Results for the six months ended 31 December 2024

Earnings Call held on Thursday 20 February 2025

Transcript

CONFERENCE CALL PARTICIPANTS

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Speaker Key:

OP	Operator
JN	Jean Michel Ng Tseung
DC	Dipak Chummun
TH	Thierry Hebraud
VH	Vicky Hurynag
KG	Kersley Gaspard
TW	Timothy Wambu
RO	Randolph Oosthuizen
KB	Kaitlin Byrne

OP Good day, ladies and gentlemen, and welcome to the MCB Group Earnings Call. Results for the six months ended 31 December 2024. All participants will be in listen only mode. Presentation slides are available for download via the download tab on the webcast link.

There will be an opportunity to ask questions later during this event. Participants on the webcast who wish to ask a question may do so at any time by clicking on the connect with HD audio button, which appears below the presentation, and follow the instructions. Once connected, you may press the join the question queue button to register your intent to ask a question.

I will now hand over to your host, Jean Michel Ng Tseung, who will introduce the panel members. Please go ahead, sir.

JN A very good day to all, and a very warm welcome to all the participants to this earnings call, where we will be presenting the financial performance of the MCB Group for the six-month period, ended 31st of December 2024.

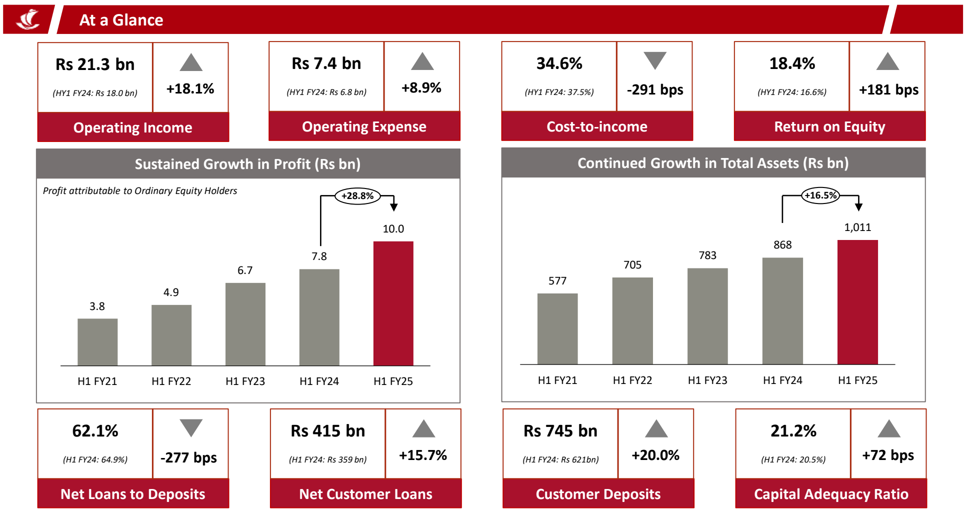
We have, to start with, brought a couple of changes, which I would like to share with you just now. The first one, as you will see in a few minutes, you will see that we have refreshed and improved the quality of the presentation and also the quality of information that we are sharing with you. That's first change.

And the second change that I wanted to share with you is that I will ask my colleague, Dipak Chummun, who is the Group Chief Finance Officer, to present the results. I did introduce him back in October. And I will kindly ask Dipak to share with us and explain the performance of the MCB Group for the first six months, which was indeed a pretty strong performance.

Obviously, at the end of his presentation, my colleagues around the table, Thierry, Vicky, Kersley, Dipak and I will be very pleased to answer any of the questions that you would like to ask us. So, without further ado, Dipak, the floor is yours.

Thank you.

DC Thank you very much, Jean Michel. And good day, everybody on the call. It's my pleasure to engage with you the first time. I indeed joined the Group a few months ago. On this results call for the period ended 31st December 2024, for the rest of the presentation, I will refer to as H1. And obviously the comparative as H1 last year.

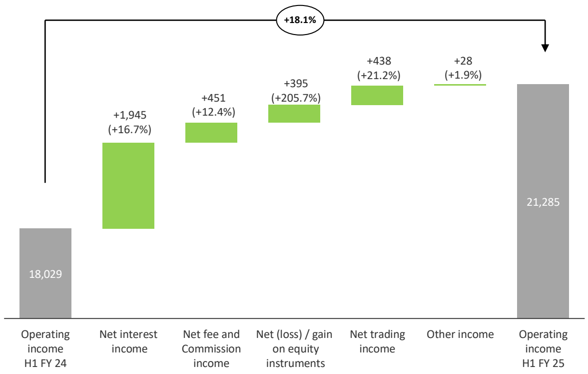


First slide, a summary at a glance. You will see from the figures here that our performance has improved on pretty much every line. Our H1 attributable profits has grown by 28.8%. Our return on equity has increased to 18.4%, a 181 basis points improvement. Operating income has grown by 18.1%. Operating expenses, by contrast, have grown by 8.9%, which contributes to a reduction in the cost-to-income ratio from 37.5% in H1 last year to 34.6% this year. So an improvement of close to 300 basis points.

The group's balance sheet is growing. Total assets have increased by 16.5% to Rs 1.01 trillion. An important milestone for us as we cross the Rs 1 trillion mark for the first time. On the liability side, customer deposits have increased by 20% year–on-year to Rs 745 billion. And we remain well-capitalised with a capital adequacy ratio of 21.2% at the end of H1 of FY 2024/25.

I will go through in a little bit more detail on the slides to come on the performance and the balance sheet of the group.

Operating income – Growth achieved in both net interest income and fees



- Net fee and commission income growth driven by payment, lending and trade finance activities.
- Increase in forex profit supported by enhanced volume of financial market activities.
- Of note, the Visa and MasterCard shares held by MCB Ltd were acquired by MCB Group Ltd in November 2024. Going forward the fair value of these securities will be accounted in Other Comprehensive Income.

