MCB Group Limited
25 June 2021

Rating

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

Rating Rationale

The rating assigned to the proposed bond issue of MUR 2,000 million of MCB Group Limited ("MCBG") derives strength from the long track record of the Group (MCBG together with its subsidiaries and affiliates) with dominant position in Mauritian banking sector through its subsidiary – The Mauritius Commercial Bank Limited ("MCB Bank" or "the bank" - CARE MAU CARE MAU AAA (Is); Negative), professional and highly qualified management team, established group with strong presence in the banking and financial sector, consistent flow of dividend from subsidiaries (notably from MCB Bank), comfortable Capital Adequacy Ratio, strong financial position with comfortable gearing and stable business performance.

The rating also derives strength from MCB Bank as the largest bank in terms of assets and deposits in Mauritius, strong Current Account Savings Account (CASA) base with consistent growth in low-cost deposits during the last 3 years, comfortable asset-liability maturity profile & liquidity profile, diversified advances portfolio with stringent Non-Performing Assets (NPA) recognition norms, strong & improving asset quality with low NPA and healthy Net Interest Margin (NIM).

The rating also takes into account MCBG's exposure to regulatory risk, foreign exchange risk, any delay in dividend payment by MCB Bank due to dip in performance of MCB Bank as a result of the pandemic and risk associated with volatility in interest rates.

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 MCB Bank and other subsidiaries
- Decline in profit of MCB Bank as a result of the challenging context leading to a significant decline in dividend payment by the bank.

BACKGROUND

MCB Group Limited was incorporated in 2013, as a result of the reorganisation of the Group. In April 2014, the shareholding of The Mauritius Commercial Bank Ltd. was restructured, and its shares were exchanged, on a one-for-one basis, for shares in MCBG, the bank's ultimate holding company. MCB Bank's ordinary shares were delisted, while MCB Group's shares were listed on the Official Market of the Stock Exchange of Mauritius Ltd (SEM). Furthermore, those MCB Bank shares held by MCB Group were exchanged for shares in MCB Investment Holding Limited – incorporated in November 04, 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. (CARE MAU AAA (IS); Negative) was incorporated on September 01, 1838, by Mr. James Blyth founded as La Banque Commerciale de Maurice in Port Louis.

With its 182-year history, the Group has evolved into an integrated banking and financial services player, offering a comprehensive range of tailored and innovative solutions through its local and foreign subsidiaries and associates. MCB Group

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

Ltd acts as the ultimate holding company of the Group and the subsidiaries and associates thereof operate under three distinct clusters namely Banking, Non-Banking Financial and Other Investments.

Banking – MCBG is the market leader in the Mauritian banking sector via its main subsidiary, The Mauritius Commercial Bank Ltd. Through MCB Bank, which was established in 1838, the Group has cemented its position as the leading banking sector player locally. Beyond Mauritius, the Group also leverages its overseas banking subsidiaries, associates and representative offices. The Group has foreign banking subsidiaries in Madagascar, Seychelles and Maldives, and is present in Mozambique, Reunion Island, Mayotte and Paris through its associates while the bank has representative offices in Johannesburg, Nairobi, Paris and Dubai, with a wide network of correspondent banks across the world.

Non- Banking – MCBG, through its Non-Banking entities provides its clients in and outside Mauritius with the extensive and customized financial solutions. MCBG works closely with its customers to understand their imperatives, challenges, and priorities, while assisting the clients to design solutions adapted to their needs. Within the non-banking financial cluster, MCB Capital Markets Ltd provides a broad range of investor services, notably including corporate finance advice, asset management, stockbroking, private equity, structured products, and registry services., while MCB Group also provides factoring and leasing solutions through its 2 subsidiaries (MCB Factors Limited and MCB Leasing Limited respectively).

Other Investments – MCBG is involved beyond the traditional financial services field, as gauged by its engagement across several business areas and ancillary undertakings. The Group also has dedicated structures to promote its actions in the Corporate Social Responsibility and philanthropic fields.

The Group has a highly qualified and experienced employee pool having large experience in their related field. As at June 30, 2020, the Group has 3,700 employees comprising of professionals, skilled and semi-skilled workers distributed among the various business verticals.

