

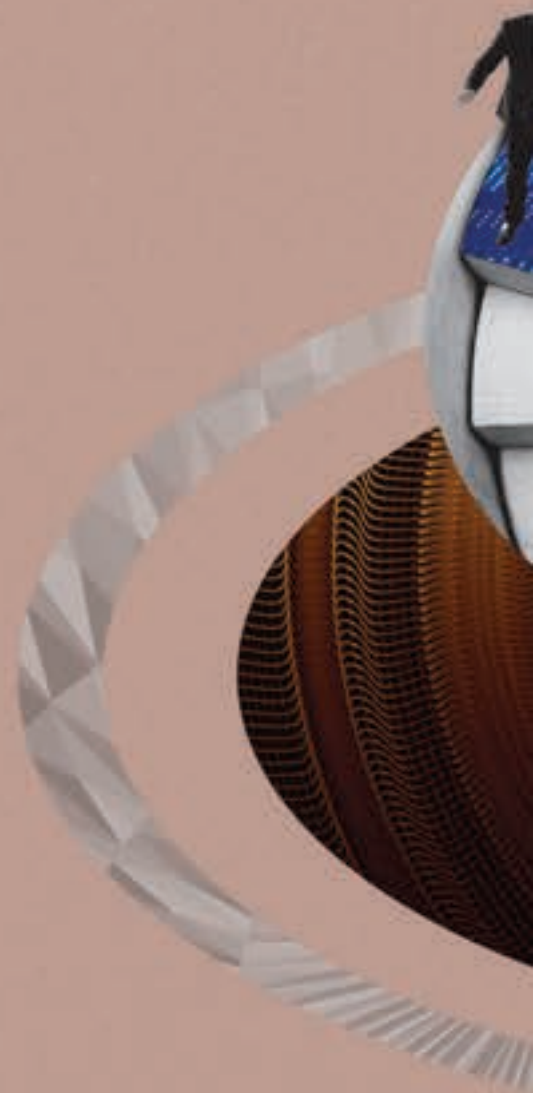
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INTEGRITY

Our shared ways of working Act Responsibly

- We provide great service whilst embracing risk management practices.
- We speak up when something doesn't feel right.
- We admit our mistakes and share what we learn.





FY 2024/25 highlights

The year in review from a risk perspective

The environment in which we operate remained complex and volatile, with persistent headwinds influencing our operations, though the relative easing in monetary policy provided some relief to global financial conditions. In this uncertain context, our overall risk profile stayed within the established limits of our risk appetite, underpinned by robust and proactive risk management practices across the Group. We continued to actively identify and assess risks from both external and internal sources, enabling us to address potential threats and capture opportunities. In this regard, we updated our Enterprise Risk Heat Map to reflect the unfolding risk landscape and prioritise risks that could materially affect our operations, financial performance, solvency, or strategic direction.

During the year, significant progress was made in enhancing the Group's risk management framework. A key focus was laid on operationalising Group-level risk oversight to drive greater consistency in standards and practices across all subsidiaries. Country risk management was further strengthened through targeted visits led by our newly appointed Senior Country Risk Officer, who brings deep African expertise. Recognising the growing complexity and scale of financial market activities, we formalised, at the level of MCB Ltd, a Board-level risk appetite for Market Risk and Asset and Liability Management (ALM), previously set and overseen by ALCO, to enhance strategic governance. The Group further embedded a strong risk culture across the organisation through awareness sessions, training courses and social engineering exercises. We also reinforced risk function capabilities as gauged by the successful completion of the Risk Academy pilot phase and launched a focused Employee Value Proposition to support retention and development.

The most prominent external influences impacting our risk landscape in FY 2024/25 were related to challenging geopolitical and macroeconomic conditions, heightened regulatory and fiscal requirements, rising climate, environmental and social considerations, rapid technological change and evolving cybersecurity threats, shifts in workplace dynamics and employee engagement, and the need to enhance customer experience in a competitive landscape. A description of these factors and our response thereto is provided on pages 36 to 40. To ensure appropriate coverage, we have defined the following key risks that impact our business, with the list pertaining only to major risks and thus not exhaustive.

Our key risks



Our risk management approach remained effective, anchored on: (i) an integrated governance structure promoting sound risk standards, regularly reviewed and adapted as required; (ii) comprehensive, structured processes for identifying, evaluating, addressing and monitoring risks; and (iii) an entrenched risk culture which underpins the shared values, behaviours and practices that drive how risk is considered in decisions. We allocated our capital types prudently to opportunities consistent with our risk appetite, aiming to deliver sustainable, risk-adjusted growth and returns while protecting value for stakeholders. A snapshot of our FY 2024/25 risk profile is set out below, based on key risk indicators, with further details provided in the 'Management of key risks' section.

How we responded to our risk landscape

The following section outlines the impact of developments that occurred in our operating environment on key risks during FY 2024/25 and our response thereto. We continued to invest in strengthening our risk framework, enhancing our systems and tools, and upskilling our people, with a view to addressing risks faced.

The symbol included for each key risk below indicates the perceived change in risk profile, in inherent risk terms, of the main risks faced during FY 2024/25 compared to FY 2023/24.

 Increasing
  Decreasing
  Stable

The capital types impacted by each of the key risk have also been included. Effective management of these capital types not only helps us mitigate risks but also supports our long-term growth and success in a rapidly changing landscape.

Capital types



Financial capital



Social and relationship capital



Natural capital



Human capital



Intellectual capital



Manufactured capital

Principal financial risks

Credit risk

The risk of loss should borrowers or counterparties fail to fulfil their financial or contractual obligations as and when they fall due; Credit risk includes counterparty risk, settlement risk and concentration risk (excessive build-up of exposures to a counterparty, industry, market or product, amongst others).

Capital impacted



Operating context influences: Geopolitical and macroeconomic conditions

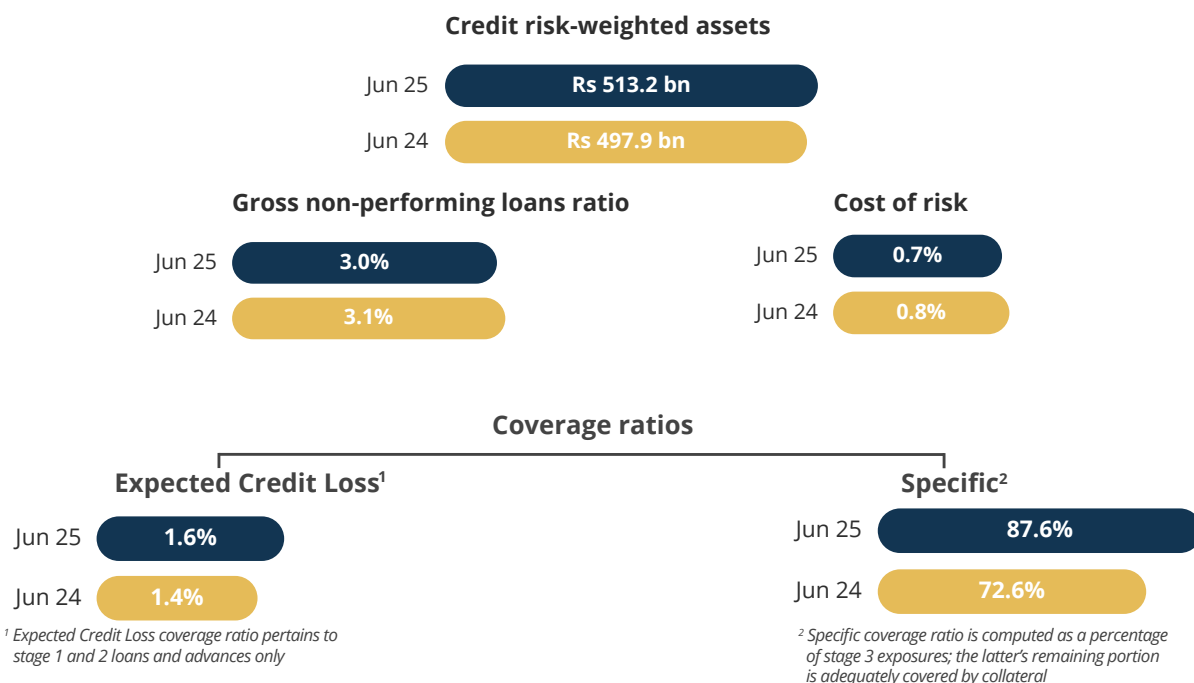
Continued economic growth, supported by gradual monetary policy easing across economies amidst declining inflation, helped stabilise credit default risks. However, the fallout from heightened geopolitical tensions and the still-elevated interest rates and currency pressures in some regional markets continue to impact debt-servicing costs.

Our response

- Maintained a vigilant and proactive approach to credit risk management, backed by careful deal structuring and assessments of borrower creditworthiness, while seeking to uphold a diversified loan portfolio
- Continuously assessed the impact of developments in the operating environment on borrowers' debt repayment capacity, with ongoing attention to foreign exchange constraints in some regional countries notwithstanding improvements observed in key jurisdictions
- Monitored the non-performing asset portfolio performance and the potential effect on credit provisions as a result of the economic and sovereign challenges
- Conducted regular rapid risk review across sensitive and high-risk sectors and geographies to ensure early identification of potential issues with existing borrowers
- Maintained proactive credit management through regular monitoring on our performing portfolio to detect early warning signs
- Successfully implemented the individual lending end-to-end efficiency programme on credit valuation chain, enhancing credit management practices and processes
- Reviewed and updated the credit policies and practices across overseas banking and para banking subsidiaries to ensure Group-wide alignment with best practices
- Aligned credit management practices and strengthened the recovery process across selected entities of the Group
- Ensured a diversified loan portfolio across sectors, setting range targets as part of the credit risk appetite

Our performance

We improved the quality of our exposures on the back of careful market endeavours and strong risk management framework, leading to lower gross non-performing loans ratio as well as a reduced cost of risk (inclusive of notable recoveries made during the year), while reinforcing our provisioning levels.



Country risk



The risk of loss arising when political or economic conditions or events in a particular country inhibit the ability of counterparties in that country to meet their financial obligations.

Capital impacted



Operating context influences: Geopolitical and macroeconomic conditions

Limited fiscal space and heightened political and social tensions continue to weigh on sovereign ratings across the continent. However, recent upgrades in key African markets, backed notably by reform momentum, have helped contain overall country risk.

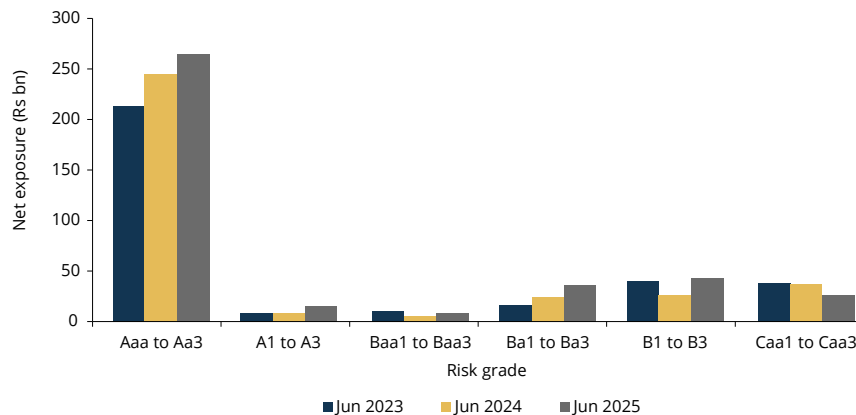
Our response

- Managed MCB's international exposures by: (i) regularly assessing developments in countries with existing exposures; and (ii) conducting comprehensive, risk-informed assessments of new jurisdictions using open-source data and, where feasible, in-country insights
- Maintained a disciplined country-risk diversification approach through strategic allocation of exposures across multiple geographies and sectors within established risk appetite, pursuing activity selectively in markets where we have expertise
- Maintained active contingency planning and scenario analysis, with plans regularly updated to refine strategies in response to evolving country-risk dynamics
- Balanced the risk appetite to support our ambition amidst challenging macroeconomic conditions by: (i) weighing the obligor's ability to generate sufficient foreign currency to service obligations; (ii) emphasising self-liquidating, short-tenor facilities; and (iii) applying credit-risk mitigants to keep exposures at acceptable risk levels
- Conducted multidisciplinary in-country assessment visits to support our African-focused expansion, engaging with regulators, government officials, international financial institutions (e.g., IMF/World Bank), in addition to maintaining interactions with rating agencies, amongst others

Our performance

To reinforce sound country risk management, we continued to lay emphasis on diversified exposures across countries and sectors, while ensuring that our deals are appropriately selected, structured and ring-fenced.

Country risk exposures of MCB Ltd by rating



Notes:

(i) Exposures pertain to funded and unfunded financing activities as well as treasury activities

(ii) For each country, the worst of the ratings assigned by Moody's Ratings, Standard & Poor's and Fitch Ratings has been selected and converted into a Moody's equivalent rating

Market risk

Market risk is the potential for losses arising from changes in the value of financial instruments resulting from adverse movements in market variables such as interest rates, foreign exchange rates and equity prices. It reflects the exposure of our trading portfolio to fluctuations in market conditions that are outside the organisation's control.

Capital impacted



Operating context influences: Geopolitical and macroeconomic conditions | Heightened regulatory demands

Market risk has risen amidst heightened volatility, driven by uncertainty related to tariff war – although the hikes were to a lower magnitude than initially thought – ongoing geopolitical tensions, and shifts in monetary policy worldwide. These factors have impacted market liquidity and contributed to more pronounced fluctuations in asset prices.

Our response

- Applied our strong risk management frameworks, policies and standards, supported by daily limit monitoring for our market risks
- Leveraged our 'Value-at-Risk' (VaR) model, along with 'Stressed VaR' models to capture material market risks arising from trading portfolios
- Formalised the risk appetite for Market Risk of MCB Ltd at Board level, which was previously set and overseen by ALCO
- Extended monitoring hours for the Profit and Loss related to G-10 FX trading activities, notably given the volatility triggered by consecutive US tariff announcements
- Mitigated interest-rate risk through hedging and back-to-back execution, supported by sensitivity controls, such as notional limits and DV01 limits, applied across financial instruments or at the portfolio level

Our performance

Market risk-weighted assets

Jun 25 **Rs 4.9 bn**

Jun 24 **Rs 4.4 bn**

Asset and Liability Management (ALM) risk ↗

ALM risk refers to the vulnerability of the organisation's balance sheet to mismatches between the maturities, repricing, and cash flow profiles of assets and liabilities. It encompasses three core dimensions: (i) liquidity risk which arises from the inability to meet financial commitments as and when they fall due; (ii) funding risk, which is linked to the relative lack of availability of funds or the risk that a maturing liability or class of liabilities may not be able to be refinanced within a designated timeframe, resulting in potential added costs; and (iii) interest rate risk which refers to the impact of rate changes on net interest income and the economic value of equity.

Capital impacted



Operating context influences: Geopolitical and macroeconomic conditions | Heightened regulatory demands

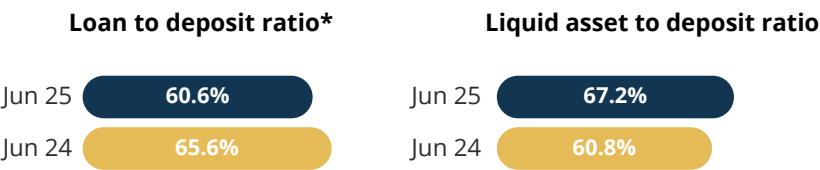
Persisting global uncertainties along with heightened competitive pressures confronting the Mauritian jurisdiction and foreign exchange constraints in regional markets are impacting Asset and Liability Management risk, particularly given their potential impact on funding stability.

Our response

- Proactively managed the funding and capital structure to ensure that the organisation is well-positioned to support business growth while maintaining financial stability
- Monitored investment performance against set objectives and risk limits; Analysed the stickiness of our foreign currency deposits and kept the foreign currency loan to deposit ratio within set target
- Conducted regular stress tests to assess the survival horizon and identify key risk indicators to be monitored
- Maintained sufficient liquidity buffers by operating within the strict risk framework and predefined limits
- USD 350m raised by MCB Ltd in Syndicated Term Loan from Asia in line with its endeavour in diversifying funding sources
- Formalised the risk appetite for ALM of MCB Ltd at Board level, which was previously set and overseen by ALCO

Our performance

We sustained strong funding and liquidity positions throughout FY 2024/25, with MCB Ltd reporting a consolidated Liquidity Coverage Ratio (LCR) of 621%, reflecting a comfortable buffer and sound financial management.



*Refers to net customer loans and advances (including corporate notes) to customer deposits

Capital risk ↘

The risk that arises from the possibility of having an inadequate quantity or quality of capital to meet internal business strategies, regulatory requirements or market expectations in the area of structural risk.

Capital impacted



Operating context influences: Geopolitical and macroeconomic conditions | Heightened regulatory demands

Capital risk eased during the year, supported by sovereign rating upgrades in key African markets as well as our improved capital position, providing a strong safeguard against potential shocks despite stricter regulatory requirements.

