Management Discussion and Analysis

Financial review

Key Financial Indicators

The Bank

Area of Performance	Year Ended 30 June 2023	Year Ended 30 June 2022	Year Ended 30 June 2021
	Rs Mn	**Rs Mn**	**Rs Mn**
Net Interest Income	**1,136.12**	894.89	724.46
Net non Interest Income	**464.24**	404.25	418.08
Operating Income	**1,600.37**	1,299.14	1,142.54
Operating Expense (including depreciation)	**(1,039.80)**	(969.36)	(970.81)
Profit before impairment loss and income tax	**560.56**	329.78	171.73
Impairment loss on financial assets	**(176.18)**	(56.86)	(40.77)
Profit after impairment loss but before income tax	**384.38**	272.92	130.96
Income tax expense	**(3.58)**	(4.34)	(11.94)
Profit after income tax	**380.80**	268.58	119.02
	30 JUNE 2023	30 JUNE 2022	30 JUNE 2021
Total Assets	**35,442.59**	33,234.48	32,584.02
Total Gross Advances	**21,935.61**	18,296.91	18,304.42
Total Deposits	**30,434.89**	28,791.97	28,378.20
Shareholders Equity	**3,425.50**	2,799.56	2,707.18
Tier 1 Capital	**3,014.94**	2,374.17	2,260.34
Total Regulatory Capital	**3,373.73**	2,662.34	2,571.69
KEY RATIOS			
Cost to Income Ratio	**64.97%**	74.62%	84.97%
Return on Equity	**11.12%**	9.59%	4.40%
Return on Total Assets	**1.07%**	0.81%	0.37%
Impaired Loans/Total Loans	**4.61%**	5.27%	4.54%

The table above illustrates the financials for the year ending 30 June 2023 against the previous reporting periods namely for the year ended 30 June 2022 and the year ended 30 June 2021.

Management Discussion and Analysis

Financial review (Cont'd)

Bank's Performance

The financial statements represent both figures for the Bank and its subsidiary, that is, inclusive of the financial position and performance of MauBank Investment Ltd. However, for the purpose of the current Management Discussion and Analysis, only the Bank's financials have been taken into consideration.

MauBank Ltd registered a profit after tax and impairment of **Rs 380.80 Mn** for the year ended 30 June 2023 against Rs 268.58 Mn in June 2022 and Rs 119.02 Mn in June 2021. The bank's commendable performance for the year under review demonstrates its firm commitment to meet its set objectives in a timely and effective manner, with the support of its management team, employees and stakeholders.

Operating income for the year ended 30 June 2023 stood at **Rs 1,600.37 Mn** compared to Rs 1,299.14 Mn for the year 2022 and Rs 1,142.54 Mn for the year 2021.

- **Performance against objectives**

Key Areas	Objectives for year ended 30 June 2023	Performance achieved for year ended 30 June 2023	Objective for the year ended 30 June 2024
Revenue growth	Objectives for the year ended 30 June 2023 would be to achieve a revenue of Rs 1.70 Bn, which is 9% more than the year ended 30 June 2022.	The Bank was able to achieve a revenue growth of Rs 2.14 Bn, which was 26% more than budget.	Objectives for the year ending 30 June 2024 would be to achieve a revenue of Rs 2.72 Bn, which is 24% more than the year ended 30 June 2023.
Expense growth	The operating expense for FY 22/23 is expected to be around Rs 1.05 Bn or 75% of operating income.	The Bank closed the year with an operating expense of Rs 1,039.80 Mn or 64% of its operating income.	The operating expense for FY 23/24 is expected to be around Rs 1.21 Bn, in line with our capacity building initiatives both from a human resource and technology perspective.
Productivity	The productivity ratio or cost to income ratio is expected to be 76 % for the FY2022/2023	The Bank achieved a productivity ratio of 64.97% which was lower due to the cost control measures initiated.	The productivity ratio is expected to be 66.80% for the FY 2023/2024.
Return on Equity	The Bank expects the return on equity of 7.76% for the year ended 2022/2023.	The Bank was able to achieve a return on equity of 11.12% in the current year.	The Bank expects the return on equity to be increased to 11.52% for the FY 2023/2024.
Loan and advances	The Banks targeted gross loan and advances of Rs 21.27 Bn as at 30 June 2023.	The portfolio of loan of advances stood at Rs 21.94 Bn for the period under review	The Bank is targeting a loan portfolio of Rs 24.80 Bn for the year ended June 2024.
Customer deposits	Customer deposit is expected to reach Rs. 30.63 Bn as at 30 June 2023, an increase of 6.39%.	The customer deposits stood at Rs 30.43 Bn as at 30 June 2023.	Customer deposit is expected to reach Rs. 32.86 Bn as at 30 June 2024, an increase of 7.99%.
Return on assets	The expected return on total Assets for FY 2022/2023 was 0.70%.	The Bank achieved a return on assets of 1.07% in the current year due to higher profitability generated.	The expected return on total assets is 1.24%.

- **Revenue Growth**

Net interest income

The Bank's net interest income grew by 26.95% to reach **Rs 1,136.12 Mn** for the year 2023 against Rs 894.89 Mn for the year 2022 and Rs 724.46 for the year 2021. The ratio of net interest income to total average assets was **3.31%** for 2023, 2.72% for 2022 and 2.26% for 2021 whereas the ratio of net interest income to total average interest earning assets was **4.15%** for 2023, 3.46% for 2021 and 2.78% for 2021. The below table provides a breakdown of interest income, interest expense, related assets and related liabilities.

Management Discussion and Analysis

Financial Review (Cont'd)

Bank's Performance

Area of Performance	Year Ended 30 June 2023	Year Ended 30 June 2022	Year Ended 30 June 2021
	Rs Mn	Rs Mn	Rs Mn
Interest income			
Loans and advances	**1,376.28**	915.17	821.68
Placements	**82.76**	5.62	3.98
Investment securities	**167.69**	140.16	105.51
Total interest income	**1,626.74**	1,060.95	931.17
Interest expense			
Deposits from customers	**477.12**	162.64	197.77
Finance charge on leases	**2.02**	3.41	4.82
Other borrowed funds	**11.47**	-	4.11
Total interest expense	**490.62**	166.06	206.71
Net interest income	**1,136.12**	894.89	724.46
Net interest income to total average assets	**3.31%**	2.72%	2.26%
Net interest income to total average interest earning assets	**4.15%**	3.46%	2.78%
Total assets	**35,442.59**	33,234.48	32,584.02
Total average assets	**34,338.54**	32,909.25	32,041.80
Total average interest earning assets	**27,392.89**	25,895.45	26,051.45
Related assets			
- Investment in debt securities - FVTPL	**-**	-	1,390.58
- Investment in debt securities - FVTOCI	**4,695.88**	6,696.30	5,365.34
- Loans and advances	**21,935.61**	18,296.91	18,304.42
- Placements	**2,277.71**	883.37	853.99
	28,909.20	25,876.58	25,914.33
Related liabilities			
- Deposits from customers	**30,434.89**	28,791.97	28,378.20
- Other borrowed funds	**-**	-	-
- Lease liabilities	**46.12**	99.32	156.59
	30,481.01	28,891.29	28,534.79

Management Discussion and Analysis

Financial review (Cont'd)

Bank's Performance (Cont'd)

Interest Income

The Bank's interest income stood at **Rs 1,626.74 Mn** for the year 2023 against Rs 1,060.95 Mn for the year 2022 and Rs 931.17 Mn for the year 2021. This growth was generated throughout all interest-bearing asset classes, namely loans and advances to banks and other customers, optimum placements with banks with higher yields and investments in securities products.

