REGULATION AND SUPERVISION

1839: Central Market of Port Louis

After being shifted around between Le Jardin de la Compagnie and Port Louis Theatre area for a while during the early colonial period, the Central Market of Port Louis ultimately settled in what was previously the 'Bassin des Chaloupes' and presently its current location. The front structure of the Central Market dates back to 1839.

The facade was elaborately decorated with wrought ironwork, floral patterns, inscriptions and a stone arch. The market has always been a bustling trading place with stalls manned by immigrants from India and China. Today, the market place remains a lively and colorful place which makes it an iconic tourist attraction.

REGULATION AND SUPERVISION

BANKING SECTOR DEVELOPMENTS

The Bank regulates and supervises banks, non-bank deposit taking institutions (NBDTIs) and cash dealers whereas other financial corporations fall under the regulatory purview of the Financial Services Commission (FSC).

The banking sector remained resilient during FY2020-21, underpinned by strong capital and liquidity positions of banks. Support measures rolled out by the Bank have helped the banking sector weather the adverse impact of the COVID-19 pandemic. These measures have provided assistance to households and corporates financially impacted by COVID-19, while risks to the stability of the financial system were duly mitigated. Notwithstanding the challenges posed by the pandemic, banks' balance sheets continued to grow with deposit funding. The rise in deposits over the period under review most likely reflected precautionary savings. However, uncertainty surrounding the pace of the economic recovery, which may impact on the ability of households and corporates to repay their debts, still pose challenges to the banking sector. The Bank is cognizant of the risks facing financial institutions and is constantly monitoring the financial health of entities under its purview while ensuring that they adhere to supervisory and regulatory guidelines.

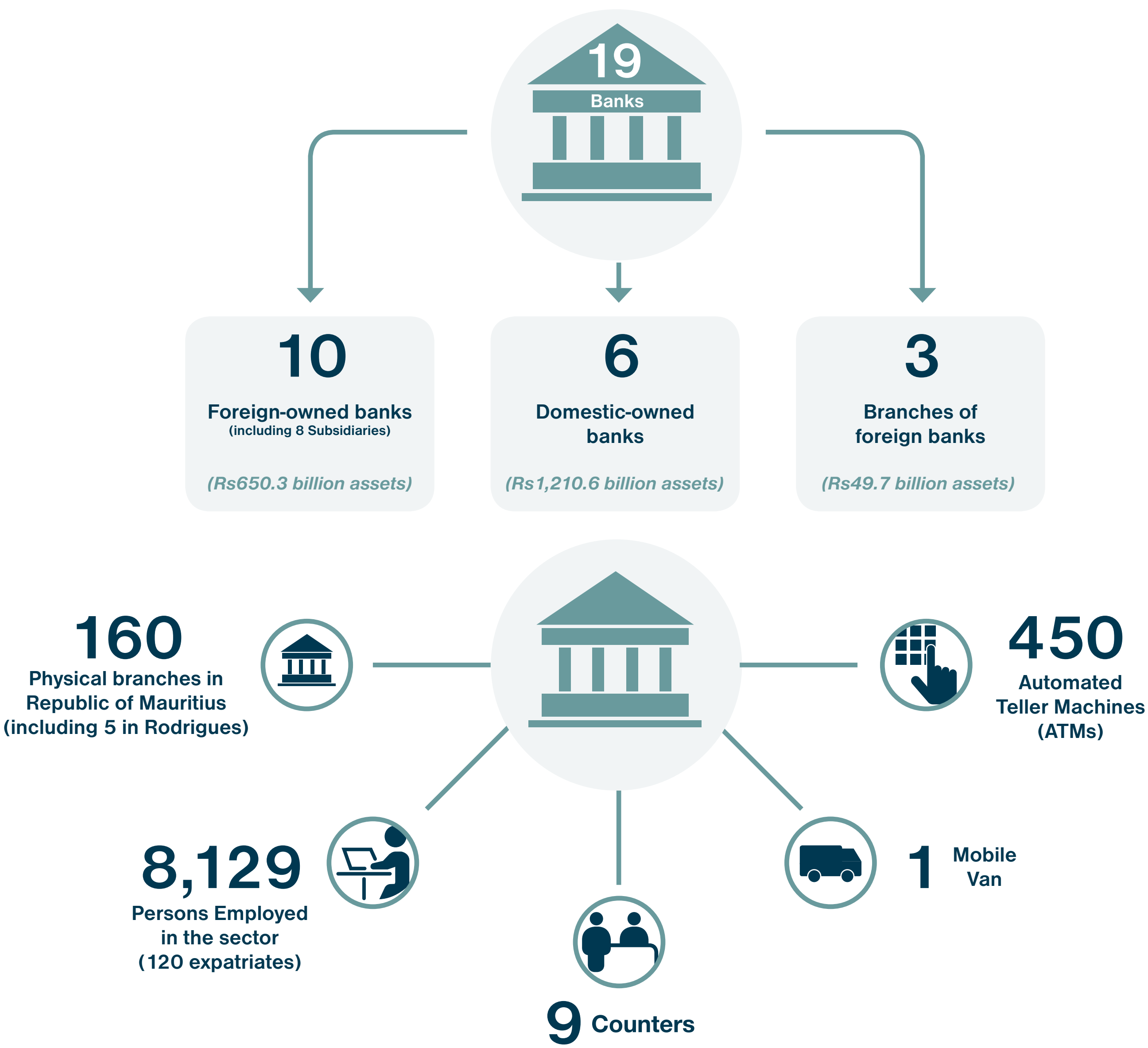
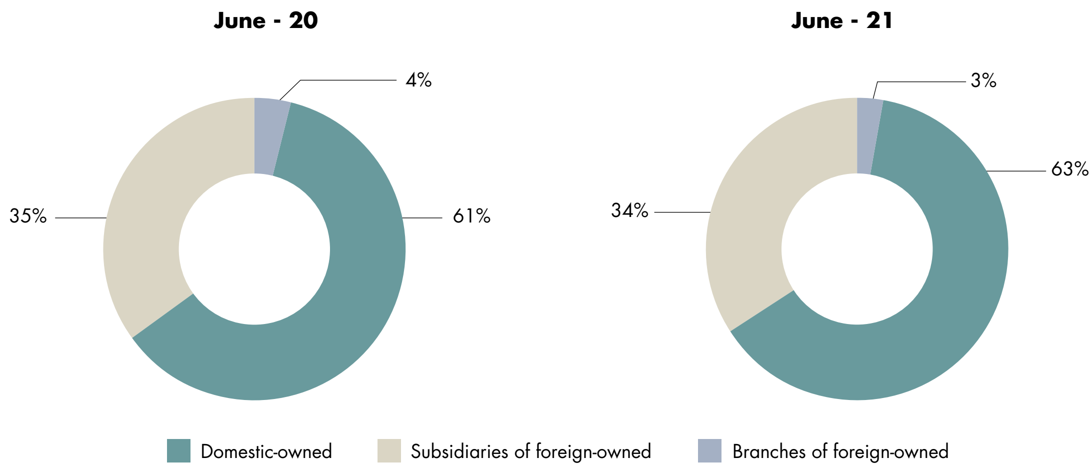


Chart 3.1: Assets of Banks, Share to Total



The banking sector's total assets represented about 445 per cent of GDP as at end-June 2021. Assets of domestic-owned banks constituted 63 per cent of total banking sector assets while assets of foreign-owned subsidiaries and branches represented 34 per cent and 3 per cent of total assets, respectively (Chart 3.1).

Of the 19 banks, five banks are identified as Domestic Systemically-Important Banks (D-SIBs) and are subject to enhanced supervision by the Bank, in line with the regulatory and supervisory framework of the Basel Committee on Banking Supervision (BCBS). The five banks maintained their status as D-SIBs, following the conclusion of the latest annual assessment. As at end-June 2021, D-SIBs' total assets stood at Rs1,305 billion, representing 68 per cent of total banks' assets, 69 per cent of total banks' deposits and 66.3 per cent of total banks' loans.

In June 2014, the Bank issued the Guideline for Dealing with D-SIBs which sets out the methodology to be applied for assessing the systemic importance of banks and the ensuing capital surcharge to be maintained by them. These D-SIBs are required to hold a capital surcharge ranging from 1.0% to 2.5% of their risk weighted assets depending on their systemic importance. The assessment consists of identifying those banks whose resident assets represent at least 3.5% of GDP at market prices. Once these banks are identified, their importance in terms of five key indicators namely, size, exposure to large groups, interconnectedness, complexity and substitutability are computed on the basis of data provided. With these measures, the Bank aims at improving the resilience of D-SIBs to face shocks.

REGULATION AND SUPERVISION

Regulatory Developments during FY2020-21

COVID-19

In the context of the COVID-19 pandemic, amendments to the Bank's regulatory framework have been mainly geared towards fostering the resilience of financial institutions, easing the flow of credit to the real economy and addressing other regulatory concerns. The measures taken were in line with recommendations of the BCBS and those adopted by other central banks.

With a view to mitigating the adverse impact of COVID-19 on the financial system, the Bank provided capital relief to banks through the deferral of the last tranche of the capital conservation buffer until 1 April 2022, as well as the introduction of transitional arrangements for regulatory capital treatment of IFRS 9 provisions for expected credit losses. To further facilitate access to credit, the Bank reviewed the threshold for the Debt-to-Income ratio applicable to residential property loans.

During FY2020-21, banks were advised to refrain from paying dividends so as to maintain adequate capital buffers to absorb potential losses that might be incurred due to COVID-19. This measure was also adopted by a number of central banks worldwide. In line with the new Guideline on Payment of Dividend issued on 25 September 2020, the Bank is now considering payment of dividend on a case-to-case basis, subject to compliance with the requirements of the said guideline. In parallel, the Task Force on Banking Sector Resilience, which comprises the Bank and representatives from the banking sector, met regularly to, *inter alia*, discuss current and emerging risks, and the unwinding of COVID-19 measures.

During FY2020-21, activity and profitability of money changers and foreign exchange dealers were undermined by the fallout of COVID-19. Following representations from these institutions, the Banking (Processing and Licence Fees) (Amendment) Regulations 2021 were issued by the Bank with the approval of the Minister of Finance, Economic Planning and Development on 3 May 2021. These Regulations empowered the Bank to adjust the licence fee of money changers and foreign exchange dealers for FY2020-21. Accordingly, the Bank waived the annual licence fees for cash dealers that met the eligibility criteria, as laid down in the Regulations.

