Brief Rating Rationale

CRAF reaffirms 'CARE MAU AAA (Is); Issuer Rating assigned to The Mauritius Commercial Bank Limited with change in Outlook from Negative to Stable

Ratings

Particulars	Amount (Mur Million)	Rating	Rating Action
Issuer Rating	Not Applicable	CARE MAU AAA (Is); Stable [Triple A (Is); Outlook: Stable]	Reaffirmed with change in Outlook from Negative to Stable

Rating Rationale

The Issuer rating assigned to The Mauritius Commercial Bank Limited ("MCB" or "Bank") has been reaffirmed at CARE MAU AAA (Is) with change in Outlook from Negative to Stable.

The revision in the rating outlook is in line with the exit of Mauritius from the Grey List of FATF and Blacklist of European Union which is expected to have a positive effect for the Financial Institutions operating in Mauritius. In addition to this, resumption of tourism industry on a full-fledged basis due to opening of the international borders in Mauritius from October 01, 2021, which has led to a positive impact on the economic activity and employment derived from tourism and related industries, which accounted for around 24% prior to the pandemic (including the indirect contribution from other industries such as transport and accommodation and food service) of GDP.

The rating continues to derive strength from the long track record of MCB with dominant position in Mauritian banking sector, largest bank in terms of assets and deposits in Mauritius, systemic importance of the bank to Mauritian banking sector, comfortable Capital Adequacy Ratio (CAR), stable business performance with reasonable contribution from non-interest income, strong Current Account Savings Account (CASA) base with consistent growth in low cost deposits, comfortable asset-liability maturity profile, adequate liquidity in domestic & foreign currency, diversified advances portfolio with stringent NPA recognition norms, satisfactory asset quality with low NPA and strong financial position with comfortable gearing & Net Interest Margin (NIM). The rating also takes into account that as at June 30, 2021 advances to top 10 international corporates account for around 35% of the bank's international loans & advances, risk associated with volatility in interest rates, environment risk and exposure to regulatory risks.

Rating Sensitivities:

Positive Factors **-** Factors that could lead to positive rating action/upgrade: **Not applicable**.

Negative Factors **-** Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality parameters and Net NPA ratio.
- Decline in profit on a sustained basis leading to deterioration in capitalisation levels.
- Weakening of capital adequacy level less than 16% (Regulatory requirement - 15% from April 1, 2022) and moderation in liquidity profile.
- Increase in negative cumulative mismatch in asset-liability maturity profile.

BACKGROUND

Established in 1838, MCB is one of the leading and longest-standing banking institutions in Mauritius and one of the oldest banks in continuous operation in the Southern Hemisphere. MCB operates under the aegis of MCB Group Limited, with the Group listed since 1989 on the Stock Exchange of Mauritius. Headquartered in Port Louis, the bank operates a universal banking business model and services over one million clients by providing retail banking, corporate and institutional banking, business banking as well as private banking and wealth management services.

As at June 30 2021, MCB held a market share of around 47% in terms of local currency deposits and 40% in terms of domestic credit to the economy. It provides a range of banking products and services to its clients through a network of 41 branches, 182 ATMs and over 11,000 point of sale (POS) terminals, as well as its mobile and internet banking offerings. As at June 30, 2021, the bank had a total deposit and net loans and advances (including placements) base of Mur 475 billion and Mur 298 billion respectively.

Moreover, MCB is increasingly widening its market footprint in sub-Saharan Africa and the region. It has been doing so, over the past 3 decades, by positioning itself as a relationship bank through its cross-border trade, project and commodity financing activities and leveraging on its network of around 400 correspondent banks (as at June 30, 2021) worldwide and the presence of the MCB Group's entities in 10 countries overseas.

MCB is a professionally managed bank. As at March 1, 2022 it is governed by a 8-member Board of Directors comprising of experienced bankers and professionals.

In FY21, due to the sharp decline in interest rates, while interest income declined by 13.3% to Mur 15.9 billion (MUR 18.3 billion in FY20), interest expenses declined by 57.6% to MUR 2.1 billion (MUR 4.9 billion in FY20). Fall in interest expenses was despite an increase in deposits and borrowings of the bank. Net interest income increased by 2.8% in FY21 to MUR 13.8 billion (MUR 13.4 billion). Net fee and commission income rose by 15.6% from MUR 3.3 billion in FY20 to MUR 3.9 billion in FY21, mainly supported by higher revenues from regional trade financing and wealth management activities. Other income declined by 17.2%, driven by a fall of 11.9% in profit on exchange and net gain from financial instruments carried at fair value. In FY21, operating expenses increased by 7.5% to reach MUR 6.7 billion mainly attributable to a rise of 4.4% in staff costs and a growth of 18.5% in depreciation and amortization costs following continued investment in technology notably linked to our digital transformation program. In FY21, while PBT booked a growth of 1.3% (decline of 17% in FY20), Profit After Tax has remained stable to MUR 7.4 billion (MUR 7.4 billion in FY20).

