Results for the nine months to 31 March 2024

Earnings Call held on Friday 17 May 2024

Transcript

CONFERENCE CALL PARTICIPANTS

Jean Michel Ng Tseung

MCB Group Ltd – Chief Executive

Thierry Hebraud

MCB Ltd – Chief Executive Officer

Kersley Gaspard

IR Officer

Speaker Key:

OP	Operator
JM	Jean Michel Ng Tseung
RG	Ronak Gadhia
TH	Thierry Hebraud
DS	Darren Smith

OP Good day, ladies and gentlemen, and welcome to the MCB Group Limited earnings call for the nine months to 31st March 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, Mr Jean Michel Ng Tseung, who will introduce the panel members. Please go ahead, sir.

JM Thank you very much, madam. And a very good day and a very warm welcome to all the participants to this earnings call in relation to the financial performance for the nine months ended March 2024. Around the table, I have two colleagues with me, Thierry Hebraud is the Chief Executive of the Mauritius Commercial Bank Limited, and Kersley Gaspard, who is our Investor Relations Officer.

Strong performance for the nine months to March 2024 …

Performance - Nine Months 2023/24	9 mnths to Mar 23	9 mnths to Mar 24	Change (%)	Quarter to Mar 23	Quarter to Mar 24	Change (%)
Operating Income (Rs m)	22,992	27,769	20.8	8,445	9,740	15.3
Non-Interest Expenses (Rs m)	8,203	9,961	21.4	2,813	3,194	13.5
Attributable Profits (Rs m)	10,777	12,351	14.6	4,114	4,573	11.2
ROE (%)	17.3	17.2	(3 bps)	19.0	18.5	(56 bps)
Cost of risk (%)	0.78	0.82	4 bps	0.74	0.82	8 bps
Cost to income (%)	35.7	35.9	19 bps	33.3	32.8	(52 bps)

Note: Figures may not add up due to rounding

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Without further ado, I'd like to provide you with a bird's eye view of the performance of the group for the nine months before we start diving into the detailed numbers. And as you can see on this slide, the financial performance of the MCB Group has been quite robust, with a 14.6% growth in profit attributable to ordinary shareholders for the 9 months to March 2024 compared to the corresponding period of last year. I'd like to remind ourselves here that when we had our earnings call in November and also in February, we did mention that we were expecting a slowdown in the growth rate of our quarterly profits.

And, what we mentioned is indeed happening. Because when you look at the quarterly profits of the first quarter, we had a growth of 28.9% compared to the same quarter of the previous year. In quarter two, we had a y-o-y growth rate of 8.2%. And quarter three i.e. this quarter, showed a y-o-y growth rate of 11.2%, as you can also see in the table in front of you. And this is quite a strong growth in terms of our quarterly profit, this third quarter, compared to the second quarter.

And more importantly, I'd like to highlight the increase in our operating income of 15.3% this quarter compared to the third quarter of the last year. This is quite a strong growth in our operating income. And that operating income translated into an increase in our net profit of the order of 11.2%. And at this stage, I would like to mention that the attributable profit growth is lower than the growth in operating income because of the tax charge of last year was actually based on the tax laws at the time.

You will recall that in quarter four of last year, we actually made an adjustment for the full-year tax charge following the change in tax laws, which then showed a higher tax charge in quarter four of FY 2022/23. And therefore, that impacted the profit of the final quarter of last year. I thought it was useful to mention this point. But I thought, at this stage, it's also interesting or useful for me to talk a little bit about the operating income of the Group just for quarter three, which, as I mentioned, increased by 15.3%.

The first two points I wanted to mention concerning the operating income growth of 15%. The first one is about our net interest income. Our net interest income for quarter three actually increased by 20% compared to the third quarter of last year, which is indeed quite a strong growth, considering that interest rates have stabilised.

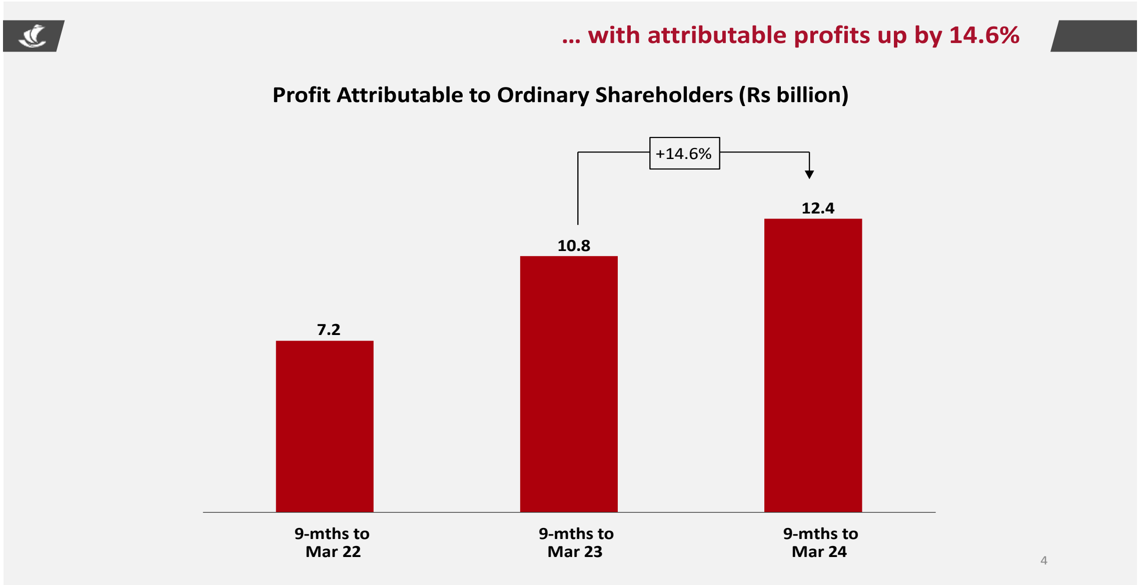
We were aware that for the first quarter of last year, from January to March, there was a slight increase in interest rates and a slight increase in interest rates from April to June last year. And as from June 2023, as I will explain a little bit later on, interest rates had stabilised. We were expecting, therefore, a slowdown in our net interest income. But it is up by 20% compared to 28.1% in quarter one and 27.2% in quarter two.

And that increase in our net interest income by 20% in quarter three, to some extent, it's in relation to the net interest margin that we have clocked in on our foreign currency assets. We have still benefitted a little bit from the higher interest rates. We have still benefitted a little bit from this increase in the margin on our foreign currency assets.

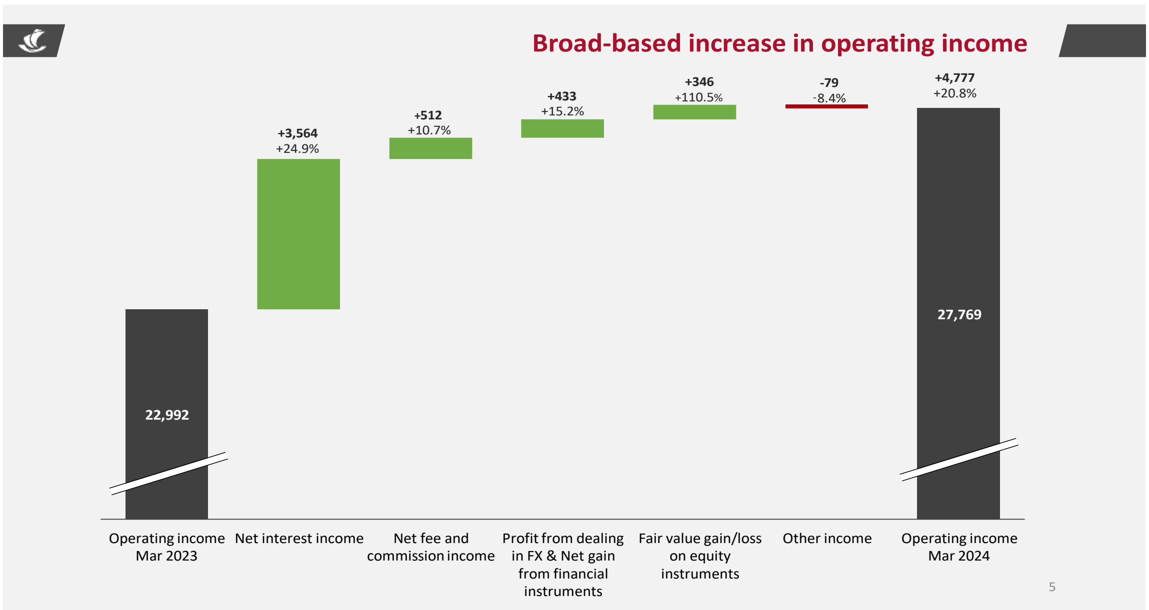
But it's also interesting, I think, to mention that this is not the only reason. There are two other reasons why our net interest income increased by 20%. And we will see that a little bit later on. It is also due to the fact that our deposit base in foreign currency has gone up, leading to a higher investment in government securities. And as a result of the higher interest rates that we are currently earning on our investment securities, improved margins have also contributed to higher net interest income this quarter compared to the same quarter of last year.

