The Good Shop

We sponsor The Good Shop, which sells second-hand products to support local artisans, sustainable products and ethical consumerism. They provide a platform for local artisans and eco-friendly products to foster community development and encourage environmentally responsible practices.

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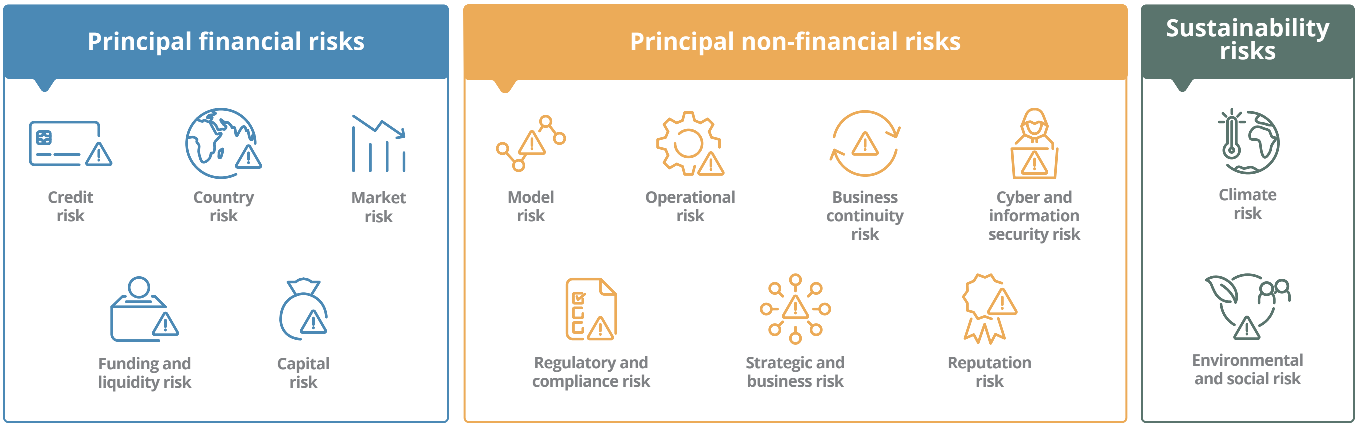
FY 2023/24 highlights

The year in review from a risk perspective

Notwithstanding gradual improvements witnessed in some areas, the risk landscape remained volatile in FY 2023/24 on account of persistent challenges in our internal and external operating environments with the economic situation in key African markets, for instance, further retaining our attention. Nevertheless, our risk profile stayed within established limits of our risk appetite, thanks to the stringent policies, processes, and proactive risk management practices in place across the Group. We continued to actively identify and assess risks from both external and internal sources, enabling us to address potential threats and unlock opportunities. We accordingly reviewed our Enterprise Risk Heat Map to cater for the dynamic environment and focus on the risks that could have a significant impact on the Group's operations, financial performance, solvency, or strategic direction. We made further headway in embedding a strong risk culture across the organisation through the implementation of the Risk Culture Programme to guide the right behaviours in the conduct of our operations with key themes emphasised during the year being cyber and physical security amongst others. As a key move to strengthen the risk governance and oversight, the Risk and Compliance functions of MCB Ltd have been elevated at the Group level since August 2023. Subsequently, the latter functions initiated a gap assessment exercise across subsidiaries during the year with the objective of reinforcing and aligning risk management practices within the organisation.

During the year under review, the most prominent external influences impacting our risk landscape related to geopolitical and macroeconomic conditions, heightened regulatory demands, climate, environmental and social considerations, cybersecurity and technological disruptions, workplace transformations and employee engagement as well as customer loyalty in a competitive market. A description of these factors and our response thereto is given on pages 36 to 39. To ensure appropriate coverage, we have defined the following key risks that impact our business, with the list pertaining only to major risks and is thus not exhaustive.

Our key risks



Our risk management approach remained effective, being anchored on: (i) an integrated governance structure promoting sound risk standards 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. 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 2023/24 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 developments that occurred in our operating environment on key risks during FY 2023/24 and our response thereto. We continued to invest in strengthening our risk framework, enhancing our systems and tools, and upskilling our people, with a view to addressing risks faced.

The symbol included for each key risk below indicates the perceived change in risk profile, in inherent risk terms, of the main risks faced during FY 2023/24 compared to FY 2022/23.

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

Principal financial risks

Credit risk

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).

Capital impacted

Operating context influences: Geopolitical and macroeconomic conditions

While the ongoing economic recovery has helped to stabilise or reduce risk of credit default in some segments, economic conditions remain volatile, with the high interest rate environment amidst the still elevated inflation and currency depreciations in some regional markets weighing on debt servicing costs.

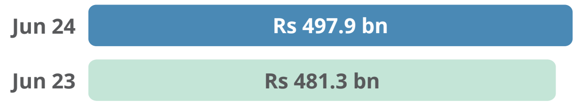
Our response

- 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 limited availability of hard currency in some regional countries and on the debt repayment capacity of borrowers
- Monitored the non-performing asset portfolio performance and the potential effect on credit provisions as a result of the economic challenges
- Conducted regular rapid risk review on sensitive and high risk sectors/regions to ensure early identification of potential issues with existing borrowers
- Ensured proactive credit management through regular monitoring on our performing portfolio to detect early warning signs
- Reviewed and updated the credit policies and credit practices of the overseas banking and para banking subsidiaries in order to ensure Group alignment with best practices

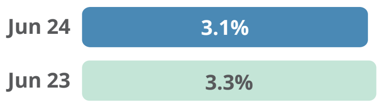
Our performance

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.

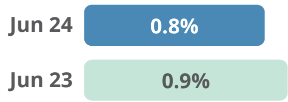
Credit risk-weighted assets



Gross non-performing loans ratio



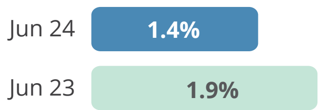
Cost of risk[1]



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

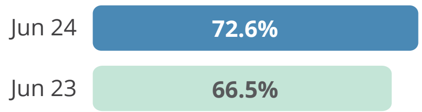
Coverage ratios

Expected Credit Loss[2]



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

Specific[3]



[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

Operating context influences: Geopolitical and macroeconomic conditions

High fiscal and debt burdens have further affected sovereign ratings in certain markets where we are involved. Coupled with heightened political and social developments, these disruptions have increased country risk.

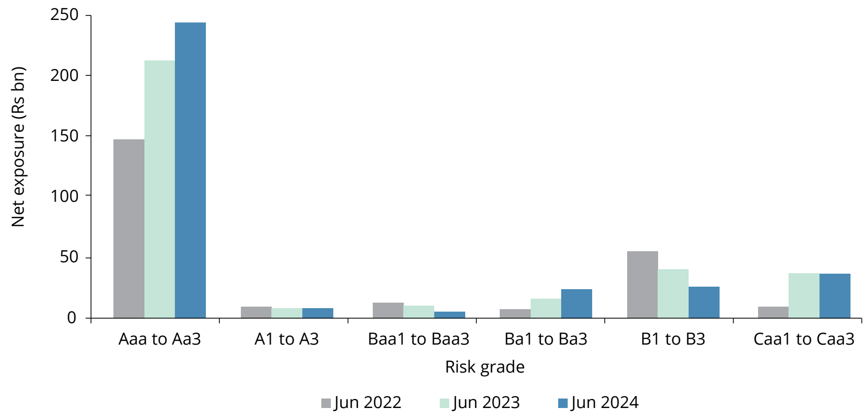
Our response

- Adapted our strategy to the evolving landscape namely regarding our financial commitments with sovereigns having 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 several factors in our risk appetite, including (i) the ability of the obligors to generate sufficient foreign currency to service their indebtedness despite the challenging circumstances; (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
- Pursued our market diversification endeavours, with emphasis on niche segments
- Exercised heightened vigilance in on-boarding country exposures in view of limited FX availability in specific markets

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.

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 Ratings, Standard & Poor's and Fitch Ratings has been selected and converted into a Moody's equivalent rating

Market, Funding and Liquidity risk

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.

