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 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.

CARE Ratings (Africa) Private Limited

(Subsidiary of CARE Ratings Ltd.)
Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius
Phone: +230 59553060/58626551 • www.careratingsafrica.com
BRN: C14127054 • FSC License No.: CR14000001

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.

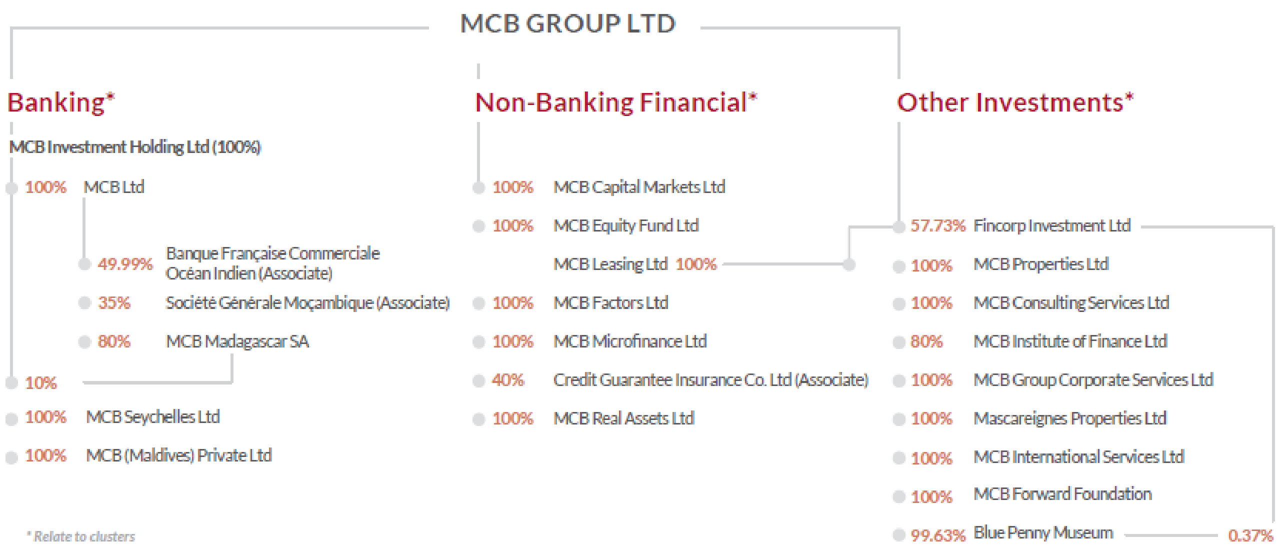
CREDIT RISK ASSESSMENT

Strong promoters and a successful track record

MCB Ltd has a successful operational track record of 184 years and is fully owned and controlled by the MCB Group Limited ("MCBG" or the "Group"), the largest financial services group in Mauritius which is rated CARE MAU AAA; Stable. MCBG is the holding company of several subsidiaries and associates that operate under three business clusters: Banking, Non-Banking Financial and Other Investments. In addition to its leading position in Mauritius, the Group has also been actively diversifying its activities internationally and regionally (mainly on the African continent) and broadened its footprint in the non-banking field.

Listed on the official market of the Stock Exchange of Mauritius (SEM) since 1989, MCBG is one of the most traded stocks representing 45% of market turnover for 2022. The Group had a market capitalisation of MUR 76,783 million at 23 March 2023.

At 30 June 2022, the structure of the MCBG was as follows:



The Group has a diversified ownership base of over 22,000 shareholders, with foreign shareholding accounting for around 9% of the total. As at 30 June 2022, the 5 largest shareholders of MCBG was as follows National Pensions Fund (7.3%), State Insurance Company of Mauritius Ltd (3.5%), Swan Life Ltd (3.4%), Promotion and Development Limited (3.0%) and BNYM SA/NV A/C Eastspring Investments SICAV-FIS (1.5%).

