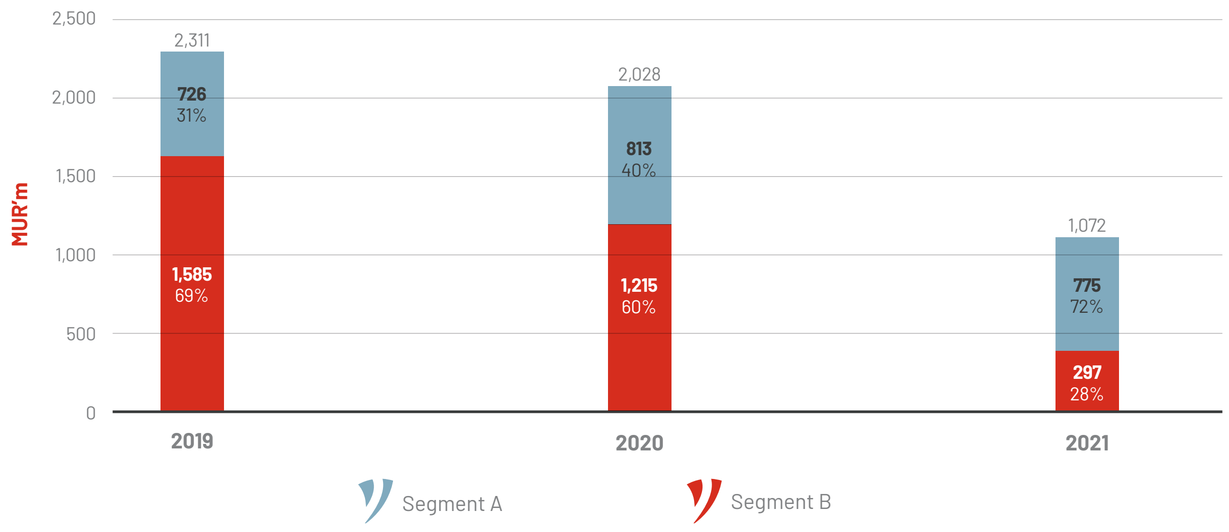
MANAGEMENT DISCUSSION AND ANALYSIS

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME REVIEW

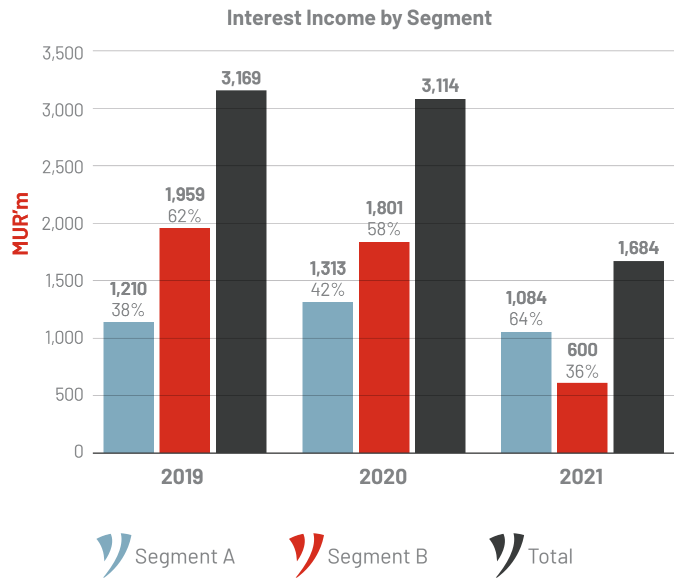
NET INTEREST INCOME

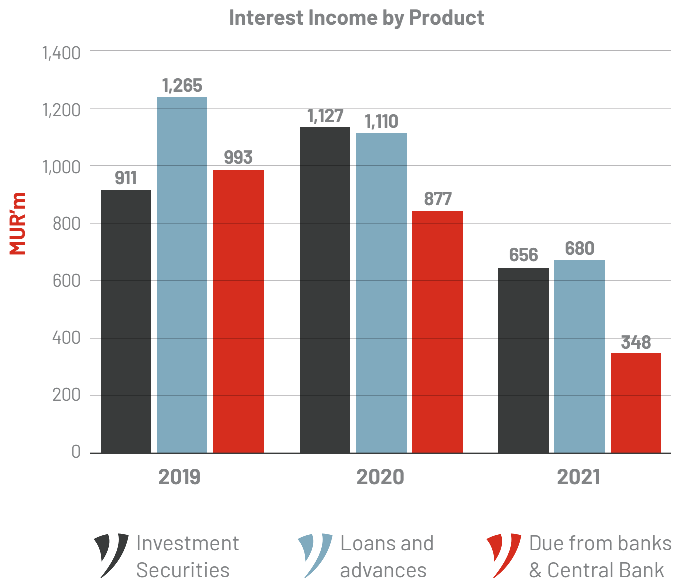
AfrAsia Bank reported a net interest income ("NII") of MUR 1.1bn, 47% lower than in the prior year. The obvious driver being the ongoing pandemic and its effects that created market volatility, rapid liquidity shifts, unexpected demand drops, erosion of market value on both local and global scale and lower spreads as central banks around the world cut interest rates. There was also an accurate contraction in economic growth in the wake of the pandemic and the Government's ample fiscal policies which deteriorated the country's fiscal metrics. These combined effects also overwhelm existing models for Expected Credit Losses ("ECL") as more resources are required to measure the variations in market conditions.

