Brief Rating Rationale
CRAF assigns 'CARE MAU AAA (Is); Stable' Issuer Rating to The Mauritius Commercial Bank Ltd.

Ratings

Facility/Instrument	Amt. (MUR Million)	Rating	Rating Action
Issuer Rating	Not Applicable	**CARE MAU AAA (Is); (Stable) [Triple A (Is); Outlook: Stable]**	**Assigned**

RATING RATIONALE

The issuer rating assigned to The Mauritius Commercial Bank Ltd. ("MCB") derives strength from the long track-record of MCB with a dominant position in Mauritian banking sector, systemic importance of the bank to the 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 NPL (Non-performing loans) recognition norms, strong & improving asset quality with low NPL and strong financial position with comfortable gearing & Net Interest Margin (NIM). The rating also takes into account the international financing activities of MCB and the management of its exposure to regulatory risks.
The ability of MCB to maintain asset quality & profitability while growing its business, maintaining comfortable liquidity and capitalisation levels well above regulatory norms act as the key rating sensitivities.

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 990,000 clients by providing retail banking, corporate and institutional banking, as well as private banking and wealth management services.

MCB has a total market share of over 40% and 45% in respect of domestic credit to the Mauritian economy and local currency deposits respectively, as well as nearly 55% of cards issued locally. It provides a range of banking products and services to its clients through a network of 39 branches, 177 ATMs and over 7,600 point of sale (POS) terminals, as well as its mobile and internet banking offerings.

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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 1,250 correspondent banks worldwide and the presence of the MCB Group's entities in 9 countries overseas.

MAIN RATING DRIVERS

Solid and stable earnings and profitability metrics

MCB maintains good earnings-generating capacity, which hinges on a sound NIM (3.5% in FY 2018), which is supported by relatively low funding costs, as well as momentum in its lending portfolio, especially within its cross-border energy & commodities, as well as structured project financing activities. Moreover, the bank's performance has been supported by generally efficient cost management, with the cost-to-income ratio standing at marginally under 37% in FY 2018. On the whole, the bank delivered a reasonable return on average equity of 17.2% and a return on average total assets of 2.04%, despite challenging business environment both locally and on the international front.

In FY18 (July1-June 30), MCB reported an interest income of Mur 13,904 million (Mur 12,750 million in FY17) and total income of Mur 19,721 million (Mur 18,158 million in FY17). PAT was Mur 6,762 million in FY18 (Mur 6,237 million in FY17). In H1FY19 (July1-Dec 31) MCB reported an interest income of Mur 8,390 million (Mur 6,655 million in H1FY18) and PAT of Mur 4,139 million (Mur 3,311 million in H1FY18).

Comfortable capital position and ratios above regulatory requirements

For the determination of its capital resources, MCB adheres to the Bank of Mauritius Guideline on Scope of Application of Basel III and Eligible Capital. It also complies with the Guideline for dealing with Domestic-Systematically Important Bank (DSIBs). MCB has maintained healthy capital buffers, which is a key factor underpinning our issuer rating. In FY18, the overall CAR and the Tier 1 ratio stood at 15.60% and 14.80% respectively, remaining comfortably above applicable prevailing regulatory requirements (13.125% and 11.125% respectively). CAR as on December 31, 2018 was 16.20%. These capital levels confer MCB a sturdy loss absorption capacity in the event of increased credit risks.

Improving and stabilising asset quality metrics

Our assessment of MCB's credit profile takes into account an improvement in asset quality over the past years, underpinned by successful recovery actions and curing of some problem loans, as well as a sustained increase in the bank's loan book. In FY18, MCB's Gross NPL fell by 170 bps to reach 4.1%, whilst Net NPL declined by 150 bps to attain 2.8%. Provision coverage ratio stood at 49.2% at FY18 end. The remaining portfolio is more than adequately covered by collateral, suitably discounted to reflect prevailing market conditions and anticipated recovery time. All in all, these favourable developments on the asset quality front echo a prudent business strategy adopted by MCB. Indeed, the latter focuses on consolidating its position in the local market across the individual, SME and corporate business segments, by improving the quality of customer experiences and leveraging on technology to enhance its value proposition. Beyond Mauritius, the bank's strategy is to target niche market segments and sectors, where it has developed capabilities, trustworthy relationships and market visibility.

Healthy funding and liquidity profile

Funding and liquidity present a rating strength, since MCB has the largest deposit base amongst banks operating in Mauritius. Its retail banking business segment leverages on a historically strong and stable deposit franchise and as such, contributes around 60% of total bank deposits, with a growth of 10% registered in 2018. Corporate banking also achieved a robust performance, with the deposits book growing by 5% in 2018. Overall, total deposits, which remain the bank's core source of funding (94%) grew by 8% year-on-year as of end FY 2018, with CASA representing 86% as on end-June 2018, which resulted in a loans-to-deposits ratio of 70% as of FY 2018. Moreover, the bank chalked a liquidity coverage ratio and a net stable funding ratio, under Basel III, of 203% and 108%, respectively, as of FY 2018. With a view to further diversifying its funding and liquidity position, MCB is in the process of closing a USD 800 m dual tranche syndicated term loan on the international markets, which has been met with considerable market interest and commitments in excess of USD 1 bn.

Annexure

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.