BANK OF MAURITIUS

Annual Report on Banking Supervision 2009

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1 OVERVIEW

1.1 INTRODUCTION

The global economic crisis reached its peak during the first half of 2009. The liquidity and solvency risks which the crisis exposed in some major and well-known international banks underscored the shortcomings in the regulatory and supervisory framework.

Since the crisis in the real economy in several parts of the world was triggered by the US sub-prime market, attention at all levels was drawn to reforming the financial sector supervision and regulation architecture. It, in fact, led to two rounds of discussions at the level of the Heads of the G20 countries, where the leaders took some major decisions and also mandated the standard setting bodies to review the existing framework.

Some of the important decisions taken by the G20 leaders included setting up of the Financial Stability Board (FSB) to replace the Financial Stability Forum (FSF) with a wider membership and broader mandate. The FSB would, in collaboration with the International Monetary Fund (IMF), devise ways for identifying macroeconomic and financial risks and suggest remedial action. Another area which caught attention was the remuneration of officials of financial institutions perceived to have oriented bank executives to take excessive risks in search for short-term profits. The G20 also recognised the issues arising out of fair valuation of financial instruments and other assets as having a bearing on financial stability and, therefore, directed the International Accounting Standards Board (IASB) to review its standards in that regard.

Governments in different parts of the world drew up and implemented plans to protect the financial system, which amongst others, included direct recapitalisation of the financial institutions, provision of low cost funds, and lowering the standard of assets for eligibility for re-finance from central banks. Although signs of recovery had started to appear on the global economic horizon, most countries persisted with these policies even towards the end of 2009, as the upturn remained fragile and given the risk of improper timing of exit from accommodative fiscal and monetary policy stance.

Some of the more important outcomes of the G20 decisions/post crisis reform efforts were a review by the Basel Committee on Banking Supervision (BCBS) of the guidance on Capital Adequacy, a strengthened framework for measuring and monitoring liquidity risks and issue of guidance on governance structure surrounding the fair valuation process.

A more detailed assessment of these and other international initiatives is provided in Chapters 2 and 3.

1.2 THE MAURITIAN BANKING SECTOR

The number of banks and foreign exchange dealers at the end of 2009 remained unchanged at eighteen and five respectively. During the year, SBM Lease merged with State Bank of Mauritius Ltd bringing the number of non-bank deposit taking institutions (NBDTIs) to twelve. It may be recalled that the Bank had granted money-changer licences to fourteen companies in 2008, out of which five had commenced operations in the same year. Of the remaining nine, six commenced operations in 2009. As a result, the number of money changers in operation increased from seven at the end of 2008 to thirteen at the end of 2009.

Three out of the fourteen money-changers licensed in 2008 failed to commence business within the prescribed timeframe. Consequently, the Bank revoked the licence granted to these companies, namely, White Sand Finance Ltd, Change Partners Ltd and Abanyb Ltd in terms of the powers vested under section 11(1) of the Banking Act 2004.

In 2009, the Bank issued an Islamic banking licence to Deen Banking Corporation Ltd and a foreign exchange dealer licence to Island Premier Traders FX Limited, both of which are yet to commence operations.

Banks were largely involved in conventional banking business and had limited exposure to proprietary trading and investment banking. This model helped banks to be resilient to the global economic crisis though its impact was felt in the form of lower growth in deposits, contraction in advances and consequently lower growth in profits as compared to the rates of growth in the earlier years.

Following amendments to the Banking Act 2004, banks have been given the choice to offer Sharia-compliant financial products either as a full-fledged banking activity or through an Islamic banking window within conventional banking. Some Islamic financial products have already been introduced.

1.2.1 PERFORMANCE OF BANKS

Deposits of the banking sector grew by 2.1 per cent, from Rs548.1 billion at end-December 2008 to Rs559.8 billion at end-December 2009. However, advances of the banking sector contracted by 2.3 per cent during the year, falling from Rs422.9 billion at end-December 2008 to Rs413.3 billion at end-December 2009. Total profits of the sector for 2009 stood at Rs10.1 billion, representing a negative growth of 19.2 per cent for the year compared to a growth of 17.0 per cent in 2008. Non-performing loans remained low at 2.9 per cent. Banks were well capitalised with overall Capital Adequacy Ratio of 15.2 per cent at end-December 2009 marginally down from 15.3 per cent at end-December 2008. Overall, banks remained strong, liquid and profitable, leaning well against the subdued impact of the economic downturn on their balance sheets.

1.2.2 PERFORMANCE OF NON- BANK DEPOSIT TAKING INSTITUTIONS

Deposits and advances of Non-Bank Deposit Taking Institutions (NBDTIs) remained more or less unchanged at Rs27.7 billion and Rs31.6 billion respectively at end-December 2009. With the introduction of the new Capital Adequacy Framework applicable to NBDTIs in 2009, their overall Capital Adequacy Ratio stood at 21.1 per cent at end-December 2009.

A more detailed analysis of the financial performance of the banks and NBDTIs is provided in Chapters 4 and 5 respectively.

1.3 A NEW APPROACH TO REGULATION AND SUPERVISION

As reported last year, the banking sector in Mauritius was, by and large, resilient to the effects of the global economic crisis. However, the Bank continued to streamline, strengthen and improve the regulatory framework as part of its efforts to continuously upgrade the operational efficiency and risk management framework of banks so that their performance is assessed as per standards benchmarked to international best practices consistent with the specificities of Mauritius.

In the first place, banks migrated to Basel II for measurement of Credit risk under the Standardised Approach effective the quarter ended March 2009. Guidelines on Liquidity Risk Management and Measurement and Management of Market Risk were issued to the banking sector in 2009. The Guideline on Public Disclosure of Information was revised. The NBDTIs were brought under a new Capital Adequacy Framework reflecting the provisions of the Banking Act 2004 to apply prudential guidelines and regulations similar to those applicable to banks.

During the year, the Bank pursued consultations with banks on the draft Guideline on Supervisory Review Process (Pillar II of Basel II), and issued for consultation draft Guidelines on Country Risk Management and Fair Valuation of Financial Instruments, the first two of which have subsequently been formalised and issued.

A detailed description of changes to the regulatory framework is presented in Chapter 2.

2 Domestic Developments in Banking Regulation and Supervision

2.1 INTRODUCTION

The year witnessed changes to the legislative framework and the guidelines issued by the Bank as part of its efforts to enhance the effectiveness of the regulatory environment and supervisory oversight of the financial institutions[1] to ensure the safety and soundness of the financial system at large.

The Bank channelled its resources towards on-site and off-site monitoring as well as reviewing some key guidelines and issuing new ones to the industry. The Bank brought a major change to the procedure for finalisation and issue of a guideline. First, the guideline is issued to the banking industry for consultations. Depending upon the nature and pertinence of responses received, a working group comprising representatives from the Bank and the industry is constituted to deliberate and finalise suggestions received. A revised draft incorporating the outcome of these deliberations is again issued to the industry for final comments. The comments are assessed for their appropriateness and those retained are incorporated in the guideline. Thereafter, the final guideline is issued to the industry.

This procedure has led to greater transparency in the issue of guidelines and proper dissemination of the internal thought process and logic of various proposals made in the guidelines leading to their greater acceptability.

2.2 LEGISLATIVE CHANGES

During the year 2009, some amendments have been brought to the Banking Act 2004 and the important ones are outlined below:

1. ***Provision to issue in-principle approvals***

   Two-stage licensing has been adopted in certain jurisdictions to obviate the need for a potential licensee to incorporate the company and bring in capital if the licence is likely to be refused. A view was expressed that in the absence of specific provision, the Bank did not have authority to adopt a two-stage licensing system. Therefore an amendment to section 5 of the Banking Act 2004 was made in the year specifically to fill this void and at the same time make the process of issue of in-principle approval clearer so that the Bank's reputation is not put at risk in any manner.

2. ***Restriction on branch expansion of NBDTIs***

   Section 12 of the Banking Act 2004 now incorporates subsection 7 which aims at preventing expansion of the branch network of NBDTIs. This is consistent with subsection 6 requiring the Bank to encourage merger among NBDTIs with the object of establishing a bank or merger of NBDTIs with banks.

3. ***Priority of deposit and other liabilities in case of winding up of NBDTIs***

   Section 92 of the Banking Act 2004 has been amended to give depositors of NBDTIs the same priority treatment over other creditors as depositors of banks in the event of winding up.

A list of developments in banking and other legislations is provided in the Annex at the end of this chapter.

[1] *Banks, Non-Bank Deposit Taking Institutions and Cash Dealers licensed by the Bank*

2.3 CHANGES IN GUIDELINES ISSUED BY THE BANK

2.3.1 GUIDELINE ON LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk of financial loss to a bank arising from its inability to fund increases in assets and/or meet obligations as they fall due without incurring unacceptable cost or losses. For a bank's trading activities, it is the risk of not being able to meet its payment obligations on settlement date. Inability to access sufficient funds to meet liabilities can necessitate liquidation of assets at short notice, which normally results in divestment at significantly discounted prices.

The Guideline on Liquidity Risk Management has been reviewed and reinforced with a view to ensure that banks shall manage liquidity risk in a sound manner and shall establish a robust liquidity risk management framework. The guideline embraces the principles set out in the Basel Paper – Principles for Sound Liquidity Risk Management and Supervision issued in September 2008 and comprises the following key elements:

- Board and senior management oversight;
- Establishment of liquidity risk management policies and strategies;
- Use of range of tools for liquidity risk measurement and management involving, *inter alia*, cash flow projection, ratio analysis, minimum holdings of liquid assets, liquidity stress test scenarios and gap analysis;
- Identification and establishment of funding requirements; and
- Contingency planning for handling liquidity crisis.

2.3.2 GUIDELINE ON MEASUREMENT AND MANAGEMENT OF MARKET RISK

In January 2007, the Bank released a Proposal on Measurement and Management of Market Risk which outlined the principles using the Standardised Approach for measuring market risk for positions held in the trading book and the banking book. In 2009, the Bank undertook a review of the proposal paper and after further consultations with banks issued the final guideline on Measurement and Management of Market Risk. The guideline captures the major sources of market risks and provides methodologies for measuring the capital requirements thereof. However, regulatory reporting is confined to foreign exchange risk and interest rate risk in the banking book because the trading book of banks is considered small relative to the size of their on-balance sheet assets. The guideline also envisages a reporting mechanism to enable the Bank to monitor the size of the trading book of banks. The full-fledged market risk framework will be triggered when a bank's trading book is more than 5% of its total assets. At present, regulatory capital for market risk is required to be maintained for foreign exchange risk only.

2.3.3 GUIDELINE ON PUBLIC DISCLOSURE OF INFORMATION

The revised International Accounting Standard (IAS) 1 requires that an entity must:

- Present all non owner changes in equity (that is 'Comprehensive income') either in one single statement of Comprehensive income or in two statements, that is, a separate income statement and a statement of Comprehensive income;
- Present a statement of financial position (balance sheet) as at beginning of the earliest comparative period in a complete set of financial statements when the

entity applies an accounting policy retrospectively or makes a retrospective restatement;

- Disclose income tax relating to each component of other comprehensive income; and
- Disclose reclassification adjustments relating to components of other comprehensive income.

The revised IAS 1 has changed the titles of some financial statements and will be used in International Financial Reporting Standards (IFRS) as follows:

- 'balance sheet' as 'statement of financial position';
- 'income statement' as 'statement of comprehensive income'; and
- 'cash flow statement' as 'statement of cash flows'.

The Bank revised its Guideline on Public Disclosure of Information to reflect these changes. The revised guideline makes it incumbent on financial institutions to comply with the above requirements in the presentation of their financial statements. However, financial institutions have been given a choice to present their income and expenses either in a single statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income).

2.4 BASEL II IMPLEMENTATION

Banks migrated to the Standardised Approach to Credit Risk under Basel II, effective from the quarter ended March 2009. The Basel II framework makes capital of a bank more risk sensitive. The transition to the new methodology of determining capital requirements was achieved in a smooth manner after one year of parallel run.

It may be highlighted that the Bank took a conservative approach while implementing Basel II. One such area relates to treatment of residential mortgages. Under Basel II, such exposures are eligible for a lower risk weight of 35 per cent. However, the Bank allowed the application of the lower risk weight only for residential mortgage loans of up to Rs5 million provided the loan to value ratio did not exceed 80 per cent and subject to some other conditions being met. The objective of this classification was to ensure that higher value mortgage loans where the risk of asset bubbles is high, are excluded from being assigned a lower risk weighting.

There are two other important Pillars in the Basel II framework apart from Pillar 1 which relates to the regulatory capital.

Pillar 2 requires banks to have sound internal processes to evaluate their risks and to assess the level of capital that would be commensurate with those risks. Supervisors will evaluate the activities and overall risk profiles of individual banks to determine whether those institutions should hold higher levels of capital than the minimum requirements in Pillar 1.

With a view to implementing the full framework of Basel II in October 2008, the Bank issued to the industry a draft guideline for comments on Supervisory Review Process drawn along the principles of the Basel Committee. During 2009, discussions were held with the banking industry in order to endorse the guideline. Having regard to the challenge in implementing Pillar 2, the Bank sought and obtained technical assistance from IMF on the implementation approach to Pillar 2. The Supervisory Review Process constitutes a critical milestone in adopting the full Basel II framework and banks face serious challenges in its implementation. There are various implications for banks adopting Pillar 2 requirements and some of them comprise the following:

- A cultural change for banks, as traditionally supervisors have been setting standards for capital calculation. Under Pillar 2, banks will need to assess their

own capital needs. This will necessitate the use of state of art models to determine their internal capital;

- They must be able to understand and explain the workings of these models;
- Hiring people having statistical understanding and modelling capabilities;
- Utilisation of models in a wide range of functional areas; and
- Use and management of large amounts of data for these models.

