# BANK OF MAURITIUS

# Annual Report on Banking Supervision 2006

# Contents

# 1. Overview of Supervisory Developments

## INTRODUCTION

A stable financial system provides an environment that facilitates an efficient resource allocation, thereby promoting growth in the economy. With a view to maintaining the stability and soundness of the financial system, the Bank of Mauritius (the Bank) continued to strengthen its supervisory and prudential policies during the year 2005/2006.

In the wake of recent changes in legislation, regulations and international accounting standards for financial institutions, the Bank has embarked on the revision of its guidelines and instructions issued to the industry and has achieved much progress in various areas of prudential supervision

## DOMESTIC DEVELOPMENTS

The Banking Sector continued to clock a decent growth in the balance sheet size. The Total Deposits of the banks increased from Rs260,692 million to Rs344,441 million i.e. a growth of 32.1% . Advances also registered a growth of 31.9% from Rs178,149 million to Rs234,958 million during the period. The net profit increased from Rs6,312 million to Rs7,854 million. A detailed review of the performance of the banks is made in chapter 3.

### Implementation of Basel II

The implementation of Basel II has gathered momentum. The Bank conducted a survey to ascertain the approaches which banks intend to adopt for risk management and measurements. The findings of the survey are captured in the chapter on policy review. Eight working groups have been constituted to deal with different issues concerning the implementation of the Framework.

### Financial Sector Assessment programme

The Financial Sector Assessment Programme (FSAP), a joint International Monetary Fund/World Bank initiative to promote the soundness of the financial sector in member countries, performed an in-depth assessment of the local financial sector in 2002. The findings of the joint IMF/World Bank mission (the Mission) were communicated to the relevant authorities, including the Bank, in 2003. The Mission reported favourably on the standard of banking supervision and the increased capacity of the Bank to enforce prudential guidelines. Recommendations made by the FSAP in certain supervisory areas are being addressed by the Bank. In February 2007, the Mission was again in Mauritius to follow up on those recommendations.

### Developments in Financial Institutions

1. *Grand Bay Helipad Co. Ltd*

   Grand Bay Helipad Co. Ltd was no longer authorized to carry on the business of money-changer as from 10 September 2005.

2. *Cim Leasing Ltd*

   General Leasing Co. Ltd. changed its name to Cim Leasing Ltd on 24 October 2005 with the approval of the Bank.

3. *Banque des Mascareignes Ltée and Mascareignes International Bank Ltd*

   Mascareignes International Bank Ltd merged with Banque des Mascareignes Ltée with effect from 28 November 2005. Consequently, it surrendered its banking licence and ceased to operate as from that date.

4. *British American Exchange Co. Ltd*

   British American Mortgage Finance House Co. Ltd changed its name to British American Exchange Co. Ltd on 28 November 2005 with the approval of the Bank.

5. *Gowtam Jootun Lotus Ltd*

   With effect from 26 January 2006, the Bank suspended the licence granted to Gowtam Jootun Lotus Ltd to carry on the business of money-changer following regulatory investigations into alleged irregular transactions.

6. *RMB (Mauritius) Limited*

RMB (Mauritius) Limited ceased to conduct banking business with effect from 1 June 2006. The Bank has under section 11(7) of the Banking Act 2004 acceded to its application for the surrender of its banking licence with effect from 17 July 2006.

7. *HSBC Bank (Mauritius) Limited*

On 8 June 2006, a banking licence was granted to HSBC Bank (Mauritius) Limited, a subsidiary of the Hongkong and Shanghai Banking Corporation. It started operations on 1 August 2006.

8. *CLL Leasing Co Ltd, MUA Leasing Company Limited and Capital Leasing Ltd*

Groupe Mon Loisir acquired the shareholding of MUA Leasing Company Ltd. The latter changed its name to Capital Leasing Ltd on 15 June 2006, with the approval of the Bank.
Capital Leasing Ltd merged with CLL Leasing Ltd and is now operating under the name of Capital Leasing Ltd, with the approval of the Bank.

## International Developments

*Anti-Money Laundering and Combating the Financing of Terrorism*

A meeting of the Offshore Group of Bank Supervisors (OGBS) was held in parallel with the Financial Action Task Force (FATF) consultations with the banking and securities sectors in Brussels in December 2005. The main decisions taken at the consultation meeting were:

- the adoption of a more risk-based approach duly supported by appropriate commentary and guidance to ensure consistency of interpretation, implementation and evaluation;
- the need for more assistance/guidance from regulators on the requirements for effective compliance with international standards;
- the need to exercise caution when funds used to open an account or a relationship are sourced from a bank account in another inadequately regulated entity;
- the need for greater emphasis on the monitoring of ongoing business relationships rather than the initial identification and verification procedures;
- the proposed participation of international organisations in the publication of a world wide list of Politically Exposed Persons (PEPs); and
- the issue and maintenance by international organisations of a list of jurisdictions that are "equivalent" in the application of international standards.

*Initiatives by Basel-based Committees and the Financial Stability Forum*

In June 2006, the Basel Committee for Banking Supervisors (the Committee), jointly with the Core Principles Liaison Group, issued a paper which sets forth general principles for sharing of information between home country and host country supervisors for effective Basel II implementation.

In October 2006, the Committee reorganised its work under the purview of four main sub-committees, namely the Accord Implementation Group (AIG), the Policy Development Group (PDG), the Accounting Task Force (ATF) and the International Liaison Group (ILG).

The AIG was established for the sharing of information, thereby promoting consistency in the implementation of Basel II. It provides a forum for discussion on the approaches of its members towards implementing Basel II without making uniformity of application of the Basel II framework mandatory.

The PDG replaces the Committee's former Capital Task Force. It has the primary objective of supporting the Committee by identifying and reviewing emerging supervisory issues and, where appropriate, proposing and developing policies that promote a sound banking system and high supervisory standards.

The ATF works towards ensuring that financial institutions adopt international accounting and auditing standards and practices that promote sound risk management in those financial institutions, support market discipline through transparency and reinforce the safety and soundness of the banking system.

The newly established ILG replaces the former Core Principles Liaison Group and allows for broad supervisory dialogue on a range of issues. It also provides a platform for non-member countries to contribute to new Committee initiatives.

*Revision of the Core Principles for Effective Banking Supervision*

The Basel Core Principles (BCPs), developed by the Basel Committee on Banking Supervision (BCBS) in 1997 as a benchmark to assess quality of banking supervision, were reviewed in June 2004 in the light of significant changes in supervisory approaches and methods, innovations and developments in banking and broader financial markets.

The revised BCPs were approved in October 2006 at the International Conference of Banking Supervisors in Mexico. They place more emphasis on sound risk management, corporate governance practices, and on the importance of the independence, accountability and transparency of bank supervisory authorities.

The structural changes made to the BCPs relate to risk management, including liquidity risk, operational risk and interest rate risk in the banking book.

*Financial Action Task Force*

The FATF held its third plenary meeting under the chairmanship of South Africa on 20-23 June 2006 in Paris. The key outcomes of the meeting were:

- the decision to add anti-corruption elements to the methodology used in assessing implementation of the FATF standards;
- the removal of Nigeria from the list of Non Co-operative Countries and Territories (NCCT);
- the nomination of Asia/Pacific Group on Money Laundering (APG), The Financial Task Force of South America (GAFISUD) and the Sub-committee of the European Committee on Crime Problems of the Council of Europe (MONEYVAL) as Associate Members of FATF; and
- the completion of three more mutual evaluations - assessment of level and effectiveness of implementation of the revised FATF recommendations on combating money-laundering and terrorist financing.

The status of typology studies undertaken to examine money laundering and terrorist financing methods and trends on a global scale was also covered during the meeting.

# 2. Policy Developments in Regulation and Supervision

## 2.1 Introduction

The period under review witnessed important policy developments consistent with the overall objective of strengthening the financial systems of Mauritius. Some of them are outlined in the ensuing paragraphs.

## 2.2 Legislative changes

The legislative changes were brought through the Finance Act 2006, enacted in August 2006. In regard to banking policy, the more significant amendments did away with the need for the places of banks being mentioned in the banking licence, reduced the periodicity of inspection and provided for fit and proper criteria for persons to whom financial institutions outsource a part of their activity. The details of these and other amendments are given in the appendix.

## 2.3 Policy developments

### 2.3.1 Basel II

The implementation of Basel II has been engaging the attention of Bank Supervisors all over the world. In Mauritius too the Bank has tentatively set 2008 as the year for implementation of Basel II. To facilitate the drafting of guidelines and smooth transition, eight working groups composing participants from the industry and the bank were set up in May 2005.

The Basel II document provides a spectrum of approaches with increasing risk sensitivity and complexity for computing capital requirements for credit, market and operational risk. The approaches available by risk categories are:

- Credit Risk
  Standardised Approach (SA)
  Foundation Internal Ratings-Based Approach (F-IRB)
  Advanced Internal Ratings-Based Approach (A-IRB)

- Market Risk
  Standardised Measurement Method (SMM)
  Internal Model Approach (IM)

- Operational Risk
  Basic Indicator Approach (BIA)
  Standardised Approach (SA)
  Alternative Standardised Approach (ASA)
  Advanced Measurement Approach (AMA)

On implementation date, banks will, as a minimum, be required to compute their capital requirements using the simplest available approach for each risk category. However, banks shall be free to use the more advanced approaches provided they meet the minimum requirements.

In July 2006, a survey conducted to ascertain the approaches that banks intend to adopt during the coming decade, revealed that most banks opted for the simplest approach for credit and market risks. Furthermore most of the banks moving to the advanced approaches for operational risk will adopt either the SA or the ASA. Charts 1, 2 and 3 display the results of the survey.

Chart 1: Intended Approach for Credit Risk

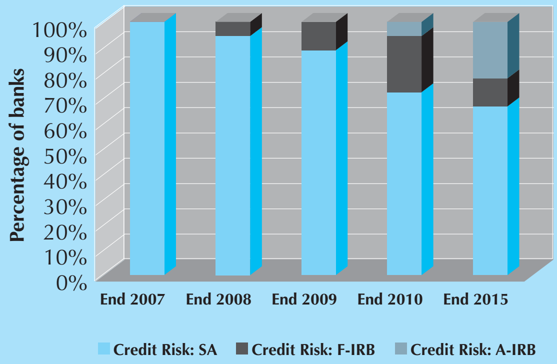


Chart 2: Intended Approach for Market Risk

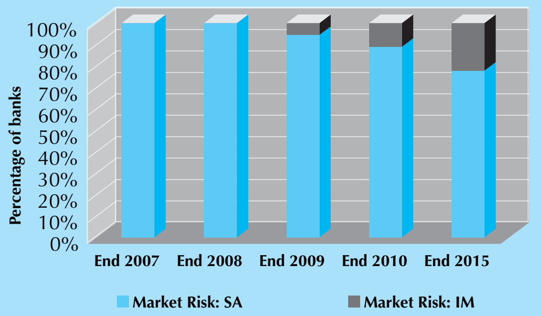
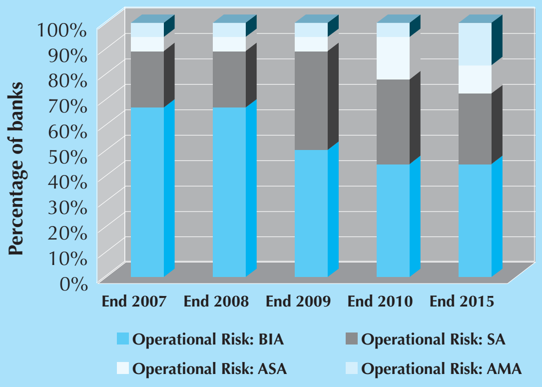



Chart 3: Intended Approach for Operational Risk




## Consultative Papers

As at July 2006, the following three proposal papers have been issued to the industry for consultation:

(i) Scope of Application of Basel II;
(ii) Standardised Approach for Credit Risk; and
(iii) Management and Measurement of Market Risk.

The salient features of the three proposal papers are highlighted below.

***Proposal Paper on the Scope of Application of Basel II***

The proposal paper sets out a framework for the Scope of Application of Basel II. Indeed, banking groups predominantly engaged in banking business whose centre of economic interest is in Mauritius shall maintain capital adequacy requirements on a consolidated basis for the group and on a stand-alone basis for each individual member predominantly engaged in banking business in Mauritius. On the other hand, foreign banking entities incorporated and operating in Mauritius shall be subject to capital adequacy requirements on a sub-consolidated basis for their group operation in Mauritius and on a stand-alone basis for each individual member predominantly engaged in banking business in Mauritius. Furthermore, foreign branches shall maintain capital requirements with respect to their segment A operations only.

***Proposal Paper on the Standardised Approach for Credit Risk***

On implementation date, banks shall be required to compute their capital requirements for credit risk using, at a minimum, the SA. The Basel II document contains several areas of national discretion with respect to the SA. For instance, the ratings of Standard & Poors Corporation, Moody's Investor Services and Fitch Ratings shall be recognised whilst other rating agencies shall have to apply to the Bank for eligibility. Claims on the Government of Mauritius shall be risk weighted at zero per cent. Claims on other sovereigns denominated and funded in their local currency may be assigned a preferential risk weight as determined by the supervisory authority of the sovereign, subject to the prior written approval of the Bank. The Bank has adopted the second option proposed in the Basel II document for claims on banks. Hence, risk weighting of claims on banks shall be based on the external credit assessment of the bank itself with claims on unrated banks being risk weighted at 50 per cent. As regards the definition of the regulatory retail portfolio to be risk weighted at 75 per cent, the Bank has set the maximum aggregated retail exposure to one counterparty at Rs12 million.

***Proposal Paper on the Management and Measurement of Market Risk***

The implementation of Basel II will extend the coverage of the capital requirements for market risk. Banks are already maintaining capital requirements for foreign exchange risk using the SMM set out in the Basel II document. The proposal paper on measurement and management of market risk sets out the principles for managing market risks, namely, foreign exchange risk, interest rate risk, equity risk and commodities risk above a threshold. The paper also introduces capital requirements for interest rate risk, equity risk and commodities risk. A survey conducted in 2005 revealed that interest rate risk in the banking book is by far the largest risk that banks in Mauritius are facing. Banks are thus required to assess the interest rate risk in the banking book. As a minimum, banks are required to measure the impact on their earnings using both an upward and a downward movement of 200 basis points in interest rate.

### 2.3.2 Electronic Banking

Electronic Banking normally refers to the use of technology for the delivery of banking products and services. These products and services are increasingly being accessed via computers and cellular phones. The development of e-banking, in an environment characterised by deregulation in the banking sector and increased globalisation, poses new challenges to the regulators. (Please see box No. 2.1) With a view to mitigating the risk of money laundering and financing of terrorism, the Bank issued the Guidance Notes on Anti Money Laundering and Combating the Financing of Terrorism in 2003, which were subsequently amended in 2005 following the enactment and proclamation of the Banking Act 2004 and Bank of Mauritius Act 2004. Further, in view of the rapid development of the provision of financial services via electronic delivery channels, the Bank issued a Guideline on Internet Banking in April 2001. The Banking Act 2004 has set out at sections 50, 51 and 52 relating to Electronic Banking, a framework within which banks may conduct e-banking business. Those sections also define the specific circumstances that require the Bank's approval and the minimum security measures that need to be put in place.

