Statement from the Governor

The intensification of risks at all levels of management in financial institutions re-emphasises the overriding importance of sound corporate governance principles. Empirical evidence reveals that poor governance is one of the major factors responsible for instability of banking systems the world over. The recent string of scandals in the United States is a strong reminder of the need for sound corporate governance. The Bank of Mauritius issued to all banks operating in Mauritius a Guideline on Corporate Governance effective June 1, 2001. The role of external auditors in the corporate governance process of banks cannot be understated. The Bank has fostered a smooth and cooperative working relationship with banks' external auditors over the past years. The Banking Act 1988 requires external auditors to report directly to the Bank such transactions and conditions that could in their opinion jeopardize the interest of depositors. With a view to requiring auditors to take a more focussed approach, the Bank issued for consultation, in June 2002, a draft "Guideline on Transactions or Conditions Respecting Well-being of a Financial Institution Reportable by the External Auditor to the Bank of Mauritius". The document specifies the conditions and transactions that should be reported by the external auditor. The final guideline was issued in February 2003.

In the course of one of the first meetings I had with the Chief Executives of banks, I raised serious concerns about the quality of banks' loan portfolios and banks' need to maintain adequate provisions for bad and doubtful debts in compliance with our related guidelines. Sound credit appraisal is necessary to avoid getting saddled with impaired loans. During the quarterly Banking Committee meetings that I hold with the Chief Executives of banks issues relating to information on borrowers as a factor leading to incorrect credit appraisal have often been raised. To this end, the establishment of a Credit Bureau is being envisaged. The Credit Bureau will act as a hub of credit information. It will collect, consolidate, store and disseminate credit information on borrowers. It is expected that this vital information would enable credit providers in general and banks, in particular, to base their commercial judgement on a more comprehensive information set and thereby assist in credit risk management. A sub-committee of the Banking Committee has already produced a report in August 2002 on the establishment of a Credit Bureau in Mauritius. Work is progressing towards the realization of the project.

Since November 1994, Category 1 banks have been preparing and reporting their annual financial statements as per our guidance notes relative to the format of balance sheet and profit and loss accounts based on International Accounting Standard 30. The need is felt across the world for improved market discipline through enhanced disclosure by banks in order to enable market participants to make a correct assessment of a bank's condition and risk profile. Another important factor weighing heavily on the need for extensive market discipline is the Basel Accord II, the implementation of which is expected in 2006. One of the three pillars of the Accord is Market Discipline. In this context, the Bank issued for consultation in June 2002, a draft "Guideline on Public Disclosure of Information". The Guideline is in line with the third Pillar of the Basel II Accord. Representations from banks and the auditing bodies were received and studied. The final guideline was issued in November 2002.

Prudential regulation and effective supervision are the key elements to financial stability. Weaknesses in the financial system in one country can have an adverse impact on the financial stability of other countries. Harmonization of supervisory systems across the world is deemed necessary for the achievement of financial stability. In this connexion, the Basel Committee issued in 1997, the 25 Core Principles for Effective Banking Supervision. By bringing together all the fundamental elements necessary to conduct effective supervision, the core principles provide an internationally agreed upon framework for effective supervision. The document also serves as a benchmark to assess the standard of banking supervision in each country.

Mauritius underwent a Financial Sector Assessment Programme. I am confident that the stringent measures taken over the past few years to strengthen banking supervision in Mauritius will have a positive bearing on the assessment by the Financial Sector Assessment Programme team.

Relevant and up-to-date prudential guidance and standards play a pivotal role in maintaining the safety and soundness of individual banks as well as the stability of the entire financial system. To this end, the Bank of Mauritius has continued to actively participate in the consultations held and in the training sessions that are regularly hosted by the Basel Committee on Banking Supervision. Capacity building programme for the Supervision Department proceeded apace with the recent recruitment of additional staff to beef up the department. Indeed, the staff has been almost doubled with a view to meeting the challenges that lie ahead.

With a view to safeguarding depositors' interests the Bank of Mauritius revoked the Banking Licence of the Delphis Bank Limited on 8 March 2002. The revocation of a Banking Licence is resorted to as an ultimate action. On 4 June 2002 a new bank, First City Bank Limited was licensed to take over substantially all the assets and liabilities of the Delphis Bank Limited. The new bank started operations on 7 June 2002.

The year 2001-2002 has been both hectic and challenging for the Bank of Mauritius as the supervisory authority of banks. Lessons can be drawn from the supervisory perspective. The single most important and fitting lesson for banks is the necessity to conduct their operations along the lines of sound governance as constantly emphasised by the Bank of Mauritius.

Rameswurlall Basant Roi

1. Overview of Supervisory Developments

1.1 INTERNATIONAL DEVELOPMENTS

During the past year the world financial system went through a number of important challenges bringing to the fore the relevance of proven supervisory systems as a means to uphold confidence in the system. There was increased uncertainty in the wake of several events, the most significant of which was the shock generated on global markets by terrorist attacks in the United States on September 11, 2001. The world economy went through a phase of slowdown as the US economy entered a recession after a long period of sustained growth. The element of risk gathered pace in this context in the financial system the world over.

This was an occasion to test the robustness of the financial sector to withstand shocks. Despite a series of accounting scandals which rocked confidence in the corporate sector of the US in particular, casting doubt on the real strength of corporate profits as well as on the dependability of accounting and auditing standards, financial markets adjusted fairly reasonably to the emerging situation. Thus, the expectation that misleading and false accounting and reporting could also have undermined confidence in the banks and other financial institutions did not bear itself out in reality. Part of the reason for this relatively comfortable situation in the financial sector must be attributed to actions being taken on several fronts to heighten awareness to risk management in the financial sector.

1.2 CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

At the international level, work to reinforce supervisory standards in the financial sector is being carried out by the Basel Committee on Banking Supervision, IOSCO and IAIS in particular. It is expected that the prudential norms evolved by those bodies will complement accounting and auditing standards currently under review. Regarding the banking sector, the Basel Committee produced in 1997 the 25 Core Principles for Effective Banking Supervision which altogether provide a detailed framework for conducting effective banking supervision. It is expected that every country will adopt the Core Principles as essential guidance for conducting supervisory activity with a view to strengthening financial institutions and giving the necessary tools to the bank supervisor. A process of assessment of compliance with the Core Principles is being undertaken in several jurisdictions.

In this regard, continuous self-assessment is undertaken by regulators at the regional and international levels. As such, the Eastern and Southern Africa Group of Banking Supervisors (ESAF) conducts an annual self-assessment and Mauritius participates regularly in this self-assessment exercise. It is expected that as a result of this self-assessment exercise by individual countries against the Core Principles Assessment Methodology Workbook, the experience so gathered would help to evaluate the effectiveness of the Core Principles themselves and in their updating in evolving financial market conditions. Mauritius has undergone in November and December 2002 a detailed assessment against these Core Principles by a joint International Monetary Fund/World Bank team under a Financial Sector Assessment Programme (FSAP).

1.3 NEW ACCORD ON CAPITAL ADEQUACY

A fuller review of the New Capital Accord developed by the Basel Committee is given in the text of this report. It needs to be highlighted that the New Capital Accord framework is being developed to capture more fully risks inherent in banking activity than it is the case under the Basel Accord of 1988. For this purpose, the Basel Committee has engaged in consultations on the proposed framework with the industry, the second of which was launched in January 2001. One of the purposes of this consultation process is to gauge the quantitative impact of the new proposals by means of empirical testing. The New Accord rests on three pillars: (i) Minimum Capital Requirements (ii) Supervisory Review Process and (iii) Market Discipline. These are discussed in greater detail in the text.

The Basel Committee is expected to release the New Accord in final form by December 2003 and it is expected that some countries will have implemented it by the end of 2006.

1.4 COMBATING THE FINANCING OF TERRORISM

The events of September 11, 2001 in the US led to an international commitment to combat terrorism financing. This matter took concrete shape in Mauritius by the enactment of the Prevention of Terrorism Act 2002. In addition to the judicial and law enforcement angles to the fight against terrorism, it has been established that the illegal use of the banking system when providing financial services to terrorists, could be one of the areas to focus upon to stop abuse at source. Work has been undertaken at the level of the Government and the financial regulators to strengthen oversight of potential terrorism financing activities and action in relation thereto.

The contribution of the banking sector in the fight against terrorism will be achieved by improving the "Know Your Client" principle adopted by financial institutions. In this regard, the Basel Committee working together with the Offshore Group of Banking Supervisors of which the Bank of Mauritius is a member, produced a final version of a comprehensive Customer Due Diligence (CDD) document setting down the basis for customer acceptance, identification practices and ongoing monitoring of transactions in mid 2002.

The Customer Due Diligence paper takes full cognizance of cross border implications of financial transactions and favours positive exchange of information pertaining to customer adoption policies of financial institutions. The Customer Due Diligence principle has already been adopted in the draft Code on AML/CFT issued by the Financial Services Commission (FSC) of Mauritius. Its new concepts are also being introduced in the revised version of the 2001 Bank of Mauritius Anti-Money Laundering Guidance Notes currently under preparation. The Bank of Mauritius and the Financial Services Commission have been given powers under the law to freeze terrorist assets. The fight against terrorism financing is an ongoing effort and some additional legislation pertaining to the financing of terrorism should be expected in the near term.

1.5 DOMESTIC DEVELOPMENTS

Some key legislations were enacted in 2002, notably the Prevention of Corruption Act, the Prevention of Terrorism Act and the Financial Intelligence and Anti-Money Laundering Act, all of which should be of assistance to bank supervisors in the prudential pursuit to maintain the soundness of the financial system. These pieces of legislation come in the wake of the new Companies Act 2001 and the Financial Services Development Act 2001 which established the FSC in its role as regulator of the entire non-bank financial sector, as part of Government's bid to move towards integrated regulation of the financial sector as a whole. The Banking Act and the Bank of Mauritius Act are up for re-enactment with a view to modernising the legal framework and reinforcing the Bank's regulatory powers of enforcement.

The existing Banking Act was amended meanwhile in 2002 to enable commercial banks to participate up to a limited amount in the equity of enterprises listed on the Stock Exchange. The law has also been revised to permit banks to participate in equity funds falling under the regulatory oversight of the Financial Services Commission.

During 2002, the licence of one Category 1 bank was revoked; banking licences were granted to two Category 1 banks and two Category 2 banks; one Category 1 bank and one Category 2 bank surrendered their licence. As at 31 December 2002, there were ten Category 1 banks and thirteen Category 2 banks in operation in Mauritius. Both Category 1 and Category 2 banks have shown a good record of growth and profitability in past years. A detailed analysis of their financial performance and prudential records is given in the next chapter of the report.

Other than the supervision of banks, the Bank of Mauritius has responsibility under the Foreign Exchange Dealers Act 1995 to supervise money-changers (bureaux de change) and foreign exchange dealers which are not banks. A list of authorised money-changers and foreign exchange dealers as well as non-bank deposit taking institutions authorised under section 13A of the Banking Act 1988 is given at Appendix II.

A Guideline on Related Party Transactions was issued by the Bank to the industry in January 2002 to address the issue of risk arising from this area. It sets down the parameters under which financial institutions may make facilities available to their related parties and requires banks to institute formal structures to monitor and report on exposures taken by financial institutions with respect to their related parties.

Another major guideline, which has been issued to financial institutions in November 2002, is the Guideline on Public Disclosure of Information by financial institutions. It requires financial institutions to report comprehensive, meaningful and accurate information in a timely manner to enable market participants to make a correct assessment of a financial institution's condition and profile. Accordingly, the Guideline lays down a requirement on the management of financial institutions to present a Management Discussion and Analysis (MDA) report, with a view to giving a financial overview of the institution, accompanied by financial information as to the future broad strategies and risk management policies of the financial institution. Extensive disclosures are required with respect to non-performing loans and concentration of risk by sectors of economic activity. The Guideline revisits the format of financial statements to be drawn up by financial institutions, which should be in accordance with International Accounting Standards. The Guideline also calls for quarterly unaudited financial statements to be produced, except for the last quarter of the financial year when the financial statements have to be audited.

Another guideline, namely the Guideline on Transactions or Conditions respecting Well-being of a Financial Institution Reportable by the External Auditor to the Bank of Mauritius was issued to the industry in February 2003. The Guideline lays down the ground rules respecting certain types of relationships between financial institutions and their external auditors. It is expected that the Guideline will go a long way to enhance the constructive role and independence of external auditors.

Other guidelines, notably on the financing of terrorism and the role of internal auditors, are under preparation and will be issued to the industry on a consultation basis prior to their implementation.

The Bank entered into a Memorandum of Understanding (MoU) with the Financial Services Commission on 5 December 2002 in order to facilitate the exchange of supervisory information between the two regulators. MoUs with the authorities of other countries in which Mauritian banks have a presence, are contemplated. This will pave the way for improved exchange of supervisory information.

The legislation on Insolvency is being reviewed. Its enactment will have an impact on the settlement of financial claims in the event of insolvency and it is expected to bring a more effective mechanism for dealing with cases of insolvency.

Concerns have been expressed about multiple facilities obtained by borrowers from diverse financial institutions. In certain cases, the effect of this type of multiple borrowing by an enterprise is to thin down the security's spread to the bare minimum and in other cases to keep out of view of potential lenders the real risk exposures taken by the borrowers. To shed better light and arrange for informed lending decisions, the establishment of a centralised agency holding information on multiple borrowings by individuals and companies will be instituted in the shape of a Credit Bureau. The Credit Bureau will be located in the Bank of Mauritius.

Other concerns relate to the slow process of recovery by financial institutions, of assets given as security against borrowings under the existing legal and judicial arrangements. This has the effect of locking up financial institutions' funds and, hence, their under-utilisation by the economic system as a whole. Efforts will be made to seek alternative systems for foreclosing on pledged assets and enhancing the utilisation of funds in the economy. ■

2. A Review of the Performance of Banks

2.1 INTRODUCTION

The banking sector is constituted of the Category 1 banking sector comprising eleven banks holding Category 1 Banking Licences (Category 1 banks) and Category 2 banking sector comprising fourteen banks holding Category 2 Banking Licences (Category 2 banks).

Six Category 1 banks are locally incorporated. Of these, one is foreign owned. The remaining five Category 1 banks operate as branches of foreign banks. Two locally incorporated Category 1 banks account for 70 per cent of the market share of the Category 1 banking sector.

During the year under review, the licence of one Category 1 bank, the Delphis Bank Limited, was revoked with effect from 8 March 2002. Del Subs Company Limited, a company incorporated on 26 March 2002, substantially took over all the assets and liabilities of the Delphis Bank Limited. This company was granted a Category 1 Banking Licence on 25 April 2002. The name of the company was changed to First City Bank Ltd on 10 May 2002 and a new licence in the name of First City Bank Ltd was issued on 4 June 2002. First City Bank Ltd started its operations on 7 June 2002.

The New Co-operative Bank Ltd, another Category 1 bank, was granted a Category 1 Banking Licence on 20 March 2002. It started operations on 31 July 2002.

Out of the fourteen Category 2 banks, five are branches of foreign banks, eight are subsidiaries of foreign banks and one is a joint venture between a Category 1 bank and a foreign bank. Two Category 2 banks licensed in May and June 2002 started operations during July 2002.

A list of the Category 1 and Category 2 banks at 30 June 2002 is shown in Appendix II.

2.2 PERFORMANCE OF CATEGORY 1 BANKS

During the year 2001-02, the activities of Category 1 banks gathered better pace compared to the previous year. On-balance sheet assets of Category 1 banks inclusive of the assets of the Delphis Bank Limited which were taken over by First City Bank Ltd during the year, recorded a growth rate of 13.9 per cent rising by Rs16,411 million from Rs118,264 million at end-June 2001 to Rs134,675 million at end-June 2002. A growth rate of 7.5 per cent was registered in the preceding year. Asset growth of eight Category 1 banks ranged on an individual basis between 1.5 per cent and 24.2 per cent while total assets of two Category 1 banks recorded a decline of 5.1 per cent and 2.5 per cent, respectively.

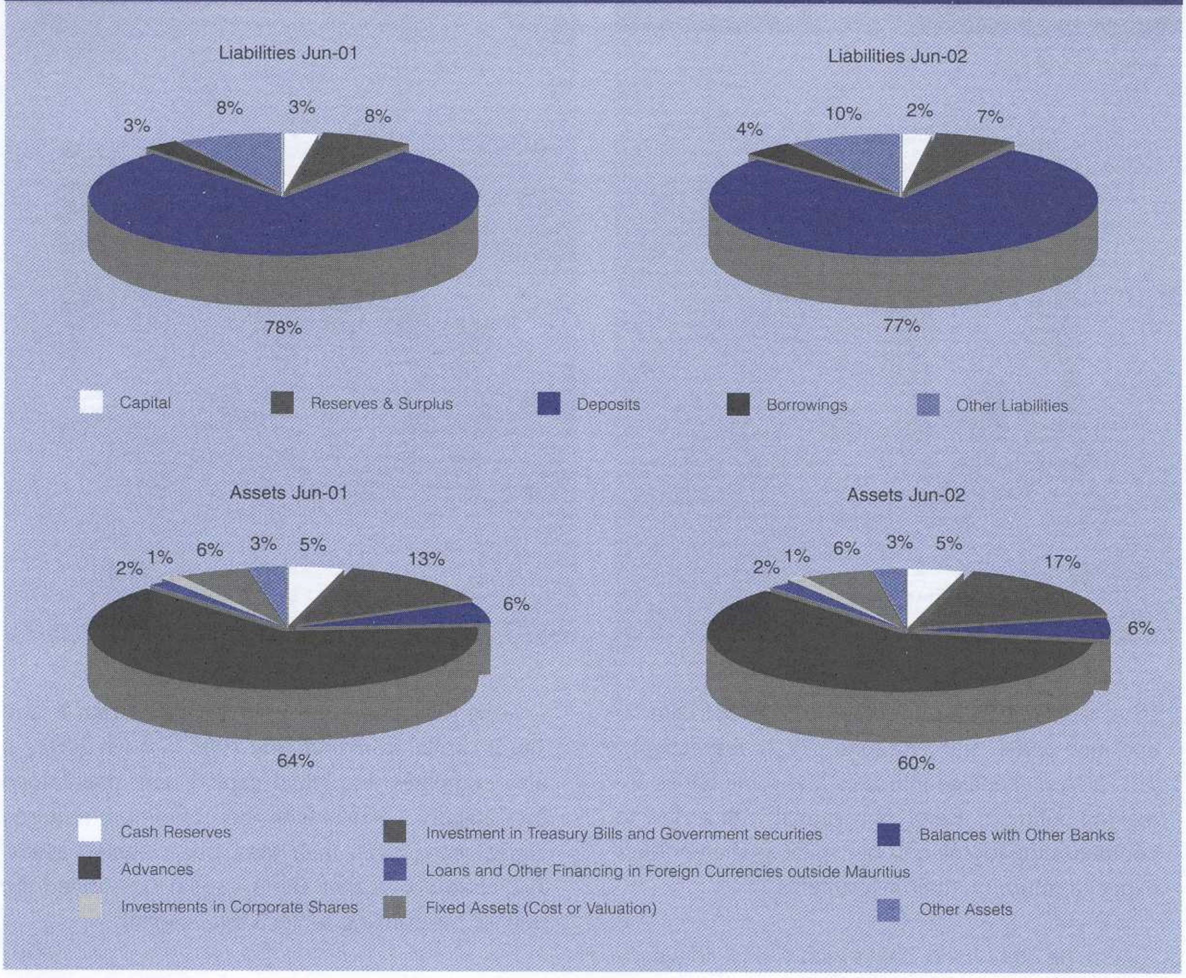
During the year under review, the volume of foreign currency operations of Category 1 banks increased. Their foreign currency assets rose from Rs17,960 million at end-June 2001 to Rs18,796 million at end-June 2002. The share of foreign currency assets in total assets of all Category 1 banks declined, however, from 15.2 per cent at end-June 2001 to 14.0 per cent at end-June 2002 due to a higher growth in local currency assets. Collectively, banks posted a recurrent net overall surplus in their foreign exchange positions, considering both spot and forward positions, over most of the year, in contrast to the situation in previous years when they faced seasonal shortfalls.

Off-balance sheet assets comprising acceptances, guarantees and documentary credits went up from Rs14,825 million at end-June 2001 to Rs15,081 million at end-June 2002.

Chart 1 gives the year-on-year comparison of assets and liabilities of Category 1 banks. At end-June 2002, the bulk of the assets of Category 1 banks consisted of advances (60.3 per cent) and investment in Treasury Bills and Government securities (16.7 per cent) while their main liabilities remained deposits which represented 77.1 per cent of their total funds.

A detailed review of the performance of banks over the past two years with respect to capital adequacy, asset quality, liquidity and profitability is given below.

Chart 1 : Balance Sheet Structure



2.2.1 CAPITAL ADEQUACY

Capital is one of the key factors to be considered when assessing safety and soundness of banks. It provides a stable resource for a bank to absorb losses. A strong capital base helps to maintain confidence in a bank because in the event of liquidation, capital provides a measure of protection to depositors and creditors. Banks in Mauritius are currently required to maintain a minimum risk-weighted capital adequacy ratio of 10 per cent.

In line with the Basel Capital Accord 1988, capital is defined in two tiers, collectively known as the capital base. The capital base of a bank consists of a 'permanent' or 'core' element called Tier 1 capital and a 'less permanent' or 'supplementary' capital called Tier 2 capital. Tier 1 capital consists of paid up/assigned capital, share premium, retained earnings and other reserves. Tier 2 capital comprises such items as bonus shares issued by capitalising property revaluation reserves, general provision, subordinated debts and revaluation reserves. Investments in subsidiaries and associates, lending of a capital nature including subordinated loan capital to subsidiary and associated banks and holdings of other banks' capital instruments in Mauritius are netted off from the total of Tier 1 and Tier 2 capital for the computation of the capital base of individual banks.

During the year under review, all Category 1 banks complied with the minimum risk weighted capital adequacy ratio of 10 per cent. The overall ratio maintained by banks stood at 13.4 per cent at end-June 2002, up from 13.1 per cent at end-June 2001.

Chart 2 shows the capital adequacy ratio maintained by Category 1 banks in terms of their total asset value. Category 1 banks that reported capital adequacy ratios ranging between 10 per cent and 12 per cent held on aggregate the highest share of total banking sector's on- and off-balance

Chart 2 : Banks' Capital Adequacy Ratio in terms of Total Asset Value

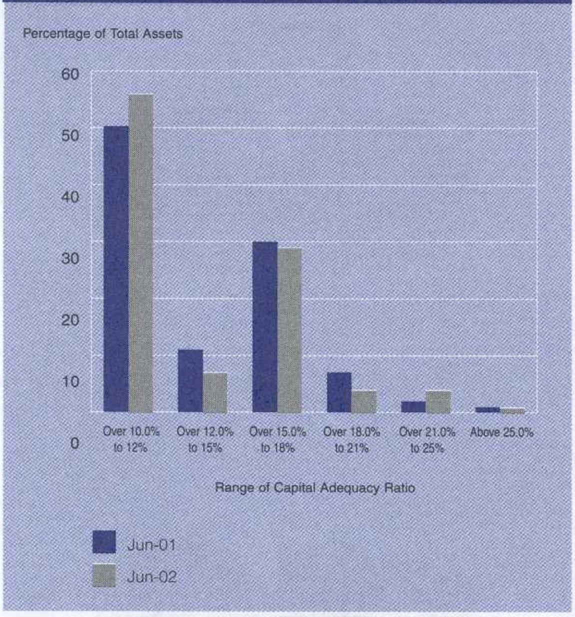
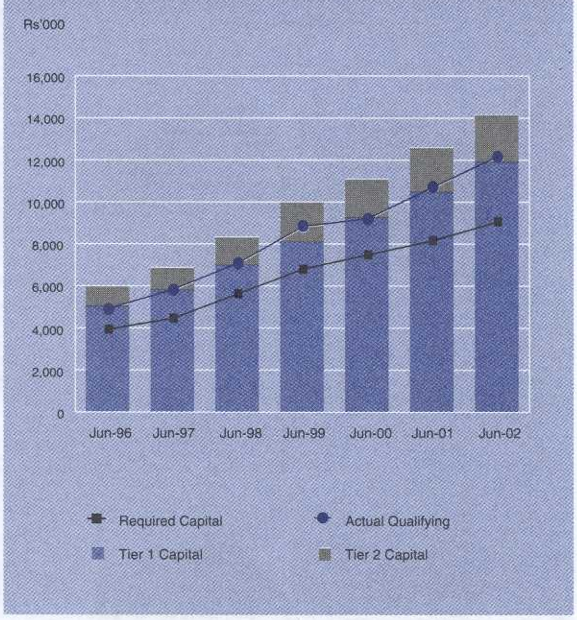


Chart 3 : Minimum Required Capital v/s Actual Capital



sheet assets at 50.3 per cent and 55.5 per cent, at end-June 2001 and end-June 2002, respectively. This high percentage indicates that some banks are making optimum use of their capital with a view to compensating for the cost of capital as shareholders expect a return on their investments.

On the other hand, banks with capital adequacy ratios ranging between 15 per cent to 18 per cent held around 30 per cent of total banking sector's on- and off-balance sheet assets at end-June 2001 and end-June 2002.

2.2.1.1 Capital Base

The aggregate capital base of Category 1 banks, increased from Rs10,704 million at end-June 2001 to Rs12,174 million at end-June 2002 or by 13.7 per cent.

Tier 1 capital which represents the larger portion of Category 1 banks' gross capital (Tier 1 and Tier 2) grew by 13.7 per cent from Rs10,507 million at end-June 2001 to Rs11,943 million at end-June 2002. Tier 2 capital which comprises about 16 per cent of Category 1 banks' total gross capital, increased by only 6.7 per cent from Rs2,095 million at end-June 2001 to Rs2,236 million at end-June 2002. At end-June 2002, Tier 2 capital represented 18.7 per cent of Tier 1 capital, down from 19.9 per cent in June 2001.

Chart 3 shows the split between Tier 1 and Tier 2 capital from end-June 1996 through 2002. It also compares the actual capital base maintained by Category 1 banks with their minimum required capital base given their total risk-weighted assets. The chart shows that Tier 1 capital constituted the bulk of the banking sector's total capital.

It is also observed that some banks have maintained capital in excess of the prescribed minimum level. This is partly due to the distribution of their assets among different risk categories and partly due to limited growth of their more risky assets in the overall market environment.

2.2.1.2 Risk Profile of On- and Off-balance Sheet Assets

Total on-balance sheet assets of Category 1 banks grew by 14.0 per cent from Rs113,405 million at end-June 2001 to Rs129,292 million at end-June 2002 while the equivalent risk weighted on-balance sheet assets rose by a lower percentage of 10.1 per cent from Rs75,361 million to Rs82,975 million.

Table 1 shows the movement in the risk profile of Category 1 banks' total on-balance sheet assets between end-June 2001 and end-June 2002. As shown therein, the bulk of Category 1 banks' total assets at 61.9 per cent at end-June 2001 and 60.4 per cent at end-June 2002 was found in the

100 per cent category. Moreover, as between the two periods, there has been a slight shift from high-risk assets to low-risk assets. There has been a movement from assets weighted at 20 per cent, 50 per cent and 100 per cent in favour of assets weighted at zero per cent. This is mainly attributed to a substantial increase in investment in Treasury Bills and Government securities, zero-risk rated assets which rose by 52.6 per cent from Rs14,446 million at end-June 2001 to Rs22,046 million at end-June 2002.

A comparison of the total on- and off-balance sheet assets of Category 1 banks together with their equivalent risk-weighted assets and their average combined risk weighting over the period June 1997 to June 2002 is given in Table 2.

As shown in Table 2, from June 2001 to June 2002, total on- and off-balance sheet assets of Category 1 banks rose by Rs20,102 million, or by 15.1 per cent while the equivalent total risk-weighted assets grew by Rs9,037 million, that is, by a lower percentage of 11.0 per cent, confirming that the overall risk profile of Category 1 banks has undergone a gradual improvement during that period.

