

4. Banking Sector

4.1 Overview

Since the publication of the last FSR in August 2014, the banking sector's balance sheet has grown broadly in line with GDP, while banks' foreign assets have increased faster than domestic assets (Table 4.1 and Chart 4.1). Banking sector assets grew by 8.5 per cent at end-September 2014 compared with an increase of 10.9 per cent in the corresponding period in 2013, with most of the increase reflecting growth in foreign assets

of subsidiaries of foreign-owned banks and that of domestic-owned banks. Total assets held by branches of foreign-owned banks contracted by 6.2 per cent over the period under review, although their contribution to overall trends was rather small given the size of their balance sheet. The growth in banks' foreign assets, particularly those of domestically-owned banks, reflects ventures by local banks in India and frontier markets in Africa with concomitant increases in credit and market risk.

Table 4.1: Banks' Assets by Type of Bank and Asset, 2012-2014

	Assets (growth rates; in per cent)				Assets (contribution to asset growth; in per cent)			
I. Period: September 2013 to September 2014								
	Domestic banks	Foreign banks		Total	Domestic banks	Foreign banks		Total
		Subsidiary	Branch			Subsidiary	Branch	
Foreign assets	32.7	10.9	-15.4	13.0	2.8	4.6	-0.4	7.0
Domestic assets	9.8	-13.8	2.6	3.3	3.1	-1.6	0.1	1.5
Total assets	14.7	5.5	-6.2	8.5	5.9	3.0	-0.4	8.5
II. Period: September 2012 to September 2013								
	Domestic banks	Foreign banks		Total	Domestic banks	Foreign banks		Total
		Subsidiary	Branch			Subsidiary	Branch	
Foreign assets	24.0	21.8	-66.0	7.7	1.8	8.4	-6.0	4.3
Domestic assets	14.1	113.2	-59.3	15.0	4.3	7.0	-4.7	6.7
Total assets	16.1	34.4	-62.8	10.9	6.2	15.4	-10.6	10.9
III. Period: September 2011 to September 2012								
	Domestic banks	Foreign banks		Total	Domestic banks	Foreign banks		Total
		Subsidiary	Branch			Subsidiary	Branch	
Foreign assets	8.0	-1.1	18.3	2.8	0.6	-0.5	1.5	1.6
Domestic assets	11.5	1.0	1.3	8.0	3.3	0.1	0.1	3.5
Total assets	10.8	-0.8	9.8	5.1	3.9	-0.4	1.6	5.1

Source: Bank of Mauritius staff estimates.

Banks' role as financial intermediaries in the domestic economy is being curtailed by the trends in growth of households and corporate bank credit (Table 4.2). The growth of banks' claims on the private sector (including households and corporations) has been declining and may have become negative in recent months. Banks' net foreign asset positions remain sizeable, while banks' claims on the Government and the central bank have generally registered positive growth in recent years. Gross foreign asset positions averaged US\$25 billion during 2010-14, with a net value of about US\$10 billion. Banks' claims on Government refer mainly to holdings of Government securities, while banks' claims on the central bank are cash reserve requirements with the monetary authority and holdings of BoM securities.