In terms of segmental split, a shift is noted year-on-year as we note a 72% contribution from Segment A as compared to a 40% contribution last year.



INTEREST INCOME





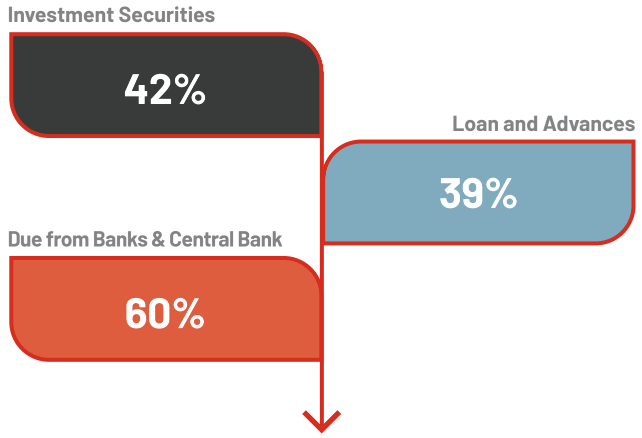
MANAGEMENT DISCUSSION AND ANALYSIS

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME REVIEW (Cont'd)

INTEREST INCOME (Cont'd)

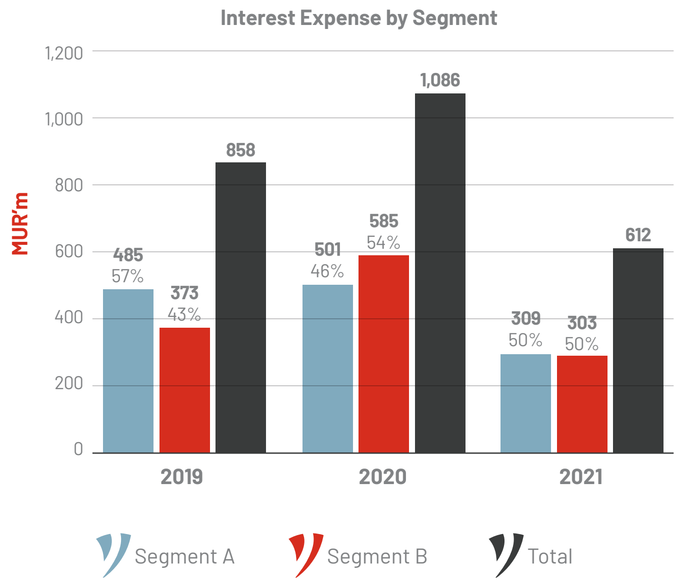
The shrinkage in interest income from MUR 3.1bn to MUR 1.7bn is predominantly due to our operations in the current low interest rate environment. The ramifications took a considerable toll on bank-wide interest-bearing assets. While reference rates such as the Fed Rate and KRR plummeted around March 2020 with the London Interbank Offered Rate ("LIBOR") obviously replicating this dive, interest income across all products were on a free fall. The full impact of the falling rates made itself felt in this financial year due to the inherent time lag in yield performances.