As can be seen from Table 2, the average combined risk weighting (which is the ratio of the risk-weighted assets to the total on- and off-balance sheet assets) shows an increase in the total riskiness of banks' total on- and off-balance sheet assets from 52.8 per cent at end-June 1997 to 61.6 per cent at end-June 1999. Thereafter it stood at 59.8 per cent at end-June 2000, 61.5 per cent at end-June 2001 and 59.4 per cent at end-June 2002. Despite this overall increase in the riskiness of banks' total on- and off-balance sheet assets from June 1997 to June 2002, the banking sector has recorded an improvement in its capital

Table 1 : Comparative Change in the Riskiness of Category 1 Banks' Portfolios of On-balance Sheet Assets

Risk Weights (%)	On-balance Sheet Assets (Rs million) June 2001	Percentage to Total On-balance Sheet Assets June 2001	On-balance Sheet Assets (Rs million) June 2002	Percentage to Total On-balance Sheet Assets June 2002
0	26,804	23.6	34,847	27.0
20	9,998	8.8	11,124	8.6
50	6,490	5.7	5,140	4.0
100	70,113	61.9	78,181	60.4
	113,405	**100.0**	**129,292**	**100.0**

Table 2 : Total On- and-Off Balance Sheet Assets of Category 1 Banks, Equivalent Risk-weighted Assets and Average Combined Risk Weighting

	June 97	June 98	June 99	June 00	June 01	June 02
A Total On- and Off-Balance Sheet Assets (Rs million)	85,411	97,186	111,064	125,884	133,244	153,346
B Total Risk-Weighted Assets (Rs million)	45,112	56,772	68,403	75,264	81,986	91,023
C* Average Combined Risk Weighting (Per cent)	52.8	58.4	61.6	59.8	61.5	59.4
D Capital Adequacy Ratio (Per cent)	13.0	12.5	12.9	12.2	13.1	13.4

*B/A

Chart 4 : Comparative Increase in Capital Base and Risk Weighted Assets

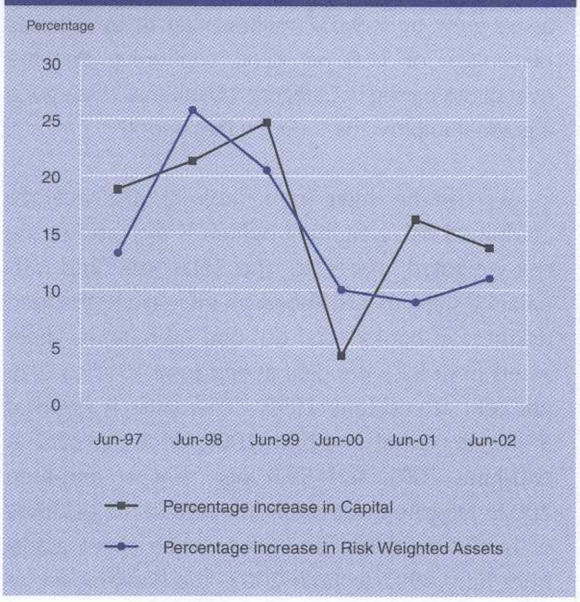
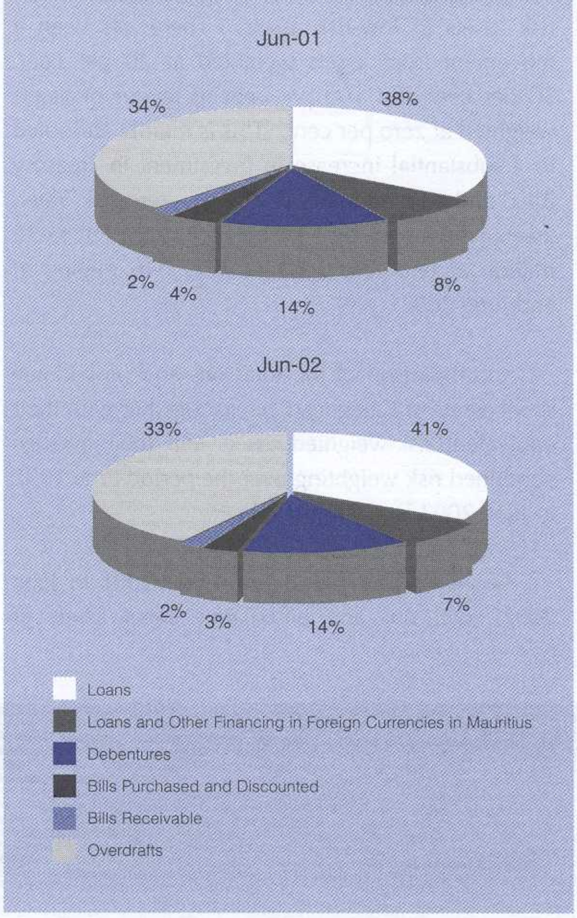


Chart 5 : Composition of Advances



adequacy ratio over the years. This is mainly attributed to a higher percentage increase in Category 1 banks' capital base as opposed to their total risk-weighted assets.

Chart 4 compares the percentage increase in capital base and the percentage increase in risk-weighted assets over the period June 1997 to June 2002.

2.2.2 ASSET QUALITY

Asset quality is a major factor determining the financial condition and performance of banks. Deterioration in asset quality not only requires significant provisioning but also reduces the earning capacity of banks.

The proportion of non-performing loans determines the quality of assets. A bank with a high proportion of non-performing loans may incur persistent losses leading to serious impairment of its capital and its eventual failure which may have systemic contagion, thus undermining public confidence. Banks are, therefore, expected to carry out ongoing assessment of their credit portfolio for timely recognition of problem advances and to take corrective measures with a view to preventing deterioration of the credit quality. In addition to provision made in respect of those losses which have been specifically identified, banks are required to set aside a 1 per cent general provision on their performing advances (net of advances collateralised by cash deposits).

With a view to enhancing quality of assets, the Bank of Mauritius has issued various prudential guidelines. As part of its supervisory function, the Bank assesses the quality of assets of the banks on an ongoing basis through off-site surveillance based on financial returns and by carrying out regular on-site inspections. Furthermore, banks are urged to have in place effective corporate governance practices that include implementation of appropriate risk management policies, control systems and procedures.

2.2.2.1 Advances

Advances (including investment in debentures) which comprise the bulk of the assets of Category 1 banks, averaged more than 60 per cent of total assets during the past three years. Income from advances accounted for 66 per cent of banks' total income during the year ended 30 June 2002.

At end-June 2002, advances extended by Category 1 banks amounted to Rs81,242 million, an increase of Rs5,628 million or 7.4 per cent from Rs75,614 million at end-June 2001.

Chart 5 compares the composition of advances at end-June 2001 and 2002. Loans accounted for 41 per cent of the total advances at end-June 2002 compared to 38 per cent at end-June 2001. The percentage share of 'Overdraft' and 'Lending and other financing in foreign currency in Mauritius' in total advances decreased marginally from 34 per cent and 8 per cent at end-June 2001 to 33 per cent and 7 per cent at end-June 2002, respectively.

Investment in debentures increased slightly from Rs10,868 million at end-June 2001 to Rs10,889 million at end-June 2002 and represented 13.4 per cent of total advances.

Concentration of Risks

Excessive concentration of risk exposure to a single borrower or group of related borrowers or to related parties, an industry sector or a particular activity or a country can produce adverse effects on the asset quality of banks. In some phases of the economic cycle, such concentration may even bring about the failure of financial institutions. Pursuant to the provisions of section 21 of the Banking Act 1988 and with a view to fostering a sound lending practice, the Bank of Mauritius has set down prudent limits to such risk exposures.

A Guideline on Credit Concentration Limits, replacing the previous instructions issued by the Bank of Mauritius in 1992 and 1995, is in force since 1 May 2000, requiring banks to keep within prescribed limits in terms of credit exposures. Accordingly, credits granted to a single borrower/group of related borrowers that are individually over 15 per cent of a bank's capital base should not, in aggregate, exceed 600 per cent thereof for single banks. Furthermore, prior written approval of Bank of Mauritius is required for granting credit to a single customer/group of related customers in excess of 25 and 50 per cent of capital base by a locally incorporated bank and a branch of a foreign bank, respectively. The Guideline also requires banks to establish a written policy on credit concentration which should set out prudent guidelines and internal limits for granting credit to a single entity and its related parties.

Total credit facilities (fund-based and non-fund based) exceeding the threshold of 15 per cent of individual banks' capital base amounted to Rs36,283 million at end-June 2002 and represented 38 per cent of the overall on- and off-balance sheet commitments of banks. The corresponding figures at end-June 2001 were Rs30,815 million and 34 per cent, respectively.

At end-June 2002, the 'Manufacturing' sector which includes the EPZ sector, accounted for the highest share (17.1 per cent) of total credit to the private sector. The share of credit granted to 'Tourism', 'Traders' and 'Construction' sectors stood at 14.8 per cent, 14.2 per cent and 14.0 per cent, respectively. Given the large exposures of Category 1 banks to these four sectors, close monitoring of these sectors is carried out with a view to mitigating risks.

Insider Lending

Insider lending is another important factor that may lead to the deterioration of asset quality. The abuse of a bank's resources by insiders is a cause for deep concern to supervisors. Excessive exposure by a bank to its related parties, such as its subsidiaries and affiliates, its major shareholders, directors and senior management and their direct and related interests, has been at the root of many banking problems internationally.

In pursuit of its objective to enhance asset quality and to prevent abusive self-dealing practices in banks and non-bank deposit taking institutions, the Bank of Mauritius issued a Guideline on Related Parties in December 2001. The Guideline which became effective on 4 January 2002 provides for transactions with related parties to be carried out on terms and conditions that are at least as favourable to the financial institution as market terms and conditions. In respect of a loan, 'market terms and conditions' means terms and conditions that are no more favourable than those offered to the public by the financial institution in the ordinary course of business. Even so, specific individual and aggregate limits are laid down for lending to related parties with a view to safeguarding the overall soundness of financial institutions' lending portfolios.

External Auditors

External Auditors provide valuable independent support to the regulator in the process of assessment of asset quality of banks. Supervisors often have to place reliance on the work of external auditors specially, with regard to their opinion on adequacy of provisions made in respect of doubtful advances and their assessment of the quality of controls put in place in the credit area and generally in the overall conduct of business.

A Guideline on Transactions or Conditions respecting Well-being of a Financial Institution Reportable by the External Auditor to the Bank of Mauritius was issued to the banking industry in February 2003. With respect to asset quality, the Guideline requires external auditors to report, inter alia, adverse material changes in the present and future risks inherent in the financial institution's business.

Market Discipline

Transparency through strong accountability and disclosure regimes prompts banks to implement self-regulation so as to safeguard the quality of their assets and to ensure projection of a sound institution to the various stakeholders.

In order to bring about effective market discipline, the Bank of Mauritius issued a Guideline on Public Disclosure of Information on 29 November 2002. With respect to advances, which is the highest risk component in the area of asset quality, banks will be required to make additional disclosures in their annual financial statements providing information on their credit concentration and the effects of credit risk mitigation techniques used by them. Banks should also provide data on loans including restructured areas, related non-performing loans and provisions for credit losses. With regard to credit risk, banks should disclose their credit risk management policies, including the role of the board and management in the development, review, approval and implementation of the credit risk management policies, and the procedures in place for the loan review function, related internal controls and monitoring.

Non-performing Advances

Non-performing advances of Category 1 banks increased from Rs6,161 million at end-June 2001 to Rs6,996 million at end-June 2002. Expressed as a

Table 3 : Provision for Credit Losses by Industry Sectors

	End-June 2001		End-June 2002	
	Non-performing Advances	Specific Provision	Non-performing Advances	Specific Provision
	(Rs million)			
Agriculture and Fishing	234	42	134	20
Manufacturing (including EPZ)	2,073	474	2,744	722
Tourism	160	15	202	25
Transport	50	7	66	17
Construction	1,169	121	1,192	195
Traders	1,345	364	1,304	378
Financial and Business Services	93	7	71	9
Personal (including credit card advances)	606	141	769	150
Professional (including credit card advances)	37	2	119	28
Others	394	45	395	112
	6,161	**1,218**	**6,996**	**1,656**

percentage of total advances, the ratio increased from 8.1 per cent to 8.6 per cent.

Table 3 shows the sectoral provisions made in respect of non-performing advances at end-June 2001 and end-June 2002.

Specific provisions for bad and doubtful debts on delinquent advances went up from Rs1,218 million at end-June 2001 to Rs1,656 million at end-June 2002. As a proportion of banks' total non-performing advances, these provisions increased from 19.8 per cent to 23.7 per cent. Increase in the specific provisions reflected partly difficulties faced by some borrowers from the manufacturing sector.

2.2.3 INVESTMENTS

Investment in Treasury Bills and Government securities represents the second most important aggregate assets of banks. At end-June 2002, banks' investment in Treasury Bills and Government securities amounted to Rs22,512 million, up from Rs15,566 million at end-June 2001. They accounted for 16.7 per cent of banks' total assets at end-June 2002 compared to 13.2 per cent at end-June 2001.

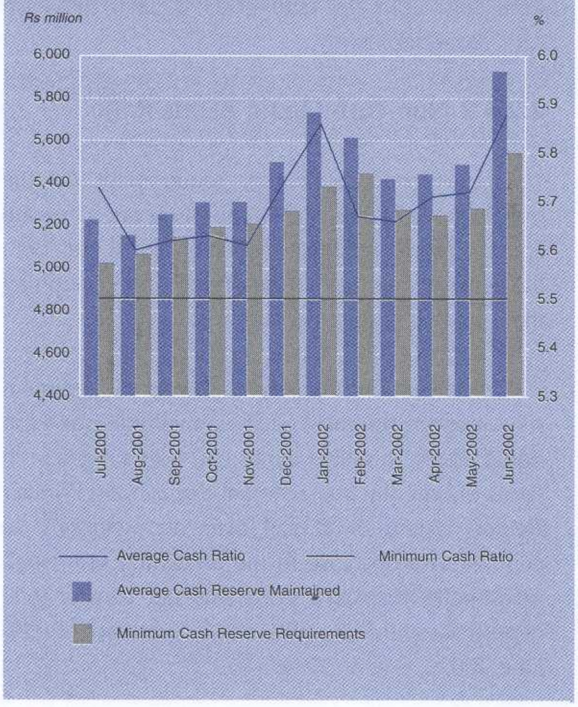
During the year ended 30 June 2001, banks disinvested from Treasury Bills and used the available funds to extend additional credit facilities. In contrast, during the year ended 30 June 2002, banks changed their investment strategy and increased significantly their holdings in Treasury Bills which went up by Rs7,503 million or 57.4 per cent, from Rs13,063 million at end-June 2001 to Rs20,566 million at end-June 2002.

Banks' investments in equity and quasi-equity of other companies, which are among the least liquid assets of banks, amounted to Rs1,985 million at end-June 2002, showing an increase of only Rs90 million from the previous year.

2.2.4 LIQUIDITY

Liquidity risk arises from the inability of banks to meet their obligations as they fall due. To minimise liquidity risk, banks must ensure that at all times they have sufficient liquid assets, that is, assets which can be realised at short notice without significant loss, to accommodate expected and unexpected

Chart 6 : Category 1 Banks - Fluctuations in Monthly Average Cash Holdings and in Monthly Average Cash Ratio



fluctuations in their balance sheet structure. Accordingly, banks are required to have a strategy for the ongoing management, measurement and monitoring of net funding requirements. A Guideline was issued to banks to this effect requiring them to make periodic reports on their liquidity management to the Bank of Mauritius.

As from July 1999, Category 1 banks are required to maintain a minimum weekly average cash reserve equivalent to 5.5 per cent of their total deposit liabilities inclusive of foreign currency deposits. Cash reserve consists of cash in hand and balances with Bank of Mauritius.

2.2.4.1 Cash Ratio

The degree of compliance with the cash reserve requirement gives an insight into the liquidity risk management of banks.

The monthly average cash ratio maintained by Category 1 banks in 2001-02 ranged from 5.6 per cent to 5.9 per cent compared to a monthly average cash ratio varying between 5.6 per cent and 6.1 per cent in 2000-01. All banks maintained individually the weekly minimum cash reserve. Chart 6 sets out the fluctuations in the monthly average cash holdings of all banks taken together and the monthly average cash ratio maintained by banks from July 2001 to June 2002 against the cash reserve requirement.

2.2.4.2 Non-cash Liquid Assets Ratio

There is no mandatory requirement for the maintenance of non-cash liquid assets but banks are encouraged to establish their own thresholds with the view to managing, measuring and controlling their funding requirements.

Investment in Treasury Bills and Government securities are the most easily convertible non-cash liquid assets on which banks can take a position in terms of liquidity management through the Primary Dealer System or at roll over on maturity. In contrast to a decrease in the preceding year, such investments increased from 16.9 per cent of total deposits at end-June 2001 to 21.7 per cent at end-June 2002.

2.2.4.3 Deposits

Deposits constitute the largest proportion of banks' total liabilities and represent their primary source of funding. The structure and stability of a bank's deposit base are critical to its liquidity management and cost effectiveness of its resource base. In the absence of a well planned and cost effective deposit mobilisation policy, a bank would be exposed to the risk of dependence on volatile non-core deposits. This situation is typically reflected in the case of those banks which make desperate efforts to balance a mismatched portfolio by successively edging up the interest rate they are prepared to pay so as to have access to more deposits, irrespective of its future negative impact on the general soundness of those banks.

Deposits accounted for 77.1 per cent of total resources of Category 1 banks at end-June 2002, slightly down from 77.8 per cent at end-June 2001. During the year under review, total deposits including foreign currency deposits grew by 12.8 per cent, higher than the 8.9 per cent growth experienced in the previous year, from Rs91,996 million at end-June 2001 to Rs103,773 million at end-June 2002. Increase in foreign currency deposits accounted for Rs1,159 million of the total increase of Rs11,777 million recorded during the year ended 30 June 2002.

As may be seen from Table 4, savings and time deposits remained the major components of the rupee deposits mix over the past three years and represented about 79 per cent of total deposits. However, that period also witnessed a gradual decline in the proportion of term deposits in total deposits in favour of demand and savings deposits. Foreign currency deposits as a percentage of total

Table 4 : Deposit Structure

	2000	End-June 2001 (Rs million)	2002
Demand	6,657	7,292	8,920
	(7.9)	(7.9)	(8.6)
Savings	35,428	38,881	44,837
	(41.9)	(42.3)	(43.2)
Time	32,110	34,075	37,108
	(38.0)	(37.0)	(35.7)
Foreign Currency	10,310	11,748	12,908
	(12.2)	(12.8)	(12.5)
	84,505	**91,996**	**103,773**
	(100.0)	**(100.0)**	**(100.0)**

Figures in brackets are percentages to total deposits declined from 12.8 per cent at end-June 2001 to 12.5 per cent at end-June 2002.

Advances/Deposits Ratio

Advances/deposits ratio describes the extent to which banks have utilised funds from deposits to finance their lending activities and is also an important indicator of the liquidity management of banks. Advances/deposits ratio, which was on an upward trend over the preceding two years, rising from 80.2 per cent at end-June 1999 to 82.2 per cent at end-June 2001, declined to 78.3 per cent at end-June 2002. Conversely, non-cash liquid asset holdings recorded a 44 per cent increase during the year under review. This change in trend reflects largely the risk perception of lending to the private and public sectors, as seen in asset price differentials and the fact that banks have recently been called upon to make larger provisions with respect to their lending portfolios.

Concentration of Deposits

A high concentration of deposits from a few customers may constitute an inherent liquidity risk to banks. Unexpected withdrawal of bulk deposits may erode banks' deposit base and destabilise their liquidity position.

Table 5 shows the degree of concentration of the banking sector's deposits according to their value range at end-June 2002.

As may be observed from the table, banks hold a large deposit base of relatively low value accounts which provides the banking sector with a cushion against potential erosion through sudden withdrawals from large deposit accounts. It is also observed that deposits from 'Personal' sector constituted over 70 per cent of Category 1 banks' total deposits. Corporate deposits, though significant at around 30 per cent of the total, are more prone to shift out of the banks and be invested in securities.

Maturity of Time Deposits

Time deposits which constituted 36 per cent of total deposits at end-June 2002, had a diversified maturity distribution ranging from 7 days' notice to over 48 months. The maturity structure of time

Table 5 : Value Range of Deposits

Value Range	No. of Accounts	End-June 2002 Amount (Rs million)	Percentage of Total Deposits
Up to Rs1 million	1,600,450	61,779	59.5
Over Rs1 million to Rs5 million	10,529	20,085	19.4
Over Rs5 million	1,314	21,909	21.1

Table 6 : Maturity Structure of Time Deposits

	June - 2001		June - 2002	
	Amount (Rs million)	% of Total Time Deposits	Amount (Rs million)	% of Total Time Deposits
Up to 12 months	16,848	49.4	16,312	44.0
Over 12 months to 48 months	13,903	40.8	16,106	43.4
Over 48 months	3,324	9.8	4,690	12.6
	34,075	**100.0**	**37,108**	**100.0**

deposits given in Table 6 indicates that a larger proportion of such deposits was held for longer maturities. At end-June 2002, term deposits with maturities exceeding 12 months represented 56 per cent of the total term deposits compared to 51 per cent a year earlier, reflecting a good level of stability of the deposit structure.

2.2.4.4 Interbank Money Market

The management of liquidity risk encompasses banks' access to and reliance on lines of funding to bridge short term shortfalls in their balance sheet. The rupee money market operations provide for an efficient channelling of liquidity from banks with excess cash to banks in liquidity needs through short term lending and borrowing.

Funds transacted on the interbank market increased from Rs 178 million in 2000-01 to Rs 201 million in 2001-02 on a daily average basis, varying between Rs 116 million and Rs 292 million in 2001-02. The market was well supported by weekly auctions of Treasury Bills, repurchase transactions conducted by the Bank of Mauritius in between weekly auctions and the lender of last resort facility, namely the Lombard Facility, available from the Central Bank.

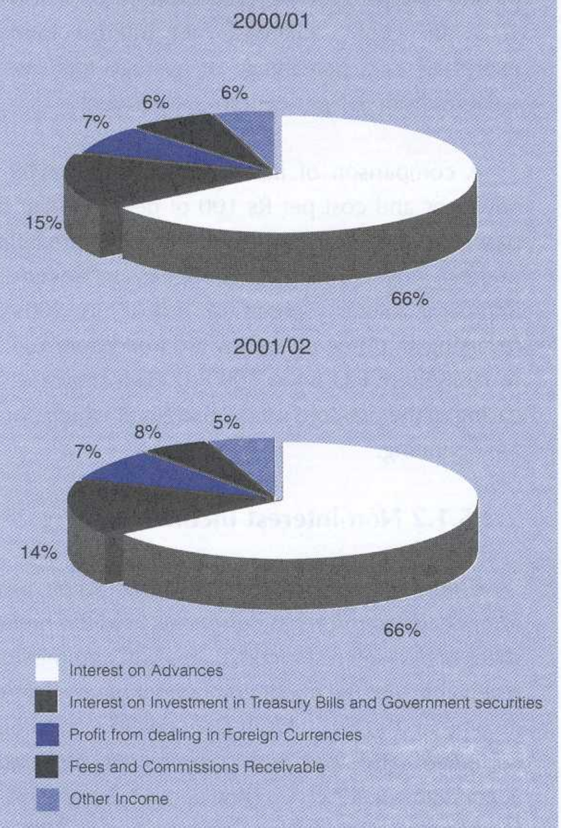
2.2.5 PROFITABILITY

Income earning business of Category 1 banks comprises essentially their intermediation function, which entails a variety of risks. Published accounts largely influence the confidence of both depositors and other operators resorting to banks. They give an insight into the soundness of the institutions and the extent to which banks successfully manage their risks. Profit performance of banks, the external barometer, however, sometimes may not give the internal diagnosis of their operations. Quality of earnings and integrity of information are key determinants of the sustainability of banking activities.

Table 7 : Category 1 Banks – Consolidated Profit Performance

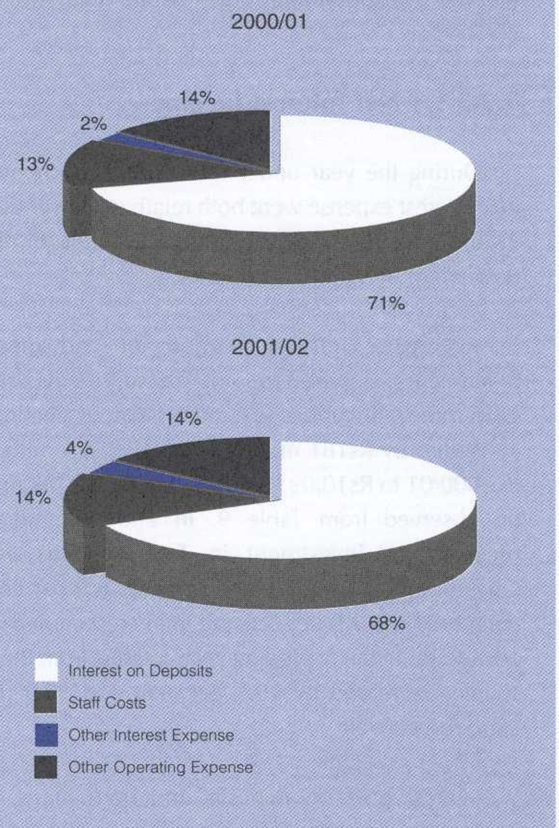
		1999/00	2000/01 (Rs million)	2001/02
Interest Income from Advances, Placement with other banks and Other Sources		7,482	8,416	8,363
Interest Income from Investment in Treasury Bills and Government securities		1,555	1,858	1,730
		9,037	10,274	10,093
Less:	Interest Expenses	6,087	6,925	6,398
Net Interest Income		**2,950**	**3,349**	**3,695**
Add:	Non-interest Income	1,698	2,022	1,941
	Profit arising from dealing in foreign currencies	*781*	*871*	*882*
	Fees and commissions receivable	*708*	*776*	*917*
	Income from investments	*47*	*319*	*100*
	Other operating income	*162*	*56*	*42*
		4,648	**5,371**	**5,636**
Less:	Staff Costs	1,100	1,222	1,275
	Other Operating Expenses	1,131	1,321	1,300
Operating Profit before Bad and Doubtful Debts and Taxation		**2,417**	**2,828**	**3,061**
Less:	Charge for Bad and Doubtful Debts	345	407	685
	Exceptional Items	-	21	6
Operating Profit before Taxation		**2,072**	**2,400**	**2,370**

Chart 7 : Category 1 Banks - Components of Income



Based on combined audited data for financial years ended 30 June, 31 December and 31 March
All figures are for the period

Chart 8 : Category 1 Banks - Components of Expenses



Based on combined audited data for financial years ended 30 June, 31 December and 31 March
All figures are for the period

Table 7 outlines the profit performance of Category 1 banks over the past three years. These figures are based on the combined results for financial years ended 30 June, 31 December and 31 March. Chart 7 and Chart 8 compare the components of income and expenses, respectively, over the years 2000/01 and 2001/02.

The profitability figures for the year 2001/02 do not include those of the Delphis Bank Limited on account of the revocation of the bank's banking licence on 8 March 2002 and the non-publication of its audited accounts at 31 December 2001. This has caused a general drop in the indicators of profitability of the domestic banking sector. Profitability of the sector was further affected by the loss reported by one bank on account of substantial provision made for impaired advances, which offset the operating profit the bank realised. Against this backdrop, Category 1 banks posted aggregate pre-tax profits of Rs 2,370 million for the year 2001/02, down from Rs 2,400 million a year earlier.

