The Mauritius Commercial Bank Ltd
04 April 2023

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating[1]	Rating Action
Issuer Rating	Not Applicable	**CARE MAU AAA (Is); Stable [Triple A (Issuer); Outlook: Stable]**	**Reaffirmed**
Total	**-**		

Rating Rationale

The issuer rating of The Mauritius Commercial Bank Ltd ("MCB Ltd") continues to derive strength from its long track record as the leading bank in Mauritius by providing 40% of the domestic credit to the economy and controlling 48% share of local currency deposits, its dominant position making it a Domestic-Systemically Important Bank (D-SIB) for the Mauritian economy, stable business performance with increase in profitability, satisfactory mix of fund-based and non-fund based operations which keep the Bank's exposure at reasonable level. The rating also factors in the comfortable capital buffer held by the Bank signaling its ability to protect its depositors, robust liquidity coverage ratio as well as high quality investment portfolio providing adequate liquidity cushion against unexpected short-term obligations, major portion of deposits being held in Current Account Savings Account (CASA) with high rollover rates, consistent growth in the loans & advances portfolio while at the same time maintaining low levels of non-performing assets (NPA) attributed to a more effective collection and recovery mechanism, and strong promoter with MCB Ltd being a fully owned subsidiary of MCB Group Limited which is rated CARE MAU AAA; Stable.

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 Gross & Net NPA ratios, coupled with increase in provisioning
- Decline in profitability on a sustained basis leading to deterioration in capitalisation levels
- Weakening of regulatory ratios including capital adequacy and liquidity coverage
- Increase in negative cumulative mismatch in asset-liability maturity profile
- Significant deterioration in the funding profile mainly as a result of withdrawal of deposits

[1]Complete definitions of the ratings assigned are available at www.careratingsafrica.com.

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BACKGROUND

The Mauritius Commercial Bank Ltd ("MCB Ltd") was established in 1838 and is the longest-standing and leading banking institution in Mauritius. It is a wholly owned subsidiary of the MCB Group Limited (rated CARE MAU AAA; Stable) and services its clients across four main customer segments, namely, retail, business banking, corporate and institutional banking, as well as private wealth management. MCB Ltd operates a universal banking business model locally whilst having a targeted approach when conducting cross-border operations by focusing on niche market segments where it has built expertise.

Headquartered in Port Louis, the Bank provides a wide range of banking products and services to its clients through a network of 39 branches/kiosks and a well-distributed more than 179 ATMs across the island. It has representative offices in Johannesburg, Nairobi and Paris, an advisory office in Dubai, and it also holds stakes in regional banks, namely MCB Madagascar SA (80% subsidiary), Banque Française Commerciale Océan Indien (Associate - 49.99%) and Société Générale Moçambique (Associate - 35%). MCB Ltd was previously listed on the Stock Exchange of Mauritius ("SEM").

In April 2014, the shareholding of MCB Ltd 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. The ordinary shares of MCB Ltd were delisted and those of MCB Group were listed on the SEM. Furthermore, those MCB shares held by MCB Group were exchanged for shares in MCB Investment Holding Limited, incorporated as a 100% subsidiary of MCB Group, to hold the Group's investments in banking activities. As at 30 June 2022, MCB Ltd held 48% share of the total banking sector deposits, in local currency terms while the Bank had provided 40% of domestic credit to the economy and accounted for 33% of the total banking assets. Given the importance of MCB Ltd in the Mauritian economy, the Bank qualifies as a Domestic-Systemically Important Bank (D-SIB) in Mauritius. MCB Ltd is a professionally managed bank governed by an 8-member board of directors comprising of seasoned bankers and professionals with proven track record in various fields. Mr. Jean-Francois Desvaux De Marigny, a Non-Executive Director since December 2018, is the Chairman of the board. The day-to-day operations of the Bank are looked after by the CEO, Mr. Alain Law Min who was appointed in the position in 2017.