Note : Figures are in Rs million

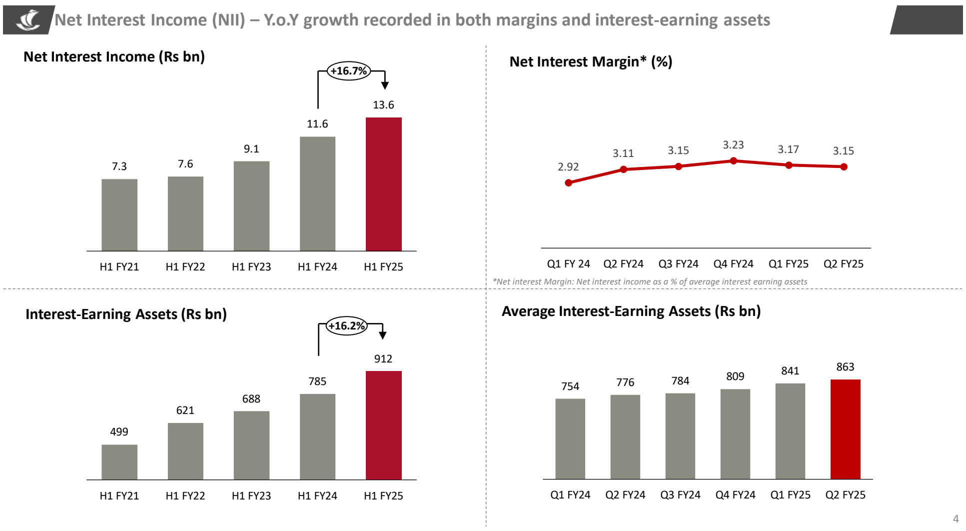
3

Starting with operating income, on the screen, you will see a waterfall chart, which takes you through the different lines of income, which shows the breakdown of the increase in income of 18.1% to Rs 21.3 billion. The largest contributor, as it has been in previous quarters, has been net interest income, which has grown by 16.7%.

Net fee and commission income has increased by 12.4% on account of higher payments, trade finance and loan arrangement fees. On the net gain/losses from equity financial instruments, we have recorded a gain of Rs 587 million for H1, compared to Rs 192 million last year in H1. This explains the increase of Rs 395 million in fair value gains. And I'll take you through this in a little while.

Important to mention that this gain will not recur in the P&L going forward, as they relate mainly to the shares that we own in Visa and MasterCard, previously held by the bank and treated as a fair value through P&L. The group has acquired the shares in this November 2024 and will henceforth be accounting for any fair value changes through other comprehensive income in the group results.

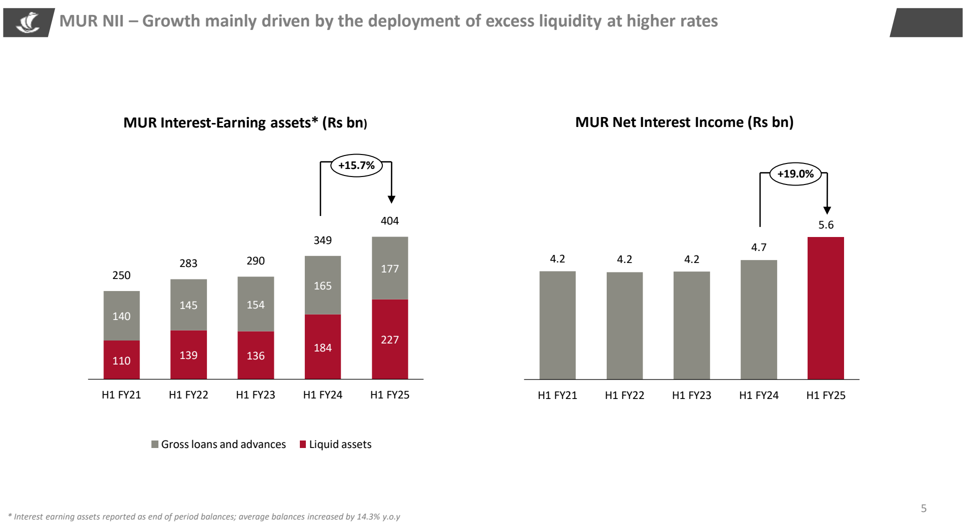
On net trading income i.e. FX profits and gains from other financial instruments line, we delivered 21.2% increase year-on-year, driven by higher FX volumes and transactions during the period.



Slide four runs through the net interest income line, for the whole group. So net interest income has increased by 16.7% year-on-year driven by an increase in both overall net interest margins and volumes. On a year-on-year basis, year-to-date average interest earning assets have increased by 11%. On the chart, on the bottom left hand side, you will see an increase of 16.2%, which is effectively the increase on the spot balances on 31st December for the two respective periods.

Charts on the right hand side show the margin evolution on a quarterly basis since quarter one of last year. You can see that the overall margins, quarter-on-quarter, have remained reasonably stable in a range between 3.10% to 3.23%. With the last quarter in the first half of this year, i.e. the second quarter, delivering 3.15%.

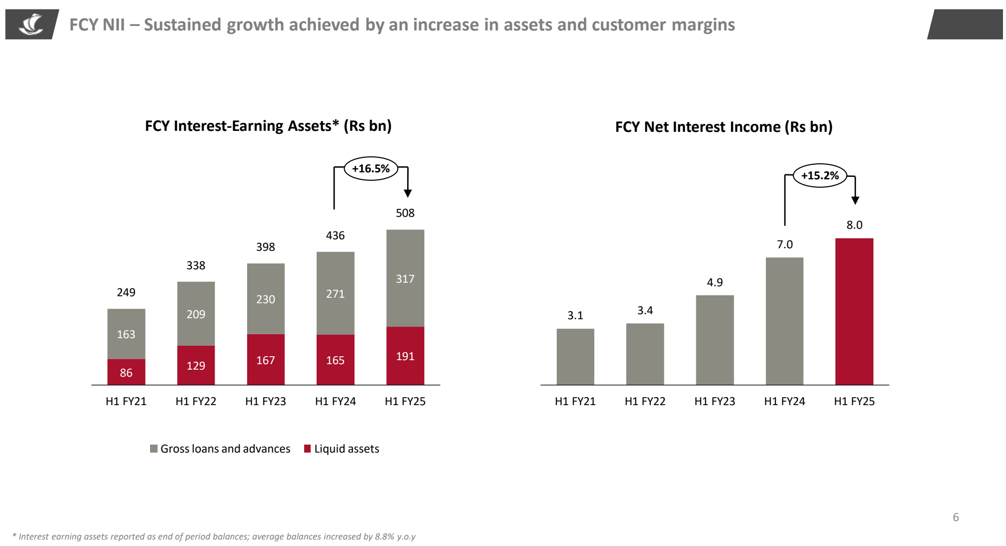
And at the bottom, you'll see a chart showing the average interest-earning assets and how they've evolved over the six quarters shown since quarter one of last year. Here you can see a steady growth quarter-on-quarter.



Next slide shows you a breakdown of assets in Mauritian rupees with the bar chart on the left hand side, showing you the breakdown between gross loans and advances and liquid assets. What's actually transpired in the period between half one of last year to half one of this year, is we've seen a substantial increase in

Mauritian rupee deposits which has given rise to an increase in excess liquidity. This is deployed mainly into government securities, which have also yielded higher margins.

Hence, you see on the chart, on the left hand side of the slide, an increase of 15.7% in interest earning assets and a corresponding increase of 19% year-on-year on the Mauritian rupee denominated net interest income.