Box No 2.1

**Electronic Banking**

Electronic Banking normally refers to the use of technology for the delivery of banking products and services. These products and services are increasingly being accessed via computers and cellular phones. The development of e-banking, in an environment characterised by deregulation in the banking sector and increased globalisation, poses new challenges to the regulators.

*Cross Border Transaction*

With e-banking, banks' potential for expanding their geographical coverage has improved, resulting in increased cross-border transactions. However, it is imperative that banks be fully aware of the existing regulatory framework of the country with which they are transacting.

*AML/CFT Issues*

The integration of the world's financial systems, the free movement of capital and the development of e-banking have to some extent contributed to money-laundering activities in countries with inadequate regulation and supervision. With a view to mitigating the risk of money laundering and financing of terrorism, many countries have issued specific guidelines on customer identification and due diligence to be conducted before establishing a banking relationship. In that respect, the Bank issued the Guidance Notes on Anti Money Laundering and Combating the Financing of Terrorism in 2003, which were subsequently amended in 2005 following the enactment and proclamation of the Banking Act 2004 and Bank of Mauritius Act 2004.

*Other risks*

The heavy reliance on technology in e-banking exposes providers of electronic banking services to operational risks, such as security threats and system failures, which in turn can lead to legal and reputational risks.

*Risk Management Principles for Electronic Banking*

The BCBS has recognised that the rapid development of e-banking services has modified the overall profile of banking. New aspects of the traditional risks associated with banking services, namely strategic, operational, legal and reputational risks, have gained prominence. The BCBS has thus identified fourteen Risk Management Principles for Electronic Banking with a view to helping banking institutions adapt their risk management policies and procedures to include e-banking activities. These principles can be grouped into three broad categories, namely Board and Management Oversight, Security Controls and Legal and Reputational Risks Management.

### 2.3.3 Developments in Private Banking

During the last decade, the financial sector has witnessed a series of significant changes, prompting banks to diversify and expand their activities beyond traditional banking. Banks are presently offering a wide range of new products to their customers, including banking solutions tailored to individual requirements. In this respect, financial institutions have started to exploit the opportunities present in the management of private funds of wealthy customers. (Please see box No.2.2) Banks in Mauritius have recently shown an interest to capture a share of private client business.

With the integration of the offshore and domestic banking sectors under a single banking licence regime, the Mauritian banking industry has been subject to a major overhaul. It is expected that this major financial reform would set a level playing field for all licensed institutions, with adherence to international norms and standards. In the same vein, a series of initiatives has been undertaken by Government to stimulate the Mauritian financial services sector and to position Mauritius as a financial services hub in the region. As announced in the 2006-07 Budget Speech, amendments would be brought to the Banking Act 2004 to expand banking activities to include private banking services.

Box No 2.2

**Private Banking**

Private banking can be defined as the provision of wealth management services designed specifically for high net worth individuals. These services cater for the special needs of investors comprising wealthy individuals with inherited property, successful and established entrepreneurs in emerging and developing economies who require a diversified investment portfolio, company executives and professionals who have made substantial gains and have accumulated personal assets over a period of time and mature investors who have gradually built up a complex portfolio of investments. However, product differentiation and investment options offered by the private banker depend on the risk appetite of the client.

Critical features of private banking service delivery are confidentiality with respect to client's information, extensive choice of products including access to global financial markets, capability to address concerns ranging from legal issues to tax planning, and preservation and fructification of family fortunes. At the international level, the scope of private banking services has considerably widened through increasing financial sophistication. New service providers are now capable of offering highly specialized financial products. The sector is thus adopting a new concept of one-stop shop for financial services.

Private banking is quite common in European and North American financial markets. The country of reference remains Switzerland, which has been labelled the 'leading offshore money manager' given that it holds and manages about a third of cross-border wealth in the world. According to a study published in June 2006 by London-based consultancy Scorpio Partnership, the largest Swiss bank, UBS was the world's largest bank for wealthy clients at the end of 2005, with over US$1 trillion worth of client assets.

In the Asian region, Singapore and Hong Kong remain the main centres for private banking business. The growth rate of affluent individuals in this part of the world has outstripped that of North America and Europe. Private bankers are aware of the opportunities that exist to exploit this booming market. Accordingly, they have set up private banking units to cater for the sophisticated needs of their potential clients who expect high returns on their investments.

### 2.3.4 Developments in Islamic Banking

Islamic banking refers to a system of banking activity which is consistent with Islamic law (Sharia) and is guided by Islamic economics. Islamic law prohibits usury and the collection and payment of interest, also commonly called riba in Islamic parlance. (Please see Box No 2.3)

A Steering Committee, under the Chairmanship of the Bank of Mauritius, has been instituted to study, inter alia, the social and legal aspects of Islamic Financial Services in Mauritius and to advise on an appropriate institutional framework in respect thereof.

The Committee comprises two representatives of the Bank of Mauritius, the Permanent Secretary of the Ministry of Arts and Culture, the Chief Executive of the Mauritius Bankers Association, the Chairman of the Islamic Cultural Centre, a representative respectively from the Ministry of Finance and Economic Development, the Attorney General's Office, the Financial Services Commission and the Insurers Association of Mauritius.

A forum on Islamic Finance organized by the Islamic Cultural Centre was held at the Grand Baie International Conference Centre on 25 and 26 July 2005 to create awareness in Islamic finance.

Box No 2.3

**Islamic Banking**

*Principles of Islamic Banking*

The basic principle of Islamic banking is the sharing of profit and loss and the prohibition of '*riba*' (interest). Islamic banking differs from conventional banking in that it operates in accordance with the rules of Sharia, known as Fiqh al-Muamalat (Islamic rules on transactions). Common Islamic concepts used in Islamic banking are profit sharing (Mudarabah), joint venture (Musharakah), and cost plus (Murabahah).

*Mudarabah* is venture capital funding by the bank to an entrepreneur who provides expertise, management and labour, with both sharing the profit and risk involved.

The practice of *Musharakah* is a different approach whereby Islamic banks lend their money to companies by issuing loans with floating interest rate pegged to the company's rate of return. Thus, a certain percentage of the company's profits represents the bank's revenue from the loan until the principal amount of the loan is fully repaid.

The concept of *Murabahah* involves the purchase of an asset by the bank which resells it to the acquiree at a profit and the payment is effected to the bank in instalments. The asset is registered in the name of the acquiree and given as collateral to the bank.

*The Global Scenario*

The growth of the Islamic Financial Services Industry has gathered momentum and overall assets are estimated at hundreds of billions of dollars. Islamic banks today offer a wide range of products from basic Sharia-compliant retail products to insurance, mortgages, investment instruments and large-scale project financing and are increasingly present in the western world. In Malaysia, Bahrain and a few other countries of the Gulf, Islamic banks and financial institutions are working alongside those involved in conventional banking.

An effective regulatory and supervisory framework, good corporate governance and market discipline, robust risk management framework and an enabling legal infrastructure are the Pre-requisites for a stable Islamic financial system.

### 2.3.5 Guideline on Outsourcing

The Bank issued the Guideline on Outsourcing by Financial Institutions.

With a view to reducing costs, financial institutions are increasingly having recourse to external service providers. However, outsourcing exposes financial institutions to increased risks, particularly with regard to confidentiality of data. The need was felt to develop a set of principles that would give guidance to financial institutions on how to manage those risks. The Guideline on Outsourcing by Financial Institutions was issued on 30 May 2006 to all financial institutions falling under the regulatory purview of the Bank and it came into effect as from 1 June 2006.

The Guideline follows the high-level principles on 'Outsourcing in Financial Services' developed by the Joint Forum, which comprises the BCBS, International Organisation of Securities Commission (IOSCO) and International Association of Insurance Supervisors (IAIS).

The main objective of the Guideline is to set out a broad framework for financial institutions that have engaged in outsourcing or are planning to outsource their business activities to service providers, in line with Principle 15 of the revised Core Principles for Effective Banking Supervision. This Principle requires financial institutions to establish an appropriate policy laying down the minimum requirements to be fulfilled when outsourcing an activity. The Guideline supersedes section 12 of the Guideline on Internet Banking that deals with the outsourcing of banks' Internet banking activity.

# 3. A Review of the Performance of Banks

## 3.1 INTRODUCTION

The enactment of the Banking Act 2004 has broadened the scope of activities of banks. They may engage in both domestic and offshore banking activities under a single licence. Consequently, banks formerly holding distinct Category 1 or Category 2 Banking Licences have streamlined their banking operations to operate as a single entity.

RMB (Mauritius) Limited ceased to conduct banking business with effect from 1 June 2006 and surrendered its banking licence with effect from 17 July 2006, following the decision of the parent company of the bank in South Africa to consolidate its international activities into its Dublin operations in Ireland.

As at 30 June 2006, the number of banks licensed to carry out banking business stood at twenty.

## 3.2 PERFORMANCE OF BANKS

During the year 2005-06, the business activities of banks remained buoyant. Many banks were able to re-engineer their financial products to attract more customers and thus maintain their position in the market. The on-balance sheet assets of banks soared to Rs491,788 million at end-June 2006, from Rs420,528 million at end-June 2005, i.e. by 16.9 per cent.

At end-June 2006, five banks recorded a decrease in their total assets ranging from 3 per cent to 70 per cent. For the same period, the assets of the remaining banks rose in the range of 4 per cent to 133 per cent.

Under the single licence regime, banks have combined their domestic and international operations, as a result of which foreign assets represented 60 per cent of total assets of banks at end-June 2006.

Banks continued to derive some of their income from off-balance sheet assets. Those assets, comprising acceptances, guarantees and documentary credits, increased by 8.9 per cent from Rs32,181 million at end-June 2005 to Rs35,056 million at end-June 2006.

Chart 4 depicts the composition of assets and liabilities of banks at end-June 2006. Balances with other banks (35.7 per cent) and advances (25.4 per cent) represented the bulk of assets.

Chart 4:Balance Sheet Structure

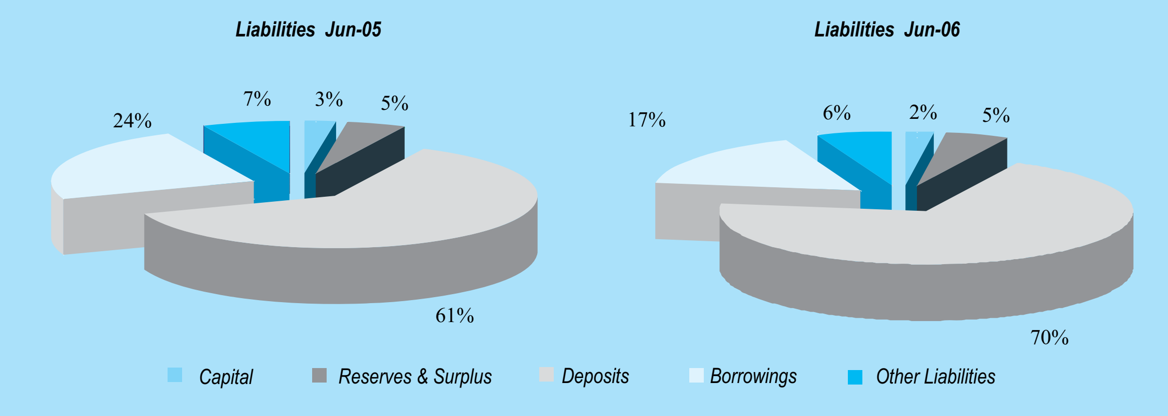
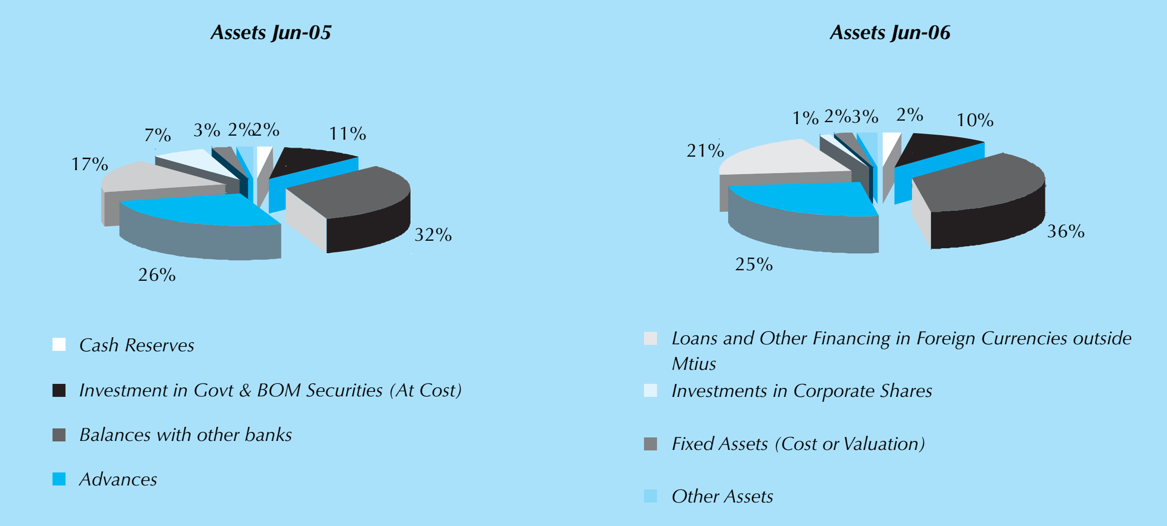


Chart 4:Balance Sheet Structure (cont'd)




### 3.2.1 CAPITAL ADEQUACY

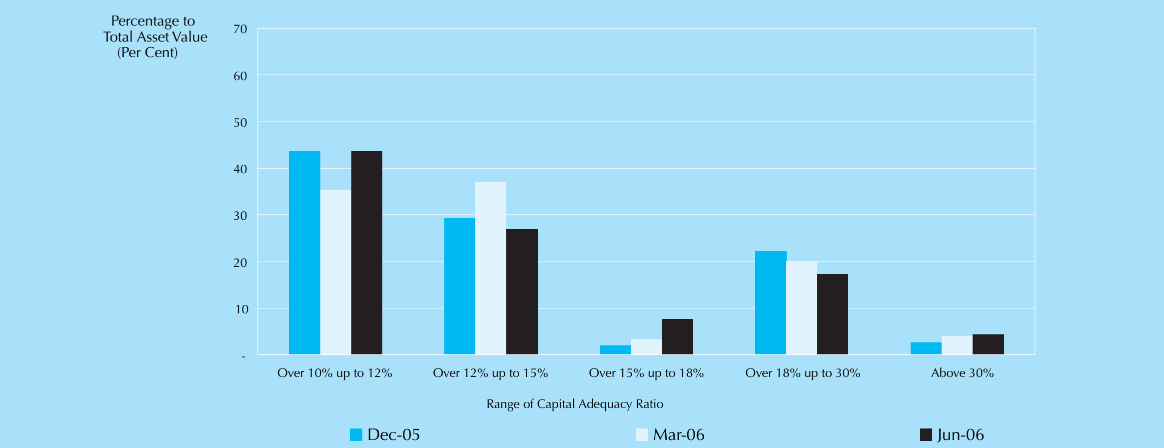
This section relates to banks that fall under the capital adequacy regime as prescribed by the prudential guidelines. Figures have been consolidated for the whole banking sector with effect from the quarter ended December 2005.