Financial Performance of The Mauritius Commercial Bank Ltd

The total income of MCB Ltd increased by 11.9% in FY22 to MUR 25,448 million, with the increase derived from both interest and fee-based income. Interest income increased by 5.39%, while fee and commission income registered a 46.60% increase in year 2022, which is mainly explained by the growth in trade financing activities of the Bank.

The proportion of fees and commission income to total income has grown from 18.6% in FY19 to reach 28.4% in FY22 and this proportion is expected to continue to grow in the future years considering the Bank's objective to diversify its revenue base and boost non-interest income towards deriving a more sustainable, balanced and higher return business mix. The improved economic conditions have led to a strengthening in the financial conditions of the Bank's clients and its borrowers. Accordingly, a lower provision of MUR 3,392 million was recorded in FY22 compared to MUR 4,601 million and MUR 4,818 million in FY21 and FY20 respectively. With higher total income, contained operational expenses and lower provisioning, PAT increased by 21% in FY22 as opposed to a 0.20% decline in FY21. The higher PAT contributed to an increase in ROTA from 1.33% in FY21 to 1.39% in FY22 while RONW increased from 12.97% to 14.13%. The main source of funding for MCB Ltd continues to be deposits which increased by 3.56% over the year to reach MUR 492,421 million at end of FY22. Given that around 90% of deposits are CASA deposits and of short term in nature, the cost of deposits to MCB Ltd varies in the range of 0.40%-0.42%, which is very reasonable. Hence, the Bank raises low-cost deposits which are transformed into higher-yielding assets. The loans & advances book which grew by 20.9% in FY21 has further expanded by 11.1% in FY22, mainly supported by the continued expansion in the Bank's foreign activities driven by the Energy & Commodities business and to a lesser extent by the depreciation of the rupee.

While the Bank expanded its loan book, it ensured that the quality was being maintained as demonstrated by the Gross NPA ratio which was 3.4% at end of FY22, with only a slight increase of 0.2 percentage points compared to a year earlier. Another factor illustrating the high quality of the Bank's loan book is the credit cost ratio which decreased from 1.43% to 0.91% at end of FY22. While on average 67%-73% of deposits are redeployed into loans & advances, the rest of the funds raised are usually invested into high quality securities such as GOM/BOM securities or parked as placements with banks. This is done as part of the policy of the Bank to maintain a healthy level of liquid assets so that it can easily meet any unexpected obligations which may arise in the short term. Over the past four years, the investment portfolio of MCB Ltd has grown consistently to reach MUR 222,823 million while cash & cash equivalents were MUR 64,594 million with more than 75% being held as voluntary deposits with the BOM.

Disclaimer

CARE Ratings (Africa) Private Limited ("CRAF")'s ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRAF's ratings do not convey suitability or price for the investor. CRAF's ratings do not constitute an audit on the rated entity. CRAF has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CRAF does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRAF have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CRAF may also have other commercial transactions with the entity.

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CRAF's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure I

Rating Symbols
Long /Medium-term Issuer Rating

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.

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About CARE Ratings (Africa) Private Limited:
CARE Ratings (Africa) Private Limited (CRAF) is the first credit rating agency to be licensed by the Financial Services Commission of Mauritius in May 2015. It is also recognized by Bank of Mauritius as External Credit Assessment Institution (ECAI) from May 2016. CRAF is also licensed by Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya. CRAF intends to expand across other geographies in Africa with Mauritius as its hub of operations. With an equitable position in the Mauritius capital market, CARE Ratings (Africa) Private Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
CRAF's shareholders are CARE Ratings Limited, African Development Bank, MCB Equity Fund and SBM (NFC) Holdings Limited.
CRAF gets its technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings Limited on an ongoing basis. CARE Ratings Limited, with an established track record of rating companies over almost three decades, follows a robust and transparent rating process that leverages its domain and analytical expertise backed by the methodologies congruent with the international best practices.
CRAF’s Rating Committee consist of full-time members comprising of Senior Rating officials from CARE Ratings Limited and a panel of experienced professionals from Mauritius and African Development Bank.
CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.