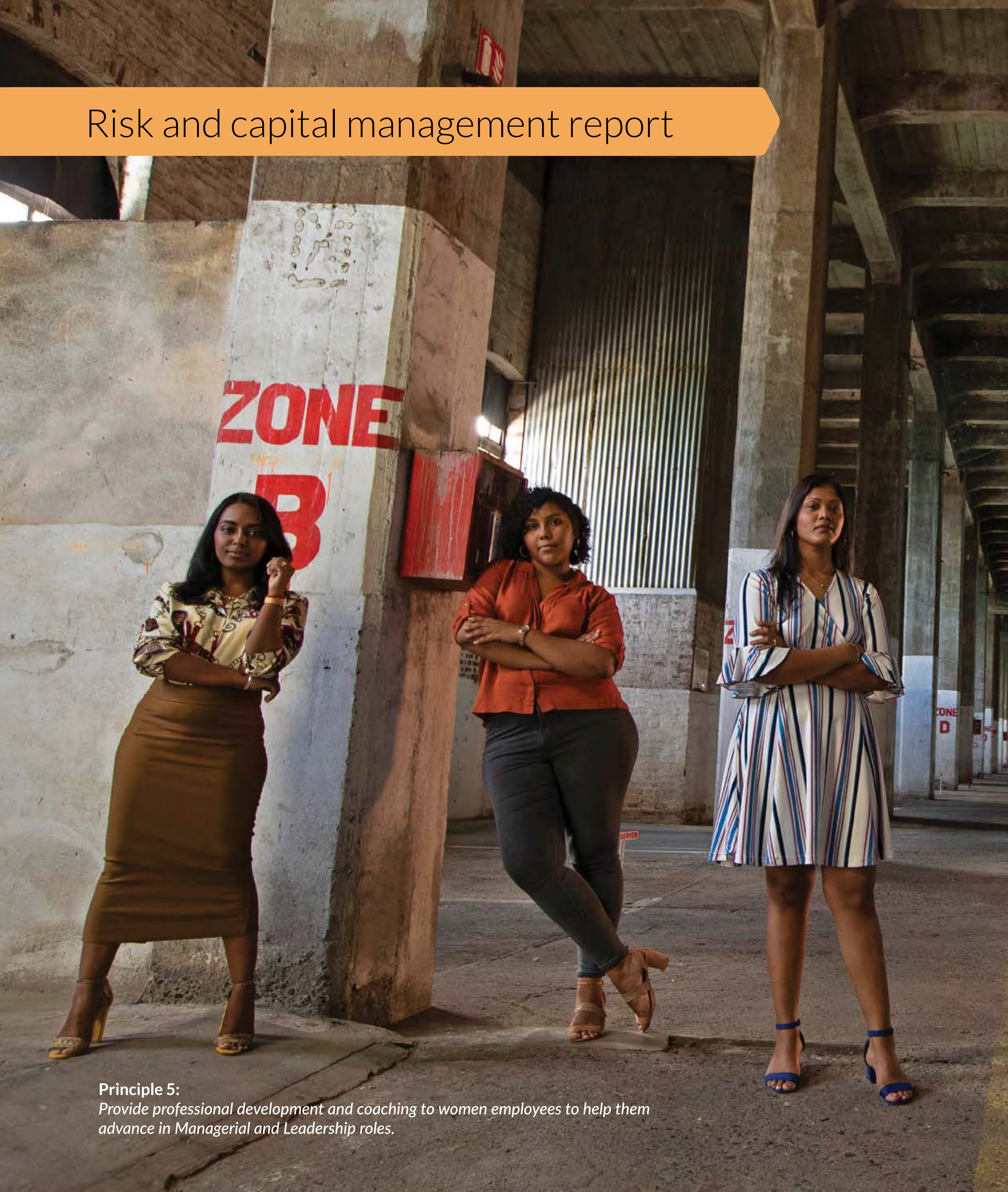
Risk and capital management report



Principle 5:
Provide professional development and coaching to women employees to help them advance in Managerial and Leadership roles.

From left to right:
Shridhana - Training Manager
Claire - Community Manager
Sudashina - Firefighter
Fleur - Guidance Counsellor
Shanya - Executive Director
Medjée - Machinist

Risk and capital management report

Introduction

Our philosophy

Our general approach

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

Key objectives

Alongside complying with industry best practices, good corporate governance standards and applicable statutory and regulatory requirements, the Group places prudent and informed risk-taking at the centre of each decision. It ensures that the risks faced are effectively identified, assessed, monitored and managed within acceptable levels. It sets out to continuously improve the risk-return profile of its activities, while creating conducive conditions for tapping into market development opportunities

Our risk management set-up

- While entities are accountable to manage the risks faced at their respective levels, the risk management framework of MCB Group Ltd provides guidance for achieving sustainable business growth within the precinct of the Group-wide risk appetite
- The framework – which sets requirements in terms of responsibility, accountability, independence and transparency – ensures that a holistic, coordinated and disciplined approach to risk management is adopted across the organisation

Key directions formulated by the Group's risk management framework for its entities

- Articulating an overall framework that calibrates risk management policies and processes
- Providing guidance on the adoption of a dependable and coherent approach to identify, mitigate and manage risk
- Promoting the general alignment of methodologies used to manage risks faced
- Ensuring alignment in terms of the attitudes and behaviours of employees towards assuming and managing risk

Foundations and focus areas

General orientations

- Ensuring that our risk management principles are anchored on advocated norms and principles
- Adherence by entities to sound capitalisation, asset quality and funding/liquidity management principles
- Establishment of strong governance frameworks, including clear lines of defence, with well-defined and segregated authorities, accountabilities and responsibilities for taking on and managing risk
- Establishment of clear risk appetite which sets out the types and levels of risk that the Group is willing to take
- Availing strong, coherent and harmonised risk management processes, policies, limits and targets
- Catering for an adequate balance between risk and reward considerations

Governance framework

- Ultimate responsibility of the Board of MCB Group Ltd for risk management, with specific responsibilities delegated to its sub-committees
- Direct oversight exercised by the Boards of entities and their relevant committees
- Effective delegation of authority from the Board of each entity to its management and risk functions, with the scope of the latter depending on the nature and depth of relevant operations and activities
- Well-defined intra-Group service delivery and collaboration in support of effective risk management, as gauged by MCB Ltd providing *inter alia* internal audit, risk management and compliance services to other entities where appropriate

Other key foundations

- Regular review and update of risk management practices to ensure consistency with business activities and relevance to financial strategies, while catering for changes in the economic and market landscapes
- Adoption of policies and processes that are clear and simple to be understood and executed, alongside ensuring that they are well-documented and disseminated across all layers of the Group
- Adherence to a common set of behaviours, attitudes, skills and guiding courses of action that are integrated throughout the Group in support of coherent decision-taking at all levels of the organisation
- Ensuring that the price charged for solutions is reasonable in relation to the relative riskiness of the exposure

Risk and capital management report

A summary of the year in review from a risk perspective

Group entities had to cope with significant adverse dynamics within the operating environment, in particular, triggered by the COVID pandemic, which coupled with established and other emerging trends and developments, have shaped up our approach to risk management during the year.

- Challenging economic conditions impacting income levels across countries
- Regulatory change, risk management and governance standards
- Heightened market volatilities
- Inclusion of Mauritius on the FATF/EU lists and Seychelles in the EU list (for tax purposes)
- Increased health and safety risks and changing world of work
- Downgrade of the sovereign credit rating of Mauritius, Seychelles and Maldives
- Digital disruptions and higher cybersecurity risks
- Increased prominence of ESG considerations

Read more in the 'Our operating context' section on pages 42 to 47

Our key focus areas

We took prompt actions to respond to the highly challenging context by proactively managing the key risks faced, alongside reinforcing our capacity for growth. During the year under review, we remained focused on the following key priorities across the Group.

Addressing the heightened level of risk in a COVID-19 environment

- Continued to collaborate closely with the authorities to work on sustainable solutions to help clients tackle the economic downturn
- Monitored our portfolios in a systematic manner and geared up our oversight of market development implications on a prospective basis
- Analysed our loan portfolios currently benefitting from moratoriums on a forward-looking basis with a view to anticipating our potential non-performing loans and assessing our Expected Credit Losses (ECL)
- Maintained our prudent approach by building additional provisioning buffers through ECLs
- Conducted ad-hoc stress tests in response to the emerging risks linked to the impact of COVID-19 and other events with the Bank monitoring 'Early Warning Indicators' linked to the evolution of key macroeconomic variables used in its ICAAP stress test scenarios, to eventually trigger additional stress tests if deemed necessary
- Safeguarded the health and safety of our employees while ensuring business continuity

Enhancing information and cyber security capabilities

- Undertook regular independent Penetration Testing and Vulnerability Assessments by leveraging external expertise as appropriate
- Implemented a Security Operations Centre (SOC) at MCB Ltd, which is responsible for monitoring and detecting anomalous activities on its IT infrastructure; Enhanced its cyber resilience through the setting up of a Cyber Threat Intelligence programme and the deployment of Red Team strategies
- Ran security awareness training sessions to ensure the adoption of best practices in terms of cybersecurity risk management

Strengthening management of compliance and financial crime risks

- MCB Ltd: Bolstered its Compliance function and mechanisms with a key move being the integration of the Anti-Money Laundering unit of the Bank within the function for better synergies and coordinated actions to effectively manage related risks
- Foreign banking subsidiaries: Strengthened further their Compliance function with the recruitment of additional resources as well as deployment of structured training programme to all relevant staff, revamped a number of AML/KYC and onboarding policies to be in line with international standards, reinforced our permanent control and reporting structures and continuously updated the risk rating assigned to our customers using our risk-based due diligence AML monitoring tool
- Non-banking financial subsidiaries: Initiated actions to improve operational efficiency in the application of the anti-money laundering and countering the financing of terrorism (AML/CFT) framework

Bolstering our risk management framework

- Pursued implementation of the Risk Cartography exercise to enable the Board to undertake an informed identification and assessment of the universe of risks that the entities are being exposed to – as part of this initiative, the following were/are being established across Group entities: (i) a responsibility assignment matrix; (ii) major components of the action plans for each risk item; and (iii) target risk levels and action plans completion dates
- Strengthened our modelling capabilities through the development/refinement of credit models to enhance our predictive accuracy whilst making adjustments to reflect the ongoing uncertainty in the operating environment
- MCB Ltd: Reorganised the Risk SBU under four segments to better reflect its scope and objectives, namely, (i) Financial Risk; (ii) Permanent Supervision, Operational and Information Risk; (iii) Credit Management and (iv) Debt Restructuring and Recovery; Reinforced its Asset & Liability Management (ALM) set-up; Undertook a comprehensive review of the risk appetite framework to align it with the new operating model of the Corporate and International Banking SBU
- Sustained our investment in systems, notably towards facilitating the online recording, reporting and monitoring of business activities
- Continued to focus on building our human capital through the upskilling of our employees with a view to better equip them in responding to the evolving business environment, while contributing to their personal development

Upholding our capital and liquidity positions

- Implemented a Rs 10 billion Multi-Currency Note Programme – the Group has issued the first tranche of Notes amounting to Rs 2 billion which has been invested in the capital of the Bank in order to support its future business growth, especially its international expansion while simultaneously strengthening the share capital of the Bank
- MCB Ltd: Engaged with the international wholesale markets to secure a syndicated facility as part of its endeavour to optimise it funding profile. Despite the uncertain market conditions, this new syndication was particularly successful, receiving in excess of USD 1.6 billion commitments from some 30 lenders. This testifies to our strong appeal to foreign investors, the recognition of our investment-grade credit worthiness and lenders' confidence in our strong fundamentals and international growth prospects. In September 2021, the Bank closed this syndication at USD 1 billion with the Dual Tranche Syndicated Facility comprising of two tranches, with Tranche A having a tenor of 2 years and Tranche B having a tenor of 3 years

Preparing for changes in the regulatory framework – LIBOR transition

- The announcement made by the UK's Financial Conduct Authority that it will no longer compel panel banks to continue submitting quotes for LIBOR and subsequent developments imply that LIBOR will cease by December 2021 for all currencies except for specific US dollar settings for which the transition period would run until June 2023. Whilst discussions continue on alternative benchmark rates in different working groups across jurisdictions, MCB Group embarked on a project to prepare for the gradual phase-out of the LIBOR based pricing by the end of 2021. Right at the outset, we established a strong governance framework to carry out the transition with dedicated teams set up across several functions of the Group to drive and deliver on identified work streams, including but not limited to contract transition, awareness and communication, and implications of using the new Risk Free Rates. In light of the paradigm shift triggered by the transition, the Group is also gearing up on its system and operational capabilities, notably through internal change management initiatives to ensure readiness of stakeholders across the value chain. We are also working closely with regulators and leveraging our large network of international partners in different markets with a view to providing our clients with the latest information and ensuring a smooth transition. From an industry and regulatory perspective, the Bank is actively participating in, and contributing to, industry IBOR-related forums and closely monitors the developments at these forums. It accordingly reflects and aligns significant industry decisions into the Group's transition plans, as required

Our sound financial performance

Maintained **comfortable capital levels** that exceed minimum regulatory levels and support our growth endeavours

Managed to preserve **stable non-performing loan ratios**

Upheld **strong liquidity and funding ratios**

Preserved investment-grade credit ratings by MCB Ltd

See more in the forthcoming sections of the Risk and capital management report

Looking ahead: Endeavours to anchor sound and stable operations and business growth

General targets and intents

- Foster the sustained engagement of dedicated risk functions with front-line teams to (i) undertake a close and systematic monitoring and management of risks faced by clients; (ii) nurture an in-depth understanding of client needs; and (iii) continue to assess solutions being proposed to help clients cope with the lingering effects of the crisis and monitoring implications of unwinding of support measures
- Carefully assess Expected Credit Losses across entities and the Group so as to keep an adequate 'buffer' and stay in a strong position to absorb the impact of potential shocks
- Maintain close discussions and interactions with the authorities and the banking sector generally to promote the stability of the financial services sector
- Ensure that our business development endeavours across geographies materialise in a disciplined manner on the back of effective risk oversight
- Uphold the soundness of our key financial metrics, backed by (i) the strengthening of our risk management and compliance mechanisms, aided by continuous upgrades to relevant policies, practices and processes; and (ii) further entrenchment of an adequate risk culture across the organisation to embrace proper attitudes and behaviours
- Judiciously and speedily identify, appraise and manage emerging risks to which the Group entities are exposed, with key focus on (i) cyber risk given the rising adoption of technological and digital platforms; and, (ii) climate risk amidst the increased prominence of ESG considerations
- Further reinforce the inherent capabilities and operating models of Group entities, on the back notably of continued upskilling of staff across entities
- Increase collaboration between Group entities, notably for information sharing purposes and fostering the smooth replication of risk management practices wherever required, alongside ensuring the organisation-wide alignment of policies and processes

Risk and capital management report

Financial soundness

Capitalisation

Philosophy

While ensuring that applicable regulatory requirements are met at all times, the capital management approach of the Group is to ensure that its subsidiaries are adequately capitalised to help achieve sound and sustained business growth and uphold adequate buffers to confront any untoward circumstances, alongside protecting and maintaining the trust of shareholders and fund providers.

Towards this end, the Group favours internal capital generation through retained earnings while being well positioned to tap into capital markets as and when required, on the basis of its status as the most liquid stock on the local stock exchange. Moreover, it seeks to maintain appropriate discipline over the nature and extent of its market development initiatives and lays due emphasis on optimising the allocation of capital across businesses.

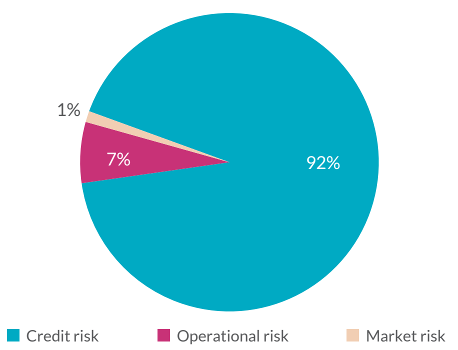
Performance

In spite of a notable growth in its asset base on the back of the growth in the loan portfolio, the Group has, on a consolidated basis, maintained comfortable capitalisation levels, being upheld by our resilient financial performance and sound dividend policy. Indeed, the BIS and Tier 1 ratios stood at 17.4% and 16.1% respectively as at 30 June 2021. The predominant contribution thereto has emanated from the banking entities of the Group, for which maintenance of adequate capital levels is a key priority by virtue of their business operations and regulatory responsibilities.

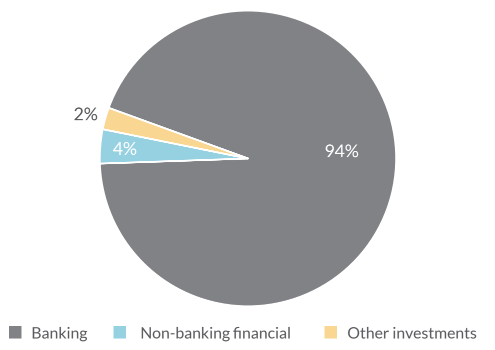
Risk-weighted assets of the Group stood at Rs 447 billion as at 30 June 2021, out of which 94% was accounted for by the banking cluster with MCB Ltd representing 82% of the overall risk-weighted assets. The Group's overseas associates, namely Société Générale Moçambique and Réunion-based BFCOI – with investments therein having been risk-weighted at 250% – represented 3% of overall risk-weighted assets.

