MANAGEMENT DISCUSSION AND ANALYSIS

AfrAsia Bank Limited and its Group Entities
Annual Report 2015

ECONOMIC OVERVIEW AND OUTLOOK

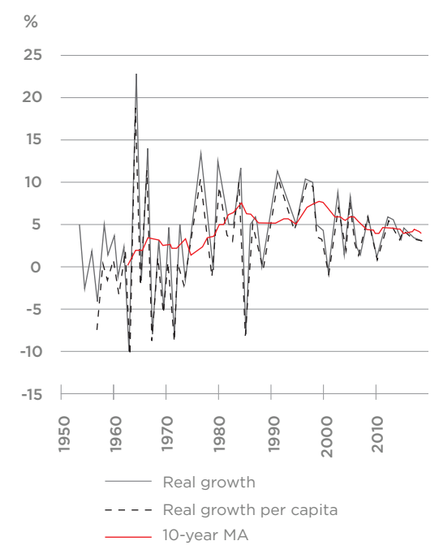
The Domestic Landscape – Review of 2014/15

2014 elections: A landslide signaling sweeping reforms

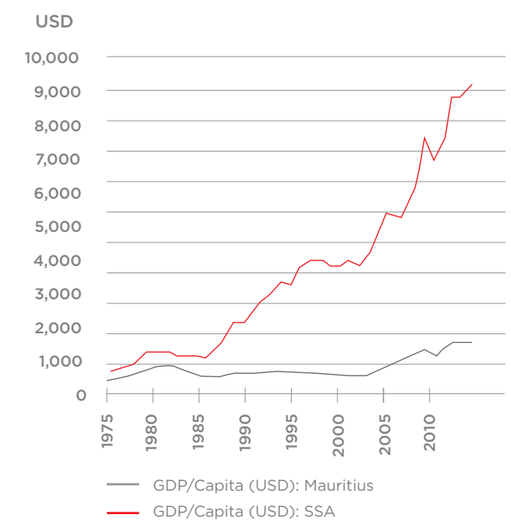
On 17 December 2014, a new coalition Government was sworn in after winning a spectacular and unexpected landslide victory in the general elections. This brought an end to nine years of power led by the Labour Party and signaled the beginning of a new economic agenda, which was the hallmark of the electoral campaign. After months of uncertainties and stalled policy action which are often characteristics of any democratic pre-election period, the new Government took office with the promise that it would bring a "second economic miracle" to the shores of Mauritius.

Whilst the first few months have been characterised by what some would term as "populism" and others "interventionism," the country is now "at the crossroads" (which was the title of the first Budget presented by the new team), faced with new realities on the ground, the most important being the threat of a "middle-income trap" and growing disparities in income levels and distribution.

GROWTH AVERAGED 5% OVER THE LAST DECADES AND AVERAGED 4% LATELY



PER-CAPITA INCOME ROSE RAPIDLY, PUTTING MAURITIUS FIRMLY IN HIGH MIDDLE INCOME STATUS



Pictorial representation of what Mauritius calls its 'first economic miracle'
Source: Systematic Country Diagnostic, World Bank Group, June 2015

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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

High expectations for a new growth model

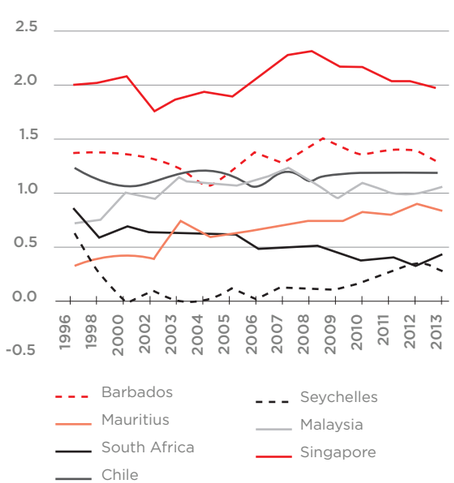
In its 2015-2019 programme, the Government declared its objective to "transform Mauritius into a truly forward looking, environmentally sustainable, economically vibrant and innovative country with modern infrastructure, global connectivity, high skills and technology." Heavy emphasis is laid on high-quality infrastructure to boost Mauritius' productivity and competitiveness indicators. The infrastructure vision, as elaborated in the Public Sector Investment Programme January 2015 - June 2019, is expected to cost some USD 4bn.

The policy agenda promising a 'second economic miracle' is expected to be largely based on social cohesion and inclusive growth. Incidentally, the new government comprises the same Prime Minister and the same Finance Minister as during the 'first economic miracle'. The latter is often referred to in Mauritius as the period beginning in the mid-1980s and extending to the late 1990s. Between 1973 and 1999, despite low initial conditions, real GDP growth in Mauritius averaged 5.9% per year as compared with 2.4% in Africa. In terms of per capita income, the achievements were 3.25% and about 0.7% respectively. As reported by Subramaniam and Roy, the income of the average Mauritian has increased three and a half times over a forty-year period, while that of the average African has increased by 32%.

Renewed emphasis on governance

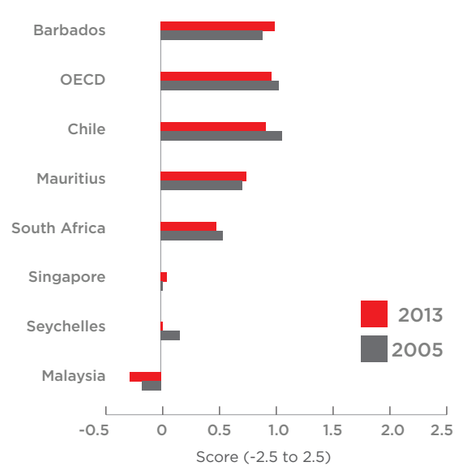
The authorities have vowed to lay heavy emphasis on governance and transparency in all their dealings. A new Ministry of Financial Services, Good Governance and Institutional Reforms has been set up, which is proposing to enact several new legislations in 2015 and 2016 to strengthen governance, ethics and enhanced financial reporting in Mauritius and, above all, improve Mauritius' rankings in the World Governance Indicators as well as control of corruption.

GOVERNANCE EFFECTIVENESS, 1996-2013



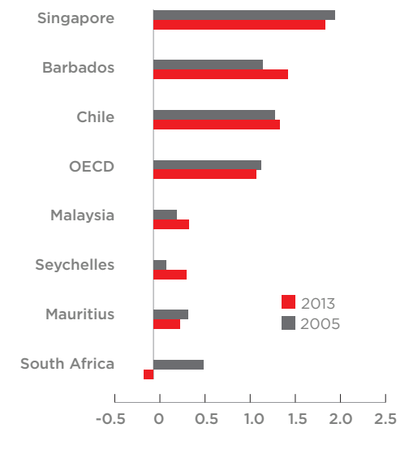
Governance effectiveness, 1996-2013
Source: Worldwide Governance Indicators

VOICE AND ACCOUNTABILITY, 2005-2013



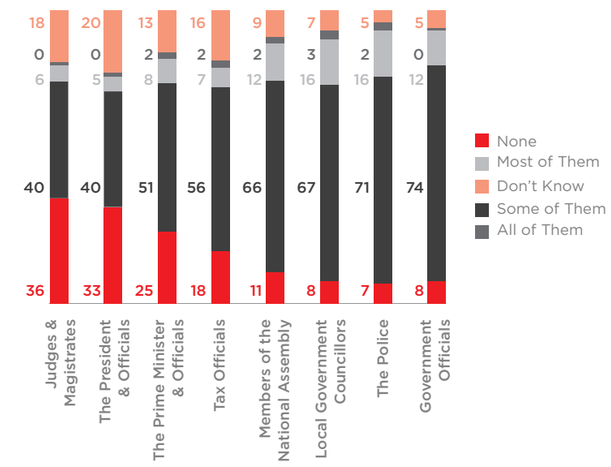
Voice and accountability 2005-2015
Source: Worldwide Governance Indicators

CONTROL OF CORRUPTION, 2005-2013



Control of corruption, 2005-2013
Source: Worldwide Governance Indicators

CORRUPTION PERCEPTION INDEX BY INSTITUTIONS, 2012



Corruption perception index by Institutions, 2012
Source: Afrobarometer Mauritius (2012)

Moody's rating and Mauritius' regional leadership role

The international rating agency Moody's Investors Service maintained its sovereign rating of 'Baa1' (stable) for Mauritius, following its latest country assessment released in mid-2014. Moody's believes that the Mauritian economy has demonstrated resilience to the adverse external environment in recent years. However, it is concerned about the high level of public debt and the question arises whether the Government will be able to reduce the debt ratio to 50% of GDP by 2018, as officially announced.

Mauritius continues to consolidate its position and reputation as an easy place to do business. The 2015 Index of Economic Freedom, published annually by The Wall Street Journal and The Heritage Foundation, ranks Mauritius as the 10th freest economy in the world. Its ranking in the World Bank report Doing Business 2015 was 28th of 189 economies, and 1st in sub-Saharan for the eighth consecutive year. According to the 2015 report, Mauritius carried out reforms that have eased the process of starting of a business in the country. Mauritius ranked 29 out of 189 in this area, with five procedures required to start a business, taking six days and at a cost of 2.1% of income per capita. This performance is better than the average for OECD countries. Also, Mauritius made notable improvements to coverage, scope and accessibility of credit information lifting the country up 6 places to rank 36 globally on this indicator. Mauritius has been improving its position in international indexes for the rule of law, investment, and ease of doing business. The report also shows that Mauritius made progress in the category of 'enforcing contracts' and 'resolving insolvency' – ranking 44th and 43rd, respectively. However, more work needs to be done to sustain and build on these efforts to ensure a conducive business environment in the country. According to The World Economic Forum Global Competitiveness Report (GCR) 2014-2015, more efforts are required in terms of improving efficiencies in government bureaucracy, addressing the inadequate supply of 'first-class' infrastructure and improving human capital. The Government's objective is for Mauritius to rank among the top 15 most investment and business-friendly locations in the world over the next decade.

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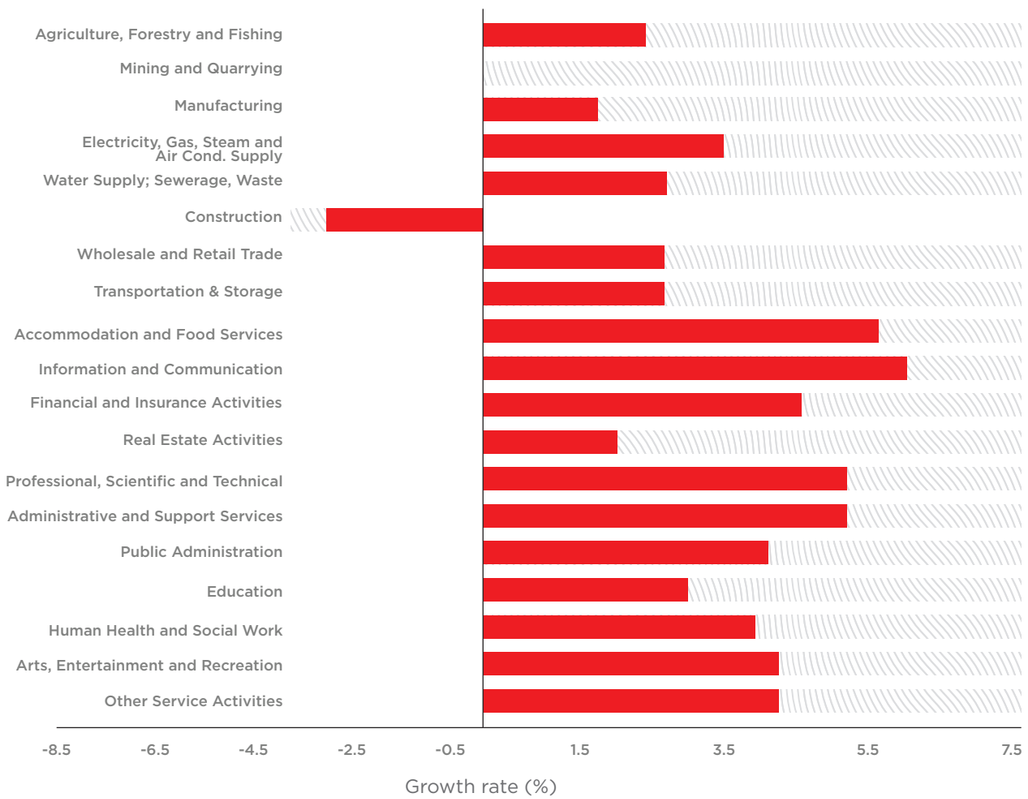
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The domestic economy in review: Economic conditions, challenges and risks

Sectoral trends

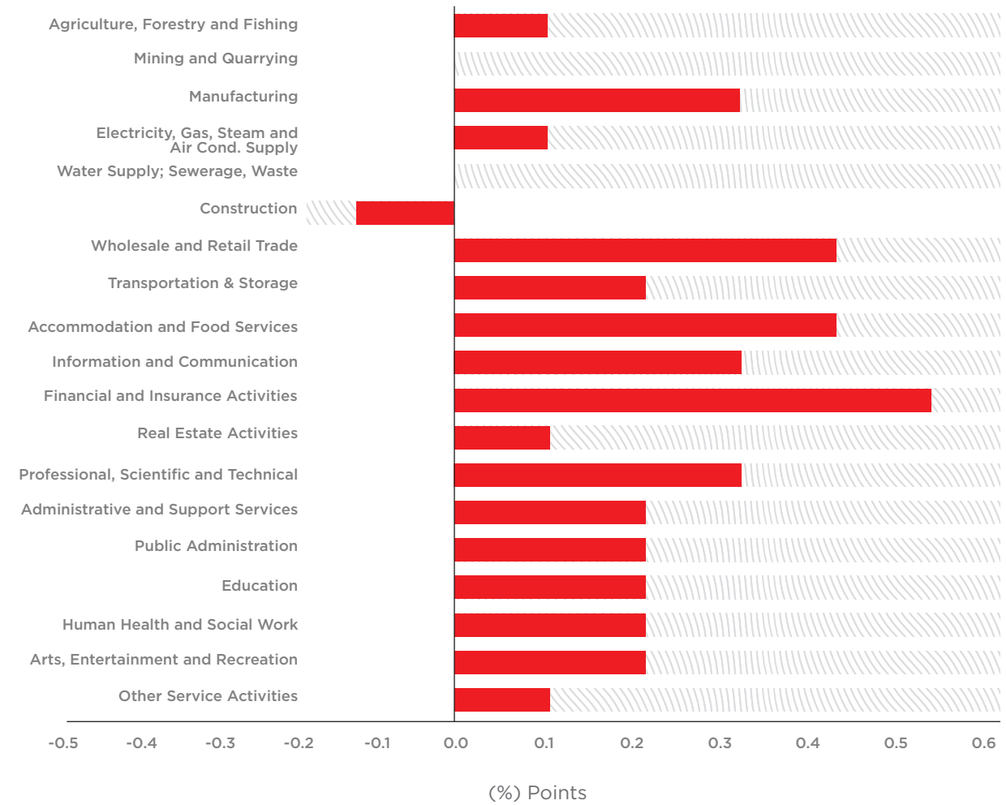
In 2015, as in 2014, all growth drivers will remain in green territory except for the Construction sector, which has suffered setbacks for several years in a row. It is expected that the trend will be reversed as from mid-2016 and into 2017 with the beginning of implementation of major infrastructural developments by both the Government and the private sector.