During the year under review, all banks were able to maintain the minimum risk weighted capital adequacy ratio of 10 per cent. The consolidated risk weighted capital adequacy ratio of banks ranged from 15 per cent for the quarter ended December 2005 to 16 per cent for the quarter ended 31 March 2006.

#### *3.2.1.1 Capital Adequacy of Banks in terms of their Total Asset Value*

Chart 5 shows the capital adequacy ratio maintained by banks in terms of their total asset value. For the quarters ended December 2005 and June 2006, 44 per cent and 45 per cent respectively of total on- and off-balance sheet assets of the banking sector were held by banks maintaining a capital adequacy ratio in the range of 10 to 12 per cent. Banks maintaining a capital adequacy ratio between 12 per cent and 15 per cent had a share of 29 per cent, 37 per cent and 28 per cent of total asset value for the quarters ended December 2005, March 2006 and June 2006 respectively. Those falling in the 15 per cent to 30 per cent band had a share of 24 per cent of total asset value of the sector for the quarters ended December 2005 and March 2006, and a share of 26 per cent for the quarter ended June 2006. Banks with capital adequacy ratios exceeding 30 per cent held total assets ranging from 3 to 4 per cent of total asset value of the sector.

Chart 5:Banks' Capital Adequacy Ratio in Terms of Total Asset Value



It can be observed from the above chart that banks maintaining capital adequacy ratio above 12 per cent had a share of more than 50 per cent of total asset value. As a whole, banks maintained a higher capital buffer than the minimum required. However, to make a sound assessment of the adequacy of capital maintained by banks, the level of their impaired assets needs to be considered.

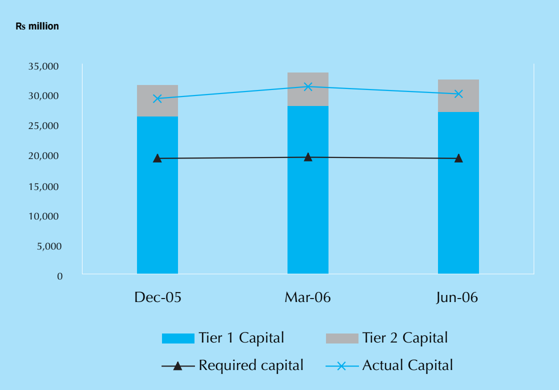
### 3.2.1.2 Capital Base

At end-June 2006, total capital base of banks amounted to Rs30,067 million against Rs29,296 million at end-December 2005. During the period under review, the aggregate capital base of banks increased by 2.6 per cent while their total risk weighted assets registered a marginal growth of 0.1 per cent. With a stronger capital base, the average capital adequacy ratio of banks at end-June 2006 was slightly higher at 15.5 per cent against 15.1 per cent at end-December 2005. For both quarters, all banks maintained a capital adequacy ratio above the regulatory minimum of 10 per cent.

At end-June 2006, Tier 1 capital of banks which stood at Rs26,987 million represented 83.1 per cent of total gross capital against Rs26,217 million and 89.5 per cent at end-December 2005. On the other hand, Tier 2 capital, the supplementary capital, stayed close to 17 per cent of gross capital for both periods under review. Tier 2 capital hovered around 20 per cent of Tier 1 capital at end-December 2005 and end-June 2006.

Chart 6 shows Tier 1 and Tier 2 capital for the three quarters ended 31 December 2005, 31 March 2006 and 30 June 2006. It can be seen from the chart that banks were maintaining a higher capital than required in all three quarters.

Chart 6:Minimun Required Capital v/s Actual Capital




### 3.2.1.3 Risk Profile of On and Off-Balance Sheet Assets

Total on-balance sheet assets of banks increased from Rs309,772 million for the quarter ended December 2005 to Rs318,505 million for the quarter ended 30 June 2006, representing a growth of 2.8 per cent. However, at end-June 2006, the corresponding total risk weighted assets value of banks fell slightly to Rs160,054 million from Rs160,488 million at end-December 2005. That fall could be explained by the fact that at end-June 2006, a higher proportion of assets was found in the zero and 20 per cent risk buckets than in the 50 and 100 per cent risk buckets.

Table 1 shows the comparative movements in the riskiness of banks' total on-balance sheet assets between the quarters ended December 2005 and June 2006. The 100 per cent risk-weight band continued to carry the bulk of banks' total on-balance sheet assets at 44.6 per cent and 42.9 per cent at end-December 2005 and end-June 2006, respectively.

Table 1 : Comparative change in the riskiness of banks' portfolios of on-balance sheet assets

| | On-balance Sheet Assets (Rs million) | Percentage to Total On-balance Sheet Assets | On-balance Sheet Assets (Rs million) | Percentage to Total On-balance Sheet Assets |
|---|---|---|---|---|
| Risk Weights (%) | June 2006 | | December 2005 | |
| 0 | 88,023 | 27.6 | 86,980 | 28.1 |
| 10 | - | - | - | - |
| 20 | 78,204 | 24.6 | 66,713 | 21.5 |
| 50 | 15,729 | 4.9 | 17,868 | 5.8 |
| 100 | 136,549 | 42.9 | 138,211 | 44.6 |
| | 318,505 | 100.0 | 309,772 | 100.0 |

| Table 2: Total on and off-balance sheet assets of banks, equivalent risk-weighted assets and average combined risk weighting | | | | |
|---|---|---|---|---|
| | | June 2006 | March 2006 | December 2005 |
| A | Total On and Off-Balance Sheet Assets (Rs million ) | 384,622 | 373,456 | 374,000 |
| B | Total Risk-Weighted Assets (Rs million ) | 194,182 | 195,074 | 193,628 |
| C (B/A) | Average Combined Risk Weighting (Per cent) | 50.30 | 52.40 | 52.00 |
| D | Capital Adequacy Ratio (Per cent) | 15.33 | 16.04 | 15.13 |

Table 2 gives comparative figures of total on and off-balance sheet assets of banks with corresponding risk weighted value and their average combined risk weighting for the quarters ended December 2005 to June 2006.

As can be seen from Table 2, total on and off-balance sheet assets of banks grew from Rs374,000 million at end-December 2005 to Rs384,622 million at end-June 2006, or 2.8 per cent. Total risk weighted assets of banks also rose from Rs193,628 million at end-December 2005 to Rs194,182 million at end-June 2006 or 0.3 per cent, indicating a minor shift from higher to lower risk assets held by banks. Similarly, the combined risk weightings improved from 52 per cent at end-December 2005 to 50.3 per cent at end-June 2006.

### 3.2.2 ASSET QUALITY

On-balance sheet assets of banks increased by Rs74,579 million, or 17.9 per cent, from Rs416,712 million as at end-June 2005 to Rs491,291 million as at end-June 2006, compared to a growth rate of 15.9 per cent in the preceding fiscal year.

Banks' foreign currency assets increased by Rs130,848 million to Rs160,138 million as at end-June 2006 and represented 32.6 per cent of total assets compared to 7.0 per cent as at end-June 2005.

Off-balance sheet exposure of banks, consisting of acceptances, documentary credits and guarantees, increased by 8.9 per cent, from Rs32,181 million as at end-June 2005 to Rs35,056 million as at end-June 2006.

#### *3.2.2.1 Advances*

Banks' total credit, including financing by way of subscription to foreign securities, shares and debentures increased by Rs56,809 million, or 31.9 per cent, from Rs178,149 million as at end-June 2005 to Rs234,958 million as at end-June 2006, compared to a rise of 4.0 per cent in the preceding fiscal year. The ratio of total credit to total assets stood at 47.8 per cent as at end-June 2006 compared to 42.8 per cent as at end-June 2005.

Loans and overdrafts denominated in rupees amounted to Rs93,441 million and constituted the highest component of total credit extended by banks at end-June 2006, or 39.8 per cent, followed by loans and other financing in foreign currencies outside Mauritius which amounted to Rs82,283 million or 35.0 per cent of total credit. At end-June 2006, loans and other financing in foreign currencies in Mauritius amounted to Rs23,432 million and represented 10.0 per cent of banks' total credit. Funding by way of investments in foreign securities and other foreign assets amounted to Rs21,684 million and constituted 9.2 per cent of total credit at end-June 2006. Bills purchased and discounted, bills receivable and investments in shares and debentures aggregated Rs14,118 million and represented 6.0 per cent of total credit of banks at end-June 2006.

#### *3.2.2.2 Credit Concentration*

Under the Banking Act 2004, all banks are subject to the regulatory credit concentration limits prescribed in the Guideline on Credit Concentration Limits. In accordance with section 29(4) of the Banking Act 2004, the Bank may exempt from credit concentration limits, as it deems fit, that part of a bank's banking business or investment banking business that is conducted in currencies other than Mauritian currency.

As at end-June 2006, total fund and non-fund based facilities of all banks exceeding the threshold of 15 per cent of their capital base, amounted to Rs127,236 million and represented 52 per cent of the overall on- and off-balance sheet commitments. That amount included credit facilities of Rs39,561 million and Rs87,675 million to companies engaged in local activities and international activities respectively. As at end-June 2005, total fund and non-fund based facilities, exceeding the threshold of 15 per cent of banks' capital base, amounted to Rs39,331 million, representing 31 per cent of the overall on- and off-balance sheet commitments of former Category 1 banks. The significant increase of Rs87,905 million in the total fund based and non-fund based facilities is due mainly to the consolidation of credit facilities of former Category 1 and Category 2 banks.

#### *3.2.2.3 Sectorwise Distribution of credit to the Private Sector in Mauritius*

The credit exposure of banks to the private sector in Mauritius increased by Rs14,405 million or 13.7 per cent from Rs105,066 million at end-June 2005 to Rs119,471 million at end-June 2006, compared to an increase of 9.6 per cent in the preceding fiscal year. At end-June 2006, banks' credit to the private sector in Mauritius represented 50.8 per cent of total advances compared to 59.0 per cent at end-June 2005.

Table 3 shows the sectors that accounted for more than 1 per cent of banks' total credit to the private sector in Mauritius as at end-June 2005 and end-June 2006.

As at end-June 2006, the highest share of total credit to the private sector had gone to the 'Construction' sector at 16.3 per cent, followed by the 'Traders' sector at 14.8 per cent, the 'Tourism' sector at 12.8 per cent, the 'Manufacturing' sector at 12.5 per cent and the 'Financial and Business Services' sector at 11.2 per cent.

The bulk of the additional credit of Rs14,405 million to the private sector was extended to four sectors, namely 'Financial and Business Services' (Rs3,105 million), 'Public non-financial Corporations' (Rs2,851 million), 'Construction' (Rs2,484 million) and 'Traders' (Rs2,178 million).

#### *3.2.2.4 Non-performing Advances and Provisioning*

Non-performing advances (impaired credits) reported by banks aggregated Rs7,740 million at end-June 2006 compared to Rs7,645 million at end-June 2005, or 1.2 per cent. A decline was noted in the ratio of non-performing advances to total advances, from 4.3 per cent at end-June 2005 to 3.3 per cent at end-June 2006.

Provisions made by banks increased by 13.5 per cent from Rs3,478 million at end-June 2005 to Rs3,948 million at end-June 2006. The ratio of provisions to non-performing advances rose from 45.5 per cent at end-June 2005 to 51.0 per cent at end-June 2006. Provisions made on individually assessed credits amounted to Rs3,441 million and provisions on portfolio assessed credits amounted to Rs507 million as at end-June 2006.

Apart from those provisions, banks have also maintained general provisions which rose from Rs1,238 million at end-June 2005 to Rs1,338 million at end-June 2006, or 8.1 per cent. However, the ratio of general provisions to standard advances declined marginally from 0.7 per cent at end-June 2005 to 0.6 per cent at end-June 2006.

| Table 3: Sectorwise Distribution of Credit to the Private Sector in Mauritius | | | | |
|---|---|---|---|---|
| | End-June 2005 (A) | End-June 2006 (B) | Change between (A) and (B) | |
| | (Rs million) | (Rs million) | (Rs million) | Per cent |
| Construction | 16,991<br>*(16.2)* | 19,475<br>*(16.3)* | 2,484 | 14.6 |
| Traders | 15,535<br>*(14.8)* | 17,713<br>*(14.8)* | 2,178 | 14.0 |
| Tourism | 15,117<br>*(14.4)* | 15,341<br>*(12.8)* | 224 | 1.5 |
| Manufacturing | 14,398<br>*(13.7)* | 14,976<br>*(12.5)* | 578 | 4.0 |
| Financial and Business Services | 10,239<br>*(9.7)* | 13,344<br>*(11.2)* | 3,105 | 30.3 |
| Personal | 9,790<br>*(9.3)* | 11,342<br>*(9.5)* | 1,552 | 15.9 |
| Public non-financial Corporations | 6,088<br>*(5.8)* | 8,938<br>*(7.5)* | 2,851 | 46.8 |
| Agriculture & Fishing | 7,346<br>*(7.0)* | 7,844<br>*(6.6)* | 499 | 6.8 |
| Infrastructure | 1,510<br>*(1.4)* | 2,833<br>*(2.4)* | 1,323 | 87.6 |
| Transport | 1,508<br>*(1.4)* | 1,682<br>*(1.4)* | 174 | 11.5 |
| Other | 6,546<br>*(6.2)* | 5,984<br>*(5.0)* | -562 | -8.6 |
| **Total** | **105,066** | **119,471** | **14,405** | **13.7** |

**Figures in brackets are percentages of total credit to private sector**
**Figures may not add up to total due to rounding**

### *3.2.2.5 Investments in Risk-Free Securities*

Risk-free securities comprise Bank of Mauritius Bills, Government of Mauritius Treasury Bills, Treasury Notes and other securities of the Government of Mauritius. Banks' investments in risk-free securities increased from Rs45,683 million to Rs47,887 million between end-June 2005 and end-June 2006, i.e. by 4.8 per cent. At end-June 2006, such investments represented 13.9 per cent of total deposits and 9.7 per cent of total assets of banks. The corresponding figures at end-June 2005 were 17.5 per cent and 10.9 per cent respectively.

