MCB Group Limited
14 August 2023

Ratings

Facilities/Instruments	Amount (MUR Million)	Rating[1]	Rating Action
Bond Issue	**2,000**	**CARE MAU AAA; Stable [Triple A; Outlook: Stable]**	**Reaffirmed**
Proposed Bond Issue	**2,500**	**CARE MAU AAA; Stable [Triple A; Outlook: Stable]**	**Assigned**

Ratings Rationale

The rating assigned to the bond issue of MCB Group Limited continues to derive strength from the long track record of the Group which established itself as one of the leading banking and financial services providers in Mauritius, professional and highly qualified management team, continued growth in total income and profitability, consistent flow of dividend income from subsidiaries (primarily from MCB Ltd), maintenance of robust liquidity position with significant holdings of high quality assets, close monitoring of assets coupled with strict provisioning measures adopted leading to low levels of Gross and Net Non-Performing assets, reliable source of funding comprising mainly of low cost current & savings account (CASA) deposits with satisfactory renewal rates, maintenance of comfortable capital buffer with an increasing consolidated Capital Adequacy Ratio and maintenance of low consolidated gearing level. The rating is further supported by The Mauritius Commercial Bank Ltd ("MCB Ltd") which is rated CARE MAU AAA (Is); Stable.

Rating Sensitivities:

Positive Factors - Factors that could lead to positive rating action/upgrade: **Not applicable**

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Subdued performance of subsidiaries, leading to lower dividend income for MCBG
- Decline profitability impacting the core capital and further the capitalisation level of the Group
- Significant dip in regulatory ratios
- Deterioration in asset quality giving rise to high levels provisioning and thus, affecting profitability

BACKGROUND

MCB Group Limited ("MCBG") was incorporated in 2013, as a result of the reorganisation of the Group. In April 2013, the shareholding of MCB Ltd was restructured, and its shares, which were listed on the Stock Exchange of Mauritius ("SEM"), were exchanged on a one-for-one basis for shares in MCBG, the bank's ultimate holding company. The ordinary shares of MCB Ltd were delisted, while MCB's shares were listed on the Official Market of the SEM. Furthermore, those MCB Ltd shares held by MCB Group were exchanged for shares in MCB Investment Holding Limited – incorporated in 04 November 2013, as a wholly owned subsidiary of MCB Group Limited, to be the intermediate holding for all group banking investments.

The Mauritius Commercial Bank Ltd was incorporated on 01 September 1838 by Mr. James Blyth founded as La Banque Commerciale de Maurice in Port Louis. In 1839, Queen Victoria granted a Royal Charter to the newly established bank for a period of twenty years under the name of 'The Mauritius Commercial Bank'. The charter was renewed every twenty years until 18 August 1955 when the Bank became a limited liability company. The bank was listed on the Stock Exchange

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

of Mauritius since 1989. Following a restructuring, MCB Group Limited was incorporated to hold 100% stake in MCB Ltd and act as the ultimate holding company for entities of the Group. Subsequently the shares of MCB Ltd were delisted and were exchanged on a one-for-one basis for shares in MCB Group which were listed on the SEM.
MCB Group has evolved into a prominent regional banking and financial services player, offering a comprehensive range of tailored and innovative solutions through its local and foreign subsidiaries and associates.

Notwithstanding a significant rise in earning assets, net interest income rose by only 3.6%, being impacted by lower yields on Government securities locally and reduced margins on the Group's international loan book amidst a shift in the mix toward the shorter tenor loans. Despite a net loss from equity financial instruments carried at fair value, amidst market volatility as compared to a significant gain in the previous year, non-interest income went up by 11.8% on the back of (i) a growth of 36.1% in net fee and commission income to MUR 6,070 million, reflecting higher revenues across banking subsidiaries, with notable growth being registered in respect of regional trade financing and payment activities at the level of MCB Ltd (ii) a rise of 56.6% in profit arising from dealing in foreign currencies mainly due to the enhanced performance by MCB Ltd, (iii) The resumption of rental income at the level of MCB Real Assets, following the reopening of the Mauritius borders in October 2021. The Group PAT for the year ended 30 June 2022 grew by 20.9% to MUR 9,961 million, driven by enhanced performance of the banking cluster.

Net loans of the Group registered a year-on-year growth of 11.51% in FY22, supported by a similar growth at the level of MCB Ltd. The latter performance was largely explained by the continued expansion in its foreign activities, with related credit to customers increasing by 39.1%, mainly linked to the Energy & Commodities business, while rupee depreciation also weighed in the balance.

