Rating Rationale
The Mauritius Commercial Bank Limited

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**

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 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

MCB was established as 'La Banque Commerciale de Maurice' which commenced business on September 1, 1838. In August 1955, the bank became a limited liability company.

It is currently the largest private sector bank in Mauritius and provides retail, corporate and institutional, and private banking products, and services in Mauritius and internationally (primarily in Africa). A subsidiary of MCB Group Ltd, it is the longest-standing and leading banking institution in Mauritius.

Headquartered in Port Louis, the bank provides a wide range of banking products and services to its clients through a network of 40 branches/kiosks and a well-distributed more than 178 ATMs in Mauritius. As at June 30, 2020, the bank has over 1 million clients & more than 2,900 employees and manages a total deposit and net loans and advances (including placements) base of Mur 372 billion and Mur 246 billion respectively. The bank has representative offices in Johannesburg, Nairobi, Paris and Dubai while leveraging the Group’s foreign banking subsidiaries in Madagascar, Seychelles and Maldives. As at 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.

In April 2014, the shareholding of the bank was restructured, and its shares were exchanged, on a one-for-one basis, for shares in MCB Group Limited (MCB Group), the bank's ultimate holding company. MCB’s ordinary shares were delisted, while MCB Group's shares were listed on the Stock Exchange of Mauritius. Furthermore, those MCB shares held by MCB Group were exchanged for shares in MCB Investment Holding Limited, which was incorporated as an intermediate holding company for all group banking investments.

MCB is a professionally managed bank. It is governed by a 9-member Board of Directors comprising of experienced bankers and professionals. The strategic affairs of the company are looked after by Mr. Alain Law Min (Chief Executive Officer). He is assisted by a team of professionals looking after various functions of the bank. Mr. Law Min reports to the Board of Directors.

CREDIT RISK ASSESSMENT

Long track record and strong ownership

MCB has a successful operational track record of more than 180 years. It is a wholly owned subsidiary of MCB Group, which has a diversified ownership base of more than 21,000 shareholders, with foreign shareholding accounting for 13% of the total. As at June 30, 2020 top 6 largest shareholders holding a total of 18.8% stake are - National Pensions Fund (7.0%), Swan Life Ltd (3.1%), Promotion and Development Limited (3.0%), SICOM Ltd(2.6%), BNYM SA/NV A/C Eastspring Investments SICAV-FIS (1.9%) and MUA Life Ltd. (1.2%).

MCB Group is the holding company of several subsidiaries and associates that operate under three business clusters: Banking, Non-Banking Financial and Other Investments. The Group has foreign banking subsidiaries in Madagascar, Seychelles and Maldives, and is present in Mozambique, Reunion Island, Mayotte, Paris through its associates while the bank has representative offices in Johannesburg, Nairobi, Paris and Dubai, with a network of around 750 correspondent banks across the world as at June 30, 2020. Within the non-banking financial cluster, MCB Capital Markets Ltd provides a broad range of investor services, notably including corporate finance advice, asset management, stockbroking, private equity, structured products, and registry services, while MCB Group also provides factoring and leasing solutions.

Dominant position in Mauritian banking sector and largest bank in terms of asset & deposits

As of end 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. In terms of profitability also, MCB contributes around 40% to the total profits of the Mauritian banking sector. The bank manages a total deposit and net loans and advances (including placements) base of Mur 372 billion (of which Mur 222 billion is denominated in local currency) and Mur 246 billion, respectively. Total deposits (local and foreign currency) and advances of the banking sector are Mur 1,294 billion (Mur 1,056 billion as on September 30, 2019) and Mur 691 billion (Mur 659 billion as at September 30, 2019) respectively as at September 30, 2020.