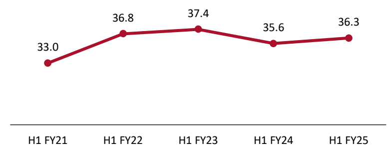
Slide five shows you similar the breakdown for foreign currency interest-earning assets. And over here, what you will see is the progression of our gross loans and advances, which has grown fairly rapidly over the last five corresponding H1 periods. And you can see that on the charts. That's the grey part of this bar chart. And on how liquid assets have evolved in red in the chart. You can see that foreign currency assets have grown by 16.5% year-on-year. And this has led to the 15.2% in foreign currency net interest income growth year-on-year.

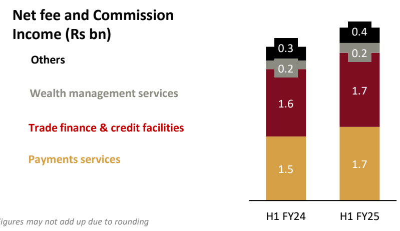
The slight reduction year-on-year in net interest income percentage growth relative to the interest earning assets is to do with the mix in foreign currency fixed deposit. There's an increase in fixed deposits in our deposits mix, which obviously gets remunerated at a higher rate. The good thing about fixed deposits is that they are more sticky.

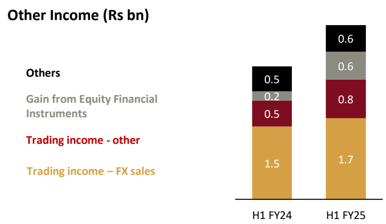
Non-interest income – Growth driven by both fees and forex profit

Non-Interest Income (Figures in Rs bn)	H1 FY24	H1 FY 25	%Δ Y-o-Y
Net Fee and Commission Income	3.6	4.1	12.4%
Other Income	2.8	3.6	30.9%
Total Non-Interest Income	6.4	7.7	20.4%

Non-Interest Income to Operating Income Ratio (%)







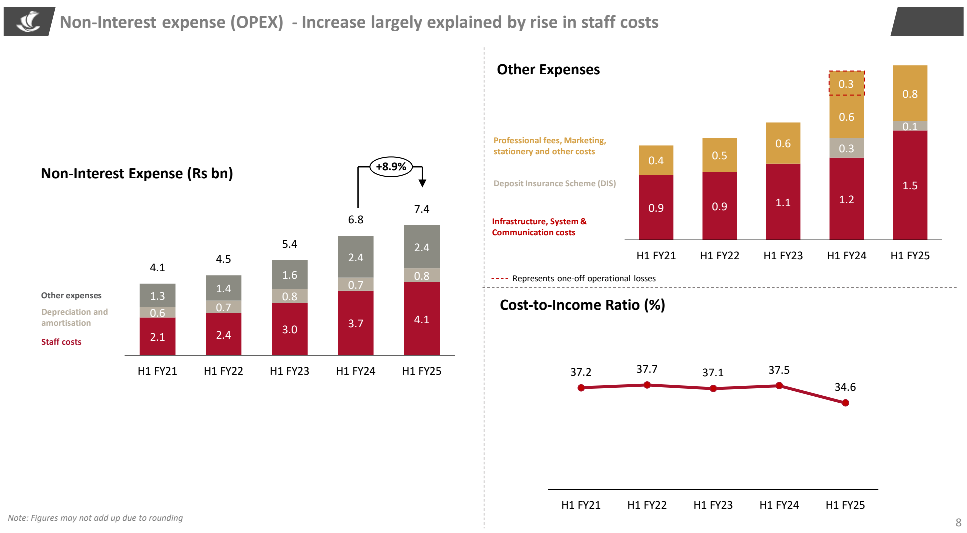
Note: Figures may not add up due to rounding

7

The following slide talks about non-interest income, predominantly fees and commissions and other income, which you can see the evolution of year-on-year. On the table on the top left, you can see that fee and commission income has grown by 12.4% year-on-year, and other income has grown by 30.9%.

The bar charts at the bottom show you the breakdown of these two components. So, net fee and commission income have grown predominantly as a result of activities in the payment segment, trade finance, credit facilities, and wealth management. Other income is largely made up of trading income and FX sales income, both of which have grown.

The grey component of the bar chart relates to the gain from equity financial instruments, which I alluded to earlier, relating mainly to Visa and MasterCard shares, which were held in the bank and accounted for up till now as fair value through P&L. Further changes in the fair value of these shares will recorded in OCI henceforth.

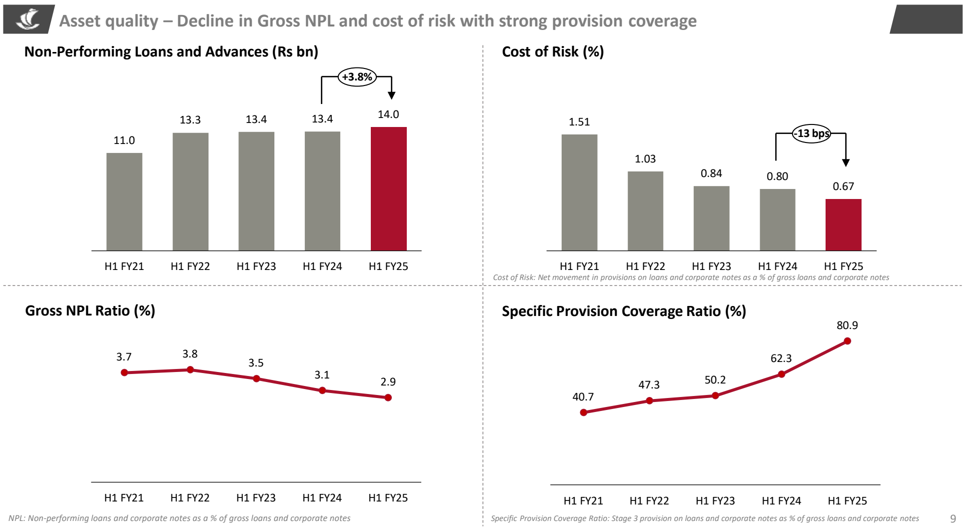


Slide eight on non-interest expense, which a lot of people know as operating expense, has also increased by 8.9% year-on-year. Major component of which are staff costs, which have increased as a result of both headcount increase to support our business growth, as well as baseline salary increases.

The other component, on which we've given a slightly more detailed breakdown of is the other expenses line on the chart on the top right. And you can see that our investments in infrastructure systems and putting all of our services on the cloud have contributed to an increase in infrastructure and technology costs. In the last two periods you'll see an item in grey for the deposit insurance scheme.