Interest Expense

The Bank's interest expense amounted to **Rs 490.62 Mn** for the year ended 30 June 2023 compared to Rs 166.06 Mn for the year ended 30 June 2022 and Rs 206.71 Mn for the year ended 30 June 2021. The hike in interest expense is mainly due to the increase in the Bank's deposit base, generated from a growing solid client base.

The Bank continues to adopt a prudent approach towards liquidity management. Other than actively monitoring its assets and liabilities maturity mismatch, the Bank also ensures that it has a relatively large stable deposit base, while keeping sufficient liquid assets to meet unforeseen liquidity requirements. As at 30 June 2023, 27.49% of the Bank's assets, or 32.01% of the Bank's deposit base, were invested in liquid assets.

Non-Interest income

Non-interest income increased by Rs 70.97m as compared to the previous year as a result of improvements in income derived from fee and commission, foreign exchange and the Bank's investment properties. The breakdown of non-interest income is as follows:

Area of Performance	Year Ended 30 June 2023	Year Ended 30 June 2022	Year Ended 30 June 2021
	Rs Mn	**Rs Mn**	**Rs Mn**
Non-Interest income			
Fee and commission income	**292.12**	262.79	254.17
Net trading income	**168.55**	142.29	164.44
Other income	**55.13**	39.81	47.58
	515.80	444.88	466.20

- **Non-Interest expenses**

Non-Interest expenses for the year ended 30 June 2023 amounted **Rs 1,039.80 Mn** against Rs 969.36 Mn in 2022 and Rs 970.81 Mn in 2021.
The main components of non-interest expenses are as follows:

Area of Performance	Year Ended 30 June 2023	Year Ended 30 June 2022	Year Ended 30 June 2021
	Rs Mn	**Rs Mn**	**Rs Mn**
Non-Interest expense			
Personnel expenses	**(517.24)**	(517.44)	(513.90)
Operating lease expenses	**(24.82)**	(19.05)	(13.39)
Depreciation and amortisation	**(133.66)**	(155.19)	(174.93)
Other expenses	**(364.09)**	(277.67)	(268.59)
	(1,039.80)	(969.36)	(970.81)

Management Discussion and Analysis

Financial review (Cont'd)

Bank's Performance (Cont'd)

- **Non-Interest Expenses** (Cont'd)

The major components of the non-interest expenses comprising principally of staff expenses and administrative expenses. The operating costs have determinedly been controlled, however, the Bank's operating costs bore the brunt of the challenging context of inflationary pressures.

The cost to income ratio or productivity ratio improved to **64.97%** at 30 June 2023 as compared to 74.62% at 30 June 2022 and 84.97% in 2021. This is mainly attributable to an improvement in the operating income base coupled with the cost optimisation initiatives

- **Net Impairment Loss on Financial Assets**

Net impairment charge on financial assets amounted to **Rs 176.18 Mn** for the year ended 30 June 2023 against Rs 56.86 Mn for the year ended 30 June 2022 and Rs 40.77 Mn for the year ended 30 June 2021. The non-performing loan ratio stood at **4.61%** at 30 June 2023 against 5.27% at 30 June 2022 and 4.54% at 30 June 2021. In order to continuously manage the non-performing advances, the forum on non-performing advances, continues to meet regularly to monitor the asset quality of the Bank and to ensure that the ratio is maintained to an acceptable level. Relentless efforts are being deployed to optimize recovery actions to realise collaterals and /or personal guarantees of shareholders/directors to maximize realizable value of assets of impaired accounts.

- **Taxation**

The Bank reported a tax charge of **Rs 3.58 Mn** for the year ended 30 June 2023. The Bank had no liability towards Corporate Tax and Corporate Social Responsibility for the year ended 30 June 2023 due to tax loss carried forward as at that date.

Assets

- **Total assets**

  The asset base of the Bank stood at **Rs 35,442.59 Mn** as at 30 June 23 against Rs 33,234.48 Mn at 30 June 2022 and Rs 32,584.02 Mn at 30 June 2021. The increase in total assets is mainly attributable to an increase of 20.12% in net loans and advances.

- **Loans and Advances Growth**

  Gross loans portfolio registered a year-on-year growth of **Rs 3,638.70 Mn** to reach Rs 21,935.61 Mn as at June 23 as compared to Rs 18,296.91 Mn at June 2022 and Rs 18,304.42 Mn for period ended 30 June 2021.

- **Credit Risk Exposure**

  Credit risk occurs mainly in the Bank's credit portfolios comprising retail lending, corporate lending, treasury and financial institutions wholesale lending. Credit risk is explained as the risk of loss arising from failure of borrower or counterparty to meet his financial obligations. Credit risk is among the most common cause of Bank failures, causing virtually all regulatory environment to prescribe minimum standards.

  The Bank has a comprehensive Risk Governance Structure which promotes sound risk management for optimal risk-reward trade off. The Board Credit Committee at MauBank Ltd guarantees that the Bank's credit policy limit is respected at all times.

  Total gross risk exposures, industry distribution of exposure, residual contractual maturity of the loans and advances portfolio and reconciliation of changes in allowances for impairment is shown at note 12 and 13.

- **Credit Risk: Standardised Approach**

  The Standardised Approach to Credit Risk requires banks to use credit assessments provided by external credit assessment institutions ("ECAIs") that are recognised by national supervisors as eligible for regulatory capital purposes, to determine the risk weights on their credit exposures.

  The following ECAIs are used by the Bank:

  - Standard & Poor's Ratings Services
  - Moody's Investors Service
  - Fitch Ratings

- **Concentration of risk policies**

  The Bank maintains a credit risk portfolio that is adequately diversified. Maximum exposure limits are set for individual counterparties, countries and sectors to maximise any potential diversification benefits while complying with Bank of Mauritius Guideline on Credit Concentration Risk.

Management Discussion and Analysis

Financial review (Cont'd)

Bank's Performance (Cont'd)

Assets (Cont'd)

- **Concentration of Risk Policies** (Cont'd)

  The Bank maintains a credit risk portfolio that is adequately diversified. Maximum exposure limits are set for individual counterparties, countries and sectors to maximise any potential diversification benefits while complying with Bank of Mauritius Guideline on Credit Concentration Risk.

  The six most significant individual concentration cases in respect of one customer or group as at 30 June 2023 (Total Exposure After Set Off) were as follows:

S/N	Entity	Amount (Rs Mn)	% Exposure to capital base
1	**Group 1**	777.46	22.97%
2	**Group 2**	745.50	22.01%
3	**Group 3**	651.12	19.23%
4	**Group 4**	581.88	17.18%
5	**Group 5**	553.11	16.33%
6	**Group 6**	541.61	15.99%

- **Credit quality and provision for credit losses**

  Provision for credit losses on loans and advances stood at Rs 552.23 Mn at 30 June 2023 against Rs 498.14 Mn at 30 June 2022 and Rs 430.93 Mn at 30 June 2021.