ANNUAL GROWTH RATE (%) BY INDUSTRY, 2015



Source: Statistics Mauritius, September 2015

CONTRIBUTION TO GDP GROWTH, 2015



Source: Statistics Mauritius, September 2015

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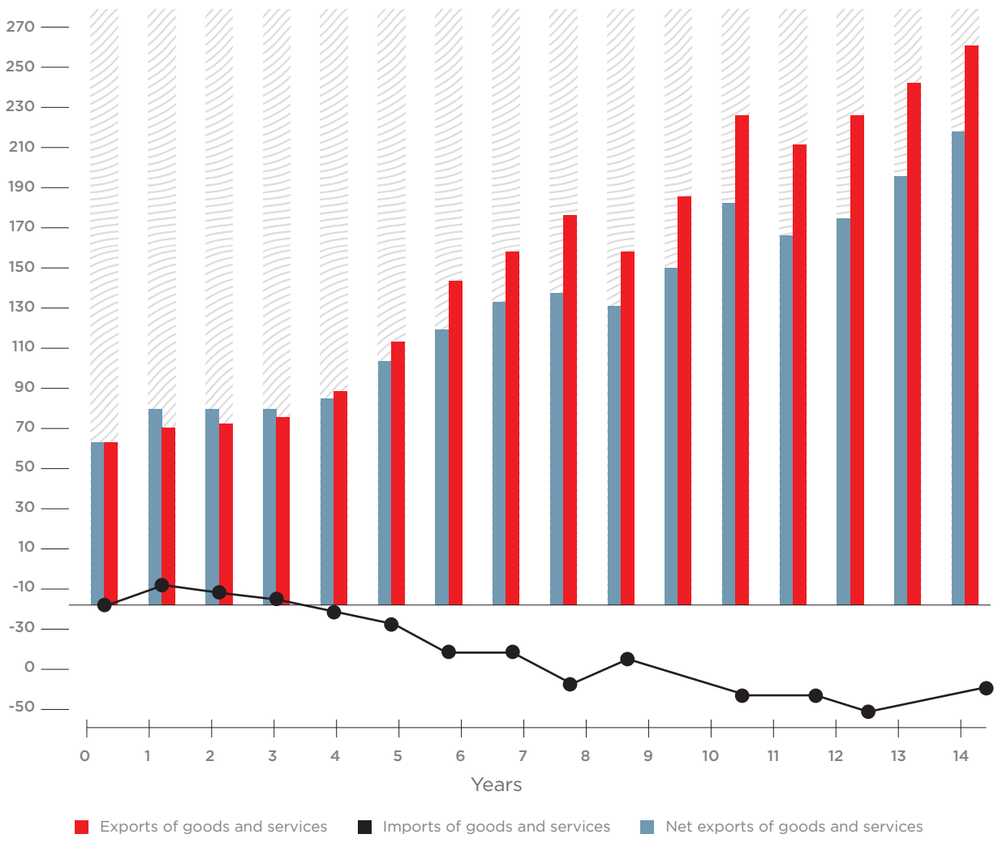
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

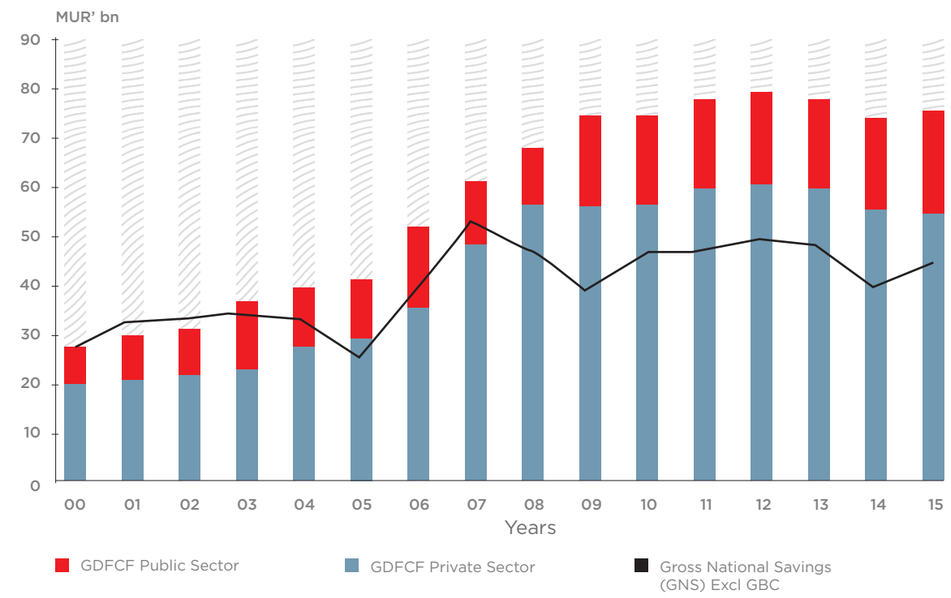
In 2015, total investment is expected to contract by a further -0.5% after the marked contraction of -6.0% in 2014. Private sector investment is forecast to fall by -3.9% after a negative growth rate of -8.4% in 2014. The Bank views this with concern as the much-awaited investment binge has not materialised in 2015 despite the ambitions and number of projects announced during the year. Public sector investment, on the other hand, would expand by 9.5% in 2015 compared to 1.8% in 2014. The share of the private sector in total investment is expected to decrease to 71.8% in 2015, down from 74.4% in 2014, while that of the public sector would increase to 28.2% from 25.6%.

EXPORTS AND IMPORTS OF GOODS AND SERVICES, 2000-2015



Source: Statistics Mauritius, September 2015

SAVING AND INVESTMENT, 2000-2015



Source: Statistics Mauritius, September 2015

Latest figures revealed by Statistics Mauritius in September 2015 indicate that GDP at market prices is expected to grow by 3.6% in 2015, up from 3.5% in 2014. This is higher than the forecast made by the IMF's World Economic Outlook in September 2015 (which had predicted 3.2% in 2015 and a rebound to 3.8% in 2016). In 2014, GDP amounted to USD 12.4bn while per capita GDP exceeded USD 9,000.

The relatively low growth rates suggest that the economy has continued to operate below its potential, with the persistence of a small negative output gap as in 2014, probably resulting from adverse shocks in aggregate demand. Added to sluggish saving and investment rates, and weak productivity improvements, this could continue to impact negatively on core macroeconomic fundamentals in 2016, unless bold reforms are undertaken to stimulate economic activity and demand.

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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FORECAST REAL GDP GROWTH: MAURITIUS V/S AFRICA

Source: Africa Economic Outlook 2015

FDI FLOWS

The World Investment Report 2015 indicates that Mauritius was amongst the top five host Small Island Developing States (SIDS) economies in terms of FDI inflows in 2014.

Foreign Direct Investment (FDI) Flows in and out of Mauritius, 2009-2014						
(USD million)	2009	2010	2011	2012	2013	2014
FDI Inflows	248	430	433	589	259	418
FDI Outflows	37	129	158	180	135	91

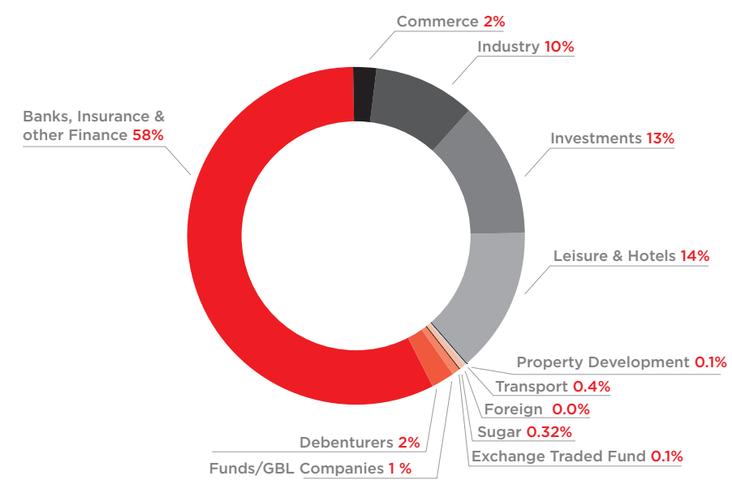
Source: World Investment Report 2015, UNCTAD

Given its substantial network of DTAAs and IPPAs with over 40 countries and its strong global business sector, Mauritius is also used as a platform for financial transactions and investments in the region. A significant amount of FDI to Mauritius is intended for other countries/economies in the region. In 2014-2015, for instance, Mauritius regained the position as top source of FDI into India, outrivaling Singapore to second slot. Mauritius accounted for about 29% of India's total FDI inflows in fiscal year 2014-2015 (amounting to some USD 9bn, as opposed to USD 6.74bn of FDI inflows from Singapore).

Performance of the Stock Exchange of Mauritius

The Official Market witnessed high level of trading during the first six months of 2015. Total value traded reached an all-time high of MUR11.6bn, up 32% as compared with the first half of 2014. Total value traded (on both the Official Market and the DEM) stood at MUR 12.5bn, which is in stark contrast with the 2014 figures (MUR 9.1bn)

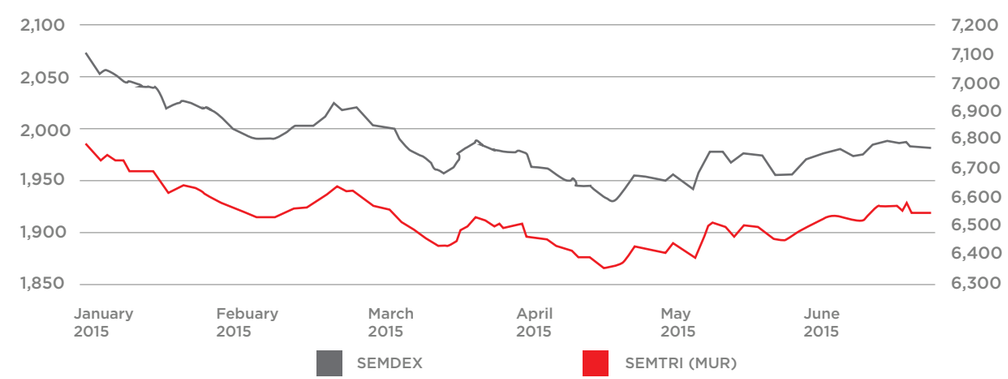
STOCK EXCHANGE OF MAURITIUS: VALUE TRADED BY SECTOR (%), 2015 HALF-YEAR



Source: Stock Exchange of Mauritius Newsletter, July 2015

During the same period (as at end June 2015), the market was trading at a dividend yield of 3.1% and a Price-Earnings Ratio of 14.1. Total market capitalisation of both the Official Market and the Development Enterprise Market stood at MUR 269.4bn, representing approximately 70% of the GDP of Mauritius.

PERFORMANCE OF SEMDEX AND SEMTRI INDICES, 2015 FIRST HALF



Source: Stock Exchange of Mauritius Newsletter, July 2015

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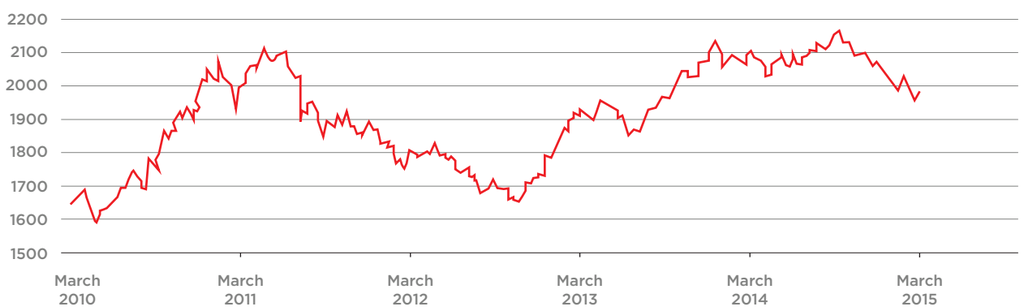
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

EVOLUTION OF THE SEMDEX, 2010 - 2015



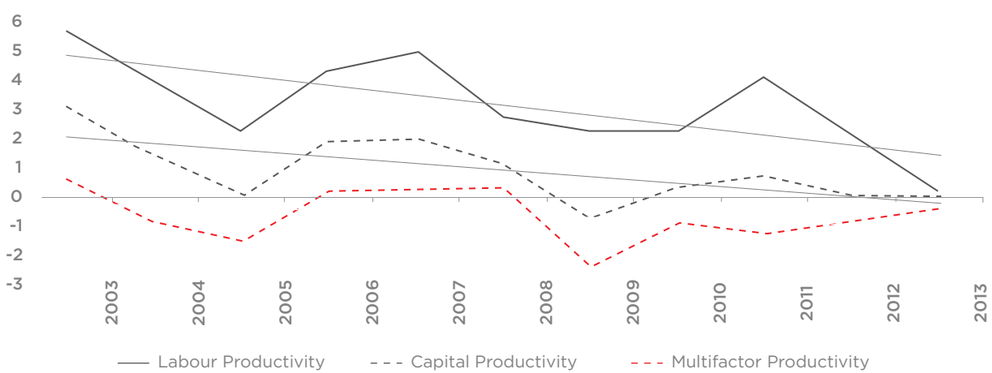
Source: Stock Exchange of Mauritius Newsletter, July 2015

The challenge of low productivity: Evolution of Productivity indices

The Mauritian economy has been operating in a context of declining productivity gains for several years in a row, which is keeping the economy on a low value-added growth path. The Bank commends Government's declared ambition to speed up the shift from an industrial policy to an innovation policy model but reckons that bold reforms would be required to achieve the transition.

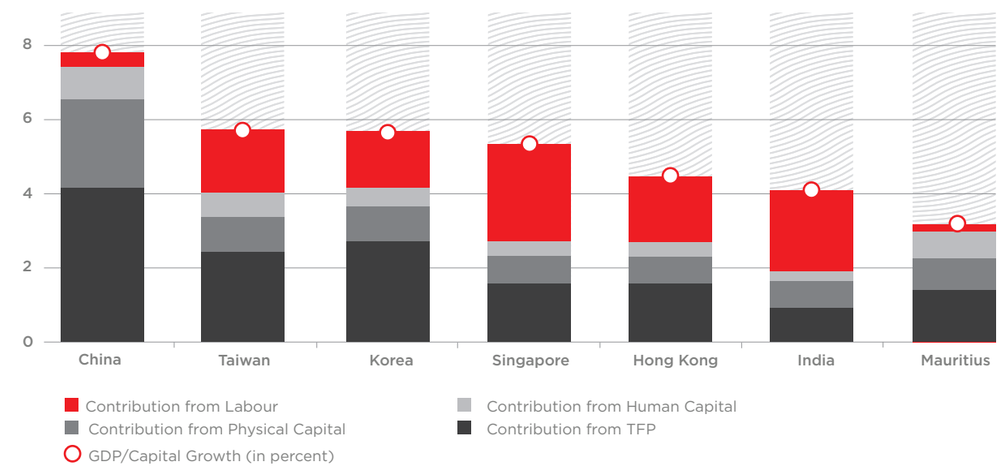
Adopting a new growth model would indeed require improving productivity at the firm level to raise the country's competitiveness. As identified by the World Bank, several factors are currently holding back the potential of the Mauritian economy to accelerate economic growth and these include limited and inadequate skills, limitations for technology absorption and inadequate trade facilitation. The fact that Mauritius' innovation system ranks 76th in the 2014 global competitiveness index – far behind other middle-income countries – also require urgent attention on the part of the political masters.