The third Pillar of Basel II relates to market discipline which sets out the minimum disclosure standards required for the market to obtain information on financial institutions. The Pillar III requirements of Basel II were dovetailed in the Guideline on Public Disclosure of information which underwent a revision in 2008. These were updated in 2009 to reflect certain changes brought out by the International Accounting Standards Board.

The Bank has thus implemented all three Pillars of Basel II consistent with its assessment of the needs of the domestic banking sector.

2.5 RISK ASSESSMENT TOOLS

The Bank uses the CAMEL rating system to assess the soundness of a bank from the supervisory point of view on a quarterly basis. It is a method through which ratings are assigned to five major components which reflect a bank's present performance and future sustainability of its operations, namely Capital Adequacy, Asset Quality, Management, Earnings and Liquidity. The rating for each component is given on the basis of assessment of several sub-components. During the year, the Bank undertook a comprehensive review of the existing CAMEL model and overhauled it thoroughly to make it better reflect a bank's performance.

2.6 ISLAMIC BANKING

The Islamic Banking landscape in Mauritius was characterised by notable events that took place during the year.

First, an international seminar on capital markets, co-hosted by the Bank along with the Islamic Financial Services Board (IFSB) and the Financial Services Commission Mauritius (FSC) was held in Mauritius in May 2009 followed by a post-seminar event at the Bank. The seminar featured presentation by international experts on various issues concerning Islamic finance and highlighted how this segment remained fairly immune to the global economic crisis. The presentations at the post-seminar event, by local and international speakers dealt more on the opportunities and challenges for Mauritius in the area of Islamic banking.

Secondly, the Mauritius subsidiary of an international bank kick-started the provision of Islamic banking services through window operations, targeting global customers to mobilise deposits and promote cross border investment.

Thirdly, the Bank granted an Islamic Banking licence in October 2009 to Deen Banking Corporation Ltd which is yet to commence operations.

Fourthly, the Bank was admitted as a full member of the Islamic Financial Services Board (IFSB) making it only the second non-Islamic country's central bank after Singapore to be a full member of the IFSB. Concurrently, the Bank was also co-opted to a Working Group on Currency Issue and Exchange Risk constituted by the IFSB.

Lastly, the Public Debt Management Act 2008 was amended to enable the Government to issue sovereign sukuks which is important for liquidity management by Islamic banks. In the 2009 Budget Speech, the Government also indicated its intention to explore the prospects of issuing sovereign sukuks.

2.7 CHANGES IN CAPITAL REQUIREMENTS FOR NON-BANK DEPOSIT TAKING INSTITUTIONS

Section 20 of the Banking Act 2004 provides that the minimum regulatory capital requirement of Rs200 million is applicable to both banks and NBDTIs. With a view to bridging the regulatory gaps in terms of capital regulation, after consultation with the NBDTIs, the Bank issued a Guideline on Capital Adequacy Ratio for these institutions in October 2009.

In a nutshell, the guideline provides detailed qualifying criteria for Tier 1 and Tier 2 Capital and provides a range of risk weights for the different assets held by the NBDTIs. Considering leasing business carried out by these institutions, a risk weight of 75 per cent has been assigned to investments in finance leases and/or operating leases for amounts up to Rs5.0 million, akin to the regulatory retail portfolio for banks under Basel II. The minimum capital adequacy ratio has been set at 10 per cent.

2.8 LICENCE FEES

The annual licence fee payable by banks and NBDTIs is made up of a fixed fee and a variable fee while that for cash dealers comprises a fixed fee only. The Banking (Processing and Licence) Fees Regulations 2007 were amended in 2009 to further refine the determination of the fixed fee component of the annual licence fee payable by financial institutions.

The revised annual licence fee of financial institutions thus stands as follows:

(a) Fixed Fee

Institutions	Principal place of business	Every other place of business
Banks	Rs1,000,000	Rs50,000
Non-bank Deposit taking	Rs500,000	---
Foreign Exchange Dealer	Rs300,000	Rs25,000
Money Changer	Rs150,000	Rs25,000

Under section 3(b)(ii) and 4(b)(ii), of the regulations, the following limits apply to the fixed fee payable by banks, foreign exchange dealers and money changers for any additional place of business:

(i) the fixed fee payable by a bank, in respect of its other place of business, shall, irrespective of the number of other places of business approved by the central bank , not exceed Rs1.0 million.

(ii) The fixed fee payable by a foreign exchange dealer or money changer, as the case may be, in respect of its other place of business, shall irrespective of the number of other places of business approved by the central bank, not exceed Rs500,000.

(b) Variable fee

For banks and NBDTIs, the variable fee is computed as follows:

FORMULA

$$\text{Fee (in Rs)} = \left[\frac{\text{3-year average gross operating income of institution}}{\text{Aggregate 3-year average operating income of banks and NBDTIs}}\right] \times \text{Rs1.75 mn} + \left[\frac{\text{3-year average total asset of the institution}}{\text{Aggregate 3-year average total asset of banks and NBDTIs}}\right] \times \text{Rs0.75 mn}$$

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

2.9 MEMORANDUM OF UNDERSTANDING

During the year, the Bank entered into Memorandum of Understanding (MOU) with three other agencies in Mauritius as part of its efforts to strengthen information sharing.

2.9.1 CENTRAL STATISTICS OFFICE

The MOU signed with Central Statistics Office on 4 March 2009 sets out a framework for structured collaboration to promote quality statistics and avoid overlapping and duplication

in the collection and production of statistical information. The purpose of the MOU is also to meet, *inter alia*, international obligations and collaborate in the development and implementation of best practices.

2.9.2 FINANCIAL INTELLIGENCE UNIT

The MOU which was signed on 12 November 2009 sets out the framework for co-operation between the Bank and the Financial Intelligence Unit (FIU) for the sharing of relevant and timely information relating to the detection and prevention of money laundering and terrorist financing. It also aims to ensure that effective regulatory and legal action is taken where appropriate.

2.9.3 MAURITIUS REVENUE AUTHORITY

The Bank and the Mauritius Revenue Authority (MRA) signed an MOU on 31 December 2009 setting out a framework of cooperation. The MOU seeks to promote mutual assistance between the Bank and the MRA in an effort to combat tax evasion, money laundering and terrorist financing. Under the MOU, the Bank and the MRA have agreed to promote co-operation and co-ordination in areas of mutual interest and share information relevant to the exercise of their functions. This sharing of information under the MOU will also enable the Bank to gauge the activities in the real economy.

Annex 2.2: Developments in Banking Laws and related Legislations

A. The Finance (Miscellaneous Provisions) Act 2009

The Finance (Miscellaneous Provisions) Act 2009, which was enacted on 30 July 2009, brought amendments to, *inter alia*, the Banking Act 2004, the Bank of Mauritius Act 2004 and the Financial Intelligence and Anti-Money Laundering Act 2002 as detailed below:

I. Banking Act 2004

1. Section 2 – Interpretation

(a) The definitions of “cash dealer”, “foreign exchange dealer” and money-changer” have been amended by substituting the word “person” by the words “body corporate”.

(b) The definition of “net-owned funds” has been repealed.

2. Section 5 – Application for banking licence

A new subsection (8A) has been added in subsection 8 to enable the Bank to grant an in-principle approval to an applicant for a banking licence where the Bank is satisfied that the applicant is eligible for a licence, based on information or documents submitted to the Bank, other than those specified in subsections (4)(a) and (c).

With the insertion of a new subsection (8A), the existing subsections (8A), (8B) and (8C) are now renumbered as (8B), (8C) and (8D) respectively.

3. Section 12 – Licensing of deposit taking business

A new subsection has been added such that no non-bank deposit taking institution shall, except with the prior written approval of the Bank, be permitted to extend its network of branches or close or keep closed a place of business or change the location of its business.

4. Section 24 – Net-owned funds

The heading has been deleted and replaced by “**Minimum capital requirements”**. Accordingly, subsection (1) has been repealed and replaced by the following subsection:

"Every cash dealer shall, at all times, maintain in Mauritius such amount paid as stated capital as may be approved by the central bank or such higher amount as may be prescribed, after deduction of accumulated losses of the cash dealer".

5. Section 54 – Internal control systems

The requirement for a bank to maintain adequate internal control systems, commensurate with the nature and volume of its activities and various types of risks to which it is exposed has been extended to all financial institutions.

6. Sections 64 – Confidentiality

Under subsections (3)(j) and (k), the duty of confidentiality did not apply where a bank was required to make a report or provide additional information on a suspicious transaction to the FIU, or the bank has been summoned by the Commissioner, under section 45(4) of the Dangerous Drugs Act, to give evidence or produce any record, book, document or other article or to make any disclosure relating to the possessions of a convicted person or his family as specified in that section.

The application of these subsections has been extended to all financial institutions.

7. Section 92 – Priority of deposit and other liabilities in case of winding up of a bank

The provision of this section which applied only to banks has been extended to non-bank deposit taking institutions as well.

II. Bank of Mauritius Act 2004

8. Section 52 – Establishment of a Credit Information Bureau

A new subsection (2C) has been added to give a utility body the power to require any of its customers to provide it with the necessary identification details for the purposes of providing credit information to the Credit Information Bureau.

9. Section 54 – Monetary Policy Committee

With a view to strengthening the Monetary Policy Committee, amendment has been made to its composition by including four external members having recognised experience in the field of economics, banking or finance, instead of three external members.

10. PART IXA – Financial Stability Committee

A new part (Part IXA) has been added to the Act to provide for the establishment of a Financial Stability Committee whose function shall be to regularly review and ensure the soundness and stability of the financial system.

The Committee shall consist of the Minister, who shall be the Chairperson of the Committee, the Governor, the Financial Secretary, and the Chief Executive of the Financial Services Commission established under the Financial Services Act.

III. The Financial Intelligence and Anti-Money Laundering Act 2002

11. Section 2 - Interpretation

The definition of "crime" in paragraph (a) has been repealed and replaced by the following paragraph:

"crime" means an offence punishable by –

(i) penal servitude;
(ii) imprisonment for a term exceeding 10 days;
(iii) a fine exceeding 5,000 rupees;

12. Section 3 – Money laundering

(a) Subsection (2) has been amended by inserting, after the words “money laundering offence” the words “or the financing of terrorism” such that the subsection now reads:

‘A bank, financial institution, cash dealer or member of a relevant profession or occupation that fails to take such measures as are reasonably necessary to ensure that neither it nor any service offered by it, is capable of being used by a person to commit or to facilitate the commission of a money laundering offence or the financing of terrorism shall commit an offence’.

(b) A new subsection (3) has been added that reads as follows:

‘In this Act, reference to concealing or disguising property which is, or in whole or in part, directly or indirectly, represents, the proceeds of any crime, shall include concealing or disguising its true nature, source, location, disposition, movement or ownership of or rights with respect to it’.

13. Section 17 – Other measures to combat money laundering

A new Paragraph (d) has been added to require every bank, financial institution, cash dealer or member of the relevant profession or occupation to put in place appropriate screening procedures to ensure high standards when recruiting employees.

B. Insolvency Act 2009

Further to the recommendation of the latest FSAP Mission to prepare, enact and proclaim the new Insolvency Act, the Insolvency Act 2009 was enacted and came into operation on 1st June 2009 (except Part VI – Cross Border Insolvency). The objective of the new legislation is to amend and consolidate the law relating to insolvency of individuals and companies and the distribution of assets on insolvency and related matters.

Box 1

CAMEL RATING FRAMEWORK

Supervisors use different methods and tools to rate and assess the safety and soundness of a financial institution. CAMEL is one such tool which is used by many supervisory bodies. It is used to rate the performance of the institutions and their compliance with established regulatory requirements on five critical components, namely, Capital Adequacy, Asset Quality, Management, Earnings and Liquidity.

The Bank has been using the CAMEL rating framework for making quarterly assessment of banks' functioning. During the year 2009, the Bank thoroughly reviewed the existing framework and overhauled it completely with a view to making it more reflective of the functioning of a bank. The review exercise was driven largely towards identifying critical sub-parameters for each component and determining the benchmarks for them. There was a felt need to identify specific verifiable aspects to evaluate management performance to facilitate a more objective assessment of a bank's performance.

A supervisory rating like CAMEL should not be confused with the rating given by credit rating agencies although, in the ultimate analysis, they are expected to converge in the overall conclusion. While it is not common for supervisory rating to be made public, the issue is not a matter of reliability of the rating but that of making its methodology more acceptable and transparent.

3 International Developments

3.1 INTRODUCTION

At the 2009 G-20 London Summit, a broad consensus emerged towards the setting up of a Financial Stability Board (FSB) on stronger institutional ground with an expanded membership to take on board countries whose economies had become more systemically important on the international scene to replace the Financial Stability Forum (FSF). The FSB has been vested with a broadened mandate to promote financial stability.

In addition to assessing the vulnerabilities affecting the financial system, identifying and overseeing actions to counter them, the FSB is expected to:

- Monitor and advise on market developments and their implications for regulatory policy;
- Advise on and monitor best practices in meeting regulatory standards;
- Undertake joint strategic reviews of the policy development work of the international standard setting bodies to ensure timeliness of their work in a coordinated manner so that these are focused on priorities and addressing regulatory gaps;
- Set guidelines for and support the establishment of supervisory colleges;
- Set out contingency planning for cross-border crisis management, especially with regard to systemically important firms; and
- Collaborate with the IMF to conduct early warning exercises.

In November 2009, the FSB published a report at the request of the G-20 leaders to develop guidance for national authorities to assess the systemic importance of financial institutions, markets and instruments. The report outlined conceptual and analytical approaches to the assessment of systemic importance and discussed a possible form for general guidelines. Institutions whose failure is likely to be the most disruptive to the system as a whole, would be subject to sterner standards and supervision.