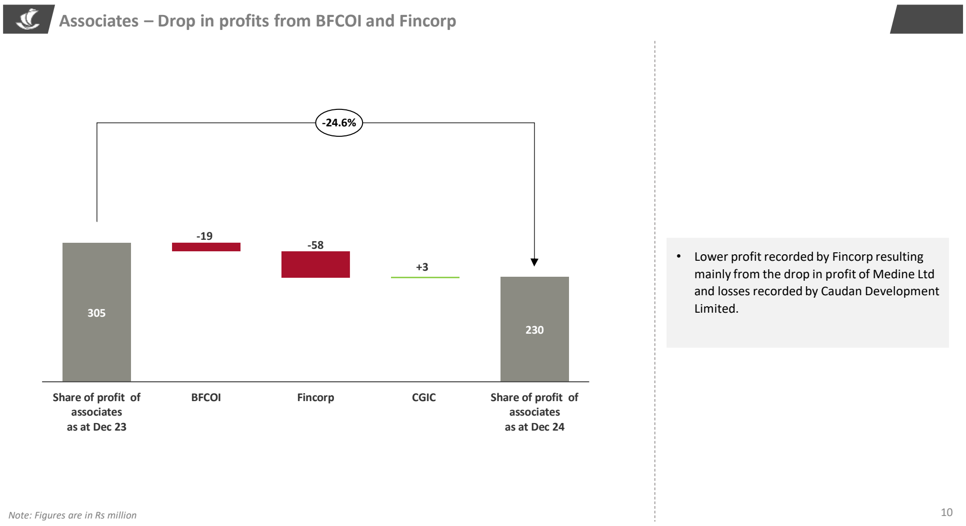
In the first half of last year, we provided for the deposit insurance scheme, which we reversed in the second half of last year, not shown on this chart because the regulatory environment had not yet been determined and fixed, and we had to remove it for the year-end accounts. But the scheme has now been formalised, and we've started contributing to the deposit insurance scheme and therefore accounted for the figure in this half.

And the bottom right hand chart just shows you the evolution of cost-to-income ratio over corresponding first half periods over the last five years. And you can see it has largely remained fairly stable but actually declined in H1 of this year.



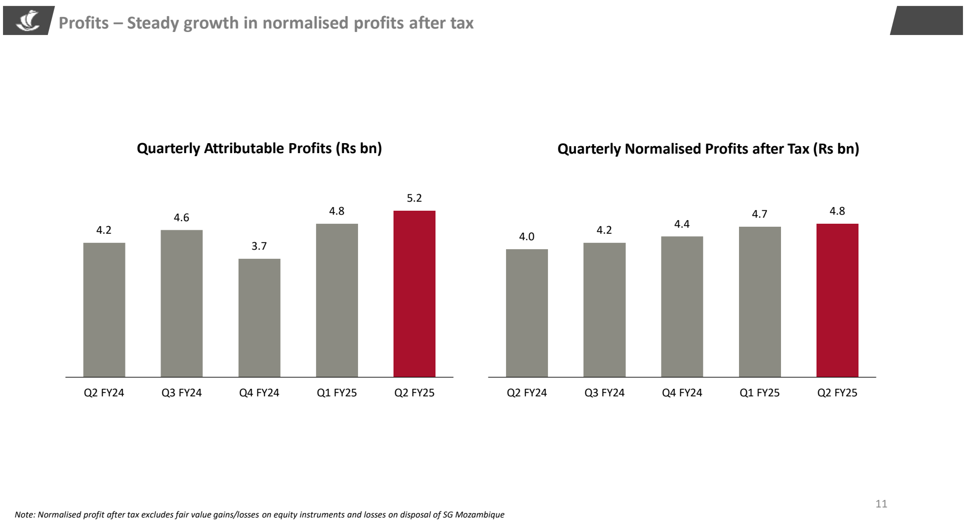
The next slide walks you through some figures on asset quality. And you can see in the top left hand chart here that our nonperforming loans have remained reasonably stable with a slight growth of 3.8%. But it's hovering around the Rs14 billion mark, corresponding to a gross NPL ratio of 2.9%, compared to 3.1% last year.

On the right hand side, you'll see that the cost of risk has dropped from 80 basis points last year to 67 basis points this year, primarily as a result of a few large recoveries made during H1. And overall, our specific provision coverage ratio is now close to 81%, which is pretty healthy as a coverage ratio.

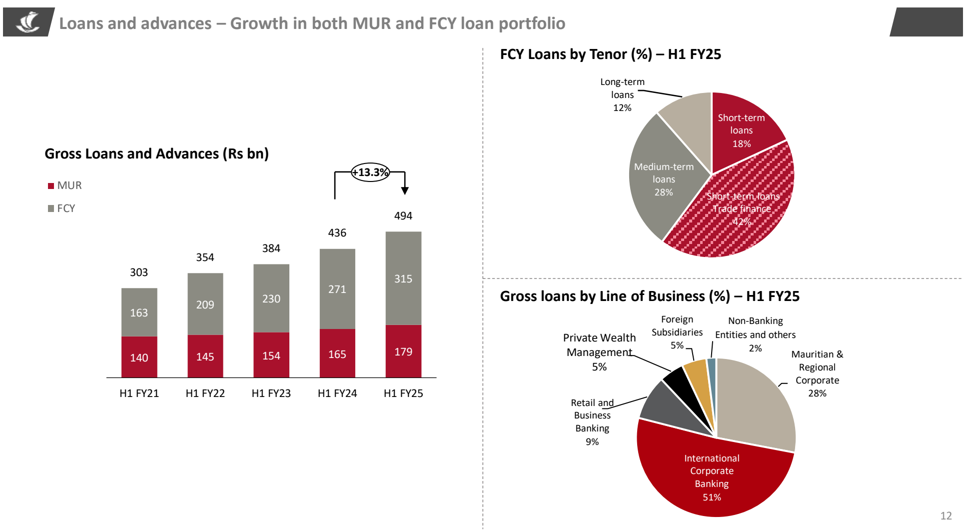


The next slide takes you through some figures on our associate companies where we see a decline in the share of the share of profits from our associates. BFCOI has had a reduction in its overall profits. I don't know how many of you know, but there was a big cyclone in Mayotte at the end of last year, which devastated large parts of the island, and therefore contributed to the decline in performance.

And the drop in the performance for Fincorp; Fincorp is a company that has a few investments, one of which is involved in the real estate business. And there's been a lower volume of land sales this year compared to the year before.



