last two years, a reversal of the trend should start taking place, while a substantial drop in impairment charges should be registered.</p>

<p>Capital management</p> <p>In the wake of the restructuring exercise, which included the raising of Tier 2 subordinated bonds, the overall (Group) ratio is expected to rise to above 15%, with the Tier 1 element staying around current levels (FY 2012/13 – Bank: 10.7%).</p>	<p>The BIS capital adequacy ratio for the Bank improved to 13.1%, supported by organic growth and Rs 5.4 billion raised through Tier 2 capital instruments. Tier 1 ratio stayed above the regulatory limit at 9.9%, after allowing for the impact of the unbundling of investments in the non-banking entities from the Bank in the wake of the restructuring exercise. On a consolidated basis, taking into consideration the banking subsidiaries and associate still in the books of MCB Ltd, the capital adequacy ratio would stand at 14.4% with the Tier 1 ratio being 11.0%.</p>	<p>The overall capital ratio and the Tier 1 element should improve by at least 1 percentage point over the year. Corresponding ratios for the consolidated banking cluster should follow a similar trend.</p>
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Performance Against Objectives by Lines of Business

OBJECTIVES FOR FY 2013/14	PERFORMANCE IN FY 2013/14	OBJECTIVES FOR FY 2014/15
<p>Retail</p> <p>Although tough market conditions are likely to prevail, average retail loans are projected to rise by 12% on the back of multi-pronged business development initiatives and the ongoing thrust to improve the customer experience. This should contribute to increases of around 9% in its net interest income on advances and gross operating margin respectively.</p>	<p>Despite the challenging economic context and stiff competition levels, the retail segment fared relatively well as gauged by a generally broad-based rise of around 8% in average loan portfolio linked to enhanced value proposition. This has contributed to a growth of around 9% in net interest income while gross operating earnings increased by 13%, boosted by a strong performance in the high-end segment.</p>	<p>Whilst the operating environment is likely to remain delicate, the ongoing drive to reinforce the value proposition and improve service quality should sustain an increase of some 9% in average retail loans. Consequently, net interest income and gross operating income are likely to rise by slightly above 10%.</p>
<p>Corporate</p> <p>The difficult economic environment in Mauritius should continue to restrain growth in corporate advances. However, on the basis of its market positioning, MCB is confident in increasing the associated loan portfolio by some 5%, thus contributing to further increases in interest margin on advances as well as gross operating earnings.</p>	<p>The subdued domestic private investment level impacted the evolution of the corporate loan portfolio. Nonetheless, average advances still increased by some 6% reflecting ongoing support provided to customers in their development initiatives. Accordingly, net interest income rose by some 9% whereas gross operating earnings grew by 4%.</p>	<p>With difficult market conditions further restraining activity, average corporate loan portfolio is projected to grow by around 5%. However, a notable rise of above 10% is expected in net interest income and gross operating earnings as the Bank benefits from better margins resulting from an increased shift towards foreign currency advances.</p>
<p>International</p> <p>As MCB maintains its thrust to further deepen and widen its involvement through adapted product and service offerings, average advances in this segment is expected to maintain its growth momentum and rise by another 50%, contributing to net interest income and gross operating margin increasing by above 20% and beyond 15% respectively.</p>	<p>Performance has been hit by setbacks relating to some Global Business exposures in India, which contributed to a slight fall in revenue. Excluding the Global Business segment, activity remained quite buoyant with average loan rising by nearly 12%, thus leading to net interest income and gross operating income both rising by more than 10%, following further headway made in terms of the Bank's diversification strategy.</p>	<p>The average loan book (excluding Global Business) is likely to grow by some 12% given the Bank's drive to tap into regional business opportunities. Related revenue should hence maintain its growth momentum with net interest income and gross operating earnings expected to rise by some 15% and 10% respectively.</p>

Review by Financial Priority Area

In the sections that follow and unless otherwise stated, the continuing operations of the Bank have been taken into account for analysis purposes across the whole period under review. Thus, the discontinuing operations linked to investments that have been and will be unbundled from MCB Ltd as part of the restructuring exercise have, in general, not been accounted for in the exercise for coherence purposes.

Analysis of Results

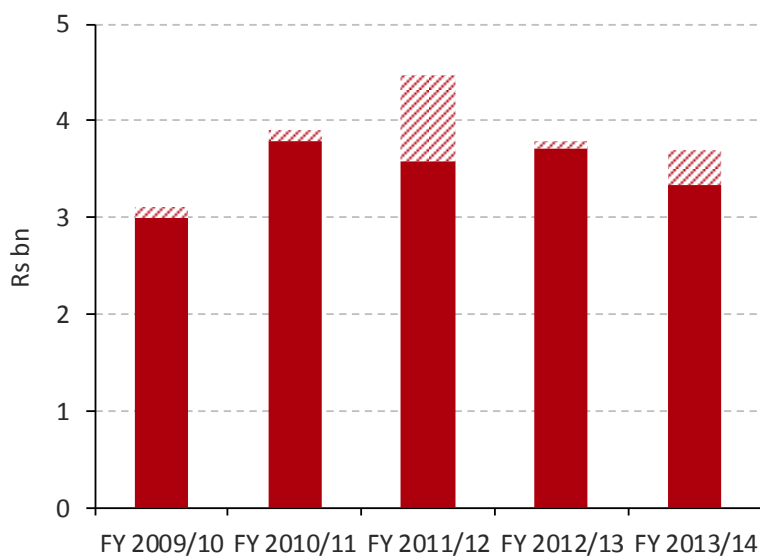
The Bank has, again, faced up to a challenging operating environment during the last financial year. Indeed, while the demand for credit remained hampered by the slow-moving private investment trends and sector-level difficulties persisted, the high liquidity situation continued to prevail, thus impacting yields on treasury securities and fuelling competitive pressures. Nevertheless, uplifted by its business diversification strategies that, notably, led to a reinforced market presence in several Indian Ocean and African countries, the underlying revenue growth remained appreciable, as testified by operating income expanding by 9.0% to stand at Rs 10,449 million, with the growth rate falling to a still resilient 4.7% when excluding the exceptional income of some Rs 400 million from the sale of securities. Furthermore, with the growth in operating expenses being contained, operating profit before provisions grew by around 10%, inclusive of the non-recurrent gain, thus leading to the recurring earning power of the Bank – taken as the ratio of pre-provision profit excluding net income from sale of securities and non-recurrent items to average assets – standing at a circumstantially fitting level of 2.7%.

Yet, the net profit from continuing operations declined by 9.9% during FY 2013/14 to reach Rs 3,341 million. Fundamentally, in addition to facing up to an increased effective tax burden in view of the rise in the special levy on Segment A business to 10%, the Bank's profitability was significantly hampered by another significant rise in impairment charges which moved from Rs 1.1 billion to Rs 1.8 billion following the default of several Indian corporate clients of the Global Business unit. 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.

