ENSAM*

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*ENSAM - MAURITIAN

PERFORMANCE

ECONOMIC OUTLOOK

GLOBAL ECONOMY

Global growth is estimated to have risen by 5.5% in 2021. This is up from a decline of 3.4% in 2020. The growth has been aided by a relaxation of pandemic-related lockdown measures in many countries. That said, the emergence of Omicron, a new highly infectious Covid-19 variant, and that of the challenges relating to global supply chain bottlenecks, means the global economy remains very stressed.

Rates of recovery around the world have been uneven. The more advanced economies with high vaccination rates have tended to emerge faster than lower income countries with less successful vaccination programmes.

WORLD ECONOMIC OUTLOOK GROWTH PROJECTIONS

In the United States, activity grew at a softer than expected pace in the second half of 2021, with material slowdowns in private consumption and manufacturing production. Activity faced several unanticipated headwinds, including Covid-19 outbreaks, mounting supply shortages and rising energy prices, as well as a fading boost-to-incomes from pandemic-related fiscal support. Meanwhile, inflation increased to 7.5%, the highest level in 40 years. Projections are that this will lead the Federal Reserve to increase interest rates 6 to 7 times during the year.

US growth is expected to slow to 3.7% in 2022 and 2.6% in 2023, as excess savings are spent and support from fiscal and monetary policy wanes.

After a remarkable rebound in the second and third quarters of 2021, growth in Europe is estimated to have slowed in the fourth quarter, owing in part to a sharp resurgence of Covid-19, a persistent drag on production from supply bottlenecks in economies heavily exposed to global supply chains, as well as sharply higher energy prices.

After growing by an estimated 5.2% in 2021, European growth is projected to slow to 4.2% in 2022 - 0.2 percentage point below previous projections -, reflecting a somewhat softer than expected recovery in services consumption, due to the emergence of the Omicron variant. Growth is forecasted to decelerate further to 2.1% in 2023.

In 2022, the Sub-Saharan Africa region is expected to grow to 3.6% - 10 basis points better than the projection for 2020. Underlying growth will be supported by continued progress on thevaccination front. Concerns however exist regarding the impact of rising global inflation and interest rates on Sub-Saharan Africa.

MAURITIAN ECONOMY

The impact of the global pandemic has hit the Mauritian economy hard. The loss of revenue from tourism has been significant. The opening of the borders to vaccinated tourists led to a jump in tourist numbers in October, but numbers were impacted again in December with the announcement of Omicron.

After a contraction of circa 15% in GDP in 2020, the economy grew by approximately 5% in 2021. Continued policy support from the monetary and fiscal authorities, progress in the vaccination campaign, as well as the buoyancy of some major sectors (mainly the textile industry, having benefited from a de-risking from China), have greatly supported the economy.

The country's foreign exchange reserves buffer was adequate to protect the economy against external vulnerabilities. The Gross Official International Reserves of USD 8.5 billion as at end of December 2021 provided an import cover of 21.8 months, based on imports of goods and services for 2020, compared to 16.9 months as at end of December 2020.

The Bank of Mauritius maintained its accommodative monetary policy stance to support economic recovery. The policy rate has been kept unchanged at 1.85% by the Monetary Policy Committee.

Continued economic support from the Government and the Bank of Mauritius has cushioned the impact of the pandemic on banks' asset quality. The support from the Mauritius Investment Corporation (MIC) has been instrumental in supporting some of the big corporates impacted by Covid-19, saving hundreds of jobs. There has been a decline in the ratio of non-performing loans on the island over the year, from 5% to 4.5% by the end of 2021.

Despite the pandemic and the impact of Financial Action Task Force (FATF) listing, the global business sector recorded modest growth in 2021. With the removal of Mauritius from the FATF listing and its equivalent in the UK and the EU, further growth is expected in 2022.

The headline inflation rate excluding "alcoholic beverages and tobacco" rose from 2.5% in 2020 to 4% in 2021. This was driven by several factors, namely higher prices of food, commodities and other goods and services.

As a result of the economic pressures of the pandemic, the MUR continued to depreciate and lost over 9% of its value against the USD in 2021.