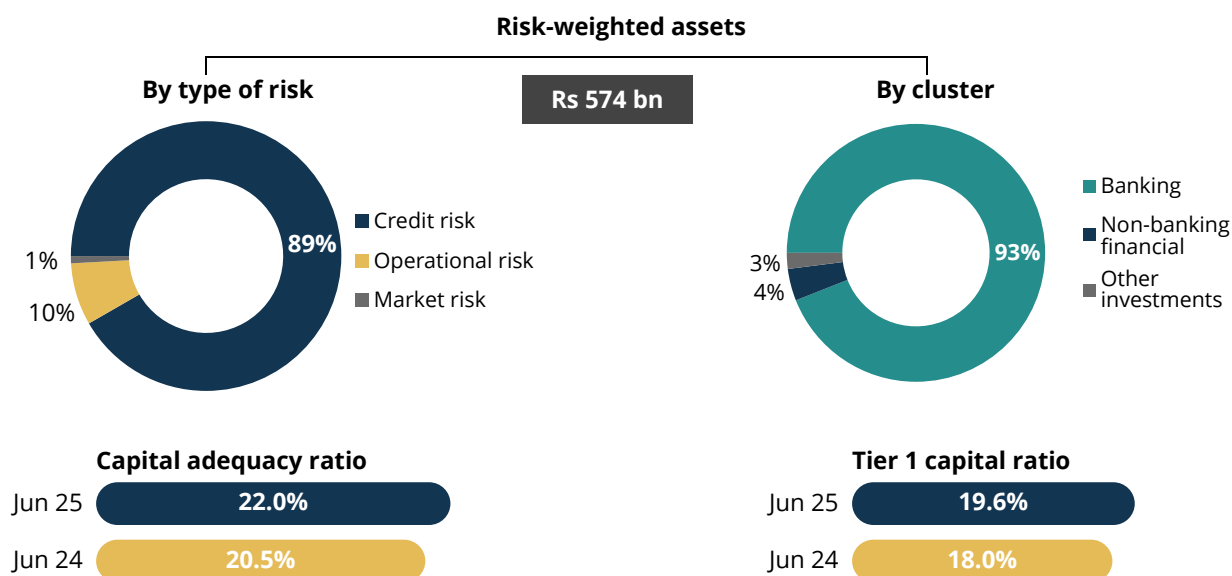
Our response

- Maintained capital levels well above minimum regulatory requirements driven by higher retained earnings, alongside optimising risk-weighted assets (RWAs) utilisation; At the level of MCB Ltd, RWAs limits were set for our Corporate and Institutional and Financial Markets activities, with monitoring conducted quarterly

- Performed regular stress tests on the lending portfolio to ensure that there is sufficient capital to withstand any loss arising from significant exposure to a sector, single customer and group of closely related customers; Ensured that our stress testing framework caters for new regulatory requirements
- Assessed the risks that could affect our solvency ratios and closely monitored key exposures against the risk appetite limits
- Monitored closely the exposure of MCB in countries having a non-investment grade rating status

Our performance

We maintained a robust capital position during the year, supported by our strong financial performance. The main contribution emanated from the banking entities, for which maintenance of adequate capital levels is a key priority by virtue of their business operations and regulatory responsibilities. MCB Ltd's capital adequacy ratio and Tier 1 capital ratio stood at 21.1% and 18.6% respectively, well above its regulatory requirements of 15% and 13% respectively.



Principal non-financial risks

Model risk <>

The risk of losses as a consequence of decisions being based on the output of models that are flawed or inaccurate.

Capital impacted

Operating context influences: Geopolitical and macroeconomic conditions | Heightened regulatory demands | Cybersecurity and technological advancements | Workplace transformations and employee engagement

Model risks remained stable but required ongoing attention due to potential performance impacts from market volatility. Additionally, the growing use of sophisticated machine learning techniques produce outputs that are more complex to validate.

Our response

- Continuously improved the accuracy and robustness of our models, backed by enhanced capabilities
- Enhanced the Corporate Rating framework by upgrading the quantitative rating model using regression techniques to identify key default predictors and applying advanced statistical methods to improve the predictive accuracy of the credit ratings based on financial ratios. In parallel, a new qualitative approach has been developed to incorporate factors such as industry performance and outlook, management quality, regulatory compliance, revenue diversification, business stage and country risk, to improve overall accuracy of client credit ratings
- Included post model adjustments, management adjustments and model override to capture unexpected events
- Back-tested models to validate the performance and adequacy of our models

Operational risk <>

The risk of loss resulting from human factors, inadequate or failed internal processes and systems, or external events such as third-party dependencies and service provider failures. It includes fraud and criminal activity, project risk, information and IT risk.

Capital impacted



Operating context influences: Cybersecurity and technological advancements | Workplace transformations and employee engagement

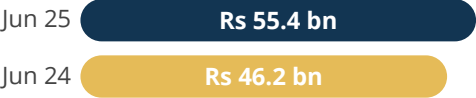
The Group continued to face potential operational disruptions arising from the growing complexity of its activities, the rising incidence of cyber-attacks globally and an increasingly competitive labour market.

Our response

- Regularly reviewed the operational risks inherent in internal processes and client solutions, with monitoring of key operational risk indicators against acceptable tolerance limits
- Maintained effective governance systems, processes and controls to mitigate operational risks, supported by the expansion of the Permanent Supervision and Operational Risk frameworks across specific Group entities
- Embedded a robust and sound risk culture in our day-to-day business activities, namely through the ongoing delivery of our Risk Culture Programme
- Completed an extensive review of the risk and control landscape across Group entities through an update of the Operational Risk Cartography
- Conducted targeted awareness sessions to relevant audiences, with particular focus on overseas banking and local para-banking subsidiaries as part of the deployment of Group Risk oversight

Our performance

Operational risk-weighted assets



Business continuity risk <>

The risk of being unable to continue the delivery of products and services within acceptable time frames at predefined capacity during a disruption.

Capital impacted



Operating context influences: Cybersecurity and technological advancements | Climate, environmental and social considerations | Workplace transformations and employee engagement

The Group continued to face business continuity risks arising from technological outages and more frequent site disruptions, including those linked to rising climatic events.

Our response

- Performed annual exercises and simulated different scenarios to test our business continuity plans and crisis management protocols; Undertook Disaster Recovery (DR) simulations and successfully executed unplanned DR exercises to test the actual readiness of our technical teams
- Continued with ongoing improvement of business continuity responses and scenario planning
- Conducted a cyber crisis management simulation, using realistic scenarios and evolving crisis events to simulate an actual cyber-attack, to rigorously test the readiness of the Bank's crisis teams

Cyber and information security risk <>

The risk of accidental or intentional unauthorised use, modification, disclosure, destruction or breach of information resources/systems that may have an adverse effect on the confidentiality, availability, and/or integrity of information or information systems.

Capital impacted

Operating context influences: Heightened regulatory demands | Cybersecurity and technological advancements | Workplace transformations and employee engagement

Rapid digital adoption amidst evolving customer needs has led to surging data volumes and heightened cybersecurity challenges. The rise of AI is shaping this landscape, enabling both more sophisticated cyberattacks and more effective defence mechanisms.

Our response

- Established a comprehensive cyber resilience strategy supported by a cyber and technology risk framework and appetite
- Strengthened our project risk governance framework to ensure comprehensive risk oversight across projects, with a focus on cyber and technology risks
- Further enhanced our cybersecurity posture through regular independent Penetration Testing, Vulnerability Assessments and Red Team activities by leveraging external expertise as appropriate
- Improved controls over network access and log monitoring, and continued progressing towards a Zero-Trust approach, alongside pursuing system upgrade and adding security solutions to address evolving threats
- Continued to enhance overall staff awareness of general and cybersecurity risks through risk culture campaigns
- Further performed social engineering attack simulations among our staffs to promote the adoption of best practices in terms of cybersecurity risk management
- Further enhanced the detection and monitoring of cybersecurity events through various control systems, resulting in an improved Security Operations Centre management
- Improved our cybersecurity maturity by reviewing existing and introducing new policies related to cyber and technology risk management while maintaining compliance with the relevant regulatory requirements such as the Bank of Mauritius Guideline on Cyber and Technology Risk Management
- Continued to upgrade and test our cyber response capabilities and processes
- Increased staffing in both the first and second lines of defence to better face the increasing scope and complexity of cybersecurity threats

Compliance risk <>

The risk arising from changes in legislation, regulations and advocated norms on the operation and functioning of the Group. It is the risk of sanction and material financial loss or reputational damage.

Capital impacted

Operating context influences: Heightened regulatory demands | Climate, environmental and social considerations | Cybersecurity and technological advancements

The evolving breadth and complexity of regulatory requirements across the Group's markets call for continuous enhancements to our systems and procedures.

Our response

- Strived to adhere to the regulatory compliance obligations by maintaining open and constructive dialogue with regulatory authorities and law enforcement agencies
- Continued to gear up our overall compliance framework and enhance our policies, procedures and controls to meet heightened regulatory requirements and underpin the deployment of our activities

- Ensured ongoing enhancement of the transactional and screening alert systems and framework to reinforce effectiveness, which also included the upgrade of the Financial Crime Risk Management (FCRM) platform for SWIFT screening to enable the filtering of MX Message Types (ISO 20022) for all banking subsidiaries
- Reviewed and enhanced our policies and procedures to meet regulatory requirements locally and overseas. This also ensured that we continue doing business in such a manner so as to reduce any risk of our product being used for money laundering, terrorism, proliferation financing, bribery or corruption, in line with emerging legislative requirements and global best practices
- Reviewed the Enterprise Risk Heat Map and the Enterprise Wide Risk Assessment (EWRA) from an Anti-Money Laundering/Combating the Financing of Terrorism and Proliferation (AML/CFT) perspective, including the identification of new/emerging risks, for validation and monitoring by the Audit Committee
- Further integrated ESG considerations into our risk management framework in compliance with international and local regulations, thereby measuring and disclosing the Bank's sustainability and societal impact of its way of doing business
- Actively participated in a project spearheaded by the Bank of Mauritius for the establishment of a Central KYC system with a view to reducing the burden, time and cost to both customers and financial institutions, in carrying out KYC document verifications
- Reinforced the culture of compliance through regular awareness and training programmes aiming at increasing the Board members' and employees' knowledge of key policies, laws and regulations applicable to their roles and responsibilities, thereby ensuring transparency and coherence across the Board. Some of the targeted trainings and awareness campaigns included 'Environmental and Social Risk Policy', 'Compliance Risk Management', 'Conflict of Interest and Related Party Transactions Policy' and 'Suspicious Transaction Reporting'
- Pursued human capacity building within the Compliance function, through recruitment of talented professionals, while simultaneously providing opportunities for specialised trainings to all Compliance employees

Legal risk



The risk of incurring losses, sanctions (financial loss, regulatory sanctions, damage to reputation) or operational disruption that may arise from failure or inability to comply with the rule of law (applicable laws, regulations, guidelines, codes of conduct), contractual obligations, or from unclear or equivocal legal interpretations.

Capital impacted



Operating context influences: Heightened regulatory demands | Climate, environmental and social considerations
| Cybersecurity and technological advancements

Legal risk remained stable, supported by strong governance structures and proactive management of potential exposures across markets where we operate.

Our response

- Upgraded the risk controls on the sanctions framework in view of the increased international pressure on Russia from Office of Foreign Assets Control (OFAC), Office of Financial Sanctions Implementation (OFSI), and EU
- Extended its network of specialised law firms to better grasp local insights and obtain actionable legal advice on sanctions matters

Strategic and business risk

The risk arising from inappropriate business decisions or strategies in relation to the operating environment. The risk is linked to changes in the business environment, regulatory decisions, client behaviours and technological progress, as well as Group-specific factors such as poor choice of strategy and inflexible cost structures.

Capital impacted

Operating context influences: Geopolitical and macroeconomic conditions | Heightened regulatory demands | Climate, environmental and social considerations | Cybersecurity and technological advancements | Workplace transformations and employee engagement | Customer experience in a competitive landscape

Disruptions driven by developments in the operating environment across countries where we operate, including heightened competition for talents, volatile economic and market conditions along with evolving needs and expectations of our multiple stakeholders have impacted our strategic and business risks.

Our response

- Continued to appraise the implications of changes in the operating environment on our strategy and ensured focused execution of our strategic priorities
- Pursued our strategy to consolidate existing activities alongside exploring new avenues of growth opportunities
- Continued to execute our niche strategy when conducting cross-border activities which has proven to be resilient
- Engaged with authorities to promote the soundness and image of the industry/jurisdiction; Maintained regular interactions with rating agencies with processes in place for the scrutiny and dissemination of information in areas they monitor
- Reinforced our network of intermediaries and partners
- Further strengthened our internal capabilities by (i) investing in new technologies to drive customer engagement, productivity gains and operational resilience; and (ii) consolidating our talent base through dedicated initiatives to reinforce acquisition, development, retention and succession planning
- Undertook impact assessments related to a potential rating downgrade, including evaluation of potential contingency actions

Reputation risk

The risk arising from the damage to the Group's image caused by negative media coverage, compliance failures, pending litigations or underperformance. Such damage may result in a breakdown of trust, confidence and business relationships, which may impair the Group's ability to retain and generate business.

Capital impacted

Operating context influences: Climate, environmental and social considerations | Cybersecurity and technological advancements | Workplace transformations and employee engagement

Risks to the Group's brand image and reputation are driven mainly by the impact of adverse developments in both the internal and external operating landscape on our relationship with stakeholders.

Our response

- Undertook daily screening of local and international media for potential reputation threats and performed daily automated customer database screening against World-Check lists for risk assessment
- Performed Customer Due Diligence and ongoing monitoring of customers flagged in adverse media
- Actively moderated our social media platforms to address comments and, if necessary, remove inappropriate content
- Dealt with customer complaints in an effective and timely manner
- Leveraged our Crisis Management Governance Structure to enhance preparedness and ensure effective response to potential disruptions
- Continued to invest in strengthening our frameworks, systems and expertise either internally or through our network of collaborators and advisors

- Implemented governance enhancements following the risk assessment of MCB Capital Markets, further reducing potential conflicts of interest and strengthening the delineation between buy-side and sell-side activities
- Implementation of a Group-wide distribution framework to ensure suitable distribution of financial products to non-professional clients

Sustainability risks

Climate risk <>

The financial risks associated with the potential impacts of climate change, which can arise through physical and/or transition risk channels such as extreme weather conditions or changes in legislation.

Capital impacted



Operating context influences: Heightened regulatory demands | Climate, environmental and social considerations

The increasing frequency of extreme weather events warrants our attention due to the potential impact on our operations, asset base and long-term resilience. This is compounded by growing regulatory focus on climate-related risks.

Our response

- Onboarded a new internationally recognised service provider to support the assessment of climate-related physical risk across our wholesale portfolio
- Defined an internal approach for the assessment of climate-related transition risk across our wholesale portfolio
- Integrated a dedicated climate risk scenario into the Bank's stress testing exercise, as part of the Risk Appetite setting process and Internal Capital Adequacy Assessment Process (ICAAP)
- Maintained active regulatory engagement through half-yearly progress updates and participation in Task Force meetings convened by the Bank of Mauritius
- Delivered on the first regulatory climate scenario analysis exercise conducted by the Bank of Mauritius

Environmental and social risk <>

The risks that environmental degradation and social issues result in disruptions in business activities as well as impact our customers and counterparties, while influencing our internal operations.

Capital impacted



Operating context influences: Heightened regulatory demands | Climate, environmental and social considerations

With the rise in regulatory demands and growing emphasis on sustainability, environmental and social standards are becoming prominent in the organisation's activities, influencing both financing decisions and strategic initiatives.

Our response

- Updated the internal Environment and Social Risk Policy, with more details provided on sectors covered as per our risk appetite and the escalation process of Environmental and Social (E&S) risks throughout the credit chain
- Continued to improve the Environmental and Social Risk Management (ESRM) process and monitoring integrated throughout the credit cycle, with risk categorisation based on International Finance Corporation (IFC) and Equator Principles criteria

- Developed standard Environmental & Social clauses for all working capital and trade finance facilities, requiring compliance with environmental and social laws as well as with MCB's environmental and social standards as minimum conditions
- Engaged with E&S consultants, as part of Proparco's Technical Assistance program, to build the E&S risk team's capacity on emerging risks such as Climate and Biodiversity
- Carried out team training on E&S risks across priority sectors such as renewable energy, metal and minerals and oil and gas

Main priorities looking ahead

As we look ahead, our risk management strategy remains focused on enhancing capabilities, reinforcing Group-wide practices and supporting sustainable growth. Our key areas of focus include:

- Deepening the risk culture across the Group through the continued deployment of the Risk Culture Programme
- Continuing to reinforce Group risk oversight for overseas and para banking subsidiaries as well as for MCB Capital Markets, while aligning their policies and practices to Group standards
- Ensuring that business development endeavours and strategic initiatives put forward, in line with Vision 2030, materialise in a disciplined manner on the back of effective risk oversight
- Continuing to proactively monitor country risk events as well as track the performance of our cross-border exposures towards refining our response strategies
- Enhancing our market risk oversight to ensure exposures remain within our pre-defined market risk appetite to support the Africa Trading Desk's activities
- Pursuing our cybersecurity roadmap while continuing to improve our cybersecurity posture and hygiene across all Group entities
- Leveraging the use of machine learning techniques to improve predictive accuracy of the credit ratings based on both financial and non-financial elements
- Continuing to support our sustainability ambitions through the application of our Environmental and Social Risk Policy and framework, including the deployment of the ESRM process across MCB Overseas Banking Subsidiaries
- Pursuing our journey to better navigate the evolving climate risk landscape, with a focus on strengthening our capabilities, refining our methodologies and deepening integration across key business areas
- Upholding the soundness of our key financial metrics, supported by strengthened risk management and compliance mechanisms and continuous upgrades to policies, practices, and processes; maintaining close engagement with rating agencies, notably in the context of recent fiscal consolidation and budgetary measures

To achieve our strategic objectives, we will continue to leverage our robust risk management and compliance framework. Details of the latter are provided hereafter with the following sections organised around: (i) the key foundations and principles including our governance set-up; (ii) management of key risks faced and our positioning; and (iii) capital management.

Our risk management strategy and framework

Our risk management philosophy and foundations

The conduct of our businesses and activities inherently exposes our organisation to risks. Identifying and managing risks effectively is fundamental to the successful execution of our strategy and delivery of sustainable value to our multiple stakeholders.

