MCB GROUP

GROUP MANAGEMENT STATEMENT

MCB Group results for the first quarter ended 30 September 2023

PORT LOUIS, 14th November 2023: MCB Group Limited today announced its unaudited results for the first quarter of FY 2023/24.

HIGHLIGHTS

- Increase of 28.1% in net interest income;
- Growth of 29.1% in non-interest income;
- Rise 18.6% in operating expenses;
- Impairment charges up by 22.2%; Gross NPL down to 3.1%;
- Decline of Rs 60 million in share of profit of associates;
- Year-on-year growth of 14.3% in gross loans and 15.8% in deposits.

PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	OPERATING INCOME
Rs 3.6bn	Rs 8.3 bn
▲ 28.9%	▲ 28.2%
IMPAIRMENT CHARGES	**ASSETS**
Rs 0.9 bn	Rs 837.7 bn
▲ 22.2%	▲ 13.9%

Commenting on the results, Jean Michel NG TSEUNG (Group Chief Executive - MCB Group Ltd) said:

"The Group delivered a robust financial performance in the first quarter of the financial year to 30 september 2023, with profit attributable to ordinary shareholders increasing by 28.9% compared to the corresponding quarter in FY 2022/23 to Rs 3,559 million, reflecting the continuing growth of our international operations and the high interest rate environment.

Operating income sustained its growth momentum to rise by 28.4% to Rs 8,312 million. Net interest income rose by 28.1% driven by improved yields on our interest-earning assets in foreign currency benefiting high interest rate environment and the expansion in our foreign currency loan book. Conversely, following successive increases in the key rate, net interest margins on rupee-denominated earning assets dropped mainly as a result of the cost of deposits rising more rapidly than the yield on investment securities which take longer to be repriced. Net fee and commission income grew by 16.5% to Rs 1,747 million, backed by enhanced contribution from regional trade financing, lending and payment activities in the banking cluster. 'Other income' rose by 58.9%, mainly due to an increase in forex profit and lower fair value losses on equity financial instruments.

Our investment in technology and human capabilities, coupled with the impact of high inflation on the operating costs, resulted in an increase of 18.6% in non-interest expenses to Rs 3,064 million. However, given the higher growth in revenue, the cost-to-income ratio dropped to 36.9%, compared to 39.9% for the corresponding period last year. Impairment charges increased by 22.2% to Rs 871 million, representing an annualised cost of risk of 79 basis points and reflecting the increase in specific provision coverage to 72%. Gross NPL ratio remained relatively stable at 3.1%.

The share of profit of associates declined by Rs 60 million to Rs 157 million as a result of reduced contribution from both BFCOI and Promotion and Development Group.

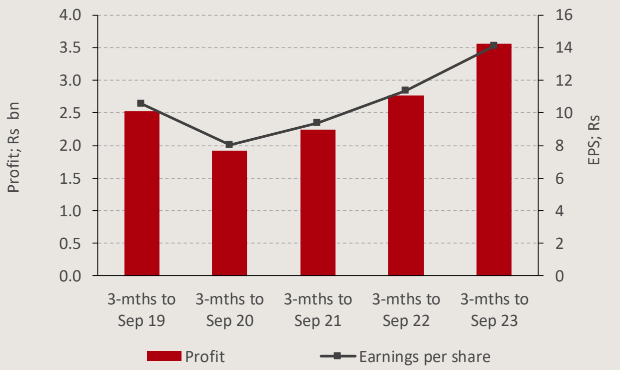
The tax charge for the period increased by 59.3% to Rs 935 million, in line with increased profits and the impact of the recent changes in tax laws in Mauritius.

Our capitalisation level has improved with shareholders' funds increasing to Rs 91 billion, contributing to a capital adequacy ratio of 19.7%, of which 17.1% in the form of Tier 1.