Distribution of risk-weighted assets as at 30 June 2021

By type of risk



By cluster



Capital adequacy	Jun 21		
	MCB Group	Banking cluster	MCB Ltd
Capital base	**Rs m**	**Rs m**	**Rs m**
Tier 1 capital	71,739	62,737	59,424
Tier 2 capital	5,913	4,474	3,716
Total capital	**77,651**	**67,211**	**63,140**
Risk-weighted assets	**Rs m**	**Rs m**	**Rs m**
Weighted amount of on-balance sheet assets	376,370	352,566	319,976
Weighted amount of off-balance sheet exposures	32,904	32,720	30,382
Weighted risk assets for operational risk	32,164	30,122	25,100
Aggregate net open foreign exchange position	5,324	1,417	1,065
Total risk-weighted assets	**446,762**	**416,825**	**376,523**
Capital adequacy ratios	**%**	**%**	**%**
BIS risk adjusted ratio	17.4	16.1	16.8
of which Tier 1	*16.1*	*15.1*	*15.8*

Capital adequacy	Jun 20		
	MCB Group	Banking cluster	MCB Ltd
Capital base	**Rs m**	**Rs m**	**Rs m**
Tier 1 capital	63,453	53,990	51,188
Tier 2 capital	5,064	3,736	3,135
Total capital	**68,517**	**57,726**	**54,323**
Risk-weighted assets	**Rs m**	**Rs m**	**Rs m**
Weighted amount of on-balance sheet assets	303,086	281,154	259,213
Weighted amount of off-balance sheet exposures	30,397	30,129	28,151
Weighted risk assets for operational risk	29,337	27,609	21,830
Aggregate net open foreign exchange position	5,954	1,474	1,247
Total risk-weighted assets	**368,774**	**340,366**	**310,441**
Capital adequacy ratios	**%**	**%**	**%**
BIS risk adjusted ratio	18.6	17.0	17.5
of which Tier 1	*17.2*	*15.9*	*16.5*

Risk and capital management report

Asset quality

Philosophy

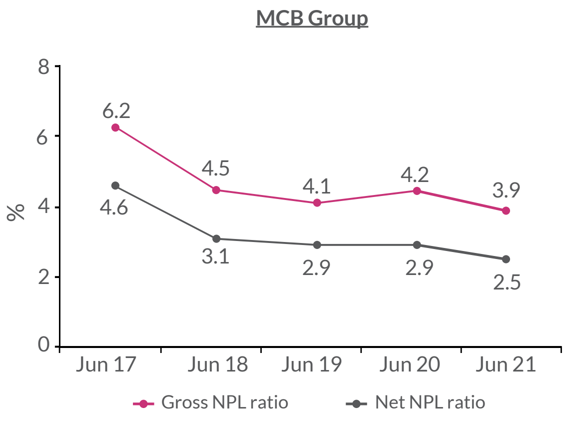
Backed by continued market vigilance as well as the careful formulation and diversification of its strategic orientations, the Group is committed to preserving the soundness of its exposures. Emphasis is laid on healthy loan portfolio through strong credit discipline, prudent market development approach and sensible strategy execution, cautious loan origination and disbursements, and active efforts for debt collection and recovery.

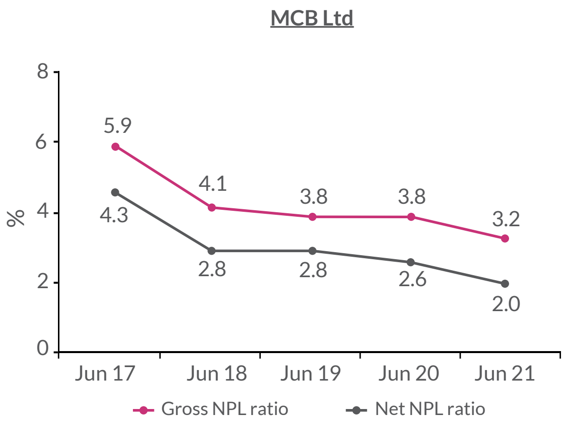
Performance

Whilst being exposed to difficult economic and market environments induced by the pandemic across its presence countries, the Group managed to uphold the general quality of its portfolio on the back of careful market endeavours and dedicated measures taken to face up to the tough conditions witnessed across economic sectors.

In fact, the gross NPL ratio of the Group decreased by some 40 basis points to attain 3.9%. In net terms, the ratio declined to 2.5% as at 30 June 2021. While the metrics witnessed a relative deterioration at the level of MCB Seychelles and MCB Madagascar, the gross NPL ratio of MCB Ltd declined to 3.2%, with the corresponding ratio in net terms standing at 2.0%. The Group's specific coverage ratio increased from 32.8% to 37.5%, with the remaining portion being adequately covered by collateral, suitably discounted to reflect current market conditions and expected recovery time.

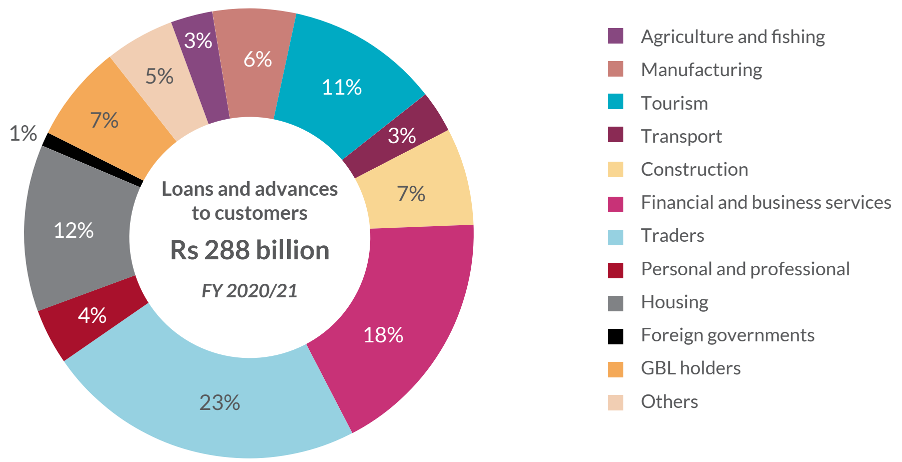
Credit quality





Note: The net NPL ratio is computed by dividing total NPLs net of specific provisions by net loans (gross loans net of total provisions)

Sectorwise distribution and quality of exposures



June 2021	Non-performing loans (NPLs)		Allowances for credit impairment	
MCB Group	**Rs m**	***% of loans***	**Expected Credit Loss**	**Specific provisions**
Loans to customers	**12,473**	***4.4***	**7,724**	**7,115**
Agriculture and fishing	1,412	*18.1*	156	1,252
Manufacturing	730	*4.4*	484	385
of which EPZ	*159*	*5.7*	*179*	*139*
Tourism	1,165	*3.6*	2,142	358
Transport	489	*5.1*	260	346
Construction *(including property development)*	1,464	*7.5*	337	909
Financial and business services	1,177	*2.3*	904	729
Traders	2,379	*3.5*	973	1,806
Personal and professional	1,513	*3.3*	230	615
of which credit cards	*25*	*3.0*	*14*	*22*
of which housing	*859*	*2.6*	*77*	*261*
Global Business Licence holders	1,809	*9.2*	1,424	569
Others	335	*2.0*	814	146
Corporate notes	**-**	**-**	**371**	**-**
Investments fair valued through other comprehensive income	**101**	***100.0***	**-**	**13**
Loans to banks	**1**	***0.0***	**255**	**2**
Total	**12,575**	***3.9***	**8,350**	**7,130**

Note: Figures may not add up to totals due to rounding

Risk and capital management report

Funding and liquidity

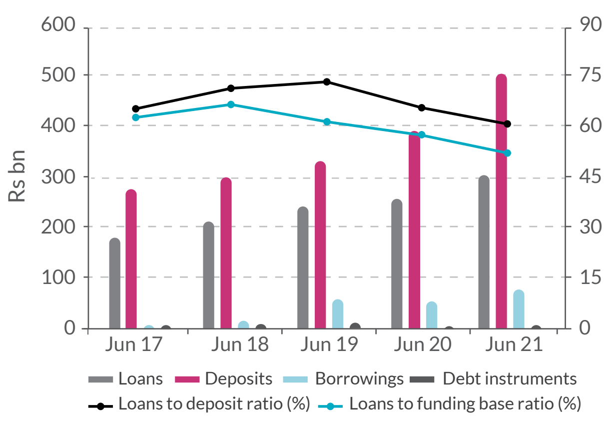
Philosophy

The Group seeks to keep sound funding and liquidity positions in support of its business development ambitions. While accessing wholesale markets as and when required, the banking entities of the Group maintain cost-efficient, diversified and stable sources of funding which predominantly comprise customer deposits. Furthermore, an appropriate level of liquid assets is kept to ensure that obligations can be met within a reasonable time-frame.

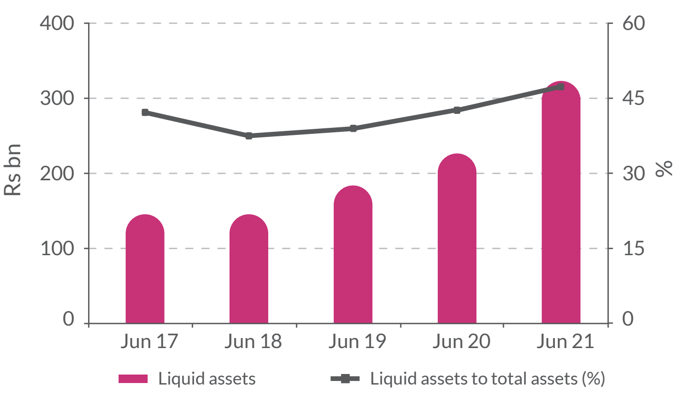
Performance

During the year under review, the Group continued to be exposed to relatively high local-currency liquidity conditions across most of its presence countries. Against this backdrop and after making allowance for proactive steps taken to maintain comfortable buffers in the wake of the difficult economic environment, the Group continued to display strong funding and liquidity positions in FY 2020/21, as demonstrated below. We have been active across markets to uphold sufficient funding resources to help our customers ride through the downturn and support our growth ambitions. Notably, reflecting endeavours to hold adequate FCY resources in support of its regional diversification initiatives, MCB Ltd has upheld a good funding buffer by leveraging placements from banks, trade loans and repurchasing agreements. The Bank also exercised the option to extend for one year, as from March 2021, the Tranche B of its existing syndicated loan facility amounting to USD 560 million. At Group level, we issued Rs 2 billion unsecured floating rate notes under its Rs 10 billion Multi-Currency Note Programme, which was invested in the equity of the Bank to support its growth endeavours.

Loan and funding base



Liquid assets



Note: Liquid assets comprise cash, balances with BoM, placements, T-Bills, Government securities and bonds

Notes:
(i) For the computation of asset quality ratios, total exposure include corporate notes and exclude interest in suspense on loans
(ii) Figures may not add up to totals due to rounding

MCB Ltd: Key liquidity ratios

In spite of pressures emanating from the challenging landscape, MCB Ltd maintained strong liquidity ratios in both MUR and FCY during FY 2020/21, thanks to its solid deposit base and its foreign lines of credit, which enabled the Bank to duly accompany its customers.

Liquidity Coverage Ratio (LCR)

As at 30 June 2021, MCB Ltd operated comfortably above the stipulated LCR requirements. It reported a consolidated LCR of 322%, which is equivalent to a surplus of some Rs 79 billion over stressed total net cash outflows. At currency level, the Bank also exceeded the mandatory LCR limits relating to rupee and significant foreign currencies. The Bank posted a comfortable liquidity position in US dollar terms with the corresponding LCR standing at 146% as at 30 June 2021. It can be noted that HQLA eligible for the purpose of calculating the LCR as per set rules consists of cash or assets that can be converted into cash at little or no loss of value in markets. In this light, MCB maintained suitable levels of investment in sovereign, high-quality corporate and cash liquid assets.

Net Stable Funding Ratio (NSFR)

Though not yet a regulatory standard in Mauritius, MCB Ltd regularly monitors its performance in terms of NSFR, which requires an amount of available stable funding to be maintained in relation to required stable funding. As at 30 June 2021, MCB Ltd reported an NSFR of 133%, which exceeds the minimum level recommended by Basel III, itself set to at least 100% on an ongoing basis.

Risk and capital management report

Our risk management strategy and framework

To achieve its strategic objectives, the Group adopts a consistent and integrated approach to risk identification, mitigation and management. Material risks that could impact our business model, performance, solvency and liquidity are continuously monitored.

Main risks faced

'Risk trend' indicates the perceived change in risk profile (inherent risk) of the main risks faced during FY 2020/21, in light of prevailing economic and market dynamics, using the symbols shown below:

Increasing Decreasing Stable

Financial principal risks

General definitions	Key objectives	Risk trend
Credit risk		
The risk of financial loss should borrowers or counterparties fail to fulfill their financial or contractual obligations as and when they fall due; Credit risk includes counterparty risk, settlement risk and concentration risk, with the latter referring to the risk arising from an excessive build-up of exposures to a counterparty, industry, market or product, amongst others	To foster sound credit risk management principles; To uphold a well-diversified credit portfolio consistent with the risk profiles defined in the risk appetite as well as the broad characteristics set out in target market criteria; To achieve the targeted risk-return profile of the portfolio; To promote, monitor and manage the quality of the credit portfolio	Increasing
Country risk		
The risk of loss arising when political or economic conditions or events in a particular country inhibit the ability of counterparties in that country to meet their financial obligations	To provide for a comprehensive framework and adequate control processes for assessing country risk, determining risk tolerance and allocating exposures across geographies	Increasing
Market risk		
The risk of loss caused by movements in market price parameters (including interest rates, exchange rates as well as stock and commodity prices among others)	To monitor, report and control the overall market risk exposures, including market-contingent risks such as counterparty credit risk as well as profit and loss risks arising from market risk activities	Increasing
Interest rate risk		
The risk arising from changes in interest rates or in the prices of interest rate related securities and derivatives, insofar as they tend to impact the Group's earnings or economic value of equity	To manage the impact of interest rate changes on the overall risk profile both from an earnings and economic value perspective	Increasing
Foreign exchange risk		
The risk of losses on account of adverse foreign currency movements	To detect and manage impact of currency fluctuations, alongside properly managing the Group's net open position	Increasing
Funding and liquidity risk		
Funding risk: The risk linked to a relative lack of availability of funds or the risk that a maturing liability or class of liabilities may not be able to be refinanced (without additional relative cost) over any given period of time *Liquidity risk:* The risk arising from insufficient realisable financial assets to meet the financial commitment as and when they fall due	To maintain adequate liquidity levels and have access to diversified and stable funding sources to rapidly and effectively respond to the demands of our clients and foster our business development	Increasing
Equity investment risk		
The risk of gain or loss arising from adverse changes in the fair value of an investment in a company, fund or any financial instrument, whether listed or unlisted	To protect the Group's value by aligning timing and size of investment to applicable risk appetite	Increasing
Model risk		
The risk of losses as a consequence of decisions principally based on the output of models that are flawed or inaccurate	To establish well-anchored and transparent model development, alongside consistently performing model validation	Increasing

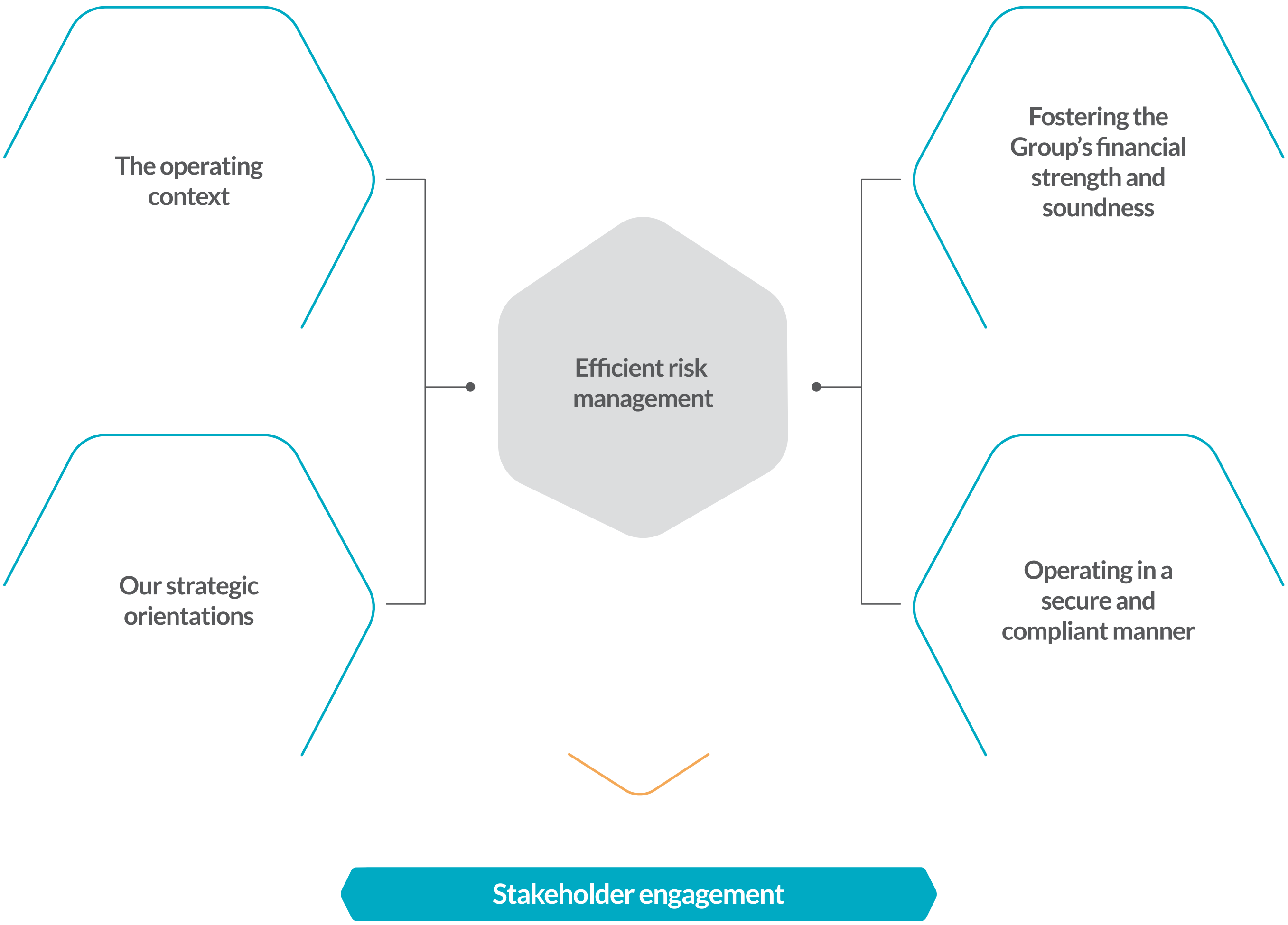
Non-financial principal risks

General definitions	Key objectives	Risk trend
Operational risk		
The risk of loss resulting from human factors, inadequate or failed internal processes and systems or external events. It includes fraud and criminal activity, project risk, business continuity, information and IT risk, etc.	To identify, mitigate and manage the Group's operational risks in line with acceptable tolerance limits and with a strategic intent to provide our customers with seamless services and foster an adequate risk culture within the organisation	
Information risk		
The risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources which would compromise the confidentiality, integrity or availability of information	To maintain the confidentiality, integrity, security and availability of information assets stored, processed and transmitted throughout the organisation	
Cyber risk		
The risk of breach of information technology security arising from the malicious or unauthorised use of information systems that may have an adverse effect on the confidentiality, availability, or integrity of information or information systems	To handle and mitigate cyber risks and establish a strong IT platform to aid the delivery of the organisation's strategic objectives, while protecting confidentiality and preventing misuse of systems and business disruptions as well as strengthening the effectiveness and adequacy of human firewalls	
Regulatory and compliance risk		
The risk arising from changes in legislation, regulations and advocated norms on the operation and functioning of the Group. It is the risk of sanction and material financial loss or reputational damage	To comply with all relevant stipulations in force and advocated norms to safeguard the assets of the organisation and shield it from legal and regulatory sanctions and financial/reputation losses	
Reputation risk		
The risk arising from the damage to the Group's image caused by negative media coverage, compliance failures, pending litigations or underperformance. Such damage may result in a breakdown of trust, confidence and business relationships, which may impair the Group's ability to retain and generate business	To bolster our brand image and values and ensure that our actions and behaviours are in line with best practice standards and advocated principles	
Strategic and business risk		
The risk arising from inappropriate business decisions or strategies in relation to the operating environment. The risk is linked to changes in the business environment, regulatory decisions, client behaviours and technological progress, as well as Group-specific factors such as poor choice of strategy and inflexible cost structures	To set out and deploy our strategic orientations in a judicious and well-thought manner, remain attentive to changes in the operating environment and pay close attention to the current/future exigencies of our customers	
Environmental and social risk		
The risk that unforeseen events stemming from changes in our environment and society will result in disruptions in business activities as well as impact our customers and counterparties, while influencing our internal operations	To mitigate and manage environmental and societal impact on our operations by properly evaluating and deploying an effective approach and strategy, while, in parallel, managing our footprint through environment-friendly and sustainable practices and products	