### *3.2.2.6 Balances held with Banks*

Aggregate balances held with banks, including inter-bank loans, rose by 31.1 per cent in 2005-06 to reach Rs176,343 million. These balances represented 35.9 per cent of banks' total assets as at end-June 2006 compared to 32.0 per cent at end-June 2005, the bulk of which or 99.1 per cent was held with banks abroad.

#### *3.2.2.7 Investments in Shares*

Banks' total investments in shares declined by 18.2 per cent, from Rs7,705 million at end-June 2005 to Rs6,302 million at end-June 2006. Total investments in shares of foreign entities, local public sector entities and local private sector entities constituted 21.6 per cent, 32.3 per cent and 46.1 per cent respectively of banks' total investments in shares at end-June 2006.

#### *3.2.2.8 Fixed Assets*

The gross fixed assets of banks increased by 6.4 per cent from Rs10,668 million at end-June 2005 to Rs11,348 million at end-June 2006. The ratio of gross fixed assets to total assets declined slightly from 2.5 per cent at end-June 2005 to 2.3 per cent at end-June 2006. During the year ended 30 June 2006, banks made additional provisions of Rs566 million for depreciation on fixed assets, with the result that the accumulated depreciation rose from Rs4,052 million at end-June 2005 to Rs4,618 million at end-June 2006. Fixed assets of banks net of depreciation stood at Rs6,730 million at end-June 2006 as opposed to Rs6,616 million at end-June 2005. As at end-June 2006, the revaluation reserves of banks, comprising property revaluation surplus, amounted to Rs1,201 million.

#### *3.2.2.9 Cash Reserves*

As from July 2005 all banks were required to maintain a minimum of 5.5 per cent of their deposit liabilities as cash reserves comprising cash in hand and balances with Bank of Mauritius. Prior to that period, only former Category 1 banks were required to maintain a cash ratio. The Guideline on Segmental Reporting under a Single Banking Licence Regime provided a transition period for the former Category 2 banks to maintain a special cash ratio. In January 2006, the cash reserve ratio was reduced to 4.0 per cent and only balances with Bank of Mauritius are considered as cash balances for the purpose of maintaining the cash ratio.

At end-June 2006, banks' balances with Bank of Mauritius aggregated Rs9,047 million and constituted 1.8 per cent of their total assets. Cash in hand and balances with Bank of Mauritius amounted to Rs10,864 million and represented 3.2 per cent of total deposits.

### 3.2.3 PROFITABILITY

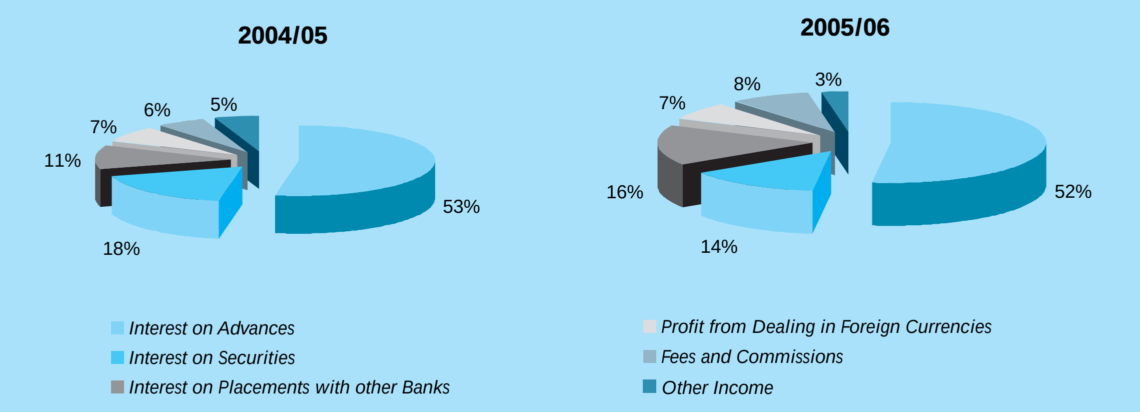
The overall profitability of banks' operations improved during the period under review. Table 4 summarises the performance over the past three financial years. The consolidated profitability figures are based on the audited results of banks as of 30 June, 31 December and 31 March.

Banks realised an overall pre-tax profit of Rs7,854 million in 2005/06 as compared to Rs6,312 million in 2004/05.

| Table 4: Consolidated Profit Performance of Banks | | | |
|---|---|---|---|
| | **2003/04** | **2004/05** (Rs million) | **2005/06** |
| **Total Interest Income** | **17,123** | **17,741** | **21,252** |
| Interest Income from Loans (*including debentures*) | 11,711 | 11,395 | 13,130 |
| Interest on Securities | 3,624 | 3,807 | 3,578 |
| Other Interest Income | 1,788 | 2,539 | 4,544 |
| **Total Interest Expense** | **9,982** | **9,730** | **12,000** |
| Interest Expense on Deposits | 7,518 | 7,205 | 8,461 |
| Other Interest Expense | 2,464 | 2,525 | 3,539 |
| **Net Interest Income** | **7,141** | **8,011** | **9,252** |
| Add : Non-interest Income | 3,079 | 3,795 | 4,091 |
| **Operating Income** | **10,220** | **11,806** | **13,343** |
| Less : Staff Costs | 1,339 | 1,763 | 2,065 |
| Other Operating Expenses | 2,719 | 2,964 | 3,098 |
| **Operating Profit before Bad and Doubtful Debts and Taxation** | **6,162** | **7,079** | **8,180** |
| Less : Charge for Bad and Doubtful Debts | 992 | 855 | 548 |
| **Operating Profit** | **5,170** | **6,224** | **7,632** |
| Add : Share of Profits in Subsidiaries and Associates | 163 | 217 | 232 |
| Less : Exceptional Items | 520 | 129 | 10 |
| **Profit before Tax** | **4,813** | **6,312** | **7,854** |

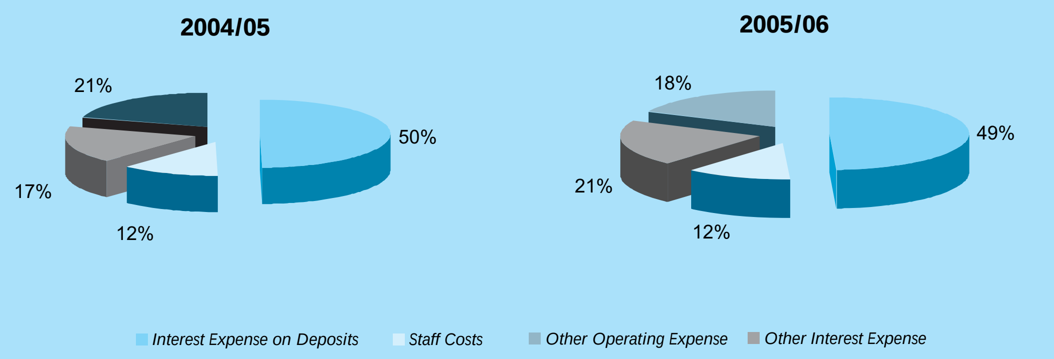
Charts 7 and 8 show the main components of income and expenses for 2004/05 and 2005/06.

Chart 7: 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: 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.*

### *3.2.3.1 Income*

During the year 2005/06, growth in profits was driven mainly by higher revenue from lending activities. Total income of banks increased from Rs21,536 million in 2004/05 to Rs25,343 million in 2005/06, representing an increase of 17.7 per cent. Loans including debentures, investments in securities, and placements with other banks remain the main source of income for banks, accounting for an average of 82.5 per cent of total income for the years 2003/04 through 2005/06.

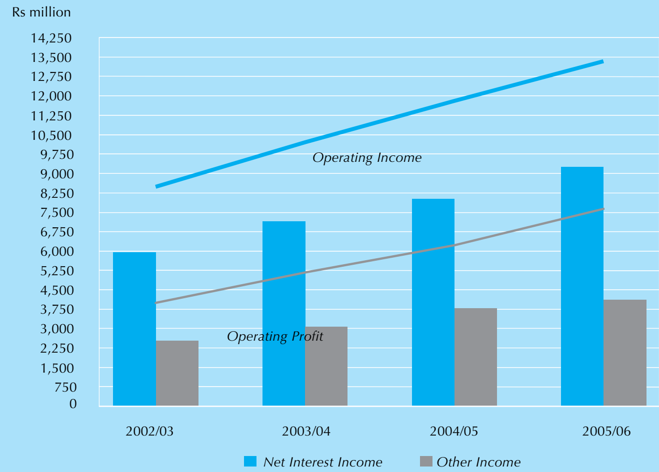
Non-interest income grew by 7.8 per cent in 2005/06 compared to 23.3 per cent in 2004/05, indicating a decline in income generated by non-core activities of banks. Interest income registered a growth of 19.8 per cent during 2005/06 compared to a lower growth of 3.6 per cent in 2004/05 as shown in Table 5.

Table 5: Growth in Interest Income v/s Growth in Non-Interest Income

| | 2003/04 | 2004/05 | 2005/06 |
|---|---|---|---|
| Growth in Interest Income (per cent) | 11.5 | 3.6 | 19.8 |
| Growth in Non-interest Income (per cent) | 21.7 | 23.3 | 7.8 |

Chart 9 shows the evolution of net interest income, other income, operating income and operating profit over the past four years.

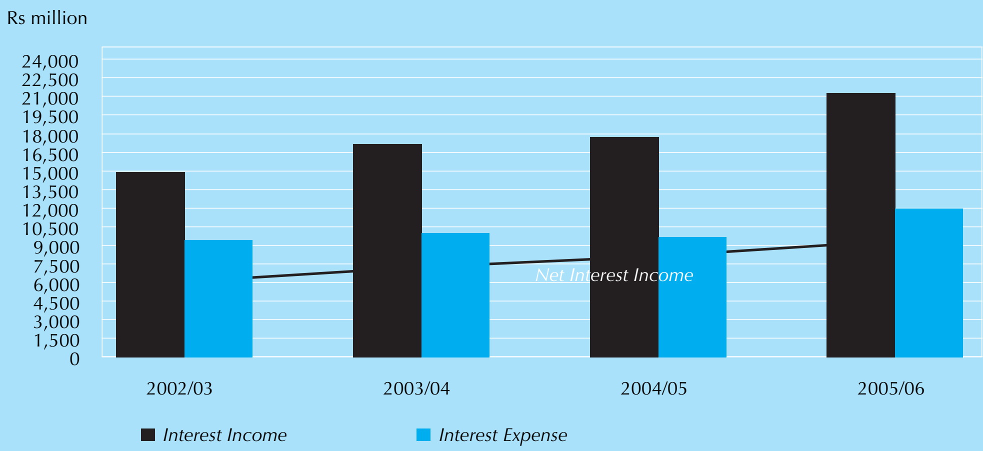
Chart 9: Evolution of Net Interest Income, Other Income, Operating Income and Operating Profit




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

### 3.2.3.2 Net Interest Income

Chart 10 : Components of Net Interest Income




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

Chart 10 shows the increasing trend in net interest income for banks for the years 2002/03 through 2005/06.

Rising interest rates on the domestic and international markets during 2005/06, coupled with higher demand for advances, impacted positively on interest income. Total interest income rose from Rs17,741 million in 2004/05 to Rs21,252 million in 2005/06. Interest earned on loans, including debentures, increased by Rs1,735 million to reach Rs13,130 million in 2005/06, representing 61.8 per cent of total interest income as compared to 64.2 per cent in 2004/05. Interest earned on securities fell by Rs229 million from Rs3,807 million in 2004/05 to Rs3,578 million in 2005/06. Other interest income, including income from placements and loans to banks, grew by Rs2,005 million or 79.0 per cent to reach Rs4,544 million in 2005/06.

| Table 6: Growth in Interest Earned on Advances v/s Growth in Interest Earned on Securities | 2003/04 | 2004/05 | 2005/06 |
|---|---|---|---|
| Growth in Interest Earned on Advances (per cent) | 7.9 | -2.7 | 15.2 |
| Growth in Interest Earned on Securities (per cent) | 43.6 | 5.0 | -6.0 |

Total interest expense, comprising interest paid on deposits and borrowings from other banks and financial institutions, stood at Rs12,000 million during 2005/06, rising by Rs2,270 million or 23.3 per cent over the previous period. Interest paid on deposits increased sharply by Rs1,256 million or 17.4 per cent in 2005/06 which was mainly attributable to a general increase in interest rates worldwide. The cost of borrowings from other banks and financial institutions, constituting 29.5 per cent of total interest expense of banks posted a significant increase of Rs1,014 million during 2005/06. Net interest income increased by Rs1,241 million or 15.5 per cent from Rs8,011 million in 2004/05 to Rs9,252 million in 2005/06.

Table 7 shows the interest spread with respect to Segment A activities of banks. As can be observed, interest earned on Rs100 of advances and interest paid on Rs100 of deposits decreased by Rs0.16 and Rs0.41 respectively. Consequently, the interest spread widened from Rs3.84 to Rs4.09 during the year under review. It may be highlighted that Segment A business consists essentially of transactions carried out by banks with residents of Mauritius.

#### 3.2.3.3 Non-Interest Income

Non-interest income registered a growth of 7.8 per cent to reach Rs4,091 million in 2005/06 compared to 23.3 per cent in 2004/05. Fee-related income and profit arising from dealings in foreign currencies grew by Rs859 million and Rs163 million or 67.7 per cent and 10.1 per cent respectively. Income arising from fees and commission and profits from dealings in foreign currencies represented 52.0 per cent and 43.6 per cent of total non-interest related revenue, respectively. The wider use of electronic cards for purchases and other transactions contributed to the higher fee income of banks.

#### 3.2.3.4 Non-Interest Expenses

Non-interest expenses consisting of staff costs and other operating expenses increased by 9.2 per cent to Rs5,163 million in 2005/06 compared to an increase of 16.5 per cent recorded in 2004/05. The banking sector continued to invest in human resources, which is necessary to attract new skills in the industry. However, the ratio of staff costs to operating income rose marginally by 0.6 per cent between 2004/05 and 2005/06. On the other hand, other operating expenses increased by 4.5 per cent to reach Rs3,098 million in 2005/06.

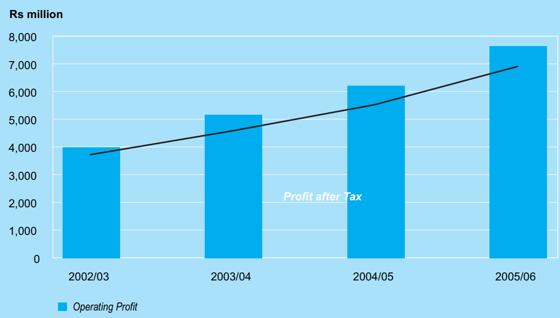
The ratio of non-interest expenses to gross operating income (net of charge for bad and doubtful debts) decreased from 43.2 per cent in 2004/05 to 40.4 per cent in 2005/06.

