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BANK OF MAURITIUS ANNUAL REPORT on Banking Supervision 2007

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Annual Report on Banking Supervision 2007

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1. Overview of Supervisory Developments

INTRODUCTION

The year 2007 was marked by concerns over the financial market turbulence resulting from the US sub prime mortgage crisis. The Chairman of the Basel Committee on Banking Supervision (BCBS) recently remarked that most internationally active banks have started to implement Basel II; accordingly the market turmoil has been playing under the Basel I capital regime. This underscores the importance of implementing the Basel II capital framework, which provides an opportunity for banks and supervisors to strengthen the resilience of their banking systems.

The Bank of Mauritius (the Bank) remains committed to the implementation of the new capital adequacy framework. During the year 2006-2007, the Bank continued in its endeavour to strengthen regulation and supervision of financial institutions falling under its purview. The following paragraphs give an overview of the developments that occurred on the domestic and international fronts.

DOMESTIC DEVELOPMENTS

Performance of banks

During the period, the performance of the banking sector has continued on its upward trend. Total deposits grew by 26.3 per cent to reach Rs435,154 million as at end-June 2007. Advances registered a growth of 35.8 per cent from Rs226,580 million to Rs307,745 million as at end-June 2007 and banks realised an overall pre-tax profit of Rs9,922 million compared to Rs7,890 million for the previous period. A detailed review of the performance of banks is given in Chapter 3.

Restructuring

The Bank of Mauritius Act, which was enacted in October 2004, has brought a major change in the structure of the Bank with the requirement for two Deputy Governors. Following the appointment of the Second Deputy Governor in February 2007, the responsibility for financial stability has been vested with the First Deputy Governor.

In the wake of the reallocation of responsibilities, the Supervision Department underwent a restructuring with a view to enhancing supervision of institutions falling under the regulatory purview of the Bank. With effect from September 2007, regulation and supervision of financial institutions has been segregated into two separate divisions, the Regulation, Policy and Licensing Division and the Supervision Division. The Regulation, Policy and Licensing Division is responsible for the development of supervisory policies and regulations, enforcement of the banking legislation and issues relating to licensing. The Supervision Division has two arms, the off-site surveillance unit, which is responsible for the analysis of the prudential returns and the compilation of management information, and the on-site supervision unit, which comprises two specialised teams responsible for conducting on-site inspections. Accordingly, the Bank pursued capacity building in the Supervision Department by recruiting a number of professionals and providing training to staff.

Guidelines

The Bank of Mauritius Act 2004 and the Banking Act 2004 confer powers to the Bank to issue guidelines or instructions or impose requirements on or relating to the operations and activities of and standards to be maintained by the banks and other financial institutions.

The Banking Act and guidelines/guidance notes issued by the Bank are regularly reviewed and updated in the light of new developments in the banking industry at the international and local levels. The Bank ensures that guidelines endorse the essential criteria embodied in the Core Principles for Effective Banking Supervision, and international best practices. The guidelines issued by the Bank as at 30 June 2007 are given at Appendix I.

Financial Sector Assessment Programme

In February 2007, the International Monetary Fund (IMF)/World Bank joint mission came to Mauritius in the context of the Financial Sector

Assessment Program (FSAP). Pursuant to the assessment, measures have been taken to improve the regulatory and supervisory framework by addressing areas in which the Bank was assessed as non-compliant and materially non-compliant.

New terms and conditions for money-changers

The Bank revised the terms and conditions for authorisation to carry on the business of money-changer. The main changes brought about are as follows:

- The requirement to maintain at all times a capital of Rs3 million and an additional Rs1 million for each branch money-changers may be authorised to operate.
- The requirement, at all times, out of the capital maintained, to invest an amount of Rs1 million and an additional amount of Rs300,000 for each branch that they may be authorised to operate, in Treasury Bills as security for any contingency that may arise.
- The imposition by the Bank of a fine of Rs25,000 for each day on which the money-changer commits a breach of banking laws, Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) laws and Guidance Notes, directives given to it and guidelines issued by the Bank, and the recovery of the amount directly from the money-changer as if it were a civil debt or by deduction from the amount of Treasury Bills held by the money-changer at the Bank.
- The submission, as and when required, of on-line data to the Bank in a format specified by the Bank.

Licence fees

The Bank, with the approval of the Minister under sections 5(4)(h), 8, 12(4) and 14(2)(b)(5) of the Banking Act 2004, made regulations regarding the licence fee structure of financial institutions falling under its purview.

Licence fees for banks

The processing fee for a banking licence stands at Rs90,000; the annual licence fee payable by the holder of a banking licence consists of a fixed fee of Rs600,000 and a fee computed in accordance with the formula set out below:

$$\text{Fee (in Rs)} = \left[\frac{\text{3-year average gross operating income of the institution}}{\text{Aggregate 3-year average operating income of banks and NBDTIs}}\right] \text{x Rs3mn}$$

$$+ \left[\frac{\text{3-year average total assets of the institution}}{\text{Aggregate 3-year average total assets of banks and NBDTIs}}\right] \text{x Rs1.5mn}$$

where "NBDTIs" means non-bank deposit taking institutions.

Licence fees for non-bank deposit-taking institutions

The annual licence fee payable by a non-bank deposit-taking institution licensed to carry on deposit-taking business in Mauritius consists of a fixed fee of Rs300,000 and a fee computed in accordance with the above formula.

Licence fees for foreign exchange dealers and money-changers

The processing fee payable in respect of an application for a foreign exchange dealer licence and a money changer licence have been fixed at Rs25,000 and Rs10,000 respectively. The annual licence fee payable by these two categories of institutions are fixed at Rs300,000 and Rs150,000 respectively.

Legislative framework

Amendments have been brought to the legislative framework during the period under review. Those changes are detailed at Appendix III.

Memorandum of Understanding/Protocole D'Accord

On 12 July 2007, a Protocole D'Accord was signed between the Bank of Mauritius (BOM) and the Financial Services Commission (FSC) and a Joint BOM/FSC Coordination Committee was set up, as part of the process of promoting a more structured collaboration and coordination between the two parties. The Protocole D'Accord will mainly help to expand on the scope of the Memorandum of Understanding signed between the two regulatory and supervisory bodies in December 2002. It paves the way for a closer collaboration with a view to consolidating the overall supervision of the financial sector.

The Joint BOM/FSC Coordination Committee met on several occasions since its inception. The Committee set up two sub-committees, the Joint Working Group on Licensing and Regulatory Requirements whose mandate is to harmonise licensing procedures and regulations and the Joint Working Group on Supervision, which would consider issues relating to the joint examination of financial institutions falling under the purview of both regulators.

Compliance

During the year under review, the Committee comprising the regulator and compliance officers of banks met regularly and issues relating to AML/CFT, guidelines and guidance notes and other supervisory matters were discussed. A number of issues, ranging from clarifications on guidelines issued by the Bank to amendments required to existing legislations, were considered.

Basel II Implementation in Mauritius

The Basel II Implementation in Mauritius project made progress in 2007. The Committee for the Implementation of Basel II in Mauritius and the Working Groups met on various occasions to discuss the draft guidelines that were issued for consultation. A more detailed review of the Basel II project is given in Chapter 2.

Islamic banking

Following the recommendations of the Steering Committee on Islamic Financial Services, amendments were brought to the Banking Act 2004 by the Finance Act 2007 to allow financial institutions to operate either as fully-fledged Islamic banks or to offer Islamic banking through a window.

On 23 November 2007, the Bank was admitted as an associate member of the Islamic Financial Services Board (IFSB), an international standard-setting organisation whose primary objective is to promote and enhance the soundness and stability of the Islamic financial services industry.

Developments in Financial Institutions

1. *SBM Nedbank International Limited*

   SBM Nedbank International Limited has, pursuant to section 11 of the Banking Act 2004, applied to the Bank for the surrender of its banking licence and has ceased to conduct banking business with effect from 28 February 2007.

2. *AfrAsia Bank Ltd*

   A banking licence was issued to AfrAsia Bank Ltd on 29 August 2007. The bank started operations on 2 October 2007.

   A list of authorised banks, non-bank deposit taking institutions, money-changers and foreign exchange dealers as at 30 June 2007 is given in Appendix III.

International Developments

Initiatives of the Basel-based committees and groups and the Financial Stability Forum

Studies on credit risk concentration

In November 2006, the Research Task Force on Concentration Risk Group of BCBS published the results of the studies conducted on issues relating to concentration risk. The Research Task Force project was principally analytical and its objectives were (i) to provide an overview of the issues and current practice in a sample of the more advanced banks as well as highlight the main policy issues that arise in this context; (ii) to assess the extent to which “real world” deviations from the “stylised world” behind the Asymptotic Single Risk Factor (ASRF) assumptions can result in important deviations of economic capital from Pillar 1 capital charges in the IRB approach of the Basel II Framework; and (iii) to examine and further develop fit-for-purpose tools that can be used in the quantification of concentration risk.

Working Group on Liquidity

In December 2006, the BCBS established the Working Group on Liquidity (WGL) to review liquidity supervision practices in member countries. The WGL conducted a review of the liquidity regimes across member countries and in response to market events, made observations on the strengths and weaknesses of liquidity risk management in times of difficulty. These formed the basis of the report, which was submitted to the BCBS in December 2007.

The WGL also reviewed the 2000 BCBS publication Sound practices for managing liquidity risk in banking organisations. The guidance is currently being reviewed in the light of certain areas identified by the WGL that warrant updating and strengthening. The updated guidance is due for issuance in 2008.

Committee's Accord Implementation Group (AIG)

During 2007, the progress of the Basel II implementation was closely monitored by the AIG. The AIG and its working groups on validation, operational risk and trading book issues continued to actively share supervisory experiences in Basel II implementation, thereby promoting consistency across jurisdictions.

Guidelines for computing capital for incremental default risk in the trading book

Guidelines for computing capital for incremental default risk in the trading book were issued on consultative basis in October 2007. They provide additional guidance on how the requirements for incremental default risk charge may be met as well as guidance to supervisors on evaluation of internal models for calculating a capital charge for incremental default risk in the trading book.

Use of fair value option

As an extension of the June 2006 Guidance on Use of Fair Value Option and its current work on the trading book, the BCBS started work to assess reliability and auditability of fair value estimates, and market liquidity in valuation methodologies.

Working Group on Market and Institutional Resilience

Following a request of the G7 Finance Ministry Deputies, the Financial Stability Forum (FSF) set up a Working Group on Market and Institutional Resilience comprising relevant national authorities and chairs of international bodies, to assess the implications of the recent turbulence in global financial markets and to make recommendations on ways to strengthen financial system stability and resilience.

Offshore Financial Centres initiatives

A review of Offshore Financial Centres (OFC) initiatives launched in 2005 was made. It was reported that significant progress has been observed by the IMF, both before and after 2005, in its assessments of OFCs' compliance with international standards and by International Organisation of Securities Commissions (IOSCO) in its engagement with selected jurisdictions on cooperation and information exchange practices.

Update Report on Highly Leveraged Institutions (HLIs)

In May 2007, the FSF issued an Update Report on HLIs, which is a reassessment of the financial stability issues and systemic risks posed by hedge funds and HLIs. The report emanated from a request by G7 Finance Ministers and Central Bank Governors and recommended action by supervisors and the global hedge fund industry at large in these areas.

Financial Action Task Force (FATF)

The FATF issued

-The Guidance on the Risk-based Approach to Combating Money Laundering and Terrorist Financing - High Level Principles and Procedures. The purpose of this Guidance is to:

- support the development of a common understanding of what the risk-based approach involves;
- outline the high-level principles involved in applying the risk-based approach; and
- indicate good public and private sector practice in the design and implementation of an effective risk-based approach.

-AML/CFT Evaluations and Assessments Handbook for Countries and Assessors. This handbook is intended to assist assessment teams and the examined countries that are participating in AML/CFT mutual evaluation carried out by the FATF or an FATF style regional body (FSRB) or taking part in an

IMF/World Bank assessment. It provides both procedural information and detailed instructions for performing a proper and fair evaluation/assessment.