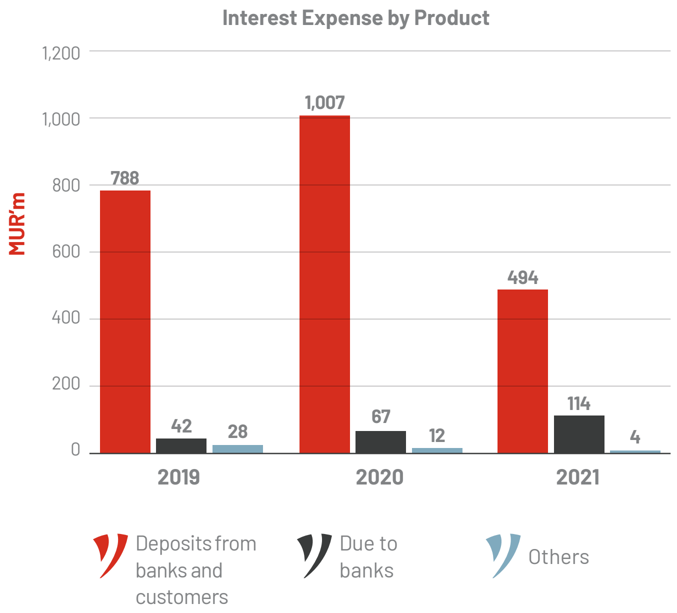
From a segmental perspective, a paradigm shift was noted as the split between Segment A at 64% (2020: 42%) and Segment B at 36% (2020: 58%) showed a dominance switch to Segment A as compared to the usual larger contribution from Segment B in line with previous years. This is mainly due to the fact that while returns on all products were on the down low, the return on assets from Government of Mauritius ("GOM") securities and collateralised placements with local banks sustained the bottom line and were more accretive to the return on assets ("ROA") as compared to Segment B endeavours. The ROAs by main products are as tabulated below:



%	MUR			FCY (Inclusive of USD)			FCY (USD only)		
	Customers	Banks	Securities	Customers	Banks	Securities	Customers	Banks	Securities
FY21	3.60%	3.11%	3.18%	2.33%	0.25%	0.56%	2.32%	0.50%	0.51%
FY20	4.85%	3.13%	3.71%	3.40%	1.27%	1.82%	3.57%	1.84%	1.85%

INTEREST EXPENSE





MANAGEMENT DISCUSSION AND ANALYSIS

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME REVIEW (Cont'd)

NET INTEREST INCOME (Cont'd)

A contraction of 44% was noted in interest expense for this reporting year down to MUR 0.6bn (2020: MUR 1.1bn). The key components remain interest expense on deposits from banks and customers with an occupation of 81% dropping by 51% year-on-year as a direct consequence of the ruling low interest environment and de facto less favourable revised deposit grids, followed by interest paid on nostro accounts occupying 19%, jumping 70% year-on-year based on current market conditions.