Chart 4.1: Banking Sector Assets

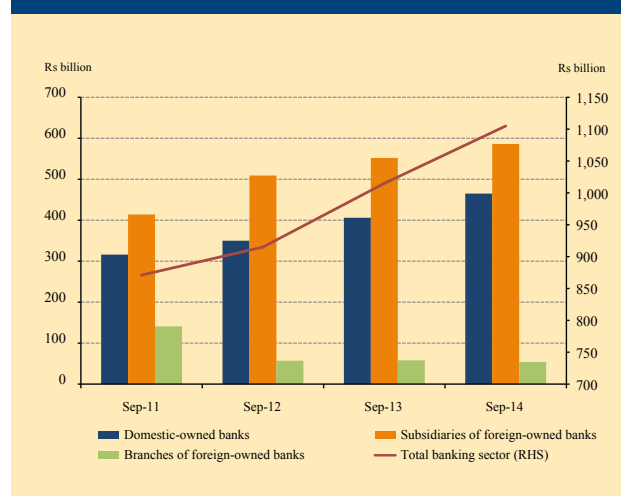


Table 4.2: ODCs' Balance Sheet, 2011-2014

	2011	2012	2013	2014			
				March	June	September	November
							<i>Rs million</i>
Net foreign assets	290,654	309,761	292,802	261,334	262,622	319,933	322,356
<i>Claims on non-residents</i>	783,159	802,936	772,471	750,315	708,659	766,360	760,513
<i>Liabilities to non-residents</i>	-492,505	-493,175	-479,669	-488,981	-446,038	-446,427	-438,157
Claims on Central Bank (net)	32,226	32,315	47,005	51,655	55,006	52,593	53,849
<i>o/w Bank reserve deposits</i>	23,668	25,340	32,105	35,348	35,563	37,018	36,098
<i>BoM securities held by ODCs¹</i>	5,540	3,916	10,796	15,184	17,166	13,026	17,057
Domestic Claims	234,148	250,348	273,493	270,622	269,555	275,136	287,535
<i>Net Claims on Central Government</i>	38,011	38,215	45,692	49,241	53,416	58,688	62,019
<i>Claims on Other Sectors</i>	310,941	364,089	413,243	402,786	391,818	390,192	403,487
<i>Other items net</i>	-114,803	-151,956	-185,441	-181,405	-175,678	-173,743	-177,971
Broad Money Liabilities	298,110	322,441	340,146	347,973	354,578	355,699	364,739
<i>Transferable Deposits</i>	69,409	74,619	80,380	80,741	84,977	83,780	89,196
<i>Savings Deposits</i>	114,278	123,940	137,029	143,389	145,274	147,442	150,023
<i>Time Deposits</i>	113,435	122,768	121,487	122,557	123,006	123,128	124,154
<i>Securities other than Shares</i>	988	1,114	1,250	1,287	1,321	1,348	1,367
GBC deposits	258,918	269,984	273,155	235,637	232,605	291,963	299,001

¹ As reported in the BoM's balance sheet.

Table 4.2: ODCs' Balance Sheet, 2011-2014 (Continued)

	2012	2013	2014			
			March	June	September	November
			(Annual growth rates; in per cent)			
Net foreign assets	6.6	-5.5	-12.8	-9.6	13.8	16.5
Claims on Central Bank (net)	0.3	45.5	43.0	34.9	39.0	30.4
o/w Bank reserve deposits	7.1	26.7	31.3	26.4	48.7	27.9
BoM securities held by ODCs ¹	-29.3	175.7	106.5	68.2	11.0	50.6
Net Claims on Central Government	0.5	19.6	21.5	25.4	27.0	35.5
Claims on Other Sectors	17.1	13.5	9.0	5.5	-4.8	-0.7
Other items net	32.4	22.0	13.0	9.7	-11.0	-4.2
Broad Money Liabilities	8.2	5.5	7.1	8.2	8.8	10.2
Transferable Deposits	7.5	7.7	9.2	14.7	10.2	17.6
Savings Deposits	8.5	10.6	10.1	9.7	10.9	12.9
Time Deposits	8.2	-1.0	2.5	2.5	5.4	2.6
Securities other than Shares	12.8	12.2	12.0	11.8	11.2	10.6
GBC deposits	4.3	1.2	-9.5	-9.6	15.6	18.1

¹ As reported in the BoM's Balance Sheet.

Market Concentration

The domestic banking sector is characterised by a high degree of market concentration. The four largest banks held 56.5 per cent of total banking assets while the corresponding Herfindahl-Hirschman Index (HHI) stood at 1073 as at end-September 2014. The degree of concentration in the banking industry is further depicted in the Lorenz Curve (Chart 4.2). Over the past five years ended September 2014, the market share of advances by four banks has increased from 57.0 per cent to 65.0 per cent, which points to a more unequal distribution of bank assets. However, notwithstanding the level of concentration of bank assets, smaller banks have increased their visibility lately through assertive publicity campaigns to attract new customers. This may eventually lead to a decline in market concentration, with increased competition in the banking sector.

4.2 Financial Soundness Indicators

Profitability

The average return on assets (ROA) and return on equity (ROE) show that profitability of the overall banking sector recovered over the 12-month period ended September 2014, although the ROA and ROE of domestic-owned banks declined for the second consecutive year (Table 4.3, Charts 4.3 and 4.4). Banks' ROA rose to 1.4 per cent at end-September 2014, from 1.0 per cent a year ago, following a recovery of ROA of subsidiaries of foreign-owned banks servicing the Global Business Sector. Over the 12-month period ended September 2014, there was an increase in the operating profit of domestic-owned banks on account of 10.1 per cent growth in net interest income. However, a significant loss by one bank resulted in a decline in the ROA of domestic-owned banks overall, from 2.4 per cent to 2.1 per cent. During the period

under review, banks' average ROE followed almost a similar pattern to ROA. Average ROE ratios of subsidiaries of foreign-owned banks

increased, while those of domestic-owned banks and branches of foreign-owned banks declined.

