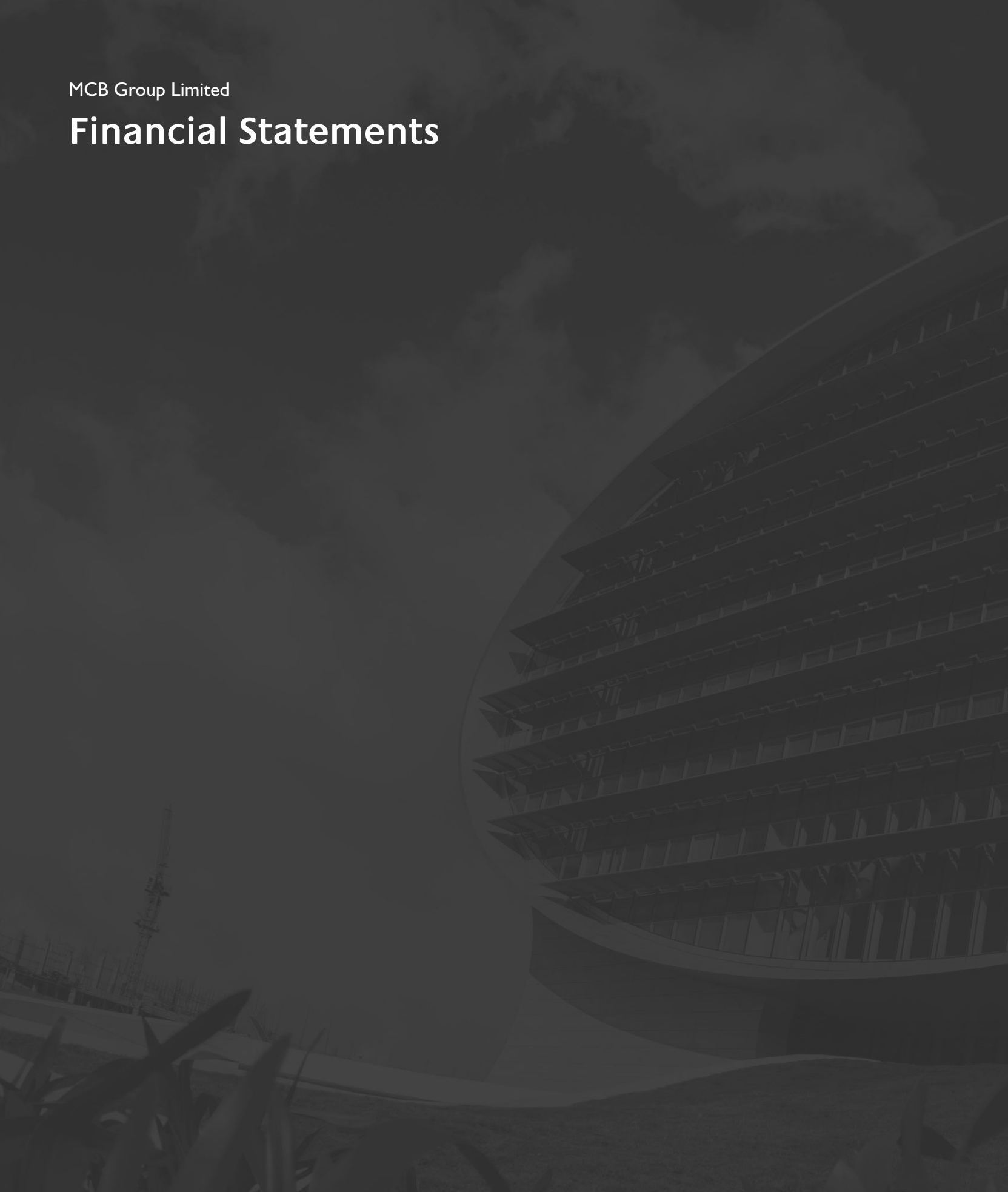


MCB Group Limited

Financial Statements



Independent auditor's report

To the Shareholders of MCB Group Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Our Opinion

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of MCB Group Limited (the "Company") and its subsidiaries (together the "Group") and of the Company standing alone as at 30 June 2018, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001.

What we have audited

MCB Group Limited's accompanying consolidated and separate financial statements comprise:

- the statements of financial position as at 30 June 2018;
- the statements of profit or loss for the year then ended;
- the statements of comprehensive income for the year then ended;
- the statements of changes in equity for the year then ended;
- the statements of cash flows for the year then ended; and
- the notes, comprising significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the risk and capital management report, rather than in the notes to the consolidated and separate financial statements. These disclosures are cross-referenced from the consolidated and separate financial statements and are identified as audited.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independent auditor's report

To the Shareholders of MCB Group Limited (Cont'd)

Report on the Audit of the Consolidated and Separate Financial Statements (cont'd)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters relating to the consolidated financial statements	How our audit addressed the key audit matters relating to the consolidated financial statements
<p>Impairment provisions on loans and advances to customers, and loans to and placements with banks</p> <p>Impairment provisions relating to loans and advances to customers, and loans to and placements with banks, as disclosed in note 6 to the consolidated financial statements, represent management's best estimates of the credit losses incurred within the loan portfolio as at 30 June 2018. They are calculated on a collective basis for portfolios of loans of a similar nature and on an individual basis for significant credit-impaired loans.</p> <p>The determination of both collective and individual impairment allowances is inherently judgemental and involves the application of critical accounting estimates by management, as disclosed in note 2(f) to the consolidated financial statements.</p> <p>Collective impairment allowances are calculated on loans using historical loan loss ratios by sector, adjusted for management estimates relating to the impact of current economic conditions, including any known adverse economic conditions likely to affect the financial performance of the relevant sectors.</p> <p>For specific impairment, judgement is required to determine when an impairment event has occurred and then to estimate the amount and timing of expected future cash flows related to that loan.</p> <p>The audit was focused on impairment due to the materiality of the loan balances, associated impairment allowances and the subjective nature of the calculations.</p>	<ul style="list-style-type: none"> • We tested a sample of movements in the loan loss ratios from prior year based on our understanding of the various sectors of the industry and their operational environment, by considering the basis for the adjustments, the rationale, the source data used and the key assumptions adopted. • We re-calculated the portfolio provision and tested the completeness and accuracy of the extraction of data used in the models, including the 'bucketing' by the relevant sectors. • We assessed the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over the identification of which loans and advances were impaired, the granting of forbearance, the data transfer from source systems to impairment models and model output to the general ledger, and the calculation of the impairment provisions. • We re-performed the calculation of specific impairment and independently assessed the appropriateness of the assumptions used, the provision methodologies and policies applied, and formed an independent view of the adequacy of the provision. • For specific impairment, where the cash flows of large credits include the net realisable value of collateral securing the credit, the value of such collateral takes into account the time taken to realisation and is based on the opinion of qualified appraisers. We assessed the objectivity and the qualifications of the appraisers. • We examined a sample of loans which had not been identified by management as impaired and formed our own judgement as to whether the latter were appropriate, using appropriate external evidence in respect of the relevant counterparties. • For collateral held, we inspected legal agreements on a sample basis and other supporting documentation to confirm the existence of and the legal rights to the relevant collaterals.

Independent auditor's report

To the Shareholders of MCB Group Limited (Cont'd)

Report on the Audit of the Consolidated and Separate Financial Statements (cont'd)

Key Audit Matters (Cont'd)

Key audit matters relating to the consolidated financial statements	How our audit addressed the key audit matters relating to the consolidated financial statements
<p>IFRS 9 Transition Disclosure</p> <p>IFRS 9 'Financial Instruments' is effective for the Group for the financial year ending 30 June 2019 and replaces the existing financial instruments standard IAS 39 'Financial Instruments: Recognition and Measurement'. Refer to note 1 which provides the disclosures required by IAS 8 'Accounting Policies, Accounting Estimates and Errors', on the impact of the new standard in the 2018 financial statements. The disclosures are significantly less comprehensive than those which will be made in the 2019 financial statements.</p> <p>IFRS 9 requires the recognition of expected credit losses ('ECL') rather than incurred credit losses and is therefore a fundamentally different approach. Management is required to determine the expected credit loss that may occur over either a 12-month period or the remaining life of an asset, depending on the categorisation of the individual asset.</p> <p>This categorisation is determined by an assessment of whether there has been a significant increase in credit risk ('SICR') of the borrower since loan origination. It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. The calculation of ECLs in accordance with IFRS 9 is complex and involves a number of judgemental assumptions.</p> <p>Management has made a number of interpretations and assumptions when designing and implementing models that are compliant with the new standard. The models use risk parameters, such as loss given default ('LGD') and probability of default ('PD') to calculate an ECL based on past experience. Management applied judgement in situations where this past experience is not considered to be reflective of future outcomes due to limited or incomplete data.</p>	<ul style="list-style-type: none">• In evaluating the required disclosures of the impact of the adoption of IFRS 9, we considered, and where necessary (as described below) tested the governance over the project, the implementation of the necessary systems, processes, methodologies and controls of the Group.• We considered the disclosures made with regard to the impact that IFRS 9's classification and measurement requirements are expected to have on the Group's reserves as at 1 July 2018 based on our understanding of the new classification and measurement requirements of IFRS 9.• For the expected credit loss impairment model, we considered if the disclosure is consistent with our understanding of the requirements of IFRS 9 and the output of the Group's impairments models, based on the work we performed on the Group's readiness assessment as at 30 June 2018.

Independent auditor's report

To the Shareholders of MCB Group Limited (Cont'd)

Report on the Audit of the Consolidated and Separate Financial Statements (cont'd)

Key Audit Matters (Cont'd)

Key audit matters relating to the consolidated financial statements	How our audit addressed the key audit matters relating to the consolidated financial statements
<p>This includes the use of proxy LGDs relating to corporate loans due to the limited level of historical loss data on the Group's portfolios. The following judgements are also key to the determination of the ECL:</p> <ul style="list-style-type: none"> • Setting of appropriate thresholds for what represents a SICR; • The determination of forward looking macroeconomic scenarios and the probability weights applied to each; and • Assessment of model and data limitations and use of post model adjustments to address such risks. 	

Tax Assessments

As disclosed in note 21 to the consolidated financial statements, a subsidiary was subject to income tax assessments covering financial years ended 30 June 2007 to 2014 against which the subsidiary has initially objected.

The basis of the assessments raised by the Mauritius Revenue Authority ("MRA") were around a number of areas and during the year, there have been advanced discussions between the subsidiary and the MRA in relation to some areas and an additional provision of Rs 258 million has been made as at 30 June 2018. This represents management's best estimate of additional tax payable including penalties and interests for all the years up to 30 June 2017 (excluding the upfront payment that was due at the time of objection of the respective assessments).

In addition, the subsidiary received several assessments in the previous 5 years under the Value Added Tax Act for the periods beginning April 2006 to June 2015 against which the subsidiary has also objected.

- We assessed the adequacy of the provision and contingent liabilities in the accounts with respect to the tax assessments raised against the subsidiary by reviewing the underlying assumptions and calculations on which these were derived.
- We examined correspondences between the subsidiary and the MRA.
- We assessed the adequacy of the subsidiary's disclosures relating to the tax assessment.
- We discussed with management to understand the basis of the provision made and the contingent liabilities disclosed.
- We also involved our tax specialist to assess the adequacy of the tax provision and contingent liabilities and found that these were reasonable in the actual context.

Independent auditor's report

To the Shareholders of MCB Group Limited (Cont'd)

Report on the Audit of the Consolidated and Separate Financial Statements (cont'd)

Key Audit Matters (Cont'd)

Key audit matters relating to the consolidated financial statements	How our audit addressed the key audit matters relating to the consolidated financial statements
<p>Management is of opinion that the likelihood of incurring additional payment to the MRA is low on the remaining areas where no agreement has yet been reached under the Income Tax and Valued Added Tax Acts. The maximum liability that could arise from these amounted to Rs 537 million and disclosure of these contingent liabilities is in note 21 to the consolidated financial statements.</p> <p>The assessments are still pending in front of the Assessment Review Committee.</p> <p>The determination of income tax provision and contingent liabilities is complex and requires management to use significant judgement and critical accounting estimates as disclosed in notes 2(g), 21 and 30 to the consolidated financial statements.</p>	
<p>Valuation of unquoted financial assets held at fair value</p> <p>The valuation of the Group's unquoted financial assets held at fair value was a key area of audit focus due to the significance of the amount and complexity involved in the valuation process.</p> <p>Management makes significant judgements because of the complexity of the techniques and assumptions used in valuing some of the level 3 investment securities given the limited external evidence and unobservable market data available to support the Group's valuations.</p> <p>The valuation of the level 3 investment securities are dependent on market conditions and key assumptions made. The determination of these assumptions is complex and requires the exercise of management judgement.</p> <p>See notes 2(d), 3(d) and 7(d) to the consolidated financial statements.</p>	<ul style="list-style-type: none">• We assessed the design and operating effectiveness of the Group's key controls supporting the identification, measurement and oversight of valuation risk of financial assets.• For the more judgemental valuations, which depend on unobservable inputs, we evaluated the assumptions, methodologies and models used by the Group.• We performed an independent valuation of a sample of positions which in some cases resulted in a different valuation compared to management. In our view the differences were within a reasonable range of outcomes in the context of the inherent uncertainties disclosed in the consolidated financial statements.• We also involved our valuation experts to assess the appropriateness of the methodologies used and found that these are reasonable in the context of the relevant investment securities held.

In connection with the separate financial statements, we have determined that there are no Key Audit Matters to communicate in our report.

Independent auditor's report

To the Shareholders of MCB Group Limited (Cont'd)

Report on the Audit of the Consolidated and Separate Financial Statements (cont'd)

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. Our reporting responsibilities regarding the corporate governance report is dealt with in the "Report on Other Legal and Regulatory Requirements" section of this report.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's and Company's financial reporting process

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

Independent auditor's report

To the Shareholders of MCB Group Limited (Cont'd)

Report on the Audit of the Consolidated and Separate Financial Statements (cont'd)

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (Cont'd)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditor's report

To the Shareholders of MCB Group Limited (Cont'd)

Report on Other Legal and Regulatory Requirements

Mauritian Companies Act 2001

The Mauritian Companies Act 2001 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- (a) we have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditor of the Company and some of its subsidiaries, tax advisor of one of its subsidiaries and dealings in the ordinary course of business with some of its subsidiaries;
- (b) we have obtained all the information and explanations we have required; and
- (c) in our opinion, proper accounting records have been kept by the Company as far as appears from our examination of those records.


Mauritian Financial Reporting Act 2004

The directors are responsible for preparing the corporate governance report. Our responsibility is to report on the extent of compliance with the Code of Corporate Governance (the "Code") as disclosed in the annual report and on whether the disclosure is consistent with the requirements of the Code.

In our opinion, the disclosure in the annual report is consistent with the requirements of the Code.

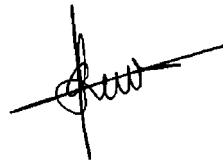
Other Matter

This report, including the opinion, has been prepared for and only for the Company's shareholders, as a body, in accordance with Section 205 of the Mauritian Companies Act 2001 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers

27 September 2018



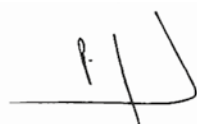
Gilles Beesoo
licensed by FRC

Statements of financial position

as at 30 June 2018

	Notes	GROUP		COMPANY	
		2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
ASSETS					
Cash and cash equivalents	4	35,903.0	35,711.4	522.8	-
Derivative financial instruments	5	512.8	479.7	-	-
Loans to and placements with banks	6(a)	18,920.8	25,716.3	-	-
Loans and advances to customers	6(b)	199,298.2	170,779.5	-	-
Investment securities	7	88,747.4	74,729.7	200.0	-
Investments in associates	8	9,796.0	9,552.3	117.2	109.7
Investments in subsidiaries	9	-	-	10,799.6	9,386.4
Investment properties	10	2,861.1	-	-	-
Goodwill and other intangible assets	11	1,238.8	949.4	-	-
Property, plant and equipment	12	6,194.8	6,196.8	224.9	226.8
Deferred tax assets	13	285.8	282.2	-	-
Other assets	14	22,611.1	20,812.4	1,387.4	1,374.5
Total assets		386,369.8	345,209.7	13,251.9	11,097.4
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposits from banks	15(a)	3,157.7	2,489.5	-	-
Deposits from customers	15(b)	294,560.9	272,373.8	-	-
Derivative financial instruments	5	883.4	401.7	-	-
Other borrowed funds	16	14,372.5	5,968.4	-	242.6
Subordinated liabilities	17(a)	5,591.8	5,587.0	4,531.7	4,535.0
Debt securities	17(b)	2,012.7	-	2,012.7	-
Current tax liabilities		1,000.2	905.9	0.3	-
Deferred tax liabilities	13	236.4	53.4	0.1	0.4
Other liabilities	19	10,787.6	9,093.4	1,128.9	1,063.7
Total liabilities		332,603.2	296,873.1	7,673.7	5,841.7
Shareholders' equity					
Stated capital		2,547.9	2,477.8	2,547.9	2,477.8
Retained earnings		38,233.2	34,761.0	3,030.3	2,777.9
Other components of equity		10,525.1	8,710.4	-	-
Equity attributable to the ordinary equity holders of the parent		51,306.2	45,949.2	5,578.2	5,255.7
Non-controlling interests		2,460.4	2,387.4	-	-
Total equity		53,766.6	48,336.6	5,578.2	5,255.7
Total equity and liabilities		386,369.8	345,209.7	13,251.9	11,097.4
CONTINGENT LIABILITIES					
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers		59,872.2	43,102.9		
Commitments		6,446.1	7,201.2		
Tax assessments		537.1	992.6		
Other		1,440.4	1,360.2		
	21	68,295.8	52,656.9		

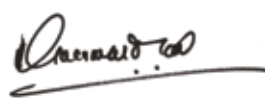
These financial statements were approved for issue by the Board of Directors on the 27 September 2018.