From a segmental perspective, we note a more or less equal weightage between the contributions from Segment A and Segment B. The cost of funds is as tabulated below:

%	MUR		FCY (Inclusive of USD)		FCY (USD only)	
	Customers	Banks	Customers	Banks	Customers	Banks
FY21	1.26%	0.45%	0.17%	0.70%	0.24%	-
FY20	2.15%	2.08%	0.48%	0.65%	0.63%	-

NON-INTEREST INCOME

Non-Interest Income makes up 58% of the total operating income for the year being reported. However, from a performance perspective, an overall year-on-year drop of 16% was noted. When broken down, these figures can be summarized as follows:

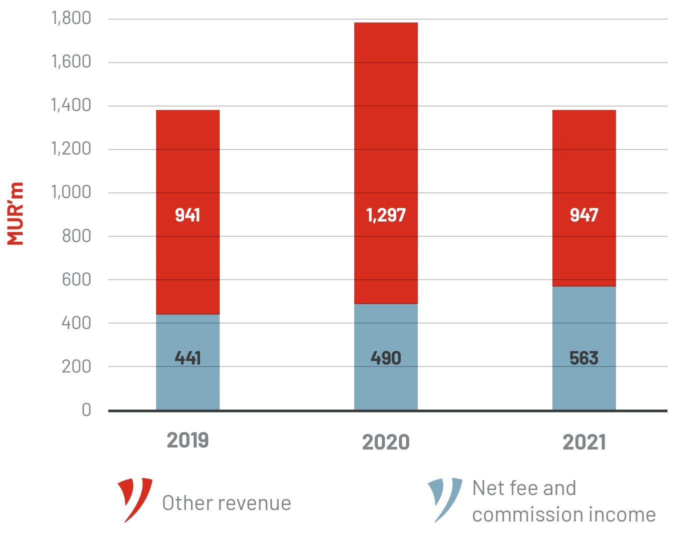
- Net fee and commission income amounting to MUR 0.6bn (2020: MUR 0.5bn); and
- Other revenue of MUR 0.9bn (2020: MUR 1.3bn).

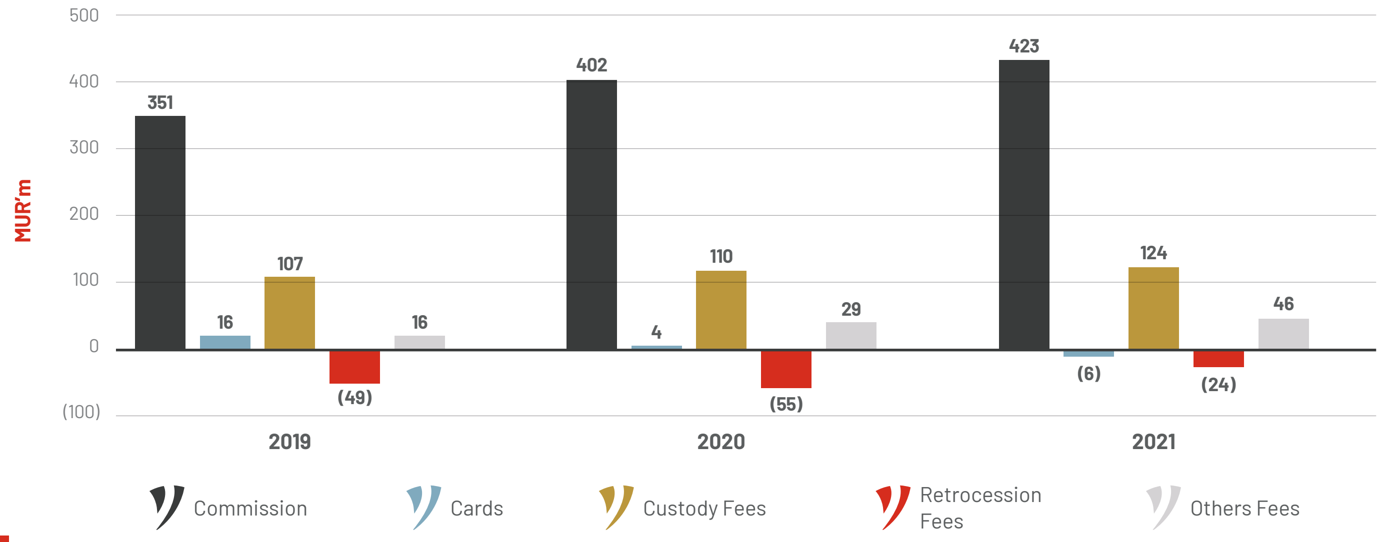
Net fee and commission grew by a solid 15% from MUR 490.0m to MUR 562.5m. The net commission earnings rose by 5%.