Key objectives

- Ensuring that our risk management principles are anchored on advocated norms and principles through alignment with industry best practices, corporate governance standards, and applicable statutory and regulatory requirements
- Upholding sound risk metrics by entities to support prudent and informed risk-taking across all decision-making processes
- Adoption of strong governance frameworks, including clear lines of defense, with well-defined and segregated authorities, accountabilities and responsibilities for taking on and managing risk
- Establishment of a clear risk appetite which sets out the types and levels of risk that the Group is willing to take, while ensuring risks are effectively identified, assessed, monitored and managed within acceptable levels
- Availing strong, coherent and harmonised risk management processes, policies, limits and targets
- Catering for an adequate balance between risk and reward considerations, while creating conducive conditions for tapping into market development opportunities

Governance framework

- Ultimate responsibility of the Board of MCB Group Ltd for risk management, with specific responsibilities delegated to its sub committees
- Direct oversight exercised by the Boards of entities and their relevant committees, with support from Group Risk and Compliance functions
- Effective delegation of authority from the Board of each entity to its management and risk functions, with the scope of the latter depending on the nature and depth of relevant operations and activities
- Well-defined intra-Group service delivery and collaboration in support of effective risk management, e.g. specific functions of MCB Ltd providing dedicated services to other entities

Other key foundations

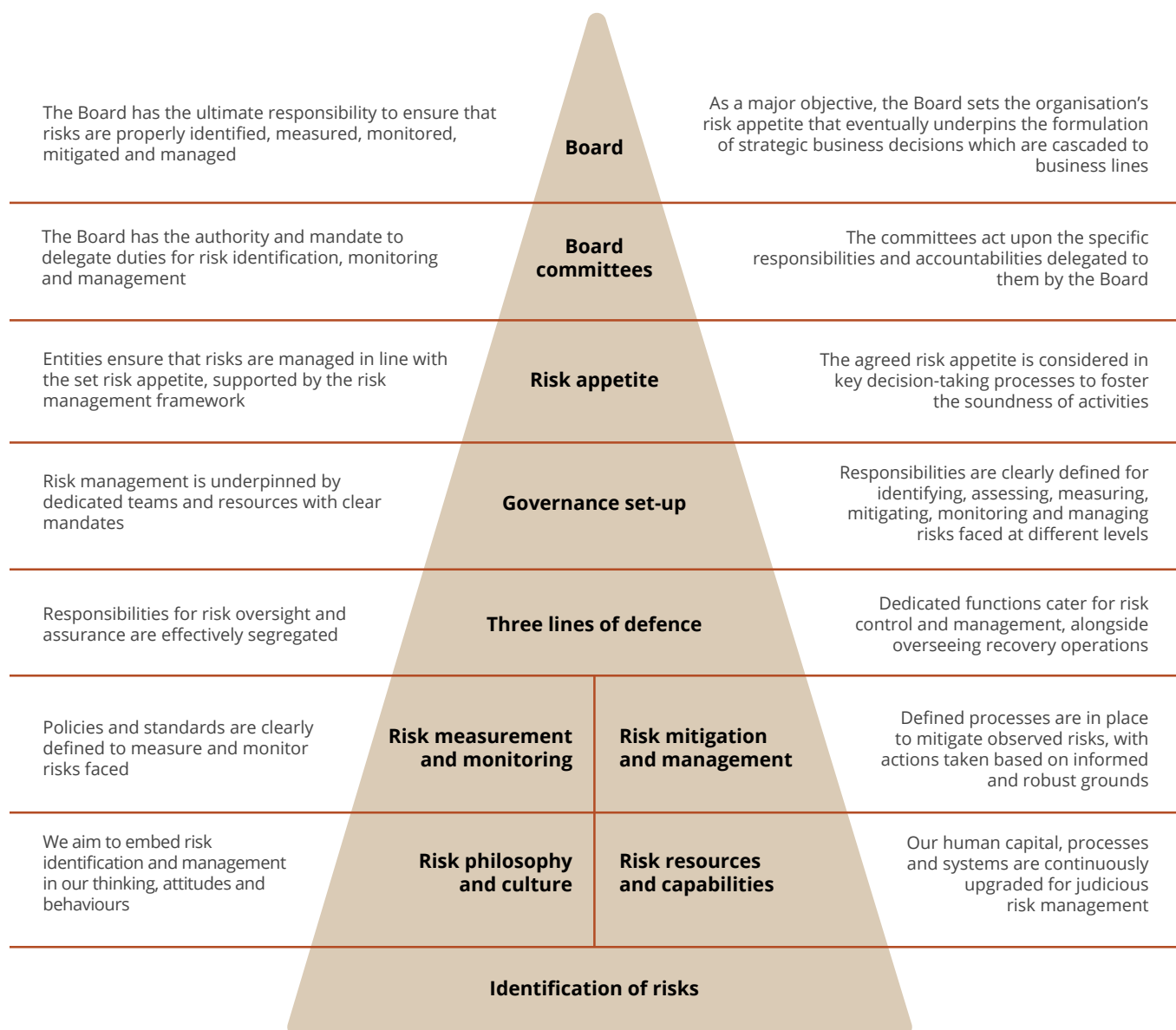
- Regular review and update of risk management practices to ensure consistency with business activities and relevance to financial strategies, while catering for changes in the economic, market and regulatory landscapes
- Adoption of policies and processes that are clear and simple to be understood and executed, alongside ensuring that they are well-documented and disseminated across all layers of the Group
- Adherence to a common set of behaviours, attitudes, skills and guiding courses of action that are integrated throughout the Group in support of coherent decision-taking
- Ensuring that the price charged for solutions is reasonable in relation to the relative riskiness of the exposure

Financial soundness

- Complying with applicable regulatory requirements at all times
- Ensuring that subsidiaries of the Group are adequately capitalised to help achieve sound and sustained business growth and upholding adequate buffers to confront any untoward circumstances
- Maintaining appropriate discipline over the nature and extent of our market development initiatives, with due focus on optimising the allocation of capital across businesses
- Preserving the soundness of our exposures with emphasis laid on healthy loan portfolios through strong credit discipline, prudent market development approach and sensible strategy execution, cautious loan origination and disbursements, and active efforts for debt collection and recovery
- Keeping sound funding and liquidity positions in support of our business development ambitions

Key elements of our risk management set-up

Operating within the directions set by the Board of the MCB Group Ltd, individual entities have their own arrangements to manage risks faced. The following illustration provides an overview of the underlying set-up being generally adopted by entities of the Group, with the scale of structures in place depending on the nature of each entity's activities.



Governance and oversight

To ensure that key risks faced by its entities are properly identified, measured and monitored, the Group adopts a robust governance framework, backed by the articulation of coherent responsibilities, reporting lines and oversight across the organisation. The risk management framework of the Group provides high-level direction for each entity on how to manage risks in a consistent and interactive manner. The allocation of responsibilities across the Group ensures that decisions are taken at the right levels, in alignment with the mandates of internal stakeholders and the strategic orientations pursued by the organisation. MCB's Risk and Compliance functions have been established as Group functions to reinforce enterprise-wide risk oversight and ensure a consistent and integrated approach to risk management across all entities. Each subsidiary, however, continues to take ownership of the risks of its operations and the management of its risk and compliance functions, underpinned by its own governance framework, in line with Group-level orientations, its inherent specificities and prevalent market realities, while Group Risk and Compliance functions ensure oversight on those risks and activities. To support this model, entities also benefit from technical and advisory support provided by specific Strategic Business Units of the Bank, e.g. Internal Audit and Legal through clearly-defined Service Level Agreements. In parallel, the Group Head of Finance assists in fostering a harmonised financial governance framework across the Group.

At Group Level

The Board

- In alignment with its business development orientations, the Board of MCB Group Ltd determines the principal strategies in respect of the risk management of the organisation, while ensuring that all laws, regulations and codes of business practice are adhered to.
- Through the establishment and enforcement of clear lines of responsibility and accountability across the organisation, it ensures that relevant procedures and practices are in place in order to protect the Group's assets and reputation. For the discharge of its duties, the Board is assisted by committees which enable it to properly formulate, review and approve policies on monitoring and managing risk exposures.

Risk Monitoring Committee

- The Risk Monitoring Committee (RMC) advises the Board on risk issues and monitors the risk of the different portfolios against the defined risk appetite, in particular for the banking subsidiaries. While assigning relevant responsibilities and accountability lines, it ensures that rigorous internal processes and controls are implemented to identify, monitor, measure and report different types of risks.
- The RMC monitors risk portfolios against set limits with respect to, *inter alia*, risk concentration, asset quality, large and foreign country exposures. It also oversees the adequacy of the capital, liquidity and funding positions, including under stressed conditions.

Other committees

- A joint Cyber and Technology Risk Committee assists the Board of Directors of MCB Group Ltd and MCB Ltd in defining risk strategies, assessing and monitoring the cybersecurity, information and technology risk.
- The Supervisory and Monitoring Committee oversees the overall management of the Group and is also responsible for the ongoing monitoring of the Group's performance against set objectives in line with the strategic orientations of the Group.
- The Corporate Strategy Committee oversees the business strategy of the Group and its subsidiaries and measures the latter's performance against set objectives whilst ensuring that capital allocation is appropriate.
- The Audit Committee caters for the monitoring of internal control processes and ensuring the preparation of accurate financial reporting and statements in compliance with applicable legal requirements and accounting standards. It also reviews operational and information risks and the actions taken to mitigate them.

 Read more on the key mandates and focus areas of the Board committees of MCB Group Ltd in the 'Corporate Governance Report' on pages 89 to 141

At entity level

The entities of the Group adhere to the overall risk management principles and frameworks validated by the Board of MCB Group Ltd and are accordingly monitored by the Risk Monitoring Committee of the latter. The ultimate responsibility for ensuring that risks are properly identified and managed, however, rests at the level of each entity.

The Board

- Functioning in alignment with the Group's objectives and targets, the Board of each entity supervises its overall risk management, alongside overseeing the establishment of relevant policies, controls, standards, practices and processes, in accordance with the inherent realities of the business. It also acts as the focal point of contact for shaping the relationship with MCB Group Ltd.
- The Board of each entity is responsible for strategy formulation in respect of risk-taking, risk appetite and policy setting. It ensures that its business strategies are clearly linked to its risk appetite and tolerance level. The aim is to ensure that the organisation manages its capital resources at an optimal level in support of growth-related objectives.
- In discharging their duties, the respective Boards demonstrate, to the satisfaction of regulatory authorities and other stakeholders, that a clear structure of policy and control systems is adopted to identify and manage the risk inherent in activities.

Delegation of duties	Control processes
For each entity, risk governance is executed through the delegation of authority and responsibilities from its Board to dedicated committees and/or Management.	The types of risk infrastructure and control processes that are adopted by each entity is a function of the nature, size and complexity of the risks involved.
Control processes and reporting lines have been put into place to foster a coherent and sound segregation of duties with regard to risk taking, processing and control.	The approach and practices embraced by entities to fulfill their risk management obligations are shaped up by the following factors: (i) advocated corporate governance and risk management principles; (ii) the risk-return profiles of markets in which they are involved; (iii) the opportunities and challenges characterising the operating environment; and (iv) relevant legal and regulatory requirements as well as local and international codes and standards impacting the industries and countries in which businesses are carried out.

Key committees by entity

Key committees by entity		
Banking cluster		Non-banking financial cluster
MCB Ltd	Overseas Banking Subsidiaries	MCB Capital Markets (MCBCM) and its subsidiaries
Board committees		
Risk Monitoring Committee	Audit and Risk Committee	Risk & Audit Committee (MCBCM)
Audit Committee		
Cyber and Technology Risk Committee		Supervisory and Monitoring Committee (SMC)
Supervisory and Monitoring Committee		
Executive committees		Financial Products Supervisory Committee (MCBCM)
Financial risk: Credit risk		
Executive Credit Committees (ECC) • The ECC (A), sanctions/declines credit applications where customer group total commitment exceeds Rs 400 million • The ECC (B) sanctions/declines credit applications with total client commitment of up to Rs 400 million	Subsidiary Credit Committee (SCC) • The Local OBS credit committee sanctions/declines credit applications for customers with exposures of up to USD 500,000. Exposures from USD 500,000 to USD 2 million are approved by a joint MCB Subsidiaries Credit Committee. Facilities above this level are channelled to the MCB Subsidiaries Executive Credit Committee	• The committee comprising independent directors, with international expertise, of MCB Capital Markets Ltd, is responsible to oversee all new product launches within MCBCM with the exception of investments which fall within the ambit of the CIS Supervisory Committee
Credit Committees (CC) • The CC sanctions/declines credit applications where customer group total commitment is up to Rs 75 million for retail clients and Rs 150 million for corporate clients		MCB Investment Management (MCBIM) Collective Investment Scheme (CIS) Supervisory Committee • The committee is responsible for the review and assessment of all aspects relating to the CIS management activities of MCBIM, including set-up of new funds, material changes to existing funds and regulatory compliance
Country Risk Committee (CoRC) • The CoRC is responsible for setting individual country limits within the validated risk parameters on selected countries		Investment Committee (IC)
Conduct Review Management Committee (CRMC) • The CRMC ratifies credit exposures and other transactions with related parties where the aggregate of credit exposures/any other transactions to any single related party and/ or its group of connected counterparties do not exceed 2% of the Bank's Tier 1 capital or Rs 500 million, whichever is lower		• The committee, though not a sub-committee of the Board of MCBIM, serves an important purpose in respect of the investment management activities of MCBIM. The IC meets on a quarterly basis and reviews all material aspects of MCBIM's portfolio management process, including strategic and tactical asset allocation, portfolio performance/risk and mandate compliance
Financial risks: Market and Asset & Liability Management risks		MCB Financial Advisers (MCBFA)
Asset and Liability Committee	Asset and Liability Committee	
Non-financial risks		On-boarding Committee (OBC)
Information and Operational Risk Committee	Overseas Banking Subsidiaries Cybersecurity Committee	• The OBC, though an internal committee, plays an important role in the governance framework of MCBFA by screening and (if deemed relevant) approving all new corporate finance advisory mandates being contemplated by the company's executives. The OBC may escalate material transactions to the SMC for review and final approval
Compliance, Anti-Money Laundering and Legal Committee		MCB Securities (MCBSL) Transaction Review Committee (TRC) • The TRC is an internal committee of MCBSL which has the responsibility to review all material transactions/ activities being contemplated by MCBSL including, but not limited to, underwriting, market making and IPOs. The TRC has the authority to (where applicable) approve, reject or escalate to the SMC all transactions being contemplated by MCBSL

In line with principles determined at Group level, risk management policies and structures in other non-banking entities have been designed in order to ensure that business activities are carried out in a sound manner, depending on the types of market undertakings being engaged into as well as the range and depth of risks faced.

Adherence to the three lines of defence approach

The risk control framework of the Group's entities is anchored on the three lines of defence approach, which promotes transparency, accountability and consistency through the proactive identification and segregation of actual and potential risks across the entities.

1st

line of defence

Adopts adequate processes and mechanisms to suitably manage risks faced and escalates knowledge of risks identified in the course of activities for appropriate mitigating actions.

Risk ownership

- The first line owns risks emanating from deployed business activities
- Employees engaged in client-facing divisions and support functions as well as business line managers have the first-level responsibility for day-to-day risk management in the interest of the organisation

2nd

line of defence

Establishes the limits, rules and constraints under which the first line activities shall be performed.

Risk control and compliance

- The Group has relevant independent risk control and compliance functions across entities for effective risk management which also provide advice and guidance in relation to the risk
- At the level of MCB Ltd, the Risk SBU establishes methodologies and activities for risk measurement and regularly monitors and reports risk exposures and profiles, whilst the Compliance SBU ensures compliance with applicable laws, regulations, guidelines, codes of conduct and standards of good practice.
- MCB's Risk and Compliance SBUs, in their capacity as Group functions, provide guidance, expertise and oversight to other Group entities, which can also avail of intra-Group services from Legal SBU in line with the Group Shared Services

3rd

line of defence

Evaluates and provides independent assurance on the effectiveness of the risk governance, control environment and risk management processes and mechanisms, in tune with business strategies and the evolving external environment.

Risk assurance

- The Internal Audit function provides independent assurance that the control objectives are achieved by the first and second lines of defence in line with the set risk appetite
- MCB's Internal Audit SBU provides assurance over control systems and reports on those via the Audit Committee and/or Board of each entity. The findings are consolidated and presented to the MCB Group Audit Committee for an integrated view of the effectiveness of risk management, control and governance processes

Key tenets of our risk management strategy

Risk capacity

The Group determines the level of risk that it can assume given its current level of resources, relevant regulatory dispositions and stakeholder requirements, to the extent that these dynamics tend to influence their ability to take risk.

Risk appetite

The Group entities ensure that their activities are undertaken within the parameters of their risk appetite. The latter is subject to constraints, such as the need to *inter alia* uphold their financial soundness and foster sound and sustainable revenue growth.

Risk tolerance

The Group entities establish the maximum level of risk that they are willing to tolerate for a particular risk category or specific initiative, while ensuring that they achieve their business strategies and operate within their broader-level risk appetite.

Risk profile

Expressed in terms of quantitative indicators and qualitative assessments, each entity's risk profile refers to its current net risk exposures for different risk categories. Amidst an evolving operating environment, Group entities regularly monitor their risk profile, thereby helping to prevent the level of risk from going beyond the set risk appetite.

Risk control

To maintain the size of the entities' risk profile within their risk appetite, risk control tools and mechanisms are leveraged. Control activities are notably underpinned by target market criteria and risk limits which place practical constraints on their activities.

Risk culture

The Group recognises the importance of entrenching a sound risk culture to ensure that we undertake our daily business activities consistently within our risk appetite. Risk culture sets out the suitable behaviours and practices related to risk management and promotes collective responsibility whereby every employee exercises due care and makes informed and risk-based decisions while the Board sets the tone from the top. It is supported by continuous monitoring, regular awareness campaigns and staff training.

Our risk appetite framework

A key objective of the Group's risk management strategy is to determine the level and type of risk that the organisation is able and willing to take when executing its business strategies. The risk appetite is established by means of a complementary set of statements that are determined at Group level and cascaded throughout the entities and their business segments. Qualitative statements seek to make sure that the desired risk culture is adhered to across entities. Quantitative statements seek to shield the organisation from potential adverse events in the operating environment. While ensuring congruence with directions established at Group level as well as relevant mandatory requirements, Group entities set their own risk appetite, control and tolerance levels and mechanisms, which they continuously monitor and, if necessary, update to reflect the optimal level of risk that they are willing to take for the sound execution of their short and medium-term business strategies.

As a case in point, key considerations that guide the Group's main subsidiary, i.e. MCB Ltd, for the identification and quantification of risks are as follows:

Framework

The framework provides an informed guidance for the management and monitoring of its risk profile in relation to the defined risk appetite.



- The Bank articulates and monitors its risk appetite, which is the reasonable quantity and type of risk that it is broadly able and willing to take in the pursuit of its strategic/financial objectives.
- The purpose of setting risk appetite is not necessarily to limit risk-taking, but to align the Bank's risk profile and strategic orientations.
- Its risk appetite is updated at least annually or on an ad hoc basis in order to reflect stakeholder aspirations and the context.

Key underpinnings

MCB Ltd *inter alia* defines its risk appetite for (i) credit risk in terms of allocation of range targets for domestic and international credit exposures, exposures by sectors as well as risk profiles and asset quality of portfolios; and (ii) market risk in terms of the splits between domestic and international markets, foreign currency and interest rate exposures, exposure allocation for position-taking and target splits in terms of exposure maturities.