Chart 4.2: Distribution of Banks' Advances and Assets

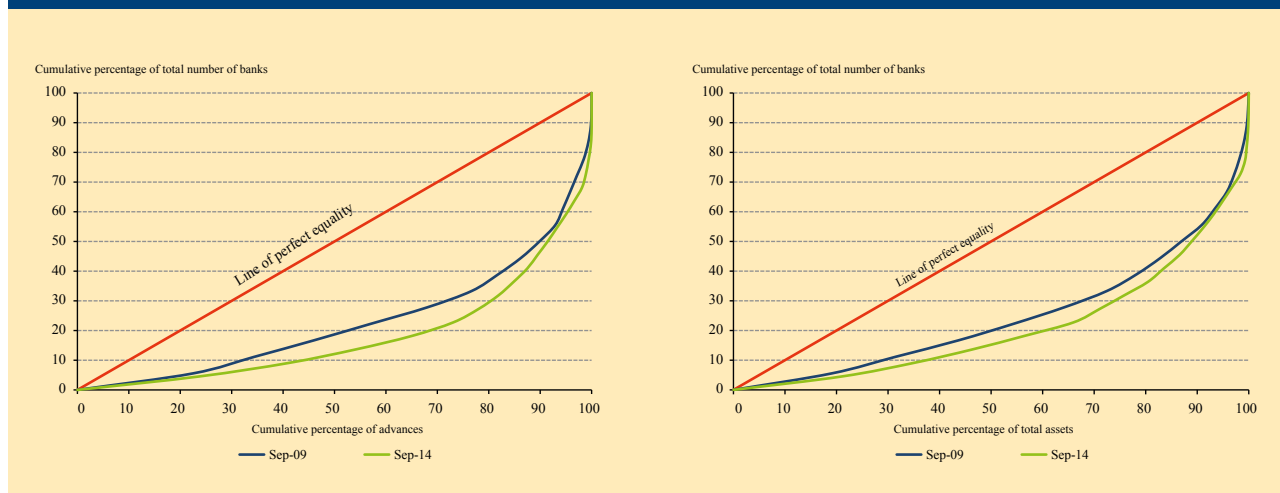


Table 4.3: Financial Stability Indicators¹ of Other Depository Corporations (Banks and NBDITs²)

Core Set of Financial Soundness Indicators	Mar-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Capital-based						
Regulatory capital to risk-weighted assets	17.4%	16.9%	17.3%	17.6%	17.8%	17.9%
Regulatory Tier 1 capital to risk-weighted assets	15.9%	14.8%	15.1%	15.3%	15.3%	15.5%
Non-performing loans net of provisions to capital	11.8%	12.9%	12.7%	12.8%	12.4%	12.6%
Asset Quality						
Non-performing loans to total gross loans ³	3.9%	4.1%	4.2%	4.4%	4.5%	3.8%
Sectoral distribution of loans to total loans ³						
<i>Interbank loans</i>	0.5%	1.1%	0.3%	0.1%	0.2%	0.5%
<i>Other financial corporations</i>	1.3%	1.2%	1.2%	1.3%	1.2%	1.6%
<i>Non-financial corporations</i>	33.5%	33.5%	34.7%	34.9%	35.3%	34.2%
<i>Other domestic sectors</i>	20.5%	21.0%	21.6%	22.0%	20.0%	19.9%
<i>Non-residents</i>	44.2%	43.2%	42.2%	41.7%	43.2%	43.7%
Earnings and Profitability						
Return on assets	1.2%	1.1%	1.2%	1.3%	1.4%	1.4%
Return on equity	15.7%	13.5%	14.1%	15.6%	15.9%	15.7%
Interest margin to gross income	69.8%	71.3%	68.6%	68.9%	68.0%	67.5%
Non-interest expenses to gross income	41.5%	43.7%	43.9%	42.5%	41.7%	41.6%
Liquidity						
Liquid assets to total assets	19.1%	17.5%	22.5%	22.6%	19.5%	22.7%
Liquid assets to short-term liabilities	27.9%	26.5%	31.0%	30.7%	26.3%	29.1%
Sensitivity to Market Risk						
Net open position in foreign exchange to capital	2.2%	2.3%	2.1%	3.1%	3.8%	3.8%

Table 4.3: Financial Stability Indicators¹ of Other Depository Corporations (Banks and NBDTIs²) (Continued)