Capital impacted

Operating context influences: Geopolitical and macroeconomic conditions | Heightened regulatory demands

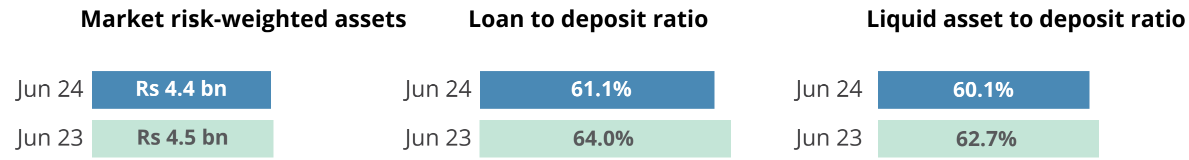
Although the heightened market fluctuations triggered by last year's liquidity crisis abroad have subsided, foreign exchange pressures and monetary developments continued to warrant attention in view of potential implications for various asset classes and our funding strategy.

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 kept the foreign currency loan to deposit ratio within set target; Conducted regular stress tests 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
- Developed and implemented a 'Value-at-Risk' (VaR) model, along with 'Stressed VaR' models to capture material market risks arising from trading portfolios
- Managed proactively the funding and capital structure in order to ensure that the organisation is well-positioned to support business growth while maintaining financial stability

Our performance

We continued to maintain comfortable buffers and sustain strong funding and liquidity positions in FY 2023/24, with MCB Ltd reporting a consolidated liquidity coverage ratio (LCR) of 437%.



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

Operating context influences: Geopolitical and macroeconomic conditions | Heightened regulatory demands

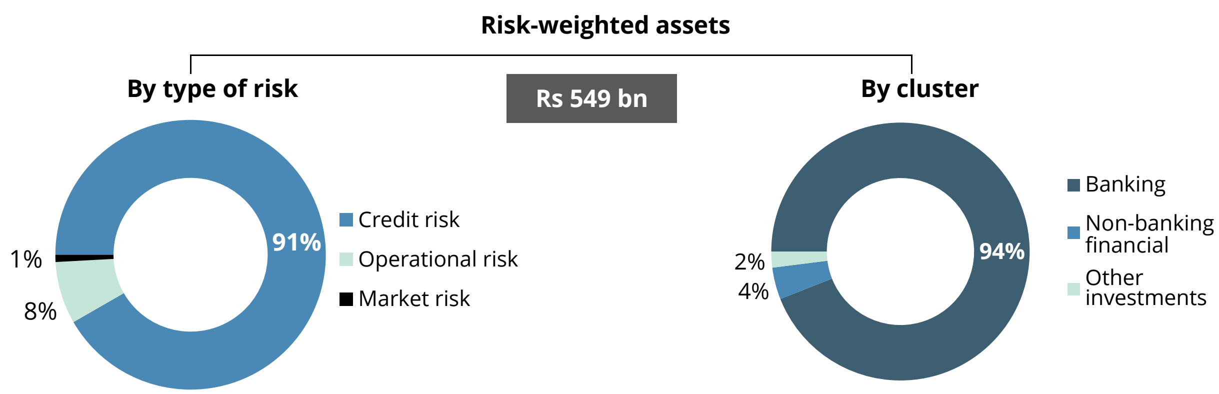
Notwithstanding the implications of sovereign rating downgrades in specific countries as well as stricter regulatory stipulations across markets where we are exposed, our ample capital buffers provide a robust safeguard against potential shocks.

Our response

- Ensured there is sufficient capital to support our risks beyond minimum regulatory requirements alongside optimising 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

Our performance

Our capital position remained strong during the year, supported by our resilient financial performance. 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 19.8% and 17.3% respectively, well above its regulatory requirements of 15% and 13% respectively.



Principal non-financial risks

Model risk

Capital impacted

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

Operating context influences: Geopolitical and macroeconomic conditions | Heightened regulatory demands | Cybersecurity and technological disruptions | Workplace transformations and employee engagement

Model risks continued to warrant attention, with the volatile environment potentially impacting the performance of certain models, prompting necessary adjustments. Additionally, the growing use of sophisticated machine learning techniques generated outputs that are increasingly complex to verify.

Our response

- Continuously improved the accuracy and robustness of our models, backed by enhanced capabilities
- Rolled out 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. This has contributed to a higher level of accuracy in gauging the riskiness of a given client, while reducing the time in granting a facility to the client through an efficient end-to-end process
- Included post model adjustments, management adjustments and model override in order to capture unexpected events
- Back-tested models so as to validate the performance and adequacy of our models

Operational risk

Capital impacted

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.

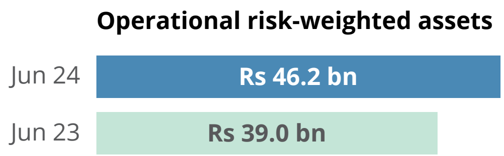
Operating context influences: Cybersecurity and technological disruptions | Workplace transformations and employee engagement

The Group continued to face potential operational disruptions linked to the heightened complexity of activities, 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 adequate and effective governance systems, processes and controls are in place to mitigate operational risks at large, particularly through the Permanent Supervision function
- 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

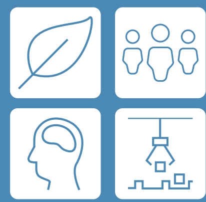
Our performance



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



Operating context influences: Cybersecurity and technological disruptions | Climate, environmental and social considerations | Workplace transformations and employee engagement

The Group remained confronted with potential adverse events that could arise from technological outages and more frequent disruptions in site availability, for instance, increasing climatic events.

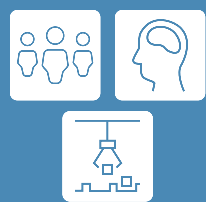
Our response

- Performed annual exercises and simulated different scenarios to test our business continuity plans and crisis management protocols; Undertook Disaster Recovery (DR) simulations and successfully executed unplanned DR exercises to test the actual readiness of our technical teams, thereby reaching a major milestone in our 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, and/or integrity of information or information systems.

Capital impacted



Operating context influences: Heightened regulatory demands | Cybersecurity and technological disruptions | Workplace transformations and employee engagement

The rapid growth in digital adoption and more sophisticated customer needs have led to greater volume of data to manage and heightened challenges to safeguard data security, especially in the face of multifaceted cyber threats. The latter risk has been compounded by the shift in the mode of work of employees and the adoption of machine learning techniques as well as artificial intelligence in our processes.

Our response

- Enhanced our project governance framework to more fully incorporate security and privacy by design
- 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
- Improved controls around network access and log monitoring, and geared ourselves up towards a Zero-Trust approach, while continuing to upgrade and add security solutions to address evolving threats
- Continued to enhance the general and cybersecurity awareness of our staff notably through risk culture campaigns
- Further boosted the monitoring of cybersecurity events through various control systems, resulting in an improved Security Operations Centre management

- Continued to improve our cybersecurity maturity through the review of policies related to cyber and technology risk management while ensuring compliance with the relevant regulatory requirements such as the Bank of Mauritius Guideline on Cyber and Technology Risk Management
- Continued to enhance our cyber response capabilities and processes
- Performed social engineering attack simulations among our staffs to promote the adoption of best practices in terms of cybersecurity risk management
- Created a dedicated first level structure namely the Information Security BU, which is independent from the Technology team and reinforced its staffing in order to allow for more focused and effective security operations
- 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

Operating context influences: Heightened regulatory demands | Climate, environmental and social considerations | Cybersecurity and technological 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 the regulatory compliance obligations by maintaining open and constructive dialogue with regulatory authorities and law enforcement agencies
- Sustained focus to remain resilient, sound and efficient for our stakeholders, while at the same time keeping pace with the fast-changing operating environment
- Continued to gear up our overall compliance framework and enhance our policies, procedures and controls to meet heightened regulatory requirements and underpin the deployment of our activities
- Ensured ongoing enhancement of the transactional and screening alert systems and framework to reinforce effectiveness, which also included the upgrade of the Financial Crime Risk Management (FCRM) platform for SWIFT screening to enable the filtering of MX Message Types (ISO 20022) for all banking subsidiaries
- Reviewed and enhanced our policies and procedures to meet regulatory requirements locally and overseas. This also ensured that we continue doing business in such a manner so as to reduce any risk of our product being used for money laundering, terrorism, proliferation financing, bribery or corruption
- 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
- Further integrated ESG considerations into our risk management framework in compliance with international and local regulations, thereby measuring and disclosing the Bank's sustainability and societal impact of its way of doing business
- 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, thereby ensuring transparency and coherence across the board, Some of the targeted trainings and awareness campaigns included 'Environmental and Social Risk Policy', 'AML/CFT/PF', 'Conflict of Interest and Related Party Transactions Policy' and 'Suspicious Transaction Reporting'
- Pursued human capacity building within the Compliance function, through recruitment of talented professionals, while simultaneously providing opportunities for specialised trainings to all Compliance employees

Strategic and business risk

Capital impacted

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.