3.2 BASEL COMMITTEE ON BANKING SUPERVISION

The Basel Committee on Banking Supervision (BCBS) released three separate final measures in July 2009 to provide enhanced guidance relative to its Basel II Capital Framework. These measures include:

- Enhancements to the Basel II Framework, which strengthen a variety of requirements under Pillars 1, 2 and 3 of the regulatory framework;
- Revisions to the Basel II Market Risk Framework, which introduce higher capital requirements to capture risk in complex trading activities and a stressed Value-At-Risk measure; and
- Guidelines for Computing Incremental Risk in the Trading Book, which outline guidelines on development and evaluation of incremental risk capital charge models.

These proposed changes are part of the Committee's broader work programme to strengthen bank capital adequacy, risk management and supervision in a fundamental way. It is expected that these enhancements would help in ensuring that risks inherent in banks' portfolios related to trading activities, securitisations and exposures to off-balance sheet vehicles are better reflected in minimum

capital requirements, risk management practices and accompanying disclosures to the public.

3.3 BCBS CONSULTATIVE PAPER – STRENGTHENING THE RESILIENCE OF THE BANKING SECTOR

In December 2009, BCBS issued a consultative paper proposing to strengthen global capital and liquidity regulations to promote a more resilient banking sector.

The proposed reforms contained in the paper are part of the global initiatives to strengthen the financial regulatory system that have been endorsed by the FSB and the G-20 leaders.

The objective of the BCBS reform package is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, and to reduce the risk of spill-over from the financial sector to the real economy.

The Committee also aims to improve risk management and governance as well as strengthen banks' transparency and disclosures. Moreover, the reform package includes the Committee's efforts to strengthen the resolution of systemically significant cross-border banks. Comments on the Consultative Paper will be considered by the BCBS until 16 April 2010.

The main features of the paper are as follows:

- The reforms intend to raise the quality of the regulatory capital base and enhance the risk coverage of the capital framework;
- A global liquidity standard is being introduced, whereby internationally harmonised global liquidity standards will be established. As with the global capital standards, the liquidity standards will set out minimum requirements and will promote an international level playing field to help prevent a competitive race to the bottom; and
- A comprehensive impact assessment of the proposed enhancements to the global capital requirements and the new liquidity standard will also be carried out. The objective is to ensure that the new standards introduce greater resilience of individual banks and the banking sector as a whole in periods of stress, while promoting sound credit and financial intermediation activities.

3.4 SUPERVISORY GUIDANCE FOR ASSESSING BANKS' FINANCIAL INSTRUMENT FAIR VALUE PRACTICES

Given the deleterious consequences of the lack of attention to banks' valuations of complex and illiquid instruments, elaborate discussions have been held and ensuing measures have been taken in the field of risk management and on reporting issues related to bank valuations of such assets. Emphasis is now being placed on the importance of robust risk management and control processes around the measurement of fair values and their reliability, due to the application of fair value accounting to a wider range of financial instruments.

This guidance is applicable to all financial instruments that are measured at fair value, both in normal market conditions and during periods of stress regardless of the financial reporting designation within a fair value hierarchy. While the guidance does not set forth additional accounting requirements beyond those established by the accounting standard setters, it is applicable to all banks relative to the significance and complexity of their fair valued exposures.

The principles of fair valuation seek to promote, among others,

- a strong governance process around valuations;

- the use of reliable inputs and diverse information sources;
- independent verification and validation processes;
- consistency in valuation practices for risk management and reporting purposes; and
- a strong supervisory oversight around bank valuation practices.

The BCBS consultative paper requires supervisors to assess the soundness of banks' valuation practices using the Pillar 2 Supervisory Review Process under the Basel II Framework.

3.5 REPLACEMENT OF IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

Important accounting reforms are being undertaken jointly by the IASB and the US Financial Accounting Standards Board with a view to creating a single set of high quality global accounting standards that will enhance comparability of financial statements drawn under IFRS and US Generally Acceptable Accounting Principles.

In the wake of these reforms, IFRS 9, issued in November 2009 by the IASB, is the first of a three-phased initiative to replace IAS 39. The completion of each phase will result in the incorporation of new chapters in IFRS 9 and the replacement of IAS 39 in its entirety by the IASB is targeted for the end of 2010.

The Chapters of IFRS 9, issued so far, address financial assets only, with mandatory adoption effective 1 January 2013. The standard sets out two categories of financial assets namely Amortised Cost and Fair Value compared to the numerous categories under IAS 39. In broad terms, financial assets measured at Amortised Cost will reflect a business model whose objective is to hold assets in order to collect contractual cash flows that are solely payments of principal and interest. On the other hand, the Fair Value category reflects a model which aims at selling the instruments before their contractual maturities to realize their fair value changes.

The Bank is closely following the developments on the regulatory and supervisory framework. Consistent with its approach of adopting best international practices for the financial institutions under its jurisdiction, the Bank will bring all necessary amendments to relative guidelines on their formal adoption by the international standard setting bodies concerned.

4 A Review of the Performance of Banks

4.1 INTRODUCTION

As at end-June 2009, the banking sector comprised 18 banks licensed to carry on banking business in Mauritius, of which 6 were local banks, 7 were subsidiaries of foreign banks and 5 were branches of international banks.

The number of banks operating in Mauritius has decreased by one since 30 June 2008 following the merger of Indian Ocean International Bank Limited with SBI International (Mauritius) Ltd in October 2008 to form a single entity named SBI (Mauritius) Ltd.

During the year ended 30 June 2009, the banking sector was dominated by five banks sharing 65.4 per cent of total assets.

Although the international operations of banks were adversely affected by the global economic crisis, the sector churned in a positive performance due to the domestic segment. In fact, the banking sector witnessed a smaller growth in total on-balance sheet assets of 1.9 per cent during the year 2008-09 as compared to 16.9 per cent a year earlier.

4.2 PERFORMANCE OF BANKS

4.2.1 CAPITAL ADEQUACY

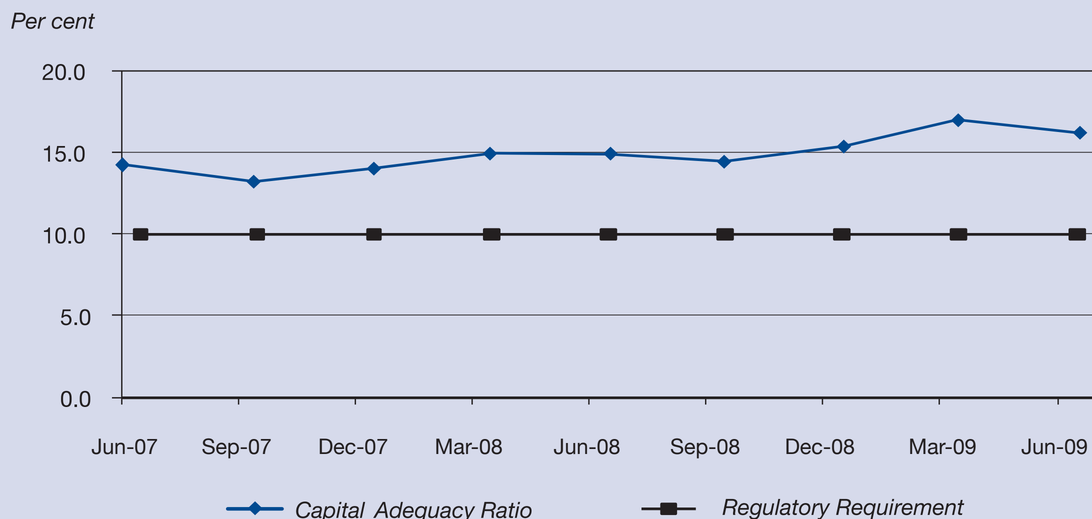
Capital adequacy ratio is the measure of the adequacy of a bank's capital resources in relation to its risk-weighted assets. It is based on the concept of weighing the on and off-balance sheet exposures according to the perceived level of risks and, ultimately, measuring the capital base against total risk-weighted assets.

Banks in Mauritius are required to maintain, at all times, a minimum capital adequacy ratio of 10 per cent. However, branches of foreign banks are not required to maintain regulatory capital for operations conducted outside Mauritius (Segment B Operations).

At end-June 2009, the capital adequacy ratio maintained by banks ranged from 10.7 per cent to 101.7 per cent.

Chart 1 shows the risk-weighted capital adequacy ratio maintained by the banking

Chart 1 : Capital Adequacy Ratio against Regulatory Requirement



sector on a quarterly basis from end-June 2007 to end-June 2009. The ratio increased from 15.2 per cent at end-June 2008 to 16.1 per cent at end-June 2009 and was mainly attributed to a higher growth of 29.7 per cent in the aggregate capital base of banks, compared to a growth of 22.1 per cent registered in total risk-weighted assets.

4.2.1.1 Capital Base

Table 1 shows the risk-weighted capital adequacy ratio maintained by banks on a quarterly basis from end-June 2008 to end-June 2009 together with the components of capital and risk-weighted assets.

Banks' aggregate gross capital increased by Rs13,957 million or 29.2 per cent from Rs47,861 million at end-June 2008 to Rs61,818 million at end-June 2009. During the year under review, tier 1 capital grew by Rs11,643 million or 28.9 per cent, from Rs40,220 million to Rs51,863 million and represented 83.9 per cent of gross capital at end-June 2009. The increase was due to the fact that banks retained a higher proportion of their profits (retained earnings) to sustain their operations.

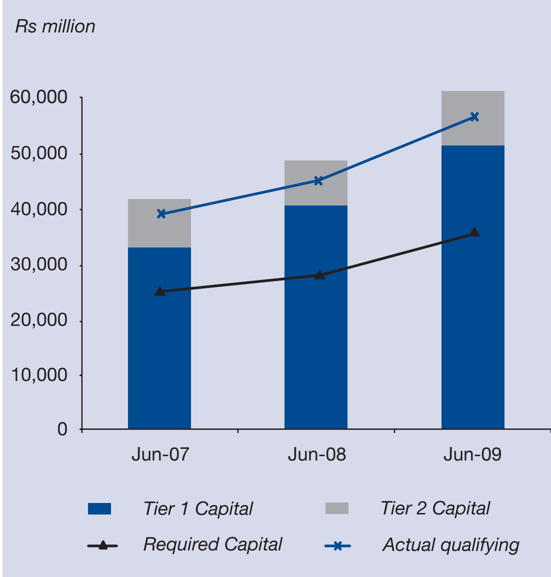
Tier 2 capital, representing 16.1 per cent of gross capital at end-June 2009, expanded by 30.3 per cent, from Rs7,641 million to Rs9,955 million. Subordinated debt accounted for Rs3,863 million of the total tier 2 capital at end-June 2009.

Chart 2 illustrates the evolution of capital base and its components in terms of tier 1 and tier 2 capital at the end of June 2007, June 2008 and June 2009. As may be noted therefrom, the increasing trend in the buffer of capital (the difference between the minimum required capital and the actual capital) was maintained. This buffer provides the banking system with the resilience to deal with crisis situations and reflects the strong risk management practices of banks. A higher proportion of tier 1 capital also indicates greater permanence in the capital base.

Table 1: Risk-Weighted Capital Adequacy Ratio

	(Rs million)				
As at end of period	**Jun-08**	**Sep-08**	**Dec-08**	**Mar-09**	**Jun-09**
Tier 1 capital	40,220	41,153	45,925	54,121	51,863
Tier 2 capital	7,641	7,708	9,573	9,520	9,955
Total Gross Capital	**47,861**	**48,861**	**55,498**	**63,641**	**61,818**
Deductions	3,218	3,827	4,154	3,954	3,907
Total Net Capital (A)	**44,643**	**45,034**	**51,344**	**59,687**	**57,911**
Total Risk-Weighted Assets (B)	**294,345**	**305,945**	**335,748**	**350,190**	**359,541**
Risk-weighted on-balance sheet assets	*249,604*	*260,917*	*285,247*	*295,737*	*299,776*
Risk-weighted off-balance sheet assets	*20,274*	*21,097*	*24,002*	*26,014*	*28,403*
Foreign exchange rate and interest rate related contracts	*503*	*409*	*436*	*1,225*	*2,282*
Foreign exchange exposure	*891*	*232*	*1,739*	*1,565*	*1,837*
Risk-weighted assets for operational risk	*23,073*	*23,290*	*24,324*	*25,649*	*27,243*
Capital Adequacy Ratio (A/B)	**15.2%**	**14.7%**	**15.3%**	**17.0%**	**16.1%**

Chart 2: Minimum Required Capital v/s Actual Capital



4.2.1.2 *Risk Profile of On and Off-Balance Sheet Assets*

Total on-balance sheet assets of banks increased from Rs542,603 million at end-June 2008 to Rs613,262 million at end-June 2009, representing a growth of 13.0 per cent while the corresponding total risk-weighted on-balance sheet assets grew by 20.1 per cent from Rs249,604 million to Rs299,776 million. This growth can be partly explained by the impact of moving to Basel II framework for credit risk, which envisages certain assets in the 20 per cent risk bucket under Basel I to be classified under the 50 per cent and 100 per cent risk buckets.

Table 2 shows the comparative movements in the riskiness of banks' total on-balance sheet assets at end-June 2008 and end-June 2009. It may be observed that there has been a shift in the risk profile of assets maintained by banks from 20 per cent risk-weight to those in the 50 per cent and 100 per cent bands. The proportion of assets in the 50 per cent risk-weight went up from 3.5 per cent to 8.2 per cent while those in the 100 per cent risk band went up from 36.1 per cent to 39.8 per cent. On the other hand, assets held in 20 per cent risk-bucket plummeted from 41.0 per cent to 23.6 per cent. Assets held in the zero per cent risk-weight bucket represented 20.5 per cent of total on-balance sheet assets at end-June 2009 as against 19.3 per cent at end-June 2008. The three new risk-weight buckets of 35 per cent, 75 per cent and 150 per cent accounted for 3.1 per cent, 3.7 per cent and 1.1 per cent, respectively, of total on-balance sheet assets at end-June 2009.

