Brief Rating Rationale

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

Ratings

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

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 Stable to Negative. 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 & liquidity profile, 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, 2020 advances to top 10 international corporates account for 31% of the bank's international loans & advances, risk associated with volatility in interest rates, foreign currency 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 and moderation in liquidity profile.
- Increase in negative cumulative mismatch in asset-liability maturity profile.

The revision in the Rating Outlook from Stable to Negative was triggered by weakening of the macroeconomic profile of Mauritius, due to a prolonged impact from the COVID-19 pandemic. In particular, entry restrictions in Mauritius and disruptions to international air travel has led to a negative 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. In light of the above, MCB's provisioning levels, notably in terms of Expected Credit Losses have increased during FY20 and H1FY21. This has impacted the bank's Return on Total Assets (ROTA). Going forward and until such time as there is a level of resumption of activity in the tourism sector, CRAF expects (i) MCB to continue its provisioning which will continue to impact its ROTA over next one year, and that (ii) the amount of additional provisioning may be partially offset based on the degree of support provided by the Mauritian Investment Corporation to large enterprises impacted by the pandemic.

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 on June 30, 2020 MCB held a market share of around 47% in terms of local currency deposits and 39% in terms of domestic credit to the economy. It provides a range of banking products and services to its clients through a network of 40 branches, 178 ATMs and over 9,100 point of sale (POS) terminals, as well as its mobile and internet banking offerings. As at June 30, 2020, the bank had a total deposit and net loans and advances (including placements) base of Mur 372 billion and Mur 246 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 750 correspondent banks (as at June 30, 2020) worldwide and the presence of the MCB Group's entities in 10 countries overseas.

MCB is a professionally managed bank. As at June 30, 2020 it is governed by a 9-member Board of Directors comprising of experienced bankers and professionals.

In FY20, net interest income grew by 9.9% (21.2% increase for FY19) on the account of increase in interest income of 5.2% (25.5% in FY19) mainly due to higher loans and advances. Profit After Tax dropped by 15.5% to reach Mur 7,409 million (Mur 8,766 million in FY19), essentially due to a substantial increase in impairment charges in line with the COVID-19 crisis and the high level of uncertainty it has engendered. The rise in impairment charges was mainly driven by additional Expected Credit Losses (ECL) on the bank's performing asset portfolio to reflect inherent increase in credit risks and forward-looking scenarios in the IFRS 9 model. On the other hand, despite the impact of the difficult economic context and the country's lockdown during Q4FY20, operating income posted a resilient performance to grow by 9.6% to reach Mur 19,272 million. This was essentially attributable to the effective execution of bank's diversification strategy. Thus, leading to an improved cost to income ratio in FY20.

As at June 30, 2020, MCB's capital metrics remain strong with the bank`s CAR stood at 17.5% (against a regulatory requirement of 14.375%), out of which the Common Equity Tier I (CET I) CAR was 16.5% (against minimum regulatory requirement of 12.375%).

Total deposits which remain the bank`s core source of funding (88%) grew by 18% in FY20 (10% in FY19) with CASA proportion at 87% as on June 30, 2020.

Total gross loans recorded a year-on-year growth of 5.6% in FY 20, mainly supported by an expansion in bank's international loan book recording an increase of 15.6% with structured project financing activities plus the depreciation of Mur against the major currencies. At domestic level, the overall loan portfolio rose by only 2.1% in line with the challenging operating context.

Total deposits expanded by 18.2% (10.1% in FY19) to attain Mur 371.6 billion as at 30 June 2020, supported by a growth of around 26.2% (15.6% in FY19) in foreign currency deposits and 13.4% (7% in FY19) in rupee-denominated deposits.

During FY20, MCB's Gross NPA ratio improved to 3.77% from 3.84% in FY19. The reduction was due to lower growth in Gross NPA vis-à-vis growth in international advances in June 20. MCB also reduced its risk appetite towards its international advances and strengthened its overall risk management framework.

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

In H1FY21, MCB posted a PAT of Mur 3,832 million (Mur 4,820 million in H1FY20). Net interest income rose by 2.0% to Mur 6.8 billion (Mur 6.7 billion in H1FY20). Operating profit before impairment improved by 5.7% in H1FY21 compared to H1FY20 and reached Mur 6.7 billion. In H1FY21, net loans and advances to customers rose by 9.7% whilst total deposits (customers and banks deposit) rose by 20.1%. MCB's foreign currency loans represented 65% of the funding base while its US dollar Liquidity Coverage Ratio stood at 172% as on 31 December 2020 which is well above the Basel III regulatory norm. As on Dec 31, 2020, MCB's CAR remained at comfortable at 16.3%, 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. In the wake of the COVID-19 pandemic CRAF expects the bank's asset quality, specifically the exposure in the hospitality sector, to be impacted by the ongoing closure of international borders and non-arrival of tourists. CRAF also expects that the following are likely to neutralize the aforementioned negative impact to some extent:

1. 75-80% of the economy is currently operating at a stable pace supported by various financial assistance from GOM;
2. Budgeted infrastructure spending that is likely to revive credit growth;

3. Positive demand in the real estate sector.

CRAF believes that the bank's well-articulated strategy to expand regionally, notably in Africa 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.