2.2.5.1 Income

The bulk of Category 1 banks' resources being applied to grant advances and to invest in Treasury Bills and Government securities, interest received thereon remained the main source of income of Category 1 banks. Banks derived an average of 84 per cent of their total income in the form of interest through the years 1999/00 to 2001/02. Both interest and non-interest earnings were lower than the preceding year's figures mainly on account of a reduction in interest rates during the year and the non-inclusion of the figures of the Delphis Bank Limited.

As can be seen in Table 8, non-interest income fell by 4.0 per cent in 2001/02 against a positive growth of 19.1 per cent in 2000/01. The fall in non-interest income was 2.2 percentage point higher than a 1.8 per cent drop in interest income as a result of a substantial drop in one of the non-interest income components, namely income from investments as can be observed from Table 7.

Chart 9 shows the impact of components of income on operating profit from 1997/98 to 2001/02.

2.2.5.1.1 Net Interest Income

During the year under review, interest income and interest expense were both relatively lower than in the previous year partly on account of the downward trend in interest rates.

Aggregate interest earned on advances, placements, investment in Treasury Bills and Government securities and other sources declined altogether by Rs181 million from Rs10,274 million in 2000/01 to Rs10,093 million in 2001/02. As may be observed from Table 9, in 2001/02 interest received on investment in Treasury Bills and Government securities went down by 6.9 per cent compared to a 2.9 per cent fall in interest earned on advances. In the preceding year, interest from these sources increased by 19.5 per cent and 12.5 per cent, respectively.

Interest paid on deposits and borrowings by banks amounted to Rs6,375 million in 2001/02, lower by Rs 520 million from Rs6,895 million in 2000/01. Taken separately, interest paid on deposits decreased by Rs626 million whereas interest paid on borrowings went up by Rs106 million. The lower amount of interest paid on deposits resulted in an increase in net interest income of banks from Rs3,349 million in 2000/01 to Rs3,695 million in 2001/02 as can be seen from Chart 10. Net interest income showed an increase of Rs346 million or 10.3 per cent. Likewise net interest income expressed as a percentage of average total assets went up from 3.1 per cent to 3.4 per cent.

A comparison of interest earned on Rs100 of advances and cost per Rs 100 of deposits over the past four years is given in Table 10. Despite falling interest rates, Category 1 banks achieved an improved interest spread of Rs4.07 in 2001/02 reversing an observed downward trend from Rs4.79 in 1998/99 to Rs3.84 in 2000/01. This indicates an easing of the pressure on the margin at which banks are operating.

2.2.5.1.2 Non-interest Income

Contrary to previous years' trend, when profit from dealings in foreign currencies held the highest share of non-interest income, fees and commissions receivable was the major component of non-interest income in 2001/02. Profit from dealings in foreign currencies and fees and commissions receivable accounted for 45.4 per cent and 47.2 per cent of total non-interest income, respectively, in 2001/02 compared to 43.1 per cent and 38.4 per cent in 2000/01.

Fees and commissions receivable went up by Rs141 million in 2001/02, after an increase of Rs68 million in 2000/01 and stood at Rs917 million in 2001/02.

Table 8 : Category 1 Banks - Growth in Interest Income v/s Growth in Non-interest Income

	1999/00	2000/01	2001/02
Growth in Interest Income (%)	18.5	13.7	(1.8)
Growth in Non-interest Income (%)	(3.9)	19.1	(4.0)

Table 9 : Category 1 Banks - Growth in Interest on Advances v/s Growth in Interest on Treasury Bills and Government securities

	1999/00	2000/01	2001/02
Growth in Interest on Advances (%)	26.2	12.5	(2.9)
Growth in Interest on Treasury Bills and Government securities (%)	(5.4)	19.5	(6.9)

Chart 9 : Category 1 Banks - Evolution of Net Interest Income, Other Income, Operating Income and Operating Profit

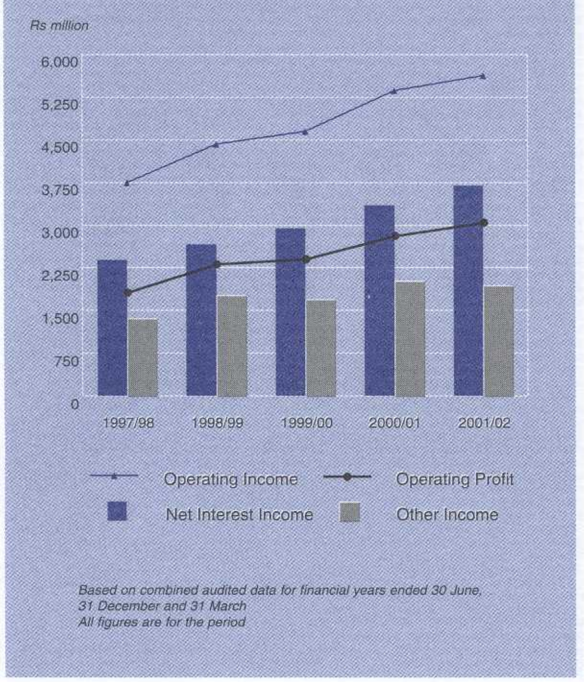
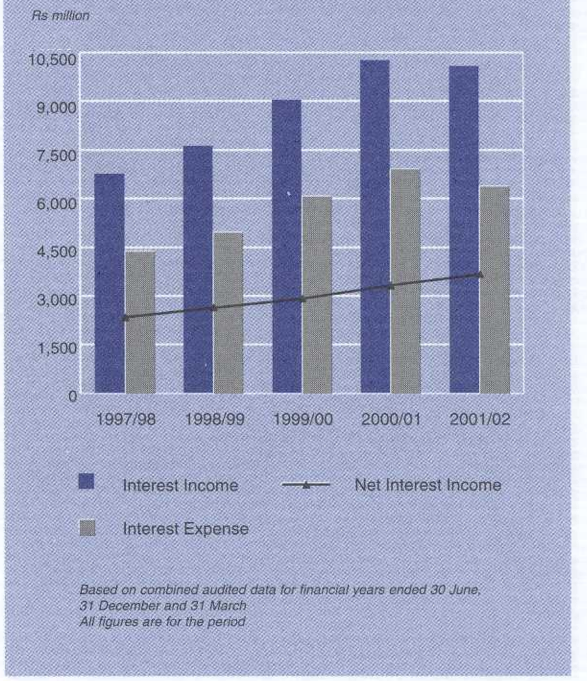


Chart 10 : Category 1 Banks - Components of Net Interest Income



Banks' profits on their dealings in foreign currencies rose by 1.3 per cent from Rs871 million in 2000/01 to Rs882 million in 2001/02, compared to a growth of 11.5 per cent in the preceding year.

Total non-interest income, however, fell from Rs2,022 million in 2000/01 to Rs1,941 million in 2001/02 mainly due to a significant fall of Rs219 million in income from investments from Rs319 million in 2000/01 to Rs100 million in 2001/02.

2.2.5.1.3 Non-interest Expenses

Non-interest expenses, comprising staff costs and other operating expenses, amounted to Rs2,575 million in 2001/02, slightly up from Rs2,543 million in 2000/01.

Staff costs maintained an upward path, albeit at a lower growth rate of 4.3 per cent in 2001/02 in contrast to the 11.1 per cent growth in the preceding year. The growing expenses reflect to some extent the increase in the number of employees from 3,342 at end-June 2001 to 3,431 at end-June 2002.

Other operating expenses, on the other hand, came down by Rs21 million to Rs1,300 million at end-June 2002 mainly resulting from reduced costs due to investment in latest technology infrastructure.

The cost to income ratio, that is, the ratio of staff costs and other operating expenses to gross operating income (net of charge for bad and doubtful debts), which reflects a bank's efficiency, went up

Table 10 : Category 1 Banks - Interest Spread

	1998/99	1999/00	2000/01	2001/02
			Rs	
Interest earned on Rs 100 of Advances	12.23	12.12	11.89	11.17
Cost per Rs 100 of Deposits	7.44	8.08	8.05	7.10
Interest Spread	4.79	4.04	3.84	4.07

Chart 11 : Category 1 Banks - Operating Profit and Profit after Tax

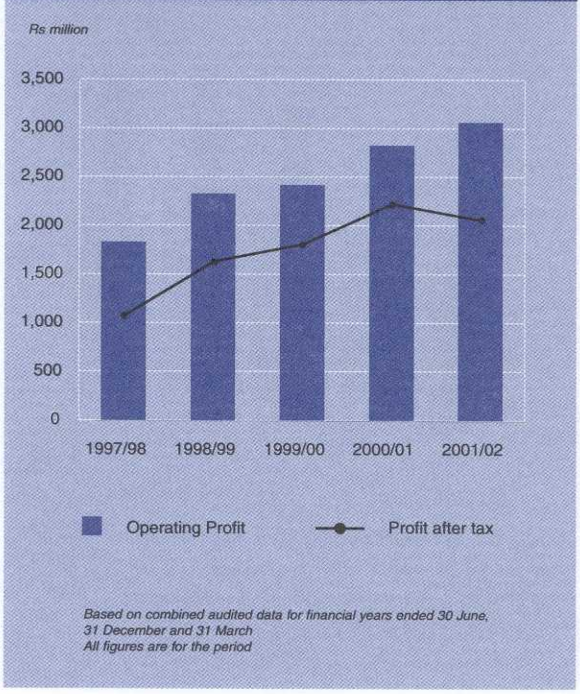
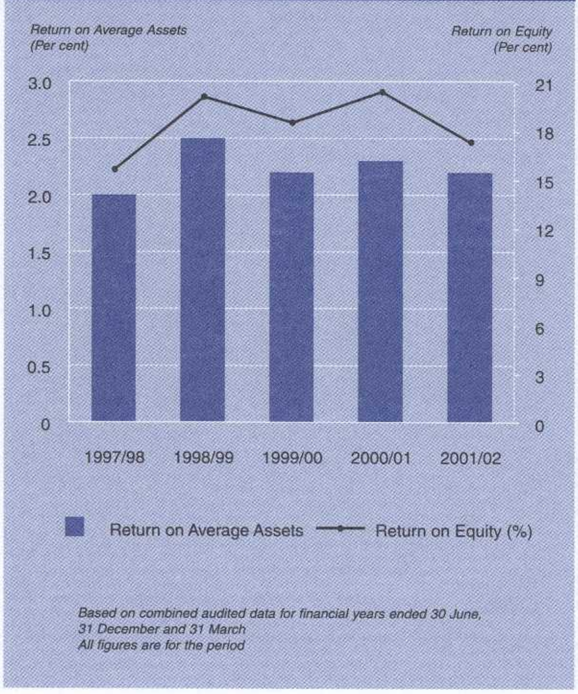


Chart 12 : Category 1 Banks - Return on Equity and on Average Assets



marginally from 51.2 per cent in 2000/01 to 52.0 per cent in 2001/02.

2.2.5.2 Operating Profit

The closure of one Category 1 bank and the non-inclusion of the figures of profitability of that bank had a limited negative impact at the level of profit before charge for bad and doubtful debts of the domestic banking sector. As can be seen from Table 7, banks recorded an operating profit before charge for bad and doubtful debts of Rs3,061 million in 2001/02 which was Rs 233 million higher than the previous year's figure of Rs2,828 million. However, additional costs to the tune of Rs278 million in respect of provision for bad and doubtful debts fully absorbed the additional operating profit realised.

2.2.5.3 Return on Average Assets and Equity

Return on average assets and return on equity are important indicators of a bank's profitability as they give an insight as to what extent a bank is making optimum use of available resources and also reflect the quality of management. Return on average assets dropped from 2.25 per cent in 2000/01 to 2.15 per cent in 2001/02 partly on account of the loss reported by one Category 1 bank. Individual banks' return on average assets in 2001/02 ranged from negative 2.06 per cent to a high of 2.94 per cent, compared to a range of 0.12 per cent to 4.58 per cent in 2000/01. The negative return recorded by one Category 1 bank was on account of significant additional provision made for bad and doubtful debts.

Return on equity dropped from 20.4 per cent in 2000/01 to 17.5 per cent in 2001/02. Returns for individual banks ranged from negative 21.1 per cent to 24.3 per cent in 2001/02, compared to a range of 3.5 per cent to 29.6 per cent in 2000/01, with four banks achieving ratios of over 15 per cent.

Chart 11 reflects the evolution of banks' profit for the years 1997/98 through 2001/02 while Chart 12 shows the variations in returns on average assets and equity for the same period.

2.3 ELECTRONIC BANKING TRANSACTIONS

Transactions using electronic delivery channels maintained an upward trend during the past years with a peak in the month of December. Between end-June 2001 and end-June 2002, the number of Automated Teller Machines (ATMs) in operation in Mauritius increased from 234 to 242 and the number of cards in circulation went up by 54,684 from 695,576 to 750,260. The number of transactions involving the use of credit cards, debit cards, ATMs and Merchant Points of Sale increased from a monthly average of 1.6 million for a monthly average amount of Rs2,518 million in 2000/01 to a monthly average of 1.8 million for a monthly average amount of Rs2,853 million in 2001/02. Outstanding advances on credit cards rose from Rs636 million at end-June 2001 to Rs732 million at end-June 2002. Table 11 shows the quarterly positions of banks' electronic banking transactions from end-June 2001 through 2002.

2.4 REVOCATION OF THE LICENCE OF THE DELPHIS BANK LIMITED

Since early 2001, the Delphis Bank Limited became subject of closer regulatory scrutiny when it came to light that some improperly granted loans to closely related parties and certain of its non-performing overseas placements started posing a serious risk to the financial soundness of the bank. The bank was urged to take remedial action to make good the expected loss to be suffered by it and the damages it would do to the depositors' interests. In the wake of these events, the Chairman and another director of the bank stepped down in May 2001.

In this context, the bank failed to publish its financial statements for the period ended 30 June 2001 by the time limit of 30 September 2001 as required by the Stock Exchange Commission. This failure gave rise to diverse interpretations and had the potential of destabilising the bank as well as the share market. In this respect, the bank was exceptionally given an extension of one month for the publication of its accounts by the Stock Exchange Commission.

The Bank of Mauritius, having obtained information to the effect that the loans to the closely related parties and the bank's placements were not being serviced, pressed the Delphis Bank Limited on 25 February 2002 to urge its shareholders to inject in the bank, on or before 4 March 2002, additional funds to enable the bank to forestall any adverse effects arising from the non-publication of the bank's financial statements for the year ended 31 December 2001 on the due date of publication, that is, 31 March 2002.

No such injection of funds took place. To prevent any further deterioration of the financial condition of the bank and to guard against the risk posed to the interest of depositors and to the public in general, the Bank of Mauritius, as a measure of urgency, revoked on 8 March 2002 the licence of

Table 11 : Electronic Banking Transactions

	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02
At end of Month					
No of ATMs in operation	234	240	248	238	242
During the Month					
No of transactions	1,579,171	1,592,706	2,298,230	1,796,151	1,706,705
Value of transactions (Rs million) (Involving the use of Credit Cards, Debit Cards, ATMs, Merchant Points of Sale)	2,361	2,406	4,172	2,823	2,594
At end of Month					
No of Cards in Circulation					
Credit Cards	140,885	144,395	149,603	150,016	154,063
Debit Cards and others	554,691	567,097	580,272	576,369	596,197
Total	**695,576**	**711,492**	**729,875**	**726,385**	**750,260**
At end of Month					
Outstanding advances on Credit Cards (Rs million)	636	694	717	693	732

the bank under the provisions of section 8(1)(a) of the Banking Act 1988 and took under its protective control all the assets and liabilities of the bank.

Accordingly, the Delphis Bank Limited ceased all operations with the public with effect from the close of business on 8 March 2002, the Bank of Mauritius having taken all necessary measures to safeguard the interests of depositors of the bank and to preserve the bank's assets.

On 15 March 2002, a Receiver and Manager was appointed by the Court.

An invitation for bids was launched by the Receiver and Manager on 3 April 2002 in the press for the taking over of the assets and liabilities of the bank. As a result of the bidding procedure, the Receiver and Manager allocated substantially all the assets and liabilities of the former Delphis Bank Limited to Del Subs Company Limited, a company incorporated on 26 March 2002 and which subsequently changed its name to First City Bank Ltd. The shareholding of First City Bank Ltd is presently held by a consortium comprising one private company, the Development Bank of Mauritius Ltd and the State Investment Corporation Ltd. First City Bank Ltd opened to the public on 7 June 2002.

2.5 PERFORMANCE OF CATEGORY 2 BANKS

The Government of Mauritius has recently adopted various measures, amongst which, the integration of the domestic financial sector activities with international financial business following the enactment of the Financial Services Development Act 2001. The objective is to offer transactors the facilities to conduct a wide variety of international financial activities in a competitive environment whilst preserving the reputation of Mauritius as a soundly regulated financial centre.

Category 2 banks can conduct their operations in all currencies other than the Mauritian rupee on the view that their business is essentially directed to international financing activity. No 'shell' or 'managed' banks are permitted from the jurisdiction. Transactional Internet banking is restricted to banks having a physical presence and as authorised by the Bank of Mauritius.

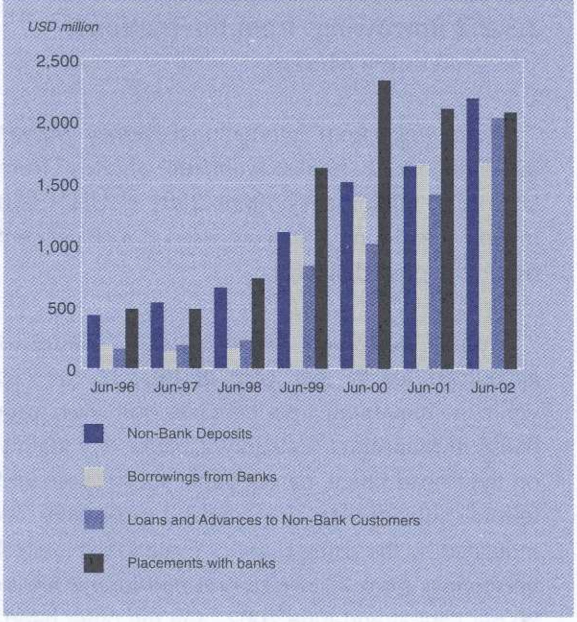
The legal framework for Category 2 banks is embodied in the Banking Act 1988. Under section 14(4)(b) of the Banking Act 1988, Category 2 banks have to be a branch or related corporation of a foreign bank of established reputation or a bank incorporated in Mauritius. The licensing and supervision of Category 2 banks fall within the purview of the Bank of Mauritius. Accordingly, the Bank of Mauritius extends the same level of regulation and supervision of Category 2 banks as it is the case for Category 1 banks.

The demand for international financial services is increasing with globalisation. In this context, Category 2 banks are on the forefront, acting as intermediaries for transactions on international markets and offering a wide range of such services which include, inter alia, foreign exchange trading, fund management, trade financing, custodial services, treasury services, corporate financing investment advisory services, trusteeship of offshore trusts and other off-balance sheet transactions. The Global Business sector is utilised by non-residents mainly for tax planning opportunities offered by the network of double taxation avoidance treaties signed with 27 countries, amongst which Great Britain, France, India, China and South Africa. Other factors such as competitive interest rates and movement of funds free from exchange control restrictions also contribute to the development of this Global Business sector.

Category 2 banks in Mauritius are subject to as strict regulations as Category 1 banks. In this respect, the Bank of Mauritius has issued several guidelines to this sector and closely monitors the activities of the banks through off-site surveillance and on-site supervision, much as in the case of Category 1 banks. They are subject to regular data reporting for prudential regulation purposes. Furthermore, they are additionally required to furnish to the Bank of Mauritius, on a monthly basis, specific information regarding their cash transactions and transactions other than money market operations in excess of a prescribed limit of USD5,000 per transaction.

Under the provisions of the Banking Act 1988, Guidance Notes have been issued to the industry, which require banks to have in place rigorous

Chart 13 : Category 2 Banks - Non-Bank Deposits, Loans and Advances to Non-Bank Customers, Borrowings from Banks and Placements with Banks



'Know Your Customer' procedures. It may be observed that, in accordance with The Financial Intelligence and Anti-Money Laundering Act 2002, banks should have procedures for tracking and reporting of suspicious transactions to The Financial Intelligence Unit.

In addition, Category 2 banks have to maintain a high standard of banking expertise and performance and be committed towards the upgrading of banking through their operations in Mauritius.

2.5.1 ASSETS

The activities of Category 2 banks continued to expand in 2001-02 with their assets increasing by USD532 million or 14.0 per cent from USD3,788 million at end-June 2001 to USD4,320 million at end-June 2002, compared to a 7.2 per cent growth in the previous year.

Placements with banks and loans and advances to non-bank customers remained the two major asset items on the balance sheets of Category 2 banks. At end-June 2002, 95 per cent of total resources of Category 2 banks were invested in these two categories of assets, up from 93 per cent at end-June 2001. The sector's asset composition has undergone a major transformation over the past three years, as can be observed from Chart 13, with the percentage share of placements with banks in total assets steadily declining from 66 per cent at end-June 2000 to 48 per cent at end-June 2002 as banks have been rapidly expanding their lending activities.

2.5.1.1 Placements with Banks

Placements with head office, parent bank, subsidiaries, fellow subsidiaries and other banks continued to be the most important asset item of Category 2 banks, constituting 48 per cent of their total assets at end-June 2002, compared to 53 per cent a year earlier.

Placements with banks increased by USD59 million or 2.9 per cent from USD2,012 million at end-June 2001 to USD2,071 million at end-June 2002.

2.5.1.2 Loans and Advances to Non-bank Customers

During the year ended 30 June 2002, Category 2 banks expanded their lending activity which, as a proportion of total assets, increased from 39 per cent to 47 per cent. Loans and advances to non-bank customers grew significantly by USD531 million or 35.6 per cent from USD1,493 million at end-June 2001 to USD2,024 million at end-June 2002.

Lending to residents outside Mauritius and to Global Business companies domiciled in Mauritius accounted, respectively, for 87 per cent and 8 per cent of Category 2 banks' total advances at end-June 2002, up from 84 per cent and 4 per cent a year earlier. Advances to residents in Mauritius dropped from USD173 million at end-June 2001 to USD94 million at end-June 2002, representing a share of 5 per cent of total advances as compared to 12 per cent at end-June 2001 and comprised largely bulk lending to certain public sector enterprises.

2.5.1.3 Investments

Category 2 banks' investments comprising mainly investments in bonds declined by USD67 million or 27 per cent from USD250 million at end-June 2001 to USD183 million at end-June 2002. The share of such investments in total assets stood at 4.2 per cent compared to 6.6 per cent in the previous year.

2.5.2 FUNDING

Category 2 banks' two main sources of funds continued to be deposits from non-bank customers and borrowings from banks. Deposits from non-bank customers were geographically diversified and accounted for 51 per cent of total resources of Category 2 banks at end-June 2002 compared to 43 per cent at end-June 2001. Borrowings from international banks accounted for 38 per cent of total funds of Category 2 banks at end-June 2002, down from 44 per cent at end-June 2001.

2.5.2.1 Non-bank Deposits

During the year under review, total deposits mobilised from non-bank customers posted a 34 per cent increase, rising from USD1,635 million at end-June 2001 to USD2,187 million at end-June 2002 compared to a lower growth rate of 9 per cent in the preceding year. Fixed deposits which constituted 67 per cent of total deposits, increased by USD335 million and accounted for 61 per cent of the total increase in 2001-02.

2.5.2.2 Borrowings from International Money Market

Borrowings from International Money Market by Category 2 banks went up slightly from USD1,650 million at end-June 2001 to USD1,658 million at end-June 2002 compared to a 20 per cent rise in the preceding year.

Funds borrowed from outside Mauritius accounted for 97 per cent of total borrowings while the remaining 3 per cent was borrowed from banks in Mauritius. Category 2 banks rely mainly on their head office, parent bank, subsidiaries and fellow subsidiaries for their borrowings as indicated by the rising share of these funds in total borrowings from 70 per cent at end-June 2000 to 90 per cent at end-June 2002. On the other hand, borrowings from banks in Mauritius and borrowings from other banks outside Mauritius increased by USD10 million and USD7 million, respectively.

Table 12 : Category 2 Banks - Profit Performance

	1999/00	2000/01 (USD million)	2001/02
Interest Income on Advances & Placements	211.1	284.7	216.6
Less Interest Expense on Deposits & Borrowings	148.3	205.1	151.9
Net Interest Income	**62.8**	**79.6**	**64.7**
Add: Non-interest Income	20.8	34.4	46.1
Operating Income	**83.6**	**114.0**	**110.8**
Less:Total Operating Costs	7.7	8.9	10.0
Staff Expenses	*2.1*	*3.1*	*3.7*
Provision for Depreciation	-	*0.4*	-
Other Expenses	*5.6*	*5.4*	*6.3*
Operating Profit	**75.9**	**105.1**	**100.8**
Less: Charge for Bad and Doubtful Debts	5.5	8.5	4.1
Net Profit	**70.4**	**96.6**	**96.7**
Interest Income as a Percentage of Total Income (per cent)	91.0	89.2	82.5
Cost to Income Ratio (per cent)	9.9	8.4	9.4
Return on Average Assets (per cent)	2.6	2.7	2.6
Return on Equity (per cent)	14.9	32.2	29.3

2.5.3 LIQUIDITY

Liquidity management is a critical factor influencing the financial health of banks.

The Bank of Mauritius ensures that banks are not unduly exposed to any major maturity mismatches. In this connection, the Guideline on Liquidity issued to banks in January 2000 requires banks to establish and implement prudent liquidity management policies providing for measures and controls for their funding requirements. Banks are also required to submit, every six months, a report on the status on their liquidity policy.

Category 2 banks undertake the bulk of their activities on short-term rollover basis except for some specific long-term borrowings toward lending of equal maturities. The maturity pattern of sources and uses of the banks' funds is subject to the regular scrutiny of the Bank of Mauritius. The requirement for banks to match their maturity transformations prudently guards them against any unforeseen liquidity crisis. It also acts as a management tool against interest rate risks.

Category 2 banks are not required to maintain minimum cash reserves in relation to their deposit base and this calls upon the Bank of Mauritius to exercise close scrutiny on a monthly basis on the banks' liquidity positions.

2.5.4 PROFITABILITY

The financial year-end of nine of the twelve Category 2 banks which were in operation as at 30 June 2002, is 31 December and that of the remaining three banks is 31 March. The consolidated position of profit and loss accounts of the twelve Category 2 banks thus involves different financial year-ends. For the year 2001/02, eleven out of the twelve Category 2 banks recorded net profits. One Category 2 bank which started operations in November 2001, incurred a loss on account of pre-operational expenses.

After an annual average growth of 50 per cent during the past two years, the aggregate net profits of Category 2 banks increased marginally from USD96.6 million in 2000/01 to USD96.7 million in 2001/02. Individually, the banks' net profits ranged from USD0.2 million to USD61.8 million.

Chart 14 : Category 2 Banks - Total Funds and Net Profits

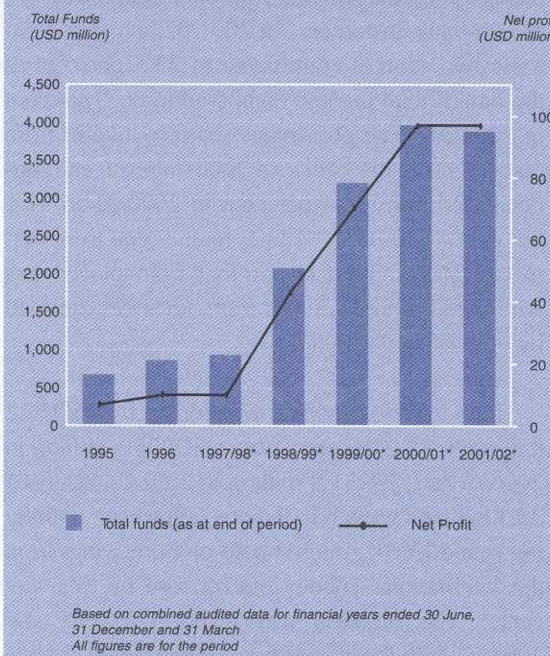


Table 12 gives the profit performance of Category 2 banks from 1999/00 to 2001/02.