Operating context influences: Geopolitical and macroeconomic conditions | Heightened regulatory demands | Climate, environmental and social considerations | Cybersecurity and technological disruptions | Workplace transformations and employee engagement | Customer loyalty in a competitive market

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 impacted our strategic and business risk.

Our response

- Continued to appraise the implications of changes in the operating environment on our strategy and ensure focused execution of our strategic priorities by capitalising on dedicated platforms in place
- Focused on consolidation of existing activities whilst exploring new avenues of growth opportunities
- 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 interactions with rating agencies with processes in place for the scrutiny and dissemination of information in areas they monitor; Reinforced our network of intermediaries and partners
- Further 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

Capital impacted

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.

Operating context influences: Climate, environmental and social considerations | Cybersecurity and technological disruptions | Workplace transformations and employee engagement

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

• Conducted a risk assessment of MCB Capital Markets, following which the governance is being enhanced to further reduce the risk of potential conflict of interest and strengthen the delineation of activities between the buy-side and sell-side

• Initiated the implementation of a Group-wide distribution framework to ensure suitable distribution of financial products to non-professional clients

Sustainability risks

Climate risk

Capital impacted

The financial risks associated with the potential impacts of climate change, which can arise through physical and/or transition risk channels such as extreme weather conditions or changes in legislations.

Operating context influences: Heightened regulatory demands | Climate, environmental and social considerations

With the increased frequency and severity of extreme weather events, monitoring the potential impact on the organisation remains a priority, particularly in light of the growing regulatory pressures.

Our response

• Roll-out of training sessions on climate change and climate-related risks to MCB staff, delivered by Moody's and our Risk SBU

• Integrated climate risk considerations in the internal stress test and ICAAP on a qualitative basis

• Continued to work with our enlisted international service provider for the measurement and assessment 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 every 6 months

Environmental and social risk

The risks that environmental degradation and social issues result in disruptions in business activities as well as impact our customers and counterparties, while influencing our internal operations.

Operating context influences: Heightened regulatory demands | Climate, environmental and social considerations

With the rise in regulatory demands and growing emphasis on sustainability, environmental and social standards are becoming increasingly prominent in the organisation's activities, influencing both financing decisions and strategic initiatives.

Our response

• Updated the internal Environment and Social Risk Policy in May 2024, with the scope of application broadened to include in-depth due diligence on specific sectors and commodities, addressing emerging environmental and social (E&S) risks

• Implemented a comprehensive Environmental and Social Risk Management (ESRM) process integrated throughout the credit cycle, with risk categorisation based on International Finance Corporation (IFC) and Equator Principles criteria

• Strengthened E&S monitoring, with the ESRM team taking full responsibility for overseeing E&S covenant compliance, including site visits and client engagement. Quarterly reporting of MCB exposure has been introduced to maintain oversight on high E&S risk sectors and clients by relevant committees

• Conducted extensive capacity building and upskilling of the ESRM team and organised an ESG awareness campaign

Main priorities looking ahead

As we look ahead, our risk management strategy remains focused on enhancing capabilities, reinforcing Group-wide practices and supporting sustainable growth. Our key areas of focus include:

- Enhancing the risk culture across the Group with the continued deployment of the Risk Culture Programme
- Continuing to support our sustainability ambitions through the application of our Environmental and Social Risk Policy and framework
- Assessing the implications of material sustainability topics identified in the materiality assessment conducted
- Ensuring that our business development endeavours across geographies materialise in a disciplined manner on the back of effective risk oversight
- Continuing to proactively monitor country risk events as well as track the performance of our cross-border exposures towards refining our response strategies
- Reinforcing risk management at Group level by:
    - finalising the setting up of the Group Risk Oversight for the overseas and para banking subsidiaries as well as for MCB Capital Markets
    - aligning the subsidiaries to the Group standards and practices in terms of operational risk, permanent control, business continuity and resilience, cyber risk management as well as compliance
    - deploying consistent credit management practices and strengthening the recovery process across specific entities
- Pursuing our cybersecurity roadmap in line with the Federal Financial Institutions Examination Council (FFIEC) framework while continuing to improve our cybersecurity posture and hygiene across all Group entities
- Implementing end-to-end efficiency program on credit valuation chain to ensure enhanced credit management practices and processes
- Launching of a Risk Academy to equip staff with necessary skills and competence to enhance risk management
- Upholding 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; Maintaining close discussions and interactions with rating agencies to relay our efforts to uphold sound fundamentals

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

Other key foundations

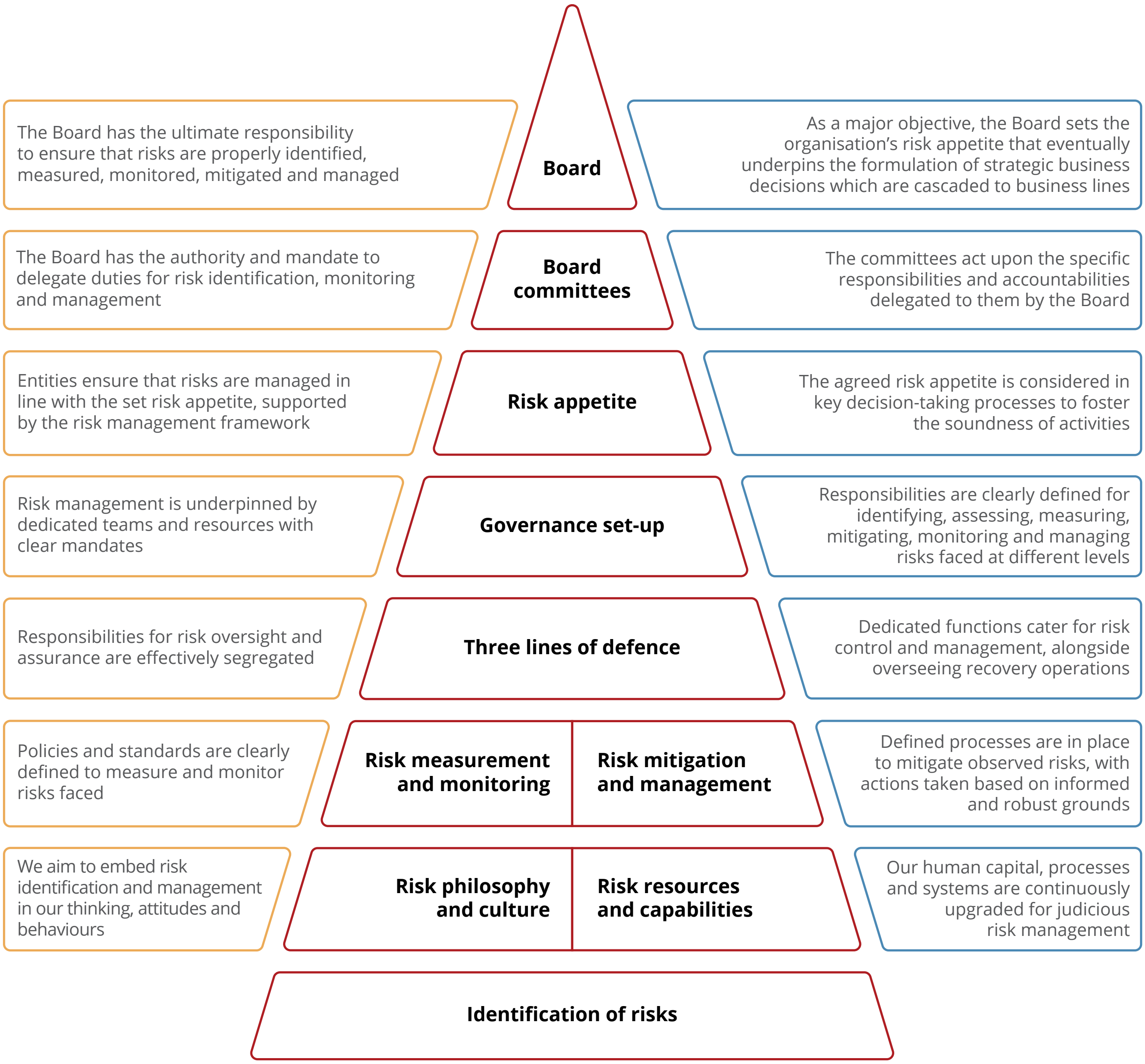
- Regular review and update of risk management practices to ensure consistency with business activities and relevance to financial strategies, while catering for changes in the economic, market and regulatory landscapes
- Adoption of policies and processes that are clear and simple to be understood and 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 MCB Group Ltd, 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.



