CONTENTS


Security
MCB

FY 2022/23 highlights

The year in review from a risk perspective

The operating context across markets we are exposed to has been subject to high uncertainty levels during FY 2022/23, notably related to the high interest rates/high inflation environment coupled with sovereign rating actions in Africa, as described on page 40 to 41 of this Report. As a result, the risk landscape with which we have been confronted has been impacted. That said, our risk profile remained within established limits of our defined risk appetite thanks to the robust policies and processes in place and our proactive risk management across entities. We ensured that we continue to actively identify and assess risks arising from both external and internal environments, enabling us to comprehensively analyse potential threats and identify opportunities. Our Enterprise Risk Heat Map plays a pivotal role to this end. Through this exercise, we systematically pinpoint, assess, and keep a close watch on risks that have the potential to significantly influence our operations, financial performance, solvency, or strategy. On another note, with a view to enhancing our approach to risk management and compliance across all our subsidiaries, the Chief Risk Officer and Head of Compliance functions of MCB Ltd have been elevated at Group level. While the oversight will be carried out by the Group Chief Risk Officer and Group Head of Compliance and their respective teams, each subsidiary of the Group will continue to take ownership of the risks of its operations and the management of its respective risk and compliance functions.

During the year under review, the most prominent themes influencing our risk landscape related to ongoing macroeconomic uncertainties, increased competition and regulatory requirements, heightened prominence of ESG considerations, cyber threats and digital disruptions as well as continued workplace transformations and employee expectations. These factors have been identified as part of our materiality determination process detailed on page 39. Accordingly, we have defined 13 key risks that impact our business, which are classified in three risk categories, known as financial principal, non-financial principal and ESG risks, for adequate risk coverage. Of note, these risks represent only the major risks to the Group and are not exhaustive.

Our key risks

Our risk management approach remained effective, underpinned by: (i) an integrated governance structure promoting sound risk behaviours which is regularly reviewed and adapted as required; (ii) comprehensive and structured processes for evaluating, responding to, and monitoring risks; and (iii) an entrenched risk culture which underpins the shared values, behaviours and practices that drive how risk is considered in decisions, with the execution of the Risk Culture Programme contributing to further reinforce a strong risk-conscious environment throughout the organisation. We diligently allocated our capital types to the opportunities identified, aiming to generate sustainable risk-adjusted growth and returns, while prioritising the creation and protection of value for our stakeholders. A snapshot of our risk profile in FY 2022/23 is given below based on key risk indicators and their performance, with additional information on each risk type provided in the 'Management of key risks' section.

How we responded to our risk landscape

The following section outlines the impact of the developments occurring in our operating environment on our key risks during FY 2022/23 and our response thereto. Cybersecurity, credit/country risk, funding and liquidity risk as well as compliance risk were prominent focus areas, alongside our continuous commitment to upholding strong risk metrics. We further invested in strengthening our framework, enhancing our systems and tools, and upskilling our people, all while addressing risks faced. The symbols included for each key risks below indicate the perceived change in risk profile, in inherent risk terms, of the main risks faced during FY 2022/23 compared to FY 2021/22.

Increasing Decreasing Stable

The capital types impacted by each of the key risk have also been included. Effective management of these capital types not only helps us mitigate risks but also supports our long-term growth and success in a rapidly changing landscape.

Capital types

Financial capital | Social and relationship capital | Natural capital | Human capital | Intellectual capital | Manufactured capital

Financial principal risks

Credit risk

Capital impacted

The risk of loss should borrowers or counterparties fail to fulfil their financial or contractual obligations as and when they fall due; Credit risk includes counterparty risk, settlement risk and concentration risk (excessive build-up of exposures to a counterparty, industry, market or product, amongst others).

Material matters of relevance: Macroeconomic uncertainty

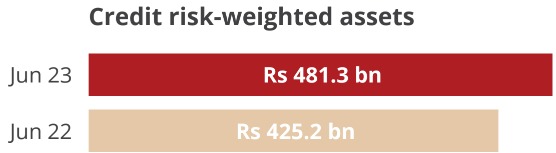
In addition to the credit risks arising from our normal course of business and notwithstanding the ongoing economic recovery, we were impacted by the consequences of the evolving economic and market conditions, notably the interplay of high inflation and interest rates which resulted in higher debt servicing costs and thus heightened risk of credit defaults while also affecting provisioning levels.

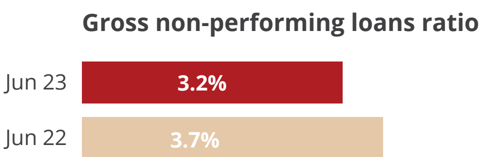
Our response

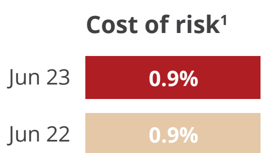
- Kept a vigilant and proactive approach to credit risk management backed by careful deal structuring and assessment of borrowers' creditworthiness while upholding a diversified loan portfolio
- Continuously assessed the implications of developments in the operating environment, notably on the foreign exchange front given the shortage of hard currency in some regional countries and on the debt repayment capacity of borrowers
- Granted preferential interest rates on housing loans to vulnerable and middle-class households at the level of MCB Ltd
- Monitored the non-performing asset portfolio performance and the potential effect on credit provisions as a result of the high inflationary pressures and economic challenges

Our performance

We improved the general quality of our growing exposures on the back of careful market endeavours and dedicated measures put in place, leading to lower gross non-performing loans ratio and stable cost of risk while reinforcing our provisioning levels.







[1] *Cost of risk pertains to loans and advances*

Coverage ratios

Expected Credit Loss[2]

Jun 23 1.9%
Jun 22 2.0%

[2] *Expected Credit Loss coverage ratio pertains to stage 1 and 2 loans and advances only*

Specific[3]

Jun 23 66.5%
Jun 22 37.7%

[3] *Specific coverage ratio is computed as a percentage of stage 3 exposures; the latter's remaining portion is adequately covered by collateral*

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.

Capital impacted

Material matters of relevance: Macroeconomic uncertainty

Macroeconomic imbalances triggered by high inflation, foreign currency shortage and elevated public debt levels have pressurised sovereign ratings in specific markets where we are involved. Combined with political developments, such disturbances led to higher country risk at the level of MCB Ltd.

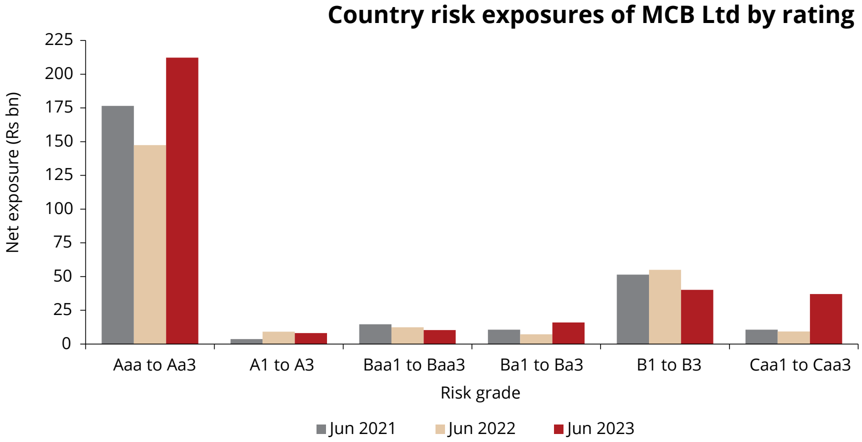
Our response

- Adapted our strategy to the evolving landscape notably regarding our financial commitments with sovereigns with lower credit ratings, which is guided by a prudent and calculated approach. While we recognise the potential challenges associated with these countries, we take into consideration in our risk appetite several factors, including (i) the ability of the obligors to generate sufficient foreign currency to service their indebtedness; (ii) the self-liquidating and short term structures of our exposures; and (iii) credit risk mitigants, to ensure that our credit exposures remain low risk
- Conducted regular assessments and reviews of our risk appetite to reflect country risk events and strategic priorities; Engaged in ongoing contingency planning, regularly updated plans and conducted scenario analysis to refine strategies and respond to evolving country risk dynamics
- Undertook several multidisciplinary country risk missions to reinforce monitoring of country risk events in addition to interactions with regulators and rating agencies, amongst others
- Strived to remain within our country risk appetite limits while also maintaining a well-balanced and diversified portfolio

Our performance

With a view to fostering sound country risk management, we continued to lay emphasis on diversified exposures across countries and sectors, while ensuring that our deals are appropriately selected, structured and ring-fenced. As at June 2023, an increase was noted in the Caa1 to Caa3 bucket with a related decrease in the B1 to B3 bucket linked to the downgrades of a few African sovereigns during the year. However, it is important to note that these exposures pertain to our financing activities in niche segments – in line with our targeted international expansion strategy – notably within the oil and gas sector in selected African countries, with our key markets having proven to be resilient.

Country risk exposures of MCB Ltd by rating



Notes:
(i) Exposures pertain to funded and unfunded financing activities as well as treasury activities
(ii) 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, Funding and Liquidity risk ▲

Capital impacted

Market risk is the potential for losses arising from changes in the value of assets and liabilities resulting from changes in market variables such as interest rates, foreign exchange rates and equity prices. Market risk emanates from trading and non-trading portfolios.
Funding risk is 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 within a designated timeframe, resulting in potential added costs.
Liquidity risk arises from insufficient readily realisable financial assets to meet the financial commitment as and when they fall due.

Material matters of relevance: Macroeconomic uncertainty | Increasing regulatory requirements

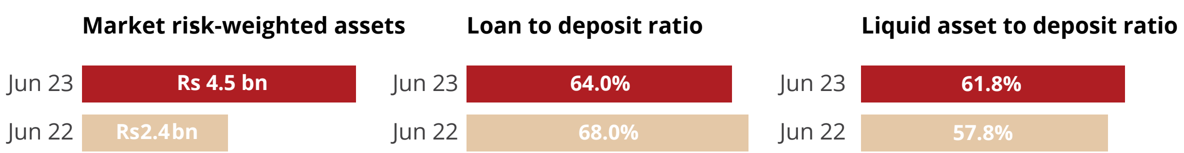
Heightened market volatility arising from tightened financial conditions, including the liquidity crisis emanating from the failures of Silicon Valley Bank and Credit Suisse Group, foreign exchange pressures and monetary policy developments warranted closer attention in view of potential implications for various asset classes and our access to funding.

Our response

- Leveraged our strong risk management frameworks, policies and standards for proper risk management which was supported by daily limit monitoring for our market risks
- Monitored the performance of investments against set objectives and risk limits; Analysed the stickiness of our foreign currency deposits and set a foreign currency loan to deposit ratio limit of 100%; Conducted additional stress tests in the wake of the banking turmoil abroad to assess the survival horizon and identify key risk indicators to be monitored
- Maintained sufficient liquidity buffers by operating within the strict risk framework and limits
- In line with its endeavour to diversify funding sources, MCB Ltd issued notes amounting to USD 300 million as part of its GMTN Programme and secured a syndicated loan of USD 500 million. The Bank also closed its first Basel III compliant Tier 2 bond issuance of USD 147 million, privately placed with the African Development Bank
- Issued notes worth Rs 2.5 billion under our Rs 10 billion Multi-Currency Note Programme at MCB Group level in August 2023

Our performance

We took proactive steps to maintain comfortable buffers and sustain strong funding and liquidity positions in FY 2022/23, with MCB Ltd reporting a consolidated liquidity coverage ratio (LCR) of 461%.



Capital risk

The risk that arises from the possibility of having an inadequate quantity or quality of capital to meet internal business strategies, regulatory requirements or market expectations in the area of structural risk.