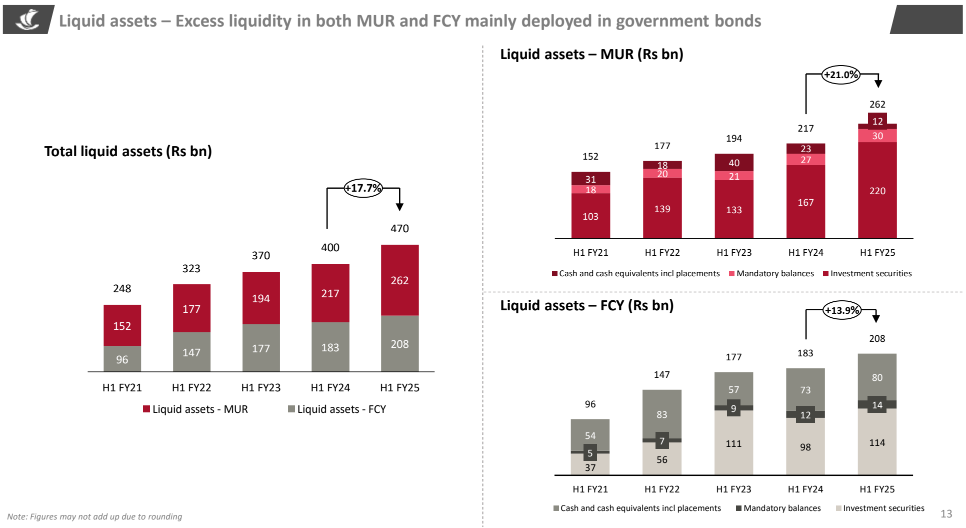
Slide 11 tries to eliminate the various one-offs that we've got in the books and show you what the quarterly normalised profit after tax would look like. And that's the chart on the right hand side. So we eliminate the impact of Visa and MasterCard fair value gains and losses over the last five corresponding H1 periods and also remove the losses that we made on the disposal of our associate stake in Societe Generale Mozambique last year. A good thing you can see here is there's a steady growth in the normalised profits.



Slide 12 runs you through our loans and advances portfolio. Chart on the left hand side gives you a breakdown by currency, rupee in red and foreign currency assets or loans and advances in grey. What you can observe from this chart is that the overall loans and advances rose by 13.3% year-on-year. But the biggest part, or the most rapidly growing part of loans and advances, actually, in foreign currency, which have grown by 16.4% year-on-year, as opposed to the Mauritian currency loan advances, which have grown by 8.3% year-on-year.

The pie charts on the right hand side give you an insight into the profile of our loan book, more specifically, the breakdown of our loans by maturity and the loans by the different segments of the Group. You can see that there's a large component of our loans and advances book, which are fairly short term, and relate to short term trade finance transactions; which are generally fairly safe from a risk point of view.

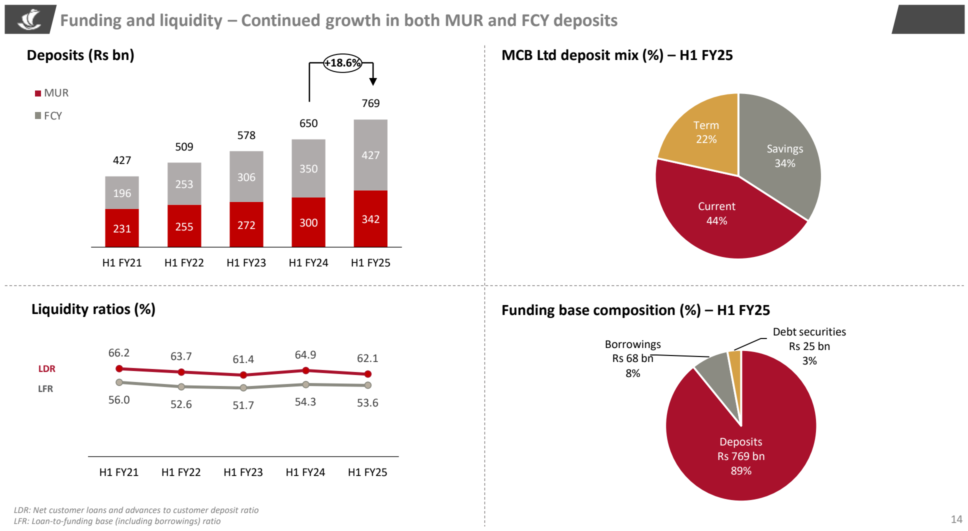
Chart on the bottom right gives you an insight into the breakdown of loans and advances among the different business segments of the group. You can see that our international corporate banking business contributes to just over half of the overall portfolio. And roughly 28% of the portfolio is made up by the Mauritian and regional corporate segment, with the retail business contributing to 9% of overall loans and advances.



Next slide walks you through liquid assets and the breakdown thereof. In red, liquid assets in Mauritian rupees. And I alluded to that earlier when I was running through the net interest income evolution in rupee. And I said that the liquid assets in rupee have increased substantially, primarily driven by the growth in Mauritian rupee deposits and the growth in MUR loans and advances being lower than deposits growth.

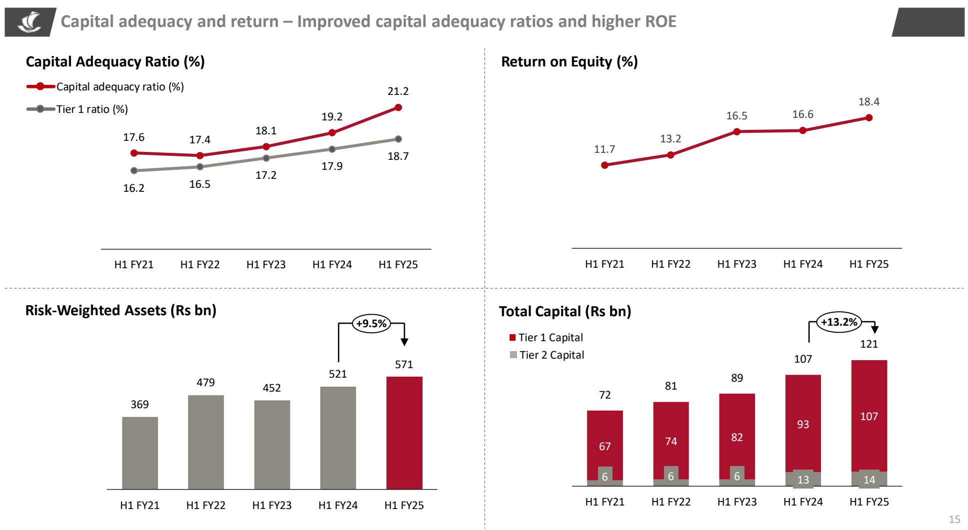
And on the foreign currency side, both the assets and liabilities have grown steadily. On the right hand side, in red on top, you see the breakdown of the deployment of liquid assets and their various components, cash and cash equivalents, monetary balances, and investment securities.

And you can see that we've invested in Mauritian government securities quite a lot this year giving rise to that increase in net interest income that we've seen in the earlier slides. The story is not that different at the bottom, where an increased amount of liquidity has been invested in foreign govies and placed with foreign banks.