Table 2 : 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 2008**		**June 2009**	
0	104,912	19.3	125,801	20.5
10	787	0.1	-	-
20	222,550	41.0	144,727	23.6
35	-	-	19,197	3.1
50	18,678	3.5	50,020	8.2
75	-	-	22,776	3.7
100	195,676	36.1	243,775	39.8
150	-	-	6,966	1.1
	542,603	**100.0**	**613,262**	**100.0**

Table 3 sets out a comparison of the total on and off-balance sheet assets of banks with their corresponding risk-weighted values and their average combined risk weighting over the period ended June 2007 to June 2009.

While four banks experienced a contraction in their total assets in the year ended 30 June 2008, the number of such banks rose to six in the year under review. The remaining 12 banks recorded increases ranging from 1.1 per cent to 97.0 per cent in their total assets. The contraction in total assets recorded by the six banks varied between 2.9 per cent and 34.7 per cent mainly due to reduction in their cross-border activities.

Table 3: Total On and Off-Balance Sheet Assets of Banks, Equivalent Risk-Weighted Assets and Average Combined Risk Weighting

		June 2007	June 2008	June 2009
A	Total On-Balance Sheet Assets (Rs million)	466,177	542,603	613,262
B	Total Off-Balance Sheet Assets (Rs million)	106,068	104,044	226,111
C	Total On and Off-Balance Sheet Assets (A+B) (Rs million)	572,245	646,647	839,373
D	Total Risk-Weighted Assets (Rs million	266,722	294,345	359,541
E	Average Combined Risk Weighting (D/C) (Per Cent)	46.6	45.5	42.8

Total on and off-balance sheet assets of banks grew from Rs646,647 million at end-June 2008 to Rs839,373 million at end-June 2009, or by 29.8 per cent. This was driven mainly by an increase of 117.3 per cent or Rs122,067 million in off-balance sheet assets as compared to an increase of 13.0 per cent or Rs70,659 million in on-balance sheet assets during the period 2008-09. The end result was a decline in combined risk weighting from 45.5 per cent to 42.8 per cent during the period under review since the increase in off-balance assets, when translated into their credit equivalent amounts, had lower impact on the total risk-weighted assets.

Acceptances, guarantees and documentary credits, which form part of off-balance sheet assets, stood at Rs52,679 million at end-June 2009, down from Rs53,908 million in the previous year, thus registering a decline of 2.3 per cent. This decline is partly explained by a low level of international trade and lower non-fund-based facilities granted to the IRS sector as a result of the global economic crisis.

4.2.2 ASSET QUALITY

Asset quality impacts on many facets of a bank's operation and is a critical factor in the assessment of the soundness of a bank. A high asset quality generally reflects in the liquidity, profitability and the overall financial strength of a bank.

Total assets of banks stood at Rs743,259 million at end-June 2009 as against Rs729,282 million at end-June 2008, registering a rather insignificant growth of 1.9 per cent. This growth was mainly facilitated by increase in deposits and borrowings in the domestic market.

4.2.2.1 Advances

Total advances including debentures and fixed dated securities increased by Rs37,408 million, or 10.0 per cent, from Rs372,484 million at end-June 2008 to Rs409,892 million at end-June 2009, compared to a rise of 21.0 per cent in the preceding fiscal year. Total advances at end-June 2009 represented 74.8 per cent and 55.1 per cent of total deposits and total assets, respectively. The corresponding ratios at end-June 2008 were 69.4 per cent and 51.1 per cent, respectively.

Loans and other financing in foreign currencies outside Mauritius stood at Rs185,545 million at end-June 2009 and represented 45.3 per cent of total advances. Loans and overdrafts in Mauritian rupees amounted to Rs138,798 million, or 33.9 per cent of total advances, while loans and other financing in foreign currencies in Mauritius amounted to Rs50,287 million or 12.3 per cent of total advances. The remaining facilities consisted mainly of local and foreign bills purchased and discounted and other fixed dated securities.

4.2.2.2 Concentration of Risks

Credit risk concentration is one of the major risk for banks in Mauritius. It refers to the risk of loss attributed to the magnitude of a bank's exposure to a single entity and its related parties, industry sectors, and entities dependent on single commodities. During the year under review, the Bank issued a new Guideline on Credit Concentration Risk, wherein, the Bank ceased to give individual approvals on a case by case basis for credit in excess of the regulatory limit.

This Guideline 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 credit to similar or single risk entities. Moreover, the guideline sets new regulatory limits with respect to credit to individuals or groups of customers that are classified as single risk entities as the failure of one entity is likely to impact on the viability of any other related entities.

While all banks were previously subject to an aggregate exposure limit of 600 per cent of their capital base, the current Guideline has set various limits for banking entities, depending on whether they are domestically owned, subsidiaries or branches of foreign owned banks. This differentiated treatment is applicable only to exposures in foreign currency.

With the new Guideline, banks now have the possibility of reckoning a host of instruments as set-off in their computation of their large exposure limit. In computing the credit concentration ratio, all large exposures falling below 15 per cent of the bank's capital base after set off are exempted, while those exceeding this threshold after set off which are considered as non exempted facilities, are taken into account.

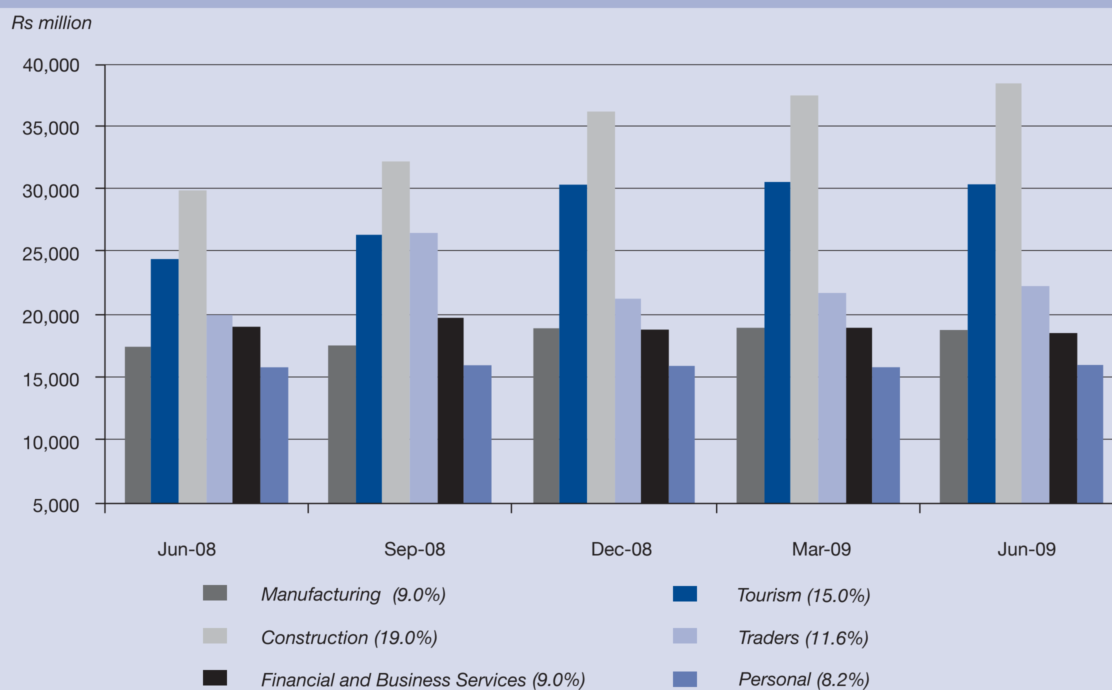
At end-June 2009, total non exempted large exposures for the banking sector amounted to Rs121,450 million and represented 26 per cent of the total fund and non fund based facilities extended by the banking sector. The aggregate large exposures to borrowers represented 210 per cent of the capital base of the banking sector at end-June 2009 as compared to 427 per cent at end-June 2008 under the previous guideline.

4.2.2.3 Sectorwise Distribution of Credit to the Private Sector in Mauritius

Banks are also exposed to sectoral credit concentration, which shows exposure of banks to specific sectors of the economy. Chart 3 shows the sectorwise distribution of credit to the private sector for the five quarters ended June 2008 through June 2009. The 'construction' sector accounted for the highest share with 19.0 per cent of total credit to the private sector at end-June 2009, followed by 'tourism' with 15.0 per cent. The comparative figures at end-June 2008 were 17.9 per cent and 14.4 per cent, respectively. As a share of total credit to the private sector, the exposures of banks to the "personal' and 'traders' sectors stood at to 8.2 per cent and 11.6 per cent, respectively at end-June 2009 compared to 9.5 per cent and 12.0 per cent in the previous year.

Figures in brackets are percentages of total credit to private sector as at 30 June 2009.

Chart 3: Sectorwise Distribution of Credit to Private Sector



Figures in brackets are percentages of total credit to private sector as at 30 June 2009.

4.2.2.4 Non-Performing Advances and Provisioning

Total non-performing advances that is impaired credits of banks rose by Rs1,197 million, or 13.8 per cent, from Rs8,667 million at end-June 2008 to Rs9,864 million at end-June 2009 with total impaired credit in and outside Mauritius accounting for 51.0 per cent and 49.0 per cent, respectively, of this incremental amount. Impaired credit on facilities extended outside Mauritius rose by a marked 46.3 per cent during the period under review due to the global financial crisis, while impaired credit on facilities extended in Mauritius grew by 8.2 per cent. Nonetheless, the ratio of non-performing advances to total advances, remained around 2.4 per cent.

Specific provisions for loan losses made by banks decreased by Rs463 million or 9.6 per cent, from Rs4,826 million at end-June 2008 to Rs4,363 million at end-June 2009, as mitigation against credit losses were resorted to in some cases. The ratio of specific provisions to non-performing advances (cover ratio) decreased from 55.7 per cent at end-June 2008 to 44.2 per cent at end-June 2009. Specific provisions made on the impaired accounts on the facilities extended outside Mauritius also decreased from Rs829 million to Rs345 million. On the other hand, provision on portfolio assessed advances grew from Rs1,224 million as at end-June 2008 to Rs1,981 million as at end-June 2009. In addition to the portfolio provisions, banks have set up a General Banking Reserve, which is a general provision made by way of appropriation of profits.

4.2.3 PROFITABILITY

The consolidated profitability figures are based on the audited results of banks operating during 2008-09 covering financial years ended 31 December 2008, 31 March 2009 and 30 June 2009. Banks realised an overall pre-tax profit of Rs13,963 million in 2008-09 compared to Rs12,640 million in 2007-08.

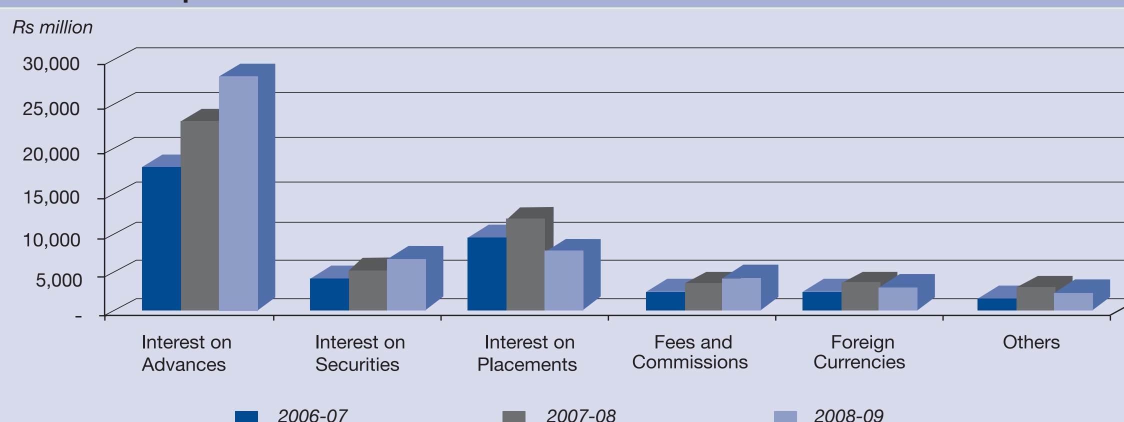
Table 4 below shows the consolidated profit and loss account of the banking sector for the past three years.