Risk and capital management report

Our business model

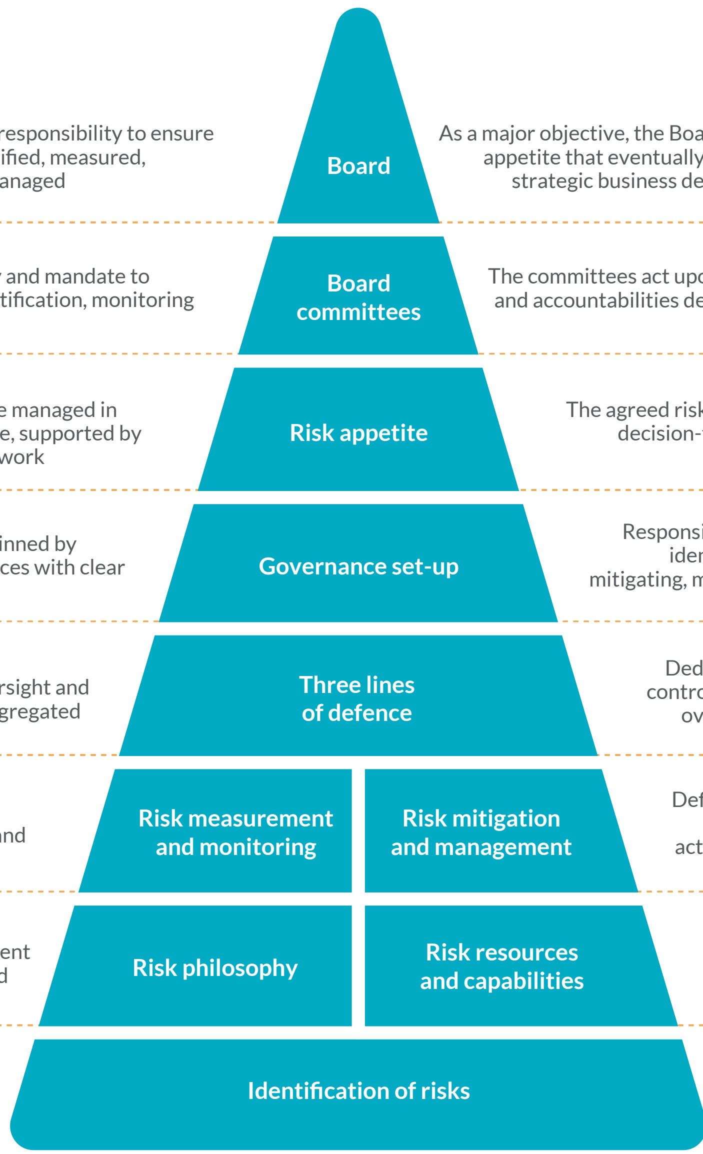
We consider that, beyond being a threat, risk can turn out to be a real competitive differentiator if it is managed in a thoughtful way. In line with our business aspirations, we manage risk in an open, transparent and disciplined way, after making due allowance for the exigencies of our stakeholders. Our risk management approach and policies are regularly reviewed and updated to account for changes in the Group's business strategies and the external landscape, notably with regard to legal and regulatory stipulations as well as developments taking place within the economic, market and societal landscapes.



- Our risk policies make allowance for the long-term interests of our customers, regulators and other stakeholders
- While achieving sustained business growth, we help our stakeholders realise their ambitions and prosper

Key elements of our risk management set-up

Operating within the directions set by the Board of the Group, individual entities have their own arrangements to manage risks faced. The following illustration provides an overview of the underlying set-up being generally adopted by entities of the Group, with the scale of structures in place differing as per the nature of each entity's activities.



The Board has the ultimate responsibility to ensure that risks are properly identified, measured, monitored, mitigated and managed

As a major objective, the Board sets the organisation's risk appetite that eventually underpins the formulation of strategic business decisions which are cascaded to business lines

The Board has the authority and mandate to delegate duties for risk identification, monitoring and management

The committees act upon the specific responsibilities and accountabilities delegated to them by the Board

Entities ensure that risks are managed in line with the set risk appetite, supported by the risk management framework

The agreed risk appetite is considered in key decision-taking processes to foster the soundness of activities

Risk management is underpinned by dedicated teams and resources with clear mandates

Responsibilities are clearly defined for identifying, assessing, measuring, mitigating, monitoring and managing risks faced at different levels

Responsibilities for risk oversight and assurance are effectively segregated

Dedicated functions cater for risk control and management, alongside overseeing recovery operations

Policies and standards are clearly defined to measure and monitor risks faced

Defined processes are in place to mitigate observed risks, with actions taken based on informed and robust grounds

We aim to embed risk identification and management in our thinking, attitudes and behaviours

Our human capital, processes and systems are continuously upgraded for judicious risk management

Risk and capital management report

Governance and oversight

To ensure that key risks faced by its entities are properly identified, measured and monitored, the Group adopts a robust governance framework, backed by the articulation of coherent responsibilities, reporting lines and oversight across the organisation. The risk management framework of the Group provides high-level direction for each entity on how to manage risk in a consistent and interactive manner, underpinned by broad synchronisation in respect of the approach and methodology used. The allocation of responsibilities across the Group ensures that decisions are taken at the most appropriate levels, in alignment with the mandates of internal stakeholders and the strategic orientations pursued by the organisation. Overall, the governance set-up of the Group seeks to provide the organisation with optimal resources to foster a sound financial performance and stakeholder value creation. At individual entity level, each subsidiary of the Group is endowed with the autonomy and flexibility to determine and apply its own governance frameworks, in alignment with Group-level orientations, its inherent specificities and prevalent market realities.

Board

- In alignment with its business development orientations, the Board of MCB Group Ltd determines the principal strategies in respect of the risk management of the Company and its subsidiaries, while ensuring that all laws, regulations and codes of business practice are adhered to.
- Underpinned by the establishment and enforcement of clear lines of responsibility and accountability throughout the organisation, it ensures that relevant procedures and practices are in place in order to protect the Company's assets and reputation. For the discharge of its duties, the Board is assisted by committees which enable it to properly formulate, review and approve policies on monitoring and managing risk exposures.

Risk Monitoring Committee

- The Risk Monitoring Committee (RMC) advises the Board on risk issues and the monitoring of portfolios against the formulated risk appetite, in particular for the banking subsidiaries. While assigning relevant responsibilities and accountability lines, it ensures that rigorous internal processes and controls are implemented to identify, monitor, measure and report different types of risks.
- The RMC monitors risk portfolios against set limits with respect to, *inter alia*, risk concentration, asset quality, large and foreign country exposures, in compliance with regulations and internal policies.

Other committees

- The Audit Committee caters for the monitoring of internal control processes, while ensuring the preparation of accurate financial reporting and statements in compliance with applicable legal requirements and accounting standards. It also reviews operational and information risks and the actions taken to mitigate them.
- The Supervisory and Monitoring Committee continuously oversees the overall management of the Group and is also responsible for the ongoing monitoring of the Group's performance against set objectives.

Read more on the key mandates and focus areas of the Board sub-committees of MCB Group Ltd in the 'Corporate governance report' on pages 104 to 153

Our risk appetite framework

A key objective of the Group's risk management strategy is to determine the level and type of risk that the organisation is able and willing to take when executing its business strategies. The risk appetite is established by means of a complementary set of statements that are determined at Group level and cascaded throughout the entities and their business segments. Qualitative statements seek to make sure that the desired risk culture is adhered to across entities. Quantitative statements seek to shield the organisation from potential adverse events in the operating environment. While ensuring congruence with directions established at Group level as well as relevant mandatory requirements, Group entities set their own risk appetite, control and tolerance levels and mechanisms, which they continuously monitor and, if necessary, update to shape up the optimal level of risk that they are willing to take for the sound execution of their short and medium term business strategies.

As an example, key considerations that guide the Group's main subsidiary, i.e. MCB Ltd, for the identification and quantification of risks are as follows:

Framework

MCB Ltd's framework provides an informed guidance for the management and monitoring of its risk profile in relation to the de fined risk appetite

- The Bank articulates and monitors its risk appetite, which is the reasonable quantity and type of risk that it is broadly able and willing to take in the pursuit of its strategic/financial objectives.
- The purpose of setting risk appetite is not necessarily to limit risk-taking, but to align the Bank's risk profile and strategic orientations.
- Its risk appetite is regularly updated to reflect stakeholder aspirations and the context.

Key underpinnings

MCB Ltd *inter alia* defines its risk appetite for (i) credit risk in terms of allocation of range targets for domestic and international credit exposures, exposures by sectors as well as risk profiles and asset quality of portfolios; and (ii) market risk in terms of the splits between domestic and international markets, foreign currency and interest rate exposures, exposure allocation for position taking and target splits in terms of exposure maturities.

For proper risk identification and quantification, the Bank caters for:

- Continuous monitoring of risk targets
- Quarterly risk reporting to RMC
- Preparation of risk reports for capital management
- Use of internally-generated and externally-sourced rating tools
- Application of a stress-testing framework

Risk and capital management report

Key tenets of MCB Ltd's risk management strategy

Risk capacity

MCB determines the maximum level of risk that it can assume given its current level of resources, relevant regulatory dispositions and stakeholder requirements, to the extent that these dynamics tend to influence its ability to take risk.

Risk appetite

The Bank ensures that its activities are undertaken within the precinct of its risk appetite. The latter is subject to constraints, such as the need to *inter alia* uphold the Bank's financial soundness, foster sound and sustainable revenue growth and preserve its investment-grade credit rating.

Risk tolerance

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

Risk profile

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

Risk control

To maintain the size of its risk profile within its risk appetite, risk control tools and mechanisms are leveraged. Its control activities are notably underpinned by target market criteria and risk limits which place practical constraints on its activities.

The size of the internal risk limits is a function of regulatory requirements and the risk appetite set by MCB Ltd, after making allowance for the relevant economic and market environments. In its day-to-day business, the Bank makes use of internally-generated and externally-sourced rating tools for the purpose of risk identification, quantification and monitoring.

Limit structure of MCB Ltd

Regulatory

- Capital adequacy ratios
- Credit concentration limits
- Macroprudential limits
- Related party lending and limits
- Cash reserve ratio
- Liquidity coverage ratio
- Open FX position

Internal limits and desired risk profile

- Country limit
- Bank limit
- Sectorial concentration targets
- Portfolio risk profile
- Product limits
- Counterparty credit risk limit, Valuation limit, Daily settlement limit

Rating tools used by MCB Ltd

Internally-developed model

Country

Country rating model (used when ratings from external rating agencies are not available)
The rating monitors macroeconomic developments, social unrest, nationalisation and expropriation of assets, Government repudiation of external indebtedness, foreign exchange controls and currency movements amongst others

Banks

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

Corporate clients

Customer Rating software
It evaluates the counterparty's financial position and uses MCB's historical default experience to generate ratings and probability of defaults

External rating agencies

Country and banks

International ratings
Moody's Investors Service, Fitch Ratings, Standard & Poor's and others as deemed appropriate

Corporate clients

International rating agencies including CARE Ratings (Africa) Private Limited (CRAF) and Global Credit Rating Co Ltd (GCR Ratings)
Financial obligations subscribed by the bank in favour of domestic corporate customers can be rated by CRAF and GCR Ratings, with capital relief being applicable on investment-grade ratings

Risk and capital management report

Overview of risk management by cluster

General approach

MCB Group Ltd

The entities of the Group adhere to the overall risk management principles and frameworks validated by the Board of MCB Group Ltd. These entities are monitored in this respect by the Risk Monitoring Committee of the latter.

At entity level

The Board

- Functioning in alignment with the Group's objectives and targets, the Board of each entity supervises its overall risk management, alongside overseeing the establishment of relevant policies, controls, standards, practices and processes, in alignment with the inherent realities of the business. It also acts as the focal point of contact for shaping the relationship with MCB Group Ltd.
- The Board is responsible for strategy formulation in respect of risk-taking, risk appetite and policy setting. It ensures that its business strategies are clearly linked to its risk appetite and tolerance level. The aim is to ensure that the organisation manages its capital resources at an optimal level in support of growth-related objectives.
- In discharging its duties, the Board demonstrates, to the satisfaction of regulatory authorities and other stakeholders, that clear structure of policy and control systems, emanating directly from it, is adopted to identify and manage the risk inherent in activities.

Delegation of duties

For each entity, risk governance is executed through the delegation of authority and responsibilities from its Board to dedicated committees and/or the Management. Control processes and reporting lines have been put into place to foster the coherent and sound segregation of duties with regard to risk taking, processing and control.

Control processes

- The types of risk infrastructure and control processes that are adopted by each entity is a function of the nature, size and complexity of the risk involved.
- The approach and practices embraced by entities to fulfill their risk management obligations are shaped up by the following factors: (i) advocated corporate governance and risk management principles; (ii) the risk-return profiles of markets in which they are involved; (iii) the opportunities and challenges characterising the economic environment; and (iv) relevant legal and regulatory requirements as well as local and international codes and standards impacting the industries and countries in which businesses are carried out.

Intra-Group initiatives

- Group entities leverage the core competences and synergies available throughout the organisation in line with the concept of Group Shared Services. Specific business units of MCB Ltd are engaged in the provision of intra-Group services to the foreign banking subsidiaries as well as the non-banking entities of the Group, backed by the elaboration of clear guidelines and mandates. As per the modalities set out in Service Level Agreements, the business units operating under the aegis of the Internal Audit SBU of the Bank provide technical and advisory assistance in support of the operation and functioning of the local and foreign subsidiaries as per their respective areas of competence. Dedicated support also emanates from the Bank's Risk and Compliance SBUs, in line with activities falling under their respective purview.

- MCB Investment Holding Ltd seeks to foster more focused and integrated stewardship with regard to the operations and performance of the Group's foreign banking subsidiaries. Its Finance & Risk team supports the conduct of risk management activities, with the Risk SBU of MCB Ltd being involved wherever appropriate. The team engages in risk reporting to the Risk Monitoring Committee of the respective foreign banking subsidiaries as well as that of MCB Group Ltd. It also leads or assists foreign subsidiaries in the development and implementation of risk policies and other risk related matters. It assists overseas banking subsidiaries as regards credit risk management, notably by reviewing credit files with exposure amounts exceeding a specific threshold, helping to structure or restructure complex credit files and monitoring out-of-order customer files. Moreover, the Operations team provides assistance in terms of project management, alongside offering guidance in respect of the execution and monitoring of risk- and compliance-related initiatives. It also contributes to and monitors the implementation of internal and external audit recommendations.

Banking cluster

Governance

MCB Ltd

Board of MCB Ltd

- As highlighted before, the Board of MCB Ltd has the ultimate responsibility for ensuring adequate risk management across the Bank, in line with good corporate governance principles. It provides clear guidance for the setting out and regular review of applicable strategic thrusts, processes and policies for risk management.

- As a key focus area, the Board is responsible to validate the Bank's risk appetite towards achieving its objectives. It delegates authority to Board committees, which formulate the specific responsibilities and required policies for effective risk management.

Risk Monitoring Committee (RMC)

- It is the primary board committee overseeing financial and legal risk matters. It assists the Board in setting up risk strategies as well as assessing and monitoring MCB's risk management process. It recommends to the Board, for approval, the risk appetite in terms of credit risk and market risk, Asset Liability Management risk as well as the review of risk appetites and tolerances as appropriate. It analyses risk portfolios against the risk appetite, while reviewing and exercising oversight over capital management.

- The RMC is entrusted with the authority of determining the Bank's overall international capital allocation and exposure limits while monitoring country exposures against set limits at least quarterly and on an ad-hoc basis when required. It approves country risk policies and proposed amendments and reviews the country risk framework and risk appetite parameters. Four out of the five members of the RMC are non-executive directors, thus strengthening the Bank's independent oversight and control functions.

Other committees

- The Supervisory and Monitoring Committee sets the overall direction for the strategic development of th e Bank. It monitors the Bank's performance against such strategy.

- The Audit Committee ensures that the internal control framework in place results in an acceptable level of risk exposure whilst guaranteeing compliance with internal established policies and procedures and relevant laws and regulations. The Internal Audit, Compliance and Risk (for non-financial risk matters) functions regularly report to the Audit Committee.

Adherence to the three lines of defence approach

1

1st line of defence

Adopts adequate processes and mechanisms to suitably manage risks faced and escalates knowledge of risks identified in the course of activities for appropriate mitigating actions

Risk ownership

- The first line owns risks emanating from deployed strategic activities.
- Employees engaged in client-facing divisions and support functions as well as business line managers have the first-level responsibility for day-to-day risk management in the interest of the Bank.