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. 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. To reinforce the Group risk oversight, the Risk and Compliance functions of MCB Ltd have, during the year, been elevated at Group level, thus further helping to synchronise the risk management approach and methodology across entities. Each subsidiary, however, continues to take ownership of the risks of its operations and the management of its risk and compliance functions, underpinned by 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 organisation, 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 Group'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 Corporate 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.
- A joint Cyber and Technology Risk Committee is being set up to assist the Board of Directors of MCB Group Ltd and MCB Ltd in defining risk strategies, assessing and monitoring the cybersecurity, information and technology risk.

Read more on the key mandates and focus areas of the Board committees of MCB Group Ltd in the 'Corporate Governance Report' on pages 89 to 141

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 overseas 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), SBUs of the Bank, including Risk, Compliance, Internal Audit and Legal, continue to provide technical and advisory assistance during the year to support the operation and functioning of the local and foreign subsidiaries as per their respective areas of competence.

The Group endeavoured to foster more focused and integrated stewardship regarding the overall operations and performance of the Group's overseas banking and para-banking subsidiaries. Beyond facilitating key projects across priority areas and business development activities, it leveraged synergies with specific SBUs of MCB Ltd for the smooth running of the subsidiaries alongside ensuring oversight on the levels of control and monitoring, including the implementation of internal and external audit recommendations. It collaborated with Risk SBU to support the conduct of financial risk management activities and assist in other risk matters in overseas banking subsidiaries with assistance provided in credit risk management. With the establishment of MCB Ltd's Risk and Compliance units as Group functions, their structures are being reinforced to enhance alignment with Group standards and practices alongside fostering more effective collaboration with Group entities.

<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>Overseas 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 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 fall 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 400 million

• The ECC (B) sanctions/declines credit applications with total client commitment of up to Rs 400 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 channelled 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 100 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

MCB Financial Advisers (MCBFA)

On-boarding Committee (OBC)

• The OBC, though an internal committee, plays an important role in the governance framework of MCBFA by screening and (if deemed relevant) approving all new corporate finance advisory mandates being contemplated by the company's executives</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 Banking Subsidiaries Cybersecurity 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 • Group entities leverage the expertise of the Risk SBU and Compliance SBU of MCB Ltd, which have been elevated to Group level, with Legal SBU also providing intra-Group services in line with the 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 credit worthiness is assessed by assigning a score based on the bank's financial strength, the probability of receiving affiliate and/or Government support in case of financial stress as well as the sovereign risk of the country in which the institution operates

Corporate clients

Customer rating software

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

External rating agencies

Country and banks

International ratings

Moody's Ratings, 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	Amount	Weight	Weighted Assets	Weighted Assets
	Jun 24			Jun 23
	Rs m	%	Rs m	Rs m
Cash items	4,016	0 - 20	78	80
Claims on sovereigns	281,297	0 - 100	5,908	10,040
Claims on central banks	74,918	0 - 100	14,286	12,265
Claims on banks	90,267	20 - 100	29,072	32,104
Claims on non-central government public sector entities	2,223	0 - 100	413	412
Claims on corporates	341,365	20 - 150	296,621	285,764
Claims on retail segment	18,886	75	13,168	11,363
Claims secured by residential property	44,495	35 - 125	18,394	16,733
Claims secured by commercial real estate	15,748	100 - 125	18,084	21,004
Fixed assets/other assets	47,535	100 - 250	51,401	48,981
Past due claims	5,082	50 - 150	6,460	7,268
Total			**453,885**	**446,016**

Non-market related off-balance sheet risk-weighted assets	Nominal Amount	Credit Conversion Factor	Credit Equivalent Amount	Weight	Weighted Amount	Weighted Amount
	Jun 24					Jun 23
	Rs m	%	Rs m	%	Rs m	Rs m
Direct credit substitutes	2,538	100	2,537	0 - 100	2,485	3,076
Transaction-related contingent items	36,781	50	17,166	0 - 100	16,037	14,118
Trade related contingencies	109,989	20 - 100	18,829	0 - 100	16,714	10,468
Outstanding loans commitment	10,585	20 - 50	4,623	0 - 100	4,635	6,798
Total					**39,871**	**34,460**

Market-related off-balance sheet risk-weighted assets	Nominal Amount	Credit Conversion Factor	Potential Future Exposure	Current Exposure	Credit Equivalent Amount	Weighted Assets	Weighted Assets
	Jun 24						Jun 23
	Rs m	%	Rs m	Rs m	Rs m	Rs m	Rs m
Interest rate contracts	49,491	0 - 1.5	312	524	837	589	243
Foreign exchange contracts	41,686	1 - 7.5	427	548	975	477	286
Other commodity contracts (other than precious metals)	31,235	10 - 15	3,473	992	4,465	3,061	296
Total						**4,128**	**825**

	Jun 24	Jun 23
	Rs m	Rs m
Total credit risk-weighted assets	**497,884**	**481,301**

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 2023/24, 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 to customers by segment

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

Loans to customers by sector

Concentration of exposures at MCB Ltd

Bank of Mauritius Guideline on Credit concentration Risk

Credit concentration limits (% of Bank's Tier 1 capital)	Regulatory requirements	MCB Ltd 30 June 2024
Aggregate credit exposure to any single customer	Not exceed 25%	20.9%
Aggregate credit exposure to any group of connected counterparties	Not exceed 40%	30.1%
Aggregate large credit exposures* to all customers and groups of connected counterparties	Not exceed 800%	380.6%

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

Gross exposure as at 30 June 2024	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	112.3	10.7	16.9
Total large credit exposures	301.0	16.4	26.0

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 regards 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. Of note, effective 30th September 2024, the BoM Guideline on Classification, Provisioning and Write-off of Credit Exposures will supersede the Guideline for the write-off of non-performing assets and the Guideline on Credit Impairment Measurement and Income Recognition. The guideline is intended to set the foundations for a consistent and timely classification of credit exposures and complementing the existing accounting standards requirements by providing a prudential backstop for credit classification and provisioning and ensuring write-off of non-performing exposures in a timely manner.

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	STAGE 2	STAGE 3
	Performing	**Under performing**	**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 2023/24

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 2023/24, 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 2024, ECL amounted to Rs 7.0 billion, of which Rs 6.5 billion pertained to stage 1 and stage 2 loans and advances, with the corresponding ECL coverage ratio standing at 1.4%.

MCB Ltd: Provisions as at 30 June 2024

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	62,506	226,133	94,557	3,420	336,381	256,090
Expected Credit Losses	837	2,224	356	57	138	796
Coverage ratio (%)	1.3	1.0	0.4	1.7	0.0	0.3
Stage 2						
Exposures	170	6,285	0	0	0	3,078
Expected Credit Losses	23	1,624	0	0	0	549
Coverage ratio (%)	13.4	25.8	0.0	0.0	0.0	17.8
Stage 3						
Exposures	1,137	9,025	0	24	296	1,755
Specific provisions	431	6,757	0	12	30	1,755
Coverage ratio (%)	37.9	74.9	0.0	48.5	10.0	100.0

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	50.0	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

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

Overseas banking subsidiaries: Provisions as at 30 June 2023

Overseas banking subsidiaries	Retail	Corporate	Financial institutions	Sovereign
	Rs m	Rs m	Rs m	Rs m
Stage 1				
Exposures	3,419	20,176	7,256	20,152
Expected Credit Losses	30	160	6	44
Coverage ratio (%)	0.9	0.8	0.1	0.2
Stage 2				
Exposures	50	498	0	0
Expected Credit Losses	5	37	0	0
Coverage ratio (%)	9.8	7.4	-	-
Stage 3				
Exposures	350	1,741	0	3
Specific provisions	292	988	0	3
Coverage ratio (%)	83.3	56.8	-	100.0

