THE BANKING INDUSTRY

The Mauritian banking industry comprises of 21 banks, of which 6 are local banks, 10 are foreign owned subsidiaries, 1 is a joint venture and 4 are branches of foreign banks. All the banks are licensed by the Bank of Mauritius to carry out banking business locally and internationally.

The banking industry is characterised by the wide range of services provided. Besides traditional banking facilities, banks offer card-based payment services, such as credit and debit cards internet banking and phone banking facilities. Specialised services such as fund administration, custodial services, trusteeship, structured lending, structured trade finance, international portfolio management, investment banking, private client activities, treasury and specialised finance are also offered by banks. The international banks offer a wide range of global banking and financial services to corporate, institutional and private clients. Some of the biggest and most reputable international banks are present in Mauritius and actively carry out international cross border activities.

In spite of the various shocks facing the international banking landscape over the recent years, the domestic banking sector has shown satisfactory performance as evidenced by the official figures available from the *Financial Stability Report* of the Bank of Mauritius of *August 2013* as follows:

1.0. Deposits and Liquidity

- Customer deposits remain a stable source of funding.

As at end of March 2013,

- Demand and savings deposits accounted for 61.4% of total deposits while time deposits accounted for the remaining 38.6% of total deposits.

- Deposits from customers, (including deposits from residents and non-residents) represented 75.8% of total banking sector liabilities.

- Borrowings from banks mainly from banks abroad, increased to 5% of total liabilities.

- Other sources of funding as a percentage of domestic-owned banks' total liabilities were shareholders' fund (11.8%), deposits in and outside Mauritius (1.2%) and interbank loan (0.3%).

- Foreign currency deposits which represented 42.8% of total liabilities of the banking sector, rose by 2% to Rs419bn.

2.0. Credit

As at end of March 2013,

- Loans and Advances accounted about 62% of banks' total assets.

- Growth of credit extended to the private sector increased to 13.1% compared to 8.5% a year earlier.

- Credit extended for consumption purposes increased by 17.2% compared to 6%, in the corresponding period, while credit extended for housing purposes registered lower growth of 17.1% compared to 23.8% a year ago.

- The ratio of Non-performing loans (NPL) to private sector credit in Mauritius rose to 5.2% while the ratio of NPL to credit extended outside Mauritius increased to 1.9%.

- Household Credit as a percentage of GDP stood at 19.5 %.

- Corporate Credit stood at 71.1% of total credit to the private sector.

- The largest share of corporate credit extended to the 'tourism sector', made up 24.5% of total corporate credit outstanding. While credit to 'traders', 'construction sector' and 'financial and business services sectors' stood at 16.4%, 15.0% and 14.6% respectively, of total corporate credit. The share of credit to the 'manufacturing sector' represented less than 10% of total corporate credit.

- Credit extended in *foreign currency* constituted around 20% of total corporate credit, sectors that held an important share of outstanding foreign currency loans were tourism, manufacturing and construction.

- Large exposures[1] represented 25% of total private sector credit.

- Credit concentration[2] dropped from 232% to 182.3% a year earlier, indicating that banks are presently operating well below the prudential limits imposed on aggregate large credit exposures.

- Credit exposure to the 10 largest borrowers increased from 36% to 39%.

3.0. <u>Cross Border Activities</u>

As at end of March 2013,

- Cross Border sources of funds grew by 18.9% to constitute 28.2% of total banking sector liabilities while cross-border uses of funds expanded by 2.2% and represented 55.7% of total banking assets.

- Europe continued to be the most important source of cross-border deposits and borrowings although funds mobilized from Asia and America have increased.

- Cross-border funds were used mainly as loans (49.9%), placements (37.4%) and investments (11.6%).

- Banks were exposed to tune Rs272 bn to borrowers outside Mauritius.

[1] Large credit exposures refer to total exposures to a customer or a group of closely-related customers that are above 15% of the capital base of a bank.

[2] Credit concentration in the banking sector is measured by the ratio of aggregate large exposures to the capital base of all banks.

4.0. CAMEL Rating

- The latest CAMEL[3] rating of banks as at end December 2012, published in June 2013, indicated an overall improvement of the financial performance of banks, where 15 banks were assigned a 'satisfactory' rating and 5 banks a 'fair' rating.

5.0. Regulatory Capital

- The level of capitalization of banks remained comfortably above the current regulatory minimum of 10% standing at 17% of risk weighted assets, compared to 16% a year earlier.

6.0. Market Concentration

- The Herfindahl-Hirschman Index (HHI)[4] for total deposits and total assets has continued to trend downward, reaching 1.150 and 1.068 respectively, indicating an improvement in market concentration.