And finally, I wanted also to mention that our NIM, our net interest margin, on our investment securities in rupees has also improved this quarter, compared to the same quarter of last year, reflecting more investment opportunities in longer tenor government bonds. I will explain a little bit in more detail later on about what I've just mentioned.

But to start with, to give you a bird's eye view, I thought it was useful to mention that the increase in our operating income has, to a large extent, been impacted favourably by our net interest income, which went up by 20%. But also by our shares that we hold in MasterCard and Visa, where we continue to see fair value gains. In this quarter alone, in March 2024, we had actually clocked in a fair value gain of Rs 460million on the MasterCard and Visa shares. This is just to provide you with a high-level overview of our performance.



I'll now drill down through the slides to give you a bit more information about the performance of the Group for the nine months to March 2024. This is, again, just to repeat what I have mentioned, with a 14.6% increase in our profit attributable to ordinary shareholders from Rs 10.8 billion to Rs 12.4 billion, which is quite a solid performance for the nine months.

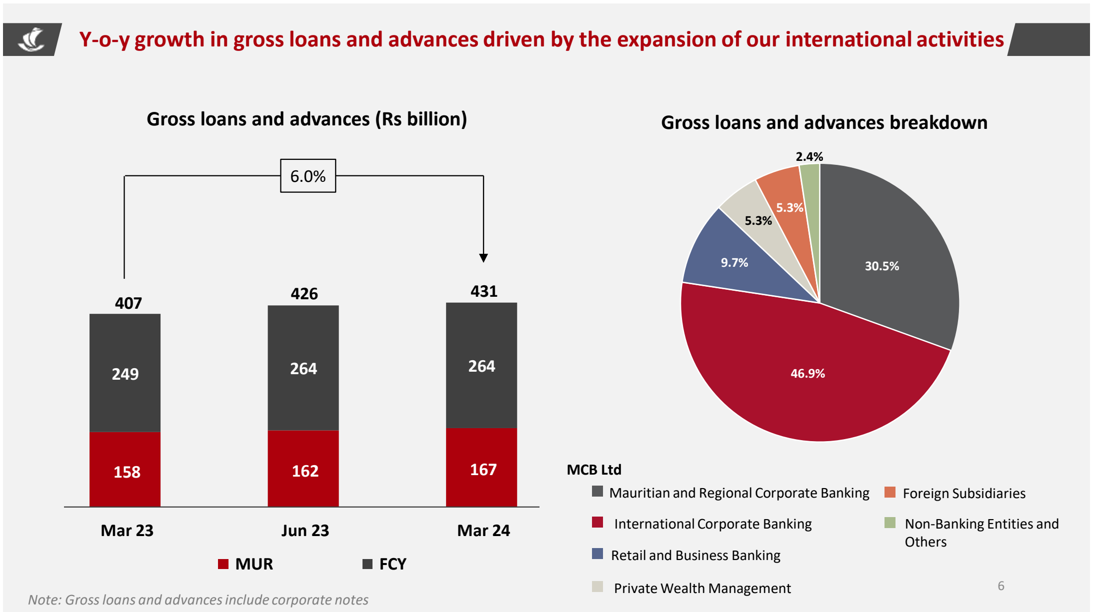


And this increase in our attributable profits is pretty closely linked to the increase in our operating income. As I mentioned earlier on, our operating income increased by 20.8% in the nine months to March 2024 compared to the same period last year. And on this slide, you can actually see the main contributors to this increase in our operating income. Certainly, net interest income has been an important contributor, which added Rs 3.6 billion to our operating income for the nine months ended March 2024.

And I'll provide you with a little bit more colour later on what has caused that increase in our net interest income. Net fee and commission income was also up by 10.7%; very much linked to our trade finance and also our payments business up, therefore, by 512 million. Regarding profit from dealing in FX and net gain from financial instruments, it is a pretty solid growth of 15.2%, it is up by Rs 433 million. This is very much linked, again, on the volume of transactions that we are currently trading with our customers.

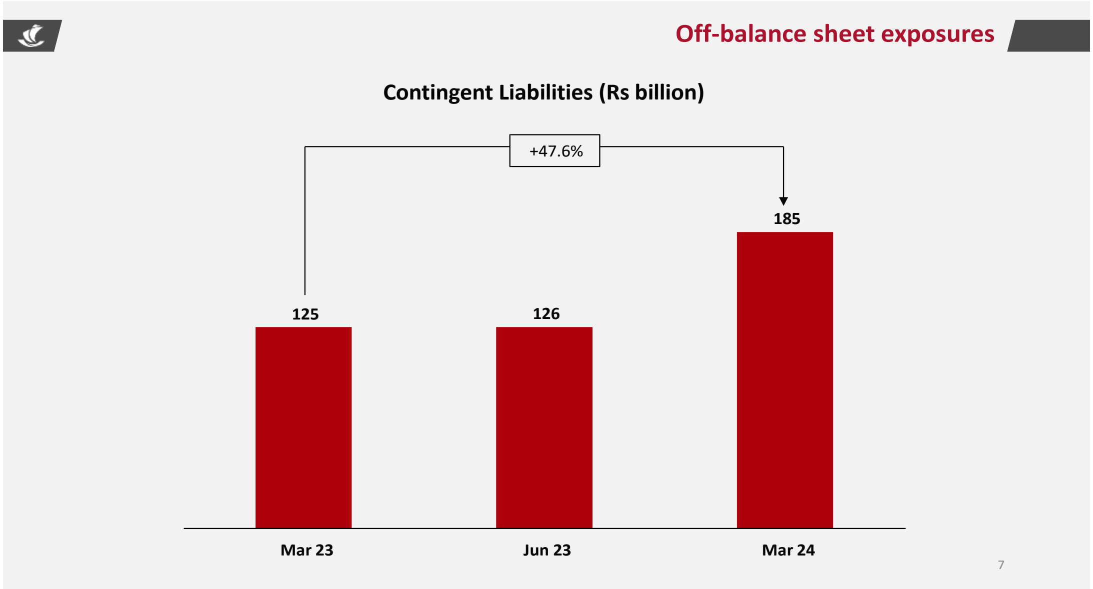
The fair value gain or loss on equity instrument, this is what I mentioned earlier on, up by Rs 346 million compared to the nine months of last year. And as I mentioned, just the quarter three showed an increase of Rs 460 million in the fair value gain from the MasterCard and Visa shares.

These are the principal contributors of the increase in our non-interest income.