Table 4: Consolidated Profit and Loss Account

	2006-07	2007-08*	2008-09
		Rs million	
Interest Income	**33,244**	**41,872**	**41,990**
Interest Income from Advances	*18,796*	*23,775*	*28,568*
Interest on Securities	*4,028*	*5,252*	*5,883*
Interest on Placements and Loans to banks	*9,938*	*12,405*	*6,823*
Others	*482*	*440*	*716*
Interest Expense	**21,824**	**28,176**	**25,113**
Interest Expense on Deposits	*15,756*	*20,274*	*18,161*
Interest on Borrowings from banks	*5,084*	*7,000*	*5,773*
Others	*984*	*902*	*1,179*
Net Interest Income	**11,420**	**13,696**	**16,877**
Non-interest Income	**5,749**	**7,828**	**7,735**
Fee Income and Commission	*2,524*	*2,778*	*3,220*
Profit arising from dealing in foreign currencies	*2,267*	*3,288*	*3,118*
Others	*958*	*1,762*	*1,397*
Operating Income	**17,169**	**21,524**	**24,612**
Staff & Operating Costs	**6,043**	**7,752**	**8,931**
Staff Costs	*2,790*	*3,617*	*4,598*
Other Operating Expenses	*3,253*	*4,135*	*4,333*
Operating Profit before provisions & taxes	**11,126**	**13,772**	**15,681**
Provision and adjustments to income for credit losses	*708*	*1,132*	*1,748*
Operating Profit after provisions and taxes	**10,418**	**12,640**	**13,933**
Share of profits in subsidiaries and associates	*-*	*-*	*-*
Exceptional Items	*(20)*	*-*	*30*
Profit before tax	**10,398**	**12,640**	**13,963**
Provision for income taxes/ (credit)	*1,150*	*1,289*	*1,350*
Profit after tax	**9,248**	**11,351**	**12,613**

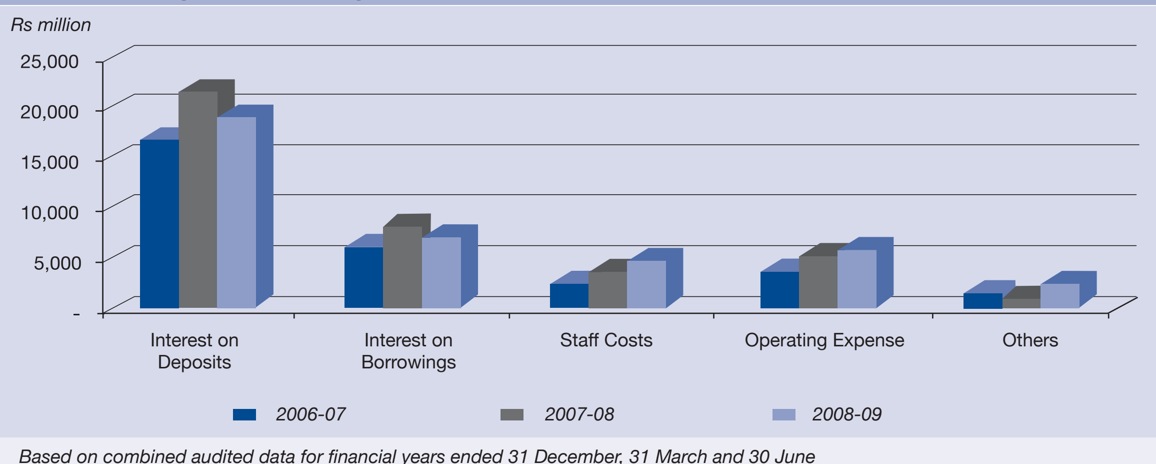
** Figures for 2007-08 have been revised*

Chart 4: Components of Income



Based on combined audited data for financial years ended 31 December, 31 March and 30 June

Chart 5: Components of Expenses



Based on combined audited data for financial years ended 31 December, 31 March and 30 June

4.2.3.1 Income

Chart 4 gives a comparison of the main components of income for the periods 2006-07, 2007-08 and 2008-09. Total income of banks increased by Rs25 million or 0.1 per cent from Rs49,700 million in 2007-08 to Rs49,725 million in 2008-09. Interest income from advances, securities and placements continued to be the main sources of income for banks accounting on average for 84.6 per cent of their total income through the years 2006-07 to 2008-09.

During 2008-09, interest income recorded a marginal growth of 0.3 per cent compared to 26.0 per cent in 2007-08. Non-interest income registered a slight decline of 1.2 per cent to Rs7,735 million in 2008-09 compared to a growth of 36.2 per cent in 2007-08.

Table 5: Growth in Interest Income and Non-Interest Income

	2006-07	2007-08	2008-09
Growth in Interest Income *(per cent)*	45.7	26.0	0.3
Growth in Non-Interest Income *(per cent)*	33.4	36.2	(1.2)

Total interest income rose from Rs41,872 million in 2007-08 to Rs41,990 million in 2008-09. Interest earned from loans and advances increased by Rs4,793 million to reach Rs28,568 million in 2008-09 and represented 68.0 per cent of total interest income compared to 56.8 per cent in 2007-08. Likewise, interest earned on securities increased by Rs631 million, reaching Rs5,883 million in 2008-09 as compared to Rs5,252 million in 2007-08 while interest income from placements and loans to banks declined by 45.0 per cent or Rs5,582 million to reach Rs6,823 million in 2008-09. Table 6 indicates the growth rate of the interest income during the financial years 2007-08 and 2008-09.

Table 6: Growth in Interest on Advances, Interest on Securities, Placements and Other Interest Income

	2007-08	2008-09
Growth in Interest on Advances *(per cent)*	26.5	20.2
Growth in Interest on Securities *(per cent)*	30.4	12.0
Growth in interest income from Placements and Loans to banks *(per cent)*	24.8	(45.0)

4.2.3.2 Interest Expense

Chart 5 gives a comparison of the main components of expenses for the periods 2006-07, 2007-08 and 2008-09. Total interest expense, comprising mainly of interest paid on deposits and borrowings from other banks and

financial institutions, stood at Rs25,113 million during 2008-09, declining by Rs3,063 million or 10.9 per cent over the previous year. The decrease of Rs2,113 million in interest paid on deposits or a decline of 10.4 per cent in 2008-09 was due to falling interest rates worldwide despite a marginal increase in deposits. The fall in interest rates also impacted positively on the cost of borrowings, which declined by Rs1,227 million or 17.5 per cent and constituted 23.0 per cent of total interest expense of banks during 2008-09.

Table 7 shows that both interest earned on Rs100 of advances and cost per Rs100 of deposits went down by Rs1.15 and Rs1.28, respectively. Consequently, the interest spread rose from Rs3.92 to Rs4.05.

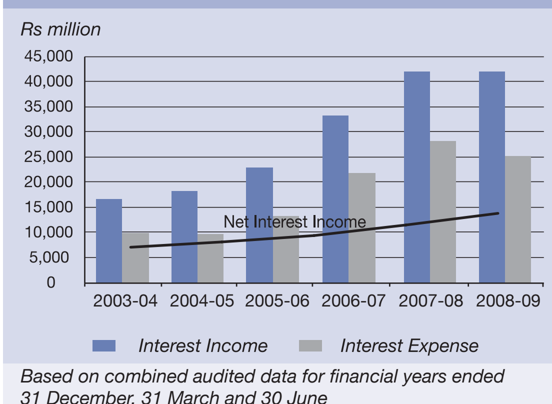
Table 7: Interest Spread

	2006-07	2007-08	2008-09
Interest Earned on Rs100 of Advances	8.31	8.46	7.31
Cost per Rs100 of Deposits	4.09	4.54	3.26
Interest Spread	4.22	3.92	4.05

4.2.3.3 Net Interest Income

Net interest income increased by Rs3,181 million or 23.2 per cent to reach Rs16,877 million in 2008-09, from Rs13,696 million in 2007-08. Chart 6 shows the trend in net interest income for banks from 2003-04 through to 2008-09.

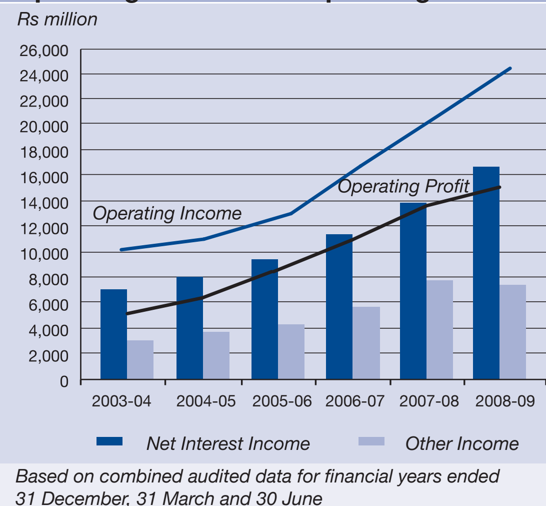
Chart 6: Trend in Net Interest Income



Based on combined audited data for financial years ended 31 December, 31 March and 30 June

Chart 7 shows the evolution of net interest income, other income, operating income and operating profit during the periods 2003-04 through to 2008-09.

Chart 7: Net Interest Income, Other Income, Operating Income and Operating Profit



Based on combined audited data for financial years ended 31 December, 31 March and 30 June

4.2.3.4 Non-Interest Income

Although non-interest income decreased by Rs93 million to reach Rs7,735 million in 2008-09 from Rs7,828 million in 2007-08, non-core activities of banks remained an important source of revenue. Income arising from fees and commissions and profits from dealing in foreign currencies contributed 77.5 per cent and 81.9 per cent of total non-interest related revenue in 2007-08 and 2008-09, respectively. During the year under review, fee-related income grew by 15.9 per cent while profit arising from dealing in foreign currencies declined by 5.2 per cent.

4.2.3.5 Non-Interest Expenses

Non-interest expenses consisting of staff costs and other operating expenses increased by 15.2 per cent from Rs7,752 million in 2007-08 to Rs8,931 million in 2008-09 as compared to an increase of 28.3 per cent recorded in 2007-08. While employment in the banking sector increased slightly by 5.1 per cent from 6,092 to 6,404 employees, staff costs rose by 27.1 per cent in 2008-09. Other operating expenses increased by 4.8 per cent to reach Rs4,333 million in 2008-09.

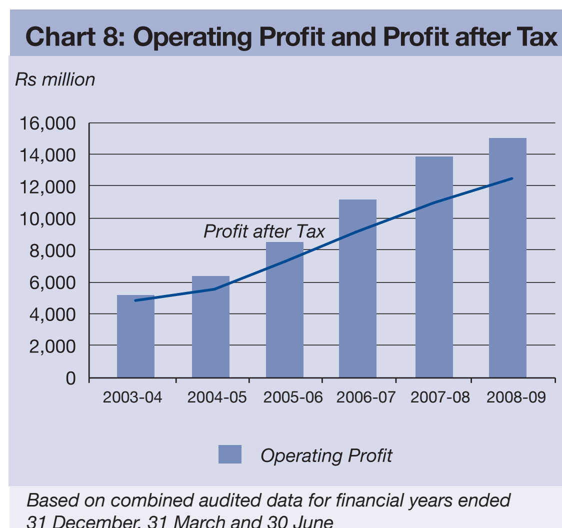
The cost to income ratio of the banking sector stood at 36.2 per cent in 2008-09 slightly higher than 36.0 per cent recorded in 2007-08.

4.2.3.6 Operating Profit

During 2008-09, banks realised operating profit of Rs15,681 million before providing for bad and doubtful debts, that is, an increase of Rs1,909 million or 13.9 per cent as compared to an increase of Rs2,646 million or 23.8 per cent recorded in the previous year.

Profit before tax achieved by banks in 2008-09 reached Rs13,963 million, that is, 10.5 per cent higher than the pre-tax profit of Rs12,640 million realised in 2007-08. Chart 8 depicts the evolution of banks' operating profit and profit after tax for the years 2003-04 through to 2008-09.

Chart 8: Operating Profit and Profit after Tax



Based on combined audited data for financial years ended 31 December, 31 March and 30 June

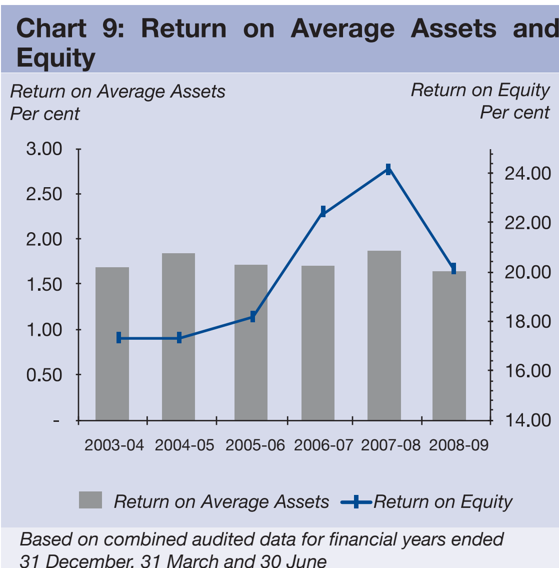
4.2.3.7 Return on Average Assets and Equity

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

The pre-tax return on average assets decreased from 1.9 per cent in 2007-08 to 1.7 per cent in 2008-09. The pre-tax return on average assets of individual banks ranged from negative 2.4 per cent to positive 2.9 per cent in 2008-09. With the exception of one bank, all banks recorded a positive return on average assets in 2008-09. Three banks achieved a pre-tax return on average assets of over 2.0 per cent in 2008-09 as compared to six banks in 2007-08.

Chart 9 shows the return on average assets and equity over the period 2003-04 to 2008-09.

Chart 9: Return on Average Assets and Equity



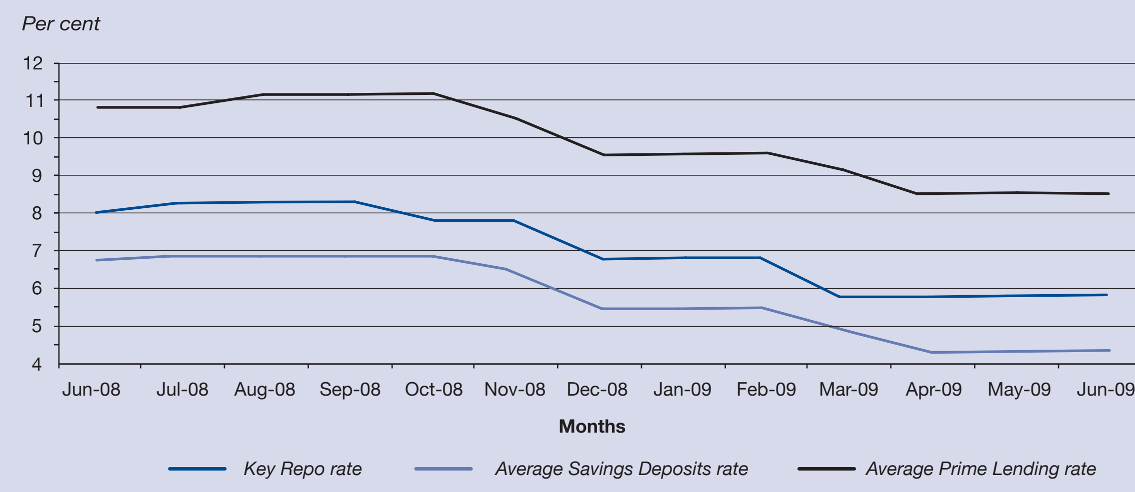
Based on combined audited data for financial years ended 31 December, 31 March and 30 June

The post-tax return on equity went down from 24.1 per cent in 2007-08 to 20.2 per cent in 2008-09. Bank-wise, the post-tax return on equity ranged from negative 22.5 per cent to positive 41.1 per cent in 2008-09, with three banks achieving a return on equity of over 30 per cent. One bank recorded a negative return on equity.