Highly experienced and qualified management

MCB Ltd is headed by an 8-member board of directors comprising of seasoned bankers and professionals. Mr. Jean-Francois Desvaux de Marigny is the Chairman of the board since December 2018. The day-to-day effective running of the Bank is entrusted to Mr. Alain Law Min, the CEO, who had a long career in the banking & financial services sector and spent most of it at senior management level.

The CEO is assisted by a competent team of executives who are responsible to ensure that the Bank operates within the strategic framework, risk appetites and policies set by the board.

Diversified and resilient Income Profile

Over the past decades, MCB Ltd has made enormous stride in shifting from the traditional bank lending activities to building multiple lines of business by capitalizing on the Group synergies. By developing a more diverse business profile and capitalising on non-lending banking activities such as trade finance, asset & wealth management, trading & investment, and advisory, MCB Ltd has created a more resilient and diversified income earning profile as shown below, with 35% of its total income being non-interest while the remaining 65% consists of interest income.

The income profile of MCB Ltd over the past four years is given below:

Year ended 30 June	FY19	FY20	FY21	FY22
	MUR million			
Interest Income				
Income from Investment in securities	3,559	4,041	3,990	4,446
Loans and advances to customers	12,787	12,968	11,061	11,375
Loans and advances to banks	1,089	875	577	649
Other	15	-	-	-
Total Interest Income	**17,449**	**17,884**	**15,628**	**16,470**
Fees and commission Income	4,433	4,421	4,934	7,233
Net gain on sale of available-for-sale securities	8	-	-	-
Profit arising from dealing in foreign currencies	1,870	1,620	1,227	1,717
Net gain from other financial instruments	-	1,171	776	(128)
Dividend Income	59	36	36	79
Other income	31	(1)	148	77
Non-Interest income	**6,400**	**7,247**	**7,121**	**8,978**
Total Income	**23,849**	**25,131**	**22,749**	**25,448**

Comfortable and compliant Capital Adequacy Ratio

MCB Ltd adheres to the Bank of Mauritius (BOM) Guideline on Scope of Application of Basel III and Eligible Capital, which requires banks to maintain a minimum to capital of 10% of their risk-weighted assets (RWAs). The BOM also complies with the Guideline for dealing with Domestic-Systemically Important Banks (D-SIBs) where banks with total assets equal to or above 3.5% of the domestic economy's GDP, are required to hold a surcharge ranging from 1% to 2.5% of their Risk Weighted Assets (RWAs) depending on their systemic importance. In addition, the BOM also requires all banks in Mauritius to maintain a Capital Conversation Buffer (CCB) of 2.5%.

MCB Ltd has remained compliant with the BOM guideline by maintaining its CAR above the regulatory level. As at June 30, 2022, MCB's capital metrics remain strong with CAR at 17.2% (against a regulatory requirement of 15%), out of which the Common Equity Tier I (CET I) CAR was 16.3% (against minimum regulatory requirement of 13%)

Diversified Loans & Advances portfolio

The portfolio of loans & advances to customers of MCB Ltd has grown by 44% from the year 2019 to reach MUR 306,648 million at 30 June 2022, making the bank the largest lender in Mauritius with around 40% of domestic credit to the economy. The loans & advances book of MCB Ltd is distributed as per below:

Loans & Advances to customers	FY19		FY20		FY21		FY22	
	MUR million	%	MUR million	%	MUR million	%	MUR million	%
Retail customers	42,114	19	42,357	18	43,116	16	44,508	14
Corporate customers (Domestic)	90,105	41	92,911	39	105,708	39	104,879	33
Corporate customers (International)	86,990	40	100,818	43	120,702	45	169,133	53
Governments	611	-	459	-	244	-	-	-
Total	**219,820**		**236,545**		**269,770**		**318,520**	