The FATF held its plenary meeting in Paris from 27 to 29 June 2007. The key outcomes of the meeting were:

- the People's Republic of China became a member of the FATF;
- discussions were held on the Guidance on Risk-based Approach to Combating Money Laundering and Terrorist Financing - High Level Principles and Procedures;
- the plenary adopted the FATF reports assessing China's, Greece's and UK's anti money laundering and counter terrorist financing systems for compliance with FATF 40+9 recommendations;
- the release of two studies on money laundering and terrorist financing methods was announced;
- the FATF welcomed Middle East and North Africa Financial Action Task Force (MENAFATF) as the fourth associate member of the FATF.

Core Principles

The Basel Core Principles for Effective Banking Supervision that were reviewed in June 2004 were endorsed by bank supervisors from 120 countries at the International Conference of Banking Supervisors in Mexico in October 2006. The 25 principles are globally agreed minimum standards for banking regulation and supervision, and cover a wide range of areas such as licensing, bank capital adequacy, risk management, consolidated supervision, ways to deal with problematic situations in banks, and home-host relationships between supervisors. The updated Core Principles focus more closely on corporate governance and the essential criteria relating to the management of different types of risks.

The Basel Core Principles assist banking supervisors in identifying their strengths as well as areas that need to be improved. Assessments of compliance are a diagnostic tool enabling each of the banking supervisors to define their own roadmap toa more effective supervisory framework. The expected outcome of an assessment is an action plan focused on the deficiencies that have greater potential impact.

2. Policy Developments in Regulation and Supervision

Basel II Implementation in Mauritius

The 'Basel II Implementation in Mauritius' project regained momentum in 2007 and significant progress has been made. The Committee for the Implementation of Basel II in Mauritius and the various Working Groups constituted to work on key areas of the new capital adequacy framework met on a number of occasions. In September 2007, over a period of two weeks, banks were invited to make presentations to the Bank on their progress in implementing Basel II. A special Banking Committee on the implementation of Basel II in Mauritius was also held during which banks were apprised of the status of the implementation and were presented with the roadmap including the specific milestones and timeline for the transition to the Basel II framework. The state of preparedness of banks for implementing Basel II and the target date of March 2008 for banks to start reporting according to the Basel II framework were made public through a press communiqué issued on 21 September 2007.

Parallel Run Exercise

Banks are required to report as from quarter ended March 2008, on a parallel run basis, their capital adequacy ratio (CAR) under the Basel II framework along with their CAR under the Basel I reporting framework. The objective of the parallel run exercise is to ensure a smooth transition to the new framework. During the parallel run exercise, the impact of the new reporting framework on the capital of banks would be assessed. The exercise would also be an opportunity to refine or review the guidelines in the light of issues that may arise.

Guidelines

Guideline on Standardised Approach to Credit Risk

The Guideline on Standardised Approach to Credit Risk was under revision in the light of the recommendations made by the FSAP mission and the developments in the mortgage market internationally.

Guideline on the Recognition and Use of External Credit Assessment Institutions (ECAIs)

The Guideline on the Recognition and Use of ECAIs was in the process of finalisation. The purpose of the guideline is to outline the Bank's approach to the recognition process of ECAIs and the use by banks of eligible ECAIs.

Guideline on Operational Risk Management and Capital Adequacy Determination

The Guideline on Operational Risk Management and Capital Adequacy Determination issued to the industry in September 2005 was revised. The changes brought to the guideline have been in form rather than in substance.

Consultative Papers

Three proposal papers on market discipline, scope of application of Basel II and eligible capital were being drafted.

Subsequent to the period covered by this report, the Guideline on Standardised Approach to Credit Risk, Guideline on the Recognition and Use of ECAIs, Guideline on Operational Risk Management and Capital Adequacy Determination, Guideline on Scope of Application of Basel II and Guideline on Eligible Capital have been finalised and issued to the industry.

The way forward

Banks in Mauritius, regardless of their size, are committed to the implementation of the Basel II framework. Indeed, the Implementation Project has been instrumental in the enhancement of the risk management structures of banks, which would result in a more sound and stable banking sector. Given the specificities and degree of sophistication of our banking industry, the Bank has deemed it appropriate to adopt the standardised approaches as a first step towards the implementation of the Basel II framework. However, as some of the banks have signified their intention of moving to the more advanced approaches, the Bank will soon initiate work on the Internal Ratings Based Approach to Credit Risk and Advanced Measurement Approach to Operational Risk.

Islamic Banking

Islamic Banking provides an array of new products both on the liability and the asset side of a bank's balance sheet. In the specific context of Mauritius, it would give an additional edge to tap new business avenues outside the country. The amendment to the Banking Act 2004 enables the existing banks to provide Islamic financial products (IFPs) through a window on the strength of the existing licence, while establishing an Islamic Bank would require a fresh licence. With a view to kick starting the process initiated by Government through the legislative framework, the Bank began to work on the Draft Guideline for Institutions Conducting Islamic Banking Business, which was issued for comments subsequent to the period covered by the Report. The guideline underscores the need for adherence to the various guidelines issued by the Bank apart from setting out the minimum prerequisites for offering IFPs. (Box 2.1)

Box 2.1

Adopting the Islamic Financial System in a Changing Global Environment

Over the past decade, Islamic finance has witnessed unprecedented expansion at an annual growth rate estimated at around 15 to 20 per cent. Within the context of globalization and integration of financial markets, Shari'ah compliant funds that constitute the basis of the Islamic financial system, are increasingly being mobilized towards dynamic markets that are able to offer attractive returns and are consistently generating innovative financial instruments. By and large, it is acknowledged that the accumulation of petrodollars and the consequential management of private fortunes of high net worth individuals from the Gulf region have given a significant boost to the Islamic financial industry. Nevertheless, this alternative financial system has gained recognition and acceptance in the wake of serious efforts and endeavour to establish an infrastructure that gradually exudes credence and comprehensiveness.

Through the foundation of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), a series of accounting and auditing standards have been issued and formalized. The criteria set by AAOIFI cater for the specificities of Islamic mode of financing, while seeking to meet international benchmarks in the promotion of accurate and transparent financial reporting. The principles laid for disclosure of information have been implemented in several Islamic financial centres either as mandatory or in terms of general guidelines by the regulators. Simultaneously, the role of the Islamic Financial Services Board has brought significant contribution to reinforcing the Islamic financial architecture by virtue of its mandate to design and issue supervisory and prudential standards applicable to Islamic financial institutions.

Banking per se entails a highly leveraged balance sheet that is funded by non-collateralised liabilities. The potential for any major development affecting a large part of the financial system through contagion is very high. The sub-prime crisis which has engulfed a large number of financial institutions is a pointer to this. Given this context, the Islamic financial industry is called to be extremely vigilant not only on account of its infancy but indeed, in addressing the complexities and risks emanating from the unique characteristics of Islamic financial operations. The prerequisites for sustaining this alternative form of financial intermediation would include an enabling institutional set-up that is supported by an effective supervisory framework, as well as the buildup of intellectual capital and know how in the field of Islamic finance. Nevertheless, the viability of a dynamic Islamic financial system rests primarily on adopting strong corporate governance that promotes best practices, proper accountability, and strict compliance with Shari'ah principles.

The aspirations of the authorities aim at projecting Mauritius as a regional financial hub "par excellence". The introduction of Islamic financial services will widen the range of products on offer and will complement our traditional commercial banking system. Certainly, a successful implementation of a comprehensive Islamic financial system will give a competitive edge to the Mauritian financial industry and will contribute positively in the pursuit of sustainable development of the economy.

3. A Review of the Performance of Banks

3.1 INTRODUCTION

The increasing number of players in our domestic banking environment is a reflection of the constant evolution of the banking sector in Mauritius over the last years. As on 30 June 2007, the sector comprised 18 banks licensed to carry out banking business in Mauritius, of which 13 were locally incorporated and 5 were branches of international banks. A banking licence was granted to HSBC Bank (Mauritius) Limited, a subsidiary of The Hongkong and Shanghai Banking Corporation Limited on 8 June 2006 and the bank subsequently started operations on 1 August 2006. SBM Nedbank International Limited has ceased operations and has surrendered its banking licence under the provisions of section 11(7) of the Banking Act 2004 with effect from close of business on 28 February 2007.

Financial results of banks at end-June 2007 indicated that activities of banks operating in Mauritius have increased in buoyancy, with overall balance sheet growth remaining strong during the year, and total banking sector on-balance sheet assets reflecting a 27.0 per cent increase from last year's figures in spite of the fact that one bank, namely, SBM Nedbank International Limited, ceased banking operations during the year.

3.2 PERFORMANCE OF BANKS

3.2.1 CAPITAL ADEQUACY

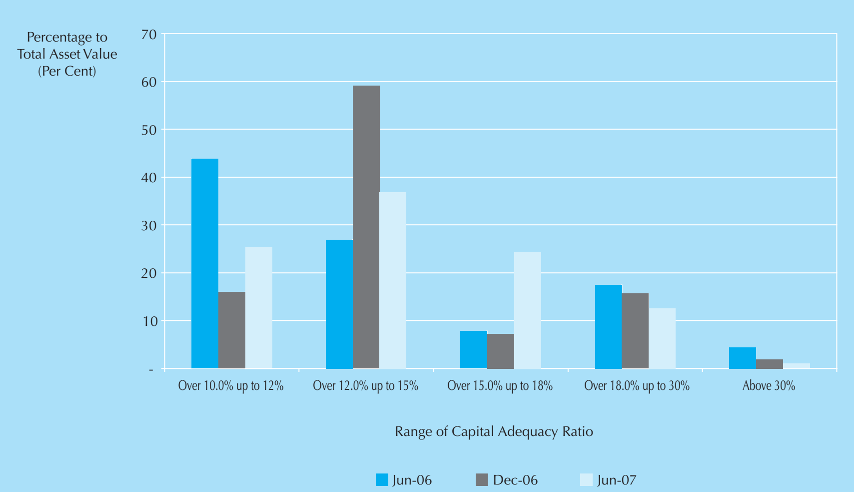
This section relates to banks that fall under the capital adequacy regime as prescribed by the prudential guidelines. Figures have been consolidated for the whole banking sector with effect from the quarter ended June 2006.

During the year under review, all banks observed the minimum risk weighted capital adequacy ratio of 10 per cent laid down by the Bank. The consolidated ratio of banks ranged from a low of 14 per cent for the quarter ended 31 March 2007 to a high of 16 per cent for the quarter ended 30 June 2006 during the year ended 30 June 2007.

3.2.1.1 Capital Adequacy Ratio of Banks in Terms of their Total Asset Value

Chart 1 shows the capital adequacy ratio maintained by banks in terms of their total asset value. For the quarter ended June 2006, banks that reported capital adequacy ratio in the band of 10 per cent to 12 per cent represented the highest share of total on and off-balance sheet assets at 44 per cent. On the other hand, for the quarters ended December 2006 and

Chart 1:Banks' Capital Adequacy Ratio in Terms of Total Asset Value



June 2007, the highest proportion of total on and off-balance sheet assets of the sector at 59 per cent and 37 per cent, respectively was held in the band of 12 per cent to 15 per cent. During the same period, banks falling in the band of 10 per cent to 12 per cent held 16 per cent and 25 per cent, respectively, of total assets of the sector. This clearly indicates a shift to less risky assets as well as an increase in the capital of banks. Those falling in the 15 per cent to 30 per cent band had a share of 25 per cent of total asset value of the sector for the quarters ended June 2006, a share of 23 per cent for the quarter ended December 2006, and 37 per cent for the quarter ended June 2007. Banks with capital adequacy ratios exceeding 30 per cent held total assets ranging from 1 per cent to 4 per cent of total asset value of the sector.

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 indicating that a higher proportion of the banking sector assets is held by banks that are better capitalised vis-à-vis the previous year. 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

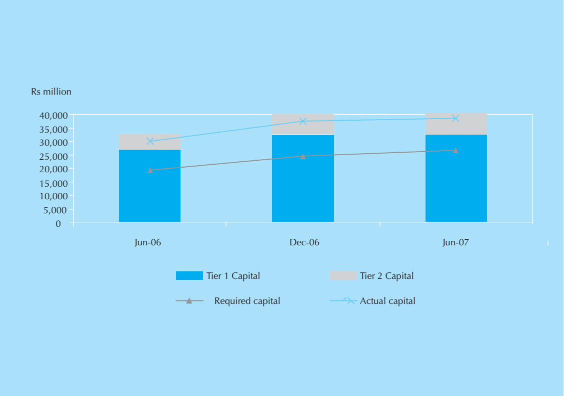
The aggregate capital base of banks increased by Rs8,288 million from Rs30,067 million at end-June 2006 to Rs38,355 million at end-June 2007.

