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Innovation

PERFORMANCE

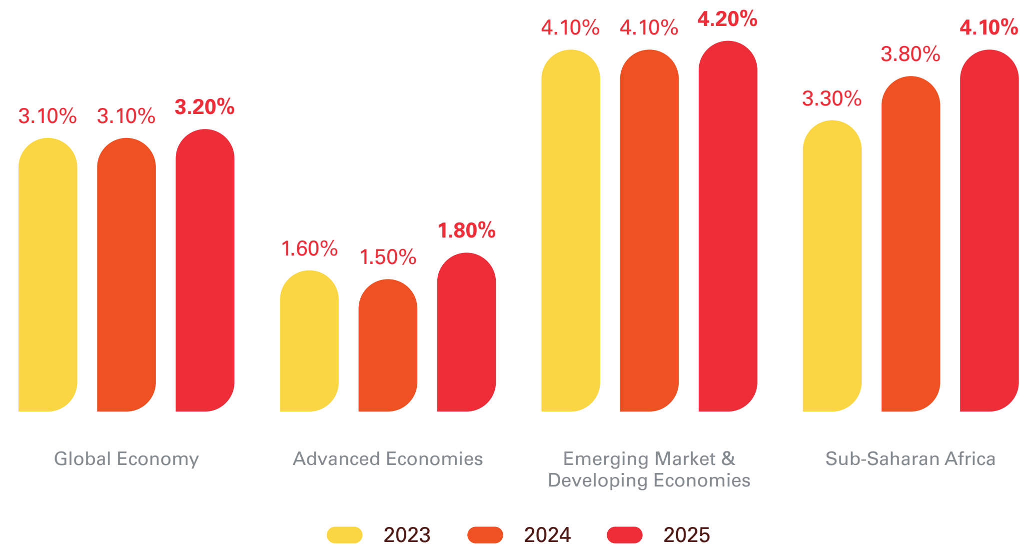
Economic outlook

Global economy

Global growth, estimated at 3.1% in 2023, is considered to remain constant at 3.1% in 2024, before rising self-effacingly to 3.2% in 2025, as per World Economic Outlook (WEO) update in January 2024.

The forecast for 2024 reflects greater than expected resilience in the United States and several large emerging market anddeveloping economies, taking into consideration the fiscal support in China.

World Economic Outlook Growth Projections



Source: World Economic Outlook, January 2024

U.S. growth is projected to slow to 1.6% in 2024, with high real interest rates restraining activity. Fiscal policy is expected to turn more restrictive, even as elevated interest rates and weakening growth weigh on the federal budget balance (Swagel 2023).

A further weakening in consumption growth is projected, amidst diminished savings, still-elevated borrowing rates and easing labour market tightness. Business fixed investment is also set to decelerate further, as firms remain cautious, given economic and political uncertainties, and increasingly refinance corporate debt at higher interest rates. Growth is expected to edge up to 1.7% in 2025, closer to its trend rate, as the impact of easing monetary policy feeds through the economy.

Growth in the Euro zone is forecasted to increase from 0.5% in 2023 to 0.9% in 2024, and further to 1.7% in 2025 given the stronger household consumption which will drive energy prices to drop and inflation to fall, supporting real income growth.

With the boost to consumption from the lifting of pandemic-related restrictions, growth in China is estimated at 5.2% in 2023. The decline in the property sector intensified, as property prices and sales fell and developers experienced renewed financial pressures. Real estate investment contracted, while the growth of infrastructure investment was slower than pre-pandemic average rates, resulting in overall fixed investment growth.

It is expected that growth in Emerging Market and Developing Economies is to remain at 4.1% for 2024 and increase to 4.2% in 2025. It is forecasted that an increase of 0.1% in 2025, for several regions. In Latin American and the Caribbean, growth is anticipated to be at 1.9% in 2024 and 2.5% in 2025, given the intense domestic demand.