2

2nd line of defence

Establishes the limits, rules and constraints under which the first line activities shall be performed

Risk control and compliance

- The Risk SBU bears the responsibility for providing independent risk control. While managing key financial, operational and information risks faced by the Bank, the Risk SBU also oversees the credit management and debt restructuring and recovery operations. The Chief Risk Officer (CRO) has direct oversight on all risk areas across the Bank, while relevant Heads and Managers of the SBU establish methodologies and activities for risk measurement and regularly monitor and report risk exposures and profiles. Alongside having an administrative reporting line to the Chief Executive Officer (CEO), the CRO reports to the Audit Committee on risk matters relating to Permanent Supervision, Operational and Information Risk and reports to the Risk Monitoring Committee on matters relating to monitoring and management of other risk areas.
- The Compliance SBU has a direct reporting line to the Audit Committee and administratively reports to the CEO. This reporting structure confers the required independence to the Head of Compliance to discharge responsibilities to ensure compliance with applicable laws, regulations, codes of conduct and standards of good practice.
- Independent teams oversee the legal and physical security functions. The Head of the Legal SBU acts as the Money Laundering Reporting Officer (MLRO) to ensure strict independence. The Physical Security BU reports to the Chief Operating Officer's office.

3

3rd line of defence

Evaluates and provides independent assurance on the effectiveness of the risk governance, the control environment and risk management processes and mechanisms

Risk assurance

- The Internal Audit SBU provides independent assurance that the control objectives are achieved by the first and second lines of defence in line with the set risk appetite. It has an administrative reporting line to the Chief Executive Officer and is accountable to the Audit Committee.
- The Fraud Prevention (FP) BU, also under the aegis of the Internal Audit SBU, promotes staff awareness on fraud risks, and provides expert advice in case of, and investigates suspected irregularities.

In addition to the Board committees and the adoption of the three lines of defence approach, the risk management framework also allows for dedicated executive committees of the Bank to assist in the oversight and monitoring of risk areas within the business.

Executive committees

Financial principal risks

Credit risk

Executive Credit Committees (ECC)

- The ECC (A), which comprises the Chief Executive Officer, the Head of Corporate & Institutional Banking (CIB), the Deputy Head of CIB the Chief Risk Officer and the Head of Credit Management, sanctions/declines credit applications where customer group total commitment exceeds Rs 150 million
- The ECC (B) sanctions/declines credit applications with total client commitment of up to Rs 150 million

Credit Committee (CC)

- The CC sanctions/declines credit applications where customer group total commitment is up to Rs 50 million for retail clients and Rs 60 million for corporate clients

Country Risk Committee (CoRC)

- The CoRC, which is chaired by the Chief Executive Officer and comprises the Chief Risk Officer, is responsible for setting individual country limits within the validated risk parameters on selected countries as well as reporting any excesses observed to the RMC, with the latter retaining the ultimate decision in terms of country limit

Market risk

Asset and Liability Committee (ALCO)

- The purpose of the ALCO is to oversee the asset/liability position, market risks and overall balance sheet management of the Bank. The ALCO ensures that the overall asset/liability position as well as the resulting market, liquidity and funding risks to which the Bank is exposed are managed within the relevant limits and targets set by its Market Risk Policy, alongside being aligned with guidelines laid down by the Bank of Mauritius, notably stipulations relating to capital adequacy, liquidity coverage and funding stability
- The ALCO sets and reviews all trading book limits and banking book targets, in alignment with the diversification and growth of the Bank's balance sheet, whether it is from a domestic, foreign currency or consolidated perspective
- The committee, which comprises members of the Bank's Leadership Team, is chaired by the Chief Executive Officer, with targeted monthly meetings and/or ad-hoc and special meetings, as deemed necessary

Non-financial principal risks

Information and Operational Risk Committee (IORC)

- Chaired by the Chief Executive Officer, the IORC acts as the focal point and coordinating committee to ensure that management of information risk, including cyber risk, and operational risk is in line with the relevant policies, guidelines and procedures of the Bank. Significant risks observed are escalated to the IORC and then, if warranted, to the Audit Committee

Compliance, Anti-Money Laundering and Legal Committee (CALC)

- Chaired by the Chief Executive Officer, the CALC is mandated to review and monitor the compliance, anti-money laundering and legal framework of the Bank. The committee assists Management and the Board through the Audit Committee in fulfilling their oversight responsibilities by reviewing adherence to applicable standards as well as policies/controls to be adopted, based on the identification and assessment of compliance, anti-money laundering and legal risks

Foreign banking subsidiaries

Board and its committees

- The respective Boards exercise their responsibilities in respect of risk management through: (i) the oversight of the risk governance process, including setting risk appetite in line with Group-level orientations; (ii) regular and comprehensive assessment of risks; (iii) the maintenance of sufficient capital adequacy levels in accordance with the Group's framework, the internally-set risk appetite and regulatory requirements; and (iv) clear delegation of authority to relevant committees and management.

- Risk management matters are reported to the Board of each foreign entity through their respective committees, namely the Audit Committee and the Risk Monitoring Committee, while major issues identified are also escalated to the corresponding Board committees of MCB Group Ltd. The Management teams of the entities are responsible for conducting business within the strategic framework and risk appetite set by their Board, while monitoring risk portfolios through dedicated committees.

Executive committees

Subsidiary Credit Committee

- It is responsible for the planning, sanctioning, controlling and monitoring of credit risk
- It sanctions/declines credit applications for customers with exposures of up to USD 150,000. Exposures from USD 150,000 to USD 1.5 million are approved by a joint MCB Ltd and subsidiary committee. Facilities above this level are channeled to the Executive Credit Committee of MCB Ltd before a final decision is reached

Asset and Liability Committee

- The Asset and Liability Committee of each foreign banking subsidiary is responsible to ensure that overall asset and liability allocation decisions are adequately managed within limits/targets set by the Board and in accordance with local regulations

Overseas Subsidiary Information Risk Management, Operational Risk and Compliance Committee (IORCC)

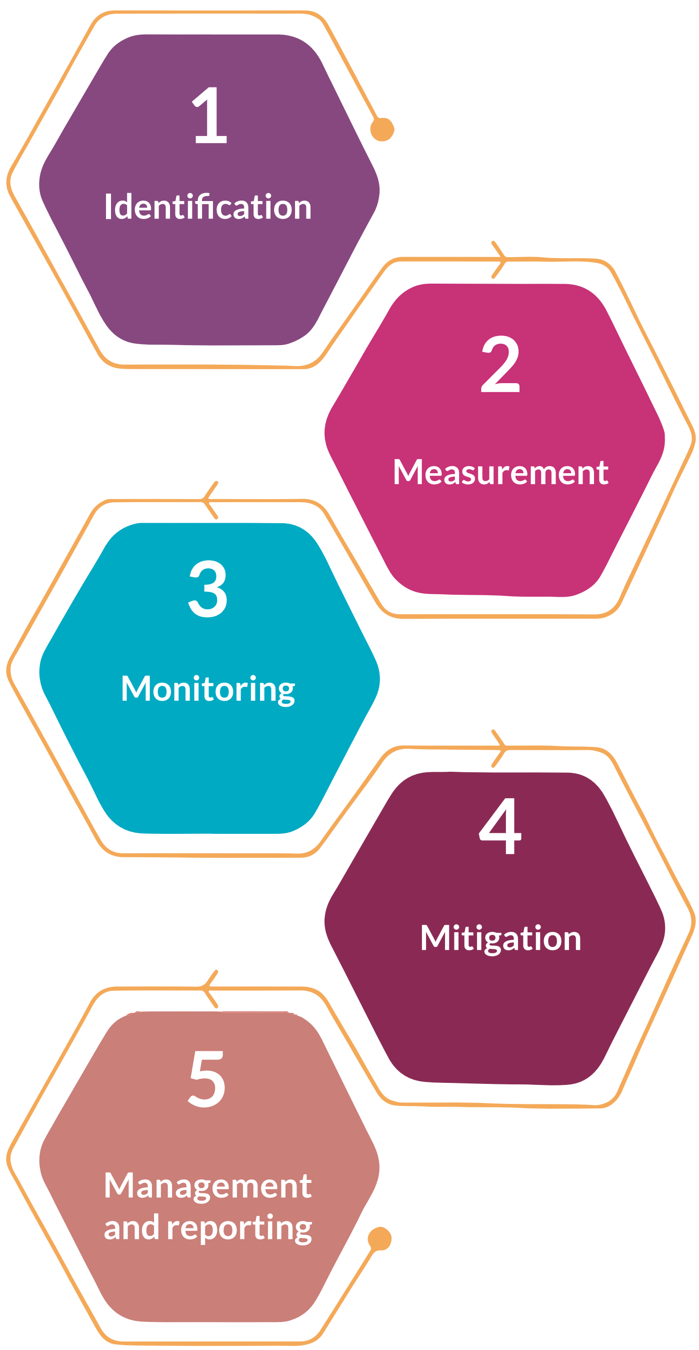
- The IORCC of each subsidiary reviews and monitors the management and reporting of information, operational and compliance risks, while assisting the entity's Board and Management team to fulfill their responsibilities in respect of such areas. In the process, the IORCC aims to (i) ensure alignment among the entity's underlying risk management framework, risk appetite and tolerance as well as related policies and procedures; and (ii) help ascertain the necessary corrective actions/controls to be adopted to mitigate identified risks. The committee seeks to ensure that the dedicated functions in charge of Information Risk Management, Operational Risk and Compliance within the entity are endowed with adequate resources to achieve their objectives

Risk and capital management report

Key risk areas: Overview and management

Our risk management process

The risk management process is of strategic importance to the Group, notably due to the broadening palette of its offerings and its expanding market footprint. The overall risk management process in place at the Group, which cuts across the entire cycle, allows for the proactive and disciplined identification, measurement, monitoring, mitigation, management and reporting of risks.



Identification of internal and external risks related to the Group, which may directly or indirectly influence our business performance, our a bility to achieve set targets as well as our overall viability over time

Assessment, by means of proven methodologies, of the likelihood of identified risks to materialise (under existing or stressed conditions) as well as their likely impact and materiality under different scenarios; review of the default rates in respect of specific products; determination of capital requirements across risk types

Analysis of the sources and specificities of risks faced; appraisal of outcomes posted following the management of risks faced, while factoring in the risk appetite and set KPIs; verifying whether risk controls are efficient in both their design and operation; finding ways and means to further enhance the efficiency of risk assessment and mitigation

Adoption/enhancement of measures to reduce the level of risks faced, while deploying actions that minimise the impact should there be adverse events; establishment of an appropriate internal control framework to deal with specific risk situations

Stress testing the resilience of selected portfolios and ensuring that sufficient capital is available to withstand potential losses; regular elaboration of accurate and relevant information on pertinent risk characteristics and trends; ensuring urgent escalation of observed events and outcomes to internal parties and the authorities, wherever applicable

Our approach, processes and methodologies

Credit risk

General approach and objectives

- Credit risk represents the main risk type to which the Group's banking subsidiaries are exposed in view of the nature of their operations and activities.

- The banking entities ensure that sound credit risk management principles are adopted to uphold quality and well-diversified portfolios that are aligned with the set risk appetite and help to meet targeted risk-return considerations. Both counterparty and concentration risks are duly managed, backed by market vigilance, the adoption of effective control mechanisms and the judicious diversification of portfolios across customer and industry groups, product types, maturity levels and geographies. The banking entities strive to adopt a strong culture of responsible lending and debt recovery, while leveraging a robust risk management and control framework. They continuously reassess their risk profiles in the face of the changing operating context and monitor the exposures against regulatory as well as internal limits and targets.

- The Credit Risk Policy of the banking entities, which is approved and reviewed by their respective Boards and relevant sub-committees, sets forth the principles by which they conduct their credit risk management activities. The policy formulates the roles and responsibilities whereby credit risk is to be managed across business segments. It provides guidance in the formulation of the appropriate structures and architectures that work towards ensuring that business generation is harmonised with the established target market criteria. The *modus operandi* shaping up the credit risk management set-up is governed by rules set out in Central Bank Guidelines. At the level of MCB Ltd, these include the Guideline on Credit Risk Management, the Guideline on Standardised Approach to Credit Risk, the Guideline on Credit Concentration Risk, the Guideline on Credit Impairment Measurement and Income Recognition, the Guideline on Country Risk Management, the Guideline for the write-off of non-performing assets and the Guideline on Cross-Border Exposure.

Risk measurement and monitoring

- Credit risk measurement by banking entities consists of appraising the track record of customers as appropriate for the prediction of likely future behaviours of existing accounts. Credit facilities granted are guided by the credit standing, source of repayment and debt servicing ability of the borrower. As a fundamental credit principle, the banking entities do not generally grant credit facilities solely on the basis of the collateral provided. Collateral is taken whenever possible to mitigate the credit risk assumed with periodic monitoring being performed depending on the type, liquidity and volatility of the collateral value.

- Ultimately, entities assess whether individual business areas provide sufficient contribution to the targeted risk-return profile. The aim is to ensure that capital allocation generates an optimum return. This is achieved by channelling risk capital from low-return to high-return business areas, commensurate with risks shouldered. Banking entities measure credit risk capital requirements by applying appropriate risk weights to both on-balance sheet and off-balance sheet exposures in line with regulatory requirements. With respect to MCB Ltd, the capital adequacy indicators and the return on capital levels for the individual risk categories of portfolios are regularly monitored by the RMC against the overall risk-bearing capacity of the Bank. The objective is to ensure that the latter, at all times, maintains adequate capital to provide for its growth and to support a reasonable measure of unexpected losses. The Bank has established credit rating frameworks that enable the extensive usage of ratings for its portfolios. These ratings are leveraged not only in respect of loan approval, but also credit review, monitoring of risk profiles and determination of business strategies. They are used for the purpose of the stress testing and limits determination exercises. In the same vein, at the level of foreign banking entities, relevant credit risk metrics are measured and reviewed against set limits by the respective Boards and/or RMCs on a quarterly basis.

Banking cluster: Risk-weighted assets for credit risk

Risk-weighted on-balance sheet assets	Jun 21			Jun 20
	Amount	Weight	Weighted Assets	Weighted Assets
	Rs m	%	Rs m	Rs m
Cash items	3,274	0 - 20	76	66
Claims on sovereigns	144,849	0 - 100	5,165	3,327
Claims on central banks	47,420	0 - 100	11,310	7,312
Claims on banks	122,502	20 - 100	46,594	15,997
Claims on non-central government public sector entities	1,713	0 - 100	0	0
Claims on corporates	217,293	20 - 150	204,782	179,768
Claims on retail segment	11,905	75	7,706	7,977
Claims secured by residential property	34,876	35 - 125	14,116	13,060
Claims secured by commercial real estate	18,361	100 - 125	21,748	18,893
Fixed assets/other assets	17,732	100 - 250	25,684	22,088
Past due claims	12,202	50 - 150	15,384	12,666
Total			**352,566**	**281,154**

Non-market related off-balance sheet risk-weighted assets	Jun 21					Jun 20
	Nominal Amount	Credit Conversion Factor	Credit Equivalent Amount	Weight	Weighted Amount	Weighted Amount
	Rs m	%	Rs m	%	Rs m	Rs m
Direct credit substitutes	2,947	100	2,881	0 - 100	3,382	2,035
Transaction-related contingent items	29,775	50	14,424	0 - 100	12,006	17,470
Trade related contingencies	69,401	20 - 100	15,253	0 - 100	13,785	6,516
Outstanding loans commitment	6,344	20 - 50	2,664	0 - 100	2,664	3,275
Total					**31,837**	**29,296**

Market-related off-balance sheet risk-weighted assets	Jun 21						Jun 20
	Nominal Amount	Credit Conversion Factor	Potential Future Exposure	Current Exposure	Credit Equivalent Amount	Weighted Assets	Weighted Assets
	Rs m	%	Rs m	Rs m	Rs m	Rs m	Rs m
Interest rate contracts	31,830	0 - 1.5	427	660	1,087	560	570
Foreign exchange contracts	24,140	1 - 7.5	272	279	550	324	264
Total						**883**	**833**

	Jun 21	Jun 20
	Rs m	Rs m
Total credit risk-weighted assets	**385,287**	**311,283**

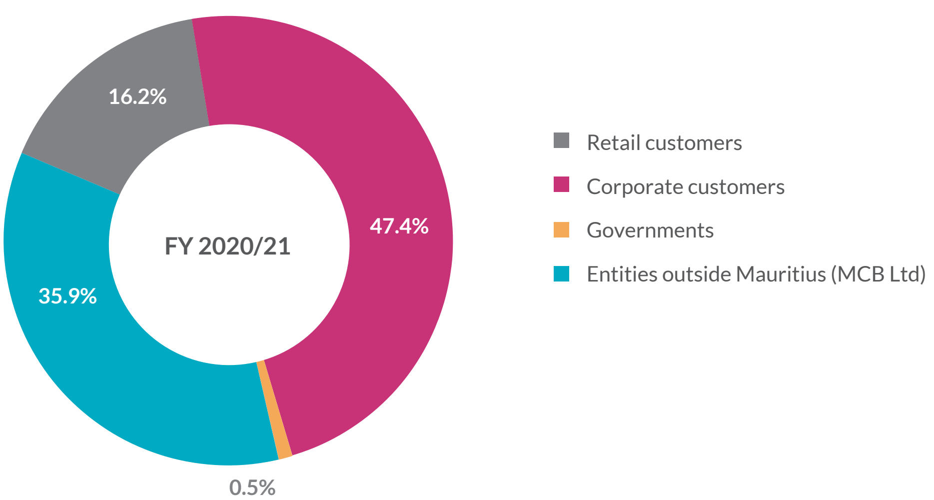
Risk mitigation and management

- The credit risk management framework enables the entities to manage credit risk within the limits of their defined risk appetite, to develop risk-response strategies and to optimise risk-taking by anticipating and acting on potential opportunities or threats. This framework encompasses the following: (i) comprehensive credit policies; (ii) clear segregation of the decision-making authority for the approval of loans; (iii) effective identification, measurement and management of credit risk; (iv) portfolio management to ensure capital adequacy; and (v) regular reporting to Management and committees on pertinent risk characteristics/trends.

- Credit risk exposures are managed through robust credit assessment, structuring and monitoring process. The latter involves the daily monitoring of credit limit excesses as well as the review of all exposures, the frequency of which is increased in accordance to the size and likelihood of potential credit losses to ensure the timely detection of possible problem loans. Exposures showing signs of deterioration are placed on a watch list for closer scrutiny where appropriate. Several credit mitigation techniques are adopted by the banking entities in the course of their activities. These include security/collateral, netting, guarantees, credit insurance and political risk covers. Exposures arising from foreign exchange and derivatives are mainly mitigated through agreements e.g. the International Swaps and Derivatives Association (ISDA) Master Agreements and Credit Support Annex (CSA) documentation.

- The banking entities are intent on diversifying their lending portfolios by setting relevant exposures limits to ensure that their performances are not negatively impacted, for instance, by a large sectoral exposure default. It is the policy of the Group's entities to limit credit risk exposures and concentrations within the constraints of their capital base, while complying with regulatory stipulations, notably relating to aggregate large exposures and single borrower limits. Stress tests are, in some instances, performed on portfolios to ensure that sufficient capital is held to withstand any loss arising from significant exposure to a sector, single customer and group of closely-related customers.