During the year under review, the aggregate capital base of banks increased by 27.6 per cent while total risk weighted assets of banks registered a growth of 37.6 per cent. With a higher growth in risk-weighted assets, the average capital adequacy ratio of banks at end-June 2007 fell to 14.4 per cent against 15.5 per cent at end-June 2006.

At end-June 2007, Tier 1 capital of banks, constituting the bulk of total capital, accounted for 80.6 per cent of total gross capital. During the year under review, Tier 1 capital grew by Rs5,630 million from Rs26,987 million to Rs32,617 million. Further, Tier 2 capital, the supplementary capital, which represented 19.4 per cent of gross capital at end-June 2007, grew by 42.7 per cent from Rs5,504 million to Rs7,855 million during the same period. At end-June 2007, Tier 2 capital expressed as a percentage of Tier 1 capital, represented 24.1 per cent thereof compared to 20.4 per cent at end-June 2006.

Chart 2 shows the amount of Tier 1 and Tier 2 capital maintained by banks for the period ended 30 June 2006, 31 December 2006 and 30 June 2007. It can be observed from the chart that banks were maintaining capital above the minimum requirement.

Chart 2: 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 Rs318,505 million for the quarter ended June 2006 to Rs466,177 million for the quarter ended June 2007, representing a growth of 46.4 per cent. As at end-June 2007, the corresponding total risk weighted assets value of banks grew at a lower rate of 41.9 per cent from Rs160,054 million to Rs227,151 million on account of a higher proportion of assets being in the 0 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 30 June 2006 and 30 June 2007. The 100 per cent risk-weight band accounted for 42.9 per cent of banks' total on-balance sheet assets at end-June 2006 and 39.2 per cent at end-June 2007.

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 2006 to June 2007.

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		June 2007	
0	88,023	27.6	84,899	18.2
10	-	-	852	0.2
20	78,204	24.6	181,698	39.0
50	15,729	4.9	16,004	3.4
100	136,549	42.9	182,724	39.2
	318,505	100.0	466,177	100.0

Table 2: Total On and Off-Balance Sheet Assets of Banks, Equivalent Risk-weighted Assets, Average Combined Risk Weighting and Capital Adequacy ratio.

		June 2006	December 2006	June 2007
A	Total On and Off-Balance Sheet Assets (Rs million)	384,622	517,490	572,245
B	Total Risk-Weighted Assets (Rs million)	193,789	243,815	266,721
(B/A)	Average Combined Risk Weighting (Per cent)	50.4	47.1	46.6
C	Capital Adequacy Ratio (Per cent)	15.5	15.3	14.4

As can be seen from Table 2, total on and off-balance sheet assets of banks grew from Rs384,622 million at end-June 2006 to Rs572,245 million at end-June 2007, or 48.8 per cent. Total risk weighted assets of banks also rose from Rs193,789 million at end-June 2006 to Rs266,721 million at end-June 2007 or 37.6 per cent. As noted, total on and off-balance sheet assets of banks grew at a higher percentage than the total risk weighted assets confirming a minor shift from higher to lower risk assets held by banks. Consequently, the combined risk weightings declined from 50.4 per cent at end-June 2006 to 46.6 per cent at end-June 2007.

3.2.2 ASSET QUALITY

Asset quality is a critical factor in the assessment of the soundness of a bank. Continuous deterioration of the quality of assets of banks would inevitably impact on banks' liquidity and capital and considerably reduce the viability of their financial position.

As at the end of financial year under review, on-balance sheet assets of banks stood at Rs623,899 million, as against Rs491,291 million at end-June 2006, registering a significant growth of 27.0 per cent. The drivers of this positive performance are related mainly to buoyant market activity and financial product diversification by banks. The five largest banks cut a share of 69.1 per cent of total banks' assets at end-June 2007 with a total of Rs431,103 million, compared to 79.6 per cent or Rs390,883 million at end-June 2006.

Unlike the year ended June 2006 where five banks recorded a decrease in their total assets, all banks except one recorded an increase ranging from 3.1 per cent to 376.8 per cent in their total assets for the year ended June 2007. The exception bank in this case recorded a decrease of 22.4 per cent in its total assets due to a transfer of part of its business to its new subsidiary bank which started operations in August 2006.

Off-balance sheet assets also constitute an important part of the balance sheet of banks, with such assets which comprise inter alia, acceptances, guarantees and documentary credits, amounting to Rs44,498 million and representing 7.1 per cent of total assets of banks at end-June 2007 (end-June 2006 Rs35,056 million or 7.1 per cent of total assets of banks).

3.2.2.1 Advances

Total advances including debentures increased by Rs81,165 million, or 35.8 per cent, from Rs226,580 million as at end-June 2006 to Rs307,745 million as at end-June 2007, compared to a rise of 31.9 per cent in the preceding fiscal year. Total advances as at end-June 2007 represented 70.7 per cent and 49.3 per cent of total deposits and total assets respectively. The corresponding ratios as at end-June 2006 were 65.8 per cent and 46.1 per cent respectively.

Loans and other financing in foreign currencies outside Mauritius amounted to Rs145,227 million and represented the highest component of total advances extended by banks at end-June 2007, or 47.2 per cent, followed by loans and overdrafts in rupees which amounted to Rs105,640 million, or 34.3 per cent of total advances. At end-June 2007, loans and other financing in foreign currencies in Mauritius amounted to Rs23,660 million or 7.7 per cent of total advances.

3.2.2.2 Concentration of Risks

Credit risk concentration is a material risk in a bank since lending constitutes the primary activity of banks. It refers to the risk of loss attributed to the magnitude of a bank's credit financing to a single entity and its related parties, industry sectors and entities dependent on single commodities. The Guideline on Credit Concentration Limits requires banks to establish a policy on credit concentration, setting out the principles and objectives governing the extent to which they are willing to accept credit concentration risk as well as prudential guidelines and internal limits for granting of credit to similar or single risk entities. Moreover, the guideline sets regulatory limits with respect to credits to individuals or group of customers which are classified as single risk entities as the failure of one entity is likely to impact on the viability of the other related entities.

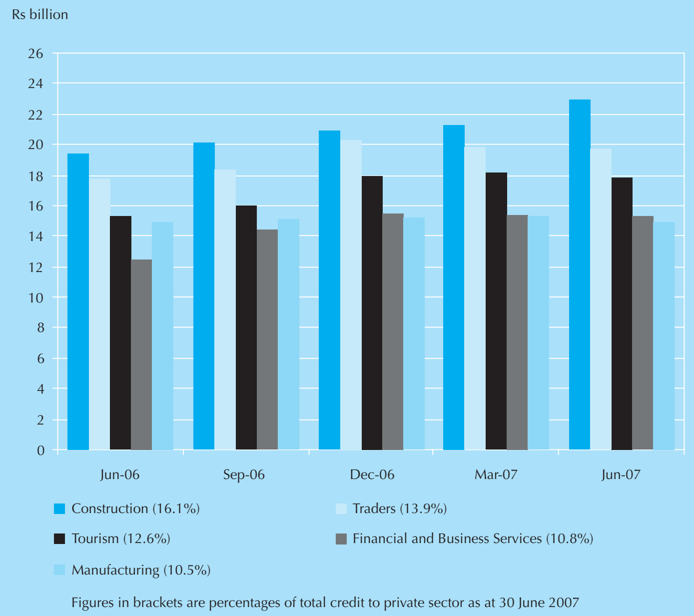
During the year under review, banks have been complying with the requirements of the Guideline on Credit Concentration Limits. In accordance with section 29(4) of the Banking Act 2004, the Bank may exempt from credit concentration limits, as it deems fit, that part of a bank's banking business or investment banking business that is conducted in currencies other than Mauritian currency. Banks are required to report all exposures to any one customer or group of customers for amounts aggregating 15 per cent or more of their capital base on a regular basis. Such exposure, generally referred to as large exposures, should not in aggregate exceed 600 per cent of the capital base of a bank except with the approval of the central bank.

At end-June 2007, total large exposures for the banking sector amounted to Rs195,350 million, rising from Rs127,238 million at end-June 2006 and represented 55.5 per cent of the overall on and off-balance sheet commitments compared to 48.6 per cent a year earlier.

3.2.2.3 Sectorwise Distribution of Credit to the Private Sector in Mauritius

Banks are also exposed to sectoral credit concentration which shows exposures of banks to specific sectors of the economy. Chart 3 shows the sectorwise distribution of credit to major sectors within the private sector from the quarters ended June 2006 to June 2007. It may be noted therefrom that the 'construction' sector accounted for the highest share of total credit to private sector at 16.1 per cent at end-June 2007 followed by the 'traders' sector which made up 13.9 per cent of such credit at end of same period. The comparative figures for end-June 2006 were 15.2 per cent and 13.8 per cent for the 'construction' sector and for the 'traders' sector respectively.

Chart 3: Sectorwise Distribution of Credit to Private Sector



3.2.2.4 Non-performing Advances and Provisioning

Total non-performing advances (impaired credits) of banks fell by 6.7 per cent from Rs7,740 million at end-June 2006 to Rs7,220 million at end-June 2007 as reported by banks. The ratio of non-performing advances to total advances, declined from 3.4 per cent at end-June 2006 to 2.3 per cent at end-June 2007.

Specific provisions for loan losses made by banks soared by 12.9 per cent from Rs3,441 million at end-June 2006 to Rs3,886 million at end-June 2007. Consequently, the ratio of specific provisions to non-performing advances went up from 44.5 per cent at end-June 2006 to 53.8 per cent at end-June 2007. Likewise, provisions on portfolio assessed advances grew from Rs507 million at end-June 2006 to Rs1,008 million at end-June 2007.

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 decreased by Rs1,959 million or 4.1 per cent from Rs47,945 million at end-June 2006 to Rs45,986 million at end-June 2007. At end-June 2007, such investments represented 10.6 per cent of total deposits and 7.4 per cent of total assets against 13.9 per cent and 9.8 per cent respectively for the previous period.

3.2.2.6 Investments in Shares

Banks' total investments in shares went up by Rs2,713 million or 43.0 per cent from Rs6,302 million at end-June 2006 to Rs9,015 million at end-June 2007. Investment in shares of foreign entities, local private and public sector entities represented 30.2 per cent, 45.7 per cent and 24.1 per cent respectively of total investments in shares. The corresponding ratios for the previous period were 21.6 per cent, 46.1 per cent and 32.3 per cent respectively.

3.2.2.7 Balances held with Banks

Aggregate balances held with banks, including inter-bank loans recorded a growth of 25.9 per cent between June 2006 and June 2007 and stood at Rs221,957 million at end-June 2007. These balances represented 35.6 per cent of total assets at end-June 2007, slightly down from 35.9 per cent at end-June 2006.

3.2.2.8 Fixed Assets

Gross fixed assets of banks increased by 5.7 per cent from Rs11,335 million at end-June 2006 to Rs11,998 million at end-June 2007. The ratio of gross fixed assets to total assets stood at 1.9 per cent at end-June 2007 against 2.3 per cent at end of the preceding year. During the year ended 30 June 2007, banks made additional provision for depreciation amounting to Rs617 million, thus increasing the overall provision at end-June 2007 to Rs5,222 million. On a net basis, fixed assets stood at Rs6,776 million, up from Rs6,730 million at end-June 2006. Revaluation reserves which comprised property revaluation surplus amounted to Rs1,263 million at end-June 2007 as against Rs1,228 million at end-June 2006.

3.2.2.9 Cash Reserves

Banks are required to maintain a cash reserve of not less than 4 per cent of their deposits liabilities which must be held as balances with Bank of Mauritius. At end-June 2007, such balances stood at Rs9,480 million representing an increase of 4.8 per cent compared to June 2006. These reserves accounted for 1.5 per cent of total assets at end-June 2007 against 1.8 per cent at end-June 2006. Cash in hand and balances with Bank of Mauritius amounted to Rs11,395 million and represented 2.6 per cent of total deposits at end of the financial year 2007.