Inflation is falling faster than expected in most regions, in the centre of unwinding supply-side issues and restrictive monetary policy. Global headline inflation is expected to fall to 5.8% in 2024 and to 4.4% in 2025, with the 2025 forecast revised down.

The US Federal Reserve at its meeting in January 2024 held interest rates steady, at a range of 5.25-5.5%, with inflation cooling but still 2% above target. Investors anticipate a few rate cuts in the second half of the year.

Sub-Saharan Africa

It was projected that growth in Sub-Saharan Africa (SSA) to slow down in 2023, with the region's three largest economies, namely Nigeria, South Africa and Angola.

More specifically, post-pandemic recoveries were slowed by weakening external demand and domestic policy tightening, to address persistent inflation.

Consumer price inflation in SSA moderated in 2023, following sharp rises in global food and energy prices in 2022, yet it remained elevated.

The cost of living continues to be high, which has worsened the economic hardship of the poor and increased food insecurity across the region.

Growth in SSA is likely to accelerate to 3.8% in 2024 and increase further to 4.1% in 2025, as inflationary pressures weaken, thus easing financial conditions.

In SSA, the outlook is subjected to several downside risks which include a rise in political instability and violence, such as the intensification of the conflict in the Middle East, disruptions to global or local trade and production, increased frequency and intensity of adverse weather events, a sharper-than-expected global economic slowdown and higher risk of government defaults.

Mauritian economy

Bank of Mauritius (BOM) revised its yearly growth estimates upwards, to 7.1% for 2023. This was on account of an unexpectedly strong economic growth of 5.8% in the first half of the year.

The IMF, on the other hand, expected a real GDP growth of 5.1% in 2023, higher than its initial estimate of 4.6%, projected in April 2023. The main contributors to this growth included construction (+1.7% y-o-y), accommodation and food services (+1% y-o-y), agriculture, forestry and fishing (+0.4% y-o-y) and transport and storage (+0.4% y-o-y). These sectors are expected to remain resilient through 2024 as well, supported by a robust tourist inflow, infrastructure development projects and an increase in cross-border investment activities.

Tourist arrivals are estimated at 1.3 million for 2023 as per Monthly Statistical Bulletin – December 2023, given the demand for the Mauritius destination continues to provide solid incentive to the tourism sector. The European continent remained the main source market for Mauritius, representing 64% of total tourist arrivals for the year 2023.

Tourists' average length of stay stood at 11.3 nights over 2023, slightly lower than 11.8 nights in 2022. Tourism earnings were marginally higher than expected, standing at Rs 85.9 billion against Rs85.0 billion for 2023, which is significantly higher than the 2022 level of Rs 64.8 billion. Henceforth, the tourism sector is expected to continue maintaining its momentum, thus benefitting from a strong demand for holiday travel, aggressive marketing campaigns, increased flight connectivity and diversification of markets.

In Mauritius, the annual inflation for 2023 averaged at 7%, declining from 10.8% in 2022. This was reflected in the August 2023 Bank of Mauritius survey, which showed that inflation expectations for 2023 were skewed to the downside. In 2024, the expected weakness in global demand growth, given the tight monetary and credit conditions, and a slight reduction in crude oil prices might lead to a further decline in inflationary pressures in Mauritius.

Gross Official International Reserves (GOIR) stood at Rs 321.3 billion (USD 7.2 billion) as at end-December 2023, compared to Rs 342.2 billion (USD 7.7 billion) as at end-December 2022. Based on the imports of goods (f.o.b.) and services for calendar year 2023, GOIR represented 10.9 months of imports as at end-December 2023.

An overall balance of payments deficit of Rs 1.9 billion was recorded in 2023Q3 compared to Rs 5.6 billion in 2022Q3. The financial flows in the financial account, along with a lower current account deficit projected for 2023, is expected to support the domestic currency over the medium-term.

The external current account deficit contracted substantially to Rs 8.3 billion in 2023Q3 compared to Rs 17.1 billion in 2022Q3. This showed an improvement in the current account deficit resulting from higher surpluses in the income and services accounts and a lower trade deficit.