ANNUAL PRODUCTIVITY GROWTH IN MAURITIUS, 2003-2013



Source: Statistics Mauritius, Productivity and Competitiveness indicators

GROWTH CONTRIBUTION IN PER CAPITA TERMS



Mauritius - International Comparison of Total Factor Productivity (TFP) as the Driver of Growth
Source: Katsiaryna Svirydzenka and Martin Petri, "Mauritius – The driver of growth: Can the past be extended?", IMF

New realities facing the Mauritian economy: Emergence of a "middle-income trap" and threats to the middle-income class?

The spectre of a middle-income trap has been retaining the attention of policy-makers since 2014 and this has been fully documented in the World Bank's Systematic Country Diagnostic in 2015. The World Bank highlights the fact that, whilst absolute poverty in Mauritius is negligible by international standards, income inequality and relative poverty have been on the rise, especially amongst the youth and women. These could have important implications for inclusion and inter-generational transmission of poverty.

Relative poverty has increased from 8.5% in 2007 to 9.8% in 2012. At the same time, income growth of the bottom 40% of the population has been limited and constrained at an annual rate of increase of 1.8% compared to 3.1% for the population at large. Consequently, the middle class has shrunk during the last five years and is becoming increasingly vulnerable to falling back into poverty, thus putting growing pressure on the bottom 40% of the population to achieve or retain their middle class status.

This phenomenon could seriously jeopardise the country's ambition to reach high-income status within the next 5-6 years and would require urgent attention of the decision-makers.

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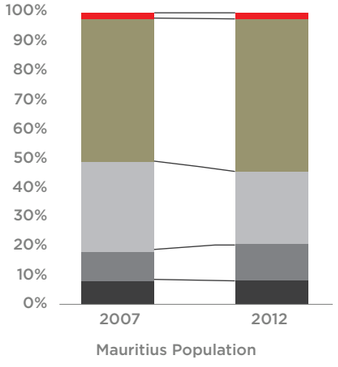
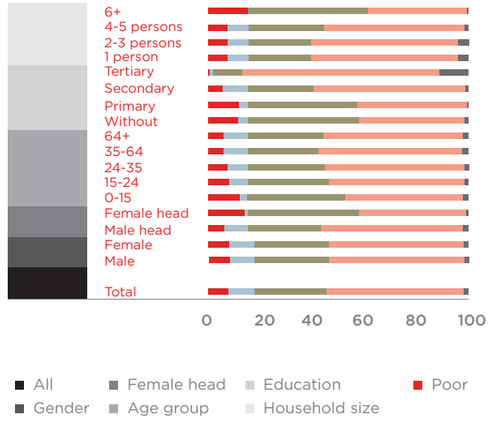
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

DISTRIBUTION OF POPULATION BY INCOME CLASSES (2007 VS. 2012)



Source: HBS 2007,2012

THE MIDDLE CLASS : DEMOGRAPHIC CHARACTERISTICS, 2012



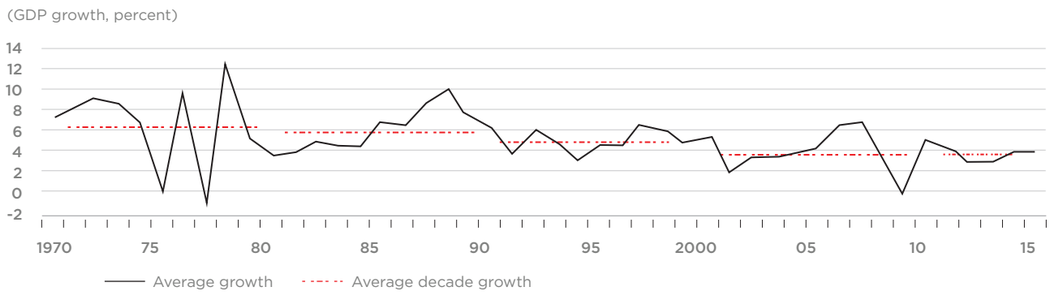
Source: HBS 2012

Mauritius is not alone in this situation. There are six other small middle-income countries facing this trap in sub-Saharan Africa namely Botswana, Cabo Verde, Lesotho, Namibia, Seychelles and Swaziland.

The concept of a middle-income trap grew from the observation that middle-income countries graduated to high-income status far less often than low-income countries became middle-income countries. From 1960 to 2012, fewer than 20% of middle-income countries and none from sub-Saharan Africa became high-income states, compared with more than half of low-income countries graduating to middle-income status.

DOWNWARD DECADES

While still positive, small middle-income countries' growth has slowed, as previous growth drivers weaken and the rise in per capita income wanes.



Source: Mauritius Systematic Country Diagnostic, World Bank, 25 June 2015

Global Outlook and Regional Developments

Slow but gradual rebound in advanced economies...

Global growth is projected at 3.1% in 2015, marginally lower than in 2014, with a gradual pickup in advanced economies and a slowdown in emerging market and developing economies, according to the IMF. The sudden increase in financial market volatility globally in August 2015 triggered by the sharp stock market decline in China and concerns about the sustainability of its growth engine did not have long-lasting effects: financial conditions have remained favourable in advanced economies.

Global output forecasts for 2016 are expected to be lower than predicted in mid-2015 but could nevertheless strengthen to 3.6%. Recovery has been more entrenched in the United States and the United Kingdom and this is projected to increase moderately in 2016, despite fears of monetary tightening. The mild but sustained recovery in the euro area in 2015 and the return of Japan in positive growth territory are set to continue in 2016 but, according to the IMF, medium-term prospects remain subdued.

Inflation has remained on a declining trend in 2015 in advanced economies. This is expected to rise in 2016 but it is generally believed that the rates will remain below central banks' targets. In the UK in September 2015, for instance, for only the second time since 1960, the inflation rate has turned negative, reflecting a weak price backdrop. The Bank of England has warned that this could persist in 2016, thus remaining far below its target rate of 2%.

		Year over	Year Projections
	2014	2015	2016
World Output	3.4	3.3	3.8
Advanced Economies	1.8	2.1	2.4
United States	2.4	2.5	3.0
Euro Area	0.8	1.5	1.7
Germany	1.6	1.6	1.7
France	0.2	1.2	1.5
Italy	-0.4	0.7	1.2
Spain	1.4	3.1	2.5
Japan	-0.1	0.8	1.2
United Kingdom	2.9	2.4	2.2
Canada	2.4	1.5	2.1
Other Advanced Economies	2.8	2.7	3.1
Emerging Market and Developing Economies	4.6	4.2	4.7
Commonwealth of Independent States	1.0	-2.2	1.2
Russia	0.6	-3.4	0.2
Excluding Russia	1.9	0.7	3.3
Emerging and Developing Asia	6.8	6.6	6.4
China	7.4	6.8	6.3
India	7.3	7.5	7.5
ASEAN-5	4.6	4.7	5.1
Emerging and Developing Europe	2.8	2.9	2.9
Latin America and the Caribbean	1.3	0.5	1.7
Brazil	0.1	-1.5	0.7
Mexico	2.1	2.4	3.0
Middle East, North Africa, Afghanistan and Pakistan	2.7	2.6	3.8
Saudi Arabia	3.5	2.8	2.4
Sub-Saharan Africa	5.0	4.4	5.1
Nigeria	6.3	4.5	5.0
South Africa	1.5	2.0	2.1
Mauritius	3.6	3.2	3.8

Growth forecasts of the World Economic Outlook
Source: "World Economic Outlook: Adjusting to lower commodity prices," IMF, October 2015

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...undermined by relatively slower growth in emerging markets...

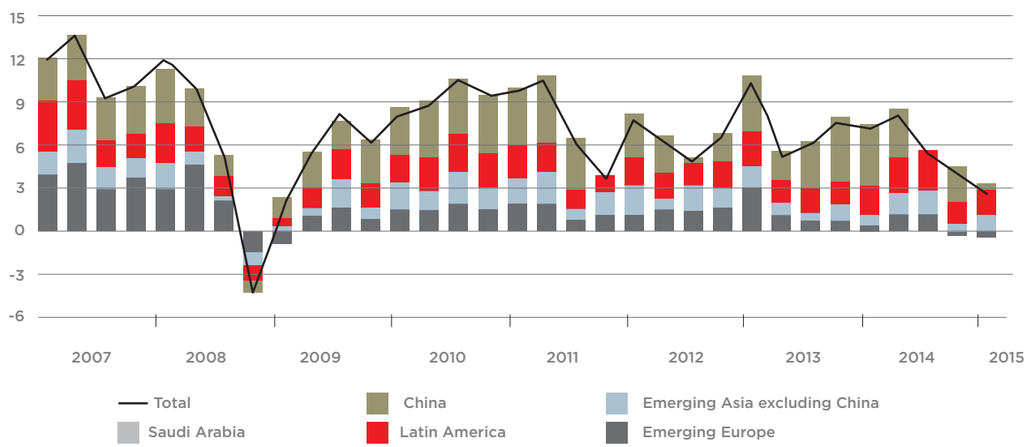
Forecasts show that emerging market and developing economies would be recording in 2015 slower growth for the fifth year in a row. This is even more prominent in the case of the larger emerging market economies and oil-exporting countries.

In emerging market economies, the continued growth slowdown reflects several factors, including lower commodity prices and tighter global financial conditions, structural bottlenecks, rebalancing in China (as it seeks to achieve consumption-driven sustainable growth), and economic distress related to geopolitical factors. Even if a rebound in activity in a number of distressed economies is expected to result in a pickup in growth in 2016, most analysts reckon that growth prospects will differ markedly across countries, several of which face country-specific shocks.

...and rapidly declining capital inflows to emerging market economies

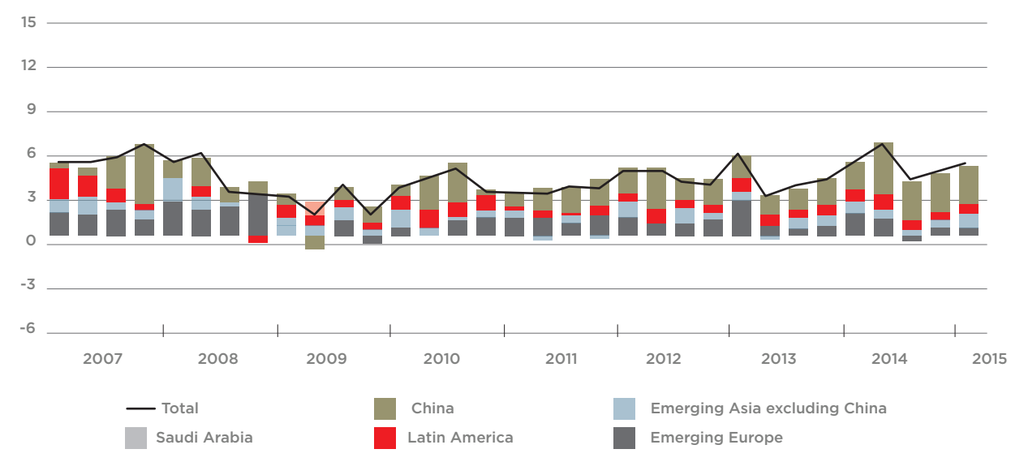
Emerging market and developing economies as a group has started disposing of foreign exchange reserves in 2014 (to the tune of USD 100bn in foreign exchange reserves during both 2014Q4 and 2015Q1) amidst a sudden reduction in gross capital inflows, i.e., declining purchases of domestic assets by non-residents. This is particularly significant for China, Russia, Saudi Arabia and Latin America, according to the IMF. In parallel, given the relatively stable aggregate current account balances for this group of countries, the decline in inflows has been offset by a corresponding decline in gross capital outflows.

CAPITAL INFLOWS (PERCENT OF GDP)



Capital flows in emerging and developing economies
Source: "World Economic Outlook: Adjusting to lower commodity prices," IMF, October 2015

CAPITAL OUTFLOWS EXCLUDING CHANGE IN RESERVES (PERCENT OF GDP)



Capital flows in emerging and developing economies
Source: "World Economic Outlook: Adjusting to lower commodity prices," IMF, Oct. 2015

Impact of dwindling commodity prices

As to the outlook in low-income developing economies, many of which are located in Africa, lower commodity prices, which have declined sharply since 2011, pose significant risks after many years of strong growth. The risks are also real in emerging market and developing economies which are net exporters of commodities. Commodity prices had experienced a sharp rise in the period 2000–2010 on account of sustained robust growth in emerging market economies, and have been a major driver of growth in several of these countries. China alone absorbed in 2014 half the world's aluminium, nickel and steel, and about a third of its cotton and rice. It is now widely believed that China's appetite for commodities could well have peaked in 2015. This implies bad news for commodity-exporting countries where already the deterioration in their 2015 primary balance, on account of sharp price declines, could represent as high as 5% of GDP on average, thus representing a huge reversal of the revenue windfall accrued during the boom years 2000-2010.

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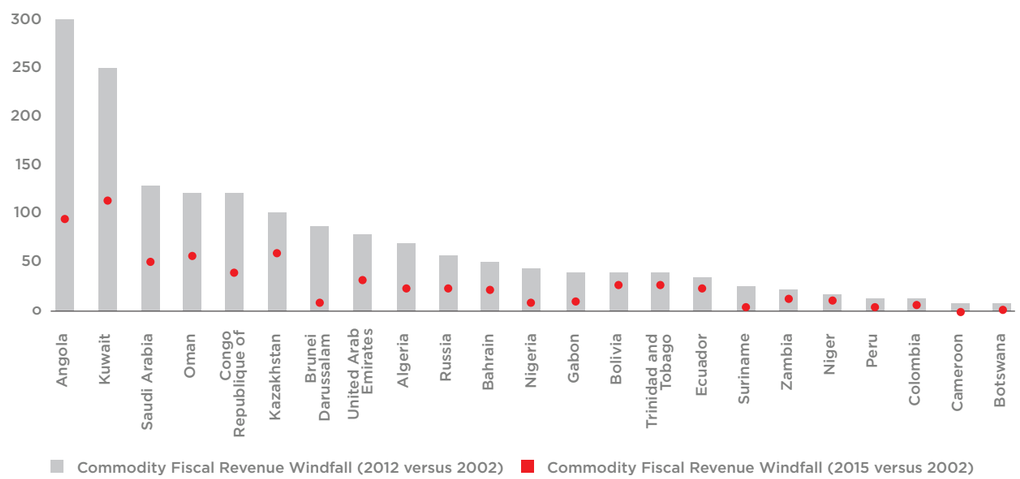
COMMODITY REVENUE WINDFALL



Commodity revenue windfall gains enjoyed by resource-rich countries (2002–2015): Sharp declining trends.
Source: "How to manage the commodity roller coaster," Huff Post, 10 July 2015

Prospects within the euro area

Following the crisis in Greece in early August 2015, the euro area has showed timid signs of recovery amidst lacklustre medium-term outlook. The support to recovery seemed to be based on weak fundamentals: cheaper oil prices, monetary easing and a weaker euro. In 2016, growth is expected to reach 1.6%, up from the expected 1.5% in 2015. Downside risks, including stagflation, would tend to prevail in the medium term, and could possibly extend to 2020.