Encouraged Set of Financial Soundness Indicators	Mar-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Capital to assets	8.6%	8.1%	8.8%	9.3%	9.8%	9.3%
Value of large exposures to capital	171.7%	186.9%	195.9%	196.5%	197.3%	200.8%
Customer deposits to total (non-interbank) loans	134.2%	130.4%	137.0%	134.3%	123.6%	131.5%
Residential real estate loans to total loans ³	7.1%	8.5%	8.7%	8.9%	8.6%	8.4%
Commercial real estate loans to total loans ³	7.4%	6.7%	6.9%	7.2%	6.6%	6.4%
Trading income to total income	3.1%	4.6%	8.8%	10.2%	10.5%	10.3%
Personnel expenses to non-interest expenses	49.3%	51.5%	52.2%	52.0%	51.8%	50.8%
Macroeconomic Indicators	Mar-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Headline inflation ⁴	3.6%	3.5%	3.5%	4.0%	4.0%	3.9%
Year-on-year inflation ⁴	3.6%	3.3%	4.0%	4.5%	3.3%	2.9%
Key Repo Rate (end of period)	4.90%	4.65%	4.65%	4.65%	4.65%	4.65%
Total Public Sector Debt/GDP (end of period)	58.1%	59.6%	60.1%	60.5%	60.7%	61.4%
Total Public Sector External Debt/GDP (end of period)	13.9%	15.7%	15.8%	16.1%	16.6%	16.3%
Import coverage of Gross International Reserves (months of goods & services)	4.9	5.1	5.2	5.6	6.1	6.1
Deposits/Broad Money Liabilities ⁵	93.0%	93.0%	92.8%	93.3%	93.4%	93.4%
Household Debt/GDP (end of period) ⁶	19.5%	20.3%	20.7%	20.7%	20.8%	20.9%
Corporate Debt/GDP (end of period) ⁶	52.5%	52.2%	51.6%	50.9%	49.2%	47.9%
	2013Q1	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3
Real GDP growth ⁴	3.8%	3.4%	2.7%	2.5%	4.3%	3.5%
Unemployment rate	8.6%	8.0%	7.5%	8.0%	7.8%	7.6%
Current account deficit/GDP	8.6%	13.2%	9.2%	6.0%	8.5%	11.2%

¹ FSIs are calculated on a domestic consolidation basis using the Financial Soundness Indicators Compilation Guide of the International Monetary Fund. Figures may be slightly different from other parts of this Report.

² NBDTIs refer to Non-Bank Deposit-Taking Institutions.

³ Total loans include advances to non-residents.

⁴ Percentage change over corresponding period of previous year.

⁵ Rupee and foreign currency deposits from domestic banks.

⁶ Debts contracted with banks only.

Note: Figures may not add up due to rounding.

Chart 4.3: Return on Assets of the Banking Sector

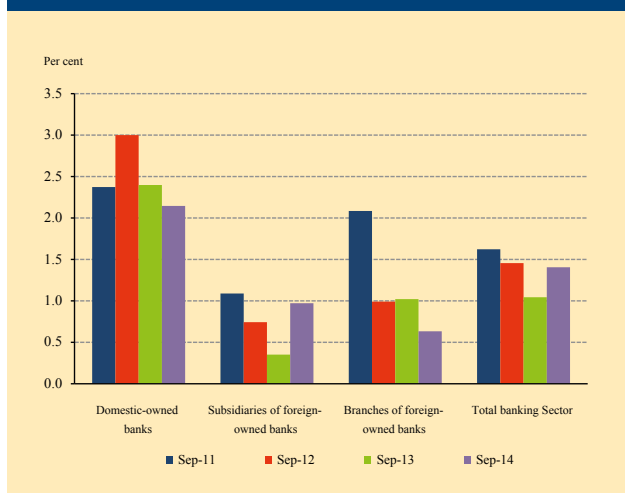
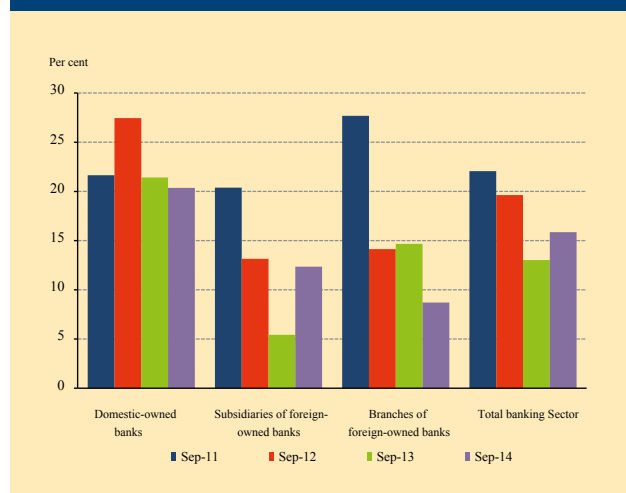