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

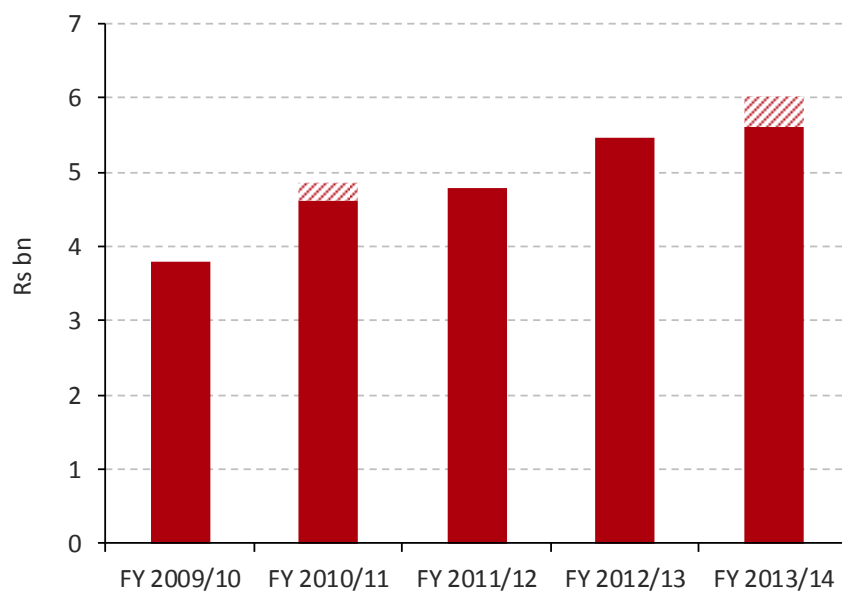


Profit for the year



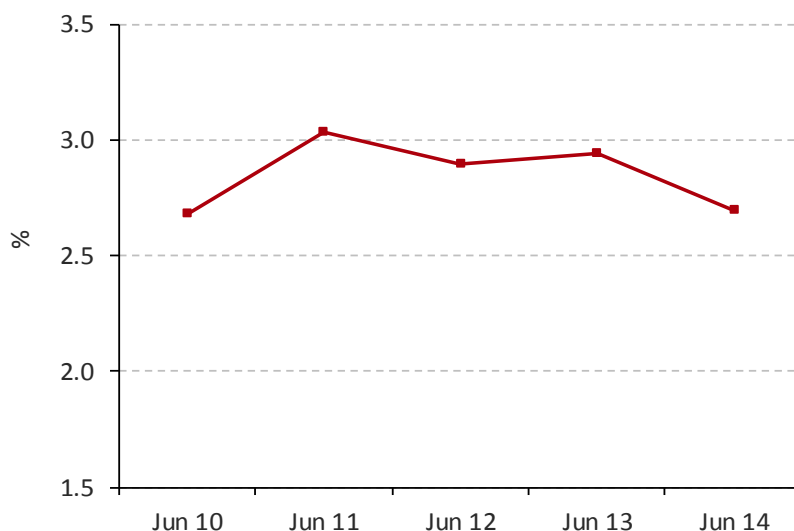
▨ Income from discontinuing operations as part of the Group restructuring

Operating profit before provisions



▨ Non-recurrent gains

Pre-provision profit to average assets

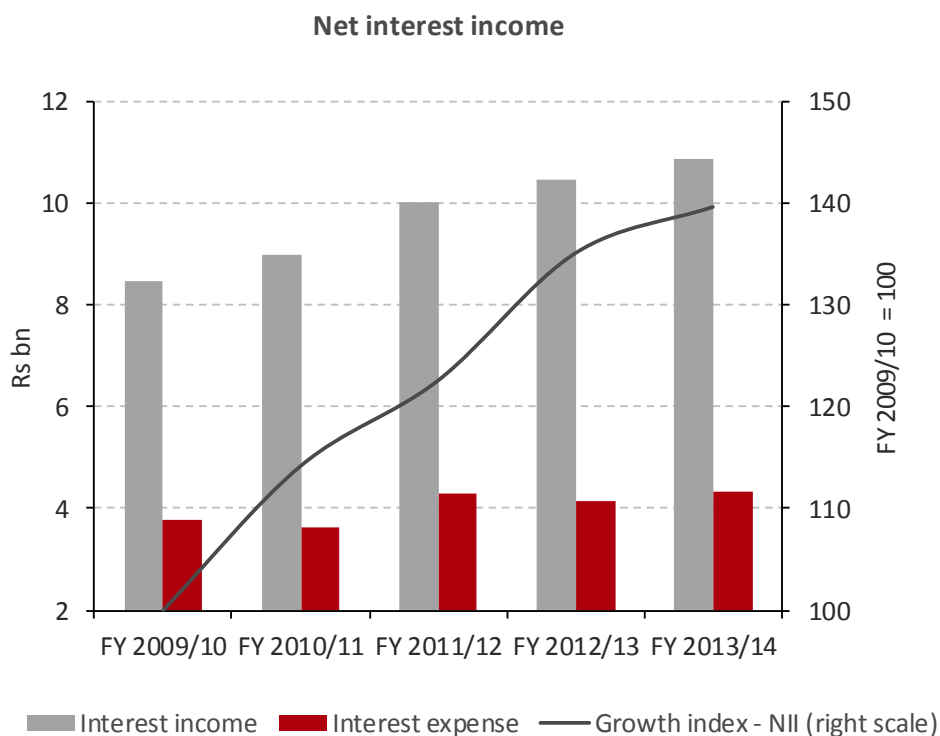


Pre-provision profit to average assets = Pre-provision profit excluding net income from sale of securities and non-recurrent items to average assets

Revenue Growth

Net Interest Income

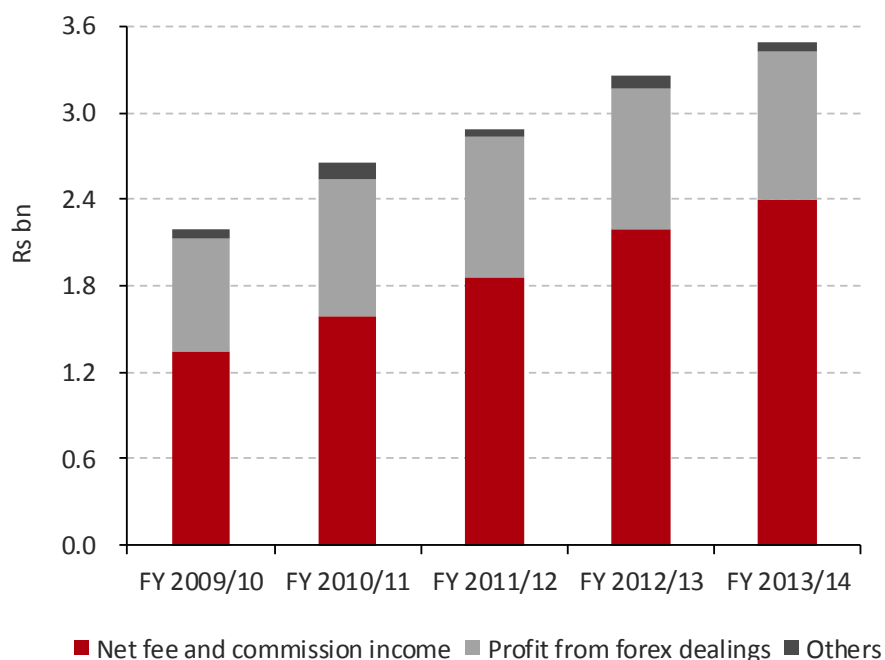
Against the backdrop of the restrained growth in the overall loan portfolio in line with the difficult economic environment and the squeezing of margins on account of excess liquidity conditions and heightened competitive pressures, interest income for the Bank rose by 3.7% to Rs 10,866 million in FY 2013/14. Total interest expense grew by 4.3% on the back of the notable payments encountered 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 3.4% to reach Rs 6,547 million in FY 2013/14, with a strong growth being registered in revenues from international activities. Accordingly, the net interest margin, as measured by net interest income to average earning assets, stood at 3.6%, while the ratio for net interest income to average assets was 3.2%.



Non-Interest Income

Prompted by its broadened and diversified market footprint, net fee and commission income of the Bank increased by 9.6% during the last financial year. This performance reflects growth in revenues derived from the cards services and, in particular, enhanced portfolio management fees from the Private Banking segment, while international trade finance operations continue to be a notable source of income. Besides benefiting from an increase of 3.9% in profit on exchange, 'other income' rose by a notable margin on account of an exceptional gain realised on sale of securities. Hence, non-interest income grew by around 20% to attain Rs 3,902 million in the last financial year, with the growth remaining appreciable at 7.4% when excluding the above-mentioned item.

Breakdown of non-interest income



Note:

Figures exclude non-recurrent gains

Cost Control

In line with diligent cost management and operational efficiency gains achieved, growth in operating costs was contained to 8%, with expenses attaining Rs 4,453 million for the year under review. In addition to expenditures linked to technology investments and key organisational undertakings pertaining to the restructuring exercise as well as the issue of notes, the rise in operating costs was, to a notable extent, triggered by marketing and product development initiatives. Thus, considering the appreciable rise in operating income, the cost to income ratio went down to 42.6% in FY 2013/14, with an increase being witnessed on excluding the non-recurrent gain of some Rs 400 million on sale of securities.



Credit Exposure

Given the soft economic climate and increased competitive pressures, growth in gross loan portfolio was subdued, with advances to customers rising by 2.2% to reach Rs 146.2 billion as at end June 2014. 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% 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%.