Pierre Guy NOEL
Director
Chief Executive



Didier HAREL
Director
Chairperson



Sunil BANYMANDHUB
Director
Chairperson Audit Committee

The notes on pages 192 to 265 form part of these financial statements.
Auditor's report on pages 172 to 179.

Statements of profit or loss

for the year ended 30 June 2018

	Notes	GROUP		COMPANY	
		Year ended	Year ended	Year ended	Year ended
		30 June	30 June	30 June	30 June
		2018	2017	2018	2017
		RS'M	RS'M	RS'M	RS'M
Interest income	22	15,112.9	14,034.3	2.3	-
Interest expense	23	(4,383.7)	(4,478.0)	(268.1)	(246.2)
Net interest income		10,729.2	9,556.3	(265.8)	(246.2)
Fee and commission income	24	4,547.6	4,134.4	-	-
Fee and commission expense	25	(1,114.6)	(930.0)	-	-
Net fee and commission income		3,433.0	3,204.4	-	-
Other income					
Profit arising from dealing in foreign currencies		2,391.7	1,827.9	-	-
Net (loss)/gain from financial instruments carried at fair value	26	(385.5)	101.3	-	-
Dividend income	27	85.2	88.8	2,922.6	2,841.4
Net gain on sale of securities		226.7	278.8	-	-
Other operating income		470.5	448.5	-	-
Operating income		2,788.6	2,745.3	2,922.6	2,841.4
Non-interest expense					
Salaries and human resource costs	28(a)	(3,813.6)	(3,611.5)	(90.9)	(78.6)
Depreciation of property, plant and equipment		(600.4)	(551.8)	(2.0)	(1.9)
Amortisation of intangible assets		(288.5)	(281.6)	-	-
Other	28(b)	(2,099.1)	(1,943.3)	(44.4)	(33.8)
		(6,801.6)	(6,388.2)	(137.3)	(114.3)
Operating profit before impairment		10,149.2	9,117.8	2,519.5	2,480.9
Net impairment of financial assets	29	(1,329.9)	(1,063.8)	-	-
Operating profit		8,819.3	8,054.0	2,519.5	2,480.9
Share of profit of associates		306.6	338.2	-	-
Profit before tax		9,125.9	8,392.2	2,519.5	2,480.9
Income tax expense	30	(1,884.6)	(1,643.8)	(0.1)	-
Profit for the year		7,241.3	6,748.4	2,519.4	2,480.9
Profit for the year attributable to:					
Ordinary equity holders of the parent		7,220.9	6,702.1	2,519.4	2,480.9
Non-controlling interests		20.4	46.3	-	-
		7,241.3	6,748.4	2,519.4	2,480.9
Earnings per share:					
Basic (Rs)	32	30.26	28.12		
Diluted (Rs)	32	30.26	28.10		

The notes on pages 192 to 265 form part of these financial statements.
Auditor's report on pages 172 to 179.

Statements of comprehensive income

for the year ended 30 June 2018

	GROUP		COMPANY	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Profit for the year	7,241.3	6,748.4	2,519.4	2,480.9
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit pension plan, net of deferred tax	(235.1)	287.1	-	-
Share of other comprehensive expense of associates	(18.5)	(120.9)	-	-
	(253.6)	166.2	-	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	118.1	(184.4)	-	-
Reclassification adjustments on disposal of available-for-sale investments	(240.7)	16.4	-	-
Net fair value gain on available-for-sale investments	670.0	432.1	-	-
Share of other comprehensive income of associates	28.5	242.8	-	-
	575.9	506.9	-	-
Other comprehensive income for the year	322.3	673.1	-	-
Total comprehensive income for the year	7,563.6	7,421.5	2,519.4	2,480.9
Total comprehensive income attributable to:				
Ordinary equity holders of the parent	7,526.2	7,272.2	2,519.4	2,480.9
Non-controlling interests	37.4	149.3	-	-
	7,563.6	7,421.5	2,519.4	2,480.9

Note

30(b)

The notes on pages 192 to 265 form part of these financial statements.
Auditor's report on pages 172 to 179.

Statements of changes in equity

for the year ended 30 June 2018

		Attributable to ordinary equity holders of the parent						Non-	Total	
		Stated	Retained	Capital	Translation	Statutory	General	Controlling	Equity	
		Capital	Earnings	Reserve	Reserve	Reserve	Banking	Interests		
		RS'M	RS'M	RS'M	RS'M	RS'M	Reserve	RS'M	RS'M	
							Total			
							RS'M			
GROUP										
At 01 July 2016		2,426.8	30,886.1	2,765.5	(349.8)	4,020.3	981.0	40,729.9	2,278.7	43,008.6
Profit for the year		-	6,702.1	-	-	-	-	6,702.1	46.3	6,748.4
Other comprehensive income/(expense) for the year		-	164.7	589.3	(183.9)	-	-	570.1	103.0	673.1
Total comprehensive income/(expense) for the year		-	6,866.8	589.3	(183.9)	-	-	7,272.2	149.3	7,421.5
Dividends	31	-	(2,144.9)	-	-	-	-	(2,144.9)	(40.8)	(2,185.7)
Effect of increase in shareholding in subsidiary		-	2.0	-	-	-	-	2.0	(28.4)	(26.4)
Issue of shares following the exercise of Group Employee Share Options Scheme		51.0	-	-	-	-	-	51.0	-	51.0
Transactions with owners		51.0	(2,142.9)	-	-	-	-	(2,091.9)	(69.2)	(2,161.1)
Share of transfer by associate		-	(4.6)	4.6	-	-	-	-	-	-
Share of other movements in reserves of associate		-	44.5	(5.5)	-	-	-	39.0	28.6	67.6
Transfer from general banking reserve		-	51.2	-	-	-	(51.2)	-	-	-
Transfer to statutory reserve		-	(940.1)	-	-	940.1	-	-	-	-
At 30 June 2017		2,477.8	34,761.0	3,353.9	(533.7)	4,960.4	929.8	45,949.2	2,387.4	48,336.6
Profit for the year		-	7,220.9	-	-	-	-	7,220.9	20.4	7,241.3
Other comprehensive (expense)/income for the year		-	(232.3)	416.1	121.5	-	-	305.3	17.0	322.3
Total comprehensive income for the year		-	6,988.6	416.1	121.5	-	-	7,526.2	37.4	7,563.6
Dividends	31	-	(2,267.0)	-	-	-	-	(2,267.0)	(297.9)	(2,564.9)
Unclaimed dividends pertaining to previous years		-	27.1	-	-	-	-	27.1	-	27.1
Impact of acquisition by subsidiary		-	-	-	-	-	-	-	326.3	326.3
Impact of rights issue exercised by minority shareholders in subsidiary		-	-	-	-	-	-	-	6.7	6.7
Issue of shares following the exercise of Group Employee Share Options Scheme		70.1	-	-	-	-	-	70.1	-	70.1
Transactions with owners		70.1	(2,239.9)	-	-	-	-	(2,169.8)	35.1	(2,134.7)
Share of transfer by associate		-	0.2	(0.2)	-	-	-	-	-	-
Share of other movements in reserves of associate		-	0.4	0.2	-	-	-	0.6	0.5	1.1
Transfer to general banking reserve		-	(256.7)	-	-	-	256.7	-	-	-
Transfer to statutory reserve		-	(1,020.4)	-	-	1,020.4	-	-	-	-
At 30 June 2018		2,547.9	38,233.2	3,770.0	(412.2)	5,980.8	1,186.5	51,306.2	2,460.4	53,766.6

The notes on pages 192 to 265 form part of these financial statements.
Auditor's report on pages 172 to 179.

Statements of changes in equity

for the year ended 30 June 2018 (cont'd)

COMPANY

	Note	Stated Capital RS'M	Retained Earnings RS'M	Total Equity RS'M
At 01 July 2016		2,426.8	2,441.9	4,868.7
Profit for the year		-	2,480.9	2,480.9
Total comprehensive income for the year		-	2,480.9	2,480.9
Dividends	31	-	(2,144.9)	(2,144.9)
Issue of shares following the exercise of Group Employee Share Options Scheme		51.0	-	51.0
Transactions with owners		51.0	(2,144.9)	(2,093.9)
At 30 June 2017		2,477.8	2,777.9	5,255.7
Profit for the year		-	2,519.4	2,519.4
Total comprehensive income for the year		-	2,519.4	2,519.4
Dividends	31	-	(2,267.0)	(2,267.0)
Issue of shares following the exercise of Group Employee Share Options Scheme		70.1	-	70.1
Transactions with owners		70.1	(2,267.0)	(2,196.9)
At 30 June 2018		2,547.9	3,030.3	5,578.2

The notes on pages 192 to 265 form part of these financial statements.
Auditor's report on pages 172 to 179.

Statements of cash flows

for the year ended 30 June 2018

	Notes	GROUP		COMPANY	
		Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Operating activities					
Net cash flows from trading activities	34	(4,303.6)	894.0	2,522.3	2,179.6
Net cash flows from other operating activities	35	6,937.0	6,518.3	-	-
Dividends received from associates		373.5	305.1	-	-
Dividends paid		(2,206.2)	(2,084.4)	(2,206.2)	(2,084.4)
Dividends paid to non-controlling interests in subsidiaries		(297.9)	(40.8)	-	-
Income tax paid		(1,689.8)	(1,568.1)	-	-
Net cash flows from operating activities		(1,187.0)	4,024.1	316.1	95.2
Investing activities					
Investment in associate		(198.5)	(136.6)	(7.5)	(83.2)
Investment in subsidiaries		-	-	(2.0)	(83.2)
Net subordinated loan granted to subsidiaries		-	-	(1,411.2)	(50.0)
Investment in securities		-	-	(200.0)	-
Acquisition by subsidiary, net of cash acquired	36(b)	(944.7)	-	-	-
Purchase of investment property		(569.4)	-	-	-
Purchase of property, plant and equipment		(674.8)	(990.9)	(0.1)	(221.8)
Purchase of intangible assets		(195.7)	(345.0)	-	-
Proceeds from sale of property, plant and equipment		62.5	116.4	-	-
Net cash flows from investing activities		(2,520.6)	(1,356.1)	(1,620.8)	(438.2)
Net cash flows before financing activities		(3,707.6)	2,668.0	(1,304.7)	(343.0)
Financing activities					
Shares issued/employee share options exercised		70.1	51.0	70.1	51.0
Impact of right issue exercised by minority shareholders in subsidiary		6.7	-	-	-
Debt securities issued		2,000.0	-	2,000.0	-
Net cash flows from financing activities		2,076.8	51.0	2,070.1	51.0
(Decrease)/Increase in cash and cash equivalents		(1,630.8)	2,719.0	765.4	(292.0)
Net cash and cash equivalents at 01 July		35,660.7	33,215.1	(242.6)	49.4
Effect of foreign exchange rate changes		33.4	(273.4)	-	-
Net cash and cash equivalents at 30 June	4	34,063.3	35,660.7	522.8	(242.6)

The notes on pages 192 to 265 form part of these financial statements.
Auditor's report on pages 172 to 179.

General information

The MCB Group Limited (“the Company”) was incorporated as a public company limited by shares on 05 August 2013. Its registered office is situated at 9-15, Sir William Newton Street, Port-Louis, Mauritius.

The Company is listed on The Stock Exchange of Mauritius Ltd.

The main activities of the Company and those of its subsidiaries (“the Group”) consist in providing a whole range of banking and financial services in the Indian Ocean region and beyond.

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Notes to the financial statements

for the year ended 30 June 2018

I. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the Mauritian Companies Act 2001.

Where necessary, comparative figures have been amended to conform with changes in presentation, or in accounting policies in the current year.

The financial statements include the consolidated financial statements of the parent company MCB Group Limited and its subsidiary companies (The Group) and the separate financial statements of the parent company (The Company).

The financial statements are prepared under the historical cost convention, except for certain specific classes of Property, Plant and Equipment, namely agricultural land and factory buildings, which are carried at revalued amounts/deemed costs.

Standards, amendments to published Standards and interpretations effective in the reporting period

The following standards, amendments to published standards and interpretations are effective and applicable to the Group in the reporting period:

Amendments to published standards (effective as from 01 January 2017):

- Amendments to IAS 12, Recognition of Deferred Tax Assets for unrealised losses;
- Amendments to IAS 7 - Disclosure Initiative; and
- Annual improvements cycle 2014-2016 - Amendments to IFRS 12;

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

Standards, amendments to published Standards and interpretations issued but not yet effective

Certain standards, amendments to published standards and interpretations issued are effective for accounting periods beginning after 01 July 2017, but which the Group has not early adopted.

I. Significant accounting policies (Cont'd)

(a) Basis of preparation (Cont'd)

Standards, amendments to published Standards and interpretations issued but not yet effective (cont'd)

At the reporting date of these financial statements, the following were in issue but not yet effective:

- IFRS 2 Share-based payment Amendment on clarifying share-based payment transactions– effective 01 January 2018;
- IFRS 9 Financial Instruments – effective 01 January 2018;
- IFRS 15 Revenue from Contracts with Customers – effective 01 January 2018;
- IFRS 16 Leases – effective 01 January 2019;
- IFRS 17 Insurance Contracts - effective 01 January 2021;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration – effective 01 January 2018;
- Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between investor and its associate or joint venture;
- IFRIC 23 Uncertainty over Income Tax Treatments – effective 01 January 2019; and
- Annual Improvements 2014 – 2016 Cycle - effective 01 January 2018.

Where relevant, the Group is still evaluating the effect of these Standards, amendments to published Standards and interpretations on the financial statements.

IFRS 2 Share-based payment Amendment on clarifying share-based payment transactions– effective 01 January 2018;

No material impact is expected on the financial statements.

IFRS 9 Financial Instruments - effective 01 January 2018

IFRS 9 is of particular importance to the Group. In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). In many instances, the classification and measurement outcomes will be similar to IAS 39, although differences will arise. For example, under IFRS 9, embedded derivatives are not separated from host financial assets and equity securities are measured at FVPL or, in limited circumstances, at FVOCI. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged.

Impairment

The impairment requirements apply to financial assets measured at amortised cost, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3'.

Notes to the financial statements

for the year ended 30 June 2018

I. Significant accounting policies (Cont'd)

(a) Basis of preparation (Cont'd)

Standards, amendments to published Standards and Interpretations issued but not yet effective (Cont'd)

Impairment (Cont'd)

The assessment of whether credit risk has increased significantly since initial recognition is performed at the end of each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

The adoption of IFRS 9 at 1 July 2018, by applying the accounting policies and ECL measurement methodologies outlined above, is not expected to have a material impact when compared to our existing portfolio provisions and other loan-loss reserves.

Transition

The classification and measurement, and impairment requirements are applied retrospectively by adjusting the opening retained earnings at the date of initial application, with no requirement to restate comparative periods.

IFRS 15 Revenue from Contracts with Customers – effective 01 January 2018

No material impact is expected on the financial statements.

I. Significant accounting policies (Cont'd)

(b) Basis of consolidation and equity accounting

(I) (i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of (a) the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over (b) the net of the acquisition-date amounts of identifiable assets acquired and the liabilities and contingent liabilities assumed measured in accordance with IFRS 3 is recorded as goodwill. In the case of a bargain purchase (excess of (b) over (a)), the resulting gain is recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Separate financial statements of the Company

In the separate financial statements of the Company, investments in subsidiaries companies are carried at cost. In subsequent years, the carrying amount is reduced to recognise any impairment in the value of individual investments.

(iii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests without loss of control are also recorded in equity.

Notes to the financial statements

for the year ended 30 June 2018

I. Significant accounting policies (Cont'd)

(b) Basis of consolidation and equity accounting (Cont'd)

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(2) Associates

An associate is an entity over which the Group has significant influence but not control, or joint control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method except when classified as held-for-sale (see below). Investments in associates are initially recognised at cost as adjusted by post acquisition changes in the Group's share of the net assets of the associate less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities recognised at the date of acquisition is recognised as goodwill, which is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of identifiable assets and liabilities over the cost of acquisition, after assessment, is included as income in the determination of the Group's share of the associate's profit or loss.

When the Group's share of losses exceeds its interest in an associate, the Group discontinues recognising further losses, unless it has incurred legal or constructive obligation or made payments on behalf of the associate.

Unrealised profits and losses are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, appropriate adjustments are made to the financial statements of associates to bring the accounting policies used in line with those adopted by the Group. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

In the separate financial statements of the Company, the investments in associates are carried at cost (which includes transaction costs). In subsequent years, the carrying amount is reduced to recognise any impairment in the value of the individual companies.

I. Significant accounting policies (Cont'd)

(c) Foreign currency translation

The foreign subsidiaries' statement of financial position are translated to Mauritian Rupees at the closing rate at the end of the reporting period. Their statements of profit or loss, comprehensive income and cash flows are translated at the average rate for the period unless the average is not a reasonable approximation of the cumulative effects of the rates prevailing at the transaction dates, in which case income and expenses are translated at the rates prevailing on the dates of the transactions. Any resulting exchange differences are recognised in other comprehensive income. On disposal of a foreign entity, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using Mauritian Rupee, the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated and separate financial statements are presented in Mauritian Rupees, which is the Company's functional currency. All amounts are in million, rounded to one decimal place except as otherwise stated.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when the items are remeasured.