Net card income for the year moved to a loss position of MUR 6.0m impacted by the COVID-19 environment and increased expenses aggravated by the USD/MUR depreciation.

Net custody fees showed a positive allocation between its income and expense components rose by 12% up to MUR 123.7m on the back of higher valued assets-under-custody and increased trading fees induced by the volatility brought about by COVID-19.

Retrocession fees saw a drop 57% to MUR 23.7m.





MANAGEMENT DISCUSSION AND ANALYSIS

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME REVIEW (Cont'd)

OTHER REVENUE

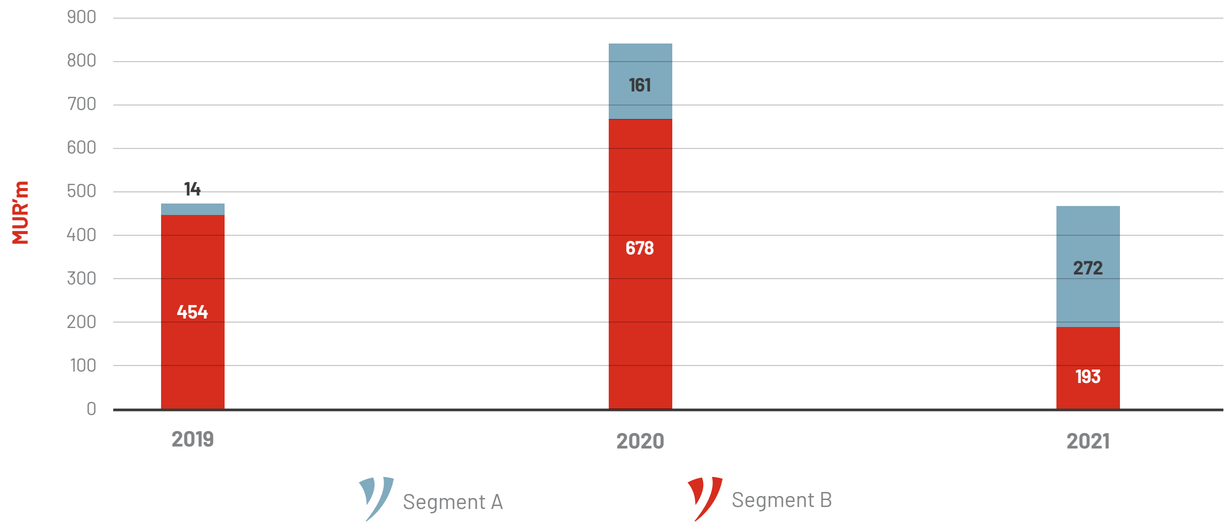
Other revenue stood at MUR 0.9bn representing a 27% drop compared to prior year at MUR 1.3bn. Other income contributes 37% of total operating income. The year-on-year deterioration of MUR 350.1m was driven by a drop in average rates, reduction in activity on the local fixed income side, loss on the FCY Corporate Bonds, reduction in structuring sales income and slight drop in FX income.

NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

On the impairment side, we note a net impairment loss of MUR 465.1m (2020: MUR 839.1m) sourced mainly from our loans and advances to customers forming 85% of our total credit loss expense for this financial year.

The total credit loss expense was attenuated by bad debts recovered amounting to MUR 32.0m (2020: 108.3m).

From a segmental outlook, we observed a 71% contraction in Segment B contrasting a 68% growth in Segment A.



TOTAL OPERATING EXPENSES

The Bank allotted MUR 662.9m, that is, 61% of its total operating expenses as a continuous investment in its human capital during the year compared to MUR 718.1m last year. The headcount as at 30 June 2021 stood at 415 vis-à-vis 413 the prior year.