Further, the Bank streamlined reporting requirements during the national lockdown periods to allow financial institutions to focus on critical functions. Flexibility was provided for the submission of audited financial statements and other statutory reports.

Climate change

Climate change is gaining prominence worldwide, with major central banks incorporating climate change in their risk assessment. To this end, the Bank is fully committed to incorporate climate-related and environmental risks in its supervisory framework to ensure that the financial system is resilient to these risks.

Since joining the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) in 2020, the Bank has been actively participating in projects of the different workstreams of the NGFS. Further, as announced in Budget 2021-22, the Bank has taken the inaugural steps for the establishment of its Climate Change Centre, with the Task Force on Climate-related and Environmental Financial Risks having already held its first meeting in 2021. The Bank is working on its supervisory expectations regarding climate-related and environmental financial risks, which will ultimately be issued to banks for consultation.

Other regulatory measures

The COVID-19 pandemic further underscored the need for revamping the financial sector landscape, with remote access and work from home arrangements becoming increasingly necessary to ensure operational resilience. Additionally, digital services offered by banks and other payment service providers have gathered momentum and are expected to expand further.

The Bank has initiated several projects with a view to enhancing its supervisory framework to keep pace with current innovations. With the assistance of IMF-AFRITAC South, the Bank is developing a conducive licensing and regulatory framework for the establishment of digital banks and a guideline on cyber and technology risk management. The Bank is also drafting a guideline on the use of cloud services, with a view to providing more clarity on its supervisory expectations regarding usage of cloud to the industry. The Bank is also working on the establishment of a fintech innovation hub and digital lab for payment and banking solutions and the relevant guideline on the usage of application programming interface for open banking.

The guidelines for banks licensed to carry on private banking business have equally been fully revamped to reflect new developments in the area and a draft guideline for private banking business has been issued for public consultation.

REGULATION AND SUPERVISION

Main Developments in the Regulatory and Supervisory Sphere During FY2020-21

Amendment to existing guidelines / New guidelines

Guideline on Agent Banking	The Guideline on Agent Banking was revised to, *inter alia,* include provisions in respect of encashment of cheques by agents.
Guidelines on the implementation of Targeted Financial Sanctions under the United Nations (Financial Prohibitions, Arms Embargo and Travel Ban) Sanctions Act 2019	The United Nations (Financial Prohibitions, Arms Embargo and Travel Ban) Sanctions Act 2019 (the 'UN Sanctions Act') was enacted to enable the Government of Mauritius to implement targeted sanctions, including financial sanctions, arms embargo and travel ban, and other measures imposed by the United Nations Security Council under Chapter VII of the Charter of the United Nations, with a view to addressing threats to international peace and security, including terrorism, the financing of terrorism and proliferation of weapons of mass destruction. In August 2020, the National Sanctions Secretariat, established under the UN Sanctions Act, issued the "Guidelines on the implementation of Targeted Financial Sanctions under the United Nations (Financial Prohibitions, Arms Embargo and Travel Ban) Sanctions Act 2019" to assist reporting persons, namely banks and other financial institutions licensed by the Bank of Mauritius, amongst others, with the implementation of the restrictive measures, in particular the financial prohibitions prescribed under the Act.
Guideline on Cross-Border Exposure	On 4 September 2020, the Bank issued a new Guideline on Cross-Border Exposure, which lays down a set of minimum standards to be followed by banks in respect of their cross-border exposure. These standards provide for a risk-based management framework aiming to mitigate the main cross-border banking risks.
Guideline on Payment of Dividend	On 25 September 2020, a new Guideline on Payment of Dividend was issued to set out the regulatory and prudential requirements to be observed by banks and non-bank deposit taking institutions before declaring dividend payments or other transfers from profits in addition to those already stipulated in the Banking Act. The Guideline also offers a forward-looking approach to the preservation of capital by banks and non-bank deposit taking institutions.
Guidelines on Outsourcing by Financial Institutions	On 13 October 2020, the Guidelines on Outsourcing by Financial Institutions were amended to require financial institutions to strictly adhere to the Data Protection Act and the Banking Act, including confidentiality provisions set out under Section 64 thereof, when storing customers' information on the cloud.
Guideline on Liquidity Risk Management	On 11 January 2021, the Guideline on Liquidity Risk Management was, in consideration of the impact of the COVID-19 pandemic, revised to provide banks with some flexibility regarding the Liquidity Coverage Ratio for foreign currency.
Capital Adequacy Ratio	In May 2020, because of the COVID-19 pandemic, the Bank deferred the phased implementation of the last tranche of the capital conservation buffer (CCB) of 0.625% to 1 January 2021. On 11 January 2021, the implementation of the last tranche was further deferred to 1 April 2022, such that banks will be required to maintain a CCB of 1.875% until 31 March 2022.

REGULATION AND SUPERVISION

Transitional Arrangements for Regulatory Capital Treatment of IFRS 9 Provisions under Expected Credit Losses	On 13 January 2021, the Bank introduced transitional arrangements for regulatory capital treatment of IFRS 9 provisions for expected credit losses with a view to alleviating the impact of the COVID-19 pandemic on provisioning levels of financial institutions.
Application of IFRS 9	On 13 January 2021, the Bank provided additional guidance to banks and non-bank deposit taking institutions on the application of IFRS 9 in context of COVID-19.
Guideline on the Recognition and Use of External Credit Assessment Institutions	On 1 April 2021, the list of recognised External Credit Assessment Institutions (ECAIs) under the Guideline on the Recognition and Use of ECAIs was updated to include an additional ECAI under the indirect recognition method.
Guideline on the Computation of Debt-to-Income Ratio for Residential Property Loans	On 17 June 2021, the Guideline on the Computation of Debt-to-Income Ratio for Residential Property Loans was reviewed and the Debt-to-Income Ratio limit for single and joint borrowers was increased to 50 per cent.
Guideline on Scope of Application of Basel III and Eligible Capital	On 28 June 2021, the Guideline on Scope of Application of Basel III and Eligible Capital was revised to widen the scope of eligible investment, in line with the Basel III standards on the definition of eligible capital.

Other Supervisory Developments

Risk-based supervision	The Bank continued to make progress towards the implementation of a Risk-Based Supervision framework with technical assistance from the World Bank. As one of the components of supervisory effectiveness, staff training also remains high on the Bank's agenda.
Climate change	Subsequent to announcement made in the Budget 2021-22, the Bank is in the process of establishing a Climate Change Centre, in line with latest practices at other central banks. Further, the Bank initiated work on supervisory expectations regarding climate-related and environmental risks.
Central KYC (CKYC)	Meetings have been held with the relevant stakeholders to pave the way for an enabling CKYC Registry project, which will provide fast and reliable KYC information. The project will be implemented in a phased manner.
Century Banking Corporation Ltd (Revocation of banking licence)	On 24 August 2020, the Bank revoked the Islamic Banking Licence of Century Banking Corporation Ltd with immediate effect, under section 17 of the Banking Act 2004.
Surveys on GBC and non-resident deposits	Two surveys were carried out on 21 October 2020 and on 12 May 2021 among selected banks to obtain information on global business companies (GBC) and non-resident deposits in view of assessing the potential impact of the inclusion of Mauritius on the FATF list of jurisdictions under increased monitoring and EU black list. The Bank also devised a new return on GBC/non-resident deposits to enhance its monitoring toolkit.
Survey on COVID-19	The Bank carried out a survey on COVID-19 among all banks on 4 May 2021 to assess the potential impact of the pandemic on the resilience of the banking sector as well as the measures taken by banks to enhance their credit risk management process. The Bank also devised a new quarterly return to collect more data on the impact of COVID-19 on credit facilities granted by banks, including details on restructured loans due to COVID-19 and the provisions made by those institutions.

REGULATION AND SUPERVISION

Key highlights of the banking sector

Indicator	FY2019-20	FY2020-21	Notes
Number of Banks	20	19	The Bank revoked the Licence of one bank under section 17 of the Banking Act 2004 in August 2020.
Capital Adequacy Ratio (Per cent)	19.4	19.2	Minimum regulatory capital requirement: 11.875 per cent Capital conservation buffer: 1.875 per cent D-SIB buffer: range between 1.0 to 2.5 per cent
Loans-to-deposit Ratio (Per cent)	65.8	58.8	
Pre-tax Return on Assets (Per cent)	1.5	0.9	
Total Assets	Rs 1,686 (Billion)	Rs 1,911 (Billion)	
NPL to Total Loans (Per cent)	5.3	4.8	
Liquidity Coverage Ratio (Per cent)	236.0	246.1	Regulatory requirement: 100 per cent.
Post-tax Return on Equity (Per cent)	12.1	7.2	

Total assets

During FY2020-21, total assets of banks rose by 13.3 per cent from Rs1,686 billion as at end-June 2020 to Rs1,911 billion as at end-June 2021, mainly driven by higher investments in Government and Bank of Mauritius (BoM) securities, which rose by 25.9 per cent, from Rs331.7 billion as at end-June 2020 to Rs417.5 billion as at end-June 2021.

Placements effected by banks increased by 22.1 per cent, from Rs322.8 billion as at end-June 2020 to Rs394.2 billion as at end-June 2021 while advances increased by 5.8 per cent, from Rs815.3 billion to Rs862.3 billion, over the same period.

Resident and Non-Resident Assets

Resident assets (including advances to GBC) increased by 8.5 per cent, from Rs854.5 billion as at end-June 2020 to Rs927.1 billion as at end-June 2021. The share of resident assets (including advances to GBC) to total assets decreased slightly from 50.7 per cent as at end-June 2020 to 48.5 per cent as at end-June 2021. The share of resident assets (excluding advances to GBC) to total assets decreased from 45.7 per cent to 45.0 per cent, while the share of advances to GBC to total assets dropped from 5.0 per cent to 3.5 per cent during FY2020-21.

Non-resident assets comprising mainly loans and advances and placements increased by 18.2 per cent, from Rs831.8 billion as at end-June 2020 to Rs983.5 billion as at end-June 2021, that is, 51.5 per cent of total assets.