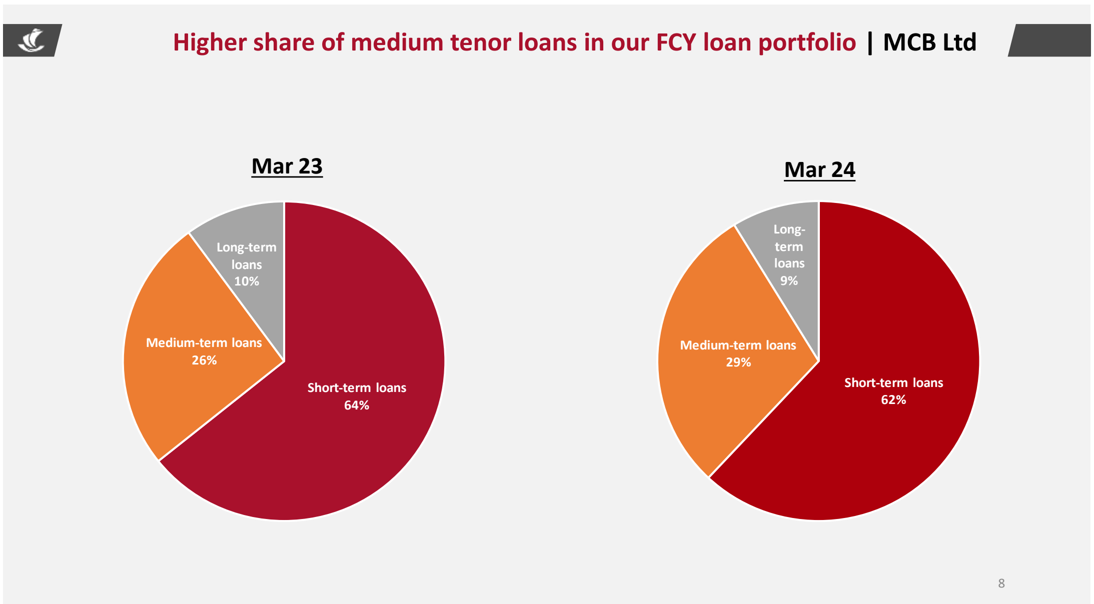
And as I have been doing in the previous earnings calls, I wanted to spend a little bit of time for you to understand a little bit better how our net interest income has evolved over the last nine months. To start with, here is how our loan book which has been increasing. Between March 2023 and March 2024, our loan book increased by 6%, from Rs 407 billion to Rs 431 billion. Both the rupee loan book and the foreign currency loan book contributed to this growth.

We haven't presented this previously, but we thought it was useful to provide you with some details over what constitutes our loan book. And as you can see on this pie chart on the right, you would see that the international corporate banking share of this pie chart is 46.9%. But the rest is actually our domestic loan portfolio, including the domestic exposures in our foreign subsidiaries. I would tend to treat our foreign subsidiaries' loan book as domestic, because we are present in the Seychelles, the Maldives and Madagascar. Therefore, 53% of our loan book relates to our domestic operations.



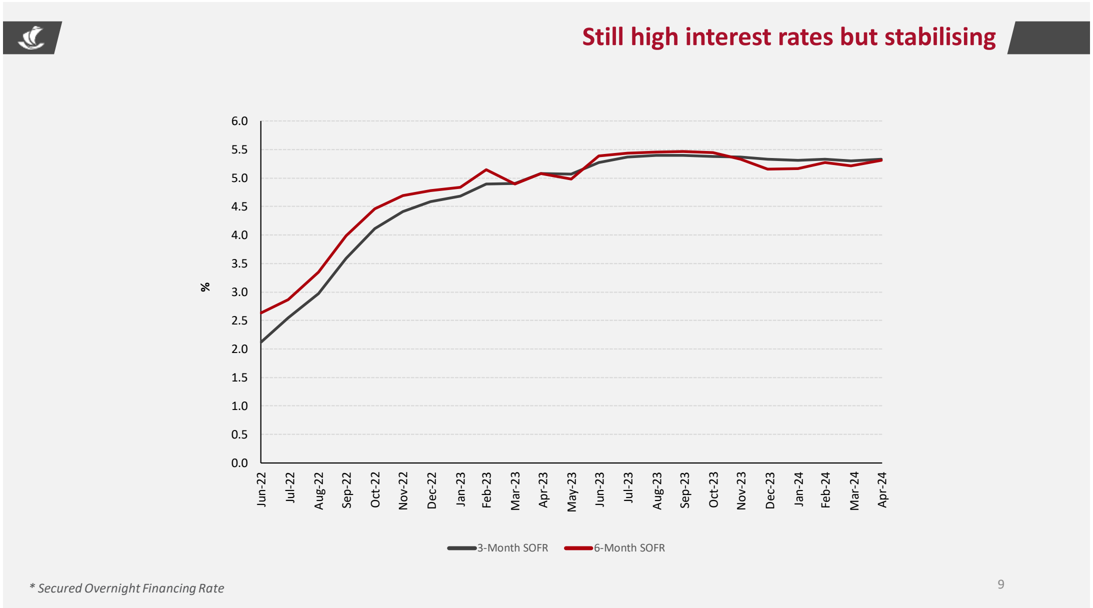
I wanted to mention here that despite the fact that the loan book progressed by 6%, business activity has been buoyant. When we talk about international corporate banking, a big chunk of that relates to our 'Energy and Commodities' business. And you can actually see that in our contingent liabilities, which reflect the business that we do in the 'Energy and Commodities' front.

Most of the numbers that you see on the screen relate to trade finance, mainly letters of credit or guarantees that we issue in relation to our trade finance operations. And that has grown quite significantly from Rs 125 billion in March 2023 to Rs 185 billion in March 2024.



And we also thought it was useful, and we have previously presented these two pie charts. The trend that we shared with you some time back continues to be more and more visible. And you will see here that our medium-term loans have picked up a little bit more again this quarter. From 26% last year, it now represents 29% of our FCY loan portfolio. And that is essentially illustrating the fact that our business activity in our ‘Global and International Corporates’ segment has been growing a little bit faster than the ‘Energy and Commodities’ business. When you look at the short-term loans, which are down from 64% to 62% of our FCY loans portfolio, this is mainly to do with the commodity trade finance.

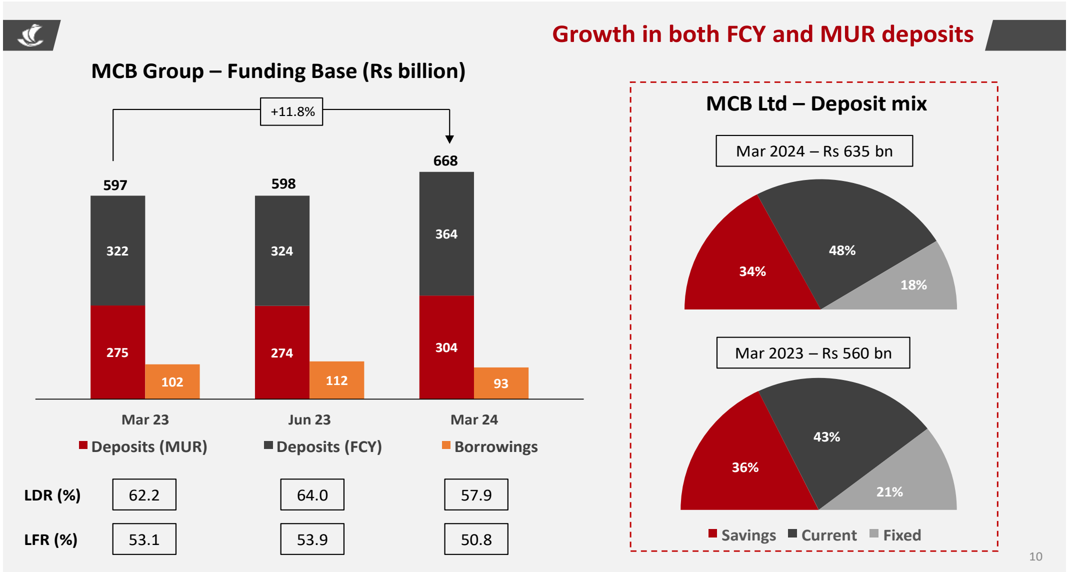
Acknowledging also at the same time that this is a picture at a point in time during the quarter, there could be quite some swings in terms of what is on-balance sheet and off-balance sheet. You would have seen earlier on a significant increase in the off-balance sheet items and a pretty flat the short-term loans portfolio, which comprises mainly commodity trade finance exposures.