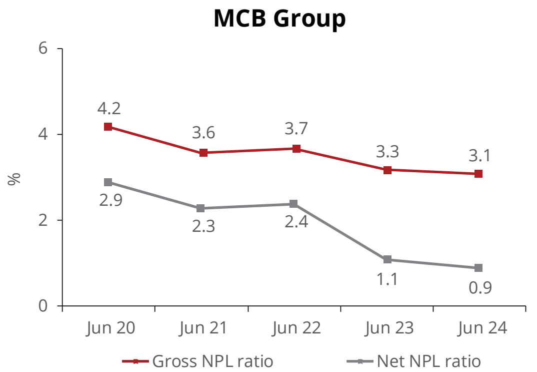
Overseas banking subsidiaries: Provisions as at 30 June 2024

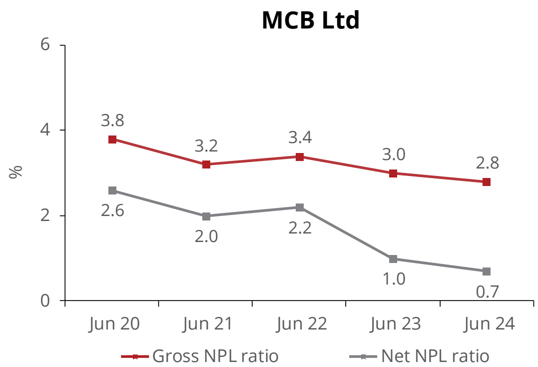
Overseas banking subsidiaries	Retail	Corporate	Financial institutions	Sovereign
	Rs m	Rs m	Rs m	Rs m
Stage 1				
Exposures	3,281	17,270	7,649	20,820
Expected Credit Losses	18	112	18	53
Coverage ratio (%)	0.5	0.7	0.2	0.3
Stage 2				
Exposures	16	806	0	0
Expected Credit Losses	1	50	0	0
Coverage ratio (%)	8.4	6.2	-	-
Stage 3				
Exposures	341	1,375	0	3
Specific provisions	256	724	0	3
Coverage ratio (%)	75.2	52.7	-	100.0

Asset quality

We improved the general quality of our exposures on the back of careful market endeavours and dedicated measures taken while having also recorded a significant recovery of bad debts during the year notably at the level of MCB Ltd. Our gross and net NPL ratios stood at 3.1% and 0.9% respectively as at June 2024, down from 3.3% and 1.1% in June 2023. Our specific coverage ratio increased from 66.5% to 72.6%, with the remaining portion being adequately covered by collateral, suitably discounted to reflect current market conditions and expected recovery time.

Quality of exposures





June 2024	**Non-performing loans (NPLs)**		**Specific provisions**	
MCB Group	**Rs m**	***% of exposures***	**Rs m**	***% of NPLs***
Loans to customers				
Agriculture and fishing	417	*6.6*	256	*50.4*
Manufacturing	312	*1.4*	313	*70.2*
Tourism	3,599	*13.4*	2,689	*63.7*
Transport	302	*3.0*	465	*91.5*
Construction *(including property development)*	399	*2.1*	248	*48.7*
Financial and business services	333	*0.5*	316	*72.0*
Traders	2,951	*1.9*	2,974	*83.4*
of which petroleum and energy products	*1,755*	*1.4*	*1,755*	*100.0*
Personal and professional	983	*1.7*	510	*38.1*
of which credit cards	*43*	*3.0*	*38*	*88.4*
of which housing	*468*	*1.1*	*188*	*35.0*
Global Business Licence holders	4,134	*29.2*	4,914	*88.1*
Others	642	*1.6*	319	*32.1*
of which Energy and Commodities asset-backed financing	*0*	*0.0*	*0*	*0.0*
Corporate notes/bonds	**364**	***0.8***	**376**	***99.7***
Total	**14,436**	***3.1***	**13,380**	***72.6***

Notes:
(i) For the computation of asset quality ratios, total exposures also include loans to banks 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.

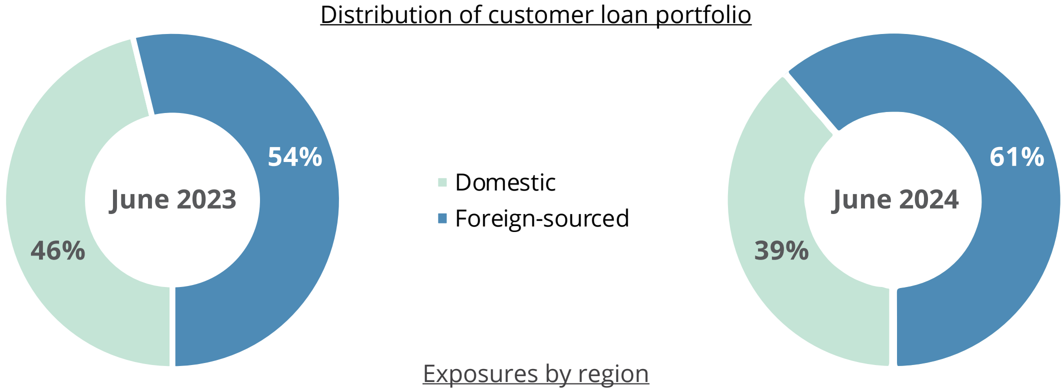
We carefully monitor country risk events, including macroeconomic developments, sovereign credit worthiness, and specific occurrences such as social unrest, nationalisation and expropriation of assets, foreign exchange controls, currency depreciation/devaluation and political developments. Foreign country 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.

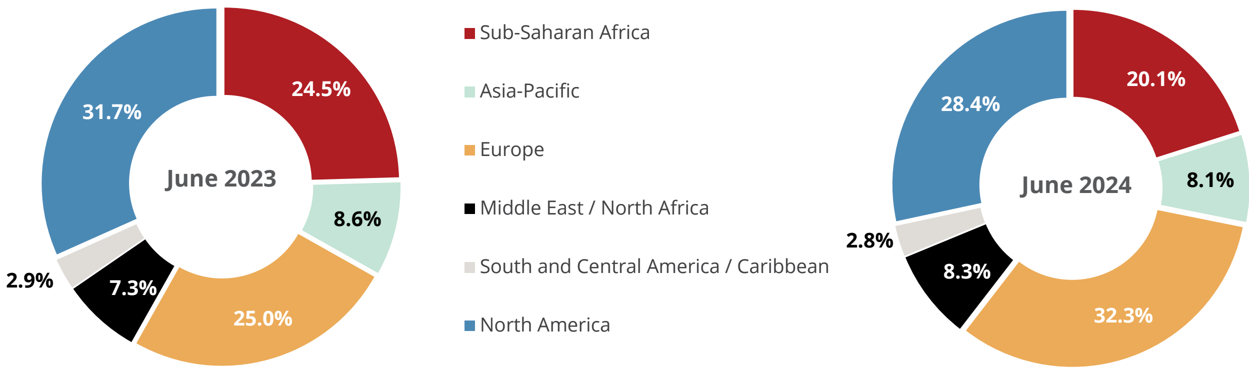
Diversification of exposures

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 and liquidity provider in respect of certain securities listed on the Stock Exchange of Mauritius. Appropriate 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 underlying instruments are medium and long dated debt securities but have been structured so as to provide targeted investors with regular exit windows, hence improving the liquidity profile 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 lines.

Via its investment vehicles, MCB Equity Fund and MCB Real Assets, 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 overseas 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. The Group 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.

Funding and liquidity risk

General approach and objectives

The Group is committed to maintaining robust funding and liquidity positions that support its business development ambitions. While it accesses wholesale markets as and when required, the Group prioritises 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, reinforcing the Group's commitment to sound risk management practices.

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

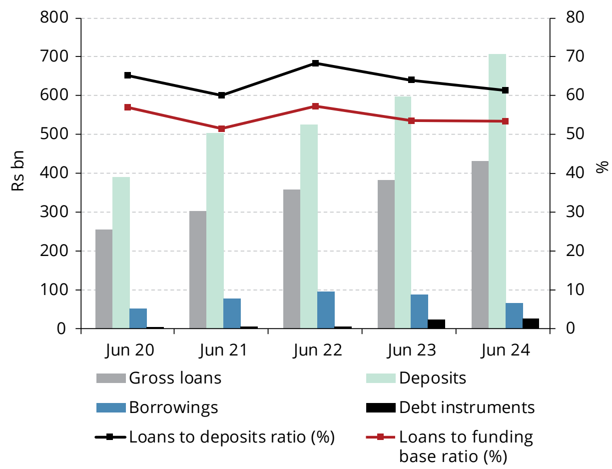
The Group diligently manages and diversifies the funding and maturity profile of the balance sheet in order to ensure that we can successfully deploy its strategic endeavours over the short and longer runs.