Chart 3.2: Composition of Assets of Banks

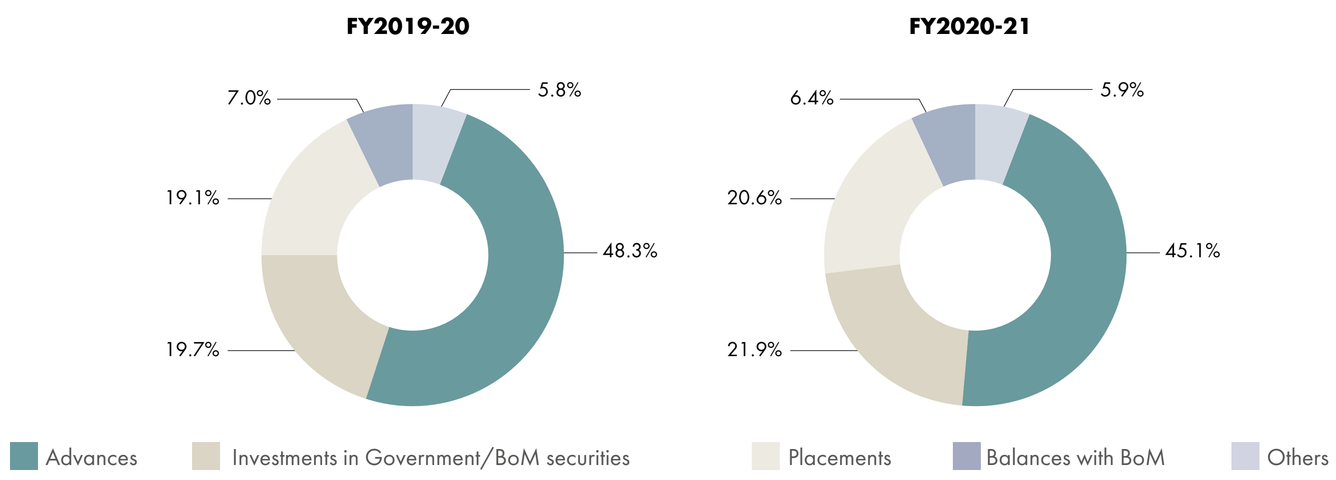
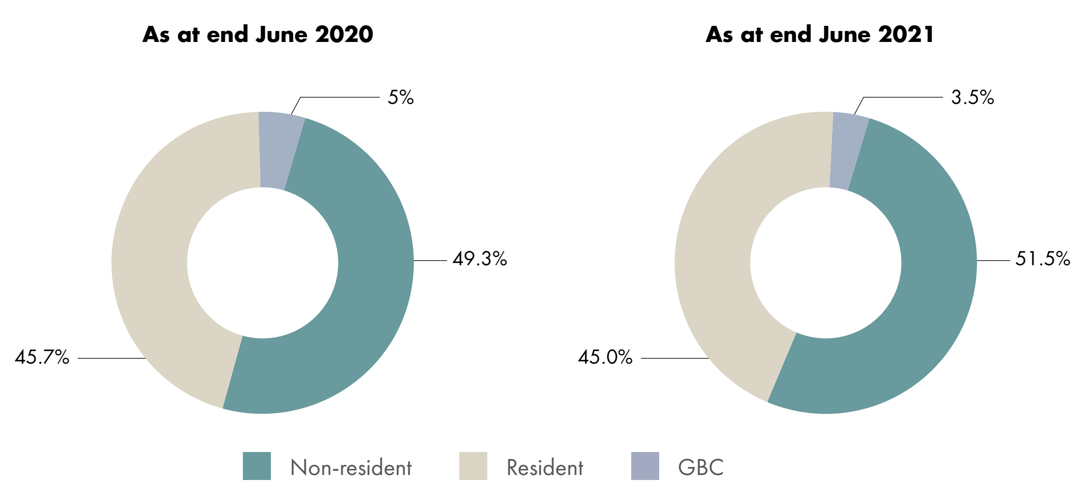


Chart 3.3: Share of Total Assets of the Banking Sector



REGULATION AND SUPERVISION

Capital Adequacy

Since July 2014, the Bank embarked on a phased implementation of Basel III Capital Standards in Mauritius. The implementation of the revised Capital Conservation Buffer of 2.5 per cent, which was initially deferred to 1 January 2021 in response to COVID-19, was further extended to 1 April 2022. Accordingly, banks are required to maintain, at all times, a minimum risk-weighted capital adequacy ratio (CAR) of 11.875 per cent (including capital conservation buffer of 1.875 per cent and excluding the D-SIBs buffer ranging from 1 per cent to 2.5 per cent) until 31 March 2022.

The capital position of the banking sector remained robust owing to capital buffers kept in excess of regulatory requirements (Table 3.1). As at end-June 2021, the aggregate risk-weighted CAR of banks dropped from 19.2 per cent to 18.6 per cent, primarily due to risk-weighted assets rising by 8.5 per cent relative to the expansion of 5.3 per cent in capital base for the period under review. At bankwise level, the CAR of individual banks ranged from 12.1 per cent to 185.3 per cent, with all the banks complying with the regulatory limits.

The capital base of banks (net of adjustments and capital deductions) increased by Rs8.8 billion to Rs172.6 billion as at end-June 2021. Tier 1 capital, which is the higher quality core capital including equity capital, rose by 5.1 per cent to Rs160.4 billion and represented 92.9 per cent of the aggregate capital base. Correspondingly, Tier 2 capital increased by 8.0 per cent to Rs12.3 billion, with its share representing 7.1 per cent of the capital base.

Table 3.1: Risk-Weighted Capital Adequacy Ratio

Rs million

As at end of period	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
CET1 capital	147,492	145,915	146,259	152,934	155,834
Tier 1 capital	152,512	150,925	150,489	157,254	160,350
Tier 2 capital	11,364	11,836	11,939	12,272	12,276
Capital Base (A)	**163,876**	**162,761**	**162,428**	**169,526**	**172,626**
Total Risk-Weighted Assets (B)	**854,234**	**867,156**	**871,624**	**906,272**	**926,654**
Total Risk-Weighted Assets for credit risk (C)	**784,941**	**797,186**	**801,596**	**832,915**	**851,920**
Total on-balance sheet risk-weighted credit exposures	723,403	738,964	729,556	765,250	788,505
Total non-market-related off-balance sheet risk-weighted credit exposures	57,976	54,637	69,344	64,001	59,876
Total market-related off-balance sheet risk-weighted credit exposures	3,563	3,586	2,697	3,663	3,538
Total risk-weighted assets for operational risk (D)	**66,405**	**66,985**	**66,995**	**69,944**	**70,813**
Total Risk-Weighted Assets for market risk (E)	**2,887**	**2,985**	**3,033**	**3,413**	**3,921**
Total foreign currency exposures	2,573	2,683	2,724	3,220	3,799
Capital charge for trading book position exceeding 5% or more of its total assets	314	302	309	193	122
Capital Adequacy Ratio (A/B) (per cent)	**19.2**	**18.8**	**18.6**	**18.7**	**18.6**
CET 1 RATIO (per cent)	**17.3**	**16.8**	**16.8**	**16.9**	**16.8**

Risk Profile of On-Balance Sheet Assets

In terms of the risk profile of on-balance sheet assets, the zero per cent or 'risk free' assets, notably Government and BoM securities represented a share of 35.1 per cent while assets under the 100 per cent risk-weight bucket, consisting mainly of loans and advances, constituted 30.3 per cent of on-balance sheet assets (Table 3.2). As at end-June 2021, an increase was recorded in the respective shares in the 0 per cent, 20 per cent, 50 per cent and 125 per cent risk-weight buckets. In contrast, the proportion for the 30 per cent, 35 per cent, 75 per cent, 100 per cent and 150 per cent risk weight buckets have declined between end-June 2020 and end-June 2021, pointing to a lower risk appetite from banks. The average combined risk-weighted ratio decreased from 41.3 per cent as at end-June 2020 to 40.2 per cent as at end-June 2021 on account of a larger expansion in total on-balance sheet and off-balance sheet assets relative to the risk-weights (Table 3.3).

Deposits

Deposits were the principal source of funding of banks during FY2020-21. Total deposits increased by 18.3 per cent to Rs1,465.4 billion as at end-June 2021 while their share in total liabilities maintained an upward trend and reached 76.7 per cent as at end-June 2021. The share of foreign currency deposits to total deposits increased from 61.7 per cent to 65.0 per cent over the same period.

Table 3.2: Risk-Weights of On-Balance Sheet Assets

	On-balance sheet assets *(Rs million)*	Percentage to total on-balance sheet assets *(Per cent)*	On-balance sheet assets *(Rs million)*	Percentage to total on-balance sheet assets *(Per cent)*
Risk Weights (%)	**Jun-20**		**Jun-21**	
0	543,320	34.2	634,140	35.1
20	224,863	14.1	302,864	16.8
30	16,137	1.0	9,342	0.5
35	70,334	4.4	74,482	4.1
50	131,960	8.3	152,539	8.4
75	41,178	2.6	41,615	2.3
100	518,583	32.6	547,139	30.3
125	19,548	1.2	22,886	1.3
150	18,753	1.2	17,414	1.0
250	4,660	0.3	5,182	0.3
1250	0	0.0	482	0.0
	1,589,335	**100.0**	**1,808,085**	**100.0**

Table 3.3: Combined Risk-Weights of Banks' Assets

		End-June 2020	End-June 2021
A	Total On and Off-Balance Sheet Assets (Rs million)	2,066,257	2,304,330
B	Total Risk-Weighted Assets (Rs million)	854,234	926,654
C	Average Combined Risk Weighting (B/A) (Per cent)	41.3	40.2

The rise in deposits was mainly driven by an increase in deposits from GBC and non-residents and, to some extent, by households maintaining deposits for precautionary motives. GBC and non-residents deposits accounted for around 56.3 per cent of total banking sector deposits. Resident deposits (excluding GBC deposits) increased by 9.2 per cent to Rs639.4 billion as at end-June 2021, with the share of household deposits remaining constant at 61 per cent. GBC deposits increased by 22.0 per cent, from Rs409.7 billion as at end-June 2020 to Rs499.9 billion as at end-June 2021. The advances-to-deposits ratio, which indicates the extent to which funds mobilised by way of deposits have been utilised to finance lending activities, decreased from 65.8 per cent to 58.8 per cent in FY2020-21.