Systemic importance of the bank to Mauritius banking sector

MCB is a systemically important bank to Mauritius banking sector. In 2014, 5 banks were identified as Domestic-Systemically Important Banks (D-SIBs) and MCB is one of them. The assessment consisted of identifying those banks whose Segment A (domestic) assets [Mauritius assets] represented at least 3.5% of GDP at market prices. These D-SIBs would be required to hold a capital surcharge ranging from 1.0% to 2.5% of their risk weighted assets depending on their systemic importance.

Comfortable Capital Adequacy Ratio

As per Basel III guidelines, banks in Mauritius are required to maintain capital adequacy ratios of 11.875% as from January 2019 and 12.5% as from January 2020 and thereafter. However, to provide additional flexibility to banks to support economic stakeholders, households and individuals impacted by the COVID-19 outbreak, the Bank of Mauritius deferred the capital conservation buffer of 2.5% which is effective as from January 01, 2020 to April 01, 2022 such that banks will be required to maintain a capital conservation buffer of 1.875% until 31 March 2022. Thus, the minimum Capital Adequacy Ratio before the D-SIB amounted to 11.875%. Systemically important banks, like MCB, are required to hold a capital surcharge ranging from 1.0% to 2.5% of their risk weighted assets.

MCB has computed its CAR on June 30, 2020 in compliance with the requirements of the regulatory guidelines on Basel III as well as the macro-prudential measures introduced by BOM, effective July 2014.

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%).

Stable business performance

MCB primarily operates under 4 main segments: Corporate and Institutional Banking, Business Banking, Retail Banking as well as Private Banking and Wealth Management.

The average retail loan portfolio recorded a rise of nearly 4% in FY20, despite heightened competitive pressures. The Business banking segment recorded an increase of 5% in the loan book.

Despite the effect of the rupee depreciation on the foreign currency loan book, loans and advances, pertaining to this segment, recorded a lower-than-expected rise of nearly 10% amidst difficult market conditions across business segments. Net interest income marked an increase of around 6% in FY20, and gross operating margin went up by around 7% after factoring in the increase in non-interest income. Foreign-sourced assets grew by 17% in FY20 and, as at 30 June 2020, accounted for around 37% of the bank’s total assets. Out of a total profit of Mur 7.4 billion derived by the bank during FY20, foreign-sourced earnings accounted for around 74% thereof (FY19: 64%) and the domestic profit contribution has been impacted by the rise recorded in Expected Credit Losses therein. This is in line with inroads made, in terms of the bank’s strategy to extend its frontiers in international market.

MCB widened and deepened its involvement in E&C financing. Beyond consolidating its trade finance segment, the Bank made solid inroads into the African oil and gas structured debt market. MCB is gradually shifting towards medium-term financing along the value chain, while broadening its involvement across the upstream business. MCB played a pivotal role in meeting the petroleum products requirements of countries across Africa and beyond. Furthermore, MCB made major headway in broadening and diversifying its portfolio of international structured finance deals, after financing major development projects and landmark deals across various sectors, countries, and products on the African continent.

MCB is active promoter of the ‘Bank of Banks’ initiative, which consists of providing a palette of adapted solutions to financial institution counterparts, notably those operating in Africa. Overall, MCB Group partnered with and assisted 78 financial institutions worldwide (including over 50 in Africa) spanning 37 countries in FY 2019/20, while enabling clients to gain access to the range of services and state-of-the-art frameworks offered by various entities.

For the period ended (Mur Million)	FY18	FY19	FY20
Interest income			
Income from Investment in securities	2,749	3,559	4,411
Loans and advances to customers	10,455	12,787	12,968
Loans and advances to banks	668	1,089	875
Other	33	15	94
Total Interest Income	**13,904**	**17,449**	**18,348**
Fees and commission Income	3,964	4,433	4,421
Net gain on sale of financial instruments	18	8	195
Profit arising from dealing in foreign currencies	1,833	1,219	1,321
Net gain/(loss) from financial instruments carried at fair value	(382)	651	913
Dividend Income	63	59	36
Other income	19	31	(2)
Non-Interest income	**5,515**	**6,400**	**6,885**
TOTAL INCOME	**19,419**	**23,849**	**25,233**

In FY20, interest income increased by 5% to Mur 18,348 million (26% increase in FY19 to Mur 17,449 million) in line with the expansion of bank's loan portfolio, mainly linked to increase in gross loan and advances and increased investments in Government securities.