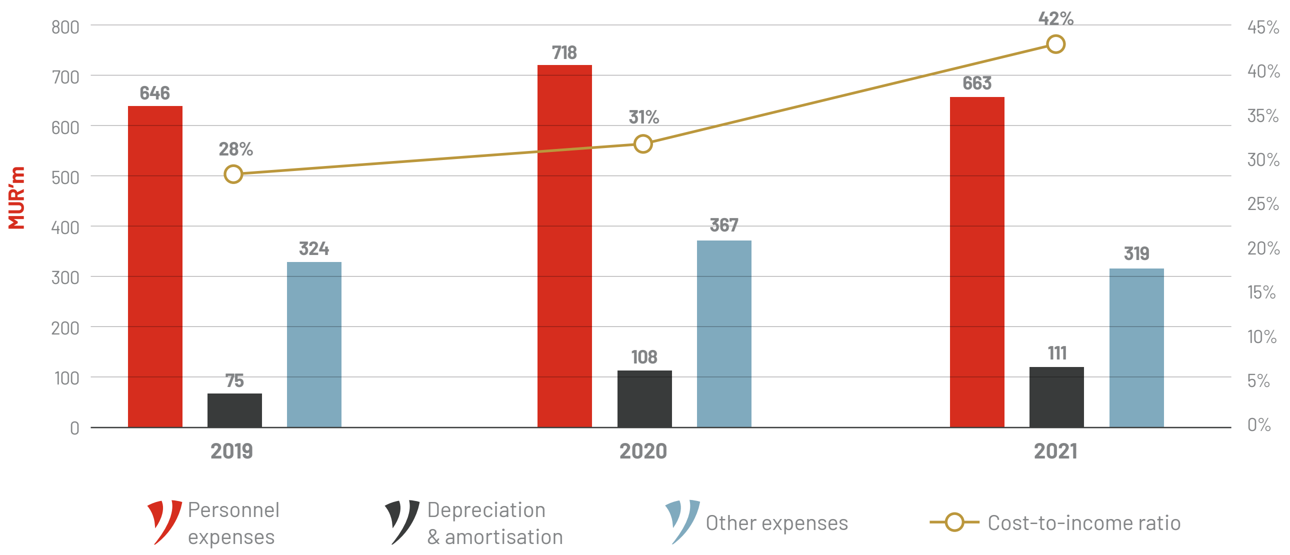
As we operated in this life-changing pandemic with a second wave hitting us in March 2021, the Bank made it imperative that its workforce was given the necessary arsenal in terms of safety measures so as to promote a workplace insulated from all possible transmission risks. These endeavours amounted to MUR 1.3m.

In terms of IT costs, the Bank made continuous outlays to maintain its banking environment to improve user experience and produce active enhancements from both an employee and a client perspective. During the year under review, IT related expenses comprising running expenses (including amortisation and depreciation) increased marginally by 3% to MUR 180.6m.