As on 30 June	FY19		FY20		FY21		FY22	
Industry sector	**MUR**	**%**	**MUR**	**%**	**MUR**	**%**	**MUR million**	**%**
Traders	40,619	18%	43,647	18%	63,270	23%	123,043	39%
Personal & professional	42,288	19%	42,701	18%	43,629	16%	44,738	14%
Financial & business services	41,755	19%	50,424	21%	52,518	19%	30,775	10%
Tourism	21,438	10%	23,249	10%	30,012	11%	32,274	10%
Others	13,847	6%	13,055	6%	14,795	5%	25,577	8%
Manufacturing	9,835	4%	13,620	6%	12,902	5%	19,731	6%
Global Businesses	17,858	8%	19,211	8%	19,770	7%	16,175	5%
Construction	16,022	7%	16,832	7%	17,365	6%	13,368	4%
Agriculture & fishing	8,561	4%	6,308	3%	7,379	3%	7,592	2%
Transport	7,597	3%	7,498	3%	8,130	3%	5,247	2%
Total	**219,820**	**100%**	**236,545**	**100%**	**269,770**	**100%**	**318,520**	**100%**

The loans & advances portfolio of MCB Ltd is spread across 11 industry sectors with the top four making up 73% of the total portfolio at 30 June 2022. The largest sector exposure of MCB Ltd under its loans and advances to customers at 30 June 2022 was 'Traders' (as per the Bank of Mauritius classification) which largely pertains to its Energy & Commodities business. Over the years, MCB has forged deep relationships with key clients and players in the marketplace, including well-known local and international traders with proven track record in the African Oil & Gas. This segment proved to be resilient during the Covid-19 related crisis.

The bank limits its exposure to industry sectors which are cyclical in nature and vulnerable to macroeconomic factors and external shocks such as Tourism, Manufacturing, and Construction.

Low Non-Performing Assets with strict monitoring

MCB Ltd has had a history of maintaining a Gross NPA level in the 3%-4% range, which is very reasonable considering the level of the Bank's exposure. Even during the extremely volatile and uncertain economic conditions caused by the Covid-19, disciplined market initiatives and dedicated measures adopted have enabled the Bank to contain the GNPA ratio. A history of non-performing assets is given below:

At 30 June	FY19	FY20	FY21	FY22
	MUR million			
Gross NPAs at beginning of the year	8,508	9,344	9,802	9,871
Additions during the year	2,500	3,242	3,643	8,928
Reduction during the year	1,664	2,784	3,574	6,417
Gross NPAs at the end of the year	**9,344**	**9,802**	**9,871**	**12,382**
Provisions	6,588	10,160	13,613	12,671
Net NPA at the end of year	**6,643**	**6,558**	**5,907**	**7,912**
Gross Advances	245,283	261,475	307,784	365,014
Net Advances	238,695	251,315	294,171	352,343
Networth	47,344	52,197	61,834	64,857
Gross NPA ratio	3.8%	3.7%	3.2%	3.4%
Net NPA ratio	2.8%	2.6%	2.0%	2.2%
Net NPA/Networth	14.0%	12.6%	9.6%	12.2%
Provision Coverage	28.91%	33.10%	40.16%	36.11%

After three consecutive reduction years, the GNPA rose marginally from 3.2% to 3.4% at end of FY22, mainly observed in the Global Business sector where, in absolute terms, the GNPA for this sector rose from MUR 1,809 million at end of FY21 to MUR 7,414 million at end of FY22. However, this was offset to a large extent by significant reductions of GNPA in other sectors including Personal & Professional, Financial & Business services and Construction. When considering the provisioning, the net NPA of MCB Ltd has been hovering around 2.0% to 2.8% over the past four years.

Asset Liability Maturity Profile

A breakdown of the financial assets and liabilities by remaining contractual maturities for the Bank at 30 June 2022 is given below:

MUR million

	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-maturity	Total
Assets								
Cash & cash equivalents	14,505	12	-	-	-	-	50,117	64,634
Derivative financial	-	-	-	-	-	-	438	438
Loans & placements with	4,429	6,092	3,443	8,642	2,069	264	(34)	24,905
Loans & advances to	105,865	23,319	22,492	21,230	65,706	111,169	11,875	361,656
Investment securities	4,762	12,047	22,123	15,689	89,745	93,423	4,123	241,912
Other financial assets	-	-	-	-	-	-	25,302	25,302
Total assets	**129,561**	**41,470**	**48,058**	**45,561**	**157,520**	**204,856**	**91,821**	**718,847**
Less allowances for credit								**(12,742)**
								706,105
Liabilities								
Deposits from banks	6,060	3,426	-	1,826	45	-	-	11,357
Deposits from customers	507,072	7,367	4,451	6,939	8,594	3,523	520	538,466
Derivative financial	-	1	1	2	8	8	487	507
Other borrowed funds	11,613	3,166	11,766	1,376	62,866	8,190	145	99,122
Subordinated liabilities	-	349	-	-	358	-	-	707
Other financial liabilities	-	-	-	-	-	-	2,537	2,537
Lease liabilities		-	-	-	-	-	-	
Total Liabilities	**524,745**	**14,309**	**16,218**	**10,143**	**71,871**	**11,721**	**3,689**	**652,696**
Net liquidity gap	**(395,184)**	**27,161**	**31,840**	**35,418**	**85,649**	**193,135**	**88,132**	**66,151**
Less allowances for credit								**(12,742)**
								53,409
Cumulative gap	**(395,184)**	**(368,023)**	**(336,183)**	**(300,765)**	**(215,116)**	**(21,981)**	**66,151**	**-**

MCB Ltd faces a large negative mismatch in the 1-month bucket in its ALM, arising mainly as a result of almost 90% of total customer deposits being on-demand and hence, classified in the 1-month bucket. However, these deposits are mostly CASA deposits which tend to be sticky and have high rollover rates.

Comfortable Liquidity Coverage ratio (LCR)

In October 2017, the BOM introduced a revised Guideline on Liquidity Coverage Ratio (LCR), requiring all banks in Mauritius to calculate and submit their LCR on a quarterly basis. The objective of the LCR is to ensure that a bank maintains an adequate stock of unencumbered High Quality liquid assets (HQLA) that consists 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.

A history of the LCR of MCB Ltd is given below:

	June 2021	September 2021	December 2021	June 2022
Liquidity Coverage Ratio* #	322%	354%	382%	412%

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

As on 30 June 2022, the Bank reported a LCR of 412%, which is equivalent to a surplus of around MUR 130 billion over stressed total net cash outflows.

Consistent growth in total Deposits

Deposits remain the main source of funding for the Bank with same representing 84% of the funding profile at 30 June 2022. MCB Ltd raises deposits from both customers (mainly individuals and corporate clients) and banks to fund its assets. The deposit book of MCB Ltd is distributed as follows:

At 30 June	FY19		FY20		FY21		FY22	
	MUR	%	MUR million	%	MUR million	%	MUR	%
Retail customers	185,114	59	215,139	58	234,154	49	255,266	52
Corporate customers	121,697	39	148,671	40	219,551	46	225,733	46
Government	189	-	198	-	123	-	104	-
Bank Deposits	7,376	2	7,600	2	21,656	5	11,318	2
Total	**314,377**	**100**	**371,608**	**100**	**475,484**	**100**	**492,421**	**100**
Maturing within one year	*296,551*		*356,742*		*464,789*		*480,980*	
Maturing in more than one	*17,826*		*14,866*		*10,695*		*11,441*	

At 30 June 2022, the total deposit book of MCB Ltd comprised of a reasonable mix of Retail and Corporate customer deposits. Bank deposits made up a very marginal share of the book.

Short term nature of deposit profile

At 30 June	FY19		FY20		FY21		FY22	
	MUR	%	MUR million	%	MUR million	%	MUR	%
Deposits-Demand	129,309	41%	165,382	44%	256,647	54%	258,585	52%
Deposits-Savings	137,877	44%	157,997	43%	176,044	37%	190,772	39%
Deposits-Term	47,190	15%	48,229	13%	42,793	9%	43,064	9%
Total Deposits	**314,377**	**100%**	**371,608**	**100%**	**475,484**	**100%**	**492,421**	**100%**
CASA	**267,187**		**323,379**		**432,691**		**449,357**	
CASA proportion	**85%**		**87%**		**91%**		**91%**	
CASA Y-o-Y growth	**9%**		**21%**		**34%**		**4%**	
Cost of deposit	**2.14**		**1.61**		**0.42**		**0.42**	
Credit to Deposit	**0.73**		**0.65**		**0.60**		**0.68**	

Historically, CASA deposits have made up around 85%-91% of the total deposits of MCB Ltd. This forms part of the strategy of the Bank to raise short-term low-cost funds and convert same into higher yielding assets. Out of the total deposits at 30 June 2022, 68% has been transformed into credit to customers.