The Mauritius International Financial Centre (IFC) continues to attract financial flows, as global cross-border investment activities remain resilient despite challenging global conditions brought by the lingering Russia-Ukraine war, higher interest rates and the recent banking crisis.

BOM continues to conduct open market operations, in line with the new Monetary Policy Framework implemented since the beginning of 2023. The main tool for monetary policy operations, namely the 7-Day BoM Bill, is issued at the Key Rate of 4.5%, while banks availed themselves of the Overnight Deposits Facility at their discretion.

The Monetary Policy Committee (MPC) at BOM pursued the normalisation of monetary policy during the year 2022, to curb inflationary pressures and anchor inflation expectations. The MPC maintained the Key Rate at 4.5% during 2023. Market interest rates adjusted accordingly, with both savings and lending rates going up.

Financial analysis

Statement of financial position

2023 remained a strong year for the Bank, recording an asset growth of above 11%.

In line with its strategy, the Bank increased its exposures to banks by 73%, compared to the previous year. Loans to customers declined and the excess funds were invested in cash and cash equivalent portfolio, which went up by 22%.

Deposits book grew by 17%, with the contribution of both local and foreign currencies. The Bank continued to operate in a high-rate interest environment, with rising cost of deposits impacting margins. The Bank continued to service its borrowings, which was brought down by more than 50%.

The liquidity position of the Bank remained strong, with a Liquidity Coverage Ratio of 327% as at December 2023. The Bank's capital adequacy ratio remained strong at 16.85% and a tier 1 ratio of 12.74%.

The classification of one offshore exposure (92% covered by insurance) in 2023 resulted in the deterioration of the non-performing loan book, which increased from MUR 580 million in December 2022 to MUR 1,205 million as at December 2023. The NPL ratio, as a consequence, went up from 2.23% as at 31 December 2022 to 4.20% as at 31 December 2023.

Statement of comprehensive income

The Bank reported profit after tax of MUR 756m, highest in its 15 years of existence.

Operating income improved by 19%, from MUR 1,506 million in 2022 to MUR 1,787 million in 2023 contributed largely by the high interest rates.

The net fees and commission income went down by 20% in 2023, as the Bank exited some fee generating exposures after reassessment of the associated risks. This shortfall was compensated by the 43% increase in net gains on dealing in foreign currencies and derivatives, resulting from increased trade volumes.

In line with the growth of banking activities, non-interest expenses witnessed an increase of 10%, reaching MUR 1,108 million for the year 2023, against MUR 1,004 million for the year 2022.

Staff costs rose by 9%, mainly on account of yearly review of staff salary, staff-related benefits and pension costs. Non-interest expenses also included charges related to the roll-out of the Bank's strategic IT/digitalisation/transformation plans. However, the cost-to-income ratio improved from 66.72% in 2022 to 62.03% for the year ended December 2023.

Achievements v/s objectives and plan for 2023

Objectives for Year 2023	Performance in Year 2023	Objectives for Year 2024
Return on Average Equity (ROAE) To achieve a ROAE of above 16%.	Achieved a ROAE of 19.50%, contributed by normal business and recoveries.	To achieve a ROAE of above 19%.
Return on Average Assets (ROAA) To achieve a ROAA of above 1.3%.	Achieved a ROAA of 1.53%.	To achieve a ROAA of above 1.4%.
Operating income Growth of above 33% in operating income.	19% increase in operating income.	Growth of above 28% in operating income.
Cost-to-income ratio Cost to Income ratio of less than 58%.	Cost-to-income ratio of 62.03% on account of lower revenue.	Cost-to-income ratio of below 58%.
Deposits growth Deposit growth of 21%, contributed by both Segment A and Segment B.	17% growth in deposits base, contributed by both local and offshore segments.	Deposit growth of 27%.
Gross loans and advances growth 24% growth to be contributed by both Segment A and Segment B.	Gross loan book grew by 10%, largely driven by FI's.	35% growth in gross loans and advances book.
Impaired ratio Gross impaired ratio to be brought down to below 1.9%.	Gross impaired ratio of 4.20%, on account of two large tickets.	Gross impaired ratio to be brought down to below 1.9%.
Capital Adequacy Ratio (CAR) Maintain CAR above 15%.	CAR at 16.85% as at December 2023.	Maintain CAR above 14.50%.