3.2.3 PROFITABILITY

Consequent to the introduction of single licence regime after the enactment of the Banking Act 2004, the profit performance of all banks has improved over the past three years as summarised in Table 3.

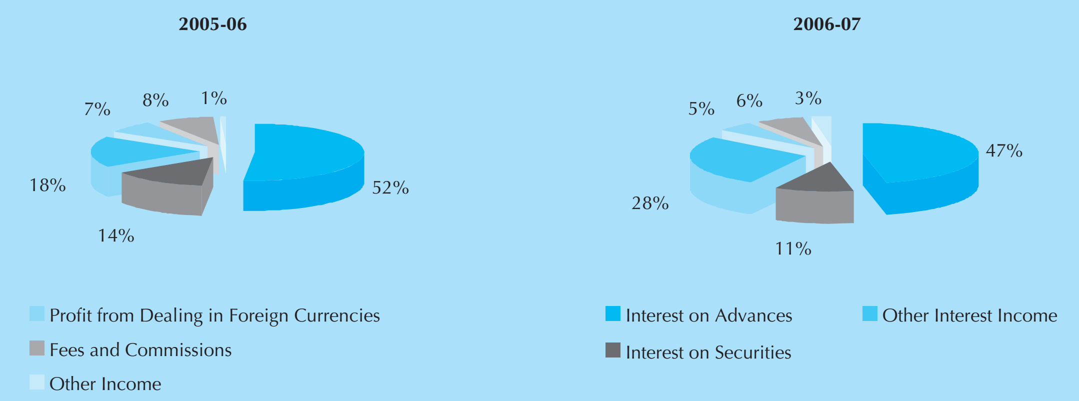
The consolidated profitability figures are based on the audited results of banks operating during 2006-07 involving financial years ended 30 June, 31 December and 31 March, and are referred to as 2006-07. Banks realised an overall pre-tax profit of Rs9,922 million in 2006-07 compared to Rs7,890 million in 2005-06.

Table 3: Consolidated Profit Performance of Banks

	2004-05	2005-06	2006-07
		(Rs million)	
Total Interest Income	**17,741**	**21,250**	**30,743**
Interest Income from Advances	11,395	13,130	16,809
Interest on Securities	3,807	3,577	3,983
Other Interest Income	2,539	4,543	9,951
Total Interest Expense	**9,730**	**12,000**	**19,736**
Interest Expense on Deposits	7,205	8,461	13,673
Other Interest Expense	2,525	3,539	6,063
Net Interest Income	**8,011**	**9,250**	**11,007**
Add : Non-interest Income	3,795	4,141	5,272
Operating Income	**11,806**	**13,391**	**16,279**
Less : Staff Costs	1,763	2,065	2,380
Other Operating Expenses	2,964	3,146	3,380
Operating Profit before Bad and Doubtful Debts and Taxation	**7,079**	**8,180**	**10,519**
Less : Charge for Bad and Doubtful Debts	855	512	615
Operating Profit	**6,224**	**7,668**	**9,904**
Add : Share of Profits in Subsidiaries and Associates	217	232	0
Add/(Less) Exceptional Items	(129)	(10)	18
Profit Before Tax	**6,312**	**7,890**	**9,922**

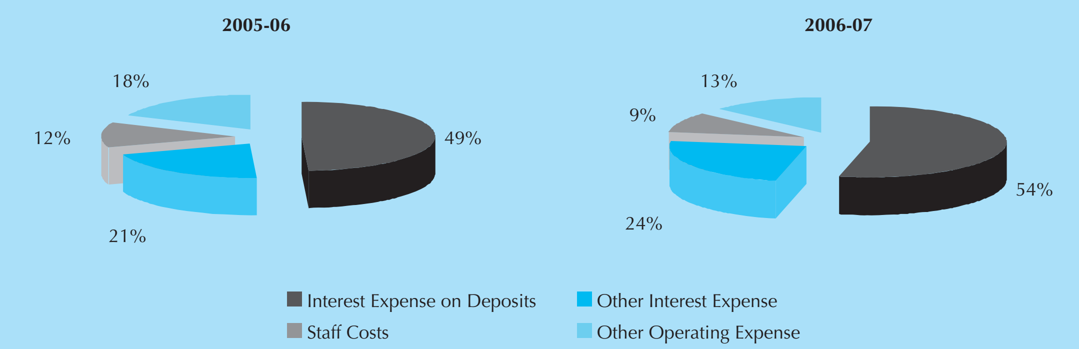
Charts 4 and 5 compare the main components of income and expenses respectively, for the periods 2005-06 and 2006-07.

Chart 4: 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 5 : 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 2006-07, growth in profits was driven mainly by higher revenue from lending activities. Total income of banks increased from Rs25,391 million in 2005-06 to Rs36,015 million in 2006-07, representing an increase of 41.8 per cent. Advances, investments in securities and placements with other banks continued to be the main sources of income for banks, and interest thereon accounted for an average of 83.8 per cent of their total income through the years 2004-05 to 2006-07.

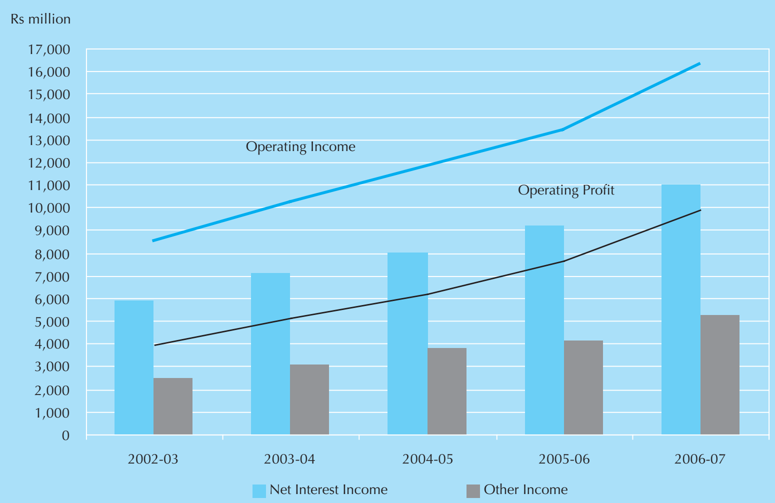
Non-interest income grew by 27.3 per cent in 2006-07 as compared to a growth rate of 9.1 per cent in 2005-06, thereby indicating an increasing reliance on earnings generated by non-interest bearing activities of banks, such as fees and commission, as another source of income.

Similarly, during 2006-07 interest income recorded a healthy growth of 44.7 per cent from a growth of 19.8 per cent achieved in 2005-06 as shown in Table 4. This improvement was mainly on account of an expansion in placements held with banks which generated higher returns.

Table 4: Growth in Interest Income and Non-Interest Income	2004-05	2005-06	2006-07
Growth in Interest Income (per cent)	3.6	19.8	44.7
Growth in Non-interest Income (per cent)	23.3	9.1	27.3

Chart 6 shows the evolution of net interest income, other income, operating income and operating profit over the past five years.

Chart 6: Evolution of Net Interest Income, Other Income, Operating Income and Operating Profit

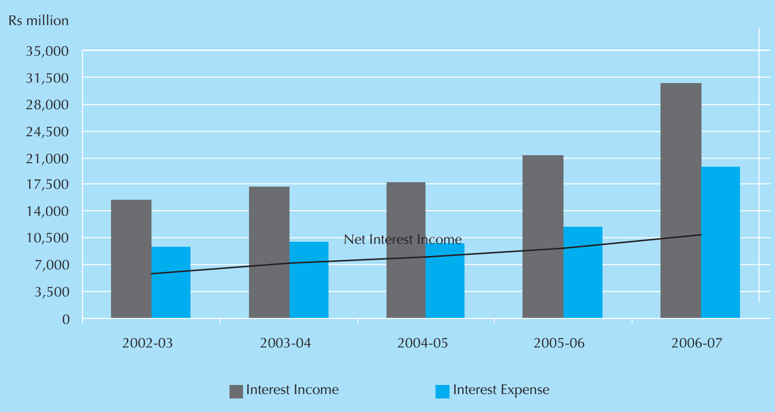


Based on combined audited data for financial years ended 30 June, 31 December and 31 March.
All figures are for the period.

3.2.3.2 Net Interest Income

Chart 7 shows the increasing trend in net interest income for banks over the period 2002-03 to 2006-07.

Chart 7: 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.

Table 5: Growth in Interest on Advances, Interest on Securities and other Interest Income			
	2004-05	**2005-06**	**2006-07**
Growth in Interest Earned on Advances (per cent)	-2.7	15.2	28.0
Growth in Interest on Securities (per cent)	5.0	-6.0	11.3
Growth in Other Interest Income (per cent)	42.0	78.9	119.0

Total interest income rose from Rs21,250 million in 2005-06 to Rs30,743 million in 2006-07. Interest earned from loans and advances increased by Rs3,679 million to reach Rs16,809 million in 2006-07, representing 54.7 per cent of total interest income as compared to 61.8 per cent in 2005-06. Likewise, interest earned on securities increased by Rs406 million, reaching Rs3,983 million in 2006-07 compared to Rs3,577 million in 2005-06. As may be observed from Table 5, other interest income including income from placements and loans to banks recorded a remarkable growth of Rs5,408 million i.e., 119.0 per cent to reach Rs9,951 million in 2006-07.

Total interest expense, comprising interest paid on deposits and borrowings from other banks and financial institutions, stood at Rs19,736 million during 2006-07, rising by Rs7,736 million or 64.5 per cent over the previous period. The significant increase of Rs5,212 million in interest paid on deposits or a growth of 61.6 per cent in 2006-07 was mainly attributed to a substantial rise in deposits mobilised by banks. The cost of borrowings from other banks and financial institutions, constituting 30.7 per cent of total interest expense of banks posted a noteworthy increase of Rs2,524 million or 71.3 per cent during 2006-07. Similarly, net interest income increased by Rs1,757 million or 19.0 per cent to reach Rs11,007 million in 2006-07 from Rs9,250 million in 2005-06.

As can be observed from Table 6, interest earned on Rs100 of advances increased by Re0.64 while cost per Rs100 of deposits rose only by Re0.23. Consequently, the interest spread widened from Rs3.79 to Rs4.20.

3.2.3.3 Non-Interest Income

Income generated by banks from their non-core activities continued to be an important source of income. Income arising from fees and commissions, and profit from dealing in foreign currencies contributed to 80.5 per cent and 94.4 per cent of total non-interest related revenue in 2006-07 and 2005-06 respectively. Fee-related income and profit arising from dealing in foreign currencies grew by 9.8 per cent and 7.1 per cent or Rs209 million and Rs126 million respectively, in the same period.

3.2.3.4 Non-Interest Expenses

Non-interest expenses consisting of staff costs and other operating expenses increased by 10.5 per cent in 2006-07, rising to Rs5,760 million as compared to an increase of 10.2 per cent recorded in 2005-06. Although employment in the banking sector inched up by 11.2 per cent, the ratio of staff costs to operating income fell down marginally by 0.8 per cent between 2005-06 and 2006-07. On the other hand, other operating expenses increased by 7.4 per cent to reach Rs3,380 million in 2006-07.

Table 6: Interest Spread			
	2004-05*	**2005-06**	**2006-07**
Interest Earned on Rs100 of Advances	8.54	7.04	7.68
Cost per Rs100 of Deposits	4.70	3.25	3.48
Interest Spread	3.84	3.79	4.20

**relates to Segment A only*

The ratio of non-interest expenses to gross operating income (net of charge for bad and doubtful debts) decreased from 40.5 per cent in 2005-06 to 36.8 per cent in 2006-07 reflecting a better utilisation of resources.

3.2.3.5 Operating Profit

During 2006-07, banks realised operating profit of Rs10,519 million before providing for bad and doubtful debts, i.e. an increase of Rs2,339 million or 28.6 per cent over that of Rs8,180 million recorded during 2005-06.

Profit before tax achieved by banks for 2006-07 reached Rs9,922 million, 25.8 per cent higher than the pre-tax profit of Rs7,890 million realised in 2005-06. The improvement was attributable to substantial growth of both interest as well as non-interest income. Chart 8 depicts the evolution of banks[1] profit for the years 2002-03 through 2006-07.