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. This approach minimises the risk of undue accumulation of cash flows in any single time segment, especially those falling due in the near future, thereby maintaining a balanced and resilient liquidity profile. 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 their non-maturity current and savings account balances to assign an actuarial maturity profile that accurately reflects the stickiness and stability of these balances.

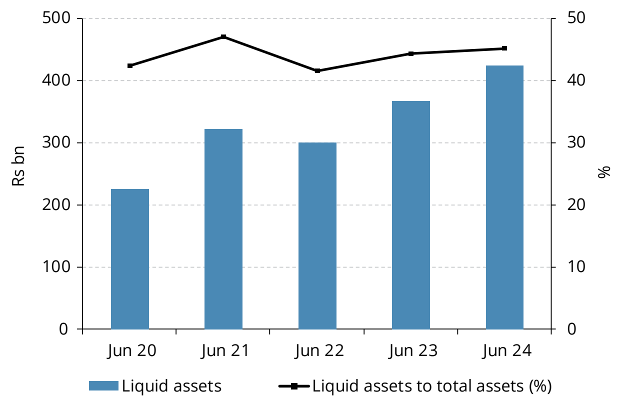
The stock of liquid assets is proactively managed to cover day-to-day cash management needs as well as to provide for an adequate coverage of the risk-weighted cash outflows associated with the standardised crisis scenario under the Basel III framework for liquidity coverage ratio. The components of the liquid assets buffer is also managed taking into account market risk volatility, the credit risk weighting and the low returns typically associated with holding such highly liquid assets. This prudent management ensures that the banking entities remain well-prepared to address potential liquidity challenges without compromising their financial stability.

During the year under review, we took proactive measures to maintain substantial buffers in light of the prevailing economic environment, with the Group continuing to display strong funding and liquidity positions in FY 2023/24. We have been active across multiple markets to secure sufficient funding resources to support our growth ambitions. In this respect, we leveraged placements from banks and repurchasing agreements. It can be recalled that, in FY 2022/23, MCB Ltd successfully launched and priced its inaugural USD 300 million 5-year senior unsecured notes issuance under its USD 3 billion Global Medium Term Note Programme. Additionally, it secured a three-year USD 500 million syndicated loan and closed its first Basel III compliant Tier 2 bond issuance of USD 147 million, privately placed with the African Development Bank. Building on this momentum, in FY 2023/24, the Bank successfully secured a USD 400 million sustainability linked loan as well as a loan of USD 120 million from Proparco and DEG to support the Bank's climate mitigation, adaptation and climate resilient measures. These strategic moves have strengthened the Bank's overall financial position and underscore its commitment to maintaining a robust and diversified funding base.

Loan and funding base

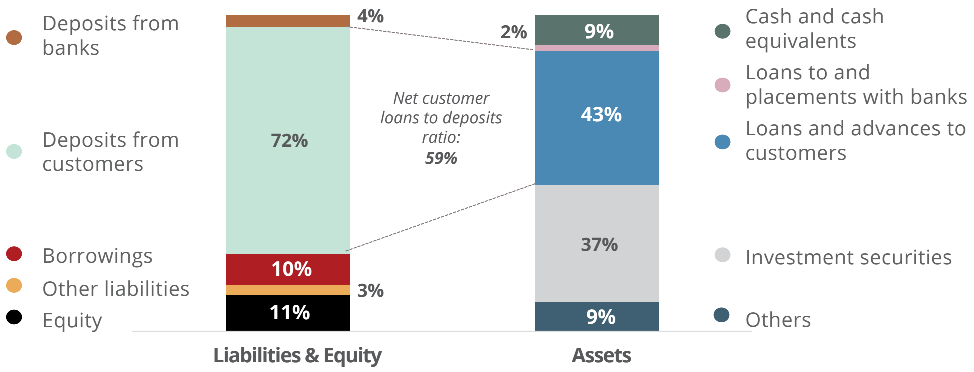


Liquid assets



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

Asset funding structure as at June 2024



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. The LCR ensures that the Bank maintains an adequate reserve of unencumbered high-quality liquid assets (HQLA), which can quickly be converted to cash to cover cash outflows 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 2024, MCB operated comfortably above the stipulated LCR requirements. It reported a consolidated LCR of 437%, which is equivalent to a surplus of some Rs 205 billion over stressed total net cash outflows. At currency level, we also exceeded the mandatory LCR limits relating to rupee and significant foreign currencies, with the Bank's LCR in dollar terms standing at 294% as at 30 June 2024. 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 value and stability.

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.

In June 2024, the Bank of Mauritius issued a guideline mandating that banks maintain an NSFR of at least 70% for all material currencies and on a consolidated basis. This minimum requirement will increase to 100% by December 2024. Although this regulation has only recently been introduced, MCB Ltd has, since long, been monitoring its NSFR performance to ensure stable funding structure. As at 30 June 2024, MCB Ltd reported an NSFR of 147%, well above both the current and forthcoming regulatory requirements. 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. 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.

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 Cartographies of the various SBUs are regularly updated and leveraged for the assessment of operational risks and the implementation of relevant controls.

The management of operational risks by the overseas 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 (where applicable), 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

A robust and proactive approach to Business Continuity Management (BCM) is adopted by the Group 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, MCB Ltd carried out its planned annual concurrent DR simulation to confirm the operability of its DR site in the event of a major technological outage and has again successfully executed unplanned DR exercises to test the actual readiness of its technical teams.

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 (CIS) BU is responsible for, *inter alia*, developing and maintaining cyber, technology and information risk policies, in line with the evolving operating and threat landscapes, as well as requirements set by the regulator and other major 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. Importantly, the Bank has taken the necessary steps to ensure compliance with the requirements of the Mauritius Data Protection Act (DPA) as well as the European Union's General Data Protection Regulation (GDPR) and the different BoM guidelines. The risk mitigation strategy encompasses regular threat and vulnerability assessments and the implementation of appropriate controls. The organization has established comprehensive processes to manage access to logical information, ensuring that access is restricted to individuals with a justified business requirement, and is subject to continuous monitoring and control. We have cyber incident response plans (CIRP), disaster recovery plans, business continuity plans and crisis management plans that are regularly reviewed, simulated and tested. Moreover, our proactive promotion of a cyber risk culture has resulted in enhanced security awareness amongst our staff. These measures form a cohesive framework designed to protect the Bank's assets and maintain operational resilience. The Bank's cybersecurity risk management is structured across multiple levels, each with distinct responsibilities. At the operational level, the Information Security BU manages day-to-day security operations, incident response, threat intelligence, and disaster recovery. The CIS BU provides strategic oversight, focusing on risk identification, management, policy formulation, and governance. This unit ensures compliance with security practices across all domains of cyber, information, data, and technology. Our Internal Audit function offers an independent assessment of the effectiveness of our cybersecurity measures, providing an additional layer of assurance. To maintain the efficacy of our security posture, MCB Ltd conducts annual audits of its information security policies and systems. The CIS BU regularly reports its findings, recommendations, and assessments to executive committees and the Audit Committee, ensuring that cybersecurity, technology risks and data protection remain at the forefront of our risk management agenda.

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 below::

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 has continuously tested its external-facing and internal environments and proactively detected and remediated any vulnerabilities discovered
- Any gaps in relation to the BoM Guideline on Cyber and Technology Risk Management have been addressed
- The cyber incident response processes have been enhanced, with regularly testing of our response plans to ensure that we remain resilient in the wake of a cyber incident
- Our third-party risk management framework has been strengthened to better identify, assess and mitigate related risks
- Proactive steps have been taken to improve our cyber security risk culture through various bank-wide initiatives
- 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
- Various actions, including security awareness sessions, have been continuously taken to enhance our employees' alertness to cybersecurity, with a focus on social engineering
- The Bank continues to monitor and respond to cyber threats through the use of Counter Threat Intelligence
- The Bank's security posture has improved further through the ongoing activities of a dedicated Red Team
- The security events monitoring capability of our Security Operations Centre (SOC) is continuously being refined and augmented with new use cases and increased scope

Compliance risk

General approach

Forming part of the Group's second line of defence for managing risks, the Group Compliance Function is duty-bound to provide assistance to the Boards and Management of the Group entities in order to ensure that business activities are conducted in strict abidance by applicable laws, rules, regulations, industry codes of conduct, policies, standards, and good governance practices. The 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, while at the same time ensuring a sustainable growth both for its stakeholders and the society.

