



SUCCESS BEYOND NUMBERS

CONFLICTS OF INTEREST & RELATED PARTY TRANSACTIONS POLICY

NOVEMBER 2024

1.	SUMMARY	The Conflicts of Interest and Related Party Transactions Policy sets out the principles, policies, roles and responsibilities with regard to related party transactions of the Mauritius Commercial Bank Ltd.			
2.	OWNER	Head of Financial Risk			
3.	ALTERNATE OWNER	Credit Risk Manager			
4.	AVAILABLE ON	IZone	√	Website	√
5.	DISSEMINATED TO	Staff members of The Mauritius Commercial Bank Limited (“MCB Ltd” or the “Bank”)			
6.	DATE OF VALIDATION	12 November 2024			
7.	REVIEWED BY	Chief Risk Officer			
8.	VALIDATED BY	Board			
9.	DATE OF NEXT FORMAL REVIEW	February 2025			

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1. Introduction

The primary function of this policy is to set out the principles, roles and responsibilities with regard to conflicts of interest and related party transactions of the Mauritius Commercial Bank Ltd. It shall be governed by the rules established by the Bank of Mauritius Guideline on Related Party Transactions.

2. Cross-references

This policy needs to be read in conjunction with other documents including, *inter alia*:

- The Bank of Mauritius Guideline on Related Party Transactions, revised in May 2022, and as amended from time to time
- The Bank of Mauritius Guideline on Credit Concentration Risk, revised August 2019, and as amended from time to time
- The Bank's Procurement Policy

3. Definitions

i. Conflicts of interests

Conflicts of interest can be defined as any situation in which an individual or company is in a position to exploit a professional or official capacity in some way for their personal or corporate benefit. A conflict of interest occurs when an individual or organisation is involved in multiple interests, one of which could possibly create unfavorable influence for an act in the other.

Personal interests of a Director/Senior officer or persons closely associated with the Director/Senior officer must not take precedence over those of the Bank and the shareholders. Directors and Senior officers should make the best effort to avoid conflicts of interests or situations which others may reasonably perceive to be conflicts of interests.

ii. Related parties

- Related party transactions will be governed by any relevant guidelines issued by the Bank of Mauritius and the Banking Act 2004 which defines 'related party' as a person who has significant interest in the financial institution or the financial institution has significant interest in, or controls, the person.

- Related parties, whether body corporates or natural persons, fall into two main groups:
 - a. Those that are related to a financial institution because of ownership interest; and
 - b. Those that are related otherwise, such as directors and senior officers who may also have some ownership interest in the financial institution.

- “significant interest” means –
 - (a) owning, directly or indirectly, alone or together with a related party, or otherwise having a beneficial interest amounting to, 10 per cent or more of the capital or of the voting rights of a financial institution;
 - (b) having the ability, directly or indirectly, alone or together with a related party or the power, to appoint 20 per cent or more of the members of the board of a financial institution; or;
 - (c) directly or indirectly exercising a significant influence over the management of a financial institution as the central bank may determine.

The Bank of Mauritius Guideline on Related Party Transactions classifies exposures to related parties into the following 3 categories:

Category 1

This includes credit exposures to

- (a) a person who has significant interest in the Bank;
- (b) a director of the Bank;
- (c) a director of a body corporate that controls¹ the Bank;
- (d) the spouse, child and parent of a natural person covered in (a) or (b) or (c) above;
- (e) any entity that is controlled² by a person described in (a) or (b) or (c) or (d) above; and
- (f) any entity in which the Bank has significant interest, excluding a subsidiary of the Bank as mentioned in Category 2 (e) below.

¹ For this purpose, ‘control’ has the same meaning as in the Companies Act 2001.

² For this purpose, a natural person shall be deemed to control an entity if he/she owns, directly or indirectly, 10 per cent or more of the capital or voting rights of that entity. In other cases, it has the same meaning as in the Companies Act 2001.

Category 2

This includes credit exposures to

- (a) senior officers, which are outside the terms and conditions of employment contracts;
- (b) the spouse, child and parent of senior officers;
- (c) senior officers of a body corporate that controls³ the Bank;
- (d) any entity that is controlled⁴ by a person described in (a) or (b) or (c) above; and
- (e) a subsidiary of the Bank with no shareholder (natural person) holding directly or indirectly more than a significant shareholding in the parent Bank.

Category 3

- This includes credit exposures to senior officers, which are within the terms and conditions of employment contracts.

The regulatory limits for each category are defined in this policy under Section 8: Regulatory Compliance. In addition, as part of its internal policy, the Bank considers its external auditors as related party, both at firm level and at individual level as far as partners are concerned.