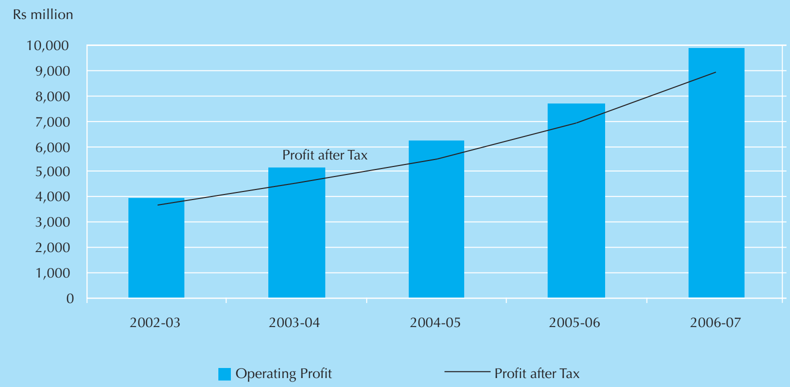
3.2.3.6 Return on Average Assets and Equity

The return on average assets and return on equity are key performance indicators which reflect on the efficiency of banks in deploying their resources adequately and effectively.

The pre-tax return on average assets declined slightly from 1.9 per cent in 2005-06 to 1.8 per cent in 2006-07. The pre-tax return on average assets of individual banks ranged from negative 2.8 per cent to positive 4.4 per cent in 2006-07. With the exception of three banks, all banks recorded a positive return on average assets in 2006-07. Eight banks achieved a pre-tax return on average assets of over 2.0 per cent. The negative returns on average assets realised by the three banks were mainly attributable to higher provision for bad and doubtful debts and significant increase in operating costs.

The post-tax return on equity improved from 18.7 per cent in 2005-06 to reach 21.1 per cent in 2006-07. For individual banks, the post-tax return on equity ranged from negative 35.3 per cent to positive 70.3 per cent in 2006-07 with four banks achieving a return on equity of over 40 per cent during the same year.

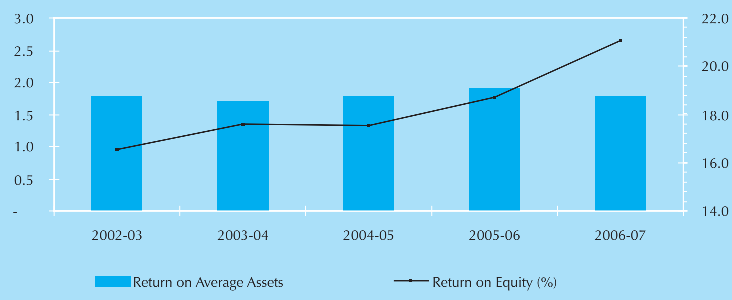
Chart 8 : Operating Profit and Profit after Tax



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

Chart 9 shows the variations in return on average assets and equity over the period 2002-03 to 2006-07.

Chart 9 : 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.

3.2.4 LIQUIDITY

Liquidity risk, defined as the risk arising from the inability of banks to meet their cash flow commitment as they fall due, 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 be able to honour the demand for payment by their depositors and other stakeholders. In order to do so, banks maintain a certain volume of liquid assets determined by the size of their operations and past trends.

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 principal source of funding and constituted the highest share of total liabilities. The proportion of deposits to total assets declined slightly from 70.1 per cent at end-June 2006 to 69.7 per cent at end-June 2007. During the year under review, total deposits grew by 26.3 per cent to reach Rs435,154 million from Rs344,441 million at end-June 2006. Foreign currency deposits accounted for 65.9 per cent at end-June 2007 compared to 60.5 per cent at end of the previous year. At end-June 2007, 57.0 per cent of total deposits were in time deposits, 24.2 per cent in demand deposits and 18.8 per cent in savings deposits.

3.2.5.1 Advances/Deposits Ratio

The advances/deposits ratio indicates to what extent funds mobilised by way of deposits have been utilised to finance lending activities of banks. The advances/deposits ratio went up from 65.8 per cent at end-June 2006 to 70.7 per cent at end-June 2007.

3.2.5.2 Non-Cash Liquid Assets Ratio

In 1997, the non-cash liquid assets ratio was reduced from 20 per cent to zero per cent. However, 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, other Government securities and Bank of Mauritius Bills, which represents the most easily convertible non-cash liquid assets, decreased by Rs1,959 million or 4.1 per cent from Rs47,945 million at end-June 2006 to Rs45,986 million at end-June 2007. The share of these investments in banks' total assets decreased from 9.8 per cent at end-June 2006 to 7.4 per cent at end-June 2007.

3.3 ELECTRONIC BANKING

Electronic banking is becoming increasingly popular as transactions can be carried out faster and in a safe and secure manner. With globalization and increased accessibility to electronic delivery channels for products and services, banks are continuously innovating to provide a wide range of electronic products and services. The number of banks providing electronic banking services stood at ten as at 30 June 2007.

Banks are investing heavily in the setting up of new Automated Teller Machines (ATMs) at various locations in order to provide easy and convenient access to customers. As such, the number of ATMs in operation in Mauritius and Rodrigues increased from 321 at end-June 2006 to 334 at end-June 2007. In contrast, the total number of cards in circulation fell from 1,038,089 at end-June 2006 to 1,031,836 at end-June 2007 as reflected by a drop of 16.1 per cent particularly in the number of credit cards. Against the backdrop of reduced number of cards, the monthly average number of transactions carried out during the year increased from 2.9 million in 2005-06 to 3.2 million in 2006-07.

The total value of transactions resulting from the use of credit and debit cards at ATMs and Merchant Points of Sale increased from a monthly average of Rs4,910 million for 2005-06 to Rs5,625 million for 2006-07. Outstanding advances granted on credit cards stood at Rs1,208 million at end-June 2007, with the average credit per card increasing from Rs5,274 to Rs7,523 from end-June 2006 to end-June 2007.

Table 7 provides data relating to electronic banking transactions from June 2006 to June 2007.

Table 7: Electronic Banking Transactions from June 2006 to June 2007

	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
At end of month					
No. of ATMs in operation	321	324	326	329	334
During the month					
No. of Transactions	2,799,201	2,870,173	3,784,838	3,274,464	3,004,774
Value of Transactions* (Rs mn)	4,417	4,769	7,811	5,862	4,975
At end of month					
No. of Cards in circulation					
Credit Cards	191,481	191,042	196,457	196,780	160,637
Debit Cards and others	846,608	823,424	829,679	846,217	871,199
Total	1,038,089	1,014,466	1,026,136	1,042,997	1,031,836
At end of month					
Outstanding Advances on Credit Cards (Rs mn)	1,010	1,046	1,216	1,041	1,208

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

Internet Banking is progressively being opted for by customers to conduct banking transactions due to its convenience and cost effectiveness. As a result, the number of internet banking customers has increased significantly from 33,253 in June 2006 to 46,407 in June 2007 with the total value of internet banking transactions growing from Rs7,226 million in June 2006 to Rs10,195 million in June 2007.

On the other hand, the number of customers using phone banking facilities decreased from 61,185 in June 2006 to 41,834 in June 2007 which was reflected in a decline in the number and value of transactions from 1,816 and Rs69 million to 825 and Rs37 million respectively, as one of the banks ceased to provide such services.

3.4 CAMEL RATING

The Bank started rating former Category 1 banks according to the CAMEL rating system and the overall composite CAMEL rating is communicated to banks on a quarterly basis as from January 2005 (Box 3.1).

Box 3.1

CAMEL Rating

CAMEL rating system or a variant thereof is used by supervisors as a tool for assessing the financial health of banks to determine areas warranting greater focus by the financial institution concerned or the supervisors. The Bank uses the CAMEL rating system, which comprises five components, namely Capital adequacy, Asset quality, Management, Earnings and Liquidity in assessing the performance of banks.

Some of these components have several sub parameters. The overall composite rating is thus an amalgam of the rating for the sub parameters. While some supervisors assign a CAMEL rating as part of their on-site examination, others do it based on their off-site surveillance returns. Yet others assign CAMEL rating based on last on-site examination and off-site returns. As for the Bank, the rating is assigned at quarterly intervals as part of the off-site monitoring system.

The CAMEL rating system enables the Bank to identify the banks requiring greater supervisory focus and also the areas of operations of a bank that warrant a closer monitoring and thus provides an important input in determining the risk focus areas under the system of risk based supervision.

The issue whether the CAMEL rating should be made public is a matter of debate. At present, the rating is conveyed to the banks under the strict condition that it will not be published or disclosed to any third party without the written consent of the Bank.

CAMEL rating can also be used by Central Banks to improve the performance of banks. This can be done by revising the benchmarks for all or a given set of parameters in a manner that the banks are trended to achieve the desired objectives.

4. A Review of the Performance of Non-Bank Deposit Taking Institutions

4.1 INTRODUCTION

In terms of section 12(2) of the Banking Act 2004, the Bank of Mauritius is empowered to grant licences to Non-Bank Deposit Taking Institutions (NBDTIs) to carry on deposit taking business in Mauritius. As at 30 June 2007, there were thirteen NBDTIs in operation in Mauritius. A list of these NBDTIs is provided in Appendix III. Out of the thirteen NBDTIs, ten were involved in leasing activities, two in lending business and one in both leasing and lending operations. Eight NBDTIs engaged in leasing business were subsidiaries/related companies of banking institutions and insurance companies.

Following the proclamation of section 12(5) of the Banking Act 2004 on 28 May 2007, non-bank deposit taking institutions are subject to the same prudential regulations as banks. As such, they are required, inter alia, to maintain a stated capital of not less than Rs200 million. NBDTIs have been given time up to 30 June 2008 to meet this requirement (Box 4.1).

Capital Leasing Ltd and MUA Leasing Company Limited were amalgamated on 14 June 2006. Following the amalgamation, the new company was named as Capital Leasing Ltd and was authorised to submit its audited accounts for the 18 months period ended 30 June 2007.

4.2 PERFORMANCE OF NBDTIs

The assets (net of provision) of NBDTIs recorded a 7.9 per cent growth from Rs29,050 million at end-June 2006 to Rs31,335 million at end-June 2007. Most NBDTIs were able to maintain their share in the market.

At end-June 2007, three NBDTIs registered a drop in their total assets ranging from 2.3 per cent to 28.6 per cent. For the same period, the assets of the remaining NBDTIs rose in the range of 5.1 per cent to 28.1 per cent.

Chart 10 provides a comparative illustration of the composition of assets and liabilities of NBDTIs at end-June 2006 and end-June 2007. Despite the fact that loans are provided by only three of the NBDTIs, they continued to dominate the composition of assets with a share of 47 per cent at end-June 2006 and 46 per cent at end-June 2007. Leasing activities constitute the second most important share of the composition of assets and are offered by all NBDTIs with the exception of two of them.

Box 4.1

Capital Requirement of NBDTIs

When the Banking Act 2004 was enacted, most of the provisions of the Act came into operation on 10 November 2004. Other provisions of the Act were put into effect subsequently, including section 12(5) which was proclaimed on 28 May 2007. Section 12(5) which pertains to the licensing of the deposit taking business, stipulates that NBDTIs will be subject to the same prudential regulation as banks, including their capital structure. As such, by virtue of section 20(1) of the Banking Act 2004, NBDTIs were required to increase their stated capital to not less than Rs200 million. Prior to the proclamation of section 12(5) of the Banking Act 2004, NBDTIs were governed by the terms and conditions for authorization to carry on deposit taking business and had to maintain net-owned funds of not less than Rs25 million. Taking into consideration the significant additional capital which NBDTIs should inject to be in compliance with section 12(5) of the Banking Act 2004, the Bank has adopted a pragmatic approach and has given the institutions up to 30 June 2008 to meet the requirement of the Act. Further, the Bank proposes to apply other prudential regulations to NBDTIs in a calibrated manner.