Emerging economies: Can India's Elephant take over from the Chinese Dragon?

The size of Asia's third largest economy, India, is only one-fifth that of China. It is therefore unlikely to be able to provide much support to global growth of the same order of magnitude as China, which has been acting as the most stable contributor to world economic growth. Political acrimony is also the order of the day in India, despite Narendra Modi's landslide victory in 2014, which had fuelled hopes of a speedy recovery. Long outstanding reforms also seem to be lacking, which could prevent India from fully capitalising on its northern neighbour's deepening economic slowdown. Structural reforms remain critical especially in labour markets, the banking sector, tax regime and land management.

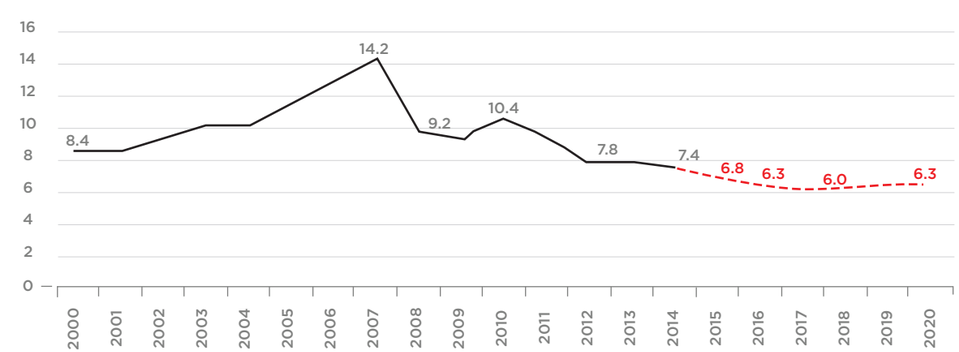
Top 10 destinations - H1 2015	
Country	Capex ($bn)*
India	31
China	28
US	27
UK	16
Mexico	14
Indonesia	14
Vietnam	8
Spain	7
Malaysia	7
Australia	7

Top 10 FDI destinations (first half of 2015)
Source: Financial Times, 29 September 2015

Prospects for India's economy remain healthy though. FDI in the first half of 2015 amounted to some USD 31bn, putting the country in the pole position in terms of foreign capital inflows, surpassing China (USD 28bn) and the US (USD 27bn), according to a report in the Financial Times in September 2015. Since China's stockmarket rout in August 2015, investment flows have increased further.

Several indicators also reveal that India's economy is in better shape than China's, including pace of growth, room for additional stimulus, labour force participation rate, domestic consumption, levels of public debt, excess capacity, property prices and deflation among others.

Most analysts forecast China's growth engine would fail to generate the performance attained in the mid to late 2000's in the aftermath of the global financial crisis. The country is standing at the crossroads and calling for a rebalancing of the economy as most of the key factors which led to two decades of double-digit growth begin to reach their potential.

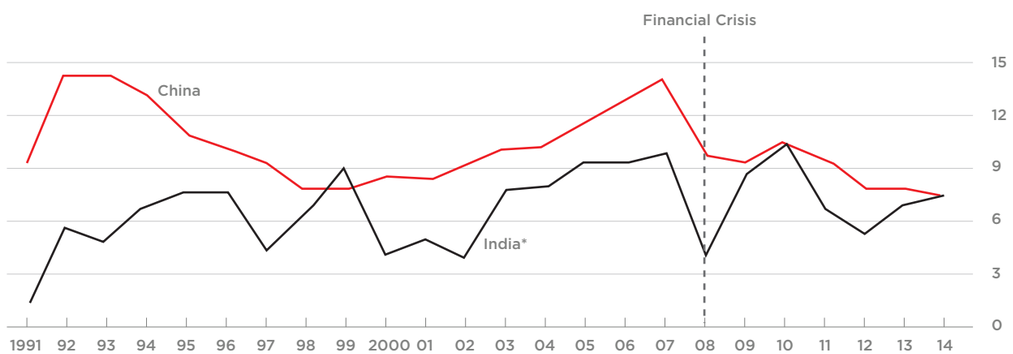


China's growth rates – Past vs. future

AfrAsia Bank Limited and its Group Entities
Annual Report 2015

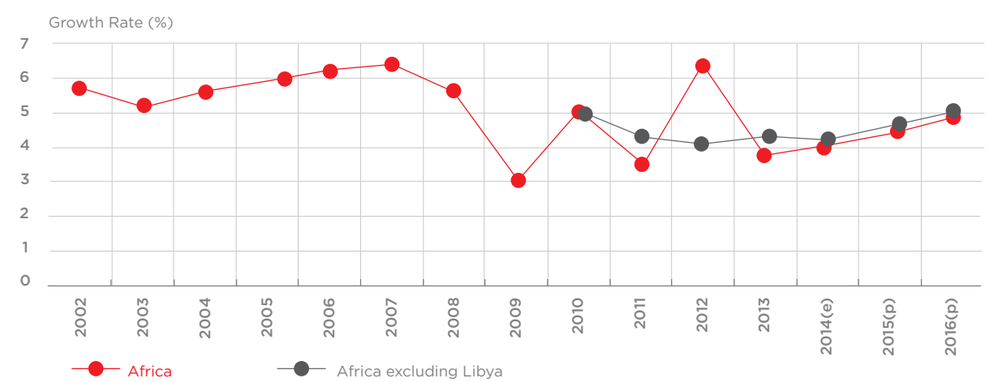
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

CHINA'S GDP GROWTH RATES VS. INDIA'S RECENTLY REVISED RATES (FOLLOWING A "REBASING" EXERCISE)



** Fiscal years, ending March, 2011-12 base year from 2012 onwards*
Source: economist.com (9 February 2015)

AFRICA'S ECONOMIC GROWTH, 2002-2016



Africa's economic growth (2002–2016)
Source: Africa Economic Outlook 2015

Africa outlook and developments

Africa's impressive economic turnaround during the 2000s saw average GDP growth more than double from just above 2% during the 1980s and 1990s to above 5% between 2001 and 2014. Even though it was higher than global world growth, (slightly above 4%) and Latin America and the Caribbean (just above 3%), it was lower than for emerging and developing Asia at about 8%. Africa's growth pace has been hampered because of a number of reasons including: subdued global growth; political and ethnic conflicts; weak prospects in export markets such as EU and China; an unforeseen drop of oil and other commodity prices; and the outbreak of the Ebola virus, with Guinea, Liberia and Sierra Leone at the epicenter, killing thousands of persons at a high economic cost. The 54 countries of the African continent have had various democratic experiences, with some countries facing stabilisation and growth while others have remained mired in social conflicts.

GDP growth of Africa is expected to strengthen to 4.5% in 2015 and 5% in 2016 after subdued expansion in 2013 (3.5%) and 2014 (3.9%). The 2014 growth was about one percentage point lower than that predicted by analysts, as the global economy remained weaker and some African countries saw severe domestic problems of various natures. However, the world economy in 2015 seems to be improving. This could impact positively on growth trends across Africa. According to the Africa Economic Outlook 2015, if the predictions materialize, Africa could "soon be closing in on the impressive growth levels seen before the 2008/09 global economic crisis."

AFRICA'S GROWTH BY REGION, 2013-2016

	2013	2014 (e)	2015 (p)	2016 (p)
Africa	3.5	3.9	4.5	5.0
Central Africa	4.1	5.6	5.5	58
East Africa	4.7	7.1	5.6	6.7
North Africa	1.6	1.7	4.5	4.4
Southern Africa	3.6	2.7	3.1	3.5
West Africa	5.7	6.0	5.0	6.1
Memorandum Items:				
Africa excluding Libya	4.0	4.3	4.3	5.0
Sub-Saharan Africa (SSA)	4.7	5.2	4.6	5.4
SSA excluding South Africa	5.4	6.2	5.2	6.2

Africa's growth by region
Source: Africa Economic Outlook 2015

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Private flows are expected to play a non-negligible role in financing the post-2015 Development Agenda.

The economic and finance landscape on mainland Africa has been transformed during the past decade into one that attracts more and more private flows such as FDI, portfolio investments and remittances, and less official development assistance.

In 2014, total external flows to Africa were estimated at USD 181bn, 6% lower in nominal terms than in 2013. One explanation for this decrease was the sharp drop in portfolio flows and the slight decline in FDI flows, reflecting subdued global demand and weaker commodity prices, especially for metals. This decline offset the slight increase in remittances (+2.1%) and official development assistance (+1.1%). All in all, estimates for total external flows averaged 7.3% of GDP in 2014, compared to 8.2% in 2013.

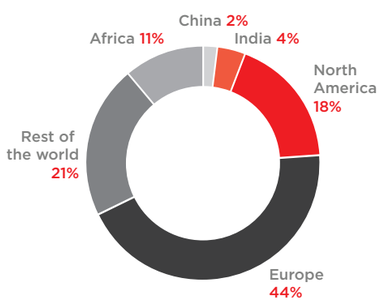
FINANCIAL FLOWS AND TAX REVENUES TO AFRICA (CURRENT USD, BILLION), 2005-2015

			2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 (e)	2015 (p)
Foreign	Private	Inward Foreign Direct investments	33.8	35.4	52.8	66.4	55.1	46.0	49.8	49.7	54.2	49.4	55.2
		Portfolio Investments	6.3	22.5	14.4	-24.6	-0.3	21.5	6.8	25.7	21.5	13.5	18.4
		Remittances	33.3	37.3	44.0	48/0	45.2	51.9	55.7	61.2	60.6	61.8	64.6
	Public	Official development assistance (net total, all donors)	35.8	44.6	39.5	45.2	47.9	48.0	51.8	51.3	55.8	56.3	54.9
		Total Foreign Flows	109.2	139.7	150.6	135.0	147.9	167.3	164.0	187.9	192.0	181.1	193.0
Domestic		Tax Revenues	258.1	305.9	343.4	442.4	330.6	408.3	462.9	515.1	507.4		
Total Foreign Flows		Low-Income Countries	21.8	22.8	29.5	36.5	36.9	39.5	47.5	47.9	49.7	52.3	54.2
		Low-Middle-Income Countries	61.7	78.4	84.1	81.8	69.4	94.7	84.9	109.1	111.9	96.3	105.2
		Upper-Middle-Income Countries	23.2	35.6	33.2	11.9	35.9	28.1	26.5	25.6	26.0	26.9	26.6

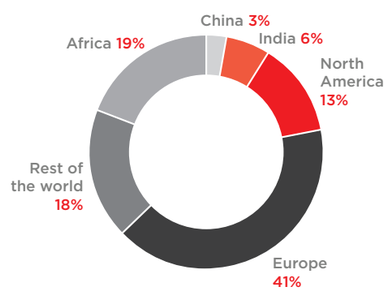
Financial flows and tax revenues to Africa (current USD, bn), 2005-2015
Source: Africa Economic Outlook 2015

SOURCES OF GREENFIELD INVESTMENT IN AFRICA (BY NUMBER OF PROJECTS), 2003-2008 AND 2009-2014

A. 2003-2008



B. 2009-2014



Sources of greenfield investment in Africa (by number of projects), 2003-2008 and 2009-2014
Source: Africa Economic Outlook 2015

Africa and Mauritius: Economic co-operation, regional integration and trade

Mauritius has concluded double taxation avoidance agreements with 38 countries, among which are 14 African countries. A Mauritius-Africa Fund has been set up in 2014, under which the government encourages and promotes Mauritian businesses exploring mainland Africa. Statistics reveal that 45 Mauritian companies have already invested in 12 countries in mainland Africa, in several sectors, including ICT, renewable energy, agri-business and banking/financial services.

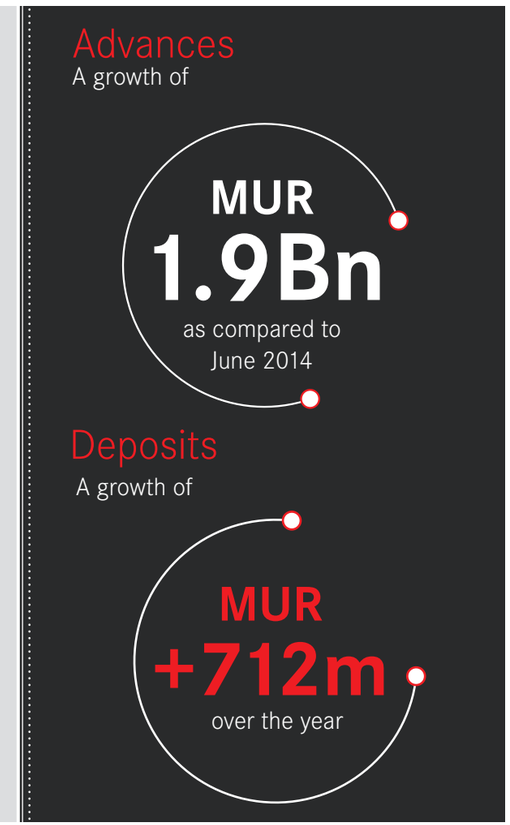
BUSINESS SEGMENTS REVIEW

Corporate Banking

In a rapidly changing banking environment, customers remain at the heart of what the bank does. Everything is geared to achieving all goals in line with being the preferred bank for customers.

HIGHLIGHTS

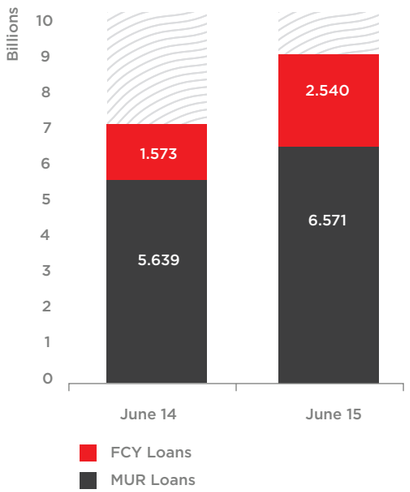
- The Corporate Banking segment delivered market leading performance and strong results in the financial year 2015.
- Advances have been growing steadily over the years and have reached MUR 9.1bn as at 30 June 2015, a significant increase of 26% as compared to June 2014.
- High increase in deposits from customers reached MUR 10.7bn as at 30 June 2015, thus achieving a growth of 7% over the year.
- High increase of 11% in foreign exchange transactions was achieved on the back of focused effort and enhanced relationship building with existing corporate entities as well as new clients.
- Interest income has improved despite the current low interest rate environment as well as fee income. However, the poor economic climate is also reflected by higher risk costs.



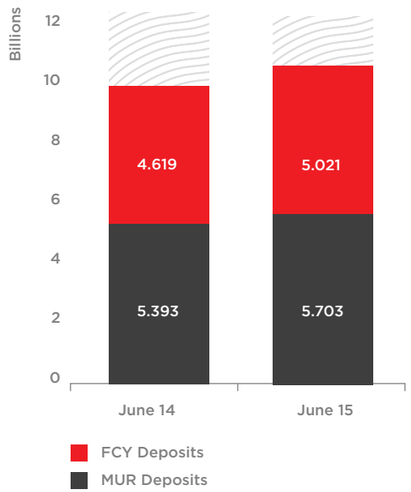
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Corporate Assets and Liabilities Growth

ASSETS



LIABILITIES



Future Outlook

AfrAsia Bank Limited will focus on delivering customer solutions and continue to execute its disciplined, long-term growth plan which is designed to add new, high quality clients and deepen those relationships over time.