#### 3.2.3.5 Operating Profit

Banks realised operating profit (before bad and doubtful debts and taxation) of Rs8,180 million during 2005/06, representing an increase of Rs1,101 million or 15.6 per cent compared to 2004/05. Banks realised profit before tax of Rs7,854 million in 2005/06, representing an increase of 24.4 per cent over the pre-tax profit of Rs6,312 million realised in 2004/05. This positive result is partly attributed to lower charge for bad and doubtful debts which decreased by Rs307 million during the year 2005/06. Chart 11 depicts the trend in banks' profit for the years 2002/03 through 2005/06.

| Table 7: Interest Spread-Segment A Activities | 2003/04 | 2004/05 | 2005/06 |
|---|---|---|---|
| Interest Earned on Rs 100 of Advances | 9.72 | 8.54 | 8.38 |
| Cost per Rs 100 of Deposits | 6.00 | 4.70 | 4.29 |
| Interest Spread | 3.72 | 3.84 | 4.09 |

Chart 11: Operating Profit and Profit after Tax




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

### *3.2.3.6 Return on Average Assets and Equity*

The return on average assets and return on equity are key performance ratios providing valuable insights into the efficient use of resources by banks.

The pre-tax return on average assets improved from 1.8 per cent in 2004/05 to 1.9 per cent in 2005/06, reflecting better resource allocation.

The pre-tax return on average assets of individual banks ranged from a negative of 1.2 per cent to a positive of 3.2 per cent in 2005/06. With the exception of two banks, all banks recorded a positive return on average assets in 2005/06. The negative returns on average assets realised by the two banks were mainly attributed to higher provision for bad and doubtful debts and significant start up costs respectively. Eight banks achieved a pre-tax return on average assets of over 2.0 per cent during 2005/06.

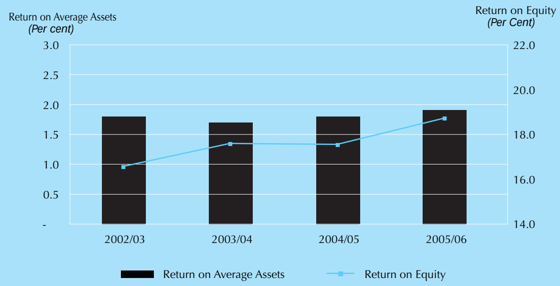
The post-tax return on equity improved from 17.5 per cent in 2004/05 to 18.7 per cent in 2005/06 despite an increase of Rs178 million in tax charge during the year under review. The post-tax return on equity for individual banks, ranged from a negative of 9.7 per cent to a positive of 47.8 per cent in 2005/06, with four banks achieving a return on equity of over 20.0 per cent during 2005/06.

Chart 12 shows the return on average assets and equity over the period 2002/03 to 2005/06.

### 3.2.4 LIQUIDITY

Liquidity risk is defined as the risk arising from the inability of banks to honour their cash flow commitments, including off-balance outflow commitments, as they fall due.

Chart 12: Return on Average Assets and Equity




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

Liquidity risk is one of the most important risks inherent in banking business and if not well managed, can lead to serious loss of reputation and confidence in financial institutions. Ultimately it may permeate the whole financial system feeding through to systemic risk.

Banks should adopt a prudent stance in managing liquidity risk and should have robust reporting tools to enable them to assess their liquidity position at all times. In its endeavour to ensure the soundness of the banking system, the Bank issued a Guideline on Liquidity in January 2000. The guideline encompasses the essential elements of the liquidity policy framework, a description of important steps in the management of liquidity and contingency planning.

Effective July 1999, former Category 1 banks were required to maintain a minimum weekly average cash reserve ratio of 5.5 per cent. With effect from 12 January 2006, the cash ratio requirement was scaled down to 4.0 per cent and eligible cash reserves were redefined as balances held with the Bank of Mauritius.

### 3.2.5 DEPOSITS

Deposits continued to be the major source of funding and constituted the highest proportion of total liabilities. As at end-June 2006, deposits mobilised by banks accounted for 70.0 per cent of total assets, up from 60.0 per cent at end-June 2005. During the year under review, deposits including foreign currency deposits, grew by 32.1 per cent to reach Rs344,441 million from Rs260,692 million at end-June 2005.

#### *3.2.5.1 Advances /Deposits Ratio*

The advances/deposits ratio measures the extent to which funds mobilised by way of deposits have been utilised to finance lending activities of banks. The advances/deposits ratio declined from 70.0 per cent at end-June 2005 to 66.0 per cent at end-June 2006.

#### *3.2.5.2 Non-Cash Liquid Assets Ratio*

In 1997, the non-cash liquid assets ratio was reduced from 20.0 per cent to zero per cent. Nevertheless, banks set their own thresholds with a view to managing, measuring and controlling their funding requirements in line with sound banking practices.

Investment in Treasury Bills and Government securities, which represents the most easily convertible non-cash liquid assets, increased by Rs2,204 million or 4.8 per cent from Rs44,792 million as at end-June 2005 to Rs45,683 million as at end-June 2006. These investments represented 23.9 per cent of total assets at end-June 2006 compared to 25.7 per cent at end-June 2005.

### 3.3 DEVELOPMENTS IN ELECTRONIC BANKING

Electronic Banking normally refers to the use of technology for the delivery of banking products and services. These products and services are increasingly being accessed electronically via computers and cellular phones. The development of e-banking, in an environment characterised by deregulation in the banking sector and increased globalisation, poses new challenges to the regulators.

As at 30 June 2006, ten banks were providing electronic banking services in Mauritius. Available data indicate that transactions conducted through electronic delivery channels are gaining popularity. The number of transactions shows an increasing trend from 2,525,605 during the year ended 30 June 2005 to 2,799,201 during the year ended 30 June 2006.

The number of Automated Teller Machines (ATMs) in operation in Mauritius, inclusive of Rodrigues, increased from 293 to 321 during the year ended 30 June 2006. Accordingly, the number of cards in circulation increased by 14.2 per cent from 908,676 as at end-June 2005 to 1,038,089 as at end-June 2006.

The total value of transactions involving the use of credit and debit cards at ATMs and Merchant Points of Sale increased from Rs4,096 million as at 30 June 2005 to Rs4,417 million as at 30 June 2006. Advances due on credit cards amounted to Rs1,010 million as at 30 June 2006, representing an amount of Rs5,275 per card on average.

Table 8 provides a summary of the evolution of electronic banking transactions for the quarters ended June 2005 to June 2006.

Table 8: Electronic Banking Transactions - June 2005 to June 2006

| | Jun-05 | Sep-05 | Dec-05 | Mar-06 | Jun-06 |
|---|---|---|---|---|---|
| At end of month | | | | | |
| No. of ATMs in operation | 293 | 308 | 313 | 319 | 321 |
| No. of transactions during the month | 2,525,605 | 2,702,023 | 3,698,436 | 2,967,336 | 2,799,201 |
| Value of Transactions* (Rs mn) | 4,096 | 4,411 | 6,991 | 4,736 | 4,417 |
| No. of credit cards in circulation at end of month | 182,860 | 187,949 | 190,677 | 190,203 | 191,481 |
| Debit cards and other | 725,816 | 750,105 | 772,049 | 786,809 | 846,608 |
| **Total Cards** | **908,676** | **938,054** | **962,726** | **977,012** | **1,038,089** |
| Outstanding Advances on Credit Cards (Rs mn) at end of month | 907 | 975 | 1,039 | 1,009 | 1,010 |

* Involving the use of Credit Cards and Debit Cards at ATMs and Merchant Points of Sale

Internet banking is also becoming an attractive option for customers due to its convenience and cost effectiveness. In fact, the number of Internet banking customers increased from 24,812 as at 30 June 2005 to 33,253 as at 30 June 2006. Customers are also making increasing use of phone banking facilities. At 30 June 2006, 61,185 customers had registered for this service compared to 52,830 as at 30 June 2005. One bank is also offering a service that allows its customers to access their accounts through their mobile phones.

In view of the rapid development of the provision of financial services via electronic delivery channels, the Bank issued a Guideline on Internet Banking in April 2001. The Banking Act 2004 has set out at sections 50, 51 and 52 relating to Electronic Banking, a framework within which banks may conduct e-banking business. Those sections also define the specific circumstances that require the Bank's approval and the minimum security measures that need to be put in place.

## 3.4 DEVELOPMENT IN PRIVATE BANKING

In Mauritius, the former Category 2 banks, operating on the international market, are involved in the asset management of high net worth customers. Wealthy customers in search of high returns but who desire utmost discretion regarding their financial matters have brought in funds, which have contributed to the expansion of the offshore banking sector. The legislative and regulatory framework incorporating an expanding network of Double Taxation Avoidance Treaties with jurisdictions across the world has been conducive to the development of this sector.

Most of the former Category 2 banks are branches or subsidiaries of large conglomerates with a global reach and expert know-how that give a competitive edge to private banking services. This wide network is contributing to the establishment of private client service in the Mauritian banking industry.

By contrast, banks operating in the domestic market have not fully exploited this segment of the market. However, some banks do offer personalised services that suit the needs of selective affluent clients to whom innovative products are being offered in the wake of enhanced technology and improvements in service delivery in the domestic financial system. In this context, personalised banking services may be regarded as the stepping stone towards the development of private wealth management.

# 4. Assessment and Prospects

The overall performance of the banking sector has been satisfactory. The enactment of the Banking Act 2004 has widened the scope of the activities banks can engage in. While it ushers in a deregulated environment, some of the more important issues concerning banks' functioning mainly regulatory capital, implementation of KYC/AML etc. have been incorporated in the Act. More recently the Act has been amended to facilitate introduction of Islamic Banking in Mauritius.

The timely implementation of Basel II is both crucial and challenging. The Bank has adopted a consultative process with a view to ensure that the implementation is inclusive and the transition is smooth. A close monitoring of the implementation is critical for the achievement of the objective. The banks in Mauritius are bracing up to the task ahead.

## The Way Forward

The Bank is aware that the end objective of Basel II is the adoption of the IRB approaches for a better measurement of credit risk. Given that these approaches are based on historical information, the Bank intends to set up centralised databases for credit and operational losses. As the database builds up, banks will be encouraged to assess credit and operational risks through the use of internal models.

The Working Group on Credit Risk for the IRB approach has thus initiated discussions with the industry in respect of the data to be collected for estimating the loss parameters, namely, the Probability of Default, the Loss Given Default and the Exposure at Default. The data will also be used for assessing the appropriateness of the standard loss parameters for credit risk set in the Basel II document with respect to the historical loss experience of the banking industry.

Likewise, the Working Group on Operational Risk is encouraging banks to enhance their operational risk management process through the use of key risk indicators. This tool will help in the management process, including the identification, assessment, mitigation and control of operational risk. Moreover, the Working Group may adjust the indicators (Alpha and Beta factors) used in the Basic Indicator and the Standardised Approaches to reflect historical loss experience in the Mauritian banking industry.

Online banking has gathered momentum in Mauritius. The success of e-banking at the individual bank level requires a well-designed strategy accompanied by substantial IT investment. This, however, may represent an obstacle for small banks, which may not have the necessary financial resources to implement sophisticated e-banking solutions, including personalised offerings. The manner in which the smaller banks coexist and compete successfully is an important issue for the future.

## The Challenge Ahead

Mauritius can successfully become a launch pad for the development of financial services in the African region and can provide a smooth gateway between the African continent and emerging economies like India and China due to its strategic geographic location. As a regional financial hub, Mauritius may become a depository centre for private wealth and a channel for funds and investments to Asia and Africa.

The objective to position Mauritius as a prime destination for private wealth management poses a great challenge to the Mauritian financial services sector. To this end, the financial sector should engage extensively in capacity building for the delivery of private banking services. The hiring of professionals in the field and appropriate training imparted to staff would bring value added products to this niche market. Emphasis should be placed on the building-up of appropriate infrastructure and network, the provision of ancillary financial products including legal advisory services and institutional reforms. These would enable the Mauritian financial sector to compete with other jurisdictions which are already established in the area of private wealth management. The ultimate challenge would be to adapt to the evolving needs and expectations of private banking clients.

From the supervisory perspective, the risks involved in private banking should be properly assessed and managed by banks. The latter should have a sound risk management framework with proper policies and procedures in place. They must have staff with appropriate skills and expertise in the administration of private banking.

The Bank has embarked on the implementation of Basel II, which involves improvement in the risk management system of banks. Further, banks should enhance their corporate governance structures. It is expected that as banks consolidate their risk management framework they would be better equipped to broaden the scope of their activities to include the provision of private banking services.

The establishment of Islamic banks in Mauritius is very challenging. The prerequisites for the development of a stable Islamic banking system are an effective regulatory and supervisory framework, a comprehensive legal infrastructure, good corporate governance and sound risk management practices within Islamic banks. However, the regulatory and supervisory framework will have to be consistent with the requirements of the Sharia principles.

In conclusion, the important tasks ahead include sustaining the growth momentum in the banking system without any destabilising development, implementing Islamic Banking, smoothening the regulatory framework to provide a deregulated environment without weakening it. The Bank and the banking system in Mauritius have the capability to size up to the challenge.

# APPENDIX I

# Guidelines

# 1. List of Guidelines/Guidance Notes

1. Guidance Notes on Risk Weighted Capital Adequacy Ratio
2. Guidance Notes on General Principles for Maintenance of Accounting and Other Records and Internal Control Systems
3. Guidelines for Calculation and Reporting of Foreign Exchange Exposures of Banks, Foreign Exchange Dealers and Money-Changers
4. Guideline on Credit Concentration Limits
5. Guideline on Liquidity
6. Guideline on Internet Banking
7. Guideline on Corporate Governance
8. Guideline on Related Party Transactions
9. Guideline on Public Disclosure of Information
10. Guideline on Transactions or Conditions Respecting Well-being of a Financial Institution Reportable by the External Auditor to the Bank of Mauritius
11. Guidance Notes on Fit and Proper Person Criteria
12. Guideline on Credit Risk Management
13. Guidance Notes on Anti-Money Laundering and Combating the Financing of Terrorism
14. Guideline on Credit Impairment Measurement and Income Recognition
15. Guideline on Operational Risk Management and Capital Adequacy Determination

16 Guideline on Segmental Reporting under a Single Banking Licence Regime

17 Guideline on Outsourcing by Financial Institutions

# 2. Guideline on Outsourcing by Financial Institutions

## 1.0 Introduction

1.1 Outsourcing refers to recourse to third-party service providers ("service providers") by financial institutions to perform activities on a continuing basis. Such activities are normally undertaken by the financial institutions themselves. With evolution of technology, an increasing range of outsourcing of financial services activities is likely to be undertaken. Financial institutions usually outsource part of their activities with the view to reducing costs, which in turn may promote efficiency. However, outsourcing exposes financial institutions to new and/or increased risks. It may also impede effective supervision by regulators and have destabilising effects on the financial system. These risks should be controlled by requiring financial institutions to adopt a sound risk management framework when having recourse to outsourcing.

1.2 A newly added essential criterion of Principle 15 of the revised Core Principles for Effective Banking Supervision calls upon supervisors to determine that banks have established appropriate policies and processes to assess, manage and monitor outsourced activities.