Advances

Total advances, including investment in debentures and fixed-dated securities, increased by 5.8 per cent, from Rs815.3 billion to Rs862.3 billion in FY2020-21, representing about 58.8 per cent of total deposits and 45.1 per cent of total assets, compared to 65.8 per cent and 48.3 per cent, respectively, as at end-June 2020. During FY2020-21, banks have adopted a prudent approach and redeployed their funds towards assets bearing lower risk-weights, specifically investments in Government and BoM securities and placements. Amid weaker demand for credit and subdued economic activity, an increase was therefore observed in the risk-weighted assets in the 0 and 20 per cent risk weight buckets (Table 3.2). Advances in MUR increased by 2.6 per cent from Rs293.1 billion as at end-June 2020 to Rs300.7 billion as at end-June 2021 with the share to total advances standing at 34.9 per cent as at end-June 2021. Advances in foreign currency increased by 7.5 per cent, from Rs522.2 billion as at end-June 2020 to Rs561.6 billion as at end-June 2021, representing 65.1 per cent of total advances.

Advances to residents (including GBC) increased marginally by 0.6 per cent to Rs460.3 billion as at end-June 2021, representing 53.4 per cent of total advances. Advances to GBC decreased by 20.1 per cent to Rs67.3 billion as at end-June 2021 while advances to non-residents increased by 12.4 per cent to Rs402.0 billion.

Credit Concentration Risks

Credit concentration risk, one of the major risks faced by banks in Mauritius, refers to the risk of loss arising from a bank's overexposure to particular sectors of the economy and/or different groups of connected counterparties.

Non-exempt large exposures in the banking sector, that is, exposures above 10 per cent of a bank's Tier 1 capital, aggregated Rs476.6 billion, representing 47.3 per cent of total fund and non-fund based facilities extended as at end-June 2021. The aggregated large exposures to borrowers represented 303.1 per cent of banks' Tier 1 capital as at end-June 2021 compared to 302.8 per cent of Tier 1 capital as at end-June 2020. Credit concentration risk increased mildly during FY2020-21 as a result of prudent credit risk management by banks.

Chart 3.4: Bank Loans to the Private Sector in Mauritius

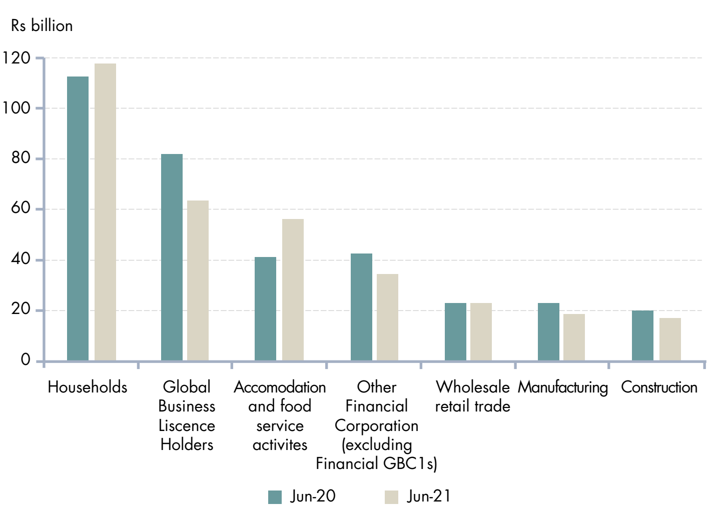
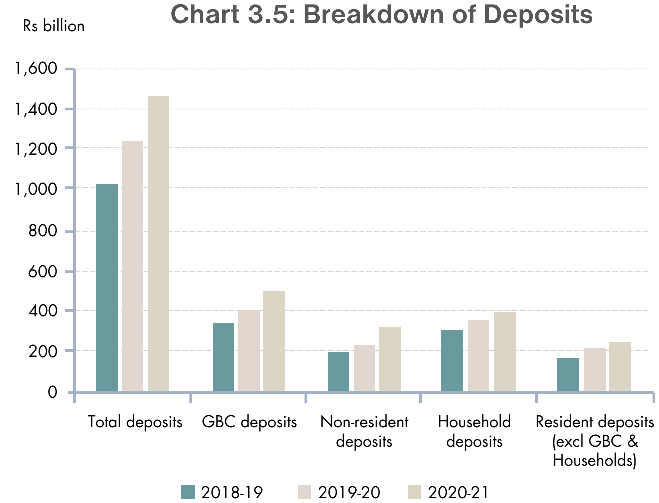


Chart 3.5: Breakdown of Deposits



REGULATION AND SUPERVISION

Asset Quality

Although banks' asset quality remained under pressure due to potentially lower repayment capacity of borrowers arising from the negative impact of COVID-19, banks have been able to contain the growth of non-performing loans (NPLs). The relief measures put in place by the Bank, notably moratoriums to alleviate financial strains on individuals, households, economic operators and small and medium sized enterprises (SMEs) contributed largely to avert a deterioration of the credit portfolio of banks. The introduction of a Special Relief Amount through banks to allow businesses, including SMEs, to meet cash flow and working capital requirements was another measure that helped cushion the impact of the pandemic.

Moratorium on loans

Since the onset of COVID-19, loan restructuring helped contain risks to financial stability and to the economy. In this context, around 80 per cent of banks' restructured loans are in the form of moratorium, with an outstanding amount that peaked at Rs93.4 billion as at end-December 2020 before declining to Rs69.6 billion as at end-June 2021. The second lockdown imposed from 10 March 2021 to end-April 2021 did not bring further disruption to the unwinding process given that the support measures including moratoriums were extended until end-June 2021. With the gradual phasing out of the support measures in the wake of the recovery of economic activity, the Bank continues to closely monitor the performance of banking sector to ensure a smooth exit from support measures, on a case to case basis. The gradual phasing out approach is expected to limit abrupt increases in NPLs that could emanate from deterioration in the repayment capacity of households and corporates.

On an overall basis, the ratio of NPLs to total advances improved from 5.3 per cent as at end-June 2020 to 4.8 per cent as at end-June 2021, essentially owing to a major write-off of impaired credit outside Mauritius in the "Human Health and Social Work activities" sector (Chart 3.7). Accordingly, gross non-performing advances extended outside Mauritius improved by 18.2 per cent to Rs18.4 billion as at end-June 2021. The NPL ratio of banks outside Mauritius improved from 6.5 per cent as at end-June 2020 to 4.9 per cent as at end-June 2021. In contrast, the gross non-performing advances on facilities extended in Mauritius rose by 10.9 per cent from Rs18.3 billion to Rs20.3 billion and the NPL ratio of credit extended in Mauritius increased from 4.3 per cent as at end-June 2020 to 4.7 per cent as at end-June 2021.

The ratio of specific provisions to NPLs, notably the coverage ratio, improved from 53.3 per cent as at end-June 2020 to 66.9 per cent as at end-June 2021. Specific provisions held on NPLs outside Mauritius increased by 10.4 per cent while specific provisions on NPLs in Mauritius rose by 42.1 per cent.

Chart 3.6: Moratoriums on Loans

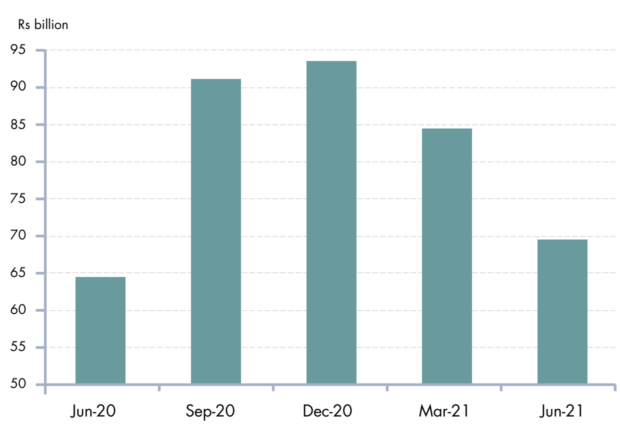
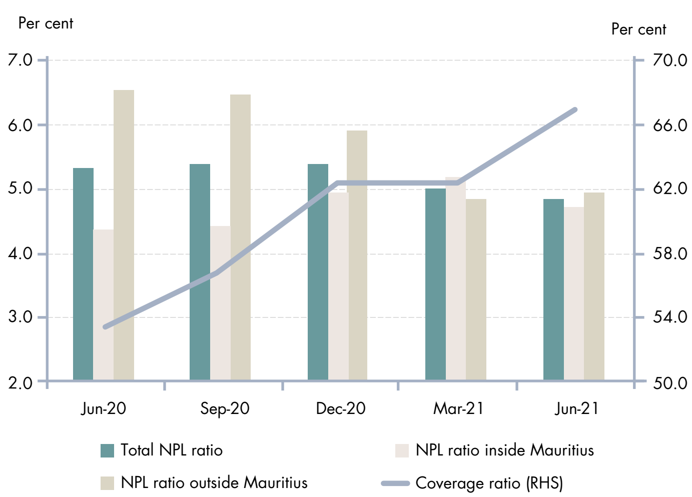


Chart 3.7: Non-Performing Loans



Liquidity

With effect from November 2017, banks are required to meet the Liquidity Coverage Ratio (LCR) requirements in Mauritian rupees, in major foreign currencies and on a consolidated basis. The LCR aims at ensuring that a bank has an adequate inventory of unencumbered High Quality Liquid Assets (HQLA) that consist of cash or assets convertible into cash at little or no loss of value in market, to meet its liquidity requirement for a 30-day liquidity stress period. The aim of the LCR is to raise a bank's short-term resilience to potential liquidity disruptions.

The banking sector in Mauritius has remained resilient and adequately liquid in FY2020-21. Banks held a comfortable amount of FCY HQLA and placements to withstand any liquidity shock that they might face in the event of unexpected withdrawal of funds by GBC and non-residents (Chart 3.8). Nonetheless, the Bank is rigorously monitoring the liquidity positions of banks to preemptively detect any emerging liquidity risk issues in the banking system and stands ready to take remedial actions deemed necessary.