  The % of non-performing loans to total loans, allowances for credit impairment to non-performing loans and as a proportion of total loans by industry sector as at 30 June 2023 are as follows:

The Bank	% of Non-performing loans to total loans	% of Allowance for credit impairment to Non-Performing loans	% of Allowance for credit impairment to total loans
Agriculture and Fishing	0.70%	8.60%	0.40%
Manufacturing	0.79%	13.08%	0.60%
Tourism	0.37%	0.16%	0.01%
Transport	0.02%	0.24%	0.01%
Construction	0.50%	3.86%	0.18%
Financial and Business Services	1.41%	2.81%	0.13%
Traders	0.36%	2.82%	0.13%
Information Technology	0.00%	0.02%	0.00%
Personal	0.21%	3.23%	0.15%
Education	0.00%	0.01%	0.00%
Professional	0.00%	0.02%	0.00%
Foreign Governments	0.00%	0.00%	0.00%
Global Business Licence Holders	0.00%	0.00%	0.00%
Banks	0.00%	0.00%	0.00%
Others	0.26%	1.46%	0.07%
	4.61%	36.32%	1.67%

All non performing loans pertains to the domestic market.

Management Discussion and Analysis

Financial review (Cont'd)

Bank's Performance (Cont'd)

Assets (Cont'd)

- **Investments**

  The Bank's investment portfolio stood at **Rs 5,539.38 Mn** at 30 June 2023 against Rs 7,402.11 Mn as at 30 June 2022 and Rs 7,181.58 Mn as at 30 June 2021. The Bank manages its securities investment portfolio with the aim of optimizing the yield of its assets base.

Liabilities

- **Deposits**

  Total deposits from banks and customers rose by Rs 1.64 Bn to reach **Rs 30.43 Bn** at 30 June 2023. At 30 June 2023, savings and demand deposits represented 71% of the deposit portfolio whilst time deposit accounted for 29% of the portfolio compared against 77% and 23% respectively at 30 June 2022.

- **Capital adequacy**

  The Capital Adequacy Ratio (CAR) was **15.35%** at 30 June 2023, well above the regulatory minimum of 12.50%, against 14.53% at 30 June 2022 and 13.33% at 30 June 2021.

  MauBank Ltd's Capital Structure for the last three years is as shown on page 162.

Risk Management

Risk encompasses the possible threats to which the Bank is exposed to and the potential impact that these may have on the Bank. Risk management is the process of identifying, assessing and responding to risks, and communicating the outcomes of these processes to the appropriate parties in a timely manner.

Since risk management is directed at uncertainty related to future events and outcomes, it is implied that all business planning exercises and business activities across the Bank should encompass some form of risk management. MauBank Ltd has laid down its Risk Management Policy, which spells out the methodology and technique for managing risk across the Bank. The Risk Management Policy is approved by the Board of Directors, as recommended by the Board Risk Management Committee.

Risk Mission

MauBank Ltd is committed towards embedding a risk culture in the Bank and continues to embrace risk management as a core competency that allows the organization to optimize risk-taking through objectivity and transparency.

Risk Philosophy

MauBank Ltd values a rigorous risk management as an integral part of its day-to-day business operations and also as part of its business growth strategy. With a dynamic approach to risk management, MauBank Ltd remains committed towards ensuring effective and efficient risk processes and optimal returns within its set risk appetite. The overall risk management processes facilitate the alignment of our strategy and annual operating plan with the management of key risks.

Risk Governance

The risk governance structure outlines the key responsibilities for decisions on risk taking and risk oversight by defining clear and comprehensive risk management roles and responsibilities using the three lines of defence model. The Bank's risk framework establishes governance, escalation, and reporting processes around risk exposures, risk decisions, and risk events which provides assurance to stakeholders (Board Risk Management Committee and the Board) who delegate risk-taking authority to the business lines. From first-line businesses and support functions, risk information flows to the second line of defence function represented by the Risk Management Division, and then to the Board Risk Management Committee.

The key responsibilities of the Board and the Board Risk Management Committee are spelt out in their respective Terms of Reference, which in turn follow the requirements of the Bank of Mauritius Guidelines.

MauBank Ltd is guided by its various risk policies that have been developed internally and approved by the relevant approving authority as mandated by the Board of Directors. The responsibility for implementing the risk policies lies with the Bank's Management through the relevant business drivers. The risk function regularly reports to the Operational Risk Committee (ORC), Credit Risk Monitoring Committee (CRMC), Information Security Committee (ISC), Business Continuity Steering Committee (BCSCOM), Asset and Liability Committee (ALCO), Board Cyber Security Committee (BCSC) and the Board Risk Management Committee (BRMC).

The BRMC and BCSC are sub-committees of the Board having mandate in line with the Bank of Mauritius Guidelines. These committees are chaired by a member of the Board and has the Chief Executive as one of its members. The Chief Risk Officer is a regular attendee of these two committees.

Risk Management Framework

The Risk Management Policy of the Bank contains the Risk Management Framework. This framework provides a solid foundation for ensuring that the outcomes of risk taking are consistent with the Bank's business activities, strategies and risk appetite. The framework is based on transparency, management accountability and independent oversight, which is comprehensive enough to capture all risks that the Bank is exposed to and has flexibility to accommodate any changes in business activities.

Risk Appetite Framework

Within the Risk Management Framework, the Risk Appetite is embedded through policies, procedures, limits setting, operational guidelines as well as methodologies and tools for risk measuring, monitoring and reporting. The Risk Management Framework allows the Bank to determine its Risk Appetite, Risk Threshold and Risk Capacity. Through its Risk Appetite, MauBank Ltd is able to measure the amount of risk the organization is willing to take.

Risk Management (Cont'd)

Risk Defence Model

The risk framework operates on the concept of 'the three lines of defence model'. The three lines of defence model creates a set of layered defence that align responsibility for risk-taking with accountability for risk control and provide effective, independent risk oversight and escalation. In the three lines of defence model, the assignment of risk management roles is clear and comprehensive in order to prevent gaps, ambiguities, or overlaps in responsibility. More specifically, the Business and Functional Units represent the First Line of Defence (FLOD), the Risk Management Division and Compliance Department together comprise the Second Line of Defence (SLOD), while Internal Audit is the Third Line of Defence (TLOD).

The FLOD comprises the various operations that will execute and support the execution of the Bank's mission. These first line units are responsible for both the operational activities that result in risk as well as control of the resulting risks. The first line "owns" and "manages" its risk in the sense that it is accountable for both positive and negative outcomes and is empowered to manage the distribution of outcomes.

The SLOD comprises the Risk Management and Compliance functions which provide independent risk and compliance assessments on the FLOD activities. While the FLOD has the deepest understanding of its environment, operations and objective, the second line offers an independent perspective based on focused attention to risk management and compliance matters. The SLOD's responsibility is to establish a common framework for risk management and compliance destined to enhance the FLOD's efficiency and effectiveness.

The TLOD is the Internal Audit which provides assurance both to the Senior Management and the Board of Directors of the Bank as regards the state of the overall risk management, compliance and control activities undertaken at the first and second lines of defence.