1.3 In 2005, the Bank of Mauritius ("Bank") carried out a Survey on the outsourced financial activities to service providers by all financial institutions falling under its regulatory purview. The Survey showed, among other things, that seventy-five per cent of the financial institutions have outsourced at least one activity to a service provider. Seventy-four per cent of the service providers were unrelated to the financial institutions and the remaining twenty six per cent were affiliates. This Guideline on Outsourcing by Financial Institutions ("the Guideline") is therefore being issued to cope with the risks associated with outsourcing in the financial system through the application of an appropriate regulatory framework in this respect.

1.4 This Guideline is issued to all financial institutions regulated by the Bank under the authority of section 50 of the Bank of Mauritius Act 2004 and section 100 of the Banking Act 2004. The main objective of this Guideline is to set out a broad framework for financial institutions that have entered into outsourcing or are planning to outsource their business activities to service providers. The Guideline does not cover comprehensively all the outsourcing related issues but is intended to assist financial institutions to identify the nature of risks involved and to address them effectively in view of the consideration that the Bank will hold its licencees fully responsible for all outsourced activities. The Guideline is based on a three-tier classification of activities, namely:

- material activities which require the authorization of the Bank;
- non-material activities which do not require authorization; and
- core activities which cannot be outsourced.

1.5 The Guideline follows the high-level principles on 'Outsourcing in Financial Services' developed by the Joint Forum[1]. These principles are available at the following address, http://www.bis.org.

## 2.0 Interpretation

### 2.1 In this Guideline -

"financial institution" means any bank, non-bank deposit taking institution or cash dealer licensed by the Bank of Mauritius;

"outsourcing" means an arrangement whereby a financial institution engages a third-party service provider to perform activities on an ongoing basis that would normally have been undertaken by the financial institution itself;

"material outsourcing" means the outsourcing of an activity of such importance that any weakness or failure in the provision of this activity could have a significant impact on the financial institution's ability to meet its regulatory responsibilities and/or

[1] The 'Joint Forum' comprises Basel Committee on Banking Supervision (BCBS), International Organisation of Securities Commission (IOSCO) and International Association of Insurance Supervisors (IAIS).

to continue in business;

"offshoring" in the context of outsourcing means outsourcing activities beyond national borders; and

"third-party service provider" refers to an entity that is undertaking the outsourced activity on behalf of the financial institution and includes a member of the corporate group to which the financial institution belongs or an entity that is external to the corporate group, whether located in Mauritius or elsewhere.

## 3.0 Risk Management Framework in Outsourcing

### 3.1 Policy Formulation

3.1.1 Prior to the outsourcing of any activity, a financial institution should establish a comprehensive policy on outsourcing. The policy should guide the assessment of whether and how an activity should be outsourced. The policy should be well documented and should include, inter-alia,

- strategic goals, objectives and business needs of a financial institution in relation to outsourcing;
- a clear definition of the range of activities that may be outsourced and those core activities which cannot be outsourced;
- steps to evaluate whether a particular activity is appropriate for outsourcing;
- criteria for determining material outsourcing;
- processes for evaluating risks associated with an outsourced activity;
- criteria for evaluating outsourcing relationships (with service providers) including necessary controls and reporting processes on an ongoing basis;
- limits on the acceptable overall level of outsourced activities;
- eligibility criteria for selecting service providers taking into account any relation, directly or indirectly, with the latter;
- issues addressing risk concentrations and risks arising from outsourcing multiple activities to the same service provider;
- steps to ensure compliance with legal and regulatory requirements in both home and host countries; and
- contingency plan in case of business disruptions.

### 3.2 Role of the Board of Directors and Senior Management

3.2.1 The board of directors and senior management of financial institutions have the responsibilities for ensuring that an effective risk management system on outsourcing is in place. The board of directors shall, as a minimum, be responsible for:

- approving the policy on outsourcing;
- assessing outsourcing strategies and arrangements to evaluate consistency with strategic objectives;
- assessing how the outsourcing arrangement will support the financial institution's objectives and strategic plans;
- laying down the appropriate approval authorities for outsourcing;
- approving material outsourcing arrangement;
- assessing management competencies for developing sound and responsive outsourcing risk management policies and procedures as commensurate with the nature, scope and complexity of the outsourcing arrangements;
- reviewing all material outsourcing activities and relevant reports on outsourcing at least once annually; and
- ensuring the continued maintenance of an overall framework for the operational stability of the financial institution, taking into account the scope of outsourced services.

3.2.2 The senior management has the responsibility for proper management of the risks associated with outsourcing activities. In addition, senior management is responsible for:

- evaluating the risks and materiality of outsourcing activities;
- implementing sound and prudent outsourcing policies and procedures approved by the board;
- monitoring and controlling all relevant aspects of outsourcing arrangements on an ongoing basis;
- keeping the board informed on material outsourcing risks in a timely manner;
- ensuring that contingency plans, including availability of alternative service providers, costs and resources required to switch service

providers, are in place;
- ensuring that the internal audit function and the external auditors have the authorities to assess any outsourced functions; and
- ensuring that regulatory and legal requirements are complied with at all times in the framework of and including outsourced services.

3.2.3 In the case of unincorporated branches of foreign banks or institutions incorporated outside Mauritius, the role of the board of directors would be delegated to the management or body empowered with oversight and supervision responsibilities.

### 3.3 Evaluation of Risks Involved in Outsourcing

3.3.1 The ultimate responsibility for implementing a risk management framework on outsourcing lies with the management. The board of directors and the management should, at all times, have a full understanding of the various risks associated with outsourcing. **Annex 1** maps out some of the key risks in outsourcing. The risk management on outsourcing should include, inter-alia, the following steps:
- identification of the role of outsourcing in the overall business strategy;
- due diligence on the service provider and effective identification of the key risk mitigation strategies;
- analysis of the impact of the outsourcing arrangement on the overall risk profile of the financial institution; and
- analysis of risk-return on the potential benefits of outsourcing.

### 3.4 Due Diligence in Selecting Service Providers

3.4.1 Financial institutions are required to carry out stringent due diligence in selecting service providers. They should develop criteria that would enable them to select service providers, both within and outside Mauritius, that have the capacity and ability, both operationally and financially, to perform the outsourced activities. The due diligence exercise, based on updated information, should include, as a minimum, an assessment of:
- the experience and competence of the service provider to implement and support the proposed activity over the contracted period;
- the reputation of the service provider in respect of the services offered, the quality and dependability of its personnel;
- the financial soundness of the service provider to fulfil its obligations, based on updated audited financial statements;
- the internal control systems, audit coverage, compliance, reporting and monitoring environment, system development and maintenance, insurance coverage, and ability to respond and the speed of response to service disruptions by the service provider;
- the commitment of the key service provider personnel towards compliance with rules and regulations to which the outsourcing financial institution is subjected, for example, senior officer;
- the capability to offer service support to ensure continuity of operations at the financial institutions and the reliance of service providers on sub-contractors and other parties; and
- the existence, at the service provider’s level, of a process for Business Continuity Management.

3.4.2 Financial institutions should perform on-site visits to the service provider to better understand and develop the necessary confidence as to the manner in which the service provider operates and supports its services.

3.4.3 Financial institutions intending to engage in outsourcing from abroad should, in addition to section 3.4.1, carry out an assessment of the economic, legal and political environment into which the service providers operate.

### 3.5 Contract Issues & Service Level Agreement

3.5.1 Outsourcing arrangements between financial institutions and service providers should be governed by formal and comprehensive written contracts. Contracts should clearly spell out the rights and responsibilities of each party, taking into consideration the specificities and the materiality of the outsourcing activities.

3.5.2 The agreement should not consist of clauses that would hinder the Bank from exercising its supervisory powers. The Bank should have the same right of access to information with the service provider as it has with the financial institutions having undertaken the outsourcing. The contract should explicitly allow for on-site visits and unhindered inspections of the outsourced activities by the financial institutions and the Bank. Attention is also drawn to section 52(3) of the Banking Act 2004, which provides for the regulation and examination by the central bank of service providers to the same extent as that of the financial institutions in respect of outsourcing of operational functions relating to electronic delivery channels.

3.5.3 Other provisions to be included in an outsourcing contract are:

- the scope of the outsourcing activities, including clear definitions of functions to be outsourced to the service provider as well as the timeframe for implementation;
- cost and maintenance;
- confidentiality and security[2];
- contingency planning in the event the service provider fails;
- access of financial institutions to all books, records and information relevant to the outsourced activity provided by the service provider;
- continuous monitoring and assessment by financial institutions of the service providers;
- types of audit reports and other reports that financial institutions should receive, for example, audited financial statements and performance reports;
- reporting of any material weakness that may impact negatively on the financial soundness of the service provider, to the concerned financial institutions;
- dispute resolution;
- a termination and early exit clause in case of default by the service provider, including insolvency, liquidation, receivership, change in ownership;
- conditions of subcontracting by the service provider for all or part of an outsourced activity and contingency planning for business resumption;
- the need, if any, for insurance cover to be contracted by the service provider; and
- in case the service provider is located outside Mauritius, choice-of-law provisions, agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction.

3.5.4 Moreover financial institutions should ensure that a service level agreement is put in place when entering into an outsourcing arrangement with a service provider. The service level agreement should contain a mixture of quantitative and qualitative performance targets, to enable the outsourcing institution to assess the adequacy and effectiveness of service provision.

### 3.6 Contingency Planning

3.6.1 Financial institutions should take appropriate steps to assess and address the potential consequences in case of a business disruption of an outsourced activity. They should ensure that necessary contingency plans are in place for business continuity in the event that the service provider fails or the contract terminates prematurely or there is non-performance on the part of the service provider. Each outsourcing arrangement should be accompanied by relevant contingency plan.

3.6.2 Contingency plans should address issues such as availability of alternative service providers and hand-over process to a new acceptable supplier. The plans can also be related to worst-case scenario.

3.6.3 Financial institutions should test and review their contingency plans pertaining to the outsourced activities on a regular basis.

### 3.7 Confidentiality and Security

3.7.1 As mentioned in section 3.5.3, outsourcing agreements should contain a clause that would address the service providers' responsibility for confidentiality and security. Financial institutions that engage in outsourcing should take appropriate steps to protect confidential customer information. Financial institutions should expressly prohibit service providers from disclosing confidential customer information to any third-party except for regulatory purposes.

[2] Refer to sector 3.7

3.7.2 Depending on the nature and materiality of the outsourcing arrangement, financial institutions should consider the possibility of notifying in advance their customers that customer data may be transmitted to a service provider as part of their contractual arrangement with the customers.

3.7.3 Financial institutions should abide by all relevant provisions of section 64 of Banking Act 2004 when entering into an outsourcing agreement.

3.7.4 A financial institution should report to the Bank immediately about any unauthorised access or breach of confidentiality and security, directly or indirectly, by an outsourced service provider and the action/s it is proposed to take in consequence.

## 4.0 Classification of Outsourcing Activities

### 4.1 Outsourcing of Material Activities

4.1.1 Material outsourcing refers to the outsourcing of an activity of such importance that any weakness or failure in the provision of this activity could have a significant impact on the financial institution's ability to meet its regulatory responsibilities and/or to continue in business. Outsourcing of activities may have varying degrees of materiality in different financial institutions. As mentioned in section 3.2.2, it is the role of the management to evaluate whether an outsourcing arrangement is material or not. In assessing materiality, both quantitative and qualitative judgments are involved. Financial institutions may carry out, as a minimum, the following assessment to determine the degree of materiality of an outsourcing activity:

- the relative importance of the business activity to be outsourced which can be measured in terms of contribution to income and profit;
- the potential impact of the outsourcing activity on current and projected earnings, solvency, liquidity, funding and capital and risk profile;
- the impact on financial institution reputation in case the service provider fails;
- the cost of the outsourcing as a percentage of total operating costs; and
- the ability to maintain appropriate internal controls and meet regulatory requirements in case of operational failures by the service provider.

4.1.2 Financial institutions that intend to outsource certain managerial and internal control functions including compliance and internal audit should refer to section 4.3.1. Furthermore, it should be recalled that an outsourcing contract, which was previously not material may subsequently become material resulting from an increase in volume or nature of the activity outsourced to the service provider or for any other reason.

4.1.3 A financial institution that intends to outsource a material activity is required to notify and obtain the prior authorization of the Bank. Such authorization should be sought at least 15 working days before entering into an agreement with the service provider. **Annex 2** provides a list of information that should be submitted along with the request for authorization. The Bank may require additional information from outsourcing financial institutions and service providers depending on the specificities of the outsourcing arrangements.

### 4.2 Outsourcing of Non-Material Activities

4.2.1 There are certain types of activities that do not affect the internal control system to a large extent and consequently do not pose significant risk. In that sense, such activities may be considered as non-material activities. Non-material activities are generally those that:

- require infrastructure necessitating substantial investment as to render provision of services nearly impossible and those that require the use of third-party service providers such as telephone, utilities, common network infrastructures (e.g. VISA, Mastercard);
- are statutory or cannot legally be provided by financial institutions such as statutory audits, discreet advisory services including legal opinions; and
- are generally considered very low-risk, for instance, courier, mailing and printing services.

4.2.2 Financial institutions are free to outsource non-material activities and do not need to seek authorisation of the Bank, provided the activities do not require approval or authorisation under the Banking Act 2004. However, they should ensure that adequate risk management procedures are in place at all times. The board of directors and management should be fully aware of and responsible for the outsourcing of non-material activities.

### 4.3 Activities that cannot be Outsourced

4.3.1 The Bank would not encourage financial institutions to outsource certain core activities. The latter should remain within the organisation in order not to lose control. Certain activities, if outsourced, might affect management ability to run the business properly. Activities that are considered 'core' and should not be outsourced are:

- board and senior management functions such as strategic oversight;
- internal audit function; and
- compliance function.

4.3.2 The Bank would not support the outsourcing of the abovementioned activities. However, exceptions for certain types of intra-group outsourcing may be allowed. This would be considered on a case-by-case basis. Financial institutions that intend to outsource the aforesaid activities, within the group, are required to seek prior authorization of the Bank and to consider the outsourcing of such activities as material outsourcing. As such the same requirements apply as in section 4.1.3.

4.3.3 The Bank is of the view that the internal audit function should be an integral part of the systems of internal control established and maintained by management and should provide independent assurance over the integrity and effectiveness of these systems. Generally, the Bank would not support the outsourcing of internal audit function to service providers. However, in certain circumstances, such as in section 4.3.2, the Bank may consider, on a case-by-case basis, the outsourcing of internal audit function. In no circumstances, the Bank would allow financial institutions to outsource the internal audit function to their external auditors. This is mainly for the simple reason that there will be an absence of independence when a service provider is handling both the internal and external audits.