The Bank is also growing its customer base by selectively expanding and focusing on key growth industries, enhancing its 'bank different' and 'can-do' attitude while delivering world class service by recruiting the best and experienced people in the market.

AfrAsia Bank Limited is also continually looking for ways to improve, be more efficient and serve its clients better. To help clients succeed and make a difference, the Bank will continue to invest in its key markets.

Its long-term commitment to building the best possible franchise means that it is always focused on ways to improve business.

PRIVATE BANKING AND WEALTH MANAGEMENT

With clients in more than 121 countries, the Bank's comprehensive offer addresses the needs of residents, non-residents and wealth managers.

HIGHLIGHTS

- Private Banking aims to service high net worth clients who are in need of tailor-made services or require access to specialised funds.
- The AfrAsia VISA Platinum prepaid card was launched in April; the Bank is the first institution to offer a Platinum prepaid card in the CEMEA (Central and Eastern Europe, Middle East and Africa) region
- An External Asset Management desk was set up
- The Bank was honoured in several categories by Euromoney Private Banking Survey, including 'Best Private Bank in Mauritius 2015' as well as 'Best Wealth Management Provider in Mauritius 2014' by World Finance
- The team was enhanced during the year through the recruitment of Private Bankers with an extensive knowledge of specific markets so as to better serve these markets.

ASSETS UNDER MANAGEMENT
Growth of
100%

GROSS INCOME
Growth of
7%
over the year

The Bank's differentiation comes from:

- the exclusivity of its products with a niche market exposure including parts of Africa
- ease of access to the Bank's services
- flexibility through a customised approach giving access to large variety of funds, bonds, ETF and stocks
- world class reporting including online access to custody valuations

There is a clear growth in the number of high net worth individuals (HNWI) across the globe, where a high net worth individual is worth more than USD 1m. In 2014, the number of HNWI grew by 7% implying an increase in the need of professional wealth management, and in turn in the number of private banks offering specialised services. On the local market however, there are to date only 3 institutions endowed with the required expertise and the adapted range of services out of the 23 licenced banks.

The Bank has built on 3 offers being the residents, the non-residents and the wealth professionals in order to offer a more adapted strategic approach. The Private Banking business line provides solutions in line with the needs of our customers and our relationship is built on trust and discretion.

AfrAsia Bank Limited and its Group Entities
Annual Report 2015

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In an environment paved with market volatility and uncertainties, customers tend to have multi-financial relationship where trust and quality are at the heart of the Bank's offer. AfrAsia Bank Limited provides an integrated wealth management planning approach with a high standard of professional advice.

The Bank has the ability to source exclusive products with a niche market exposure including some regions of Africa. Through its extensive variety of worldwide funds, ETFs, bonds and stocks, the Private Bankers are able to adopt a tailor-made approach in line with the customer's risk tolerance and profile.

The External Asset Management desk (EAM) was set up at the beginning of 2015 to act as a dedicated point of contact between Asset Managers and the Bank. To date, the EAM Desk has signed a number of agreements with Asset Managers and we see a lot of growth potential in this area, in line with the Private Banking department's growth strategy. The EAM Desk provides an open architecture investment platform to Asset Managers thus providing access to both major fund houses and niche funds. The Bank has a team of experienced investment professionals who offer proactive investment proposals to suit the needs of the underlying clients.

Moreover, the EAM Desk has a number of collaborative agreements with leading investments organisations to cover all asset classes and geographies. Through the EAM desk, the Bank is able to leverage on the credibility and financial soundness of Mauritius as a financial centre while strengthening its existing network of wealth professionals and thus enhance its image in the segment.

The custody department aims at facilitating clients' investments in more than 50 countries and provides access to specialised fund houses. In line with the Bank's strategy, the department is able to provide tailor-made services to HNWI and asset managers and acts as a one stop-shop in term of investment purposes through its capacity to trade with vanilla product like Bonds, ETF, Equities, to more complexly structured products and funds. The Bank's provides world-class valuation and performance reports. Additionally, its ability to provide access to a wide range of brokers across geographical areas ensures that the client has the best execution prices. Customers can even pledge their holdings against banking facilities hence allowing a more efficient use of their investment. In order to offer a premium level of service, the Bank partnered with EUROCLEAR, which is the 2nd largest custodian in the world.

The performance of the business line over the last few years is testimonial of the Bank's success and its ability to retain and offer a different customer experience.

The Bank distinguishes itself through a tailor-made approach by providing best-in-class services and products that have the client's interest at heart. The launch of the pioneering rewards programme on the market, AfrAsia XtraMiles, has given the opportunity to the Bank's high net worth clients to experience a new way of being rewarded for their loyalty. In the pursuit for perpetual innovation, the Bank has recently extended its cards portfolio by offering the Visa Platinum Prepaid Card, a first in the CEMEA region. The card offers a number of benefits such as an online platform for real time statements, extended warranty insurance and customer protection, medical and legal referral and over 200 exclusive offers and privileges worldwide to name a few.

Customers have also been introduced to an online access to custody valuation reports which allows them to consult their custody accounts under management. This platform is another first in Mauritius and provides the convenience and transparency which our target market requires. The Private Banking microsite (private-banking.afrasiabank.com) allows customers to understand the different services offered to this specific target market.

In line with its corporate philosophy, the Bank aims to be the reference point for Private Banking linking Mauritius and the Africa-Asia trade corridor and beyond. In order to achieve its aim and enhance its capabilities, AfrAsia Bank Limited is investing in the necessary tools and is improving its access to a number of experts in fields such as legal and real estate. Such developments will enhance its financial planning expertise which is an important part of the advisory process and in turn enable Private Banking to further support growth and enhance the AfrAsia brand.

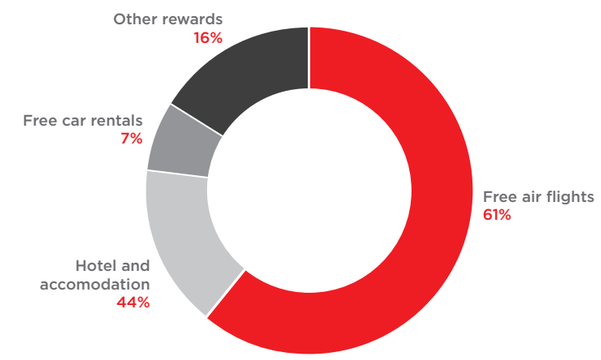
AfrAsia XtraMiles, a pioneering rewards programme

The Bank's performance in the year under review can be attributed to its strategy to grow and retain core transactional accounts by offering a compelling value proposition to its customers; innovative products and channels at an acceptable cost, but also supported by its rewards programme, XtraMiles.

During the last financial year, nearly a third of our cardholder database had experienced XtraMiles online platform, while we have been giving back to our clients rewards worth MUR 2.6m in the form of free flights (61%), hotel accommodations (16%), car rentals (7%) and other rewards (16%).

After a successful communication campaign, spending on Titanium and World cards has been boosted by 49% (to reach MUR 1.4bn) over the financial year, while credit card acquisition increased by 18%.

Following several years of strong customer growth, the Bank is now focusing on cross-selling to this expanded customer base, with the objective of increasing the average products per customer. Through XtraMiles, clients are rewarded not only for credit card spending but also on fixed deposits and investments made with AfrAsia Bank Limited.



> *"This is an amazing programme – I have travelled for free to Dubai, London, Milan, and Istanbul with AfrAsia XtraMiles by simply doing what I usually do. Using cash for my everyday expenses offers nothing in return while this card does. I couldn't expect better!"*
>
> *Jeff. P*
> *Private Banking Client*

AfrAsia Bank Limited and its Group Entities
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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

GLOBAL BUSINESS BANKING

The Global Business Desk provides non-resident clients with individual and corporate banking solutions that are adapted to their needs and requirements. The profiles of the clients of the Desk range from HNWIs to listed corporates, MNCs and PE and hedge funds.

HIGHLIGHTS

The business opportunities have been achieved through a sustained momentum with regards to promotional and market development endeavours.

Indeed, the Global Business Desk has been active in establishing and cementing the AfrAsia brand franchise during the year.

The Desk made further progress in promoting AfrAsia's brand awareness on the regional and international marketplace, especially by increasing field presence, actively running business prospecting missions and road shows in targeted markets as well as participating in and sponsoring conferences.

134
IMCs based outside of Mauritius working with us

226,691
of bank payments proccessed over the year

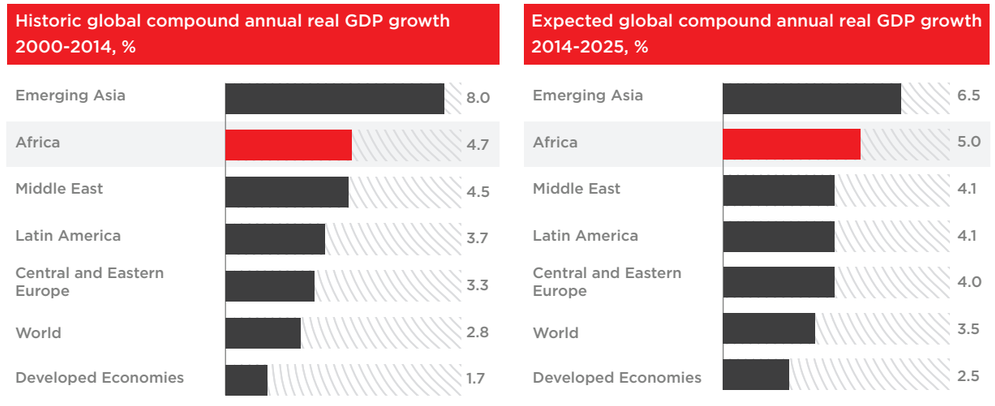
As at 30 June 2015, the Global Business Team was staffed with 26 experienced members, comprising a Head of Department, a Deputy Head of Department, a Regional Head Corporate Banking, Relationship Managers, Customer Services Officers and Sales Administrative Managers. All team members have a strong focus on the delivery of quality services to customers as well as risk-based approach to customer due diligence.

The business opportunities have been achieved through a sustained momentum with regard to promotional and market development endeavours. Indeed, the Global Business Desk has been active in establishing and cementing the AfrAsia brand franchise during the year. The Desk made further progress in promoting brand awareness on the regional and international marketplace, especially by increasing field presence, actively running business prospecting missions and road shows in targeted markets as well as participating in and sponsoring conferences. For instance, AfrAsia Bank Limited was amongst the key sponsors at the China-Africa Forum held in Beijing on 16 June 2015. This high-level conference was designed to provide Chinese enterprises, who intend to expand into the African market, with the latest information about the investment environment, economic prospects and trade opportunities and discuss how they could get international financing supports and manage risks in Africa. The Forum was attended by some 75 Chinese state-owned enterprises.

WHY SHOULD AFRICA MATTER TO INVESTORS ?

	AFRICA 2013	AFRICA 2025
GDP (NOMINAL)	USD 2.0 TRILLION	USD 3.5 TRILLION
CONSUMER SPENDING (NOMINAL)	USD 1.3 TRILLION	USD 3.5 TRILLION
WORKING AGE POPULATION	618 MILLION	845 MILLION
CITIES WITH >1MILLION PEOPLE	52	103
HOUSEHOLDS WITH DISCRETIONARY INCOME	108 MILLION	194 MILLION
MOBILE PHONE USERS	815 MILLION	1,141 MILLION

AFRICA IS THE 2ND FASTEST GROWING REGION IN THE WORLD



Source : Global Insight GDP data and Forecasts; Global Insight GDP data and Forecasts; International Monetary Fund Region definitions; World Bank region definitions; McKinsey Global Institute

AfrAsia Bank Limited and its Group Entities
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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Moreover, the Desk collaborated with internal stakeholders and supported the implementation of selected projects and the Bank's products and services line-up:

- January – launch of the Global Custody online platform and safe lockers to Private Clients
- March - the Bank launched the VISA prepaid card
- April – the Bank carried out a revamping of the Internet Banking platform with the objectives of offering quicker access to information, enhanced security features and SMS alerts, broadening the operation mandates for using the Platform, inter alia.

The Desk also contributed in refining the operational and client on boarding processes as well as fostering effective harmonisation of the representative offices.

In October 2014, the Bank had an addition to its already strong existing shareholder base, namely the Toronto-listed, National Bank of Canada. This addition has enhanced the institutional profile of the Bank, giving more comfort to its foreign, non-resident client base.

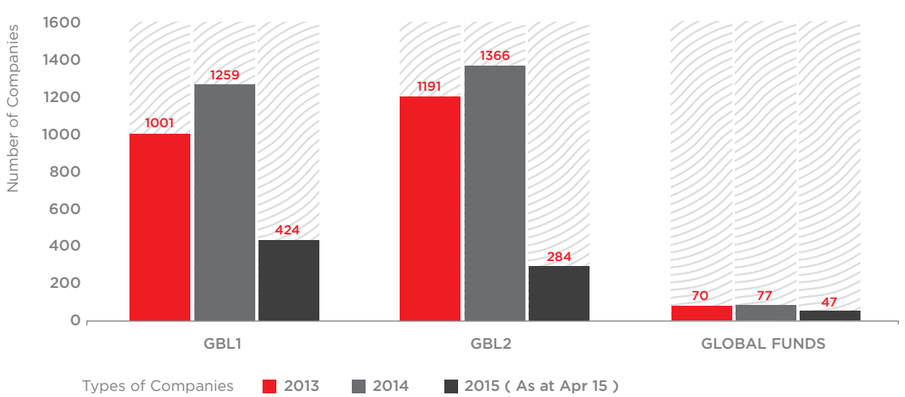
The global landscape affecting IFCs is changing rapidly, with a stronger focus on transparency and fair taxation system. Initiatives like the US FATCA have already been implemented worldwide. More than 65 countries have agreed publicly to implement the automatic exchange of information under the Common Reporting Standard, starting as from the year 2017 for the early adopters. The OECD Base Erosion Profits Sharing program is also forthcoming.

Mauritius welcomes the above initiatives as the Jurisdiction has always positioned itself as an IFC fostering transparency.

Recently, Mauritius has had 2 of its important double taxation agreements (DTAs), namely those with South Africa and India, renegotiated and, its name appearing on an EU blacklist. Obviously, the future of the Island as an IFC depends a lot on certainty of the DTAs and the comfort of international investors that they are able to mitigate their taxation, legal and investment risks by investing through an economically and fiscally stable jurisdiction. The Country needs to expand its network of DTAs and Investment Promotion and Protection Agreements, more specifically with the African countries. The DTAs that have been signed but not yet ratified also need to be finalized as soon as possible so as to provide a comparative advantage. Moreover, the Country needs to decry the inclusion of its name in the EU blacklist in order to uphold the reputation of Mauritius as a transparent and fully compliant IFC.