Capital impacted

Material matters of relevance: Macroeconomic uncertainty | Increasing regulatory requirements

Pressures on our capital position emanated from the implications of the stressed macroeconomic context, notably in respect of sovereign rating downgrades in specific countries as well as stricter regulatory stipulations across markets where we are exposed. We also require adequate capital to sustain our international expansion endeavours.

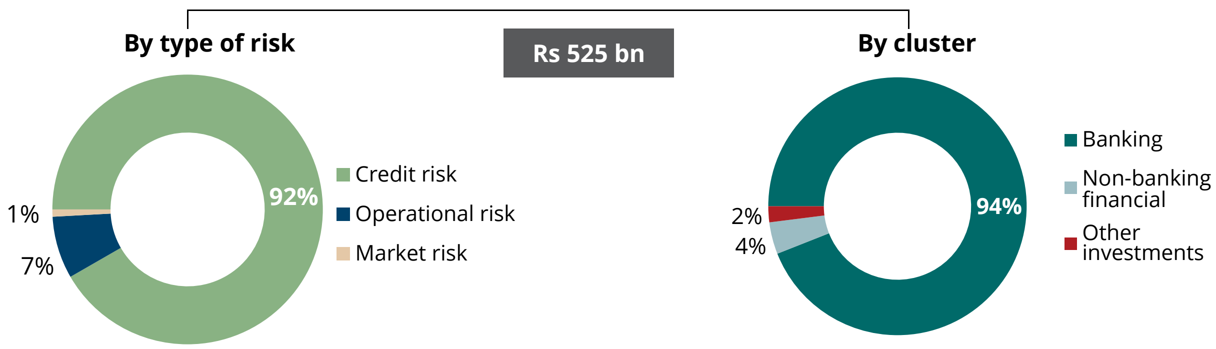
Our response

- Ensured there is sufficient capital to support our risks beyond minimum regulatory requirements alongside ensuring optimal risk-weighted assets (RWAs) utilisation; At the level of MCB Ltd, set RWAs limits for our CIB SBU and FM SBU activities that are monitored quarterly
- Performed regular stress tests on the lending portfolio to ensure that there is sufficient capital to withstand any loss arising from significant exposure to a sector, single customer and group of closely-related customers; Ensured that our stress testing framework caters for new regulatory requirements
- Assessed the risks that could affect our solvency ratios and closely monitored key exposures against the risk appetite limits
- Monitored closely the exposure of MCB in countries having a non-investment grade rating status
- Consolidated our capital base by successfully closing a Basel III compliant Tier 2 bond of USD 147 million in March 2023 at the level of MCB Ltd

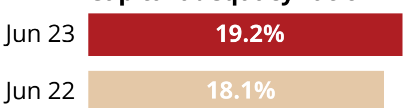
Our performance

Our capital position remained generally strong during the year, supported by our resilient financial performance, the conversion of preference shares into ordinary shares and the issue of scrip shares in lieu of dividend. Our capital base was further strengthened by the issuance of the Tier 2 debt instrument by MCB Ltd. The main contribution emanated from the banking entities, for which maintenance of adequate capital levels is a key priority by virtue of their business operations and regulatory responsibilities. MCB Ltd's capital adequacy ratio and Tier 1 capital ratio stood at 18.3% and 15.8% respectively, well above its regulatory requirements of 15% and 13% respectively.

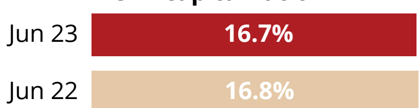
Risk-weighted assets



Capital adequacy ratio



Tier 1 capital ratio



Non-financial principal risks

Model risk

The risk of losses as a consequence of decisions being based on the output of models that are flawed or inaccurate.

Capital impacted

Material matters of relevance: Macroeconomic uncertainty | Increasing regulatory requirements | Cyber threats and digital disruptions | Workplace transformations and employee expectations

Model risks remained important during the year, with heightened market volatility affecting the performance of some models and necessitating model adjustments, while the increased recourse to more sophisticated machine learning techniques produce output that can be complex to verify.

Our response

- Continuously improved the accuracy and robustness of our models, backed by enhanced capabilities
- Developed an enhanced version of the credit scoring model for small to medium-sized enterprises as well as a new credit scoring model for credit cards which were built using machine-learning algorithms at the level of MCB Ltd. The implementation of the new credit-scoring models will ensure a higher level of accuracy in gauging the riskiness of a client, while reducing the time in granting a facility to a client with an efficient end-to-end process
- Included post model adjustments, management adjustments and model override in order to capture unexpected events

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, information and IT risk.

Capital impacted

Material matters of relevance: Cyber threats and digital disruptions | Workplace transformations and employee expectations

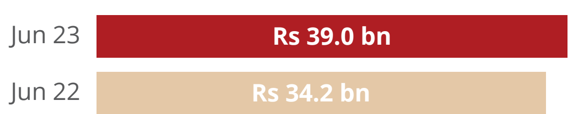
The Group continued to face potential operational disruptions linked to the fast-paced evolution of the operating environment, rising prominence of cyber-attacks globally and an increasingly competitive labour market.

Our response

- Regularly reviewed the operational risks inherent in internal processes and client solutions, with monitoring of key operational risk indicators performed against acceptable tolerance limits; Ensured strong permanent control
- Embedded a robust and sound risk culture in our day-to-day business activities, notably through the implementation of our Risk Culture Programme
- Performed an extensive review of the risk and control landscape across MCB Ltd through an update of the Operational Risk Cartography
- Continued to hold awareness sessions which were targeted to relevant audiences

Our performance

Operational risk-weighted assets



Business continuity risk

The risk of being unable to continue the delivery of products and services within acceptable time frames at predefined capacity during a disruption.

Capital impacted

Material matters of relevance: Cyber threats and digital disruptions | Workplace transformations and employee expectations

The Group faced potential disruptive events linked to cyber-attacks and third-party or supplier dependencies along with the more traditional business continuity risks that could arise from technological outages and site unavailability disruptions.

Our response

- Performed annual exercises and simulated different scenarios to test our business continuity plans and crisis management protocols; Undertook Disaster Recovery (DR) simulations, with MCB Ltd successfully executing an unplanned DR exercise to test the actual readiness of its technical teams, thereby reaching a major milestone in its DR resilience journey
- Continued with ongoing improvement of business continuity responses and scenario planning

Cyber and information security risk

The risk of accidental or intentional unauthorised use, modification, disclosure, destruction or breach of information resources/systems that may have an adverse effect on the confidentiality, availability, or integrity of information or information systems.

Capital impacted

Material matters of relevance: Increasing regulatory requirements | Cyber threats and digital disruptions | Workplace transformations and employee expectations

Our response

- Enhanced our cybersecurity posture through a dedicated Red Team and a first level Blue Team; Undertook regular independent Penetration Testing and Vulnerability Assessments by leveraging external expertise as appropriate
- Implemented new innovative tools and solutions including Network Access Control (NAC), Security Information and Event Management (SIEM) and Endpoint Detection and Response (EDR)
- Contracted a dedicated person to oversee the Information Security Office; Conducted awareness campaigns on cyber risk as part of our Risk Culture Programme
- Continuous monitoring of cybersecurity events through various control systems, including our Security Operations Centre
- Continued to enhance our cybersecurity maturity through the review of policies related to cyber and technology risk management and ensured compliance with the relevant regulatory requirements such as the new Guidelines issued by the Bank of Mauritius on Cyber and Technology Risk Management and on Use of Cloud Services
- Beefed up our cyber response capabilities through the delivery of executable plans from Cyber Response Services providers
- Ran security awareness training sessions on a regular basis, in particular simulated phishing attacks, to promote the adoption of best practices in terms of cybersecurity risk management
- Increased staffing in both the first and second lines of defence to better face the increasing scope and complexity of cybersecurity threats

Regulatory and compliance risk

The risk of legal or regulatory sanctions and other action, financial loss, damage to reputation or impairment of integrity or any other financial or non-financial impact that may arise due to non-compliance with legal, regulatory and other compliance obligations in Mauritius and other jurisdictions where the financial institution is conducting its operations.

Capital impacted

Material matters of relevance: Increasing regulatory requirements | ESG considerations | Cyber threats and digital disruptions

The evolving breadth and complexity of regulatory requirements across the Group's markets have impacted our systems and procedures.

Our response

- Strived to adhere to all regulatory requirements; Maintained open and constructive dialogue with regulatory authorities, law enforcement agencies and the Mauritius Bankers Association, which aids in understanding and complying with regulatory changes and demands
- Continued to gear up our overall compliance framework and enhanced our policies, procedures and controls to meet heightened regulatory requirements and underpin the deployment of our activities
- Further enhanced the transactional and screening alert systems and framework to reinforce effectiveness
- Reviewed the Enterprise Risk Heat Map and the Enterprise Wide Risk Assessment (EWRA) from an Anti-Money Laundering/Combating the Financing of Terrorism and Proliferation (AML/CFT) perspective, including the identification of new/emerging risks, for validation and monitoring by the Audit Committee
- Integrated ESG considerations into our risk management framework in compliance with international and local regulations
- Participated in a project initiated by the Bank of Mauritius to create a centralised KYC registry with a view to enhancing effectiveness of customer due diligence processes
- Reinforced the culture of compliance through regular awareness and training programmes aiming at increasing the Board members' and employees' knowledge of key policies, laws and regulations applicable to their roles and responsibilities
- Pursued human capacity building within our Compliance functions, through recruitment, while simultaneously providing opportunities for specialised training to all Compliance employees

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.

Capital impacted

Material matters of relevance: Macroeconomic uncertainty | Increasing regulatory requirements | ESG considerations | Cyber threats and digital disruptions | Increased competition | Workplace transformations and employee expectations

Disruptions driven by developments in the operating environment across countries where we operate, including heightened competition for talents, along with evolving needs and expectations of our multiple stakeholders have accentuated our strategic and business risk.

Our response

- Reinforced governance and oversight through dedicated platforms to allow for a dynamic assessment of the implications of changes in the operating environment on our strategy and to ensure focused execution of our strategic priorities in line with available resources
- Continued to execute our niche strategy when conducting cross-border activities which has proven to be resilient
- Engaged with authorities to promote the soundness and image of the industry/jurisdiction; Maintained regular interactionswith rating agencies with processes in place for the scrutiny and dissemination of information in areas they monitor; Reinforced our network of intermediaries and partners
- Strengthened our internal capabilities as we (i) continued to invest in new technologies to drive customer engagement, productivity gains and operational resilience; and (ii) consolidated our talent base through a dedicated programme to reinforce acquisition, development, retention and succession planning

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.

Capital impacted

Material matters of relevance: ESG considerations | Cyber threats and digital disruptions | Workplace transformations and employee expectations

Risks to the Group's brand image and reputation are driven mainly by the impact of adverse developments in both the internal and external operating landscape on our relationship with internal and external stakeholders.

Our response

- Undertook daily screening of local and international media for potential reputation threats and performed daily automated customer database screening against World-Check lists for risk assessment
- Enhanced Customer Due Diligence for customers flagged in adverse media
- Active moderation of our social media platforms to address comments and, if necessary, remove inappropriate content
- Dealt with customer complaints in an effective and timely manner
- Developed a comprehensive plan for dealing with potential disruptions, with an established Crisis Management Governance Structure in place
- Continued to invest in strengthening our frameworks, systems and expertise either internally or through our network of collaborators and advisors

ESG risks

Environmental and social risk ▲

Capital impacted

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.