The LCR increased from 236.0 per cent as at end-June 2020 to 246.1 per cent as at end-June 2021, and is well above the minimum regulatory requirement of 100 per cent. In general, the LCR of banks for both MUR and other major currencies remained above regulatory requirements. The stock of HQLA held by banks on a consolidated basis amounted to Rs450 billion as at end-June 2021 compared to Rs404 billion as at end-June 2020.

Interest Rate Spread

During FY2020-21, interest earned by banks on Rs100 of advances decreased by 43 cents to Rs3.94 while the cost per Rs100 of deposits dropped by 36 cents from Rs1.01 to Rs0.65. Consequently, the interest rate spread decreased from Rs3.36 to Rs3.30 during the period under review (Chart 3.9).

Profitability

Aggregate pre-tax profit of banks declined from Rs22.2 billion in FY2019-20 to Rs13.8 billion in FY2020-21, mainly on account of a rise in provisions that have more than doubled together with a decrease in net interest income amid a low interest rate environment (Table 3.4). The rise in provisions of banks primarily pointed to a rise in credit risk for bank exposures amid the negative fallout of the COVID-19. Eight banks incurred losses in FY2020-21 on account of either high provisions or rise in operating costs.

Chart 3.8: Coverage for GBC/Non-Resident Deposits in terms of FCY HQLA & Placements

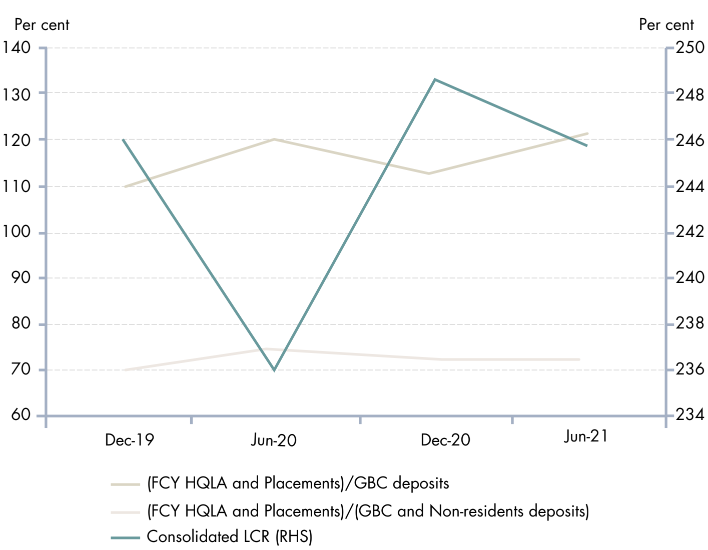
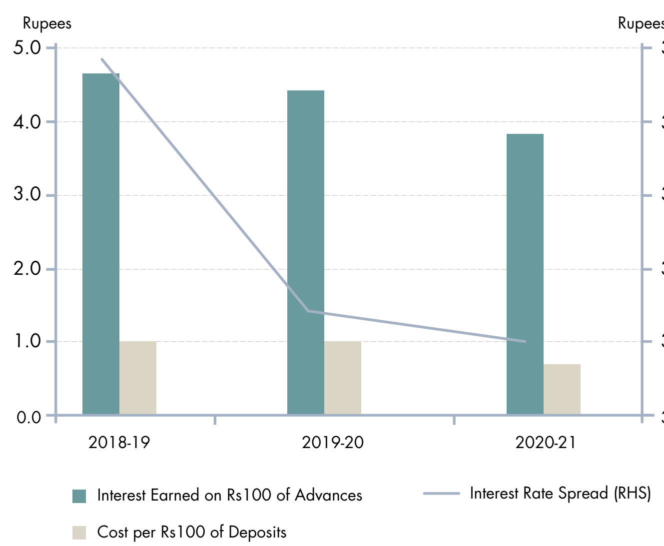


Chart 3.9: Interest Rate Spread of Banks



REGULATION AND SUPERVISION

Components of income

Total income of banks went down by 6.5 per cent, from Rs66.1 billion to Rs61.8 billion during FY2020-21, mainly on account of a decrease in interest income. The operating income of banks decreased by 1.1 per cent to Rs49.5 billion during the period under review (Chart 3.10).

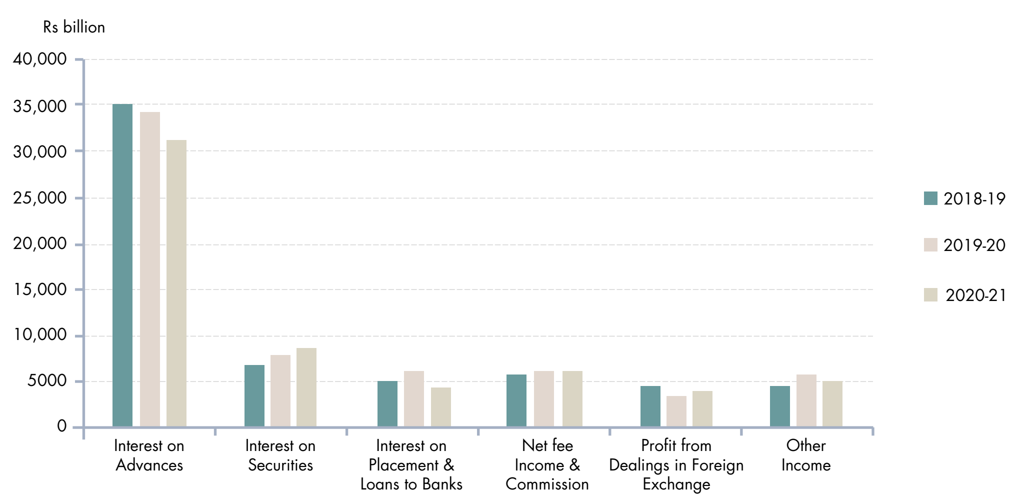
Table 3.4: Consolidated Income Statements of Banks

(Rs million)

	FY2018-19	FY2019-20	FY2020-21
Interest Income	**49,616**	**52,262**	**46,317**
Interest on Advances	*35,207*	*33,871*	*31,124*
Interest on Securities	*6,213*	*8,336*	*9,125*
Interest on Placements and Loans to banks	*5,012*	*6,340*	*3,970*
Other Interest Income	*3,183*	*3,715*	*2,098*
Interest Expense	**14,801**	**16,052**	**12,292**
Interest on Deposits	*10,534*	*11,181*	*7,710*
Interest on Borrowings from banks	*1,819*	*2,153*	*1,332*
Other Interest Expenses	*2,448*	*2,718*	*3,249*
Net Interest Income	**34,815**	**36,210**	**34,026**
Non-Interest Income	**13,523**	**13,802**	**15,445**
Net Fee Income and Commission	*7,121*	*7,432*	*7,191*
Profit from Dealings in Foreign Currencies	*4,739*	*3,695*	*4,272*
Other Non-Interest Income	*1,664*	*2,675*	*3,983*
Operating Income	**48,338**	**50,012**	**49,471**
Non-Interest Expense	**19,126**	**20,697**	**20,909**
Staff Costs	*9,909*	*10,442*	*10,331*
Operating Expenses	*9,217*	*10,255*	*10,578*
Operating Profit before Provisions	**29,211**	**29,315**	**28,561**
Provision and Adjustments to Income from Credit Losses	*5,363*	*7,070*	*14,736*
Profit before Tax	**23,849**	**22,246**	**13,825**
Provision for Income Taxes	*3,799*	*3,072*	*1,893*
Profit after Tax	**20,050**	**19,174**	**11,932**

Note: 12 months' period for which the accounts were audited but which vary from one bank to another.

Chart 3.10: Components of Income of Banks



Interest income decreased by 11.4 per cent to Rs46.3 billion in FY2020-21. Interest earned from advances, representing 50.4 per cent of total income, dropped by 8.1 per cent to reach Rs31.1 billion mainly on account of lower interest rates earned on advances. Likewise, interest received from placements and loans to banks and other interest income declined to Rs6.1 billion in FY2020-21. In contrast, interest earned on securities rose by 9.5 per cent to Rs9.1 billion as banks diverted their funds in less risky assets, notably investment securities. In this respect, the diversification of interest-income generating assets contributed to mitigate the overall decline in interest income faced by the banking sector.

Non-interest income rose by 11.9 per cent to Rs15.4 billion in FY2020-21. During the year under review, fee-related income dropped by 3.2 per cent on account of lower fees income and commission generated by banks, while profit derived from dealings in foreign currencies increased by 15.6 per cent. Fees and commission and profit generated from dealings in foreign currencies accounted for 74.2 per cent of total non-interest income in FY2020-21 compared to 80.6 per cent in the preceding year.

Components of Expense

Total expenses of banks decreased by 9.7 per cent to Rs33.2 billion in FY2020-21 whereby the rise in the operating expenses and other costs were more than offset by the decline in interest expenses (Chart 3.11).

Total interest expense decreased from Rs16.1 billion in FY2019-20 to Rs12.3 billion in FY2020-21, mainly driven by decreases in interest paid on deposits following the cumulative reduction of 150 bps in the KRR in 2020 and in interest paid on borrowings from banks.

Non-interest expense increased by 1.0 per cent to Rs20.9 billion in FY2020-21 following a rise of 3.2 per cent in operating expenses, which more than offset the decline of 1.1 per cent in staff costs. Overall, in conjunction with the decline of 1.1 per cent in operating income, the cost-to-income ratio for the banking sector deteriorated to 42.3 per cent in FY2020-21, compared to 41.5 per cent in FY2019-20.

Banks' operating profit before provision for credit losses decreased from Rs29.3 billion in FY2019-20 to Rs28.6 billion in FY2020-21. The significant increase in provisions and adjustments to income from credit losses, from Rs7.1 billion to Rs14.7 billion, resulted in a major drop in post-tax profits from Rs19.2 billion to Rs11.9 billion in FY2020-21.

The fall in banks' profits contributed to the decline in pre-tax return on average assets (ROA) for the banking sector, from 1.5 per cent in FY2019-20 to 0.9 per cent in FY2020-21. Individual ROA ranged between - 3.1 per cent and +1.8 per cent, with only three banks achieving ROA of at least 1.0 per cent. Correspondingly, post-tax return on equity (ROE) for the banking sector dropped from 12.1 per cent to 7.2 per cent in FY2020-21 on account of the decrease in post-tax profit which ranged from -19.2 per cent to +17.6 per cent for individual banks (Chart 3.12).