FINANCIAL
ANALYSIS

STATEMENT OF FINANCIAL POSITION

As part of Bank One's strategic review, a right sizing exercise was carried out, focusing predominantly on the Bank's liability portfolio. This resulted in the Bank exiting a number of clients that no longer met its key business criteria. The review was completed in 2021 and, as a result, the deposit portfolio was consciously reduced from MUR 48 billion in December 2020 to MUR 38 million in December 2021.

In the current climate, the Bank retained a prudent approach to lending. The gross loans book declined slightly from MUR 22.5 billion as at December 2020 to MUR 21.7 billion in December 2021.

The liquidity position of the Bank remained strong, with a Liquidity Coverage Ratio of 298% as at December 2021.

With a capital adequacy ratio of 20.89% and a tier 1 ratio of 14.16%, the Bank remained one of the best capitalised banks on the market.

The non-performing loan book was managed down from MUR 1,955 million (NPL ratio of 8.67%) as at December 2020 to MUR 701 million (NPL ratio of 3.23%) as at December 2021. The Bank successfully disposed of its two largest non-performing loans in the secondary market.

STATEMENT OF COMPREHENSIVE INCOME

The Bank's operating income went up by 5%, from MUR 1,318 million in 2020 to MUR 1,380 million for the year ended December 2021.

Net interest income fell by 12% compared against the prior year, as a result of lower loan balances, reduced margins and the full year impact of the subordinate loan (MUR 600 million) issue raised in June 2020.

Non-interest income went up by 45% compared to last year, an increase resulting from a rise in profits on fixed income trading and syndication fees.

The Bank continued its investment in digitalisation and technology, bringing about an increase in its non-interest expense by 20% in 2021.

Despite the challenging trading conditions, the Bank delivered a profit after tax of MUR 413 million against a prior year loss of MUR 492 million.

ACHIEVEMENTS V/S OBJECTIVES AND PLAN FOR 2022

2021 OBJECTIVES	2021 PERFORMANCE	2022 OBJECTIVES
RETURN ON AVERAGE EQUITY (ROAE) To achieve a ROAE of above 8%, with significant investments planned in technology.	Achieved a ROAE of 11.59%, contributed by one-off gains and recoveries.	To achieve a ROAE of above 13%.
RETURN ON AVERAGE ASSETS (ROAA) To achieve a ROAA of above 0.6%.	Achieved a ROAA 0.86%.	To achieve a ROAA of above 1%.
GROWTH IN OPERATING INCOME Growth of above 12% in operating income.	4.73% increase in operating income, contributed by one-off income.	Growth of above 24% in operating income.
COST TO INCOME RATIO Cost to income ratio of less than 60%.	Cost to income ratio of 67%, with lower income and increase including exceptional cost.	Cost to income ratio of less than 60%.
DEPOSITS GROWTH Deposit growth of 7%, contributed by both Segment A and Segment B.	Lower deposits size as per the Bank's strategy.	Deposit growth of 22%, contributed by both Segment A and Segment B.
GROSS LOANS AND ADVANCES GROWTH 19% growth to be contributed by both Segment A and Segment B.	Gross loan book slightly low 4%.	32% growth to be contributed by both Segment A and Segment B.
GROSS IMPAIRED RATIO Gross impaired ratio to be brought down below 5%.	Gross impaired ratio of 3.23%.	Gross impaired ratio to be brought down below 3%.
CAPITAL ADEQUACY RATIO (CAR) Maintain CAR above 15%.	CAR at 20.89% as at December 2021.	Maintain CAR above 15%.