Chart 14 shows net profits of Category 2 banks in relation to their total funds for the years ended December 1995 through 2001/02.

2.5.4.1 Net Interest Income

During the year under review, interest rate fell as a result of a slowdown in world economy. Consequently, there has been a general decline in interest earnings as well as interest expenses.

Net interest income registered a negative growth of 18.7 per cent, falling from USD79.6 million in 2000/01 to USD64.7 million in 2001/02 as opposed to a positive growth of 26.8 per cent in the previous year. During the year 2001/02, interest income fell by USD68.1 million or 23.9 per cent. Interest income as a percentage of total income has been on a downward trend over the past years, from 91.0 per cent in 1999/00 to 89.2 per cent in 2000/01, going further down to 82.5 per cent in 2001/02.

The bulk of Category 2 banks' earnings is derived from placements with banks and advances to non-bank customers. In 2001/02, earnings from these two sources contributed to 79.5 per cent of the banks' total income compared to 86.1 per cent in 2000/01. The percentage share of interest from placements with banks in total interest earnings decreased from 58.4 per cent in 2000/01 to 51.1 per cent in 2001/02. This is mainly due to a drop of USD55.7 million in earnings from placements with banks while earnings from advances dropped by only USD10.2 million.

Total interest expenses went down by USD53.2 million or 25.9 per cent, from USD205.1 million in 2000/01 to USD151.9 million in 2001/02 against a 38.3 per cent growth in the preceding year. During the year 2000/01, interest paid on borrowings from the international money market rose by 27.5 per cent. The situation was reversed in the year 2001/02 with the cost of borrowings falling sharply by USD42.6 million or 33.7 per cent from USD126.4 million in 2000/01 to USD83.8 million in 2001/02. Interest paid on deposits from non-bank customers went down by a lower rate of 13.5 per cent from USD78.7 million in 2000/01 to USD68.1 million in 2001/02.

2.5.4.2 Non-interest Income

Non-interest income, comprising mainly profit from translation of currencies and fees and commissions, rose from USD12.3 million in 1998/99 to USD20.8 million in 1999/00, USD34.4 million in 2000/01 and further up to USD46.1 million in 2001/02. As a result, non-interest income as a percentage of total income went up from 10.8 per cent in 2000/01 to 17.5 per cent in 2001/02.

2.5.4.3 Non-interest Expenses

Non-interest expenses relating to staff expenses and other operating expenses, increased by 12.3 per cent in 2001/02 compared to a higher growth of 15.6 per cent in 2000/01, in spite of an increase in the number of banks and the volume of transactions. Total operating expenses went up from USD8.9 million in 2000/01 to USD10.0 million in 2001/02 mainly as a result of an increase of USD0.9 million in other expenses as shown in Table 12. Other expenses represented 63.0 per cent of total non-interest expenses in 2001/02 as compared to 60.7 per cent in 2000/01.

Cost to income ratio which is a measure of banks' efficiency, fell from 9.9 per cent in 1999/00 to 8.4 per cent in 2000/01 but rose to 9.4 per cent in 2001/02. The relatively stable cost to income ratio is an indication of banks' efficiency at operational level.

2.5.4.4 Return on Average Assets and Equity

Table 12 outlines the financial performance of Category 2 banks in terms of their returns on average

Table 13 : Category 2 Banks - Total Advances, Non-performing Advances and Provision for Bad and Doubtful Debts*

	1999/00	2000/01 (USD million)	2001/02
General Provision	8.0	13.3	13.4
Specific Provision	3.3	5.9	6.3
Total Provision for Bad and Doubtful Debts	**11.3**	**19.2**	**19.7**
Total Advances	867.3	1,430.9	1,532.6
Non-performing Advances	3.8	9.0	6.9
Ratio of Non-performing Advances to Total Advances (per cent)	0.44	0.63	0.45
Ratio of Specific Provision for Bad and Doubtful Debts to Non-performing Advances (per cent)	86.8	65.6	91.3

** based on audited accounts*

assets and equity in 1999/00, 2000/01 and 2001/02. It can be seen from the table that profitability indicators showed a decline in 2001/02, reflecting the lower profits realised by the sector during the year in contrast to the broadening asset base.

The overall return on average assets of Category 2 banks went up by 10 basis points from 2.6 per cent in 1999/00 to 2.7 per cent in 2000/01 but was back down to 2.6 per cent in 2001/02. Individual banks' returns on average assets ranged between negative 1.0 per cent and 5.8 per cent in 2001/02 compared to 0.1 per cent and 5.2 per cent a year earlier. Returns on average assets of four Category 2 banks stood above 1.5 per cent in 2001/02 compared to similar performance by six Category 2 banks in 2000/01.

The overall return on equity of Category 2 banks went down from 32.2 per cent in 2000/01 to 29.3 per cent in 2001/02. In 2001/02 individual banks' returns on equity ranged from negative 4.0 per cent to 100.7 per cent compared to 2.7 per cent and 133.9 per cent in the previous year. In the case of four banks, these returns exceeded 20 per cent in 2001/02.

2.5.5 PROVISION FOR BAD AND DOUBTFUL DEBTS

The Guideline on Credit Classification for Provisioning Purposes and Income Recognition, issued by the Bank of Mauritius, requires Category 2 banks to hold a general provision equivalent to at least one per cent of their standard advances (net of advances collateralised by cash deposits) and specific provisions for losses in respect of individual impaired credits.

Table 13 shows the trend of the provisions for bad and doubtful debts with respect to non-performing advances and total advances of banks from 1999/00 through 2001/02. Specific provisions for bad and doubtful debts increased marginally by USD0.4 million. The ratio of non-performing advances to total advances declined to 0.45 per cent in 2001/02, down from 0.63 per cent in 2000/01. ■

3. Corporate Governance

Corporate governance emerged as a subject of vital importance, both nationally and internationally in the wake of irregularities and frauds perpetrated in certain well-known giant international companies. The attention of investors and other stakeholders has been drawn to the attendant risks of poor governance. Bad management, frauds, misleading accounts, shoddy auditing and other unethical and abusive practices have recently been revealed, highlighting the urgent need for better corporate practices. The root cause of the failure of prominent businesses both in the financial and non-financial sectors such as BCCI, Barings and lately Enron and Worldcom, can be traced to poor governance practices. The closure since 1996 of three banks in Mauritius are largely attributed to weak corporate governance practices.

At the macro level, poor governance may lead to financial instability in an economy. As globalisation grows apace, such instability is expected to have cross-border repercussions, likely to set off a regional or even a global crisis. The Asian Crisis in the late 1990's stands out as a stark example of a regional crisis, the reasons for which are attributed mainly to lack of transparency, limited availability of data and inadequate controls. It is thus imperative that companies put in place high standards of corporate governance and adhere to them.

3.1 WHAT IS CORPORATE GOVERNANCE?

Corporate governance has been defined in various ways. At its simplest, corporate governance means the whole system of controls, both financial and otherwise, by which a company is directed and controlled.

The UK's Cadbury Committee in 1992 and the Organisation for Economic Co-operation and Development (OECD) in 1999 defined corporate governance as involving *"a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance is determined."*

The Basel Committee on Banking Supervision (BCBS) in 1999 has defined corporate governance from a banking industry perspective. According to this Committee, corporate governance *"involves the manner in which the business and affairs of individual institutions are governed by their boards of directors and senior management, affecting how banks:*

- *set corporate objectives...;*
- *run the day-to-day operations of the business;*
- *consider the interest of recognised stakeholders;*
- *align corporate activities and behaviours with the expectation that banks will operate in a safe and sound manner, and in compliance with the applicable laws and regulations; and*
- *protect the interest of depositors."*

In its Guideline on Corporate Governance issued by the Bank of Mauritius in April 2001, corporate governance has been defined as *"the process and structure used to direct and manage the business and affairs of an institution with the objective of ensuring its safety and soundness and enhancing shareholder value. The process and structure define the division of power and establish mechanisms for achieving accountability between board of directors, management and shareholders, while protecting the interests of depositors and taking into account the effects on other stakeholders, such as creditors, employees, customers and the community."*

All of the above definitions fundamentally revolve around the following concepts:

(i) systems of controls within the company;
(ii) relationship between the company's management, board, shareholders and other stakeholders, and
(iii) the management of the company with the view to creating value for and serving the interest of all stakeholders.

3.2 IMPORTANCE OF GOOD CORPORATE GOVERNANCE TO BANKS

Recent company failures have highlighted the importance of good corporate governance. Investors now demand that companies should respect good norms of governance and those in management control should respect rights of minority shareholders. This was demonstrated, in June 2000, by the Investor Opinion Survey on corporate governance conducted by the management consultant Mckinsey & Company. It was found that 80% of investors perceive good corporate governance to be more important than financial performance and that they would be prepared to pay a premium to invest in a company with good corporate governance.

Good corporate governance is crucial to banks, in particular. The root cause for the failure of many banks has been poor corporate governance. The collapse of the BCCI, which was the world's greatest banking scandal, was triggered by the virtual absence of corporate governance. Barings is another example of a spectacular failure of risk control. The massive hidden losses of the bank's subsidiary in Singapore led to the collapse of Barings Group. Another instance where weaknesses in risk management systems resulted in significant losses were revealed in the case of Allied Irish Bank.

The Basel Committee has recognised the importance of corporate governance as a means to foster safe and sound banking practice. In its paper "Enhancing Corporate Governance for Banking Organisations" the Committee has stated as follows: -

"Banks are a critical component of any economy. They provide finance for commercial enterprises, basic financial services to a broad segment of the population and access to payment systems. It is of crucial importance therefore that banks have strong corporate governance."

In fact, banks are subject to greater regulations and more intensive supervision than any other institutions. Supervisors should ensure that banks adhere to strong corporate governance practices. The reasons underlying the increased regulation are as follows: -

1. Unlike other companies, shareholders' funds represent a very small proportion of the bank's total funds. The majority of the funds used by banks to conduct their business belong to their depositors who place their money in trust with banks. Depositors do not always have enough information to assess soundness of banks, making a rational analysis of a bank's strengths and weaknesses difficult.
2. It is difficult for outsiders to monitor and evaluate the behaviour of banks' management making it easier and more likely for managers and large investors to manipulate boards of directors and exploit the private benefits of control at the expense of depositors and minority shareholders. Many banks have failed due to excessive self-dealing to the detriment of stakeholders' interests.
3. Moreover, banks provide basic financial services to the public, financing to commercial enterprises, and access to the payment systems. The failure of a bank affects not only its own stakeholders, but may have a systemic impact on the stability of other banks. Systemic consequences may result from a particular bank itself playing a major or dominant role in the national economic life of a country. They may also result from the failure of a small bank. Depositors begin to worry about the safety of other banks, thereby precipitating large-scale withdrawals from sound institutions. In June 2000, in an address to the conference for Commonwealth Central Banks on Corporate Governance for the Banking Sector, Dr Donald T Brash, Governor of the Reserve Bank of New Zealand, stated that *"although banking crises are caused by many factors, some of which are beyond the control of bank management, almost every bank failure is at least partially the result of poor risk management within the bank itself. And poor risk management is ultimately a failure of internal governance."*
4. Furthermore, increased globalisation, technological advances and innovations in financial products have increased the level of risk faced by banks. Banks are exposed to special risks compared to other companies. Their most significant risk remains credit risk, while other risks such as liquidity risk, reputational risk and legal risk can become serious if not well managed. Banks have a higher gearing than industrial and commercial companies. A bank's capital is small in relation to the size of its balance sheet. Therefore, any loss can have a devastating effect on the bank's viability. Banks should thus put in place proper risk management policies and procedures so as to maintain risk within tolerable levels. Maintaining sound ethical practice helps to protect the reputation of banks.

3.3 ESSENTIAL REQUIREMENTS FOR GOOD CORPORATE GOVERNANCE PRACTICES IN A BANK

The board of directors, senior management, internal and external auditors play a crucial role in the corporate governance process by adhering to the key principles which are accountability, transparency, responsibility and fairness.

As laid down in its Guideline, the Bank of Mauritius expects each of the players to fully assume its responsibilities in maintaining high standards of corporate governance in banks. It is, therefore, imperative that board members are qualified for their positions and are able to function independently of management. The board should be composed of a sufficient number of independent directors with the chairperson not forming part of management. The responsibilities of the management must be clearly demarcated from those of the board in order to ensure an effective accountability regime. The internal and external auditors also have specific responsibilities in this regard.

The internal audit function is an integral part of the systems of internal control established and maintained by management and may provide independent assurance over the integrity and effectiveness of these systems.

The internal auditor provides support to the board and management through independent checks on the control systems put in place. The external auditor's role goes further and provides additional safeguard against lapses in corporate governance through, inter alia, the expression of an independent opinion as to whether the published financial statements of the bank are prepared in accordance with identified financial reporting framework.

3.3.1 Responsibilities of the board of directors

1. The board is responsible for the overall stewardship of the bank. It thus has to approve the strategic plan with appropriate measurable benchmarks and ensure that the bank's operations are conducted in conformity with the laws and the bank's policies. Systems and procedures must be implemented to ascertain compliance with legislation in relation to, inter alia, banking, prevention of money laundering and terrorism. It must also ensure that the bank adopts good corporate values and puts in place a code of conduct for its employees, setting out the bank's ethical values and high standards expected of them. Corporate values should cover prohibition of corruption, management of conflict of interest or self-dealing (e.g. lending to officers and employees) and prohibition of unduly favourable treatment of related parties. There must be adequate policies, systems and procedures for the prudential management of related party transactions and conflict of interest situations.

2. The board has the ultimate responsibility for the level of risk taken by the bank. Thus, the board must possess a clear understanding and working knowledge of the types of risks inherent in the bank's activities and make appropriate efforts to remain informed about these risks as financial markets, risk management practices and the bank's activities evolve. It should approve and periodically review strategies related to risks faced by the bank. It should ensure that adequate accounting and other records and internal control systems are maintained. It is their responsibility, with the support of management, to review, monitor and test its systems of internal control on a regular basis in order to assure their effectiveness on a day-to-day basis and their continuing relevance to the business. A specialized risk management committee should be established so as to facilitate the work of the board. The committee should be mandated to review the adequacy of risk management policies and systems and to monitor their effectiveness.

3. For effective transparency, the board should be satisfied that the bank is complying with its disclosure obligations and that the information disseminated is true and correct. A bank should disclose its approach to corporate governance when publishing its annual accounts.

3.3.2 Responsibilities of management

The board should be responsible for establishing the approval authority of different levels of senior management, clearly defining limits to management's responsibility. Senior management must ensure that a comprehensive risk management process which identifies, measures, monitors and controls different types of risks, is in place. The CEO, who is the bank's business leader, must be a person of integrity with technical competence and proven track record in the banking business. He must fully accept and endorse the oversight role of the board over the business and affairs of the bank.

3.3.3 Responsibilities of internal and external auditors

The internal audit function should be well structured and staffed with individuals who are qualified for the function so as to provide the independent appraisal of internal controls. Its independence should be assured by an obligation to report regularly to an audit committee or to an executive specified by the board.

External auditors should conduct a review of the accounting and other records and internal controls of a bank and report to the board and the CEO on their assessment of the control environment. The board should also ensure that it receives, without undue delay, a copy of the external auditor's management letter, together with management's action plan to deal with the deficiencies identified. Similarly, it should receive forthwith the management report issued by the Bank of Mauritius at the conclusion of its annual inspection, together with the management's plan to implement the recommendations of the report. It is now being recognised throughout the world that rotation of external auditors is of paramount importance in reinforcing sound corporate governance. The Bank of Mauritius has been urging banks to consider the advisability of adopting some rotation of their external auditors as far back as 1996.

3.4 ROLE OF BANK OF MAURITIUS IN THE PROMOTION OF CORPORATE GOVERNANCE IN THE BANKING SECTOR

The Basel Committee, in its paper "Enhancing Corporate Governance for Banking Organisations" has stated that *"Banking supervision cannot function as well if sound corporate governance is not in place. Supervisors thus have a strong interest in ensuring that there is effective corporate governance at every banking organisation. Sound corporate governance can contribute to a collaborative working relationship between bank management and bank supervisors."*

In this connection, the Bank of Mauritius has issued several prudential guidelines and regulations.

The Guideline on Corporate Governance issued by the Bank of Mauritius to all banks and non-bank deposit taking institutions deals with the structure of the board, committees of the board and transparency in governance, responsibility of foreign bank operations and oversight by management. The guideline also covers areas relating to the establishment of risk management policies and their effective implementation, integrity of internal control and management information systems and their accountability structure. The guideline requires each bank to disclose on an annual basis its approach to corporate governance. This disclosure has to form part of the bank's annual report and to be called a "Statement of Corporate Governance".

One of the essential elements of corporate governance is that banks should maintain proper accounting records and have in place adequate internal control systems. This is also one of the prerequisites for the grant of a banking licence. Furthermore, Principle 14 of "Core Principles for Effective Supervision" issued by the Basel Committee in September 1997 states that *"Banking supervisors must determine that banks have in place internal controls that are adequate for the nature and scale of their business"*. Weak internal controls allow fraud and corruption to flourish. Recognising the importance of internal control for banks, the Bank of Mauritius issued a Guidance Note on General Principles for Maintenance of Accounting and other Records and Internal Control Systems to all banks in November 1994. The guidance note requires the external auditors of banks to form an opinion on the adequacy of the accounting and other records and internal control systems of banks being examined by them during each accounting period.

Another aspect of good corporate governance is disclosure of corporate information. It is difficult to hold the board of directors and senior management properly accountable for their actions and performance when there is a lack of transparency. Transparency reinforces sound corporate governance.

In this respect, the Bank of Mauritius wrote to all banks in June 1994, requiring them to prepare annual accounts in a format which is in line with International Accounting Standards 30. To better cope with the changing banking environment and the growing need for transparency by all stakeholders, the Bank has recently issued a Guideline on Public Disclosure of Information to all banks and non-bank financial institutions. This guideline, inter alia, states that *"The extent and level of disclosure is of fundamental importance to market participants in making accurate assessment of an institution's financial condition, performance, business activities, risk profile and risk management practices"*.

With a view to fully addressing the issue of integrity in the conduct of banking operations, the Bank of Mauritius issued a Guideline on Related Party Transactions. The guideline recognises the fact that *"related parties, in themselves are not necessarily a matter of concern"*. However it states that when this *"relationship leads to self-dealing, it could have implications for the safety and soundness of the institution and the interest of depositors"*. The guideline outlines the transactions that are subject to related party rules and prescribes limits on such transactions. The guideline also deals with the role of the board of directors and stipulates the need for financial institutions to have a Conduct Review Committee to monitor and review related-party transactions. One of the essential roles of the Committee is to ensure that transactions with a related party are *"at least as favourable to the financial institution as market terms and conditions."*

External auditors play an important role in the corporate governance structure of banks. The role of banks' external auditors has been extensively elaborated in the Basel Committee paper "The relationship between banking supervisors and banks' external auditors". The paper also mentions that *"the task of supervisors and external auditors is becoming more challenging. In many respects, banking supervisors and external auditors face similar challenges and, increasingly, their roles are being perceived as complementary."* In line with this increased responsibility, the Bank has recently issued a guideline on "Transactions or Conditions respecting well-being of a Financial Institution Reportable by the External Auditor to the Bank of Mauritius". The guideline lays down the ground rules in respect of certain types of relationships between financial institutions and their external auditors. The paper describes the broad categories of transactions or conditions that are reportable to the Bank of Mauritius. The objective of the guideline is to further enhance corporate governance in the financial sector and make external auditors aware of their reporting responsibilities. The guideline is in line with section 25(11) of the Banking Act 1988, which sets out the reporting requirements of the external auditor.

Section 25(1) of the Banking Act 1988 requires banks to seek the prior approval of the Bank of Mauritius before appointing their statutory auditors. In this connection, the Bank has advised banks on the need to adopt some form of rotation as regards the appointment of auditors. To ensure that auditors are independent and work in accordance with high ethical standards, the Bank of Mauritius issued a questionnaire to banks and non-bank financial institutions, requiring them to furnish information pertaining to their proposed statutory auditors. Such information relates, inter alia, to quality control measures implemented by the auditing firm to ensure quality and reliability of its audits, to the identification of any element of misconduct in the performance of the auditors' duties in other firms, to the assessment of the auditors' experience in auditing other financial institutions and to whether international auditing standards are met.

The Bank has also heightened its interaction with external auditors of banks in order to further the degree of governance prevailing in banks. Section 25(12) of the Banking Act 1988 provides that the Bank of Mauritius shall arrange trilateral meetings with each bank and its auditors at least once a year. Issues relevant to the central bank's supervisory responsibilities, including relevant aspects of the bank's business, which have arisen in the course of the statutory audit of that bank, are discussed during these meetings. A Banking Committee has been set up, chaired by the Governor and comprising the Managing Director of the Bank and Chief Executives of all banks, the aim of which is to address issues affecting the efficient operation of the market. The Banking Committee meets on a quarterly basis.

The Bank of Mauritius Guideline on Corporate Governance states that *"A bank operates in an environment of trust by the investing public and its* *reputation is its most valuable asset. To nurture its reputation, the bank must maintain a high level of integrity in dealing with the public"*. In this connection, the Bank of Mauritius in collaboration with commercial banks prepared "The Mauritius Code of Banking Practice" which became effective on 1 July 1998. It was implemented with a view to enhancing public confidence in the banking sector. The main objective of the Code is to ensure that banks act fairly, reasonably and responsibly in all their dealings with customers and hence, increase transparency, by helping customers understand how their accounts operate and what they can reasonably expect from banks.

Closely connected with the above, the Bank of Mauritius has consistently addressed new risks that have arisen in the banking sector, particularly risks that the banking sector is used by criminal elements. Principle 15 of the Basel Committee paper "Core Principles for Effective Banking Supervision" states that *"Banking supervisors must determine that banks have adequate policies and procedures in place, including "know your customer" rules, that promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, by criminal elements"*. In this connection, the Bank of Mauritius issued draft Guidance Notes on Money Laundering to all financial institutions supervised by it in early 2001. The Guidance Notes focus on the "know your customer" principle and provide practical information and examples of best practice.

The Bank of Mauritius has issued other guidelines on specific topics, where the importance of corporate governance has been emphasised. These include the Guideline on Credit Classification for Provisioning Purposes and Income Recognition, the Guideline for the Calculation of Foreign Exchange Exposures of Banks, the Guideline on Liquidity and the Guideline on Internet Banking. These papers have highlighted the fact that strategies and techniques that are basic to sound corporate governance include corporate values, well articulated corporate strategy, clear assignment of responsibilities, sound internal control systems, sound risk management and appropriate information flows.

The elements of corporate governance in place at the banks are examined by the Bank during on-site inspections. The board minutes and all policies and procedures on risk management practices are reviewed. The internal auditor's audit program is examined together with recommendations made by the internal auditor and management's action on these recommendations. The independence of the bank's different committees is assessed and recommendations made thereon. The Bank of Mauritius ascertains whether the bank is complying with each guideline issued to the industry.

The Banking Act 1988 addresses certain specific issues directly related to corporate governance. The Act provides for the timing of publication of audited accounts, appointment, powers and duties of auditors, inspections by the supervisory authority and its powers. It also outlines the responsibilities of directors and other officers of the bank. The Banking Act 1988 and the Bank of Mauritius Act 1966 are scheduled for replacement by new legislation with a view to updating and modernising legislation on banking and to further enhancing compliance with the "Core Principles for Effective Banking Supervision" of the Basel Committee.

3.5 CURRENT ACTIONS IN MAURITIUS WITH REGARD TO CORPORATE GOVERNANCE

In its paper "Enhancing Corporate Governance for Banking Organisations" the Basel Committee states that *"primary responsibility for good corporate governance rests with the boards of directors and senior management of banks; however, there are many other ways that corporate governance can be promoted, including by governments (through laws), securities regulators, auditors and banking industry associations."*

Each jurisdiction will have its own endemic issue with corporate governance. For Asia, the key problem is the improvement of transparency of corporate structures and operations. In Mauritius, concerns arise with respect to the presence in many companies of dominant shareholders or groups of shareholders. To ensure that good corporate governance becomes part of our economic life, the government has appointed a Committee to look into the issues of corporate governance. The terms of reference of this Committee are wide ranging. Apart from the main aim to promote corporate governance in the country and to consider the appropriateness of introducing a "Code of Best Practice on Corporate Governance", the Committee is also set as the co-ordinating body responsible for implementing the national programme and for enforcing the Code amongst institutions.

Companies in Mauritius are becoming increasingly aware of the need to comply with corporate governance principles to increase their competitive advantage. The "Model Code of Conduct" produced by the Joint Economic Council is a significant step in the promotion of good corporate governance.

In February 2002, the Financial Intelligence and Anti-Money Laundering Act 2002 was enacted to replace the Economic Crime And Anti-money Laundering Act 2000. The new Act restates the provisions relating to money laundering and provides for the establishment of a Financial Intelligence Unit in Mauritius. New legislation regarding the fight against bad practices has also been brought forward, namely The Prevention of Terrorism Act 2002 and The Prevention of Corruption Act 2002.

The Companies Act 1984 has been fully revised in 2001 and the new Act provides for higher and more demanding responsibilities on the part of directors, particularly with respect to disclosure of self-dealings. The new Companies Act 2001 has addressed several issues related to corporate governance. It contains an extended statement of directors' duties. The new Act imposes a duty on the company to keep a Register of directors' interest in which all interest disclosed by them would be available for inspection by any shareholder. The Stock Exchange Act and the Listing rules provide the framework for defining regulations and responsibilities. The adoption of International Accounting Standards is a stride in this direction.

Governance issues and auditors' professionalism as well as ethical standards are also key components towards better financial statements. The government has set up a Steering Committee on Accounting and Auditing Services with a view to providing for the regulation of the accounting profession. The role of external auditors would be better defined. Specific provision is included in the Act for auditors to have access to information and the onus is placed on the directors to give access at all times to the accounting records and other documents.

3.6 THE WAY AHEAD

The Enron scandal has acted as a wake-up call to the whole world on the need for enforcement of corporate governance. In view of the importance of corporate governance, the Bank of Mauritius issued, before the Enron scandal erupted, its Guideline on Corporate Governance to the local industry.

Corporate governance should not be limited to banks. Banks are the largest creditors in the Mauritian economy, with the highest level of exposure to companies. Any fraud or mismanagement in these companies may have a direct negative impact on their ability to honour their obligations towards banks. Thus companies should themselves be guided by good corporate governance practices. The external auditors will have to play a major role in this endeavour. ■

4. The Relationship between Supervisors, Internal and External Auditors

One of the fundamental functions of a bank is to mobilise funds and channel them to productive investments which contribute to economic activities. Economic growth and stability are linked to the strength and stability of the banking system. Banks are distinct from most other commercial enterprises in that they are highly leveraged institutions which act as custodians of large amounts of funds, coming mainly from depositors. As such, they are highly vulnerable to adverse economic events and to loss of confidence, in particular. A loss of confidence in a single bank can trigger a liquidity crisis which, if unchecked, can ripple through the entire banking system. The primary objective of banking supervisors is to maintain stability and confidence in the financial system. In the pursuit of maintaining the stability of the banking system and fostering the safety and soundness of individual banks, the bank supervisor stands to gain by working in tandem with a bank's external auditor and internal auditor. Enhanced mutual understanding and communication between those three parties will undoubtedly help to foster sounder corporate governance and hence more confidence in a bank, while saving on resources employed. In recognition of the mutual benefits to be derived through cooperation between the banking supervisor, the external auditor and the internal auditor, the Basel Committee on Banking Supervision issued two papers: "Internal Audit in banks and the Supervisor's relationship with auditors" and "The relationship between banking supervisors and banks' external auditors" in August 2001 and January 2002 respectively. The Bank of Mauritius has been carrying out its supervisory functions along the lines laid down in the two documents.