Trading transactions denominated in foreign currencies are accounted for at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities expressed in foreign currencies are reported at the rate of exchange ruling at the end of the reporting date. Differences arising from reporting monetary items are dealt with through profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

Notes to the financial statements

for the year ended 30 June 2018

I. Significant accounting policies (Cont'd)

(d) Derivative financial instruments

Derivative financial instruments include mainly foreign exchange forward contracts, currency swaps and interest rate swaps. These are initially recognised at fair value on the date the derivative contracts are entered into and subsequently remeasured at their fair values. Fair values of derivatives between two external currencies are based on interest rate differential between the two currencies. Fair values of forwards are based on treasury bills rate or LIBOR prevailing at reporting date. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Transaction costs are charged immediately through profit or loss.

The Group's derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held-for-trading with fair value gains and losses reported in profit or loss.

The fair values of derivative financial instruments held-for-trading are disclosed in note 5.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(f) Interest income and expense

Interest income and expense are recognised in profit or loss for all interest-bearing instruments using the effective interest method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

(g) Fees and commissions

Fees and commissions are generally recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with the related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

(h) Sale and repurchase agreements

Securities sold subject to linked repurchase agreements ("repos") are retained in the statement of financial position as Government securities and Treasury bills and the counterparty liability is included in amount due to other banks or deposits, as appropriate.

Securities purchased under agreements to resell ("reverse repos") are recorded as amount due from other banks or loans and advances, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the repos agreements using the effective interest method.

I. Significant accounting policies (Cont'd)

(i) Investment securities

The Group classifies its investment securities as financial assets at fair value through profit or loss, held-to-maturity or available-for-sale assets. The directors determine the appropriate classification of the investments at the time of the purchase. Investment securities with fixed maturity where the directors have both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale, which may be sold.

Investment securities are initially recognised at fair value plus, in the case of those not at fair value through profit or loss, transaction costs. Available-for-sale financial assets are subsequently remeasured at fair value. Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income and cumulated in a separate reserve, capital reserve.

Financial assets at fair value through profit or loss are financial assets held-for-trading.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any provision for impairment.

If the Group was to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

Interest earned while holding investment securities is reported as interest income. Dividends receivable are included separately as 'dividend income' in profit or loss when the Group's right to receive payment is established.

All regular way purchases and sales of investment securities are recognised at trade date which is the date that the Group commits to purchase or sell the asset.

(j) Trading securities

Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at fair value (which excludes transaction costs) and measured at subsequent reporting dates at fair value. All related realised and unrealised gains and losses are recognised in profit or loss for the year.

(k) Loans and advances

Loans originated by the Group by providing money directly to the borrower (at draw-down) are categorised as loans by the Group and are carried at amortised cost which is defined as the fair value of cash consideration given to originate these loans as is determinable by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

Notes to the financial statements

for the year ended 30 June 2018

I. Significant accounting policies (Cont'd)

(I) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general banking reserve as an appropriation of retained earnings.

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets classified as available-for-sale is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

I. Significant accounting policies (Cont'd)

(m) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(n) Goodwill

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity over the fair value of the net identifiable assets is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the gains and losses on disposal. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(o) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation is calculated to write down the cost of such assets to their residual values on a straight-line basis over their estimated useful lives as follows:

Buildings	50 years
Computer and other equipment	5-10 years
Furniture, fittings and vehicles	5-15 years

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are recognised as income or expense in profit or loss. Repairs and renewals are charged to profit or loss when the expenditure is incurred.

Notes to the financial statements

for the year ended 30 June 2018

I. Significant accounting policies (Cont'd)

(p) Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly attributable with the design of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- the directors intend to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, but not exceeding a period of eight years.

(q) Finance leases

Assets acquired under finance leases are accounted for at inception, at fair value, or if lower at the present value of the minimum lease payments and depreciated over their estimated useful lives. A corresponding liability is recorded as outstanding lease obligations.

Lease payments are apportioned between the liability and the finance charge so as to achieve a constant periodic rate of interest on the outstanding lease obligations.

Leased assets are depreciated over the shorter of the useful life of the asset and the lease terms.

(r) Accounting for leases - where the subsidiary is the lessor

Finance leases

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable, the amount being equal to the net investment in the leases after specific provision for impairment loss in respect of all identified impaired leases in the light of periodical reviews. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Operating leases

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income is recognised on a straight-line basis over the lease term.

I. Significant accounting policies (Cont'd)

(s) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and balances with Central Banks, treasury bills and amounts due to and from other banks which are short-term, highly-liquid with original maturities of three months or less. A further breakdown of cash and cash equivalents is given in note 4 to the financial statements.

(t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(u) Deposits from banks and customers

Deposits from banks and customers are classified as financial liabilities at amortised cost. They are initially measured at fair value and subsequently carried at amortised cost.

(v) Employee benefits

The Group operates a number of defined benefit and defined contribution plans and provides for the requirements under the Employment Rights Act 2008. The defined benefit plan is fully funded. The assets of the funded plan are held independently and administered by The Mauritius Commercial Bank Limited Superannuation Fund.

(i) Defined contribution plans

Short term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Payments to defined contribution plans are recognised as an expense when employees have rendered service that entitle them to the contributions.

Notes to the financial statements

for the year ended 30 June 2018

I. Significant accounting policies (Cont'd)

(v) Employee benefits (Cont'd)

(ii) Defined benefit plans

Gratuity on retirement

For employees who are not covered (or who are insufficiently covered by the above pension plans), the net present value of gratuity on retirement payable under the Employment Rights Act 2008 (Amended) is calculated by a qualified actuary and provided for. The obligations arising under this item are not funded.

Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The main assumptions made in the actuarial valuation of the pension fund are listed in note 18 to the financial statements.

The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset), taking into account any changes in the net defined liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense/(income) is recognised in profit or loss.

Service costs comprising current service cost, past service cost, as well as gains and losses on curtailments and settlements are recognised immediately in profit or loss.

Remeasurement of the net defined benefit liability, which comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), is recognised immediately in other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income shall not be reclassified to profit or loss in subsequent period.

As from 01 July 2015, the Bank has introduced a Defined Contribution Cash Balanced scheme (DCCB) for its employees.

With the introduction of DCCB, new employees automatically join the DCCB scheme, whilst existing employees had a one-time opportunity to choose from one of the options listed below:

Option A: To stay in the Defined Benefit (DB) scheme for all service.

Option B: To keep the accrued past pension benefits until 30 June 2015 in the DB scheme and join the DCCB scheme as from 01 July 2015.

Option C: To join the DCCB scheme as from 01 July 2015 and transfer the total accrued benefits as at 30 June 2015 from the DB scheme into the DCCB scheme.

I. Significant accounting policies (Cont'd)

(w) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is based on taxable income for the year calculated on the basis of tax laws enacted or substantively enacted by the end of the reporting period and includes the Corporate Social Responsibility charge and Bank levy.

(ii) Deferred income tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the end of the reporting period and are expected to apply in the period when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary difference can be utilised.

(x) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(y) Dividend declared and unpaid

Dividend declared and unpaid to the Company's shareholders at reporting date is recognised as a liability in the period in which dividend is declared.

(z) Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are disclosed as liabilities with corresponding contra-assets.

(aa) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Supervisory and Monitoring Committee to make decisions about resources to be allocated to segments and assess their performance, and for which discrete financial information are available.

Detailed analysis of segment reporting are shown in note 37 to the financial statements.

Notes to the financial statements

for the year ended 30 June 2018

I. Significant accounting policies (Cont'd)

(ab) Stated capital

(i) Ordinary shares are classified as equity.

(ii) Share issue costs are incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(ac) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised until such time as the assets are substantially ready for their intended use or sale.

Other borrowing costs are expensed.

(ad) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(ae) Share-based payments

Share-based compensation benefits are provided to all employees via the Group Employee Share Option Scheme (GESOS). Information relating to this scheme is set out in note 28 (c).

The fair value of options granted under the GESOS is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions,
- excluding the impact of any service and non-market performance vesting conditions, and
- including the impact of any non-vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Social security contributions payable in connection with an option grant are considered an integral part of the grant itself and the charges are treated as cash-settled transactions.

(af) Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year.

2. Critical accounting estimates and judgements

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and judgements

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Held-to-maturity investments

The Group follows the guidance of International Accounting Standard (IAS) 39 - "Recognition and Measurement" on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value; not at amortised cost.

(b) Impairment of available-for-sale financial assets

The Group follows the guidance of IAS 39 on determining when an available-for-sale investment has had a significant or prolonged decline in the fair value below cost. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost.

(c) Pension benefits

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, the directors consider the interest rates of high quality corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

Additional disclosure on Pension benefits are shown in Note 18.

(d) Fair value of securities not quoted in an active market

The fair value of securities not quoted in an active market may be determined by the Group using valuation techniques including third party transaction values, earnings, net asset value or discounted cash flows, whichever is considered to be appropriate. The Group would exercise judgement and estimates on the quantity and quality of pricing sources used. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Notes to the financial statements

for the year ended 30 June 2018

2. Critical accounting estimates and judgements (Cont'd)

(e) Asset lives and residual values

Property, plant and equipment are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. Consideration is also given to the extent of current profits and losses on the disposal of similar assets. The directors therefore make estimates based on historical experience and use best judgement to assess the useful lives of assets and to forecast the expected residual values of the assets at the end of their expected useful lives.

(f) Impairment loss on financial assets

(i) Specific provisioning

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements based on any observable data which could indicate an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. Where cash flows for large credits include the realisable value of collateral securing the credit, the value of such collateral is based on the opinion of independent and qualified appraisers discounted as per requirements of the Bank of Mauritius Guidelines on Credit Impairment.

(ii) Portfolio provisioning

In assessing the portfolio provisioning, the directors consider factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

(g) Provision for tax assessment

In assessing the provision for tax assessment, directors consider the likelihood of an outflow of resources based on discussions with the Mauritius Revenue Authority (MRA).

(h) Significant influence in Banque Française Commerciale Ocean Indien

The Group holds 49.99% of Banque Française Commerciale Ocean Indien (BFCOI) and it is considered as an associate. The directors consider that the Group only has significant influence over BFCOI since it does not have the practical ability to control the relevant activities of BFCOI.

3. Financial risk management

(a) Strategy in using financial instruments

The use of financial instruments is a major feature of the Group's operations. It has been the policy of the subsidiaries to take deposits from customers at variable rates mostly by investing these funds in a wide range of assets.

The Group also seeks to raise its interest margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. The Group's exposures are not restricted to just on-balance sheet loans and advances but, also, to guarantees and other commitments such as letters of credit, performance and other bonds.

Given that The Mauritius Commercial Bank Limited (the Bank) comprises a significant portion of the Group, the details provided below relate mainly to the Bank.

(b) Credit risk

Credit risk arises when customers or counterparties are not able to fulfill their contractual obligations. Credit Risk Management at the Bank is under the responsibility of the Credit Risk Business Unit (CRBU). The CRBU has the task of reviewing the Bank's credit policies and guidelines to ensure that best lending practices are upheld at all times. Risk assessments are carried out to assist in portfolio management decisions including exposure levels and the constitution of required provisions.

Credit related commitments

The main purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank to pay a third party, on behalf of its customers up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

Credit quality

	GROUP	
	2018 RS'M	2017 RS'M
Neither past due nor impaired	205,977.1	165,764.0
Past due but not impaired	2,392.0	2,149.3
Impaired	9,733.8	10,881.8
Gross	218,102.9	178,795.1
Less Allowances for credit impairment	(6,868.1)	(6,257.6)
Net	211,234.8	172,537.5
Fair Value of collaterals of past due but not impaired loans	3,550.8	2,522.0
Fair Value of collaterals of impaired loans	8,383.4	12,841.0

The Bank regards "Past due but not impaired" for amounts due for more than 60 days.

Notes to the financial statements

for the year ended 30 June 2018

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Credit Quality of Neither past due nor impaired

Large corporate clients are assigned a Borrower Risk Rating which is generated by the Moody's Financial Analyst software which evaluates the borrower's financial position and subjective factors such as management quality, company standing and industry risk. Those ratings are used to monitor the credit quality of the Corporate Banking Segment which consumes a sizeable portion of the Bank's capital resources. Internally built scoring models are used to rate individuals based on borrowers' repayment capacity, track record and personal attributes for specialised lending including the Structured Trade and Commodity Finance portfolio, the risk profile is assessed based on the specificities of the financing structures and the type of borrowers.

Credit quality

For debt securities and certain other financial instruments, external ratings have been aligned to the three quality classifications based upon the mapping of related Customer Risk Rating ("CRR") to external credit ratings. The mapping is reviewed on a regular basis.

Quality classification definitions

"Low risk" exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. The credit rating as per Moody's would be generally in the range Aaa to A3.

"Medium" exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. The credit rating as per Moody's would be generally in the range Ba1 to Baa3.

"High" exposures require varying degrees of special attention and default risk is of greater concern. The credit rating as per Moody's would be generally in the range Caa1 to Caa3.

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

For cash and cash equivalents and loans and placements with banks, the credit rating is as follows:

	GROUP			
	Cash and cash equivalents	Cash and cash equivalents	Loans and placements with banks	Loans and placements with banks
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
Credit rating:				
Aaa to Aa3	2,258.4	11,802.4	-	1,308.9
A1 to A3	6,442.2	10,127.1	780.6	6,070.3
B1 to B3	-	-	1,667.5	689.8
Ba1 to Ba3	1,300.1	1,640.4	1,502.7	-
Baa1 to Baa3	20,225.8	6,874.5	14,562.3	17,040.1
Caa1 to Caa3	-	172.5	-	-
Unrated	3,861.4	876.9	887.6	809.8
Total gross amount	34,087.9	31,493.8	19,400.7	25,918.9
Allowance for impairment (individual and collective)	-	-	(135.0)	(6.4)
Net carrying amount	34,087.9	31,493.8	19,265.7	25,912.5
Subsidiaries, net of eliminations	(782.3)	1,434.3	(344.9)	(196.2)
	33,305.6	32,928.1	18,920.8	25,716.3

Age analysis of loans and advances that are past due but not impaired

	GROUP	
	2018 RS'M	2017 RS'M
Up to 3 months	2,194.6	1,762.3
Over 3 months and up to 6 months	90.8	226.7
Over 6 months and up to 1 year	46.9	109.5
Over 1 year	59.7	50.8
	2,392.0	2,149.3

Loan and advances restructured

	GROUP	
	2018 RS'M	2017 RS'M
Loan and advances restructured	9,786.3	13,390.0
out of which impaired	1,478.2	1,781.5

Notes to the financial statements

for the year ended 30 June 2018

3. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Collateral and other credit enhancements

Credit mitigation instruments are used to reduce the Bank's lending risk, resulting in security against the majority of exposures. In the event of default of counterparty, the Bank has the ability to call on different type of collaterals which in turn are driven by portfolio, product or counterparty type; fixed and floating charges on properties and other assets, pledge on deposits, lien on vehicle, pledge on securities/bonds, pledge on deposits held in other financial institutions, pledge on life insurance policies, bank guarantees/corporate guarantee/personal guarantee, 'nantissement de part sociales', government guarantee and lien/gage on equipment.

Credit risk on other assets

The treasury function, as part of the daily management of the Bank's liquidity, places funds with the Bank of Mauritius and other commercial banks and financial institutions. These transactions are mainly money market placements and government securities Held-for-trading on the secondary market. These market counterparties are mainly investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets and internationally. These counterparties are located in the UK, Europe, America and Australia.

Maximum exposure to credit risk before collateral and other credit risk enhancements:

	GROUP	
	2018 RS'M	2017 RS'M
Credit risk exposures relating to on - balance sheet assets are as follows:		
Cash and cash equivalents	33,305.6	32,928.1
Derivative financial instruments	512.8	479.7
Loans to and placements with banks	18,920.8	25,716.3
Loans and advances to customers	199,298.2	170,779.5
Investment securities	88,747.4	74,729.7
Other financial assets	17,948.3	16,695.7
Credit risk exposures relating to off - balance sheet assets are as follows :		
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	59,872.2	43,102.9
Commitments	6,446.1	7,201.2
Total	425,051.4	371,633.1

3. Financial risk management (Cont'd)

(c) Market risk

Market risk arises from activities undertaken in or impacted by financial markets generally. This includes the risk of gain or loss arising from the movement in market price of a financial asset or liability as well as currency or interest rate risk. The market risk management policies at the Bank are set by the Board Risk Monitoring Committee and executive management of this class of risk is delegated to the Asset and Liability Committee (ALCO). The Market Risk Business Unit (MRBU) plays a central role in monitoring and controlling market risk activities. It is the aim of MRBU to ensure that market risk policies and guidelines are being effectively complied with and that limits are being observed.

(i) Price risk

The Group is exposed to equity securities price risk because of investments held and classified as available-for-sale financial assets. The table below summarises the impact of increases/decreases in fair value of the investments on the Group's and the Company's equity. The analysis is based on the assumption that the fair value had increased/decreased by 5%.

	GROUP	
	2018 RS'M	2017 RS'M
Available-for-sale financial assets	397.4	390.7

(ii) Current risk

Currency risk is defined as the risk that movements in foreign exchange rates adversely affect the value of the Group's foreign currency positions. Exposure resulting from trading activities is monitored through the use of targets and limits. Limits are given to the individual trader and monitored by the Head of Treasury. Such limits include daily, monthly, half-yearly and yearly stop losses. Exposure resulting from non-trading activities is managed through the Asset and Liability Management framework, with reference to guidelines and policies set and approved by ALCO and the Board Risk Monitoring Committee.

The Bank uses the Value-at-Risk (VaR) to measure its market price risk. VaR is the statistical representation of financial risk, expressed as a number, based on consistent modelling of past data and/or simulation of possible future movements, applied to a particular risk position, asset, or portfolio.

