

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms long-term deposit ratings of three Mauritian Banks; changes outlook to negative for two banks

04 Feb 2025

Limassol, February 04, 2025 -- Moody's Ratings (Moody's) has today affirmed all ratings and assessments of the three rated Mauritian banks, namely: Mauritius Commercial Bank Limited (The) ("MCB"), SBM Bank (Mauritius) Ltd. ("SBM Bank"), and Absa Bank (Mauritius) Limited ("Absa Mauritius"). As part of the same rating action we changed the outlooks to negative from stable on MCB's Baa3 long-term deposit, issuer and senior unsecured ratings, and on Absa Mauritius' Ba1 long-term deposit ratings. The outlook for SBM Bank's Ba1 long-term deposit and issuer ratings remains stable.

The rating action follows our decision to affirm the Mauritian government's long-term issuer rating at Baa3, with an outlook change to negative from stable on 30 January 2025. For further information on the sovereign rating action, please refer to the press release: "Moody's Ratings changes the outlook of Mauritius' rating to negative from stable, affirms Baa3 ratings", (<https://ratings.moodys.com/ratings-news/436493>).

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The affirmation of the three Mauritian banks' ratings primarily reflects their resilient financial profile. All three banks maintain strong liquidity and solid capital buffers, while their asset quality and profitability has been strengthening. Their solid financial footing will allow these banks to withstand any potential weakening in the operating environment that may be caused by the government's fiscal consolidation initiatives, which will likely include revenue-enhancing measures and spending cuts.

The deposit ratings of all three banks continue to incorporate one notch of government support uplift, in view of their systemic importance, to varying degrees.

RATINGS OUTLOOK

The negative outlooks on MCB's and Absa Mauritius' long-term deposit, issuer and senior unsecured ratings, where applicable, are in line with the negative outlook on the government's ratings, which in turn indicates a potential weakening of the government's capacity to support these banks, in case of need.

The stable outlook on SBM Bank's long-term deposit and issuer ratings reflects our assessment that its ratings will still benefit from one notch of government support uplift even if the sovereign rating is downgraded by one notch, in view of its minority government ownership, systemic importance and ba2 Baseline Credit Assessment (BCA).

ISSUER-SPECIFIC RATING DRIVERS

MAURITIUS COMMERCIAL BANK LIMITED (THE) ("MCB")

MCB's Baa3 long-term deposit and issuer ratings are derived from its ba1 BCA, and a one-notch rating uplift, resulting from our assessment of a high likelihood of government support, in the event of need. The latter reflects MCB's importance to Mauritius' domestic financial system, as the largest domestic bank in the country with a 49% share of onshore customer deposits as of June 2024.

MCB's ba1 BCA captures its resilient earnings generation capacity, with net income at 2.0% of tangible assets during the third quarter of 2024; and its solid capital levels, with a reported Tier 1 capital ratio of 17.6% as of September 2024. In addition, the bank's stable retail deposit-based funding profile in its domestic operations and high levels of liquid assets, close to 50% of total assets as of June 2024 (its fiscal year-end), help mitigate risks from sizeable confidence-sensitive offshore deposits. The BCA also incorporates risks to MCB's credit profile stemming from high concentrations to single borrowers and to the oil and gas commodity financing sector.

The negative outlook on MCB's Baa3 long-term deposit, issuer, and senior unsecured ratings is aligned with the negative outlook on the government, which in turn indicates the government's potentially weakening capacity to provide support, in case of need. A lower rating for the government will lead us to remove the one notch of government support uplift currently imputed in the ratings.

SBM BANK (MAURITIUS) LTD. ("SBM BANK")

SBM Bank's Ba1 long-term deposit and issuer ratings are derived from its ba2 BCA and a one-notch uplift, resulting from our assessment of a high likelihood of government support, in the event of need. Our assessment reflects the 30% government ownership stake in the bank (both directly and indirectly) and the bank's importance to the local financial system, with a market share of around 21% in onshore customer deposits as of YE2023.

SBM Bank's ba2 BCA reflects the bank's strengthened profitability and capital metrics. Net income to tangible assets was an annualised 2.2% during the first nine months of

2024, and the bank reported a Tier 1 capital of 18.4% as of September 2024. At the same time, its high share of liquid banking assets, at 54% of total assets as of September 2024, and predominantly retail deposit funding in domestic operations, mitigate its sizeable confidence-sensitive foreign deposits from its offshore sector operations.

The bank's BCA also captures the historical volatility in asset quality metrics, although problem loans have dropped to 3.7% of gross loans as of September 2024. The bank continues to build its capacity, including hiring key management personnel and strengthening its digitalization, automation, and internal processes, which is necessary to ensure the sustainability of its improved profitability and asset quality metrics.

The stable outlook on SBM Bank's long-term deposit and issuer ratings reflects our assessment that the one notch government support uplift incorporated in the bank's Ba1 long-term deposit and issuer ratings is not sensitive to a potential lowering in the government rating to Ba1, given a high likelihood of government support and the bank's ba2 BCA.

ABSA BANK (MAURITIUS) LIMITED ("ABSA MAURITIUS")

Absa Mauritius' Ba1 long-term deposit ratings reflect its ba2 BCA and a one-notch uplift to its BCA, stemming from our assessment of a moderate likelihood of government support, in case of need. This reflects its importance to the local financial system (with a market share of around 7% in onshore customer deposits as of YE2023), albeit lower compared to the two larger banks in the system.