Material matters of relevance: Increasing regulatory requirements | ESG considerations

With ESG matters ratcheting up in importance for our multiple stakeholders and increasingly gaining traction on the regulatory front, the implications thereof on our business activities and strategic endeavours call for heightened monitoring.

Our response

- Set up a Transition Taskforce in November 2022 to drive momentum on our sustainable finance endeavours and develop a coherent transition strategy. As part of the Taskforce, we established a Climate Risk stream to assist with the implementation of the BoM Guideline on Climate-related and Environmental Financial Risk Management. Furthermore, there are two Sustainable Finance streams under the Transition Taskforce which aim to develop the pipeline and strategy for the utilisation of the Sustainable Loan credit line of Rs 10 billion and focus on developing our offering for large international corporate groups as well as elaborating the transition roadmap for oil and gas
- Enlisted an international service provider to assist in the measurement of climate-related risks as per the BoM Guideline on Climate-related and Environmental Financial Risk Management, with a progress report on the Climate Risk roadmap submitted in March 2023
- Set up a dedicated Climate Risk function within the Risk SBU with a dedicated Senior Climate Risk Executive
- Incorporated the Environmental and Social Risk Management (ESRM) function within the Risk SBU to strengthen the assessment of environmental and social risks. The ESRM function has been integrated in the credit cycle to ensure assessment is done on a transaction basis when there are ESG implications
- Updated the internal Environmental and Social Risk Policy in May 2023, which complements the credit risk policy and caters for the changes in process, including roles and responsibilities, and strengthen the scope of application to address emerging environmental and social risks for an enhanced and more holistic credit approval process. Of note, awareness sessions are currently being conducted with key stakeholders impacted

Zoom on our Risk Culture Programme

Key emphasis during the year has been laid on further embedding a robust and sound risk culture in our day-to-day business activities, notably through the operationalisation of our Risk Culture Programme, in line with our Shared Ways of Working: We Act Responsibly. The main work streams initiated include the definition of risk-related attitudes and desirable behaviours to be adopted by the entire workforce, the formalisation of key risk indicators being monitored through monthly and quarterly risk performance dashboards and reported to relevant committees, and the reinforcement of the Risk Culture Ecosystem. In the same vein, we have widened the scope of our Chief Risk Officer (CRO) Office so as to ensure a more proactive and continuous collaboration amongst the different business units of the organisation towards promoting and maintaining adequate risk culture. As part of the latter move, the headcount of the CRO Office has been reinforced with new recruits with proven-track record in the risk universe. Various communication campaigns were also launched with the objective of raising awareness on organisation-wide risk areas, with a key focus, during FY 2022/23, laid on bolstering our cybersecurity management mindset and practices.

Main priorities looking ahead

- Further enhance the risk culture across the organisation with the continued operationalisation of the Risk Culture Programme

- Set up of the Risk and Compliance functions at Group level to enhance our approach to risk management and compliance across all our subsidiaries; Increase collaboration between Group entities, notably for information sharing purposes and fostering the smooth replication of risk management practices wherever required, alongside ensuring organisation-wide alignment of policies and processes

- Support our sustainability ambitions through the deployment of Environmental and Social Risk Management guidelines

- 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 the further strengthening of our risk management and compliance mechanisms, aided by continuous upgrades to relevant policies, practices and processes; Maintain close discussions and interactions with rating agencies to relay our efforts to uphold sound fundamentals

- Further reinforce the inherent capabilities and operating models of Group entities, notably through (i) continued upskilling of employees across risk and compliance functions; and (ii) increased synergies amongst risk functions and with other areas of the Group

To achieve our strategic objectives, we will continue to leverage our robust risk management and compliance framework. Details of the latter are provided hereafter with the following sections organised around: (i) the key foundations and principles including our governance set-up; (ii) management of key risks faced and our positioning; and (iii) capital management.

Our risk management strategy and framework

Our risk management 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 and monitored, while being managed within acceptable levels. We seek to uphold or improve the risk-return profile of our activities, while creating conducive conditions for tapping into market development opportunities.

Our risk management set-up

While entities are accountable to manage the risks they face 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 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
- Upholding sound risk metrics by entities
- Adoption 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, market and regulatory 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
- Ensuring that the price charged for solutions is reasonable in relation to the relative riskiness of the exposure

Financial soundness

- Complying with applicable regulatory requirements at all times
- Ensuring that subsidiaries of the Group are adequately capitalised to help achieve sound and sustained business growth and upholding adequate buffers to confront any untoward circumstances
- Maintaining appropriate discipline over the nature and extent of our market development initiatives, with due focus on optimising the allocation of capital across businesses
- Preserving the soundness of our exposures with emphasis laid on healthy loan portfolios 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
- Keeping sound funding and liquidity positions in support of our business development ambitions

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 depending on 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	**Board**	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	**Board committees**	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	**Risk appetite**	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	**Governance set-up**	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	**Three lines of defence**	Dedicated functions cater for risk control and management, alongside overseeing recovery operations
Policies and standards are clearly defined to measure and monitor risks faced	**Risk measurement and monitoring** / **Risk mitigation and management**	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	**Risk philosophy and culture** / **Risk resources and capabilities**	Our human capital, processes and systems are continuously upgraded for judicious risk management
	Identification of risks	

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 risks 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 right 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 framework, in line with Group-level orientations, its inherent specificities and prevalent market realities.

At Group Level

The 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.

- Through the establishment and enforcement of clear lines of responsibility and accountability across 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 monitors the risk of the different portfolios against the defined 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. It also oversees the adequacy of the capital, liquidity and funding positions, including under stressed conditions.

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 in line with the strategic orientations of the Group.

- The Strategy Committee oversees the business strategy of the Group and its subsidiaries and measures the latter's performance against set objectives whilst ensuring that capital allocation is appropriate.

Read more on the key mandates and focus areas of the Board committees of MCB Group Ltd in the 'Corporate Governance Report' on pages 99 to 151

At entity level

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.

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 a clear structure of policy and control systems is adopted to identify and manage the risk inherent in activities.

Delegation of duties	Control processes
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 a coherent and sound segregation of duties with regard to risk taking, processing and control.	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 risks 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 operating 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 competencies 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 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 (SLAs), business units of the Bank, including Risk, Compliance, Internal Audit and Legal SBUs, provide technical and advisory assistance to support the operation and functioning of the local and foreign subsidiaries as per their respective areas of competence.

MCB Investment Holding Ltd seeks to foster more focused and integrated stewardship with regard to the overall operations and performance of the Group's foreign banking subsidiaries. Its Finance & Risk team supports the conduct of finance risk management activities, with the Risk SBU of MCB Ltd being involved wherever appropriate. The team engages in risk reporting to the RMC of the respective foreign banking subsidiaries as well as that of MCB Group Ltd. It also leads and/or assists foreign subsidiaries in the development and implementation of risk policies and other risk-related matters. It assists overseas banking subsidiaries as regards to credit risk management, notably by structuring and 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, on the Operations side, the team provides assistance in terms of project management, and major technical issues, alongside offering guidance in respect of the execution and monitoring of operational risk- and compliance-related initiatives. It also contributes to and monitors the implementation of internal and external audit recommendations for reporting at board level.

<table>
<tr><th colspan="3">Key committees by entity</th></tr>
<tr><th colspan="2">Banking cluster</th><th>Non-banking financial cluster</th></tr>
<tr><th>MCB Ltd</th><th>Foreign banking subsidiaries</th><th>MCB Capital Markets (MCBCM) and its subsidiaries</th></tr>
<tr><th colspan="3">Board committees</th></tr>
<tr><td>Risk Monitoring Committee</td><td>Risk Monitoring Committee</td><td rowspan="2">Risk & Audit Committee (MCBCM)</td></tr>
<tr><td>Audit Committee</td><td>Audit Committee</td></tr>
<tr><td>Supervisory and Monitoring Committee</td><td></td><td rowspan="4">Financial Products Supervisory Committee (MCBCM)

•The committee comprising of independent directors, with international expertise, of MCB Capital Markets Ltd, is responsible to oversee all new product launches within MCBCM with the exception of investments which falls within the ambit of the CIS Supervisory Committee</td></tr>
<tr><th colspan="2">Executive committees</th></tr>
<tr><th colspan="2">Financial risk: Credit risk</th></tr>
<tr><td>Executive Credit Committees (ECC)

• The ECC (A), 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</td><td rowspan="4">Subsidiary Credit Committee (SCC)

• The SCC 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 Committee and SCC. Facilities above this level are channeled to the Executive Credit Committee of MCB Ltd before a final decision is reached</td></tr>
<tr><td>Credit Committees (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</td><td rowspan="8">MCB Investment Management (MCBIM)

Collective Investment Scheme (CIS) Supervisory Committee

• The committee is responsible for the review and assessment of all aspects relating to the CIS management activities of MCBIM, including set-up of new funds, material changes to existing funds and regulatory compliance

Investment Committee (IC)

• The committee, though not a sub-committee of the Board of MCBIM, serves an important purpose in respect of the investment management activities of MCBIM. The IC meets on a quarterly basis and reviews all material aspects of MCBIM's portfolio management process including strategic and tactical asset allocation, portfolio performance/risk and mandate compliance</td></tr>
<tr><td>Country Risk Committee (CoRC)

• The CoRC is responsible for setting individual country limits within the validated risk parameters on selected countries</td></tr>
<tr><td>Conduct Review Management Committee (CRMC)

• The CRMC ratifies credit exposures and other transactions with related parties where the aggregate of credit exposures/any other transactions to any single related party and/or its group of connected counterparties do not exceed 2% of the Bank's Tier 1 capital or Rs 500 million, whichever is lower</td></tr>
<tr><th colspan="2">Financial risk: Market, funding and liquidity risk</th></tr>
<tr><td>Asset and Liability Committee</td><td>Asset and Liability Committee</td></tr>
<tr><th colspan="2">Non-financial risks</th></tr>
<tr><td>Information and Operational Risk Committee</td><td rowspan="2">Overseas Subsidiary Information Risk Management, Operational Risk and Compliance Committee</td></tr>
<tr><td>Compliance, Anti-Money Laundering and Legal Committee</td></tr>
<tr><th colspan="3">'Non-banking financial' and 'Other investments' clusters: Other entities</th></tr>
<tr><td colspan="3">In line with principles determined at Group level, risk management policies and structures have 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. 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</td></tr>
</table>

Adherence to the three lines of defence approach

The risk control framework of the Group's entities is anchored on the three lines of defence approach, which promotes transparency, accountability and consistency through the proactive identification and segregation of actual and potential risks across the entities.

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 business 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 organisation

2nd line of defence

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

Risk control and compliance

- The Group has relevant independent risk control and compliance functions across entities for effective risk management which also provide advice and guidance in relation to the risk
- At the level of MCB Ltd, the Risk SBU establishes methodologies and activities for risk measurement and regularly monitors and reports risk exposures and profiles, whilst the Compliance SBU ensures compliance with applicable laws, regulations, guidelines, codes of conduct and standards of good practice. Independent teams oversee the legal and physical security functions
- The Risk SBU, Compliance SBU and Legal SBU of MCB Ltd are engaged in the provision of intra-Group services to the other Group entities in line with the concept of Group Shared Services

3rd line of defence

Evaluates and provides independent assurance on the effectiveness of the risk governance, control environment and risk management processes and mechanisms, in tune with business strategies and the evolving external environment.

Risk assurance

- The Internal Audit function provides independent assurance that the control objectives are achieved by the first and second lines of defence in line with the set risk appetite
- The Internal Audit SBU of MCB Ltd provides assurance over control systems and reports on those via the Audit Committee and/or Board of each 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

Key tenets of our risk management strategy

Risk capacity

The Group determines the 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 their ability to take risk.