The VaR model used by the Bank is based upon a 99 percent one-tailed confidence level and assumes a ten-day holding period, with market data taken from the previous one year.

VaR Analysis - Foreign Exchange Risk

	As at 30 June	Average	Maximum	Minimum
2018 (RS'M)	(34.6)	(40.1)	(60.4)	(20.7)
2017 (RS'M)	(39.0)	(29.6)	(39.0)	(21.6)

Notes to the financial statements

for the year ended 30 June 2018

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(ii) Currency risk (Cont'd)

Concentration of assets, liabilities and off-balance sheet items

GROUP

At 30 June 2018

Financial assets

	EURO RS'M	USD RS'M	GBP RS'M	MUR RS'M	OTHER RS'M	TOTAL RS'M
Cash and cash equivalents	5,676.1	16,742.0	1,166.2	8,578.3	1,925.3	34,087.9
Derivative financial instruments	25.6	-	-	70.2	-	95.8
Loans to and placements with banks	863.2	5,367.4	-	12,027.4	1,142.6	19,400.6
Loans and advances to customers	22,252.0	64,186.3	893.7	107,006.4	106.4	194,444.8
Investment securities	1,456.0	1,585.4	155.4	78,641.7	95.9	81,934.4
Other financial assets	642.1	1,421.1	200.6	15,553.2	131.3	17,948.3
	30,915.0	89,302.2	2,415.9	221,877.2	3,401.5	347,911.8
Less allowances for credit impairment						(6,060.7)
						341,851.1
Subsidiaries, net of eliminations						19,479.4
Total						361,330.5

Financial liabilities

Deposits from banks	1,551.7	4,295.4	418.7	243.7	79.2	6,588.7
Deposits from customers	26,674.3	60,250.9	5,283.6	182,937.0	3,797.3	278,943.1
Derivative financial instruments	1.6	-	-	405.4	-	407.0
Other borrowed funds	2,917.3	11,268.5	-	2.6	0.2	14,188.6
Subordinated liabilities	-	1,060.2	-	4,531.6	-	5,591.8
Debt securities	-	-	-	2,012.7	-	2,012.7
Other financial liabilities	169.2	196.3	37.1	1,379.9	21.3	1,803.8
	31,314.1	77,071.3	5,739.4	191,512.9	3,898.0	309,535.7
Subsidiaries, net of eliminations						16,380.8
Total						325,916.5

Net on-balance sheet position

Less allowances for credit impairment	(399.1)	12,230.9	(3,323.5)	30,364.3	(496.5)	38,376.1
Subsidiaries, net of eliminations						(6,060.7)
						3,098.6
						35,414.0

Off balance sheet net notional position

Credit commitments	6,701.7	13,718.2	420.0	-	482.0	21,321.9
Subsidiaries	3,179.0	44,215.4	45.5	15,742.0	747.6	63,929.5
						6,331.5
						91,582.9

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(ii) Currency risk (Cont'd)

Concentration of assets, liabilities and off-balance sheet items

GROUP

At 30 June 2017

	EURO RS'M	USD RS'M	GBP RS'M	MUR RS'M	OTHER RS'M	TOTAL RS'M
Financial assets						
Cash and cash equivalents	5,264.0	18,351.6	3,741.1	5,628.4	1,048.9	34,034.0
Derivative financial instruments	28.0	-	7.2	191.5	-	226.7
Loans to and placements with banks	7,740.9	6,512.4	2,518.9	7,750.6	1,396.0	25,918.8
Loans and advances to customers	12,849.0	48,180.7	984.9	103,549.2	59.7	165,623.5
Investment securities	1,494.5	1,650.8	507.4	65,143.6	98.5	68,894.8
Other financial assets	762.8	965.7	455.5	14,397.1	114.6	16,695.7
	28,139.2	75,661.2	8,215.0	196,660.4	2,717.7	311,393.5
Less allowances for credit impairment						(5,659.9)
						305,733.6
Subsidiaries, net of eliminations						18,378.7
Total						324,112.3
Financial liabilities						
Deposits from banks	916.7	3,819.0	227.5	266.4	73.0	5,302.6
Deposits from customers	23,837.6	58,761.4	4,182.1	166,273.9	5,514.8	258,569.8
Derivative financial instruments	8.8	5.0	12.2	71.4	-	97.4
Other borrowed funds	3,131.2	2,471.0	-	4.7	-	5,606.9
Subordinated liabilities	-	1,052.0	-	4,535.0	-	5,587.0
Other financial liabilities	245.7	156.4	161.8	879.2	20.8	1,463.9
	28,140.0	66,264.8	4,583.6	172,030.6	5,608.6	276,627.6
Subsidiaries, net of eliminations						15,051.3
Total						291,678.9
Net on-balance sheet position	(0.8)	9,396.4	3,631.4	24,629.8	(2,890.9)	34,765.9
Less allowances for credit impairment						(5,659.9)
Subsidiaries, net of eliminations						3,327.4
						32,433.4
Off balance sheet net notional position	7,976.6	14,504.4	5,197.7	-	958.0	28,636.7
Credit commitments	4,140.5	28,968.7	15.9	14,134.0	583.7	47,842.8
Subsidiaries						6,267.0
						82,746.5

Notes to the financial statements

for the year ended 30 June 2018

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iii) Interest rate risk

Interest rate risk refers to the potential variability in the Group's financial condition owing to changes in the level of interest rates. It is the Group's policy to apply variable interest rates to lending and deposit taking. Fixed interest rates are applied to deposits in foreign currencies; however maturities in this regard are only short-term.

Interest rate risk earnings impact analysis

The Bank incurs interest rate risk (IRR) mainly in the form of repricing risk and uses an interest rate risk gap analysis as shown below to measure and monitor this source of risk. Amongst other methodologies, it applies BOM framework of a 200 basis point parallel shift in interest rates to estimate the one-year earnings impact on a static balance sheet basis as follows:

Impact on Earnings

GROUP	
2018 RS'M	2017 RS'M
836.6	772.6

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iii) Interest rate risk (Cont'd)

Interest sensitivity of assets and liabilities - repricing analysis

GROUP	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-interest bearing	Total
At 30 June 2018	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Financial assets								
Cash and cash equivalents	2,260.9	-	-	-	-	-	31,827.0	34,087.9
Derivative financial instruments	-	-	-	-	-	16.9	78.9	95.8
Loans to and placements with banks	1,998.1	2,681.0	1,615.9	11,940.9	799.5	121.7	243.5	19,400.6
Loans and advances to customers	115,333.3	34,230.3	7,235.9	10,625.0	11,632.7	12,191.9	3,195.7	194,444.8
Investment securities	5,259.3	9,852.1	8,877.7	15,006.8	18,663.5	20,885.5	3,389.5	81,934.4
Other financial assets	-	-	-	-	3.5	-	17,944.8	17,948.3
	124,851.6	46,763.4	17,729.5	37,572.7	31,099.2	33,216.0	56,679.4	347,911.8
Less allowances for credit impairment								(6,060.7)
								341,851.1
Subsidiaries, net of eliminations								19,479.4
Total								361,330.5
Financial liabilities								
Deposits from banks	4,144.5	909.5	908.8	-	-	-	625.9	6,588.7
Deposits from customers	233,609.9	2,712.6	781.5	1,534.7	1,160.7	3,862.4	35,281.3	278,943.1
Derivative financial instruments	-	-	-	-	-	-	407.0	407.0
Other borrowed funds	3,648.2	8,864.0	722.2	2.5	10.7	855.8	85.2	14,188.6
Subordinated liabilities	-	1,042.8	-	-	-	4,500.0	49.0	5,591.8
Debt securities	-	-	-	-	-	2,000.0	12.7	2,012.7
Other financial liabilities	-	-	-	-	-	-	1,803.8	1,803.8
	241,402.6	13,528.9	2,412.5	1,537.2	1,171.4	11,218.2	38,264.9	309,535.7
Subsidiaries net of eliminations								16,380.8
Total								325,916.5
Net on balance sheet interest sensitivity gap	(116,551.0)	33,234.5	15,317.0	36,035.5	29,927.8	21,997.8	18,414.5	38,376.1
Less allowances for credit impairment								(6,060.7)
Subsidiaries, net of eliminations								3,098.6
								35,414.0

Notes to the financial statements

for the year ended 30 June 2018

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iii) Interest rate risk (Cont'd)

Interest sensitivity of assets and liabilities - repricing analysis

GROUP	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-interest bearing	Total
At 30 June 2017	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Financial assets								
Cash and cash equivalents	18,584.4	-	-	-	-	-	15,449.6	34,034.0
Derivative financial instruments	-	-	-	-	-	12.0	214.7	226.7
Loans to and placements with banks	1,991.3	9,746.8	6,989.5	5,861.8	1,000.0	120.7	208.7	25,918.8
Loans and advances to customers	108,345.5	32,434.8	8,350.5	1,132.1	1,804.8	11,006.1	2,549.7	165,623.5
Investment securities	5,818.8	6,393.0	7,548.5	11,240.0	14,219.5	20,377.0	3,298.0	68,894.8
Other financial assets	-	-	-	-	150.6	256.1	16,289.0	16,695.7
	134,740.0	48,574.6	22,888.5	18,233.9	17,174.9	31,771.9	38,009.7	311,393.5
Less allowances for credit impairment								(5,659.9)
								305,733.6
Subsidiaries, net of eliminations								18,378.7
Total								324,112.3
Financial liabilities								
Deposits from banks	3,353.2	762.7	734.0	119.5	-	-	333.2	5,302.6
Deposits from customers	229,007.7	2,460.3	1,191.1	1,238.9	1,420.8	1,633.4	21,617.6	258,569.8
Derivative financial instruments	-	-	-	-	-	-	97.4	97.4
Other borrowed funds	3,592.5	-	983.6	4.7	17.0	972.5	36.6	5,606.9
Subordinated liabilities	1,034.7	-	-	-	-	4,500.0	52.3	5,587.0
Other financial liabilities	-	-	-	-	-	255.0	1,208.9	1,463.9
	236,988.1	3,223.0	2,908.7	1,363.1	1,437.8	7,360.9	23,346.0	276,627.6
Subsidiaries, net of eliminations								15,051.3
Total								291,678.9
Net on balance sheet interest sensitivity gap	(102,248.1)	45,351.6	19,979.8	16,870.8	15,737.1	24,411.0	14,663.7	34,765.9
Less allowances for credit impairment								(5,659.9)
Subsidiaries, net of eliminations								3,327.4
								32,433.4

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iv) Liquidity risk

Liquidity risk can be defined as the risk of a funding crisis, notably a lack of funds to meet immediate or short term obligations in a cost-effective way. There are two aspects of liquidity risk management:

(a) cash flow management to ensure a balanced inflow and outflow of funds on any one specific day.

(b) the maintenance of a stock of liquid assets to ensure that the Group has a constantly available store of value, which can be utilised in the event of an unexpected outflow of funds.

The Bank has a documented liquidity policy compliant with the Bank of Mauritius Guideline on Liquidity. Treasury Strategic Business Unit manages liquidity in accordance with this policy, on a day-to-day basis.

The amounts disclosed in the following table are undiscounted and relates to the Bank .

Maturities of assets and liabilities

GROUP	Up to 1 month RS'M	1-3 months RS'M	3-6 months RS'M	6-12 months RS'M	1-3 years RS'M	Over 3 years RS'M	Non-maturity items RS'M	Total RS'M
At 30 June 2018								
Financial assets								
Cash and cash equivalents	14,483.3	-	-	-	-	-	19,183.7	33,667.0
Derivative financial instruments	-	(0.7)	1.4	(3.3)	(4.3)	1.7	78.9	73.7
Loans to and placements with banks	910.6	2,412.6	2,275.7	12,578.9	1,415.0	211.4	33.2	19,837.4
Loans and advances to customers	32,943.7	18,416.7	7,800.0	15,723.3	51,621.4	103,064.4	18,814.6	248,384.1
Investment securities	3,823.6	10,170.3	9,012.2	15,198.7	22,122.5	30,532.9	2,642.0	93,502.2
Other financial assets	-	-	-	-	-	-	17,948.3	17,948.3
	52,161.2	30,998.9	19,089.3	43,497.6	75,154.6	133,810.4	58,700.7	413,412.7
Less allowances for credit impairment								(6,060.7)
								407,352.0
Subsidiaries, net of eliminations								19,479.4
Total								426,831.4
Financial liabilities								
Deposits from banks	4,762.7	917.2	918.2	-	-	-	-	6,598.1
Deposits from customers	245,096.1	5,117.3	3,192.5	7,233.7	12,098.0	7,851.4	-	280,589.0
Derivative financial instruments	-	-	-	-	-	-	407.0	407.0
Other borrowed funds	2,325.7	6,728.4	305.4	1,000.0	2,550.9	1,174.0	-	14,084.4
Subordinated liabilities	-	21.0	-	134.9	512.2	5,493.0	-	6,161.1
Debt securities	-	-	-	-	-	2,012.7	-	2,012.7
Other financial liabilities	-	-	-	-	-	-	1,803.8	1,803.8
	252,184.5	12,783.9	4,416.1	8,368.6	15,161.1	16,531.1	2,210.8	311,656.1
Subsidiaries, net of eliminations								16,380.8
Total								328,036.9
Net liquidity gap	(200,023.3)	18,215.0	14,673.2	35,129.0	59,993.5	117,279.3	56,489.9	101,756.6
Less allowances for credit impairment								(6,060.7)
Subsidiaries, net of eliminations								3,098.6
								98,794.5

Notes to the financial statements

for the year ended 30 June 2018

3. Financial risk management (Cont'd)

(c) Market risk (Cont'd)

(iv) Liquidity risk (Cont'd)

Maturities of assets and liabilities

GROUP	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-maturity items	Total
At 30 June 2017	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Financial assets								
Cash and cash equivalents	31,095.5	88.3	66.8	110.4	111.0	-	2,958.4	34,430.4
Derivative financial instruments	67.3	43.1	76.6	4.1	-	12.1	18.6	221.8
Loans to and placements with banks	2,284.6	9,050.8	7,035.7	6,262.6	1,051.5	216.5	175.1	26,076.8
Loans and advances to customers	41,583.4	13,087.4	11,024.1	11,262.0	42,818.9	92,629.0	8,269.6	220,674.4
Investment securities	5,156.6	5,668.0	7,707.8	11,889.4	14,475.6	21,425.3	2,333.7	68,656.4
Other financial assets	-	-	-	-	150.6	256.1	16,289.0	16,695.7
	80,187.4	27,937.6	25,911.0	29,528.5	58,607.6	114,539.0	30,044.4	366,755.5
Less allowances for credit impairment								(5,659.9)
								361,095.6
Subsidiaries, net of eliminations								18,378.7
Total								379,474.3
Financial liabilities								
Deposits from banks	3,681.2	767.4	739.2	121.8	-	-	-	5,309.6
Deposits from customers	224,608.9	4,789.8	3,635.3	6,677.5	10,877.3	10,221.8	-	260,810.6
Derivative financial instruments	22.9	15.2	30.0	3.3	-	-	20.4	91.8
Other borrowed funds	-	450.4	205.7	711.9	2,551.1	1,917.1	-	5,836.2
Subordinated liabilities	-	20.9	-	24.8	403.6	5,337.0	-	5,786.3
Other financial liabilities	-	-	-	-	-	255.0	1,208.9	1,463.9
	228,313.0	6,043.7	4,610.2	7,539.3	13,832.0	17,730.9	1,229.3	279,298.4
Subsidiaries, net of eliminations								15,051.3
Total								294,349.7
Net liquidity gap	(148,125.6)	21,893.9	21,300.8	21,989.2	44,775.6	96,808.1	28,815.1	87,457.1
Less allowances for credit impairment								(5,659.9)
Subsidiaries, net of eliminations								3,327.4
								85,124.6

Other disclosures on financial risk management are available in the Risk and Capital Management Report.

3. Financial risk management (Cont'd)

(d) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily quoted equity investments and instruments for which a market, which is considered to be the most representative price, is readily available. These financial assets have been classified as Held-for-Trading and Available-for-Sale.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on specific estimates. If all significant input required to fair value an instrument is observable, the instrument is included in level 2.

If one or more significant inputs are not based on observable market data, the instrument is included in level 3.

Specific techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest swaps is calculated as the present value of the estimated future cashflows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using foreign exchange rates at the end of the reporting period, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of receivables and payables are assumed to approximate their fair values.

(e) Capital risk management

Disclosures relating to capital and management are available in the Risk and Capital Management Report.