FINANCIAL ANALYSIS

STATEMENT OF PROFIT OR LOSS

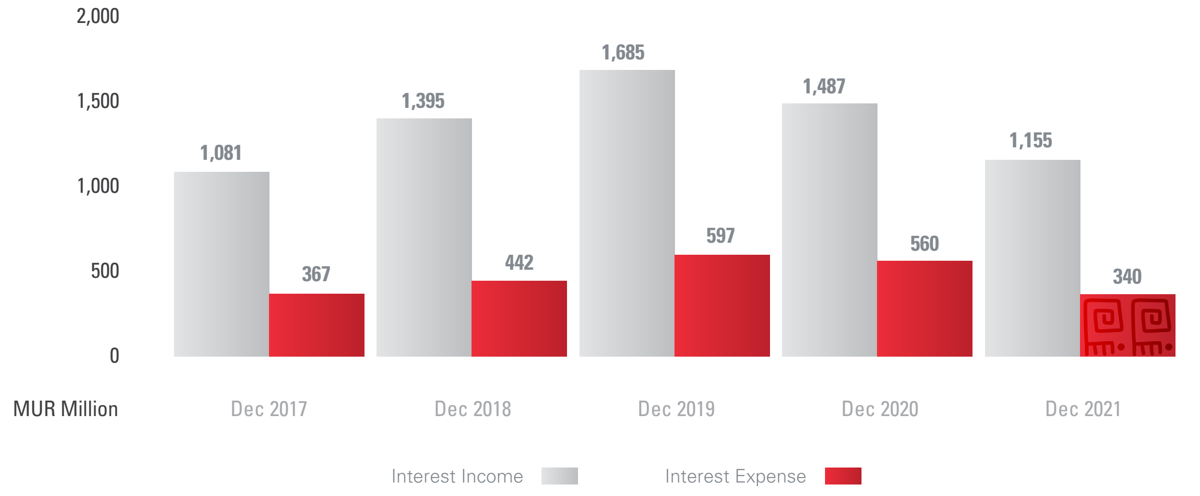
	Year ended Dec-19 MUR 000	Year ended Dec-20 MUR 000	Year ended Dec-21 MUR 000
Net interest income	1,087,656	927,179	815,007
Net fee and commission income	276,724	191,864	278,278
Net trading income	138,099	159,631	164,391
Other operating income	6,965	38,866	122,277
Operating income	1,509,444	1,317,540	1,379,953
Non-interest expense	(714,934)	(775,425)	(929,286)
Operating profit	794,510	542,115	450,667
Allowance for credit Impairment	(95,369)	(1,073,659)	71,799
Profit/(loss) before tax	699,141	(531,544)	522,466
Income tax (expense)/credit	(68,683)	39,819	(109,042)
Profit/(loss) for the year	630,458	(491,725)	413,424

INTEREST INCOME AND EXPENSE

	Year ended Dec-19 MUR 000	Year ended Dec-20 MUR 000	Year ended Dec-21 MUR 000
Interest income			
Loans and advances to customers and banks	1,236,442	1,189,768	907,082
Investment securities and bonds	316,174	253,970	229,696
Placements	132,519	43,285	18,565
	1,685,135	1,487,023	1,155,343
Interest expense			
Deposits from customers	488,146	372,202	201,383
Borrowings from Banks	55,409	117,862	52,074
Other	53,924	69,780	86,879
	597,479	559,844	340,336
Net interest income	1,087,656	927,179	815,007
Average interest earning assets	38,126,119	39,614,033	39,502,982
Average interest bearing liabilities	21,583,802	25,065,350	24,954,069
Interest income/average interest earning assets	4.4%	3.75%	2.92%
Interest expense/average interest earning liabilities	2.77%	2.23%	1.36%
Net Margin	1.63%	1.52%	1.56%
Core revenue*	1,509,444	1,317,138	1,379,708

*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



With the compression of the returns on interest earning assets (from 3.75% in 2020 to 2.92% in 2021), interest income went down by 22% compared to last year. The falling interest rates have affected income generated by both local as well as foreign assets and investments.

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

The interest-bearing liabilities remained at the same level that last year. Overall interest expenses fell by 39%, mainly attributed to the offloading of some expensive deposits as well as the non-rolling over of some short-term borrowings which were raised in 2020 to improve the Bank's liquidity level.

The above resulted in a 12% fall in overall net interest income.

NON-INTEREST INCOME

	Dec-19 MUR 000	Dec-20 MUR 000	Dec-21 MUR 000
Net fees and commission	276,724	191,864	278,278
Net trading income	138,099	159,631	164,391
Other operating income	6,965	38,866	122,277
	421,788	390,361	564,946

The overall non-interest income increased by 45% in 2021.

Net fees and commission are significantly higher compared to last year, mainly contributed by some offshore trade transaction-related and facility arrangement fees.

Other operating income for the year includes one-off gains on fixed income trading generated earlier during the year on the back of market volatility.