Chart 10: Balance Sheet Structure

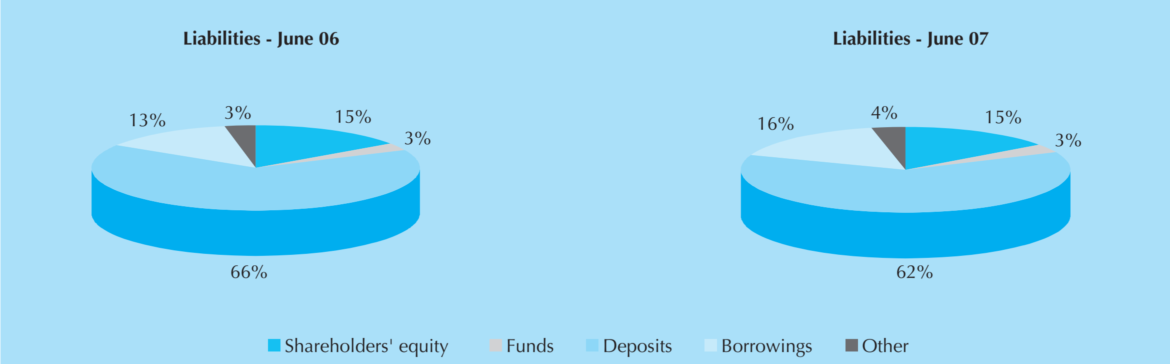
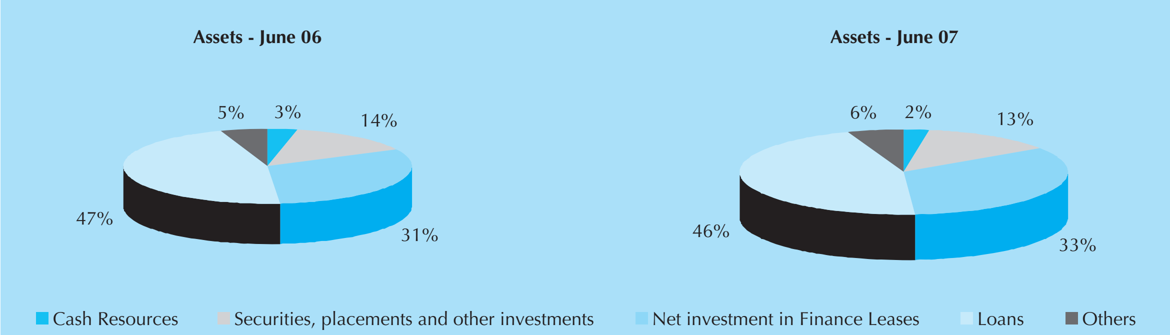


Chart 10: Balance Sheet Structure



4.2.1 DEPOSITS

Deposits continued to be the main source of funding and represented the most important component of total liabilities. At end-June 2007, deposits mobilized by NBDTIs constituted 62.2 per cent of total assets, down from 66.0 per cent at end-June 2006. During the year under review, deposits grew by only 2.0 per cent to Rs19,480 million from Rs19,095 million at end-June 2006. At end-June 2007, the deposits mobilized by six NBDTIs went down in the range of 2.9 per cent to 23.6 per cent. On the other hand, the remaining seven NBDTIs recorded a growth in their deposit base varying from 8.7 per cent to 32.3 per cent.

4.2.2 GROSS ADVANCES/DEPOSITS RATIO

The gross advances/deposits ratio measures the extent to which funds mobilised by way of deposits have been utilised to finance lending and/or leasing activities of NBDTIs. The gross advances/deposits ratio is on the high side for NBDTIs and rose from 119.7 per cent at end-June 2006 to 129.6 per cent at end-June 2007, implying that the institutions are deploying funds in leasing and loan assets over and above those raised through deposits.

4.2.3 NET-OWNED FUNDS

Prior to the promulgation of section 12(5) of the Banking Act 2004 on 1 June 2007, NBDTIs had to maintain net-owned funds of not less than twenty five million rupees as per the terms and conditions for authorization to carry on deposit taking business. For this purpose, "net-owned funds" is defined as the aggregate of paid-up capital and free reserves of the NBDTIs reduced by the amount of accumulated balance of loss, deferred revenue expenditure and other intangible assets as disclosed in their latest audited balance sheet.

The terms and conditions for NBDTIs also required that the total amount of deposits accepted by them, together with their borrowings repayable beyond three months, including by way of bonds or debentures but excluding deposits and borrowings from, or guaranteed by, the Government of Mauritius, should not, at any time, exceed ten times their net-owned funds. NBDTIs have to submit returns on a weekly basis to the Bank to demonstrate their observance of this requirement. During the year under review, NBDTIs were generally found to adhere to this stipulation.

4.2.4 PROFITABILITY

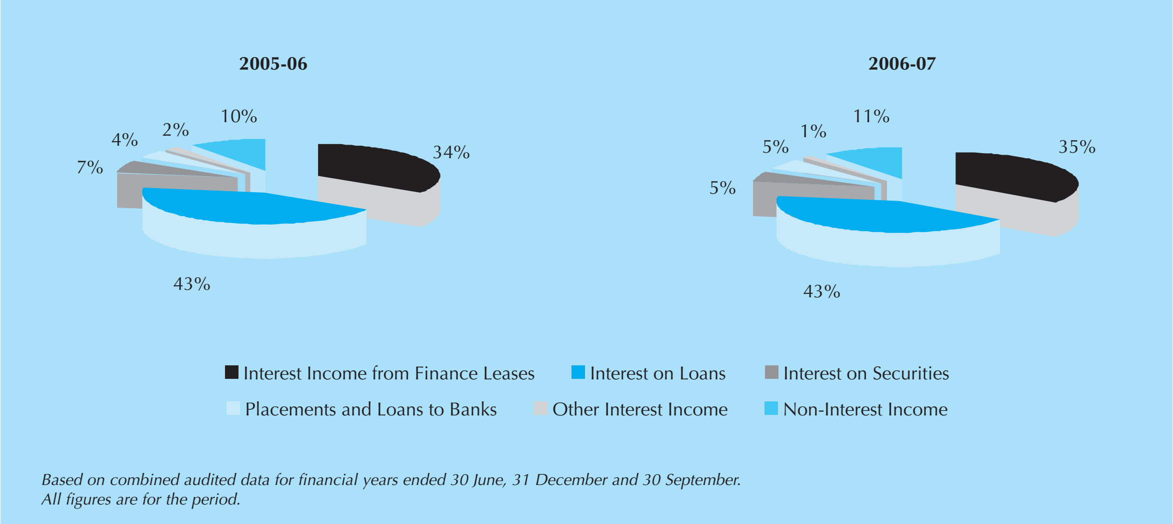
The overall profitability of NBDTIs improved during the period under review. Table 8 summarises the performance over the past two financial years. The consolidated profitability figures are based on the audited results of NBDTIs operating during 2006-07 involving financial years ended 30 June, 30 September and 31 December. NBDTIs realised an overall pre-tax profit of Rs631 million in 2006-07 as compared to Rs586 million in 2005-06.

Table 8: Consolidated Profit Performance of NBDTIs

	2005-06	2006-07
	(Rs million)	
Total Interest Income	**2,584**	**3,155**
Interest Income from Finance Leases	984	1,225
Interest on Loans	1,239	1,504
Interest on Securities	196	183
Placements and Loans to Banks	113	192
Other	52	51
Total Interest Expense	**1,840**	**2,349**
Interest Expense on Deposits	1,502	1,846
Borrowings from Banks & Financial Institutions	255	416
Other	83	87
Net Interest Income	**744**	**806**
Add : Non-interest Income	299	372
Operating Income	**1,043**	**1,178**
Less : Staff Costs	142	173
Other Operating Expenses	216	287
Operating Profit	**685**	**718**
Other Non-operating Profit/(Loss)	(17)	(10)
Operating Profit before Bad and Doubtful Debts and Taxation	**668**	**708**
Less: Charge for Bad and Doubtful Debts	82	77
Profit Before Tax	**586**	**631**

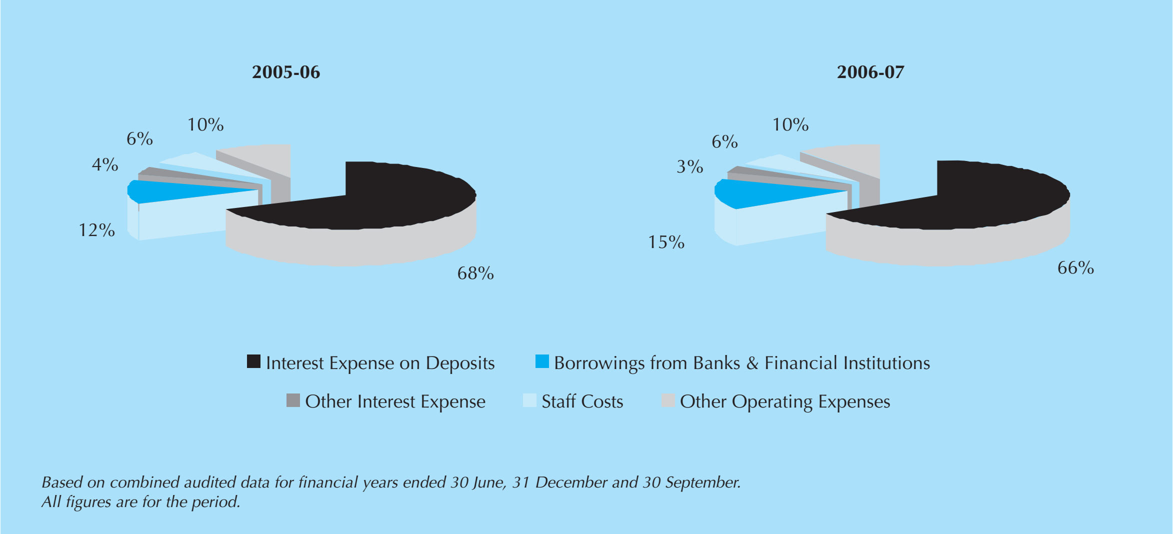
Charts 11 and 12 show the main components of income and expenses for 2005-06 and 2006-07.

Chart 11: Components of Income



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

Chart 12: Components of Expenses



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

4.2.5 INCOME

During the year 2006-07, NBDTIs recorded a 7.7 per cent growth in profits which is mainly attributable to higher returns achieved on their lending and leasing activities. Total income of NBDTIs registered a growth of 22.3 per cent, going up from Rs2,883 million in 2005-06 to Rs3,527 million in 2006-07. Interest on loans and finance lease went up by Rs265 million and Rs241 million respectively, and represented 77.4 per cent of total income in 2006-07. Non-interest income grew by 24.5 per cent in 2006-07 and constituted 10.6 per cent of total income for the period under review. The remaining income was derived from interest on securities and placements with banks.

Chart 13 shows the evolution of net interest income, other income, operating income and operating profit over the period 2005-06 to 2006-07.

Chart 13: Evolution of Net Interest Income, Other Income, Operating Income and Operating Profit

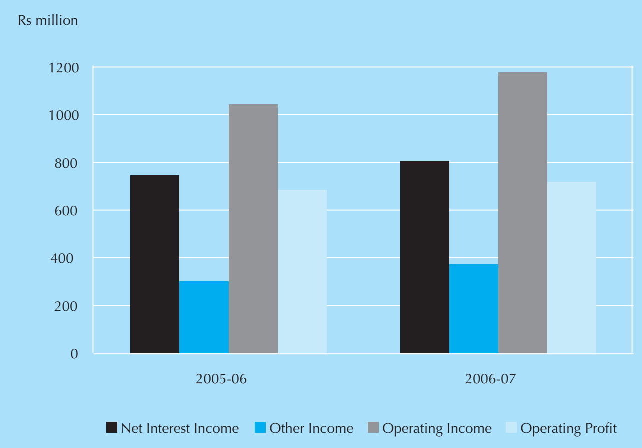


Chart 14: Components of Net Interest Income

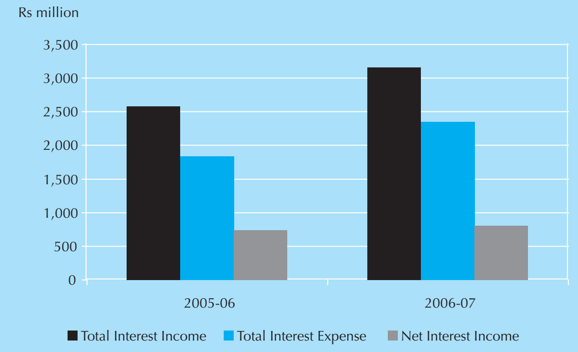


Chart 14 illustrates that the net interest income for NBDTIs has not grown substantially from the period 2005-06 to 2006-07. The rising interest rates on the domestic market during 2006-07 have affected both interest income and expense almost in the same proportion. Total interest income went up by Rs571 million from Rs2,584 million in 2005-06 to Rs3,155 million in 2006-07 while total interest expense recorded a growth of Rs509 million or 27.6 per cent. Interest income on finance leases and loans grew by 24.5 per cent and 21.4 per cent respectively. Interest earned on securities fell by Rs13 million from Rs196 million at end-June 2006 to Rs183 million at end-June 2007. Interest earned on placements and loans to banks recorded a 70.0 per cent growth from Rs113 million to Rs192 million.