Risk Management Process

The risk management policy and framework of MauBank Ltd formulates the process of risk management as the systematic and continuous identification and evaluation of risks as they pertain to the Bank, followed by risk strategies' actions such as: terminate, transfer, accept or mitigate each risk.

The risk management process is as follows:

(a) Risk identification
(b) Risk assessment and measurement
(c) Risk mitigation and control
(d) Risk reporting

Based on this approach, and with a view to maintaining sound operations and generate sustainable earnings, the Board sets its risk appetite within the prudential guidelines through the application of quantifiable limits in the risk policies for the amount of Credit Risk, Market Risk, Liquidity Risk, Operational Risk, and Country Risk. Other non-quantifiable risks like Technology Risk including Cyber Security Risk, Compliance Risk, Strategic Risk and Reputational Risk are assessed and monitored on a qualitative basis. The Board, through the Board Risk Management Committee (BRMC) and other Board sub-committees, is apprised of the various key risk exposures for decision-making purposes. These key risk information are relayed by the various Management Committees to the Board and its sub-committees. The Management Committees meet regularly as per their respective Terms of Reference to comprehensively measure, evaluate and monitor the occurrence and management of each type of risk.

Risk management is focused on the following major areas:

Credit Risk

Credit risk is the risk of credit loss that results from the failure of a borrower to honour the borrower's credit obligation to the financial institution.

The Bank has in place a Credit Risk Policy Guide (CRPG) which sets out its credit risk appetite, risk exposure limits and parameters for risk taking. The policy is approved by the Board and subject to regular reviews. The Board delegates its credit sanctioning authority to three separate and distinct Credit Sanctioning Committees, namely:

1) Board Investment & Credit Committee (BICC)
2) Management Investment & Credit Committee (MICC)
3) Credit Committee (CC)

Domestic-related credit facilities are entertained at three different credit sanctioning authorities, within their respective threshold levels as determined by the Bank's approved Credit Risk Policy Guide. All cross border investments and credit exposures (except those which are fully cash secured and which are within the approving authority of MICC), are, however, considered and, if deemed fit, approved at the Board Investment & Credit Committee (BICC). With a view to ensuring transparency and arm's length nature of transactions, all Related Parties' credits are considered and approved by either the Board Investment & Credit Committee (BICC) and/or the Board.

The overall credit process includes comprehensive credit policies on judgmental credit underwriting, automatic credit adjudication based on credit scores, risk measurement, credit training and continuous credit reviews and audit process.

Credit Risk Measurement

(a) Loans and advances

The Bank has a retail credit scoring and a corporate rating tool for assessing and measuring credit quality of its borrowers which is benchmarked on international rating norms as per the requirement standards of CRISIL Ltd (India). This credit rating and scoring tool is reviewed and updated as and when deemed necessary. The Bank has embarked on the acquisition of a credit rating model for its Cross border activity.

Credit proposals are assessed independently by a Credit Underwriting Team (CUT) using criteria established in the relevant Bank of Mauritius Guidelines and the Credit Risk Policy Guide (CRPG). The CRPG is reviewed on an annual basis.

The Bank has a dedicated Credit Collection Unit and Monitoring and Control teams which regularly control and monitor credit performance of borrowers. A monthly update from both the Credit Collection & Monitoring and Control Units is tabled to the Accounts Monitoring Forum for review.

Management Discussion and Analysis

Risk Management (Cont'd)

Credit Risk Measurement (Cont'd)

(b) Credit related commitments

Credit related commitments include bank guarantees, documentary letters of credit, standby letters of credit and undrawn commitments on legally bound facilities. Their credit risk is similar to loans except for documentary letters of credit which are usually short-term and self-liquidating and carry a low level of credit risk and capital charge, as defined under the Bank of Mauritius guidelines.

	As at 30 June 2023	As at 30 June 2022	As at 30 June 2021
	Rs	Rs	Rs
Credit related commitments	**3,419,615,642**	2,988,466,953	2,985,446,133

Refer to note 13(c) for disclosures on credit exposures by industry sector.

(c) Bank placements and lending to banks

For the Bank's placements or lending to banks, external credit ratings from international credit rating agencies such as Standard & Poor's, Moody's and Fitch are used on top of internal credit assessments to assist in the credit risk acceptance decisions. The instruments help to diversify risk exposures and income streams, and to maintain a readily available source of liquidity for the Bank.

(d) Risk limit monitoring and control

For the Bank's placements or lending to banks, external credit ratings from international credit rating agencies such as Standard & Poor's, Moody's and Fitch are used on top of internal credit assessments to assist in the credit risk acceptance decisions. The instruments help to diversify risk exposures and income streams, and to maintain a readily available source of liquidity for the Bank.

(d) Risk limit monitoring and control

MauBank Ltd has an established framework to manage, control and limit concentration of credit risk towards individual counterparties, groups, industry sectors and countries.

Credit exposure to any single borrower and to a group of closely–related customers is governed by the Bank of Mauritius Guideline on Credit Concentration Risk. Concentration of risk from large exposures to individual customers or related groups are managed by internal early warning limits which are set below the regulatory limits of the Bank of Mauritius guidelines. The Bank also sets internal portfolio limits and exposures to industry sectors and countries under its Credit Risk Policy Guide (CRPG). Country Risk Management Policy and Cross Border and Investment Policy with a view to achieving a balanced and well-diversified portfolio. These limits are monitored on an ongoing basis and escalated to the Credit Risk Monitoring Committee (CRMC) and the Board Risk Management Committee (BRMC).

Related Party Transactions

Notwithstanding the regulatory compliance requirement on related party transactions, the Bank also has its internal policy governing transactions with its related parties.

Both internal and regulatory limits are monitored on quarterly basis at the Credit Risk Monitoring Committee (CRMC) and escalated to the Board Risk Management Committee (BRMC).

The Bank has only exempted related party exposures. Its top six related parties as at 30 June 2023 were Rs 3,220.96 Mn, Rs 721.83 Mn, Rs 500.32 Mn, Rs 204.50 Mn, Rs 203.47 Mn, and Rs 147.71 Mn, These balances represented respectively 106.83%, 23.94%, 16.59%, 6.78%, 6.75% and 4.90% of the Bank's Tier1 capital. The total top six related parties represented Rs 4,998.78 Mn or 165.80% of Tier 1 capital.

Enterprise and Operational Risk

MauBank Ltd has adopted the definition of operational risk of Basel II as 'the risk of loss resulting from inadequate or failed internal processes, people and system or from external events'. It includes legal risk but exclude strategic and reputational risk (and resultant losses). These are covered under Pillar 2 of the Basel II accord.

Enterprise and Operational Risk Governance

The Bank is guided by its Operational Risk Policy & Framework and its Enterprise Risk Management Framework which is approved by its Executive Committee (EXCO), the Board Risk Management Committee and the Board of Directors.

The Enterprise and Operational Risk Team is headed by a Head of Department , reporting to the Chief Risk Officer (CRO) and the Operational Risk Committee (ORC).

The Operational Risk Committee is held regularly and stands guided by its Terms of Reference which is approved by EXCO and the BRMC. Matters related to Medium, High and Critical risks - as reported and assessed by Business Units in the Loss Data Capture (LDC) system and thereafter independently reviewed by the Operational Risk Team - are addressed in this committee and recommendations are made to address any weaknesses captured by business units from their day-to-day operations and any key risks as identified from their Risk Control Self-Assessments (RCSA). The minutes of the ORC and Executive Summary reports on various key risk areas are escalated to the Board Risk Management Committee.