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

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
Loans to customers							
Agriculture and fishing	7,271	(3.7)	50	0.7	26	0.4	51.1
Manufacturing	9,903	2.4	642	6.5	472	4.8	73.5
<i>of which EPZ</i>	3,688	61.0	86	2.3	97	2.6	112.8
Tourism	32,315	7.4	1,088	3.4	256	0.8	23.5
Transport	3,208	20.8	729	22.7	384	12.0	52.7
Construction	14,740	(1.4)	1,931	13.1	695	4.7	36.0
Traders	16,314	6.4	1,497	9.2	1,072	6.6	71.6
Financial and business services	14,211	(21.4)	199	1.4	114	0.8	57.3
Personal and professional	27,911	5.9	2,836	10.2	1,276	4.6	45.0
<i>of which credit cards</i>	609	(18.2)	73	12.1	69	11.3	93.9
<i>of which housing</i>	16,936	7.0	1,072	6.3	237	1.4	22.1
Global Business Licence holders	12,071	67.8	1,355	11.2	1,381	11.4	101.9
Others	8,289	(25.6)	344	4.1	189	2.3	54.9
Loans to banks	5,012	75.3	-	-	17	0.3	-
Total	151,245	3.7	10,672	7.1	5,882	3.9	55.1

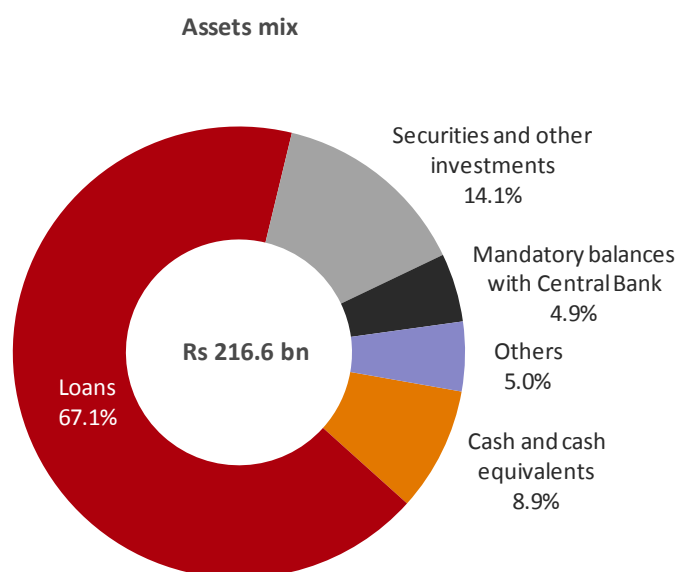
June 2014	Total loans		Non-performing loans (NPLs)		Allowances for credit impairment		
	Rs m	Y.o.y growth (%)	Rs m	% of loans	Rs m	% of loans	% of NPLs
Segment A	108,472	4.3	6,815	6.3	3,373	3.1	49.5
Segment B	42,774	2.2	3,857	9.0	2,509	5.9	65.0
Total	151,245	3.7	10,672	7.1	5,882	3.9	55.1

Bank credit exposures as at 30 June	2010	2011	2012	2013	2014
On-balance sheet	Rs m	Rs m	Rs m	Rs m	Rs m
Lending	106,609	117,771	133,606	145,889	151,245
Loans to customers	104,662	115,494	130,529	143,030	146,234
Loans to banks	1,946	2,277	3,077	2,859	5,012
Trading	922	1,261	1,533	1,354	1,958
Investments	18,303	16,684	15,252	20,477	28,657
	125,833	135,716	150,391	167,720	181,860
Off-balance sheet	Rs m	Rs m	Rs m	Rs m	Rs m
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	25,629	31,628	37,483	46,550	62,112
Commitments	6,240	3,832	4,520	5,022	4,355
Other	1,085	1,303	1,357	1,754	1,777
Contingent liabilities	32,954	36,763	43,360	53,326	68,245

Other Assets

Amidst the restrained demand for credit in the economy and the excess liquidity situation prevailing in the money market, the total liquid assets of the Bank broadened by a notable margin during the last financial year. The following can, in fact, be noted: (i) cash and cash equivalents rose by around 25%, principally on account of a material increase in placements with banks abroad; (ii) our mandatory balances at the Central Bank witnessed a hike of around 32% as a result of the successive increases in the regulatory cash reserve ratios by BoM; and (iii) investment in Government securities rose by a significant rate of 80%. All in all therefore, the share of liquid assets, including placements, to deposits went up significantly to reach 33.5% as at 30 June 2014, with the corresponding ratio as a percentage of assets standing at 27%.

As an outcome of the ongoing restructuring exercise, investments in the foreign banking subsidiaries and associate that have yet to be unbundled from MCB Ltd to MCB Investment Holding Ltd are classified as non-current assets held for distribution, for an aggregate value of Rs 1.3 billion.



Credit quality

The loan book has 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, not 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

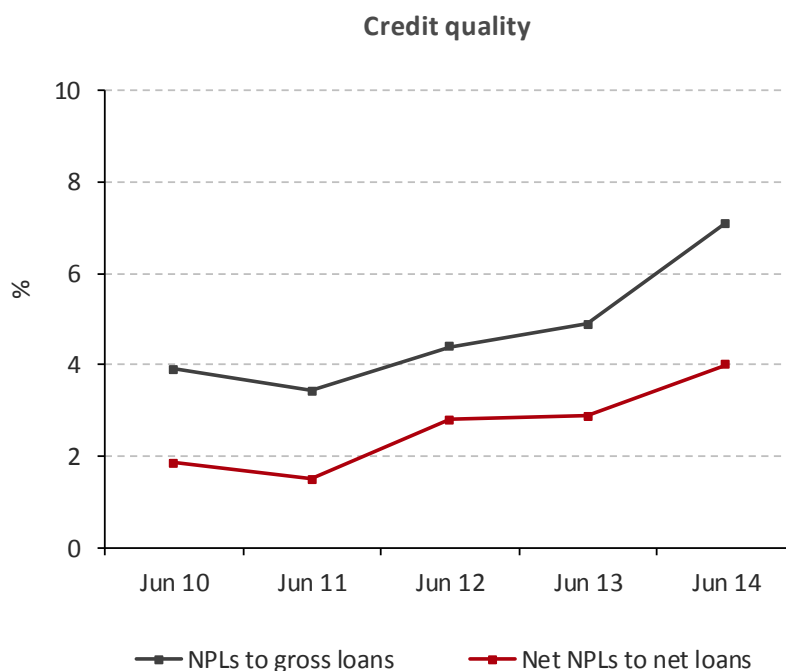
is contemplated in future. Measures taken in consequence include the setting up of a new Recovery Team in the Risk SBU to take charge of recovery efforts, strengthening of internal risk management and disbursement procedures. These Indian exposures represent more than 60% of the increase in NPLs over the year and nearly 80% of impairment charges for the year ended 30 June 2014.

Specific impairment charges have increased by 87% to Rs 1,809 million and this represented 1.2% of the loan portfolio at 30 June 2014. This very exceptional charge is completely out of line with MCB's performance of recent years and, after the provisions made in FY 2012/13, should constitute the last step in cleaning up this section of our loan book.

The ratio of non-performing loans to total loans has risen to 7.1% for the Bank, as against 4.9% last year and the ratio of net NPLs as opposed to net loans has grown from 2.9% on 30 June 2013 to 4.0% one year later. The cover ratio of NPLs by specific provisions stood at 45.4% at the year end, the uncovered portion being more than adequately covered by collateral, suitably discounted to reflect current market conditions and recovery time.

Additionally, the Bank, in conformity with the BoM Guideline on Credit Impairment Measurement and Income Recognition, gives due weight to the varying degrees of risk attached to the different components of its loan portfolio. Loan portfolios are thus analysed by sectors, each sector having similar characteristics, and a statistical provision is assigned to each sector based on past loss experience and current attributes and outlook. The portfolio provision increased by Rs 34 million during the year to reach Rs 1,041 million at 30 June 2014.

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, paving the way for a return to a normal situation.

