BANK OF MAURITIUS **PRESS COMMUNIQUE**

Implementation of the Basel II Capital Accord

In keeping with the agreement reached at the last regular Banking Committee meeting held on 1 August 2007, a Special Banking Committee meeting was held today under the Chairmanship of the Governor of the Bank of Mauritius to discuss the state of readiness of the Mauritian banking sector in implementing the Basel II Capital Accord as prescribed by the Basel Committee on Banking Supervision (BCBS) which operates under the aegis of the Bank for International Settlements. The Chief Executives of all banks operating in Mauritius participated along with the senior staff of the Bank in the meeting.

The Bank has adopted a consultative and flexible approach with the banking sector for the smooth implementation of the Basel II Capital Accord which presents a daunting challenge for all regulators.

The Bank is pleased to announce that the banking sector in Mauritius is now reasonably well-prepared to implement the Basel II Standardised Approaches by the year 2008. Some banks have even shown initiatives to start processes to move in the future to advanced approaches as provided for in the Basel II Capital Accord.

The Basel I Capital Accord, released in 1988 and adopted in Mauritius in 1993, was designed to harmonise regulatory capital requirements around the world mainly with respect to credit risk. The Basel II Capital Accord, which improves on the original

Accord, aims at making banks' regulatory capital requirements more responsive to the broader spectrum of risks that they face.

The New Capital Accord comprises three Pillars. Under Pillar 1, banks in Mauritius will be required to capture credit risk, market risk and operational risk for calculating their minimum capital requirements. Under Pillar 2, as part of banks' Internal Capital Adequacy Assessment Process, banks will have to hold capital based on their own internal assessment of risks which will be under the supervisory review of the Bank. Under Pillar 3, additional public disclosure will be required by banks to enhance market discipline.

The Committee noted that the progress made so far on the Basel II project has already helped to improve the risk and capital management practices of banks in Mauritius. The migration to more advanced approaches, as provided for in the Basel II Capital Accord, will result in better risk-management standards, thereby enhancing financial stability in the country.

The Bank has used its discretion to adapt the Basel II framework to the specificities of the Mauritian banking sector while at the same time ensuring compliance with best international practices laid down by the BCBS. The Bank's strong commitment to the implementation of the Basel II Capital Accord will benefit all banks operating in Mauritius in various ways. Besides fostering better risk-management practices, the adoption of the New Capital Accord will enhance banks' competitiveness in the region.

A background note on the Basel II Capital Accord is annexed.

Bank of Mauritius
21 September 2007

Background Note on Basel II Capital Accord

In the 1980s, the Basel Committee on Banking Supervision (BCBS) proposed a framework for internationally-active banks to calculate their capital requirements. The framework was most commonly known as Basel I. The aim was to create a level playing field among banks operating in different jurisdictions. Banks are required to maintain sufficient capital in order to ensure that they can withstand major losses and protect depositors' interests. Accordingly the BCBS prescribed a minimum capital adequacy ratio of 8 per cent. The capital adequacy ratio is calculated as the amount of capital maintained against the estimated risks associated with the banks' assets. Most countries, including Mauritius, adopted the Basel I framework for the computation of the minimum capital adequacy ratios of banks.

Over the years, banking business has become more complex and sophisticated. Accordingly, the Basel I Capital Accord had to be revised to take into account the differences in the risk profile of banks. In June 1999, BCBS proposed a new capital adequacy framework incorporating a more sensitive and comprehensive approach for measuring risks. The proposed framework was subsequently revised after broad consultation. The new capital adequacy framework, commonly known as Basel II, was issued in June 2004 and revised in June 2006.

Basel II Capital Accord rests on three pillars. Pillar 1, the Minimum Capital Requirements, provides a range of approaches to calculate the capital charges for credit, market and operational risk. Pillar 2, the Supervisory Review Process, requires banks to assess their internal capital requirements. Pillar 3, Market Discipline, requires banks to disclose information to market participants.

For the implementation of Basel II in Mauritius, the Bank of Mauritius adopted a consultative approach by the setting up of a Committee comprising eight Working Groups for six different areas: Scope of Application, Credit Risk, Market Risk, Operational Risk, Eligible Capital and Market Discipline. In this respect, several proposal papers have been issued to the industry.

During the last two weeks, individual banks made presentations at the Bank on their progress in the implementation of Basel II. The Bank noted that banks have made advances in risk management, information systems and their internal processes. The Bank feels comfortable that the banking industry is ready to migrate to the standardised approaches of the Basel II framework by 2008.

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