Rating Rationale
The Mauritius Commercial Bank Limited

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

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, business banking 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 41 branches/kiosks and a well-distributed more than 182 ATMs in Mauritius. As at June 30, 2021, the bank has over 1 million clients & more than 3,000 employees and manages a total deposit and net loans and advances (including placements) base of Mur 475 billion and Mur 298 billion respectively. The bank has representative/advisory offices in Johannesburg, Nairobi, Paris and Dubai while leveraging the Group's foreign banking subsidiaries in Madagascar, Seychelles and Maldives. 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.

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 8-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 22,000 shareholders, with foreign shareholding accounting for 10% of the total. As at June 30, 2021 top 6 largest shareholders holding a total of 20% stake are - National Pensions Fund (7.3%), Swan Life Ltd (3.3%), SICOM Ltd (3.2%), Promotion and Development Limited (3.0%), BNYM SA/NV A/C Eastspring Investments SICAV-FIS (2.0%) 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/advisory offices in Johannesburg, Nairobi, Paris and Dubai, with a network of around 400 correspondent banks across the world as at June 30, 2021. 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, 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. In terms of profitability also, MCB contributes around 60% to the total profits of the Mauritian banking sector in FY21. The bank manages a total deposit and net loans and advances (including placements) base of Mur 475 billion (of which Mur 240 billion is denominated in local currency) and Mur 298 billion, respectively.

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, 2021, 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, 2021, MCB’s capital metrics remain strong with the bank`s CAR stood at 16.8% (against a regulatory requirement of 14.375%), out of which the Common Equity Tier I (CET I) CAR was 15.8% (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.

In spite of challenging market conditions, the lending portfolio (Corporate and Institutional Banking) expanded by around 16% due to the sustained growth of commercial activities. However, gross operating margin saw only a slight growth of around 4%, due to the negative impact of falling yields on net interest income, whilst an expansion of around 20% in non-interest income was recorded as strong focus on diversifying bank's revenue base started to pay off.

Amidst the pandemic and even in the challenging context and dampened activity linked with the closure of the international borders, gross operating margin in Retail Banking increased by around 3%, supported by an appreciable rise in net fee income. The Business banking segment recorded an increase of nearly 7% in the loan book.

Out of the total profit of MUR 7.4 billion, foreign-sourced earnings accounted for some 54% thereof, for FY21 (75% for FY20). 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 the trade finance segment of its portfolio, MCB made solid inroads into the African Oil & Gas structured debt market. With regard to its Power & Infrastructure activities, MCB continued to play an increasing role in addressing Africa's infrastructure needs while providing support to its clients for their infrastructure investments in MCB's key geographical markets, including energy projects contributing to the transition towards cleaner energy and improving electrification rate on the 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 80 financial institutions worldwide (including over 65 in Africa) spanning 36 countries in FY 2020/21, 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)	FY19	FY20	FY21
Interest income			
Income from Investment in securities	3,559	4,411	4,121
Loans and advances to customers	12,787	12,968	11,061
Loans and advances to banks	1,089	875	577
Other	15	94	149
Total Interest Income	**17,449**	**18,348**	**15,908**
Fees and commission Income	4,433	4,421	4,934
Net gain on sale of financial instruments	8	195	-
Profit arising from dealing in foreign currencies	1,870	2,234	1,970
Dividend Income	59	36	36
Other income	31	(2)	35
Non-Interest income	**6,400**	**6,885**	**6,975**
TOTAL INCOME	**23,849**	**25,233**	**22,883**

In FY21, despite of the increase in the loan book and investment in securities, interest income fell by around 13% to Mur 15,908 million (5% increase in FY20 to MUR 18,348 million) due to the negative impact of falling yields on net interest income. Fee and commission income increased, mainly supported by higher revenues from regional trade financing and wealth management activities.

Consistent growth in Deposits

MCB has the largest deposit base among banks in Mauritius and term deposits have witnessed good rollover rate. Total deposits which is the core source of funding (86%) grew by 28% in FY21 (18% in FY20). Savings/demand accounts, representing 91% of the Bank's total deposits, have witnessed a constant growth rate over the past years.