Chart 3.11: Components of Expense of Banks

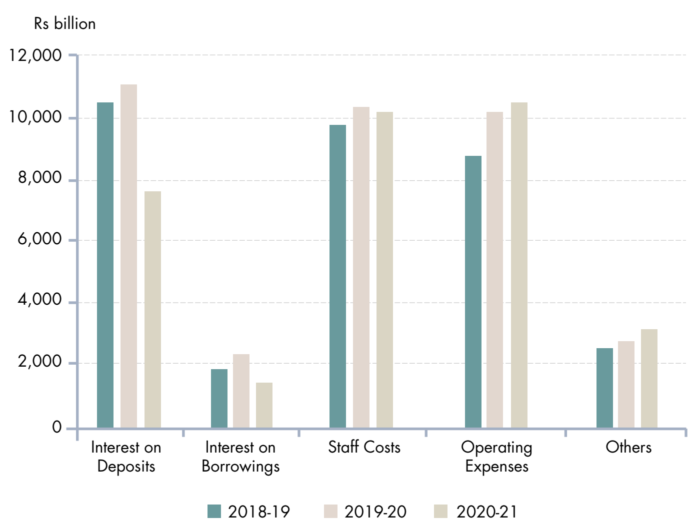
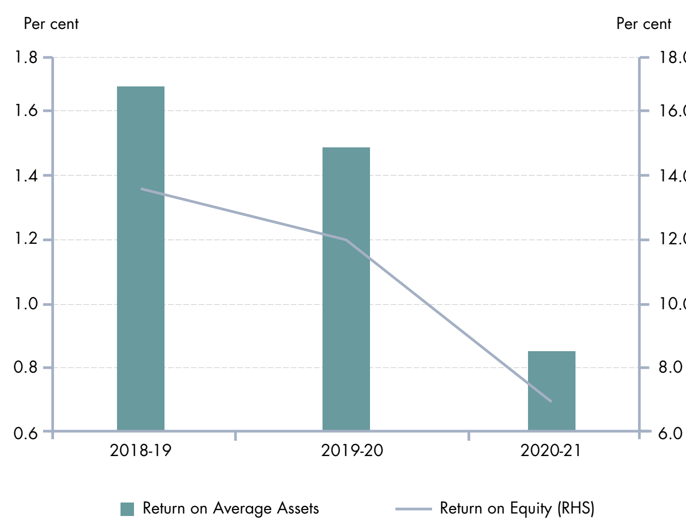


Chart 3.12: Return on Average Assets and Equity of Banks



NON-BANK DEPOSIT TAKING INSTITUTIONS

KEY HIGHLIGHTS

	FY2019-20	FY2020-21
Number of NBDTIs	6	6
Capital Adequacy Ratio (Per cent)	46.8	48.9
Advances-to-deposit Ratio (Per cent)	115.9	124.3
Pre-tax Return on Assets (Per cent)	3.1	2.5

Minimum regulatory capital requirement: 10 per cent

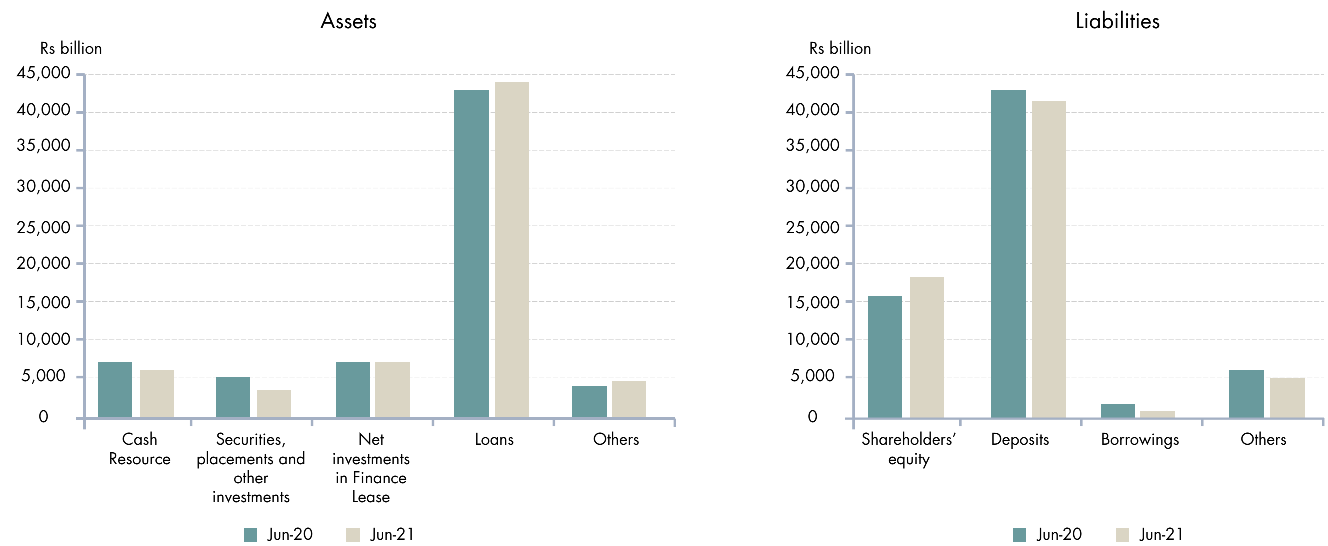
	FY2019-20	FY2020-21
Total Assets	Rs 66.2 (Billion)	Rs 66.7 (Billion)
NPL to Total Loans (Per cent)	7.1	8.0
Liquid assets to deposits Ratio (Per cent)	27.5	23.0
Post-tax Return on Equity (Per cent)	11.2	9.5

Of the six non-bank deposit taking institutions (NBDTIs) that were in operation in Mauritius as at end-June 2021, three were exclusively involved in leasing activities, two carried out lending business only and the remaining one was involved in both leasing and lending operations. Three of the NBDTIs were subsidiaries/related companies of banking institutions or insurance companies. As at end-June 2021, total assets of NBDTIs stood at Rs66.7 billion and represented about 3.4 per cent of the combined total assets of banks and NBDTIs and 15.6 per cent of GDP.

Balance Sheet Structure

Total assets of NBDTIs increased by 0.8 per cent, from Rs66.2 billion as at end-June 2020 to Rs66.7 billion as at end-June 2021. The share of loans to total assets rose from 63.9 per cent as at end-June 2020 to 66.5 per cent as at end-June 2021, while investment in finance leases to total assets increased marginally from 12.2 per cent to 12.5 per cent over the same period. Deposits went down by 2.5 per cent to Rs42.4 billion as at end-June 2021, but remained the main source of funding for NBDTIs. As a ratio of total liabilities, deposits decreased from 65.7 per cent as at end-June 2020 to 63.5 per cent as at end-June 2021 (Chart 3.13).

Chart 3.13: Balance Sheet Structure of NBDTIs



The advances-to-deposits ratio increased from 115.9 per cent at end-June 2020 to 124.3 per cent at end-June 2021, while the leases-to-deposits ratio (based on deposits held by leasing companies only) stood at 88.9 per cent, with the lease to deposit ratio ranging from 54.8 per cent to 101.4 per cent as at end-June 2021. NBDTIs have funded their leasing and lending business essentially via deposits mobilization, accumulated reserves and borrowings from financial institutions.

As at end-June 2021, all NBDTIs held the minimum required capital of Rs200 million. The CAR of NBDTIs rose from 46.8 per cent as at end-June 2020 to 48.9 per cent as at end-June 2021 and on an individual basis, the CAR maintained by NBDTIs ranged from 13.5 per cent to 59.8 per cent as at end-June 2021.

During FY2020-21, outstanding credit facilities extended by NBDTIs increased by 3.6 per cent while NPLs stood at Rs0.6 billion, representing 8.0 per cent of total credit facilities as at end-June 2021. Outstanding credit to households made up 90.9 per cent of total credit, with the household sector accounting for 91.6 per cent of the total NPLs of NBDTIs.

Liquidity

NBDTIs are required to maintain liquid assets representing a minimum of 10 per cent of their deposit liabilities. As at end-June 2021, liquid assets held by NBDTIs amounted to Rs9.8 billion and represented 23.0 per cent of their deposits compared to 27.5 per cent as at end-June 2020.

Profitability

Based on audited results for financial years ended June and December, NBDTIs' aggregate profit after tax dropped by 9.3 per cent, from Rs1.8 billion in FY2019-20 to Rs1.6 billion in FY2020-21, mainly on account of an increase in provisions (Table 3.5). Low interest rates coupled with the adverse impact of COVID-19 on business activities weighed on the profitability of NBDTIs (Chart 3.14).

The decline in NBDTI's profitability had a negative impact on the pre-tax ROA, which decreased from 3.1 per cent in FY2019-20 to 2.5 per cent in FY2020-21. Likewise, the post-tax ROE declined from 11.2 per cent to 9.5 per cent (Chart 3.15). On an individual basis, the pre-tax ROA of NBDTIs ranged from 0.7 per cent to 3.3 per cent.

