

MCB Structured Solutions Ltd

June 15,2022

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating ¹	Rating Action
Secured Credit-Linked Notes ("CLN")	160	Provisional CARE MAU AA (SO) Stable [Double A (Structured Obligation); Outlook: Stable]	Assigned
Total	160		

The above rating is provisional and will be confirmed once the company meets the following conditions to the satisfaction of CRAF:

- 1. Execution of the Note holder's agreement in line with the draft term sheet,**
- 2. Creation of escrow mechanism**
- 3. Undertaking from MCB Stockbrokers Limited to buy back the MCBG Notes on relevant maturity date**

Rating Rationale

The rating is supported by the integrity of the proposed legal structure and the structured payment mechanism designed to ensure timely payment of the interest on the rated Secured Credit-linked Notes, as per the terms of the transaction and is not a standalone rating of MCB Structured Solutions Ltd ("MSSL").

The rating assigned to MSSL derives strength from the credit risk profile of the reference entity, MCB Group Limited ("MCBG" rated CARE MAU AAA Stable), since the interest payments will be made out of coupon payments to the noteholders of MCBG, and also MCB Stockbrokers Ltd (MCBSB) which, in the event that the noteholders choose to do so, shall undertake to buy back the MCBG notes on the relevant maturity date at par. MCBSB is a wholly owned subsidiary of MCB Capital Markets Ltd (MCBCM), which in turn is a 100% subsidiary of MCB Group Limited.

The rating is however constrained by the ability of the Underwriter ((MCBSB) to arrange for funds on the maturity date and operational risks associated with the complex nature of Credit linked Notes.

MSSB's ability to arrange for funds on the maturity date and the timely coupon payments to the noteholders from MCBG and are the key rating sensitivities.

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:

- Downgrade in the rating of the reference entity, MCB Group Limited
- Inability of the underwriter, MCB Stockbrokers Ltd, to have access to financial sources for the buy back the notes of MCBG

BACKGROUND

MCB Structured Solutions Ltd. (MSSL), a public limited company, was incorporated as a Special Purpose Vehicle (SPV) in January 2013. It is wholly owned by MCBCM, a 100% subsidiary of MCB Group Limited (CARE MAU AAA; Stable). As on June 30, 2021, MSSL reported a PAT of MUR 10 million on a revenue of MUR 47 million.

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

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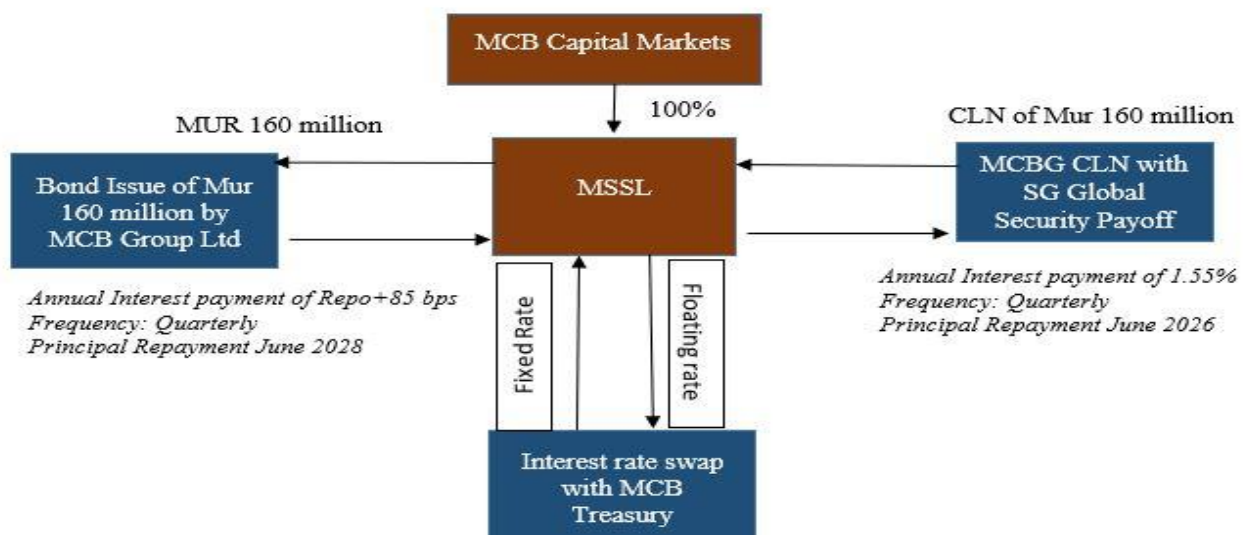
Credit linked Notes to be issued by MSSL

As part of MCBCM's Credit Linked Notes (CLN) business, MSSL proposes to raise funds by issuing CLNs and invest only in bonds issued by entities, where MCB Group Limited holds directly or indirectly at least 75% of its share capital and voting rights.