What I've been mentioning just now is that whilst the loan book had increased by 6%, which is a modest increase, the increase in our net interest income for the nine months has been a lot more significant and this is to a large extent linked to the increase in margins. This is despite the fact that interest rates have somewhat plateaued as from June 2023.

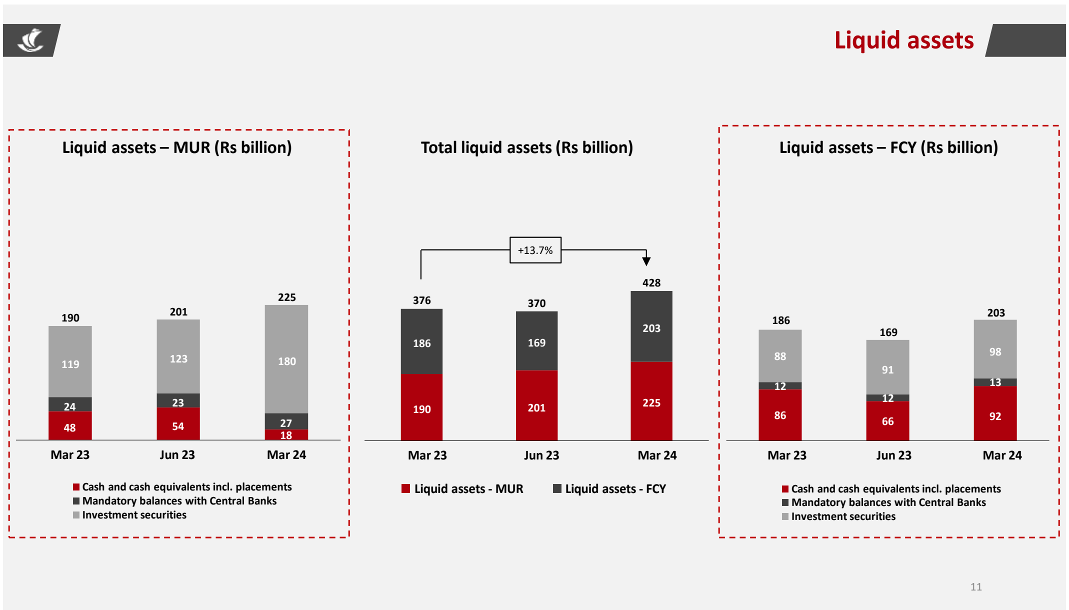
That has indeed contributed to the net interest margin that we have been generating on our foreign currency loan book. Because from June 2022 to March 2023, we have benefitted from the increasing trend in interest rates. As I mentioned earlier on, this trend now has slowed down. And we have seen, since June 2023, interest rates have been pretty flat on the foreign currency front. I will come to that a little bit later on.

You would therefore note that our net interest income on our foreign currency loan book has increased quite considerably by virtue of the fact that interest rates have gone up in that period of nine months of last year, which has contributed to the increasing net interest income for this year. And I'll talk to you a little bit on that in a few minutes.



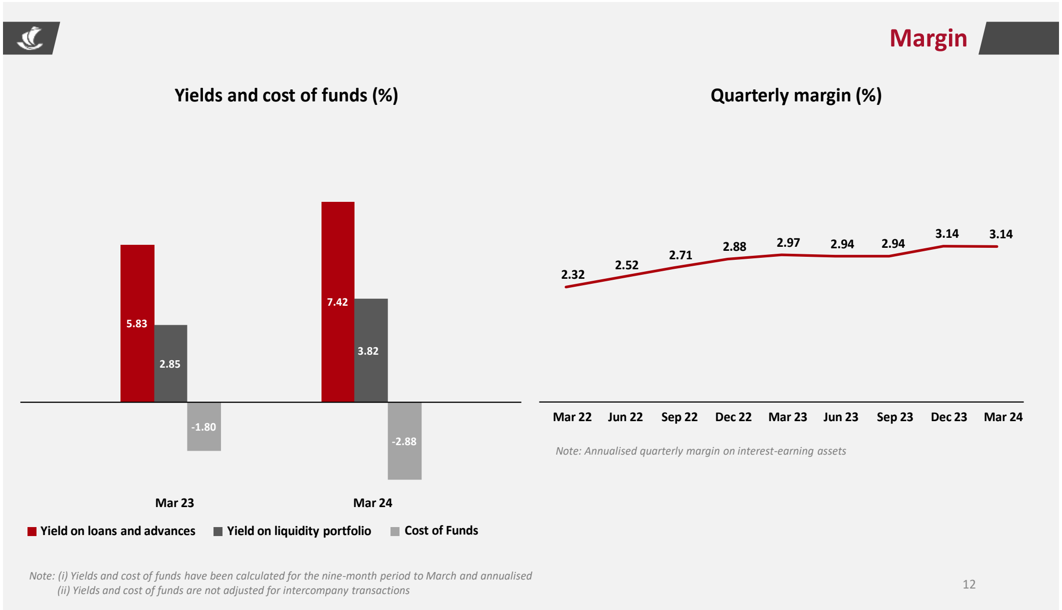
On the liability side, you will see here that our deposits increased from Rs 597 billion last year to Rs 668 billion as at March 2024.

Quite a healthy growth in our deposit base in foreign currency from Rs 322 billion to Rs 364 billion, which is quite an important growth over that year. In rupees, it has been pretty linear through many, many years. And we continue to see our deposit base in rupees increasing from Rs 275 billion to Rs 304 billion. And this increase in our deposit base with a loan book which has increased by 6% gives rise to an excess liquidity that has increased over that period.



If you look at our liquid assets in rupees, Rs 190 billion to Rs 225 billion, this reflects the increase in our deposit base in rupees. Likewise, in foreign currency, you would see our liquid assets increasing from Rs 186 to Rs 203 billion. And these liquid assets and the increase in liquid assets, both in rupees and in foreign currency, have given rise to some additional net interest income, given that these liquid assets comprising government securities and placements, as we speak now are yielding good returns,

For example, in dollars, we are earning 5%. This is indeed contributing to an increase in our net interest income in foreign currency. We are also benefitting from better yields in our rupee liquidity portfolio mainly due to the investments in longer tenor government bonds.

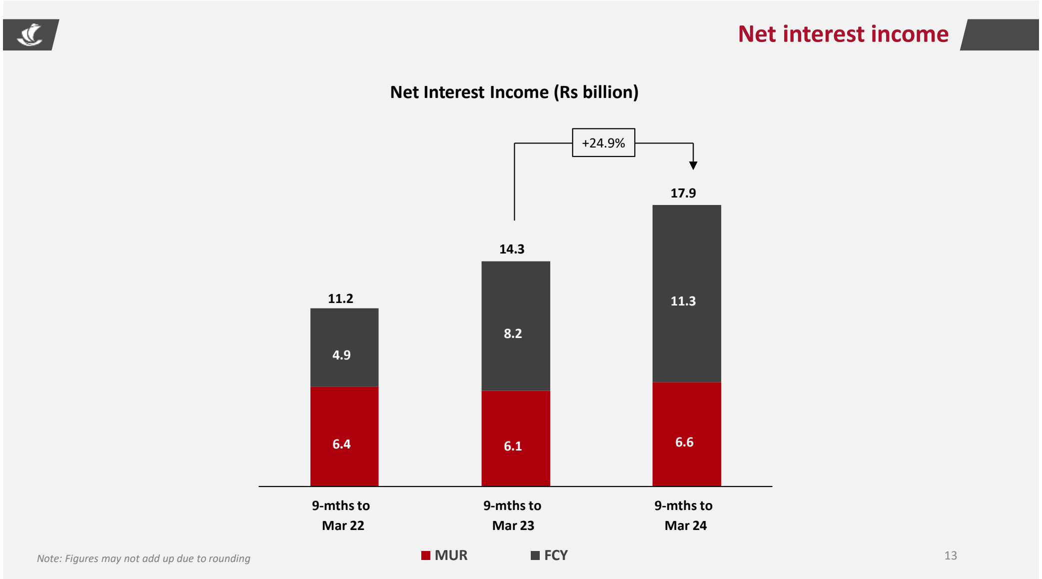


And this is also something that's fairly new that we wanted to show you. By virtue of the fact that interest rates have been going up, you will see that the yield that we are generating on our loans and advances book increase from 5.83% to 7.42%, which is an increase of 1.59 percentage points.