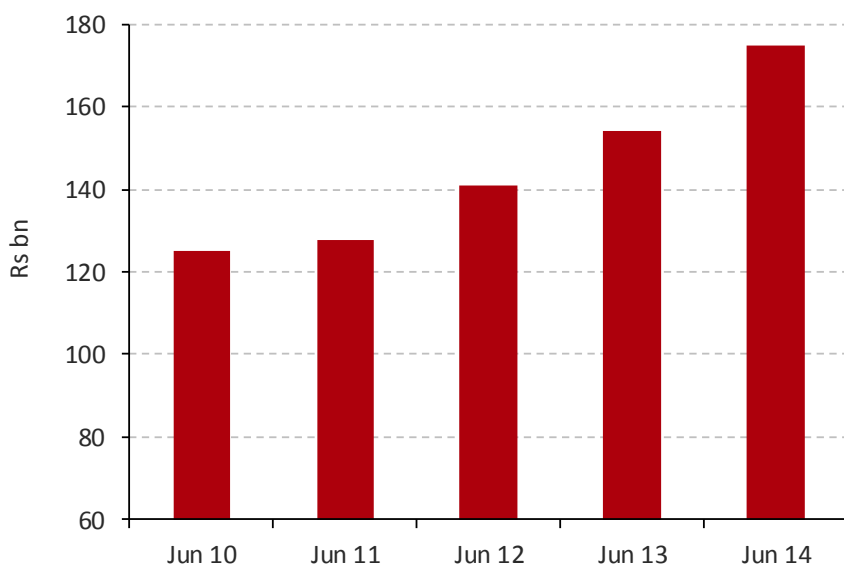


Funding

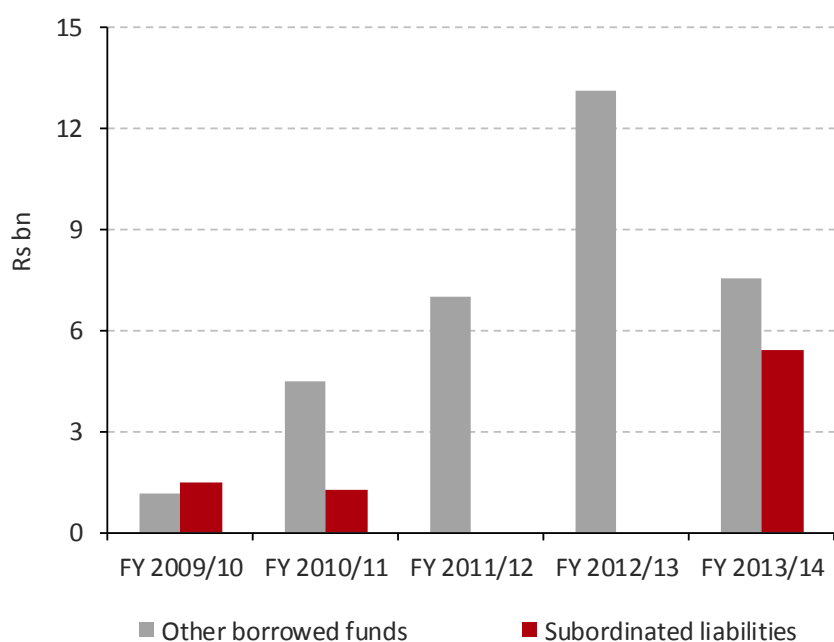
Deposits and Borrowings

Total deposits grew by 13.2% to reach Rs 174.7 billion as at June 2014, 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 has been boosted by an increase of 11% in demand deposits, while savings deposits, which accounts 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, there was a drop of around 42% in 'other borrowed funds' explained, essentially by a noticeable decline in utilisation of LC refinancing credit lines from overseas banking correspondents. On the other hand, the subordinated liabilities of the Bank amounted to some Rs 5.4 billion, following the issue of the Floating Rate Subordinated Notes on the local bourse for Rs 4.5 billion and a loan of USD 30 million obtained from the African Development Bank.

Deposits



Borrowings and subordinated liabilities

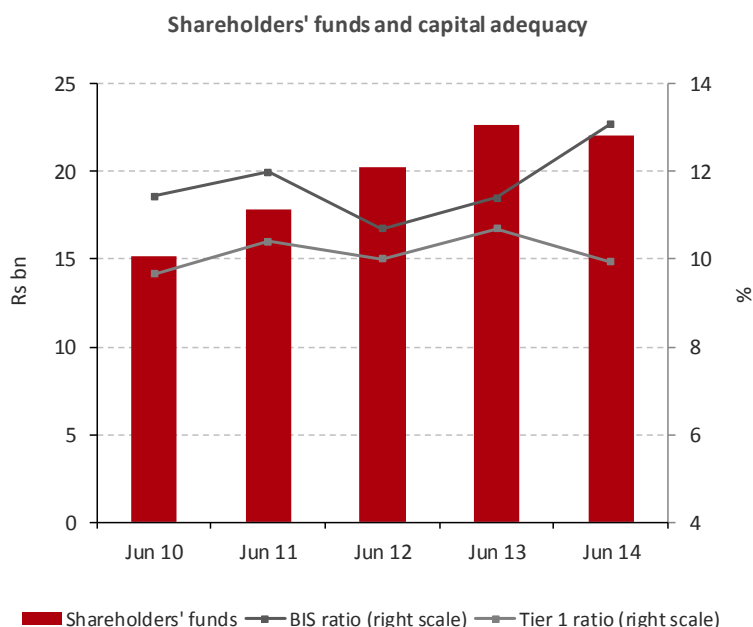


Capital Resources

Shareholders' funds decreased by 2.6% to reach Rs 22.1 billion as at 30 June 2014. Actually, retained earnings, which have been impacted by prior year adjustments to account for the revision in IAS 19 pertaining to employee benefits, declined by 1.6%, reflecting the payment of dividends in specie to the sole shareholder of MCB Ltd, i.e. MCB Investment Holding Ltd, pursuant to the unbundling of investments in the

non-banking subsidiaries and associate. Of note, as part of the Group restructuring exercise, treasury shares were cancelled during the year, leading to a drop in share capital.

Testifying to its ability to withstand potential shocks and fuel business growth aspirations, the Bank maintained adequate capitalisation levels. Overall capital adequacy increased from 11.4% to 13.1%, to a large extent prompted by a 250 basis points rise 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 declined to some 10%, reflecting the unbundling of investments in non-banking operations from MCB Ltd. On a consolidated basis, taking into consideration the banking subsidiaries and associate still in the books of MCB Ltd as at 30 June 2014, the capital adequacy ratio of the latter would stand at 14.4% with the Tier 1 ratio being 11.0%. Going forward, the Bank will continue to ensure that adequate capital buffers, at all times, are kept to effectively support its expansion, while duly adhering to the regulatory stipulations of BoM in the wake of the implementation of Basel III rules. Actually, on a proforma basis, the overall capital adequacy and Tier 1 ratios of the Bank under Basel III would stand at 13.6% and 10.6% as at June 2014, which are comfortably above the regulatory requirements as per the new rules.



Antony R. WITHERS
Chief Executive

Jean-François DESVAUX DE MARIGNY
Deputy Chief Executive



RISK MANAGEMENT REPORT

Risk Management Philosophy

The mission of risk management at MCB Ltd. is:

To identify, assess and manage the risks to which the Bank is exposed, thereby improving the risk-return profile of its activities while upholding an environment conducive to attracting and promoting business operations.

...whilst its goal is:

To enhance stakeholders' confidence with respect to the management of current and potential risks and foster an effective recovery of assets through:

- adequate internal control mechanisms;
- up-to-date and comprehensive risk policies;
- adherence to legal and regulatory requirements

Key underpinnings

Strong governance standards

- Ultimate responsibility of the Board
- Supervision by the Board through sub-committees
- Risk appetite set and monitored by the Risk Monitoring Committee
- Well-established risk policy
- Comprehensive risk management processes
- Independent teams covering internal audit, anti-money laundering and fraud prevention, as well as the compliance and legal functions

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 funding source
- Low involvement in overly volatile markets
- Funds at reasonable cost to meet obligations in a timely manner

Generally 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

- Well-diversified portfolio of exposures
- Adequate pricing of risk to achieve an appropriate return

Introduction

Summary of Developments

The Context

During the last financial year, in addition to facing up to the increasing complexity of its operations, MCB Ltd remained confronted by market strains and fragilities, stemming essentially from the difficult economic climate prevailing domestically and abroad. Furthermore, 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.