Notes to the financial statements

for the year ended 30 June 2018

3. Financial risk management (Cont'd)

(f) Financial instruments by category:

	Held-to-Maturity	Loans and receivables	Available-for-sale	Financial instruments at fair value through profit or loss		Other financial liabilities at amortised cost	Total
				Held-for-trading	At initial recognition		
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
GROUP							
At 30 June 2018							
Financial assets							
Cash and cash equivalents	-	35,903.0	-	-	-	-	35,903.0
Derivative financial instruments	-	-	-	512.8	-	-	512.8
Loans to and placements with banks	-	18,920.8	-	-	-	-	18,920.8
Loans and advances to customers	-	199,298.2	-	-	-	-	199,298.2
Investment securities	56,450.2	-	7,947.0	24,232.4	117.8	-	88,747.4
Other financial assets	-	17,948.3	-	-	-	-	17,948.3
Total	56,450.2	272,070.3	7,947.0	24,745.2	117.8	-	361,330.5
Financial liabilities							
Deposits from banks	-	-	-	-	-	3,157.7	3,157.7
Deposits from customers	-	-	-	-	-	294,560.9	294,560.9
Derivative financial instruments	-	-	-	883.4	-	-	883.4
Other borrowed funds	-	-	-	-	-	14,372.5	14,372.5
Subordinated liabilities	-	-	-	-	-	5,591.8	5,591.8
Debts securities	-	-	-	-	-	2,012.7	2,012.7
Other financial liabilities	-	-	-	-	-	5,337.5	5,337.5
Total	-	-	-	883.4	-	325,033.1	325,916.5
Net on-balance sheet position	56,450.2	272,070.3	7,947.0	23,861.8	117.8	(325,033.1)	35,414.0

3. Financial risk management (Cont'd)

(f) Financial instruments by category (Cont'd):

	Held-to-Maturity	Loans and receivables	Available-for-sale	Financial instruments at fair value through profit or loss		Other financial liabilities at amortised cost	Total
	RS'M	RS'M	RS'M	Held-for-trading RS'M	At initial recognition RS'M	RS'M	RS'M
GROUP							
At 30 June 2017							
Financial assets							
Cash and cash equivalents	-	35,711.4	-	-	-	-	35,711.4
Derivative financial instruments	-	-	-	479.7	-	-	479.7
Loans to and placements with banks	-	25,716.3	-	-	-	-	25,716.3
Loans and advances to customers	-	170,779.5	-	-	-	-	170,779.5
Investment securities	57,345.2	-	7,814.3	9,568.6	1.6	-	74,729.7
Other financial assets	-	16,695.7	-	-	-	-	16,695.7
Total	57,345.2	248,902.9	7,814.3	10,048.3	1.6	-	324,112.3
Financial liabilities							
Deposits from banks	-	-	-	-	-	2,489.5	2,489.5
Deposits from customers	-	-	-	-	-	272,373.8	272,373.8
Derivative financial instruments	-	-	-	401.7	-	-	401.7
Other borrowed funds	-	-	-	-	-	5,968.4	5,968.4
Subordinated liabilities	-	-	-	-	-	5,587.0	5,587.0
Other financial liabilities	-	-	-	-	-	4,858.5	4,858.5
Total	-	-	-	401.7	-	291,277.2	291,678.9
Net on-balance sheet position	57,345.2	248,902.9	7,814.3	9,646.6	1.6	(291,277.2)	32,433.4

Notes to the financial statements

for the year ended 30 June 2018

4. Cash and cash equivalents

	GROUP		COMPANY	
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
Cash in hand	2,436.6	2,631.2	522.8	-
Foreign currency notes and coins	160.8	152.1	-	-
Unrestricted balances with Central Banks*	19,374.4	3,764.2	-	-
Balances due in clearing	425.4	590.9	-	-
Balances with local banks	446.3	12.1	-	-
Treasury bills held for trading	210.9	-	-	-
Money market placements	419.5	18,816.9	-	-
Balances with banks abroad	10,378.9	9,571.4	-	-
Interbank loans**	2,050.2	172.6	-	-
	35,903.0	35,711.4	522.8	-

* Unrestricted balances with Central Banks represent amounts above the minimum cash reserve requirements.

** Interbank loans represent loans with banks having an original maturity of less than three months.

Cash and cash equivalents as shown in the statements of cash flows:

	GROUP		COMPANY	
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
Cash and cash equivalents	35,903.0	35,711.4	522.8	-
Other borrowed funds (note 16(a))	(1,839.7)	(50.7)	-	(242.6)
Net cash and cash equivalents	34,063.3	35,660.7	522.8	(242.6)
Change in year	(1,597.4)	2,445.6	765.4	(292.0)

5. Derivative financial instruments

The Group utilises the following derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk:

- Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- Currency swaps and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, or interest rates, or a combination of all these.

Except for certain currency swaps, no exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Warrant is a derivative financial instrument which gives the right, but not the obligation to buy or to sell a specific amount of a given stock, currency, index or debt, at a specified price (the strike price) during a specified period or on a specified date.

The fair values of derivative instruments held are set out below:

GROUP	Contractual/ Nominal Amount RS'M	Fair value assets RS'M	Fair value liabilities RS'M
Derivative held-for-trading - Level 2			
At 30 June 2018			
Currency forwards	9,160.0	65.1	75.2
Interest rate swaps	52.7	8.7	2.8
Currency swaps	11,731.6	20.9	329.0
Warrants	3,942.8	417.0	476.4
Others	329.4	1.1	-
	25,216.5	512.8	883.4
At 30 June 2017			
Currency forwards	5,167.0	71.7	51.7
Interest rate swaps	3,657.0	23.1	26.0
Currency swaps	20,199.1	131.5	19.7
Warrants	3,942.8	252.9	304.3
Others	137.7	0.5	-
	33,103.6	479.7	401.7

Notes to the financial statements

for the year ended 30 June 2018

6. Loans

(a) Loans to and placements with banks

(i) Loans to and placements with banks

in Mauritius
outside Mauritius

Less:

Loans and placements with original maturity less than
3 months and included in cash and cash equivalents

Less:

Allowances for credit impairment

(ii) Remaining term to maturity

Up to 3 months
Over 3 months and up to 6 months
Over 6 months and up to 1 year
Over 1 year and up to 5 years
Over 5 years

		GROUP	
		2018	2017
		RS'M	RS'M
		14,514.0	7,926.3
		17,836.7	46,369.4
		32,350.7	54,295.7
		(13,294.9)	(28,573.0)
		19,055.8	25,722.7
		(135.0)	(6.4)
		18,920.8	25,716.3
		3,074.1	10,234.6
		2,226.3	8,204.5
		12,095.7	6,239.1
		1,519.1	1,043.0
		140.6	1.5
		19,055.8	25,722.7

(iii) Allowances for credit impairment

At 01 July 2017

Provision for credit impairment for the year

Amount written off

At 30 June 2018

Interest in suspense

Provision and interest in suspense at 30 June 2018

At 01 July 2016

Provision released during the year

Provision at 30 June 2017

			GROUP		
			Specific	Portfolio	Total
			RS'M	RS'M	RS'M
			-	6.4	6.4
			205.1	32.2	237.3
			(173.8)	-	(173.8)
			31.3	38.6	69.9
			65.1	-	65.1
			96.4	38.6	135.0
			-	17.9	17.9
			-	(11.5)	(11.5)
			-	6.4	6.4

6. Loans (Cont'd)

(b) Loans and advances to customers

(i) Loans and advances to customers

Retail customers:

Credit cards

Mortgages

Other retail loans

Corporate customers

Governments

Entities outside Mauritius

Less:

Allowances for credit impairment

GROUP	
2018	2017
RS'M	RS'M
1,044.0	699.5
27,500.7	25,301.9
14,158.0	13,396.8
111,359.5	102,572.1
2,240.8	1,377.1
49,678.4	33,679.4
205,981.4	177,026.8
(6,683.2)	(6,247.3)
199,298.2	170,779.5

Finance lease receivable included in Group loans amounts to Rs 3,502 million as at 30 June 2018 (2017: Rs 3,802 million).

(ii) Remaining term to maturity

Up to 3 months

Over 3 months and up to 6 months

Over 6 months and up to 1 year

Over 1 year and up to 5 years

Over 5 years

53,651.2	46,264.4
7,218.8	4,860.3
2,721.1	3,880.1
61,726.7	44,103.6
80,663.6	77,918.4
205,981.4	177,026.8

(iii) Allowances for credit impairment

At 01 July 2017

Exchange adjustment

Provision for credit impairment for the year

Provision released during the year

Amounts written off

At 30 June 2018

Interest in suspense

Provision and interest in suspense at 30 June 2018

At 01 July 2016

Exchange adjustment

Provision for credit impairment for the year

Provision released during the year

Amounts written off

At 30 June 2017

Interest in suspense

Provision and interest in suspense at 30 June 2017

	GROUP		
	Specific RS'M	Portfolio RS'M	Total RS'M
At 01 July 2017	2,236.7	1,194.3	3,431.0
Exchange adjustment	21.5	-	21.5
Provision for credit impairment for the year	953.1	124.1	1,077.2
Provision released during the year	(81.2)	-	(81.2)
Amounts written off	(440.1)	-	(440.1)
At 30 June 2018	2,690.0	1,318.4	4,008.4
Interest in suspense	2,674.8	-	2,674.8
Provision and interest in suspense at 30 June 2018	5,364.8	1,318.4	6,683.2
At 01 July 2016	2,862.8	1,143.4	4,006.2
Exchange adjustment	(19.2)	-	(19.2)
Provision for credit impairment for the year	1,323.7	50.9	1,374.6
Provision released during the year	(259.7)	-	(259.7)
Amounts written off	(1,670.9)	-	(1,670.9)
At 30 June 2017	2,236.7	1,194.3	3,431.0
Interest in suspense	2,816.3	-	2,816.3
Provision and interest in suspense at 30 June 2017	5,053.0	1,194.3	6,247.3

Notes to the financial statements

for the year ended 30 June 2018

6. Loans (Cont'd)

(b) Loans and advances to customers (Cont'd)

(iv) Allowances for credit impairment by industry sectors

	GROUP					
	2018				2017	
	Gross amount of loans RS'M	Non performing loans RS'M	Specific provision and Interest in suspense RS'M	Portfolio provision RS'M	Total provision RS'M	Total provision RS'M
Agriculture and fishing	8,786.1	675.3	318.2	55.1	373.3	289.5
Manufacturing	11,720.2	486.1	206.5	162.1	368.6	356.3
<i>of which EPZ</i>	4,877.0	89.4	46.7	43.6	90.3	55.7
Tourism	26,857.1	831.7	577.6	74.1	651.7	668.2
Transport	5,734.5	1,529.6	927.0	48.8	975.8	651.9
Construction	16,823.3	1,462.4	915.1	174.9	1,090.0	1,064.6
Financial and business services	28,174.5	239.7	82.7	90.7	173.4	156.1
Traders	41,031.5	1,960.6	748.8	233.6	982.4	890.0
Personal	40,554.7	1,525.7	778.9	242.5	1,021.4	1,262.6
<i>of which credit cards</i>	1,120.2	22.5	19.9	21.4	41.3	39.4
<i>of which housing</i>	27,500.7	787.6	311.8	123.0	434.8	524.3
Professional	1,176.2	300.8	183.7	18.8	202.5	68.6
Foreign governments	2,240.8	-	-	-	-	-
Global Business Licence holders	15,928.2	428.5	460.1	168.6	628.7	496.5
Others	6,954.3	293.4	166.2	49.2	215.4	343.0
	205,981.4	9,733.8	5,364.8	1,318.4	6,683.2	6,247.3

6. Loans (Cont'd)

(b) Loans and advances to customers (Cont'd)

(v) Credit concentration of risk by industry sectors

Corporate notes and credit facilities extended by the Group to any closely-related customers for amounts aggregating more than 10% of its Tier I capital (2017: 15% of its capital base), classified by industry sectors.

	GROUP	
	2018 RS'M	2017 RS'M
Agriculture and fishing	2,670.3	2,022.3
Manufacturing	2,712.9	369.7
<i>of which EPZ</i>	1,298.3	81.8
Tourism	17,349.1	364.0
Transport	93.7	70.1
Construction	7,574.6	4,289.1
Financial and business services	19,704.2	3,420.8
Traders	14,583.0	12,596.6
Global Business Licence holders	16,176.7	14,049.9
Others	184.1	45.6
	81,048.6	37,228.1

Notes to the financial statements

for the year ended 30 June 2018

7. Investment securities

(a) Investment securities

The company invested in 5.5% non-voting non-cumulative preference shares issued by Finlease Ltd which are classified available-for-sale.

	COMPANY	
	2018	2017
	RS'M	RS'M
		200.0
	GROUP	
	2018	2017
	RS'M	RS'M
Held-to-maturity	56,500.1	57,349.1
Held-for-trading	24,232.4	9,568.6
Available-for-sale	7,947.0	7,814.3
At fair value through profit or loss	117.8	1.6
	88,797.3	74,733.6
Less:		
Allowance for impairment of investment securities	(49.9)	(3.9)
	88,747.4	74,729.7

At fair value through profit or loss comprise financial instruments including investments in unquoted overseas collective investment scheme.

(b) (i) Held-to-maturity

Government of Mauritius and Bank of Mauritius bonds	42,824.6	41,906.1
Treasury bills	5,009.1	12,947.7
Foreign bonds	1,409.4	1,567.6
Notes	7,049.1	654.8
Other	207.9	272.9
	56,500.1	57,349.1

(ii) Remaining term to maturity

	2018					Total RS'M
	Up to 3 months RS'M	3 - 6 months RS'M	6 - 12 months RS'M	1 - 5 years RS'M	Over 5 years RS'M	
Government of Mauritius and Bank of Mauritius bonds	773.4	1,812.8	6,259.8	24,147.2	9,831.4	42,824.6
Treasury bills	1,390.4	1,674.4	1,802.2	89.9	52.2	5,009.1
Foreign bonds	175.0	406.2	157.8	670.4	-	1,409.4
Notes	-	-	-	2,956.3	4,092.8	7,049.1
Other	-	-	-	52.1	155.8	207.9
	2,338.8	3,893.4	8,219.8	27,915.9	14,132.2	56,500.1

	2017					Total RS'M
	Up to 3 months RS'M	3 - 6 months RS'M	6 - 12 months RS'M	1 - 5 years RS'M	Over 5 years RS'M	
Government of Mauritius and Bank of Mauritius bonds	3,380.3	2,865.4	5,216.6	21,027.9	9,415.9	41,906.1
Treasury bills	6,610.9	2,579.5	3,663.5	93.8	-	12,947.7
Foreign bonds	-	69.0	119.0	1,379.6	-	1,567.6
Notes	-	-	-	252.3	402.5	654.8
Other	-	-	-	101.6	171.3	272.9
	9,991.2	5,513.9	8,999.1	22,855.2	9,989.7	57,349.1

7. Investment securities (Cont'd)

(c) (i) Held-for-trading

Treasury bills
Less than 3 months
Over 3 months and up to 6 months
Over 6 months and up to 12 months
Government of Mauritius and Bank of Mauritius bonds
Foreign bonds

Quoted - Level 1

Foreign bonds

Unquoted - Level 2

Government of Mauritius & Bank of Mauritius bonds
Treasury bills

GROUP	
2018 RS'M	2017 RS'M
11,633.6	2,108.0
5,110.3	1,949.8
6,429.7	3,312.6
1,058.8	1,689.0
-	509.2
24,232.4	9,568.6

-	509.2
---	-------

1,058.9	1,689.1
23,173.5	7,370.3
24,232.4	9,059.4
24,232.4	9,568.6

(d) (i) Available-for-sale

Quoted - Level 1

Official list : shares
Bonds
Development and Enterprise Market : shares
Foreign shares
Investment fund

Unquoted - Level 2

Investment fund
Inflation - indexed Government of Mauritius bonds

Unquoted - Level 3

Shares
Debts
Inflation - indexed Government of Mauritius bonds

1,080.1	1,823.3
1,354.8	1,480.8
665.5	570.7
1,419.9	967.1
-	174.3
4,520.3	5,016.2

714.4	514.1
205.7	-
920.1	514.1

2,441.2	1,971.1
65.4	104.1
-	208.8
2,506.6	2,284.0
7,947.0	7,814.3

(d) (ii) Reconciliation of level 3 fair value measurement

At 01 July 2016

Additions
Disposals
Fair value
Transfers to level 2
Exchange adjustments

At 30 June 2017

Additions
Disposals
Fair value
Transfers to level 2
Exchange adjustments

At 30 June 2018

GROUP RS'M
2,777.4
15.0
(265.4)
(26.7)
(205.5)
(10.8)
2,284.0
595.9
(200.5)
31.5
(205.7)
1.4
2,506.6

The book value approximates the fair value at the end of the reporting year.

A 10% change in management estimates would affect the fair value by about Rs 250.7M.