Loss Data Capture and Reporting System

The Bank collects data for all operational risk losses pertaining to operational errors and internal control failures including 'near-misses' in its Loss Data Capture (LDC) system. The collection and analysis of the Bank's own loss data provides vital information to management and provides basis for operational risk management and mitigation. The LDC is an on-line system which is made available to all business users across the Bank and acts as a radar for capturing operational risk incidents. It is an important pillar in the operational risk framework.

Risk Management (Cont'd)

Operational Risk Capital Charges under Basel II and III

MauBank Ltd has adopted the Basic Indicator Approach (BIA) for the computation of its capital charge for operational risk. The BIA uses the Bank's total gross income as its risk indicator. The total operational risk regulatory capital under the Basic Indicator Approach is the average of 15% of the gross income over the last three years.

Business Continuity Planning and Disaster Recovery

The Business Continuity Steering Committee ("BCSCOM") derives its mandate from EXCO to act as a platform for providing a clearly defined governance structure which oversees and ensures business continuity of the bank's operations in case of significant business disruption. It ensures that critical business units of the bank conduct a Business Impact Analysis (BIA) and incorporate therein estimated timeframes for recovery, resource requirements, interdependencies and risk assessments. It also ensures that remedial actions for the identified business functions that consolidate and optimize available resources, are consistent with all the Bank's policies, and are achievable

Crisis Management Team (CMT)

As provided for in its BCP, the Bank may convene its Crisis Management Team (CMT) for managing any crisis situation.. The CMT ensures that, as far as possible, the Bank maintains continuity of its activities to serve its customers and the public in general while at the same time mitigating the risk to its stakeholders. The CMT is constituted of senior executives of the Bank and is chaired either by the Chief Executive or the Deputy Chief Executive.

The CMT have to, inter-alia, decide on the strategic direction of the Bank, ensure there is communication with regulatory bodies and the public, reallocate resources as may be deemed necessary to contain the crisis, review and approve expenses related to the crisis situation, as also set or review policies, or allow temporary derogation/exception to policies, if deemed necessary.

Disaster Recovery exercise

Every Year, the bank conducts a disaster and recovery exercise on its critical systems to test the effectives and robustness of its infrastructure so as to ensure operational resilience.

The Disaster Recovery (DR) exercise assesses the level of readiness of the Bank to face a Significant Business Disruption (SBD) situation, both from human resource and system capacity perspectives. For the purpose of conducting the DR, the Bank has, during the course of this financial year, reviewed and upgraded its documented standards of procedures with a view to improving the effectiveness and readiness of the Bank to face a SBD.

Disaster Recovery exercise

Following the DR exercise, a report on the findings of the DR exercise is issued independently by the Control Functions - i.e. Risk Management Division, Compliance Department and Internal Audit Department - and same is presented to the Board, together with a critical evaluation of the DR's overall effectiveness including recommendations for improvement of the Bank's resilience in the event of a SBD.

Control Functions will, inter-alia, assess Business Units on the following:

- Level of readiness of each Business Unit to face a contingency situation;
- Level of understanding of staff regarding the purpose of the DR exercise;
- How well staff members are able to handle operations and ensure business continuity.

Market Risk Management

Market Risk is defined as the risk that the value of on and off-balance sheet positions of the Bank will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices and commodity prices resulting in a loss to earnings and capital. In simpler terms, it is defined as the possibility of loss to a Bank caused by changes in the market variables.

MauBank Ltd is presently exposed to the following sources of market risk:

- Trading market risk arising through overnight position taken on foreign exchange customer flows, equity & equity like investments and holdings of Government of Mauritius Treasury Bills & Bank of Mauritius Bills.
- Non-trading market risk arising from market movements in exchange rate, equity price and interest rate in banking book with the occurrence of mismatch of Assets and Liabilities repricing, and from off balance sheet items.

The Bank's Market Risk Management Policy and Framework ensures the management, identification, assessment, monitoring and reporting of these risks by the different lines of defence. The Treasury Front Office as first line of defence manages the market risk within the risk limits and policies approved by the Board and monitored through Asset and Liability Committee (ALCO), The Asset Liability Capital Management (Treasury Middle Office) and Treasury Back Office Teams act as second line of defence in monitoring and reporting. Moreover, the Risk Management Department ensures that there are adequate controls in place while the Compliance function ensures that the policy is in accordance with the regulatory requirements and that the Bank is complying with the approved policy, guideline and procedures. The Internal Audit, as third line of defence, independently reviews, validates, verifies and assesses the effectiveness of the framework. The Market Risk Management Policy and Framework is approved by the Board of Directors, as recommended by the Board Risk Management Committee.

Early warning signals and alerts are raised on different levels of exposures of the banking book activities to foreign exchange risk, equity risk, interest rate risk and liquidity risk.

Management Discussion and Analysis

Risk Management (Cont'd)

Foreign exchange risk

Foreign exchange risk is the risk arising from movements in foreign exchange rates that adversely affect the Bank's earnings and economic value. ALCO is the Management Committee in which foreign exchange and treasury matters are discussed and analyzed. The Bank's Treasury Unit manages the overall Foreign Currency Exposure within the regulatory limit of 15% of Tier 1 Capital as well as operates within the internal overall limits for USD, other major currencies and exotic currencies as set by ALCO and approved by the Board Risk Management Committee. The Stop Loss limit and Dealers' limit are also set and reviewed by ALCO.

Stress Testing on Foreign Exchange Position is carried out under low, medium and severe stress scenarios to determine the change in capital requirements and potential impact on earnings.

Equity Risk

Equity risk is the risk that movements in equity prices will negatively affect the value of equity positions. Equity includes instruments like common stocks whether voting and non-voting; equity-like convertible securities; commitments to buy or sell equity securities; depository receipts; equity derivatives; stock indices; index arbitrage; and any other on-balance sheet or off-balance sheet positions which are affected by changes in equity prices. The bank's equity and equity like investment portfolio comprises of mainly mutual fund and trade fund.

The Bank carries out stress testing for adverse movement on the equity portfolio under low, moderate and severe stress scenarios which are reported on a monthly basis to ALCO.

Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Bank's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on the Bank's net interest income, while a long-term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures are affected.

The Bank uses the repricing gap schedules to measure the interest rate risk. A gap report is a static model wherein Interest Sensitive Assets (ISA) and Interest Sensitive Liabilities (ISL) and Interest Sensitive Off-Balance Sheet items are stratified into various time bands according to their maturity (if fixed) or time remaining to their next repricing (if floating rate). The size of the gap for a given time band – i.e. Assets minus Liabilities + Off-Balance Sheet exposures that reprice or mature within that time band gives an indication of the Bank's re-pricing risk exposure. If ISA of the Bank exceed ISL in a certain time, the Bank has a positive gap in that particular period and vice versa.

The Bank adopts the two common approaches for the assessment of interest rate risk, namely the Earnings Perspective and the Economic Value Perspective.

Under the earnings perspective, the focus of analysis is the impact of changes in interest rates on reported earnings. A change in interest rate - either upward or downward - may reduce earnings.