4.1 THE ROLE OF THE BANKING SUPERVISOR

To maintain stability and confidence in the financial system, each unit forming part of the financial system is seen as an essential component of the integral financial market. One of the tools that the Bank of Mauritius has to achieve its objective of maintaining a sound system, is the power to grant licences to banks. When granting banking licences, the Bank of Mauritius ensures that applicants meet the criteria laid down in the Banking Act 1988. Section 3(4) of the Banking Act 1988 provides that no licence shall be granted by the Central Bank unless it is satisfied as to:

(a) the technical knowledge, experience, financial conditions and history of the applicant;

(b) the adequacy of its capital structure;

(c) the character of its business and its management;

(d) the adequacy of its accounting and control systems and records;

(e) the convenience and needs of the community or market to be served;

(f) the ability and willingness of the applicant to comply with such other conditions as the Central Bank may impose pursuant to the Act.

Moreover, no bank is granted a Category 2 banking licence unless it is a branch or a related corporation of a foreign bank of established reputation, or a bank incorporated in Mauritius.

Bank supervisors may resort to enforcement by means of legal powers requiring a bank to take remedial actions when it fails to meet prudential requirements. But, by and large, banking supervisors carry out their functions mainly by way of recommendations and moral suasion. However, when a bank persistently fails to abide by prudential rules, such as when it appears to be carrying on business in a manner which is contrary or detrimental to the interests of its depositors or the public, the Central Bank may, as a last resort, revoke the licence of the bank in question.

With a view to ensuring that a bank conducts its business in a prudent manner and has adequate capital resources to safeguard depositors from loss, the Banking Act 1988 lays down a series of detailed requirements for banks to comply with. The Bank of Mauritius has also issued a series of guidelines to the banking industry as a guide for it to operate in a safe and sound manner. The banking supervisor verifies whether a bank is actually complying with the laws and regulations governing its activities.

Banks are exposed to a variety of risks. The most important risk worldwide remains credit risk, i.e, the risk that a customer or counterparty will not settle an obligation for full value, either when due or at any time thereafter. The primary responsibility for directing a bank's lending policies rests with its management. The bank supervisor verifies whether the bank has in place a sound system for managing the credit risk. This is done by evaluating the effectiveness of a bank's lending policies and credit appraisal systems. In addition, the banking supervisor seeks to ensure that the overall credit risk is sufficiently diversified by way of exposure limits to a particular class, or group of borrowers, industrial and commercial sectors. Related party lending has lately emerged as a major concern to banking supervisors as loans granted to related parties have not always been properly appraised and collateralised. The banking supervisor is accordingly called upon to assess the quality of a bank's loans which, by and large, form the bulk of its risk assets.

A bank is accordingly required to maintain capital commensurate with the nature of the risks undertaken by it. As such, banks need to value their loans accurately and prudently and make adequate provisions accordingly. To this effect, the Bank of Mauritius issued a Guideline on Credit Classification for Provisioning Purposes and Income Recognition. Banks are required to maintain adequate processes for determining provisions for credit losses and for income recognition and to recognise impaired loans and classify them on a timely basis, in accordance with the Bank's Guideline.

Supervisors carry out their functions by collecting and analysing information about the banks which fall under their purview. The supervisory functions comprise off-site surveillance and on-site inspections. The objective of the Bank of Mauritius is to carry out the inspection of all institutions at least once a year. During the interval between on-site inspections, off-site monitoring helps to identify potential problems and enables pre-emptive actions to be taken.

4.2 THE ROLE OF THE EXTERNAL AUDITOR

The role of an external auditor is to express an independent opinion as to whether the bank's financial statements are prepared, in all material respects, in accordance with the financial reporting framework and relevant regulations. The shareholders appoint the external auditors at the annual general meeting. The external auditors are, therefore, primarily accountable to the shareholders to whom their reports are addressed. The auditor's opinion lends credibility to the financial statements and thereby assists in promoting confidence in the banking system. The auditors carry out their functions on a sample basis as a detailed audit of all the bank's transactions would be too time-consuming, expensive and impracticable. As the duties of external auditors and internal auditors overlap to a significant extent, the work of the internal auditors can be useful to the external auditors. At the outset, the external auditors assess the work of the internal auditor in order to determine the nature, timing and extent of his own audit procedures. To this end, the external auditor considers the status of the internal auditor in the bank, the scope of his function and his technical competence.

The external auditor should be able to carry out his functions with a total independence. The accounts to be audited are prepared by management. If auditors discover a material misstatement in the financial statements, management is requested to adjust the accounts accordingly. In the event management refuses to comply, external auditors can consider qualifying their report. As a qualified report can have an adverse impact on the credibility and stability of banks, management often finds it acceptable to discuss and agree on the proper presentation of the financial statements in accord with the stand taken by the external auditors. In the circumstances, for external auditors to operate in a truly independent framework, they need to be protected from arbitrary dismissal by management in the case they express an adverse opinion against the bank.

Under the Banking Act 1988, the external auditor has a responsibility towards the Central Bank. The Banking Act 1988 lays down five instances where he should immediately report the matter to the Central Bank. In fact, where the auditor, in the course of the performance of his statutory duties is satisfied that:

(a) there has been a serious breach of or non-compliance with, the provisions of the Act, the Bank of Mauritius Act, the Companies Act, and regulations, guidelines and circulars issued by the Central Bank;

(b) a commercial offence involving fraud or other dishonesty has been committed;

(c) losses have been incurred which reduce the paid up capital of the bank by 50 per cent or more;

(d) serious irregularities have occurred, including those that jeopardise the security of depositors and creditors; and

(e) he is unable to confirm that the claims of depositors and creditors are still covered by the assets,

he is required to immediately report the matter to the Central Bank.

4.3 THE ROLE OF THE INTERNAL AUDITOR

The Institute of Internal Auditors defines internal audit as follows:-

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

When appraising the risks to which a bank is exposed, the banking supervisor examines the systems of internal controls in place within the organisation. It is the duty of the internal auditors to evaluate independently the controls within the organisation.

The ultimate responsibility for maintaining an adequate and effective internal audit function rests with the bank's Board of Directors. If an internal audit function is to fulfil its responsibilities effectively, it must have the following characteristics:-

(a) it should be a permanent outfit;

(b) it must be independent of the activities audited so that it carries out its assignments with objectivity and impartiality;

(c) internal audit should have the authority to communicate directly to the Board, the Audit Committee and the external auditors;

(d) the internal audit team should be staffed by professionally competent personnel.

4.4 RELATIONSHIP BETWEEN THE SUPERVISOR, THE EXTERNAL AUDITOR AND THE INTERNAL AUDITOR

From the above, it becomes abundantly clear that, in many respects, the banking supervisor, the external auditor and the internal auditor share complementary concerns regarding the safety and soundness of banks, although the focus of their concerns differs. There are many areas where the work of the banking supervisor and the auditors can complement each other. Therefore, co-operation between the supervisor and auditors (external and internal) will undoubtedly optimise supervision.

In order to optimise resources and avoid duplicating work, the banking supervisor needs to satisfy himself that both the external auditor and the internal auditor fulfil their functions effectively, as expected of them. At the outset of the inspection, the banking supervisor must satisfy himself that effective policies and practices are followed and that management takes appropriate corrective action in response to internal control weaknesses identified by internal and external auditors. It is equally important for the bank's internal audit department to collaborate with the bank's external auditors. The Bank of Mauritius encourages and insists on consultation between internal and external auditors to make their cooperation as efficient and effective as possible.

As supervisors have to determine the amount of reliance to be placed on the work of the external auditor, they have to ensure that the standards of work carried out by the external auditors are of an acceptable level. As per section 25(1) of the Banking Act 1988, every bank is required to appoint an auditor annually to audit its accounts and the appointment requires the approval of the Bank of Mauritius. Therefore, in approving the appointment of auditors, the Bank of Mauritius ensures that the external auditors have the relevant professional experience and competence, are objective and impartial, and comply with applicable ethical requirements.

With a view to fostering a smooth and sound working relationship, periodic consultations are held with external auditors. The Central Bank arranges trilateral meetings with each bank and its auditors in order to discuss the Central Bank's supervisory responsibilities which arise in the course of each audit of a bank. Moreover, as and when the Central Bank deems it necessary or desirable, it arranges bilateral meetings with the bank's auditors. In the process of developing guidelines to the banking industry, the Bank of Mauritius consults with the professional auditing bodies on the draft guidelines. Representations made are taken on board in the final guideline. Moreover, current areas of supervisory concern are also discussed with the auditing profession as a whole.

With the intensification of the collaborative roles of the three parties over the past years in Mauritius, there is no doubt that banks will be supervised more efficiently. ■

5. Money Laundering

Money Laundering has emerged as a single most important problem with which all the countries around the world are having to come to grips. The virtual elimination of barriers to capital flows and the advent of liberalised and sophisticated international payment systems have contributed to facilitate the flow of illicit money. The events of September 11, 2001 have shown that on top of the issue of anti-money laundering, authorities have to also grapple with the financing of terrorist activities which makes use of both the formal and parallel financial system. The Mauritian authorities are fully alive to the twin dangers and have amply demonstrated their commitment to cooperate in the global fight against money laundering and terrorism.

The Economic Crime and Anti-Money Laundering (ECAML) Act was passed on 13 June 2000. The ECAML Act 2000 was based on the 40 recommendations of the FATF. The 40 recommendations which provide an international standard, revolve around the requirements to (i) criminalise money laundering, (ii) identify customers properly, and (iii) cooperate internationally by sharing information. Under the ECAML Act 2000, financial institutions were required to report suspicious transactions, as defined under the Act, to the Bank of Mauritius (BOM). The BOM would consider the report and if it gave rise to a reasonable suspicion, would refer the matter to the Economic Crime Office (ECO). The ECO was set up to investigate, inter alia, into any matter relating to suspicious transactions.

Article 7(1)(b) of the United Nations Conventions against Transnational Organised Crime (the Palermo Convention) expressly refers to the need for a central national agency responsible for receiving, analysing and disseminating to the competent authorities, disclosures of financial information. In its review of the 40 recommendations, the FATF also recommends the requirement for countries to establish a Financial Intelligence Unit (FIU). With this end in view, the Financial Intelligence and Anti-Money Laundering Act 2002 (FIAML) was passed in February 2002. This Act replaces the ECAML Act 2000. The new Act provides for the creation of a central agency, the Financial Intelligence Unit (FIU). The FIU is responsible for receiving, requesting, analyzing and disseminating to investigatory and supervisory authorities, disclosures of financial information concerning alleged money laundering offences and financing of any activities related to terrorism. As there is no informal market system in Mauritius, all financial institutions are required to report directly to the FIU, suspicious transactions as defined by FIAML. Another key function of the FIU is to provide assistance in the investigation or prosecution of money laundering offences to overseas FIUs.

The Prevention of Corruption Act was passed in February 2002. It provides for the establishment of the Independent Commission Against Corruption (ICAC). The functions of the ICAC with respect to money laundering are:

- To detect and investigate any matter that may involve the laundering of money or suspicious transaction that is referred to it by the Financial Intelligence Unit (FIU);
- To execute any request for assistance referred to it by the FIU;
- To take such measures as may be necessary to counteract money laundering in consultation with the FIU; and
- To co-operate and collaborate with the FIU in fulfilling common objectives.

Where the ICAC has reasonable ground to suspect that a person has committed an offence under the Financial Intelligence and Anti-Money Laundering Act 2002, it can apply for the issue of an attachment order by a Judge in Chambers where a person is charged or is about to be charged in any Court with a corruption offence or a money laundering offence. The Supreme Court may, on an application by the Director of Public Prosecutions, order (a) the attachment in the hands of any person named in the order of all moneys and other property due or owing or belonging to or held on behalf of the accused and (b) prohibit the accused or any person acting on his behalf or any other person named in the order from transferring, pledging or otherwise disposing of any money or other property so attached.

The corner-stone of any anti-money laundering legislation is undoubtedly the proper identification of customers. This is the stage when insufficient care may result in dirty money being introduced into the financial system. The "Know Your Customer" principle features prominently in the Banking Act 1988. Indeed, Section 40 of the Banking Act requires every bank, before opening any account or entering into a fiduciary relationship, to verify the true identity and address of its customer. Any breach of this section amounts to an offence and is punishable by a fine not exceeding Rs5.0 million.

Accordingly, banking organisations and their employees are the first and strongest line of defence against financial crime and, in particular, money laundering. Supervisors play a fundamental role in ensuring that banks have in place the required standards and internal controls in order to carry out due diligence not only on new customers but also on existing ones. The supervisors of the Bank of Mauritius carry out on-site inspections of the financial institutions at least once a year. During the on-site inspections, the testing of anti-money laundering procedures is given paramount importance. Banks are expected to have a "Know Your Customer" program which provides for verification of identity of customers at account opening or inception of a business relationship.

The Bank of Mauritius has required banks to designate anti-money laundering compliance officers whose responsibilities should specifically include the coordination and monitoring of the day-to-day compliance of the bank with applicable anti-money laundering laws, guidelines and the bank's own anti-money laundering policies and procedures. Such officers should also have the necessary authority/autonomy.

Money laundering is a problem with world-wide ramifications. The crusade against the problem will meet with only limited success if concerted efforts are not made by all the jurisdictions in the world. Money launderers bide their time and search for helpful banks in the lesser regulated jurisdictions which are characterised by lax regulation and weak supervision of financial institutions. They only need to find one country willing to do the laundry. As long as there is one country or one bank willing to oblige, the efforts of other jurisdictions in this regard may be wasted.

The Financial Action Task Force (FATF) was set up by the G7 countries in 1989. It is acknowledged as the main driving force against money laundering. Countries with weaknesses in anti-money laundering measures are urged by the FATF to remedy the shortcomings. Jurisdictions failing to take appropriate measures are threatened with being blacklisted as Non-Cooperative Countries and Territories (NCCTs). By naming and shaming non-cooperative jurisdictions, the FATF invariably succeeds in bringing the non-abiding countries to toe the line.

Given the global reach of the money laundering problem, the FATF embarked on a campaign to disseminate the anti-money laundering message throughout the world. In this context, it has helped to set up and enhance collaboration with FATF-style regional bodies. Two of such bodies to which Mauritius is affiliated are the Offshore Group of Banking Supervisors (OGBS) and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Mauritius is a prominent member of the OGBS since 1989. On the other hand, Mauritius is a founder member of the ESAAMLG, which was set up in August 1999 at Arusha in Tanzania. The objective of this organisation is to develop comprehensive national and regional anti-money laundering strategies. Cooperation amongst countries is a vital tool in combating money-laundering.

It has been estimated that more than USD700 billion is laundered globally each year, of which USD400 billion is generated by drug trafficking. Given the scale of the problem, it is imperative to achieve international commitment against drug trafficking. The best way to combat drug trafficking must be to use methods that deprive criminals of their ill-gotten gains. Money is at the root of the problem and money is also at the root of the solution. In this context, the Dangerous Drug Act 1986 of Mauritius was revised in 2000. In accordance with Section 45 of the Dangerous Drugs Act 2000, the Court is empowered to order that a person charged with an offence under the Act shall not dispose of any of his assets or make any withdrawals from any account or deposit of any bank or financial institution. Further, the Director of Public Prosecutions gives thereupon public notice of such orders in the Government Gazette and in at least two daily newspapers and also to the head offices of all registered banks and financial institutions. Failure by banks to adhere to notices issued under the Dangerous Drugs Act 2000 entails a criminal action.

Section 45(2)(b)(ii) of the Dangerous Drugs Act 2000 provides that where any notice has been published, any bank or financial institution which allows any withdrawal to be made from any account or deposit involving such a contravention, shall commit an offence and shall on conviction, be liable to a fine not exceeding Rs 5 million and in the case of an individual person, to imprisonment for a term not exceeding 5 years. On its part, the Bank of Mauritius keeps banks informed of their duty to adhere to restraint orders issued by the Court against any trafficker.

When a person is charged for drug trafficking, the Director of Public Prosecutions refers the matter for enquiry to the Commissioner of Drugs appointed by the Prime Minister under Section 45 of the Act. The Commissioner has been vested with wide-ranging powers to enquire into the assets of any convicted drug trafficker with a view to tracing and confiscating them.

The FATF 40 Recommendations were drawn up in 1990 and are now endorsed by more than 130 countries. In view of developments at the international level and changes in money laundering methods and techniques, a review of the recommendations was desirable. The FATF has, accordingly, issued a consultative paper on the review of the Recommendations. Comments were invited by 31 August 2002. One of the objectives is to clarify the obligations to identify and verify the identity of customers and the beneficial owners. The review addresses 3 categories of customer or transaction where there is a higher risk - politically exposed persons, correspondent banking and electronic and other non face-to-face financial services. More importantly, the FATF considers expanding the application of the customer identification and record-keeping rules to 7 types of non-financial businesses or professions, viz., (i) Casinos and other gambling businesses, (ii) Dealers in real estate and high value items, (iii) Company and trust service providers, (iv) Lawyers, (v) Notaries, (vi) Accountants and Auditors, and (vii) Investment Advisors.

In the wake of the September 11 attacks, the United Nations Security Council (UNSC) adopted, on 28 September 2001, a resolution calling for international cooperation for the prevention and suppression of the financing of terrorist acts. Accordingly, member states were called upon to prevent those who finance, plan, facilitate or commit terrorist acts from using their respective territories to criminalise the wilful provision or collection by any means, directly or indirectly, of funds by their nationals or in their territories with the intention that the funds would be used to carry out terrorist acts. Member states were also requested to freeze without delay funds or financial assets or economic reserves of persons who commit, or attempt to commit terrorist acts. The Bank of Mauritius drew the attention of all the financial institutions to the abovementioned provisions of the Security Council resolution and urged them to cooperate and remain vigilant in order to ensure that their institution is kept free from any abuse that could be made of it by perpetrators of terrorism. In the event the institutions held or came to hold any information pertaining to any transactions of the abovementioned nature, they were requested to report the matter forthwith to the Bank of Mauritius. This is a continuing activity in view of successive notices issued by the UNSC on the subject. The Prevention of Terrorism Act which was passed in February 2002, incorporated the recommendations of the U.N. Security Council.

A sound and untainted reputation is a sine qua non condition for Mauritius to preserve its good reputation as a financial center. The concerted efforts of all the authorities are necessary to clamp down money launderers, the more so as all possible ways and means are devised by them to foil attempts to detect money laundering. Banks have been advised to keep track of new typologies and to keep under systematic review the movements in customer accounts as they run the serious risk of being abused by money launderers. Mauritius has constantly demonstrated its commitment to fight money laundering and other financial crimes and is perceived as a credible leader in the field by regional peers. ■

6. Credit Bureau

Banks have traditionally resisted sharing credit information on their client, among themselves and across sectors, mainly due to the confidential nature of banker-customer relationship. Consequently, in some countries, specialised institutions known as Credit Bureaus have been set up in order to act as repositories of credit information which comprises historical and current information on existing and potential borrowers.

The credit bureau collects, consolidates and stores credit and financial information and then makes them readily available to credit providers such as banks and other financial institutions. This information enables the credit providers to accurately assess their actual exposure to borrowers as well as the latter's risk profile and characteristics. In other words, it facilitates credit dispensation and helps mitigate the credit risk involved in lending.

6.1 TYPES OF CREDIT BUREAUS

There are two types of Credit Bureaus: Basic Credit Bureau and World Class Bureau.

- Basic Credit Bureau collects both past-due (negative) and non past-due (positive) data.
- World Class Bureau, which besides collecting both negative and positive data, provides a mixture of credit products aimed at minimising risks/fraud. This bureau is a credit consultant to banks for risk controlling, prediction scoring and for developing fraud prevention products.

A World Class Bureau operates on the principle that the data is owned by the subscribers and the sharing of information is done on the principle of reciprocity. The principle of reciprocity reinforces the incentive for banks to provide full and complete information to the Bureau by giving past due data to institutions which furnish only negative data, and institutions which provide both positive and negative information to the Bureau, will receive both past-due and non past-due data.

6.2 REGULATORY FRAMEWORK

Wherever they exist, Credit Bureaus play an important role in the credit granting decisions of banks and other lending institutions, hence the need for a well-defined regulatory framework. A Credit Bureau may be set up as a private body. In this case, separate laws have to be enacted in order to ensure confidentiality of data collected by the bureau. Alternatively, Credit Bureaus may be set up as part of the Central Bank where the regulatory framework for collection of information, access to that information, privacy of the data, etc, are provided by the Central Bank.

In Mauritius, the Credit Bureau should be a department or a division of the Central Bank in order to operate efficiently and effectively. A Credit Bureau attached to the Central Bank would operate with enhanced credibility and confidentiality. Credit providers would not have any doubt about its impartiality. Moreover, the Central Bank would also be able to take remedial action in the event of any loophole in the functioning and with regard to the information standard of the Credit Bureau.

However the existing regulatory framework is not adequate for the operation of a Credit Bureau in Mauritius. The enactment of innovative legislation may further consolidate the regulatory and supervisory aspects of the Credit Bureau. The Bank of Mauritius Act 1966 and the Banking Act 1988 can be amended to expressly provide for the collection and dissemination of information, under conditions of confidentiality, to and from the Credit Bureau.

The law should make provision for the following:

- Data collected should be limited to information of non-personal nature, which is deemed to be relevant for business decision making.
- Errors or misleading information should be corrected promptly.
- Necessary steps should be taken to avoid unauthorised access to data.

6.3 INFRASTRUCTURE OF THE BUREAU

The Credit Bureau should be a fully automated, technology-driven and professionally managed institution in order to ensure the veracity of data at all times. It would require high skills and expertise in data management and financial analysis. To achieve this objective, an information technology infrastructure which would ensure proper storage, processing and maintenance of data collected by the Credit Bureau, would need to be set up.

The IT infrastructure should comprise a software capable of creating and maintaining a credible, reliable and efficient database and a hardware capable of catering for alternative arrangements in case of disasters and having sufficient back up to continue its activities. In addition, the software should guarantee integrity of data with adequate features for validation and security.

In Mauritius, "The Mauritius Automated Clearing and Settlement System" (MACSS), a fully automated system, which electronically links the domestic banks to the Bank of Mauritius via a secure, reliable and efficient network that conforms to international standards, could be chosen as the service provider for the online exchange of information in respect of the Credit Bureau. However, at the start, it would not be practicable to feed the Credit Bureau with each and every credit information and make it a cumbersome endeavour. It would therefore be reasonable to apply a cut-off limit.

6.4 MANAGEMENT OF THE BUREAU

The failure of Credit Bureaus around the world has been mainly attributed to the excessive delay in the submission of information by banks and the outdated and incomplete information provided by them.

This would be avoided by putting in place a reliable computer network to prevent any time lag in the feeding of information. It has been found that time lag has been used by borrowers to avail themselves of credit from other banks.

The Bureau and its users should adopt a code of conduct that would protect the data and regulate its use. Any credit provider wishing to have information from the Credit Bureau would have to submit a request to that effect. The request would be processed by the Credit Bureau and the information sought would thereafter be forwarded to the credit provider.

Credit providers should act reasonably and all requests for information should be specific and in respect of particular customers. They should ensure that strict confidentiality be respected in regard thereto. Their access to the system should be controlled by the use of "user names and passwords".

In addition to security, quality of service is another key area in ensuring successful operation of the Credit Bureau. Credit providers should have online access to information stored in the bureau. However when a credit institution requests for information on a particular customer, it should be given access to information on that particular customer only and not on the whole database. It should not be allowed to tamper with any information kept in store.

It would be advisable that the borrower be permitted to verify, at his request, the information collected on him and be able to undertake through his lender, corrections in the information.

There should be a unique identifier code for each customer. For individuals, the National Identity Card Number, which is unique to every individual, can be used as access code while for corporate organisations, the code that can be used would be their Company Registration Numbers, which are unique to them. However, additional safeguards would have to be devised for minimisation of errors in respect of customer identification to cater for events where customers lose their cards and are issued new ones.

6.5 SOURCE AND TYPES OF INFORMATION COLLECTED

The primary source of information for the Credit Bureau is the credit providers and in certain cases the borrowers themselves. The information may be both positive and negative data collected on individuals and corporate organisations.

- Positive financial data include credit facilities; both fund based and non-fund based like guarantees, acceptances, letters of credit etc. It would also include information on companies raising credit from the public through short and long-term debts, both local and foreign.

- Negative financial data include adverse information on the borrower such as non-performing advances; suit filed accounts, compromise settlements, fraud, bankruptcy, insolvency, and abusive use of credit cards, returned cheques and other cognate negative information.

The Credit Bureau may get some information from the public domain, court judgements, and records of the Registrar of Companies on companies going into liquidation or receivership.

It would be more expedient to furnish the Credit Bureau with information relating to all banking facilities subdivided into loans, overdrafts, etc. concurrently rather than in a phased approach, given that those facilities are inter-related.

6.6 VALIDATION OF INFORMATION

The Bureau should ensure accuracy of information collected by performing a variety of quality checks on the data. Data collected from the public records should be cross-checked for veracity. If any case of inaccuracy is detected, clarification must be sought from the source of information itself. The credit information should be subject to a series of data integrity tests to seek out irregularities in the status codes and to check whether names and addresses are accurate and updated.

It is important that an effective market intelligence section, which would be responsible not only to track financial information but also to validate it, is set up within the bureau.

6.7 LIABILITY OF A BUREAU

Countries which have set up Credit Bureaus recognise the need to protect them from liability arising from legal actions initiated by the aggrieved borrower or for bona fide use of the data furnished in the normal course of business. Private Bureaus operating throughout the world are required to comply with privacy laws governing consumer information of the countries in which they operate and are liable for penalties in case of non-compliance. Specific privacy laws have been enacted as a supplementary legislation to impart a sense of direction to the Bureau, enabling it to act efficiently within well-defined parameters. In Mauritius, the Bank of Mauritius Act 1966 and the Banking Act 1988 can be amended to make adequate provision in law for the establishment of a Credit Bureau and the protection of the borrowers and the Bureau.

6.8 THE NEED FOR MAURITIUS TO SET UP A CREDIT BUREAU

At present, in the absence of a Credit Bureau, credit providers do not have a complete and true picture of the financial borrowing profile of the borrowers. This shortcoming plays in favour of borrowers who can borrow from various sources at the same time and can default in the repayment of credit facilities made available to them. In other words, those various facilities availed of by the same borrower from several credit providers may outstretch his repaying capacity leading to the risk of default by him.

In order to ensure efficient processing of credit facilities and optimal assessment of the risks involved therein, it is imperative that credit providers are able to identify the characteristics of the borrowers.

Studies carried out in other parts of the world have revealed that availability of up-to-date and reliable information on customers would benefit the country significantly as follows:

- The credit providers would have a better knowledge of the characteristics of borrowers, which would enable them to make more judicious prediction of repayment capability. In other words, credit providers would be able to distinguish between good borrowers and bad borrowers.
- The Credit Bureau would help credit providers carry out their fiduciary services with enhanced professionalism. It would result in more efficient and competitive pricing, leading to increased demand for credit thus benefiting both lenders and borrowers.
- The Credit Bureau would enable the member institutions to achieve higher accuracy in risk prediction. It would reinforce borrowers' discipline to repay thus protecting them against loss of assets through bankruptcy,

expropriation and asset freezing and thereby reducing moral hazard.

Mauritius is taking a bold stand in setting up the necessary environment for a good standard of banking practice. The establishment of a Credit Bureau would help in promoting stability and soundness in the financial sector, by increasing general awareness of Mauritius as a reliable financial centre and enhancing the country's reputation as a financially secure economy. ■

7. Framework of the New Capital Accord-Insights into the Standardised and IRB Approach

7.1 OBJECTIVES OF CAPITAL ACCORD

The 1988 Capital Accord sets out a framework to align capital with banking risks in order to promote the safety and soundness of individual banks, in particular, and the financial system in general. It aims at diminishing competitive inequality existing among international banks. Since the introduction of the 1988 Accord, the business of banking, risk management practices, supervisory approaches and the financial markets have undergone significant transformations.