Financial analysis

Statement of Profit or Loss

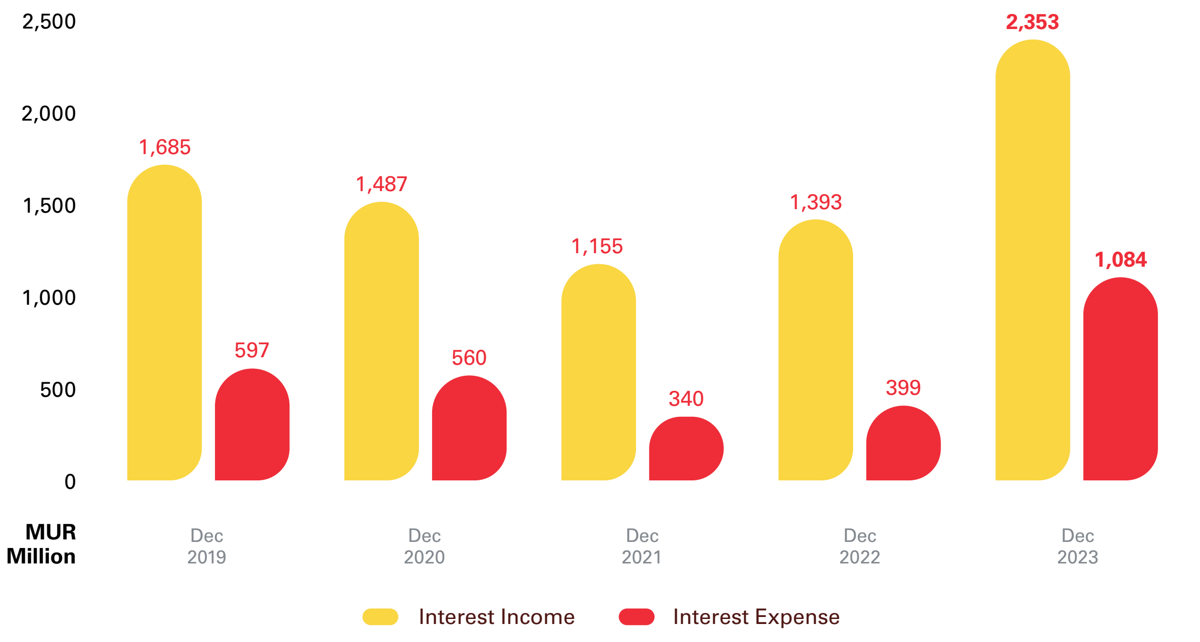
	Year ended Dec-21 MUR 000	Year ended Dec-22 MUR 000	Year ended Dec-23 MUR 000
Net interest income	815,007	993,814	**1,268,906**
Net fee and commission income	278,278	329,401	**261,995**
Net trading income	164,391	178,747	**255,594**
Other operating income	122,277	4,857	**678**
Operating income	1,379,953	1,506,819	**1,787,173**
Non-interest expense	(929,286)	(1,004,725)	**(1,108,593)**
Operating profit	450,667	502,094	**678,580**
Allowance for recoveries	71,799	33,476	**132,150**
Profit before tax	522,466	535,570	**810,730**
Income tax expense	(109,042)	(41,745)	**(54,920)**
Profit for the year	413,424	493,825	**755,810**