### 4.4 Outsourcing Outside Mauritius ("Offshoring")

4.4.1 The Survey conducted by the Bank on activities outsourced by financial institutions revealed that many financial institutions outsource certain types of activities to service providers outside Mauritius, also known as 'offshoring'. This practice increases the exposures of financial institutions to country risk. Financial institutions that engage in cross-border outsourcing should take into account the country risk element and hence the capacity to keep under control the ability of the service provider to deliver the service uninterruptedly. They should avoid cross-border outsourcing arrangements with countries that do not have legislations on confidentiality and where regulators may be denied access to information held by such service providers.

4.4.2 Financial institutions should also consider scenarios in case of disruptions in business continuity. An aspect that financial institutions should consider seriously in this respect is how quickly and efficiently the processes could be reverted to the home country so as to keep to a minimum any potential disruption of service by the financial institution due to this factor.

## 5.0 Cancellation

5.1 In February 2001, the Bank issued to all banks a guideline entitled 'Guideline on Internet Banking'. The Guideline deals with issues relating to Internet banking and section 12 thereof deals exclusively with outsourcing of banks' Internet banking activity. This Guideline on Outsourcing by Financial Institutions covers broadly the outsourcing-related issues. As such, it supersedes section 12 of the Guideline on Internet Banking.

## 6.0 Application of the Guideline

6.1 This Guideline is applicable to all financial institutions falling under the regulatory purview of the Bank. It needs to be emphasized, as mentioned in section 4.1.3, that financial institutions should seek prior authorization of the Bank before entering into material outsourcing.

6.2 Financial institutions should conduct an assessment of all their existing outsourcing arrangements against this Guideline. Where the outsourcing is considered material, financial institutions should inform the Bank in writing as to the level of compliance with the Guideline and report weaknesses, if any. They should also submit a plan and timeframe on how such weaknesses would be rectified. This should be done within 4 months from the effective date of this Guideline.

6.3 Financial institutions should inform the Bank immediately, of any adverse development arising from any outsourcing arrangement that could significantly affect their businesses.

## 7.0 Role of the External Auditor

7.1 The external auditor should review and attest the adequacy of the policies and processes put in place by financial institutions for outsourcing activities. They should immediately inform the Bank of any material weaknesses or irregularities that, in their opinion, might affect the well being of the financial institution or have additional operational risk implications.

## 8.0 Commencement

8.1 This Guideline shall come into effect as from 01 June 2006.

**Bank of Mauritius**
**30 May 2006**

## Annex 1

### Risks Involved in Outsourcing Financial Activities

| | |
|---|---|
| Strategic Risk | -The service provider may conduct activities on its own behalf, which are inconsistent with the overall strategic goals of the financial institution.<br>-Failure to implement appropriate oversight of the outsource provider.<br>-Inadequate expertise to oversee the service provider. |
| Reputation Risk | -Poor service from service provider.<br>-Customer interaction is not consistent with overall standards of the regulated entity.<br>-Service provider practices are not in line with stated practices (ethical or otherwise) of financial institutions. |
| Compliance Risk | -Privacy laws are not complied with.<br>-Consumer and prudential laws not adequately complied with.<br>-Outsource provider has inadequate compliance systems and controls. |
| Operational Risk | -Technology failure.<br>-Inadequate financial capacity to fulfil obligations and/or provide remedies.<br>-Fraud or error.<br>-Risk that firms find it difficult/costly to undertake inspections. |
| Exit Strategy Risk | -The risk that appropriate exit strategies are not in place. This could arise from over-reliance on one firm, the loss of relevant skills in the institution itself preventing it from bringing the activity back in-house, and contracts, which make a speedy exit prohibitively expensive.<br>-Limited ability to return services to home country due to lack of staff or loss of intellectual history. |
| Counterparty Risk | -Inappropriate underwriting or credit assessments.<br>-Quality of receivables may diminish. |
| Country Risk | -Political, social and legal climate may create added risk.<br>-Business continuity planning is more complex. |
| Contractual Risk | -Ability to enforce contract.<br>-For offshoring, choice-of-law is important. |
| Access Risk | -Outsourcing arrangement hinders ability of financial institutions to provide timely data and other information to regulators.<br>-Additional layer of difficulty in regulator understanding activities of the service provider. |
| Concentration and Systemic Risk | -Overall industry has significant exposure to service provider. This concentration risk has a number of facets, including:<br>• Lack of control of individual financial institutions over service provider; and<br>• Systemic risk to industry as a whole. |

## Annex 2

***List of information to be submitted along with the request for authorisation for material outsourcing activities.***

1. A feasibility study on the activity to be outsourced. In the absence of a feasibility study, a statement on the 'Rationale for Outsourcing' should be submitted.
2. Profile of the service provider.
3. A DRAFT outsourcing agreement to be entered between the financial institution and the service provider.
4. A contingency plan of the outsourcing arrangement.
5. A Statement by the Chief Executive stating that all the internal control procedures and risk management systems are in place for the implementation of the outsourcing. Furthermore, he should state that the board of directors has given its approval for the outsourcing arrangement.

# APPENDIX II

# Financial Soundness Indicators[1] for the Banking Sector[2], 1998-2005
# (In percent, unless otherwise indicated)

| | Dec-98 | Dec-99 | Dec-00 | Dec-01 | Dec-02 | Dec-03 | Dec-04 | Dec-05 |
|---|---|---|---|---|---|---|---|---|
| ***Capital Adequacy*** | | | | | | | | |
| Regulatory capital to risk-weighted assets ratio[3] | 11.9 | 13.2 | 12.3 | 13.0 | 12.3 | 14.2 | 15.0 | 15.4 |
| Regulatory Tier I capital to risk-weighted assets ratio[4] | 11.8 | 12.6 | 12.5 | 12.7 | 13.0 | 13.7 | 13.7 | 13.5 |
| Total (regulatory) capital to total assets ratio | 7.1 | 8.1 | 7.6 | 8.4 | 7.2 | 8.0 | 7.8 | 7.8 |
| ***Asset Composition and Quality*** | | | | | | | | |
| Share of loans (exposures) per risk weight (RW) category | | | | | | | | |
| RW=0 per cent | 4.9 | 6.1 | 7.0 | 6.8 | 9.5 | 5.2 | 6.4 | 16.6 |
| RW=20 per cent | 0.7 | 0.6 | 0.6 | 0.4 | 0.4 | 4.8 | 6.7 | 0.2 |
| RW=50 per cent | 11.2 | 10.9 | 9.9 | 8.9 | 7.0 | 7.9 | 9.6 | 6.5 |
| RW=100 per cent | 83.2 | 82.4 | 82.5 | 83.8 | 83.2 | 82.1 | 77.3 | 76.7 |
| Total exposures to total assets | 54.6 | 54.8 | 56.5 | 59.2 | 51.6 | 47.8 | 45.9 | 53.6 |
| Sectoral distribution of loans to total loans[5] | | | | | | | | |
| Agriculture | 7.8 | 6.7 | 8.6 | 8.3 | 9.7 | 9.1 | 7.5 | 5.7 |
| *of which: sugar* | *6.7* | *5.8* | *7.7* | *7.0* | *8.6* | *8.0* | *6.4* | *5.6* |
| Manufacturing | 27.4 | 24.6 | 24.4 | 18.2 | 16.1 | 14.8 | 13.6 | 12.0 |
| *of which: export enterprise certificate holders* | *13.2* | *10.9* | *10.7* | *10.8* | *9.4* | *7.5* | *6.1* | *5.4* |
| Traders | 19.9 | 18.6 | 15.8 | 14.1 | 14.1 | 14.9 | 14.5 | 13.9 |
| Personal and professional | 13.1 | 13.3 | 12.3 | 9.5 | 9.2 | 9.8 | 10.0 | 9.4 |
| Construction | 17.7 | 18.7 | 16.9 | 14.2 | 13.9 | 14.2 | 16.2 | 15.2 |
| *of which: housing* | *12.2* | *12.8* | *11.6* | *11.0* | *10.5* | *9.0* | *10.8* | *10.7* |
| Tourism /Hotels [6] | 4.4 | 7.3 | 8.3 | 14.1 | 15.0 | 15.9 | 15.4 | 13.2 |
| Other | 9.6 | 10.8 | 13.6 | 21.6 | 21.3 | 21.2 | 22.8 | 30.7 |
| FX loans to total loans | 10.6 | 10.1 | 10.6 | 13.1 | 10.3 | 10.9 | 12.2 | 51.1 |
| NPLs to gross loans [7] | 9.1 | 8.3 | 7.0 | 8.0 | 8.3 | 9.6 | 8.1 | 4.0 |
| NPLs net of provisions to capital | 40.5 | 34.3 | 28.7 | 37.8 | 34.0 | 28.1 | 22.4 | 11.4 |
| Large exposures to capital | 212.4 | 248.6 | 225.6 | 270.1 | 263.7 | 220.9 | 200.0 | 250.3 |
| ***Earnings and Profitability*** | | | | | | | | |
| Return On Assets | 2.4 | 2.2 | 2.3 | 2.3 | 2.0 | 2.1 | 2.1 | 1.9 |
| Return On Equity | 23.9 | 20.7 | 22.1 | 20.6 | 18.1 | 19.2 | 19.2 | 21.1 |
| Interest margin to gross income | 28.3 | 27.4 | 27.2 | 30.1 | 32.6 | 32.1 | 34.7 | 36.3 |
| Non-interest expenses to gross income | 22.3 | 20.8 | 20.6 | 20.8 | 23.1 | 23.9 | 27.7 | 20.1 |
| Personnel expenses to noninterest expenses | | | | | | | | |
| Expenses to revenues ratio | 10.5 | 10.3 | 9.9 | 10.3 | 10.5 | 10.6 | 10.2 | 8.1 |
| Average earnings per employee (in Rs' 000) | 1,371 | 1,401 | 1,718 | 1,670 | 1,819 | 2,212 | 2,433 | 2,904 |
| Trading and fee income to total income | | | | | | | | |
| Spread between reference loan and deposit rates | | | | | | | | |

| | Dec-98 | Dec-99 | Dec-00 | Dec-01 | Dec-02 | Dec-03 | Dec-04 | Dec-05 |
|---|---|---|---|---|---|---|---|---|
| ***Liquidity*** | | | | | | | | |
| Liquid assets to total assets ratio | 28.4 | 31.2 | 28.5 | 29.2 | 32.7 | 36.6 | 37.9 | 44.1 |
| Liquid assets to total short-term liabilities ratio | 63.1 | 73.2 | 67.0 | 60.2 | 65.3 | 71.0 | 71.7 | 88.6 |
| Funding volatility ratio | 16.4 | 11.6 | 14.1 | 21.1 | 16.4 | 13.9 | 14 | -20.1 |
| Demand deposits to total liabilities ratio | 6.5 | 6.0 | 6.1 | 10.9 | 10.3 | 10.3 | 10.7 | 15.9 |
| Customer deposits to total (non-interbank) loans | | | | | | | | |
| FX liabilities to total liabilities | | | | | | | | |
| FX deposits to total deposits ratio | 9.6 | 11.3 | 12.1 | 12.1 | 11.7 | 11.0 | 13.8 | 57.3 |
| Average bid-ask spread in the securities market 1/ | | | | | | | | |
| Average daily turnover ratio in the securities market 1/ | | | | | | | | |
| ***Sensitivity to market risk*** | | | | | | | | |
| Duration (or average repricing period) of assets* | | | | | | | | |
| Duration (or average repricing period) of liabilities* | | | | | | | | |
| Net open positions in FX to capital | 3.6 | 9.2 | 5.0 | 3.2 | 7.5 | 20.8 | 1.9 | 4.2 |
| Net open positions in equities to capital | | | | | | | | |

***Notes:***

1 The ratios were computed using the standard definition provided in the IMF's Financial Soundness Indicators Manual. The ratios may be different from those used in other parts of the report.
2 Banking Sector refers to former Category 1 banks from 1998 to 2004 and to former Category 1 and former category 2 banks as from Dec 2005
3 Regulatory capital refers to Total of Tier 1capital and Tier 2 capital less investments in subsidiaries and associates,
4 Tier 1 capital does not reflect deductions for investments in subsidiaries and associated companies
5 The definition used for sectoral classification was amended in 2001. The ratios were adjusted where possible to reflect the amendments.
6 Up to 2000 the definition was limited to exposure towards hotels and hotel management certificate companies. As from 2000, the definition encompasses all exposures towards the tourism industry
7 Gross loans exclude accrued interest.

# APPENDIX III

# 1. Legislative Changes

## The Finance Act 2006

The Finance Act 2006, which was enacted on 7 August 2006, brought amendments to, inter alia, the Banking Act 2004, the Companies Act 2001, the Financial Intelligence and Anti-Money Laundering Act 2002, the Financial Reporting Act 2004 and the Income Tax Act as detailed below:

## A. The Banking Act 2004

### Section 7 - Grant or refusal to grant banking licence

Subsection (6) of section 7 of the Banking Act 2004 which provided that a banking licence shall, in addition to the name of the licensee and the conditions to which it is subjected, also specify the place or places at which the licensee is authorised to conduct banking business, has been repealed and replaced by a new subsection which now provides that a banking licence should only specify the name of the licensee and the conditions to which it is subjected. Accordingly, it is no longer a requirement for the place or places at which a bank is authorised to conduct banking business to be mentioned in the banking licence.

### Section 26 - Other prudential requirements

The reference to section 33 in section 26(1) of the Act has been deleted therefrom. The words “Sections 7, 10 and 33” appearing in section 26(1) have accordingly been deleted and replaced by the words “Sections 7 and 10”.

### Section 42 - Regular examinations

Section 42 has been amended to provide that the central bank shall conduct regular examinations of the operations and affairs of every financial institution “at least once every 2 years” instead of “at least once a year” as was formerly the case.

### Section 46 - Fit and proper person

In order to ensure that third parties to whom financial institutions are outsourcing some of their functions, are fit and proper, a new subsection (2A) has been added to section 46, which provides that, “No financial institution shall outsource any of its functions to any other person unless the central bank is satisfied that the person meets the requirements of subsection (3)”.

### Section 50 - Automated teller machines

Subsection (1) of section 50 has been repealed and replaced by a new subsection which provides that where any bank sets up automated teller machines for use by customers to make deposits or withdraw cash, it shall inform the central bank accordingly.

In terms of section 50(2) of the Banking Act 2004, where a bank sets up automated teller machines, it was required to provide such security for their operation and such systems for customer authentication, terminal receipts and periodic statements and for physical and logical protection against unauthorized access in any form, as the central bank considered adequate. The words “as the central bank considers adequate” have been deleted from this provision.

Banks are accordingly no longer required to seek the approval of the central bank when, inter alia, providing security for the operation of the automated teller machines as was formerly the case. They are only required to inform the Bank when they set up an automated teller machine for use by customers.

### Section 62 - Hours of business

In order to enable the Bank to approve and not fix the hours of business of financial institutions, the words “the central bank shall fix -” have been deleted from section 62 and replaced by the words “the central bank shall approve -”.