Slide 14 takes you through a few figures on the Group's funding. Running the risk of repeating myself, but you can see that both Mauritian and foreign currency deposits have increased. And the chart at the bottom left shows you the liquidity ratios, and they are fairly healthy with a customer loan-to-deposit ratio of 62% overall.

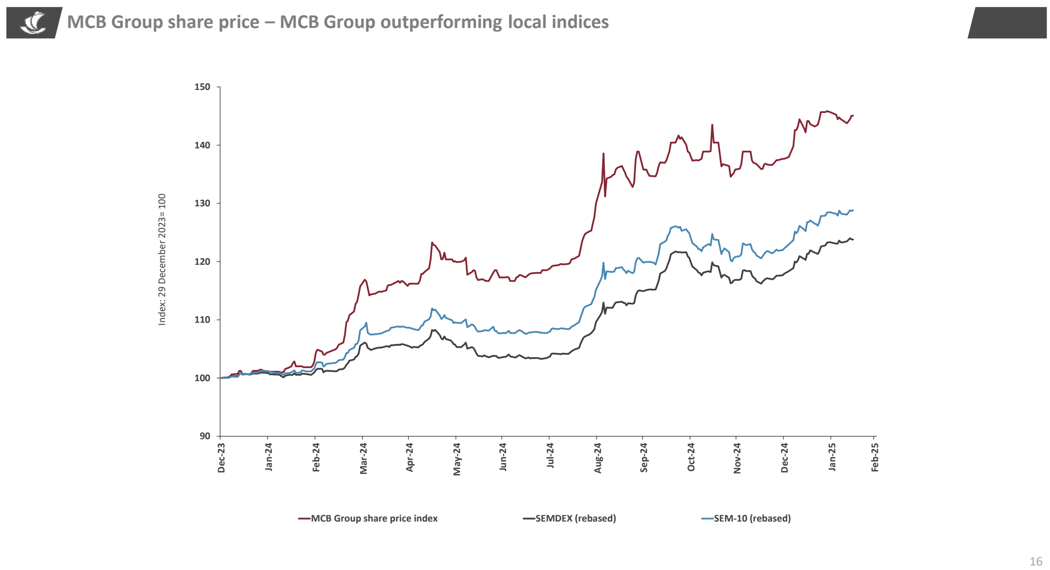
On the right hand side, the chart takes you through the deposit mix between current, savings and term deposits. There's a slight increase year-on-year in term deposits, especially in foreign currency, which gave rise to a slight squeeze in margin that I talked about earlier. And the chart on the bottom right gives you an insight into the funding base, which largely constitutes of deposits.



Final slide is on capital adequacy and returns. And you can see a healthy capital adequacy ratio of 21.2%, compared to 19.2% last year. And a tier one ratio of 18.7% compared to 17.9% last year, with a healthy cushion above the 15% minimum regulatory capital requirement.

Chart on the top right shows you the evolution of our ROE over the five previous years' corresponding half-year periods. And you can see a gradual and fairly steady increase in return on equity. ROE for H1 of this year has increased to 18.4% compared to 16.6% last year.

At the bottom you see risk weighted assets. You'll notice that the increase in risk-weighted assets is lower than the increase in gross loans and advances. And that's primarily because, A, we are deploying assets a lot in trade finance activities, which are short term and relatively less risky. And, B, government securities in Mauritian rupee, which attracts a zero risk weight. Our total capital is shown on the chart on the bottom right, which is increased by 13.2% year-on-year.



Finally, last but not least, an evolution of our share price, which has outperformed the local index, the SEMDEX. And it's also outperformed the top ten Stock Exchange of Mauritius benchmark. This concludes my presentation. I invite you to asking questions. Thank you.

JN Thank you, Dipak.

OP Thank you. Participants on the webcast who wish to ask a question may do so by clicking on the connect with HD audio button, which appears below the presentation, and follow the instructions. Once connected, you may press the join the question queue button to register your intent to ask a question. You will hear a confirmation tone that you have joined the queue.

You may click the withdraw from question queue to remove yourself from the queue. Participants on the conference call may press star and then one on their touchtone phone, or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. You may press star and then two to remove yourself from the question queue.

The first question that we have is from Timothy Wambu of Absa. Please go ahead.

TW Thank you. Good afternoon. Thank you for the presentation and thank you for the added level of disclosure from previous presentations. My first question is on the liquidity conversation in Mauritius. As you rightly put it, it's enabled you to grow your Mauritian deposits.

We did see the Bank of Mauritius hike the key rate. Could you just maybe discuss the liquidity environment? Do you think there's a desire for them to tighten liquidity further? Maybe, perhaps, looking at the Mauritian rupee performance.

My second question is, I can see that your NPL ratio has declined. I just wanted to find out, when I looked at your annual report, there was a clear increase in your tourism NPL ratio. It was a significant increase from about 2.6% to 13.4% in 2024. Maybe just give us an idea of what is happening there.

And then just lastly, you've raised some new capital recently, about 350 million from a syndicated loan. And maybe tied to that, with regards to funding, I can see also that those are considerable conversion of your preference shares in the period. Would you consider issuing more preference shares? Thank you.

JN In relation to your first question, concerning the key rate, indeed, the Monetary Policy Committee came up with an increase of 50 basis points to 4.5%. And it is indeed to correct some negative interest rate differential between the interest rate in rupee and the interest rate at the level of the international markets, and in particular, the US dollar. So that was indeed one of the purpose, to stabilise the rupee, which was under pressure.

And as I mentioned previously, when you have an increase in the key rate, you would normally expect a negative impact on the net interest margin in rupees. But currently, what the Bank of Mauritius has also been doing alongside this increase in the key rate, is to raise the yield curve. Once again, to manage the excess liquidity more efficiently, to remove rupees in the economy, which is moving pretty fast. We know there's a lot of consumption.

And so the upward shift in the yield curve that we have seen of late is also going to help in terms of stabilising the rupee and better managing the excess liquidity in rupee. And the result of the higher yield curve is that as part of our stock of treasury bills will be coming to maturity, we will be replacing these treasury bills by new instruments at a higher rates. This, in effect, means that, at least for the time being, the negative impact of the key rate on our net interest margin will be compensated by the upward shift in the yield curve.

That's providing you with a bit of how we see this excess liquidity and rates currently prevailing in Mauritius. As regards the NPL ratio, indeed, there has been a drop in the NPL ratio as our loan book actually increased on the one hand. And we have had some good track record in this semester in terms of recoveries. So that has helped not only the NPL ratio, but also our cost of risk.

And as we speak now, we believe that we have a pretty good credit profile insofar as our credit portfolio is concerned. And you will also see that we have beefed up the provision coverage in quite a significant manner. You were mentioning Hospitality Sector?