For proper risk identification and quantification, the Bank caters for:



Continuous monitoring of risk targets



Quarterly risk reporting to RMC



Preparation of risk reports for capital management

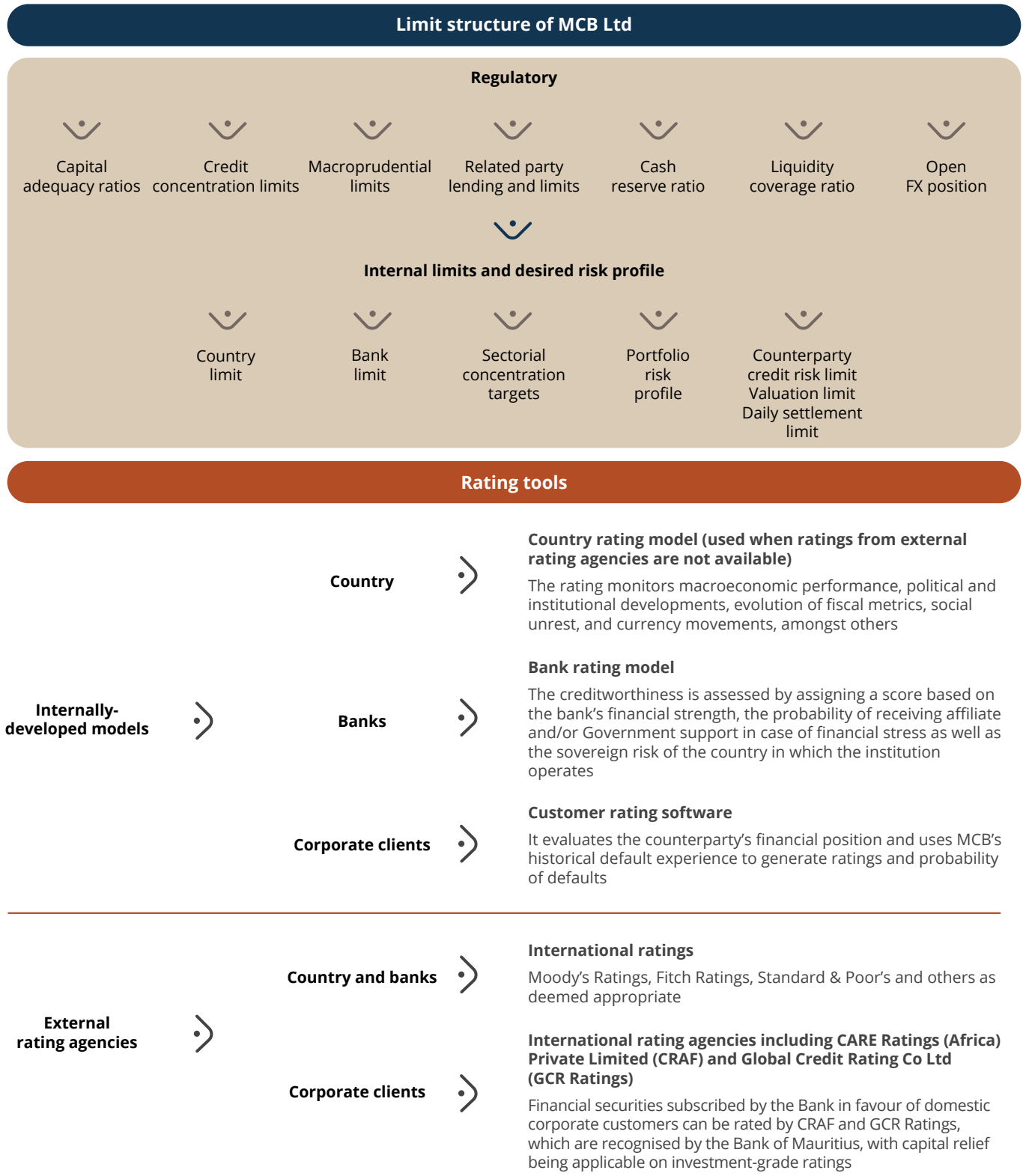


Use of internally-generated and externally-sourced rating tools



Application of a stress-testing framework

The size of the internal risk limits is a function of regulatory requirements, and the risk appetite set by the Board of MCB Ltd, after making allowance for the relevant economic and market environments. In its day-to-day business, the Bank makes use of internally generated and externally-sourced rating tools for the purpose of risk identification, quantification and monitoring.



Management of key risks

Our risk management cycle

Our expanding portfolio and growing market presence underscore the critical importance of maintaining a continuous and integrated risk management lifecycle. The Group's overall risk management process spans the entire cycle, enabling the proactive, disciplined, and structured identification, measurement, monitoring, mitigation, management, and reporting of risks.

1

Identification

Identification of internal and external risks related to the Group, which may directly or indirectly influence our business performance, our ability to achieve set targets as well as our overall viability over time

2

Measurement

Assessment, by means of proven methodologies, of the likelihood of identified risks to materialise (under existing or stressed conditions) as well as their likely impact and materiality under different scenarios; review of the default rates in respect of specific products; determination of capital requirements across risk types

3

Monitoring

Analysis of the sources and specificities of risks faced; appraisal of outcomes posted following the management of risks faced, while factoring in the risk appetite and set KPIs; verifying whether risk controls are efficient in both their design and operation; finding ways and means to further enhance the efficiency of risk assessment and mitigation

4

Mitigation

Adoption/enhancement of measures to reduce the level of risks faced, while deploying actions that minimise the impact should there be adverse events; establishment of an appropriate internal control framework to deal with specific risk situations

5

Management and reporting

Stress testing the resilience of selected portfolios and ensuring that sufficient capital is available to withstand potential losses; regular elaboration of accurate and relevant information on pertinent risk characteristics and trends; ensuring urgent escalation of observed events and outcomes internally and to the authorities, wherever applicable

Our processes, methodologies and positioning by risk type

Credit risk

General approach and objectives

Credit risk represents the main risk type to which we are exposed in view of the nature of our main operations and activities. We ensure that sound credit risk management principles are adopted to uphold quality and well-diversified portfolios that are aligned with the set risk appetite and help to meet targeted risk-return considerations. In line with these principles, we actively promote, monitor and manage the quality of the credit portfolio. Both counterparty and concentration risks are duly managed, backed by market vigilance, the adoption of effective control mechanisms and the judicious diversification of portfolios across customer and industry groups, product types, maturity levels and geographies. MCB Group strives to adopt a strong culture of responsible lending and debt recovery, while leveraging a robust risk management and control framework. We continuously reassess risk profiles in the face of the changing operating context and monitor the exposures against regulatory as well as internal limits and targets.

The Credit Risk Policy of applicable Group entities, which is approved and reviewed by their respective Boards and relevant sub-committees, sets forth the principles by which they conduct their credit risk management activities. The Policy defines the roles and responsibilities for credit risk to be effectively managed across business segments. It provides guidance in the formulation of appropriate frameworks that work towards ensuring that business generation is harmonised with the established target market criteria. The *modus operandi* shaping up the credit risk management set-up is governed by rules set out in Guidelines issued by the respective central banks.

Measurement and monitoring

Credit risk measurement consists of appraising the track record of customers as appropriate for the prediction of likely future behaviours of existing accounts. Credit facilities granted are guided by the credit standing, source of repayment and debt servicing ability of the borrower. As a fundamental credit principle, we do not generally grant credit facilities solely on the basis of the collateral provided. Collateral is taken whenever possible to mitigate the credit risk assumed with periodic monitoring being performed depending on the type, liquidity and volatility of the collateral value.

Ultimately, we assess whether individual business areas provide sufficient contribution to the targeted risk-return profile. The aim is to ensure that capital allocation generates an optimum return. This is achieved by channelling risk capital from low-return to high-return business areas, commensurate with risks shouldered. We measure credit risk capital requirements by applying appropriate risk weights to both on-balance sheet and off-balance sheet exposures in line with regulatory requirements. In this respect, MCB Ltd has established credit rating frameworks that enable the extensive usage of ratings for its portfolios. These ratings are leveraged not only in respect of loan approval, but also credit review, monitoring of risk profiles and determination of business strategies. They are also used for the purpose of the stress testing and limits determination exercises.

The relevant credit risk metrics of the Group entities, in particular banking and para-banking subsidiaries are measured and reviewed against set limits by the respective Boards and/or RMCs on a quarterly and ad hoc basis. The objective is to ensure that the entities, at any time, maintain adequate capital to provide for their growth and to support a reasonable measure of unexpected losses.

Risk-weighted assets for credit risk

Risk-weighted on-balance sheet assets	Jun 25			Jun 24
	Amount	Weight	Weighted Assets	Weighted Assets
	Rs m	%	Rs m	Rs m
Cash items	4,328	0 - 20	92	78
Claims on sovereigns	277,294	0 - 100	1,400	5,908
Claims on central banks	115,978	0 - 100	13,033	14,286
Claims on banks	114,597	20 - 100	36,462	29,072
Claims on non-central government public sector entities	1,445	0 - 100	345	413
Claims on corporates	343,475	20 - 150	296,858	296,621
Claims on retail segment	18,260	75	12,669	13,168
Claims secured by residential property	51,985	35 - 125	21,306	18,394
Claims secured by commercial real estate	14,298	100 - 125	16,331	18,084
Fixed assets/other assets	52,333	100 - 250	56,394	51,401
Past due claims	2,482	50 - 150	3,236	6,460
Total			458,126	453,885

Non-market related off-balance sheet risk-weighted assets	Jun 25					Jun 24
	Nominal Amount	Credit Conversion Factor	Credit Equivalent Amount	Weight	Weighted Amount	Weighted Amount
	Rs m	%	Rs m	%	Rs m	Rs m
Direct credit substitutes	2,594	100	2,593	0 - 100	2,493	2,485
Transaction-related contingent items	43,766	50	19,804	0 - 100	19,589	16,037
Trade related contingencies	115,835	20 - 100	22,725	0 - 100	18,734	16,714
Outstanding loans commitment	17,339	20 - 50	6,984	0 - 100	7,556	4,635
Total					48,372	39,871

Market-related off-balance sheet risk-weighted assets	Jun 25						Jun 24
	Nominal Amount	Credit Conversion Factor	Potential Future Exposure	Current Exposure	Credit Equivalent Amount	Weighted Assets	Weighted Assets
	Rs m	%	Rs m	Rs m	Rs m	Rs m	Rs m
Interest rate contracts	49,587	0 - 1.5	279	589	867	739	589
Foreign exchange contracts	739	1 - 7.5	632	834	1,466	1,041	477
Other commodity contracts (other than precious metals)	53,133	10 - 15	5,596	2,252	7,848	4,954	3,061
Total						6,734	4,128

Jun 25		Jun 24
Rs m		Rs m
Total credit risk-weighted assets		513,231
		497,884

Note: Figures may not add up to totals due to rounding

Mitigation and management

The credit risk management framework enables Group entities to manage credit risk within the limits of their defined risk appetite, to develop risk-response strategies and to optimise risk-taking by anticipating and acting on potential opportunities or threats. This framework encompasses the following: (i) comprehensive credit policies; (ii) clear segregation of the decision-making authority for the approval of loans; (iii) effective identification, measurement and management of credit risk; (iv) portfolio management to ensure capital adequacy; and (v) regular reporting to Management and committees on pertinent risk characteristics/trends.

Credit risk exposures are managed through robust credit assessments, structuring and monitoring processes. The latter involves the daily monitoring of credit limit excesses as well as the review of all exposures, the frequency of which is increased in accordance to the size and likelihood of potential credit losses to ensure the timely detection of possible problem loans. Exposures showing signs of deterioration are placed on a watch list for closer scrutiny where appropriate. Several credit mitigation techniques are adopted by the banking entities in the course of their activities. These include security/collateral, netting, guarantees, credit insurance and political risk cover. Exposures arising from foreign exchange and derivatives are mainly mitigated through agreements, e.g. International Swaps and Derivatives Association Master Agreements and Credit Support Annex documentation, while exposures arising from repurchase agreements are mitigated through the Global Master Repurchase Agreement (GMRA).

We are intent on diversifying our lending portfolios by setting relevant exposure limits to ensure that our performance is not negatively impacted, for instance, by a large sectoral exposure default. It is the policy of the Group's entities to limit credit risk exposures and concentrations within the constraints of their capital base, while complying with regulatory stipulations, notably relating to aggregate large exposures and single borrower limits. Stress tests are, in some instances, performed on portfolios to ensure that sufficient capital is held to withstand any loss arising from significant exposure to a sector, single customer and group of closely-related customers.

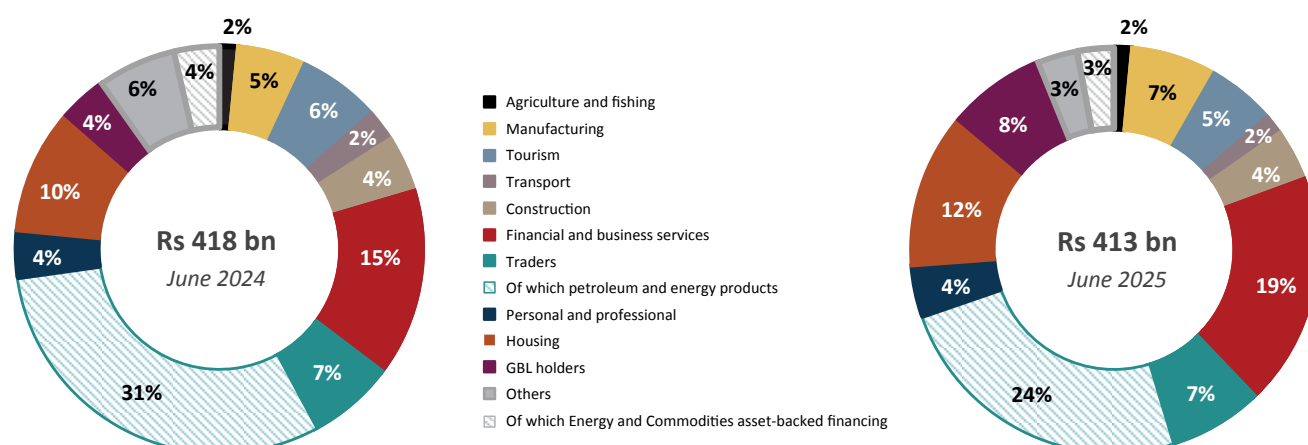
In FY 2024/25, we maintained a diversified market footprint across segments and geographies, which helped us remain well positioned in terms of credit concentration and within regulatory limits. Our largest credit concentration pertains to oil and gas with a major part of these exposures being of a short-term and self-liquidating nature, hence carrying a lower risk profile.

Loans to customers by segment



* Entities outside Mauritius pertain to MCB Ltd's cross-border activities

Loans to customers by sector



Concentration of exposures at MCB Ltd

Bank of Mauritius Guideline on Credit concentration Risk

Credit concentration limits (% of Bank's Tier 1 capital)	Regulatory requirements	MCB Ltd 30 June 2025
Aggregate credit exposure to any single customer	Not exceed 25%	21.5%
Aggregate credit exposure to any group of connected counterparties	Not exceed 40%	28.3%
Aggregate large credit exposures* to all customers and groups of connected counterparties	Not exceed 800%	354.1%

*Refer to exposures over 10% of the financial institution's Tier 1 capital

Gross exposure as at 30 June 2025	Total gross exposure	Risk capital consumed	Risk capital consumed as a % of total credit risk capital
	Rs bn	Rs bn	%
Top 6 customers / customer groups	121.8	8.0	12.3
Total large credit exposures	312.6	14.7	22.5

Restructuring of facilities

Loan restructuring takes place at the request of the client to align expected cash flows to debt servicing. The restructuring exercise is done to cater for cases of financial distress faced by relevant clients and is also linked to commercial developments and occurrences of a strategic nature. It is carried out on a case-by-case basis with both quantitative and qualitative information taken into consideration. The restructuring follows the normal credit origination process under the same standards of rigorous analysis and presentation as a wholly new application. Restructuring decisions taken are normally guided by rational expectations that the financial conditions of the client will remain adequate or can be reasonably improved in the foreseeable future. The form in which the restructuring exercise takes place will depend on the situation in which the client finds itself. This might entail an extension of the facility's maturity, a moratorium on capital repayment or complete restructuring. In some instances, the restructuring has been linked to injection of equity and debt management programmes adopted by the clients, notably bonds and rights issues. The Risk functions of Group entities perform independent assessments of distressed restructurings for staging purposes and to determine economic gains or losses.

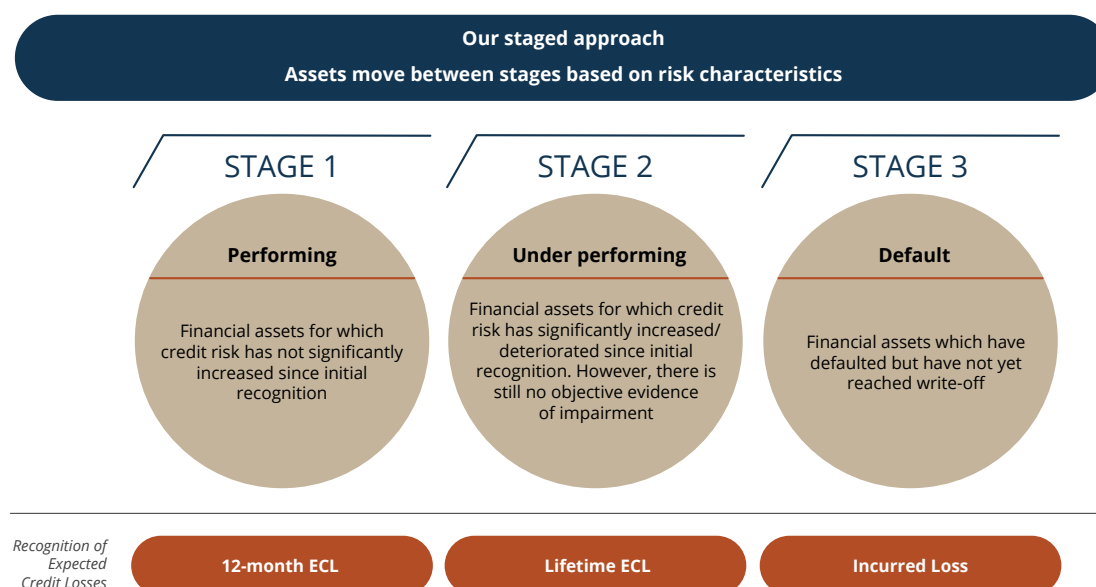
Determination and review of impairment and provisioning

With regard to the determination and review of impairment and provisioning levels, Group entities undertake their respective exercises on a regular basis. The entities adhere to relevant regulatory stipulations, alongside aligning themselves to other advocated standards. At the level of MCB Ltd, this exercise is undertaken on a quarterly basis and involves the collaboration of several stakeholders across the organisation. After being reviewed and agreed upon by the RMC as well as validated by the Board, the figures are submitted to the Bank of Mauritius (BoM). The objective of this process is to ensure that financial institutions have adequate processes for determining allowance for credit losses in a timely manner and the carrying amounts of credit portfolio recoverable values. While ensuring adherence to prudential norms, which define credit as impaired if it is past due for more than 90 days, the Bank also assesses facilities granted to clients as being impaired on a case-by-case basis above a certain materiality threshold. Furthermore, loans are written off by the Bank when the prospect of recovery is poor and the loss can be reasonably determined, with MCB complying with the BoM Guideline for Classification, Provisioning and Write off of Credit Exposures. The guideline sets the foundations for a consistent and timely classification of credit exposures and complements the existing accounting standards requirements by providing a prudential backstop for credit classification and provisioning and ensuring write-off of non-performing exposures in a timely manner.