In June 1999, the Basel Committee on Banking Supervision (the Committee) released a first consultative package on the New Accord with a view to improving upon and replacing the 1988 Accord. In the light of comments received by the Committee, a second consultative package was issued in January 2001.

This new framework intends to provide approaches that are both more comprehensive and more sensitive to risks than the 1988 Accord, while maintaining the overall level of regulatory capital. It is also less prescriptive than the original Accord. At its simplest, the proposed framework is somewhat more complex than the old but it offers a range of approaches for banks capable of using more risk-sensitive analytical methodologies. The New Accord consists of three mutually reinforcing pillars that together are designed to contribute to the safety and soundness of the financial system. These pillars are:

First pillar : Minimum Capital Requirement

Second pillar : Supervisory Review Process

Third pillar : Market Discipline

The menu of approaches proposed in the first pillar of the framework to measure credit risks is as follows:

- Standardised Approach (a modified version of the existing approach)
- Foundation Internal Ratings Based Approach
- Advanced Internal Ratings Based Approach

This chapter endeavours to shed some light on the Standardised Approach, in particular, the applicable risk weights proposed in the new framework. It also gives an overview of the Internal Ratings Based (IRB) Approach. The chapter is based on the Consultative Paper issued by the Committee on the new Capital Framework which can be obtained from the website of the Bank for International Settlements (BIS) - http://www.bis.org.

7.2 THE STANDARDISED APPROACH

The Standardised Approach, which is conceptually similar to the approach laid down in the present Accord, has been enhanced in order to be more risk sensitive. According to the Standardised Approach, banks allocate a risk weight to each of their on-balance sheet assets and off-balance sheet positions, and produce a sum of risk-weighted asset values.

With the introduction of a wider differentiation of risk weights together with a wider recognition of credit risk mitigation techniques and while avoiding excessive complexity, the Standardised Approach aims at aligning regulatory capital requirements more closely with the key elements of banking risks, thereby resulting into capital ratios which are more in line with the bank's economic risks, while reducing the scope for regulatory arbitrage.

Individual risk weights currently depend on the broad category of borrower (i.e. sovereigns, banks or corporates). Under the New Accord, the risk weights are to be refined by reference to a rating provided by an external credit assessment institution (such as a rating agency) that meets strict standards. For example, for corporate lending, the existing Accord provides only one risk weight category of 100% but the New Accord will provide four categories (20%, 50%, 100%, and 150%).

7.2.1 The Risk Weights in the Standardised Approach

The risk-weighted assets in the Standardised Approach will continue to be calculated as the product of the amount of the exposures and the risk weights. The risk weights will be determined by the category of the borrower:

(a) Sovereign

(b) Bank

(c) Corporate

Unlike the current Accord, there will be no distinction on the sovereign risk weighting depending on whether the sovereign is a member of the Organisation for Economic Cooperation and Development (OECD) or not. Instead, the application of risk weights will depend on the ratings of the particular exposures by eligible External Credit Assessment Institutions (ECAIs). The treatment of off-balance sheet exposures will largely remain unchanged, with a few exceptions as discussed under paragraph **"Off-balance sheet items".**

7.2.2 Individual claims

Sovereign Risk Weights

The credit ratings and the respective risk weights of sovereigns expected to be assigned are as follows:

Credit Assessments	Risk Weights
AAA to AA-	0%
A+ to A-	20%
BBB+ to BBB-	50%
BB+ to B-	100%
Below B-	150%
Unrated	100%

In addition to ECAIs, it has been suggested to use the ratings assigned to sovereigns by Export Credit Agencies (ECAs). The Basel Committee is proposing that the risk scores will be slotted into the risk weighting categories as in the table below.

ECA Risk Scores	Risk Weights
1	0%
2	20%
3	50%
4 to 6	100%
7	150%

Given the similarity in risk profiles, claims on central banks are assigned the same risk weight as that applicable to their sovereign governments. The BIS, the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Community will receive the lowest risk weight applicable to sovereigns and central banks.

Risk Weights for Non-Central Government Public Sector Entities (PSEs)

Claims on domestic PSEs will be treated as claims on banks of that country. Non-central government PSEs can include different types of institutions ranging from government agencies and regional governments to government-owned corporations. PSEs may be categorised as follows:

1 **Regional governments and local authorities** could qualify for the same treatment as claims on the central government if these governments and local authorities have specific revenue-raising powers and have specific institutional arrangements, the effect of which is to reduce their risks of default.

2 **Administrative bodies responsible to central governments, regional governments or to local authorities and other non-commercial undertakings** owned by the governments or local authorities may not warrant the same treatment as claims on their sovereign if the entities do not have revenue-raising powers or

other arrangements as described above. If strict lending rules apply to these entities and a declaration of bankruptcy is not possible because of their special public status, it may be appropriate to treat these claims in the same manner as claims on banks.

3 **Commercial undertakings** owned by central governments, regional governments or by local authorities may be treated as normal commercial enterprises. If these entities function as corporates in competitive markets even though the state, a regional authority or a local authority is the major shareholder of these entities, supervisors may decide to attach the risk weights applicable to corporates.

Risk Weights for Multilateral Development Banks (MDBs)

The risk weights applied to MDBs will be based on external credit assessments as set out under the second option for treating bank claims as explained hereunder. A 0% risk weight will be applied to claims on highly rated MDBs that fulfil, to the Committee's satisfaction, the criteria provided below. The eligibility criteria for MDBs risk weighted at 0% are:

- Very high quality long-term issuer ratings with an external assessment of AAA;
- Shareholder structure comprised of a significant proportion of high quality sovereigns with long term issuer credit assessments of AA or better;
- Strong shareholder support demonstrated by the amount of paid-in capital by the shareholders; the amount of callable capital the MDBs have the right to call, if required, to repay their liabilities; and continued capital contributions and new pledges from sovereign shareholders;
- Adequate level of capital and liquidity; and
- Strict statutory lending requirements and conservative financial policies which would include, among other conditions, a structured approval process, internal creditworthiness and risk concentration limits (per country, sector, individual exposure and credit category), large exposures approval by the board or a committee of the board, fixed repayment schedules, effective monitoring of use of proceeds, status review process and rigorous assessment of risk and provisioning to loan loss reserve.

Risk Weights for Banks

There are two options for deciding the risk weights on exposures to banks. Only one option will be applied to all banks in a jurisdiction. No claim on an unrated bank may receive a risk weight less than that applied to its sovereign of incorporation.

Under the first option, as shown in the table below, all banks incorporated in a given country will be assigned a risk weight one category less favourable than that assigned to claims on the sovereign of incorporation. However, there will be a cap of a 100% risk weight, except for banks incorporated in countries rated below B-, where the risk weight will be capped at 150%.

Credit Assessment of Sovereigns	Sovereign Risk Weights	Risk Weights Applicable to Banks
AAA to AA-	0%	20%
A+ to A-	20%	50%
BBB+ to BBB-	50%	100%
BB+ to B-	100%	100%
Below B-	150%	150%
Unrated	100%	100%

The second option bases the risk weighting on the external credit assessment of the bank itself, as shown in the table below. Under this option, a preferential risk weight that is one category more favourable than the risk weight shown in the table below, may be applied to claims with an original maturity of three months or less, subject to a floor of 20%. This treatment will be available to both rated and unrated bank claims, but not to banks risk weighted at 150%.

Credit Assessment of Banks	Risk Weights	Risk Weights for short-term claims
AAA to AA-	20%	20%
A+ to A-	50%	20%
BBB+ to BBB-	50%	20%
BB+ to B-	100%	50%
Below B-	150%	150%
Unrated	100%	50%

Risk Weights for Securities Firms

Claims on securities firms may be treated as claims on banks provided they are subject to supervisory and regulatory arrangements comparable to those under the new capital adequacy framework (including, in particular, risk-based capital requirements).

Risk Weights for Corporates

The table below illustrates the risk weighting of rated corporate claims, including claims on insurance companies.

Credit Assessment	Risk Weights
AAA to AA-	20%
A+ to A-	50%
BBB+ to BB-	100%
Below BB-	150%
Unrated	100%

The standard risk weight for unrated claims on corporates will be 100%. No claim on an unrated corporate may be given a risk weight preferential to that assigned to its sovereign of incorporation.

Risk Weights of Retail Assets

Risk weights for non-mortgage retail exposures (including small and medium sized enterprise exposures of less than Euro 1 million) will be reduced from 100% to 75%.

Risk Weights of Claims secured by Residential Property

Lending fully secured by mortgages on residential property that is or will be occupied by the borrower, or that is rented, will no more be risk weighted at 50%. In fact at the Basel Committee meeting of 10 July 2002, this ratio has been reduced to 40%.

Risk Weights of Claims on Commercial Real Estate

In view of the experience in numerous countries, whereby commercial property lending has been a recurring cause of troubled assets in the banking industry over the past few decades, a 100% weighting of the loans secured on commercial real estate will be applied.

Higher Risk Categories

Banks are expected to establish provisions to cover incurred losses. However, when credit quality deteriorates, the volatility of asset values may increase. Past-due status for an asset is often a sign of increased risk. Banks should hold additional capital as a cushion against the potentially higher unexpected losses of an asset that is past-due for more than 90 days. The unsecured portion of any past-due asset, net of specific provisions, will be risk weighted at 150%. Eligible collateral and guarantees for the purpose of defining the secured portion of the past-due asset will be equivalent to those eligible for credit risk mitigation purposes.

Other Assets

The standardised risk weighting for all other assets will continue to be 100%.

Off-Balance Sheet Items

The current framework for calculating the credit exposure of off-balance sheet transactions subject to the Standardised Approach will be retained, with the following exceptions:

(a) Counterparty Risk Weightings of OTC Derivative

The 50% ceiling on counter-party risk weightings of OTC derivative transactions will no longer apply.

Credit conversion factor for short-term commitments

The credit conversion factor for business commitments with original maturity up to one year will be 20%. As an exception, a 0% conversion factor will be applied to commitments that are unconditionally cancellable, or that effectively provide for automatic cancellation, due to deterioration in a borrower's creditworthiness, at any time by the bank without prior notice. The credit conversion factor for commitments with original maturity over one year will continue to be 50%.

(b) Guaranteed Repo-Style Transactions

A credit conversion factor of 100% will be applied to the lending of bank securities or the posting of securities as collateral by the bank, including instances where these arise out of repo-style transactions (i.e. repo/reverse repo and securities lending/securities borrowing transactions). When banks, acting as agents, arrange a repo-style transaction between a customer and a third party and provide a guarantee to the customer that the third party will perform on its obligations, then the risk to the banks is the same as when the banks have entered into a repo-style transaction as principal. In such circumstances, banks would be required to calculate capital requirements as if it were indeed a party to the transaction.

7.3 INTERNAL RATINGS BASED APPROACH

The Internal Ratings Based Approach (IRB) is a parallel alternative to the Standardised Approach, as explained earlier, and it is also proposed under the Pillar 1 of the New Capital Accord as a method to calculate risks.

As opposed to the Standardised Approach whereby a set of risk weights is available for application to specific categories of borrowers, the IRB Approach embodies an assessment of the risk of loss due to a default of a counter-party, based on consideration of relevant quantitative and qualitative information. Such information will essentially emanate from the particular institution's own database. The IRB Approach comprises five key elements:

(a) Categorisation of exposures.

(b) Provision of certain risk components by the bank.

(c) A risk-weight function, which sets out risk weights for given risk component classes.

(d) A set of minimum requirements that a bank must meet in order to be eligible for IRB treatment for the exposure.

(e) Supervisory review to ensure compliance with the minimum requirements.

Below is a brief overview of each of the five elements.

Categorisation of Exposures

Under the IRB Approach, the classification of exposures will normally be based on the bank internal risk assessments. Banks are required to assign banking-book exposures into one of six broad classes of exposures with different underlying credit risk features, namely, corporates, sovereigns, banks, retail, project finance and equity.

In general, all exposures that do not meet one of the definitions for the above exposure classes will be classified as corporate exposures for purposes of the IRB Approach. This proposal seeks to reduce the potential for regulatory capital arbitrage by way of artificial classification of an exposure by a bank in order to reduce the regulatory capital requirements.

Risk Components

Capital charge for exposures within each of the abovementioned six-exposure groups will depend on a specific set of risk components or inputs. For corporate, sovereign and bank exposure classes, the risk components are given either by applying the standardised supervisory rules (foundation methodology) or by internal assessments (advanced methodology). The following briefly reviews the four risk components of the IRB Approach.

(a) Probability of Default

All banks, whether applying the foundation or advanced methodologies, will be required to provide to their supervisors an estimate of the Probability of Default (PD) associated with the borrowers in each grade of borrowers. Each estimate of PD will represent a long run average PD on a conservative basis. This will involve reliance on historical experience as well as empirical evidence. In this respect, supervisors are normally expected to ensure that the preparation of the estimates, including the risk management processes involved and the assignment of ratings processes, do comply with the minimum requirements.

(b) Loss Given Default

Loss Given Default (LGD) is a facility-specific component in that such losses are generally understood to be affected by key transaction features such as the presence of collateral and the degree of subordination of the collateral.

LGD is estimated in two ways. Under the foundation methodology, it is estimated by applying the standard supervisory rules. These rules are normally based on the characteristics of the underlying transaction, in particular, the presence and type of collateral. As a starting point, the Committee recommends the application of a 50% LGD value for most unsecured transactions, with a higher LGD (75%) applicable to subordinated exposures. For transactions with qualifying collaterals, the LGD is reduced having regard to the extent to which the transactions are secured, using a haircut methodology. For transactions with qualifying commercial or residential real estate collateral, a distinct set of supervisory LGD values and recognition rules are utilized. All other transactions are regarded as unsecured for this regulatory purpose.

In the advanced methodology, the appropriate LGD applicable to each exposure is determined on the basis of strong and consistent data and analysis that can be validated both internally and by the supervisor. As with PD these values are expected to portray a conservative view of the long run averages, while banks may use more conservative estimates.

Banks making use of their own estimates of LGD will have to show to their supervisors that these estimates meet the additional requirements pertinent to integrity and reliability.

(c) Exposure at Default

Like LGD, Exposure at Default (EAD) is also facility-specific. EAD will, in most cases, be equal to the nominal amount of the facility. However, in certain cases (such as undrawn commitments), it will include an estimate of future lending prior to default. Under the foundation methodology, EAD is also estimated by the application of standard supervisory rules.

In the advanced methodology, the determination of the EAD applicable to each exposure is on the basis of strong and consistent data capable of being validated both internally and by the supervisors. A bank using internal EAD estimates for the purpose of capital requirements might be able to differentiate EAD values on the basis of a wider range of transaction characteristics (product type) as well as borrower characteristics. Again, these EAD values will represent a conservative view of long run averages. Also, banks making use of their own estimates of EAD will have to demonstrate to their supervisors that they can meet the additional minimum requirements pertinent to the integrity and reliability of these estimates.

(d) Maturity

In cases where maturity is regarded as an explicit risk component, banks will be expected to provide their supervisors with the effective contractual maturity of their exposures.

Risk Weights

In the Standardised Approach, borrowers are assigned to one of six risk weights (0%, 10%, 20%, 50%, 100%, 150%) based on supervisory standard treatments or assessments made by external credit assessment agencies. The IRB Approach caters for a finer differentiation of risk, because estimates of PD, LGD and maturity are developed separately and then used as inputs to produce corresponding risk weights. With this additional sensitivity, the risk weights mirror the full spectrum of credit quality through the application of continuous function of risk weights instead of the six discrete risk buckets of the Standardised Approach. Accordingly, under the IRB Approach different sets of inputs will normally produce a different risk weight. In this manner, exposures to borrowers for which PD, LGD and, in some cases, maturity combine to produce a very low level of risk, will tend to have risk weights which are below their equivalents in the Standardised Approach. In the same vein, counter-parties whose PD, LGD and maturity combine to give significant level of risk, will normally attract risk weights that are higher than those of the Standardised Approach.

The calculation of the risk-weighted assets will involve the multiplication of the risk weights by the measure of exposure, which will be the estimate of EAD and the addition of the resulting amounts across the portfolio. Finally, an adjustment factor is then applied to the total risk-weighted assets to reflect the granularity of the bank's non-retail portfolio.

Minimum Requirements

To become eligible to use the IRB Approach, a bank will have to demonstrate to its supervisor that it is meeting the requisite minimum requirements.

7.4 CONCLUSION

The proposals made in the New Capital Accord are intended to build on the existing provisions of the Capital Accord 1988. Accordingly, the Committee is incorporating certain techniques for the measurement of credit risk that have already been implemented by certain sophisticated banks in their capital allocation process. Also with the broadening of the risk weight category in the Standardised Approach, the new Capital Accord seeks to reduce the scope for banks to have recourse to regulatory arbitrage to reduce their regulatory capital requirements.

The incentives for the implementation of sound banking practices are very much visible in the New Capital Accord, particularly, with the reliance on the ratings carried out on bank exposures by eligible independent agencies approved by bank supervisory bodies. No doubt such measures would prompt banks to gear up their credit risk management techniques that would help them maintain a portfolio of exposures with good ratings, which in turn would enable them to reduce their capital requirements.

The successful implementation of the IRB Approach by banks in Mauritius would only be possible with thorough planning and adequate training being dispensed to their staff members. It would also involve certain arduous and challenging tasks such as data collection, analysis and validation. But the rewards would be worth the challenges.

The Basel Committee is planning to finalise the New Capital Accord in the fourth quarter of 2003 allowing for implementation of the new framework at year-end 2006. As the implementation of the New Accord represents a challenging task not only for commercial banks but also for their supervisory bodies, the Bank of Mauritius has already initiated actions to shore up its supervisory outfit with a view to properly discharging its responsibilities as spelt out in the New Accord. ■

APPENDIX I

Guidelines

Guideline on Transactions or Conditions respecting Well-Being of a Financial Institution Reportable by the External Auditor to the Bank of Mauritius

1. INTRODUCTION

This guideline applies to banks, non-bank deposit taking institutions, foreign exchange dealers, and money changers, collectively designated as 'financial institutions'. It lays down the ground rules respecting certain types of relationships between financial institutions and their external auditors. The relationships are described in terms of categories of transactions or conditions impinging on the well-being of financial institutions that must be reported by their external auditors to the Bank of Mauritius. The reportable transactions and conditions will be those that are encountered by external auditors in the course of financial statement audits.

The reporting requirement does not oblige the external auditor to provide an assurance on the reported matters. It is, however, necessary for him to understand his reporting responsibility, assess the likelihood that transactions or conditions relevant to the well-being of financial institutions will be encountered during the audit and assess the significance of such transactions or conditions for reporting to the Bank of Mauritius. All of this will likely entail the auditor reorienting his work and taking a small amount of extra time in carrying out the financial statement audit. The additional planning and follow-up procedures would not constitute an extension of the scope of the financial statement audit because the auditor is not changing the nature, depth and timing of his audit procedures for the financial statement audit.

Although the external auditor normally expresses his opinion on a point in time financial statements, the opinion is based on the assumption of going concern. This propels the auditor to extend the scope of his inquiry, including discussions with management, to ensure that there are no doubts about the financial institution's ability to continue as a going concern. This points to a degree of convergence of interests of the auditor and the supervisor who must monitor the present and future viability of the financial institution to foster its safety and soundness.

International Accounting Standard 1 (IAS 1) issued by the International Accounting Standards Board outlines the assumption of 'going concern', applicable to the financial statement presentation. According to IAS 1, "In assessing whether the going concern assumption is appropriate, management takes into account all available information for the foreseeable future, which should be at least, but is not limited to, twelve months from the balance sheet date." It states further that in cases where an enterprise may not have a history of profitable operations and ready access to financial resources, "management may need to consider a wide range of factors surrounding current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy that the going concern basis is appropriate". The external auditors, in providing assurance on the financial statement, must determine the adequacy of the basis used by management of a financial institution in applying the assumption of going concern.

The term 'external auditor(s)' used in the guideline applies to individual auditors as well as to the firm of auditors to which they might belong. When a firm of auditors exists, the obligations for meeting the requirements of the guideline shall devolve on the firm.

The guideline is issued under the authority of the Bank of Mauritius Act, the Banking Act, and the Foreign Exchange Dealers Act. It shall come into effect on 24 February 2003.

2. WELL-BEING OF A FINANCIAL INSTITUTION

Subsection 25(11) of the Banking Act sets out the reporting requirements of the external auditor.

"If an auditor, in the course of the performance of his duties as an auditor of a bank, is satisfied that-

(a) there has been a serious breach of or non-compliance with, the provisions of this Act, the Bank of Mauritius Act, the Companies Act, the Exchange Control Act, and regulations, guidelines and circulars issued by the central bank;

(b) a criminal offence involving fraud or other dishonesty has been committed;

(c) losses have been incurred which reduce the paid up and assigned capital, as the case may be, of the bank by 50 per cent or more;

(d) serious irregularities have occurred, including those that jeopardise the security of depositors and creditors; or

(e) he is unable to confirm that the claims of depositors and creditors are still covered by the assets,

he shall immediately report the matter to the central bank."

All of the above reporting requirements relate to the well-being of banks. In the interest of prudential supervision, these requirements shall apply also to non-bank deposit taking institutions, and foreign exchange dealers and money changers, as appropriate. In addition, the central bank has issued a number of guidelines, requiring the financial institutions to conduct their operations in a specified manner, all directed to the well-being of the financial institutions. Therefore, the term 'well-being' used in this guideline represents the broad scope herein outlined.

3. REPORTABLE TRANSACTIONS OR CONDITIONS

The requirements of Subsection 25(11) are quite specific and must be adhered to. The following elaborates on these requirements, as necessary, and sets out the broad categories of transactions or conditions that are reportable to the supervisor under the well-being reporting requirement.

3.1 Transactions or conditions requiring a change in accounting basis, or a note disclosure

Transactions or conditions that necessitate a change in the accounting basis or require a disclosure by way of a note to the financial statements to explicitly draw the reader's attention to the possibility that the financial institution may not be able to continue realizing its assets and discharging its liabilities in the ordinary course of business. The circumstances present doubts about the continuing validity of the going concern assumption.

3.2 Material adverse changes in risks inherent in the financial institution's business, with potential to jeopardize its ability to continue as a going concern

In this category, the auditor may conclude that while the transactions or conditions encountered in the course of his audit do not affect the validity of using going concern assumption, there are circumstances pointing to significant risks that could potentially impair the ability of the financial institution to continue as a going concern. In making his determination, the auditor will take into account all evidence collected in the course of the audit, including discussions with management and its assessment of the situation, as well as the auditor's own knowledge of the financial institution's business, the industry and economic conditions.

In assessing the significance of exposure of the institution to risks, the auditor will need to identify and assess the key factors affecting the risks, how the identified factors could change, and whether the changes have more than remote chance of occurring.

As an example, a financial institution may have loans or investments that result in excessive concentration in an industry sector. The auditor will consider if there is more than a remote chance of changes occurring in the sector that would cause losses to the financial institution, jeopardizing its ability to continue as a going concern. In making his assessment, the auditor will of course take into account the financial institution's ability to mitigate the effects of the concentration by having in place appropriate risk management policies and its capacity to absorb the losses that might ensue.

In another example, a financial institution may have loans or investments that result in significant mismatching of assets and liabilities. The auditor will determine whether or not there is more than a remote chance of changes occurring in interest rates or foreign exchange rates that would lead to losses, impairing the ability of the institution to continue as a going concern. Again in this case, the auditor will take into account any risk management policies and procedures that would mitigate the adverse effects of the mismatch and the institution's ability to absorb losses ensuing from the mismatch.

3.3 Information available to the auditor, indicating a material breach of the governing statutes or guidelines

Financial institutions are subject to a variety of laws, regulations and guidelines. A serious breach of their requirements can have a material impact on an institution's safety and soundness, with adverse consequences for depositors and creditors. Examples are the violation of the legislated ownership ceiling, the Guidelines on Risk Weighted Capital Adequacy, Credit Classification for Provisioning Purposes and Income Recognition, Corporate Governance, and Related Party Transactions, and laws relating to anti-money laundering or prevention of terrorism.

3.4 Transactions or conditions indicating that the financial institution has significant weaknesses in its internal controls and management processes that render it vulnerable to material risks and exposures, leading to potential impairment of its ability to continue as a going concern

During the course of the financial statement audit, the auditor may become aware that the internal control systems of the financial institution are seriously deficient in the management of risks, such as those relating to liquidity, interest rates, asset concentration, asset valuation, derivative financial instruments, and credit granting. Such deficiencies must be reported to the Bank of Mauritius if the auditor concludes that they may potentially impair the financial institution's ability to continue as a going concern.

An example of a breakdown in internal controls is when the chief executive officer disregards the allocation of responsibilities and accountabilities between the board of directors and himself and exposes the financial institution to undue risks without the knowledge and approval of the board. This could occur when he deliberately exceeds the prudential limits, for example, in credit concentration, or engaging in the disposal of securities and other assets beyond his authority and without approval of the board. These excesses might not at the time seem to prejudge the institution's capacity to continue as a going concern but the behaviour, if unchecked, could lead to serious consequences for the institution. The auditor must be alert to such serious weaknesses in controls and bring the matter to the attention of the Bank of Mauritius.

3.5 Transactions or conditions violating the assumption of management's good faith

In the course of a financial statement audit, the auditor collects a variety of evidence, which he scrutinizes for adequacy and validity. In his scrutiny, he is guided by the assumption of management's good faith. If he determines that any transactions or conditions contradict that assumption, the matter is deemed serious and must be reported to the Bank of Mauritius. The lack of management's good faith exposes the financial institution to significant risks. The transactions or conditions affected could involve fraud or other irregularities at the highest levels of management. For example, the auditor may conclude that management has deliberately provided misleading information to the Bank of Mauritius or the public, or has misled the auditor in important aspects of the institution's business.

3.6 Serious conflict between decision-making echelons of the financial institution

When the auditor concludes that there is serious dissension or conflict between the decision-making levels of management, which has significantly impaired or has the potential to significantly impair the risk management capacity of the financial institution, the matter will be reportable to the Bank of Mauritius. An indication of such dissension or conflict may be the unexpected departure of a manager in a key function.

3.7 Transactions or conditions warranting a reservation in the auditor's opinion

The reservation of opinion on the financial statements of a financial institution is normally a very serious matter as it could significantly impair public confidence in the institution. Any transactions or conditions that lead the auditor to conclude that a reservation of his opinion is necessary, will be reportable to the Bank of Mauritius.

3.8 Auditor's intention to resign or planned removal of the auditor

When the auditor has decided that he would want to resign from his position as the auditor of a financial institution, or has become aware that management of the financial institution intends to remove him from his office, he should report the matter to the Bank of Mauritius. A timely reporting of the information would permit the Bank to investigate the matter before it becomes serious enough to threaten the safety and soundness of the institution.

4. OTHER CONSIDERATIONS

The above lists the broad categories of transactions and conditions that are reportable to the Bank of Mauritius under the well-being reporting requirements. However, there may be other situations, which are not covered in the list but are, in the opinion of the auditor, of sufficient importance to be brought to the attention of the Bank of Mauritius to ensure the financial institution's continued well-being. The auditor will be expected to advise the Bank of such transactions or conditions.

5. CONFIDENTIALITY PROTECTION FOR EXTERNAL AUDITORS

Section 25(14) of the Banking Act provides confidentiality protection for communications from the external auditor to the Bank of Mauritius under this guideline. "No duty of confidentiality to which an auditor of a bank may be subject shall be regarded as contravened by reason of his communicating in good faith to the central bank, whether or not in response to a request made by it, any information or opinion which is relevant to the central bank's functions under this Act."