This is rupee and foreign currency all compounded there. A 1.59 percentage point increase in the yield on our loans and advances compared to an increase in our cost of funding from 1.80% to 2.88%, which is an increase of 1.08 pecentage points. And obviously, this is what is contributing to the increase in our NIM. The fact that our yields on our assets is growing faster than our cost of funds, 1.59% against 1.08%, is indeed creating this increase in our NIM.

And this is indeed what you can actually see on the screen between March 2022 to March 2024. Every quarter, we are seeing an improvement in our NIM, which currently sits at 3.14%. And it is not surprising to see that our NIM has stabilised between December 23 to March 2024. Our NIM has stabilised for the reason that I had explained earlier on. The interest rates in foreign currency have peaked since June 2023.

And not surprising, therefore, that our NIM also is stabilising at 3.14% between December 23 and March 2024.



The result of all this is that we indeed have seen an increase in our net interest income in rupees from Rs 6.1 billion to Rs 6.6 billion and our net interest income in foreign currency, up from Rs 8.2 billion to Rs 11.3 billion. The increase in our net interest income has predominantly been coming from our foreign currency assets.

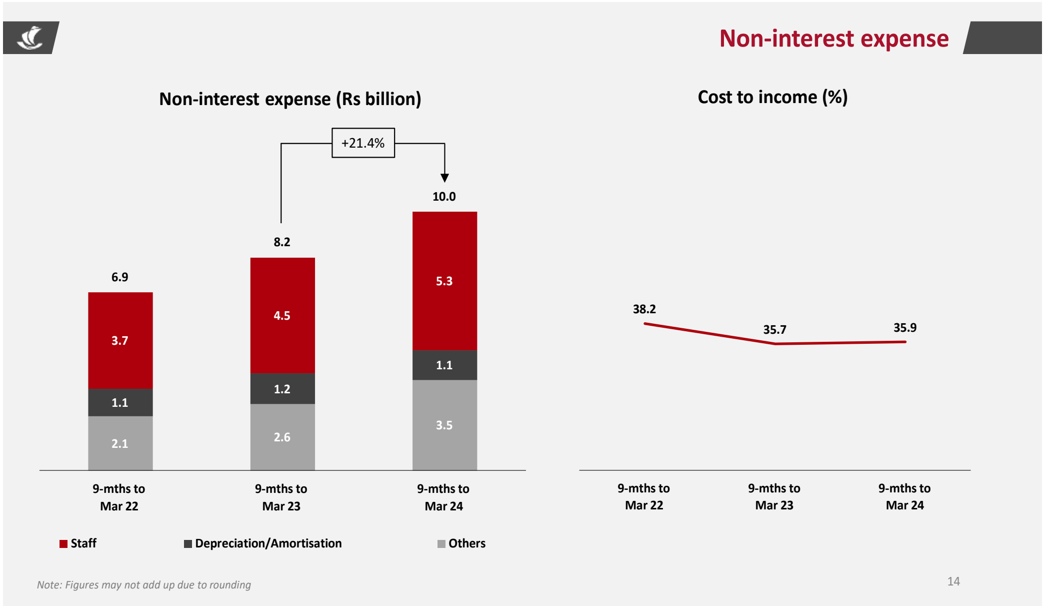
And maybe just to summarise all that I have mentioned just now and I think it is useful for me to share that with you. When you look at all the lending that we do to our customers in rupees, the net interest income that we have generated from our lending to our customers in rupees has increased by 6.8%. And that 6.8% is basically linked to a volume increase. And as I have mentioned earlier on, our loan book increased by 6% over the year.

And the 6.8% increase in our net interest income on our rupee loan book reflects the increase in our loan book. Still on the rupee side, on the excess liquidity that we hold, the net interest income on our rupee liquidity has increased by 21.6% over the year. And that 21.6% is a combination of two things; 11.5% due to an increase in the volume of excess liquidity that we hold. We've seen that earlier on, with our deposits in rupees increasing faster than the deployment of those deposits into loans.

We had an 11.5% increase in net interest income due to the volume, of i.e. more investment in securities and other liquid assets, and 10.1% due to the margin on our rupee liquidity portfolio. I explained to you earlier on that our margin on our excess liquidity had gone up. And the increase of 21.6%, half of that or nearly half of that, is due to the fact that we had an increased NIM on that excess liquidity in rupee.

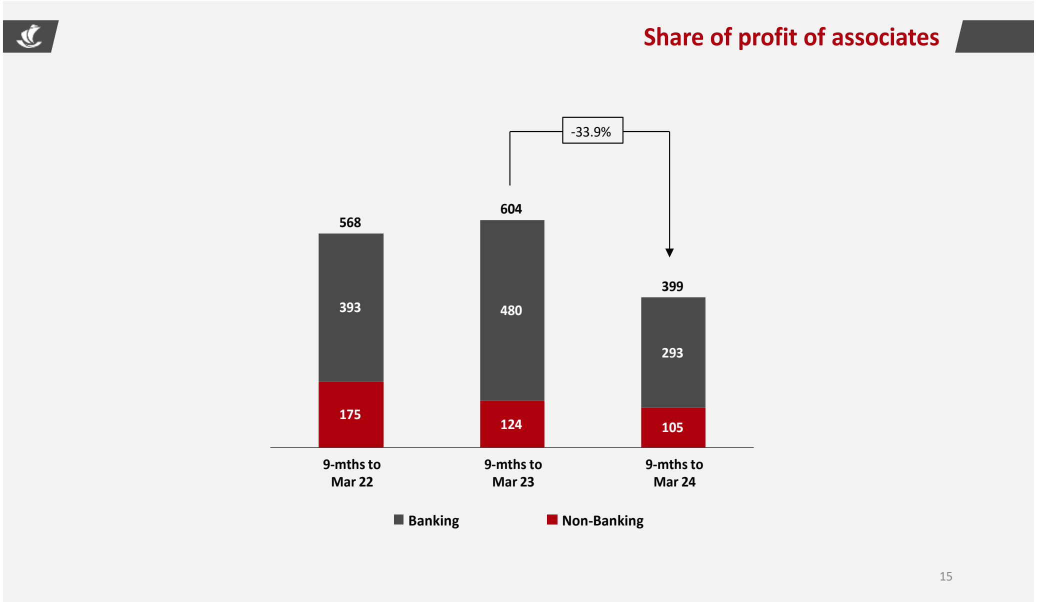
In terms of the lending to our customers in foreign currency, the net interest income increased by 32%. 7% of that due to the volume. We saw earlier on that this is precisely what had happened. Our loan book increased by 6%. And the difference of 25% relates to an increase in our net interest income due to a better net interest margin that we had generated on our foreign currency loan book.

And also on the liquidity side, in foreign currency, we have seen quite an increase in net interest income on our foreign currency liquidity as a result of both an increase in volume and also due to an increase in yields that we have earned on these investments securities and other liquid assets in foreign currency.



Coming to non-interest expenses, you would see here quite a significant increase in our other non-interest expenses, up from Rs 2.6 billion to Rs 3.5 billion.