³ For this purpose, 'control' has the same meaning as in the Companies Act 2001.

⁴ For this purpose, a natural person shall be deemed to control an entity if he/she owns, directly or indirectly, 10 per cent or more of the capital or voting rights of that entity. In other cases, it has the same meaning as in the Companies Act 2001.

iii. Related party transactions

As a general rule, related party transactions include the following categories:

i. Credit exposure

Credit exposure, that is credit, financial leasing, non-fund based commitments such as documentary credits, guarantees on behalf of a related party, acquiring a loan made by a third party to a related party, investment in equity or other debt instruments of a related party, and any other commitment to provide funds or substitute of funds to a related party.

ii. Deposits and placements

- Placements made by the Bank with a related party
- Deposits placed with the Bank by a related party

iii. Service providers

- Consulting or professional service contracts with a related party
- Conditional sales agreements with a related party

iv. Immovables

- Acquisition, sale, rental or lease of assets of a related party

v. Other transactions

- any pecuniary relationship or other transactions or arrangement with a related party (including by way of service arrangements or contracts)

4. Governance

4.1 Roles and Responsibilities

The Board is ultimately responsible for establishing and implementing appropriate policies on conflicts of interests and related party transactions and administering the process for handling the transactions. The responsibilities include the following:

- review and approve the Policy on Conflicts of interest and Related party transactions at least annually.
- require the Senior management of the Bank to establish policies, systems and procedures to comply with the Policy on Conflicts of interest and Related party transactions and requirements of the Guideline on Related Party Transactions.

- ensure that the policies, systems and procedures are subject to regular review by control functions⁵ to ensure their continuing effectiveness, adequacy and enforcement.
- establish procedures to ensure that board members and staff with conflict of interest are excluded from the approval and monitoring process of related party transactions.
- ensure that the Bank has a robust system of checks and balances to monitor compliance with the regulatory limits, uphold impartiality and prevent credit activities of any kind, which override established credit approval policies and procedures when granting credit facilities to related parties.
- receive quarterly reports from the Conduct Review Management Committee. The report shall, inter alia, cover:
 - new related party transactions.
 - the performance of the bank's related party exposures including compliance with policies and procedures (including internal/ regulatory limits), breach of covenants, deterioration in credit quality, impairment of assets and non-perfection of collateral.
 - the performance of services provided by related parties and other arrangements/ contracts with related parties including compliance with agreed service level agreements.
- receive on an ad-hoc basis the findings and status of recommendations of control functions, the Audit Committee and the Risk Monitoring Committee in respect of related party transactions.

The Board exercises those responsibilities via the Conduct Review Management Committee. The mandate of the Committee shall also include the following:

- ensure that any transaction with related parties that may have a material effect on the stability and solvency of the Bank is identified and dealt with in a timely manner.
- monitor and report related party transactions including related party exposure to senior management.
- seek the approval of the Board for any write-off of related party credit exposure.

⁵ "control functions" mean those functions that have a responsibility independent from management to provide objective assessment, reporting and/or assurance. This includes the risk management function, the compliance function and the internal audit function

- review and approve related party transactions up to regulatory threshold as determined in the Bank of Mauritius Guideline and the policy on related parties c.f Section 6. Approval of related party transactions
- ensure that all related party transactions are carried out at arm's length i.e. on terms and conditions that are at least as favourable to the Bank as market terms and conditions. Credit facilities which are not at prevailing market terms and conditions can be granted to the staff provided that these terms and conditions:
 - a. are within the terms and conditions of employment contracts; and
 - b. have been approved by the Board
- review the practices of the Bank to ensure that any transactions with the related parties that may have a material effect on the stability and solvency of the bank are identified and dealt with in a timely manner.

4.2 Composition of the Conduct Review Management Committee

- The committee shall consist of the following 4 members of Senior Management including:
 - The Chief Executive Officer
 - The Chief Risk Officer
 - The Head of Domestic Banking
 - The Head of Compliance
- The Head of Financial Risk shall act as the Secretary of the CRMC.
- The members and the Chairperson will be designated by the Board.
- The quorum of the Committee shall be three.

4.3 Meetings

- The Committee will meet at a minimum four times per year to review related party transactions.
- The Chairperson of the Committee may in case of absence designate an alternate.
- After each meeting, the Conduct Review Management Committee shall report to the Board of Directors on matters reviewed by the Committee.