### Section 64 - Confidentiality

(i) Provision has been made in subsection (1)(a) of section 64 for service providers who by virtue of their professional relationship with a financial institution have access to the books, accounts, records, financial statements or other documents of the financial institution, whether electronically or otherwise, to make a declaration of confidentiality before they begin to perform any duties under the banking laws.

A definition of "professional relationship" has also been provided in paragraph (b) of this subsection.

(ii) A new paragraph (l) has been added in subsection (3) to provide that the duty of confidentiality shall not apply when a financial institution, other than a cash dealer, is required to provide information and particulars, and to do any other act, under Sub-Part BA of Part VIII of the Income Tax Act.

(iii) In the light of the provisions of the Mauritius Revenue Authority Act 2004, the words "the Director-General of the Revenue Authority, the Revenue Commissioner under the Unified Revenue Act," have been deleted in subsection (9), and replaced by the words "the Director-General of the Mauritius Revenue Authority established under the Mauritius Revenue Authority Act 2004,".

### Section 70 - Procedures to go into voluntary liquidation

A new subsection (4) has been added to section 70 to state that the procedures for voluntary liquidation under the Banking Act 2004 shall be in accordance with the sections and Parts of the Companies Act 1984 specified in the Fifteenth Schedule to the Companies Act 2001 and those sections and Parts shall apply to the extent that they are consistent with the provisions of Part X of the Banking Act.

### Section 97 - Offences and penalties

Section 97(11) has been amended by deleting the words "section 34(5)" and replacing them by the words "section 34(5), (6)" thereby making a failure by a financial institution to submit its financial statements on time an offence.

## B. The Companies Act 2001

### Section 2 - Interpretation

Amendment has been brought to the definition of "small private company" by deleting the words "10 million rupees" appearing in section 2(5) of the Companies Act 2001 and replacing them by the words "30 million rupees". Following the said amendment a company shall qualify as a "small private company" where, inter alia, it is a private company whose turnover in respect of its preceding accounting period is less than 30 million rupees.

### Section 68 - Company may acquire or redeem its own shares

Subsection (6) of section 68, which provides that a company shall immediately, following the acquisition or redemption of shares by the company, give notice to the Registrar of the number and class of shares acquired or redeemed, has been amended to provide that except where dispensation has been granted under section 52(5), a company shall immediately following the acquisition or redemption of its shares give such a notice.

### Section 86 - Pledges

The words "and any other applicable law" has been added after the words "Code Civil Mauricien" in section 86(1) of the Act, thereby providing that any share or debenture may be given in pledge in all civil and commercial transactions in accordance with the Code Civil Mauricien and any other applicable law.

### Section 138 - Removal of directors

Subsection (6) of section 138 has been amended to provide that a person of or over the age of 70 years may, in the case of an application for incorporation of a public company, be appointed with the consent in writing of the proposed shareholders.

### Section 187 - Registered office

Section 187(1) of the Act has been amended to provide that every company shall, in addition to having a registered office in Mauritius, also cause its name and the word "Registered Office" to be permanently displayed in a conspicuous place in legible romanised letters on the outside of its registered office.

#### Section 220 - Sending of financial statements to shareholders who elect not to receive annual report

The words "in accordance with section 212" appearing in section 220(a) of the Act have been deleted and replaced by the words "in accordance with sections 210 and 212 respectively". Following the said amendment, section 220(a) of the Act provides that the Board of a company shall cause to be sent to every shareholder of the company referred to in sections 218 and 219(2), not less than 21 days before the annual meeting of the shareholders the financial statements for the most recently accounting period completed and signed in accordance with section 210 and any group financial statements for the most recently completed accounting period and signed in accordance with sections 210 and 212 respectively.

### C. The Financial Intelligence and Anti-Money Laundering Act 2002

#### Section 5 - Limitation of payment in cash

The words "350,000 rupees" have been deleted in section 5(1) and replaced by the words "500,000 rupees" thereby authorizing payment in cash up to a maximum of Rs500,000 as compared to Rs350,000 as was formerly the case.

#### Section 10 - Functions of the FIU

A new paragraph (g) has been added to subsection 10(2) to enable the FIU to undertake and assist in research projects in order to identify the causes of money laundering and terrorist financing and its consequences.

#### Section 19 - Offences relating to obligation to report and keep records and to disclosure of information prejudicial to a request

With the enactment of the Mutual Assistance in Criminal and Related Matters Act 2003, section 23 of the Financial Intelligence and Anti-Money Laundering Act 2002 with respect to the provision of assistance by the FIU to overseas countries was repealed. Accordingly, the words "to which section 23 applies" appearing in section 19(2)(a) and (b) of the Act have been deleted and replaced by the words "under the Mutual Assistance in Criminal and Related Matters Act 2003".

#### Section 19A-Establishment of National Committee

In the light of the amendments brought about by the Bank of Mauritius Act 2004, reference to the former Managing Director of the Bank of Mauritius has been rectified by deleting the words "Managing Director" appearing in section 19A(2) of the Act and replacing them by the words "a Deputy Governor".

### D. The Financial Reporting Act 2004

#### Section 33 - Licencing of auditors

In accordance with section 33(1) of the Financial Reporting Act 2004, no person shall hold any appointment, or offer any services for remuneration, as an auditor, unless he holds a licence under the Act.

A derogation has been brought to the above provision. The words "No person" in subsection (1) have been deleted and replaced by "Subject to subsection (1A), no person" and a new subsection (1A) has been inserted immediately after subsection (1), which provides that subsection (1) shall not apply to the auditor of a small private company under the Companies Act 2001.

#### Section 35 - Audit practice by a firm

Paragraph (d) of section 35(4) which provided that the Council shall not approve the proposed name or any proposed change in the name of an audit firm where the proposed name or proposed change in the name is in breach of the Business Registration Act 2002, has been deleted therefrom.

### E. The Income Tax Act

One of the major amendments brought about by the Finance Act 2006 to the Income Tax Act is the addition in Part VIII of the Act of a new Sub-Part BA entitled "Deduction of tax at source". The essence of those amendments is given below.

In terms of the provisions of this new Sub-Part BA, income tax at the rate of 15 per cent is chargeable on, inter alia, interest payable to depositors by banks and non-bank deposit taking institutions at the time the interest is made available to the depositor. No income tax shall however be deducted from the interest payable to a depositor unless the aggregate amount of deposits held by the depositor in a financial institution including its branches exceeds, at any time in an income year, 2,000,000 rupees and in respect of interest which accrued prior to 1 October 2006.

Section 111D of the Act further provides that banks and non-bank deposit taking institutions are required to remit to the Director-General, the income tax so deducted, electronically or in such other manner as may be approved by the Director-General, where the income tax is deducted at any time during the first 15 days of a month, not later than the 22nd day of that month and where the deduction is effected between the 16th day and the end of the month, not later than 7 days from the end of that month.

Section 111K of the Act also provides that banks and non-bank deposit taking institutions shall, not later than 31 July in every year, give to each depositor, a statement of income tax deduction, in duplicate, in respect of the preceding income year and submit to the Director-General a statement giving, in respect of the preceding income year, the particulars of the payee, the amount or sum made available and income tax deducted therefrom as well as the aggregate amount of interest payable by the bank or non-bank deposit taking institution including its branches, where such aggregate amount exceeds 5,000 rupees, whether or not income tax has been deducted.

Subsection (4) of section 111K of the Act further provides that notwithstanding the duty of confidentiality imposed under section 64 of the Banking Act 2004 and the confidentiality provisions under any other enactment, banks and non-bank deposit taking institutions shall comply with the requirements of Sub-Part BA.

A new section 146A has also been added to the Act entitled "Offences relating to deduction of tax at source" which provides as follows:

**"146A. Offences relating to deduction of tax at source**

Any person who -

(a) fails to pay the amount of income tax required to be deducted under section 111C;

(b) fails to give the statement of income tax deduction as required under section 111K(1)(a) and (3);

(c) fails to submit the statement of particulars as required under section 111K(1)(b), (2) and (3);

(d) submits a statement referred to in paragraph (b) or (c) which is false or misleading in any material particular;

(e) without lawful authority, discloses to any person, other than the Director-General, any information concerning any person subject to tax deduction under Sub-Part BA; or

(f) otherwise contravenes any provision of Sub-Part BA of Part VIII,

shall commit an offence and shall, on conviction, be liable to a fine not exceeding 50,000 rupees and to imprisonment for a term not exceeding 2 years."

# List of Memoranda of Understanding entered between the Bank of Mauritius and other authorities on the exchange of supervisory information

| Name of Authorities | Effective Date |
|---|---|
| **Local** | |
| - Financial Services Commission | 5 December 2002 |
| **Foreign** | |
| - Jersey Financial Services Commission | 15 January 1999 |
| - Commission Bancaire Française | 2 November 1999 |
| - State Bank of Pakistan | 26 January 2004 |
| - Banco de Moçambique | 15 March 2004 |
| - The Bank Supervision Department of the South African Reserve Bank | 25 January 2005 |
| - Central Bank of Seychelles | 2 May 2006 |

# NOTICE

## Surrender of Banking Licence by RMB (Mauritius) Limited

On 3 June 2002, RMB (Mauritius) Limited was authorised by the Bank of Mauritius to carry on class B banking business in Mauritius under the provisions of section 3 of the Banking Act 1988.

RMB (Mauritius) Limited applied for permission from the Bank of Mauritius for the surrender of its Banking Licence under the provisions of section 11(7) of the Banking Act 2004 with effect from close of business on 1 June 2006.

RMB (Mauritius) Limited ceased to conduct banking business with effect from close of business on 1 June 2006.

The public is hereby informed that after the completion of the necessary formalities by RMB (Mauritius) Limited, the Bank of Mauritius has under section 11(7) of the Banking Act 2004 accepted the surrender of its Banking Licence for cancellation with effect from 17 July 2006.

**Bank of Mauritius**
**17 July 2006**

# Bank of Mauritius
# N O T I C E

**Suspension of Authorisation to carry on business as money-changer**

On 28 November 2002, Gowtam Jootun Lotus Ltd was granted an authorisation by the Minister of Finance to carry on the business of money-changer at Royal Road, Flic-en- Flac, under the provisions of the Foreign Exchange Dealers Act 1995 and the terms and conditions set out in the Foreign Exchange Dealers Regulations 1995. The Foreign Exchange Dealers Act 1995 has been repealed by the Banking Act 2004.

Under the powers conferred upon the Bank of Mauritius by section 17 of the Banking Act 2004, following the repeal of the Foreign Exchange Dealers Act 1995, the Bank has suspended the authorisation granted to Gowtam Jootun Lotus Ltd to carry on the business of money-changer with effect from 26 January 2006 in the context of regulatory investigations concerning alleged irregular transactions.

The public is hereby informed accordingly.

**Bank of Mauritius**
**13 February 2006**

# List of Charts



# List of Tables

# Glossary of Abbreviations

| Abbreviation | Details |
|---|---|
| AIG | Accord Implementation Group |
| AMA | Advanced Measurement Approach |
| AML/CFT | Anti-Money Laundering and Combating the Financing of Terrorism |
| A-IRB | Advanced Internal Ratings Based |
| APG | Asia/Pacific Group on Money Laundering |
| ASA | Alternative Standardised Approach |
| ATF | Accounting Task Force |
| ATM | Automated Teller Machine |
| Bank | Bank of Mauritius |
| BCBS | Basel Committee on Banking Supervision |
| BCP | Basel Core Principles |
| BIA | Basic Indicator Approach |
| BIS | Bank for International Settlements |
| FATF | Financial Action Task Force |
| F-IRB | Foundation Internal Ratings Based |
| FIU | Financial Intelligence Unit |
| FSI | Financial Stability Institute |
| FSAP | Financial Sector Assessment Programme |
| GAFISUD | Groupe d'Action Financière sur le blanchiment de capitaux en Amerique du Sud |
| IAIS | International Association of Insurance Supervisiors |
| ILG | International Liaison Group |
| IM | Internal Model Approach |
| IMF | International Monetary Fund |
| IOSCO | International Organisation of Securities Commissions |
| IRB | Internal Ratings Based |
| KYC/AML | Know Your Customer / Anti-Money Laundering |
| NCCT | Non Cooperative Countries and Territories |
| OGBS | Offshore Group of Bank Supervisors |
| PDG | Policy Development Group |
| SA | Standardised Approach |
| SMM | Standardised Measurement Method |

# 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 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 2006.

### Banks Licensed to carry Banking Business

1. Bank of Baroda
2. Banque des Mascareignes Ltée
3. Barclays Bank PLC
4. Deutsche Bank (Mauritius) Limited
5. First City Bank Ltd
6. Habib Bank Limited
7. HSBC Bank (Mauritius) Limited [1]
8. Indian Ocean International Bank Limited
9. Investec Bank (Mauritius) Limited
10. Mauritius Post and Cooperative Bank Ltd
11. P.T Bank Internasional Indonesia
12. RMB (Mauritius) Limited [2]
13. SBI International (Mauritius) Ltd
14. SBM Nedbank International Limited
15. South East Asian Bank Ltd
16. Standard Bank (Mauritius) Limited
17. Standard Chartered Bank (Mauritius) Limited
18. State Bank of Mauritius Ltd
19. The Hongkong and Shanghai Banking Corporation Limited
20. The Mauritius Commercial Bank Ltd

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

1. ABC Finance & Leasing Ltd
2. Barclays Leasing Company Limited
3. Capital Leasing Ltd [3]
4. Finlease Company Limited
5. Cim Leasing Ltd
6. Global Direct Leasing Ltd
7. La Prudence Leasing Finance Co. Ltd
8. Mauritius Housing Company Ltd
9. Mauritian Eagle Leasing Company Limited
10. SBM Lease Limited
11. SICOM Financial Services Ltd
12. The Mauritius Civil Service Mutual Aid Association Ltd
13. The Mauritius Leasing Company Limited

### Money-Changers (Bureaux de Change)

1. Change Express Ltd
2. Max & Deep Co. Ltd
3. Gowtam Jootun Lotus Ltd [4]

### Foreign Exchange Dealers

1. British American Exchange Co. Ltd
2. Edge Forex Limited
3. Rogers Investment Finance Ltd
4. Thomas Cook (Mauritius) Operations Company Limited
5. Shibani Finance Co. Ltd

Note:

[1] *HSBC Bank (Mauritius) Limited was granted a banking licence on 8 June 2006*

[2] *RMB (Mauritius) Limited, holding a banking licence since 3 June 2002 has ceased to conduct banking business with effect from close of business on 1 June 2006*

[3] *CLL Leasing Ltd (former Capital Leasing Ltd) and Capital Leasing Ltd (former MUA Leasing Company Ltd) were amalgamated on 15 June 2006. The two institutions will now operate under the name of Capital Leasing Ltd.*

[4] *The Bank has suspended the authorisation granted to Gowtam Jootun Lotus Ltd to carry on the business of money-changer with effect from 26 January 2006.*

BANK OF MAURITIUS

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