Interest Income and Expense

	Year ended Dec-21 MUR 000	Year ended Dec-22 MUR 000	Year ended Dec-23 MUR 000
Interest income			
Loans and advances to customers and banks	907,083	989,285	**1,714,574**
Investment securities and bonds	229,695	233,277	**270,635**
Placements	18,565	170,659	**367,557**
	1,155,343	1,393,221	**2,352,766**
Interest expense			
Deposits from customers	197,183	235,303	**845,756**
Borrowings from Banks	52,074	75,274	**157,598**
Subordinated liabilities	86,879	81,930	**74,049**
Lease liabilities	4,200	6,900	**6,457**
	340,336	399,407	**1,083,860**
Net interest income	815,007	993,814	**1,268,906**
Average interest-earning assets	39,502,982	38,974,108	**42,433,969**
Average interest-bearing liabilities	24,954,069	23,863,643	**27,439,200**
Interest income/average interest-earning assets	2.92%	3.57%	**5.54%**
Interest expense/average interest-bearing liabilities	1.36%	1.67%	**3.95%**
Net margin	1.56%	1.90%	**1.59%**
Core revenue	1,379,708	1,505,072	**1,787,173**

Core revenue is defined as net interest income plus core non-interest revenue, after elimination of the effects of any unusual, non-operational items.

Interest Income & Interest Expense



Interest income increased by 69% compared to 2022, driven by higher income generating local and foreign assets, as well as elevated interest rates during the year. Return on average interest-earning assets was 5.54% in 2023 (3.57% in 2022).

The strategy of the Bank on the assets side has been to remain prudent and continue to protect its liquidity position and capital.

Interest expense was up by 171%, on account of higher cost of funding, both in local and foreign currencies as well as increase in deposits. Interest-bearing liabilities, comprising largely deposits, increased by 15% compared to the previous year.

Overall, net interest income rose by 28% during the year.

Non-interest income

	Dec-21 MUR 000	Dec-22 MUR 000	Dec-23 MUR 000
Net fees and commission	278,278	329,401	**261,995**
Net trading income	164,391	178,747	**255,594**
Other operating income	122,277	4,857	**678**
	564,946	513,005	**518,267**

Overall non-interest income remained flat compared to last year.

As highlighted earlier, the shortfall in net fees and commission was compensated by higher revenue generated through treasury.

The Bank is still pursuing its initiatives to improve the share of non-interest income through diversification and new income sources.

Financial analysis

Non-interest expense and cost management

	Dec-21 MUR 000	Dec-22 MUR 000	Dec-23 MUR 000
Personnel expenses	557,059	617,351	**674,637**
Depreciation and amortisation	75,861	96,901	**110,637**
Other expenses	296,366	290,473	**323,319**
	929,286	1,004,725	**1,108,593**

The main driver of the increase in non-interest expense was the yearly review of salary and other staff benefits.

Depreciation and amortisation charges were higher compared to last year, on account of capitalisation of digitalisation and transformation-related projects costs.

Other expenses increased by 11%, mainly on account of higher professional, IT and insurance costs, which were incurred in line with the Bank's operations strategy.

Credit exposure

As shown in the table below, the Bank has a well-diversified credit portfolio without any undue concentration in any one sector as at 31 December 2023.