We also continually strive to ensure consistency between the conduct of business operations and the observance of relevant laws, regulations 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. As a socially responsible organisation, the Group is committed to upholding ethical conduct and adherence to legal standards which, in turn, reinforces the trust and confidence of our stakeholders, including investors, customers and the communities in which the Group operates. It fosters a compliance-oriented culture, supporting business lines in delivering fair outcomes for customers and preserving the Group's reputation, all while helping to achieve sustainable business development objectives.

The Group Compliance Function also helps to protect the Group's goodwill and to minimise the risk of investigation, prosecution, regulatory sanctions and penalties.

The year in review from a Compliance Risk perspective

With a view to enhancing our approach to compliance across all our subsidiaries, the Head of Compliance function of MCB Ltd has been elevated at Group level. The Group Compliance Function oversees the compliance aspects of the banking and non-banking entities of the Group, both locally and internationally where the Group has a presence. While the oversight will be carried out by the Group Head of Compliance and her respective teams, each subsidiary of the Group will continue to take ownership of the risks of its operations and the management of its compliance functions.

Group Code of Ethics

During the year under review, the Code of Ethics has been revamped so that the Code adequately sets out the commitment of the organisation, *inter alia*, to ethical behaviour, integrity and accountability in all aspects of our business operations. It aims at providing the necessary guidance to the employees in understanding their ethical responsibilities towards their peers, clients, stakeholders and the communities in which they operate.

Whistleblowing Policy

The Whistleblowing Policy has also been reviewed, 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 staff and external stakeholders reporting a concern are reassured that same shall remain confidential and impartial judgement will be applied in all cases.

Group Compliance AML/CFT initiatives

As part of its Anti-Money Laundering/Combating the Financing of Terrorism and Proliferation (AML/CFT) obligations, the Group has remained resilient in its approach towards maintaining the adequate framework in the fight against financial crimes. Indeed, our continued efforts to combat Money Laundering/Terrorist & Proliferation Financing (ML/TF/PF) has enabled us to reduce the impact of such risks on our customers, investors, societies in which we operate, to name a few. As a way to proactively address and effectively mitigate such risks, entities within the Group have put in place the relevant controls, policies and procedures which include, *inter alia*, staff training and awareness as well as monitoring activities to ensure adherence to legal and regulatory obligations.

Group Compliance main objectives

One of the main objectives of the Group Compliance Function is to foster collaboration across, create synergy and the necessary harmonisation among the organisation in compliance and regulatory matters. This operationalisation of the Compliance Group Function is achieved through the following key Group initiatives:

1. Centralised oversight – by identifying trends, gaps and best practices, while simultaneously reducing duplication of efforts;
2. Economies of scale – in terms of cost efficiency for resources and compliance-related technology;
3. Standardisation of Policies and Procedures – to the extent possible so as to establish a consistent approach for managing compliance risks
4. Enhancing overall compliance effectiveness – by conducting regular risk assessments, audits and reviews across the Group entities
5. Capacity building – sharing and transfer of knowledge among the entities of the Group, upskilling the staff class, thereby also creating a blend of specialist competencies

Group Compliance main priorities

- Implementing Group compliance controls, policies and procedures
- Ensuring adherence to Group's Code of Ethics, Anti-Bribery Policy, Whistleblowing Policy and Fraud Policy to uphold good conduct, good order, and the values of honesty and integrity
- Promoting strong ethical behaviour amongst employees of the Group as well as to prevent and manage any potential conflicts of interests
- Conducting compliance risk assessments, compliance audits and reviews
- Providing proactive compliance advice and support
- Conducting regular awareness and training programmes aiming to promote compliance culture, transparency and coherence across the Group
- Revamping and upholding the Group's whistleblowing system
- Ensuring ongoing enhancement of the transactional monitoring and screening alert systems, parameters and framework to reinforce effectiveness

- Implementing state-of-the-art compliance technologies
- Conducting Enterprise Risk Heat Map and the Enterprise Wide Risk Assessment (EWRA) from an AML/CFT perspective, including the identification of new/emerging risks and ensuring corrective measures are taken and monitored to minimise the likelihood of the risks materialising
- Paying continuous attention to the fast-changing legal and regulatory framework and undertaking regular reviews of ongoing developments with respect to laws, regulations, guidelines and standards of good practice
- Fostering trusted relationships with regulatory and supervisory bodies by sustaining productive and value-adding dialogue with them to uphold effective two-way communication
- Increasing synergies and close collaboration amongst risk functions and with other areas of the Group

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 Organizations 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 Permanent Supervision BU, through Risk & Control Executives, is responsible for ensuring the proper functioning of the internal control system in all the major activities of the Bank. 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 Information and Operational Risk Committee and the Audit Committee as appropriate. 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.

Climate risk at MCB Ltd

General approach and objectives

Climate risk may directly or indirectly affect banks through exposures to customers, resulting in both financial and non-financial impacts. At MCB, we assess the impact of climate change on financial risks through physical and transition risk factors.

Physical risk

This refers to potential losses and economic costs which may arise due to increased severity of extreme weather events such as cyclones and floods (acute risks) and longer term shifts in climate patterns such as sustained higher temperatures and rising sea levels (chronic risks).

Transition risk

This refers to potential losses and economic costs which may arise due to significant and rapid policy changes, disruptive technology development or market sentiment shifts as part of the transition towards a lower carbon economy.

In line with the requirements of the Bank of Mauritius Guideline on Climate-related and Environmental Financial Risk Management, we have defined a roadmap for the integration of climate-related financial risk into the Bank's risk management framework. A climate risk working group has been created as part of the Transition Taskforce to drive the climate risk initiative, submit progress reports on the roadmap to the Bank of Mauritius and coordinate with the enlisted international service provider.

The Bank is implementing an adapted governance framework to cater for climate-related risk management and sustainability considerations. The Chief Risk Officer is responsible for the oversight and alignment of policies, including consideration for climate and environmental risks and associated financial and reputational risks. The Head of Financial Risk oversees progress against the climate risk roadmap and the integration of climate-related risks into the risk management framework.

Measurement, monitoring and management

MCB has enlisted a service provider to assist in the measurement of climate-related physical and transition risks within our portfolios. Our initial assessment, undertaken during FY 2023/24, covered a sample of corporate clients across key portfolios and sectors. The physical risk assessment exercise sets out to assess the potential impact of climate-related physical risk hazards under various scenarios based on the Intergovernmental Panel on Climate Change (IPCC) pathways. Temperature extremes, tropical cyclones, droughts, and coastal flooding hazards are identified as being more relevant to our portfolios given that our exposure is largely related to assets based in Mauritius and Africa. The transition risk assessment focused on modelling the impact of potential carbon taxes on our clients. Whilst the Oil & Gas sector is perceived as a carbon-intensive industry, our exposure therein is mostly on a short-term basis and self-liquidating in nature, hence lowering the transition risk profile. However, modelling these risks is inherently challenging due to data limitations, making the quantification of climate-related risk difficult.

MCB intends to leverage climate scenario analysis to assess climate-related risks and opportunities, as well as determine the potential implications of climate change for our strategy and business model. In this respect, climate considerations have been incorporated on a qualitative basis in the stress testing exercise conducted by the Bank during FY 2023/24. Given the importance of understanding climate-related events, we are dedicated to continuously upskill our employees at all levels on this topic, through regular awareness sessions.

Environmental and Social risk at MCB Ltd

General approach and objectives

MCB Ltd is committed to contributing to the sustainable development of countries where we operate. We have integrated environmental and social (E&S) risk management into our credit value chain to promote positive impacts and mitigate potential negative effects on people, communities, and the environment. Our approach is guided by our internal Environmental and Social Risk (ESR) Policy, which outlines MCB's commitment to identifying and managing E&S risks in our financing activities.

Our dedicated Environmental and Social Risk Management function (ESRM) sits within the Risk SBU and is responsible for the identification of E&S risks in financing activities and for the provision of recommendations on E&S matters, with the Head of Credit Management integrating E&S risk policy objectives into relevant credit committees and processes. E&S risks identified are reported to the Risk Monitoring Committee on a quarterly basis.