The economic value perspective considers the potential impact of interest rate changes on the present value of all future cash flows and therefore represents a comprehensive view of the potential long-term effects of changes in interest rates. The economic value of an instrument represents an assessment of the present value of its expected net cash flows, discounted to reflect market rates. By extension, the economic value of a Bank can be viewed as the present value of the Bank's expected net cash flows, defined as the expected cash flows on assets minus the expected cash flows on liabilities plus the expected net cash flows on off-balance sheet positions. In this sense, the economic value perspective reflects one view of the sensitivity of the net worth of the Bank to fluctuations in interest rates.

Stress Testing on Interest Rate

The Bank conducts stress tests under a wide range of severities to test its earnings stability and capital adequacy. It also involves an across the board interest rate shock of 200 basis points up or down while 400 basis points for its banking book only. The impact reflecting the worst case scenario is considered in determining whether the capital is commensurate with the level of interest rate risk in the banking book (IRRBB).

Liquidity Risk Management

Liquidity risk is the risk arising from the Bank's inability to meet its payment obligations when they fall due or only being able to meet these obligations at excessive costs.

The Bank manages its Liquidity risk through an established Liquidity Risk Management Policy and Framework, which conforms to the Central Bank's directives and Basel III liquidity risk norms. The Liquidity Risk Management Policy and Framework is approved by the Board of Directors as recommended by the Board Risk Management Committee.

The policy, through the establishment of key control ratios, ensures that the Bank maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets, to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. The policy also ensures that the Bank can meet on-going liquidity obligations and liquidity stress situations. Besides, the policy also covers the contingency funding plans of the Bank to meet any funding mismatches.

The Asset and Liability Committee (ALCO), chaired by the Chief Executive, is empowered to provide strategic directions and take important decisions pertaining to management of liquidity and market risk. Matters discussed at ALCO are reported to the Board Risk Management Committee, the latter being a sub-committee of the Board.

The three lines of defence risk model is applied for liquidity risk management. The first line of defence, the Money Market Unit of the Treasury Front Office manages liquidity risk on a daily basis through cash flow projections and intra-day update of the cash flow whilst the Asset Liability Capital Management (ALCM) Unit monitors the liquidity risk limits post end of day. Liquidity risk limits and tolerance levels are contained in the Liquidity Risk Management Policy and Framework as approved by the Board of Directors.

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Risk Management (Cont'd)

Liquidity Risk Management (Cont'd)

The second line of defence, being the Risk and Compliance functions, ensure that the first line has adequate internal controls in place for liquidity risk oversight and that the Bank is complying with the regulatory norms from a liquidity risk perspective.

The third line of defence is the Internal Audit, which carries out independently a review and validation of the effectiveness of the Liquidity risk management framework.

The Bank through its set of procedures and policies has embedded control mechanism in-built in its processes as a means to mitigate liquidity risk. The management of intra-day liquidity risks includes as methodology, the continuous Cash Flow update, comprising of the actual and expected flows taking place throughout the day.

The Money Market Unit is thereby able to make sure that there is sufficient balance to meet payment and settlement obligations at all times.

Liquidity Risk Appetite and Tolerance Management

In line with Principle 2 of Basel III on liquidity risk, the Bank articulates its liquidity risk tolerance that is appropriate for its business strategy and its role. The Bank is guided by its approved risk appetite and tolerance levels.

The risk tolerance is reviewed once a year by ALCM and approval is sought from Board through ALCO and BRMC. Stress test is performed on a monthly basis by the ALCM and the impact is compared against the risk tolerance of the Bank. ALCM also makes available the results of the stress testing analysis to ALCO and to Board Risk Management Committee. Internal limit setting and controls are put in place in accordance with the Bank's articulated risk tolerance limit.

Liquidity concentration risk associated with large individual depositors, is monitored by ALCM on a daily basis and is reported to ALCO on a monthly basis. A regular assessment is made of top 25 single depositors and 10 group depositors for the purpose of deposit concentration risk.

The Bank mainly monitors and manages its liquidity risk through the Liquidity Coverage Ratio (LCR) and Maturity Mismatch Profile of Assets and Liabilities/Gap Analysis Report.

Liquidity Coverage Ratio (LCR) represents a standard that is designed to ensure that the Bank has an adequate inventory of unencumbered high quality assets (HQLA) that consist of cash, or assets convertible into cash at little or no loss of value in market, to meet its liquidity requirements for a 30 days' liquidity stress period.

Management Discussion and Analysis

Risk Management (Cont'd)

Liquidity Risk Management (Cont'd)

Disclosure of Liquidity Coverage Ratio

LCR common disclosure as at 30 June 2023 - Consolidated basis in MUR

(Consolidated either in MUR or USD)		Total Unweighted Value (quarterly average of bi-monthly observations)	Total Weighted Value (quarterly average of bi-monthly observations)
HIGH-QUALITY LIQUID ASSETS			
1	*Total high-quality liquid assets (HQLA)*	4,556,956,184	4,556,956,184
CASH OUTFLOWS			
2	*Retail deposits and deposits from small business customers, of which:*		
3	*Stable deposits*		
4	*Less stable deposits*	15,726,755,730	1,183,026,987
5	*Unsecured wholesale funding, of which:*		
6	*Operational deposits (all counterparties)*	8,914,255,684	2,228,563,921
7	*Non-operational deposits (all counterparties)*	1,010,382,004.84	654,167,978.58
8	*Unsecured debt*		
9	*Secured wholesale funding*	-	-
10	*Additional requirements, of which:*		
11	*Outflows related to derivative exposures and other collateral requirements*	463,919,058	463,919,058
12	*Outflows related to loss of funding on debt products*		
13	*Credit and liquidity facilities*	1,110,078,889	104,108,814
14	*Other contractual funding obligations*		
15	*Other contingent funding obligations*	-	-
16	**TOTAL CASH OUTFLOWS**	27,225,391,365	4,633,786,758
CASH INFLOWS			
17	*Secured funding (e.g. reverse repos)*		
18	*Inflows from fully performing exposures*	4,984,161,010	4,749,615,195
19	*Other cash inflows*	464,496,903	464,496,903
20	**TOTAL CASH INFLOWS**	5,448,657,913	5,214,112,098
			TOTAL ADJUSTED VALUE
21	**TOTAL HQLA**	4,556,956,184	4,556,956,184
22	**TOTAL NET CASH OUTFLOWS**		1,158,446,689
23	**LIQUIDITY COVERAGE RATIO (%)**		393.37%
24	**QUARTERLY AVERAGE OF DAILY HQLA**		4,710,782,021

The reported figures for "quarterly average of bi-monthly observations " are based on bi-monthly figures for April, May and June 2023.

The reported figures for "quarterly average of daily HQLA "are based on business days figures over the period from 1 April 2023 to 30 June 2023.

The liquidity Coverage Ratio decreased from 514% as at 30 June 2022 to 393% as at 30 June 2023 attributable to a fall of MUR1.3 billion in HQLA. However, the LCR ratio remains well above the regulatory limit of 100%.

Risk Management (Cont'd)

Maturity Mismatch Profile of Assets and Liabilities/Gap Analysis

The Bank uses gap analysis method to determine fund excess or shortage under different time buckets. Cash flows from assets and liabilities are considered under two different approaches namely contractual maturity and behavioural. They are determined on the basis of the terms and conditions of funding or loan instruments as well as on the basis of behaviour of customers, assessed from their past history and current relationship with the Bank.