While fee and commission income remained relatively unchanged owing to dampened activity levels, non-interest income rose by 8%, driven by increase in profit on exchange, net gain from financial instruments carried at fair value as well as net gain on sale of foreign financial instruments.

Consistent growth in Deposits

MCB has the largest deposit base among banks in Mauritius and the term deposits have witnessed good rollover rate (around 70-75% for Mur Term deposits). 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.

Deposits	FY18		FY19		FY20	
	Mur Million	%	*Mur Million*	%	*Mur Million*	%
Deposits-Demand	117,903	41	129,309	41	165,382	45
Deposits-Savings	126,420	44	137,877	44	157,997	43
Deposits-Term	41,208	14	47,190	15	48,229	13
Total Deposits	**285,532**		**314,377**		**371,608**	
CASA	**244,324**		**267,187**		**323,379**	
CASA proportion	**86%**		**85%**		**87%**	
CASA Y-o-Y growth	**9%**		**9%**		**21%**	
Cost of deposit*	**2.15**		**2.14**		**1.61**	
Credit to Deposit Ratio	**0.70**		**0.73**		**0.65**	

** Cost of deposit relates only to savings and term deposits.*

The bank continues its efforts towards improving its cost of funds both in local as well as foreign currencies whilst at the same time maintaining the right balance between short and long-term liabilities for efficient liquidity management.

	FY18	FY19	FY20
Deposits from customers/banks	*Mur Million*		
Retail customers (Domestic)	150,731	162,802	188,165
Corporate customers (Domestic)	52,988	59,362	71,147
International customers	81,677	92,024	112,097

	FY18	FY19	FY20
Deposits from customers/banks		*Mur Million*	
Government	136	189	199
Total	**285,532**	**314,377**	**371,608**
Maturing within one year	266,811	296,551	*356,614*
Maturing in more than one year	18,721	17,826	*14,994*

Retail Banking remains one of the core local deposit raising arm of the bank contributing above 50% of the total bank deposits with a growth of 16% in 2020 (8% in FY19). Deposits by corporate customers grew by 22% in FY20 (13% in FY19).

Satisfactory liquidity profile

MCB manages its liquidity on a prudent basis and ensures that the statutory minimum cash reserve requirements are maintained throughout the year. Treasury is responsible for the daily management of liquidity and provides daily reporting to Senior Management. The ALCO reviews monthly, or on ad hoc basis if required, the bank's liquidity position. The bank's funding comprises mainly of customer deposits and borrowings, both short as well as long term. Short-term interbank deposits are taken on a limited basis and the bank is generally a net lender to interbank market.

Asset-Liability Maturity Profile as on June 30, 2020 **(Mur Million)**

Particulars	**<1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**>3 years**	**Non-maturity items**
Total assets	96,284.7	34,754.1	35,620.3	40,211.4	90,958.7	150,549.0	60,520.8
Total Liabilities	335,975	21,718	8,063	36,702	14,167	8,215	4,024
Net liquidity gap	**(239,690.3)**	**13,036.1**	**27,557.3**	**3,509.4**	**76,791.7**	**142,334.0**	**56,496.8**
Cumulative gap	**(239,690.3)**	**(226,654.2)**	**(199,096.9)**	**(195,587.5)**	**(118,795.8)**	**23,538.2**	**80,035.0**

MCB has net liquidity gap in 1-month time bucket, primarily considering withdrawal of entire low-cost CASA deposits (demand deposits & saving deposits) within 1 month. There has been an annualised growth of 14% in CASA deposit over the last 3 years, which shows renewed confidence in the bank despite the challenging economic situation. The core portion hovers around 80%.In case of stressed liquidity issues, the bank can dispose of its investment in securities with BOM and make use of other funding options to meet any shortfall.