Banking cluster: Loans and advances by customer segment



Concentration of exposures at MCB Ltd

Bank of Mauritius Guideline on Credit Concentration Risk

Credit concentration limits (% of Bank's Tier 1 capital)	Regulatory requirements	MCB Ltd 30 June 2021
Aggregate credit exposure to any single customer	Not exceed 25%	17.9%
Aggregate credit exposure to any group of connected counterparties	Not exceed 40%	36.6%
Aggregate large credit exposures* to all customers and groups of connected counterparties	Not exceed 800%	382.3%

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

Gross exposure as at 30 June 2021	Total gross exposure	Risk capital consumed	*Risk capital consumed as a % of total credit risk capital*
	Rs bn	Rs bn	%
Top 5 customers / customer groups	70.1	6.6	13.1
Total large credit exposures	227.2	14.8	29.5

Determination and review of impairment and provisioning

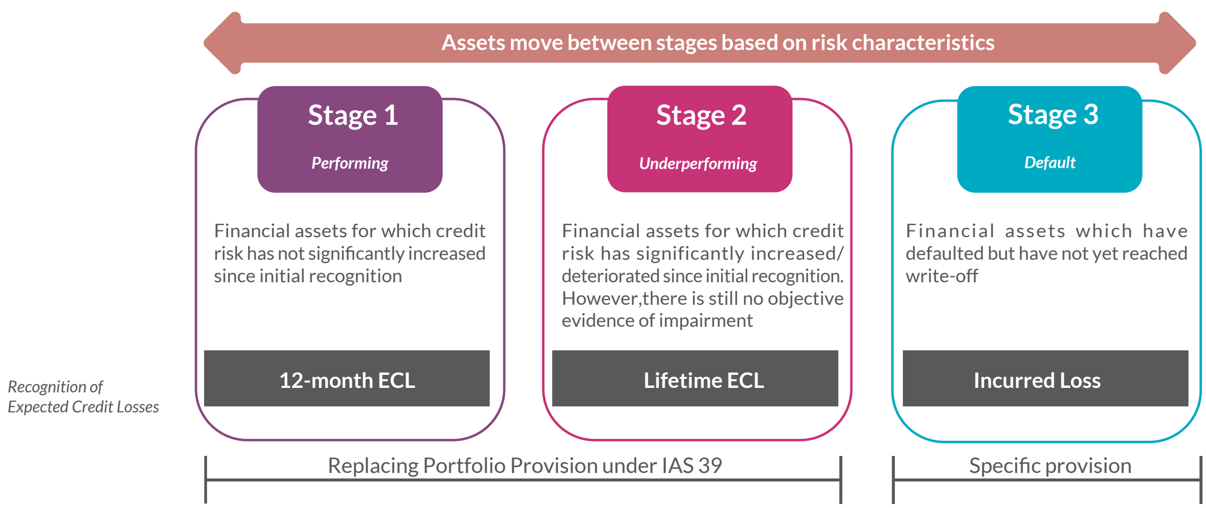
- With regard to the determination and review of impairment and provisioning levels, the banking entities undertake their respective exercises on a regular basis, while being subject to appropriate oversight. The entities adhere to relevant regulatory stipulations, alongside aligning themselves to advocated standards. At the level of MCB Ltd, this exercise is undertaken on a quarterly basis and involves the collaboration of several stakeholders across the organisation. After being reviewed and agreed upon by the RMC as well as validated by the Board, the figures are submitted to the Bank of Mauritius (BoM). The BoM Guideline on Credit Impairment Measurement and Income Recognition aims at aligning regulatory prudential rules as regard asset classification and provisioning requirements with international accounting norms (i.e. IFRS 9). The objective is to ensure that financial institutions have adequate processes for determining allowance for credit losses in a timely manner and the carrying amounts of credit portfolio recoverable values. While ensuring adherence to prudential norms which define credit as impaired if it is past due for more than 90 days, the Bank also assesses facilities granted to clients as being impaired on case-by-case basis above a certain materiality threshold. Furthermore, loans are written off by the Bank when the prospect of recovery is poor and the loss can be reasonably determined, with MCB Ltd complying with the BoM Guideline for the write-off of non-performing assets. While MCB continues to adhere to key principles therein, it is worth noting that BoM has put on hold the Guideline on Credit Impairment Measurement and Income Recognition as part of support measures to allow commercial banks continue assisting enterprises facing cash flow and working capital difficulties in the context of COVID-19.

MCB Ltd: Adherence to IFRS 9 requirements

- In measuring Expected Credit Losses (ECL), three main parameters are considered and estimated, namely: (i) Probability of Default (PD), which represents the likelihood of a default event occurring; (ii) Loss Given Default (LGD), which denotes the estimated losses in the event that a default event occurs; and (iii) Exposure at Default (EAD), which reflects the exposure at risk at a point of default. In addition, IFRS 9 requires that allowance be made of forward-looking information in the calculation of ECL, taking into consideration past, actual and future insights on customer behaviours and macroeconomic indicators.

- A three-stage approach to the impairment calculation of financial assets is applied under IFRS 9. To determine the staging status of the asset, IFRS 9 requires an assessment of whether or not there has been a significant increase in credit risk since initial recognition. This dictates the basis on which its ECL is calculated, as illustrated below.

Our staged approach



- In determining whether there has been significant increase in credit risk or credit deterioration, an entity considers reasonable and supportable information that is relevant and available without undue cost or effort. At MCB, quantitative and qualitative information are taken into account, based on the Bank's historical customer experience and credit risk assessment. A financial asset is credit impaired and is in Stage 3 when (i) contractual payments or accounts in excess are past due by more than 90 days; and/or (ii) other quantitative and qualitative factors indicate that the obligor is unlikely to honour its credit obligations.

- MCB segmented its financial assets into nine portfolios for ECL calculation, which are described as follows: (i) Retail: housing loans, other secured loans, unsecured and revolving facilities, SMEs; and (ii) Wholesale: corporate, financial institution, sovereign, project finance, and Energy & Commodities.

  - **Retail:** PD, LGD and EAD parameters are calculated on a portfolio-based approach, i.e. facilities having homogeneous characteristics are assumed to have similar risk behaviours and can reasonably be assigned same parameter values.

  - **Wholesale:** MCB uses a combination of internal models and external benchmarking for the calculation of PDs, LGDs and EADs. Internal historical default rates and losses have been used to calibrate PDs and LGDs respectively. For portfolios where MCB has historically experienced low or no default, external benchmarking has been used for calibrating corresponding ECL parameters. Of note, PDs leverage ratings model for all wholesale portfolios, which is mapped to an Internal Master Rating Scale. As for EAD calculation, either amortisation schedules or historical data and regulatory credit conversion factors have been used as EAD ratios.

Risk and capital management report

MCB Ltd: Formulation of Expected Credit Losses

Reflecting the proactive and prudent approach being endorsed by the Bank to hold adequate provisioning levels in light of the potential impact of the pandemic on our business activities and in view of the still uncertain operating environment, MCB further increased its ECL during FY 2020/21, underpinned by informed analyses, conservative assumptions and modelling exercises.

Retail portfolio

With a view of providing an additional buffer for further risk mitigation and maintaining an adequate coverage ratio, the Bank applied an additional overlay on its retail portfolio for each quarter.

Wholesale portfolio

For each quarterly assessment and in light of the prevailing conditions, the Bank conducted an in-depth individual analysis of clients with an exposure amount of Rs 100 million or more. The outcomes were reflected, where deemed necessary and appropriate, in the clients' internal ratings (and thus in their 12-month Probability of Default) by means of rating overlays. In some cases, where we judged that the staging of the client was not reflective of the significance of the increase in credit risk, we proceeded with staging overlays (i.e. moving some clients of Stage 1 to Stage 2).

Quarter to	September 2020	December 2020	March 2021	June 2021
Additional ECL for the quarter	+Rs 811 million	+Rs 750 million	+Rs 551 million	+Rs 587 million
Total ECL	Rs 6,570 m	Rs 7,319 m	Rs 7,871 m	Rs 8,458 m

Total additional ECL for FY 2020/21 : Rs 2,699 million

Notes:
(i) Figures may not add up to totals due to rounding
(ii) Figures include investments fair valued through other comprehensive income

Provisions as at 30 June 2021

Stages	Retail portfolios	Wholesale portfolios				
		Corporate	Financial institutions	Project finance	Sovereign	Energy & Commodities
	Rs m	*Rs m*	*Rs m*	*Rs m*	*Rs m*	*Rs m*
Stage 1						
Exposures	49,870	145,436	131,252	8,380	170,653	130,152
Expected Credit Losses	220	2,442	319	299	38	312
Coverage ratio (%)	0.4	1.7	0.2	3.6	0.0	0.2
Stage 2						
Exposures	874	27,889	0	0	0	6,946
Expected Credit Losses	475	3,871	0	0	0	473
Coverage ratio (%)	54.3	13.9	0	0	0	6.8
Stage 3						
Exposures	1,912	6,417	3	295	128	1,014
Incurred losses	575	2,326	1	253	3	626
Coverage ratio (%)	30.1	36.2	33.3	85.8	2.3	61.7

Provisions as at 30 June 2020

Stages	Retail portfolios	Wholesale portfolios				
		Corporate	Financial institutions	Project finance	Sovereign	Energy & Commodities
	Rs m	*Rs m*	*Rs m*	*Rs m*	*Rs m*	*Rs m*
Stage 1						
Exposures	48,527	135,981	53,271	8,905	135,728	76,857
Expected Credit Losses	427	1,220	45	199	29	111
Coverage ratio (%)	0.9	0.9	0.1	2.2	0.0	0.1
Stage 2						
Exposures	1,733	26,465	0	241	0	6,647
Expected Credit Losses	357	3,093	0	45	0	224
Coverage ratio (%)	20.6	11.7	-	18.7	-	3.4
Stage 3						
Exposures	2,340	5,826	0	57	0	1,489
Incurred losses	555	2,156	0	5	0	281
Coverage ratio (%)	23.7	37.0	-	8.8	-	18.9

Notes:

(i) Figures may not add up to totals due to rounding

(ii) Stage 1 comprises both on- and off-balance sheet exposures while stages 2 and 3 comprise only on-balance sheet exposures

(iii) Incurred losses do not include interest in suspense on loans and overdrafts

(iv) Figures exclude investments fair valued through other comprehensive income

Foreign Banking Subsidiaries: Formulation of Expected Credit Losses

During the year under review, the foreign banking subsidiaries reassessed their macroeconomic outlooks, with forward-looking indicators being updated in their credit models in collaboration with MCB Ltd to determine the lifetime and 12-month Probability of Default for their customer segments, namely Corporate and Retail. During the exercise, management overlays for specific categories inherently more vulnerable were duly considered.

ECL by quarter of foreign banking subsidiaries	Quarter to Sep 2020	Quarter to Dec 2020	Quarter to Mar 2021	Quarter to Jun 2021	Total additional ECL for FY 2020/21	ECL for FY 2020/21 (Rupee equivalent)
MCB Seychelles	**SCR m**	**SCR m**	**SCR m**	**SCR m**	**SCR m**	**Rs m**
Additional ECL for the quarter	5	13	0	-7	11	32
Total ECL as at end of period	**48**	**62**	**62**	**54**		**157**
MCB Maldives	**MVR m**	**MVR m**	**MVR m**	**MVR m**	**MVR m**	**Rs m**
Additional ECL for the quarter	0	2	0	1	2	7
Total ECL as at end of period	**20**	**21**	**21**	**22**		**62**
MCB Madagascar	**MGA m**	**MGA m**	**MGA m**	**MGA m**	**MGA m**	**Rs m**
Additional ECL for the quarter	0	535	411	0	945	10
Total ECL as at end of period	**8,792**	**9,327**	**9,738**	**9,738**		**107**

COVID-19 moratorium on loans and vulnerable sectors

- In response to COVID-19 and its wide-ranging ramifications on economic operators, the Group's banking entities provided moratorium on loans in respect of capital repayment as well as interest payment with a view to alleviating their customers' financial burden and helping them sustain their activities. Such support measures were provided to fundamentally sound business models that are experiencing temporary difficulties with the aim of maximising the customers' repayment ability. With respect to its retail portfolio, the Bank has established clear criteria to determine customers' eligibility. Regular reviews of the client's situation are also undertaken to ensure they remain going concern. It is worth noting that injection of quasi-equity by the Mauritius Investment Corporation in, *inter alia*, systemic domestic operators has enabled us to extend such measures. Besides, the improvement in economic conditions has enhanced the prospects for the servicing of these loans, with a case in point being the upturn in tourism observed in Seychelles and Maldives.

- The initial granting of customer relief or an extension thereof do not automatically trigger a migration to Stage 2 or 3. However, information provided by payment deferrals is considered as part of reasonable and supportable information to assess whether there has been a significant increase in credit risk to identify exposures for which lifetime ECL is appropriate. The key accounting and credit risk judgement to ascertain whether a significant increase in credit risk has occurred is whether the economic effects of the COVID- 19 outbreak on the customer are likely to be temporary and whether the financial difficulties faced by the customers are inconsistent with those classified under Stage 3.

MCB Ltd

As at 31 December 2020

Rs 40.2 bn of loans under moratorium

Representing **15%** of the Bank's loan book

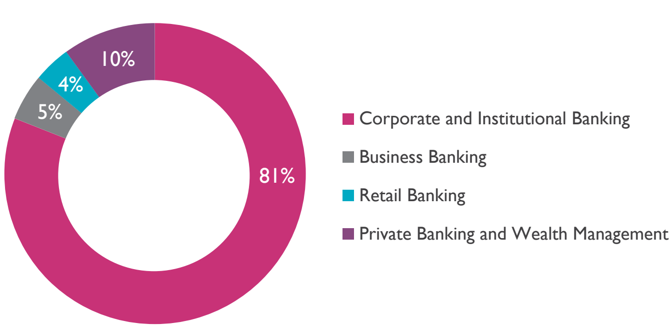
As at 30 June 2021

Rs 26.3 bn of loans under moratorium

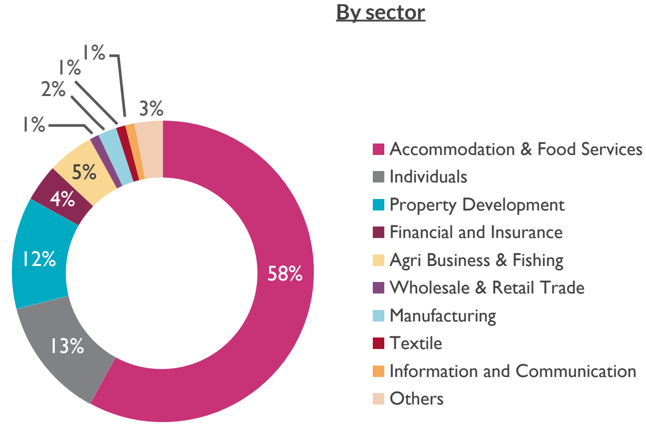
Representing **9%** of the Bank's loan book

Distribution of active moratoriums

By lines of business



By sector



Risk and capital management report

Foreign banking subsidiaries

MCB Seychelles

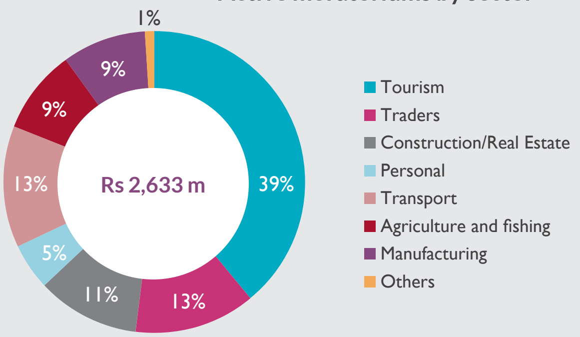
As at 31 December 2020

SCR 1,267 m of loans under moratorium — Representing **38%** of the bank's loan book

As at 30 June 2021

SCR 910 m of loans under moratorium — Representing **29%** of the bank's loan book

Active moratoriums by sector



MCB Maldives

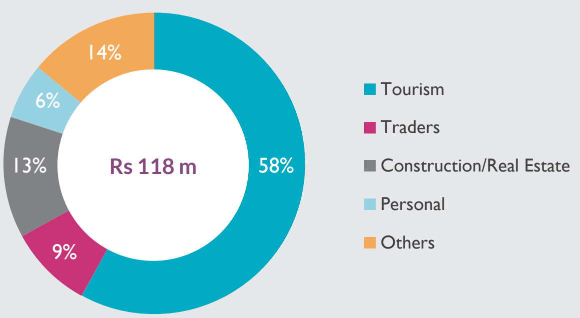
As at 31 December 2020

MVR 119 m of loans under moratorium — Representing **11%** of the bank's loan book

As at 30 June 2021

MVR 42 m of loans under moratorium — Representing **4%** of the bank's loan book

Active moratoriums by sector



MCB Madagascar

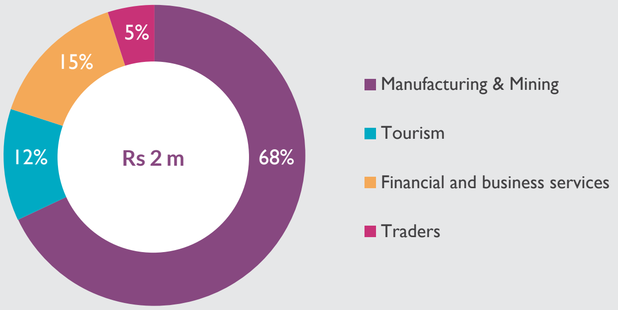
As at 31 December 2020

MGA 24.8 bn of loans under moratorium — Representing **5%** of the bank's loan book

As at 30 June 2021

MGA 173 m of loans under moratorium — Representing **0.04%** of the bank's loan book

Active moratoriums by sector



Country risk management at MCB Ltd

General approach

- The Bank applies a coherent and comprehensive approach and framework to formulate its risk tolerance and determine exposures assigned to markets, alongside adhering to the Bank of Mauritius Guideline on Country Risk Management and the Guideline on Cross-Border Exposure.

- The RMC is entrusted with the task of evaluating risks and opportunities relating to setting and reviewing the country risk framework and country risk appetite parameters. The RMC meets at least quarterly to monitor performance of the Bank's cross-border exposures, including compliance with the risk appetite, risk limits, overall requirements set out in the framework on cross-border exposure.