Risk appetite

The Group entities ensure that their activities are undertaken within the parameters of their risk appetite. The latter is subject to constraints, such as the need to *inter alia* uphold their financial soundness and foster sound and sustainable revenue growth.

Risk tolerance

The Group entities establish the maximum level of risk that they are willing to tolerate for a particular risk category or specific initiative, while ensuring that they achieve their business strategies and operate within their broader-level risk appetite.

Risk profile

Expressed in terms of quantitative indicators and qualitative assessments, each entity's risk profile refers to its current net risk exposures for different risk categories. Amidst an evolving operating environment, Group entities regularly monitor their risk profile, thereby helping to prevent the level of risk from going beyond the set risk appetite.

Risk control

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

Risk culture

The Group recognises the importance of entrenching a sound risk culture to ensure that we undertake our daily business activities consistently within our risk appetite. Risk culture sets out the suitable behaviours and practices related to risk management and promotes collective responsibility whereby every employee exercises due care and makes informed and risk-based decisions while the Board sets the tone from the top. It is supported by continuous monitoring, regular awareness campaigns and staff training.

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 reflect the optimal level of risk that they are willing to take for the sound execution of their short and medium term business strategies.

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

Framework

The framework provides an informed guidance for the management and monitoring of its risk profile in relation to the defined 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 updated at least annually or on an ad hoc basis in order 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

The size of the internal risk limits is a function of regulatory requirements and the risk appetite set by the Board of 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
- Counterparty credit risk limit
Valuation limit
Daily settlement limit

Rating tools

Internally-developed models

Country

Country rating model (used when ratings from external rating agencies are not available)

The rating monitors macroeconomic performance, political and institutional developments, evolution of fiscal metrics, social unrest, and currency movements, amongst others

Banks

Bank rating model

The creditworthiness 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 securities subscribed by the Bank in favour of domestic corporate customers can be rated by CRAF and GCR Ratings, which are recognised by the Bank of Mauritius, with capital relief being applicable on investment-grade ratings

Management of key risks

Our risk management cycle

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

1 Identification

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

2 Measurement

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

3 Monitoring

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

4 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

5 Management and reporting

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 internally and to the authorities, wherever applicable

Our processes, methodologies and positioning by risk type

Credit risk

General approach and objectives

Credit risk represents the main risk type to which we are exposed in view of the nature of our main operations and activities. We 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. In line with these principles, we actively promote, monitor, and manage the quality of the credit portfolio. 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. MCB Group strives to adopt a strong culture of responsible lending and debt recovery, while leveraging a robust risk management and control framework. We continuously reassess 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 applicable Group 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 appropriate frameworks 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 Guidelines issued by the respective central banks.

Measurement and monitoring

Credit risk measurement 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, we 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, we 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. We 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. In this respect, MCB Ltd 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 also used for the purpose of the stress testing and limits determination exercises. The relevant credit risk metrics of the Group entities are measured and reviewed against set limits by the respective Boards and/or RMCs on a quarterly and ad hoc basis. The objective is to ensure that the entities, at all times, maintain adequate capital to provide for their growth and to support a reasonable measure of unexpected losses.

Risk-weighted assets for credit risk

Risk-weighted on-balance sheet assets	Jun 23 Amount	Jun 23 Weight	Jun 23 Weighted Assets	Jun 22 Weighted Assets
	Rs m	%	Rs m	Rs m
Cash items	3,591	0 - 20	80	71
Claims on sovereigns	262,931	0 - 100	10,040	8,126
Claims on central banks	47,511	0 - 100	12,265	12,693
Claims on banks	81,438	20 - 100	32,104	22,312
Claims on non-central government public sector entities	2,620	0 - 100	412	1
Claims on corporates	302,203	20 - 150	285,764	245,924
Claims on retail segment	16,527	75	11,363	9,364
Claims secured by residential property	40,875	35 - 125	16,733	15,128
Claims secured by commercial real estate	17,911	100 - 125	21,004	19,167
Fixed assets/other assets	43,417	100 - 250	48,981	46,130
Past due claims	7,231	50 - 150	7,268	15,084
Total			**446,016**	**393,999**

Non-market related off-balance sheet risk-weighted assets	Jun 23 Nominal Amount	Jun 23 Credit Conversion Factor	Jun 23 Credit Equivalent Amount	Jun 23 Weight	Jun 23 Weighted Amount	Jun 22 Weighted Amount
	Rs m	%	Rs m	%	Rs m	Rs m
Direct credit substitutes	3,223	100	3,190	0 - 100	3,076	2,654
Transaction-related contingent items	33,991	50	15,885	0 - 100	14,118	12,613
Trade-related contingencies	61,525	20 - 100	11,063	0 - 100	10,468	10,150
Outstanding loans commitment	13,387	20 - 50	6,281	0 - 100	6,798	5,402
Total					**34,460**	**30,818**

Market-related off-balance sheet risk-weighted assets	Jun 23 Nominal Amount	Jun 23 Credit Conversion Factor	Jun 23 Potential Future Exposure	Jun 23 Current Exposure	Jun 23 Credit Equivalent Amount	Jun 23 Weighted Assets	Jun 22 Weighted Assets
	Rs m	%	Rs m	Rs m	Rs m	Rs m	Rs m
Interest rate contracts	15,364	0 - 1.5	150	423	572	243	18
Foreign exchange contracts	25,306	1 - 7.5	269	227	496	286	307
Other commodity contracts (other than precious metals)	3,337	10 - 15	334	63	396	296	59
Total						**825**	**384**

	Jun 23	Jun 22
	Rs m	Rs m
Total credit risk-weighted assets	**481,301**	**425,201**

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

Mitigation and management

The credit risk management framework enables Group 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 assessments, structuring and monitoring processes. 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 cover. Exposures arising from foreign exchange and derivatives are mainly mitigated through agreements, e.g. International Swaps and Derivatives Association Master Agreements and Credit Support Annex documentation.

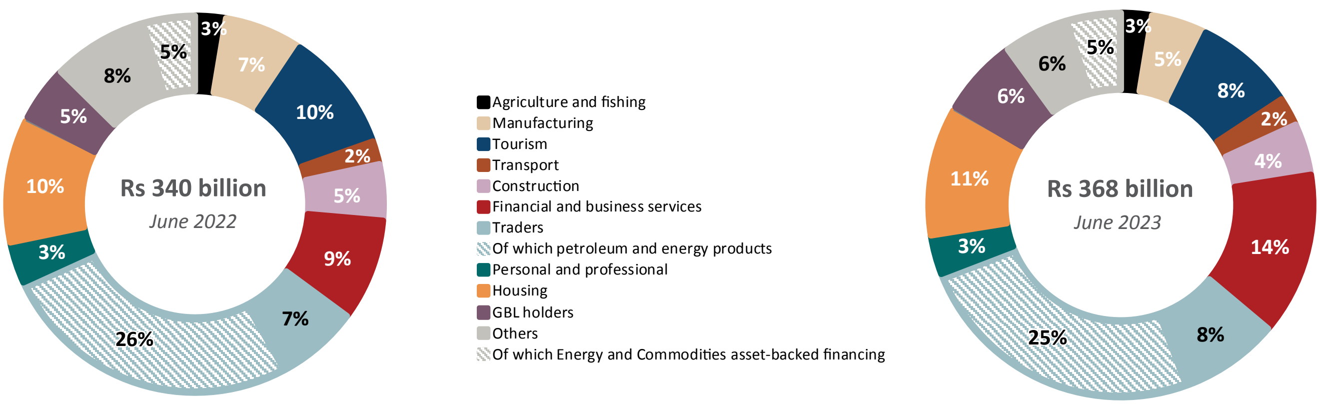
We are intent on diversifying our lending portfolios by setting relevant exposure limits to ensure that our performance is not negatively impacted, for instance, by a large sectoral exposure default. It is the policy of the Group's entities to limit credit risk exposures and concentrations within the 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.

In FY 2022/23, we continued to diversify our market footprint across segments and geographies, which helped us remain well positioned in terms of credit concentration and within regulatory limits. Our largest credit concentration pertains to oil and gas with a major part of these exposures being of a short-term and self-liquidating nature, hence carrying a lower risk profile.

Loans and advances to customers by segment

** Entities outside Mauritius pertain to MCB Ltd's cross-border activities*

Loans and advances to customers by sector



Concentration of exposures at MCB Ltd

Credit concentration limits (% of Bank's Tier 1 capital)	Regulatory requirements	MCB Ltd 30 June 2023
Aggregate credit exposure to any single customer	Not exceed 25%	19.4%
Aggregate credit exposure to any group of connected counterparties	Not exceed 40%	36.9%
Aggregate large credit exposures* to all customers and groups of connected counterparties	Not exceed 800%	394.2%

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

MCB Ltd - Gross exposure as at 30 June 2023	Total gross exposure	Risk capital consumed	Risk capital consumed as a % of total credit risk capital
	Rs bn	Rs bn	%
Top 6 customers / customer groups	99.8	8.0	13.0
Total large credit exposures	276.0	16.7	27.0

Restructuring of facilities

Loan restructuring takes place at the request of the client to align expected cash flows to debt servicing. The restructuring exercise is done to cater for cases of financial distress faced by relevant clients and is also linked to commercial developments and occurrences of a strategic nature. It is carried out on a case-by-case basis with both quantitative and qualitative information taken into consideration. The restructuring follows the normal credit origination process under the same standards of rigorous analysis and presentation as a wholly new application. Restructuring decisions taken are normally guided by rational expectations that the financial conditions of the client will remain adequate or can be reasonably improved in the foreseeable future. The form in which the restructuring exercise takes place will depend on the situation in which the client finds itself. This might entail an extension of the facility's maturity, a moratorium on capital repayment or complete restructuring. In some instances, the restructuring has been linked to injection of equity and debt management programmes adopted by the clients, notably bonds and rights issues. The Risk functions of Group entities perform independent assessments of distressed restructurings for staging purposes and to determine economic gains or losses.

Determination and review of impairment and provisioning

With regard to the determination and review of impairment and provisioning levels, Group entities undertake their respective exercises on a regular basis. The entities adhere to relevant regulatory stipulations, alongside aligning themselves to other 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 a 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 complying with the BoM Guideline for the write-off of non-performing assets.

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 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 for 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

Assets move between stages based on risk characteristics

	STAGE 1 **Performing**	STAGE 2 **Under performing**	STAGE 3 **Default**
	Financial assets for which credit risk has not significantly increased since initial recognition	Financial assets for which credit risk has significantly increased/ deteriorated since initial recognition. However, there is still no objective evidence of impairment	Financial assets which have defaulted but have not yet reached write-off
Recognition of Expected Credit Losses	**12-month ECL**	**Lifetime ECL**	**Incurred Loss**

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. Within the Group, quantitative and qualitative information are taken into account, based on 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.

Relevant entities of the Group calculate ECL parameters for the retail segment on a portfolio basis, i.e. facilities having homogeneous characteristics are assumed to have similar risk behaviours and can reasonably be assigned same parameter values. As for wholesale portfolios pertaining to corporate, financial institutions and sovereign amongst others, they use a combination of internal models and external benchmarking for the calculation of PDs, LGDs and EADs.

Formulation of Expected Credit Losses for FY 2022/23

Reflecting the proactive and prudent approach being endorsed by the Group to hold adequate provisioning levels in view of the still unsteady operating environment, we maintained comfortable levels of ECL during FY 2022/23, underpinned by informed analyses, conservative assumptions and modelling exercises.