Total gross loans recorded a year-on-year growth of 18.9% in FY21 (5.6% in FY20), mainly supported by an expansion in bank's international loan book linked to its Energy & Commodities and Financial Institutions activities plus the depreciation of MUR against the major currencies. At domestic level, the overall loan portfolio rose by only 10.1%, underpinned by an increase of 13.8% in the corporate segment in line with facilities provided to support operators amidst the current context. On the back of challenging market conditions, the retail segment exposure increased by only 1.7% with mortgages, however, increasing at a higher rate of 4.7%. Investment in corporate notes increased by 4.0% to MUR 21.6 billion.

Total deposits expanded by 28% (18.2% FY20) to attain MUR 475 billion as of 30 June 2021, supported by a growth of around 55.8% (26.2% FY20) in foreign currency deposits and 9.2% (13.4% FY20) in rupee-denominated deposits. Foreign currency deposits were boosted also by the depreciation of the MUR.

The bank sustained sound financial indicators in FY21, as gauged by an improvement in asset quality, maintenance of strong funding & liquidity position, and healthy NIM.

Contingent liabilities include guarantees, letter of credit, endorsements, and other obligations on account of customer commitment.

As at June 30, 2021, MCB's capital metrics remain strong with the bank`s CAR stood at 16.80% (against a regulatory requirement of 14.375%), out of which the Common Equity Tier I (CET I) CAR was 15.80% (against minimum regulatory requirement of 12.375%).

During FY21, MCB's Gross NPA ratio improved to 3.22% from 3.77% in FY20. The reduction was due to lower growth in Gross NPA vis-à-vis growth in international advances in June 21. The bank adopted a prudent approach and strengthened its overall risk management framework. Provision coverage ratio was 40% during FY21 which in turn indicated reasonable provisioning in existing NPA assets. Contingent liabilities include guarantees, letter of credit, endorsements, and other obligations on account of customer commitment.

In H1FY22, MCB posted a PAT of Mur 4,469 million (Mur 3,832 million in H1FY21). Net interest income approximated MUR 7 billion for the period, rising by 1.9% compared to the previous period. Operating profit before impairment improved by 2.8% in H1FY22 compared to H1FY21 and reached Mur 6,836 million. In H1FY22, net loans and advances to customers rose by 15.7% whilst total deposits (customers and banks deposit) rose by 17.1%. As on Dec 31, 2021, MCB's CAR remained at comfortable at 16.9%, well above regulatory norms.

Prospects

MCB operates mainly in Mauritius, benefiting from a resilient and diversified economy, as well as from a relatively stable political environment and robust institutional framework. CRAF expect an improvement in the bank's asset quality, specifically the exposure in the hospitality sector, to be improved by the opening of the international borders and arrival of tourists. CRAF also believe that the bank's well-articulated strategy to expand into the nearby Indian Ocean region and Africa predominantly in trade finance through collaborations with other banks, and service mainly clients that already have some experience with the bank contains downside risks to its asset quality.

Annexure I

Rating Symbols

Long /Medium-term Instruments

Symbols	Rating Definition
CARE MAU AAA (Is)	Issuers with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations, in Mauritius. Such issuers carry lowest credit risk.
CARE MAU AA (Is)	Issuers with this rating are considered to have high degree of safety regarding timely servicing of financial obligations, in Mauritius. Such issuers carry very low credit risk.
CARE MAU A (Is)	Issuers with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such issuers carry low credit risk.
CARE MAU BBB (Is)	Issuers with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such issuers carry moderate credit risk.
CARE MAU BB (Is)	Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU B (Is)	Issuers with this rating are considered to have high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU C (Is)	Issuers with this rating are considered to have very high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU D (Is)	Issuers with this rating are in default or are expected to be in default soon.

CRAF's Issuer Rating (CIR) reflects the overall credit risk of the issuer. The rating scale has been aligned with the long-term instrument rating scale ranging from AAA(Is) (Highest Safety) to D(Is) (Default). 'Is' suffix indicates 'Issuer Rating'
Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE MAU AA to CARE MAU C. The modifiers reflect the comparative standing within the category.

Rating Outlook

The rating outlook can be 'Positive', 'Stable' or 'Negative'.
A 'Positive' outlook indicates an expected upgrade in the credit ratings in the medium term on account of expected positive impact on the credit risk profile of the entity in the medium term.
A 'Negative' outlook would indicate an expected downgrade in the credit ratings in the medium term on account of expected negative impact on the credit risk profile of the entity in the medium term.
A 'Stable' outlook would indicate expected stability (or retention) of the credit ratings in the medium term on account of stable credit risk profile of the entity in the medium term.