6. TIMING OF REPORTING TO THE BANK OF MAURITIUS

Subsection 25(11) of the Banking Act states that when an auditor is satisfied that a reportable situation exists, he shall immediately report the matter to the Bank of Mauritius.

Bank of Mauritius
February 2003

Guideline on Public Disclosure of Information

INTRODUCTION

This guideline is issued under the authority of the Bank of Mauritius Act, the Banking Act, taking cognizance of the relevant requirements of the Companies Act.

The guideline applies to banks and non-bank deposit taking institutions, collectively called 'financial institutions' or 'institutions'. Any section of the guideline dealing with banks shall be applicable to non-bank deposit taking institutions, as appropriate. The guideline is based on the premise that the reporting of comprehensive, meaningful and accurate information in a timely manner provides strong market discipline on financial institutions to manage their activities and risk exposures prudently and consistently with their stated objectives. The extent and level of disclosure is of fundamental importance to market participants in making accurate assessment of an institution's financial condition, performance, business activities, risk profile and risk management practices. The guideline is also designed to promote standardization in the presentation of information, thereby facilitating comparability between institutions.

The prime focus of the guideline is on the annual report of a financial institution, although it is recognized that public disclosure of information may also occur, indeed be necessary, in other formats and at other times.

The guideline is divided into three parts. The first part deals with the management discussion and analysis (MDA) report. MDA provides a financial overview and the discussion of certain future oriented financial information on the operations of the institution. Such information is designed to reflect on the future prospects of the institution, and its performance against previously established objectives. It sets out objectives for the ensuing periods. MDA also discusses risk management policies, strategies and controls, and corporate governance practices of the institution.

The second part outlines the format of the annual financial statements, including the statement of management responsibility for financial reporting and the auditor's report to shareholders. The financial statements, consisting of balance sheet, statement of income and statement of cash flows, provide largely point in time information, based on historical data. The notes to the financial statements deal with accounting policies, comparative data to permit trend analysis, maturity schedules to enhance appreciation of an institution's financial condition, and information on contingent liabilities. In line with the normal auditing practice, the concept of 'materiality' will apply in assessing whether the financial statements give true and fair view of the financial position of the institution.

The Companies Act 2001 requires that companies prepare their financial statements in accordance with and in compliance with the International Accounting Standards. The disclosures envisaged in the guideline deal with only the most relevant and significant information respecting financial institutions that is of interest to market participants. They are by no means designed to cover or summarize the requirements of all different International Accounting Standards that have application to financial institutions. It is, therefore, expected that the institutions will provide additional information or disclosures on their own in order to fully comply with the Standards.

The guideline is designed to provide a framework for disclosure of information, covering a broad spectrum of financial institutions. It is recognized that the content and format of disclosures might have to be adjusted somewhat, taking into account the specific nature of business of a financial institution. The Bank of Mauritius does not, however, expect any wholesale changes to the content or format. Any adjustments will have to be fully justifiable and the institution shall be accountable to the Bank of Mauritius in substantiating its rationale for adjustments.

Only the institutions that are incorporated in Mauritius are required to present group accounts in addition to the accounts of the institution itself.

The requirement for unaudited quarterly financial statements by the financial institutions is discussed in the third part of the guideline. In view of the dynamic nature of financial markets, potentially causing rapid changes in the risk profiles of financial institutions, the release of quarterly statements is helpful in disseminating updated, relevant information to the investing public and other interested parties. The quarterly statements provide essential financial information on the institution's operations in a summary format.

The quarterly statements should be released within 45 days of the end of the quarter. The half-yearly audited financial statements, currently produced by the banks, will be no longer required.

This guideline supersedes the previously issued guidance notes relating to the format of balance sheet and profit and loss account based on IAS 30. It shall come into effect on 3 January 2003 and apply to annual reports, annual financial statements, and quarterly financial statements as of that or a subsequent date.

PART 1
Management Discussion and Analysis

MDA, forming part of a financial institution's annual report, enhances transparency and comparability of its policies, strategies and practices in different areas of its performance and asset value. The responsibility for the propriety, adequacy and support of facts, forecasts and projections included in the MDA, resides with the board of directors of the institution. The scope of information and the level of disaggregation and detail in the MDA will be commensurate with the size and nature of the institution's operations. MDA shall cover the following areas:

- Financial review;
- Capital structure;
- Risk management policies and controls;
- Related party transactions policies and practices; and
- Statement of corporate governance practices.

An institution may depart from the format outlined in the guideline if it considers that the required information can be set out more meaningfully in a different format. It is expected, however, that the substance of disclosures and transparency contemplated in the guideline will be observed. The institution is free to add to the disclosures to further enhance the annual report's value.

Because of the uncertainties inherent in the forecasts and projections contained in the MDA, it will be prudent to preface it with a cautionary note to the reader. The note should indicate that the MDA includes forward-looking statements and that risks exist that forecasts, projections and other postulations contained therein will not materialize and that actual results may vary materially from the plans and expectations. It should also state that the financial institution has no plan to update any forward-looking statements periodically. The reader should, therefore, stand cautioned not to place any undue reliance on such statements.

Each financial institution shall have a formal disclosure policy to promote market discipline. The policy shall be approved by its board of directors and periodically reviewed. The policy shall describe the institution's objectives and strategy for public disclosure of information on its financial condition and performance. The institution shall report to its board of directors on the processes for assessing the appropriateness of its disclosure, including the frequency of disclosure.

1. FINANCIAL REVIEW

This section should start with an overview of the institution's performance against objectives, followed by a broader financial review.

1.1 Performance against objectives

The performance against objectives overview could be set out in the form of a table with four columns headed, area of performance, current year's objective, current year's performance, and the next year's objective. The areas of performance should include revenue growth, expense growth (operating expense growth compared to operating revenue growth), productivity (ratio of non-interest expenses to net interest income plus other income), return on equity, return on average assets, portfolio quality (ratio of specific provision for credit losses to average loans; ratio of net impaired loans to average loans), and capital management (Tier 1 and total capital ratios).

1.2 Review by financial priority areas

The summary information in paragraph 1.1 should be expanded by individual financial priority areas of the financial institution. Provide comparative data for three years unless indicated otherwise. As feasible, provide a breakdown of information by lines of business. The narrative accompanying the data should discuss factors accounting for any growth or lack thereof, variability of profits over time, and provide other relevant information to assist market participants in appreciating the institution's performance. In assessing the sustainability of profits, it is important that the impact of any acquisitions or discontinuance of a line of business during the year be disclosed.

Subsections 1.2.1 to 1.2.4 below should be prefaced by a 'highlights' caption, extracting the salient data/ratios from the subsection, comparing only the experience for the current year with that of the preceding year. This should be followed by an 'outlook' caption, giving the projections for the next year.

1.2.1 Revenue growth

Provide comparative experience for net interest margin i.e. the ratio of net interest income (interest income minus interest expense) to total average interest earning assets, and net interest income to total average assets. In support of these ratios, give a breakdown of interest income, interest expense, related assets, and related liabilities, by major categories. Also, provide comparative data for core revenue (net interest income plus core non-interest revenue). Core data means data after elimination of the effects of any unusual, non-operational items. The narrative in support of the ratios should describe reasons for any significant fluctuations or trends.

Provide comparative figures in a tabular form, for the principal components of non-interest revenue, explaining any significant changes in their relative importance and overall performance.

1.2.2 Cost control

Core non-interest expenses represent, by and large, the principal costs of running a financial institution. Such expenses deal with the costs respecting human resources, occupancy, equipment, communications, professional fees, amortization of goodwill and other intangibles, and other miscellaneous items. The institution should provide comparative data on individual non-interest expenses, explaining any significant movements from year to year as well as any changes in the productivity ratio (non-interest expenses as a percentage of net interest income plus other income).

1.2.3 Credit exposure

In the discussion of credit in the MDA, there may well be some duplication with the information contained in the financial statements part of the annual report. This is acceptable in the interest of completeness.

Provide data by industry sector, and domestic versus international, on total credit exposure, including exposures from lending, trading, investment and off-balance sheet activities. The comparative information should be properly segmented (e.g. lending, trading). Where appropriate, potential future exposures by different segments, should be identified.

The institution should also provide information on its credit concentration experience. It should indicate that its policies and practices are governed by the requirements of the Guideline on Credit Concentration Limits. Describe briefly the provisions of the Guideline. To the extent that it does not disclose any commercially confidential information, give information on six most significant individual concentration cases (in respect of one customer or group of related customers), giving the characteristics of exposures and magnitude related to the institution's capital base.

Disclose quantitative information on the effects of credit risk mitigation techniques used by the financial institution. This would include collateral, guarantees and legally enforceable netting arrangements. Indicate the quantitative impact of the credit risk mitigation techniques on the amounts of credit risk exposures.

1.2.4 Credit quality

Give data required on credit quality by year for five years, unless it is established to be unfeasible. Provide a narrative on important events and variations from period to period. A reference should be made to the regulatory requirements (Guideline on Credit Classification for Provisioning Purposes and Income Recognition) outlined in Note 1 to the financial statements.

Provide data on loans, related non-performing loans, and provision for credit losses by industry sector, and domestic versus international. Using the same breakdown i.e. industry sector, and domestic versus international, set out the percentages of non-performing loans to total related loans, provision for credit losses to related non-performing loans, and provision as a proportion of total loans.

Disclose, in aggregate, the information on credits that have been restructured during the year, giving the balance of the restructured loans, the basic nature of concessions granted, the impact of restructured credit arrangements on allowance for credit losses and on present and future earnings (using the discounting approach outlined in the Guideline on Credit Classification for Provisioning Purposes and Income Recognition).

Present in tabular form data on allowance for credit losses (giving separately the amounts of specific and general allowances) for the current year by industry sector, and by domestic versus international. More specifically, the table should contain information on allowance at beginning of year, provision for credit losses for the year, loans written off, recoveries, and allowance at end of year. Provide separately similar information on allowance for credit losses for off-balance sheet items. By way of proportions, give the percentage of net write-offs to total loans, allowance to non-performing loans, and allowance to total loans.

2. CAPITAL STRUCTURE

Outline briefly the regulatory requirements for the maintenance of capital as contained in the Guidance Notes on Risk-Weighted Capital Adequacy Ratio. Show in a tabular form the components of Tier 1 and Tier 2 capital of the financial institution.

Describe how Tier 1 and Total capital ratios are calculated in relationship to the risk-weighted assets. Give the institution's performance over three years in Tier 1 and Total capital ratios. In a tabular form, show how risk-weighted assets of the institution are determined by applying prescribed risk weights to balance sheet assets and off-balance sheet financial instruments, according to the relative credit risk of the counterparty. Risk-weighted assets also include an amount for the market risk exposure associated with the institution's trading portfolio. Discuss the significance of any movements in the capital structure.

Outline activity during the year for any new issues and repurchases of ordinary shares, new issues and redemptions of preferred shares and subordinated debentures. Indicate any potential sources of capital should need arise.

Identify the on-going initiative of the Bank for International Settlements (BIS) in bringing forth a new capital adequacy framework. As it stands, the implementation of the final proposals is unlikely to occur prior to 2006.

3. RISK MANAGEMENT POLICIES AND CONTROLS

The risks to which a financial institution is exposed and the policies and techniques used to measure and control the risks are important factors that market participants employ in the assessment of the financial institution.

Each institution should identify and describe the risks that are significant to its business. These include but are not limited to credit risk, interest rate risk, foreign exchange risk, liquidity risk and operational risk. Some institutions may be exposed to country risk, including the risk for repatriation of funds. The institution should describe the way in which it monitors and controls such risks. It should provide sufficient qualitative and quantitative (position data)

data to help market participants understand the nature and extent of the institution's exposures.

The institution should discuss the extent of any significant exposures to areas where there recently has been, or there is the potential for, significant loss due to industry sector specific factors or general industry recession and outline the steps it has taken to contain the risks.

The institution should describe its management structure for controlling risks. It should disclose the role of its board of directors in approving and periodically reviewing risk management policies, ensuring employment of competent and qualified persons to control and manage risks, and reviewing reports from management to ensure the adequacy of the institution's risk profile and controls.

To assist the board in carrying out the above mandate, the role of the Conduct Review Committee of the board, specified in the Guideline on Related Party Transactions, shall be enlarged to review and approve credit risk policies and ensure that adequate controls and information systems are in place to implement the institution's policies. The committee, to be designated as Conduct Review and Risk Policy Committee, shall consist of only independent directors and report to the board periodically on its activities.

In addition, the chief executive officer of the financial institution shall establish a risk management committee under his/her chairmanship, consisting of appropriate senior executives with risk management responsibilities. The committee shall develop and review policies and strategies for the function, monitor the institution's risk profile, provide strategic guidance to the staff, and submit timely reports to the Conduct Review and Risk Policy Committee and the board of directors.

3.1 Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to a financial instrument to fulfill its obligations. This risk can relate to on-balance sheet assets as well as off-balance sheet assets, such as guarantees, letters of credit, commitments and possibly derivative products.

The institution should disclose its credit risk management policies, including the role of the board and management in the development, review, approval and implementation of credit risk management policies, and the procedures in place for the loan review function, related internal controls, and monitoring.

The discussion of the credit risk management policies should include information on the methods used to identify existing and potential risks inherent in the credit portfolio. More specifically, the institution should disclose the methods for assessing credit risks on an individual counterparty basis and industry sector basis, credit concentration limits, and loan monitoring and follow-up. The institution should also describe the mechanisms used to mitigate credit risk exposure, such as collateral, guarantees, and netting arrangements, and how it periodically evaluates their continuing validity and value.

The institution should further disclose information on the techniques and methods employed to monitor and manage past due and impaired assets.

3.2 Interest rate risk

Interest rate risk is a risk that a movement in interest rates will have a significant adverse effect on the financial condition of the institution. It can arise from trading and non-trading activities. A key source of interest rate risk is the repricing mismatch. This risk arises when there are mismatches or gaps in amounts of assets, liabilities and off-balance sheet instruments that mature or reprice in a given period.

An institution should set out its objectives and associated business strategies in managing interest rate risk. It should describe the role of the board of directors and management in the development, review, approval and implementation of interest rate risk policy, and the management program for effectively monitoring and controlling the risk. The institution should identify and describe the analytical techniques used, such as gap analysis, to measure and monitor the interest rate risk.

The institution should explain any risk mitigation methods, such as hedging instruments, used to manage interest rate risk and provide quantitative information on the extent to which such instruments have been used.

3.3 Foreign exchange rate risk

Foreign exchange rate risk is the risk that a financial institution's earnings and economic value will be adversely affected with the movements in the foreign exchange rate. The institution is exposed to this risk in both the spot and forward foreign exchange markets. Spot foreign exchange risk arises when the total present value of assets in a particular currency does not equal the present value of liabilities in that currency. Forward foreign exchange risk arises when for a given currency, the maturity profile of forward purchases differs from the maturity profile of forward sales.

The institution should disclose its foreign exchange risk management policies, including the role of the board and management in the development, review, approval and implementation of such policies, and the procedures in place to effectively monitor and control the risk function.

Banks should outline briefly the requirements of the Guideline for Calculation and Reporting of Foreign Exchange Exposures of Banks. They and other financial institutions should identify the analytical techniques used to measure the risk, the limits imposed, if different from those required under the Guideline, and the frequency of measurement. The institutions should also set out the key sources of the risk within their portfolios (e.g. unhedged net investments in foreign operations or active positions taken for their own accounts). They should also describe the methodology used in measuring foreign exchange trading gains or losses.

3.4 Liquidity risk

The objective of liquidity management is to ensure that funds are available or there is assurance of the availability of funds, to honour the financial institution's cash flow commitments as they fall due, including off-balance sheet outflow commitments, in a timely and cost effective manner. Liquidity management is critical to protecting the financial institution's capital, maintaining market confidence and ensuring that the institution can take advantage of profitable business opportunities.

The financial institutions should briefly outline the requirements of the Guideline on Liquidity, including the requirement for the formulation of liquidity policy, the board's and management's responsibility for the establishment, review and implementation of the policy. The institutions should include, in particular, a description of policies, performance and procedures in place with respect to:

- controlling the cash flow mismatches between on- and off-balance sheet assets and liabilities;
- maintaining stable and diversified sources of funding;
- accessing alternative sources of funds, if required;
- controlling undrawn or unrealized commitments given; and
- stress testing.

3.5 Operational risk

Operational risk is the potential for loss from failure in business processes, internal control systems, technology, or fraud. Losses can be financial or non-financial, such as loss of reputation.

Each institution should have operational risk management policies and practices approved by the board of directors. An appropriate disclosure should be made of such policies and practices, including those respecting:

- identification and assessment on a continuing basis of the operational risk faced by different businesses of the institution;
- implementation of risk mitigation practices, including an appropriate system of internal control, trained and competent staff, well defined operating policies, and contingency planning; and
- regular enterprise-wide audits by the internal audit department of the institution to ensure that the risk mitigation practices are being followed throughout the organization.

4. RELATED PARTY TRANSACTIONS POLICIES AND PRACTICES

A financial institution should outline briefly the requirements of the Guideline on Related Party Transactions, including limits imposed on exposure to individual related parties and to all related parties in aggregate. It should discuss its own policies with respect to related party transactions, including the role of the board, the Conduct Review and Risk Policy Committee, and management in their development, implementation and monitoring as well as in the implementation of the requirements of the Guideline.

Each institution should provide aggregated data on its on- and off-balance sheet credit exposure to related parties relative to the institution's exposure to all customers, stating also the proportions. The institution should indicate the proportion of credit exposure to related parties that has become non-performing. This information should be provided by year for three years.

Each institution should further disclose the total amount of exposure to six related parties with highest exposures, giving also the percentage of such exposure to the institution's Tier 1 capital.

5. STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The Guideline on Corporate Governance requires each institution to disclose on an annual basis (to be incorporated in its annual report) its approach to corporate governance. The disclosure must be prepared in the context of and by reference to the Guideline.

According to the Guideline, the "discussion of the subject should be concise and deal with the following points:

- mandate of the board, its duties and objectives;
- composition of the board, identifying 'inside directors', 'outside directors', and the proportion of 'outside directors' that are 'independent directors';
- description of the board committees, their mandates, and their activities;
- description of decisions requiring prior approval of the board;
- senior management structure, outlining their responsibilities, reporting lines, qualifications, and experience;
- board's expectations of management and its performance in meeting them;
- incentive structure of the bank, remuneration policies, executive compensation; and
- the nature and extent of transactions with affiliates and related parties."

The above disclosure requirements shall also apply to non-bank deposit taking institutions. Also, the financial institutions should outline the processes in place for receiving shareholder feedback on their activities and how the shareholder concerns are dealt with.

PART 2
FINANCIAL STATEMENTS
Statement of Management's Responsibility for Financial Reporting

The group financial statements (consolidated) and the financial statements for the bank's operations in Mauritius presented in this annual report have been prepared by management, which is responsible for their integrity, consistency, objectivity and reliability. International accounting standards of the International Accounting Standards Committee as well as the requirements of the Banking Act and the guidelines issued thereunder, have been applied and management has exercised its judgement and made best estimates where deemed necessary.

The bank has designed and maintained its accounting systems, related internal controls and supporting procedures, to provide reasonable assurance that financial records are complete and accurate and that assets are safeguarded against loss from unauthorized use or disposal. These supporting procedures include careful selection and training of qualified staff, the implementation of organization and governance structures providing a well defined division of responsibilities, authorization levels and accountability for performance, and the communication of the bank's policies, procedures manuals and guidelines of the Bank of Mauritius throughout the bank.

The bank's board of directors, acting in part through the Audit Committee and Conduct Review and Risk Policy Committee, which are comprised of independent directors who are not officers or employees of the bank, oversees management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

The bank's Internal Auditor, who has full and free access to the Audit Committee, conducts a well designed program of internal audits in coordination with the bank's external auditors.

Pursuant to the provisions of the Banking Act, the Bank of Mauritius makes such examination and inquiry into the operations and affairs of the bank as it deems necessary.

The bank's external auditors, ( ), have full and free access to the board of directors and its committees to discuss the audit and matters arising therefrom, such as their observations on the fairness of financial reporting and the adequacy of internal controls.

Chairperson **Board of Directors**	**Director**	**Chief Executive Officer**

Auditor's Report
Of
XYZ Bank

We have audited the financial statements of the group and of the bank for the year ended ...., set out on pages .... to ....

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and of the bank and for ensuring that the financial statements comply with the provisions of the Banking Act 1988 and of the Companies Act 2001 applicable to banks. They are also responsible for safeguarding the assets of the group and of the bank and hence for taking steps for the prevention and detection of fraud and other irregularities. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

We conducted our audit in accordance with the International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance whether the financial statements are free from any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by directors in the preparation of financial statements, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have no relationship with, or any interests in, the bank or any of its subsidiaries other than in our capacity as auditors, except ....

In our opinion,

(a) proper accounting records have been kept by the group and the bank as far as it appears from an examination of those records; and

(b) the financial statements give a true and fair view of the financial position of the group and the bank as of .... and of the results of their operations and their cash flows for the year then ended and are properly drawn up in accordance with the International Accounting Standards, including the requirements of the Bank of Mauritius, and comply with the provisions of the Banking Act 1988 and the Companies Act 2001 applicable to banks, as well as the regulations and guidelines of the Bank of Mauritius.

Date **Auditors**
Address

X Y Z Bank Limited
Balance Sheet
As at ....

	Note	Group (Consolidated) Year 2	Group (Consolidated) Year 1	Group (Consolidated) Year 0	Bank Year 2	Bank Year 1	Bank Year 0
		Rs 000					
ASSETS							
Cash resources							
Cash and balances with central banks		x	x	x	x	x	x
Balances with Category 1 banks and interbank loans		x	x	x	x	x	x
Balances with Category 2 banks in Mauritius and banks abroad		x	x	x	x	x	x
Balances with other financial institutions		x	x	x	x	x	x
		x	x	x	x	x	x
Securities, Placements and Other Investments	2						
Investment securities		x	x	x	x	x	x
Trading securities		x	x	x	x	x	x
Placements		x	x	x	x	x	x
Other investments		x	x	x	x	x	x
		x	x	x	x	x	x
Loans	3						
Personal and credit cards		x	x	x	x	x	x
Business		x	x	x	x	x	x
Governments		x	x	x	x	x	x
Banks in Mauritius		x	x	x	x	x	x
Entities outside Mauritius		x	x	x	x	x	x
Assets purchased under resale agreements		x	x	x	x	x	x
		x	x	x	x	x	x
Allowance for credit losses	3	x	x	x	x	x	x
		x	x	x	x	x	x
Other							
Intangible assets	4	x	x	x	x	x	x
Land, buildings and equipment	5	x	x	x	x	x	x
Other assets	6	x	x	x	x	x	x
		x	x	x	x	x	x
		x	**x**	**x**	**x**	**x**	**x**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Deposits	7						
Personal		x	x	x	x	x	x
Business		x	x	x	x	x	x
Governments		x	x	x	x	x	x
Banks		x	x	x	x	x	x
		x	x	x	x	x	x
Borrowings		x	x	x	x	x	x
Central banks		x	x	x	x	x	x
Category 1 banks and interbank borrowings		x	x	x	x	x	x
Category 2 banks in Mauritius and banks abroad		x	x	x	x	x	x
Other Financial Institutions		x	x	x	x	x	x
Subordinated loans	8	x	x	x	x	x	x
		x	x	x	x	x	x

		Rs 000					
		Group (Consolidated)			Bank		
	Note	Year 2	Year 1	Year 0	Year 2	Year 1	Year 0
Other							
Securities sold under repurchase agreements		x	x	x	x	x	x
Current tax		x	x	x	x	x	x
Deferred tax		x	x	x	x	x	x
Other liabilities	9	x	x	x	x	x	x
		x	x	x	x	x	x
Minority Interest in Subsidiaries		x	x	x			
Shareholders' equity							
Capital	10	x	x	x	x	x	x
Ordinary		x	x	x	x	x	x
Preference		x	x	x	x	x	x
		x	x	x	x	x	x
Reserves and surplus		x	x	x	x	x	x
Retained Earnings		x	x	x	x	x	x
		x	x	x	x	x	x
		x	x	x	x	x	x
CONTINGENT LIABILITIES	11						
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers, and spot foreign exchange contracts		x	x	x	x	x	x
Commitments		x	x	x	x	x	x
Assets pledged		x	x	x	x	x	x
Contingent liabilities from lawsuits		x	x	x	x	x	x
Financial derivatives		x	x	x	x	x	x
Other		x	x	x	x	x	x
		x	x	x	x	x	x

X Y Z Bank Limited
Statement of Income
For the years ended ....

		Rs 000					
		Group (Consolidated)			Bank		
	Note	Year 2	Year 1	Year 0	Year 2	Year 1	Year 0
Interest Income							
Loans		x	x	x	x	x	x
Securities	12	x	x	x	x	x	x
Placements and loans to banks		x	x	x	x	x	x
Other [(1)]		x	x	x	x	x	x
		x	**x**	**x**	**x**	**x**	**x**
Interest Expense							
Deposits		x	x	x	x	x	x
Deposits and borrowings from banks		x	x	x	x	x	x
Interest on subordinated debt		x	x	x	x	x	x
Other [(1)]		x	x	x	x	x	x
		x	**x**	**x**	**x**	**x**	**x**
Net interest income		x	x	x	x	x	x
Provision and adjustments to income for credit losses	13	x	x	x	x	x	x
Net interest income after provision for credit losses		**x**	**x**	**x**	**x**	**x**	**x**
Other Income							
Fee income and commissions	14	x	x	x	x	x	x
Profits arising from dealings in foreign currencies		x	x	x	x	x	x
Share of income of associated companies		x	x	x	x	x	x
Dividend income		x	x	x	x	x	x
Net gain on sale of securities		x	x	x	x	x	x
Other [(1)]		x	x	x	x	x	x
		x	**x**	**x**	**x**	**x**	**x**
Net interest and other income		**x**	**x**	**x**	**x**	**x**	**x**
Non-interest expense							
Salaries and human resource development		x	x	x	x	x	x
Pension contributions and other staff benefits		x	x	x	x	x	x
Depreciation		x	x	x	x	x	x
Other [(1)]		x	x	x	x	x	x
		x	x	x	x	x	x
Net income before income taxes		**x**	**x**	**x**	**x**	**x**	**x**
Provision for income taxes	15	x	x	x	x	x	x
Net income after income taxes		**x**	**x**	**x**	**x**	**x**	**x**
Minority interest		x	x	x	x	x	x
Net income		**x**	**x**	**x**	**x**	**x**	**x**
Preferred dividends paid		x	x	x	x	x	x
Net income available to ordinary shareholders		**x**	**x**	**x**	**x**	**x**	**x**
Average number of ordinary shares outstanding		x	x	x	x	x	x
Net income per ordinary share		x	x	x	x	x	x

(1) If amount is significant, append a note explaining the nature of the amount

X Y Z Bank Limited
Statement of changes in
Shareholders' Equity
For the years ended ....