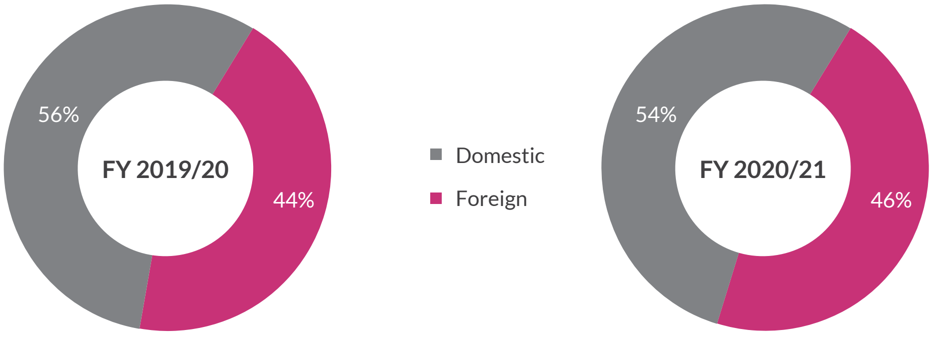
- With a view to fostering sound country risk management, MCB Ltd lays emphasis on the following: (i) thoughtful and regular determination and review of its risk appetite, after making allowance for the evolving operating environment and its strategic ambitions; (ii) diversified exposures across countries and sectors; (iii) undertaking activities in a selective and, in some cases, opportunistic manner, while favouring areas that the Bank is well accustomed to and for which it nurtures strategic competencies and technical expertise; and (iv) ensuring that the Bank's deals are appropriately selected, structured and ring-fenced (with specialised people handling complex deals), backed by the application of a series of risk mitigants and robust methodologies.

Risk measurement and monitoring

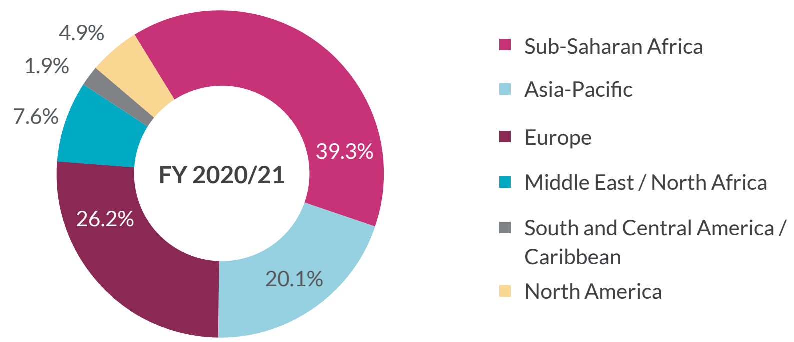
- MCB Ltd articulates a cogent risk appetite framework, with business units guided by clearly-established parameters and limits to assist them tap into markets. Target risk profiles are set at Bank level as well as for each portfolio and are complemented by target maturity profiles, consequently ensuring that its credit exposure portfolio is at all times balanced in terms of its risk profile.

- The Bank carefully monitors country risk events, including macroeconomic developments, sovereign credit worthiness, and specific occurrences such as social unrest, nationalisation and expropriation of assets, foreign exchange controls and currency depreciation/ devaluation. Foreign country exposure limits are set by the Bank on the basis of: (i) its current exposures and growth ambitions; (ii) assigned capital for international exposures; (iii) the prevailing economic and market environments and sizes of economies under review; (iv) sovereign ratings; (v) its areas of expertise as far as its business involvement is concerned; and (vi) its knowledge of the economies. The Bank ensures the proactive monitoring of country risk exposures against country limits and sub-limits that have been set, while promptly reviewing such levels in case of unexpected events. MCB established a list of 'priority countries' to focus on appealing business opportunities identified therein. The Bank also set up a list of 'restricted countries'. No limits are established for the latter countries, with activities only conducted with approval of the Risk Monitoring Committee.

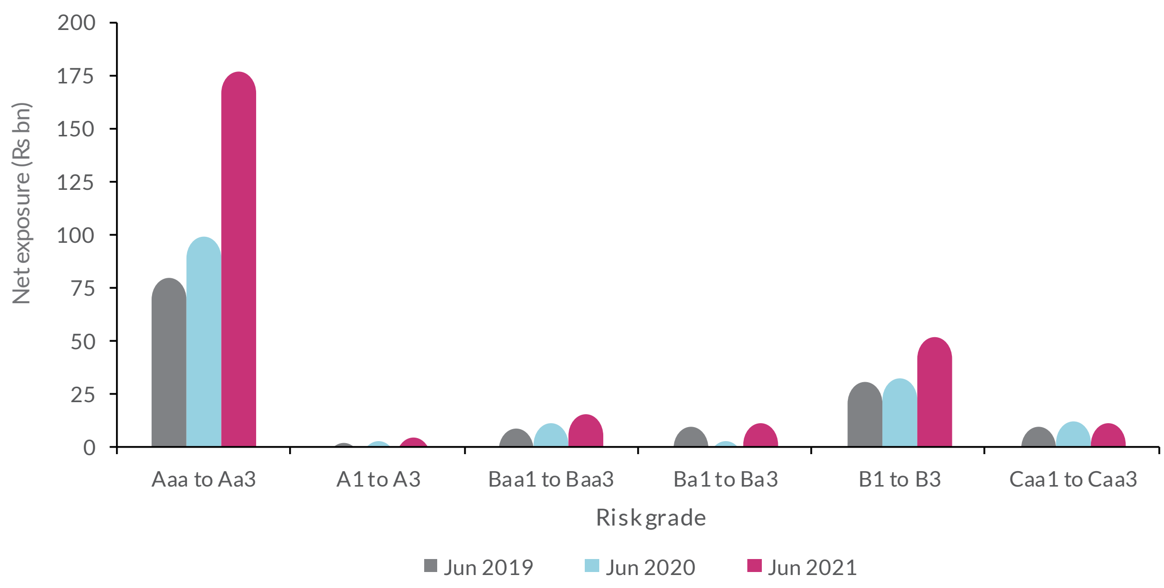
Distribution of MCB Ltd's customer loan portfolio



Total risk-weighted exposures by region
(Excluding Mauritius)



Country risk exposures



Note: For each country, the worst of the ratings assigned by Moody's, Standard & Poor's and Fitch Ratings has been selected and converted into a Moody's equivalent rating

Market risk

General approach

- The banking entities of the Group seek to minimise the risk of losses in on- and off-balance sheet positions arising from activities undertaken in or impacted by financial markets. This includes both market price risk and ancillary risks such as liquidity and funding (liability) risks. The entities ensure that an appropriate framework is in place to systematically identify, assess, monitor, control and report, within pre-defined limits, the market risk exposures across their trading and banking books.

- At the level of MCB Ltd, the market risk management approach and framework is aligned with applicable Bank of Mauritius Guidelines, namely the Guideline on Measurement and Management of Market Risk and the Guideline on Liquidity Risk Management, as well as internationally recommended practices. The Bank clearly defines its appetite in respect of market risk and manages its exposure through risk limits, both at a dealer level on individual trading activities and overall entity level, and risk targets in the case of structural market and liquidity risks. In line with relevant guidelines, the Market Risk Policy, which covers both the trading and banking books, ensures that market risk origination, settlement and control are appropriately segregated and that liquidity risk oversight is conducted independently of the risk-taking units. The Market Risk BU undertakes the monitoring and management of market risks, while providing financial position and risk analysis information to the Asset and Liability Committee (ALCO) and RMC. The RMC meets at least quarterly and on an ad-hoc basis when required and reviews market risk and liquidity risk exposures and metrics, while also assessing regulatory and other developments.

- Our foreign banking subsidiaries operate within the precinct of their Market Risk Policies which put forward the relevant processes and controls to mitigate interest rate, foreign exchange as well as funding and liquidity risks faced. Market risk sanctioning mandates are delegated to Management for the conduct and monitoring of relevant day-to-day operations and activities. They are assisted by the Global Markets and Treasury Management SBU of MCB Ltd in the deployment of their undertakings. The latter function services both their foreign exchange and money market requirements by delivering advisory services through direct access to its traders, who share their views about market trends and provide notifications on relevant updates.

Risk measurement and management

Interest rate risk

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

- MCB Ltd also incurs interest rate risk in the trading book by virtue of (i) its primary dealership status in the local Government and/or BoM securities market; (ii) its trading positions in international fixed income securities; and (iii) the holding of net open positions in derivatives that are subject to daily fluctuation in rates and yields. To constrain its exposure to interest rate risk in the trading book, the Bank resorts to hedging techniques or ensures that certain exposures are conducted on a back-to-back basis. It also sets several sensitivity limits on outstanding positions. Basically, the limit, which is a measure of the impact of price volatility on portfolio value, aims at limiting the loss in dollar terms of a parallel upward shift of one basis point in applicable interest rates. Such sensitivity limits are calculated by an engine on both the exposure and its hedge, and monitored by the Market Risk BU. To improve on its monitoring of trading risk, the Market Risk BU also leverages on its Product Control function to monitor the daily 'Profit or Loss' changes arising on both realised and open positions with the ultimate objective of limiting downside exposure.

Foreign exchange risk

- The entities are subject to foreign exchange (FX) risk from an on-balance sheet perspective, i.e. as a result of imbalances witnessed between the foreign currency composition of their assets and liabilities. The risk to which they are exposed can also be viewed from an off-balance sheet angle through their outstanding positions, mainly in respect of foreign exchange forwards. Exposure to FX risk is monitored against both regulatory stipulations and internal targets, which are, especially, applied to metrics such as the net foreign risk exposure in any single currency and the aggregation of the net foreign exchange risk exposure.

Liquidity and funding risk

- The entities manage the liquidity profile of their balance sheet through both short-term liquidity management and long-term strategic funding, while covering both local and foreign currencies. Towards this, the entities operate mutually supporting lines of defence.

Cash flow management

- The entities create a time ladder of continuous assets and liabilities cashflows, while avoiding undue accumulation of cashflows in any time segment, especially those expected to fall due in the close future.
- They use cash and liquidity gap profiles in both local and significant foreign currencies to monitor the impact of projected disbursements by lines of business.
- They undertake the behavioural analysis of its non-maturity current and savings balances so as to assign an actuarial maturity profile which reflects the stickiness of such account balances.

Liquid assets buffer management

- The entities hold a stock of high quality and unencumbered assets that it can rapidly dispose of in case required. The aim is to meet unexpected outflows of funds or substitute expected inflows of funds (such as loan instalments) that do not eventually materialise at little or no loss in market value.

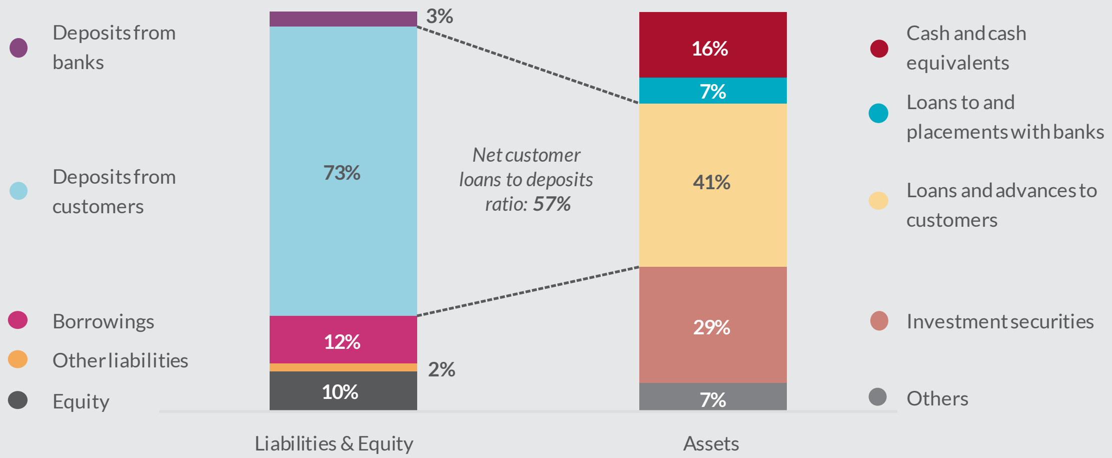
Funding risk management

- The entities maintain diversified liability bases across different categories of depositors, alongside also covering a spectrum of short to medium term funding.

- While it pursues its efforts to mobilise FCY deposits as a primary and relatively stable source of funding, MCB Ltd remains committed to continuously optimising and diversifying its short and medium-term funding profile. Alongside exercising close scrutiny of market developments and investor sentiment, the Bank is committed to entering into international wholesale markets whenever required, while capitalising on its technical experiences as well as the relationships developed by dedicated teams dealing with financial institutions and banks. At the end of the day, the key consideration for the Bank is to diligently manage and diversify the funding and maturity profile of its balance sheet in order to ensure that it can successfully deploy its strategic endeavours over the short and longer runs.

MCB Ltd took further actions to promote a stable and diversified funding base while mobilising adequate FCY resources to support its growth strategy. As a key move, the Bank, in September 2021, secured a syndicated medium term facility of USD 1 billion arranged by a consortium of six international banks and involving some 30 lenders. Part of the funds will be used to settle an existing syndicated borrowing maturing in March 2022, with the remainder earmarked to finance ongoing cross-border activities.

Asset funding structure at MCB Ltd



Liquidity ratios computed at MCB Ltd

Liquidity Coverage Ratio (LCR)

In alignment with Basel III rules, the objective of the LCR is to promote the short-term resilience of a bank's to liquidity shocks by ensuring that it maintains an adequate reserve of unencumbered High Quality Liquid Assets (HQLA) in order to survive a period of significant liquidity stress lasting 30 calendar days. As per regulatory stipulations in the Mauritian banking system, the LCR is computed as the ratio of the stock of unencumbered HQLA to the net cash outflows over the next 30 days in the event of an acute liquidity stress scenario. Under the transitional arrangements set by the BoM, the minimum regulatory ratio rose to 100% as from 31 January 2020 for MUR, material foreign currencies and consolidated LCR. To denote the dynamic nature of liquidity, the reporting timeframe was also increased since July 2019 from month-end to fortnightly basis. Furthermore, effective September 2020, the Guideline was revised to incorporate changes with regard to transitory deposits, committed facilities in foreign currency provided by the Bank of Mauritius and to include that banks shall immediately notify the Bank of Mauritius of the use of HQLA denominated in major currencies that are freely convertible, transferable and actively traded in global foreign exchange markets to cover liquidity needs in other such major currencies.

Net Stable Funding Ratio (NSFR)

Under Basel III, the NSFR aims to promote the resilience of a bank over a longer time horizon by requiring the latter to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities so as to mitigate any future funding stress. The NSFR effectively recognises a bank's maturity transformation role in the credit creation and resource allocation process. It seeks to limit the bank's overreliance on short-term wholesale funding or the running of large funding gaps meant to sustain rapid balance sheet growth.

Operational risk

General approach

- The banking entities of the Group aim to identify, mitigate and manage operational risks across their activities, processes and systems in line with the defined risk tolerance. The objective is to underpin the continuity of their operations and anchor a solid platform to provide customers with seamless services.

- Towards determining the operational risk tolerance levels, the entities set risk acceptance and mitigation limits in respect of the principal categories of operational risk as appropriate. Operational risk sanctioning mandates and day-to-day oversight responsibilities are entrusted to Management. The latter is responsible for the application and effectiveness of the operational risk policy. The key duties are to (i) ensure compliance with underlying objectives set in terms of the management of such types of risk; and (ii) foster the development, implementation and documentation of internal controls and processes.

- The operational risk management framework is anchored on adapted policies which are approved by the Audit Committee of each banking entity. The operational risk policies of the banking entities formulate the principles and methodologies for the management of operational risk. They set out a framework which is aligned with advocated rules and norms on the local and international fronts, best practices and standards, while setting out the relevant roles and responsibilities within the entity. The responsibility for implementing the operational risk management framework is entrusted to Senior Management.

Risk measurement and monitoring

- The determination of the risk exposures is anchored on the regular review of the operational risk inherent in internal processes and client solutions, with monitoring thereof performed against acceptable tolerance limits.

- With respect to MCB Ltd, it applies the Alternative Standardised Approach for calculating and reporting its operational risk capital charge. Information on operational risk events is recorded in a centralised database, which enables systematic root cause and trend analysis for necessary corrective actions.

Risk mitigation and management

- At the level of MCB Ltd and as described in its Operational Risk Policy, the Operational Risk BU is responsible for the identification, assessment and management of related risks. Nonetheless, it should be noted that operational risk management is not just a function of the Operational Risk BU but forms part of the day-to-day responsibilities of Senior Management and employees.

Furthermore, operational risk mitigation relies on appropriate processes and systems, backed by the clear segregation of duties, dual control as well as the regular verification and reconciliation of transactions. The control environment is based on an appropriate risk culture, which is fostered through risk awareness sessions targeting relevant audiences. An overview of both operational risk and Business Continuity Management is provided to new staff at the onset of their career through induction courses. The Operational Risk Management Framework relies on three primary lines of control, as depicted below.

Primary lines of control

- Implement internal control procedures
- Identify inherent risks in products, activities, processes and systems
- Initiate actions and apply mitigation strategies
- Report risk incidents

- Oversee the implementation of policy
- Implement integrated risk framework
- Report on inherent and residual risks
- Monitor corrective actions
- Promote operational risk culture across the Bank

- Verify the effectiveness of the overall operational risk framework

- The management of operational risks by the foreign banking entities is also underpinned by recourse to specific tools and systems that are adopted by MCB Ltd, notably the incident reporting system, as tailored to the subsidiaries' business realities. In addition, staff leverage training courses from MCB Ltd to provide assistance on specific risk management needs.

Business Continuity Management (BCM)

General approach

- The banking entities of the Group adopt a robust and proactive approach to Business Continuity Management to ensure that they continue to conduct their operations and deliver products and services in case of unforeseen events or business disruptions at acceptable pre-defined levels.

- The entities aim to minimise the potential damage that such disruptions can cause to people and business activities, while setting forward to safeguard their reputation and the interests of key stakeholders by effectively planning for and responding to incidents.

Framework and initiatives

- The Business Continuity Management framework of the banking entities is encapsulated in their respective BCM policies. The latter outline the applicable governance structure as well as the roles and responsibilities of each actor involved in the BCM programme. As an integral part of the Operational Risk Management Framework in place, the BCM framework is centrally coordinated and controlled by the entities' Risk functions, in collaboration with relevant support functions. A dedicated Crisis Management Team consisting of key members of Management shoulders central command during a crisis. Specific business segments, through designated business continuity champions, are the BCM process owners and are responsible for designing, reviewing and maintaining up-to-date recovery plans at their respective levels, in alignment with entities' specificities.