DC Yes. The question was asked about the results for the full year last year on NPLs. In the second half of last year, there was a large legacy exposure that was impaired which relates to client in the hospitality sector in the Maldives and provision was made for that company in the hospitality sector. Obviously, that provision has not been repeated this year or this period. And on the flip side, we've actually had a recovery from a previously provided for asset. So you will see, obviously, the overall cost of risk will fluctuate as we put things as specific provisions, or we make recoveries.

But it's fair to say that, one could expect our normal cost of risk somewhere in the region of 80 basis points. On average, 80 to 85 basis points on average, would not be an unreasonable figure.

JN And maybe generally speaking, if you're talking about the hospitality sector, we've seen very good performance in terms of tourist arrivals in 2024. The financial results of mostly all of the companies in that sector have been pretty good. So we don't expect, as we speak, any specific issue in terms of that sector in Mauritius.

And lastly, your question is on capital ratio, which is quite comfortable at 21%. I think as we speak, in this environment, which is a little bit uncertain, especially with the negative outlook of Moody's, the geopolitical situation and so on and so forth, I think that having a strong capital ratio, as we currently have, is most welcoming and is a positive thing.

And concerning the pref shares, we are not looking at issuing any pref shares for the time being. The shares were issued some time back. I think it was just after the COVID period, with the rupee depreciating and this depreciation actually gave rise to a significant increase in risk-weighted assets. And that led to a capital adequacy ratio, which was a little bit on the lower side. This is why we issued preference shares.

But as we stand now, our capital ratio is pretty comfortable, and we don't see any reason to issue any preference shares as we speak.

OP Thank you. The next question we have is from Randolph Oosthuizen of Old Mutual Investments Group. Please go ahead.

RO Hi, can you hear me?

OP Yes, please go ahead.

RO Hi, sorry, I'm dialling into the website. The first time I've used it this way. Anyways, thanks for a very informative presentation. I guess it's so informative I don't have that many questions. But just in terms of the outlook, I think last year you were a little bit more cautious about the outlook. But now, with interest rates, the way that the local yield curve is moving, and perhaps also US rates staying higher for longer. How do you net, I mean it just feels as though it's reasonably business as usual in terms of the current run rates that we're seeing.

JN Yes. I think, operationally speaking, we will continue to see good, strong performance as we have generated in the first six months. We still see a very good performance for the next six months. But just one thing I think is worth mentioning is that the results for the last six months included these fair value gains in MasterCard and Visa, which we will not see going forward, in view of the change in the accounting policy of these two investments.

And also, we have seen some strong recoveries in the first semester as has been the case for the last two or three years. And depending on how well we do in the second semester in terms of recoveries, it can indeed give rise to some very strong performance in the second semester.

But operationally speaking, we should see very good performance once again in the second semester.

RO I'm sorry, can I ask a follow up question?

JN Sure. Yes.

RO Yes. This is a more tricky one. But the sovereign credit rating has been put on negative watch. And I assume that you're making lots of plans and strategizing and workshop what you would do if it ever got downgraded. But perhaps just to recap what your thoughts are around that.

TH Yes, indeed. Thierry speaking. We have done our homework, as you can imagine, because after the election of the new government and the 'state of the economy' report, which was presented by the government, we could expect this reaction from Moody's.

What is important in the Moody's negative outlook, is that it is giving time to this new government to come up with a plan, a budget and also show the strength of our institutions. And the first signal we had about the current stance of the authorities is the decision taken by the central bank to increase the key rate by 50 basis points.

This is proving, first, the independence of the central bank from the government and, second, the strong intention to control inflation and stabilise the currency. So, from this side, we observe already a clear change in the way the country, at least at the central bank level, is managed. And the recent statement from the President of the country is also rather positive.

This being said, we have been made aware that should the rating of the country be downgraded, of course, automatically our own rating would be downgraded. Would that be a catastrophe? We don't think so. But, yes, it would have impact. Probably on some of investors having funds in Mauritius. So that could have an impact on this international business, seeing part of these funds exiting Mauritius. And that will potentially have an impact on our performance.

On the business itself, our clients are essentially using Mauritius to work towards Africa. And African countries, almost all of them, except Botswana, have a country rating below investment grade, as you know. So they are used to work through IFCs as well, like Nigeria, like Nairobi, like Johannesburg, which are also not investment grade. And there are not constraints necessarily. So, yes, that could have some impact. But based on the analysis we have made, the impact could be material, but perfectly manageable. So that's the way we look at it right now.

RO You could still say that you do enough, not just higher than them on a relative basis?

TH No, I think that, again, Moody's has given 12 to 18 months to the government to show its seriousness. What we see today is rather comforting. But still, we cannot be sure of the worst. So, we have analysed quite detailed analysis on our portfolios. And the analysis we have made makes us reasonably confident.

But, yes, there would be an impact on our overall profit, because we could lose some business, particularly international business. We don't see any impact on the local activity with a downgrade of the rating.

OP Randolph, do you have any other questions?

RO No, I'm good. Thanks a lot for your time.

OP Ladies and gentlemen, just one final reminder. If you do wish to ask a question, you may press star and then one. And if you are on the webcast and you wish to ask a question, you can connect by clicking connect with HD audio and join the question queue button once you have joined. The next question we have is from Timothy Wambu of Absa. Please go ahead.

TW Yes, thank you. This is a follow up from my earlier questions with regards to the growth in your foreign currency loans. It was an acceleration from what you saw in Q1. Could you highlight which sectors in particular, you are able to extend credit to? Thank you.

TH Well, the foreign currency loan, as you know already, is for an important part, connected to the CTF business i.e. the commodity trade finance business. And this is a fluctuation between funded and unfunded exposures in the CTF business which creates the quarter-on-quarter fluctuation in our loans and advances balance.

Actually, we should observe within the second half of this year the impact on Nigeria, as we exit part of the business with the NNPC. This has already had an impact on the funded part of this activity, but which is compensated by the unfunded part of the activity. So, all in all, the volume of business is reasonably growing. So that's the way you can look at it.

On the other businesses in lending, in foreign currency, we have substantially increased our business in the 'Power and Infra' segment and 'Structured Debt'. So these are businesses which have grown quite substantially over the last few months. Growth has been to a lesser extent, in what we call the 'Global and International Corporates' but it is still a growing business as well.

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TW All right. Thank you. Thank you for that clarification. Thanks.

OP The next question we have is from Kaitlin Byrne of M&G Investments. Please go ahead.

KB Hi, thanks so much for the call. I just wanted to understand a little bit further around the Central Bank of Mauritius with the bond yields being higher. So I remember a while ago when there was a lot of excess liquidity in the system, you guys were making negative spreads on the local bonds. So it seems like the macro situation is quite similar. But the bond yields are now high enough to make a positive spread. So what has changed in the environment for this to unfold?