As a part of its plan in May 2022, MSSL has issued Credit linked Notes (unrated) of Euro 1.3 million (Mur 60 million) and has invested the proceeds in Bonds issued by COVIFRA (CARE MAU A Stable) a 93% subsidiary of MCB Real Assets (wholly owned subsidiary of MCB Group).

In June 2022, the company proposes to issue CLNs and utilize the proceeds for investment in MCBG Notes.

- Raised through a private placement
- Investors benefit from an interest income of 1.55% on par with 4-year FD rates and also participate in reference index returns.



The proceeds raised from the issue of CLNs shall be used to acquire notes issued by MCB Group on 29 June 2021 and maturing on 29 June 2028, which carry coupon payment of Repo + 0.85% (current repo rate at 2.25% p.a), payable on a quarterly basis. To hedge the interest rate risk, the MSSL proposes to enter into an interest rate swap with MCB Treasury. At a minimum, the Noteholders shall receive annual coupon of 1.55% p.a., a return which is almost equivalent to a 4 year fixed deposit at the Mauritius Commercial Bank Ltd. MSSL shall also invest in call options linked to the participation index, the SG Global Security USD VT 9 Index which longs the base index, SG Global Security USD Index, with an embedded volatility control of 9%. The Noteholders may benefit from an additional return based on the performance of the participation index, the SG Global Security USD VT 9 Index.

The base index comprises 30 equally weighted stocks having the lowest volatility selected from the SG Global Security USD Index calculated and published by Solactive AG and which represents the Global Security investment theme. As at 1st June 2022, some of its constituents include Cisco Systems Inc, Gilead Sciences Inc, Zurich Insurance Group AG and Amgen Inc.

In case there is a negative return from the Index, the Noteholders will still get minimum 1.55% p.a. In case of positive return, the same will be fully passed on to the Investors (over 1.55% p.a.).

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There is a maturity mismatch between the MCBG Notes (maturity date of 29 June 2028) and the CLNs (maturity in June 2026). The Issuer proposes to mitigate this risk as follows:

- At least 90 days prior to maturity, it shall offer the Noteholders the possibility of having their notes either (i) redeemed in cash at the relevant maturity date, or (ii) redeemed in specie by a transfer of MCBG Notes
- The Issuer shall enter into an Underwriting Agreement with MCB Stockbrokers which shall undertake to buy back the MCBG Notes on the relevant maturity date at par.

Financial Indebtedness

As at the date of the PPM, the Issuer (MSSL) has disclosed its financial indebtedness level in its Comprehensive Indebtedness Statement. Save/Except for the Permitted Financial Indebtedness, the Issuer covenants that it will not incur any Financial Indebtedness other than in the ordinary course of business to cover its general running costs and working capital.

Principal terms pertaining to the Credit linked Notes

Nature of Instruments	Credit-linked notes on MCB Group Limited with SG Global Security Payoff
Issuer	MCB Structured Solutions Ltd
Method of placing	Private placement with Eligible Investors pursuant to the PPM
Aggregate Nominal Amount	MUR 160,000,000
Nominal Amount per Note / Issue Price per Note	MUR 1,000
Currency	MUR
Minimum Subscription Amount	MUR 1,000,000
Use of proceeds	The proceeds raised from the issue of the Notes shall be used to finance the acquisition of (i) the Reference Underlying, and (ii) the Warrants.
Coupon Yield	1.55%
Index Return	The Index Return shall be calculated in accordance with Clause 3.5 of the PPM
Interest Rate	If the Notes are held up to Maturity Date and in the absence of a Credit Event, the Interest Rate over the period shall be the Investment Return (as defined in Clause 3.7)
Interest Commencement Date	The Issue Date
Coupon Payment Dates	Annually in arrears on each anniversary date of the Issue Date until Maturity Date
Redemption at Maturity	In the absence of a Credit Event on the Maturity Date, the Issuer shall give each Noteholder the option of exercising either (i) the Cash Redemption, or (ii) the Redemption in Specie for MCBG Notes. Where the Noteholder does not make a Redemption Selection, the Issuer shall apply Cash Redemption by default. If a Credit Event is declared or is continuing up to and including the Settlement Date, the Issuer may elect to redeem the Notes as per Clause 8.12(b) (<i>Credit Event Acceleration</i>) of the PPM and the price per Note shall be as calculated under the foregoing Clause.
Credit Event Acceleration	Upon being notified, or upon taking cognizance of the occurrence of a Credit Event, the Issuer shall issue the Credit Event Notice to the Noteholders' Representative and to the Noteholders, and the Issuer shall redeem the Notes on terms specified in Clause 8.12(b) (<i>Credit Event Acceleration</i>).
Limited Recourse	Recourse of the Noteholders shall be limited to the Issuer and the Reference Underlying, and, except for gross negligence, willful default or fraud, no recourse shall extend to the Reference Entity's or the Issuer's directors, shareholders, employees, service providers or agents who shall not be liable for any shortfall arising or losses sustained by Noteholders.