Chart 4.4: Return on Equity of the Banking Sector



Capital Adequacy

The banking sector maintained adequate - albeit increasing - capital levels during the period under review, although differences remained among banks in terms of their individual capital adequacy ratio (CAR). The CAR for the banking sector stood at 17.1 per cent as at end-September 2014 compared with 16.4 per cent a year ago. In line with regulatory requirements, banks have duly shifted from Basel II to a phasing-in of Basel III capital framework. Accordingly, changes have been brought in the estimated CARs due to the computation methodology of banks' capital base, coupled with the implementation of macroprudential measures mainly in terms of revised risk weights applicable to the construction sector. The capital base of the banking sector amounted to Rs111.8 billion as at end-September 2014, with the ratio of Common Equity Tier 1(CET1) capital to total risk weighted assets being computed at 13.7 per cent. From the ownership perspective, branches of foreign-owned banks maintained the highest Tier 1 capital ratio with an average of 23.9 per cent, followed by the subsidiaries of foreign-owned banks, at 16.7 per cent. Domestic-owned banks continued to post lower Tier 1 capital ratio at 13.7 per cent, although an improvement has been noted due to compliance towards meeting the Basel III targets (Chart 4.5).

Asset Quality

During the year ended September 2014, banks' NPL hovered around Rs25 billion, while

banks increased their loan loss provision significantly (Chart 4.6). Given a contraction of 0.9 per cent in private sector credit over the year, the ratio of NPL to private sector credit edged up by merely 10 basis points to 5.7 per cent. However, the NPL ratio of cross-border credit rose over the quarters and peaked at 4.1 per cent at end-June 2014, before declining to about 2.5 per cent by end-September. The June increase in the NPL ratio was due to impaired loans in the non-resident credit portfolio (i.e., banks' foreign assets) of one domestic-owned bank and one subsidiary of a foreign-owned bank.

Despite broad stability of overall default rates (as measured by the NPL ratio), banks increased their provision against loss by 30.7 per cent over the year to end-September 2014 (Chart 4.7). The end result was an increase in banks' coverage ratio for credit extended in Mauritius, from 43.3 per cent to 47.4 per cent, during the referred period. The increase in the coverage ratio shows that banks have increased their buffers against credit default and have hedged against risks from large credit exposures. Concurrently, there are indications that some large corporate bodies are restructuring their debts with banks, as they address recurrent problems of cash flow.

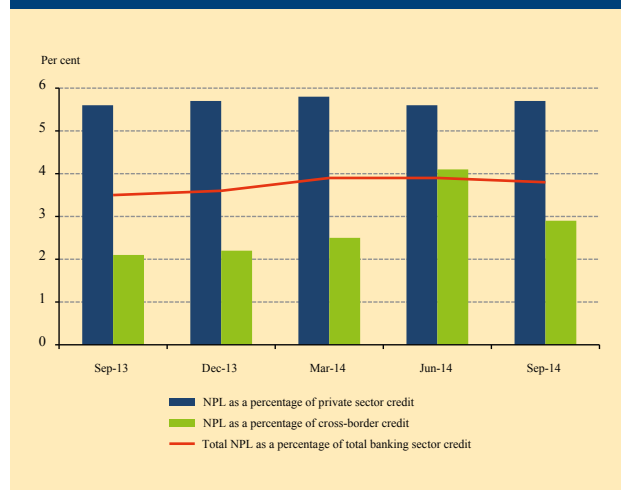
Banks' Foreign Exchange Open Positions

The foreign exchange exposure for a currency pertains to the net open position in that currency, which is determined by the sum of the net spot

Chart 4.5: Tier 1 Capital Ratio



Chart 4.6: Non-Performing Loans of Banks



position and the net forward position of the same currency. The overall foreign exchange exposure is arrived at by determining the higher of the sum of all net short positions and the sum of all the net long positions for all currencies. As from January 2011, banks are required to maintain an overall foreign exchange exposure limit of 15 per cent of Tier 1 capital and a single currency exposure limit amounting to 10 per cent of Tier 1 capital. As at end-September 2014, the consolidated overall foreign exchange exposure of banks ranged between negative 1.2 per cent to 12.4 per cent, and averaged 3.2 per cent.