Stress Testing and Scenario Analysis

MauBank Ltd conducts stress tests on a regular basis for a variety of short-term and protracted institution specific and market-wide stress scenarios (individually and in combination) to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with the Bank's established liquidity risk tolerance. The bank also carries out various stress tests to assess the impact on its liquidity gap within a period of one month after the reporting date. These tests help to assess the ability of the bank to meet its obligations during period of stress under various scenarios so as to raise any alert on the potential impact of adverse shocks. Several sensitive analyses are also being done based on different single stress test factor as well as multi-factor stress tests. The Bank uses the stress test outcomes to adjust its liquidity risk management strategies, policies and positions and to develop effective contingency plans.

Country Risk

Country risk refers to the probability that changes in the business environment in another country where the Bank is doing business may adversely impact its operations or payment for imports resulting in a financial loss. Country risk also includes sovereign risk, which is a subset of risk specifically related to the Government or one of its agencies refusing to comply with the terms of a loan agreement. Causes of country risk include political, macroeconomic mismanagement, war or labour unrest resulting in work stoppages.

Country Exposure Limits

In keeping with the Bank of Mauritius' Guidelines on Country Risk Country Management and the Guideline on Cross-Border Exposure, exposure limits are reviewed and approved by the Board. The Bank sets exposure limits for individual countries to manage and monitor country risk. Country exposure limits apply to all on - and off - balance sheet exposures to foreign obligors.

Country Risk Measurement and Monitoring

On and off-balance sheet exposures are measured in line with the Bank of Mauritius guideline on 'Standardized Approach to Credit Risk'.

The Bank gathers in a timely manner, information about developments in exposed countries that may have a bearing on the country risk assessment though various sources, for example MauBank Ltd relies on ratings by External Credit Rating Agencies for country risk limits setting.

Reputational Risk

Reputational risk is the risk that the Bank could lose potential business because its character or quality has been called into question. Reputational risk is underlying in all business activities/operations, and any adverse event taking place anywhere within the Bank can potentially impact on its reputation. The process begins at the various Management Forums/Committees by proactively identifying the reputational risks that could impact the Bank following which appropriate strategies and tactics are developed to mitigate each risk and associated implications.

Business and Strategic Risk

Strategic business risk is a possible cause of loss that might arise from the following sources:

a. The original strategic plan may be successfully implemented and may be sufficiently flexible and robust to withstand the impacting risks encountered during implementation. However, having arrived at the new desired position, the organisation might discover that the position is no longer optimal. This could occur because market conditions have changed during the timescale required for implementation.

b. Strategic drift is a risk that all organisations face when they cannot deliver their intended strategic objectives because they have no means of monitoring their progress.

c. As the timescale considered increases, the degree of uncertainty also increases. As uncertainty increases, the number of long-term issues that can impact on the strategy implementation process also increases. These long-term issues represent strategic risks.

Strategic business risk is a possible cause of loss that might arise from the following sources:

d. Unforeseeable strategic risk is a fundamental characteristic of strategic risk management in that the comprehensive management of these unforeseeable issues is generally beyond the control of a single organisation and its management. Responding to such risks therefore involves the application of constant monitoring to determine their effect on the business.

MauBank Ltd uses the following methods of strategic risk management:

- Business planning
- Monitoring of Performance against Objectives as per five year plan
- Assessment of external (industry and macroeconomic) environment
- Readjustment of plans

Management Discussion and Analysis

Risk Management (Cont'd)

Compliance Risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation that a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its Banking activities.

MauBank Ltd has adapted its compliance function with the general principles of the Basel Committee on Banking Supervision on "Compliance and the Compliance Function in banks" and stands guided by its Compliance Policy. This Policy approved by the Board of Directors sets out the principles and standards for compliance and management of compliance risks in MauBank Ltd with the objective to guide business to manage the compliance risks effectively and obligations inherent in their respective activities.

Compliance is one of the key functions in the bank's corporate governance structure. The identification of compliance risk, its assessment, testing and appropriate risk response are vital for the bank to conduct its activities in accordance with the applicable laws and guidelines.

The general approach to mitigate compliance risk at MauBank Ltd is as follows:

1. Promoting a Compliance Culture across the bank by educating staff on compliance matters.

2. Ensuring compliance with legal/regulatory requirements by implementing a risk-based approach plan.

3. Ensuring that the Anti Money Laundering and Combatting the Financing of Terrorism (AML/CFT) requirements are complied with.

4. Keeping abreast of regulatory changes and ensure implementation and adoption by relevant business units.

5. In line with Section V of BOM Guideline on Corporate Governance, the Compliance function maintains its independence. Concurrently, the Compliance function also provides its advisory support and guidance to the Business units.

Capital Management

The Capital Adequacy framework is supported by a Board approved Internal Capital Adequacy Assessment Process (ICAAP) which encompasses capital planning for current and future periods, taking into consideration strategic focus and business plan and assessment of all material risks under stress conditions.

The Bank's Capital Management Objectives, amongst others, is to provide sufficient capital for the Banking business to achieve its strategic objectives, taking into account the regulatory, economic and commercial environment in which it operates.

The other objectives when managing capital are:

- To comply with the capital requirements as set by the regulator;
- To safeguard the Bank's ability to continue its business as a going concern;
- To maximize returns to shareholders and optimize the benefits to stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital Management (Cont'd)

Capital adequacy and the use of eligible capital are monitored regularly by Management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by Bank of Mauritius for supervisory purposes. The required information is submitted to the Bank of Mauritius on a quarterly basis.

As at 30 June 2023, the total capital base stood at **Rs 3,373,733,000** compared to Rs 2,662,338,000 for the year ended 30 June 2022 and the total risk weighted assets stood at **Rs 21,981,003,000** compared to Rs 18,318,424,000 at 30 June 2022.

CAR was at **15.35%** as at 30 June 2023 compared to 14.53% at 30 June 2022 and 13.33% at 30 June 2021.

BASEL II Approaches

MauBank Ltd has adopted the following approach for determining the regulatory capital requirements under the Bank of Mauritius Basel II guidelines for Pillar 1.

a) Credit risk : Standardised approach
b) Market risk: Standardised approach
c) Operational risk: Basic Indicator approach

As part of its ICAAP, MauBank Ltd has conducted stress testing under various historical and stress test scenarios to assess the impact of stress on its capital position. The methodology for the stress testing is approved by the Board of Directors. The results of stress testing are reported to the Board of Directors and the Bank of Mauritius.

In June 2022, Bank of Mauritius has issued its Guideline on Stress Testing which draws on the stress testing principles of the Basel Committee on Banking Supervision (BCBS) contained in its publication 'Stress testing principles', October 2018. As underscored by the BCBS, stress testing is integral to banks' risk management in that it alerts bank management and bank supervisors to the potential impact of unexpected but plausible adverse shocks and provides them an indication of the financial resources needed to absorb such losses. Stress testing can also be used as a key input for risk identification, monitoring and assessment.

Maubank has in place a Stress Testing Framework as approved by its Board of Directors in November 2022.