In addition to the recalibration of models and review of forward-looking indicators, the entities applied additional overlays when the calculated ECLs were deemed insufficient. For instance, MCB Ltd applied an additional overlay on its retail portfolio for each quarter whilst conducting an in-depth individual analysis of clients with an exposure amount of Rs 100 million or more for its wholesale portfolio, which resulted in rating overlays or staging overlays where necessary.

As at 30 June 2023, ECL amounted to Rs 8.4 billion, of which Rs 7.8 billion pertained to stage 1 and stage 2 loans and advances, with the corresponding ECL coverage ratio standing at 1.9%.

MCB Ltd: Provisions as at 30 June 2023

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	56,177	202,806	85,668	5,618	288,634	179,799
Expected Credit Losses	174	2,390	847	93	110	532
Coverage ratio (%)	0.3	1.2	1.0	1.7	0.0	0.3
Stage 2						
Exposures	807	13,546	0	70	0	4,848
Expected Credit Losses	609	2,343	0	35	0	911
Coverage ratio (%)	75.5	17.3	0.0	0.0	0.0	18.8
Stage 3						
Exposures	1,027	9,182	0	410	285	890
Specific provisions	308	6,348	0	408	28	733
Coverage ratio (%)	30.0	69.1	0.0	99.5	9.8	82.4

MCB Ltd: Provisions as at 30 June 2022

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	51,316	171,051	48,985	8,537	262,503	193,208
Expected Credit Losses	319	3,136	515	172	102	358
Coverage ratio (%)	0.6	1.8	1.1	2.0	0.0	0.2
Stage 2						
Exposures	843	11,989	0	421	0	3,974
Expected Credit Losses	395	2,202	0	85	0	357
Coverage ratio (%)	46.8	18.4	0.0	20.2	0.0	9.0
Stage 3						
Exposures	1,211	9,455	0	0	71	1,647
Specific provisions	358	3,203	0	0	7	754
Coverage ratio (%)	29.6	33.9	0.0	0.0	9.3	45.8

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: Provisions as at 30 June 2022

Foreign banking subsidiaries	Retail	Corporate	Financial institutions	Sovereign
	Rs m	Rs m	Rs m	Rs m
Stage 1				
Exposures	2,819	17,369	5,707	20,690
Expected Credit Losses	22	186	6	49
Coverage ratio (%)	0.8	1.1	0.1	0.2
Stage 2				
Exposures	31	454	0	0
Expected Credit Losses	2	40	0	0
Coverage ratio (%)	7.2	8.8	-	-
Stage 3				
Exposures	399	1,366	0	3
Specific provisions	234	556	0	3
Coverage ratio (%)	58.7	40.7	-	-

Foreign banking subsidiaries: Provisions as at 30 June 2023

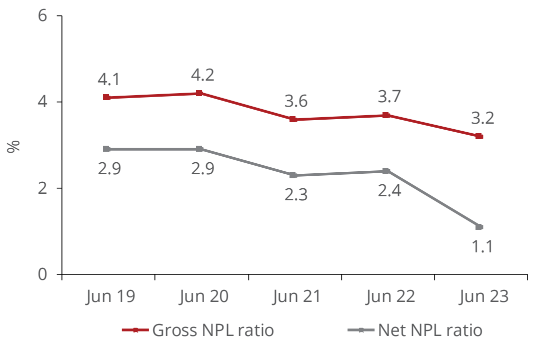
Foreign banking subsidiaries	Retail	Corporate	Financial institutions	Sovereign
	Rs m	Rs m	Rs m	Rs m
Stage 1				
Exposures	3,281	17,270	7,649	20,820
Expected Credit Losses	18	112	18	53
Coverage ratio (%)	0.5	0.7	0.2	0.3
Stage 2				
Exposures	16	806	0	0
Expected Credit Losses	1	50	0	0
Coverage ratio (%)	8.4	6.2	-	-
Stage 3				
Exposures	341	1,375	0	3
Specific provisions	256	724	0	3
Coverage ratio (%)	75.2	52.7	-	-

Asset quality

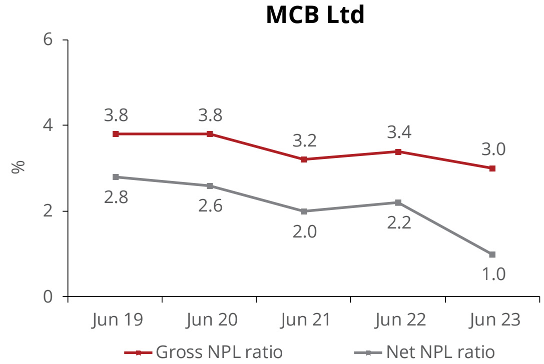
We improved the general quality of our exposures on the back of careful market endeavours and dedicated measures taken while also managing to close some big legacy files during the year notably at the level of MCB Ltd. Our gross and net NPL ratios stood at 3.2% and 1.1% respectively down from 3.7% and 2.4% respectively as at June 2022. Our specific coverage ratio increased from 37.7% to 66.5%, with the remaining portion being adequately covered by collateral, suitably discounted to reflect current market conditions and expected recovery time.

Quality of exposures

MCB Group



MCB Ltd



June 2023	Non-performing loans (NPLs)		Specific provisions	
MCB Group	**Rs m**	***% of exposures***	**Rs m**	***% of NPLs***
Agriculture and fishing	926	*10.0*	1,068	*82.7*
Manufacturing	213	*1.2*	193	*55.6*
Tourism	795	*2.6*	712	*67.8*
Transport	269	*3.1*	399	*82.7*
Construction *(including property development)*	276	*1.7*	177	*51.2*
Financial and business services	325	*0.6*	253	*62.8*
Traders	1,070	*0.9*	1,096	*56.8*
of which petroleum and energy products	*0*	*0.0*	*0*	*0.0*
Personal and professional	962	*1.9*	470	*35.1*
of which credit cards	*33*	*3.2*	*29*	*87.9*
of which housing	*537*	*1.4*	*185*	*29.6*
Global Business Licence holders	7,285	*32.4*	6,595	*71.9*
Others	1,515	*4.0*	975	*59.3*
of which Energy and Commodities asset-backed financing	*890*	*5.2*	*746*	*82.3*
Total	**13,636**	***3.2***	**11,938**	***66.5***

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

Country risk management at MCB Ltd

General approach and objectives

MCB applies a coherent and comprehensive approach and framework as well as adequate control processes to formulate its country risk tolerance and determine exposure limits assigned to markets, alongside adhering to the BoM Guidelines on Country Risk Management and Cross-Border Exposure. The RMC is entrusted with the task of setting and reviewing the country risk framework and country risk appetite parameters. The RMC meets at least quarterly to monitor the performance of the Bank's cross-border exposures, including compliance with the risk appetite, risk limits and overall requirements set out in the framework on cross-border exposure.

Measurement and monitoring

The Bank 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 our credit exposure portfolio is at all times balanced in terms of its risk profile.

We carefully monitor country risk events, including macroeconomic developments, sovereign credit worthiness, and specific occurrences such as social unrest, nationalisation and expropriation of assets, foreign exchange controls, currency depreciation/devaluation and political developments. 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 as well as the size 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 keeps track of the unfolding business opportunities across markets of interest and has also set up a list of 'restricted countries'. No limits are established for the latter countries, with activities only conducted with approval of the RMC.

Mitigation and management

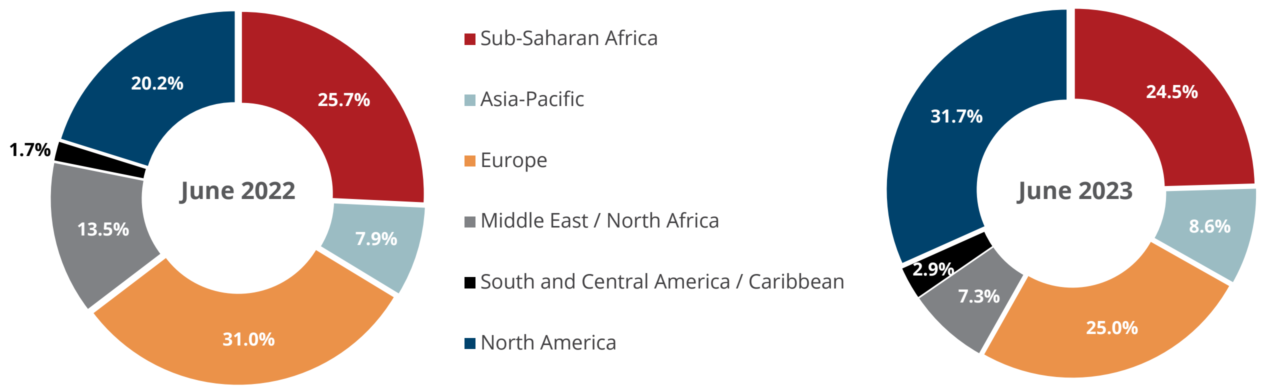
With a view to fostering sound country risk management, we lay emphasis on (i) thoughtful and regular determination and review of our risk appetite, after making allowance for the evolving operating environment and our strategic ambitions; (ii) diversified exposures across countries and sectors; (iii) undertaking activities in a selective and, in some cases, opportunistic manner, while favouring areas that we are well accustomed to and for which we nurture strategic competencies and technical expertise; and (iv) ensuring that our deals are appropriately selected, structured and ring-fenced (with area specialists handling complex deals), backed by the application of a series of risk mitigants and robust methodologies.

Diversification of exposures

Distribution of customer loan portfolio

Exposures by region

(Excluding Mauritius)



Note: Exposures include funded and unfunded financing exposures as well as treasury activities

Financial risks at MCB Capital Markets (MCBCM)

By virtue of their activities, MCBCM and its subsidiaries are exposed to financial risks. Through its brokerage business, MCB Stockbrokers, MCBCM acts as market-maker or liquidity provider in respect of certain securities listed on the Stock Exchange of Mauritius. Relevant safeguards have been implemented to ensure that any risks arising from this activity are properly mitigated. MCB Stockbrokers also offers underwriting services to corporate clients and is thus subject to financial risks. Such risks are managed by a formal process that involves: (i) 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; and (ii) a two-tiered approval process, with the first level approval being provided by the Chief Executive Officer of MCBCM and the second level approval provided by MCB Group Executives.

Moreover, MCBCM is involved in the structuring, issuance and management of Credit Linked Notes. 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 also require some degree of active funding and liquidity management, mainly through adequate levels of capitalisation and access to appropriate funding and credit lines.

Via its private equity arm, MCB Equity Fund, the MCB Group is exposed to financial risks and, as such, ensures that it has the appropriate framework in place to manage and mitigate those risks.

Market risk

General approach and objectives

The Group seeks to minimise the risk of losses in on- and off-balance sheet positions arising from activities undertaken in or impacted by financial markets. We ensure that an appropriate framework is in place to systematically identify, assess, monitor, control and report the market risk exposures across trading and banking books. These include market-contingent risks such as counterparty credit risk as well as profit and loss risks arising from market risk activities. We also detect and manage the impact of currency fluctuations, alongside properly managing the net open positions.

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 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. The Market Risk and Product Control BU (MRPC BU) undertakes the monitoring and management of market risks, while providing financial position and risk analysis information to the ALCO and RMC. The RMC 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 MCB Ltd's Financial Markets SBU 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.

Measurement and management

Interest rate risk

In the banking book, the Group is mainly exposed to repricing risk 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 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 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 are monitored by the Market Risk and Product Control BU.

To further improve its monitoring of trading risk, the MRPC BU, through its Product Control function, monitors 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 Group is 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 our assets and liabilities. The risk to which we are exposed can also be viewed from an off-balance sheet angle through our 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. In addition, we determine prudential trading, transactional and daily stop-loss limits as applicable.