MANAGEMENT DISCUSSION AND ANALYSIS

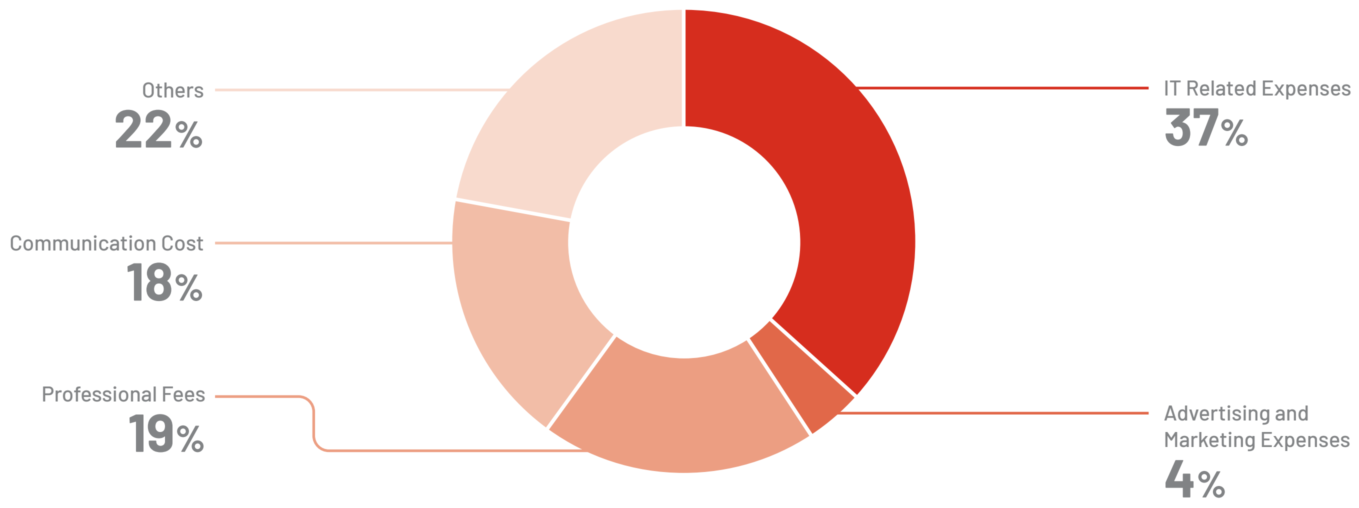
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME REVIEW (Cont'd)

TOTAL OPERATING EXPENSES (Cont'd)



The major elements of the Bank's other operating expenses include amongst others:

- IT related expenses represent a significant portion of other operating expenses;
- Communication costs augmented by 21% to MUR 57.5m;
- Professional fees decreased by 3% to MUR 60.6m;
- Advertising and marketing expenses was 76% lower than last year reaching MUR 12.8m (2020: MUR 53.4m), expenditure was reduced by the slump in economic activities promulgated by COVID-19. In line with its usual niche strategy, a substantial portion of the expenditure resided in the sponsorship of AfrAsia Bank Mauritius Open ("ABMO"); and
- Substantial write off of non-current assets in this financial year amounting to MUR 11.6m.



MANAGEMENT DISCUSSION AND ANALYSIS

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME REVIEW (Cont'd)

TAXATION

The Bank's income tax expense as at 30 June 2021 as per its Statement of Profit or Loss and Other Comprehensive Income comprises of Corporate tax, Corporate Social Responsibility ("CSR"), Special Levy and Deferred tax.

The Corporate Tax as at 30 June 2021 is at 5% for taxable income up to MUR 1.5bn and graduated tax rate as per below for taxable income over MUR 1.5bn:

Taxable income	Rate of income tax
Exceeding MUR 1.5bn up to amount equivalent to the taxable income of the base year	15%
Amount exceeding taxable income of base year *(if bank satisfies the prescribed conditions as per the income tax act)*	5%

As per Income Tax Act, 'base year' refers to taxable income for the year of assessment 2017/18, that is, financial year ended 30 June 2017.

CSR is at a rate 2% of Segment A taxable income of the preceding financial year which are paid to Government-approved CSR projects. The Bank's CSR contributions for 2021 is MUR 22.3m compared to MUR 15.9m for 2020.

Special levy is at a rate of 4.5% of leviable income. Leviable income applies to banking transactions of Segment A and is defined as the sum of net interest income and other income before deduction of expenses as per VAT act. The special levy decreased from MUR 81.7m in 2020 to MUR 68.7m in 2021 due to drop in leviable income. Special Levy for prior year was reclassified from Operating Expenses to Tax Expense following clarification from Bank of Mauritius under consultation with the Mauritius Revenue Authority.

The deferred tax asset is computed at the tax rate of 5% representing the rate at which the asset will be utilized in future years.

Overall, the Bank's Tax Expense decreased from MUR 228.4m in 2020 to MUR 148.4m in 2021. The effective tax rate increased from 13.05% in 2020 to 14.50% in 2021. The higher effective tax rate was mainly on account of higher CSR compared to last year and the ratio of Special Levy over Profit before Tax (PBT) which is higher compared to last year.