In October 2017, BOM has introduced a revised Guidelines on Liquidity Coverage Ratio (LCR). The objective of the LCR is to ensure that a bank maintains an adequate stock of unencumbered High Quality liquid assets (HQLA) that consist of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30-calendar daytime period under a severe liquidity stress scenario. MCB's last 6 months cumulative LCR is as under:

	March 2020	**June 2020**	**September 2020**
LCR* #	501%	503%	494%

**Stock of HQLA/Total net cash outflows over the next 30 calendar days #minimum LCR is 100%*

This apart, the liquidity position of the bank is comfortable with positive mismatches in most of the time buckets (barring up to 1 month). The bank's excess deposit with BOM of Mur 27,189 million for FY20 (Mur 12,136 million for FY19), healthy term deposit rollover rate, subordinated debt and capital raising ability provide comfort. Excess liquidity in the domestic money market (Mur 58,666 million as at beginning of December 2020) can be accessed during times of stress.

In FY13, MCB has obtained a USD 30M 10-year subordinated debt from the African Development Bank. This facility forms part of a wider package of USD 150M granted by the latter to allow the bank to increase its foreign currency lending to clients operating in the region and in mainland Africa. The debt maturing in August 2023.

In FY19, MCB signed a USD 800 million Dual Tranche, Syndicated Term Loan Facility through general syndication from 24 participating banks spanning Europe, the Middle East and Asia. It comprises two tranches, with Tranche A having a tenor of 1 year and Tranche B having an initial tenor of 2 years, with a 1-year extension option at the Borrower's discretion.

In July 2020, MCB drew a USD 100 million facility arranged by MUFG securities EMEA Plc. The Facility, as part of the Bank's funding optimisation strategy, will allow MCB to deliver on its ambitions ahead. Moreover, in February 2021, a USD 65 million loan has been signed between Proparco (a subsidiary of Agence Française de Developpement), its German counterpart DEG and MCB Ltd. The loan will enable MCB to assist small and medium sized companies in the sub-Saharan African region amidst their expansion or modernisation projects, while joining them in their journey towards sustainable recovery amidst the COVID-19 crisis.

Diversified advance portfolio

During FY20, the bank's net loans and advances witnessed a growth of 4% (a growth of 14% during FY19) which was a result of an increase in on-balance sheet exposure to international corporate.

	FY18	**FY19**	**FY20**
Loans & Advances to	***Mur Million***		
Retail customers (credit card, mortgages and other retail loans)	40,856	43,347	43,451
Corporate customers (Domestic)	88,519	88,811	91,749
Corporate customers (International)	63,746	87,052	100,886
Governments	1,323	611	459
Banks in and outside Mauritius (excluding placement)	5,283	8,048	4,105
Less: Allowances for Credit Impairment	5,876	6,423	9,768
Total	**193,852**	**221,446**	**230,882**

Total retail advances amount to Mur 43.5 billion (19% of the total on-balance sheet exposure). Management has confirmed that nearly all of retail exposures are secured loans backed by assets under charge.

As on June 30, 2020, MCB's loans & advances to domestic corporates was Mur 91.7 billion and investment in corporate notes amounted Mur 20.8 billion. The major risk areas under domestic fronts are bank's on-balance sheet exposure to Tourism sector (17% of the total domestic corporate on-balance sheet exposure) and construction sector (16% of the total domestic corporate on-balance sheet exposure). MCB's on-balance sheet exposure to hotel/ tourism segment amounts to Mur 16.2 billion. MCB's total on-balance sheet exposure to tourism sector as a part of its total portfolio is around 9%.