Measurement, monitoring and management

MCB Ltd has developed a systematic ESRM methodology to identify, assess, manage, and monitor E&S risks in our lending activities in line with our ESR Policy which defines transactions eligible for E&S Risk Assessment, covering all sectors within our risk appetite. We are dedicated to also addressing emerging E&S risks such as biodiversity loss, gender issues, and working conditions across various sectors. Our ESRM process begins with a preliminary E&S screening to ensure compliance with our Exclusion List for new clients or projects. This exclusion list, approved by the Board, relates to activities with damaging impacts on the environment and human rights. Eligible transactions then undergo risk identification and are categorised as per the magnitude of their potential impact based on criteria defined by the International Finance Corporation and the Equator Principles.

We conduct E&S due diligence for all projects, with the depth of assessment varying based on the project's risk category. This process evaluates compliance with applicable laws, regulatory frameworks, and international standards, including the UN Guiding Principles on Human Rights and IFC Performance Standards. When necessary, we develop Environmental and Social Action Plans to bring projects into compliance with applicable standards and Bank requirements.

E&S risk recommendations are escalated to relevant credit committees, and E&S conditions and covenants are included in contractual agreements with clients. Post-disbursement, we continue to monitor relevant E&S covenants, engage with clients, and conduct site visits. Any breaches are promptly escalated to credit committees, ensuring ongoing management of E&S risks throughout the credit lifecycle. By integrating E&S risk management into every stage of our credit process, from initiation to monitoring, MCB Ltd demonstrates its commitment to responsible banking practices and sustainable development in the regions we serve.

Read more on our ESRM Policy on our website

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 overseas 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, with the expertise of Internal Audit SBU – which is certified as compliant with the Institute of Internal Auditors' (IIA) standards leveraged – 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 the Group 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, particularly those within the banking cluster, abide by their internal policies and practices for undertaking their capital management initiatives. These include (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 2023/24, 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 2023/24, i.e. at the beginning of January 2024, 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 4 scenarios described hereunder.

High interest rate environment *(Medium scenario)*	Further deterioration of the war in Israel and Gaza in FY 2024, which leads to a hike in inflation globally. The war disrupts oil production facilities and supply routes in the Middle East, leading to a sudden surge in oil prices. As a result, transportation and production costs increase, causing a ripple effect throughout the global financial system. The US Federal Reserve decides to tighten its monetary policy by further raising interest rates. Meanwhile, to combat the rising inflationary pressure in Mauritius, BoM decides to raise the Key Rate to curb imported inflation. In this scenario, the Mauritian Rupee depreciates sharply against major international currencies.
High interest rate environment *(Severe scenario)*	In addition to the events unfolding in the previous scenario, Mauritius faces catastrophic climatic events where two category 5 cyclones hit the island in quick succession, resulting in widespread devastation. The cyclones cause extensive damage to infrastructure, including power outages, widespread flooding and the contamination of water supply across several parts of the island. Tourists become reluctant to visit Mauritius causing hotels, resorts and restaurants to suffer significant losses, and investors begin to shift their investments to safer economies. Given the deteriorating economic situation, international rating agencies further downgrade Mauritius sovereign country rating.
Low interest rate environment *(Medium scenario)*	Inflation remains under control in US and Europe resulting in the Fed and the ECB reducing their rates to alleviate pressures on their economies. As rates fall, investors seek higher returns elsewhere, resulting in a depreciation of the USD and EUR against other currencies including the Mauritian Rupee. Additionally, the depreciation of the EUR makes Mauritius a less attractive destination for European tourists. This in turn causes a decline in the number of tourist arrivals affecting directly the hospitality services sector with a ripple effect on other sectors.
Low interest rate environment *(Severe scenario)*	In addition to the events described in the above scenario, the situation further deteriorates with a banking crisis resulting from the collapse of a major international bank arising from a cyberattack in FY 2025. There is a loss of confidence in the banking sector, causing panic among depositors and investors. Investors and depositors, fearful of the potential insolvency risk in the banking sector, turn to safe-haven assets such as gold. The crisis causes an increasing economic hardship for the population and combined with the loss of jobs, a civil unrest emerges in Mauritius.

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

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

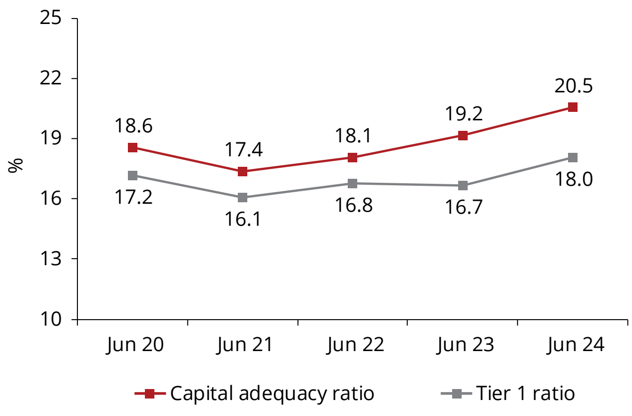
Stress testing results

Our overseas 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 2023/24

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 20.5% and 18.0% respectively as at 30 June 2024. 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 549 billion as at 30 June 2024, 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 D-SIB 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 four 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 overseas 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 2024	**%**	**%**	**%**	**%**
Capital adequacy ratio	15.0	12.0	12.0	10.5
Tier 1 ratio	13.0	6.0	6.0	8.5

Performance for FY 2023/24

The capital adequacy ratio of the banking cluster – as measured at the level of MCB Investment Holding Ltd on a consolidated basis – stood at 18.8% as at 30 June 2024. The capital base was primarily made up of core capital, with the Tier 1 ratio standing at 16.4%. The following tables depict the capital adequacy ratios posted by the banking cluster.

Banking cluster: Capital adequacy ratios

Capital adequacy	MCB Group		Banking cluster	
	Jun 23	Jun 24	Jun 23	Jun 24
Capital base	**Rs m**	**Rs m**	**Rs m**	**Rs m**
Ordinary shares (paid-up) capital	4,907	6,975	8,880	8,880
Retained earnings	75,747	89,913	61,396	72,069
Accumulated other comprehensive income and other disclosed reserves	10,357	7,264	10,478	10,924
Common Equity Tier 1 capital before regulatory adjustments	**91,011**	**104,153**	**80,753**	**91,873**
Regulatory adjustments				
Goodwill and other intangible assets	(2,867)	(3,211)	(2,398)	(2,719)
Deferred tax assets	(2,217)	(3,168)	(3,107)	(4,118)
Defined benefit pension fund assets	(456)	(754)	(456)	(754)
Common Equity Tier 1 capital (CET1)	**85,471**	**97,020**	**74,793**	**84,283**
Additional Tier 1 capital (AT1)	2,300	1,621	-	-
Tier 1 capital (T1 = CET1 + AT1)	**87,771**	**98,640**	**74,793**	**84,283**
Capital instruments	6,840	7,057	6,840	7,057
Provisions or loan-loss reserves	6,016	6,224	5,701	5,858
45% of surplus arising from revaluation of land and buildings	938	1,288	-	-
Tier 2 capital before regulatory adjustments	**13,794**	**14,568**	**12,541**	**12,915**
Regulatory adjustments	(546)	(559)	(544)	(557)
Tier 2 capital (T2)	**13,248**	**14,009**	**11,997**	**12,358**
Total capital (T1 + T2)	**101,019**	**112,649**	**86,790**	**96,641**
Risk-weighted assets	**Rs m**	**Rs m**	**Rs m**	**Rs m**
Weighted amount of on-balance sheet assets	446,016	453,885	420,896	424,784
Weighted amount of off-balance sheet exposures	35,285	43,999	35,185	43,875
Weighted risk assets for operational risk	39,017	46,229	36,976	44,258
Aggregate net open foreign exchange position	4,508	4,446	653	1,148
Total risk-weighted assets	**524,826**	**548,558**	**493,710**	**514,065**
Capital adequacy ratios (%)	**Jun 23**	**Jun 24**	**Jun 23**	**Jun 24**
Total capital adequacy ratio	**19.2**	**20.5**	**17.6**	**18.8**
of which Tier 1	***16.7***	***18.0***	***15.1***	***16.4***

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 2023	18.3	20.3	60.2	12.6
As at 30 June 2024	19.8	20.2	66.5	11.2
Tier 1 ratio				
As at 30 June 2023	15.8	16.9	49.3	10.2
As at 30 June 2024	17.3	17.4	57.4	9.3

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