Absa Mauritius' ba2 BCA reflects its strong capital levels, with a reported Common Equity Tier 1 capital ratio of 19.6% as of September 2024, and solid profitability, with net income at 1.9% of tangible assets during the first nine months of 2024. The bank's profitability is supported by its solid franchise, which benefits from the close cooperation with its parent, Absa Group Limited (Ba2 stable), and other group companies in the region. Absa Mauritius' role as the group's international banking, wealth management and asset hub, allows the bank to source good-quality regional business in the broader Africa continent.

The bank's BCA also incorporates high credit risks stemming from the Absa Mauritius' fairly low, albeit improved, provisioning coverage and sizeable borrower concentrations in the context of a difficult operating environment across some of the African countries where the bank is present. The bank also has a fairly high reliance on more confidence-sensitive offshore deposits, although its funding profile has improved following the acquisition of HSBC's domestic retail operations, while risks are further mitigated by its strong liquidity buffers, with liquid assets at 56% of total assets as of September 2024.

The negative outlook on Absa Mauritius' Ba1 long-term deposit ratings is aligned with

the negative outlook on the government, which indicates the government's potentially weakening capacity to provide support, in case of need. In the case of Absa Mauritius, we only assume a moderate probability of government support, making its ratings sensitive to a potential lower government rating.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Any upward pressure on Mauritian banks' ratings is limited, given pressures on the operating environment and the negative outlook on the government.

MCB's and Absa Mauritius' ratings could be downgraded if there is a downgrade in the sovereign rating. Further downward pressure on all banks' ratings will materialise if the operating environment further deteriorates and/or their financial metrics materially weaken.

LIST OF AFFECTED RATINGS

..Issuer: Mauritius Commercial Bank Limited (The)

Outlook Actions:

...Outlook, Changed To Negative From Stable

Affirmations:

... Adjusted Baseline Credit Assessment, Affirmed ba1

... Baseline Credit Assessment, Affirmed ba1

... ST Counterparty Risk Assessment, Affirmed P-2(cr)

... LT Counterparty Risk Assessment, Affirmed Baa2(cr)

... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-2

... ST Counterparty Risk Rating (Local Currency), Affirmed P-2

... LT Counterparty Risk Rating (Foreign Currency), Affirmed Baa2

... LT Counterparty Risk Rating (Local Currency), Affirmed Baa2

... LT Issuer Rating (Foreign Currency), Affirmed Baa3, Outlook changed to NEG from STA

... ST Bank Deposits (Foreign Currency), Affirmed P-3

... ST Bank Deposits (Local Currency), Affirmed P-3

.... Senior Unsecured Medium-Term Note Program (Foreign Currency), Affirmed (P)Baa3

.... Senior Unsecured (Foreign Currency), Affirmed Baa3, Outlook changed to NEG from STA

.... LT Bank Deposits (Foreign Currency), Affirmed Baa3, Outlook changed to NEG from STA

.... LT Bank Deposits (Local Currency), Affirmed Baa3, Outlook changed to NEG from STA

..Issuer: SBM Bank (Mauritius) Ltd.

Outlook Actions:

....Outlook, Remains Stable

Affirmations:

.... Adjusted Baseline Credit Assessment, Affirmed ba2

.... Baseline Credit Assessment, Affirmed ba2

.... ST Counterparty Risk Assessment, Affirmed P-3(cr)

.... LT Counterparty Risk Assessment, Affirmed Baa3(cr)

.... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-3

.... ST Counterparty Risk Rating (Local Currency), Affirmed P-3

.... LT Counterparty Risk Rating (Foreign Currency), Affirmed Baa3

.... LT Counterparty Risk Rating (Local Currency), Affirmed Baa3

.... LT Issuer Rating (Foreign Currency), Affirmed Ba1 STA

.... ST Bank Deposits (Foreign Currency), Affirmed NP

.... ST Bank Deposits (Local Currency), Affirmed NP

.... LT Bank Deposits (Foreign Currency), Affirmed Ba1 STA

.... LT Bank Deposits (Local Currency), Affirmed Ba1 STA

..Issuer: Absa Bank (Mauritius) Limited

Outlook Actions:

...Outlook, Changed To Negative From Stable

Affirmations:

... Adjusted Baseline Credit Assessment, Affirmed ba2

... Baseline Credit Assessment, Affirmed ba2

... ST Counterparty Risk Assessment, Affirmed P-3(cr)

... LT Counterparty Risk Assessment, Affirmed Baa3(cr)

... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-3

... ST Counterparty Risk Rating (Local Currency), Affirmed P-3

... LT Counterparty Risk Rating (Foreign Currency), Affirmed Baa3

... LT Counterparty Risk Rating (Local Currency), Affirmed Baa3

... ST Bank Deposits (Foreign Currency), Affirmed NP

... ST Bank Deposits (Local Currency), Affirmed NP

... LT Bank Deposits (Foreign Currency), Affirmed Ba1, Outlook changed to NEG from STA

... LT Bank Deposits (Local Currency), Affirmed Ba1, Outlook changed to NEG from STA

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at <https://ratings.moodys.com/rmc-documents/432741>.

Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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