As at 30 June 2020, MCB had total provisions on loans and advances amounting to Mur 10.1 billion, which is 3.9% of its gross loans and advances (including corporate notes) of Mur 261.5 billion. Out of the total provision of Mur 10.1 billion, Mur 1.9 billion pertains to provisions for exposure to tourism – accounting for 8% for its total exposure to tourism (Mur 23.2 billion).

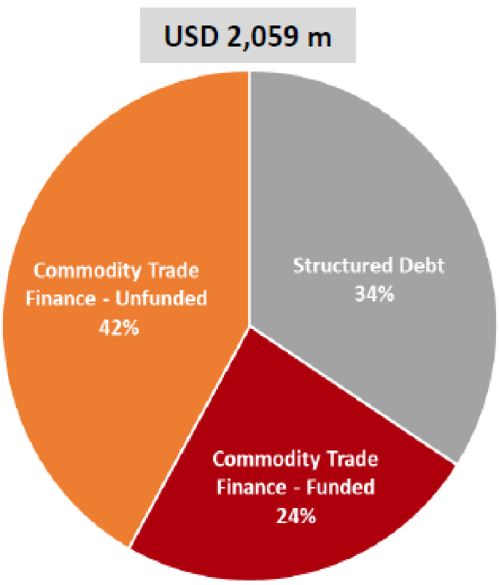
The Mauritius Investment Corporation Ltd (MIC) (wholly owned subsidiary of The Bank of Mauritius) has access to up to USD 2 billion from the foreign exchange reserves of the Bank of Mauritius to make both equity and quasi-equity instruments in systemically important domestic companies in the major COVID-19 impacted sectors, to mitigate the contagion to the banking system for the next few years. As on March 08, 2021, MIC has disbursed Mur 2.0 billion, primarily in the accommodation & food service activities.

The exposure in the construction sector accounts for 6% of the total exposure of the bank. Management has confirmed that a sizeable portion of the exposure is structured under the VEFA Act with GFA provisions applicable, largely mitigating the risk of such exposure.

MCB's domestic corporate customer concentration risk is moderate since its exposure (both funded and non-funded) to top 10 domestic corporate customers account for around 50% of domestic exposure.

In the International market, as on June 30, 2020, a major part of bank's exposure was in the Energy & Commodity (E&C) segment in the Great Britain, Nigeria, Switzerland, India, UAE, Singapore, Angola, Egypt, and Ivory Coast.

As at 30 June 2020, around 66% of Energy & Commodities exposures pertained to the Commodity Trade Finance (CTF) segment and around 34% to the Structured Debt segment. The bank's CTF exposures were on short-term, self-liquidating regional trade finance transactions with around two thirds being off-balance sheet. The majority of the CTF book involved the financing of oil cargoes for traders where the financed goods have already been pre-sold at pre-determined prices. MCB does not take any oil price risk and its credit policy insists that all price risks be hedged, and most transactions financed benefit from payment securities (e.g., Letters of Credit) from strong counterparties (e.g., A-rated banks). As for its structured debt book, which consists of medium-term financing made to midstream and upstream oil and gas players, it does not entail any balance sheet risk and come with significant control overflow of funds. Such transactions are done alongside international banks and lenders retain control over the application of proceeds which follow an agreed cash flow waterfall, with debt repayments ranking at a senior level. The book has remained resilient throughout the period of depressed oil prices with cash generating clients currently standing in even better stead with recovered oil prices. The bank's E&C exposure as on June 30, 2020 is depicted:



Top 10 international corporate customers accounted for around 38% international exposures (funded and unfunded) as at 30 June 2020. The bank's top 20 group exposures (both funded and unfunded) were at around 239% of its Tier 1 capital as of June 2020. However, the bank's loan exposures are well within the prescribed limit by the Bank of Mauritius for aggregate large credit exposures.