Liquidity and funding risk

General approach and objectives

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 Group maintains sources of funding that are cost-efficient, diversified, and stable, with a primary focus on customer deposits. Furthermore, an appropriate level of liquid assets is kept to ensure that obligations can be met within a reasonable time-frame.

The ALCO of the banking subsidiaries oversee the management of liquidity and funding risk in line with regulatory requirements and internationally recommended practices. The ALCO has set robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons. The RMC also reviews a summary of liquidity risk exposures and metrics, while assessing regulatory and other developments affecting the entities in this respect. The Market Risk Policy ensures that liquidity risk oversight is conducted independently of the risk-taking units.

Measurement and monitoring

Funding and liquidity risk is measured and monitored separately for each material currency and on a consolidated level. The Group assesses funding and liquidity positions with respect to obligations under both Business As Usual (BAU) and stressed conditions. At the level of MCB Ltd, it sets internal targets on key regulatory measures such as the liquidity coverage ratio (LCR) at currency level, whilst monitoring other ratios and Early Warning Indicators to assess its liquidity situation. The key actions undertaken to ensure that funding and liquidity risk is effectively measured and monitored at the Bank include the following:

- Robust Contingency Funding Plan in place which *inter alia* provides for active monitoring and reporting of Early Warning Indicators and courses of action under a liquidity stress; Scenario analysis conducted by simulating withdrawal of funds e.g. withdrawal of USD current accounts under severe stress scenarios; Uncommitted money and short-term forex swap and repo lines regularly tested for liquidity depth

- Maintenance of adequate high-quality liquid assets (HQLA) buffer as well as achievement of conservative maturity transformation and operational deposit optimisation to ensure compliance with the LCR with monitoring/reporting for assets and liabilities denominated in significant currencies. This entails close monitoring of the LCR and circulation of the ratio to Management on a daily basis. LCR, along with other liquidity indicators, such as gap analysis and BIS net stable funding ratio (NSFR), are presented to the ALCO on a monthly basis and to the RMC on a quarterly basis; Carrying out of frequent simulation on LCR, based on what-if investment in HQLA and renewal of wholesale market funding

- Diversification of balance sheet funding sources with a mix of internal treasury surplus, institutional lines of credit and trade refinancing lines

- Active monitoring and management of daily liquidity through a daily Operational Cash Flow model, which provides the Bank with daily cash flow projection over different time bands under various scenarios

Mitigation and management

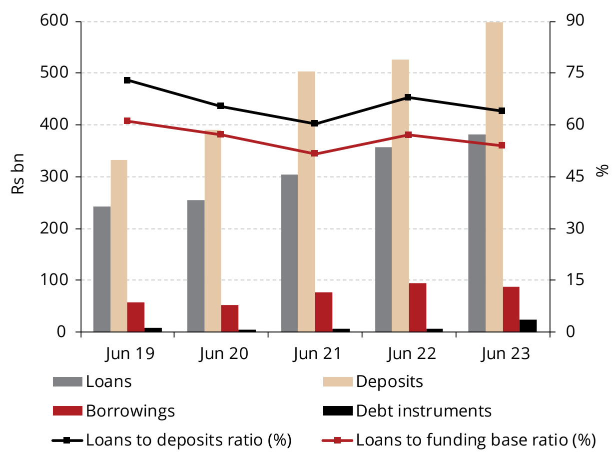
The Group diligently manages and diversifies the funding and maturity profile of the balance sheet in order to ensure that we can successfully deploy our strategic endeavours over the short and longer runs.

To achieve this, banking entities of the Group employ a methodical approach that involves creating a time ladder of continuous assets and liabilities cash flows, while avoiding undue accumulation of cash flows in any time segment, especially those expected to fall due in the near future. They use cash and liquidity gap profiles for both local and significant foreign currencies to analyse and monitor the impact of projected disbursements by lines of business. They also undertake the behavioural analysis of non-maturity current and savings accounts balances so as to assign an actuarial maturity profile, which reflects the stickiness of such account balances.

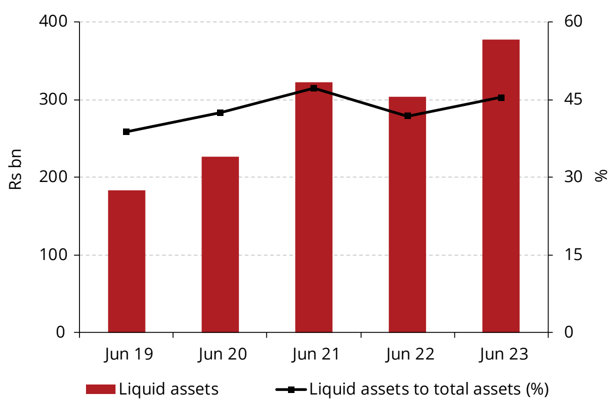
The stock of liquid assets is proactively managed to cover day-to-day cash management and, in the case of MCB Ltd, provide for an adequate coverage of the risk-weighted cash outflows associated with the standardised crisis scenario under the Basel III framework for liquidity coverage ratio. The components of the liquid assets buffer are also managed from a viewpoint of market risk volatility, and taking into account the credit risk weighting and the low returns usually linked with the cost of holding these highly liquid assets.

During the year under review, we took proactive measures to maintain substantial buffers in light of the prevailing economic environment. Despite these challenges, the Group continued to display strong funding and liquidity positions in FY 2022/23. We have been active across markets to uphold sufficient funding resources to help our customers ride through the difficult conditions and support our growth ambitions. In this respect, we leveraged placements from banks and repurchasing agreements. In line with its funding diversification objective, MCB Ltd also successfully launched and priced its first USD 300 million 5-year senior unsecured notes issuance under its USD 3 billion Global Medium Term Note Programme and signed a three-year USD 500 million syndicated loan. The Bank also closed its first Basel III compliant Tier 2 bond issuance of USD 147 million, privately placed with the African Development Bank. These strategic moves contribute to strengthening the Bank's overall financial position and aligns with its commitment to maintaining a robust and diversified funding base. More recently, we issued notes worth Rs 2.5 billion under our Rs 10 billion Multi-Currency Note Programme at MCB Group level for existing debt repayment purposes.

Loan and funding base

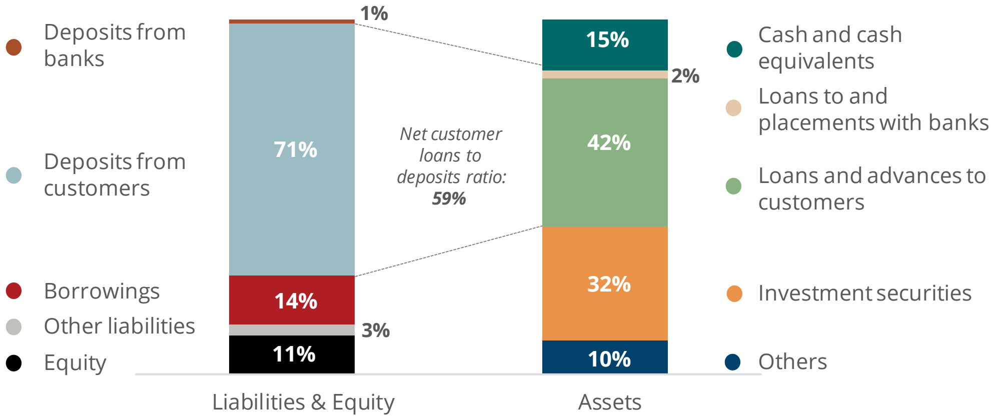


Liquid assets



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

Asset funding structure as at June 2023



MCB Ltd: Key liquidity ratios

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 to liquidity shocks by ensuring that it maintains an adequate reserve of unencumbered high-quality liquid assets (HQLA), which can provide support during a 30 calendar day period of significant liquidity stress. As per local regulations, 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. Since 31 January 2020, the minimum regulatory LCR has been elevated to 100% for MUR, as well as for material foreign currencies, and consolidated LCR. Furthermore, in September 2020, the Guideline on Liquidity Risk Management was revised to provide 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, amongst others.

As at 30 June 2023, MCB operated comfortably above the stipulated LCR requirements. It reported a consolidated LCR of 461%, which is equivalent to a surplus of some Rs 146 billion over stressed total net cash outflows. At currency level, MCB 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 354% as at 30 June 2023. It can be noted that HQLA eligible for the purpose of calculating the LCR as per set rules consist of cash or assets that can be converted into cash at little or no loss of value in markets. In this light, MCB diligently managed its investment portfolio, holding suitable levels of investment in sovereign and cash liquid assets. This strategic approach not only contributes to meeting regulatory requirements but also reinforces the Bank's readiness to navigate various market conditions while preserving the value and stability of its position.

Net stable funding ratio (NSFR)

Under Basel III, the NSFR aims to strengthen the resilience of a bank over a longer time horizon. It achieves this by requiring the bank to maintain a stable funding profile relative 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 over-reliance on short-term wholesale funding or the running of large funding gaps meant to sustain rapid balance sheet growth. Although not yet a regulatory requirement in Mauritius, MCB monitors its NSFR performance, which requires an amount of available stable funding to be maintained. As at 30 June 2023, MCB Ltd reported an NSFR of 144%. This figure exceeds the minimum level recommended by Basel III, which mandates a minimum NSFR of 100% on an ongoing basis. This accomplishment underscores the Bank's proactive approach in ensuring a robust and balanced funding structure, contributing to its long-term stability and resilience.

Model risk

General approach and objectives

We make use of models for a broad range of business and risk management activities, such as in the credit approval process, valuation of risk exposures, stress testing exercises and pricing strategies. Such applications invariably give rise to risks of model errors that could expose the organisation to financial loss or reputational damage. The Group is determined to enhance its model risk management framework, alongside strengthening capabilities to minimise uncertainty of output and cater for the increasing complexity of models. We adopt best practices for transparent model development, implementation, and validation. At the level of MCB Ltd, model risk oversight is assumed by the Model Review Committee, which is chaired by the Chief Risk Officer, and is responsible for validating all new, updated or recalibrated models and assessing if models are fit for purpose, efficient and make business sense.

Mitigation and management

We have developed a criticality rating matrix that appraises the risk rating of a model by accounting for both the quantitative and qualitative impact of the model. The financial impact of the underlying model is gauged as a percentage of the operating profit and the model's non-financial impact is assessed on the basis of operational efficiency gains derived from its application, its contribution towards ensuring regulatory compliance and the extent to which the model assists in enhancing customer experience.

Policies and procedures are in place to ensure the effective development, deployment and validation of models and adequate performance monitoring thereof. Model development data, which are guided by principles of transparency, explainability and auditability, are thoroughly assessed before use. All deployed models match the industry benchmark for the Gini coefficient. Before models are deployed, they go through an internal validation process covering dimensions such as data sampling, variable treatments, variable selection, model design, and measure of model performance during back-testing exercises, among others. All relevant stakeholders are involved during the development phases of the models. In addition, Management and model sponsors are regularly updated, at each critical milestone, of model development and deployment. The organisation's business rules are implemented in certain cases to make models more rigorous in areas which cannot be directly modelled. These rules, which are continuously adapted to reflect prevailing economic and market conditions, are also helpful in cases of severe economic downturns where models might not perform as expected. Moreover, in order to curtail the risk of losses from incorrect model decisions in loan approvals, automated model decisions are meticulously designed and allowed within a pre-set maximum loan limit. Furthermore, models are periodically assessed following their deployment in areas such as drift in model input and model accuracy. In addition, once sufficient historical data points are available, backtesting of models are set to be undertaken to cross-check their robustness. As a further layer of risk mitigation, the Internal Audit BU of MCB Ltd performed a full audit of the Credit Modelling BU during the FY 2022/23, which also covered the review of models.