Chart 3.14: Profitability of NBDTIs

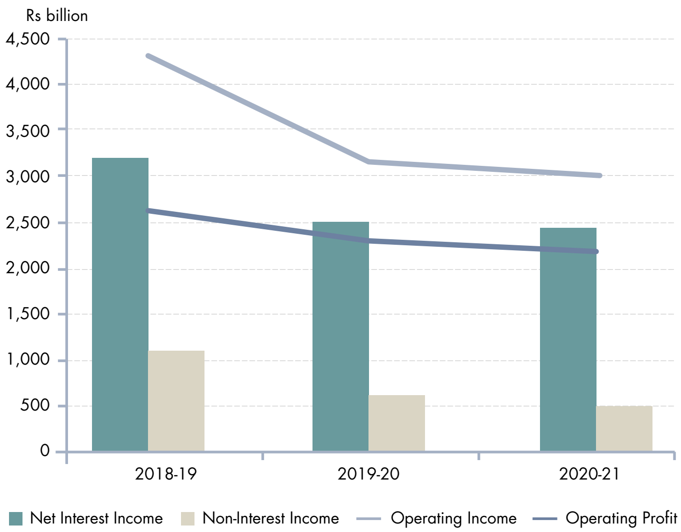


Chart 3.15: Return on Average Assets and Equity of NBDTIs

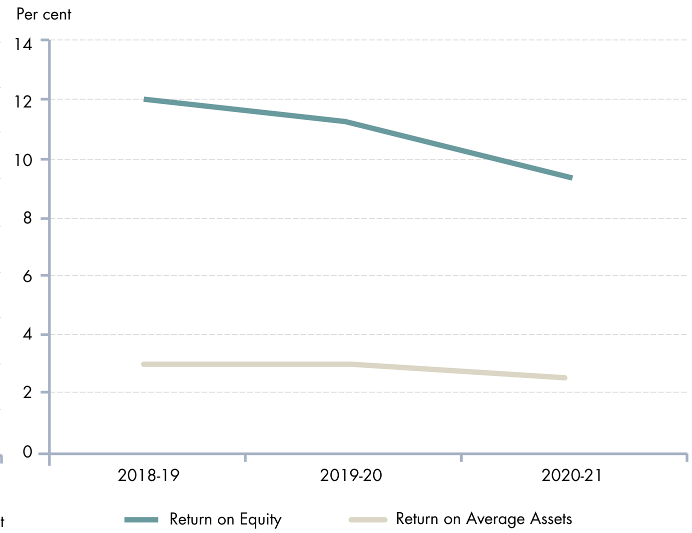


Table 3.5: Consolidated Profit and Loss Account of NBDTIs

(Rs million)

	FY2017-18	FY2018-19	FY2019-20	FY2020-21
Interest Income	5,764	5,614	4,495	4,216
Interest Expense	2,537	2,376	2,011	1,786
Net Interest Income	3,227	3,238	2,483	2,431
Non-Interest Income	1,116	1,183	676	611
Operating Income	4,343	4,421	3,159	3,042
Non-Interest Expense	1,752	1,773	1,014	969
Operating Profit	2,590	2,649	2,145	2,073
Other Non-Operating Profit	0	0	0	0
Profit before Provision & Adjustment for credit losses	2,590	2,649	2,145	2,073
Provision & Adjustment for credit losses	*270*	*206*	*88*	*403*
Profit before tax	2,320	2,442	2,057	1,670
Income Tax Expense	*1,929*	*339*	*277*	*55*
Profit after tax	391	2,103	1,780	1,615

Note: 12 months' period for which the accounts were audited and are different for different banks.

CASH DEALERS

As at end-June 2021, 12 cash dealers, specifically six money changers and six foreign exchange dealers were in operation in Mauritius. While money changers deal principally in the exchange of foreign currency notes, FX dealers are authorized to carry out other activities that comprise the provision of remittance facilities and the conduct of spot and forward exchange transactions, in addition to the money-changing business. As at end-June 2021, cash dealers held assets equivalent to 0.1 per cent of GDP and 0.03 per cent of the banking sector.

Total assets of cash dealers declined from Rs597.9 million as at end-June 2020 to Rs583.4 million as at end-June 2021, with assets of FX dealers decreasing from Rs539.2 million to Rs531.9 million during the year under review. The bulk of cash dealers` assets consisted of cash in hand, balances held with financial institutions and investment in Government and BoM securities which represented 16 per cent, 38 per cent and 24 per cent, respectively, of their total assets.

Eleven cash dealers incurred losses in FY2020-21, mainly attributed to a severe decline in non-interest income (Table 3.6). The decline in both inbound and outbound tourism weighed heavily on the business of the cash dealers. As a result, two cash dealers remained closed to the public for nearly the whole of FY2020-21 while the remaining cash dealers were closed for part of the financial year (Chart 3.16).

In view of these challenging conditions, the Bank opted to waive the annual licence fee payable by cash dealers for FY2020-21, except for one FX dealer which did not meet the criteria stipulated in the Banking (Processing and Licence Fees) (Amendment) Regulations 2021.

Chart 3.16: Non-interest Income, Non-interest Expense and Profitability of Cash Dealers

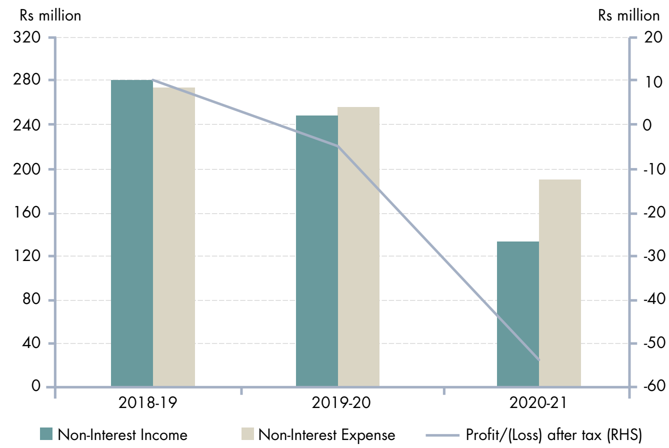


Table 3.6: Consolidated Income Statement of Cash Dealers

(Rs 000)

	FY2018-19	FY2019-20	FY2020-21
Operating Income	290,428	256,288	138,690
Non-Interest Expense	276,600	260,672	196,342
Profit / (Loss) before Provision	**13,828**	**(4,384)**	**(57,653)**
Provision	*48*	*0*	*517*
Profit / (Loss) before tax	**13,876**	**(4,384)**	**(57,136)**
Income Tax Expense / (Refund)	*4,376*	*1,393*	*(2,654)*
Profit / (Loss) after tax	**9,500**	**(5,777)**	**(54,482)**

Figures are based on annualized unaudited returns and may not add up to total due to rounding.

FINANCIAL STABILITY

The economic contraction, sharp drop in foreign exchange inflows, low interest rate environment and uncertainty surrounding the global and domestic economic recovery paths exerted strains on the financial sector and raised the risks to financial stability. In addition, lower profitability threatened capital and liquidity accumulation by financial institutions to weather risks to financial stability.

With the onset of the crisis in early 2020, the prompt introduction of both conventional and unconventional policy measures by the Bank helped to allay fears of heightened risks to financial stability. By mitigating financial strains on households and businesses and supporting the resumption of economic activity, these measures contributed significantly to safeguard the stability of the financial system. The policy responses and expectations of stronger economic recovery beyond FY2020-21, underpinned by the ongoing vaccination programme and the gradual re-opening of borders as from July 2021, are contributing to contain risks to financial stability. The Bank continues to deploy its financial stability assessment toolkits to monitor systemic risks in financial system.

Banks and non-bank deposit taking institutions (NBDTIs) in Mauritius have been able to withstand the shocks stemming from the COVID-19 pandemic as well as strains in the financial world during FY2020-21. These institutions remained financially sound and continued to carry on their financial intermediation function effectively. Credit facilities granted by both banks and NBDTIs to the private sector (excluding Global Business Corporations) expanded, although exhibiting some volatility. The policy measures deployed by the fiscal authority and the Bank have helped to sustain the cash flows of and credit to households and businesses during FY2020-21.

REGULATION AND SUPERVISION

The importance of cyber risk has increased over the recent years given the unprecedented digital transformation of the financial system. The Bank acknowledges that cyber incidents can have very severe impact on the financial stability of the banking sector and is fully committed to address this risk with necessary upgrades in its prudential regulatory framework.

Financial Soundness Indicators:

Capital Adequacy Indicators

Deposit Taking Institutions [1] (DTIs) continued to maintain a strong Capital Adequacy Ratio (CAR) in 2020-21. The average CAR held by DTIs was 19.7 per cent as at end-June 2021, down from 20.4 per cent as at end-June 2020. The CAR held by DTIs ranged from 12.1 per cent to 185.3 per cent in 2020-21. The Tier 1 capital to risk weighted assets of DTIs declined by 0.7 percentage point from 19.0 per cent as at end-June 2020 to 18.3 per cent as at end-June 2021, mainly resulting from an increase in risk-weighted assets of 8.2 per cent over the same period. The banking sector, holding the largest share of assets among the DTIs, accounted for most of these movements. All banks, including the five D-SIBs, met their respective minimum statutory requirement, notwithstanding the second wave of COVID-19 towards the end of the first and in the second quarters of 2021.

Asset Quality Indicators

The asset quality of DTIs remains sound, and non-performing loans (NPLs) were adequately covered. The ratio of NPLs to total loans [2] of DTIs, as defined in the IMF Financial Soundness Compilation Guide 2006, was at 5.6 per cent as at end-June 2021, 0.2 percentage point lower compared to end-June 2020, despite the prolong effects of the pandemic on the domestic economy. A wide dispersion of the NPL ratio among the DTIs was observed, ranging from 0 to 19.2 per cent in FY2020-21. The ratio of NPLs (net of provisions) to regulatory capital for DTIs improved by 4.0 percentage points as at end-June 2021 compared to end-June 2020.

Liquidity Indicators

The liquidity ratios of DTIs were assessed to be adequate as at end-June 2021 and were well above the regulatory limit. The ratio of liquid assets to total assets of DTIs improved by 0.9 percentage point from end-June 2020, to stand at 27.3 per cent as at end-June 2021. A similar trend was observed in the ratio of liquid assets to short-term liabilities, which stood at 30.5 per cent as at end-June 2021, up by 0.8 percentage point compared to end-June 2020.

Earnings and Profitability Indicators

The DTIs continued to remain profitable despite dealing in a low interest rate environment that resulted in reduced net interest income. After recording declining profitability in the second half of 2020, they registered improved profitability ratios during the first half of 2021. This was mainly driven by an improvement in banks' non-interest income and reduced net impairment loss charge over the first half of 2021. Net-interest margin contracted over the second half of 2020 and the first quarter of 2021, but experienced an improvement over the quarter ended June 2021. Overall, profitability has improved in FY2020-21 though still below pre-pandemic levels. The pre-tax Return on Equity of DTIs was at 12.7 per cent for quarter ended June 2021, up from 9.5 per cent for the quarter ended June 2020. Similarly, the pre-tax Return on Assets of DTIs was at 1.3 per cent for quarter ended June 2021, slightly higher than the 1.1 per cent for the quarter ended June 2020.

Market Risk Indicators

The Net Open Position in foreign exchange, an important indicator on foreign exchange risk that DTIs are exposed to, remained well within the prescribed limit of 15 per cent of Tier 1 capital. The ratio stood at 2.2 per cent as at end-June 2021, an increase of 0.4 percentage point from June 2020.