Risk Management at MCB Ltd

Against the backdrop of the challenging operating context, the Bank has, during the year under review, further strengthened the reach and quality of its risk management set-up and processes in order to adequately support its sound and sustainable business growth. Indeed, alongside exerting a close monitoring of its strategy execution across markets, the Bank has geared up its internal capabilities for judiciously and proactively responding to changing market conditions as well as the operational and strategic implications of regulatory developments. During FY 2013/14 and until recently, the underlying strategic moves and specific initiatives that have assisted the Bank to strengthen its risk management framework, uphold its fundamentals, optimise the risk-return profile of its activities and maintain its financial soundness can be explicated as follows:

- Overall, the capital position of the Bank has been underpinned by the mobilisation of sizeable funding resources to support our growth ambitions and cater for the Group restructuring exercise, with the latter paving the way for MCB Ltd to operate as a standalone entity, while contributing to its risk management framework being revisited. Key benefits to be derived therefrom include: (i) enhanced operational flexibility; and (ii) the nurturing of conducive conditions for the optimisation of capital allocation and monitoring of return on capital for business segments.

- The Bank 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.

Financial Soundness

During the last financial year, while fostering its market development, the Bank 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 organisation set out to mitigate the anticipated impact of the unbundling of certain investments from MCB Ltd as part of the Group restructuring exercise. 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 therefore, the Bank exhibited the following capital adequacy ratios as at the end of the 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, as a source of satisfaction and a measure of the underlying healthiness of its positioning, it is worth noting that, after making allowance for metrics displayed at the Bank level and suitable capital accumulation by the foreign banking subsidiaries and associate, the Tier 1 and capital adequacy ratios of MCB Ltd, on a consolidated basis, stood at 11.0% and 14.4% respectively as at 30 June 2014.

	MCB Ltd (Standalone basis)			MCB Ltd (Consolidated basis)
	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
<i>Tier 1</i>	<i>17,451</i>	<i>20,611</i>	<i>19,412</i>	<i>23,230</i>
<i>Tier 2</i>	<i>1,248</i>	<i>1,370</i>	<i>6,249</i>	<i>7,094</i>
Risk-weighted assets	175,267	192,030	195,836	210,561
Capital adequacy (%)	10.7	11.4	13.1	14.4
<i>of which Tier 1</i>	<i>10.0</i>	<i>10.7</i>	<i>9.9</i>	<i>11.0</i>

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 Bank has been impacted by impaired loans emanating predominantly from Indian corporate exposures of the Global Business unit. Consequently, the Bank's gross and net non-performing loan ratios have deteriorated to stand at 7.1% and 4.0% respectively as at 30 June 2014. As the situation stands, besides taking actions to appropriately ring-fence the above-mentioned exposures, the Bank 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 liquid risks are suitably managed.

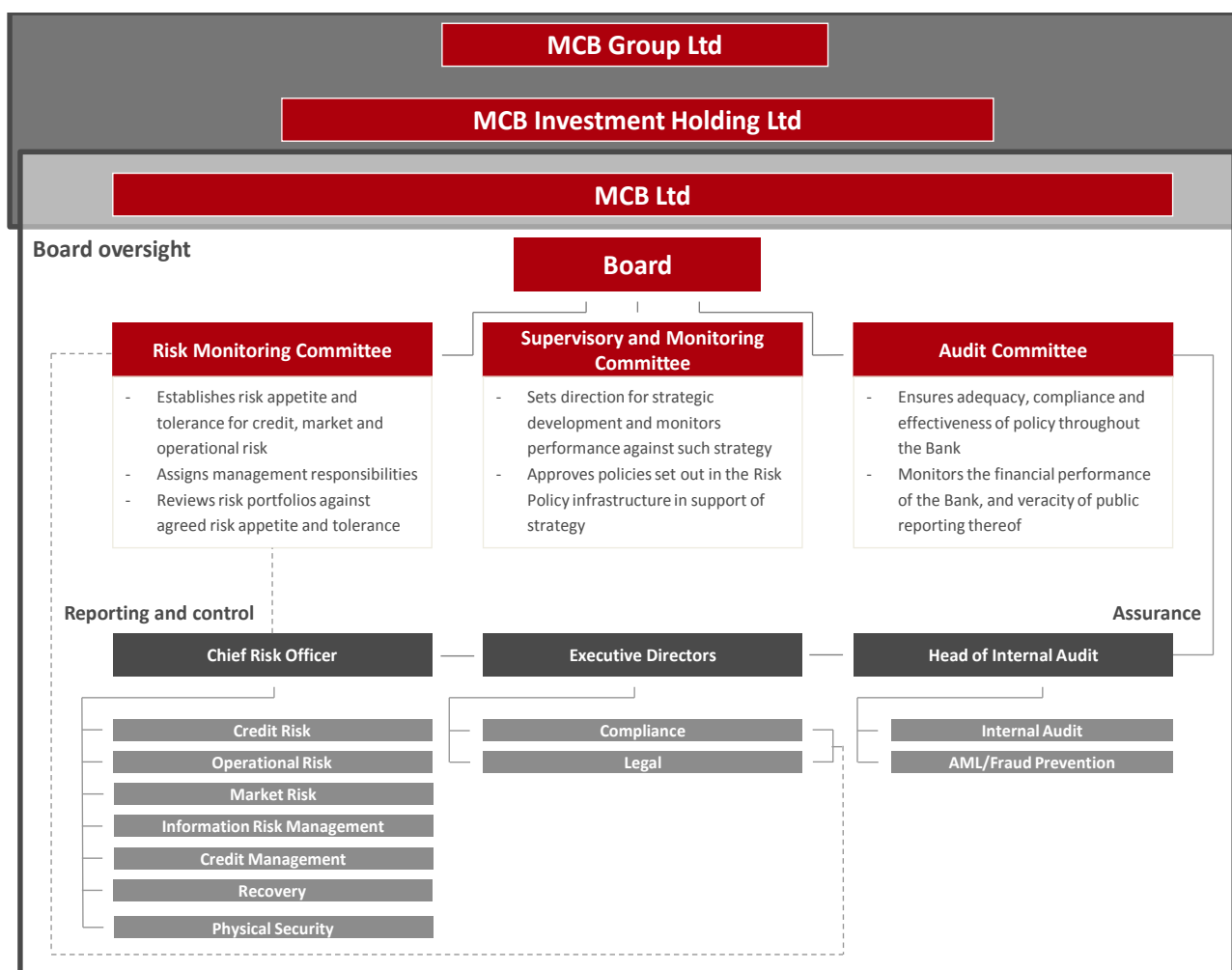
Looking Ahead

To cater for its balanced and continuous market development, MCB Ltd is committed to ensuring that its risk metrics are managed within acceptable and suitable thresholds. Basically, while remaining vigilant to and effectively responding to the unfolding developments characterising the economic and market environments and the ensuing repercussions therefrom, the Bank 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.

Governance and Structure

The risk management framework of MCB Ltd defines the roles and responsibilities as well as the reporting lines for its different business units. Alongside ensuring adherence to regulatory norms, the structure aims at safeguarding the Bank's assets and promoting the deployment of its strategic orientations in an effective manner. The delegation of authority, control processes and operational procedures are accordingly documented and disseminated to staff at different levels. The underlying risk management framework of MCB Ltd – which has, in specific respects, been revisited in the wake of the organisation restructuring exercise – is illustrated as follows.