- With the outbreak of the COVID-19 virus across our presence countries, the operational preparedness levels of the banking entities were put to test. Their Pandemic Preparedness Plan was activated, with key initiatives successfully executed to ensure continuity of activities during these uncertain times. Actions deployed also helped to safeguard the safety and health of employees and clients, backed by (i) guidance and direction of the Crisis Management Team of each entity and that of MCB Group as a whole, with support emanating from dedicated crisis-related tactical and operational teams; and (ii) the dissemination of clear and coherent procedures and guidelines to ensure compliance by relevant parties and stakeholders. On another note, the banking entities conduct regular Disaster Recovery simulation exercises to test the operability of critical systems hosted on servers that are located at dedicated sites. The exercise confirmed the Recovery Time Objectives identified for the entities' critical activities and consolidated their ability to resume their critical operations from their Disaster Recovery site.

Permanent Supervision

General approach

- The banking entities of the Group are committed to effectively supervising transactions and processes embedded in their regular activities, backed by adequate control mechanisms and procedures. The permanent control/internal control approach is governed by several rules and standards prevailing locally, notably (i) regulatory requirements and guidelines; (ii) relevant Basel requirements; and (iii) guidance provided and principles formulated by the Committee of Sponsoring Organisation of the Treadway Commission (in the case specifically of MCB Ltd), which is a joint initiative to combat corporate fraud and was established in the US by private sector organisations. The entities adhere to dedicated internal control policies, which formulate the key principles and underlying governance framework underpinning the efficient development, deployment and monitoring of control activities undertaken by different sections of the organisation. The applicable framework sets out the relevant roles, responsibilities and reporting mechanisms to assist in fostering sound and stable operations within the entity.

Risk and control measurement and management

- The determination of risk exposures is anchored on the regular review of the operational controls applicable to processes and client solutions, with the entities actively monitoring the applicability and effectiveness of actions deployed. Regarding MCB Ltd, information on operational control events is recorded in a centralised database, which enables systematic root cause and trend analysis for necessary corrective actions.

- Internal control forms part of the day-to-day responsibilities of Management and employees at different levels of the banking entities. The internal control mechanism relies on appropriate processes and systems, backed by clear segregation of duties, dual control as well as regular verification and reconciliation of transactions. The control environment is based on an appropriate risk culture, fostered through risk awareness sessions targeting relevant audiences. Identified internal control deficiencies are managed in a timely and effective manner through adherence to established procedures and proper monitoring of reinforcement measures implementation.

- During the period under review, actions have been taken to further improve the application of the internal control framework and relevant processes across the banking entities. With the advent of the COVID-19 pandemic, the operational processes were reviewed to adjust to Work From Home conditions and realities, with adequate controls defined to monitor whether new procedures are being adhered to. Furthermore, dedicated awareness sessions have been conducted to enhance our staff's social engineering awareness with a view to enabling them properly and promptly recognise and react to social engineering attacks.

- In the case of MCB Ltd, the scope of the Permanent Supervision BU has also been reviewed to broaden the target framework and cover other risk sources at the Bank. As such, Risk & Control Executives (previously Business Risk Correspondents) will now be deployed to look into the whole spectrum of relevant operational, information and compliance risks across the Bank. Their coverage has also been reviewed such that they focus on high risk areas and proactively engage into risk management strategy execution with the host SBUs and BUs. Our foreign banking entities have further embedded Permanent Control framework and processes as part of the ongoing and dynamic exercise to strengthen the internal control set-up, alongside adhering to clearly-defined procedures and dashboards for controlling and mitigating the effects of operational risks faced.

Information risk

General approach

- The entities adopt a dedicated approach to uphold their information security, alongside ensuring that they are prepared to respond to potential cyber-attacks and threats to its information assets in a timely and effective manner. They conduct regular assessments to identify issues that can potentially harm their assets, with adequate mitigating controls being deployed.

Risk mitigation and management

- Risk management by the banking entities implies the regular conduct of information risk assessments so as to identify issues that can potentially harm the organisation's information assets and recommend adequate mitigating controls.

- At MCB Ltd, the Information Risk Management (IRM) BU is responsible for developing and maintaining information security policies, in line with the evolving operating landscape as well as requirements set by the authorities and other stakeholders. The key objective is to ensure that an adequate level of security is maintained to protect private, confidential, personal and any other sensitive information held by the Bank. To mitigate and manage information risks, several processes are in place to assist in identifying and analysing the business need to access logical information, restrict the information deployed to what is strictly required as well as monitor and control access to such information. IRM's findings, recommendations and assessments are regularly reported to various Executive committees and the Audit Committee, with an emphasis on cyber security and data protection matters.

- The banking entities are guided by roadmaps that have been developed in order to ensure that policies and processes are continuously geared up to effectively cope with challenges posed by increasing cyber threats. As such, several initiatives have been deployed to strengthen and ensure the robustness of the entities' information security including regular independent Penetration Testing and Vulnerability Assessments by leveraging external expertise. Further details on moves undertaken by MCB Ltd are provided below:

Recent initiatives at MCB Ltd

- The Bank deployed several initiatives to uphold the robustness of its information risk and privacy framework:
  - o Security events monitoring and response capabilities have been enhanced, notably through the deployment of our Security Operations Centre (SOC)
  - o The Bank's critical infrastructure (which includes customer-facing applications) has been independently tested and assessed from a cyber security perspective
  - o Various actions, including running security awareness sessions, have been taken to enhance our staff's cyber security awareness, with a focus on social engineering
  - o Our capability to monitor and respond to cyber threats has been improved through the use of Cyber Threat Intelligence to collect and analyse data about threats
  - o The set of critical controls underpinning our cyber security resilience is being continuously monitored, and our cyber incident response framework has been reviewed
  - o General awareness on data privacy matters has been enhanced, with particular attention paid to ensure that privacy and security by design concepts become embedded within the Bank's culture
  - o Compliance to laws and regulations relating to data protection has been assessed with a view to identifying any gaps and gearing up our capabilities to adhere to relevant stipulations, with necessary steps undertaken to fill gaps identified
  - o Our risk assessment framework and information security management systems and processes were upgraded to foster alignment with internationally-recognised standards

Compliance risk

General approach and objectives

- The compliance strategy of the Group seeks to ensure consistency between the conduct of business operations and the observance of relevant laws, rules and standards of good market practices, through continued identification of compliance-related risks, and ongoing assessments and understanding of such risks as well as the design of adequate controls. The aim is to shield the organisation from legal/regulatory sanctions as well as financial/reputation losses.

- The approach is to foster a compliance-oriented culture with a view to supporting business lines in delivering fair outcomes for customers and preserving the organisation's reputation, while helping to achieve business development objectives.

Risk mitigation and management

- The entities of the Group seek to ensure that its core values and standards of professional conduct are maintained at every level and within all their activities and operations. Towards this end, they adhere to the Group's policies while also ensuring they comply with all relevant local legal requirements. They adopt dedicated systems and processes so as to properly identify and prevent any risks of non-compliance while ensuring that they are sufficiently equipped in order to live up to the increasingly stringent regulatory environment and effectively cope with greater scrutiny by regulators and law enforcement authorities. In order to guarantee that their objectives are met in a consistent and judicious manner, they perform regular monitoring exercises, to ensure compliance with policies and procedures and ascertain that controls are operating in a sound and effective way. In a nutshell, compliance risk management is anchored in the following core principles:

Core principles guiding compliance risk management

- Paying continuous attention to and undertaking regular reviews of ongoing developments as regard laws and regulations, accurately understanding their impact and coming up with necessary responses so that the Bank can effectively address the risks arising from such changes
- Fostering a coherent compliance control mechanism within the Bank to pave the way for standardised processes and operations
- Maintaining a set of policies to promote strong ethical behaviour by staff as well as to prevent and manage conflicts of interests
- Promoting the awareness of Management and staff on requirements arising out of new/amendments to laws and regulations and other compliance-related matters
- Providing adequate training to the Compliance Officers and to the Bank's employees to ensure that they have the necessary knowledge and skills to accomplish their duties
- Maintaining close working arrangements and communication with business lines through the dissemination of compliance-related information, provision of advisory services and delivery of dedicated training courses to staff
- Using state-of-the-art technology to monitor adherence to set norms so as to provide assurance to Management and the Board, through the Audit Committee, as regards the state of compliance
- Fostering trusted relationships with regulatory and supervisory bodies by sustaining productive and value-adding dialogue with them to uphold effective two-way communication
- Proactively identifying compliance and ML/TF related risks assess its residual likelihood and impact based on the controls in place – corrective measures are taken and monitored to minimise likelihood of the risks materialising

- In relation to their Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) obligations, the banking entities of the Group ensure that adequate processes, systems and controls are in place to render their services inaccessible to criminals, including money launderers and terrorists or their financiers, alongside paving the way for detecting suspicious activities. While fostering continuous staff awareness, the entities *inter alia* ensure that employees are given appropriate training on AML/CFT and fraud prevention topics to help them identify suspicious transactions. A Financial Crime Risk Management system has been implemented for underpinning the oversight of anti-money laundering. Moreover, the entities adhere to a Whistleblowing Policy, whereby an alternative reporting process is established for use by all employees in confidence, without the risk of subsequent retaliation, victimisation, discrimination or disadvantage. The Whistleblowing Framework at the organisation is designed to assist employees deemed to have discovered malpractices or impropriety.
- The compliance frameworks of our banking entities have been reinforced through the adoption of continuous permanent supervision mechanisms. During the year, MCB Ltd undertook several initiatives to further strengthen its compliance framework while providing dedicated assistance to the foreign banking entities.

Risk and capital management report

Key areas of support by MCB Ltd to foreign banking entities

- Compliance risk assessments: It extends support to the Compliance Officers of the foreign entities in the performance of compliance risk assessments and through compliance-related training provided to them
- Money Laundering and Terrorist Financing Enterprise Wide Risk Assessment (EWRA); It assists in the conduct of the EWRA for selected entities
- Advisory services: It maintains an open line of communication with afore-mentioned Compliance Officers and encourages them to seek advice/guidance whenever they are in need of same
- Staff training: It provides AML/CFT training to staff of the entities when called for, in addition to reviewing materials that the Compliance Officers have prepared for the purpose of staff training execution: It assists entities embarking on the implementation of IT tools to ensure compliance risk management
- Other areas: It reviews operational procedures to ensure that they meet set standards and that all applicable legal and regulatory requirements are incorporated therein. Its services are also solicited for the implementation of international applicable legal requirements and the resolution of regulatory-related matters

MCB Ltd: Recent initiatives

- After making allowance for the testing operating conditions and the increasingly stringent domestic and global landscape as regard alignment with advocated rules, norms and standards, the Bank continues to gear up its overall compliance framework, while ensuring that adequate processes, systems and controls are in place to underpin the deployment of its activities.
- MCB bolstered its Compliance function by integrating the Anti-Money Laundering unit therein for enhanced synergies and coordinated actions to effectively manage related risk management.
- With regard to KYC/AML procedures in place at the Bank, relevant policies and guidelines for the monitoring of High Risk Customers are being reviewed. We improved the mechanisms underpinning handling of alerts relative to unusual behaviours and suspicious transactions. We carried out a number of system revamps, notably the upgrade of our Financial Crime Risk Management system with a view to generating more pertinent alerts, alongside taking the necessary measures to foster the smooth implementation of earmarked modules linked to Customer On-Boarding, KYC, Watch List and Payment Fraud. Likewise, the Safewatch tool used by the Bank for customer screening purposes has been upgraded, with the new version providing more effective functionalities. The Bank also set up tailor-made AML/CFT e-learning training modules for members of the Board, Leadership Team, front-liners and control staff. Dedicated initiatives are in place in order to further shore up the customer on-boarding policy and process, including (i) adoption of a risk-based approach for the screening, review and rating of customers at the on-boarding stage, while reviewing the Money Laundering/Terrorist Financing customer risk scoring methodology and enhancing the automation of the process; (ii) upgrading of applicable procedures by establishing an escalation route for approval of client on-boarding (depending on the risk profile) by on-boarding committees (namely Business On-boarding Committee and Executive On-boarding Committee).
- The Bank has embarked in an eKYC (electronic Know Your Customer) journey in its quests to digitalise and transform its processes to reduce paper based hurdles and ease the customer journey, whilst ensuring adherence to applicable AML/CFT requirements.
- With regard to adherence to policies and rules guiding our operations, the following can be noted: (i) setting up of an underlying Policy for the Formulation and Management of Policies, which shall assist in establishing and harmonising the governance and approach underpinning the development, approval, and publication process regarding policies endorsed by the Bank; and (ii) review of the Bank's Policy on Economic and Financial Sanctions, in line with new regulatory developments and requirements.
- The Compliance unit spearheaded the Enterprise Wide Risk Assessment (EWRA) exercise to help MCB identify gaps and opportunities for enhancements in its internal AML/CFT framework. EWRA, which is a regulatory requirement, aims at identifying the ML/TF risks to which MCB is exposed per products, services, channels and segments, as well as determining the risk mitigation controls embedded in its AML/CFT programme and establishing the level of residual or unmitigated risks that remain for the Bank.

Risk Assurance: Internal Audit

General approach

- The aim of internal audit at the Group level is to assess the policies, methods and procedures in place at the organisation in order to cater for their adequate application. The Internal Audit function is also responsible for independently assessing the effectiveness of key controls, including those within the risk management framework, and providing timely reporting to the respective Audit Committee, thus helping to protect the organisation and its reputation.

- The established framework of the internal audit activity is risk-based. As a key thrust, the banking entities of the Group aim to gather the necessary audit and risk insights in order to support their strategic orientations.

Strategy and objectives

- The foreign banking entities of the Group rely on their locally-based internal auditors, alongside leveraging the services provided by the Internal Audit SBU of MCB Ltd to, amongst others, disseminate internal audit best practices and standardise the quality of related audit work. While factoring in the work done by the locally-based internal auditors, the Internal Audit SBU carries out regular assignments to assist these entities to better manage their risks as well as improve the quality of their control systems and processes, with advice being delivered on different aspects in line with the nature of projects being executed. In line with its continuous efforts to enhance its efficiency levels, the function increased the use of data analytics as part of the audit execution exercise, which has proved to be helpful in the current context, whereby international travel has not been possible.

- The Internal Audit function provides independent assurance to the Audit Committee and the Board by conducting reviews and engaging with committees and executive management, providing opinion and advice on risk matters and on the control environment. Internal Audit is an independent function, reporting to the Audit Committee of the Group and the Audit Committees of the subsidiaries, where they are constituted, with the Audit Committee of the Group acting as the overarching authority.

- The Internal Audit SBU of MCB Ltd includes professionals with a broad range of audit, fraud and industry experience, whilst it continues to invest in the upskilling of its team members, with professional certifications being strongly encouraged. Based on its assessments, the Internal Audit function is presently not aware of any significant area of the Bank where there are inadequate internal controls. The function does not believe that there are deficiencies in internal controls that could give rise to risks that could eventually jeopardise the operations of the Bank.

Capital management

The framework

In line with regulatory rules, Basel requirements and industry best practices, the capital management objective of the banking cluster, which is aligned with Group-level directions, is to ensure that adequate capital resources are available to operate effectively, foster sustained business growth, preserve or enhance credit ratings and cope with adverse situations. Capital management policies and practices aim to maintain a strong capital position that is consistent with stakeholder expectations and requirements.

Backed by the adoption of a forward-looking approach and a sensible governance framework, banking entities determine the level and composition of capital after making allowance for multiple factors. They include the legal and regulatory landscape across countries, the business environments, the Group's strategic orientations, conditions prevailing across economies and financial markets, etc.

Our process

Commensurate with the strategic orientations, risk appetite and risk management framework approved by the Board of MCB Group Ltd, the entities operating under the banking cluster abide by their internal policies and practices for undertaking their capital management initiatives, including (i) capital planning and allocation across business segments and geographies wherever applicable; (ii) capital reporting, budgeting and analysis; and (iii) management of capital consumption against budgets. For instance, MCB Ltd is guided by its Internal Capital Adequacy Assessment Process (ICAAP) in determining the capital planning exercise and formulating the risk appetite. This provides the framework to ensure that adequate capital is kept beyond core minimum requirements to support business activities.

Risk and capital management report

Internal Capital Adequacy Assessment Process of MCB Ltd

Framework

The ICAAP framework has been developed and applied at the Bank pursuant to the issue of the Bank of Mauritius (BoM) Guideline on Supervisory Review Process in April 2010. The key objectives of ICAAP are as follows: (i) to provide an informative description of the methodology and procedures that the Bank uses to assess and mitigate its risks; and (ii) to make sure that adequate capital resources are kept to support risks faced beyond core minimum requirements. The ICAAP document, which is reviewed periodically, delineates the process through which the Bank assesses the required minimum capital to support its activities. It seeks to ensure that MCB remains well capitalised after considering material risks.

Objectives	• To provide an informative description of the methodology and procedures that the Bank uses to assess and mitigate its risks; and • To make sure that adequate capital resources are kept to support risks faced beyond core minimum requirements

Assessment and planning

- Through the ICAAP, the Bank assesses its forecast capital supply and demand relative to its regulatory and internal capital targets under various scenarios. The Bank's capital plan is defined every year during the budgeting and strategic planning exercise, while financial year risk appetite limits are set by the Board. As for the Bank's exposures, they are monitored on a quarterly basis against those limits, with related insights being reported to the RMC.

- The capital plan includes a crisis management plan. The latter makes allowance for various measures that should help to rapidly mobilise additional capital if the need arises, with discussions thereon being held at Board level.

Stress testing at MCB Ltd

Framework

Risk identification	• To detect and address existing or potential vulnerabilities such as unidentified and Bank-wide risk concentrations or interactions among various types of risk, many of which may be overlooked when relying purely on statistical risk management tools based on historical data
Risk assessment	• To promote a deep understanding of organisational vulnerabilities on the back of forward-looking risk assessments; this helps to make risk more transparent via an estimation of scenario-based losses and to prevent the development of any false sense of security about the Bank's resilience • To evaluate the significance of risk faced during different phases, notably (i) during periods of favourable economic and financial conditions given the subsequent lack of visibility over potentially negative future developments; and (ii) during periods of business expansion when innovation leads to new products and services for which no historical data is available for forecasting future trends
Risk mitigation	• To facilitate development of risk mitigation or contingency plans across stressed conditions • To stimulate debates and raise awareness on the various risk aspects of our client portfolios among Management, helped by (i) a well organised surveying of the operating context; (ii) an identification of the most important risk factors; and (iii) a scanning of the horizon for potential stressful events

MCB Ltd: Results

In FY 2020/21, the Bank conducted stress testing under various historical and stress test scenarios to assess the impact of unfavourable scenarios on key metrics. Forecasts are usually made over a three-year horizon. However, exceptionally in the context of the COVID-19 pandemic, given that the Bank was already in a stressed environment and due to the uncertainty on the recovery path of the global and local economy, it ran the stress scenarios over a one-year horizon. As such, MCB Ltd undertook a more thorough approach by defining 4 stress scenarios, as provided hereafter. The scenarios are regularly reviewed and fine-tuned to ensure that they remain relevant to the Bank's risk profile, activities as well as prevailing and forecasted economic conditions. MCB Ltd measured potential impacts on the following metrics: (i) Solvency: Capital adequacy ratio and Tier 1 ratio; (ii) Profitability: Net profit after tax; (iii) Asset quality: NPL ratio and cost of risk; and (iv) Liquidity: LCR, NFSR, Net Present Value (NPV) of Trading and Fair Value Through Other Comprehensive Income (FVTOCI) portfolio. The stress test results are reported and discussed at the RMC and the Board prior to being submitted to the BoM. Barring extreme cases, the recent analyses revealed that the Bank's capital adequacy ratio does not fall below the regulatory requirements in any of the 4 scenarios below based on the shape of the economic recovery.