Operational risk

General approach and objectives

The Group aims to identify, mitigate and manage operational risks across activities, processes and systems in line with the defined risk tolerance. The objective is to underpin the continuity of our operations and anchor a solid platform to provide customers with seamless services. Towards determining the operational risk tolerance levels, we 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 the Management of Group entities. The latter are responsible for the application and effectiveness of their respective Operational Risk Policy as approved by the Audit Committee. The operational risk policies formulate the principles and methodologies for the management of operational risk. They set out a framework which is aligned with best practices and standards, advocated rules and norms on the local and international fronts, while setting out the relevant roles and responsibilities within the entity. As part of their responsibility to implement the operational risk management framework, Management has 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.

Measurement and monitoring

The determination of the risk exposures is anchored on the regular review of operational risks inherent in internal processes and client solutions, with monitoring thereof performed against acceptable tolerance limits. MCB Ltd applies the Alternative Standardised Approach for calculating and reporting its operational risk capital charge whilst the other entities apply the Basic Indicator Approach. Information on operational risk events is recorded in centralised databases, which enables systematic root cause and trend analysis for necessary corrective actions.

Mitigation and management

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 the appropriate risk culture, fostered through risk awareness sessions targeting relevant audiences. For example, an overview of both Operational Risk and Business Continuity Management is provided – in the form of a dedicated induction course – to new employees joining MCB Ltd. The latter's Operational Risk Management Framework relies on three primary lines of control, as shown below.

Primary lines of control

Risk ownership	**Risk control**	**Independent assurance**
Business units	**Audit Committee/IORC/ Operational Risk BU**	**Internal/External Audit**
• 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 policies • 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

Whilst the Operational Risk BU is responsible for the identification, assessment and management of related risks, operational risk management forms part of the day-to-day responsibilities of Management and employees. The Operational Risk Cartography was recently updated and is leveraged for the assessment of operational risks and the implementation of relevant controls.

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 are offered training courses from MCB Ltd to ensure that they are well prepared to deal with specific risk management needs.

At MCB Capital Markets, the initial stage for the management of operational risks includes formal reviews of procedures and processes, analysis of complaints, incident reports and IT change requests as well as 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 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.

Health and safety

The Group ensures the highest standards of safety and health are adopted across all our business activities and on our premises. Towards this end, it complies with the provisions of relevant legislations, namely the Occupational Safety and Health Act in Mauritius and other associated laws and regulations. Risk control measures are implemented through safety and health audits carried out during on-site inspections, with the latter aimed at identifying hazards and risk factors that have the potential to cause harm to the safety and health of people on our premises. The audits also seek to determine the appropriate ways to eliminate such hazards in order to protect our staff and clients. By fostering a safety culture throughout the organisation, we are able to prevent accidents, reduce injuries, and create a secure environment for everyone.

Business continuity risk

General approach and objectives

The Group adopts a robust and proactive approach to Business Continuity Management (BCM) to ensure that its entities continue to conduct their key business activities and deliver products and services in case of unforeseen events or business disruptions at acceptable pre-defined service levels. We 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.

Mitigation and management

The Business Continuity Management framework of the Group is encapsulated in the entities' 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.

Furthermore, contingency strategies have been refreshed to respond to an evolving landscape encompassing potential disruptions due to cyber threats, climate risks and third-party or supplier dependencies together with the more traditional business continuity risks such as technological outages and site unavailability disruptions. In this respect, banking entities in particular conduct regular Disaster Recovery (DR) simulation exercises to test the operability of critical systems hosted on servers that are located at dedicated sites. During the year, whilst carrying out its planned annual concurrent DR simulation to confirm the operability of its DR site in the event of a major technological outage, MCB Ltd also successfully executed an unplanned DR exercise to test the actual readiness of its technical teams, thereby reaching a major milestone in its DR resilience journey.

Cyber and information security risk

General approach and objectives

The Group adopts a dedicated approach to safeguard its information security, alongside complying with applicable regulatory requirements on data protection and ensuring that we are prepared to respond to potential cyber-attacks and threats to our information assets in a timely and effective manner. The Group's primary objectives are to maintain the confidentiality, integrity, security, and availability of information assets stored, processed, and transmitted throughout the organisation. In addition, we aim to handle and mitigate cyber risks, establishing 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.

Mitigation and management

Risk management 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 Cyber & Information Security Risk BU (CIS BU) is responsible for developing and maintaining cyber, technology and information risk policies, in line with the evolving operating and threat landscapes, as well as requirements set by 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. CIS BU's findings, recommendations and assessments are regularly reported to various executive committees and the Audit Committee, with an emphasis on cybersecurity and data protection matters.

From a broader perspective, the Group's 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 growing challenges posed by 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 hereafter:

Recent initiatives at MCB Ltd

In addition to initiatives already highlighted, MCB has deployed several initiatives to uphold the robustness of its information risk and privacy framework:

- The Bank's risk assessment framework and information security management systems and processes were upgraded to foster alignment with internationally-recognised standards
- The Bank's critical infrastructure (which includes customer-facing applications) has been independently tested and assessed from a cybersecurity perspective
- The Bank on-boarded advanced Cyber Response and Legal Advisory services
- The Bank's 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
- The Bank's security posture has improved further through the activities of a dedicated Red Team
- The set of critical controls underpinning our cybersecurity resilience is being continuously monitored and our cyber incident response framework has been reviewed
- The security events monitoring capability of our Security Operations Centre (SOC) is continuously being refined and augmented with new use cases
- Compliance with 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
- Various actions, including security awareness sessions, are continuously taken to enhance our employees' alertness to cybersecurity, with a focus on social engineering
- 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 risk culture

Compliance risk

General approach and objectives

Forming part of the Group's second line of defence for managing risks, the relevant Compliance functions are duty-bound to provide assistance to the Board and Management. This ensures that business activities are conducted in strict compliance with applicable laws, rules, regulations, industry codes of conduct, policies, standards, and good governance practices. Our main objectives include complying with all relevant stipulations to safeguard the organisation's assets and shield it from legal and regulatory sanctions and financial/reputation losses. We also strive to ensure consistency between the conduct of business operations and the observance of relevant laws and standards of good market practices. This is achieved through the continued identification of compliance-related risks, ongoing assessments, and the design of adequate controls. The approach emphasises the Group's commitment to ethical conduct and adherence to legal standards and reinforcing the trust and confidence of our stakeholders, including investors and customers. It fosters a compliance-oriented culture, supporting business lines in delivering fair outcomes for customers and preserving the organisation's reputation, all while helping to achieve business development objectives. The Compliance functions also help to protect the Group's reputation and to minimise the risk of investigation, prosecution, regulatory sanctions and penalties. It fosters a compliance-oriented culture, supporting business lines in delivering fair outcomes for customers and preserving the organisation's reputation, all while helping to achieve business development objectives.

Mitigation and management

The Group seeks to ensure that our core values and standards of professional conduct are maintained at every level and within all our activities and operations. Towards this end, Group entities adhere to the organisation's policies while also ensuring they comply with all relevant local legal requirements. They adopt dedicated systems and processes in order to properly identify and prevent any risks of non-compliance, alongside ensuring that they are sufficiently equipped in order to respond to the increasingly stringent regulatory environment and effectively cope with greater scrutiny by regulators and law enforcement authorities. Towards guaranteeing that their objectives are met in a consistent and judicious manner, they perform regular monitoring exercises, to ensure compliance with policies and procedures as well as ascertain that controls are operating in a sound and effective way. For instance, recognising the need to adhere to international governance codes and standards, MCB Capital Markets has put in place a framework to manage its compliance and regulatory risks which encompasses:

- regular review of applicable laws and regulations to identify compliance gaps;
- active involvement of MCBCM's Risk & Compliance function 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;
- monitoring of changes to the legal and regulatory frameworks and initiation of corrective actions as necessary;
- 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 and;
- On going focus on strengthening the compliance culture within MCBCM.

From a holistic perspective, compliance risk management at the Group is anchored in the following core principles:

- Driving and embedding a culture of compliance throughout the Group
- Paying continuous attention to and undertaking regular reviews of ongoing developments as regard laws, regulations, guidelines and standards of good practice, accurately understanding their impact and coming up with necessary responses so that the Group can effectively address the risks arising from such changes
- Fostering a coherent compliance control mechanism within the Group to pave the way for standardised processes and operations
- Maintaining a set of policies and procedures to promote strong ethical behaviour amongst employees as well as to prevent and manage any potential conflicts of interests
- Promoting the awareness of Management, directors and employees on the requirements arising out of new/amendments to laws and regulations and other compliance-related matters
- Providing adequate and dedicated training to the Group's directors, compliance officers and employees to ensure that they have the necessary knowledge and skills to fulfil their duties
- Maintaining close working arrangements and communication with business lines through the dissemination of compliance-related information and provision of advisory services
- 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 Money Laundering/Terrorist & Proliferation Financing related-risks and assessing its residual likelihood and impact based on the controls in place – corrective measures are taken and monitored to minimise the likelihood of the risks materialising

In relation to Anti-Money Laundering/Combating the Financing of Terrorism/Proliferation Financing (AML/CFT) obligations, Group entities 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, as applicable, alongside paving the way for detecting suspicious activities. While fostering continuous employee awareness, the entities *inter alia* ensure that staff are given appropriate training on AML/CFT to help them identify suspicious transactions in keeping with legal and regulatory requirements. Moreover, the entities adhere to a Group 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.

Key areas of support extended by MCB Ltd to Group entities

MCB Ltd provides dedicated support to entities of the Group whilst taking into due consideration the intrinsic specific legislative and regulatory requirements which need to be fulfilled by these entities.

- Compliance risk assessments: It extends support to the Compliance Officers of the Group entities in the performance of compliance risk assessments and through compliance-related training provided to them
- Enterprise Wide Risk Assessment (EWRA): It assists in the conduct of the EWRA and builds internal capacity for selected entities of the MCB Group
- 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
- Employee training: It provides AML/CFT training to employees of the entities when called for, in addition to reviewing materials that the Compliance Officers have prepared for the purpose of employee 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. Moreover, it provides technology-related assistance for compliance linked systems

Zoom on our Permanent Supervision framework

The Group has adopted the Permanent Supervision methodology across banking entities so as to reinforce independent controls within its second line of defence. The permanent 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 Organisations of the Treadway Commission, which is a joint initiative to combat corporate fraud and was established in the US by private sector organisations. The banking 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.

The Group applies a series of operational controls with respect to internal processes and client solutions. Such controls are regularly reviewed and actively monitored in order to gauge the applicability and effectiveness of actions taken. Internal control forms part of the day-to-day responsibilities of Management and all employees. Specifically at MCB Ltd, while the former is responsible to implement the internal control framework, the Risk SBU, through Risk & Control Executives, is responsible for ensuring the proper functioning of the internal control system. The dedicated team of Risk & Control Executives across SBUs regularly report the main risks and control events observed, while ensuring timely escalation of findings to Heads of host SBUs, the IORC and the Audit Committee as appropriate. Of note, with a view to further enhancing the risk management and control framework, the span of Risk & Control Executives has been broadened to cover all the major activities of the Bank, including support functions as well as non-financial risks (information risk, including cyber risk, and compliance risk). Identified internal control deficiencies are managed in a timely and effective manner through adherence to established procedures and proper monitoring of the implementation of reinforcement measures.