Risk management framework



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 and the Executive Credit Committee 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

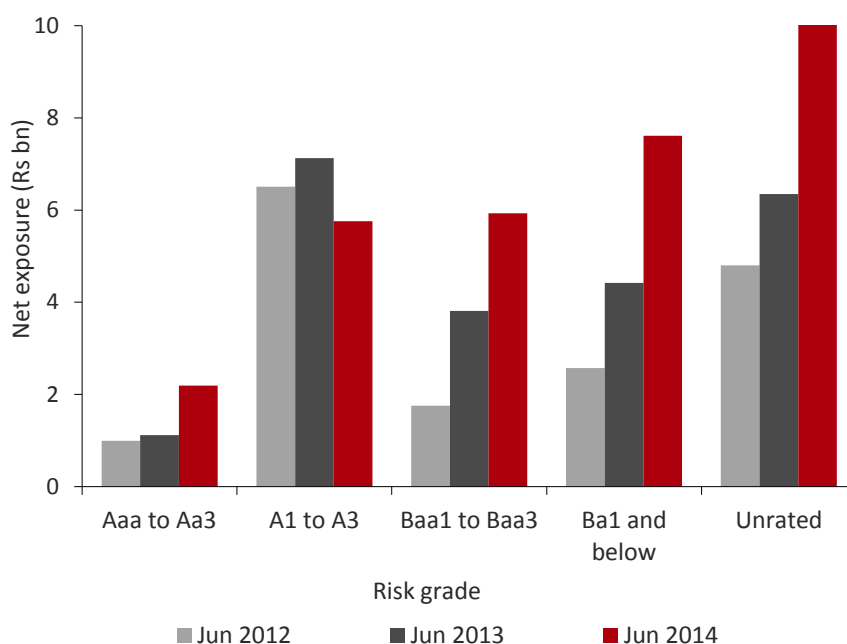
The credit risk management framework enables the Bank to manage credit risk within the limits of its evolving risk appetite, develop risk-response strategies and optimise risk-taking by anticipating and acting on potential opportunities or threats. Specifically, it relies on the Bank's well-established 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.

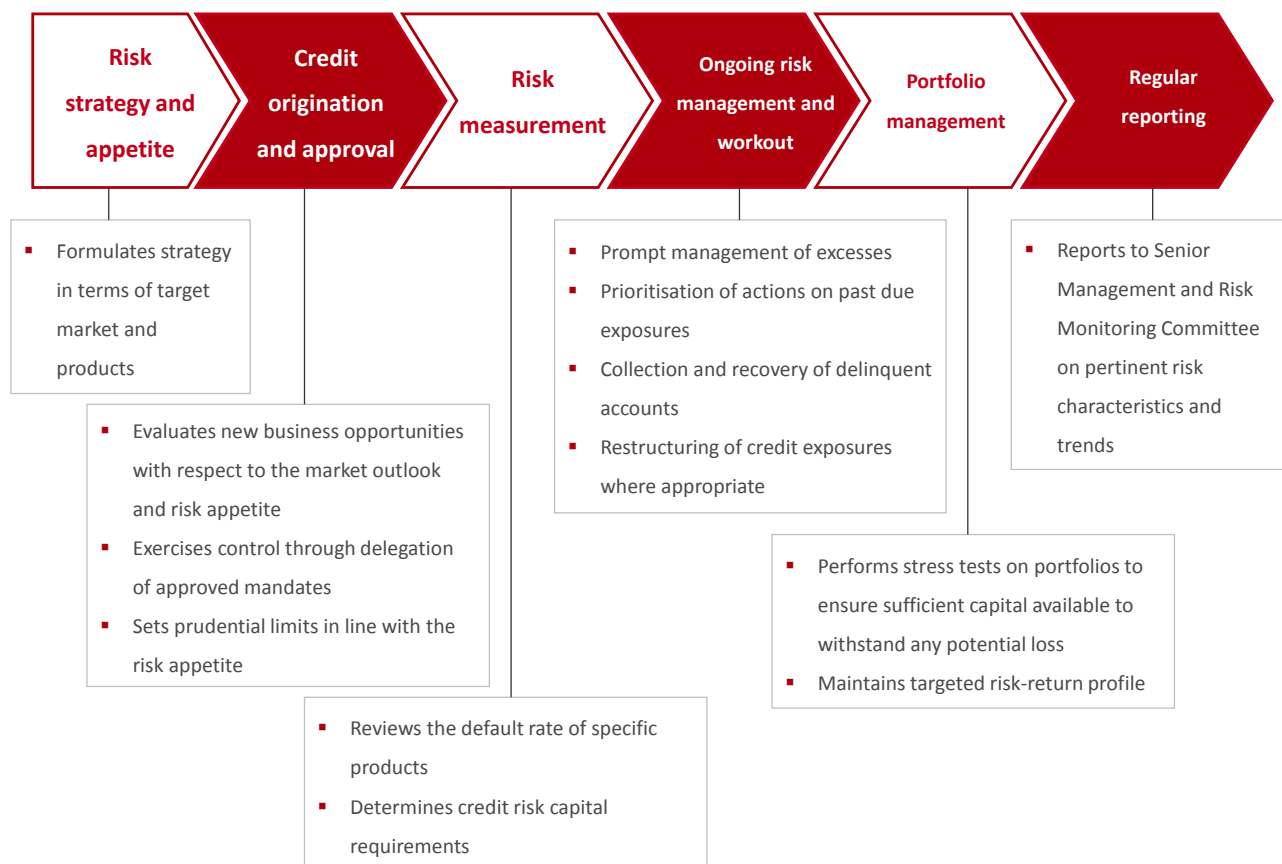
For its part, the Credit Risk BU is responsible for risk portfolio monitoring and risk measurement methodologies. It, also, provides an independent and regular review of the aggregate loan portfolio to proactively manage any delinquency and minimise undue credit concentrations. Significant trends in 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, the risk exposures (via placements and advances) to which are indicatively provided 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.

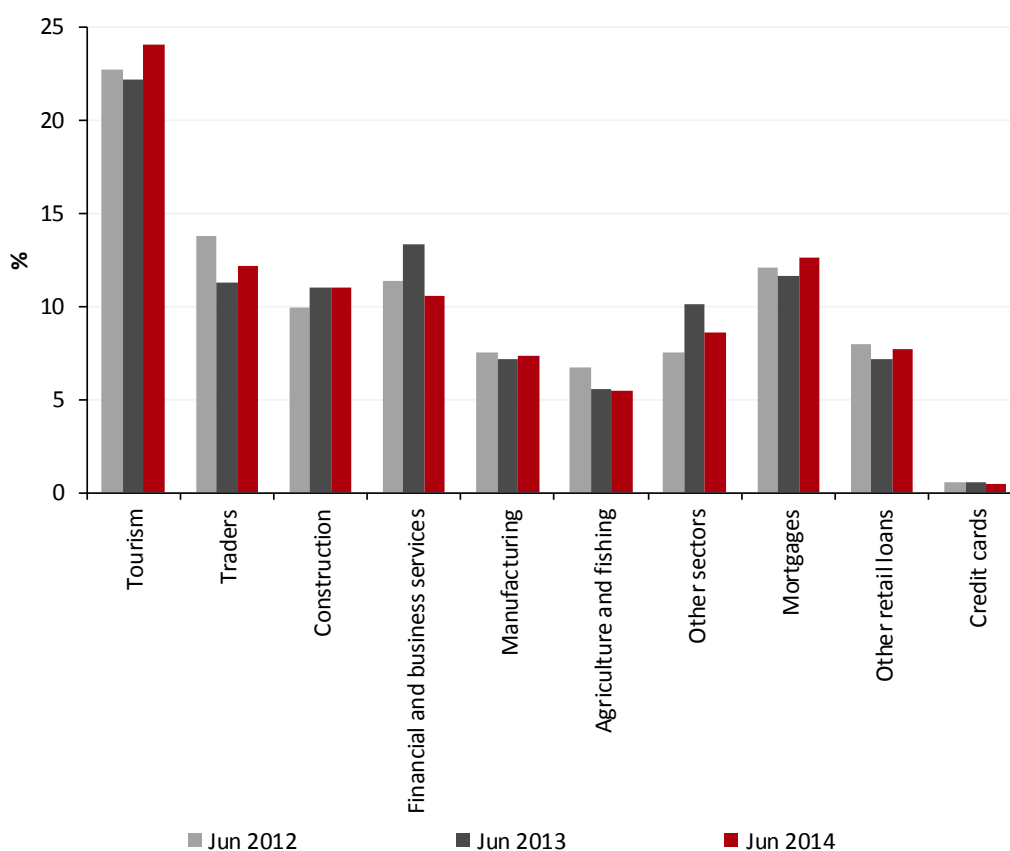
Overall, it is the policy of MCB Ltd to limit credit risk exposures and concentrations within the constraints of its capital base, whilst complying with the BoM Guideline on Credit Concentration Risk, which has been revised in November 2013, with stipulated limits shown below.