Adherence to IFRS 9 requirements

In measuring Expected Credit Losses (ECL), three main parameters are considered and estimated, namely: (i) Probability of Default (PD), which represents the likelihood of a default event occurring; (ii) Loss Given Default (LGD), which denotes the estimated losses in the event that a default occurs; and (iii) Exposure at Default (EAD), which reflects the exposure at risk at a point of default. In addition, IFRS 9 requires that allowance be made for forward-looking information in the calculation of ECL, taking into consideration past, actual and future insights on customer behaviours and macroeconomic indicators.

A three-stage approach to the impairment calculation of financial assets is applied under IFRS 9. To determine the staging status of the asset, IFRS 9 requires an assessment of whether there has been a significant increase in credit risk since initial recognition. This dictates the basis on which its ECL is calculated, as illustrated below.



In determining whether there has been significant increase in credit risk or credit deterioration, an entity considers reasonable and supportable information that is relevant and available without undue cost or effort. Within the Group, quantitative and qualitative information are taken into account, based on historical customer experience and credit risk assessment. A financial asset is credit impaired and is in Stage 3 when (i) contractual payments or accounts in excess are past due by more than 90 days; and/or (ii) other quantitative and qualitative factors indicate that the obligor is unlikely to honour its credit obligations.

Relevant entities of the Group calculate ECL parameters for the retail segment on a portfolio basis, i.e. facilities having homogeneous characteristics are assumed to have similar risk behaviours and can reasonably be assigned same parameter values. As for wholesale portfolios pertaining to corporate, financial institutions and sovereign amongst others, they use a combination of internal models and external benchmarking for the calculation of PDs, LGDs and EADs.

Formulation of Expected Credit Losses for FY 2024/25

Reflecting the proactive and prudent approach being endorsed by the Group to hold adequate provisioning levels in view of the still unsteady operating environment, we maintained comfortable levels of ECL during FY 2024/25, underpinned by informed analyses, conservative assumptions and modelling exercises.

In addition to the recalibration of models and review of forward-looking indicators, the entities applied additional overlays when the calculated ECLs were deemed insufficient. For instance, MCB Ltd applied an additional overlay on its retail portfolio for each quarter and conducted an in-depth individual analysis of clients with an exposure amount of Rs 100 million or more for its wholesale portfolio, which resulted in rating overlays or staging overlays where necessary.

As at 30 June 2025, ECL amounted to Rs 8.7 billion, of which Rs 7.5 billion pertained to stage 1 and stage 2 loans and advances, with the corresponding ECL coverage ratio standing at 1.6%.

MCB Ltd: Provisions as at 30 June 2024

Stages	Retail portfolios	Wholesale portfolios				
		Corporate	Financial institutions	Project finance	Sovereign	Energy & commodities
	Rs m	Rs m	Rs m	Rs m	Rs m	Rs m
Stage 1						
Exposures	62,506	226,133	94,557	3,420	336,381	256,090
Expected Credit Losses	837	2,224	356	57	138	796
Coverage ratio (%)	1.3	1.0	0.4	1.7	0.0	0.3
Stage 2						
Exposures	170	6,285	0	0	0	3,078
Expected Credit Losses	23	1,624	0	0	0	549
Coverage ratio (%)	13.4	25.8	0.0	0.0	0.0	17.8
Stage 3						
Exposures	1,137	9,025	0	24	296	1,755
Specific provisions	431	6,757	0	12	30	1,755
Coverage ratio (%)	37.9	74.9	0.0	48.5	10.0	100.0

MCB Ltd: Provisions as at 30 June 2025

Stages	Retail portfolios	Wholesale portfolios				
		Corporate	Financial institutions	Project finance	Sovereign	Energy & commodities
	Rs m	Rs m	Rs m	Rs m	Rs m	Rs m
Stage 1						
Exposures	70,739	235,966	116,356	10,947	369,898	245,849
Expected Credit Losses	489	2,675	179	439	139	1,580
Coverage ratio (%)	0.7	1.1	0.2	4.0	0.0	0.6
Stage 2						
Exposures	841	8,256	0	329	0	1,397
Expected Credit Losses	158	1,924	0	82	0	564
Coverage ratio (%)	18.8	23.3	0.0	25.0	0.0	40.4
Stage 3						
Exposures	1,235	9,004	0	0	0	1,670
Specific provisions	509	8,268	0	0	0	1,670
Coverage ratio (%)	41.2	91.8	0.0	0.0	0.0	100.0

Notes:

(i) Figures may not add up to totals due to rounding

(ii) Stage 1 comprises both on- and off-balance sheet exposures while stages 2 and 3 comprise only on-balance sheet exposures

(iii) Incurred losses do not include interest in suspense on loans and overdrafts

(iv) Figures exclude investments fair valued through other comprehensive income

Overseas banking subsidiaries: Provisions as at 30 June 2024

Overseas banking subsidiaries	Retail	Corporate	Financial institutions	Sovereign
	Rs m	Rs m	Rs m	Rs m
Stage 1				
Exposures	3,419	20,176	7,256	20,152
Expected Credit Losses	30	160	6	44
Coverage ratio (%)	0.9	0.8	0.1	0.2
Stage 2				
Exposures	50	498	0	0
Expected Credit Losses	5	37	0	0
Coverage ratio (%)	9.8	7.4	-	-
Stage 3				
Exposures	350	1,741	0	3
Specific provisions	292	988	0	3
Coverage ratio (%)	83.3	56.8	-	100.0

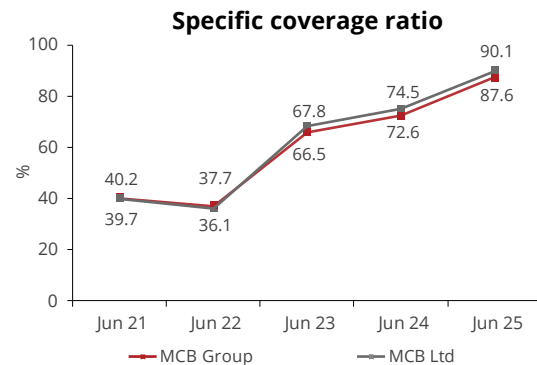
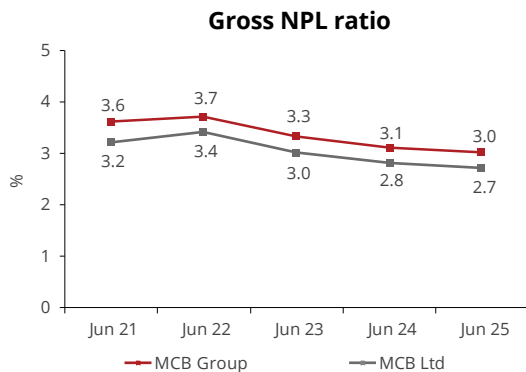
Overseas banking subsidiaries: Provisions as at 30 June 2025

Overseas banking subsidiaries	Retail	Corporate	Financial institutions	Sovereign
	Rs m	Rs m	Rs m	Rs m
Stage 1				
Exposures	3,521	18,361	9,154	22,563
Expected Credit Losses	33	144	8	77
Coverage ratio (%)	0.9	0.8	0.1	0.3
Stage 2				
Exposures	78	754	0	0
Expected Credit Losses	19	60	0	0
Coverage ratio (%)	23.9	8.0	-	-
Stage 3				
Exposures	330	1,667	0	3
Specific provisions	290	1,155	0	3
Coverage ratio (%)	87.9	69.3	-	100.0

Asset quality

We improved the general quality of our exposures on the back of careful market endeavours and strong risk management framework, while having also recorded successful recoveries of bad debts during the year. Our gross NPL ratio stood at 3.0% as at June 2025, down from 3.1% in June 2024. Our specific coverage ratio rose from 72.6% to 87.6%, with the remaining portion being adequately covered by collateral, suitably discounted to reflect current market conditions and expected recovery time.

Quality of exposures



June 2025	Non-performing loans (NPLs)		Specific provisions	
MCB Group	Rs m	% of exposures	Rs m	% of NPLs
Loans to customers				
Agriculture and fishing	445	7.3	292	49.6
Manufacturing	427	1.5	463	82.7
Tourism	3,379	15.4	3,857	96.4
Transport	286	4.5	441	90.0
Construction (including property development)	666	3.9	619	83.2
Financial and business services	1,363	1.8	1,330	88.7
Traders	2,653	2.0	3,067	92.1
of which petroleum and energy products	1,670	1.7	1,878	100.0
Personal and professional	1,014	1.5	532	39.2
of which credit cards	50	4.3	45	90.0
of which housing	536	1.1	191	30.4
Global Business Licence holders	3,033	9.9	4,341	98.3
Others	351	1.4	263	61.9
of which Energy and Commodities asset-backed financing	0	0.0	0	0.0
Corporate notes/bonds	371	0.7	391	99.6
Total	13,988	3.0	15,596	87.6

Notes:

- (i) For the computation of asset quality ratios, interest in suspense on loans is excluded and exposures also include loans to banks
(ii) Figures may not add up to totals due to rounding

Country risk at MCB Ltd

General approach and objectives

MCB applies a coherent and comprehensive approach and framework as well as adequate control processes to formulate its country risk tolerance and determine exposure limits assigned to markets, alongside adhering to the BoM Guidelines on Country Risk Management and Cross-Border Exposure. The RMC is entrusted with the task of setting and reviewing the country risk framework and country risk appetite parameters. The RMC meets at least quarterly to monitor the performance of the Bank's cross-border exposures, including compliance with the risk appetite, risk limits and overall requirements set out in the framework on cross-border exposure. In February 2025, a Senior Country Risk Officer was appointed to head the country risk function, strengthening governance and in-country assessment capability.

Measurement and monitoring

The risk appetite framework establishes clearly articulated parameters and limits that serve as guiding principles for business lines when exploring market opportunities. Target risk profiles are set at Bank level as well as for each portfolio and are complemented by target maturity profiles, consequently ensuring that our credit exposure portfolio is at all times balanced in terms of its risk profile.

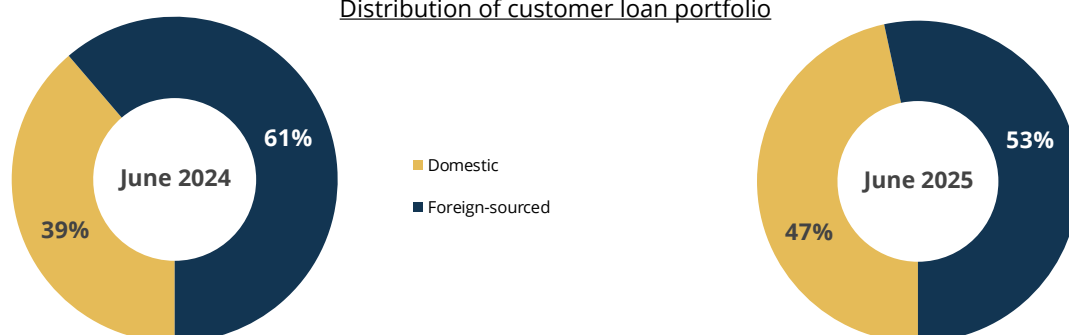
We carefully monitor country risk events, including macroeconomic developments, sovereign credit worthiness, and specific occurrences such as social unrest, nationalisation and expropriation of assets, foreign exchange controls, currency depreciation/devaluation and political developments. Foreign country exposure limits are set by the Bank on the basis of (i) its current exposures and growth ambitions; (ii) assigned capital for international exposures; (iii) the prevailing economic and market environments as well as the size of economies under review; (iv) sovereign ratings; (v) its areas of expertise as far as its business involvement is concerned; and (vi) its knowledge of the economies. The Bank ensures the proactive monitoring of country risk exposures against country limits and sub-limits that have been set, while promptly reviewing such levels in case of unexpected events. MCB keeps track of the unfolding developments and business opportunities across markets of interest, using open-source data as well as insights garnered from multidisciplinary in-country assessments undertaken by Risk, Legal and Economic Research teams, as well as intelligence gathered through its partners and representative offices. Furthermore, we have also set up a list of 'restricted countries'. No limits are established for the latter countries, with activities only conducted with approval of the RMC.

Mitigation and management

With a view to fostering sound country risk management, we lay emphasis on (i) thoughtful and regular determination and review of our risk appetite, after making allowance for the evolving operating environment and our strategic ambitions; (ii) diversified exposures across countries and sectors; (iii) undertaking activities in a selective manner, while favouring areas that we are well accustomed to and for which we nurture strategic competencies and technical expertise; and (iv) ensuring that our deals are appropriately selected, structured and ring-fenced (with area specialists handling complex deals), backed by the application of a series of risk mitigants and robust methodologies.

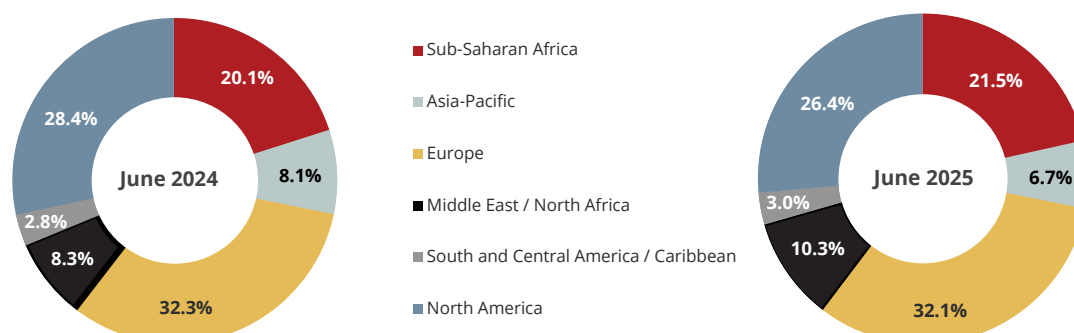
Diversification of exposures

Distribution of customer loan portfolio



Exposures by region

(Excluding Mauritius)



Note: Exposures include funded and unfunded financing exposures as well as treasury activities

Market risk

General approach and objectives

The Group seeks to minimise the risk of losses in trading positions arising from activities undertaken in or impacted by financial markets. We ensure that an appropriate framework is in place to systematically identify, assess, monitor, control and report the market risk exposures across the trading book. These include market-contingent risks such as counterparty credit risk as well as profit and loss risks arising from market risk activities. We also detect and manage the impact of currency fluctuations, alongside properly managing the net open positions.

At the level of MCB Ltd, the market risk management approach and framework is aligned with applicable Bank of Mauritius Guidelines, namely the Guideline on Measurement and Management of Market Risk and the Guideline on Liquidity Risk Management, as well as internationally recommended practices. The Bank clearly defines its appetite in respect of market risk and manages its exposure through risk limits, both at a dealer level on individual trading activities and overall entity level, and risk targets in the case of structural market risks. In line with relevant guidelines, the Market Risk Policy, which covers both the trading and banking books, ensures that market risk origination, settlement and control are appropriately segregated. The Market Risk and Product Control BU (MRPC BU) undertakes the monitoring and management of market risks and provides financial position and risk analysis information to the ALCO and RMC. The Board sets the risk appetite for market risk and the RMC reviews market risk and liquidity risk exposures and metrics, while also assessing regulatory and other developments.

Our overseas banking subsidiaries operate within the precinct of their Market Risk Policies, which put forward the relevant processes and controls to mitigate interest rate, foreign exchange as well as funding and liquidity risks faced. Market risk sanctioning mandates are delegated to Management for the conduct and monitoring of relevant day-to-day operations and activities. They are assisted by MCB Ltd's Financial Markets SBU in the deployment of their undertakings. The latter function services both their foreign exchange and money market requirements by delivering advisory services through direct access to its traders, who share their views about market trends and provide notifications on relevant updates.

Measurement and management

Interest rate risk

The Group is exposed to interest rate risks, mainly at the level of MCB Ltd by virtue of: (i) its primary dealership status in the local Government and BoM securities market; (ii) its trading positions in international fixed income securities; and (iii) the holding of interest rate derivatives products that are subject to daily fluctuation in rates and yields. To constrain its exposure to interest rate risk in the trading book, the Bank resorts to hedging techniques or ensures that certain exposures are conducted on a back-to-back basis. It also sets several sensitivity limits on outstanding positions, such as notional limits and DV01 limits, which measures the change in the value of a financial instrument (or portfolio) resulting from a 1 basis point change in interest rates. Such interest rate metrics are calculated by an engine on both the exposure and its hedge, and are monitored by the Market Risk and Product Control BU.

To further improve its monitoring of trading risk, the MRPC BU, through its Product Control function, monitors the daily Profit or Loss changes arising on both realised and open positions and enforces periodic stop-loss limits across horizons ranging from daily to yearly, with the ultimate objective of limiting downside exposure.

Foreign exchange risk

The Group is subject to foreign exchange (FX) risk from an on-balance sheet perspective, i.e. as a result of imbalances witnessed between the foreign currency composition of our assets and liabilities. The risk to which we are exposed can also be viewed from an off-balance sheet angle through our outstanding positions, mainly in respect of foreign exchange forwards. Exposure to FX risk is monitored against both regulatory stipulations and internal targets, which are, especially, applied to metrics such as the foreign exchange as a percentage of the Tier-1 capital and the overall net foreign exchange risk exposure. In addition, we determine prudential trading, transactional and daily stop-loss limits as applicable.

Asset and Liability Management risk

The Group adopts a structured approach to managing Asset and Liability Management (ALM) risk, with the objective of safeguarding balance sheet integrity and supporting financial resilience. This involves the continuous oversight of three key dimensions - interest rate risk, liquidity risk and funding risk - through robust governance and sound policies. The overarching aim is to ensure that mismatches in asset and liability profiles are effectively monitored and managed, in alignment with regulatory expectations and strategic priorities, as well as hedging strategies.

Interest rate risks in the banking book

Measurement, monitoring and management

In the banking book, the Group's primary exposure to interest rate risk stems from mismatches in the reset dates of its on- and off-balance sheet assets and liabilities. The resulting mismatch is monitored through the conduct of interest rate gap analysis on the net interest income (NII). The Group limits this source of risk through the application, in most cases, of floating interest rates that are linked to benchmark rates.