BASEL III

The Basel III regulation requires higher and better quality capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk based requirement, measures to promote the build-up of capital that can be drawn in periods of stress, and the introduction of two global liquidity standards.

MauBank Ltd's Capital Structure for the last three years is as shown on page 162.

Technology Risk Management

The bank has adopted NIST 800 framework during the financial year 2022-2023 which is as per one of the recommendation of the new guideline on Cyber and Technology Risk Management. This framework is in place to provide management with explicit and well-informed risk-based guidance on both existing and emerging threats. To support this framework, the Information Security policy has been amended to ensure that staff members are aware of the IT-related risks and ensure compliance thereto. The Information Security policy is regularly updated to incorporate best security practices. The Information Security Policy is approved by the Board of Directors, as recommended by the Board Cyber Security Committee.

Risk Management (Cont'd)

Information Risk Measurement and monitoring

Technology Risk team has in place a quantitative measurement metric to measure the effectiveness of key security controls. Key Risk Indicators (KRI's) are established and measured on a regular basis to ensure that controls are effective and remain at an acceptable level across the organisation. Year-on-year those metrics are further enhanced to have a wider coverage of areas that require more focus and attention in line with the new emerging risk areas.

Cybersecurity

Emails are a critical entry vector used in cyber-attacks by ill-intended parties including but not limited to fraudsters, hackers etc. To mitigate the impact of such attacks, regular phishing simulations are performed by Technology Risk team to increase staff's awareness level. Furthermore, regular security awareness training programme are run Bank-wide to ensure Bank staff are well acquainted with the Information Security policy.

Regular vulnerability scanning and penetration testing are conducted on our Mobile Banking and Internet Banking platforms as well as other internet facing systems and critical system. Furthermore, security tips are frequently shared with our customers for a safe and enjoyable experience when using our secured digital platforms.

Additionally, to strengthen the Bank's resilience related to emerging technology and cyber security threats, appropriate solutions are deployed across the organization, as per the Bank's approved IT security roadmap.

SWIFT Consumer Security Programme

The SWIFT Customer Security Controls Framework (CSCF) is composed of mandatory and advisory security controls for SWIFT users. The Bank has put in place the required Security controls to comply with the SWIFT Consumer Security Programme (CSP).

PCI DSS Implementation

The Bank is continually implementing the control requirements of the Payment Card Industry Data Security Standard with the objective to secure cards data, related processes and systems.

Management Committees

1. Executive Committee ("EXCO")

The EXCO acts on behalf of the Board and exercises all powers and performs such duties for the Bank in relation to the day to day management, operation and, control and governance of the business in conformity with manuals, policies, procedures and authorities. The committee meets on a monthly basis to review the progress towards the strategic plan, mission and vision of the Bank. The committee is chaired by the CE and all departmental executives are permanent members of the committee.

2. Asset and Liability Management Committee ("ALCO")

ALCO meets on a monthly basis to oversee the Bank's liquidity risk, interest rate risk, foreign exchange risk management and treasury matters. The role of ALCO is to set and oversee the various policies for managing the Bank's statement of financial position based on a detailed analysis of risk return trade off; develop guidelines and limits for operating units and treasury; monitor that those limits are adhered. ALCO also ensures that the strategy of the Bank is in line with the Bank's budget and risk management objectives. ALCO monitors the interest margin between assets and liabilities, the cash flow position and liquidity ratio, deposit concentration and also manages the earnings at risk by conducting stress test scenarios under various market conditions.

3. Operations Risk Committee ("ORC")

The ORC meets on a quarterly basis to review the operational risk exposures of the Bank. Operational risk is managed within the Bank's operational risk framework, using the Risk Control and Self-Assessment (RCSA) and its loss data capture (LDC) system as the two main pillars to capture operational risk. The Committee is chaired either by the Chief Executive (CE) or the Deputy Chief Executive (DCE) and consists of members coming from various Business units. Its mandate is derived from the Bank of Mauritius guideline on Operational Risk and Capital Adequacy Determination and the Banks' Operational Risk Management Policy & Framework. This Committee also assists the Board Risk Management Committee (BRMC) in fulfilling its oversight responsibilities relating to operational risk.

Additionally, there are Business/Functional Operational Risk Committees (BORC/FORC) which are essentially sub-committees of the ORC set up for the purpose of assisting the ORC in fulfilling its operational risk management and control responsibilities. In doing so, the BORC/FORC will ensure Operational Risk (OR) is managed in a manner consistent with internal business needs, regulatory requirement of BOM and approved risk appetite for operational risk.

4. Credit Risk Monitoring Committee ("CRMC")

The CRMC aims at monitoring the Bank's exposure to credit risk, ensuring that such risk stays within the Bank's credit policy and credit risk appetite. This committee assists the BRMC in fulfilling its oversight responsibilities in credit related matters. The CRMC's mandate is derived from the Bank of Mauritius Guideline on Credit Risk Management, Basel document on principles of credit risk management and industry's best practices.

The CRMC, on a quarterly basis, reviews and monitors the credit risk exposures to safeguard the Bank against potential losses by identifying trends in the portfolio at an early stage, with a view to initiating timely corrective action on the credit portfolio at risk to prevent further deterioration.

5. Credit Sanctioning Committees ("CSC")

The Bank has two distinct management committees and one at board level whose roles are to consider requests for credit facilities in line with the Bank's defined overall credit risk strategy and have the authority to make a final decision on approval or rejection of proposed credit transactions within the power entrusted to them by the Bank's Credit Risk Policy Guide.

Management Discussion and Analysis

Management Committees (Cont'd)

6. NPA Forum ("NPA")

The NPA Forum reviews the non-performing accounts, type and course of actions for recovery. This forum ensures that all non-performing accounts are captured and that there are clear cut strategies on its recoveries. In this context, the forum makes suitable recommendations on appropriate recovery actions and on the prevention of non-performing accounts based on trend analysis. This Forum meets on a quarterly basis.

7. Account Monitoring Forum ("AMF")

The AMF acts a sub-forum to the NPA Forum where all accounts under the watchlist and the potential non-performing list are reviewed. This forum monitors and agrees action plans, as may be deemed appropriate, to safeguard the Bank against potential losses. This Forum meets on a monthly basis.

8. Procurement Committees

The Bank has two Procurement Committees: one at Management level and the second at Board level, with distinct sanctioning limits to consider, and if deemed fit, approve any request for the procurement of goods or hiring of services in accordance with the Bank's Procurement Policy. This policy requires, inter-alia, that a due diligence is conducted by the Bank's Procurement Unit and an independent evaluation of bids is conducted separately by a Bid Evaluation Committee (BEC), before consideration by the relevant Procurement Committee.

9. Health and Safety Forum

Safety and Health matters are fundamental values in MauBank Ltd and they are therefore fully integrated into the way the Bank conducts its business and in the individual actions of its staff members. The Bank undertakes to ensure the safety of its customers, employees, service providers, and visitors by integrating safety and health protocols in its processes and ensuring compliance with relevant aspects of the Occupational Safety and Health Act. Providing a safe and healthy working environment can only be accomplished through efforts by management and all employees, which devolve on everyone, from top management to the individual worker. This is the essence of the Bank's internal responsibility system and its ultimate goal is to ensure a safe workplace with zero incident.