At the Bank level, total deposits increased by 3.6% to MUR 492,421 million, driven by a rise in rupee denominated deposit. 'Other borrowed funds' went up by 23.2% to stand at MUR 93,439 million, as a result of the USD 1 billion syndicated term loan facility raised at MCB Ltd level to refinance existing obligations and support the growth of its international activities.

Shareholders' funds increased by 6.9%, resulting from retained profits for the year and the issue of scrip shares in lieu of dividend. The Group maintained comfortable capitalization levels with the BIS ratio standing at 18.1% as at June 2022, of which 16.8% in terms of Tier 1.

For the six months ending 31 December 2022, the Group registered a PAT of MUR 6,788 million, representing an increase of 33.8% compared to the corresponding period last year. This performance was largely driven by an improvement in core earnings and a drop in net impairment charges. Contribution from foreign-sourced income stood at above 65% of Group PAT.

GNPA declined from 3.7% at 30 June 2022 to reach 3.5% as at 31 December 2022. For the same period, the Group remains adequately capitalised with a CAR of 18.6%, of which 17.2% in the form of Tier I.

Financial Performance updates during FY23

During FY23, the board of MCBG approved the conversion of 154 million preference shares into 5 million ordinary shares, which have been listed on the Official Market of the SEM.

For the nine months ending 31 March 2023, MCBG achieved net interest income of MUR 14,378 million (9MFY22: MUR 11,191 million) and PAT of MUR 10,923 million (9MFY22: MUR 7,393 million). Total loans & advances have grown from

MUR 348,988 million at 30 June 2022 to MUR 354,766 million at 31 March 2023. The deposit book also increased from MUR 525,656 million at end of June 2022 to MUR 597,418 million at end of March 2023.

At 31 March 2023, the Group had a GNPA of 3.6% and it remained well capitalised with a CAR of 20%.

In August 2023, MCBG repaid MUR 1,109 million floating rate subordinated notes which reached maturity.

Annexure I

Details of rated instruments

Instrument	Amount	Coupon Rate	Repayment
Bond Issue	MUR 2,000 million	5.35% per annum [Key Rate (4.50%) + 0.85%]	Bullet repayment in June 2028
Proposed Bond Issue	MUR 2,500 million	4.85% per annum [Key Rate (4.50%) + 0.35%]	MUR 1,250 million - August 2026
		5.00% per annum [Key Rate (4.50%) + 0.50%]	MUR 1,250 million - August 2028

Annexure II

Rating Symbols
Long /Medium-term Instruments

Symbols	***Rating Definition***
CARE MAU AAA	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
CARE MAU AA	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry very low credit risk.
CARE MAU A	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry low credit risk.
CARE MAU BBB	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry moderate credit risk.
CARE MAU BB	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU B	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU C	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU D	Instruments with this rating are in default or are expected to be in default soon.

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE MAU AA to CARE MAU C. The modifiers reflect the comparative standing within the category.

Rating Outlook

The rating outlook can be 'Positive', 'Stable' or 'Negative'.
A 'Positive' outlook indicates an expected upgrade in the credit ratings in the medium term on account of expected positive impact on the credit risk profile of the entity in the medium term.
A 'Negative' outlook would indicate an expected downgrade in the credit ratings in the medium term on account of expected negative impact on the credit risk profile of the entity in the medium term.
A 'Stable' outlook would indicate expected stability (or retention) of the credit ratings in the medium term on account of stable credit risk profile of the entity in the medium term.

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About CARE Ratings (Africa) Private Limited:

CARE Ratings (Africa) Private Limited (CRAF) is the first credit rating agency to be licensed by the Financial Services Commission of Mauritius in May 2015. It is also recognized by Bank of Mauritius as External Credit Assessment Institution (ECAI) from May 2016. CRAF is also licensed by Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya. CRAF intends to expand across other geographies in Africa with Mauritius as its hub of operations. With an equitable position in the Mauritius capital market, CARE Ratings (Africa) Private Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

CRAF's shareholders are CARE Ratings Limited, African Development Bank, MCB Equity Fund and SBM (NFC) Holdings Limited.

CRAF gets its technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings Limited on an ongoing basis. CARE Ratings Limited, with an established track record of rating companies over almost three decades, follows a robust and transparent rating process that leverages its domain and analytical expertise backed by the methodologies congruent with the international best practices.

CRAF’s Rating Committee consist of full-time members comprising of Senior Rating officials from CARE Ratings Limited and a panel of experienced professionals from Mauritius and African Development Bank.

CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.