And the main explanation for that increase, you will remember we mentioned about this deposit insurance scheme, for which we had accrued an amount of Rs 413 million for nine months. And we also had an operating loss in the second quarter of Rs 260 million. The two add up to Rs 673 million. And that represents, in fact, the bulk of the increase that we see here. Otherwise, nothing new to add.

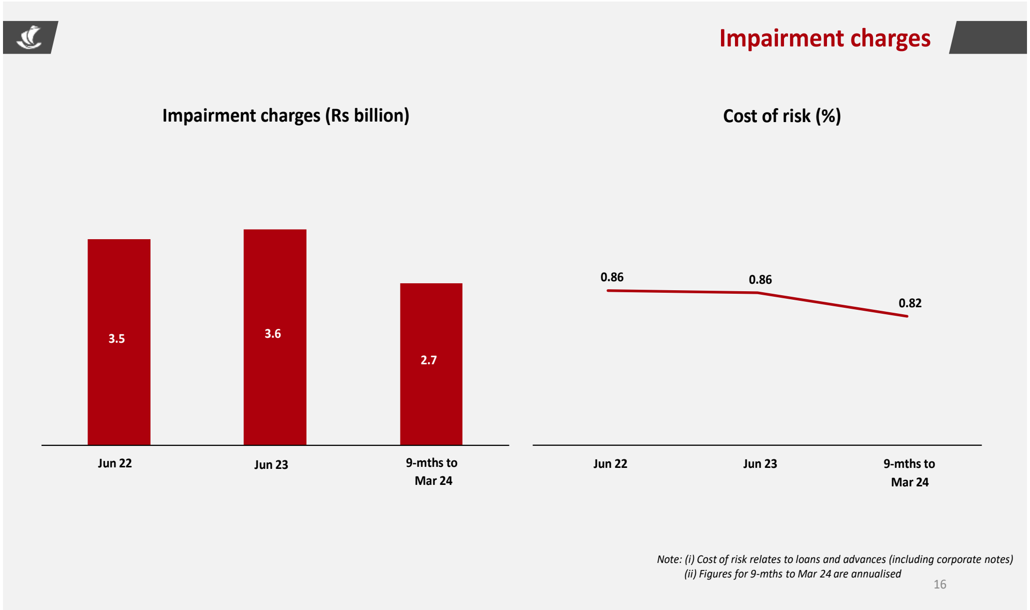


Concerning our share of profit of associates, this has gone down quite significantly, from Rs 604 million to Rs 399 million.

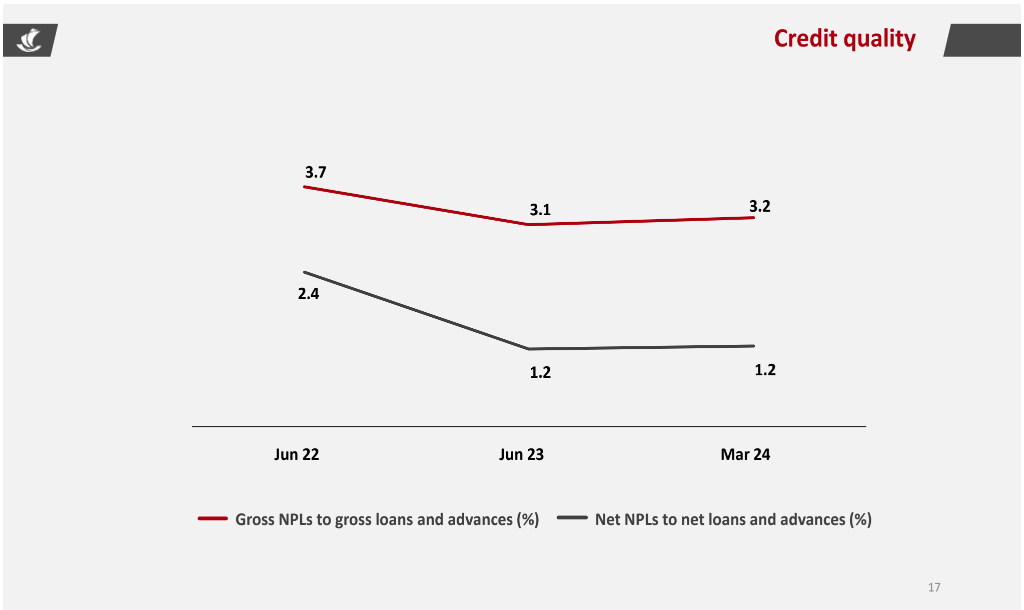
Basically linked to our share of profits in BFCOI and in SG Mozambique. Just wanted to remind you, because I had mentioned this at the last earnings call, our profit from BFCOI actually went down this year because there was an exceptional recovery that was generated last year. There was quite a big NPL where we actually recovered the capital. That explained why the profit of BFCOI has fallen this year.

But operationally speaking, the profits of BFCOI are relatively flat from an operational perspective. And the other reason why we have seen a drop in profits from our associates, our banking associates, is in relation to Société Générale (SG) Mozambique. Société Générale Mozambique, I don't know if you have read in the press. At the beginning of the year, Société Générale announced that they were selling their 65% stake in SG Mozambique to a banking group called Vista.

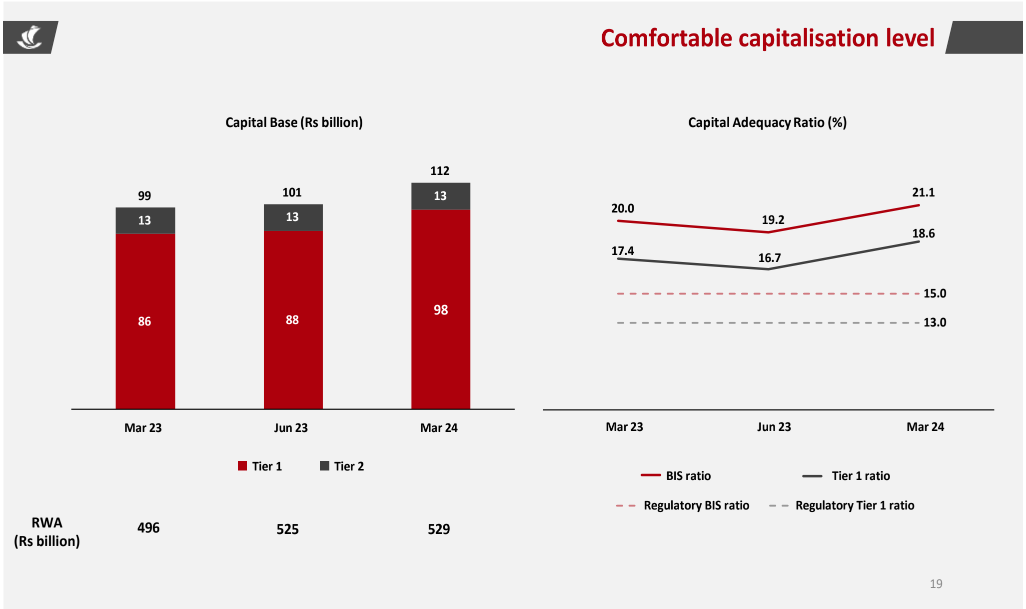
And we have also tagged along SG to sell our 35% stake to Vista. The SPA, the share purchase agreement, was signed last week. And we expect the transaction to be completed sometime end of June, provided that all the conditions precedent to the transaction have been fulfilled. We expect a loss of Rs 200 million on the disposal of our 35% stake in SG Mozambique.