The Group mitigates interest rate risk in the banking book through interest rate risk gap analysis and by monitoring the potential 1-year impact on earnings under hypothetical scenarios, measured against predefined limits, with close oversight by ALCO. Behavioural assumptions are also applied to non-maturity deposits and prepayment profiles to ensure that exposures are realistically assessed. This approach ensures that risks remain within appetite while safeguarding both earnings and the economic value of the balance sheet.

Liquidity and funding risk

General approach and objectives

The Group is committed to maintaining robust funding and liquidity positions that support its business development ambitions. While it accesses wholesale markets as and when required, the Group prioritises sources of funding that are cost-efficient, diversified, and stable, with a primary focus on customer deposits. Furthermore, an appropriate level of liquid assets is kept to ensure that obligations can be met within a reasonable time-frame.

The ALCO of the banking subsidiaries oversee the management of liquidity and funding risk in line with regulatory requirements and internationally recommended practices. The ALCO has set robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons. The RMC also reviews a summary of liquidity risk exposures and metrics, while assessing regulatory and other developments affecting the entities in this respect. The Market Risk Policy stipulates that liquidity risk oversight is conducted independently of the risk-taking units, reinforcing the Group's commitment to sound risk management practices.

Measurement and monitoring

Funding and liquidity risk is measured and monitored separately for each material currency and on a consolidated level. The Group assesses funding and liquidity positions with respect to obligations under both Business As Usual (BAU) and stressed conditions. At the level of MCB Ltd, it sets internal targets on key regulatory measures such as the liquidity coverage ratio (LCR) for significant currencies, whilst monitoring other ratios and Early Warning Indicators to assess its liquidity situation. The key actions undertaken to ensure that funding and liquidity risk is effectively measured and monitored at the Bank include the following:

- Robust Contingency Funding Plan in place which *inter alia* provides for active monitoring and reporting of Early Warning Indicators and courses of action under a liquidity stress; Scenario analysis conducted by simulating withdrawal of funds e.g. withdrawal of USD current accounts under severe stress scenarios; Uncommitted money and short-term forex swap and repo lines regularly tested for liquidity depth
- Maintenance of adequate high-quality liquid assets (HQLA) buffer as well as achievement of conservative maturity transformation and operational deposit optimisation to ensure compliance with the LCR with monitoring/reporting for assets and liabilities denominated in significant currencies. This entails close monitoring of the LCR and circulation of the ratio to Management on a daily basis. LCR, along with other liquidity indicators, such as gap analysis and BIS net stable funding ratio (NSFR), are presented to the ALCO on a monthly basis and to the RMC on a quarterly basis; Carrying out of frequent simulation on LCR, based on what-if investment in HQLA and renewal of wholesale market funding
- Diversification of balance sheet funding sources with a mix of internal treasury surplus, institutional lines of credit and trade refinancing lines
- Active monitoring and management of daily liquidity through a daily Operational Cash Flow model, which provides the Bank with daily cash flow projection over different time bands under various scenarios

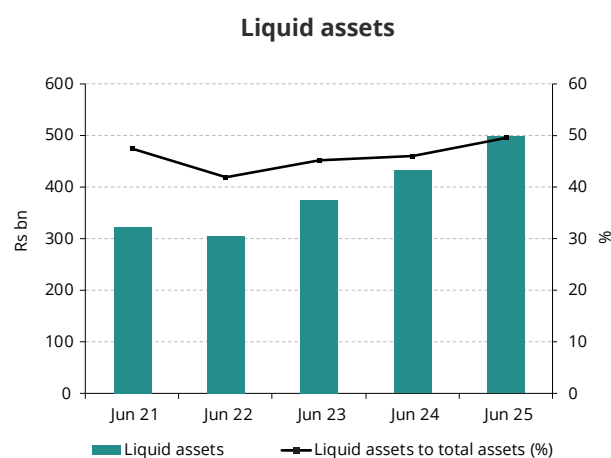
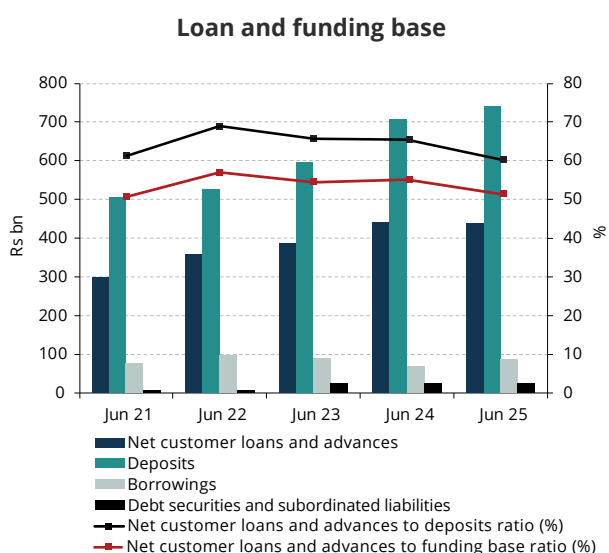
Mitigation and management

The Group diligently manages and diversifies the funding and maturity profile of the balance sheet in order to ensure that we can successfully deploy its strategic endeavours over the short and longer runs.

To achieve this, banking entities of the Group employ a methodical approach that involves creating a time ladder of continuous assets and liabilities cash flows. This approach minimises the risk of undue accumulation of cash flows in any single time segment, especially those falling due in the near future, thereby maintaining a balanced and resilient liquidity profile. They use cash and liquidity gap profiles for both local and significant foreign currencies to analyse and monitor the impact of projected disbursements by lines of business. They also undertake the behavioural analysis of their non-maturity current and savings account balances to assign an actuarial maturity profile that accurately reflects the stickiness and stability of these balances.

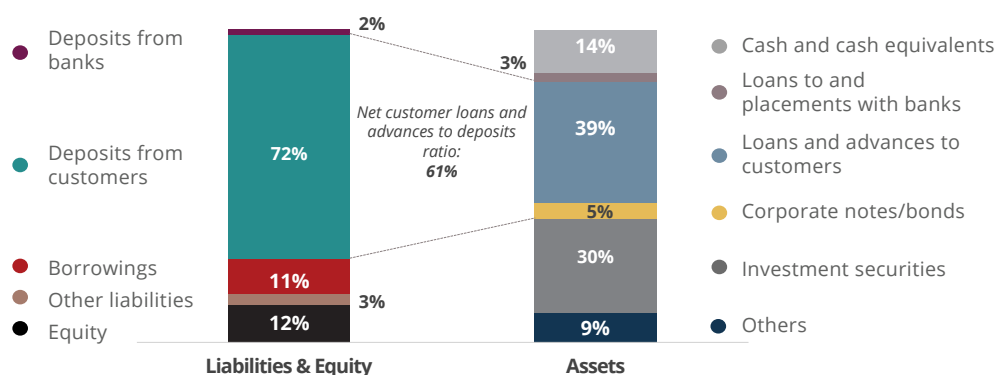
The stock of liquid assets is proactively managed to cover day-to-day cash management needs as well as to provide for an adequate coverage of the risk-weighted cash outflows associated with the standardised crisis scenario under the Basel III framework for liquidity coverage ratio. The components of the liquid assets buffer are also managed taking into account market risk volatility, the credit risk weighting and the low returns typically associated with holding such highly liquid assets. This prudent management ensures that the banking entities remain well-prepared to address potential liquidity challenges without compromising their financial stability.

During the year under review, we took proactive measures to maintain substantial buffers in light of the prevailing economic environment, with the Group continuing to display strong funding and liquidity positions in FY 2024/25. We have been active across multiple markets to secure sufficient funding resources to support our growth ambitions. In this respect, we leveraged placements from banks and repurchasing agreements. Over the past years, MCB Ltd has strengthened its liquidity and funding position through successful funding initiatives. These strategic moves have strengthened the Bank's overall financial position and underscore its commitment to maintaining a robust and diversified funding base. Building on this momentum, in FY 2024/25, the Bank secured new USD 350 million syndicated facility from the Asian market and repaid maturing syndicated facilities.



Note: Liquid assets comprise cash, balances with Central Banks, placements, T-Bills, Government securities and bonds

Asset funding structure as at June 2025



MCB Ltd: Key liquidity ratios

Liquidity coverage ratio (LCR)

In alignment with Basel III rules, the objective of the LCR is to promote the short-term resilience of a bank to liquidity shocks. The LCR ensures that the Bank maintains an adequate reserve of unencumbered high-quality liquid assets (HQLA), which can quickly be converted to cash to cover cash outflows during a 30 calendar day period of significant liquidity stress. As per local regulations, the LCR is computed as the ratio of the stock of unencumbered HQLA to the net cash outflows over the next 30 days in the event of an acute liquidity stress scenario. The minimum regulatory LCR stands at 100% for MUR, as well as for material foreign currencies, and consolidated LCR. The Guideline on Liquidity Risk Management requires banks to immediately notify the Bank of Mauritius of the use of HQLA denominated in major currencies that are freely convertible, transferable and actively traded in global foreign exchange markets to cover liquidity needs in other such major currencies, amongst others.

As at 30 June 2025, MCB operated comfortably above the stipulated LCR requirements. It reported a consolidated LCR of 621%, reflecting a stable liquidity position with sufficient HQLA to fund cash outflows over the next 30-day period. At currency level, the Bank's LCR in dollar terms stands at 306%. It can be noted that HQLA eligible for the purpose of calculating the LCR as per set rules consist of cash or assets that can be converted into cash at little or no loss of value in markets. In this light, MCB diligently managed its investment portfolio, holding suitable levels of investment in sovereign and cash liquid assets. This strategic approach not only contributes to meeting regulatory requirements but also reinforces the Bank's readiness to navigate various market conditions while preserving value and stability.

Net stable funding ratio (NSFR)

Under Basel III, the NSFR aims to strengthen the resilience of a bank over a longer time horizon. It achieves this by requiring the bank to maintain a stable funding profile relative to the composition of its assets and off-balance sheet activities so as to mitigate any future funding stress. The NSFR effectively recognises a bank's maturity transformation role in the credit creation and resource allocation process. It seeks to limit the bank's over-reliance on short-term wholesale funding or the running of large funding gaps meant to sustain rapid balance sheet growth.

In June 2024, the Bank of Mauritius issued a guideline mandating that banks maintain an NSFR of at least 70% for all material currencies and on a consolidated basis. This minimum requirement increased to 100%, effective December 2024. Although this regulation has only recently been introduced, MCB Ltd has, since long, been monitoring its NSFR performance to ensure a stable funding structure. As at 30 June 2025, MCB Ltd reported an NSFR of 163%, well above the regulatory requirements. This accomplishment underscores the Bank's proactive approach in ensuring a robust and balanced funding structure, contributing to its long-term stability and resilience.

Zoom on MCB Capital Markets (MCBCM)

By virtue of their activities, MCBCM and its subsidiaries are exposed to both financial and non-financial risks.

Financial risks:

Through its brokerage business, MCB Securities Ltd (MCBSL), MCBCM acts as market-maker and liquidity provider in respect of certain securities listed on the Stock Exchange of Mauritius. Appropriate safeguards have been implemented to ensure that any risks arising from this activity are properly mitigated. MCB Securities also offers underwriting services to corporate clients and is thus subject to financial risks. Such risks are managed by a formal process that involves: (i) a review and decision by MCBSL's Transaction Review Committee; and (ii) Escalation to the SMC for final review and approval.

Moreover, MCBCM is involved in the structuring, issuance and management of Credit Linked Notes. The underlying instruments are medium and long dated debt securities but are structured so as to provide targeted investors with regular exit windows, hence improving the liquidity profile of these financial products. Associated financial risks being borne by MCBCM also require some degree of active funding and liquidity management, mainly through adequate levels of capitalisation and access to appropriate funding lines.

The Group is also exposed to financial risks via its investment vehicles, MCB Equity Fund and MCB Real Assets, and, as such, ensures that it has the appropriate framework in place, including relevant due diligence, financial appraisal and follow-up of prospective investments, to manage and mitigate those risks.

Non-financial risks:

MCBCM is exposed to reputational risk given the potential conflict of interest particularly between buy-side and sell-side activities. This risk is managed through strict separation of the two activities both physically and in terms of information flows. Rigorous procedures are in place to control business interactions between these activities so as to ensure that transactions (if any) are carried out at arm's length. These procedures are further monitored by an independent risk function to ensure strict adherence thereto.

Model risk

General approach and objectives

We make use of models for a broad range of business and risk management activities, such as in the credit approval process, valuation of risk exposures, stress testing exercises and pricing strategies. Such applications invariably give rise to risks of model errors that could expose the organisation to financial loss or reputational damage. The Group is determined to continuously enhance its model risk management framework, alongside strengthening capabilities to minimise uncertainty of output and cater for the increasing complexity of models. We adopt best practices for transparent model development, implementation, and validation. At the level of MCB Ltd, model risk oversight is assumed by the Model Review Committee, which is chaired by the Chief Risk Officer, and is responsible for validating all new, updated or recalibrated models and assessing if models are fit for purpose, efficient and make business sense.

Mitigation and management

Policies and procedures have been established to ensure the effective development, deployment and validation of models and adequate performance monitoring thereof. Model development data, which are guided by principles of transparency, explainability and auditability, are thoroughly assessed before use. Before models are deployed, they go through an internal validation process covering dimensions such as data sampling, variable treatments, variable selection, model design, and measure of model performance during back-testing exercises, among others. All relevant stakeholders are involved during the development phases of the models. In addition, Management and model sponsors are regularly updated, at each critical milestone of model development and deployment. The organisation's business rules are implemented in certain cases to make models more rigorous in areas which cannot be directly modelled. These rules, which are continuously adapted to reflect prevailing economic and market conditions, are also helpful in cases of severe economic downturns where models might not perform as expected. Moreover, in order to curtail the risk of losses from incorrect model decisions in loan approvals, automated model decisions are meticulously designed and allowed within a pre-set maximum loan limit. Furthermore, models are periodically assessed post-deployment to evaluate input drift and accuracy. Once sufficient historical data is available, back-testing is conducted to validate their robustness and reliability.

Operational risk

General approach and objectives

The Group aims to identify, mitigate and manage operational risks across activities, processes and systems in line with the defined risk tolerance. The objective is to underpin the continuity of our operations and anchor a solid platform to provide customers with seamless services. Towards determining the operational risk tolerance levels, we set risk acceptance and mitigation limits in respect of the principal categories of operational risk as appropriate. Operational risk sanctioning mandates and day-to-day oversight responsibilities are entrusted to the Management of Group entities. The latter are responsible for the application and effectiveness of their respective Operational Risk Policy as approved by the Audit Committee. The operational risk policies formulate the principles and methodologies for the management of operational risk. They set out a framework which is aligned with best practices and standards, advocated rules and norms on the local and international fronts, while setting out the relevant roles and responsibilities within the entity. As part of their responsibility to implement the operational risk management framework, Management has to (i) ensure compliance with underlying objectives set in terms of the management of such types of risk; and (ii) foster the development, implementation and documentation of internal controls and processes.

Measurement and monitoring

The determination of the risk exposures is anchored on the regular review of operational risks inherent in internal processes and client solutions, with monitoring thereof performed against acceptable tolerance limits. MCB Ltd applies the Alternative Standardised Approach for calculating and reporting its operational risk capital charge whilst the other entities apply the Basic Indicator Approach. Information on operational risk events is recorded in centralised databases, which enables systematic root cause and trend analysis for necessary corrective actions.

Mitigation and management

Operational risk mitigation relies on appropriate processes and systems, backed by the clear segregation of duties, dual control as well as the regular verification and reconciliation of transactions. The control environment is based on the appropriate risk culture, fostered through risk awareness sessions targeting relevant audiences. For example, an overview of both Operational Risk and Business Continuity Management is provided – in the form of a dedicated induction course – to new employees joining MCB Ltd. The latter's Operational Risk Management Framework relies on three primary lines of control, as shown below.



Whilst the Operational Risk BU is responsible for the identification, assessment and management of related risks, operational risk management forms part of the day-to-day responsibilities of Management and employees. The Operational Risk Cartographies of the various SBUs are regularly updated and leveraged for the assessment of operational risks and the implementation of relevant controls.

Specific tools and systems adopted by MCB Ltd – such as the incident reporting system – are also leveraged by subsidiaries and tailored to their business realities for the management of operational risks. In addition, staff are offered training courses from MCB Ltd to ensure that they are well prepared to deal with specific risk management needs.

At MCB Capital Markets, the initial stage for the management of operational risks includes formal reviews of procedures and processes, analysis of complaints, incident reports and IT change requests as well as review of new products and services. The output is then used to update MCBCM's risk maps, where applicable, ensuring that all material risks faced by the business are captured along with their corresponding pre-control ratings. These risks are eventually re-assessed taking into account existing and additional controls that are required to arrive at a post-control rating. Any residual post-control risks deemed material will lead to a re-design of the relevant controls until such risks are adequately addressed, mitigated or eliminated.

Health and safety

The Group ensures the highest standards of safety and health are adopted across all our business activities and on our premises. Towards this end, it complies with the provisions of relevant legislations, e.g. the Occupational Safety and Health Act in Mauritius. Risk control measures are implemented through safety and health audits carried out during on-site inspections, with the latter aimed at identifying hazards and risk factors that have the potential to cause harm to the safety and health of people on our premises. The audits also seek to determine the appropriate ways to eliminate such hazards in order to protect our staff and clients. By fostering a safety culture throughout the organisation, we are able to prevent accidents, reduce injuries, and create a secure environment for everyone.

Business continuity risk

General approach and objectives

A robust and proactive approach to Business Continuity Management (BCM) is adopted by the Group to ensure that its entities continue to conduct their key business activities and deliver products and services in case of unforeseen events or business disruptions at acceptable pre-defined service levels. We aim to minimise the potential damage that such disruptions can cause to people and business activities, while setting forward to safeguard the reputation of entities and the interests of key stakeholders by effectively planning for and responding to incidents.

Mitigation and management

The Group's Business Continuity Management (BCM) framework is an integral component of the Operational Risk Management framework and is encapsulated in entities' respective BCM policies. These policies set out the governance structure, methodology and principles for managing disruption-related risks, with a forward-looking focus on emerging threats, such as cyber risks, climate-related events and third-party dependencies, alongside traditional risks including technology outages and site unavailability. The BCM programme is centrally coordinated by entities' risk functions, in collaboration with relevant support functions. Crisis roles and responsibilities are clearly defined: dedicated Crisis Management Teams provide central command during a crisis, supported by specialised crisis teams and Business Continuity Champions within business segments who act as process owners for the design, periodic review and maintenance of recovery plans aligned to each entity's specificities.