And then just to get an understanding, as well as what about the macro in Mauritius is driving this acceleration in deposit growth? Sorry, I have a few questions. And then the one question just on the other costs. So thank you very much for breaking down those other costs into more detail. I was just wondering, how much or how long will those other costs be in the numbers for? So, is this something which is temporary as you do the migration to the cloud, etc., or are these costs which are expected to continue?

And then just on the NIM, do you use a hedging policy? So in the future when or if interest rates come down, would you look to hedge the interest rates to keep the NIM more stable? Or do you not use hedging on your book? Thanks very much.

JN I'll answer the first two questions concerning the deposit landscape in Mauritius. The first thing is that the deposit base and the liquidity in Mauritius has increased significantly.

Further to the increase in money supply that happened a few years ago during the COVID-19 pandemic. There has been quite a bit of money that was injected in the economy, for the purposes of the MIC, the Mauritius Investment Corporation. That was Rs 80 billion, although not all the Rs 80 billion was actually disbursed to companies. And there was another Rs 60 billion that was injected a little bit earlier in relation to the COVID situation, to finance all the wage assistance schemes and all these expenses relating to the COVID and the pandemic era.

Now, with this money being injected, there has been an economy that has been, let's say, was overheating; there was a lot of consumption. People had a lot of money, and money created money. Every year we saw the deposit base kept on increasing. So it was money injection into the economy that has fuelled the current excess liquidity.

There was already some excess liquidity even before the pandemic. But this has exacerbated the excess liquidity situation further. And as a result of that, I think, the Bank of Mauritius, in the management of the excess liquidity and the situation of that overheating economy I mentioned, wanted to provide a clear signal that they are going to manage that excess liquidity.

Because it wasn't necessarily compatible or rational to have a yield on treasury bills at, what was it, 3.3%, which was sometimes even lower than the interest rate that was offered on overnight placements with the Bank of Mauritius. It was not normal to have the yield on these treasury bills lower or at the same rate offered on overnight placements.

In terms of cost, Dipak will provide some colour on the question relating to our trend in operating expenses.

DC Yes, I think it was important to share with you the breakdown of the major components of other costs. And the message I really want you to take away from it is, of course, like most banks, the major component of our costs are staff costs. But technology and premises are also big components.

We're obviously transitioning and making the bank more digital, so there are numerous strategic initiatives to take us down that line, plus taking our business on the cloud to make it more sustainable. So we expect the investment to continue. We need to keep investing. Our cost income ratio is on the low side compared to a lot of international banks. But probably in the range you'd expect in emerging markets for a banking group of our kind of stature and standing. So we've got to keep investing. We've got to progress with the times.

And the investment quantum relative to the size of the bank is big, because technology does not come cheap. We don't have the same economies of scale with regards to our technology investment, let's say, in terms percentage spend compared to the larger banks. But it's not a choice that we have. We can't avoid it. So we've got to go down that track as we grow. I've tried to answer it the best possible way. I hope that gives you the flavour that you're looking for.

JN And maybe just to finish off on the hedging policy and interest rate risk. If you look at our foreign currency lending portfolio, it's largely matched. And what I mean here is that all of our foreign currency liabilities, which are a at floating rate or repriced short-term, are deployed in floating rate assets and assets which are repriced short-term. So as interest rate moves on both sides, it moves largely in the same direction.

We also do have, indeed, some current accounts which are not remunerated and this is what is creating a little bit of interest rate risk when interest rates fluctuate. However, this risk is actively managed to minimize volatility by progressively locking in term rates on a rolling basis. So, while fluctuations do create some exposure, our approach helps smooth out the impact over time. That's on the foreign currency side.

On the rupee side, it's the same thing, except that our excess liquidity in rupees is actually invested in treasury bills and bonds at a fixed rate. But there's not much that we can do. There is implicitly an interest rate risk that we are taking in rupees by virtue of the fact that the interest rate on our excess liquidity is at fixed rates. Vicky, you want to add?

VH Yes. I just want to add something on the liquidity situation. I think there has been, some changes in the macro environment and Jean Michel depicted the situation. But as Thierry was mentioning, we are seeing a more effective management of excess liquidity with the central bank absorbing liquidity at higher rates even if it comes at a higher cost to them. In November 2024, we had around Rs 34 billion of excess liquidity and this has gone down to probably less than Rs 10 billion today. That’s a positive development that we are seeing on the market.

KB Thanks. That's very helpful. Just to follow up on that, I'm definitely not an economist, but with all that excess liquidity in the system, and I suppose a hot market would, would that not ordinarily result in currency devaluation? And in that scenario, does that not put some pressure on your capital adequacy ratios, given that the bulk of your capital sits in rupees, and then you've got a big dollar book?

VH So I'll answer on this. If I understood well the question, you're asking if the intervention from the Bank of Mauritius lead to a depreciation of the currency? On the contrary, given the impact of this excess liquidity on consumption and imports, recent moves by the central bank coupled with the increase in key rate should help to alleviate pressures in the forex market. And that's what the central bank is trying to do, that is, to bring stability in the forex market.

DC If I understood the question slightly differently, you're asking about putting pressure on the capital adequacy ratio. If there's excess liquidity that you have to deploy out. But obviously, what you've got to take from this is that the excess liquidity is invested largely in Mauritian government bonds, where the risk weight is zero. And it doesn't really impact your capital adequacy on the capital demand side. On the capital supply side, the volatility of the rupee does indeed create some volatility on our capital stock but we do maintain strong buffers, which has helped us manage the impact of FX fluctuations on capital.

KB Yes, thanks. Thanks very much.

TH To add on to what Vicky was talking about, on the management of the exchange rate; what we can say, is that there is a strategy of the central bank is working and it's visible already in the stabilisation of the FX rate of rupee against dollar. And that was visible because the rupee appreciated against the dollar even if the dollar was appreciating against other major currencies.

JN The volume of foreign currency sales has increased, no doubt, since the moves by the central bank, and that is indeed helping to stabilise the rupee.

DC It is one of the priorities of the government and the central bank, when they came in, to make sure that the rupee was stabilised and there wasn't a perception that the rupee would continue to depreciate in the longer term.

OP Kaitlin, do you have any other questions?

KB No, all answered. Thanks very much.

OP Thank you.

JN Yes, well, thank you very much once again to all the participants for your presence today. Obviously, we are at your disposal. If you need any clarification, you can get in touch with us and through Kersley, and we'll gladly answer any other questions that you may have. Otherwise, we look forward to meet you virtually once again in May to present our nine month results. So, thank you very much.

OP Thank you. Ladies and gentlemen, that concludes today's event. Thank you for joining us. You may now disconnect.