		Rs 000					
		Group (Consolidated)			Bank		
	Note	Year 2	Year 1	Year 0	Year 2	Year 1	Year 0
Share Capital							
Ordinary shares							
Balance at beginning of year		x	x	x	x	x	x
Issued to public		x	x	x	x	x	x
Issued under stock option plan		x	x	x	x	x	x
Shares bought back		x	x	x	x	x	x
Balance at end of year		x	x	x	x	x	x
Preference shares							
Balance at beginning of year		x	x	x	x	x	x
Issued to public		x	x	x	x	x	x
Shares bought back		x	x	x	x	x	x
Balance at end of year		x	x	x	x	x	x
Reserves and surplus							
Share premium							
Balance at beginning of year		x	x	x	x	x	x
Increase from shares issued during the year		x	x	x	x	x	x
Decrease from shares bought back during the year		x	x	x	x	x	x
Balance at end of year		x	x	x	x	x	x
Statutory reserve							
Balance at beginning of year		x	x	x	x	x	x
Increase/decrease during the year		x/(x)	x/(x)	x/(x)	x/(x)	x/(x)	x/(x)
Balance at end of year		x	x	x	x	x	x
Revaluation reserve							
Balance at beginning of year		x	x	x	x	x	x
Increase/decrease during the year		x/(x)	x/(x)	x/(x)	x/(x)	x/(x)	x/(x)
Balance at end of year		x	x	x	x	x	x
Contingency reserve							
Balance at beginning of year		x	x	x	x	x	x
Increase/decrease during the year		x/(x)	x/(x)	x/(x)	x/(x)	x/(x)	x/(x)
Balance at end of year		x	x	x	x	x	x
Retained Earnings							
Balance at beginning of year		x	x	x	x	x	x
Net Income		x	x	x	x	x	x
Dividend: Preference		(x)	(x)	(x)	(x)	(x)	(x)
Ordinary		(x)	(x)	(x)	(x)	(x)	(x)
Other Appropriations		(x)	(x)	(x)	(x)	(x)	(x)
Balance at end of year		x	x	x	x	x	x
Total		x	x	x	x	x	x

X Y Z Bank Limited
Statement of Cash Flows
For the years ended ....

		Rs 000					
		Group (Consolidated)			Bank		
	Note	Year 2	Year 1	Year 0	Year 2	Year 1	Year 0
Cash flow from (used in) operating activities							
Net income before income taxes		x	x	x	x	x	x
Income tax paid		x	x	x	x	x	x
Adjustments to determine net cash flows							
Provision and adjustments to income for credit losses		x	x	x	x	x	x
Depreciation		x	x	x	x	x	x
Amortisation of intangible assets		x	x	x	x	x	x
Gain on disposal of fixed assets		x	x	x	x	x	x
Net gains on sale of investment securities		x	x	x	x	x	x
Unrealised foreign currency translation gains and losses		x	x	x	x	x	x
Changes in operating assets and liabilities							
Accrued interest receivable and payable		x	x	x	x	x	x
Trading securities		x	x	x	x	x	x
Unrealised gains and amounts receivable on derivatives contracts		x	x	x	x	x	x
Unrealised losses and amounts payable on derivatives contracts		x	x	x	x	x	x
Other		x	x	x	x	x	x
Net cash provided by/(used in) operating activities		x	x	x	x	x	x
Cash flows from/(used) in financing Activities							
Deposits		x	x	x	x	x	x
Securities sold under repurchase agreements		x	x	x	x	x	x
Change in debt securities		x	x	x	x	x	x
Issuance/repayment of subordinated loans		x	x	x	x	x	x
Issuance/redemption of preferred shares		x	x	x	x	x	x
Issuance of ordinary shares		x	x	x	x	x	x
Repurchase of ordinary shares		x	x	x	x	x	x
Dividend paid on - Ordinary shares		x	x	x	x	x	x
Preference shares		x	x	x	x	x	x
Other		x	x	x	x	x	x
Net cash from / (used in) financing activities		x	x	x	x	x	x

		Rs 000					
		Group (Consolidated)			Bank		
	Note	Year 2	Year 1	Year 0	Year 2	Year 1	Year 0
Cash flows from/ (used in) investing activities							
Deposits with other banks		x	x	x	x	x	x
Activity in investment securities							
Purchase		x	x	x	x	x	x
Proceeds from maturities		x	x	x	x	x	x
Proceeds from sale		x	x	x	x	x	x
Loans		x	x	x	x	x	x
Land, buildings and equipment - net purchase		x	x	x	x	x	x
Securities purchased under resale agreements		x	x	x	x	x	x
Net cash from/(used in) investing activities		x	x	x	x	x	x
Net change in cash and cash equivalents		x	x	x	x	x	x
Cash and cash equivalents at beginning of the year		x	x	x	x	x	x
Cash and cash equivalents at end of the year	17	x	x	x	x	x	x

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies

This note should contain a clear statement that:

- financial statements have been prepared in accordance with the accounting standards established by the International Accounting Standards Committee;
- comparative amounts have been reclassified, as necessary, to conform to the current year's presentation; and
- any material effects of a change in accounting policy, including tax effects, have been disclosed (refer to note...)

All significant accounting policies should be described, including the following:

Basis of consolidation

The description should deal with the:

- method used for the consolidation of subsidiaries (IAS 27);
- method used for the amortization of goodwill resulting from the acquisition of a subsidiary, in terms of the difference between the cost of investment in the subsidiary and the fair value of assets acquired;
- frequency of impairment review of the recorded goodwill and the method used for such review;
- method used (equity, or cost in exceptional cases) to account for investment in associated companies in which the bank has significant influence but not control;
- specific accounts where the bank is reporting
- its investment in associated companies (e.g. investment securities);
- its share of earnings of associated companies (e.g. other income); and
- gains or losses from disposal of investment in associated companies (e.g. other income).

Translation of foreign currencies

This note should state that assets, liabilities, income and expense items denominated in other currencies are translated into Mauritian rupees in accordance with IAS 21. The note should include a brief description of the methodology used in the translation of the following:

- assets other than fixed and intangible assets, and liabilities;
- fixed and intangible assets;
- revenues and expenses;
- depreciation charge;
- the results of overseas branches, subsidiaries and associated companies; and
- trading transactions.

Investments

Describe the method of recording investment and trading securities, income generated from such investments, and gains and losses from their disposal.

Loans, provision and allowance for credit losses

Describe the principal features of the treatment of loans, provision for credit losses and allowance for credit losses. State that the bank follows the Bank of Mauritius Guideline on Credit Classification for Provisioning Purposes and Income Recognition (describe briefly the principal elements of the guideline). Either by way of a description of the Guideline or additionally, outline such items as:

- criteria used for the designation of a loan as 'non-performing' and the consequences of such designation;
- classifications of 'non-performing' loans and how the specific provision, on a loan-by-loan basis, is determined;
- establishment of a provision for off-balance sheet items, including acceptances, letters of credit, guarantees, and derivative instruments;
- consideration of collateral in determining the provision for credit losses and procedures for periodic appraisal of the collateral;
- treatment of restructured loans;
- discontinuance of interest accrual on 'non-performing' loans and reversal of previously accrued interest;
- criteria for the return of 'non-performing' loans to the 'performing' status and the treatment of any amounts written off and any interest in arrears;
- treatment of losses in respect of credit card loans;
- establishment of a general provision for losses, which a prudent assessment of the bank's past experience indicates have been incurred but which cannot be determined on a loan-by-loan basis; outline the requirements of the Bank of Mauritius guideline;
- maintenance of an allowance for credit losses account at a level that management of the bank considers adequate to absorb credit-related losses , normally the sum of general and specific provisions;
- statement of the allowance in the balance sheet (e.g. showing the allowance for credit losses against on-balance sheet items as a deduction from the related asset category, and allowance against off-balance sheet items as other liability in the financial statements); and
- loan write-off policy of the bank and the accounting treatment of write-offs.

Buildings and equipment

Describe the accounting for buildings and equipment in that they are stated at cost or revalued amount, as applicable, less accumulated depreciation. Outline the methodology for calculating depreciation, including rates used for different categories of assets. Indicate where gains or losses on disposal of assets are shown in the income statement (e.g. other income).

Acceptances

Outline how the bank's potential liability on acceptances and the recourse against the customer in case of a call on the commitment are reported in the financial statements. Also indicate how the fees earned are reported.

Employee Pension and Other Benefits

Outline briefly any pension plan for employees, indicating the method used for the valuation of assets of the plan, computation of pension expense, and the balance sheet treatment of any difference between the present value of funded obligations and any other relevant liabilities, and the plan's assets. Also, describe any other significant employee benefit plans, indicating the methodology for determining any related expense and liability.

Fees and Commissions

Deferred Taxation

2. Securities, Placements and Other Investments

(a) Remaining term to maturity

	Year 2 Within 3 months	3-6 months	6-12 months	1-5 months	Over 5 months	No specific maturity	Total	Year 1 Total Year 1	Year 0 Total Year
	Rs 000								
(i) Investment Securities									
Government bonds	x	x	x	x	x	x	x	x	x
Treasury bills	x	x	x	x	x	x	x	x	x
Securities of government bodies	x	x	x	x	x	x	x	x	x
Equity shares of companies									
* Subsidiaries and associates	x	x	x	x	x	x	x	x	x
* Other	x	x	x	x	x	x	x	x	x
Other investment securities	x	x	x	x	x	x	x	x	x
(Specify types of securities)									
	x	x	x	x	x	x	x	x	x
(ii) Trading Securities									
Government bonds	x	x	x	x	x	x	x	x	x
Treasury bills	x	x	x	x	x	x	x	x	x
Securities of government bodies	x	x	x	x	x	x	x	x	x
Equity shares of companies	x	x	x	x	x	x	x	x	x
Other	x	x	x	x	x	x	x	x	x
	x	x	x	x	x	x	x	x	x
(iii) Placements	x	x	x	x	x	x	x	x	x
Total securities and placements	x	x	x	x	x	x	x	x	x

(b) Investments in subsidiaries and associates

Name of subsidiary or associate	Country of Incorporation	Percentage Holding	Year 2 Amount	Rs 000 Year 1	Year 0
.... (Shares quoted)		x	x	x	x
		x	x	x	x
		x	x	x	x
.... (Shares unquoted)		x	x	x	x
		x	x	x	x
.... (Subordinated Loans)		x	x	x	x
		x	x	x	x

3. Loans

(a) Remaining term to maturity [2]

	Year 2	Rs 000 Year 1	Year 0
Within 3 months	x	x	x
Over 3 to 6 months	x	x	x
Over 6 to 12 months	x	x	x
Over 1 to 5 years	x	x	x
Over 5 years	x	x	x
Total	**x**	**x**	**x**

[2] *Classification is by remaining term to maturity, not original term*

(b) Credit concentration of risk by industry sectors

Total credit facilities including guarantees, acceptances and other similar commitments extended by the bank to any one customer or group of closely-related customers for amounts aggregating more than 15% of its capital base, classified by industry sectors.

	Year 2	Rs 000 Year 1	Year 0
Name of sector			
Agriculture and Fishing	x	x	x
Manufacturing	x	x	x
Of which EPZ	*x*	*x*	*x*
Tourism	x	x	x
Transport	x	x	x
Construction	x	x	x
Financial and Business Services	x	x	x
Traders	x	x	x
Personal	x	x	x
Professional	x	x	x
Entities outside Mauritius	x	x	x
Other	x	x	x
Total	**x**	**x**	**x**

(c) Allowance for credit losses

	Year 2 Specific Provision	Year 2 General Provision	Rs 000 Total	Year 1	Year 0
Balance at beginning of year	x	x	**x**	x	x
Provision for credit losses for the year **(See Note 13)**	x	x	**x**	x	x
Loans written off out of allowance	x	x	**x**	x	x
Balance at end of year	**x**	**x**	**x**	**x**	**x**

(d) Provision for credit losses by industry sectors

	Rs 000						
	Year 2					Year 1	Year 0
	Gross Amount	Non performaing	Specific provision	General provision	Total provision		
Agriculture and fishing	x	x	x	x	x	x	x
Manufacturing	x	x	x	x	x	x	x
of which EPZ	*x*	*x*	*x*	*x*	*x*	*x*	*x*
Tourism	x	x	x	x	x	x	x
Transport	x	x	x	x	x	x	x
Construction	x	x	x	x	x	x	x
Financial and Business Services	x	x	x	x	x	x	x
Traders	x	x	x	x	x	x	x
Personal	x	x	x	x	x	x	x
of which credit cards	*x*	*x*	*x*	*x*	*x*	*x*	*x*
Professional	x	x	x	x	x	x	x
Entities outside Mauritius	x	x	x	x	x	x	x
Other	x	x	x	x	x	x	x
Total	**x**	**x**	**x**	**x**	**x**	**x**	**x**

(e) Credit facilities to related parties [3]

	Rs 000		
	Year 0	Year 1	Year 0
Loans to directors			
Balance at beginning of year	x	x	x
Loans granted during the year	x	x	x
Repayments	(x)	(x)	(x)
Balance at end of year	x	x	x
Loans to other related parties			
Balance at beginning of year	x	x	x
Loans granted during the year	x	x	x
Repayments	(x)	(x)	(x)
Balance at end of year	x	x	x
Off balance sheet obligations			
Balance at beginning of year	x	x	x
Balance at end of year	x	x	x
TOTAL	**x**	**x**	**x**

(3) *Related parties are defined in the guideline on Related Party Transactions*

(f) Loans outside Mauritius

	Year 2	Rs 000 Year1	Year 0
(i) Banks	x	x	x
(ii) Government	x	x	x
(iii) Other entities	x	x	x
	x	x	x

4. Intangible assets

Items under this heading are to be disclosed in accordance with appropriate accounting standards and other legal requirements.

5. Land, buildings and equipment

	Rs 000 Year 2 Land and buildings	Computer and other equipment	Other fixed assets [4]	Total
Cost & Valuation				
Balance at beginning of year	x	x	x	x
Exchange adjustment	x	x	x	x
Additions	x	x	x	x
Disposals	(x)	(x)	(x)	x
Revaluation adjustment	x	x	x	x
Balance at end of year	x	x	x	x
Accumulated depreciation				
Balance at beginning of year	x	x	x	x
Disposal adjustment	(x)	(x)	(x)	x
Depreciation for the year	x	x	x	x
Balance at end of year	x	x	x	x
Net book value	x	x	x	x
Net book value (Year1)	x	x	x	x
Net book value (Year 0)	x	x	x	x

(4) *Identify principal assets covered*

6. Other Assets

	Year 2	Rs 000 Year 1	Year 0
Balances due in clearing (net) (5)	x	x	x
Accrued interest receivable	x	x	x
Non-banking assets acquired in satisfaction of debts	x	x	x
Other *(please specify)*			
Total	x	x	x

(5) *If negative, show under 'other liabilities'*

7. Deposits

(a) Personal, business and governments

	Year 2	Rs 000 Year 1	Year 0
Demand	x	x	x
Savings	x	x	x
Time deposits with remaining term to maturity			
Within 3 months	x	x	x
Over 3 up to 6 months	x	x	x
Over 6 up to 12 months	x	x	x
Over 1 up to 5 years	x	x	x
Over 5 years	x	x	x
	x	x	x

(b) Banks

	Year 2	Rs 000 Year 1	Year 0
Demand	x	x	x
Time deposits with remaining term to maturity	x	x	x
Within 3 months	x	x	x
Over 3 up to 6 months	x	x	x
Over 6 up to 12 months	x	x	x
Over 1 up to 5 years	x	x	x
Over 5 years	x	x	x
	x	x	x
Total	x	x	x

8. Subordinated loans

These loans are unsecured obligations of the bank and are subordinate to the claims of the bank's depositors and other creditors.

Maturity date	Interest Rate (%)	Terms	Year 2	Rs 000 Year 1	Year 0
			x	x	x
			x	x	x
			x	x	x
			x	x	x
			x	x	x

The aggregate maturities of the subordinated loans are as follows :

	(Rs 000)
Less than 1 year	x
From 1 to 2 years	x
Over 2 to 3 years	x
Over 3 to 4 years	x
Over 4 to 5 years	x
Over 5 years	x
	x

9. Other Liabilities

	Year 2	Rs 000 Year 1	Year 0
Bills payable	x	x	x
Accrued interest payable	x	x	x
Other	x	x	x
	x	x	x

10. Capital (6)

	Year 2	Rs 000 Year 1	Year 0
Authorised capital (... shares of Rs... each)	x	x	x
Issued Capital (... shares of Rs... each)	x	x	x
Subscribed capital (... shares of Rs... each)	x	x	x
Paid up capital (... shares of Rs... each)	x	x	x

(6) Where necessary, items which can be combined may be shown under one head; for instance 'subscribed and issued capital'

11. Contingent Liabilities

(a) Instruments

	Year 2	Rs 000 Year 1	Year 0
Acceptances on account of customers	x	x	x
Guarantees on account of customers	x	x	x
Letters of credit and other obligations on account of customers	x	x	x
Spot foreign exchange contracts	x	x	x
Other contingent items	x	x	x
	x	x	x

(b) Commitments

	Year 2	Rs 000 Year 1	Year 0
Loans and other facilities			
Undrawn credit facilities	x	x	x
Undisbursed commitments in debt securities and equities	x	x	x
Underwriting commitments in debt securities and equities	x	x	x
Other (please specify)	x	x	x
	x	x	x

(c) Assets pledged

The aggregate carrying amount of assets that have been pledged to secure the liabilities of the bank are as follows:

	Year 2	Rs 000 Year 1	Year 0
Deposits with other banks	x	x	x
Securities issued by	x	x	x
* Government of Mauritius	x	x	x
* Bank of Mauritius	x	x	x
* Government bodiesv			
* Other	x	x	x
Other assets	x	x	x
Total assets pledged	x	x	x

		Rs 000	
(d) Contingent liabilities arising out of lawsuit against the bank *(please provide details)*	x	x	x
(e) Financial derivatives	x	x	x
(f) Other (please specify)	x	x	x
Total contingent liabilities	x	x	x

12. Interest income from securities

	Rs 000 Year 2	Year 1	Year 0
Investment securities	x	x	x
Trading securities	x	x	x
	x	x	x

13. Provision and adjustments to income for credit losses

	Rs 000 Year 2	Year 1	Year 0
General and specific provisions	x	x	x
Provisions released during the year	(x)	(x)	(x)
Provision for credit losses for the year	x	x	x
Bad debts written off for which no provisions were made	x	x	x
Recoveries of advances written off	(x)	(x)	(x)
	x	x	x

14. Fee income and commissions

	Rs 000 Year 2	Year 1	Year 0
Loan-related	x	x	x
* Letters of Credit and Acceptances	x	x	x
* Others	x	x	x
Credit cards	x	x	x
Guarantees	x	x	x
Service charges	x	x	x
Other (please specify)	x	x	x
	x	x	x

15. Provision for income taxes

(a) Income taxes
(b) Deferred taxes

To be disclosed in accordance with appropriate accounting standards and other legal requirements.

16. Capital commitments at end of year

Approved and contracted
Approved and not contracted

17. Cash and cash equivalents

	Rs 000					
	Group (Consolidated)			Bank		
	Year 2	Year 1	Year 0	Year 2	Year 1	Year 0
ASSETS						
Cash and balances with central banks	x	x	x	x	x	x
Balances with Category 1 banks and interbank loans	x	x	x	x	x	x
Balances with Category 2 banks in Mauritius and banks abroad	x	x	x	x	x	x
Balances with other financial institutions	x	x	x	x	x	x
	x	x	x	x	x	x
LIABILITIES						
Borrowings	x	x	x	x	x	x
Central Banks	x	x	x	x	x	x
Category 1 banks and interbank borrowings	x	x	x	x	x	x
Category 2 banks in Mauritius and banks abroad	x	x	x	x	x	x
Other financial institutions	x	x	x	x	x	x
	x	x	x	x	x	x
Cash and cash equivalents	**x**	**x**	**x**	**x**	**x**	**x**

List of Subsidiaries and Associates

PART 3

Quarterly Reports

Each financial institution shall prepare quarterly reports on its financial condition and performance, which shall be available publicly. Such reports may be unaudited except for those reports which coincide with the end of the financial year.

The quarterly reports will be prepared in accordance with IAS 34, Interim Financial Reporting, issued by the International Accounting Standards Committee. The Standard defines the minimum content of the interim financial report and identifies the accounting recognition and measurement principles to be applied. The financial statements will be prepared in condensed form and only the notes to the annual financial statements required by IAS 34 will need to be repeated. The same accounting policies will be applied to the interim statements as those applicable to the annual statements.

Periods for which the interim financial statements are required to be presented are outlined in paragraph 20 of IAS 34. A format is given in the annexure.

The quarterly financial statements should provide information, albeit brief, of the type contained in the MDA of the annual report. This Guideline does not specify the scope of coverage on this aspect but it is important that there is a section on 'highlights' along the lines of the MDA. Similarly, the quarterly report should discuss as a minimum the institution's experience with respect to revenue growth, cost control, credit quality, liquidity and capital management. Furthermore, the institution may want to provide information on its experience by industry sectors.

Since data in the quarterly statements will be based on accounting principles and practices consistent with those used in the annual financial statements, there may be need to use estimates and assumptions to match costs and revenues. Such estimates may be subject to adjustments at the year-end. Also, as in the case of MDA, the quarterly report could contain certain forward-looking statements. As such, it would be quite appropriate for the financial institution to make a cautionary statement to the reader, similar to that contained in the MDA, about the uncertainties inherent in the forward- looking statements and the estimates. No quarterly reports will be required for the fourth quarter as the Annual Report encompassing the relevant information will be available around that time.

The MDA type of information mentioned above should be contained in the opening section of the quarterly report, with appropriate reference to the quarterly financial statements included. This section should be duly signed and dated by the Chairperson of the Board and the Chief Executive Officer.

Bank of Mauritius
November 2002

Annexure
XYZ Bank Limited
Quarter ended 30 September 2002

	Group (Consolidated)			Bank		
Balance sheet	30 Sept 2002 9 mths year to date	30 Sept 2001 9 mths year to date *	31 Dec 2001	30 Sept 2002 9 mths year to date	30 Sept 2002 9 mths year to date *	31 Dec 2001
Cash flow statement	✓	✓	✓	✓	✓	✓
Statement of *changes in equity*	✓	✓	✓	✓	✓	✓

	Group (Consolidated)					Bank				
Income Statement	3mths quarter ended 30/9/02	3mths quarter ended 30/9/01 *	Year to date 30/09/02 9mths	Year to date 30/09/01 9mths *	Year to date 31/12/01	3 mths quarter ended 30/09/02	3mths quarter ended 30/09/01 *	Year to date 30/09/02 9 mths	Year to date 30/09/01 9 mths	Year ended 31/12/01

Please provide selected explanatory notes in accordance with IAS 34.

Note : For the calendar year 2003, the financial institution may not provide comparative data in columns marked with asterisk (*) if it is not available.

APPENDIX II

NOTICE

Foreign Exchange Dealers Act 1995 -
Authorisation to carry on the business of Money-Changer

Notice is hereby given that the Grand Bay Helipad Co Ltd, Quay Street, Port Louis, has been granted an authorisation to carry on the business of a money-changer in Mauritius subject to the provisions of the Foreign Exchange Dealers Act 1995 and to the terms and conditions set out in the Foreign Exchange Dealers Regulations 1995.

The business address of the Grand Bay Helipad Co Ltd is Quay Street, Port Louis.

Bank of Mauritius
2 July 2002

NOTICE

Foreign Exchange Dealers Act 1995 -
Authorisation to carry on the business of Foreign Exchange Dealer

Notice is hereby given that CIEL Finance Ltd, Intendance Street, Port Louis, has been granted an authorisation to carry on the business of a foreign exchange dealer in Mauritius subject to the provisions of the Foreign Exchange Dealers Act 1995 and to the terms and conditions set out in the Foreign Exchange Dealers Regulations 1995.

The business address of CIEL Finance Ltd is Intendance Street, Port Louis.

Bank of Mauritius
28 August 2002

NOTICE

Foreign Exchange Dealers Act 1995 -
Authorisation to carry on the business of Money-Changer

Notice is hereby given that Max & Deep Co. Ltd, SSR Lane, Pointe aux Piments, has been granted an authorisation to carry on the business of a money-changer in Mauritius subject to the provisions of the Foreign Exchange Dealers Act 1995 and to the terms and conditions set out in the Foreign Exchange Dealers Regulations 1995.

The business address of Max & Deep Co. Ltd is SSR Lane, Pointe aux Piments.

Bank of Mauritius
28 August 2002

NOTICE

Foreign Exchange Dealers Act 1995 -
Authorisation to carry on the business of Money-Changer

Notice is hereby given that Gowtam Jootun Lotus Ltd of Royal Road, Flic-en-Flac has been granted an authorisation to carry on the business of a money-changer in Mauritius subject to the provisions of the Foreign Exchange Dealers Act 1995 and to the terms and conditions set out in the Foreign Exchange Dealers Regulations 1995.

The business address of Gowtam Jootun Lotus Ltd is Royal Road, Flic-en-Flac.

Bank of Mauritius
27 December 2002

NOTICE

Surrender of Banking Licences by
Banque Nationale de Paris Intercontinentale

Banque Nationale de Paris Intercontinentale (BNPI) was authorised by the Bank of Mauritius to carry on Category 1 and Category 2 banking businesses on 10 June 1981 and 5 February 1990 respectively.

BNPI applied for permission from the Bank of Mauritius for the surrender of its Category 1 and Category 2 banking licences under the provisions of section 7(2) of the Banking Act as it wished to dispose of its banking business to Barclays Bank PLC. In November 2002, BNPI agreed to dispose of its Category 1 and Category 2 banking businesses to Barclays Bank PLC.

The Bank of Mauritius made the necessary inquiries into the conditions of the takeover of BNPI by Barclays Bank PLC and is satisfied that the interests of depositors and of the public are preserved and that Barclays Bank PLC will be responsible for safekeeping all the records of BNPI's activities in Mauritius after the takeover.

Accordingly, the Bank of Mauritius has accepted the surrender of the licences of BNPI Category 1 and Category 2 banks with effect from 5 December 2002.

The public is hereby informed that BNPI has ceased to conduct banking business in Mauritius as from 5 December 2002.

Bank of Mauritius
17 December 2002

List of Authorised Banks, Non-Bank Deposit-Taking Institutions, Money-Changers and Foreign Exchange Dealers

The following is an official list of banks holding a Category 1 Banking Licence, banks holding a Category 2 Banking Licence, institutions other than banks which are authorised to transact deposit-taking business and authorised money-changers and foreign exchange dealers in Mauritius and Rodrigues as at 30 June 2002.

Banks holding a Category 1 Banking Licence

1. Bank of Baroda
2. Banque Nationale de Paris Intercontinentale
3. Barclays Bank PLC
4. First City Bank Ltd
5. Habib Bank Limited
6. Indian Ocean International Bank Limited
7. New Co-operative Bank Ltd
8. South East Asian Bank Ltd
9. State Bank of Mauritius Ltd
10. The Hongkong and Shanghai Banking Corporation Limited
11. The Mauritius Commercial Bank Ltd

Banks holding a Category 2 Banking Licence

1. African Asian Bank Limited
2. Bank of Baroda
3. Banque Internationale des Mascareignes Ltée
4. Banque Nationale de Paris Intercontinentale
5. Barclays Bank PLC
6. Deutsche Bank (Mauritius) Limited
7. Investec Bank (Mauritius) Limited
8. P.T Bank Internasional Indonesia
9. RMB (Mauritius) Limited
10. SBI International (Mauritius) Ltd.
11. SBM Nedbank International Limited
12. Standard Bank (Mauritius) Offshore Banking Unit Limited
13. Standard Chartered Bank (Mauritius) Limited
14. The Hongkong and Shanghai Banking Corporation Limited

Non-Bank Financial Institutions Authorised to Transact Deposit-Taking Business

1. ABC Finance & Leasing Ltd.
2. B.N.P.I Leasing Company Limited
3. Finlease Company Limited
4. General Leasing Co. Ltd.
5. Global Direct Leasing Ltd
6. Island Leasing Co Ltd
7. Mauritius Housing Company Ltd
8. MUA Leasing Company Limited
9. SBM Lease Limited
10. SICOM Financial Services Ltd
11. The Mauritius Civil Service Mutual Aid Association Ltd
12. The Mauritius Leasing Company Limited

Money-Changers (Bureaux de Change)

1. Direct-Plus Ltd.
2. Shibani Finance Co. Ltd
3. Grand Bay Helipad Co Ltd

Foreign Exchange Dealers

1. British American Mortgage Finance House Co. Ltd
2. Rogers Investment Finance Ltd
3. TC (Mauritius) Operations Company Limited