Contingency strategies are refreshed on a continuing basis and validated through a structured cycle of exercises to confirm effectiveness and readiness to protect mission-critical activities. Banking entities conduct planned and unplanned disaster recovery simulations to validate DR site operability and the failover of critical systems; for illustration, MCB Ltd completed its planned annual concurrent DR simulation during the year and executed additional unplanned exercises to evidence technical readiness. Cyber resilience is assessed through immersive crisis simulations using realistic, evolving attack scenarios to test response capabilities and cross-functional coordination, while climate resilience is exercised through remote-working and alternative service-delivery arrangements during adverse weather. Findings are formally documented, with remediation actions assigned and tracked to closure through the BCM programme, reinforcing continuous improvement and overall organisational resilience.

Cyber and information security risk

General approach and objectives

The Group adopts a dedicated approach to safeguard its information security, alongside complying with applicable regulatory requirements on data protection. It ensures that we are prepared to respond to potential cyber-attacks and threats to our information assets in a timely and effective manner. The Group's primary objectives are to maintain the confidentiality, integrity, security, and availability of information assets stored, processed, and transmitted throughout the organisation. In addition, we aim to handle and mitigate cyber risks, establishing a strong IT platform to aid the delivery of the organisation's strategic objectives, while protecting confidentiality and preventing misuse of systems and business disruptions.

Mitigation and management

Risk management implies the regular conduct of information risk assessments so as to identify issues that can potentially harm the organisation's information assets and recommend adequate mitigating controls. At MCB Ltd, the Cyber & Information Security Risk (CIS) BU is responsible for, *inter alia*, developing and maintaining cyber, technology and information risk policies, in line with the evolving operating and threat landscapes, as well as the requirements set by the regulator and other major stakeholders. The key objective is to ensure that an adequate level of security is maintained to protect private, confidential, personal and any other sensitive information held by the Bank. Importantly, the Bank has taken the necessary steps to ensure compliance with the requirements of the Mauritius Data Protection Act (DPA) as well as the European Union's General Data Protection Regulation (GDPR) and the different BoM guidelines.

The risk mitigation strategy encompasses regular threat and vulnerability assessments and the implementation of appropriate controls. The organisation has established comprehensive processes to manage access to logical information, ensuring that access is restricted to individuals with a justified business requirement, and is subject to continuous monitoring and control. We have cyber incident response plans (CIRP), disaster recovery plans, business continuity plans and crisis management plans that are regularly reviewed, simulated and tested. Moreover, our proactive promotion of a cyber risk culture has resulted in enhanced security awareness amongst our staff. These measures form a cohesive framework designed to protect the Bank's assets and maintain operational resilience.

The Bank's cybersecurity risk management is structured across multiple levels, each with distinct responsibilities. At the operational level, the Information Security BU manages day-to-day security operations, incident response, threat intelligence, and disaster recovery. The CIS BU provides strategic oversight, focusing on risk identification, management, policy formulation, and governance. This unit ensures compliance with security practices across all domains of cyber, information, data, and technology. Our Internal Audit function offers an independent assessment of the effectiveness of our cybersecurity measures, providing an additional layer of assurance. To maintain the efficacy of our security posture, MCB Ltd conducts annual audits of its information security policies and systems. The CIS BU regularly reports its findings, recommendations, and assessments to executive committees and the Audit Committee, ensuring that cybersecurity, technology risks and data protection remain at the forefront of our risk management agenda.

From a broader perspective, the Group's entities are guided by roadmaps that have been developed in order to ensure that policies and processes are continuously geared up to effectively cope with growing challenges posed by cyber threats. As such, several initiatives have been deployed to strengthen and ensure the robustness of the entities' information security including regular independent Penetration Testing and Vulnerability Assessments by leveraging external expertise. Further details on moves undertaken by MCB Ltd are provided below:

Recent initiatives at MCB Ltd

In addition to initiatives already highlighted, MCB has deployed several initiatives to uphold the robustness of its information risk and privacy framework:

- The Bank has continuously tested its external-facing and internal environments and proactively detected and remediated any vulnerabilities discovered
- Full compliance with the BoM Guideline on Cyber and Technology Risk Management have been monitored and maintained
- The cyber incident response processes have been enhanced, with regularly testing of our response plans to ensure that we remain resilient in the wake of a cyber incident
- Our third-party risk management framework has been strengthened to better identify, assess and mitigate related risks
- Proactive steps have been taken to improve our cyber security risk culture through various bank-wide initiatives
- General awareness on data privacy matters has been enhanced, with particular attention paid to ensure that privacy and security by design concepts become embedded within the Bank's risk culture
- Various actions, including security awareness sessions, have been continuously taken to enhance our employees' alertness to cybersecurity, with a focus on social engineering
- The Bank continues to monitor and respond to cyber threats through the use of Counter Threat Intelligence
- The Bank's security posture has improved further through the ongoing activities of a dedicated Red Team
- The security events monitoring capability of our Security Operations Centre (SOC) is continuously being refined and augmented with new use cases and increased scope

Compliance risk

General approach and objectives

Forming part of the Group's second line of defence for managing risks, the Group Compliance Function is duty-bound to provide assistance to the Board and Management of the Group entities in order to ensure that business activities are conducted in strict abidance by applicable laws, rules, regulations, industry codes of conduct, policies, standards and good governance practices. The main objectives include complying with all relevant stipulations to safeguard the organisation's assets and shield it from legal and regulatory sanctions and financial/reputation losses, while at the same time ensuring a sustainable growth both for its stakeholders and the society.

We also continually strive to ensure consistency between the conduct of business operations and the observance of relevant laws, regulations and standards of good market practices. This is achieved through the continued identification of compliance-related risks, ongoing assessments, and the design of adequate controls. As a socially responsible organisation, the Group is committed to upholding ethical conduct and adherence to legal standards which, in turn, reinforces the trust and confidence of our stakeholders, including investors, customers and the communities in which the Group operates. It fosters a compliance-oriented culture, supporting business lines in delivering fair outcomes for customers and preserving the Group's reputation, all while helping to achieve sustainable business development objectives.

The Group Compliance Function also helps to protect the Group's goodwill and to minimise the risk of investigation, prosecution, regulatory sanctions and penalties.

The year in review from a Compliance Risk perspective

During the year, we ensured that our business activities were conducted in adherence to our compliance framework, while reinforcing Group-level oversight. The Group Compliance Function henceforth oversees the compliance aspects of the banking and non-banking entities of the Group, both locally and internationally where the Group has a presence. While the oversight is carried out by the Group Head of Compliance and her respective teams, each subsidiary of the Group takes ownership of the risks of its operations and the management of its compliance functions.

Group Code of Ethics and Business Conduct ('The Code')

The Code of Ethics and Business Conduct (the 'Code') has been revamped so that the Code adequately sets out the commitment of the organisation, *inter alia*, to ethical behaviour, integrity and accountability in all aspects of our business operations. It aims at providing the necessary guidance to the employees in understanding their ethical responsibilities towards their peers, clients, stakeholders and the communities in which they operate.

Whistleblowing Policy

The Whistleblowing Policy has also been reviewed, whereby an alternative reporting process is established for use by all employees in confidence, without the risk of subsequent retaliation, victimisation, discrimination or disadvantage. The staff and external stakeholders reporting a concern are reassured that same shall remain confidential and impartial judgement will be applied in all cases.

Group Compliance AML/CFT initiatives

As part of its Anti-Money Laundering/Combating the Financing of Terrorism and Proliferation (AML/CFT) obligations, the Group has remained resilient in its approach towards maintaining the adequate framework in the fight against financial crimes. Indeed, our continued efforts to combat Money Laundering/Terrorist & Proliferation Financing (ML/TF/PF) has enabled us to reduce the impact of such risks on our customers, investors, societies in which we operate, to name a few. As a way to proactively address and effectively mitigate such risks, entities within the Group have put in place the relevant controls, policies and procedures which include, *inter alia*, staff training and awareness as well as monitoring activities to ensure adherence to legal and regulatory obligations.

Group Compliance main objectives

One of the main objectives of the Group Compliance Function is to foster collaboration across, create synergy and the necessary harmonisation among the organisation in compliance and regulatory matters. This operationalisation of the Group Compliance Function is achieved through the following key Group initiatives:

1. Centralised oversight – by identifying trends, gaps and best practices, while simultaneously reducing duplication of efforts
2. Economies of scale – in terms of cost efficiency for resources and compliance-related technology
3. Standardisation of policies and procedures – to the extent possible so as to establish a consistent approach for managing compliance risks
4. Enhancing overall compliance effectiveness – by conducting regular risk assessments, audits and reviews across the Group entities
5. Capacity building – sharing and transfer of knowledge among the entities of the Group, empowering staff through learning, thereby also creating a blend of specialist competencies

Group Compliance main priorities

From a holistic perspective, the main compliance priorities during the year in review encompassed the following:

- Implementing Group compliance controls, policies and procedures
- Ensuring adherence to Group's Code of Ethics and Business Conduct, Anti-Bribery Policy, Whistleblowing Policy and Fraud Policy to uphold good conduct, good order and the values of honesty and integrity
- Promoting strong ethical behaviour amongst employees of the Group as well as to prevent and manage any potential conflicts of interests
- Conducting compliance risk assessments, compliance audits and reviews
- Providing proactive compliance advice and support
- Conducting regular awareness and training programmes aiming to promote compliance culture, transparency and coherence across the Group
- Revamping and upholding the Group's whistleblowing system

- Ensuring ongoing enhancement of the transactional monitoring and screening alert systems, parameters and framework to reinforce effectiveness
- Implementing state-of-the-art compliance technologies
- Conducting Enterprise Risk Heat Map and the Enterprise Wide Risk Assessment (EWRA) from an AML/CFT perspective, including the identification of new/emerging risks and ensuring corrective measures are taken and monitored to minimise the likelihood of the risks materialising
- Paying continuous attention to the fast-changing legal and regulatory framework and undertaking regular reviews of ongoing developments with respect to laws, regulations, guidelines and standards of good practice
- Fostering trusted relationships with regulatory and supervisory bodies by sustaining productive and value-adding dialogue with them to uphold effective two-way communication
- Increasing synergies and close collaboration amongst risk functions and with other areas of the Group

Legal risk

General approach and objectives

The Group manages legal risk through a proactive and integrated approach that combines legal expertise with technology-driven solutions. The Legal SBU serves the entire Group, except MCB Capital Markets Ltd which maintains its own legal department, and plays a critical role in the risk management framework. It has a dual mandate: to act as guardian of legal risk and regulatory integrity, and to enable business. Its objectives are to ensure adherence to applicable laws, regulations, guidelines, codes of conduct and contractual obligations, alongside the Compliance SBU; protect revenue while supporting business lines within legal confines; address complex legal issues at both local and international levels, including cross-border interpretations; and promote a holistic risk culture in close coordination with Group Risk. The function oversees traditional areas such as litigation and regulatory compliance, as well as emerging domains including data privacy, ESG and sanctions enforcement.

Mitigation and management

Legal risk is monitored and managed through defined controls, specialist collaboration and targeted use of technology. The Legal SBU works closely with the Compliance SBU on anti-corruption, AML, CFT and sanctions to ensure a unified approach to legal and regulatory risk. The MLRO Office leads and coordinates investigations into suspicious activities and transactions. For commercial litigation, the department applies a settlement-driven approach that prioritises resolution. Cross-border matters are managed through structured legal opinions and, where appropriate, engagement of external counsel. The department has begun automating elements of contract drafting and review, with human oversight, and plans to further leverage technology and artificial intelligence to enhance efficiency and control.

Zoom on our Permanent Supervision framework

The Group continues to apply the Permanent Supervision methodology across banking entities to reinforce independent controls within its second line of defence. The permanent control approach is governed by the Group Internal Controls Policy and by rules and standards prevailing locally, notably: (i) regulatory requirements and guidelines; (ii) relevant Basel requirements; and (iii) guidance provided and principles formulated by the Committee of Sponsoring Organizations of the Treadway Commission, which is a joint initiative to combat corporate fraud and was established in the US by private sector organisations. The banking entities adhere to dedicated internal control policies, which formulate the key principles and underlying governance framework underpinning the efficient development, deployment and monitoring of control activities undertaken by different sections of the organisation. The applicable framework sets out the relevant roles, responsibilities and reporting mechanisms to assist in fostering sound and stable operations within the entity.

The Group applies a series of operational controls with respect to internal processes and client solutions. Such controls are regularly reviewed and actively monitored in order to gauge the applicability and effectiveness of actions taken. Internal control forms part of the day-to-day responsibilities of Management and all employees. Specifically at MCB Ltd, while the Management is responsible to implement the internal control framework, the Permanent Supervision BU, through Risk & Control Executives, is responsible for providing ongoing assurance on the effectiveness of the internal controls embedded within the Bank's processes through ongoing controls testing and continuous monitoring mechanisms. The dedicated team of Risk & Control Executives across SBUs regularly report internal control deficiencies observed, while ensuring timely escalation of findings to Heads of host SBUs, the IORC and the Audit Committee as appropriate. Identified internal control deficiencies are managed in a timely and effective manner through adherence to established procedures and proper monitoring of the implementation of reinforcement measures.

Climate risk at MCB Ltd

General approach and objectives

Climate risk may directly or indirectly affect banks through exposures to customers, resulting in both financial and non-financial impacts. At MCB, we assess the impact of climate change on financial risks through physical and transition risk factors.

Physical risk

This refers to potential losses and economic costs which may arise due to increased severity of extreme weather events such as cyclones and floods (acute risks) and longer term shifts in climate patterns such as sustained higher temperatures and rising sea levels (chronic risks).

Transition risk

This refers to potential losses and economic costs which may arise due to significant and rapid policy changes, disruptive technology development or market sentiment shifts as part of the transition towards a lower carbon economy.

Governance and oversight

The Bank has established a governance framework that caters for climate-related risk management and sustainability considerations. The Chief Risk Officer is responsible for the oversight and alignment of policies, with due consideration to climate and environmental risks as well as their associated financial and reputational risks. The Head of Financial Risk oversees the implementation of the climate risk roadmap and the integration of climate-related risks into the risk management framework. The Senior Climate Risk Executive drives the implementation of this roadmap, including defining the framework for identifying, measuring and managing climate-related physical and transition risks. Climate-related risk matters are escalated to the Risk Monitoring Committee, with updates provided to the Sustainability Strategic Council (SSC) as required.

Measurement, monitoring and management

The Bank has onboarded an internationally recognised service provider, who has developed a platform which scores the (i) current risk of natural hazards and (ii) forward-looking risk due to climate change under selected Intergovernmental Panel on Climate Change (IPCC) scenarios and short, medium and long-term time horizons.

It should however be noted that this assessment is entirely dependent on geo-spatial data for our exposures. The availability of precise location data for our clients' operations remains a key challenge and we are continuing to gather this information manually on a best-efforts basis.

MCB is implementing an internally developed tool to assess the impact of climate-related transition risk on our wholesale portfolio. The approach incorporates the projected cost of a potential carbon tax under selected scenarios from the Network for Greening the Financial System (NGFS) across short, medium and long-term time horizons. Given that most of our clients do not yet disclose their greenhouse gas (GHG) emissions, the assessment relies heavily on estimated emissions, derived using external data sources on GHG emissions intensity. We have started to assess the climate-related physical and transition risk on a sample of our wholesale portfolio, covering a mix of countries and sectors.

Environmental and Social risk at MCB Ltd

General approach and objectives

MCB Ltd is committed to contributing to the sustainable development of countries where we operate. We have integrated environmental and social (E&S) risk management into our credit value chain to promote positive impacts and mitigate potential negative effects on people, communities, and the environment. Our approach is guided by our internal E&S Risk Policy, which outlines our commitment to identifying and managing E&S risks in our financing activities. The E&S Risk Policy is reviewed annually to ensure alignment with evolving standards and our operating context.

Our dedicated Environmental and Social Risk Management function sits within the Risk function and is responsible for the identification of E&S risks in financing activities and for the provision of recommendations on E&S matters, with the Head of Credit Management integrating E&S risk policy objectives into relevant credit committees and processes. Exposure of ESRM-eligible transactions, including highly E&S-sensitive exposures, is reported quarterly to the Risk Monitoring Committee. The Executive Credit Committee (ECC) ensures E&S and reputational risks are considered alongside credit risks in decision making.

Measurement, monitoring and management

MCB Ltd has developed a systematic Environmental and Social Risk Management (ESRM) methodology to identify, assess, manage, and monitor E&S risks in our lending activities in line with our E&S Risk Policy which defines transactions eligible for E&S Risk Assessment, covering all sectors within our risk appetite. Our scope of application is aligned to the Equator Principles, with a lower financial materiality threshold for Project Finance, which applies to corporate and MME/SME clients, sustainable financing products, corporate and government loans and unfunded facilities. We are dedicated to also addressing emerging E&S risks such as biodiversity loss, gender

issues, and working conditions across various sectors. Our ESRM process begins with a preliminary E&S screening to ensure compliance with our Board-approved Exclusion List for new clients and projects. This exclusion list relates to activities with damaging impacts on the environment and human rights. Eligible transactions then undergo risk identification and are categorised as per the magnitude of their potential impact based on criteria defined by the International Finance Corporation and the Equator Principles.

We conduct E&S due diligence for all projects, with the depth of assessment varying based on the project's risk category. This process evaluates compliance with applicable laws, regulatory frameworks, and international standards, including the UN Guiding Principles on Human Rights and IFC Performance Standards. When necessary, we develop Environmental and Social Action Plans to bring projects into compliance with applicable standards and Bank requirements.

E&S risks identified and their relevant proposed mitigants are escalated to the ECC for all in-scope transaction. The ECC may approve, reject, or approve subject to amendments/conditions. E&S conditions and covenants are included in contractual agreements with clients. Post-disbursement, we continue to monitor relevant E&S covenants, engage with clients, and conduct site visits throughout the loan tenor. Any breaches are promptly escalated to Executive Credit Committees, ensuring ongoing management of E&S risks throughout the credit lifecycle. By integrating E&S risk management into every stage of its credit process, from initiation to monitoring, MCB Ltd demonstrates its commitment to responsible banking practices and sustainable development in the regions we serve.

 [Read more on our ESRM Policy on our website](#)

Risk assurance: Internal audit

General approach

Our Internal Audit function, i.e. the third line of defence which is independent of the first and second lines, is responsible for providing independent assurance to the MCB Group Audit Committee, the Audit Committees of its subsidiaries and Management on the overall design and operating effectiveness of the risk management framework and its components. This includes the adequacy and effectiveness of key internal controls, governance and the risk management in place to monitor, manage and mitigate the principal risks to MCB Group and its subsidiary companies achieving their objectives.