Satisfactory asset quality with low NPA

MCB follows a prudent impairment policy, whereby all loans and advances past due above 90 days are classified as impaired. The bank also assesses facilities granted to clients as being impaired on case-by-case basis above a certain materiality threshold.

Particulars	FY18	FY19	FY20
Gross NPAs at beginning of the year	9,699	8,508	9,344
Additions during the year	2,339	2,500	3,242
Reduction during the year	3,530	1,664	2,784
Gross NPAs at the end of the year	**8,508**	**9,344**	**9,802**
Provisions	**6,061**	**6,588**	**10,148**
Net NPA at the end of year	**5,683**	**6,643**	**6,558**
Gross Advances (including corporate notes and excluding interest in suspense on loans)	205,036	243,528	260,062
Net Advances (including corporate notes)	200,851	238,695	251,327
Net worth	43,439	47,344	52,197
Gross NPA/Gross Advances (%)	**4.15%**	**3.84%**	**3.77%**
Net NPA /Net Advances (%)	**2.83%**	**2.78%**	**2.61%**
Net NPA/Net worth (%)	13.08%	14.03%	12.56%
Provision Coverage (%)	33.21%	28.90%	33.09%

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. The bank adopted a prudent approach and strengthened its overall risk management framework. Provision coverage ratio was 33% during FY20 which in turn indicated reasonable provisioning in existing NPA assets. MCB’s expected credit losses were calculated using Basel Guidelines and publicly available data of reputed US and European banks as benchmarks. The bank has also made an independent assessment of each of its high-risk accounts. The benchmarked ECL was further adjusted with the factors such as, any rating movement, liquidity position of the client, historical payment cycle, ageing of debtors etc. MCB recorded a total Expected credit loss of 2.2% of the total performing loan portfolio.

Interest rate risk

MCB utilizes the deposits and borrowings in USD/GBP/Euro to lend in USD/GBP/Euro. MCB has been active across markets in order to uphold adequate funding resources in foreign currencies to support its growth ambitions. It has built up and maintained a good funding buffer in excess of USD 1 billion in form of placements with banks, repos, credit and swap lines with the Bank of Mauritius.

Foreign currency Risk

MCB's exposure in foreign currency for FY20 is as under:

Financial Assets	EURO	USD	GBP	Mur	Other Currencies
	Mur Million equivalent				
Cash & cash equivalents	12,472	27,986	2,023	23,180	2,483
Derivative financial instruments	249	401	84	263	0
Loans to and placement with banks	1,783	11,312	-	6,116	164
Loans and advances to customers	26,053	98,097	437	111,882	76
Investment securities	1,397	19,614	1	115,262	
Other financial assets	911	1,858	167	17,533	137
	42,865	**159,268**	**2,712**	**274,236**	**2,860**
Financial Liabilities	**EURO**	**USD**	**GBP**	**MUR**	**Other**
	Mur Million equivalent				
Deposits from Banks	1,137	5,684	204	417	158
Deposits from Customers	36,837	95,692	5,031	221,791	4,657
Derivative financial instruments	0	747	59	156	0
Other Borrowed funds	1,950	48,417	314	2	133
Subordinated liability		1,013	0	0	0
Other financial liabilities	169	411	48	2,263	30
	40,093	**151,964**	**5,656**	**224,629**	**4,978**

Loans & advances to customers and placement with banks in USD is more as compared to EURO. As at June 30, 2020 MCB has more deposits in GBP than advances.

Stable financial performance

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.

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.

The bank sustained sound financial indicators in FY20, 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.

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.

Industry Risk

As on June 30, 2020, 20 banks were licensed by the Bank of Mauritius, of which 5 were local banks, 9 were subsidiaries of foreign banks, 1 is a joint venture, 4 were the branches of foreign bank and 1 private bank. Mauritius banking sector is dominated by 2 large banks Mauritius Commercial Bank (MCB) and State Bank of Mauritius (SBM).