Industry Risk

Like any other economy, the Mauritian economy lies on the strength and resilience of its banking sector which, on average directly contributes to around 6% of the Mauritian GDP. The sector is regulated by the Bank of Mauritius ("BOM") and at 31 December 2022, 19 institutions were licensed by the BOM to carry out banking activities in Mauritius out of which 6 were domestic banks, 10 foreign-owned subsidiaries and there were 3 branches of foreign banks.

As at January 2023, the total deposits in the banking sector amounted to MUR 1,711 million while total credit advanced was MUR 849 million. Compared to January 2022, total deposits and loans were 12.88% and 15.16% respectively higher. The sector has historically been dominated by the two largest banks namely, The Mauritius Commercial Bank Ltd (MCB Ltd) and SBM Bank (Mauritius) Ltd (SBM Bank) which control approximately 32% and 15% of total deposits respectively and provide around 36% and 15% of credit to the economy. Given the importance of the banking sector to the Mauritian economy, the BOM identifies those banks which have Segment A (domestic / resident) assets representing at least 3.5% of GDP at market prices as Domestic-Systemically Important Banks (D-SIBs). Based on an assessment carried in June 2022, five banks were identified as D-SIBs namely, MCB Ltd, SBM Bank, Absa Bank (Mauritius) Limited, The Hongkong and Shanghai Banking Corporation Limited and AfrAsia Bank Limited.

To ensure the resilience of the sector the BOM aims that all banks are adequately capitalized by adhering to the standards set in the Basel III Guidelines which requires banks to maintain a capital level equivalent to at least 10% of their risk-weighted assets. In addition, the BOM also imposes an additional 2.50% capital buffer on all banks in Mauritius, which fully came into force as from 01 April 2022. Therefore, banks should maintain a Capital Adequacy Ratio (CAR) of at least 12.50% and a Tier I CAR of 10%. In the case of D-SIBs, the banks are required to hold a surcharge ranging between 1% to 2.50% of their RWAs, depending on their systemic importance.

The Banking system is characterized by an excess of liquidity which at end of February 2023 approximated to MUR 2,838 million in rupee terms and MUR 23,458 million which was foreign currency denominated. Till the end of 2022, the average fortnightly Cash Reserve Ratio (CRR) on rupee deposits stood at 9%, while the average fortnightly CRR on foreign currency deposits was at 6%. Effective 27 January 2023, banks are required to maintain average 28-day CRR on both rupee and foreign currency deposits at 9%.

To pursue prudent liquidity risk management the BOM requires banks to maintain a stock of High-Quality Liquid Assets (HQLA) equivalent to 100% of their expected net cash outflows over the next 30-day period. At 30 June 2022, the liquidity coverage ratio was 236%, indicating the resilience of banks to short-term outflows of funds.

The quality of the banking assets improved slightly as shown by the ratio of Non-Performing Loans (NPLs) to gross loans which dropped to 4.40% at 30 September 2022, from 4.60% at end of June 2022.

The NPLs were adequately provided for, and credit risk is at a manageable level.

New Monetary Policy Framework

On 16 January 2023, the BOM introduced a new Monetary Policy Framework (MPF) which is aimed to strengthen monetary policy operations and the monetary policy transmission mechanism. Under the new MPF, the "Key Rate" replaces the former "Key Repo Rate" which was the policy rate and an overnight interbank rate replaces the yield on the 91-Day Bill as the operational target for monetary policy. With respect to the conduct of its open market operations, the 7-day BOM bill has now become the main monetary policy instrument. The 7-day BOM bill is issued at a fixed rate equal to the "Key Rate", i.e., 4.50% per annum.