4.2.4 LIQUID ASSETS

Investment in Treasury Bills, other Government securities and Bank of Mauritius Bills, which represents the most easily convertible non-cash liquid assets, decreased by Rs3,398 million or 5.5 per cent, from Rs61,746 million at end-June 2008 to Rs58,348 million at end-June 2009. The share of these investments in banks' total assets decreased from 8.5 per cent at end-June 2008 to 7.9 per cent at end-June 2009.

Chart 10: Movement of Interest Rates



The overall average weighted yield on Treasury Bills and Bank of Mauritius Bills went down significantly from 7.4 per cent in June 2008 to 4.7 per cent in June 2009.

4.2.5 INTEREST RATES

The Bank of Mauritius uses the key repo rate (as the key policy rate) to signal changes in its monetary policy stance. During the period under review, the key repo rate was reduced from 8.0 per cent in June 2008 to 5.75 per cent in June 2009. As may be seen from Chart 10, the banking sector followed the trend by adjusting the prime lending rate as well as the savings deposits rate.

4.2.6 DEPOSITS

Deposits continued to be the principal source of funding and constituted the highest share of total liabilities. The share of deposits in total liabilities increased marginally from 73.6 per cent at end-June 2008 to 73.7 per cent at end-June 2009. During the year under review, total deposits grew by 2.0 per cent to reach Rs547,763 million, from Rs537,077 million at end-June 2008. Foreign currency deposits accounted for 64.1 per cent of total deposits at end-June 2009 as compared to 67.4 per cent at end-June 2008. Demand, savings and time deposits accounted for 32.5 per cent, 18.8 per cent and 48.7 per cent of the total deposits, respectively. The corresponding ratios for 2008 were 26.2 per cent, 16.8 per cent and 56.9 per cent. The decline in the share of time deposits is partly reflected in depositors' uncertainty on future interest rates movements.

4.2.7 ADVANCES TO DEPOSITS RATIO

The advances to deposits ratio, which indicates the extent to which funds mobilized by way of deposits have been utilised to finance lending activities, went up from 66.3 per cent at end-June 2008 to 74.8 per cent at end-June 2009. This ratio stood at 72.4 per cent for Segment A activities and 76.8 per cent for Segment B activities at end-June 2009 as against 70.6 per cent and 63.6 per cent respectively at end-June 2008.

4.2.8 ELECTRONIC BANKING

The number of banks providing electronic banking services stood at twelve as at 30 June 2009. Electronic banking is becoming increasingly popular as transactions can be carried out faster, and in a safe and secured manner. The average monthly number of transactions during the year increased from 3.6 million in 2007-08 to 3.8 million in 2008-09.

The number of Automated Teller Machines (ATMs) in operation in Mauritius and Rodrigues decreased by 13, from 382 at end-June 2008 to 369 at end-June 2009. However, banks have relocated a few of the ATMs with a view to increasing access. Moreover, the total number of credit and debit cards in circulation increased from 1,096,368 at end-June 2008 to 1,207,011 at end-June 2009.

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 Rs6,622 million for 2007-08 to Rs7,345 million for 2008-09, thus registering a growth of 10.9 per cent. Outstanding advances granted on credit cards stood at Rs1,503 million at end-June 2009 with the monthly average credit per card increasing from Rs7,532 in 2007-08 to Rs8,152 in 2008-09.

Table 8 provides a summary of the evolution of electronic banking transactions for the quarters ended June 2008 through to June 2009.

Internet Banking is also becoming increasingly popular in the country due to its cost effectiveness and convenience. Many customers are having recourse to this service to carry out their banking transactions. As a result, the number of internet banking customers has increased significantly from 52,735 at end-June 2008 to 82,611 at end-June 2009 with the total value of internet banking transactions amounting to Rs 80,989 million at end June 2009 as compared to Rs20,927 million at end-June 2008. On the other hand, the number of customers availing of phone banking facilities decreased from 43,211 at end-June 2008 to 40,779 at end-June 2009 with the total number of transactions going down from 749 to 450 over the same period. Consequently, the amount of transactions went down from Rs31.5 million at end June 2008 to Rs21.7 million at end-June 2009, indicating that phone banking customers are shifting gradually to internet banking.

Table 8: Electronic Banking Transactions from June 2008 to June 2009

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Number of ATMs in operation at end of quarter	382	384	364	367	369
Monthly average number of transactions for the quarter	3,575,379	3,708,753	4,164,035	3,652,627	3,749,105
Monthly average value of transactions* for the quarter *(Rs million)*	6,442	6,917	8,527	6,990	6,945
Number of Credit Cards in circulation at end of quarter	180,185	186,234	184,451	192,166	191,094
Number of Debit Cards in circulation at end of quarter	916,183	946,670	977,936	993,810	1,015,917
Total Number of Cards in circulation at end of quarter	1,096,368	1,132,904	1,162,387	1,185,976	1,207,011
Outstanding Advances on Credit Cards at end of quarter *(Rs million)*	1,413	1,461	1,547	1,464	1,503

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

Box 2

BANKS' FEES, CHARGES AND COMMISSIONS

The primary role of banks is to act as intermediaries between savers and borrowers. In so doing, they derive their prime source of earnings from the net interest income, i.e., income earned on advances, investments and claims on other banks, less expenses incurred on deposits and borrowings from other banks. However, with the growing importance of non-conventional financial products in banks' balance sheets, their non-interest income component has increased significantly world-wide.

The Commission of the European Communities, the Financial Services Authority of United Kingdom and various other international bodies have conducted in-depth surveys assessing the degree of fairness that banks have been generally applying in their dealings with customers. The studies revealed that retail financial services constitute an area where consumers face major problems especially with regard to transparency in the dissemination of relevant and meaningful information to customers, such as availability of tariffs on banks' websites, their visibility and clarity.

Generally the pricing methodology of banks is based on the intensity of technology driven services, charges applied by peer banks, level of competition in the financial sector and deterrent charges levied to keep unwanted customers at bay.

Pre-contractual information is one of the key instruments for facilitating customer decision-making when buying financial services. They are thus made aware of product features such as interest rates, expected returns, risks and costs involved, that can help them to look for the best deals. When information provided by banks is comprehensible, adequate and offers meaningful comparisons of the fee structure in a particular jurisdiction, consumers are empowered to take more informed decisions in their choice of financial products.

Thus, it can be said that transparency of fees, charges and commissions acts as the bedrock to foster healthy competition among banks as well as establishing fairness for the benefit of customers.

In order to render bank fees and charges more transparent, different approaches can be adopted by jurisdictions, i.e., directed or regulated fee structures, or providing an enabling platform for customers to make informed decisions.

The Banking Act 2004 requires financial institutions to display their fees and charges. However, in the absence of a standard template, a meaningful comparison of charges across the sector was rendered difficult. In the spirit of deregulation of the financial sector in Mauritius, the Bank chose to adopt a non-intrusive approach in regard to achieving the objective of fostering a regime of reasonable bank charges by making it obligatory for banks to display on their websites the fee structure for standard banking services in a template prescribed by the Bank. The relative web-pages of banks were also linked to the Bank's website to provide a single window for access to this information. This is intended to address constraints caused by imperfections in information dissemination and thus facilitate better price discovery.

5 A Review of Performance of Non-Bank Deposit Taking Institutions

5.1 INTRODUCTION

On 30 June 2009, there were thirteen non-bank deposit taking institutions (NBDTIs) in operation in Mauritius. Out of the thirteen NBDTIs, ten were involved in leasing activities, two in lending business and one carrying out both leasing and lending operations. Eight NBDTIs engaged in leasing business were subsidiaries/ related companies of banking institutions and insurance companies.

With the promulgation of section 12(5) of the Banking Act 2004 in June 2007, NBDTIs are subject to the same prudential regulations as banks. As such, over and above maintaining a minimum capital of Rs200 million, they also have to comply with the guidelines on Credit Concentration Risk and on Related Party Transactions. Furthermore, with effect from 1 October 2009, they also have to comply with the Guidelines on Capital Adequacy Ratio (CAR) for NBDTIs by maintaining a minimum CAR of 10 per cent. As at end of 2009, one NBDTI was yet to meet the minimum required capital of Rs200 million.

5.2 PERFORMANCE OF NBDTIs

5.2.1 BALANCE SHEET STRUCTURE

During the year 2008-09, the assets of NBDTIs grew by 16.6 per cent, from Rs36,954 million at end-June 2008 to Rs43,096 million at end-June 2009. During the period under review, six NBDTIs registered a drop in their total assets in the range of 0.1 per cent to 6.9 per cent while the remaining NBDTIs registered growth in the range of 0.9 per cent to 81.5 per cent.

Charts 11a and 11b illustrate the composition of assets and liabilities of NBDTIs at end-June 2008 and 2009. The share of loans to total assets went up from 42 per cent in 2008 to 45 per cent in 2009, whereas the share of investment in finance leases to total assets contracted by 3 per cent from 32 per cent to 29 per cent.

5.2.2 DEPOSITS

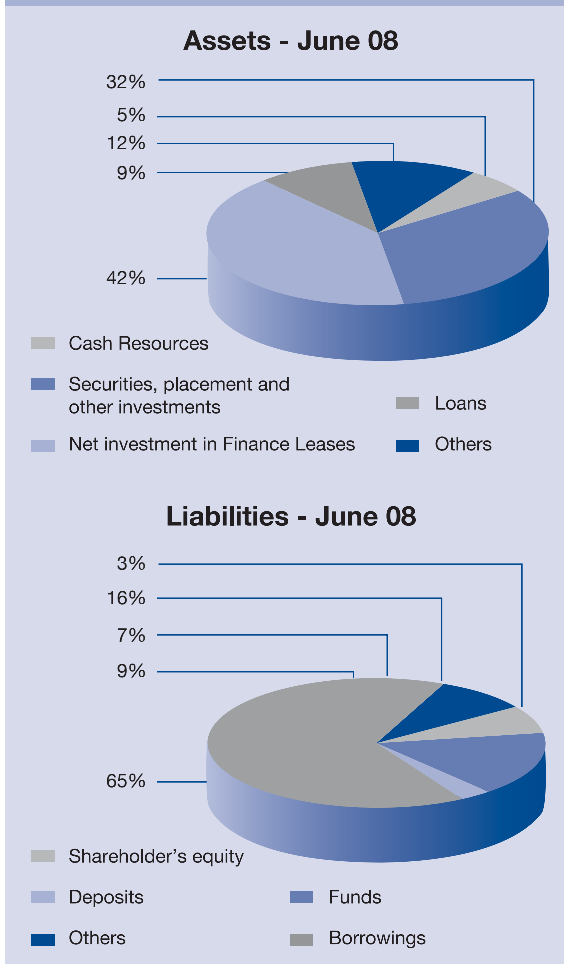
Deposits accounted for the highest share of the NBDTIs liabilities. During the year under review, deposits grew by 10.4 per cent, from Rs24,014 million to Rs26,516 million.

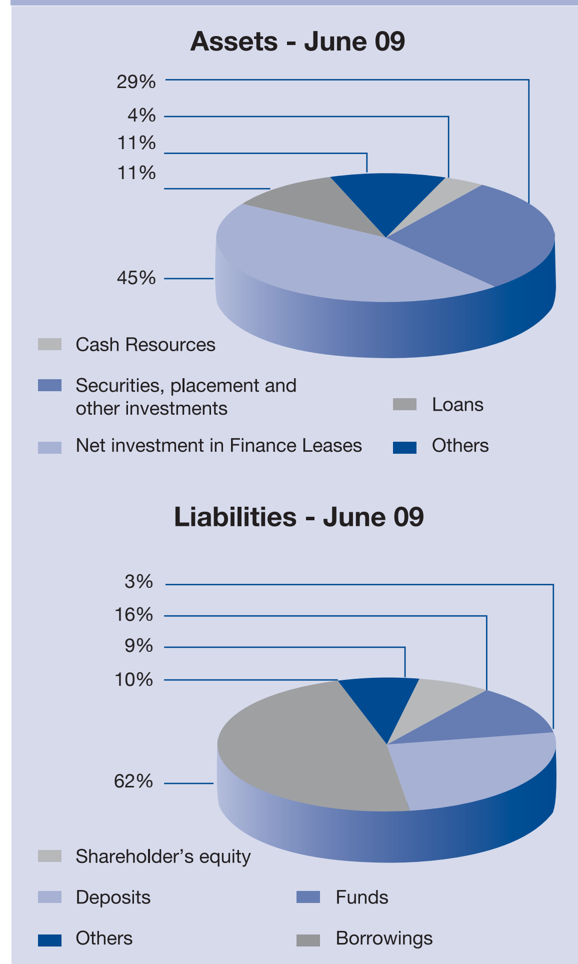
At end-June 2009, six NBDTIs recorded a contraction in the range of 2.6 per cent to 11.4 per cent in their deposit base whereas the deposits mobilized by the remaining NBDTIs recorded growth in the range of 4.1 per cent to 70.4 per cent.

5.2.3 ADVANCES TO DEPOSITS RATIO

The advances to deposits ratio measures the extent to which funds mobilized by way of deposits have been utilised to finance lending and leasing activities of NBDTIs. The advances to deposits ratio continued to be on the high side for the NBDTIs, rising from 110.5 per cent at end-June 2008 to 120.2 per cent at end-June 2009.

However, it is noted that the leases to deposits ratio stood at 78.5 per cent at end-June 2009, up from 76.7 per cent at end-June 2008. Loans to deposits ratio stood at 112.6 per cent at end-June 2009, up from 104.2 per cent at end-June 2008.