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Form of the Notes	The Notes will be issued in inscribed form. No certificates will be issued. Legal ownership of the Notes will be reflected in book entries recorded by the Issuing and Paying Agent on the Register which shall constitute the definitive evidence of the title of the Noteholder to the number of Notes shown against his name. Upon listing of the Notes (if any) legal ownership will be reflected in book entries recorded by the Depository and such records shall constitute the definitive evidence of the title of the Noteholder to the number of Notes shown in his Depository Account.
Further Issues	The Issuer may issue further Eligible Notes in accordance with Clause 8.8
Status of the Notes	The Notes shall be secured by the Security Interests and shall rank: <ul style="list-style-type: none"> (a) pari passu without any preference among themselves; (b) pari passu with any other unsecured creditors of the Issuer; and (c) senior to all holder of share capital of the Issuer.
Security Interests attached to the Notes	The Notes will be secured by the following Security Interests: <ul style="list-style-type: none"> (a) a pledge over the Issuer's holding of the Reference Underlying in accordance with the Reference Underlying Pledge Agreement; (b) a pledge over the Segregated Account in accordance with the Segregated Account Pledge Agreement, (c) an assignment by way of security over the Warrants in accordance with the Assignment Agreement, granted in favour of the Noteholders' Representative.
Noteholders' Representative	MUA Life Ltd
Issuing and Paying Agent (IPA)	MCB Registry & Securities Ltd
Listing	The Issuer shall use all its reasonable endeavours to list the Notes on an Exchange prior to the first Coupon Payment Date.
Rating	To be rated by CARE Ratings (Africa) Private Limited.
Governing Law	The laws of the Republic of Mauritius
Dispute Resolution	By way of mediation and/ or arbitration pursuant to the corresponding rules made under the MARC Arbitration Rules in the manner described in this PPM.
Clause 3.5 (The Index Return)	<p>The Index Return ("R_t") shall be floored at 0% and shall be calculated based on the following formula:</p> $R_t = \max \left(\left(\frac{I_t}{I_0} - 1 \right) - Y, 0 \right) \times \left(\frac{\chi_t}{\chi_0} \right) \times 100\%$ <p>Where:</p> <ul style="list-style-type: none"> I_t is defined as the Final Participation Index Level; I_0 is defined as the Initial Participation Index Level; χ_t is defined as the Maturity USD-MUR Exchange Rate; χ_0 is defined as the Initial USD-MUR Exchange Rate; and Y is defined as the Aggregate Coupon Yield. <p>The Issuer shall notify the Issuing and Paying Agent forthwith of the Initial Participation Index Level, the Final Participation Index Level, the Initial USD-MUR Exchange Rate, and the Maturity USD-MUR Exchange Rate.</p>
Clause 3.7 (The Investment Return)	The Investment Return shall be calculated as the sum of the Index Return and the Aggregate Coupon Yield. Accordingly, in the absence of a Credit Event, and should a Noteholder hold the Notes from the Issue Date to the Maturity Date, the minimum Investment Return shall be equal to the Aggregate Coupon Yield.

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Clause 8.12 (Credit Event Acceleration)	<p>On the occurrence of a Credit Event, the Issuer shall, within five Business Days of being notified or taking cognizance of the occurrence thereof, issue a Credit Event Notice to the Noteholders' Representative and the Noteholders. If the Credit Event of which the Noteholders' Representative and the Noteholders have been notified is declared or is continuing up to and including the Settlement Date:</p> <p>(a) the Noteholders' right to receive the Annual Coupon Payment shall be suspended as from the date of the Coupon Payment Date immediately preceding the occurrence of the Credit Event; and</p> <p>(b) the Issuer shall be entitled to redeem the whole of the Notes following the receipt of any liquidation proceeds under the Reference Entity Offer Documents in accordance with the terms of Clause 8.10(b).</p>
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MCB Stockbrokers Ltd (Underwriter to buy back MCBG notes)

MCB Stockbrokers Ltd (MCBSB) was established in 1989 and is a founding member of the Stock Exchange of Mauritius (SEM). Licensed and regulated by the Financial Services Commission (FSC) of Mauritius, MCB Stockbrokers Ltd is one of the leading stock-broking companies of Mauritius, offering a range of services to local, foreign, retail as well as institutional clients. MCB Stockbrokers Ltd holds an Investment Dealer (Full Service Dealer including Underwriting) license from FSC and has been underwriting corporate transactions for amounts ranging from Mur 100 million to Mur 3.6 billion since 2014, with aggregate exposures not exceeding Mur 4 billion in any single financial year.