Monetary Policy and Price Stabilization

To pursue its objective of achieving price stability, the BOM makes use of its monetary policy tools. Due to rampant inflation since the end of 2021 which was the result of post-pandemic supply constraints and pent-up demand, the Russia-Ukraine war and depreciation of the Mauritian Rupee, the BOM has been forced to intervene multiple times throughout 2022. The former Key Repo Rate was increased by a cumulative 265 basis points, from 1.85% at the beginning of 2022 to reach 4.50% by the year end.

Financial Performance of The Mauritius Commercial Bank Ltd

Year ended/ as on 30 June	FY19	FY20	FY21	FY22
	MUR million			
Interest Income	17,449	17,884	15,628	16,470
Non-Interest Income	6,400	7,247	7,121	8,978
Total Income	23,849	25,131	22,749	25,448
Interest Expenses	5,196	4,781	1,938	2,537
Net Interest Income	12,253	13,103	13,690	13,933
Operating Expenses (Exc. Depreciation)	7,841	11,415	11,520	11,835
Provisions (excl tax)	1,456	4,818	4,601	3,392
PBT	10,443	8,638	8,751	10,594
PAT	8,766	7,409	7,396	8,948
Deposits	314,377	371,608	475,484	492,421
Borrowings	56,446	51,830	75,501	93,439
Tangible Net worth	47,344	52,197	61,834	64,857
Loans & Advances (including placements with banks)	234,152	246,130	297,619	330,582
Investments in securities	116,398	135,915	183,560	222,823
Cash & Cash Equivalents	45,398	68,128	101,154	64,594
Total Assets	427,695	484,858	624,079	662,621
Key Ratios				
Interest Income/Avg. Interest Earning Assets (a) (%)	4.83	4.23	3.01	2.73
Interest Expenses / Avg. Interest Bearing Liabilities (b) (%)	1.55	1.20	0.40	0.45
Interest Spread (a-b) (%)	3.28	3.03	2.61	2.28
Net Interest Margin (NIM) (%)	3.14	2.87	2.47	2.17
Operational Expenses / Avg. Total Assets (%)	2.01	2.50	2.07	1.83
Cost / Income (%)	34	32	34	35
Operational Expenses / Total Income (%)	33	45	51	47
Treasury Income/PBT (%)	0.07	2.26	-	-
Yield on advances (%)	6.28	5.76	4.28	3.83
Cost of Deposits (%) – Savings and Term deposits only	2.14	1.61	0.42	0.42
Core Spread (%)	4.14	4.16	3.87	3.41
Credit Cost (%)	0.58	1.87	1.43	0.91
ROTA (%)	2.25	1.62	1.33	1.39
RONW (%)	19.31	14.89	12.97	14.13
Overall Gearing (times)	7.83	8.11	8.91	9.03
Capital Adequacy Ratio (%)	16.60	17.50	16.80	17.20

Year ended/ as on 30 June	FY19	FY20	FY21	FY22
	MUR million			
Tier I Capital Adequacy Ratio (%)	15.70	16.50	15.80	16.30
Credit/Deposit ratio (times)	0.73	0.65	0.60	0.68
CASA Proportion (%)	85.0	87.0	91.0	91.3
Gross NPA (%)	3.8	3.8	3.2	3.4
Net NPA (%)	2.8	2.6	2.0	2.2
Net NPA to Tangible Net worth (%)	14.0	12.6	9.6	12.2

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

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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.

Contact us

Contact
Name : Mr. Saurav Chatterjee
Title : Chief Executive Officer
Phone : + 230 5862 6551
E-mail : saurav.chatterjee@careratingsafrica.com

Analytical contact
Name : Mr. Vidhyasagar Lingesan
Title : Chief Rating Officer
Phone : +230 5273 1406
E-mail : vidhya.sagar@careratingsafrica.com

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.