5.2.4 PROFITABILITY

In 2009, all the NBDTIs, with the exception of one leasing company, realised profits. Total profit before tax grew by 35.2 per cent, from Rs648 million in 2008 to Rs876 million in 2009. Notwithstanding the growth in the consolidated profit of the NBDTIs, only seven institutions reported better operational results than in 2008. Charts 12a and 12b show the main components of income and 13a and 13b show the main components of expenses for 2007-08 and 2008-09 respectively.

Table 9 summarises the performance of the NBDTIs over the past two financial years. The consolidated profitability figures are based on the audited results of NBDTIs as of 30 September, 31 December and 30 June.

5.2.4.1 Income

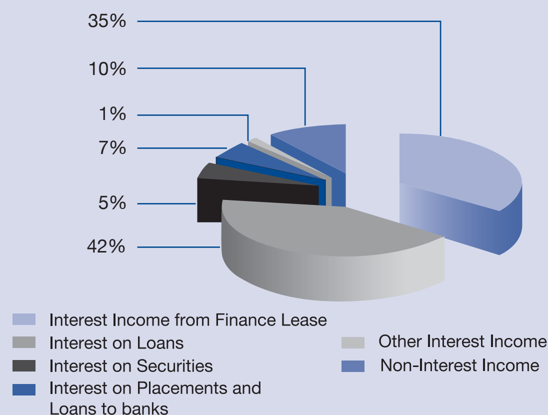
Total income of NBDTIs grew by 16.2 per cent, from Rs4,039 million in 2007-08 to Rs4,693 million in 2008-09. Interest on loans, which constituted the highest share of total income, went up by Rs241 million in 2008-09 compared to an increase of Rs204 million in 2007-08. On the other hand, interest earned on finance leases rose by Rs117 million in 2008-09 compared to a higher increase of Rs176 million in 2007-08.

Chart 14 shows the evolution of net interest income, other income, operating income and operating profit over the years 2005-06 to 2008-09.

5.2.4.2 Net Interest Income

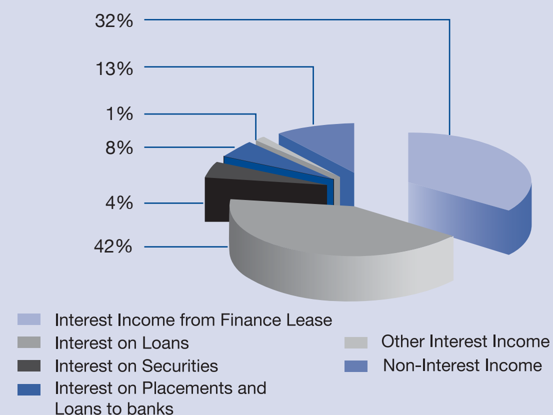
Chart 15 shows that the net interest income for NBDTIs was higher than in the three

Chart 12a: Components of Income 2007-08



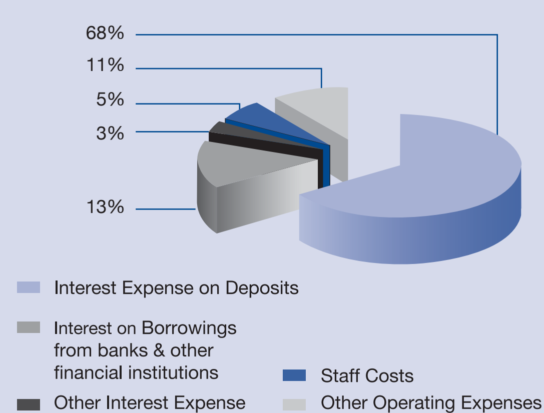
Based on combined audited data for financial years ended 31 December, 31 March and 30 June

Chart 12b: Components of Income 2008-09



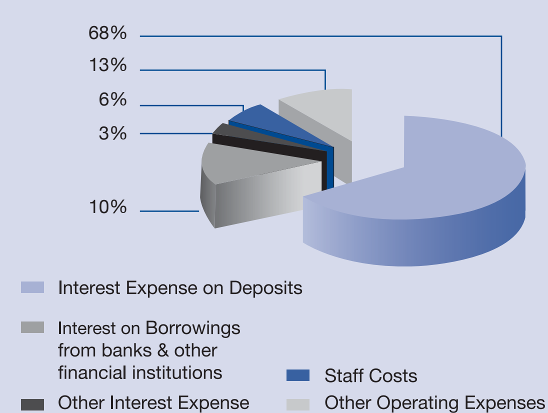
Based on combined audited data for financial years ended 31 December, 31 March and 30 June

Chart 13a: Components of Expenses 2007-08



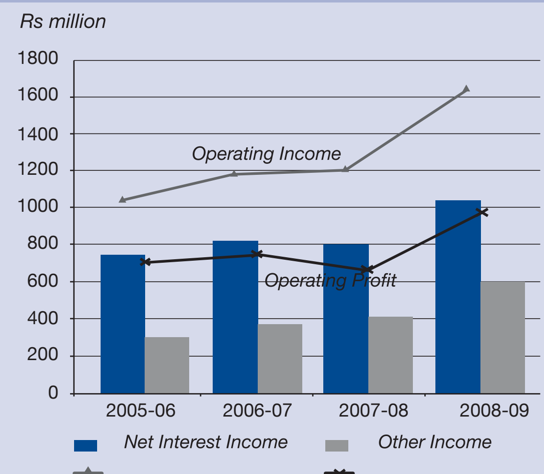
Based on combined audited data for financial years ended 31 December, 31 March and 30 June

Chart 13b: Components of Expenses 2008-09



Based on combined audited data for financial years ended 31 December, 31 March and 30 June

Chart 14: Evolution of Net-Interest Income, Other Income, Operating Income and Operating Profit



preceding years. Total interest income went up by Rs444 million, from Rs3,635 million in 2007-08 to Rs4,079 million in 2008-09, while total interest expense recorded an increase of Rs195 million or 6.9 per cent.

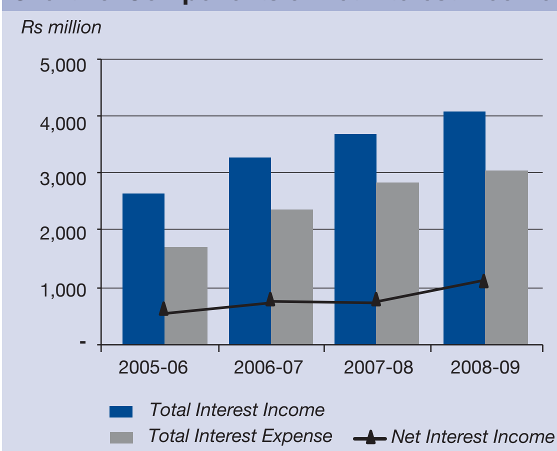
Net interest income went up by Rs249 million or 31.1 per cent from Rs800 million in 2007-08 to Rs1,049 million in 2008-09.

Chart 16 shows the interest spread with respect to the activities of NBDTIs. Both interest earned on Rs100 of advances/leases and interest paid on Rs100 of deposits contracted by Rs0.46 and Rs0.55 respectively. Thus, the interest spread marginally went up from Rs1.34 to Rs1.43 during the year under review.

Table 9: Consolidated Profit and Loss Account of NBDTIs	2006-07	2007-08	2008-09
		Rs million	
Total Interest Income	**3,155**	**3,635**	**4,079**
Interest Income from Finance Leases	*1,225*	*1,401*	*1,518*
Interest on Loans	*1,504*	*1,708*	*1,949*
Interest on Securities	*222*	*209*	*190*
Interest on Placements and Loans to banks	*153*	*291*	*352*
Others	*51*	*26*	*70*
Total Interest Expense	**2,349**	**2,835**	**3,030**
Interest Expense on Deposits	*1,846*	*2,303*	*2,529*
Borrowings from banks & other financial institutions	*416*	*428*	*382*
Others	*87*	*104*	*118*
Net Interest Income	**806**	**800**	**1,049**
Non-interest Income	**372**	**404**	**614**
Operating Income	**1,178**	**1,204**	**1,663**
Staff & Operating Costs	**460**	**537**	**712**
Less: Staff Costs	*173*	*176*	*226*
Other Operating Expenses	*287*	*361*	*486*
Operating Profit	**718**	**667**	**951**
Other non-operating Profit / (Loss)	*(10)*	*63*	*53*
Profit before Bad and Doubtful Debts and Taxation	**708**	**730**	**1004**
Less: Charge for Bad and Doubtful Debts	*77*	*82*	*128*
Profit before Tax	**631**	**648**	**876**
Provision for taxes / (credit)	*48*	*37*	*37*
Profit after Tax	**584**	**611**	**839**

Figures may not add up to totals due to rounding

Chart 15: Components of Net Interest Income



5.2.4.3 Non-Interest Income

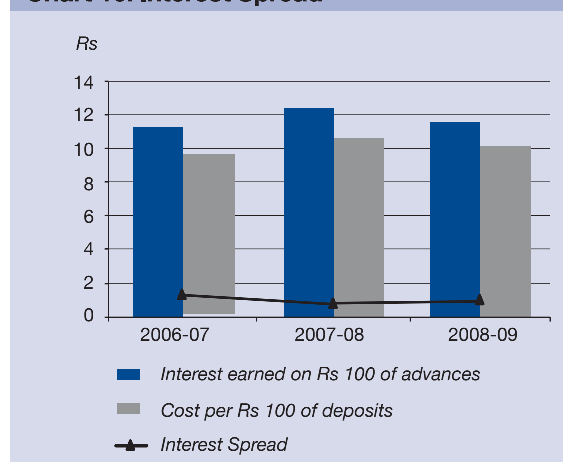
Non-interest income, which includes operating lease rentals and other fee income, grew by 52.0 per cent in 2008-09 and constituted 13.1 per cent of total income for the period under review. Fee-related income grew by 43.0 per cent while operating lease rentals grew by 34.8 per cent during the period under review.

5.2.4.4 Non-Interest Expenses

Non-interest expenses, which comprise staff costs and other operating expenses,

increased by 32.6 per cent to Rs712 million in 2008-09. Staff costs, which represented 31.7 per cent of total non-interest expenses at end-June 2009, went up by 28.4 per cent, from Rs176 million in 2007-08 to Rs226 million in 2008-09. Other operating expenses also surged by 34.6 per cent to reach Rs486 million in 2008-09 compared to Rs361 million in 2007-08.

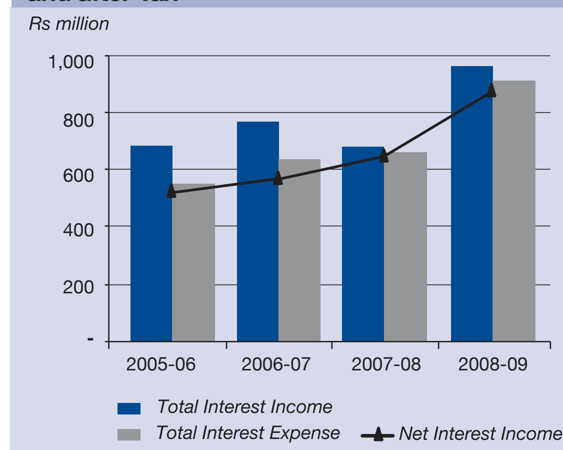
Chart 16: Interest Spread



5.2.4.5 Operating Profit

NBDTIs posted operating profits (before bad and doubtful debts and taxation) of Rs951 million during the year under review, representing an increase of Rs284 million or 42.6 per cent compared to 2007-08. The profit before tax went up by 35.2 per cent to reach Rs876 million in 2008-09. The charge for bad

Chart 17: Operating Profit, Profit before and after Tax



and doubtful debts increased from Rs82 million in 2007-08 to Rs128 million in 2008-09. Chart 17 shows the evolution of profits generated by the NBDTIs over the years 2005-06 to 2008-09.

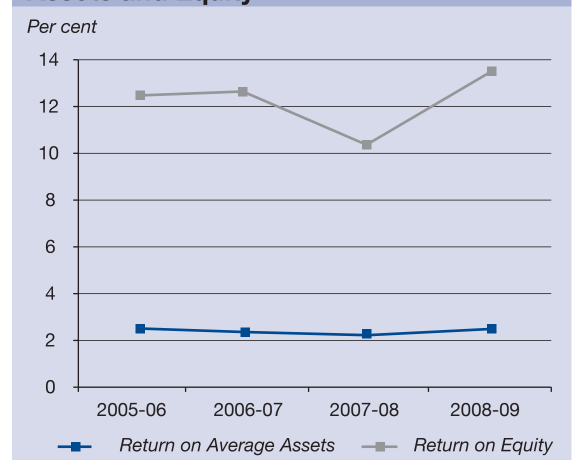
5.2.4.6 Return on Average Assets and Equity

The pre-tax return on average assets of individual NBDTIs ranged from negative 30.7 per cent to positive 3.7 per cent in 2008-09. As in the preceding year, one of the NBDTIs posted a negative return on average assets in 2008-09.

The post-tax return on equity improved from 10.9 per cent in 2007-08 to 13.0 per cent in 2008-09. The post-tax return on equity of the 12 profitable NBDTIs varied from 2.2 per cent to 25.6 per cent in 2008-09.

Chart 18 shows the return on average assets and equity over the years 2005-06 to 2008-09.