MCBSB will be providing an undertaking that has access to a variety of readily available sources of finance within MCB Capital Markets Ltd and MCB Group Ltd should a significant portion of the underwriting risks materialize.

MCB Capital Markets Ltd (Parent company of MCBSB)

MCB Capital Markets Ltd (MCBCM) is the wholly owned subsidiary of MCBG, providing investment banking and asset management services. Led by a dedicated and experienced team of specialists, the entity provides a broad range of investor services under one roof, notably including corporate finance advice, asset management, stockbroking, private equity, structured products, and registry services. MCBCM works with clients wishing to start or grow their operations in Africa and helps them develop solutions that meet their financing, strategic and investment objectives.

MCB Group (Reference Entity)

MCB Group Limited [holding company of The Mauritius Commercial Bank Limited – rated CARE MAU AAA (IS); Stable], has a diversified ownership base of around 21,000 shareholders, with foreign shareholding accounting for around 13% of the total. Top 6 largest shareholders holding in total of 18.8% stake are - National Pensions Fund (7.0%), Swan Life Ltd (3.1%), Promotion and Development Limited (3.0%), SICOM (2.6%), Eastspring Investments (Singapore) Ltd. (1.9%) and MUA Life Ltd. (1.2%). The financials of MCB group are as under:

Mur Million

For the year/period ended June 30/March 31,	FY18	FY19	FY20	FY21	9MFY21	9MFY22
	Audited				Unaudited	
Total interest income	15,113	18,841	19,995	17,477	13,007	13,658
Total income	22,449	27,460	28,944	26,389	19,683	19,823
Interest expenses	4,384	5,885	5,586	2,617	1,974	2,319
PAT	7,241	9,545	7,994	8,239	6,154	7,393
Total Debt	21,977	64,471	63,950	86,523	78,389	93,229
Deposits	297,719	331,500	391,869	503,972	462,512	528,980
Total Debt and Deposits	319,696	395,971	455,819	590,495	540,901	622,209

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For the year/period ended June 30/March 31,	FY18	FY19	FY20	FY21	9MFY21	9MFY22
	Audited				Unaudited	
Advances	218,219	246,713	259,069	312,978	308,922	337,121
Net worth	53,528	58,558	64,860	74,804	68,457	77,125
Total assets	385,131	469,955	530,436	681,044	630,467	718,612
Solvency Ratios						
Overall gearing ratio (including deposits)	6.1	6.9	7.1	8.0	7.9	8.0
Interest Coverage - after provisions (times)	3.3	3.2	3.5	6.4		
Fund Based Income/Average Total Assets	4.1	4.6	4.3	2.7		
Total Income/ Average Total Assets	6.2	6.4	5.8	3.9		
Interest Expense. / Average Total Assets	1.2	1.4	1.1	0.4		
Interest expense/ Total income	19.5	21.4	19.3	9.9		
Interest expense/ Average Int. bearing liabilities	2.3	2.6	2.1	1.6		
Interest on deposits/ Average. Deposits	2.2	2.2	1.8	1.1		
ROTA	2.0	2.2	1.6	1.2		
Net Interest Margin	2.9	3.0	2.9	2.2		
RONW	14.5	17.3	13.2	11.2		
GNPA			4.2%	3.9%	3.4%	3.9%
CAR	17.3%	17.3%	18.6%	17.4%	17.0%	18.3%

Given the strength of the MCB group and demand for Bonds issued by MCB Group, MCB Stockbrokers can comfortably raise Mur 160 million through the sale of the MCBG notes or by raising external financing.

MCB Structured Solutions Ltd (Issuer)

The financial performance of MCB Structured Solutions Ltd (MSSL) for the last two years is depicted below:

For the period ended as on June 30,	MUR Million	
	FY20	FY21
	Audited	
Interest Income	96	47
PBT	3	11
PAT	3	10
Equity share capital	10	10
Tangible net worth	24	34
Cash and Cash Equivalents (non-banking segment)	12	29
Total debt	-	-
PAT Margin	3.1%	5.9%

As at June 30,2021, MSSL had Other Financial Liabilities totaling to MUR 326 million which represent the capital guaranteed and minimum guaranteed return element of issued notes.

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Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CRAF is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CRAF is not responsible for any errors and states that it has no financial liability whatsoever to the users of CRAF's rating.

CRAF's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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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.

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