Liability Analysis

The main source of introduction is through the approved intermediaries operating in the Mauritius Global Business sector, which include some 125+ International Management Companies (IMCs). The activities of the Global Business sector in the Mauritius International Financial Centre (IFC) are mainly reflected in the evolution of the number of Global Business companies which, as per the Financial Services Commission statistics, was as follows:

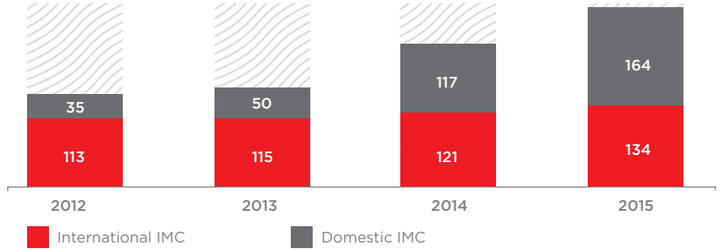


NEW INCORPORATION OF GB1, GB2 AND GLOBAL FUNDS

GBL companies and Global Funds are structures that are registered with the Mauritius Financial Services Commission and the Registrar of Companies. As at February 2015, there was a total of 10,226 GBL1 companies, 10,855 GBL2 companies and 891 Global Funds registered in Mauritius. From the above graph, it can be noted that the increase in the number of GBL1 companies and the Global Funds is progressive. It will be interesting to follow the growth trend of the GBL2 companies over the year.

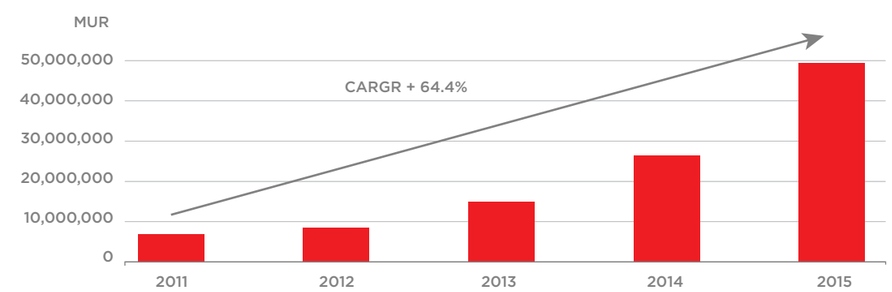
The Desk has diversified its referral base over the past few years and also actively works with some 100+ trust companies, corporate services providers and other financial services providers, based outside Mauritius.

RELATIONSHIP WITH INTERNATIONAL MANAGEMENT COMPANIES



During the year under review, the Global Business Desk continued its international expansion strategy by tapping into business opportunities primarily in chosen markets across Africa. The Desk recorded a resilient performance across all key product lines by reaping the benefits of on-going initiatives intended to strengthen the Bank's strategic position whilst diversifying its exposures. For instance, increased regional market presence was obtained through both organic client growth and participation in loan syndications via funded deals in various segments of the market. The Bank's asset exposure is now well-diversified covering targeted opportunities in property, oil and gas, telecom, power, infrastructure, mining, institutional funds, multinationals, agriculture, commodities and specialized finance. The year under review has also seen considerable grounds covered in terms of country based portfolio diversification with exposure to new African countries such as Côte d'Ivoire and Ethiopia. The East Africa framework remains a key target market for the Bank with some exciting initiatives to come from that space in the coming year. The Desk has also worked hard at developing its DCM capabilities using the Mauritius financial market as a hub for this activity, specifically lead mandate arrangements co-facilitated by AfrAsia Corporate Finance business.

DEPOSITS FORM CUSTOMERS - SEGMENT B



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Looking ahead, international activities will remain an important constituent of the Bank's business growth with the African region remaining the key target in view of its attractive economic projections. The active market expansion and diversification, over the ensuing year, will be supported by:

- enhanced business relationship management and understanding of intrinsic needs of markets being serviced
- setting up of new offices in targeted countries
- continuous business process improvements
- following sound risk management practices through client onboarding and transaction monitoring

TREASURY

> *You may think you are in the business of trading. But in reality, you are in the business of decision making. And the better you can make these decisions ahead of time, the better your results will be.*
>
> *Paul Tudor Jones*

The Bank's Treasury activities are split between sales and trading. Its sales desk is focused on providing tailor made solutions on Foreign Exchange and Interest Rates, while its trading desk is mandated to manage the Bank's exposures in Foreign Exchange and Interest Rate instruments.

The FX Trading desk manages the FX exposure of the Bank within the parameters set by the Bank of Mauritius and the Bank's Board Risk Committee, while the Money Market desk manages the assets and liabilities of the Bank on a proactive basis and ensures that returns are maximised on both the MUR and FCY liabilities of the Bank, while providing good rates to clients.

HIGHLIGHTS

The main driver was the increase in FX volumes from the Global Business segment, where the Bank witnessed a 40% increase in FX volume from FY 2013/14.

The most significant increase has been on the income generated from client FX derivatives transactions which amounted to MUR 45m compared to MUR 5m in 2013/14.

The Bank experienced a steady increase in its domestic banking volume to USD 1.1bn, representing a 10% increase year-on-year.

TRADING INCOME — MUR 373m

TOTAL FX GAIN AND TRADING INCOME — MUR 471m

SETTLEMENT IN CURRENCIES — OVER 100

Product Development

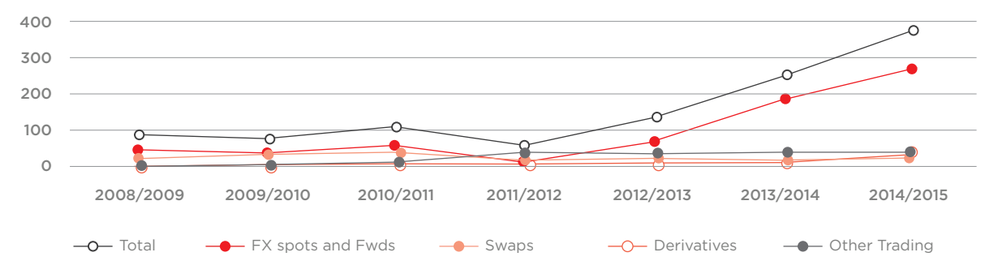
The Bank's aim is to be the preferred provider of Treasury products in Mauritius and in the region and as such the Treasury sales team spends a lot of time discussing with clients about their FX needs and this approach has helped us gain around 15% of FX volume in the local market. However, the banking sector is becoming increasingly competitive and therefore it is important to provide innovative solutions to clients to ensure that the Bank remains ahead of the curve. While AfrAsia Bank Limited continues to cater for the day-to-day FX spot volumes, the Bank spends a lot of time understanding its clients' FX exposures and structuring the right FX derivatives products to help them. This approach of providing tailor-made solutions has helped the Bank become the preferred FX Derivatives provider in the market. AfrAsia Bank Limited is now using its expertise to provide these solutions to international clients.

Our Treasury Business in Numbers

For the Financial Year ending 30th June 2015, our Trading Income amounted to MUR 373m, a 52% year-on-year growth. Revenue on FX Spots and Forwards amounted to MUR 269m, representing a 47% increase from the previous year; the main driver was the increase in FX volumes from the Global Business segment, where the Bank has witnessed a 40% increase in FX volume from FY 2013/14. The most significant increase has been on the income generated from client FX derivatives transactions which amounted to MUR 45m compared to MUR 5m in 2013/14.

In terms of FX Turnover, the Bank has seen a steady increase in its domestic banking volume to USD 1.1bn, representing a 10% increase year-on-year; which has helped us achieve a market share of 15% in the local market. The Bank has, however, seen an increase of 40% in FX Volume on the Global Business side to USD 638m, as a result of the fact that it can settle in more than 100 different currencies.

TRADING INCOME (MUR' M)



Local Market Dynamics

Foreign Exchange

The dynamics of the FX business have drastically changed since the beginning of 2015. The business has become more competitive and challenging with the margin between the bid and offer being significantly squeezed. The market saw a depreciation of approximately 12% of the MUR from January to March 2015 driven by the depreciation of the Euro on the international market; the Euro being the currency in which most of our exports are denominated. This prompted the Central Bank to intervene in the market more regularly to keep the EUR/MUR competitive while also curtailing the USD/MUR which was overvalued; it is now trading at a fair value when compared to the USD's appreciation on the international market. Mauritius is heavily dependent on the importation of basic necessities, (e.g. dairy products, clothing, rice, etc.), however, a slowdown in consumption has recently been seen. Importers are very vigilant with regard to USD purchases and the Forward purchase market has also dried up. There has also been a decline in the sale of Foreign Currency, which is usually driven by the tourism and textile manufacturing sectors.

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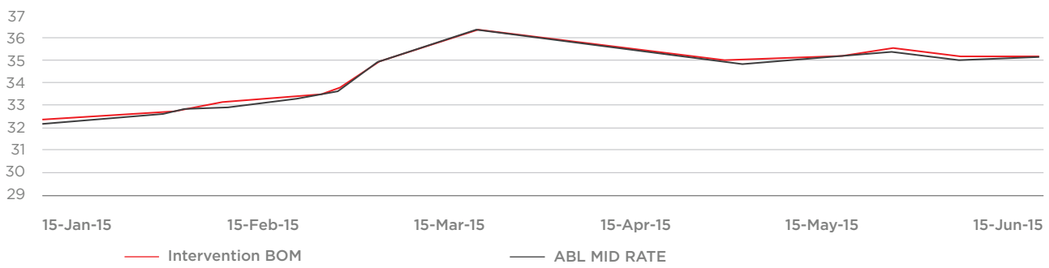
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

EVOLUTION OF USD/MUR



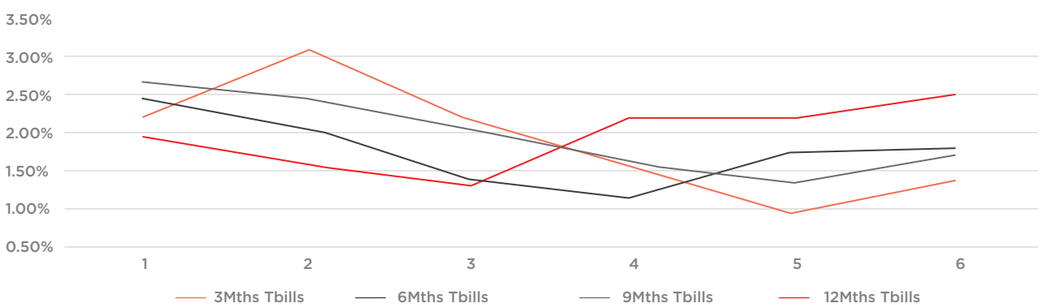
Although being an emerging bank, AfrAsia Bank Limited has been able to gain a strong foothold in the local Foreign Exchange market by maintaining a 15% market share for the past year. The Bank prides itself in providing a solution-driven service to its clients, which is not only focused on providing them with the most competitive rates but also sharing the Bank's views and readings of the local and international markets.

Going forward, the Bank thinks that more clients will embrace product sophistication. Local Corporates have naturally evolved from doing only spot transactions to doing FX Forwards and Swaps. However, the market evolves, players will get more accustomed to Structured Forwards (derived from options and forwards) in USD/MUR and EUR/MUR, which gives them more flexibility. The Bank thinks that based on the current economic environment and in periods of high volatility that we have witnessed in both the local and the international market. Importers and exporters have realised that the use of options together with forwards gives them more leeway and flexibility to hedge their FX exposures.

Interest Rates

Excess liquidity in the Banking system at beginning of 2015 was MUR 6.9bn and gradually increased to MUR 12.83bn in early June 2015, after peaking at MUR 16.54bn mid-April 2015. On 21 May 2015, The Bank of Mauritius announced that it will sterilize around MUR 20bn of liquidity by the end of December 2015. Treasury Bills Yields during the year reached their all-time lows in the range of 0.93% - 1.31% as compared to the range of 2.17% - 2.85% at the beginning of 2015. Faced with the Eurozone Crisis, and a sector wise weighted average Cost of Funds of 2.84% (As at May 2015), It was highly challenging for Banks to disburse quality assets and as a result the excess liquidity was chasing Treasury Papers at rates even lower than Banks' Cost of funds explaining the drastic increase in excess liquidity and fall in Treasury paper rates.

TBILLS EVOLUTION : LAST 6 ISSUES



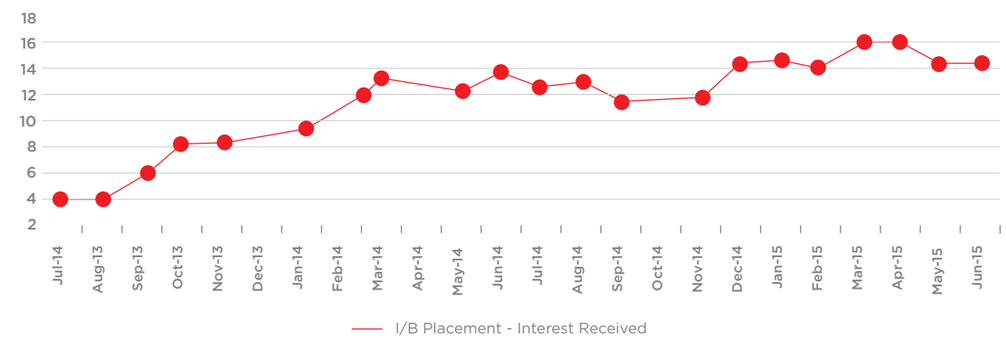
The Bank forecasts a correction in the current excess liquidity situation with Bank of Mauritius intervention, while the Repo rate is expected to remain unchanged. With the Work in Progress paper on Primary Dealers Requirements due this year, the Bank should expect a more active secondary market for Treasury Bills and with the injection of fresh capital, its strategy going forward will be to increase the Trading book portfolio and become the most active Money Market and Fixed Income Trading house.

Balance Sheet Management

AfrAsia Bank Limited's Money Market and Fixed Income desk is in charge of managing the assets and liabilities of the bank. The desk's focus is as follows:

- formulate ideas and strategies to take advantage of money market movements.
- work closely with other business units to identify deposits/loans trends, and possible impact on the Bank's liquidity.
- constant follow-up of market changes, especially those related to monetary and fiscal policies that would have impact on the direction of interest rates in the major markets.
- protect the Bank's liquidity position in maintaining excellent cash-flows reports, and adopting certain tolerance levels in managing liquidity.
- use Repos, Reverse Repos, Swaps and any other available approved methods of funding to ensure the most efficient way of funding the various activities of the bank.
- during FY 2014/2015, the Bank has actively sought to maximised yields in the FCY Interbank (I/B) placements; an illustration of progress for Interest received through interbank placements is shown below:

I/B PLACEMENT- INTEREST RECEIVED



- for the FY 14/15, Total interest from FCY Interbank placements amounted to USD 4.69Mio averaging USD 391k per month as compared to USD 3.30Mio for FY 13/14 with an average monthly interest of USD 275k.

Going Forward

The Bank's goal is to be a one-stop shop for Treasury requirements both for local as well as international clients. The Bank feels that Mauritius has all the capabilities of being the funding centre for the rest of Africa. However, with the level of sophistication that the Bank is bringing, it aims to become the centre of excellence in terms of Treasury and Financial Markets solutions for the continent.

AfrAsia Bank Limited and its Group Entities
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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

AFRICA STRATEGY

Objectives

AfrAsia Bank Limited has successfully developed its Corporate & Investment Banking offering across various African markets and the intention is to keep on delivering this going forward. The key product offering to its clients come from its Treasury, Transactional Banking and Corporate Banking divisions.