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	Risk capital consumed as a % of total credit risk capital
	Rs bn	Rs bn	%
Top 5 customers / customer groups	35.5	2.7	14.9
Total large credit exposures	69.4	4.6	25.2

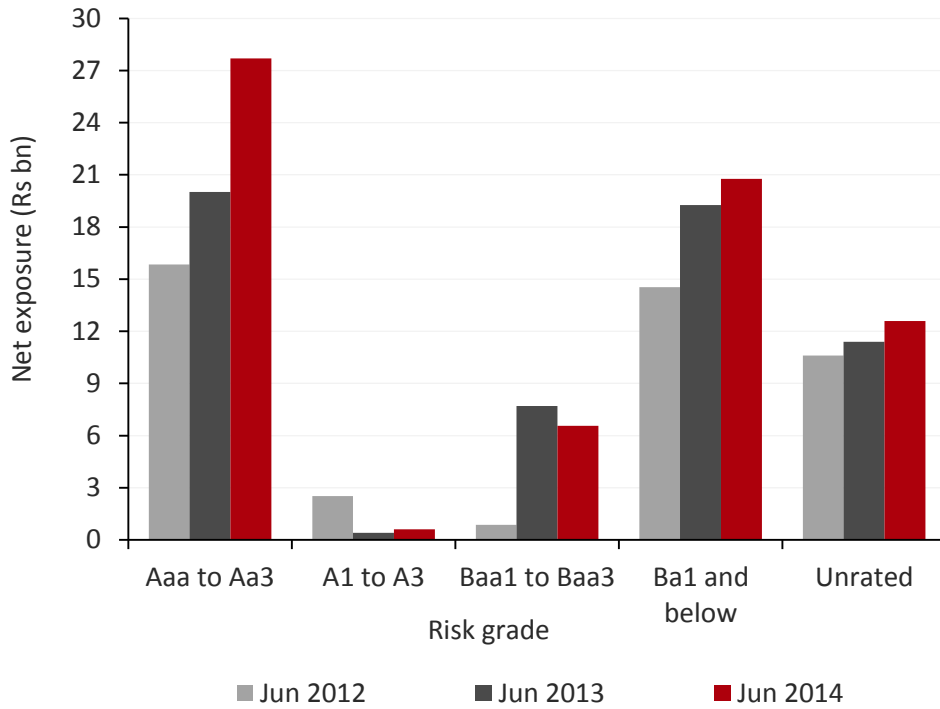
Country Risk

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.

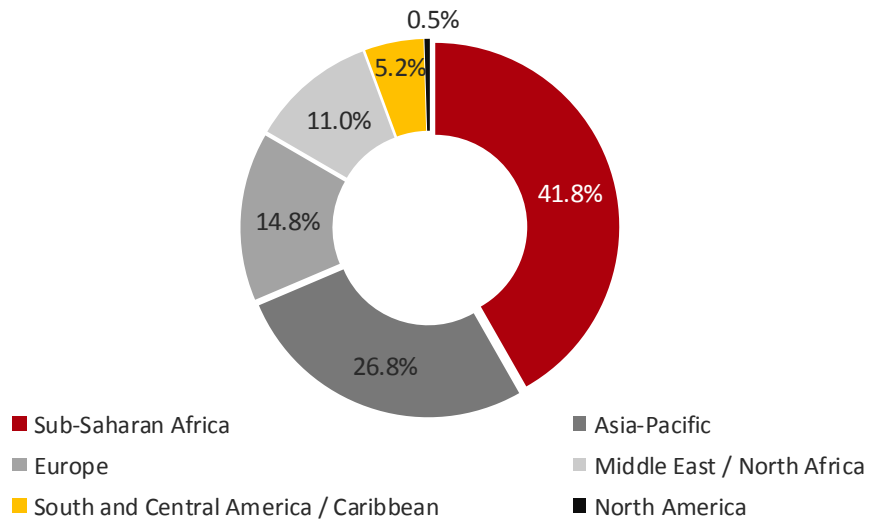
The specific country risk events that are monitored include social unrest, nationalisation and expropriation of assets, Government repudiation of external indebtedness, foreign exchange controls, and currency depreciation/devaluation amongst others. Overall, the foreign country exposure limits at the 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:

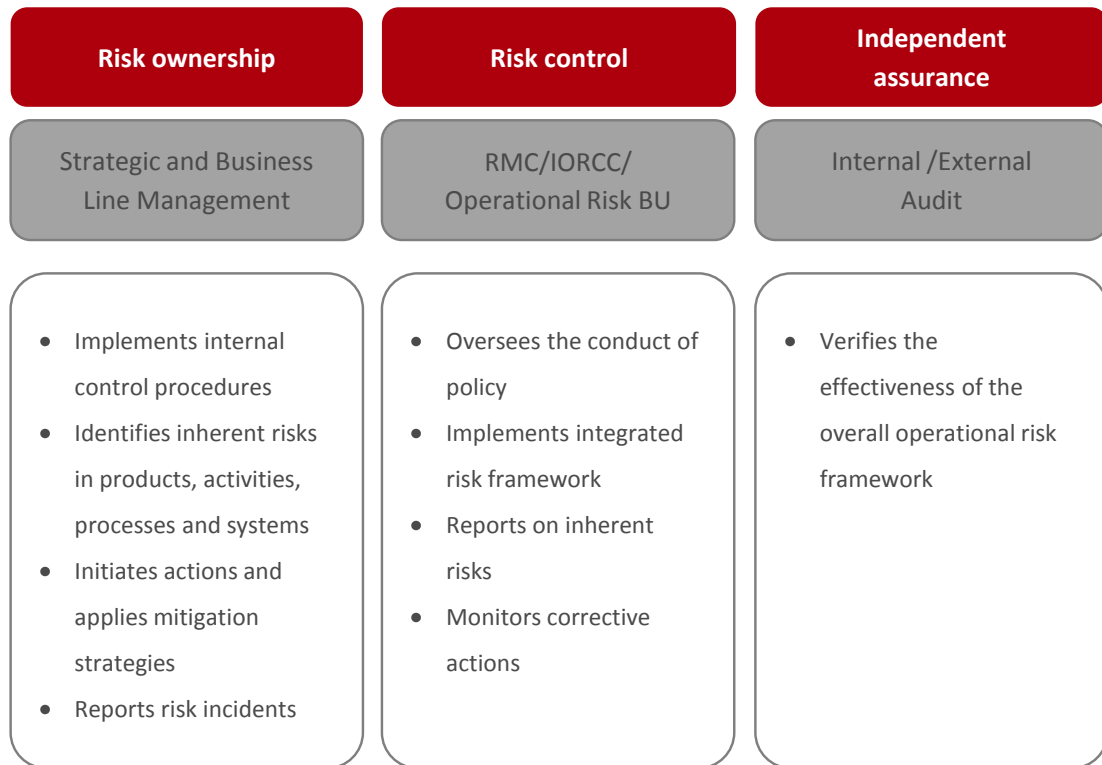
The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk but excludes strategic and reputational risk.

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.