Notes to the financial statements

for the year ended 30 June 2018

8. Investments in associates

(a) The Group's interests in its associates are as follows:

	Nature of business	Principal place of business	Country of incorporation	Holding %	
				Direct	Indirect
2018					
Banque Française Commerciale Ocean Indien	Banking & financial services	Réunion	France	-	49.99
Société Générale Moçambique	Banking & financial services	Mozambique	Mozambique	-	35.00
Promotion and Development Ltd	Investment and Property development	Mauritius	Republic of Mauritius	0.13	46.33
Caudan Development Ltd	Property development, investment and provision of security services	Mauritius	Republic of Mauritius	4.81	38.06
Credit Guarantee Insurance Co Ltd	Insurance services	Mauritius	Republic of Mauritius	40.00	-
2017					
Banque Française Commerciale Ocean Indien	Banking & financial services	Réunion	France	-	49.99
Société Générale Moçambique	Banking & financial services	Mozambique	Mozambique	-	35.00
Promotion and Development Ltd	Investment and Property development	Mauritius	Republic of Mauritius	0.13	46.35
Caudan Development Ltd	Property development, investment and provision of security services	Mauritius	Republic of Mauritius	4.46	38.07
Credit Guarantee Insurance Co Ltd	Insurance services	Mauritius	Republic of Mauritius	40.00	-

- (i) The above associates are accounted for using the equity method.
- (ii) Except for Credit Guarantee Insurance Co Ltd, the other above associates are held through subsidiaries.
- (iii) Banque Française Commerciale Ocean Indien, Société Générale Moçambique and Credit Guarantee Co Ltd are unquoted. The other associates are quoted and the market value of the quoted associates was based on SEM bid price at 30 June as follows:
 Promotion and Development Ltd : Rs 2,029.9M (2017:Rs 2,111.1 M)
 Caudan Development Ltd : Rs 115.3 M (2017: Rs 112.1 M)

Group's share of net assets
 Goodwill
 Subordinated loans to associate

GROUP	
2018 RS'M	2017 RS'M
9,017.0	8,794.4
56.9	56.9
722.1	701.0
9,796.0	9,552.3

8. Investments in associates (Cont'd)

(b) Summarised financial information in respect of material entities:

	GROUP	
	2018 RS'M	2017 RS'M
Banque Française Commerciale Ocean Indien		
(i) Summarised statement of financial position:		
Current assets	9,749.4	9,634.8
Non current assets	64,227.9	60,917.6
Current liabilities	18,920.8	19,625.9
Non current liabilities	48,446.1	44,710.6
(ii) Summarised statement of profit or loss and other comprehensive income:		
Revenue	4,130.6	4,099.8
Profit	854.4	706.1
Other comprehensive expense	-	(227.2)
Total comprehensive income	854.4	478.9
Promotion and Development Ltd		
(i) Summarised statement of financial position:		
Current assets	279.0	259.7
Non current assets	13,224.5	13,130.7
Current liabilities	680.4	385.1
Non current liabilities	859.9	841.0
Non controlling interest	1,162.9	1,154.1
(ii) Summarised statement of profit or loss and other comprehensive income:		
Revenue	563.7	571.1
(Loss)/Profit	(102.9)	143.0
Other comprehensive income	22.8	506.9
Total comprehensive (expense)/income	(80.1)	649.9

Notes to the financial statements

for the year ended 30 June 2018

8. Investments in associates (Cont'd)

(c) Reconciliation of summarised financial information

Reconciliation of the above summarised financial information to the carrying amount recognised in the financial statements:

	Opening net assets	Profit	Other comprehensive income/ (expense)	Other movements in reserves	Dividend	Closing net assets	Ownership interest	Interest in associates	Goodwill	Subordinated loan	Carrying value
	RS'M	RS'M	RS'M	RS'M	RS'M	RS'M	%	RS'M	RS'M	RS'M	RS'M
2018											
Banque Française Commerciale Ocean Indien	6,215.9	854.4	-	177.0	(636.9)	6,610.4	49.99%	3,304.5	56.9	722.1	4,083.5
Promotion and Development Limited	11,010.2	(102.9)	22.8	10.4	(140.2)	10,800.3	46.46%	5,017.8	-	-	5,017.8
2017											
Banque Française Commerciale Ocean Indien	6,288.4	706.1	(227.2)	(32.8)	(518.6)	6,215.9	49.99%	3,107.3	56.9	701.0	3,865.2
Promotion and Development Limited	10,335.9	143.0	506.9	150.9	(126.5)	11,010.2	46.48%	5,117.5	-	-	5,117.5

(d) Aggregate information of associates that are not individually material

Carrying amount of interests
Share of losses
Share of other comprehensive expense

AT COST

At 01 July

Additions

At 30 June

GROUP	
2018	2017
RS'M	RS'M
694.7	569.6
(72.7)	(81.2)
(0.6)	(0.1)

COMPANY	
2018	2017
RS'M	RS'M
109.7	26.5
7.5	83.2
117.2	109.7

9. Investments in subsidiaries

(a) The Group has the following main subsidiaries:

	Country of incorporation/operation	Principal activities	Stated capital	Proportion of ownership interests held by non-controlling interests		Proportion of ownership interests held by non-controlling interests		Cost of Investment Company	
				Effective Holding	Effective Holding	Effective Holding	Effective Holding	2018	2017
				2018	2018	2017	2017	RS'M	RS'M
BANKING									
Direct									
MCB Investment Holding Ltd	Republic of Mauritius	Activities of holding companies, without managing	Rs'M 6,879.6	100.00	-	100.00	-	6,879.6	6,879.6
Indirect									
The Mauritius Commercial Bank Limited	Republic of Mauritius	Banking & Financial services	Rs'M 6,879.6	100.00	-	100.00	-	-	-
MCB Seychelles Ltd	Seychelles	Banking & Financial services	SRS'M 20.0	100.00	-	100.00	-	-	-
MCB Madagascar SA	Madagascar	Banking & Financial services	MGA'bn 13.6	90.00	10.00	90.00	10.00	-	-
MCB (Maldives) Private Ltd	Republic of Maldives	Banking & Financial services	MVR'M 150.0	100.00	-	100.00	-	-	-
NON-BANKING FINANCIAL									
Direct									
MCB Equity Fund Ltd	Republic of Mauritius	Private Equity Fund	Rs'M 2,084.6	100.00	-	100.00	-	2,084.6	2,084.6
MCB Capital Markets Ltd	Republic of Mauritius	Investment Holding Company	Rs'M 73.0	100.00	-	100.00	-	73.0	73.0
MCB Factors Ltd	Republic of Mauritius	Factoring	Rs'M 50.0	100.00	-	100.00	-	50.0	50.0
MCB Micro Finance Ltd	Republic of Mauritius	Credit Finance	Rs'M 75.0	100.00	-	100.00	-	75.0	20.0
MCB Real Assets Ltd*	Republic of Mauritius	Investment Holding Company	Rs'M -	100.00	-	-	-	-	-
OTHER INVESTMENTS									
Direct									
International Card Processing Services Ltd	Republic of Mauritius	Providing card system facilities, card embossing and encoding services	Rs'M 100.0	80.00	20.00	80.00	20.00	80.0	80.0
Fincorp Investment Ltd	Republic of Mauritius	Investment Company	Rs'M 103.4	57.73	42.27	57.73	42.27	28.7	28.7
MCB Properties Ltd	Republic of Mauritius	Property ownership & development	Rs'M 14.6	100.00	-	100.00	-	14.6	14.6
Blue Penny Museum	Republic of Mauritius	Philatelic museum	Rs'M 1.0	97.88	2.12	97.88	2.12	1.0	1.0
MCB Group Corporate Services Ltd	Republic of Mauritius	Company secretarial services	Rs'M 2.0	100.00	-	-	-	2.0	-
MCB Group Consulting Services Ltd	Republic of Mauritius	Consulting, advisory, support and maintenance services	USD'M 1.5	100.00	-	100.00	-	49.7	49.7
Others*	Seychelles	Property rental & other financial services	-	100.00	-	100.00	-	0.2	0.2
								9,338.4	9,336.4
Subordinated loans to subsidiaries								1,461.2	50.0
								10,799.6	9,386.4

Except for Fincorp Investment Ltd which is quoted, the other above companies are unquoted.

The fair value of the Company's interest in Fincorp Investment Ltd was Rs 1,432.0 million at 30 June 2018 (2017: Rs 1,473.8 million).

*The stated capital and cost of investment in MCB Real Assets Ltd are negligible.

** 'Others' relates to Mascareignes Properties Ltd involved in property rental and MCB International Services Ltd involved in other financial services in which the Group has an effective holding of 100%. The stated capital of both entities are negligible.

Notes to the financial statements

for the year ended 30 June 2018

9. Investments in subsidiaries (Cont'd)

(b) At 01 July

Additions

Subordinated loans to subsidiaries

At 30 June

COMPANY	
2018	2017
RS'M	RS'M
9,336.4	9,253.2
2.0	83.2
9,338.4	9,336.4
1,461.2	50.0
10,799.6	9,386.4

(c) Details of Fincorp Investment Ltd which has non-controlling interests that are material to the Company

GROUP

2018

2017

(Loss)/Profit attributable to non-controlling interests	Net Assets attributable to non-controlling interests
RS'M	RS'M
(3.7)	2,384.7
34.7	2,309.0

(d) Summarised financial information for Fincorp Investment Ltd

(i) Summarised statement of financial position:

Current assets
Non current assets
Current liabilities
Non current liabilities

GROUP	
2018	2017
RS'M	RS'M
1,868.6	1,653.7
8,941.3	9,406.1
1,611.9	1,927.2
3,556.4	3,670.0

(ii) Summarised statement of profit or loss and statement of comprehensive income:

Revenue
(Loss)/Profit
Other comprehensive income
Total comprehensive income

504.3	497.2
(8.7)	82.0
48.5	244.9
39.8	326.9

(iii) Summarised statement of cash flows:

Net cash flows from operating activities
Investing activities
Of which investment in associate
Financing activities
Taxation
Net increase in cash and cash equivalents

456.3	677.9
(118.6)	(270.7)
-	(53.4)
(97.4)	(286.8)
(9.7)	(11.9)
230.6	108.5

The summarised financial information above is the amount before intra-group eliminations.

10. Investment properties

	Note	GROUP 2018 RS'M
Investment properties on acquisition of subsidiary by MCB Real Assets Ltd	36(a)	2,262.5
Additions		569.4
Exchange adjustment		29.2
Fair value of land and buildings at 30 June 2018		2,861.1
Rental income as from November 2017		138.8

The investment properties are held through the Compagnie des Villages de Vacances de l'Isle de France Limitée (COVIFRA), a subsidiary of MCB Real Assets Ltd.

The land held under an operating lease and the buildings have been treated as investment properties and are stated at fair value.

The land is leased from the Government of Mauritius for a term expiring on 30 September 2069 and is fully reimbursed by the tenant.

The investment property is categorised into Level 3 of the fair value hierarchy, the following information is relevant:

- Valuation technique: Income approach
- Significant input (s): Observable input: Fixed rent
Unobservable input: Discount rate
- Sensitivity: An increase in discount rate used would result in a decrease in fair value, and vice versa.

Notes to the financial statements

for the year ended 30 June 2018

II. Goodwill and other intangible assets

(a) Goodwill

01 July

Additions following acquisition by MCB Real Assets Ltd

At 30 June

Note	GROUP	
	2018 RS'M	2017 RS'M
	6.1	6.1
36(a)	384.8	-
	390.9	6.1

The directors have assessed any impairment of goodwill and there is no impairment.

(b) Other intangible assets

Cost

At 01 July 2016

Additions

Scrap/Impairment

Transfer

Exchange adjustment

At 30 June 2017

Additions

Scrap/Impairment

Transfer

Exchange adjustment

At 30 June 2018

	GROUP		
	Computer Software RS'M	Work in progress RS'M	Total RS'M
	3,090.0	194.6	3,284.6
	108.1	236.9	345.0
	(0.6)	-	(0.6)
	323.9	(322.1)	1.8
	(23.9)	-	(23.9)
	3,497.5	109.4	3,606.9
	43.4	152.3	195.7
	(8.3)	-	(8.3)
	103.2	(103.2)	-
	(2.7)	-	(2.7)
	3,633.1	158.5	3,791.6

Accumulated amortisation

At 01 July 2016

Scrap/Impairment

Charge for the year

Exchange adjustment

At 30 June 2017

Scrap/Impairment

Charge for the year

Exchange adjustment

At 30 June 2018

	2,393.3	-	2,393.3
	(0.1)	-	(0.1)
	281.6	-	281.6
	(11.2)	-	(11.2)
	2,663.6	-	2,663.6
	(8.3)	-	(8.3)
	288.5	-	288.5
	(0.1)	-	(0.1)
	2,943.7	-	2,943.7

Net book values

At 30 June 2018

At 30 June 2017

	689.4	158.5	847.9
	833.9	109.4	943.3

Total

At 30 June 2018

At 30 June 2017

	1,238.8
	949.4

The only material intangible assets for the Group are the core banking systems. The remaining useful lives range from 2 to 4 years.

12. Property, plant and equipment

GROUP

Cost

At 01 July 2016

Additions	243.0	137.2	403.1	207.6	990.9
Disposals	(77.2)	(69.8)	(116.4)	-	(263.4)
Exchange adjustment	(21.2)	(12.3)	(10.6)	-	(44.1)
Transfer	82.7	148.4	51.1	(284.0)	(1.8)

At 30 June 2017

Additions	38.3	243.7	239.4	153.4	674.8
Disposals	(5.9)	(83.3)	(210.4)	-	(299.6)
Exchange adjustment	5.5	0.4	0.2	0.8	6.9
Transfer	(0.9)	121.1	36.0	(156.2)	-

At 30 June 2018

	Land and buildings RS'M	Computer and other equipment RS'M	Furniture, fittings and vehicles RS'M	Work in progress RS'M	Total RS'M
At 01 July 2016	4,808.1	3,245.3	1,654.9	134.9	9,843.2
At 30 June 2017	5,035.4	3,448.8	1,982.1	58.5	10,524.8
At 30 June 2018	5,072.4	3,730.7	2,047.3	56.5	10,906.9

Accumulated depreciation

At 01 July 2016

Charge for the year	80.8	282.1	188.9	-	551.8
Disposal adjustment	(15.2)	(69.2)	(73.7)	-	(158.1)
Exchange adjustment	(5.8)	(7.5)	(2.8)	-	(16.1)
Transfer	-	(4.6)	4.6	-	-

At 30 June 2017

Charge for the year	81.7	309.4	209.3	-	600.4
Disposal adjustment	(1.2)	(80.8)	(135.7)	-	(217.7)
Exchange adjustment	2.7	-	(1.3)	-	1.4
Transfer	-	2.5	(2.5)	-	-

At 30 June 2018

At 01 July 2016	806.6	2,393.9	749.9	-	3,950.4
At 30 June 2017	866.4	2,594.7	866.9	-	4,328.0
At 30 June 2018	949.6	2,825.8	936.7	-	4,712.1

Notes to the financial statements

for the year ended 30 June 2018

12. Property, plant and equipment (Cont'd)

	Land and buildings RS'M	Computer and other equipment RS'M	Furniture, fittings and vehicles RS'M	Work in progress RS'M	Total RS'M
Net book values					
At 30 June 2018	4,122.8	904.9	1,110.6	56.5	6,194.8
At 30 June 2017	4,169.0	854.1	1,115.2	58.5	6,196.8
COMPANY					
Cost					
At 01 July 2016	-	-	9.6	-	9.6
Additions	221.8	-	-	-	221.8
At 30 June 2017	221.8	-	9.6	-	231.4
Additions	-	-	0.1	-	0.1
At 30 June 2018	221.8	-	9.7	-	231.5
Accumulated depreciation					
At 01 July 2016	-	-	2.7	-	2.7
Charge for the year	-	-	1.9	-	1.9
At 30 June 2017	-	-	4.6	-	4.6
Charge for the year	-	-	2.0	-	2.0
At 30 June 2018	-	-	6.6	-	6.6
Net book values					
At 30 June 2018	221.8	-	3.1	-	224.9
At 30 June 2017	221.8	-	5.0	-	226.8

13. Deferred tax assets/(liabilities)

	Balance as at 01 July RS'M	Exchange adjustments RS'M	Recognised in Statements of profit or loss RS'M	Recognised in Statements of comprehensive income RS'M	Adjustment following acquisition through subsidiary RS'M	Balance as at 30 June RS'M
GROUP						
At 30 June 2018						
Deferred tax assets :						
Provisions and post retirement benefits	186.6	-	11.1	48.2	-	245.9
Provisions for credit impairment	278.2	1.9	(16.8)	-	-	263.3
Tax losses carried forward	4.7	-	0.6	-	-	5.3
Accelerated tax depreciation	(187.3)	-	(41.4)	-	-	(228.7)
	282.2	1.9	(46.5)	48.2	-	285.8
Deferred tax liabilities :						
Accelerated tax depreciation	(53.4)	(0.5)	(28.0)	-	(163.9)	(245.8)
Fair value of investment property	-	-	(0.2)	-	(17.8)	(18.0)
Tax losses carried forward	-	-	2.1	-	1.8	3.9
Obligation under finance lease	-	-	-	-	23.5	23.5
	(53.4)	(0.5)	(26.1)	-	(156.4)	(236.4)
At 30 June 2017						
Deferred tax assets :						
Provisions and post retirement benefits	253.9	-	(16.7)	(50.6)	-	186.6
Provisions for credit impairment	225.4	(9.2)	62.0	-	-	278.2
Tax losses carried forward	2.3	-	2.4	-	-	4.7
Accelerated tax depreciation	(170.3)	-	(17.0)	-	-	(187.3)
	311.3	(9.2)	30.7	(50.6)	-	282.2
Deferred tax liability:						
Accelerated tax depreciation	(65.4)	2.1	9.9	-	-	(53.4)

Notes to the financial statements

for the year ended 30 June 2018

13. Deferred tax assets/(liabilities) (Cont'd)

	Balance as at 01 July RS'M	Exchange adjustments RS'M	Recognised in Statements of profit or loss RS'M	Recognised in Statements of comprehensive income RS'M	Adjustment following acquisition through subsidiary RS'M	Balance as at 30 June RS'M
COMPANY						
At 30 June 2018						
Deferred tax liability:						
Accelerated tax depreciation	(0.4)	-	0.3	-	-	(0.1)
At 30 June 2017						
Deferred tax liability:						
Accelerated tax depreciation	(0.4)	-	-	-	-	(0.4)

14. Other assets

Mandatory balances with Central Banks
Prepayments & other receivables
Credit Card Clearing
Non-banking assets acquired in satisfaction of debts*
Post employee benefit asset (note 18(a))
Impersonal and other accounts

GROUP		COMPANY	
2018	2017	2018	2017
RS'M	RS'M	RS'M	RS'M
19,292.4	17,170.7	-	-
1,404.2	1,423.5	1,387.4	1,374.5
120.9	133.1	-	-
48.7	51.8	-	-
-	99.5	-	-
1,744.9	1,933.8	-	-
22,611.1	20,812.4	1,387.4	1,374.5

*The Group's policy is to dispose of such assets as soon as the market permits.