Total interest expense which is made up mainly of interest paid on deposits and borrowings from banks and other financial institutions, amounted to Rs2,349 million in 2006-07 as against Rs1,840 million in 2005-06. Interest expense on deposits which constituted 78.6 per cent of total interest expense increased by 23.0 per cent from Rs1,502 million to Rs1,846 million during the same period. The cost of borrowings from banks and other financial institutions posted an increase of Rs161 million during 2006-07. Similarly, net interest income increased by Rs62 million or 8.3 per cent from Rs744 million in 2005-06 to Rs806 million in 2006-07.

4.2.6 NON-INTEREST INCOME

Non-interest income posted an increase of 24.5 per cent to reach Rs372 million in 2006-07. Fee income and commissions representing 34.2 per cent of total non-interest income increased by 12.3 per cent from Rs113 million in 2005-06 to Rs127 million in 2006-07. Operating lease rentals and net gains on sale of securities constituted 25.8 per cent and 20.2 per cent of total non-interest income respectively. Operating lease rentals rose by 58.2 per cent to Rs96 million and net gains on sale of securities recorded a growth of Rs29 million from Rs46 million in 2005-06 to Rs75 million in 2006-07.

4.2.7 NON-INTEREST EXPENSES

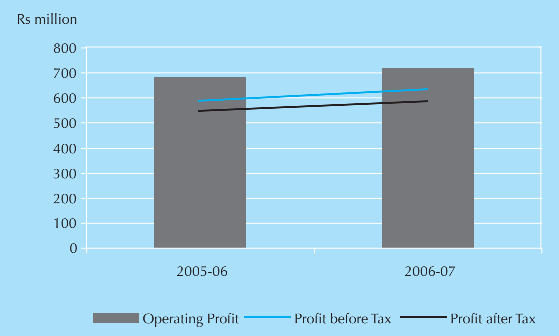
Non-interest expenses consisting of staff costs and other operating expenses increased by 28.5 per cent to Rs460 million in 2006-07. Staff costs which accounted for 37.6 per cent of total non-interest expenses went up by 21.8 per cent from Rs142 million in 2005-06 to Rs173 million in 2006-07. The ratio of staff costs to operating income grew from 13.6 per cent in 2005-06 to 14.7 per cent in 2006-07. Other operating expenses which constituted 62.4 per cent of total non-interest expenses increased by 32.9 per cent to reach Rs287 million in 2006-07 as against Rs216 million in 2005-06.

4.2.8 OPERATING PROFIT

NBDTIs posted an operating profit (before bad and doubtful debts and taxation) to the tune of Rs718 million during the year under review, representing an increase of Rs33 million or 4.8 per cent compared to 2005-06. The profit before tax went up by 7.7 per cent to reach Rs631 million in 2006-07. The charge for bad and doubtful debts decreased slightly from Rs82 million in 2005-06 to reach Rs77 million in 2006-07.

Chart 15 shows a comparison of profits for NBDTIs for the years 2005-06 and 2006-07.

Chart 15: Operating Profit, Profit before and after Tax



4.2.9 RETURN ON AVERAGE ASSETS AND EQUITY

The return on average assets and return on equity are important ratios which reflect the extent to which the NBDTIs have been able to use their resources efficiently.

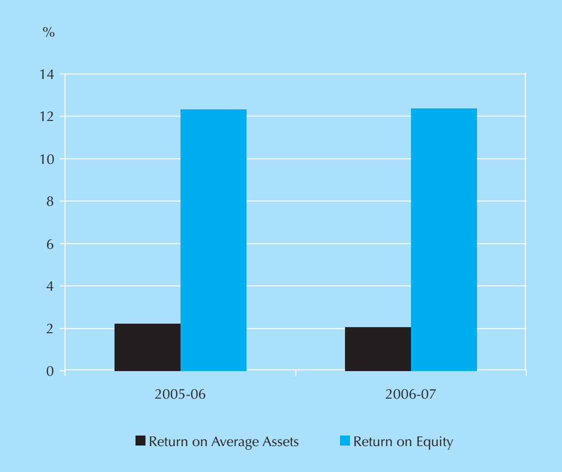
The pre-tax return on average assets deteriorated slightly from 2.2 per cent in 2005-06 to 2.1 per cent in 2006-07 since the 16.3 per cent growth in average assets outpaced the increase of 7.7 per cent recorded in profit before tax.

The pre-tax return on average assets of individual NBDTIs ranged between a negative of 3.9 per cent to a positive of 9.8 per cent in 2006-07. Two out of the thirteen NBDTIs posted a negative return on average assets in 2006-07 mainly as a result of additional provision made for bad and doubtful debts and impairment of receivables.

The post-tax return on equity recorded a slight improvement from 12.3 per cent in 2005-06 to 12.4 per cent in 2006-07. The post-tax return on equity for individual NBDTIs was between a negative of 16.6 per cent to a positive of 77.2 per cent in 2006-07.

Chart 16 shows the return on average assets and equity over the period 2005-06 to 2006-07.

Chart 16: Return on Average Assets and Equity

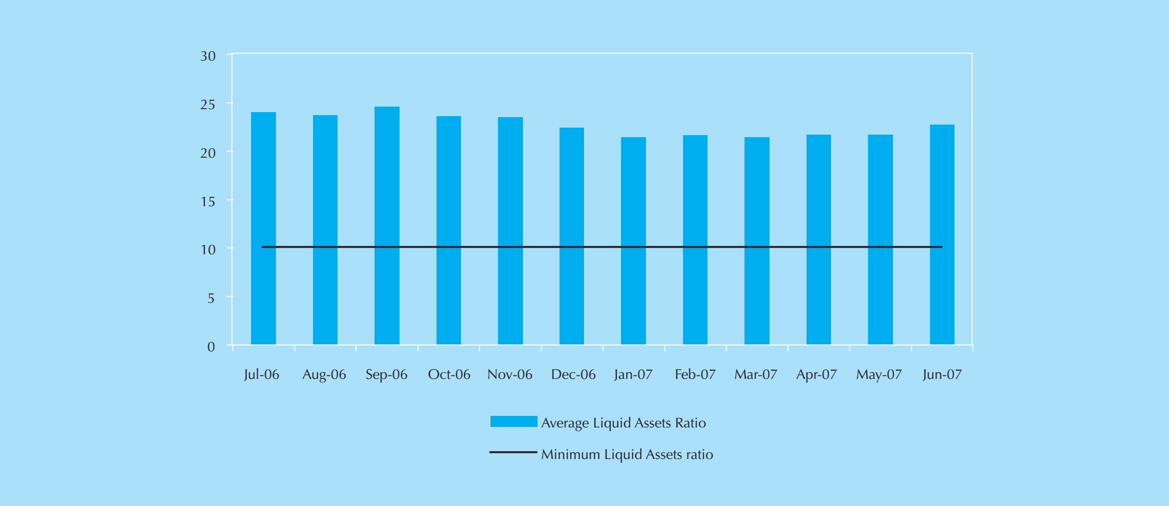


4.2.10 LIQUIDITY

Liquidity risk is defined as the risk arising from the inability of NBDTIs to honour their cash flow commitments as they fall due. Under the terms and conditions of their authorisation to carry on deposit-taking business, NBDTIs are required to maintain liquid assets ratios of not less than ten per cent of their total deposit liabilities with maturity of not less than three months. Liquid assets of NBDTIs comprise cash in hand, deposits held with Bank of Mauritius and authorised banks and non-cash liquid assets such as Treasury Bills, Bank of Mauritius Bills and Government securities. As at 30 June 2007, liquid assets held by NBDTIs amounted to Rs4,699 million and were much higher than the required 10 per cent of the deposit liabilities of Rs19,582 million.

Chart 17 sets out the fluctuations in the weekly liquid assets ratio maintained by non-bank deposit taking institutions. The ratio ranged from 21.4 per cent to 24.6 per cent during the period July 2006 to June 2007.

Chart 17: Average Liquid Assets Ratio



APPENDIX I

Guidelines

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. Guideline 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

APPENDIX II

Financial Soundness Indicators[1] for the Banking Sector[2], 2001-2007

(In percent, unless otherwise indicated)

	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
Capital Adequacy							
Regulatory capital to risk-weighted assets ratio [3]	13.0	12.3	14.2	15.0	15.4	15.8	13.3
Regulatory Tier I capital to risk-weighted assets ratio [4]	12.7	13.0	13.7	13.7	13.5	13.7	11.5
Total (regulatory) capital to total assets ratio	8.4	7.2	8.0	7.8	7.8	7.3	6.0
Asset Composition and Quality							
Share of loans per risk weight (RW) category							
RW=0 per cent	*6.8*	*9.5*	*5.2*	*6.4*	*16.6*	*12.8*	*9.1*
RW=10 per cent							*0.3*
RW=20 per cent	*0.4*	*0.4*	*4.8*	*6.7*	*0.2*	*1.3*	*3.9*
RW=50 per cent	*8.9*	*7.0*	*7.9*	*9.6*	*6.5*	*6.0*	*5.7*
RW=100 per cent	*83.8*	*83.2*	*82.1*	*77.3*	*76.7*	*79.8*	*81.1*
Total exposures to Total assets	59.2	51.6	47.8	45.9	53.6	40.1	44.8
Sectoral distribution of loans to total loans [5]							
Agriculture	*8.3*	*9.7*	*9.1*	*7.5*	*5.7*	*5.7*	*6.0*
of which: sugar	*7.0*	*8.6*	*8.0*	*6.4*	*5.6*	*5.0*	*4.8*
Manufacturing	*18.2*	*16.1*	*14.8*	*13.6*	*12.0*	*11.2*	*10.2*
of which: export enterprise certificate holders	*10.8*	*9.4*	*7.5*	*6.1*	*5.4*	*4.8*	*4.7*
Traders	*14.1*	*14.1*	*14.9*	*14.5*	*13.9*	*14.9*	*13.5*
Personal and professional	*9.5*	*9.2*	*9.8*	*10.0*	*9.4*	*9.5*	*9.7*
Construction	*14.2*	*13.9*	*14.2*	*16.2*	*15.2*	*15.4*	*16.4*
of which: housing	*11.0*	*10.5*	*9.0*	*10.8*	*10.7*	*12.0*	*10.9*
Tourism /hotels	*14.1*	*15.0*	*15.9*	*15.4*	*13.2*	*13.2*	*13.6*
Other	*21.6*	*21.3*	*21.2*	*22.8*	*30.7*	*30.1*	*30.6*
FX loans to total loans	13.1	10.3	10.9	12.2	51.1	50.7	56.3
NPLs to gross loans [6]	8.0	8.3	9.6	8.1	4.0	3.0	2.5
NPLs net of provisions to capital	37.8	34.0	28.1	22.4	11.4	7.0	9.1
Large exposures to capital [7]	270.1	263.7	220.9	200.0	250.3	380.0	493.2
Earnings and Profitability							
Return on assets	2.3	2.0	2.1	2.1	1.9	1.7	1.9
Return on equity	20.6	18.1	19.2	19.2	21.1	22.4	26.4
Interest margin to gross income	30.1	32.6	32.1	34.7	36.3	31.2	27.6
Non-interest expenses to gross income	20.8	23.1	23.9	27.7	20.1	16.4	15.0
Expenses to revenues ratio	10.3	10.5	10.6	10.2	8.1	7.7	6.8
Average Earnings per employee (in Rs'000)	1,670	1,819	2,212	2,433	2,904	2,817	3,402

	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
Liquidity							
Liquid assets to total assets ratio	29.2	32.7	36.6	37.9	44.1	52.8	47.7
Liquid assets to total short-term liabilities ratio	60.2	65.3	71.0	71.7	88.6	118.8	104.2
Funding volatility ratio	21.1	16.4	13.9	14.0	-20.1	-51.6	-33.7
Demand deposits to total liabilities ratio	10.9	10.3	10.3	10.7	15.9	15.4	18.4
FX deposits to total deposits ratio	12.1	11.7	11.0	13.8	57.3	68.0	67.6
Sensitivity to market risk							
Net open positions in FX to capital	3.2	7.5	20.8	1.9	4.2	6.4	3.2

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 up to December 2004 and to all banks as from June 2005.
3 Regulatory capital refers to Total of Tier 1 capital 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 Gross loans exclude accrued interest.
7 Prior to June 2006, figures refer to Category 1 banks only.