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-19	Dec-20	Dec-21
	MUR 000	MUR 000	MUR 000
Personnel expenses	447,389	447,820	557,059
Depreciation and amortisation	78,828	78,621	75,861
Other expenses	188,717	248,984	296,366
	714,934	775,425	929,286

Non-interest expenses increased by 20%, bringing about a cost to income ratio of 67% for the year. The Bank's objective is to improve the cost to income ratio to below 60% in the short- to medium-term.

HR costs increased by 24% compared to the prior year, as a result of a rise in pension costs, provision for staff bonuses (no provision was made in 2020), the impact of an early voluntary retirement scheme and recruitment costs.

Other expenses rose as a result of IT, premises and consultancy costs, in line with the Bank's 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 2021.

Sectors	2019	2020	2021		
	Total	Total	Segment A	Segment B	Total
Lending	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Agriculture & fishing	1,107,424	636,497	423,979	1,409	425,388
Manufacturing	134,182	53,950	36,187	-	36,187
Tourism	2,567,194	2,168,547	1,637,355	45,171	1,682,526
Transport	1,126,481	438,111	355,752	234,702	590,454
Construction	5,291,909	5,795,945	6,217,553	186,898	6,404,450
Financial and business services	4,200,137	3,287,914	1,530,250	1,057,888	2,588,138
Traders	3,410,028	2,922,517	3,121,422	371,678	3,493,100
Personal	1,474,929	1,701,194	1,612,071	41,667	1,653,738
Professional	12,357	12,979	14,433	-	14,433
Global business License holders	808,228	553,567	-	672,979	672,979
Others	3,949,934	2,990,072	260,689	512,881	773,570
	24,082,803	20,561,293	15,209,691	3,125,273	18,334,964
Lending to banks	4,916,727	1,985,889	-	3,339,038	3,339,038
Total credit Exposure	28,999,530	22,547,182	15,209,691	6,464,311	21,674,002
Trading	2,571,081	12,035,154	2,056,341	26,760	2,083,101
Investment	14,348,745	10,239,400	3,208,539	7,131,024	10,339,563
Off balance sheet	4,778,841	3,167,836	2,990,376	2,038,623	5,028,998

Total lending exposures have remained stable, at MUR 21.7 billion as at December 2021. Significant investments in the trading book, including investments in BOM and US securities, have been disposed of during the year.

In line with the Bank's strategy, exposure to banks have gone up from MUR 1.9 billion as at December 2020 to MUR 3.3 billion as at December 2021. Exposure to this segment is expected to grow further in coming quarters.

CREDIT QUALITY

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

	Dec-19	Dec-20	Dec-21
	MUR 000	MUR 000	MUR 000
Impaired advances	1,226,770	1,955,228	700,531
Allowance for impairment – stage 3	912,583	1,531,353	583,243
Impaired advances/Gross advances	4.23%	8.67%	3.23%
Net impaired/Net advances	1.13%	2.05%	0.57%
Provision coverage ratio	74.4%	78.32%	83.26%

The Bank closed 2021 with an impairment ratio of 3.23%, as compared to 8.67% as at December 2020. The two largest non-performing exposures were disposed of during the year under review.

The Bank improved its provision coverage ratio from 78.32% as at December 2020 to 83.26% as at December 2021. The Bank holds adequate collaterals to cover the remaining 16.74%.

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 2021, is shown on next page.

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
Agriculture and fishing	423,979	1,409	12	1,409	100%	1%
Manufacturing	36,187	-	1,529	-	41%	-
Tourism	1,637,355	45,171	4,782	-	100%	-
Transport	355,752	234,702	10,721	234,702	71%	100%
Construction	6,217,553	186,898	160,165	128	62%	1%
Financial and business services	1,530,250	1,057,888	2,739	-	39%	-
Traders	3,121,422	371,678	206,915	2,667	80%	100%
Personal	1,612,071	41,667	69,784	-	90%	-
Professional	14,433	-	-	-	-	-
Global business license holders	-	672,979	-	-	-	-
Others	260,689	512,881	4,978	-	-	-
Total	**15,209,691**	**3,125,273**	**461,625**	**238,906**		
Sectors						
Loans to banks	-	**3,339,038**	-	-	-	-

45% of Segment A impairments originate from exposures to traders, while 98% of impaired loans for Segment B consist of facilities granted to the air transport sector.

GENERAL PROVISIONS

In compliance with the "Macro-prudential policy measures for the Banking Sector", issued by the Bank of Mauritius 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.