15. Deposits

(a) Deposits from banks

Demand deposits
Money market deposits with remaining term to maturity:
Up to 3 months
Over 6 months and up to 1 year

GROUP	
2018	2017
RS'M	RS'M
1,764.8	1,224.3
694.5	1,259.0
698.4	6.2
1,392.9	1,265.2
3,157.7	2,489.5

Notes to the financial statements

for the year ended 30 June 2018

15. Deposits (Cont'd)

(b) Deposits from customers

(i) Retail customers

Demand deposits

Savings deposits

Time deposits with remaining term to maturity:

Up to 3 months

Over 3 months and up to 6 months

Over 6 months and up to 1 year

Over 1 year and up to 5 years

Over 5 years

(ii) Corporate customers

Demand deposits

Savings deposits

Time deposits with remaining term to maturity:

Up to 3 months

Over 3 months and up to 6 months

Over 6 months and up to 1 year

Over 1 year and up to 5 years

Over 5 years

(iii) Government

Demand deposits

Savings deposits

Time deposits with remaining term to maturity:

Up to 3 months

Over 3 months and up to 6 months

Over 1 year and up to 5 years

GROUP	
2018	2017
RS'M	RS'M
29,184.2	27,090.1
125,703.3	113,192.6
4,456.2	3,282.4
2,051.3	2,207.2
4,794.2	4,752.6
14,870.6	14,976.0
4.1	12.6
26,176.4	25,230.8
181,063.9	165,513.5
89,768.6	83,041.5
5,343.6	6,261.9
6,308.4	5,444.1
1,382.1	1,679.1
2,618.6	2,320.1
7,022.9	7,589.3
-	0.1
17,332.0	17,032.7
112,444.2	106,336.1
868.3	435.4
110.7	61.2
5.6	25.2
11.3	2.4
56.9	-
73.8	27.6
1,052.8	524.2
294,560.9	272,373.8

The carrying amounts of deposits are not materially different from their fair values.

16. Other borrowed funds

(a) Other borrowed funds comprise the following:

Borrowings from banks:
in Mauritius
abroad

	GROUP		COMPANY	
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
	4,386.6	4.7	-	242.6
	9,985.9	5,963.7	-	-
	14,372.5	5,968.4	-	242.6
Other borrowed funds include borrowings with original maturity of less than 3 months as shown in note 4	1,839.7	50.7	-	242.6

The carrying amounts of other borrowed funds are not materially different from their fair values.

(b) Remaining term to maturity:

On demand or within a period not exceeding 1 year
Within a period of more than 1 year but not exceeding 2 years
Within a period of more than 2 years but not exceeding 3 years
Within a period of more than 3 years

	8,522.0	193.5	-	242.6
	3,542.2	142.7	-	-
	0.8	24.5	-	-
	2,307.5	5,607.7	-	-
	14,372.5	5,968.4	-	242.6

Notes to the financial statements

for the year ended 30 June 2018

17. (a) Subordinated liabilities

Subordinated liabilities comprise the following:

Rs4.5 billion floating rate subordinated note maturing in August 2023 at an average interest rate of 5.4%(2016:5.8%) (Level 1)

USD30M subordinated debt maturing in August 2023 at an average interest rate of 4.8% (2017:4.3%) (Level 3)

	GROUP		COMPANY	
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
(i)	4,531.7	4,535.0	4,531.7	4,535.0
(ii)	1,060.1	1,052.0	-	-
	5,591.8	5,587.0	4,531.7	4,535.0

The carrying amounts of the subordinated liabilities are not materially different from their fair values.

(i) These notes are quoted on the Official Market of the Stock Exchange of Mauritius Ltd and are presently available to individual and institutional investors for secondary trading.

(ii) The Mauritius Commercial Bank Limited obtained a USD30M 10-year subordinated debt from the African Development Bank. This facility forms part of a wider package of USD 150M granted by the latter to allow The Mauritius Commercial Bank Limited to increase its foreign currency lending to clients operating in the region and in mainland Africa.

(b) Debt securities

Debt securities comprise the following:

Rs 2.0 billion floating rate senior unsecured notes maturing in 2023 at an average interest rate of 3.5% (Level 1)

	GROUP		COMPANY	
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
	2,012.7	-	2,012.7	-

These notes are quoted on the Official Market of the Stock Exchange of Mauritius Ltd and their carrying amounts are not materially different from their fair values.

18. Post employee benefit liability/(asset)

(a) Staff superannuation fund

	GROUP	
	2018 RS'M	2017 RS'M
Reconciliation of net defined benefit (asset)/liability		
Opening balance	(99.5)	249.7
Amount recognised in statements of profit or loss	197.0	214.1
Amount recognised in statements of comprehensive income	283.3	(337.7)
Less employer contributions	(228.8)	(225.6)
Liability/(asset) as shown in notes 19 and 14 respectively	152.0	(99.5)
Reconciliation of fair value of plan assets		
Opening balance	6,796.4	6,202.7
Interest income	440.0	402.5
Employer contributions	228.8	225.6
Benefits paid	(283.8)	(242.4)
Return on plan assets excluding interest income	11.9	208.0
Closing balance	7,193.3	6,796.4
Reconciliation of present value of defined benefit obligation		
Opening balance	6,696.9	6,452.4
Current service cost	210.8	205.1
Interest expense	426.2	411.5
Other benefits paid	(283.8)	(242.4)
Liability experience loss	369.5	-
Liability gain due to change in demographic assumptions	(223.2)	-
Liability loss/(gain) due to change in financial assumptions	148.9	(129.7)
Closing balance	7,345.3	6,696.9
Components of amount recognised in statements of profit or loss		
Current service cost	210.8	205.1
Net interest on net defined benefit (asset)/liability	(13.8)	9.0
Total	197.0	214.1
Components of amount recognised in statements of comprehensive income		
Return on plan assets above interest income	(11.9)	(208.0)
Liability experience loss	369.5	-
Liability gain due to change in demographic assumptions	(223.2)	-
Liability loss/(gain) due to change in financial assumptions	148.9	(129.7)
Total	283.3	(337.7)

Notes to the financial statements

for the year ended 30 June 2018

18. Post employee benefit liability/(asset) (Cont'd)

(a) Staff superannuation fund (cont'd)

Allocation of plan assets at end of year

Equity - Local quoted	31	28
Equity - Local unquoted	1	1
Debt - Overseas quoted	3	6
Debt - Local quoted	12	8
Debt - Local unquoted	5	4
Property - Local	3	3
Investment funds	32	32
Cash and other	13	18
Total	100	100

Allocation of plan assets at end of year

Reporting entity's own transferable financial instruments	9	7
Property occupied by reporting entity	2	1
Other assets used by reporting entity	5	13

Principal assumptions used at end of year

Discount rate	6.3%	6.5%
Rate of salary increases	3.8%	4.5%
Rate of pension increases	3.3%	3.5%
Average retirement age (ARA)	63	62
Average life expectancy for:		
Male at ARA	17.3 years	18.0 years
Female at ARA	21.7 years	22.5 years

Sensitivity analysis on defined benefit obligation at end of year

Increase due to 1% decrease in discount rate	1,311.3	1,192.0
Decrease due to 1% increase in discount rate	1,027.1	944.3

	GROUP	
	2018	2017
	%	%
	31	28
	1	1
	3	6
	12	8
	5	4
	3	3
	32	32
	13	18
	100	100
	%	%
	9	7
	2	1
	5	13
	6.3%	6.5%
	3.8%	4.5%
	3.3%	3.5%
	63	62
	17.3 years	18.0 years
	21.7 years	22.5 years
	2018	2017
	RS'M	RS'M
	1,311.3	1,192.0
	1,027.1	944.3

18. Post employee benefit liability/(asset) (Cont'd)

(a) Staff superannuation fund (cont'd)

The above sensitivity analysis has been carried out by recalculating the present value of obligation at the end of the period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation. It has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

There was no change in the methods and assumptions used in preparing that sensitivity analysis from prior years.

The Mauritius Commercial Bank Limited sponsors a defined benefit pension plan for its staff and some staff of MCB Group Limited. The plan is self-administered and funded separately from the bank. The Mauritius Commercial Bank Limited has recognised a net defined benefit liability of Rs 152.0M, as at 30 June 2018 for the plan (2017 : net defined benefit asset of Rs 99.5M).

The Mauritius Commercial Bank Limited operates a final salary defined benefit pension plan for its employees. The plan exposes the bank to normal risks associated with defined benefit pension plans such as investment, interest, longevity and salary risks.

Investment risk: The plan liability is calculated using a discount rate determined by reference to government bond yields; if the return on plan assets is below this rate, it will create a plan deficit and if it is higher, it will create a plan surplus.

Interest risk: A decrease in the bond interest rate will increase the plan liability; however, this may be partially offset by an increase in the return on the plan's debt investments and a decrease in inflationary pressures on salary and pension increases.

Longevity risk: The plan liability is calculated by reference to the best estimate for the mortality of plan participants both during and after their employment. An increase in life expectancy of the plan participants will increase the plan liability.

Salary risk: The plan liability is calculated by reference to the future projected salaries of plan participants. As such, an increase in the salary of the plan participants above the assumed rate will increase the plan liability whereas an increase below the assumed rate will decrease the liability.

There has been no plan amendment, curtailment or settlement during the year.

Future cash flows

The funding policy is to pay contributions to an external legal entity at the rate recommended by the entity's actuaries:

Expected employer contribution for the next year (Rs M) : **233.9**

Weighted average duration of the defined benefit obligation : **16 years**

As from 01 July 2015, The Mauritius Commercial Bank Limited has introduced a Defined Contribution Cash Balanced Scheme "DCCB" for its employees.

Consequently, all employees joining The Mauritius Commercial Bank Limited as from that date are automatically enrolled in the new scheme. Existing employees had the choice of either remaining in the Defined Benefit Scheme "DCCB" or to join the new scheme.

Note: Employee benefits obligations have been provided for based on the report from Aon Hewitt Ltd., Actuaries and Consultants.

Notes to the financial statements

for the year ended 30 June 2018

18. Post employee benefit liability/(asset) (Cont'd)

(b) Residual retirement gratuities

Reconciliation of net defined benefit liability

Amount recognised in statement of profit or loss

Liability as shown in note 19

Present value of defined benefit obligation

Principal assumptions used at end of year

Discount rate

Rate of salary increases

Rate of pension increases

Average retirement age(ARA)

Sensitivity analysis on defined benefit obligation at end of year

Increase due to 1% decrease in discount rate

Decrease due to 1% increase in discount rate

2018 RS'M
51.0
51.0
51.0
6.3%
3.8%
3.3%
63
2018 RS'M
21.7
16.1

The above sensitivity analysis has been carried out by recalculating the present value of obligation at end of period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation.

Future cash flows

The funding policy is to pay benefits out of the reporting entity's cashflow as and when due

Expected employer contribution for the next year (Rs'M): Nil

Weighted average duration of the defined benefit obligation: 22 years

19. Other liabilities

Post employee benefits liability:

- (a) Staff Superannuation Fund as shown in note 18(a)
 - (b) Residual retirement gratuities as shown in note 18(b)
- Proposed dividend
Crescendo notes*
Impersonal & other accounts

	GROUP		COMPANY	
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
	152.0	-	-	-
	51.0	-	-	-
	1,074.1	1,013.3	1,074.1	1,013.3
	3,533.7	3,394.6	-	-
	5,976.8	4,685.5	54.8	50.4
	10,787.6	9,093.4	1,128.9	1,063.7

*These notes were issued by one of our subsidiaries whereby the capital and return (where applicable) are guaranteed.

20. Stated capital and reserves

(a) Stated Capital

At 01 July 2016

Issue of shares following the exercise of Group Employee Share Options Scheme

At 30 June 2017

Issue of shares following the exercise of Group Employee Share Options Scheme

At 30 June 2018

Number of shares
238,187,172
235,718
238,422,890
260,206
238,683,096

Fully paid ordinary shares carry one vote per share and the right to dividend.

The shares have no par value and rank 'pari passu' in all respects with the existing ordinary shares of the Company.

(b) Reserves

(i) Capital reserve

The capital reserve represents the cumulative net change in:

- (a) the fair value of available-for-sale investment securities until the securities are derecognised or impaired.
- (b) revaluation surplus on land and factory buildings where applicable, until it is derecognised.

(ii) Translation reserve

The translation reserve represents all foreign currency differences arising from the translation of the results and financial position of foreign operations.

(iii) Statutory reserve

Statutory reserve represents accumulated transfers from retained earnings in accordance with relevant local banking legislations. These reserves are not distributable.

(iv) General banking reserve

The Group makes an appropriation to a General banking reserve for unforeseen risks and future losses.

Notes to the financial statements

for the year ended 30 June 2018

21. Contingent liabilities

		GROUP	
		2018	2017
		RS'M	RS'M
(a) Instruments			
	Acceptances on account of customers	204.6	154.3
	Guarantees on account of customers	23,262.0	19,949.2
	Letters of credit and other obligations on account of customers	33,403.9	21,477.4
	Other contingent items	3,001.7	1,522.0
		59,872.2	43,102.9
(b) Commitments			
	Loans and other facilities, including undrawn credit facilities	6,446.1	7,201.2
(c) Tax assessments*		537.1	992.6
(d) Other			
	Inward bills held for collection	420.5	357.2
	Outward bills sent for collection	1,019.9	1,003.0
		1,440.4	1,360.2
		68,295.8	52,656.9

**The Mauritius Commercial Bank Limited received income tax assessments relating to financial year ended 30 June 2007 to 30 June 2014 against which the Bank has initially objected.

The basis of the assessment raised by the Mauritius Revenue Authority ("MRA") were around a number of areas and during the year, there have been advanced discussions between the Bank and the MRA in relation to some areas. On the basis of agreement reached for year of assessment 2014, an additional provision of Rs 258.3 million has been made at 30 June 2018 for all the years up to 30 June 2017.

In addition, the Bank received several assessments in the previous 5 years under the Value Added Tax Act for the periods beginning April 2006 to June 2015 against which the Bank has also objected.

The Bank is of the opinion that the likelihood of incurring additional payment to the MRA is not probable on the remaining areas where no agreement has yet been reached under Income Tax and Valued Added Tax Acts which the Bank has objected. The maximum liability that could arise from these amounted to Rs 537.1 million.

The assessments are still pending in front of the Assessment Review Committee.

22. Interest income

Loans to and placements with banks
Loans and advances to customers
Held-to-maturity investments
Available-for-sale investments
Held-for-trading investments
Other

GROUP		COMPANY	
Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
667.8	595.9	-	-
11,478.8	11,008.0	-	-
2,279.6	2,297.2	-	-
126.5	67.9	-	-
511.2	54.0	-	-
49.0	11.3	2.3	-
15,112.9	14,034.3	2.3	-

23. Interest expense

Deposits from banks
Deposits from customers
Other borrowed funds
Subordinated liabilities
Debt securities

47.4	12.2	-	-
3,824.5	4,030.1	-	-
213.4	149.4	15.8	4.5
268.5	286.3	222.4	241.7
29.9	-	29.9	-
4,383.7	4,478.0	268.1	246.2

24. Fee and commission income

Retail banking fees
Corporate banking fees
Guarantee fees
Interbank transaction fees
Brokerage
Asset management fees
Rental income
Cards and other related fees
Trade finance fees
Others

757.9	764.7	-	-
609.8	565.0	-	-
247.3	232.2	-	-
64.7	57.2	-	-
77.0	26.0	-	-
145.7	149.7	-	-
175.6	155.2	-	-
1,760.9	1,626.2	-	-
483.1	353.0	-	-
225.6	205.2	-	-
4,547.6	4,134.4	-	-

25. Fee and commission expense

Interbank transaction fees
Cards and other related fees
Corporate banking and trade finance fees
Others

32.8	30.5	-	-
907.1	833.9	-	-
113.3	-	-	-
61.4	65.6	-	-
1,114.6	930.0	-	-

Notes to the financial statements

for the year ended 30 June 2018

26. Net (loss)/gain from financial instruments carried at fair value

Derivative financial instruments
 Investment securities at fair value through profit or loss
 Investment securities held-for-trading

GROUP		COMPANY	
Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
(243.5)	180.5	-	-
(182.3)	(91.2)	-	-
40.3	12.0	-	-
(385.5)	101.3	-	-

27. Dividend income

Income from quoted investments:
 Subsidiary
 Others
 Income from unquoted investments:
 Subsidiary
 Others

-	-	35.8	-
59.8	67.0	4.1	3.7
-	-	2,882.7	2,837.7
25.4	21.8	-	-
85.2	88.8	2,922.6	2,841.4

28. Non-interest expense

(a) Salaries and human resource costs

Wages and salaries	
Defined benefit plan	
Residual retirement gratuities	
Defined contribution plan	
Compulsory social security obligations	
Equity settled share-based payments	
Other personnel expenses	

GROUP		COMPANY	
Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
2,760.7	2,656.8	90.9	78.6
197.0	214.1	-	-
51.0	-	-	-
101.1	80.4	-	-
77.3	73.4	-	-
10.9	3.1	-	-
615.6	583.7	-	-
3,813.6	3,611.5	90.9	78.6
3,409	3,386		

Number of employees at the end of the year

(b) Other non-interest expense

Legal & professional fees	
Rent, repairs, maintenance costs and security charges	
Software licensing and other information technology costs	
Electricity water & telephone charges	
Advertising & marketing costs	
Postage, courier & stationery costs	
Insurance costs	
Others	

443.2	290.8	3.2	7.4
440.5	447.0	0.8	0.8
334.4	298.5	-	-
282.3	281.1	-	-
169.2	169.0	-	-
149.2	153.9	-	-
101.6	108.7	-	-
178.7	194.3	40.4	25.6
2,099.1	1,943.3	44.4	33.8

(c) Share-based payments

During FY 2014, the Group proposed to all employees a Group Employee Share Option Scheme (GESOS).