With the unique role of Mauritius as a financial centre, the Bank is continuously positioning itself as a regional banking force by establishing close business ties with a number of banking institutions in Sub-Saharan Africa. Its aim is to be a one-stop shop for financial institutions in the region in terms of funding, foreign exchange, structured solutions and trade finance solutions.

The Bank is one of the key players in Mauritius in terms of cash and liquidity management for those corporates and individuals investing in and trading with African countries. Cross-border payments, Treasury as well as Global Custody services are the main requirements of international and pan-African investors.

From a Corporate Banking perspective, the Bank will continue to grow the asset book through selective organic growth and primary syndications. The Bank remains committed to developing relationships with regional corporates (in country) and clients using Mauritius as a unique platform for expansion into Africa. AfrAsia Bank Limited will also target specific segments going forward where the Bank believes it can make a meaningful difference, particularly through the strategic relationship held with National Bank of Canada.

Core initiatives

AfrAsia Bank Limited uses a number of platforms for growing its presence and acquiring opportunities from African markets. In terms of Treasury and FI business, the Bank continues to leverage its Mauritian platform to provide the appropriate solutions to its institutional clients and continues to invest in knowledgeable resources to drive the business in the region.

From a product perspective, the Bank's strategic relationship with the National Bank of Canada provides the expertise to differentiate itself from the other players in the continent.

From a Corporate Banking perspective, the Bank uses its Mauritius, South African and London Representative offices to build relationships in those markets with corporate clients looking to retain, manage and expand their presence in African countries and who have a need for a banking partner to support those activities. AfrAsia Bank Limited has a team of dedicated Relationship Managers in its various offices supporting its clients and these initiatives.

Through its subsidiary, AfrAsia Corporate Finance, based out of South Africa and Mauritius, the Bank is able to offer clients tailor-made advisory and capital raising services.

Opportunities and challenges in Africa

The opportunities in Africa are enormous as it remains a diverse environment with multiple offerings across different sectors and markets. Africa still presents unique investment opportunities and attractive returns. The Continent does not however come without its challenges. Some of the key macro risks in general remain political stability, operating in complex regulatory environments, volatile exchange rates and the dependency on Africa to a large extent on the relative success of other emerging economies such as China. AfrAsia Bank Limited adopts both a macro and micro management approach in assessing these risks on a constant basis.

Future outlook

AfrAsia Bank Limited maintains its view that Africa is the future and remains committed to supporting this growth in a selective manner across the various product offerings of the Bank. Its objective is to build long-term partnerships with its clients operating in the dynamic and challenging but rewarding world that lies within Africa.

AfrAsia Bank Limited and its Group Entities
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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

SOUTH AFRICA REPRESENTATIVE OFFICES

Located in the two largest cities in Africa's biggest economy, Johannesburg and Cape Town, the primary functions of the South Africa Offices are to promote Mauritius as an international financial and business destination and AfrAsia Bank Limited as the banking brand of choice.

Corporate South Africa's investments into Africa

On the corporate and institutional front, South Africa remains one of the dominant investors on the Continent. According to the latest World Investment Report, South Africa recorded a 4.3% rise in FDI to USD 6.9bn during 2014, making it a leading outward investor, particularly into the rest of the African Continent. South Africa's investments into more than 40 African countries range beyond traditional mining, telecommunications, banking and travel. Other successful South African businesses with African operations are involved in insurance, construction, chemical, pay-TV, food and beverage as well as the pharmaceutical sectors. Every year growing numbers of African consumers shop at South African retailers such as Shoprite or Massmart stores. Many of these companies engaged in trading in Africa have invested via Mauritius – or use Mauritius as an international treasury centre.

Private Banking in Africa

According to New World Wealth's Africa 2015 Wealth Report, the number of HNWIs in Africa increased by 145% between 2000-2014, comparing very favorably with the worldwide HNWI growth rate of 73% during the same period. Moreover, these numbers are expected to rise by a further 45% by 2024. Clearly there is a correlation between economic growth and the creation of a successful and wealthy entrepreneurial class. With the African Continent set to become one of the world's fastest growing regions over the next 10 years, there will be a concomitant rise in the demand for banking and investment products and services which augurs well for those providing private banking to the African clientele.

The Focus

The Representative Offices have been capitalising on 3 main trends:

- continued interest in expanding into new markets where there is growing consumer demand. Countries in SADC and COMESA are of particular interest. Being a member of both blocs and offering a network of double-taxation agreements, IPPAs and other advantages, Mauritius is an ideal platform to facilitate accessing these markets
- managers of listed and unlisted funds continue to be attracted to Mauritius as a base for their operations, and
- like corporates, there are individuals who similarly seek international diversification of their wealth and access to private banking products.

The Representative Offices' local presence combines well with the Bank's competitive products and services enabling AfrAsia Bank Limited to successfully compete for international banking in the markets in which it operates.

Since inception, the strategy has been to retain the services of seasoned bankers who are well grounded in the local market and also have the ability to inform prospects about international banking through Mauritius. This ranges from being able to discuss with global business companies as well as speaking to individuals about the private banking platform in Mauritius.

Key success and future outlook

Tangible and intangible benefits accrue to positioning ourselves in one of Africa's largest economies.

- Being situated in the Continent's banking and stock market hub provides access to high quality local and international corporates as well as fund managers
- Increasing acceptance of AfrAsia Bank Limited as a regional Bank of substance is evidenced by the profile of African companies and intermediaries choosing to do business with the Bank

Each year, the South African Representative Offices continue to contribute to the Bank's expansion into African and other markets.

The team in South Africa. From left to right; Ravi Teji, Vanessa Sabbatini (consultant), Colin Grieve, Anne Ferriera, Lise Tayler and Dennis Shoko

LONDON REPRESENTATIVE OFFICE

The Bank's presence in London reflects the city's importance as a centre for African-focused capital flows. It is also home to a large proportion of the major African private equity groups and our London Representative, Garry Sharp, himself has deep experience in African private equity stretching back nearly twenty years.

The key role of the Representative Office is to act as a networking and contact centre, enhancing our relationships with London financial institutions, advisers and intermediaries, and with clients and contacts who pass through the city. The Bank also liaises closely with the London offices of Mauritius-based management companies and similar partners.

Key achievements in the last twelve months have included:

- deepening AfrAsia Bank Limited's links with London-based, Africa-focused Private Equity funds. The Bank now provides banking services, including bridging loan and portfolio company facilities, to a significant and growing number of these funds and the London connection has helped accelerate this progress.
- cooperation with International Management Companies. A growing number of AfrAsia Bank Limited's IMC partners are opening London offices. The Bank is collaborating closely on joint business development activities with these offices to offer total solutions to London-based clients.
- developing relationships with major international conglomerates with African exposure. As Mauritius becomes more established as the natural offshore base for international investment in Africa, these links are helping to promote the Bank's positioning as their natural Mauritius banking partner.
- broadening private banking coverage, the presence of a London Representative has strengthened the Bank's appeal to High Net Worth Individuals based in London.

ZIMBABWE

The Financial Year 2014/15 was marked by the closure of the Bank's Zimbabwe operations, despite all efforts made to salvage them. This happened against the backdrop of deteriorating macroeconomic conditions and a continued liquidity crunch in the banking sector.

In February 2015, the board of AfrAsia Bank Zimbabwe Limited (ABZL) decided to surrender its banking licence. Despite the write-off of this investment, AfrAsia Bank Limited continues to maintain a strong capital based of MUR 4.9bn, demonstrating the resilience and financial strength of the Bank.

Please refer to the note on "Investment in Associates" contained on Note 22 of the Annual Report.

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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

NON-BANKING SUBSIDIARIES

AFRASIA CAPITAL MANAGEMENT

With over 23 years of solid investment management experience, AfrAsia Capital Management Limited (ACM), formally known as Axys Capital Management, is one of the leading asset managers in Mauritius. Over the years, ACM has acquired and consolidated its capabilities by managing various investment strategies and delivering bespoke investment solutions. The Company is regulated by the Financial Services Commission and currently holds three licences, namely Investment Advisor (unrestricted), CIS Manager and Distributor of Financial Products.

HIGHLIGHTS

- ACM has successfully grown its business both in terms of assets under management and bottom line over the last three years
- ACM has launched a new CIS – AfrAsia Partners Fund - to cater for investors looking for "patrimonial investment solutions"
- Over time, ACM has built a client base that includes major companies in different sectors of the economy
- ACM's Return on Equity and Return on Capital Employed have averaged 86% and 103% respectively over the last three years
- To offer a holistic service, ACM has engineered many structured product investment ideas, and has embraced an open architecture platform to provide clients access to different asset classes, regions and investment products from reputed international asset managers and niche players

ASSETS UNDER MANAGEMENT

Growth of

49%

over the year

PROFIT AFTER TAX

An increase of

84%

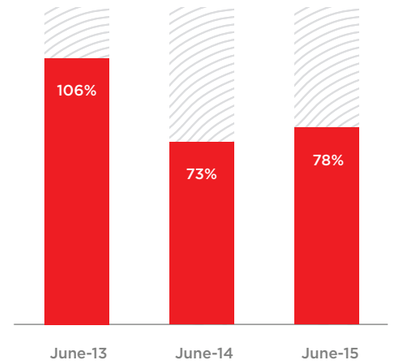
over the year

ACM caters to the needs of High Net Worth Individuals (HNWIs) through its comprehensive portfolio management service which encompasses investment advisory and monitoring to assist clients in meeting their financial goals on both a discretionary and non-discretionary basis, and by providing access to global markets, various asset classes and innovative products.

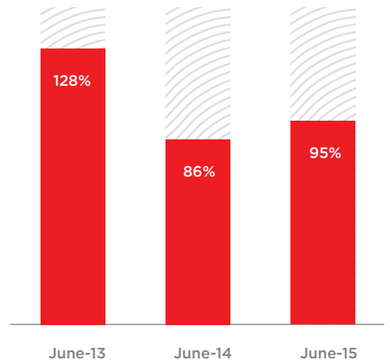
Under its CIS Manager licence, ACM manages seven in-house funds and strives to cater for different risk profiles by having each CIS focus on a different region and by offering both equity and bond funds. ACM also has a long history in constructing and managing pension portfolios and delivering consistent above average returns.

ACM continues to pursue its expansion while endeavouring to offer quality service to clients.

RETURN ON EQUITY (%)



RETURN ON CAPITAL EMPLOYED (%)



Financial highlights

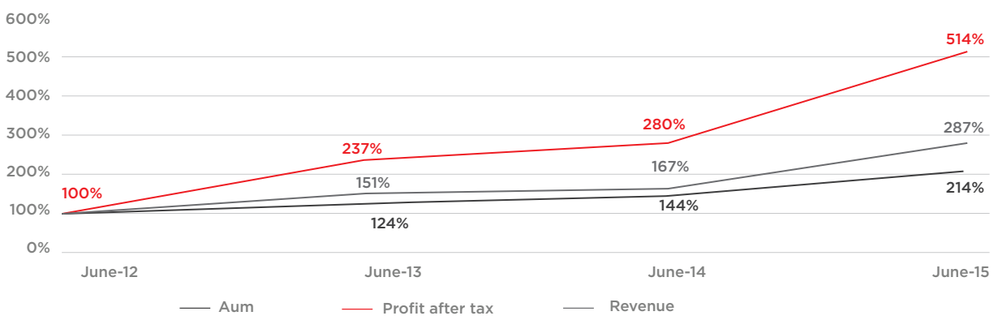
Financial performance during the year ended 30 June 2015 remained healthy with Profit after Tax increasing by 84% year-on-year, backed by a commendable growth of 49% in Assets under Management (AUM).

Leveraging on its product offering, extensive experience in delivering superior investment return and strong in-house investment capabilities, ACM has successfully grown its business both in terms of assets under management and bottom line over the last three years. The growth witnessed by ACM has accelerated over the last 2 years. Along with growing the business, it strived to maintain a sustainable and diversified source of income.

For the period June 2012 - June 2015, ACM has registered a growth of 114% and 187% in AUM and Revenue, respectively. Profit after Tax witnessed a growth of 414% for the corresponding period. The Company's Return on Equity and Return on Capital Employed have averaged 86% and 103% respectively over the last three years.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

CUMULATIVE GROWTH IN REVENUE, AUM AND PROFIT AFTER TAX



Developments over the financial year

Since it was wholly acquired by AfrAsia Bank Limited, ACM has been on the path of a major restructuring venture. The headcount has increased to 20 as at 30 June 2015, with a team of 10 investment specialists backed by the Operations and Finance teams.

In line with its usual innovative streak, ACM has launched a new CIS – AfrAsia Partners Fund - to cater for investors looking for "patrimonial investment solutions". The Fund also addresses the need of investors looking for an all-rounder fund, that is, an investment vehicle that holds a selection of funds encompassing equity securities, equity related securities, and fixed-income instruments of companies worldwide, to generate capital appreciation.

Drawing on the expertise and experience of the investment team, ACM has managed to successfully steer its funds amidst accrued volatility in the financial markets over the past year with performances as shown below:

ACM FUNDS**	LAUNCH DATE	CURRENCY	6-MONTHS	1-YEAR	3-YEARS	5-YEARS
EQUITY FUNDS						
ACM Aussie Growth Fund	1-Jun-00	AUD	5.45%	2.91%	36.33%	25.92%
ASX 200			0.89%	1.17%	33.32%	26.91%
Alpha			4.57%	1.73%	3.01%	-0.98%
ACM European Fund	1-May-05	EUR	13.59%	15.13%	39.18%	48.08%
Eurostoxx 2000			10.44%	10.69%	48.23%	52.63%
Alpha			3.15%	4.44%	-9.06%	-4.55%
ACM India Focus Fund	1-Jan-11	USD	8.28%	36.33%	82.45%	N/A
BSE 200 ($ adjusted)			1.41%	5.57%	44.56%	N/A
Alpha			6.87%	30.75%	37.89%	N/A
ACM Global Equity Fund*	21-May-13	USD	1.53%	2.65%	35.81%	72.16%
MSCI AC World			1.53%	-1.22%	35.69%	57.88%
Alpha			0.00%	3.87%	0.12%	14.28%

** Fund performance prior to the launch date has been back-tested based on the fund's investment strategy*
*** AfrAsia Parthers Fund was launched in April 2015, and only 3-months' performance is available to-date*

ACM FUNDS	LAUNCH DATE	CURRENCY	6-MONTHS	1-YEAR	3-YEARS	5-YEARS
BOND FUNDS						
ACM Global Bond Fund*	20-Nov-13	USD	-0.67%	-2.23%	9.06%	17.85%
Barclays Global Aggregate Index			-3.08%	-7.09%	-2.40%	10.80%
Alpha			2.41%	4.86%	11.46%	7.05%
ACM High Yield Fund	29-Jun-12	MUR	3.14%	7.05%	20.39%	N/A
AfrAsia Savings Rate + 2%			2.59%	5.28%	16.90%	N/A
Alpha			0.55%	1.77%	3.49%	N/A

** Fund performance prior to the launch date has been back-tested based on the fund's investment strategy*
*** AfrAsia Parthers Fund was launched in April 2015, and only 3-months' performance is available to-date*

ACM has continued to build its product offering and in this respect, the Company has teamed up with several renowned asset management houses. ACM maintains regular contact with these fund managers via conference calls and shared access to their research database, thereby enhancing the portfolio management expertise of ACM and assisting in delivering appreciable performance.