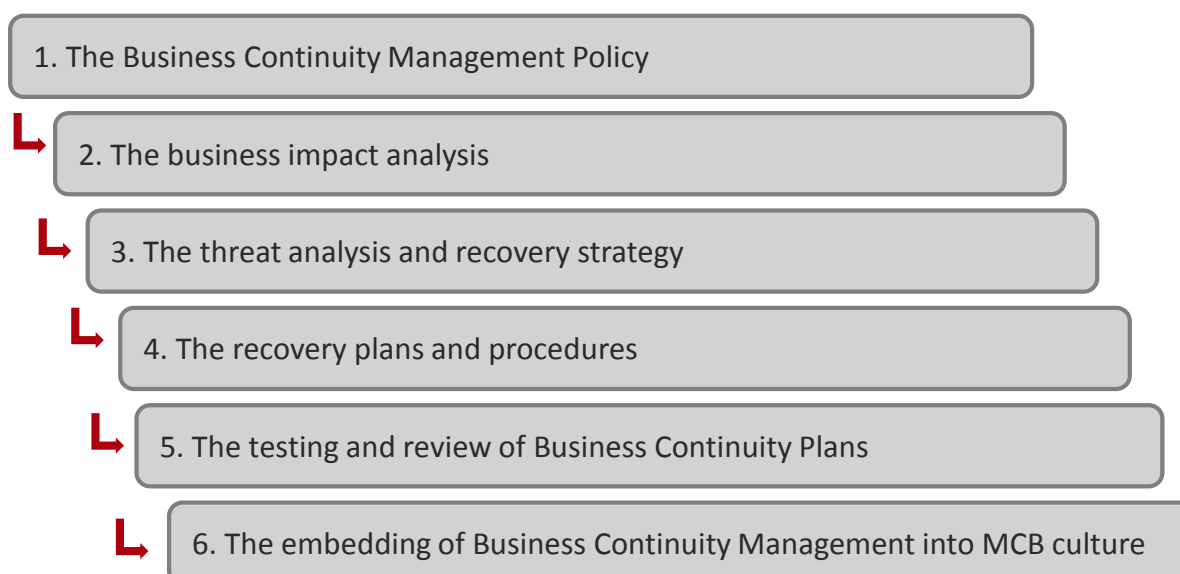
Business Continuity Management

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 from market risk activities. 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 BoM 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. Of note as well, a separate section, the Anti-Money Laundering/Fraud Prevention unit, 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

Background

In line with Basel requirements and industry best-practices, the Bank's capital management objective, which is aligned with the general directions determined at the Group level, is to ensure that adequate capital resources are available for sustained business growth as well as for coping with adverse situations, while maintaining a strong capital position that is consistent with the expectations/requirements of stakeholders such as regulators, rating agencies and customers amongst others. At the regulatory level, 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, after making allowance for the specificities and exigencies characterising relevant market landscapes as well as its underlying business growth ambitions, the Bank is intent on (i) continuously gearing up its internal capabilities to enhance both the allocation and utilisation of capital across business lines and market segments; and (ii) making the necessary market-based moves with a view to bolstering its capitalisation levels in case required, backed by a thorough assessment and judicious harnessing of capital-raising avenues. Ultimately therefore, the Bank will seek to firmly underpin its risk appetite and optimise returns on capital employed.

Capital Structure

Internal Capital Adequacy Assessment Process

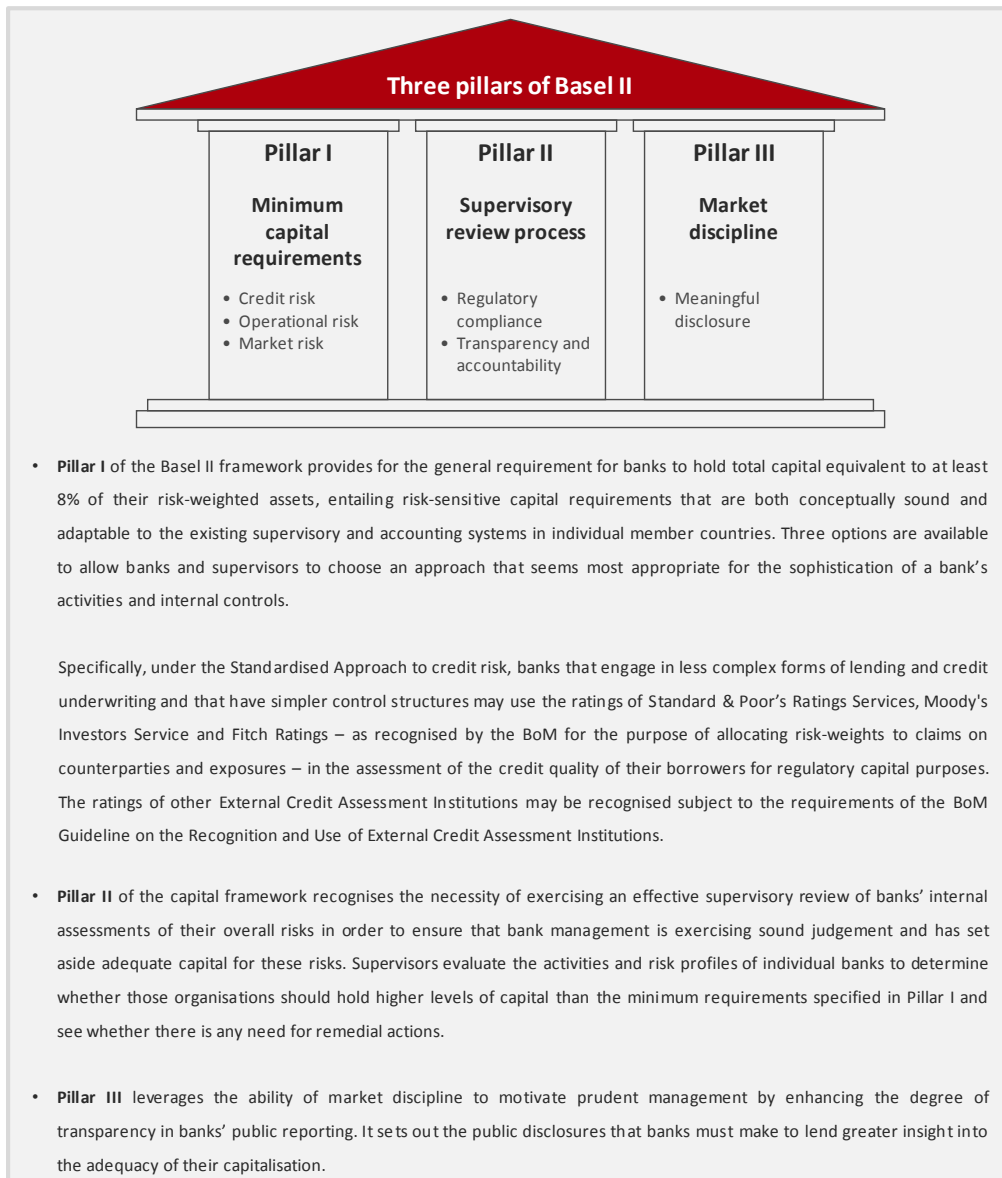
MCB Ltd is guided by its Internal Capital Adequacy Assessment Process (ICAAP) in determining its capital planning and formulating its risk appetite process. Overall, the purpose of the ICAAP document is to provide an informative description of the methodology and procedures that the Bank uses to assess 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. In fact, the Bank seeks to pay sustainable dividends over time, in line with its capital management objective and long-term business growth prospects. 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	22,417

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:

- the link between business strategy, risk introduced and capital required to support the strategy;
- the establishment of frameworks, policies and procedures for the effective management of material risks; and
- 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	01-Jan-16	01-Jan-17	01-Jan-18	01-Jan-19
	----- (Per cent) -----			
5 (Empty)				3.5
4	0.625	1.25	1.875	2.5
3	0.5	1.0	1.5	2.0
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 so as to foster their effective deployment across business segments, while concomitantly maximising returns derived 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>	9.9	10.6

Jonathan CRICHTON
 Director
 Chairperson Risk Monitoring Committee

Antony R. WITHERS
 Chief Executive

LOCAL BRANCH NETWORK

Main branches	Branches	Kiosks	Bureaux de Change / Forex ATMs
PORT LOUIS	Bell Village SSR Edith Cavell Plaine Verte	Jules Koenig Caudan Bagatelle	Port Louis Main Branch Caudan Bagatelle
ROSE HILL	Quatre Bornes Saint Pierre Beau Bassin Stanley Cascavelle Rivière Noire Candos Ebène	Réduit Trianon	Rose Hill Rivière Noire Le Morne
CUREPIPE	Vacoas Mahébourg Phoenix Floréal Chemin Grenier Plaine Magnien Rivière des Anguilles Rose Belle La Caverne		Curepipe SSR International Airport
FLACQ	Rivière du Rempart Bel Air Lalmatie Montagne Blanche		Trou d'Eau Douce Belle Mare
GRAND BAY	Goodlands Triolet Plaine des Papayes Pamplemousses Rodrigues (Port Mathurin)		Trou aux Biches Grand Bay Port Mathurin

ADMINISTRATIVE INFORMATION

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