Stress Testing the Mauritian Banking Sector

The Bank assessed the resilience of the banking sector using its stress testing framework. Plausible scenarios for the stress tests are by design based on hypothetical adverse conditions, such as shocks to the credit portfolios, interest rate, exchange rate and liquidity. These hypothetical scenarios and their outcomes should not be considered as forecasts.

The resilience of the banking sector was put to test through three macroeconomic shocks. These macroeconomic shocks delved on three hypothetical economic recovery scenarios, namely: (a) economic recovery in 2021 (baseline scenario); (b) delayed growth up to early 2022 (moderate scenario); and (c) further contraction in 2021 with recovery as from end 2022 (severe scenario). The results indicated that banks had robust capital position,

[1] DTIs comprised 19 banks and 6 NBDTIs, which are all regulated by the Bank of Mauritius.
[2] Loans include only facilities provided by DTIs in the form of loans, overdrafts and finance leases.

with post-shock CAR above regulatory minimum of 11.875 per cent. The reverse stress test conducted supported the robustness of banks, as their capital buffers were able to absorb higher levels of performing loans becoming impaired, compared to end-December 2020.

Stress test results showed that banks had adequate capital and liquidity buffers to deal with the protracted repercussions of the pandemic. Some banks appeared to be more vulnerable than others. Uncertainty remains about the shape of economic recovery, both domestically and globally, and upon the duration of the pandemic globally. If the shock persists for a longer period than expected, banks' solvency and liquidity positions will eventually begin to exhibit vulnerabilities.

Financial Soundness Indicators of Deposit-Takers as at end-June 2021

Capital - based
- Regulatory Capital to Risk Weighted Assets: 19.7% ↓
- Regulatory Tier 1 capital to risk weighted assets: 18.3% ↓

Asset Quality
- Non-performing loans to total gross loans: 5.6% ↓

Liquidity
- Liquid assets to total assets: 27.3% ↑
- Liquid assets to short-term liabilities: 30.5% ↑

Earnings and Profitability
- Return on assets: 1.3% ↑
- Return on equity: 12.7% ↑

Market Risk
- Net open position in foreign exchange: 2.2% ↑

REGULATION AND SUPERVISION

Table 3.7: Financial Soundness Indicators[a] of Deposit Taking Institutions[b]

Financial Soundness Indicators (Core)	Jun-17	Jun-18	Jun-19*	Jun-20*	Jun-21
Capital-based					
Regulatory capital to risk-weighted assets	18.6	18.0	20.0	20.4	19.7
Regulatory Tier 1 capital to risk-weighted assets	17.2	16.7	18.5	19.0	18.3
Non-performing loans net of provisions to capital	18.0	14.3	12.7	12.2	8.2
Asset Quality					
Non-performing loans to total gross loans[c]	7.8	6.9	6.3	5.8	5.6
Sectoral distribution[d] of loans to total loans[c]					
Interbank loans	0.3	2.4	3.6	4.6	5.0
Other financial corporations	3.2	3.9	12.2	11.4	9.8
Non-financial corporations	35.6	33.3	25.7	27.1	26.4
Other domestic sectors	22.5	21.8	22.6	20.9	21.7
Non-residents	38.5	38.6	36.0	35.9	37.0
Earnings and Profitability					
Return on assets	1.5	1.5	2.0	1.1	1.3
Return on equity	14.9	14.6	17.4	9.5	12.7
Interest margin to gross income	68.8	71.5	73.8	65.9	69.3
Non-interest expenses to gross income	40.2	40.5	40.4	40.0	43.2
Liquidity					
Liquid assets to total assets	26.8	25.4	21.0	26.4	27.3
Liquid assets to short-term liabilities	33.3	28.8	23.9	29.7	30.5
Sensitivity to Market Risk					
Net open position in foreign exchange to capital	4.7	3.0	2.8	1.7	2.2
Financial Soundness Indicators (Encouraged)	**Jun-17**	**Jun-18**	**Jun-19***	**Jun-20***	**Jun-21**
Capital to assets	10.2	11.6	11.9	11.0	10.3
Value of large exposures[e] to capital	150.0	235.3	248.4	258.5	253.1
Customer deposits to total (non-interbank) loans	151.5	155.2	159.9	182.7	219.2
Residential real estate loans to total loans[c]	9.2	10.3	11.0	10.6	11.3
Commercial real estate loans to total loans[c]	4.3	4.4	4.2	5.0	5.5
Trading income to total income	10.3	8.2	7.7	16.4	7.6
Personnel expenses to non-interest expenses	49.4	49.4	46.8	48.0	47.6

[a] FSIs are calculated on a domestic consolidation basis using the Financial Soundness Indicators Compilation Guide (2006) of the International Monetary Fund.
[b] Deposit Taking Institutions refer to Banks and Non-Bank Deposit Taking Institutions that are all licensed by the Bank.
[c] Total gross loans include commercial loans, instalment loans, hire-purchase credit, loans to finance trade credit and advances, finance leases, repurchase agreements not classified as deposits, and overdrafts.
[d] With the emergence of new types of economic activities, the return on sector-wise distribution of credit to the private sector has been replaced by a new template based on the United Nations International Standard Industrial Classification (ISIC) of all economic activities, Rev. 4, built on a set of internationally agreed concepts, definitions, principles and classification rules. Hence, data are not strictly comparable with those prior to December 2018.
[e] As from December 2017, the measurement of credit concentration ratio has been revised to aggregate large credit exposure (above 10 per cent of Tier 1 capital) as a percentage of aggregate Tier 1 capital. Hence, data are not strictly comparable with those prior to December 2017.
Note: Figures may not add up due to rounding.
* Revised figures.

DEVELOPMENTS IN AML/CFT

In August 2020, all Anti-Money Laundering and Combating the Financing of Terrorism ('AML/CFT') Supervisors signed a Memorandum of Cooperation ('Memorandum') which aims at facilitating policy formulation, exchange of information and operational coordination to effectively combat money laundering and the financing of terrorism and proliferation. An Interagency Coordination Committee was established in August 2020 as per the Memorandum for optimal implementation of the AML/CFT regime.

The Interagency Coordination Committee (ICC) is chaired by the Governor of the Bank of Mauritius, and comprises all AML/CFT Regulators and Supervisors, namely the Bank of Mauritius, the Attorney General's Office, the Financial Services Commission, the Financial Intelligence Unit, the Registrar of Companies, the Gambling Regulatory Authority, the Registration of Associations, and the Mauritius Institute of Professional Accountants.

The inaugural meeting of the ICC was held on 28 August 2020 and the Committee meets on a regular basis to ensure effective implementation of the AML/CFT measures and promote collaboration and coordination amongst the member agencies.

In addition to facilitating policy formulation, exchange of information and operational coordination to effectively combat money laundering and the financing of terrorism and proliferation, the setting up of the ICC encourages all authorities to work collaboratively to defend and uphold the country's repute, and fend off any exposures to money laundering and financing of terrorism risks.

The ICC has proved to be an effective platform to continuously improve AML/CFT supervisory effectiveness in different areas, notably, in pooling resources together to conduct joint training for the benefit of supervisors and outreach sessions for the industry. Additionally, experienced financial sector supervisors have provided on-the-job training to the DNFBP supervisors and assisted them in their onsite examinations amongst others.

The ICC has also established three Technical Sub-Committees, which have as mandates to ensure progress on all areas of cooperation under the Memorandum of Cooperation, namely

(i) Technical Sub-Committee on Supervision;
(ii) Technical Sub-Committee on Coordination; and
(iii) Technical Sub-Committee on Legal and Regulatory requirements, Training and Outreach.

All ICC Members are represented by at least one representative in the Technical Sub-Committees.

The Commitment of Mauritius in the Combat against Money Laundering and the Financing of Terrorism and Proliferation

Mauritius has, through numerous initiatives, demonstrated its unflinching commitment to combat money laundering and terrorist and proliferation financing. In February 2020, Mauritius made a high-level political commitment to the Financial Action Task Force (FATF) to sustain its AML/CFT reforms.

To that effect, an Inter-Ministerial Committee chaired by the Honourable Prime Minister has been set up to ensure effective implementation of the AML/CFT Reforms by all stakeholders.

A Core Group on AML/CFT, chaired by the Financial Secretary and co-chaired by the Governor of the Bank of Mauritius and the Director General of the Independent Commission against Corruption, was also set up by the Inter-Ministerial Committee to develop and coordinate the strategies, policies and actions required to ensure the implementation of the recommended actions in the 2018 Mauritius Mutual Evaluation Report.

The establishment of the Core Group has been formalized as a standing committee under the Financial Intelligence and Anti-Money Laundering Act, to ensure sustainability and continuity in furthering our AML/CFT strategy. Amongst others, the Core Group is mandated to ensure the effective implementation, by the relevant competent authorities of the FATF international standards on AML/CFT.

Moreover, an Interagency Coordination Committee, chaired by the Governor of the Bank of Mauritius, and comprising all AML/CFT Regulators and Supervisors, has been set up in August 2020 to facilitate policy formulation, exchange of information and operational coordination to effectively combat money laundering and the financing of terrorism and proliferation.

The Anti-Money Laundering and Combating the Financing of Terrorism and Proliferation (AML/CFT) framework was also reviewed and new laws enacted to ensure that Mauritius is technically compliant with the International Standards of the FATF.

It is worth highlighting that at the time of the adoption, in July 2018, of its Mutual Evaluation Report by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), Mauritius was rated compliant or largely compliant with only 14 of the 40 FATF recommendations.

As a result of an overhaul of the AML/CFT legal framework, Mauritius submitted 4 applications for technical compliance re-rating to the ESAAMLG, which were considered at the April 2019, September 2019, December 2020 and September 2021 meetings of the ESAAMLG.

These applications were successful and as a result of the technical compliance upgrades, Mauritius is currently compliant or largely compliant on 39 of the 40 FATF Recommendations, including the 'Big Six' FATF Recommendations, which are:

- Recommendation 3 on Money laundering offence
- Recommendation 5 on Terrorist financing offence
- Recommendation 6 on Targeted financial sanctions related to terrorism & terrorist financing
- Recommendation 10 on Customer due diligence
- Recommendation 11 on Record keeping
- Recommendation 20 on Reporting of suspicious transactions