Deposits	FY19		FY20		FY21	
	Mur Million	%	*Mur Million*	%	*Mur Million*	%
Deposits-Demand	129,309	41	165,382	45	256,647	54
Deposits-Savings	137,877	44	157,997	43	176,044	37
Deposits-Term	47,190	15	48,229	13	42,793	9
Total Deposits	**314,377**		**371,608**		**475,484**	
CASA	**267,187**		**323,379**		**432,691**	
CASA proportion	**85%**		**87%**		**91%**	
CASA Y-o-Y growth	**9%**		**21%**		**34%**	
Cost of deposit*	**2.14**		**1.61**		**0.42**	
Credit to Deposit Ratio	**0.73**		**0.65**		**0.60**	

** 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.

	FY19	FY20	FY21
Deposits from customers/banks	**MUR Million**		
Retail customers (Domestic)	162,802	188,165	205,134
Corporate customers (Domestic)	59,362	71,147	81,916
International customers	92,024	112,097	188,311
Government	189	199	123
Total	**314,377**	**371,608**	**475,484**
Maturing within one year	*296,551*	*356,614*	*464,789*
Maturing in more than one year	*17,826*	*14,994*	*10,695*

Retail Banking remains one of the core local deposit raising arm of the bank contributing above 40% of the total bank deposits with a growth of 9% in 2021 (16% in FY20). Deposits by corporate customers grew by 15% in FY21 (20% in FY20).

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, 2021 **(Mur Million)**

MCB Ltd	< 1 month	1-3 months	3-6 months	6-12 months	1-3 years	> 3 years	Non-maturity items
Total assets	167,291	46,646	37,487	37,406	124,495	186,228	53,181
Total liabilities	444,552	14,369	6,986	46,334	25,713	14,394	3,393
Net liquidity gap	**(277,261)**	**32,277**	**30,501**	**(8,928)**	**98,782**	**171,834**	**49,788**
Cumulative gap	**(277,261)**	**(244,984)**	**(214,483)**	**(223,411)**	**(124,629)**	**47,205**	**96,993**

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 27% 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.

	March 2021	June 2021	September 2021	Dec 2021
LCR* #	326%	322%	354%	382%

**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 14,117 million for FY21 (Mur 27,189 million for FY20), healthy term deposit rollover rate, subordinated debt and capital raising ability provide comfort. Excess liquidity in the domestic money market (Mur 109.4 billion as at in January 2022) 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.

In September 2021, the Bank has secured syndicated medium-term facility of USD 1 billion arranged by a consortium of six international banks. The facility comprises two tranches, with Tranche A for an amount of USD 400 million with a tenor of 2 years and Tranche B for the remaining amount of USD 600 million with a tenor of 3 years. MCB utilizes this facility to support Bank's international business.

Foreign currency Risk mitigated by adequate liquidity in USD

Loans & advances to customers and placement with banks in USD is more as compared to EURO. MCB's exposure in foreign currency for FY21 is as under:

Financial Assets	**EURO**	**USD**	**GBP**	**MUR**	**Other Currencies**
	Mur Million equivalent				
Cash & cash equivalents	19,678	44,865	4,825	22,901	8,942
Derivative financial instruments	513	242	0	280	0
Loans to and placement with banks	2,117	39,009	0	0	0
Loans and advances to customers	30,402	120,149	481	118,615	123
Investment securities	8,877	28,421	1	146,619	0
Other financial assets	1,121	2,283	196	20,269	113
	62,708	**234,969**	**5,503**	**308,684**	**9,178**
Financial Liabilities	**EURO**	**USD**	**GBP**	**MUR**	**Other**
	Mur Million equivalent				
Deposits from Banks	1,364	19,400	182	617	93
Deposits from Customers	44,048	144,928	6,164	242,070	16,618
Derivative financial instruments	6	888	0	512	0
Other Borrowed funds	1,728	72,896	0	0	2
Subordinated liability	0	875	0	0	0
Other financial liabilities	205	337	50	1,243	30
	47,351	**239,324**	**6,396**	**244,442**	**16,743**

Over the years, MCB has borrowed mainly in USD, to maintain liquidity in case of withdrawals.

Diversified advance portfolio

During FY21, the bank's net loans and advances witnessed a growth of 18% (a growth of 4% during FY20) which was a result of an increase in on-balance sheet exposure to international corporate.