Risk assurance: Internal audit

General approach

Our Internal Audit function, i.e. the third line of defence which is independent of the first and second lines, is responsible for providing independent assurance to the MCB Group Audit Committee, the Audit Committees of its subsidiaries and Management on the overall design and operating effectiveness of the risk management framework and its components. This includes the adequacy and effectiveness of key internal controls, governance and the risk management in place to monitor, manage and mitigate the principal risks to MCB Group and its subsidiary companies achieving their objectives.

The foreign banking subsidiaries are structured with their locally-based internal auditors, and complement their assurance with the services provided by the Internal Audit SBU of MCB Ltd. The audit plans of both internal audit functions are considered by their respective Audit Committee to ascertain the most adequate coverage, whilst requesting to leverage the expertise of Internal Audit SBU – which is certified as compliant with the Institute of Internal Auditors' (IIA) standards – to standardise the approach and quality of audit work. This provides the opportunity to enhance the effectiveness of internal audit management and processes.

Based on its assessments, the Internal Audit function is presently not aware of any significant area of the Group where there are inadequate internal controls. The function does not believe that there are deficiencies in internal controls that could give rise to risks which could eventually jeopardise the operations of the Group. The third line of defence executes its duties freely and objectively in accordance with the IIA Code of Ethics and International Standards on independence and objectivity.

Capital management

The framework

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

Capital management at MCB is underpinned by a forward-looking approach and coupled with a comprehensive governance framework. The 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, conditions prevailing across economies and financial markets, the Group's strategic orientations, etc. Through this holistic assessment, we fine-tune our capital strategy to align with our broader goals, thereby ensuring our sustained resilience and capacity for strategic advancement.

Our process

Commensurate with the strategic orientations, risk appetite and risk management framework approved by the Board of MCB Group Ltd, the entities, in particular within the banking cluster, abide by their internal policies and practices for undertaking their capital management initiatives. The latter includes (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 and MCB Seychelles are guided by their 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.

Internal Capital Adequacy Assessment Process of MCB Ltd

Framework	MCB is guided by its Internal Capital Adequacy Assessment Process (ICAAP) when determining its capital planning and formulating its risk appetite process. 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 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

Stress testing is a key risk management tool used by the Bank and is an integral part of its ICAAP. The aim of the Bank's stress testing framework is to identity, quantify, evaluate and make sense of the potential impact of specific changes in risk factors on the business development and financial strength of the Bank. MCB applies the stress testing principles set out under the new BoM Guideline on Stress Testing issued in June 2022. Forecasts are made over a 3-year horizon, taking into account the Basel Pillar I and II stresses. The ICAAP provides for an assessment of the Pillar I risk types (i.e. credit, operational and market risks) and Pillar II risk types (i.e. concentration, liquidity, interest rate, strategic risks, etc.). These assessments are undertaken to understand the sensitivity of the key assumptions of the capital plan with regard to the realisation of plausible stress scenarios. This helps MCB evaluate how it can maintain adequate capital under such scenarios.

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 during periods of: (i) favourable economic and financial conditions given the subsequent lack of visibility over potentially negative future developments; and (ii) 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

Stress testing results

In FY 2022/23, the Bank conducted stress testing under various historical and stress test scenarios to assess the impact of unfavourable scenarios on key metrics. We have used the 3-year budget forecasts to conduct our different stress tests. We assumed that the stress scenarios take place in the middle of FY 2022/23, i.e. at the beginning of January 2023, and we then measured the relevant impacts accordingly. 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. We 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, NSFR, 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, our recent analyses revealed that the Bank's capital adequacy ratio does not fall below the regulatory requirements in any of the 3 scenarios described hereunder.

Mild scenario	The continued effects of inflation globally resulted in an increase in base rates from Central Banks, forcing the BoM to increase the Key Rate even further in an attempt to curb imported inflation. This leads to a mild recession globally and in Mauritius, resulting in investors pulling away from emerging markets. The conflict between Russia and Ukraine continues without further deterioration and without further shocks to oil and gas prices. The conflict is assumed to finish in 2024 and the world returns to a slow pace of growth in 2025.
Medium scenario	The conflict between Russia and Ukraine worsens considerably resulting in a spike in oil and gas prices, and further inflation globally. This results in a full global recession and a further flight away from emerging markets by investors. Combined with the shock to the tourism sector, the rupee is under even more pressure and the country rating is downgraded. The Russia/Ukraine conflict lasts until the beginning of 2025 while the world resumes slow growth only towards the end of 2025.
Severe scenario	The world experiences a resurgence in variants of COVID-19 resulting in several lockdowns and restricted travel. The Russia/Ukraine conflict simultaneously worsens causing a squeeze in oil and gas supplies and a rise in prices. The reduced number of tourist arrivals and decrease in FDI cause a significant depreciation of the rupee. The country rating is also downgraded. In this scenario, the contagion effects of the pandemic and the ongoing Russia/Ukraine conflict would derail the fragile recovery and the global economic depression would prevail beyond FY 2024/25.

Internal Capital Adequacy Assessment Process at the level of our foreign banking subsidiaries

During the year under review, our foreign subsidiaries submitted their annual ICAAP documents. They demonstrated that they had robust internal assessment process for capital adequacy towards Pillar II risk types to which they are exposed, as well as external risk factors.

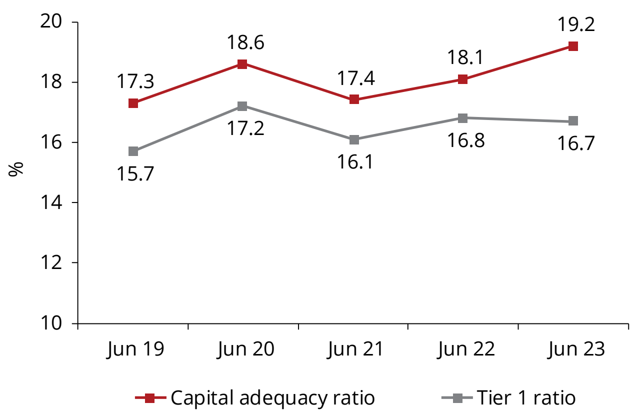
Stress testing results

Our foreign subsidiaries conducted stress tests under various scenarios to assess the impact of unfavourable events on their capital position. They proved that they had robust capital bases, allowing them to withstand adversities in events of severe shocks, whilst also maintaining the capital adequacy ratios above the regulatory thresholds in the scenarios tested.

Capital position for FY 2022/23

The Group continued to be well capitalised backed by higher retained earnings, the conversion of preference shares into ordinary shares and the issue of scrip shares in lieu of dividend. The Group's capital base was further strengthened by the issuance by MCB Ltd of a Tier 2 debt instrument for a notional amount of USD 147 million. The capital adequacy and Tier 1 capital ratios stood at 19.2% and 16.7% respectively as at 30 June 2023. 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 525 billion as at 30 June 2023, out of which 94% was accounted for by the banking cluster with MCB Ltd representing 84% of the overall risk-weighted assets.

Capital adequacy and Tier 1 ratios



Zoom on the banking cluster

Regulatory requirements

The Group's banking entities foster strict compliance with mandatory stipulations set by the regulators in their respective jurisdictions. In respect of MCB Ltd, it uses the Basel II Standardised Approach to manage its credit and market risk exposures, with the Alternative Standardised Approach used for operational risk. The determination of its capital resources is conducted in line with 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 guideline, banks are required to hold a capital surcharge, also known as 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 by the Central Bank using end-June figures. According to the assessment carried out by the BoM, MCB Ltd features among the five banks that have been identified as systemically important in our jurisdiction. This assessment is based on five factors, namely size, exposure to large groups, interconnectedness, complexity and substitutability.

The minimum regulatory Tier 1 and capital adequacy ratios currently applicable to MCB Ltd stand at 13.0% and 15.0% respectively. As for the foreign banking entities, they are guided by the minimum regulatory ratios set out in the table below.

Minimum regulatory ratios

	MCB Ltd	MCB Seychelles	MCB Maldives	MCB Madagascar
As at 30 June 2023	**%**	**%**	**%**	**%**
Capital adequacy ratio	15.0	12.0	12.0	8.0
Tier 1 ratio	13.0	6.0	6.0	-

Performance for FY 2022/23

The capital adequacy ratio of the banking cluster – as measured at the level of MCB Investment Holding Ltd on a consolidated basis – stood at 17.6% as at 30 June 2023. The capital base was primarily made up of core capital, with the Tier 1 ratio standing at 15.1% while Tier 2 capital was boosted by the issuance of the Tier 2 debt instrument at the level of MCB Ltd. The following illustrations depict the capital adequacy ratios posted by the banking cluster.

Banking cluster: Capital adequacy ratios

Capital adequacy	MCB Group		Banking cluster	
	Jun 22	Jun 23	Jun 22	Jun 23
Capital base	**Rs m**	**Rs m**	**Rs m**	**Rs m**
Ordinary shares (paid-up) capital	3,109	4,907	8,880	8,880
Retained earnings	67,545	75,747	52,250	61,396
Accumulated other comprehensive income and other disclosed reserves	7,539	10,357	10,322	10,478
Common Equity Tier 1 capital before regulatory adjustments	**78,192**	**91,011**	**71,451**	**80,753**
Regulatory adjustments				
Goodwill and other intangible assets	(2,545)	(2,867)	(2,107)	(2,398)
Deferred tax assets	(1,600)	(2,217)	(2,166)	(3,107)
Defined benefit pension fund assets	-	(456)	-	(456)
Common Equity Tier 1 capital (CET1)	**74,048**	**85,471**	**67,178**	**74,793**
Additional Tier 1 capital (AT1)	3,396	2,300	-	-
Tier 1 capital (T1 = CET1 + AT1)	**77,444**	**87,771**	**67,178**	**74,793**
Capital instruments	179	6,840	68	6,840
Provisions or loan-loss reserves	5,315	6,016	5,016	5,701
45% of surplus arising from revaluation of land and buildings	1,282	938	-	-
Tier 2 capital before regulatory adjustments	**6,776**	**13,794**	**5,084**	**12,541**
Regulatory adjustments	(516)	(546)	(514)	(544)
Tier 2 capital (T2)	**6,260**	**13,248**	**4,570**	**11,997**
Total capital (T1 + T2)	**83,704**	**101,019**	**71,748**	**86,790**
Risk-weighted assets	**Rs m**	**Rs m**	**Rs m**	**Rs m**
Weighted amount of on-balance sheet assets	393,999	446,016	370,310	420,896
Weighted amount of off-balance sheet exposures	31,202	35,285	30,962	35,185
Weighted risk assets for operational risk	34,249	39,017	32,256	36,976
Aggregate net open foreign exchange position	2,410	4,508	1,477	653
Total risk-weighted assets	**461,859**	**524,826**	**435,006**	**493,710**

Capital adequacy ratios (%)	Jun 22	Jun 23	Jun 22	Jun 23
Total capital adequacy ratio	**18.1**	**19.2**	**16.5**	**17.6**
of which Tier 1	***16.8***	***16.7***	***15.4***	***15.1***

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

	MCB Ltd	MCB Seychelles	MCB Maldives	MCB Madagascar
	%	%	%	%
Capital adequacy ratio				
As at 30 June 2022	17.2	18.5	74.3	13.7
As at 30 June 2023	18.3	20.3	60.2	12.6
Tier 1 ratio				
As at 30 June 2022	16.3	15.9	58.1	10.9
As at 30 June 2023	15.8	16.9	49.3	10.2

Note: Figures are as per the banking entities' respective regulatory norms

Jean-Philippe COULIER
Director
Chairperson Risk Monitoring Committee

Jean Michel NG TSEUNG
Group Chief Executive