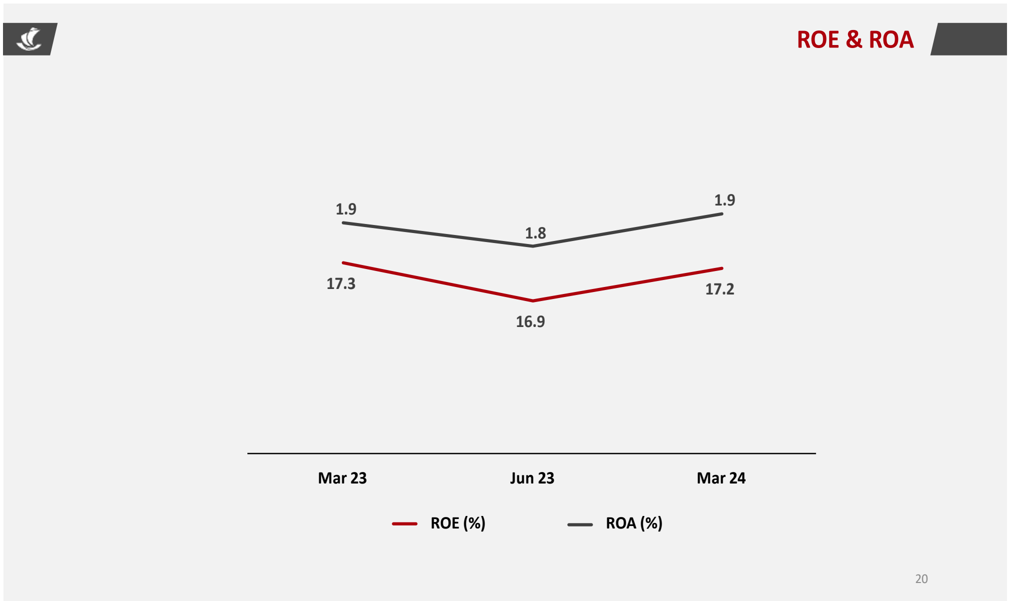
Impairment charges have increased but remain stable reflecting partly the growth of our loan portfolio; with a cost of risk of 82 basis points, a little bit down compared to the 86 basis points that we have seen in the last two years.



In terms of credit quality, NPL has gone up slightly from 3.1% to 3.2%. It is not because of new additional NPL. In fact, this quarter, we haven't seen any new additional NPL or sizeable material new NPL this quarter. The increase in NPL that you’re seeing here is basically linked to the fact that the rupee has depreciated versus the dollar. And therefore, some of our NPLs, which are denominated in dollars, therefore, have increased when converted in rupees.



And finally, in terms of our capital base, we have seen a continued increase in our capital adequacy ratio, up from 19.2% to 21.1%.



And return on asset, up from 1.8% to 1.9%. And our return on equity, up from 16.9% last year to 17.3% for the nine months ended March 2024.

That's it. Thank you very much for your attention. And I'll stop for now and await any questions that you may have in relation to our financial performance for the nine months. Thank you very much.

OP Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Participants on the webcast who wish to ask a question may do so by clicking 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 question queue.

You may click the withdraw from question queue to remove yourself from the queue. Again, if you would like to ask a question, please do so by clicking on the connect with HD audio button. We'll pause a moment to see if we have any questions. The first question we have comes from around Ronak Gadhia as a personal investor. Please go ahead.

RG Good afternoon, Mr Jean Michel and team. Firstly, congratulations on the result. Good set of numbers and good to see that the share price is reacting as well. I have maybe three questions. Firstly, it's on your on-balance sheet, which is off-balance sheet exposure. As you mentioned, there was a big increase in off-balance sheet. Not so much on-balance sheet, although that could be volatile. I'd just like to know, what informs the decision in terms of how an exposure is booked, whether it's off-balance sheet or on-balance sheet?

Is this a decision that's driven by the bank or is it by the client? And I guess, critically, what difference does it make from a return on investment or revenue perspective, whether an exposure is booked off-balance sheet or on-balance sheet? That's the first one. The second one was on margins. The last time we spoke, which was a few months ago, admittedly, and again, based on the comments you made, it seems you're a bit surprised about the NIM performance this quarter or this year in particular.

Given what you have achieved and given what you're seeing in the markets right now, what would you say is your NIM outlook, more so in the medium term? Where do you think your NIMs would settle when we go back to a more normalised environment? And then the last one was on your capital allocation, as you showed on the last slide. Given the profits you are making, the capital adequacy ratio for the group has continued to increase quite significantly, now above the regulatory minimum.

Any thoughts of increasing the payout ratio or maybe implementing some form of buyback so that the valuation of the share price improves? Thank you.

JM I'll answer your questions. And obviously, Thierry, who is with me, will complement what I'm saying. To start with, the on- and off-balance sheet exposure, I think, as I mentioned earlier on, it's a picture at a particular point in time. When we get to commodity trade finance, in most cases, in 80% of the cases, when we are dealing with a commodity trade finance deal, it always starts with the opening of a letter of credit for a trader.

One of the traders would be asking us to open a letter of credit. It could be for the import of crude oil and it would be an import of crude oil that would be sold to a refinery or to be sold to an oil major. Or it could also be the import of a refined product by the trader that would be sold to a state trading company, for example. It's not a question of us deciding whether we want to privilege on-balance sheet or off-balance sheet exposure.

It is really dictated by the trader who will be approaching us to open that letter of credit. It almost always starts with the opening of your letter of credit, which is off-balance sheet. And when the letter of credit comes to maturity, it's then that it is converted into an on-balance sheet exposure. It's not a question of us choosing which transaction that we want to carry out. It is a natural flow. It's in the value chain of the transaction.

It starts with the opening of letter of credit and it will end up with an export-discounting exposure or an import loan exposure, which is an on-balance sheet exposure. And when we determine the return on capital, we look at it globally. We look at it both from the moment we open a letter of credit to the moment it becomes an on-balance sheet exposure, up till the exposure is totally extinguished. This is what I would mention in relation to your first question. And Thierry, maybe you can add on what I have just said.

TH Just to add is that the impact on the structure of our revenues is counting the flow of this business, partially in the net interest income and partially in the fees income. Overall, this business has been growing. And what we do not see in the net interest income is actually in fee income depending on what stage we are in the flow of the deal.Overall, it's a growth of business for us which remains one of the important sources of revenue of the bank.

JM And even from a deposit base.

TH And indeed, in this business, you're right to say that is accompanied with deposits, which are part of the collateral we have on the exposures in this business. This is the additional profitability from the growth of the 'Energy and Commodities' business, which is the transactional part of the business.

JM The second question is about…

TH Margins outlook.

JM The margins outlook. Maybe before I answer that question, I think it's useful to mention the following points. When it comes to our foreign currency book, assets and liabilities, when interest rate goes up, and it had gone up, it actually improves our NIM. That's in relation to our foreign currency balance sheet. When it comes to our rupee balance sheet, it's the other way round. There's a natural hedge somewhere in the sense that when it comes to the rupee balance sheet, when interest rate goes up, it actually has a negative impact on our NIM.

Having said that, what we have seen of late is that on the rupee balance sheet, the interest rate on our investment securities had not picked up or rather, the key rate in Mauritius had not followed the same trend as what we have seen in international markets. We are of the opinion, and time will tell if we are right, that when interest rates in foreign currency are going to fall, that will impact negatively our NIM on the foreign currency interest-earning assets, at least for a certain period of time.

The interest rate or the NIM on the rupee loan book will not be impacted at least for a while, because the interest rate on the rupee side did not go in the same direction when the increases in the main interest rates in foreign currency were taking place. We do expect, therefore… if interest rate in rupee was also falling down at the same pace as the fall in the foreign currency loan book, the foreign currency impact would have been offset by the local currency impact to some extent.

We would therefore expect a relative reduction in our NIM as interest rates start to fall. I don't know when it's going to happen. But when it happens, there will be a drop in our NIM going forward, until such time that the key rate in rupees starts to fall again. Because when the key rate in rupee will start to fall again, it will compensate the drop in NIM on our foreign currency interest-earning assets.

And finally, on the capital allocation or the payout ratio, it is indeed true that our capital adequacy at 21% has increased quite significantly in the last couple of years.