Scenario 1	U shape with modest recovery starting second half of 2021
Scenario 2	U shape with longer bottom down period and recovery starting only second half 2022
Scenario 3	L shape with further depression in 2021
Scenario 4	L shape with further depression in 2021 and full lockdown as from Feb/Mar 2021

Internal Capital Adequacy Assessment Process of MCB Seychelles

- During the year under review, MCB Seychelles prepared an ICAAP document, in line with the Central Bank of Seychelles implementation of a Risk-based Supervision framework to further bring the Seychelles banking sector in alignment with Basel II Accords.
- MCB Seychelles demonstrated that it had a robust internal assessment process for capital adequacy towards Pillar II risks to which it is exposed, as well as external risk factors.

MCB Seychelles: Results

The bank conducted stress tests under various scenarios to assess the impact of unfavourable events on its capital position. Barring extremely unrealistic events, its capital adequacy ratios remained within the regulatory thresholds within the six envisaged scenarios:

Scenario 1	COVID-19 pandemic persists beyond 2021 resulting in defaults on exposures of vulnerable sectors and a further depreciation of the Seychelles Rupee
Scenario 2	Three largest conglomerates default
Scenario 3	Crash in the domestic property market
Scenario 4	Reputation risk impacting the deposit base and liquidity position of the Bank coupled with an additional increase of 10% in non-performing loans
Scenario 5	Combination of Scenario 1 & Scenario 4
Scenario 6	Combination of Scenario 1 & Scenario 3

Risk and capital management report

Capital position of banking entities

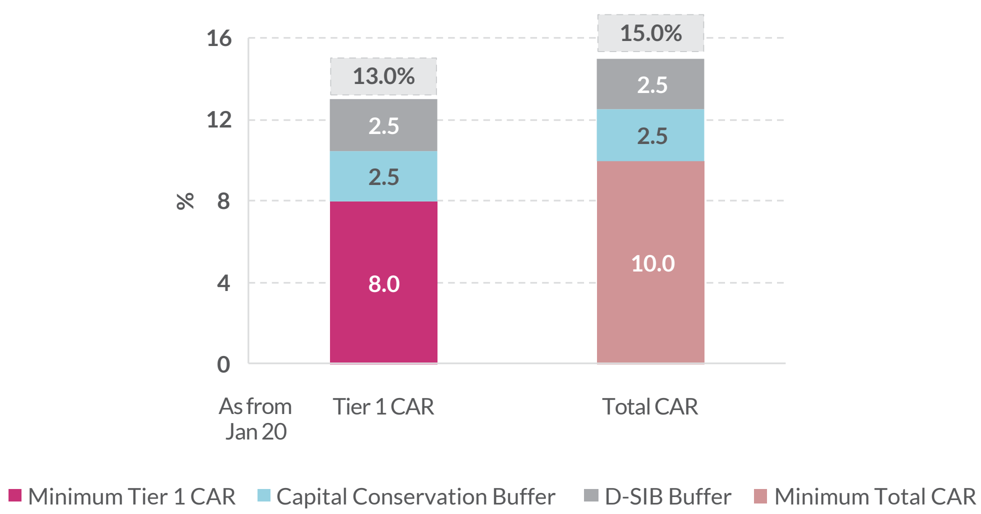
The banking subsidiaries of the Group foster strict compliance with mandatory stipulations set by the regulators of their jurisdictions. In respect of MCB Ltd, the Bank uses the Basel II Standardised Approach to manage its credit and market risk exposures, with the Alternative Standardised Approach used for operational risk. As for determination of its capital resources, the Bank adheres to the BoM Guideline on Scope of Application of Basel III and Eligible Capital. It also complies with the Guideline for dealing with Domestic-Systemically Important Banks (D-SIB). Under the latter, banks are required to hold a capital surcharge or D-SIB buffer ranging from 1.0% to 2.5% of their risk-weighted assets depending on their systemic importance. The assessment for determining domestic-systemically important banks is carried out on a yearly basis on end-June figures. As per the assessment carried out by the Central Bank, MCB Ltd features among the five banks that have been determined to be systemically important in our jurisdiction, based on the assessment of five factors, namely size, exposure to large groups, interconnectedness, complexity and substitutability.

Regulatory ratios applicable to MCB Ltd

(excluding COVID-19 capital requirement measures)

Tier 1 CAR and Total CAR

(plus Capital Conservation Buffer plus D-SIB Buffer)



In May 2020, to provide additional flexibility to banks to support economic stakeholders, households and individuals impacted by the COVID-19 outbreak, the BoM deferred the Capital Conservation Buffer of 2.5% which was effective as from 1 January 2020 to 1 January 2021 such that banks will be required to maintain a Capital Conservation Buffer of 1.875% until 31 December 2020. This has been further deferred such that banks will be required to maintain a Capital Conservation Buffer of 1.875% until 31 March 2022. The minimum regulatory Tier 1 and capital adequacy ratios currently applicable to MCB are 12.375% and 14.375% respectively. In addition, the regulatory risk weights on certain categories of exposures including retail and residential mortgages were reviewed. As at 30 June 2021, the capital adequacy ratio and Tier 1 ratio of MCB stood at 16.8% and 15.8% respectively compared to 17.5% and 16.5% last year.

As for the foreign banking entities, they are guided by the minimum regulatory ratios set out in the table below, with their respective capital adequacy ratios remaining comfortably above the applicable regulatory requirements.

Minimum regulatory ratios applicable to the foreign banking entities

	MCB Seychelles	MCB Maldives	MCB Madagascar
As at 30 June 2021	%	%	%
Capital adequacy ratio	12.0	12.0	8.0
Tier 1 ratio	6.0	6.0	-

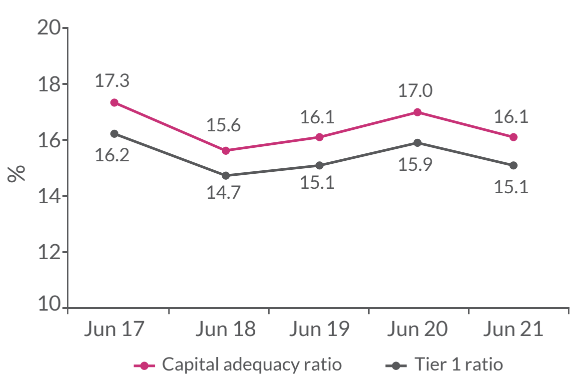
Performance of the foreign banking entities

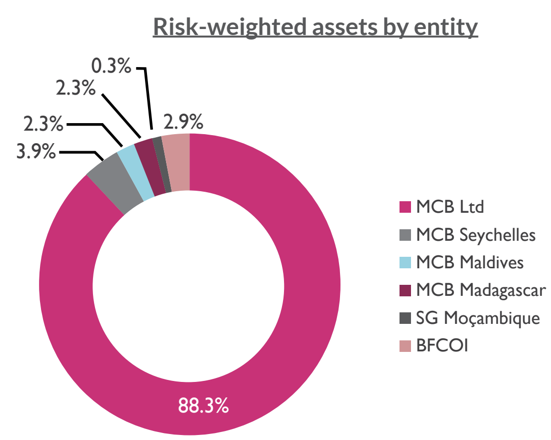
Capital adequacy	MCB Seychelles	MCB Maldives	MCB Madagascar
	%	%	%
Capital adequacy ratio			
As at 30 June 2020	15.1	46.0	17.0
As at 30 June 2021	14.9	56.2	14.0
Tier 1 ratio			
As at 30 June 2020	13.3	35.7	13.6
As at 30 June 2021	14.3	43.1	11.3

Capital position of the banking cluster on a consolidated basis

The capital adequacy ratio of the banking cluster – as measured at the level of MCB Investment Holding Ltd on a consolidated basis – stood at 16.1% as at June 2021. The capital base was primarily made up of core capital, with the Tier 1 ratio standing at 15.1% as at June 2021. The following illustrations depict the capital adequacy ratios posted by the banking cluster and shed light on the distribution of risk-weighted assets by entity.

Banking cluster: Distribution of capital metrics





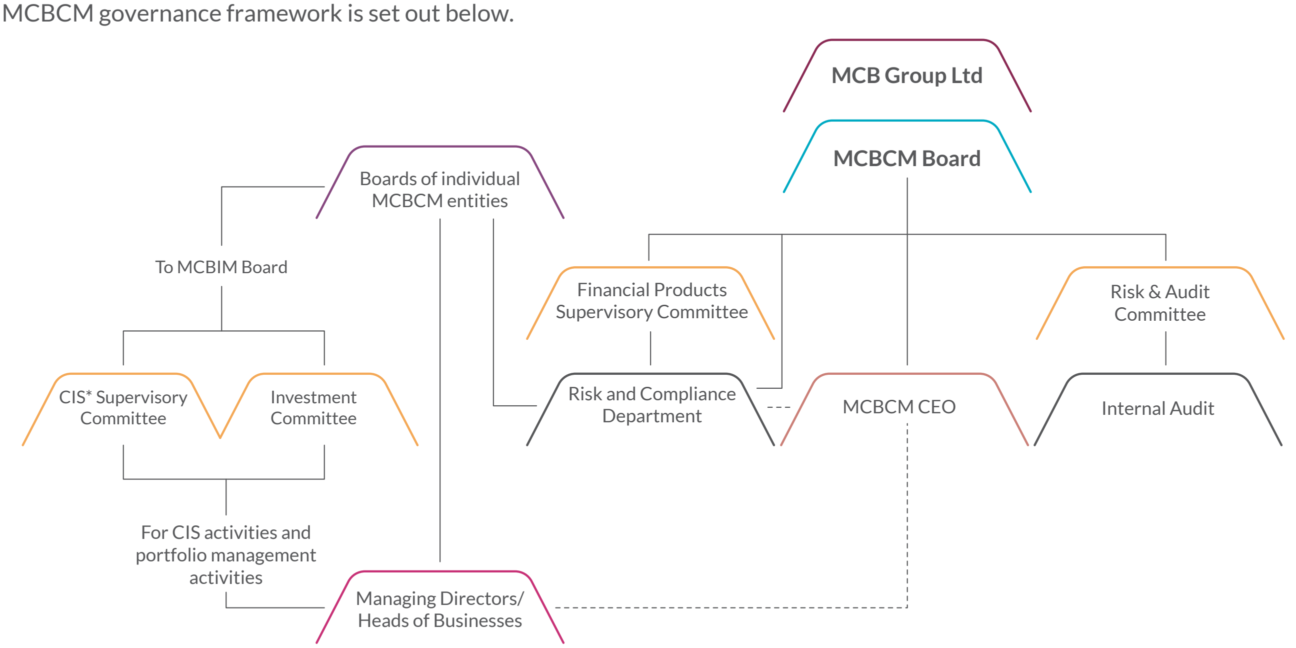
Risk and capital management report

Non-banking financial and other investments clusters

- While adhering to good corporate governance principles, entities within the non-banking cluster of the Group adopt appropriate frameworks and processes that allow for an effective identification and management of risks faced by their respective business activities.

MCB Capital Markets Ltd and its subsidiaries

- Certain subsidiaries of MCB Capital Markets Ltd (MCBCM) are regulated by the Financial Services Commission. MCBCM, which is required to comply with the National Code of Corporate Governance for Mauritius (2016), seeks to implement best practice risk management standards. The ultimate responsibility for managing risks rests with the Board of each subsidiary and material issues are escalated to the main Board via the Risk & Audit Committee.
- To ensure strong governance, several sub-committees have been set up to oversee critical areas of MCBCM's operations. An example is the management and administration of Collective Investment Schemes (CIS), where MCBCM has appointed a CIS Supervisory Committee with the responsibility to review and assess all aspects relating to CIS management, including risk, investment and administration.
- MCBCM recognises that financial products are becoming increasingly complex and regulated. Accordingly, it has a strong governance framework in place with a Financial Products Supervisory Committee, comprising all independent directors, with international expertise, of MCB Investment Management Ltd, being responsible to oversee all new product launches.
- An Investment Committee, chaired by an independent director, meets on a quarterly basis and scrutinises the portfolios and processes of MCB Investment Management. A Risk & Audit Committee has also been set up as a sub-committee of MCBCM.
- Day-to-day risk management is delegated to the management team of each MCBCM subsidiary and to MCBCM's Risk & Compliance (R&C) function, whose primary responsibilities are to *inter alia*: (i) assess all legal and regulatory obligations of MCBCM's businesses, ensuring compliance with all applicable laws, regulations and policies; (ii) provide risk-related advice, recommendations and compliance assurance to members of the boards and committees of MCBCM; (iii) coordinate all risk management and compliance matters; and (iv) investigate client complaints and any breaches of applicable laws, regulations and procedures.
- The Head of R&C reports directly to the Chief Executive Officer of MCBCM and also has direct reporting lines to certain Boards of subsidiaries and sub-committees of MCBCM in line with best practice. R&C submits a compliance report to the Boards of relevant MCBCM entities every six months and has the discretion to escalate critical issues on a more frequent basis, if necessary. All entities of MCBCM are subject to annual independent internal and external audits. The Risk & Audit Committee meets at least twice a year to review *inter alia* R&C's risk reports, audit findings, progress on previously identified issues and the audited financial statements of all legal entities.
- The MCBCM governance framework is set out below.



** Relates to Collective Investment Schemes*

Key principles and considerations for risk management

Legal and regulatory

- Recognising the need to adhere to international governance codes and standards, MCBCM has put in place a framework to manage its legal and regulatory risks. This is summarised below:
  - o Regular review of applicable laws and regulations to identify compliance gaps;
  - o Active involvement of MCBCM's Risk & Compliance and legal teams in the development of new products and services to ensure that they are in compliance with applicable laws and regulations prior to being launched;
  - o Monitoring of changes to the legal and regulatory frameworks and initiation of corrective actions as necessary; and
  - o Bi-annual monitoring exercises undertaken by the Risk & Compliance team to assess the level of compliance with laws and regulations, particularly with respect to anti-money laundering and financing of terrorism.

Operations (people, processes and systems)

- A significant proportion of R&C's resources is allocated to the management of operational risks. The methodology, which places particular emphasis on high volume businesses, is set out below.

- The initial stage of the above methodology includes *inter alia* formal reviews of procedures and processes, analysis of complaints and incident reports and review of new products and services. The output is then used to update MCBCM's risk maps, which address all material risks faced by the business and their pre-control ratings. These risks are eventually re-assessed taking into account existing controls and additional controls that are required to arrive at a post-control rating. Any residual post-control risks deemed material will lead to a re-design of the relevant controls until such risks are adequately addressed, mitigated or eliminated.

Risk and capital management report

Financial risks

- MCBCM, through its brokerage business, offers underwriting services to corporate clients and is thus subject to financial risks. Such risks are managed by a formal process that involves:
  - A technical assessment of all requests for underwriting by a group comprising MCBCM's Chief Financial Officer, Head of Risk and Compliance, Head of Legal and the Managing Director of MCB Stockbrokers;
  - A two-tiered approval process, with the first level approval being provided jointly by the CEO of MCBCM and the Chairperson of the Board of MCB Stockbrokers, and the second level approval provided by the management of MCB Group.
- MCBCM, through its brokerage business, also acts as market-maker or liquidity provider in respect of certain securities listed on the Stock Exchange of Mauritius (SEM). Relevant safeguards have been implemented to ensure that any risks arising from this activity are properly mitigated.
- MCBCM, through various subsidiaries, is involved in the structuring, issuance and management of Credit Linked Notes (CLNs). The latter are long-dated debt instruments but have been structured so as to provide targeted investors with regular exit windows hence improving the liquidity of these financial products. Associated financial risks being borne by MCBCM require some degree of active funding and liquidity management, mainly through adequate levels of capitalisation and access to appropriate funding and credit lines.

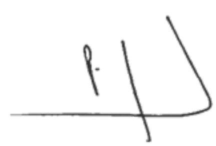
Key initiatives – AML/CFT

- MCBCM launched several initiatives to improve the effectiveness of its anti-money laundering procedures and to strengthen its framework to counter the financing of terrorism (AML/CFT). These include, *inter alia*:
  - System amendments to integrate client risk ratings thus improving client review procedures;
  - System amendments to facilitate digitalisation of information regarding beneficial owners and controllers, thus improving the screening process;
  - Implementation of an online AML/CFT training in replacement of the traditional classroom setting. All staff members have been required to complete the training module and a test. Our R&C team continues to use the traditional classroom setting to deliver specific training to a targeted audience; and
  - Implementation of a new IT system with enhanced risk management features, including improved transaction monitoring capabilities.

Other entities of the Group

Elsewhere, in line with principles determined at Group level, risk management policies and structures have, in varying capacities, been designed in order to ensure that business activities are carried out in a sound manner, depending on the types of market undertakings being engaged into as well as the range and depth of risks faced. Fundamentally, the Board of each entity has the ultimate responsibility to ensure that risks are properly identified and managed, with relevant functions being mandated to provide clear and coherent assistance to help it in the fulfillment of its duties. In the process, the entities adhere to coherent and robust control mechanisms that enable them to achieve strategic objectives in a sustained and sound manner, backed by a thorough investigation of clients' risk profiles and the diversification of undertakings where applicable. The Internal Audit function of MCB Ltd, having a Group wide mandate, provides assurance over these controls systems and reports on those via the Audit Committee and/or Board of each individual entity. The findings are consolidated and presented to the MCB Group Audit Committee for an integrated view of the effectiveness of risk management, control and governance processes.

Jean-Philippe COULIER
Director
Chairperson Risk Monitoring Committee



Pierre Guy NOEL
Chief Executive