The banking industry is characterized by excess liquidity (Mur 59 billion as at beginning of December 2020) and low Non-performing loan ratio (5.9% in June 2020). The economy of Mauritius is among the most dynamic in the Sub-Saharan region despite its relatively low level of growth.

Although the service industry is the major contributor to the country's GDP, Mauritius possesses a diversified economy in several sectors including offshore financial activities, the textile industry, and the production of sugarcane. In addition, other developing sectors such as medical tourism, outsourcing, new technologies and the luxury industries also contributed to the economic growth of the country. Medical tourism, outsourcing, new technologies and the luxury industry are among the growing sectors.

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.

Financial Performance **Mur Million**

Particulars	FY18	FY19	FY20	H1FY20	H1FY21
Total Income	19,419	23,849	25,233	12,912	11,514
Interest Expenses	3,795	5,196	4,884	2,855	1,037
Net Interest Income	10,109	12,253	13,464	6,696	6,829
Operating Expenses (Excluding Depreciation and including Impairment and Fee and Commission Expenses)	6,959	7,841	11,415		
Provisions	1,229	1,456	4,818	829	2,291
PBT	8,413	10,443	8,638		
PAT	6,786	8,766	7,409	4,820	3,832
Deposits	285,532	314,377	371,608	337,911	405,932
Borrowings	15,249	56,446	51,830		
Tangible Net worth	43,439	47,344	52,197	50,223	56,082
Net Advances (Excluding Placements)	193,852	221,446	230,882	222,939	253,913
Investments in securities	81,885	116,398	135,915		
Investment in subsidiaries & associates	4,172	4,196	5,102		
Total Assets	351,907	427,695	484,858		
Key Ratios (%)					
Interest Income/Avg. Interest Earning Assets	4.52	4.83	4.32		
Interest Expenses / Avg. Interest Bearing Liabilities	1.33	1.55	1.23		
Net Interest Margin (NIM)	3.03	3.14	2.95		
Operational Expenses / Avg. Total Assets	2.08	2.01	2.50		
Cost/Income (Non-interest expense/Operating income)	37%	34%	32%		
Operational Expenses / Total Income	0.36	0.33	0.45		
Treasury Income/PBT	0.21	0.07	2.26		
Yield on advances	6.26	6.68	6.12		
Cost of Deposits(Including only Savings and Term Deposits)	2.15	2.14	1.61		
Core Spread	4.11	4.54	4.51		
ROTA (%)	2.03	2.26	1.62	2.22	1.51
RONW (%)	16.41	19.31	14.89		
Overall Gearing (times)	6.92	7.83	8.11		
Capital Adequacy Ratio (BASEL III)	15.60	16.60	17.50	16.60%	16.30%
Tier I Capital Adequacy Ratio	14.80	15.70	16.50		
Credit/Deposit ratio (times)	0.70	0.73	0.65		
CASA Proportion (%)	85.57	84.99	87.02		
Gross NPA to Gross Advances (%)	4.1	3.8%	3.8		
Net NPA to Advances (%)	2.83	2.78	2.61		
Net NPA/Net worth (%)	13.08	14.03	12.56		
Contingent Liabilities (Mur million)	64,467	71,758	68,496		

Adjustments

1. Tangible net worth is calculated by netting off intangible assets and revaluation reserve from total equity.
2. Overall Gearing ratio is calculated as total debt (subordinated debt + Total Deposits + Total borrowings)/Tangible Net worth.
3. Total asset is calculated by netting off intangible assets, revaluation reserve and deferred tax liability.

Rating History of last two years

Name of the Instrument/ Facilities	Current ratings		Rating History	
	Amount	**Rating**	**2019-2020**	**2018-2019**
Issuer Rating	Not Applicable	CARE MAU AAA (Is); (Stable)	CARE MAU AAA (Is); (Stable) (Reaffirmed in December 2019)	CARE MAU AAA (Is); (Stable) (Assigned in March 2019)