But we cannot say what we are going to do at this point in time. We know we have declared dividends in the May board meeting and that will impact the June balance sheet. Our retained earnings will be impacted by the dividends that we have declared in May. And likewise, when we will be declaring dividends in September, it will impact our capital adequacy ratio in September. But we do acknowledge that we have a pretty comfortable capital adequacy ratio as we speak right now. I will stop here. I don't know if Thierry…?

TH Maybe just to complete on the NIM, to be clear, the reason why when the foreign currency interest rates are going down, our net interest income is expected to go down, it's because our current account in foreign currencies are not remunerated and these deposits are either deployed in government securities or placed with banks. And this is a substantial part of our deposit base from our corporate clients. This is because these deposits are the operational deposits of our clients.

Maybe for you to understand the impact of decreasing interest rates on our foreign currency net interest income, currently, a decrease of interest rate by 100 basis points would have a negative impact on our revenue of Rs 400 million on net interest income. That is what is the magnitude of the decrease in interest rate on the foreign currency side. A quarter ago, the impact of a 100 bps drop in interest rates was Rs 500 million.

We are taking opportunity of the high interest rate momentum to manage our treasury and to decrease the impact of lower interest rates in the future. That's what we can say. As far as what is the outlook midterm, difficult to say. We had budgeted for this year a decrease in foreign currency interest rates starting in the beginning of this year. This did not happen. That's a little bit difficult at this moment to have a complete view on what will be the evolution of interest rate over the next six months, one year, two years.

We still believe interest rates will be on a decreasing trend, but it's certainly not going to happen very rapidly

RG Thank you, Thierry.

OP Thank you very much, sir. Ladies and gentlemen, just a reminder, if you would like to ask a question, please do so by clicking the connect with HD audio button now and follow the instructions. The next question that we have comes from Darren Smith of 337 Frontier Capital. Please go ahead.

DS Good afternoon, Jean Michel and team. Thanks for the call and congrats on another great set of results. Just two questions for me. Would you be able to share some colour or insight as to why local interest rates remain so low relative to US rates? It's interesting that it's essentially a negative carry trade for the last couple of years. And I don't understand why that still exists. If you could share some colour there, that would be great.

And then also, the Visa and MasterCard holdings that you guys have, why do you own those and why don't you sell them and release that capital to shareholders or to other purposes?

JM I'll attempt to answer your first question because, logically speaking, with the interest rate going up in international markets, you would expect rates in Mauritius to go up. In the US, the Fed Funds rate had gone up by 5 percentage points. Whereas in Mauritius, it had gone up by 3 percentage points. It has not followed the same trend as internationally. And surely, this must also have had an impact on the rupee value against the dollar, for example. I wouldn't comment necessarily on what the monetary policy committee of the Bank of Mauritius or at the way they look at things.

But my view, it's just my personal view, is that somewhere, there is a balance that the monetary policy committee is taking on board between inflation, exchange rates and economic growth. … The question is that will an increase in interest rates give rise to a drop in inflation? And in many of these international markets, monetary policy committees are increasing interest rates because of inflation. They are of the view that they want to bring inflation down and that's why they are increasing interest rate.

I think the view here or the question, rather, is whether inflation rates will be reduced by an increase in the key rate. And I think somewhere, this is the balance in terms of the decision-making. Will a key rate increase lead to a drop in inflation or is it more likely that we are facing imported inflation? But I think it is, to some extent, the view that the authorities have is that if increasing interest rate is not going to have a significant or meaningful impact on inflation, but could have a meaningful impact on growth or could have a meaningful impact on the finance charges of households or corporates, the costs of increasing rates could outweigh the benefits. I think somewhere, there is a balanced view of how they look at things insofar as interest rate is concerned. Thierry, I don't know if you want to add something?

TH I completely share your opinion, Jean Michel. I totally agree with you. We have been facing imported inflation, so an increase in the key rate would have little impact on inflation, but could have a very negative impact on the economy and the growth of the economy as well as increasing the financial charges on household and corporates.

DS I was just going to ask, historically, has there been a carry trade in Mauritius? If you're talking about imported inflation, then that's Mauritian rupee stability, which is impacted by interest rates, I would think. Or maybe not. Maybe there is not much of a carry trade into that market.

JM I think when the need arises, the central bank does come and support. When there has been, for example, last year, for a few months, there was a backlog in terms of requirement for foreign currency, the central bank actually intervened and sold $300 million in the period of six months. Because the Bank of Mauritius today has got a comfortable level of foreign reserves of about USD 7 billion and given that they intervene when the need arises, a carry trade would not necessarily work.

I don't know if I have answered your question, but…

DS I'm not a central banker. Just looking for a little colour into why those rates are so much lower. That's helpful. Thank you.

JM Concerning Visa, MasterCard, I must admit that even at our level, we are not comfortable with these changes in fair values and how they impact our bottom line.

We are currently looking at this accounting policy. Because it doesn't make sense indeed that our bottom line at the moment is being impacted, but in a quite meaningful manner by changes in fair values of the shares of Visa and MasterCard.

DS But can you just remind me, why do you guys own those shares?

JM These shares, we hold them since a long time ago. These shares were given to us free of charge because we became a participant at that time. We didn't buy them. And we have never bought or sold those shares. We have maybe sold some shares sometime back. But it's not a question of us buying or selling these shares.

And these shares now represent a bit more than Rs 3 billion, Rs3.5 billion as we speak.

DS If there's no restriction on selling them as a shareholder, I would highly encourage you to liquidate those assets. It shouldn't be your business to be… And I know you're not speculating, per se, but I don't think it should be the core business of MCB Group.

JM It's not a very significant chunk either. It's about Rs 3.5 billion that we own. But point taken in terms of what you're saying, And it's not what we're doing. We're not buying or selling Visa, MasterCard shares as we speak. We're not speculating on this. We're just holding them. But point taken.

DS If I could just ask one more question, the outlook on the foreign currency assets, I know, I think about a year ago, Jean Michel, you were thinking that there would be almost a reduction in the size of that book, given business in Nigeria and also just trends in commodity markets. But that continues to grow. And I suspect some of that is a function of rupees. But what's the thinking or outlook for that business? NIMs aside. I'm not asking for net interest margins, but the growth of that business over the next year or two.

TH Part of the growth, of course, is due to the foreign currency fluctuations i.e. the depreciation of the rupee. And we know that it is representing a quite important part of our portfolio. But we are conscious about the NIM and the need to diversify our portfolio and diversify into other segments.

Even on the commodity side, we are right now looking at the possibility to extend this activity to metals and minerals. We are working on it and preparing ourselves to be able to do it with full knowledge and capacity, front to back, and going through the understanding of the risk involved with these commodities. And we are developing additional lending activities which should, step by step, strike the right balance between commodities and other businesses. This is not a strategy to reduce our activity.

But to slow down the growth of this specific activity and helping the growth of the other businesses and lending.

JM Over time, we could see, for example, in terms of diversification, a higher share of our loan portfolio in the GIC segment, 'Global International Corporates'. Maybe in gas, there has been some guarding rails that we have managed to do in terms of commodity trade finance (CTF) in gas. A bit in metals and minerals, possibly. And hopefully, that will help us to diversify our portfolio. And we're not talking about reducing oil, but it will have a lower proportion in percentage terms in our overall loan portfolio.

DS Got it. Thank you.

OP Thank you, sir. Ladies and gentlemen, at this stage, there are no further questions. Mr Jean Michel, would you like to make any closing comments, sir?

JM Yes. Thank you very much, once again, for your participation at this earnings call. It was really a pleasure for us to host it and to share with you our numbers. And we look forward to our full-year results that will come out at the end of September. And then, obviously, share with you how our full-year results have evolved then sometime beginning of October. Thank you again very much for your presence and we look forward to our next meeting. Bye-bye.

OP Thank you, sir. Ladies and gentlemen, that then concludes today's conference. Thank you for joining us. You may now disconnect your lines.

End of transcript