	FY19	**FY20**	**FY21**
Loans & Advances to	***MUR Million***		
Retail customers (credit card, mortgages and other retail loans)	43,347	43,451	43,116
Corporate customers (Domestic)	88,811	91,749	105,708
Corporate customers (International)	87,052	100,886	120,702
Governments	611	459	244
Banks in and outside Mauritius (excluding placement)	8,048	4,105	16,114
Less: Allowances for Credit Impairment	6,423	9,768	13,020
Total	**221,446**	**230,882**	**272,864**

Total retail advances of Mur 43.1 billion (15% 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, 2021, MCB's loans & advances to domestic corporates was Mur 105.7 billion and investment in corporate notes amounted Mur 21.6 billion. The major risk areas under domestic fronts are bank's on-balance sheet exposure to Tourism sector (20% of the total domestic corporate on-balance sheet exposure) and construction sector (14% of the total domestic corporate on-balance sheet exposure).

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.

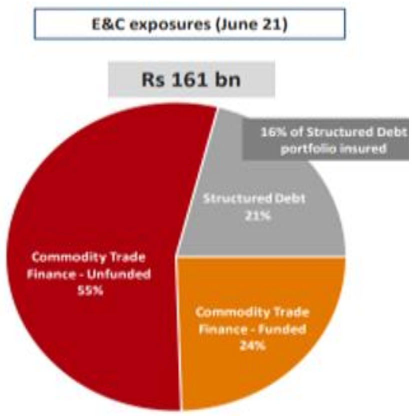
As on June 30, 2021, MCB's total exposure (loans & advances to customers & banks and investment in Corporate Notes) was MUR 308 billion. As on June 30, 2021, MCB's loans & advances to Corporates was MUR 123 billion and Investment in Corporate Notes was Mur 21.6 billion.

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 February 28, 2022, MIC has disbursed Mur 44 billion, primarily in the accommodation & food service activities.

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 58% of domestic exposure.

In the International market, as on June 30, 2021, a major part of bank's exposure was in the Energy & Commodity (E&C) segment in the Great Britain, Nigeria, Switzerland, India, Kenya, Singapore, Netherlands, Egypt, and France.

As at 30 June 2021, around 79% of Energy & Commodities exposures pertained to the Commodity Trade Finance (CTF) segment and around 21% 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 top 20 group exposures (both funded and unfunded) were at around 265% of its Tier 1 capital as of June 2021. 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	FY19	FY20	FY21
Gross NPAs at beginning of the year	8,508	9,344	9,802
Additions during the year	2,500	3,242	3,643
Reduction during the year	1,664	2,784	3,574
Gross NPAs at the end of the year	**9,344**	**9,802**	**9,871**
Provisions	**6,588**	**10,160**	**13,613**
Net NPA at the end of year	**6,643**	**6,558**	**5,907**
Gross Advances (including corporate notes and excluding interest in suspense on loans)	243,528	260,151	306,205
Net Advances (including corporate notes)	238,695	251,405	294,272
Net worth	47,344	52,197	61,834
Gross NPA/Gross Advances (%)	**3.84%**	**3.77%**	**3.22%**
Net NPA /Net Advances (%)	**2.78%**	**2.61%**	**2.01%**
Net NPA/Net worth (%)	14.03%	12.56%	9.55%
Provision Coverage (%)	28.90%	33.09%	40.20%

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. 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.

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.

Environmental risk

MCB has moderate exposure to environmental risks, in line with that of other banks in Mauritius, mainly because of the Mauritian economy's vulnerability to weather-related events because of the small size of, and the importance of tourism to the economy. Mauritius' exposure to environmental risks is moderately negative, which reflects natural capital risks, given the significant risks posed by climate events to the economy and government finances.

Stable financial performance

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.

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.

Industry

As of June 30, 2021, The Mauritian banking industry comprised of 19 banks, of which 5 local banks, 12 foreign banks-predominantly subsidiaries and a few branches, 1 is a joint venture, and 1 is licensed as a private bank. All the banks are licensed by the Bank of Mauritius to carry out banking business locally and internationally. The market remains dominated by the two largest banks, namely: The Mauritius Commercial Bank (MCB) Ltd and The State Bank of Mauritius (SBM) Ltd, both accounting for total assets of MUR 876.7 billion in aggregate.

Throughout the first half of 2020, due to the impact of the COVID 19 crisis, the BOM had to step in accommodative monetary policies (slashing the Key Repo Rate to 1.85% amongst others) to maintain the financial stability of the economy. This however, had created an excess liquidity of MUR 59 billion as at December 2020.

The banking has benefited from a healthy and stable consumer spending and business investments as demonstrated by the growth in total assets at 30 June 2021 for the two largest banks namely; The Mauritius Commercial Bank Limited (+28.7%) and SBM Bank (Mauritius) Ltd (+11.5%).