Chart 18: Return on Average Assets and Equity



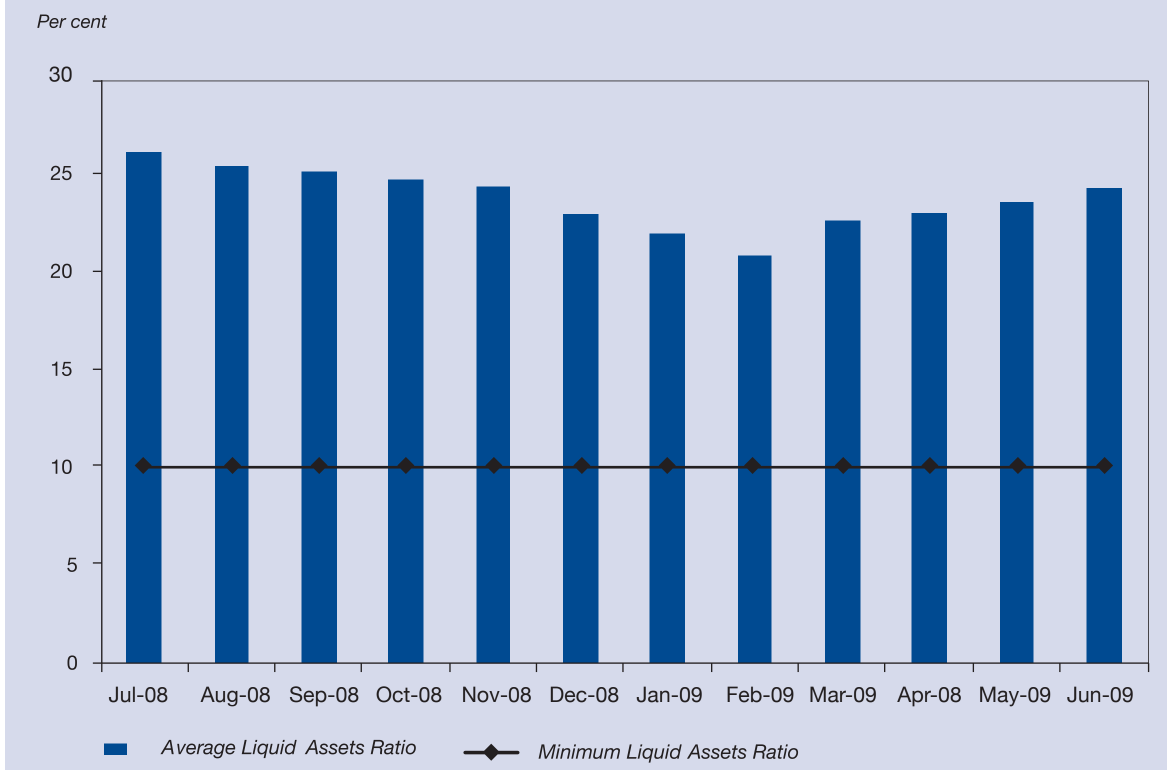
5.2.5 LIQUIDITY

Liquidity risk is defined as the risk arising from the inability to honour cash flow commitments as they fall due. As stipulated in Annexure 1 of the Guidelines on Capital Adequacy Ratio for Non-Bank Deposit Taking

Institutions, NBDTIs shall, at all times, maintain liquid assets equivalent to not less than 10 per cent of their deposit liabilities or such higher percentage as may be prescribed from time to time by Bank of Mauritius. Liquid assets of NBDTIs comprise cash in hand, deposits held with the Bank of Mauritius and authorised banks and non-cash liquid assets such as investment in Treasury Bills and Government Securities.

As at 30 June 2009, liquid assets held by NBDTIs amounted to Rs6,195 million and were much higher than the required 10 per cent of the deposit liabilities of Rs26,516 million. Chart 19 sets out the fluctuations in the average liquid assets ratio maintained by NBDTIs. The ratio ranged from 20.9 per cent to 26.2 per cent during the period July 2008 to June 2009.

Chart 19: Average Liquid Assets Ratio



APPENDICES

Appendix A List of Guidelines / Guidance Notes

1. Guideline on Segmental Reporting under a Single Banking Licence Regime
2. Guidance Notes on General Principles for Maintenance of Accounting and other Records and Internal Control Systems
3. Guideline for the Calculation and Reporting of Foreign Exchange Exposures of banks, Foreign Exchange Dealers and Money hangers
4. Guideline on Credit Concentration Risk
5. Guideline on Liquidity Risk Management
6. Guideline on Internet Banking
7. Guideline on Corporate Governance
8. Guideline on Related Party Transactions
9. Guideline on Public Disclosure of Information
10. Guideline on Transactions or Conditions Respecting Well being of a Financial Institution Reportable by the External Auditor to the Bank of Mauritius.
11. Guidance Notes on Credit Risk Management
12. Guidance Notes on Anti-Money Laundering and Combating the Financing of Terrorism.
13. Guideline on Fit and Proper Person Criteria
14. Guideline on Credit Impairment Measurement and Income Recognition.
15. Guidelines on Outsourcing by Financial Institutions
16. Guidelines on Operational Risk Management and Capital Adequacy Determination
17. Guidelines on Control of Advertisement
18. Guideline for Institutions Conducting Islamic Banking Business
19. Guidelines on Capital Adequacy Ratio for Non-Bank Deposit Taking Institutions
20. Guideline on Standardised Approach to Credit Risk
21. Guideline on Scope of Application of Basel II
22. Guideline on The Recognition and Use of External Credit Assessment Institutions
23. Guideline on Eligible Capital
24. Guideline on Measurement and Management of Market Risk

Appendix B Financial Soundness Indicators[1] for the Banking Sector[2], 2003-2009

(In per cent, unless otherwise indicated)

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09
Capital Adequacy*							
Regulatory capital to risk-weighted assets ratio[3]	14.2	15.0	15.4	15.8	13.3	15.3	15.2
Regulatory Tier I capital to risk-weighted assets ratio[4]	13.7	13.7	13.5	13.7	11.5	13.7	13.1
Total (regulatory) capital to total assets ratio	8.0	7.8	7.8	7.3	6.0	7.3	7.6
Asset Composition and Quality*							
RW=0 per cent	5.2	6.4	16.6	12.8	9.1	9.0	16.5
RW=10 per cent					*0.3*	*0.2*	*0.0*
RW=20 per cent	4.8	6.7	0.2	1.3	3.9	3.3	*26.2*
RW=35 per cent							*3.4*
RW=50 per cent	*7.9*	*9.6*	*6.5*	*6.0*	*5.7*	*5.2*	*8.8*
RW=75 per cent							*3.9*
RW=100 per cent	*82.1*	*77.3*	*76.7*	*79.8*	*81.1*	*82.3*	*40.3*
RW=150 per cent							*0.9*
Total exposures to Total assets	47.8	45.9	53.6	40.1	44.8	54.9	48.4
Sectoral distribution of loans to total loans[5]							
Agriculture	*9.1*	*7.5*	*5.7*	*5.7*	*6.0*	*6.1*	*6.3*
of which: sugar	*8.0*	*6.4*	*5.6*	*5.0*	*4.8*	*5.0*	*5.2*
Manufacturing	*14.8*	*13.6*	*12.0*	*11.2*	*10.2*	*9.4*	*8.7*
of which: export enterprise certificate holders	*7.5*	*6.1*	*5.4*	*4.8*	*4.7*	*4.0*	*3.2*
Traders	*14.9*	*14.5*	*13.9*	*14.9*	*13.5*	*11.7*	*10.1*
Personal and Professional	*9.8*	*10.0*	*9.4*	*9.5*	*9.7*	*8.6*	*9.0*
Construction	*14.2*	*16.2*	*15.2*	*15.4*	*16.4*	*18.7*	*19.7*
of which: housing	*9.0*	*10.8*	*10.7*	*12.0*	*10.9*	*12.4*	*13.2*
Tourism /hotels[6]	*15.9*	*15.4*	*13.2*	*13.2*	*13.6*	*15.4*	*16.2*
Other	*21.2*	*22.8*	*30.7*	*30.1*	*30.6*	*45.6*	*30.0*
FX loans to total loans	10.9	12.2	51.1	50.7	56.3	65.5	59.1
NPLs to gross loans[7]	9.6	8.1	4.0	3.0	2.5	2.0	3.3
NPLs net of provisions to capital	28.1	22.4	11.4	7.0	9.1	8.2	13.4
Large exposures to capital[8]	220.9	200.0	250.3	380.0	493.2	394.2	216.9

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09
Earnings and Profitability[9]							
Return on assets	2.1	2.1	1.9	1.7	1.9	1.7	1.7
Return on equity	19.2	19.2	21.1	22.4	26.4	24.3	21.6
Interest margin to gross income[10]	32.1	34.7	36.3	31.2	27.6	29.7	70.2
Non interest expenses to gross income[10]	23.9	27.7	20.1	16.4	15.0	17.2	38.4
Average Earnings per employee (in Rs'000)	2,212	2,433	2,904	2,817	3,402	3,747	3,776
Liquidity							
Liquid assets to total assets ratio[11]	36.6	37.9	44.1	52.8	47.7	27.7	27.8
Liquid assets to total short-term liabilities ratio	71.0	71.7	88.6	118.8	104.2	31.9	34.4
FX deposits to total deposits ratio	11.0	13.8	57.3	68.0	67.6	66.0	63.9
Sensitivity to Market Risk							
Net open positions in FX to capital	20.8	1.9	4.2	6.4	3.2	3.8	5.3

Notes:

* Basel II adopted in 2009.

[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 up to 2008.

[5] The definition used for sectoral classification was amended in 2001. The ratios were adjusted where possible to reflect the amendments.

[6] Up to 2000 the definition was limited to exposure towards hotels and hotel management certificate companies. As from 2000, the definition encompasses all exposures towards the tourism industry.

[7] Gross loans exclude accrued interest.

[8] Prior to June 2006, figures refer to Category 1 banks only. The Guideline on Credit Concentration Risk was reviewed in December 2008.

[9] Figures have been annualised as from 2009.

[10] Gross Income referred to Net Interest Income plus Non-Interest Income as from 2009.

[11] The ratio has been revised according to the manual from 2008.

Appendix C

List of Memoranda of Understanding entered between the Bank of Mauritius and other Institutions on the Exchange of Supervisory Information

	Name of Authorities	Effective Date
Local		
-	Financial Services Commission	05 December 2002
-	Central Statistics Office	04 March 2009
-	Financial Intelligence Unit	12 November 2009
-	Mauritius Revenue Authority	31 December 2009
Foreign		
-	Jersey Financial Services Commission	15 January 1999
-	Commission Bancaire Française	02 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	02 May 2006
-	Hong Kong Monetary Authority	18 June 2008

Appendix D List of Charts

Banks

1 Capital Adequacy Ratio against Regulatory Requirement

2 Minimum Required Capital v/s Actual Capital

3 Sectorwise Distribution of Credit to Private Sector

4 Components of Income

5 Components of Expenses

6 Trend in Net Interest Income

7 Net Interest Income, Other Income, Operating Income and Operating Profit

8 Operating Profit and Profit after Tax

9 Return on Average Assets and Equity

10 Movement of Interest Rates

Non-Bank Deposit Taking Institutions

11a Balance Sheet Structure – 2008

11b Balance Sheet Structure – 2009

12a Components of Income 2007-2008

12b Components of Income 2008-2009

13a Components of Expenses 2007-2008

13b Components of Expenses 2008-2009

14 Evolution of Net Interest Income, Other Income, Operating Income and Operating Profit

15 Components of Net Interest Income

16 Interest Spread

17 Operating Profit, Profit before and after Tax

18 Return on Average Assets and Equity

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Banks

1 Risk-Weighted Capital Adequacy Ratio

2 Comparative Change in the Riskiness of Banks' Portfolios of On-Balance Sheet Assets

3 Total On- and Off-Balance Sheet Assets of Banks, Equivalent Risk-Weighted Assets and Average Combined Risk Weighting

4 Consolidated Profit and Loss Account

5 Growth in Interest Income and Non-Interest Income

6 Growth in Interest on Advances, Interest on Securities, Placements and Other Interest Income

7 Interest Spread

8 Electronic Banking Transactions from June 2008 to June 2009

Non-Bank Deposit Taking Institutions

9 Consolidated Profit and Loss Account of NBDTIs

Appendix F List of Boxes

1. Camel Rating Framework

2. Banks' Fees, Charges and Commissions

Appendix G Glossary of Abbreviations

Abbreviation	Details
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
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
IFPs	Islamic Financial Products
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
NBDTIs	Non-Bank Deposit Taking Institutions
WGL	Working Group on Liquidity

Appendix 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 31 December 2009 [1].

Banks Licensed to carry Banking Business

1. AfrAsia Bank Limited
2. Bank One Limited
3. Bank of Baroda
4. Banque des Mascareignes Ltée
5. Barclays Bank PLC
6. Bramer Banking Corporation Ltd
7. Deutsche Bank (Mauritius) Limited
8. Habib Bank Limited
9. HSBC Bank (Mauritius) Limited
10. Investec Bank (Mauritius) Limited
11. Mauritius Post and Cooperative Bank Ltd
12. P.T Bank Internasional Indonesia
13. SBI (Mauritius) Ltd
14. Standard Bank (Mauritius) Limited
15. Standard Chartered Bank (Mauritius) Limited
16. State Bank of Mauritius Ltd
17. The Hongkong and Shanghai Banking Corporation Limited
18. The Mauritius Commercial Bank Ltd.

Non-Bank Deposit Taking Institutions[2]

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

Money-Changers (Bureaux de Change)

1. Abbey Royal Finance Ltd
2. Change Express Ltd
3. Easy Change (Mauritius) Co Ltd
4. EFK Ltd
5. InterCash Ltd
6. Iron Eagle
7. Jet Change Co Ltd
8. Max & Deep Co. Ltd
9. Moneytime Co. Ltd
10. Storm Rain Co Ltd
11. Unit E Co Ltd
12. Viaggi Finance Ltd
13. Vish Exchange Ltd
14. Gowtam Jootun Lotus Ltd[3]

Foreign Exchange Dealers

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

[1] *All regulatory information relates to period ended 31 December 2009.*

[2] *Following the merger of SBM Lease Limited with State Bank of Mauritius Ltd, the Deposit-Taking Licence issued by the Bank in the name of SBM LEASE LIMITED has been cancelled.*

[3] *The Bank 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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