APPENDIX III

A. Legislative Changes and Regulations

1. The Finance Act 2007

The Finance Act 2007, which was enacted on 21 August 2007, brought amendments to, inter alia, the Bank of Mauritius Act 2004 and the Banking Act 2004 as follows:

A. The Bank of Mauritius Act 2004

(a) Subsection (1) of section 12 has been repealed and replaced by the following subsection-

(1) The general policy of the affairs and business of the Bank, other than the formulation and determination of monetary policy, shall, subject to this Act, be entrusted to a Board of Directors.

(b) Subsections (2),(3)and (4) of section 51 have been repealed and replaced by the following subsection-

(2) The Bank may publish, in whole or in part, and at such times as it may decide, the information or data furnished under subsection (1).

(c) A new section has been inserted immediately after section 51, as follows: -

51A. Balance of payment

(1) The Bank shall be responsible for the preparation of the balance of payment accounts and the external assets and liabilities position of Mauritius.

(2) The Bank may, by notice in writing, require any person to furnish, within such time and in such form and manner as the Bank may determine, such information and data as the Bank may require for the preparation of the balance of payment accounts and the external assets and liabilities position of Mauritius.

(3) Where the Bank issues a notice to a person under subsection (2), the person shall comply with the notice.

(4) The Bank shall not publish any information furnished under subsection (2) without the written consent of the person.

(5) Any person who-

(a) Fails to comply with a requirement under subsection (2);

(b) For the purposes of this section-

(i) Knowingly furnishes information which is false or misleading in any material particular; or

(ii) Wilfully or recklessly withholds any material information,

shall commit an offence and shall, on conviction, be liable to a fine not exceeding 50,000 rupees for each day on which the offence occurs or continues.

(d) Section 55 has been repealed and replaced by the following section-

55. Functions of Committee

(1) The functions of the Committee shall be to formulate and determine the monetary policy to be conducted by the Bank pursuant to section 5(1)(a).

(2) The Committee shall, as soon as practicable after every meeting, cause to be published the gist of the monetary policy to be conducted by the Bank.

(3) In the discharge of its functions, the Committee shall not be subject to the direction or control of any other person or authority.

B. The Banking Act 2004.

(a) Section 2 has been amended as follows:

(i) in the definition of 'bank' by adding immediately after the words 'banking business', the words 'or Islamic banking business, or both';

(ii) in the definition of 'banking licence', by inserting immediately after the words 'banking licence', the words 'or Islamic banking licence'.

(iii) by inserting in the appropriate alphabetical order, the following new definitions-

'Islamic banking business' means any financial business, the aims and operations of which are, in addition to the conventional good governance and risk management rules, in consonance with the ethos and value system of Islam;

'Islamic deposit' means a sum of money or monies worth received by or paid to any person, under which the receipt and repayment shall be in accordance with the terms of an agreement made on any basis including custody or profit sharing;

(b) Section 3 has been amended by adding immediately after subsection (3), the following new subsections-

(4) Every bank licensed under this Act shall be deemed to be licensed to carry on Islamic banking business through a window on such terms and conditions as the central bank may determine.

(5) Any bank licensed to conduct Islamic banking business shall be governed by the provisions of this Act.

(c) Section 5 has been amended as follows:

(i) in subsection (1), by inserting immediately after the words 'banking business', the words 'or Islamic banking business';

(ii) in subsection (2), by inserting immediately after the words 'deposits' the words 'or Islamic deposits';

(d) Section 64(1)(a) has been amended by inserting immediately after subparagraph (i), the following new subparagraph (ii), the word 'or' at the end of subparagraph (i) being deleted and the existing subparagraph (ii) being renumbered (iii) accordingly-

(ii) in the case of a director who is a non-resident, take an oath of confidentiality before the competent court or authority in the country of residence of the director, in such form as the central bank may approve; or

2. Proclamation of Sections 3 (3) of Part I and 12(5) of Part II, Parts IX to XI of the Banking Act 2004

By virtue of Proclamation No.6 of 2007, as published in the Government Gazette of 31 May 2007, sections 3(3) of Part I and 12(5) of Part II, Parts IX to XI of the Banking Act 2004 have come into operation on 1 June 2007 and cover the following:

Section 3 (3) of Part I – PRELIMINARY - provides that "where a bank is also engaged in any of the financial services regulated by the Financial Services Development Act 2001, the bank shall not carry on business by virtue of its banking licence unless it is also licensed under that Act in respect of those financial services".

Section 12(5) of Part II - LICENSING OF BANKS AND OTHER FINANCIAL INSTITUTIONS - stipulates that "a non-bank deposit taking institution shall be subject to the same prudential regulation as a bank, including the provisions of Part III, Part IV, Part V and Part VI and any guidelines and instructions issued thereunder and the existing terms and conditions of non-bank deposit taking institutions shall stand amended to that effect".

PART IX – CONSERVATORSHIP - provides that "where the central bank deems it necessary in order to protect the assets of a financial institution for the benefit of its depositors and other creditors, it may appoint a conservator, which may be the central bank or any other person directed by the central bank to be conservator". It defines the powers and duties of the conservator, the term of office and remuneration of the conservator, the resumption of office by directors upon conclusion of conservatorship and the rehabilitation or reorganisation of the financial institution.

PART X - VOLUNTARY LIQUIDATION - defines the procedures to be followed by a financial institution which proposes to go into voluntary liquidation. It states the manner in which the financial institution shall give notice and publication of the voluntary liquidation, the rights of depositors and creditors, and the need for the financial institution to distribute its assets among its shareholders after the discharge of all its obligations and the revocation of its licence. It further stipulates that "where the central bank finds that the assets of a financial institution whose voluntary liquidation has been authorised shall not be sufficient for the full discharge of all of its obligations or that completion of the voluntary liquidation is unduly delayed, it shall appoint any person as receiver, to take possession of the financial institution and commence proceedings leading to its compulsory liquidation in conformity with the procedures specified in Part XI".

PART XI - COMPULSORY LIQUIDATION - defines, inter alia, the circumstances in which the Board shall appoint a receiver to take possession of a financial institution, the duties and powers of the receiver and the powers of the central bank under this part. It also provides for an inventory of assets, the dealing with claims by the receiver, the priority of claims, the submission of audited accounts to Bankruptcy Court, the liquidation of the financial institution and the civil and criminal actions.

3. Regulations

A. Banking (Processing and Licence Fees) Regulations 2007

These Regulations have been made on 3 April 2007 by the Bank of Mauritius with the approval of the Minister under sections 5(4)(h), 8, 12(4) and 14(2)(b)(5) of the Banking Act 2004.

The regulations which came into operation on 15 April 2007 set out the annual licence fees for holders of banking, non-bank deposit-taking, foreign exchange dealer and money-changer licences as follows:

BANKING LICENCE

	Rs
Processing fee	90,000
Fixed fee	600,000

DEPOSIT-TAKING BUSINESS LICENCE

	Rs
Fixed fee	300,000

FOREIGN EXCHANGE DEALER LICENCE

	Rs
Processing fee	25,000
Fixed fee	300,000

MONEY-CHANGER LICENCE

	Rs
Processing fee	10,000
Fixed fee	150,000

Holders of banking and non-bank deposit taking licences are also subject to an additional fee computed as per the under-mentioned formula and rounded up to the nearest 10,000 rupees:

$$\text{Fee (in Rs)} = \left[\frac{\text{3-year average gross operating income of the institution}}{\text{Aggregate 3-year average operating income of banks and NBDTIs}}\right] \times \text{Rs3mn}$$

$$+ \left[\frac{\text{3-year average total assets of the institution}}{\text{Aggregate 3-year average total assets of banks and NBDTIs}}\right] \times \text{Rs1.5mn}$$

where "NBDTIs" means non-bank deposit taking institutions.

The annual licence fee

(a) shall, in respect of every holder of a banking licence or of a licence to carry on deposit taking business, be determined by the central bank and communicated in writing to that bank or non-bank deposit taking institution, as the case may be;

(b) shall be revised by the central bank after every 3-year period starting as from 1 July 2006; and

(c) shall not exceed 2 million rupees during the initial 3-year period.

The additional fee shall be computed by the central bank –

(a) for the initial 3-year period, on the basis of figures for the years 2003, 2004 and 2005; and

(b) for subsequent 3-year periods, on the basis of figures for the 3 years preceding the year in which the licence fee is due for revision by the central bank.

Any processing fee or licence fee referred to in these regulations –

(a) shall be non-refundable;

(b) shall be paid to the central bank in Mauritius currency or in US dollars at the rate of 1 US dollar to 33 Mauritius Rupees.

B. 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

C. NOTICE

NOTICE
Surrender of Banking Licence
by Nedbank International Limited

On 17 August 1999, Nedbank International Limited (then SBM Nedbank International 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.

Nedbank International 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 28 February 2007.

Nedbank International Limited ceased to conduct banking business with effect from close of business on 28 February 2007.

The public is hereby informed that the Bank of Mauritius has, under section 11(7) of the Banking Act 2004, accepted the surrender of its Banking Licence for cancellation.

Bank of Mauritius
26 February 2008

D. List of Charts

List of Charts

Banks

Non-Bank Deposit-Taking Institutions

E. List of Tables

F. List of Boxes

G. Glossary of Abbreviations

Abbreviation	Details
AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions
AIG	Accord Implementation Group
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ASRF	Asymptotic Single Risk Factor
ATM	Automated Teller Machine
Bank	Bank of Mauritius
BCBS	Basel Committee on Banking Supervision
CAR	Capital Adequacy Ratio
ECAIs	External Credit Assessment Institutions
FATF	Financial Action Task Force
FSAP	Financial Sector Assessment Programme
FSF	Financial Stability Forum
FSRB	Financial Action Task Force Style Regional Body
HLIs	Highly Leveraged Institutions
IFPs	Islamic Financial Products
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
MENAFATF	Middle East and North Africa Financial Action Task Force
NBDTIs	Non-Bank Deposit Taking Institutions
OFC	Offshore Financial Centres
WGL	Working Group on Liquidity

H. List of Banks, Non-Bank Deposit-Taking Institutions, Money-Changers and Foreign Exchange Dealers Licensed by the Bank of Mauritius

The following is an official list of banks holding a Banking Licence, institutions other than banks which are licensed to transact deposit-taking business and cash dealers licensed to transact the business of money-changer or foreign exchange dealer in Mauritius and Rodrigues as at 30 June 2007.

Banks Licensed to carry Banking Business

1. Bank of Baroda
2. Banque des Mascareignes Ltee
3. Barclays Bank PLC
4. Deutsche Bank (Mauritius) Limited
5. First City Bank Ltd
6. Habib Bank Limited
7. HSBC Bank (Mauritius) Limited
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. SBI International (Mauritius) Ltd.
13. SBM Nedbank International Limited [1]
14. South East Asian Bank Ltd
15. Standard Bank (Mauritius) Limited
16. Standard Chartered Bank (Mauritius) Limited
17. State Bank of Mauritius Ltd
18. The Hongkong and Shanghai Banking Corporation Limited
19. The Mauritius Commercial Bank Ltd.

Non-Bank Deposit-Taking Institutions

1. ABC Finance & Leasing Ltd.
2. Barclays Leasing Company Limited
3. Capital Leasing Ltd
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 [2]

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

1 *SBM Nedbank International Limited has ceased all banking activities as from 28 February 2007.*

2 *The Bank has suspended the licence 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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