As part of its systemic risk monitoring, the BOM carried out an assessment in June 2021 to measure the systemic importance of banks and the resultant capital surcharge to be maintained by them. It determined the same five banks – namely, The Mauritius Commercial Bank Limited, SBM Bank (Mauritius) Ltd, Absa Bank (Mauritius) Limited, The Hongkong and Shanghai Banking Corporation Limited (Branch) and AfrAsia Bank Limited – as systemically important for the jurisdiction. These Domestic Systemically Important Banks (D-SIBs) maintained adequate capital buffers, inclusive of their respective D-SIB capital surcharges. Despite the COVID-19 impact, the D-SIBs maintained sound asset quality and remained profitable as at end-September 2021. They were also sufficiently funded, with LCR well above the regulatory requirement of 100 per cent.

Regulatory Guidelines:

The Bank of Mauritius (BOM) came up with the following measures with regards to regulatory guidelines during the financial year ending 2021:

- **Capital requirement**

The requirements of the Guideline on Scope of Application of Basel III and Eligible Capital with regards to capital conservation buffer were reviewed such that the implementation of the capital conservation buffer of 2.5 percent was further deferred to 1 April 2022. Banks will be required to maintain a capital conservation buffer of 1.875 percent until 31 March 2022

- **Transitional arrangements for regulatory capital treatment**

Guidance on transitional arrangements for regulatory capital treatment of IFRS 9 provisions for expected credit losses (ECL) was introduced with a view to alleviating the impact of the COVID-19 pandemic on provisioning levels of financial institutions. The transitional arrangements will allow financial institutions to retain a portion of their IFRS 9 provisions to prop-up the regulatory capital.

- **Liquidity requirements**

The Guideline on Liquidity Risk Management was further revised to enable banks to have appropriate risk control measures to identify, manage, and monitor liquidity risk exposures.

- **Debt-to-Income Ratio**

The threshold for the Debt-to-Income ratio in the Guideline on the Computation of Debt-to-Income Ratio for Residential Property Loans was reviewed to 50 percent, instead of 40 percent, for single and joint borrowers, to ease access to residential loans.

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.

Financial Performance **Mur Million**

Particulars	FY19	FY20	FY21	H1FY21	H1FY22
Total Income	23,849	25,233	22,883	11,514	12,616
Interest Expenses	5,196	4,884	2,072	1,037	1,097
Operating Expenses (Excluding Depreciation and including Impairment and Fee and Commission Expenses)	7,841	11,415	11,520		
Provisions	1,456	4,818	4,601	2,291	1,850
PBT	10,443	8,638	8,751	4,553	5,273
PAT	8,766	7,409	7,396	3,832	4,469
Deposits	314,377	371,608	475,484	405,932	475,462
Borrowings	56,446	51,830	75,501		
Tangible Net worth	47,344	52,197	61,834	56,082	63,809
Net Advances (Excluding Placements)	221,446	230,882	272,864	253,913	290,795
Investments in securities	116,398	135,915	183,560		
Investment in subsidiaries & associates	4,196	5,102	5,938		
Total Assets	427,695	484,858	624,079		
Key Ratios (%)					
Interest Income/Avg. Interest Earning Assets	4.83	4.32	3.07		
Interest Expenses / Avg. Interest Bearing Liabilities	1.55	1.23	0.43		
Net Interest Margin (NIM)	3.14	2.95	2.50		
Operational Expenses / Avg. Total Assets	2.01	2.50	2.08		
Cost/Income (Non-interest expense/Operating income)	34%	32%	34%		
Operational Expenses / Total Income	0.33	0.45	0.50		
Yield on advances	6.68	6.12	4.62		
Cost of Deposits (Including only Savings and Term Deposits)	2.14	1.61	0.42		
Core Spread	4.54	4.51	4.20		
ROTA (%)	2.26	1.62	1.33		
RONW (%)	19.31	14.89	12.97		
Overall Gearing (times)	7.83	8.11	8.91		
Capital Adequacy Ratio (BASEL III)	16.60	17.50	16.80	16.30	16.90
Tier I Capital Adequacy Ratio	15.70	16.50	15.80		
Credit/Deposit ratio (times)	0.73	0.65	0.60		
CASA Proportion (%)	84.99	87.02	91.00		
Gross NPA to Gross Advances (%)	3.8	3.8	3.2		
Net NPA to Advances (%)	2.78	2.61	2.0		
Net NPA/Net worth (%)	14.03	12.56	9.6		
Contingent Liabilities (Mur million)	71,758	68,496	128,548		

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.