The Board of Directors has the authority to issue up to 5 million shares to the employees. In October 2017, a further offer of 611,936 options was made on similar terms.

Outstanding and exercisable at 01 July	
Expired during the year	
Granted during the year	
Exercised during the year	
Outstanding and exercisable at 30 June	

GROUP			
2018		2017	
Weighted avg exercise price RS	Number of options	Weighted avg exercise price RS	Number of options
190.97	559,883	196.40	588,263
189.87	(388,329)	196.13	(552,106)
251.68	611,936	192.54	759,444
211.62	(260,206)	197.52	(235,718)
	523,284		559,883

The options outstanding at 30 June 2018 under GESOS have an exercise price in the range of Rs 248.75 to Rs 277.50 and a weighted average contractual life of 3½ months.

The weighted average share price at the date the share options were exercised under GESOS during F/Y 17/18 was Rs 274.95 (2017:Rs 217.02).

The fair value of services in return for share options granted is based on the fair value of the share options granted measured by the average market price of the share of the last three months, as may be adjusted by the Board of Directors of MCB Group Limited. The fair value at measurement date is Rs 246.25 (2017:Rs 209.25).

Notes to the financial statements

for the year ended 30 June 2018

29. Net impairment of financial assets

Allowance for credit impairment:

Loans and advances
Investment securities

Allowance for credit impairment on loans and advances

Provision for bad and doubtful debts:

Loans to and placements with banks
Loans and advances to customers

Bad debts written off for which no provisions were made

Provision released during the year:

Loans to and placements with banks
Loans and advances to customers

Recoveries of advances written off

GROUP	
Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
1,283.9	1,059.9
46.0	3.9
1,329.9	1,063.8
237.3	-
1,077.2	1,374.6
100.2	21.0
-	(11.5)
(81.2)	(259.7)
(49.6)	(64.5)
1,283.9	1,059.9

30. Income tax expense

(a) The tax charge related to statements of profit or loss is as follows:

	GROUP		COMPANY	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Income tax based on the adjusted profit	1,053.3	1,102.8	0.3	-
Deferred tax	72.6	(40.6)	(0.3)	-
Special levy on banks	493.8	511.7	-	-
Corporate Social Responsibility contribution	98.4	104.2	0.1	-
Over provision in previous years	(91.8)	(34.3)	-	-
Provision for tax assessments	258.3	-	-	-
Charge for the year	1,884.6	1,643.8	0.1	-

The tax on the profits differs from the theoretical amount that would arise using the basic tax rate as follows:

Profit before tax	9,125.9	8,392.2	2,519.5	2,480.9
Less share of profit of associates	(306.6)	(338.2)	-	-
	8,819.3	8,054.0	2,519.5	2,480.9
Tax calculated at a rate of 15%	1,322.9	1,208.1	377.9	372.1
Effect of different tax rates	54.0	58.8	-	-
Impact of:				
Income not subject to tax	(178.3)	(103.8)	(438.8)	(426.4)
Expenses not deductible for tax purposes	332.5	215.6	60.9	54.3
Tax credits	(405.2)	(316.5)	-	-
Special levy on banks	493.8	511.7	-	-
Corporate Social Responsibility contribution	98.4	104.2	0.1	-
Over provision in previous years	(91.8)	(34.3)	-	-
Provision for tax assessments	258.3	-	-	-
Tax charge	1,884.6	1,643.8	0.1	-

Corporate Social Responsibility (CSR) tax

CSR tax was legislated by the Government of Mauritius in July 2009. The Group is required, via its local subsidiaries, to allocate a percentage of its chargeable income of the preceding year to a CSR programme approved by the National CSR Foundation and the balance remitted to the Mauritius Revenue Authority.

Bank Levy

The Group, via The Mauritius Commercial Bank Limited, is liable to pay a special levy as a percentage of its chargeable income to the Mauritius Revenue Authority.

(b) The tax (credit)/charge related to statements of comprehensive income is as follows:

	GROUP	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Remeasurement of defined benefits pension plan	283.3	(337.7)
Deferred tax (credit)/charge	(48.2)	50.6
Remeasurement of defined benefit pension plan, net of deferred tax	235.1	(287.1)

Notes to the financial statements

for the year ended 30 June 2018

31. Dividends

Paid on 15 December 2017 at Rs 5.00 per share (FY 2017: Rs 4.75 per share)

Paid on 30 July 2018 at Rs 4.50 per share (FY 2017: Rs 4.25 per share)

COMPANY	
2018 RS'M	2017 RS'M
1,192.9	1,131.6
1,074.1	1,013.3
2,267.0	2,144.9

32. Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Profit attributable to the ordinary equity holders of the parent (Rs' 000)

Weighted average number of ordinary shares (thousands)

Basic earnings per share (Rs)

GROUP	
Year ended 30 June 2018	Year ended 30 June 2017
7,220,900	6,702,100
238,593	238,309
30.26	28.12

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after adjustment for the effects of all dilutive potential ordinary shares.

The Company has only one category of dilutive potential ordinary shares which is share options.

For share options, the proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period is treated as an issue of ordinary shares for no consideration.

Profit attributable to the ordinary equity holders of the parent (Rs' 000)

Weighted average number of ordinary shares - basic (thousands)

Effect of share options in issue (thousands)

Weighted average number of ordinary shares - diluted (thousands) at year end

Diluted earnings per share (Rs)

GROUP	
Year ended 30 June 2018	Year ended 30 June 2017
7,220,900	6,702,100
238,593	238,309
45	166
238,638	238,475
30.26	28.10

33. Commitments

(a) Capital commitments

Expenditure contracted for but not incurred

Expenditure approved by the Board but not contracted for

GROUP	
Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
95.1	119.2
232.3	211.7

(b) Securities pledged

The Group has pledged Government of Mauritius bonds as collateral for the purpose of overnight facility from the Bank of Mauritius and for repurchase agreement with other financial institutions.

Government of Mauritius bonds with Bank of Mauritius
Government of Mauritius bonds with other financial institutions

GROUP	
2018 RS'M	2017 RS'M
4,528.9	3,828.9
1,800.0	-
6,328.9	3,828.9

34. Net cash flows from trading activities

Operating profit
Increase in other assets
Increase in other liabilities
Net decrease/(increase) in derivative financial instruments
Net increase in investment securities held-for-trading
Net (increase)/decrease in investment securities at fair value through profit or loss
Release of provision for employee benefits
Provision for residual retirement gratuities
Charge for credit impairment
Release of provision for credit impairment
Exchange loss/(profit)
Depreciation of property, plant and equipment
Amortisation of intangible assets
Loss/(profit) on disposal of property, plant and equipment
Impairment of intangible assets
Profit on disposal of available-for-sale investments
Bargain purchase on business combinations

	GROUP		COMPANY	
	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M	Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
Operating profit	8,819.3	8,054.0	2,519.5	2,480.9
Increase in other assets	(1,742.4)	(2,112.1)	(12.9)	(303.4)
Increase in other liabilities	1,169.8	2,335.9	13.7	0.2
Net decrease/(increase) in derivative financial instruments	448.6	(69.8)	-	-
Net increase in investment securities held-for-trading	(14,663.8)	(8,845.9)	-	-
Net (increase)/decrease in investment securities at fair value through profit or loss	(116.2)	1.2	-	-
Release of provision for employee benefits	(31.8)	(11.5)	-	-
Provision for residual retirement gratuities	51.0	-	-	-
Charge for credit impairment	1,360.5	1,378.5	-	-
Release of provision for credit impairment	(81.2)	(271.2)	-	-
Exchange loss/(profit)	23.9	(34.4)	-	-
Depreciation of property, plant and equipment	600.4	551.8	2.0	1.9
Amortisation of intangible assets	288.5	281.6	-	-
Loss/(profit) on disposal of property, plant and equipment	19.4	(11.1)	-	-
Impairment of intangible assets	-	0.5	-	-
Profit on disposal of available-for-sale investments	(443.3)	(278.7)	-	-
Bargain purchase on business combinations	(6.3)	(74.8)	-	-
	(4,303.6)	894.0	2,522.3	2,179.6

Notes to the financial statements

for the year ended 30 June 2018

35. Net cash flows from other operating activities

Net increase in deposits
Net increase in loans and advances
Purchase of available-for-sale investments
Proceeds from sale of available-for-sale investments
Net decrease/(increase) in held-to-maturity investment securities
Net increase in other borrowed funds

GROUP	
Year ended 30 June 2018 RS'M	Year ended 30 June 2017 RS'M
22,760.7	20,534.0
(24,028.0)	(12,216.8)
(12,034.4)	(945.4)
12,763.7	1,358.1
859.9	(3,026.8)
6,615.1	815.2
6,937.0	6,518.3

36. Acquisition by subsidiary

MCB Real Assets Ltd, a wholly-owned subsidiary of MCB Group Ltd has acquired 93.03% stake in Compagnie des Villages de Vacances de L'Isle de France Limitée (COVIFRA) during the year.

(a) The assets and liabilities acquired were as follows:

Assets

Cash and cash equivalents
Investment properties
Other assets

Liabilities

Borrowings
Other liabilities
Deferred tax liabilities

Net assets acquired

The Goodwill arising on acquisition was as follows:

Cost of Investment in the book of MCB Real Assets Ltd
Share of net assets acquired
Goodwill

2018 RS'M
267.1
2,262.5
37.2
2,566.8
1,112.5
408.9
156.4
1,677.8
889.0
1,211.8
(827.0)
384.8
1,211.8
(267.1)
944.7

(b) The net cash outflow on acquisition was as follows:

Cost of Investment in the book of MCB Real Assets Ltd
Cash and cash equivalents acquired
Acquisition by subsidiary, net of cash acquired

37. Operating segments

Operating segments are reported in accordance with the internal reporting provided to the Supervisory and Monitoring Committee, whose responsibility is to allocate capital and resources to the reportable segments and assessing their performance.

All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group's income, expenses, assets and liabilities are derived mainly through its Mauritian operations.

Year ended 30 June 2018

GROUP	Non-Banking		Other		Eliminations
	Banking	Financial	Investments		
RS'M	RS'M	RS'M	RS'M	RS'M	RS'M
Income:					
External gross income	22,449.1	21,629.1	1,434.8	441.6	(1,056.4)
Expenses	(12,299.9)	(11,683.0)	(760.6)	(361.8)	505.5
Operating profit before impairment	10,149.2	9,946.1	674.2	79.8	(550.9)
Net impairment of financial assets	(1,329.9)	(1,299.0)	(30.9)	-	-
Operating profit	8,819.3	8,647.1	643.3	79.8	(550.9)
Share of profit/(loss) of associates	306.6	341.5	2.7	(37.6)	-
Profit before tax	9,125.9	8,988.6	646.0	42.2	(550.9)
Income tax expense	(1,884.6)				
Profit for the year	7,241.3				
Other segment items:					
Segment assets	375,049.2	376,401.6	16,943.0	1,289.1	(19,584.5)
Investments in associates	9,796.0	4,363.3	19.3	5,422.1	(8.7)
Goodwill and other intangible assets	1,238.8				
Deferred tax assets	285.8				
Total assets	386,369.8				
Segment liabilities	322,688.0	323,020.2	10,610.3	1,487.6	(12,430.1)
Unallocated liabilities	9,915.2				
Total liabilities	332,603.2				

Notes to the financial statements

for the year ended 30 June 2018

37. Operating segments (Cont'd)

Year ended 30 June 2017

	GROUP	Banking	Non-Banking Financial	Other Investments	Eliminations
	RS'M	RS'M	RS'M	RS'M	RS'M
Income:					
External gross income	20,914.0	20,092.1	1,411.9	441.7	(1,031.7)
Expenses	(11,796.2)	(11,054.5)	(854.2)	(421.5)	534.0
Operating profit before impairment	9,117.8	9,037.6	557.7	20.2	(497.7)
Net impairment of financial assets	(1,063.8)	(998.8)	(65.0)	-	-
Operating profit	8,054.0	8,038.8	492.7	20.2	(497.7)
Share of profit of associates	338.2	264.4	0.5	73.3	-
Profit before tax	8,392.2	8,303.2	493.2	93.5	(497.7)
Income tax expense	(1,643.8)				
Profit for the year	6,748.4				
Other segment items:					
Segment assets	334,425.8	335,461.3	13,793.6	1,066.9	(15,896.0)
Investments in associates	9,552.3	4,038.7	16.5	5,506.1	(9.0)
Goodwill and other intangible assets	949.4				
Deferred tax assets	282.2				
Total assets	345,209.7				
Segment liabilities	289,313.5	288,867.2	9,331.3	1,268.7	(10,153.7)
Unallocated liabilities	7,559.6				
Total liabilities	296,873.1				

37. Operating segments (Cont'd)

Year ended 30 June 2018

	GROUP RS'M	Net interest income/(expense) RS'M	Net fee and commissions RS'M	Dividend income RS'M	Forex profit and others RS'M
Operating income:					
Banking	16,265.7	10,622.7	3,015.5	594.3	2,033.2
Non-Banking Financial	1,144.3	144.3	602.8	34.9	362.3
Other Investments	396.1	(37.8)	5.8	14.2	413.9
Eliminations	(855.3)	-	(191.1)	(558.2)	(106.0)
	16,950.8	10,729.2	3,433.0	85.2	2,703.4
Segment assets	296,541.7	290,935.0		5,606.7	
Investments in associates	9,796.0				
Goodwill and other intangible assets	1,238.8				
Deferred tax assets	285.8				
Unallocated assets	78,507.5				
Total assets	386,369.8				

Year ended 30 June 2017

	GROUP RS'M	Net interest income/(expense) RS'M	Net fee and commissions RS'M	Dividend income RS'M	Forex profit and others RS'M
Operating income:					
Banking	14,851.0	9,449.0	2,822.7	597.1	1,982.2
Non-Banking Financial	991.8	148.7	532.3	36.7	274.1
Other Investments	407.0	(41.4)	0.7	7.2	440.5
Eliminations	(743.8)	-	(151.3)	(552.2)	(40.3)
	15,506.0	9,556.3	3,204.4	88.8	2,656.5
Segment assets	290,709.6	285,377.4		5,332.2	
Investments in associates	9,552.3				
Goodwill and other intangible assets	949.4				
Deferred tax assets	282.2				
Unallocated assets	43,716.2				
Total assets	345,209.7				

Notes to the financial statements

for the year ended 30 June 2018

38. Related party transactions

(a) The Group

	Associated companies	Directors and Key Management Personnel	Enterprises in which Directors and Key Management Personnel have significant interest	Defined benefit plan
	RS'M	RS'M	RS'M	RS'M
Cash equivalents, Loans and Advances				
Balance at year end:				
30 June 17	2,705.0	179.5	800.6	76.6
30 June 18	2,466.1	249.9	654.2	181.5
Leases receivable (included above as from 01 July 2017)				
Balance at year end:				
30 June 17	-	-	5.2	-
Deposits				
Balance at year end:				
30 June 17	499.7	312.0	94.4	1,054.1
30 June 18	151.9	243.5	100.2	608.1
Amounts due from/(to)				
Balance at year end:				
30 June 17	(43.5)	-	-	-
30 June 18	2.0	-	-	-
Off Balance sheet items				
Balance at year end:				
30 June 17	1.6	-	4.1	-
30 June 18	-	-	2.7	-
Interest income				
For the year ended:				
30 June 17	68.9	4.2	38.4	-
30 June 18	69.3	5.2	32.4	-
Interest expense				
For the year ended:				
30 June 17	9.1	5.7	0.4	32.7
30 June 18	4.7	5.8	0.1	11.6
Fees and commissions and Other income				
For the year ended:				
30 June 17	38.6	1.0	3.8	2.7
30 June 18	38.8	2.9	3.0	8.2

The related party transactions were carried out under market terms and conditions with the exception of loans to Key Management Personnel who benefited from preferential rates as applicable to staff.

Credit facilities granted to related parties are secured except for credit cards, money market lines and facilities provided to related financial institution counterparties in accordance with our policy and are settled from the underlying obligor's operating cash flow.

38. Related party transactions (Cont'd)

(a) The Group (Cont'd)

The figure for "Fees and Commissions and Other income" from Associated Companies includes an annual amount in respect of management fees charged to Banque Francaise Commerciale Ocean Indien ('BFCOI') and fees charged to SG Moçambique in respect of IT, Systems and Cards services support by International Cards Processing Services Ltd, MCB Consulting Services Ltd and MCB Ltd.

During the year, 42,657 share options were exercised under the Group Employee Share Option scheme by key management personnel, including executive directors amounting to Rs9.4M (FY2016/2017 96,880 share options for Rs20.4M).

(b) The Company

In addition to the amounts disclosed in (a) above, the following information relate to subsidiaries and associate of the Company:

(i) Balances as at 30 June :

Subsidiaries

2017

2018

	Amount owed by RS'M	Amount owed to RS'M
2017	1,369.3	3.9
2018	1,383.4	3.1

(ii) Income and expenses for the period ended 30 June:

Subsidiaries

2017

2018

	Dividend income RS'M	Other expense RS'M
2017	2,837.7	10.2
2018	2,920.9	39.2

Associate

2017

2018

2017	3.7	-
2018	4.0	-

(c) Key Management Personnel compensation

Remuneration and other benefits relating to Key Management

Personnel, including Directors, were as follows :

Salaries and short term employee benefits

Post employment benefits

	GROUP		COMPANY	
	2018 RS'M	2017 RS'M	2018 RS'M	2017 RS'M
Salaries and short term employee benefits	200.6	220.0	58.2	49.3
Post employment benefits	15.0	14.8	4.7	3.7
	215.6	234.8	62.9	53.0