Looking Forward

ACM has come a long way since its major restructuring over the last quarter of 2013 and has reached its cruising speed. With the team now fully integrated and continued synergy with the AfrAsia Group, ACM seeks to conquer new market ground and maintain its reputation in providing innovative investment solutions.

AFRASIA CORPORATE FINANCE

AfrAsia Corporate Finance (ACF) is a niche, independent corporate finance adviser; providing clients with innovative structuring and financial solutions. The AfrAsia Corporate Finance Team based in Johannesburg, South Africa, consists of Marisa Meyer and Llewellyn Gerber; together they bring nearly three decades of experience.

Collectively, Marisa and Llewellyn have broad and deep experience in a variety of disciplines, ranging from Investment banking, Capital Raise and Tax Advisory to Debt Capital Markets, Valuations and Fairness Opinions as well as M&A advisory.

ACF has been instrumental in prepping, executing and delivering on many strategic and multifaceted business transactions. Their approach to partner with their clients rather than acting solely as advisors, coupled with their experience, connections and skillset, means they are able to provide their clients across the African continent with a range of appropriate solutions, all the while offering them the satisfaction that all their business requirements will be met.

AfrAsia Bank Limited and its Group Entities
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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL HIGHLIGHTS – YEAR UNDER REVIEW

AfrAsia Bank Limited (The Bank) closed its 8th financial year ending 30 June 2015 reporting a satisfactory Net Profit after Tax of MUR 175m, while maintaining a solid statement of financial position consolidating its capital base and gaining on market share across all its core business segments of:

- Corporate and Investment Banking
- Global Business
- Private Banking and Wealth Management
- Treasury

Despite a volatile global economic environment coupled with conflicting interest rate direction, on a year-over-year basis, AfrAsia Bank Limited reported a steady growth in its net interest income from MUR 659m to MUR 861m in the year under review, along with net fee income growth of 34% as compared to the same period in the last year. Net trading income growth was strong, with an increase of almost 92% over the previous year. The Bank also fully provided for its remaining exposure on its Zimbabwean investment, which was closed due to persisting liquidity challenges in Zimbabwe during the year under review. Such an exposure has affected the statement of profit or loss and other comprehensive income of the Bank by MUR 707m during the year.

On the assets side, the Bank successfully grew its loan book by MUR 4,3bn across both segments while maintaining a relatively conservative overall loan to deposit ratio of 32%, reflecting its objective of meeting credit demand while maintaining assets quality in its loan portfolio.

CURRENT YEAR PERFORMANCE AGAINST OBJECTIVES AND FUTURE GROWTH

OBJECTIVES FOR 2014/15	PERFORMANCE FOR 2014/15	OBJECTIVES FOR 2015/16
Statement of Comprehensive Income – Operating Income		
Budgeted operating income for 2014/15 stands at MUR 1,3bn, main contributor being Net Interest Income	Objective has been successfully realised with an operating income of MUR 1,6bn for the financial year 2014/2015.	The Bank's aim is to achieve an operating income of at least MUR 1,9bn for 2015/16.
Statement of Comprehensive Income – Operating Expenses		
Operating expenses are expected to remain as low as MUR 653m with an increase of 31% from actual expenses.	Well-managed operating expenses were kept within MUR 590m for the year under review.	While continuing to invest in IT infrastructure, premises and human resources, operating expenses are expected to remain as low as MUR 768m, that is, an increase of 30% from 2014/15.
Statement of Financial Position – Loans and Advances		
Loans and Advances are expected to stand at MUR 22,1bn.	Slightly under its forecast, customer loans and advances reached MUR 21,7bn by the end of the financial year.	The Bank will seek to increase its very conservative current loans-to-deposits ratio from 32% in 2015 to reach 43% in 2016, that is, with an aim to achieve customer loans and advances of MUR 32,9bn by the end of June 2016.

CURRENT YEAR PERFORMANCE AGAINST OBJECTIVES AND FUTURE GROWTH (CONTINUED)

OBJECTIVES FOR 2014/15	PERFORMANCE FOR 2014/15	OBJECTIVES FOR 2015/16
Statement of Financial Position – Deposits Growth		
Deposits are to continue their rising trend to reach MUR 44,3bn.	The Bank realised a noticeable growth in its customer deposits base to reach MUR 66,9bn by the end of June 2015, that is, a growth of 63%.	While maintaining its existing customer base and gaining on market share, the Bank aims to increase its deposit base to MUR 77,1bn by the end of June 2016.
Statement of Financial Position – Asset Quality		
Non-performing loans are expected to return to 1% of gross loans.	Non-performing loans as a percentage of gross loans amounted to 5.2% by June 2015.	The Bank expects its non-performing loans to be 2.9% of its gross loans.
Statement of Financial Position – Capital Management		
Capital adequacy ratio is expected to remain above the regulatory requirement of 10%. New Basel III ratios will be implemented during the year.	The Bank remained well capitalized and achieved a capital adequacy ratio of 13.7% under Basel III.	The Bank will achieve a capital adequacy ratio above the minimum regulatory capital requirements under the Basel III provisions.
Performance Ratio – Return on Average Equity		
Return on average equity for the Bank is targeted to be above 19.33%	The Bank's return on average equity stood at 6.5% for the year under review. This is lower than the target due to "exceptional" negative impact resulting from the impairment of its overseas subsidiary.	Return on average equity for the Bank is targeted to be above 20%.
Performance Ratio – Cost to Income		
Cost control was expected to bring a cost to income ratio of under 50%.	Well monitored cost control policy along with increased income contributed in a conservative cost to income ratio of 36%.	The Bank will continue to maintain a cost control policy while continuing to invest in core resources.

AfrAsia Bank Limited and its Group Entities
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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

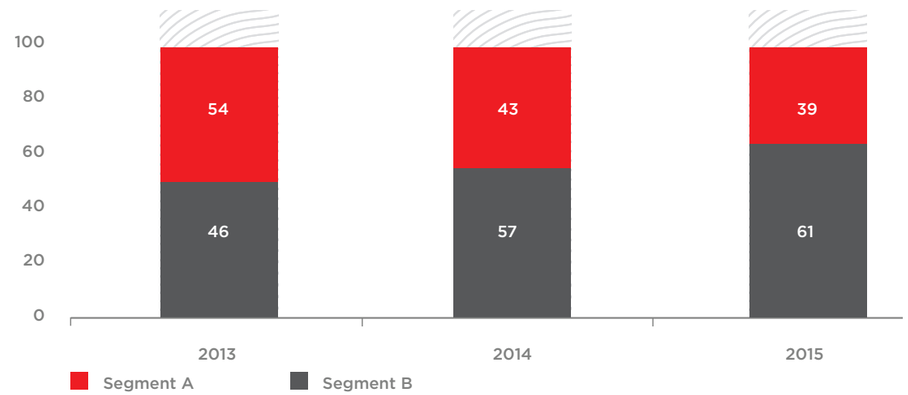
REVENUE GROWTH

Net Interest Income

Despite a volatile global economic environment coupled with conflicting interest rate direction, on a year-over-year basis, AfrAsia Bank Limited reported a steady growth in its net interest income from MUR 659m to MUR 861m in the year under review. This growth can be noted across both Segment A and B, that is 18% and 40%, from 2014 to 2015.

Interest income earned from customer loans and advances of MUR 1.1bn constitute the major part of the Bank's total interest income at 70% and total interest income represents a growth of 19% over the previous year. Conversely, the Bank paid MUR 749m as interest expense for the year, with the major part attributed to interest paid to customer deposits of MUR 663m. This represents an increase of 10% over the previous year.

NET INTEREST INCOME (%)

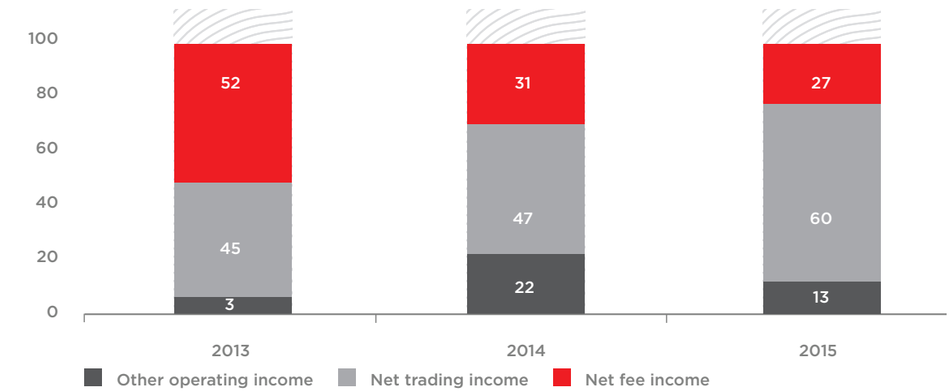


Non-Interest Income

The Bank's non-interest income grew year-over-year to reach MUR 786m for the 12 months ended June 2015. The 3 main components of same are as follows:

- fee income, which is mainly attributed to fees earned from loans, grew by 34% from 2014 to 2015, with a net fee of MUR 213m for the year under review.
- net gain on financial investments held-for-trading and foreign exchange gain income was strong, recording an increase of almost 92% over the previous year.
- of note, out of the MUR 102m from "other operating income", MUR 45m is attributed to dividends received from its subsidiaries.

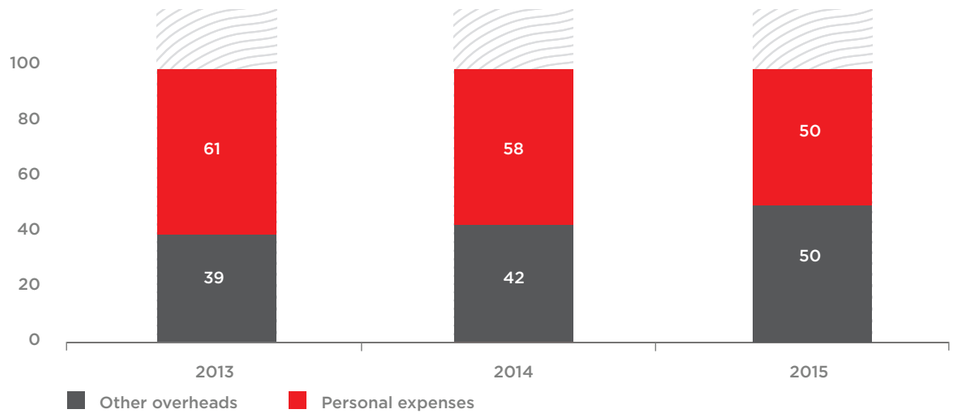
NON-INTEREST INCOME (%)



Cost Control

While maintaining a well-managed cost control policy which resulted in a drop in the cost to income ratio from 42% to 36% between 2014 and 2015, the Bank, in parallel, continued to recognise the importance of investing in its brand, both locally and internationally, its human and intellectual capabilities, resources and IT infrastructure, for the year 2014/15, MUR 294m was invested in staff costs and MUR 296m in other overheads.

OVERHEADS (%)



The Bank also fully provided for its remaining exposure on its Zimbabwean investment, which was closed due to persisting liquidity challenges in Zimbabwe during the year under review. Such an exposure has affected the statement of profit or loss and other comprehensive income of the Bank by MUR 707m during the year.

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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

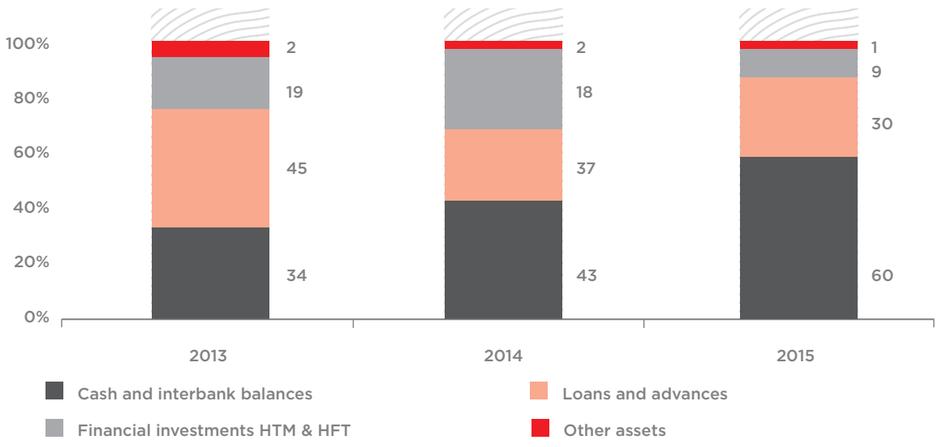
Asset mix

The Bank's total assets increased by 56% to MUR 73bn over the year under review. The assets mix remained well diversified, maintaining an acceptable risk return profile and focusing on the quality of the portfolio. The main components of the Bank's total assets include:

- cash and balances with the Central Bank and due from banks of MUR 43,9bn,
- customer loans and advances of MUR 21,7bn,
- financial investments held-for-trading and held-to-maturity of MUR 7,0bn,
- other assets of MUR 713m.

The growth in the Bank's customer loans and advances remained quite steady from last year, with 25% growth across both segments. Such growth was done in a relatively disciplined manner focusing on credit quality. The Bank's loan to deposit ratio was at 32% at the end of June 2015.

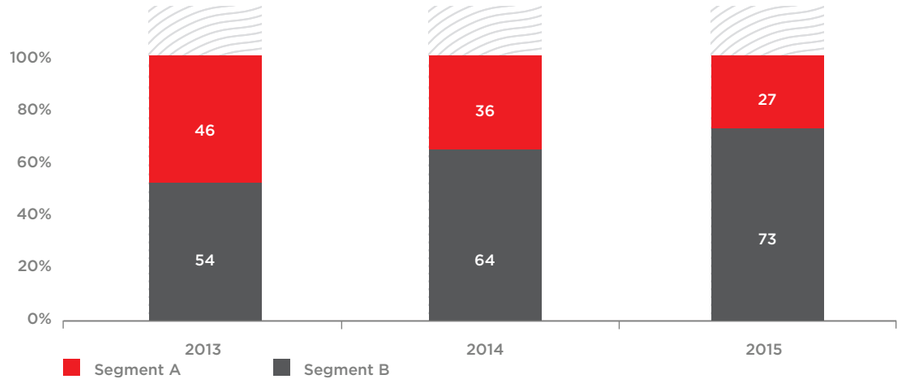
ASSETS MIX (%)



Deposits

On the liabilities side, customer confidence in the Bank can be noted with its customer deposits increasing by 63% to reach MUR 67bn by the end of June 2015, across both Segments A and B. This increase of MUR 26bn over last year reflects the privileged and collaborative relationship the Bank has with its customers.

DEPOSITS (%)



Capital Resources

The Bank's capital base was strengthened with the coming on board of a shareholder of international renown namely, the National Bank of Canada which, as at June 2015, became the Bank's 2nd largest shareholder with a 17.5% stake. Capital adequacy ratio of 13.7%, under Basel III also reflected a well-positioned statement of financial position. Of note, the Bank fully recognised its Class A shareholders' entitlement to their dividends according to the terms and conditions of the Class A shares programme memorandum and paid its Ordinary shareholders an amount of MUR 1.65 per share during the year ending June 2015.

TOTAL CAPITAL UNDER BASEL