MCBG's entire revenue for the last 3 years was generated from dividends received from various group companies engaged in different business verticals. MCB Bank is the major dividend paying subsidiary of MCBG. MCB Bank has a long history of consistent dividend payment (around 40% of the profit annually) and dividend payment has also increased steadily over last 15 years, in line with higher profit. For FY18 and FY19 the dividend contribution made by the bank was MUR 2,725 million (93% of the total dividend income of MCBG) and MUR 2,958 million (88% of the total dividend income of MCBG) respectively. In FY20 MCB Bank paid interim dividend of MUR 1,858 million (88% of total dividend income) and did not declare final dividend due to COVID-19 pandemic and directives issued by Central Bank restricting banks from paying dividends. In May 2021, MCB Bank announced a dividend of MUR 2 billion (post approval of Central Bank) and MCBG has declared an interim dividend of MUR 1,733 million to be paid in July 2021, which has been determined taking into consideration both the actual profits of the FY20 and forecast for FY21. Overall payout was, however, reduced in view of the ongoing pandemic.

As on June 30, 2020, MCBG's capital metrics remain strong with the CAR standing at 18.6%, out of which the Tier I CAR was 17.2%. As at March 31, 2021 MCBG's CAR was at a comfortable level of 17.0 % and a Tier I ratio of 15.8%.

As on June 30, 2020, MCBG has a total investment of MUR 9,417 million (MUR 9,380 million as on June 30, 2019) in its various business verticals. MCBG has majority of its investments in banking segment, notably in MCB Bank. As at June 30, 2020 MCBG has a total investment of MUR 6,880 million in MCB Bank representing 73% of its total investment.

Majority of the total revenue of MCBG (consolidated) is contributed by MCB Bank. In FY20, MCB Bank posted a total revenue of MUR 25,233 million representing 87%[1] of the total revenue of MCB Group (consolidated) amounting to MUR 28,944 million. Total debt in MCBG (consolidated) amounts to MUR 455 billion, majority of which pertains to deposits and debt raised by the banks aggregating to MUR 444 billion.

[1] Figures displayed are prior to the elimination of intercompany transactions.

The material deterioration in the operating context since early 2020 has led to a reversal of the strong growth in results recorded by the Group during the first semester of FY20. Profit attributable to ordinary shareholders dropped by 16.1% to reach MUR 7.9 billion for the year ended 30 June 2020, essentially due to a substantial increase in Expected Credit Losses (ECL) resulting from the high level of uncertainty engendered by the COVID-19 crisis. Indeed, additional ECL on the Group's performing asset portfolio amounted to MUR 3.4 billion, reflecting an inherent increase in credit risks on a forward-looking basis, thus contributing to impairment charges of MUR 5.1 billion in FY20.This represented an annualized cost of risk of 184 basis points of gross loans and advances. Specific provisions net of recoveries amounted to MUR 1.7 billion, broadly in line with historical trends. For its part, Gross NPL ratio increased from 4.1% to 4.2% while net NPL ratio stood at 2.9% as at June 2020.
In FY20, Net interest income was up by 11.2%, supported by a significant increase in average earning assets, on the back of an expansion in loans and advances and higher investment in Government securities, amidst persistently high liquidity levels domestically, whilst a decline in margin was recorded, essentially linked to international activities. Net fee and commission income declined by 4.7%. Lower fees were recorded by banking subsidiaries, with the performance of MCB Bank being impacted by decreased revenues from trade finance, cards and wealth management activities, especially during the last quarter of FY20.

Proposed Bond Issue

MCBG proposes to raise a Bond of MUR 2,000 million. MCBG is the ultimate and sole shareholder of The Mauritius Commercial Bank Limited. MCB Bank wishes to strengthen its Tier 1 capital to finance its continued growth. Accordingly, the proceeds raised by MCBG shall be used to subscribe to a rights issue in MCB Bank.

Prospects

MCBG's revenue, profitability and debt repayment ability are majorly dependent on the performance of the banking vertical of MCBG and more so on the performance of MCB Bank. While the non-banking vertical of the group is majorly debt free (barring MCB leasing) and slowly increasing its profitability, its contribution towards the dividend income of MCBG also will be negligible in relation to the size of the dividend payment by MCB Bank. Hence, for the repayment of the Proposed Bond Issue, the performance and dividend payment by MCB Bank will assume significant importance. Accordingly, the prospects of MCBG depends on the performance and dividend payment ability of MCB Bank.

The rating is dependent on the operational and financial performance of the various subsidiaries of MCBG (majorly The Mauritius Commercial Bank Limited being the 100% subsidiary of MCBG and major dividend paying company of the Group).

Annexure I

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.