Banks' Liquidity Positions

By end-September 2014, the ratio of liquid assets to total assets in the banking sector stood at 23.1 per cent, while the ratio of liquid assets to short-term liabilities was 29.7 per cent. The main components of liquid assets comprise

balances with the Bank of Mauritius (legal and excess reserves), holdings of Treasury Bills and Government securities, short-term placements with banks abroad, and holdings of Bank of Mauritius securities (Chart 4.8).

Concentration of Credit

Credit concentration in the banking sector, as measured by the ratio of large exposures to the capital base, has increased to 206.9 per cent at end-September 2014, from 200.3 recorded a year ago (Table 4.4). In terms of conditions imposed by the Bank, credit concentration was much below (about a third of) the aggregate prudential limit of 600 per cent of the capital base of individual banks. However, the proportion of bank credit extended to the ten largest borrowers remained equivalent to around 73 per cent of banks' capital (Table 4.5). Large exposures, which include the largest 10 borrowers plus other large

Chart 4.7: Non-Performing Loans and Coverage Ratio

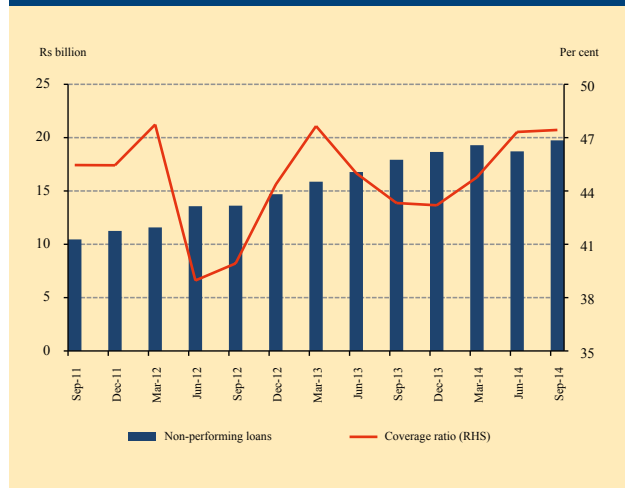


Chart 4.8: Outstanding BOM Securities by Maturity

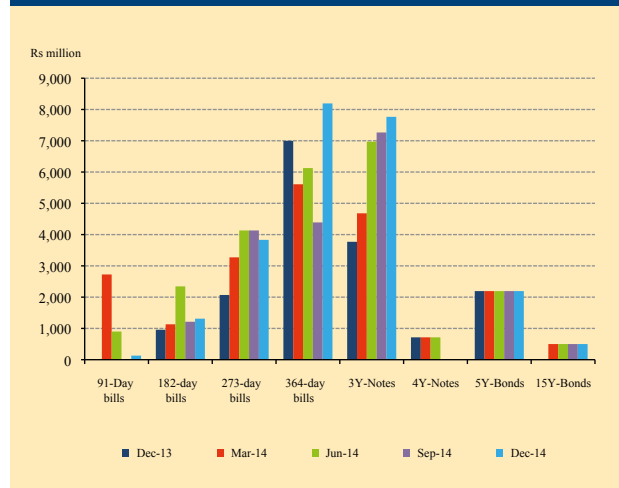


Table 4.4: Credit Concentration Risk

	Percentage of aggregate large exposures to capital base	Percentage of aggregate large exposures to total credit facilities
Sep-13	200.3	28.3
Dec-13	209.9	30.5
Mar-14	207.4	31.7
Jun-14	211.5	31.2
Sep-14	206.9	31.0

borrowers, averaged about 209 per cent of banks' capital base during 2014, up from 200 per cent in December 2013.

Non-bank financial intermediaries in Mauritius include the non-bank deposit-taking sector,

the insurance and reinsurance sectors, and the pensions industry. A brief summary analysis of key financial indicators of those intermediaries is presented in Chapter 5.

Table 4.5: Exposure of Banks to Ten Largest Borrowers

	Ten largest borrowers (Rs million)	Ten largest borrowers to total large exposures (Per cent)	Ten largest borrowers to total capital base (Per cent)
Sep-13	71,271	35.5	71.0
Dec-13	72,434	33.5	70.7
Mar-14	74,833	33.9	70.3
Jun-14	87,122	38.3	81.1
Sep-14	82,615	35.4	73.2