- This improvement has been reflected in banks' extension of credit to the private sector**.**

- Smaller banks are increasingly extending credit to the private sector and with new entrants, competition in the banking sector is expected to improve further.

7.0. Electronic and Internet Banking Transactions

A significant increase in the number of electronic and internet banking transactions has been noted over the recent years/ months. This is depicted in the following table:

Table 1: Electronic and Internet Banking transactions

Banking Indicators	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Feb-13	Aug-13
Number of ATMs in Operation	364	382	399	428	441	443	448
Number of Transactions	5,009,154	5,084,110	5,463,130	5,751,277	6,407,067	4,576,070	5,146,740
Value of Transactions (Rs mn)	11,024	11,167	11,977	13,066	14,412	9,300	10,550
Number of Cards in Circulation							
Credit Cards in circulation	184,451	191,933	207,266	217,135	237,812	240,890	249,862
Debit Cards and Others	977,936	1,049,315	1,021,931	1,117,370	1,172,152	1,183,780	1,180,108
Total	1,162,387	1,241,248	1,229,197	1,334,505	1,409,964	1,424,670	1,429,970
Internet Banking Transactions							
Number of customers	63,285	108,414	133,508	206,408	200,345	211,679	235,346
Average value of transactions (Rs mn)	23,316	39,849	44,744	60,451	80,369	98,403	111,649

Source: BOM Monthly Statistical Bulletins

[3] The CAMEL rating framework is the standard bank rating system that supervisory authorities use to rate financial institutions, which consists of 5 components namely; Capital Adequacy, Asset Quality, Management, Earnings and Liquidity. BoM publishes the CAMEL rating for banks on a bi-annual basis.

[4] The HHI is a measure of market concentration and indicates the level of competition among firms within an industry. An HHI lying in the range of 0-1,000 generally shows low market concentration, while an HHI above 1,800 is associated with high concentration.

8.0. Financial Stability Indicators

The following table gives a snapshot of the main financial stability indicators for the banking sector

Table 2: Main Financial Stability Indicators

Core Set of Financial Soundness Indicators	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Capital Base					
Regulatory capital to risk-weighted assets	16.0%	16.4%	17.2%	17.1%	17.4%
Regulatory Tier 1 capital to risk-weighted assets	14.5%	15.0%	15.7%	15.5%	15.9%
Non-performing loans net of provisions to capital	10.7%	15.8%	14.7%	12.4%	11.8%
Asset Quality					
Non-performing loans to total gross loans	3.0%	3.8%	3.8%	3.6%	3.9%
Sectoral distribution of loans to total loans					
Interbank loans	*0.3%*	*0.2%*	*0.2%*	*0.2%*	*0.5%*
Other financial corporations	*1.3%*	*1.3%*	*1.3%*	*1.2%*	*1.3%*
Non-financial corporations	*32.9%*	*31.9%*	*32.8%*	*32.9%*	*33.5%*
Other domestic sectors	*15.0%*	*19.1%*	*20.2%*	*19.7%*	*20.5%*
Non-residents	*50.5%*	*47.5%*	*45.5%*	*46.0%*	*44.2%*
Earnings and Profitability					
Return on assets	1.5%	1.5%	1.5%	1.4%	1.2%
Return on equity	20.3%	19.6%	19.6%	18.0%	15.7%
Interest margin to gross income	59.7%	63.0%	65.2%	65.7%	69.8%
Non-interest expenses to gross income	33.8%	39.0%	38.6%	38.7%	41.5%
Liquidity					
Liquid assets to total assets	19.1%	14.8%	16.4%	19.1%	19.1%
Liquid assets to short-term liabilities	28.8%	22.6%	25.1%	27.5%	27.9%
Sensitivity to Market Risk					
Net open position in foreign exchange to capital	3.0%	3.8%	3.0%	2.1%	2.2%
Encouraged Set of Financial Soundness Indicators					
Capital to assets	7.1%	7.9%	8.0%	8.5%	8.6%
Value of large exposures to capital	232.7%	220.1%	214.8%	187.2%	171.7%
Customer deposits to total (non-interbank) loans	134.9%	120.1%	124.0%	128.7%	134.2%
Residential real estate loans to total loans	7.2%	7.4%	7.8%	7.9%	7.1%
Commercial real estate loans to total loans	7.6%	7.2%	7.5%	7.4%	7.4%
Trading income to total income	15.9%	10.0%	9.6%	8.7%	3.1%
Personnel expenses to non-interest expenses	53.9%	50.5%	50.2%	50.2%	49.3%

Source: Bank of Mauritius, Financial Stability Report, August 2013 Issue

Mauritius Bankers Association Limited, 31 October 2013