5. Management of Conflicts of interest and Related Party Transactions

5.1 Identification of related parties:

- The Secretary of the Conduct Review Management Committee will be responsible for keeping the Register of related parties updated. Information pertaining to Directors and Senior Officers will be provided by the Company Secretary and the Executive assistant of the Executive office respectively.
- It is the responsibility of each Director/Senior officer to ensure that any interests be reported to the Company Secretary and the Executive office.
- Full and timely disclosure of any actual conflict or potential conflict must be made to the Board in line with section 48 of the Banking Act 2004.
- The updated register will be circulated to and approved by the Conduct Review Management Committee on a yearly basis.
- When there are nominations to the Board of Directors or new appointments to the Senior Management of the Bank, where such appointees fall within the definition of related party, as determined by the Guidelines of Bank of Mauritius and approved by the Conduct Review Management Committee, written confirmation from the individuals concerned of all persons and entities related to them, as defined in the guidelines, shall be obtained.

5.2 Lending and Deposit Rates to related parties:

- Except for staff of MCB Group Ltd⁶, lending rates to individuals will not be lower than those applicable to individual customers, with similar risk profiles.
- Lending rates to entities will not be lower than those applicable to comparable corporate customers.
- Deposits rates will not be higher than those paid on deposits of other customers of the Bank, bearing in mind the level of the deposit, its duration and currency in which it is stated.
- Fees and commissions charged will not be lower than those applicable to individual and non-individual customers, as may be the case.

⁶ Refer to Products and Services to Staff policy

- Amounts paid to related parties for consultancy and other professional services rendered will follow the rules and regulations applicable to standard supplies of goods and services, as defined by the Bank's internal policy on procurement and these amounts will not exceed those dictated by market terms and conditions for such services.

6. Approval of Related Party Transactions

- a. The Board shall take cognizance, review and ratify credit exposures to related parties as well as their deposits for which the aggregate of credit exposures to any single related party and/or its group of connected counterparties exceeds **MUR 500m**.
- b. The Board shall approve any other transaction with related parties where the aggregate amount due by/to any single related party and/or its group of connected counterparties exceeds **MUR 500m**.
- c. The Board delegates its power to the Conduct Review Management Committee for any related party transaction below **MUR 500m**.
- d. The requirements for the approval of related party transactions by the Board and the Conduct Review Management Committee will not apply to transactions related to day-to-day operations such as transfers, withdrawals, deposits placed with the Bank, cheque clearing and foreign exchange as well as spot transactions which are carried out on market terms and conditions and do not result into a credit exposure.

7. Limit on credit facilities

The granting of credit facilities to related parties will be governed by the same risk assessment procedures and processes as those applicable to the Bank's customers, retail or corporate, as the case may be. In addition, internal rules on credit applicable to members of the Senior Management team of the Bank as well as to Directors, as approved by the Board, shall be applicable.

8. Regulatory Compliance

Reporting to the Bank of Mauritius

The Committee will ensure that the Bank reports to the Bank of Mauritius on a quarterly basis, information relating to credit exposures to related parties including exemptions from the regulatory limits detailed in this policy and in line with the Guideline on Related Party Transactions.

Regulatory limits

Credit exposure to any single borrower/group of connected counterparties who are related parties to the Bank shall be governed by the Guideline on Credit Concentration Risk be subject to the following conditions:

- The aggregate of credit exposures to and investments in equity shares of all related parties in Category 1, other than investment in subsidiaries and associated, should not exceed 60% of the Bank's Tier 1 capital
- The aggregate of credit exposures to and investments in equity shares of all related parties in Category 1 and Category 2, other than investments in subsidiaries and associates, should not exceed 150% of the Bank's Tier 1 capital

Exemptions from regulatory limits

The Bank shall be exempted from the regulatory limits on the following credit exposures:

- inter-bank transactions as part of treasury operations.
- a credit exposure to the extent to which it is collateralised by deposits with the Bank or Government of Mauritius securities or a loan to the extent to which it is guaranteed by the Government of Mauritius.
- a credit exposure to parastatal bodies and to an entity in which Government has more than 50% shareholding.
- credit exposures including aggregate credit exposures to a group of connected counterparties, as defined at Annex II to the Guideline on Credit Concentration Risk, representing less than 2% of the Bank's Tier 1 capital.
- category 3 type of related party exposures.
- A credit exposure to the extent to which it is collateralised by securities issued by another government or a loan to the extent to which it is guaranteed by another government provided that the exposure is:
 - i. denominated and funded in its national currency; and
 - ii. approved by the Bank of Mauritius under paragraph 6 of the Guideline on Standardised Approach to Credit Risk for a zero per cent risk weight.

9. Review and Approval of Policy

This policy shall be reviewed and updated on an annual basis, or earlier, if need be, by the policy owner, in consultation with appropriate stakeholders to ensure that it remains adequate in the light of relevant changes and practices.