Sectors	2021	2022	2023		
Lending	Total MUR 000	Total MUR 000	Segment A MUR 000	Segment B MUR 000	Total MUR 000
Agriculture & fishing	425,388	256,326	**29,942**	**-**	**29,942**
Manufacturing	36,187	314,594	**47,856**	**-**	**47,856**
Tourism	1,682,526	1,384,047	**1,092,597**	**-**	**1,092,597**
Transport	590,454	672,359	**434,443**	**260,346**	**694,789**
Construction	2,156,589	1,867,197	**1,749,585**	**48,593**	**1,798,178**
Financial and business services	2,588,138	1,989,706	**772,787**	**941,605**	**1,714,392**
Traders	3,493,100	2,816,970	**2,300,251**	**105,434**	**2,405,685**
Personal	5,901,599	8,606,326	**9,457,344**	**142,456**	**9,599,800**
Professional	14,433	11,163	**12,478**	**-**	**12,478**
Global business license holders	672,979	1,054,997	**-**	**456,855**	**456,855**
Central government	512,881	1,355,644	**-**	**1,326,516**	**1,326,516**
Others	260,689	592,056	**532,565**	**38,842**	**571,407**
	18,334,964	20,921,385	**16,429,848**	**3,320,647**	**19,750,495**
Lending to banks	3,339,038	5,150,285	**-**	**8,917,253**	**8,917,253**
Total credit exposure	21,674,002	26,071,670	**16,429,848**	**12,237,900**	**28,667,748**
Trading	2,083,101	1,402,874	**2,398,713**	**28,745**	**2,427,458**
Investment	10,339,563	10,937,676	**3,104,809**	**7,520,420**	**10,625,229**
Off balance sheet	5,028,998	4,364,245	**2,708,071**	**3,054,857**	**5,762,928**

Total credit exposures increased by 10% during the year, closing at MUR 28,667 million as at December 2023, compared to MUR 26,071 million as at December 2022. Investments held were in line with the Bank's business operationsand liquidity management.

Exposure to the personal segment is largely mortgage driven, with a growth of 15% compared to year 2022.

In line with the Bank's strategy, exposure to banks has gone up from MUR 5,150 million as at December 2022 to MUR 8,917 million as at December 2023.

Credit quality

The table below shows the data on impairment and related ratios for the past 3 years.

	Dec-21 MUR 000	Dec-22 MUR 000	Dec-23 MUR 000
Impaired advances	700,531	580,214	**1,205,299**
Allowance for impairment – stage 3	583,243	518,943	**565,343**
Impaired advances/Gross advances	3.23%	2.23%	**4.20%**
Net impaired/Net advances	0.57%	0.25%	**2.29%**
Provision coverage ratio	83.26%	89.44%	**46.90%**

Gross impaired ratio closed at 4.20% as compared to 2.23% as at December 2022, resulting from the classification of one offshore exposure. The exposure is 92% covered by insurance and provisions have been made for the uncovered portion.

The provision coverage ratio declined to 46.90% compared to 89.44% as at December 2022. The Bank holds adequate collaterals to cover the remaining 53.1%.

A breakdown of gross advances, impaired advances and related specific provisions percentage by industry sector split between segments A and B as at 31 December 2023, is shown below.

Financial analysis

Loans to customers

Sectors	Gross amount of loans		Impaired loans		Impairment cover on impaired loans	
	Segment A	Segment B	Segment A	Segment B	Segment A	Segment B
	MUR 000	MUR 000	MUR 000	MUR 000		
Agriculture and fishing	29,942	-	-	-	-	-
Manufacturing	47,856	-	-	-	-	-
Tourism	1,092,597	-	855	-	100%	-
Transport	434,443	260,346	7,802	258,113	88%	100%
Construction	1,749,585	48,593	139,969	-	28%	-
Financial and business services	772,787	941,605	854	-	100%	-
Traders	2,300,251	105,434	111,938	-	99%	-
Personal	9,457,344	142,456	120,614	1,845	65%	4%
Professional	12,478	-	-	-	-	-
Global business license holders	-	456,855	-	-	-	-
Central government	-	1,326,516	-	563,214		12%
Others	532,565	38,842	95	-	0%	-
Total	**16,429,848**	**3,320,647**	**382,127**	**823,172**		-

Sectors						
Loans to banks	-	**8,917,253**	-	-	-	-

97% of Segment A impairments originate from exposures to the Construction, Traders and Personal sectors, while 98% of the impaired loans for Segment B consist of facilities granted to the air transport sector and government.

General provisions

In compliance with the "Macro-prudential policy measures for the Banking Sector", issued by the BOM in October 2013, the Bank maintained additional portfolio provisions on certain specific sectors, booked as general reserve as an appropriation of retained earnings.

Other details regarding credit quality are given in note 15 (h) of the Financial Statements.