The overseas banking subsidiaries are structured with their locally-based internal auditors, who carry out their assurance activities with the guidance and support of the Internal Audit SBU of MCB Ltd. The audit plans of both internal audit functions are considered by their respective Audit Committee to ascertain the most adequate coverage, with the expertise of Internal Audit SBU – which is certified as compliant with the Institute of Internal Auditors' (IIA) standards leveraged – to standardise the approach and quality of audit work. This provides the opportunity to enhance the effectiveness of internal audit management approach and processes. Based on its assessments, the Internal Audit function is presently not aware of any significant area of the Group where there are inadequate internal controls. The function does not believe that there are significant deficiencies in internal controls that could give rise to risks which could eventually jeopardise the operations of the Group. The third line of defence executes its duties freely and objectively in accordance with the IIA Code of Ethics and International Standards on independence and objectivity.

Capital management

The framework

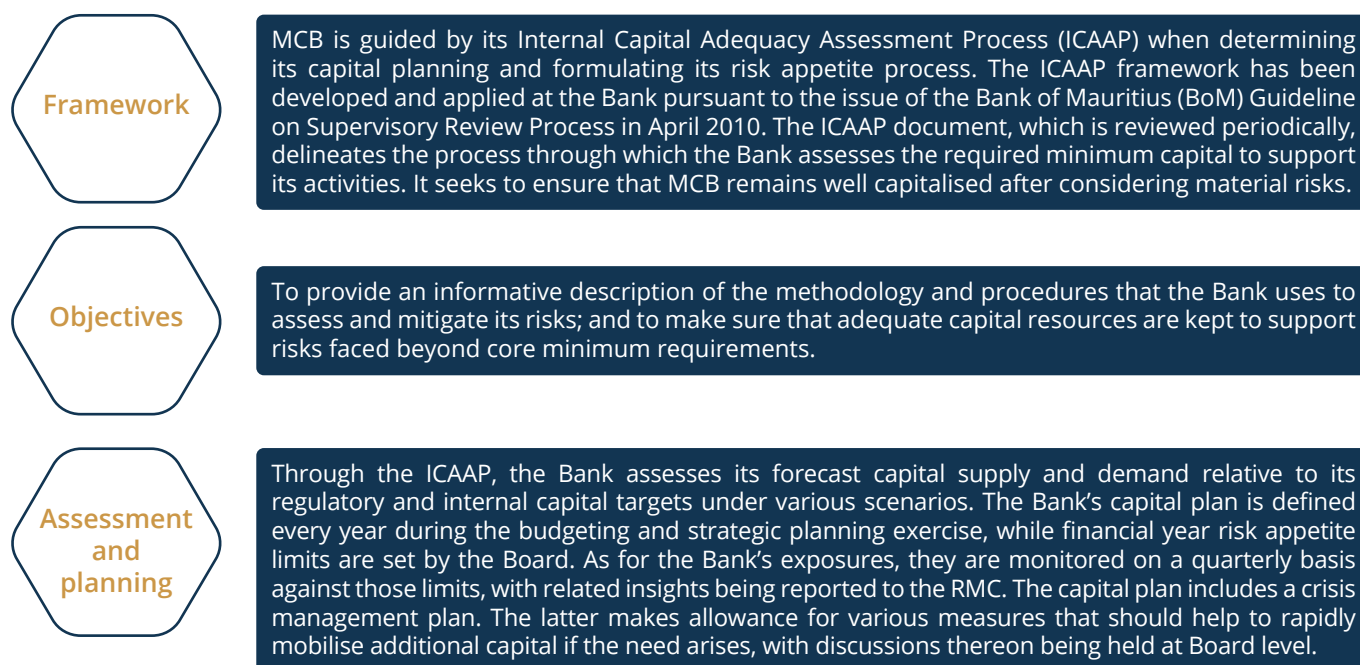
In line with regulatory rules, Basel requirements and industry best practices, the capital management objective of the Group is to ensure that adequate capital resources are available to operate effectively, foster sustained business growth, either maintain or enhance credit ratings and cope with adverse situations. Capital management policies and practices of the Group entities aim to maintain a strong capital position that is consistent with stakeholder expectations and requirements.

Capital management at the Group is underpinned by a forward-looking approach and coupled with a comprehensive governance framework. The entities determine the level and composition of capital after making allowance for multiple factors. They include the legal and regulatory landscape across countries, the business environments, conditions prevailing across economies and financial markets, the Group's strategic orientations, etc. Through this holistic assessment, we fine-tune our capital strategy to align with our broader goals, thereby ensuring our sustained resilience and capacity for strategic advancement.

Our process

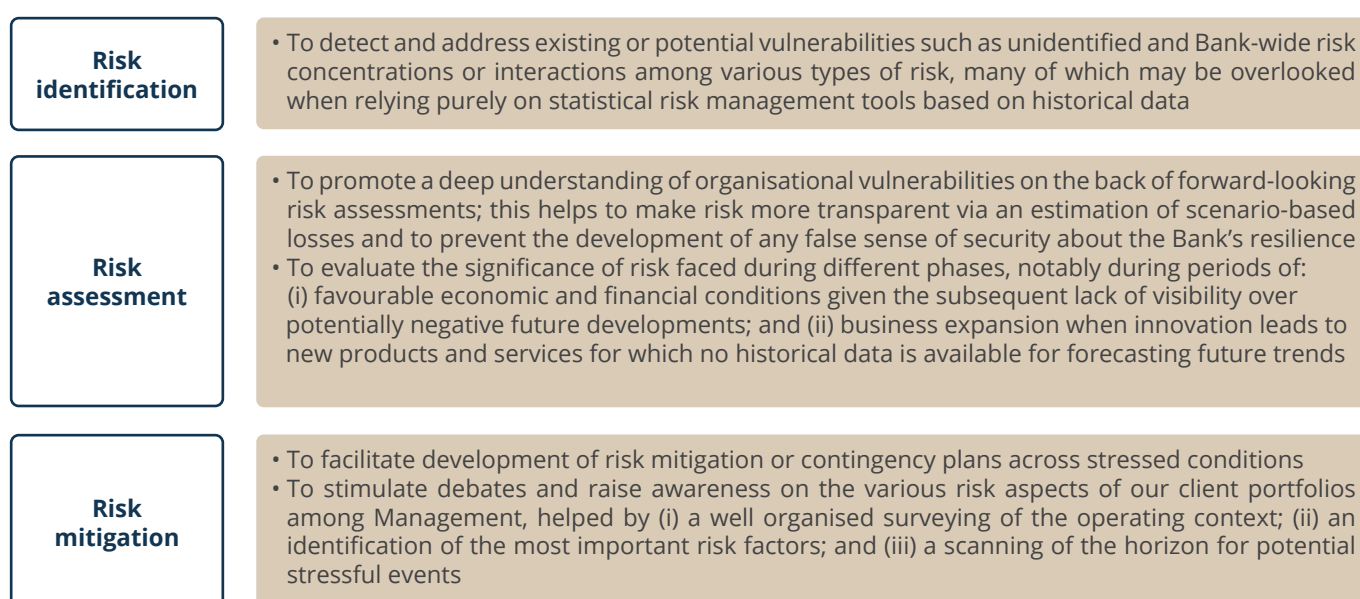
Commensurate with the strategic orientations, risk appetite and risk management framework approved by the Board of MCB Group Ltd, the entities, particularly those within the banking cluster, abide by their internal policies and practices for undertaking their capital management initiatives. These include (i) capital planning and allocation across business segments and geographies wherever applicable; (ii) capital reporting, budgeting and analysis; and (iii) management of capital consumption against budgets. Banking subsidiaries are guided by their Internal Capital Adequacy Assessment Process (ICAAP) in determining the capital planning exercise and formulating the risk appetite. This provides the framework to ensure that adequate capital is kept beyond core minimum requirements to support business activities.

Internal Capital Adequacy Assessment Process of MCB Ltd



Stress testing at MCB Ltd

Stress testing is a key risk management tool used by the Bank and is an integral part of its ICAAP. The aim of the Bank's stress testing framework is to identify, quantify, evaluate and make sense of the potential impact of specific changes in risk factors on the business development and financial strength of the Bank. MCB applies the stress testing principles set out under the new BoM Guideline on Stress Testing issued in June 2022. Forecasts are made over a 3-year horizon, taking into account the Basel Pillar I and II stresses. The ICAAP provides for an assessment of the Pillar I risk types (i.e. credit, operational and market risks) and Pillar II risk types (i.e. concentration, liquidity, interest rate, strategic risks, etc.). In line with this approach, climate risk considerations have also started to be integrated into the Bank's stress testing framework, notably through the inclusion of a dedicated climate scenario as part of the risk appetite setting process and the ICAAP for FY 2024/25. These assessments are undertaken to understand the sensitivity of the key assumptions of the capital plan with regard to the realisation of plausible stress scenarios. This helps MCB evaluate how it can maintain adequate capital under such scenarios.



Stress testing results

In FY 2024/25, the Bank conducted stress testing under various historical and stress test scenarios to assess the impact of unfavourable scenarios on key metrics. We have used the 3-year budget forecasts to conduct our different stress tests. We assumed that the stress scenarios take place in the middle of FY 2024/25, i.e. at the beginning of January 2025, and we then measured the relevant impacts accordingly. The scenarios are regularly reviewed and fine-tuned to ensure that they remain relevant to the Bank's risk profile, activities as well as prevailing and forecasted economic conditions. We measured potential impacts on the following metrics: (i) Solvency: Capital Adequacy Ratio and Tier 1 ratio; (ii) Profitability: Net profit after tax; (iii) Asset quality: NPL ratio and cost of risk; and (iv) Liquidity: LCR, NSFR, Net Present Value (NPV) of Trading and Fair Value Through Other Comprehensive Income (FVTOCI) portfolio. The stress test results are reported and discussed at the RMC and the Board prior to being submitted to the BoM. Barring extreme cases, our recent analyses revealed that the Bank's capital adequacy ratio does not fall below the regulatory requirements in any of the 3 scenarios described hereunder.

Climate Risk (Mild scenario)

Mauritius and Africa experience a severe drought affecting the agricultural, tourism and hospitality sectors. Mauritius, being a net food importer, experiences food price inflation due to disruptions in agriculture. This drought also leads to higher uncertainty across the tourism and hospitality sectors resulting in a decline in net foreign direct investment, further exacerbating the situation, and leading to a depreciation of the Mauritian Rupee. At the same time, Kenya faces additional challenges due to USD shortage from reduced exports, causing the government to default on their oil procurement bills. Global political shifts bring economic uncertainty. European countries introduce carbon taxes and rising sea level strain Mauritius' tourism sector, worsening its current account deficit and hence Moody's downgrade its sovereign rating.

Idiosyncratic Risk (Moderate scenario)

Nigeria's crude oil output has plummeted due to oil spills, lack of infrastructure investment, theft, and terrorism, severely reducing exports and USD revenue. This has led to widespread financial defaults and liquidity shortages, causing Nigerian banks to struggle. Additionally, the Bank is found to be involved in a major fraud and money laundering scandal, facing a huge fine and reputational damage and this led to an exodus of both clients and investors. As the Bank began to recover, a cyberattack disrupted African telecom networks, further disrupting the financial system while the private equity market experiences a bubble burst upon reaching maturity.

Broad Regional conflict (Severe scenario)

The conflict in Israel and Gaza escalates to a full-scale war involving Iran, disrupting oil routes and skyrocketing crude prices. In addition to higher transportation costs, global supply chain is also impacted, affecting international trade. At the same time, the effects of imported inflation negatively impact Mauritian businesses with increasing operational costs. Meanwhile, China attempts to invade Taiwan, leading to a war with the US, drastically reducing international travel and impacting tourism and hospitality sector. Mauritius faces heightened security concerns due to its geographical location, deterring investments, while China sells US Treasury bonds, triggering an economic turmoil. Global inflation rises due to reduced Chinese exports causing a global recession.

Internal Capital Adequacy Assessment Process at the level of our overseas banking subsidiaries

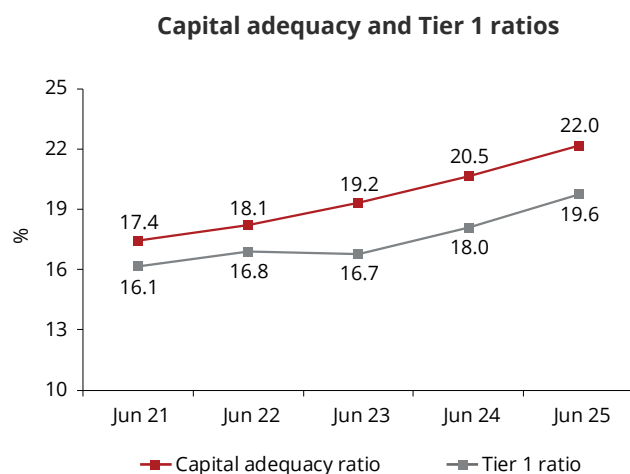
During the year under review, our overseas subsidiaries submitted their annual ICAAP documents. They demonstrated that they had robust internal assessment processes for capital adequacy towards Pillar II risk types to which they are exposed, as well as external risk factors.

Stress testing results

Our overseas subsidiaries conducted stress tests under various scenarios to assess the impact of unfavourable events on their capital position. They proved that they had robust capital bases, allowing them to withstand adversities in events of severe shocks, whilst also maintaining the capital adequacy ratios above the regulatory thresholds in the scenarios tested.

Capital position for FY 2024/25

The Group continued to be well capitalised in view of higher retained earnings and the issue of scrip shares in lieu of dividend under the Group's scrip dividend scheme. The capital adequacy and Tier 1 capital ratios increased to 22.0% and 19.6% respectively as at 30 June 2025. The predominant contribution thereto has emanated from the banking entities of the Group, for which maintenance of adequate capital levels is a key priority by virtue of their business operations and regulatory responsibilities. Risk-weighted assets of the Group stood at Rs 574 billion as at 30 June 2025, out of which 93% was accounted for by the banking cluster with MCB Ltd representing 83% of the overall risk-weighted assets.



Zoom on the banking cluster

Regulatory requirements

The Group's banking entities foster strict compliance with mandatory stipulations set by the regulators in their respective jurisdictions. In respect of MCB Ltd, it uses the Basel II Standardised Approach to manage its credit and market risk exposures, with the Alternative Standardised Approach used for operational risk. The determination of its capital resources is conducted in line with the BoM Guideline on Scope of Application of Basel III and Eligible Capital. It also complies with the Guideline for dealing with Domestic-Systemically Important Banks (D-SIB). Under the guideline, banks are required to hold a capital surcharge, also known as D-SIB buffer, ranging from 1.0% to 2.5% of their risk-weighted assets depending on their systemic importance. The assessment for determining Domestic-Systemically Important Banks is carried out on a yearly basis by the Central Bank using end-June figures. According to the assessment carried out by the BoM, MCB Ltd features among the four banks that have been identified as systemically important in our jurisdiction. This assessment is based on five factors, namely size, exposure to large groups, interconnectedness, complexity and substitutability.

The minimum regulatory Tier 1 and capital adequacy ratios currently applicable to MCB Ltd stand at 13.0% and 15.0% respectively. As for the overseas banking entities, they are guided by the minimum regulatory ratios set out in the table below.

Minimum regulatory ratios

	MCB Ltd	MCB Seychelles	MCB Maldives	MCB Madagascar
As at 30 June 2025	%	%	%	%
Capital adequacy ratio	15.0	12.0	12.0	10.5
Tier 1 ratio	13.0	6.0	6.0	8.5

Performance for FY 2024/25

The capital adequacy ratio of the banking cluster – as measured at the level of MCB Investment Holding Ltd on a consolidated basis – stood at 20.1% as at 30 June 2025. The capital base was primarily made up of core capital, with the Tier 1 ratio standing at 17.8%. The following tables depict the capital adequacy ratios posted by the banking cluster.

Banking cluster: Capital adequacy ratios

Capital adequacy	MCB Group		Banking cluster	
	Jun 24	Jun 25	Jun 24	Jun 25
	Rs m	Rs m	Rs m	Rs m
Capital base				
Ordinary shares (paid-up) capital	6,975	9,545	8,880	8,880
Retained earnings	89,913	102,647	72,069	81,971
Accumulated other comprehensive income and other disclosed reserves	7,264	6,266	10,924	11,062
Common Equity Tier 1 capital before regulatory adjustments	104,153	118,458	91,873	101,913
Regulatory adjustments				
Goodwill and other intangible assets	(3,211)	(3,494)	(2,719)	(3,050)
Deferred tax assets	(3,168)	(3,599)	(4,118)	(4,846)
Cash flow hedge reserve	0	110	0	11
Defined benefit pension fund assets	(754)	0	(754)	0
Common Equity Tier 1 capital (CET1)	97,020	111,474	84,283	94,028
Additional Tier 1 capital (AT1)	1,621	943	-	-
Tier 1 capital (T1 = CET1 + AT1)	98,640	112,417	84,283	94,028
Capital instruments	7,057	6,757	7,057	6,757
Provisions or loan-loss reserves	6,224	6,415	5,858	5,927
45% of surplus arising from revaluation of land and buildings	1,288	1,264	-	-
Tier 2 capital before regulatory adjustments	14,568	14,436	12,915	12,684
Regulatory adjustments	(559)	(583)	(557)	(580)
Tier 2 capital (T2)	14,009	13,854	12,358	12,104
Total capital (T1 + T2)	112,649	126,271	96,641	106,132
Risk-weighted assets	Rs m	Rs m	Rs m	Rs m
Weighted amount of on-balance sheet assets	453,885	458,126	424,784	419,907
Weighted amount of off-balance sheet exposures	43,999	55,106	43,875	54,290
Weighted risk assets for operational risk	46,229	55,428	44,258	53,096
Aggregate net open foreign exchange position	4,446	4,914	1,148	1,017
Total risk-weighted assets	548,558	573,573	514,065	528,310
Capital adequacy ratios (%)	Jun 24	Jun 25	Jun 24	Jun 25
Total capital adequacy ratio	20.5	22.0	18.8	20.1
of which Tier 1	18.0	19.6	16.4	17.8

Note: Figures may not add up to totals due to rounding

	MCB Ltd	MCB Seychelles	MCB Maldives	MCB Madagascar
	%	%	%	%
Capital adequacy ratio				
As at 30 June 2024	19.8	20.2	66.5	11.2
As at 30 June 2025	21.1	20.8	62.8	10.9
Tier 1 ratio				
As at 30 June 2024	17.3	17.4	57.4	9.3
As at 30 June 2025	18.6	17.9	52.6	8.8

Note: Figures are as per the banking entities' respective regulatory norms



Stephen DAVIDSON
Director
Chairperson Risk Monitoring Committee



Jean Michel NG TSEUNG
Group Chief Executive