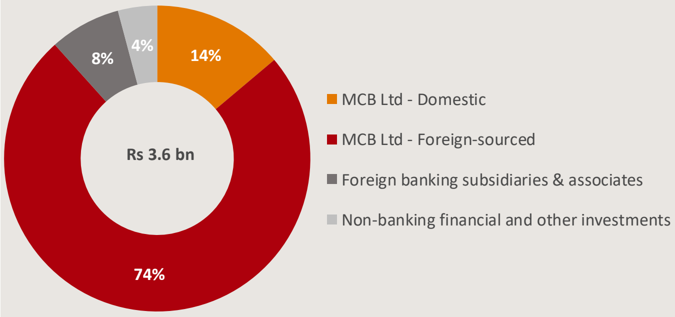
"Going forward, the pace of growth of the Group's net profits is expected to slow down over the next few quarters as net interest margins start to stabilise in the subsequent quarters of FY 2023/24 compared to the corresponding periods of the previous financial year. The global economic environment is set to remain challenging and volatile in view of the heightened geopolitical uncertainty caused by rising tensions in the Middle East. While cooling inflation trends have allowed most central banks to slow the pace of tightening, interest rates are set to stay higher for longer given the gradual disinflation pace. Economic activity is consequently expected to be subdued in key markets. Against this backdrop, African economies continue to face multiple pressures, namely on their exchange rates, debt levels and sovereign ratings although macroeconomic imbalances are gradually narrowing. Locally, the economy continues to sustain its growth path, supported by continued expansion in tourism, financial services and the construction sector but remains exposed to the testing global economic landscape. Notwithstanding the global uncertainties, the Board remains cautiously confident about achieving its expectations regarding the operating performance for the full year."

Financial performance

Profitability indicators



Contribution to Group profit



Group Management Statement

Profit or loss statement

Net interest income

Net interest income increased by 28.1% reflecting improved interest margins on the interest-earning assets denominated in foreign currency as well as the expansion of foreign currency loan portfolio. Conversely, following successive increases in the key rate, net interest margins on rupee-denominated earning assets dropped mainly as a result of the cost of deposits rising more rapidly than the yield on investment securities which take longer to be repriced.

Non-interest income

Net fee and commission income grew by 16.5% reflecting higher revenues from regional trade financing, lending and payment activities. A 58.9% growth was recorded in ‘other income’ driven by higher profits from dealing in foreign currency and lower fair value losses on equity financial instruments.

Operating expenses

Operating expenses increased by 18.6% on account of the Group’s continued investment in human capital and technology as well as increased professional fees and software costs. High inflation also weighed on the Group’s cost base. However, the cost-to-income ratio decreased by 3.0 percentage points to 36.9% as a result of income growing at a faster rate than non-interest expenses.

Impairment

Impairment charges increased by 22.2% to Rs 871 million, representing an annualised cost of risk of 79 basis points and reflecting the increase in specific provision coverage ratio to 72%.

Share of profit of associates

The share of profit of associates declined by Rs 60 million to Rs 157 million following reduced contribution from both BFCOI and Promotion and Development Group.

Tax

The tax charge for the period increased by 59.3% to Rs 935 million, in line with increased profits and the impact of the recent changes in tax laws in Mauritius.

Profit

Group profits attributable to ordinary shareholders for the three months ended September 2023 increased by 28.9% to Rs 3,559 million supported mainly by our international banking activities.

Financial position statement

Loans and advances

Gross loans registered a year-on-year growth of 14.3% to Rs 399.2 billion, supported by the growth in our foreign currency loan portfolio linked to trade finance and cross-border lending activities. On the domestic front, an expansion in lending was recorded in both the retail and corporate segments. As regards asset quality, the gross and net NPL ratios stood at 3.1% and 1.0% respectively.

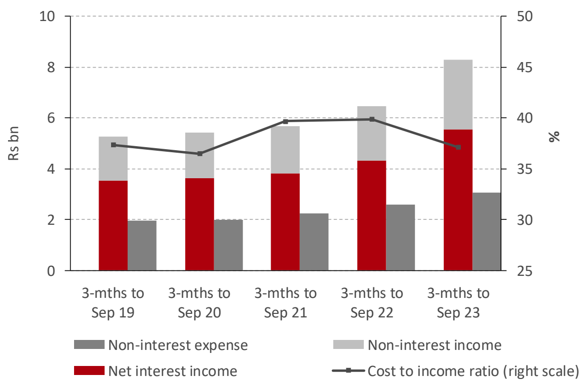
Funding and liquidity

Total deposits of the Group increased by 15.8% to Rs 609.4 billion, reflecting an increase in both rupee and foreign currency deposits. Debt securities increased to Rs 18.2 billion on account of the issuance of MCB Ltd’s Senior Unsecured Notes as part of its Global Medium Term Note programme. Conversely, ‘other borrowed funds’ declined by 21.9% to Rs 78.3 billion as a result of the repayment of some facilities associated with the Group’s asset and liabilities management. As a result, the Group’s loan-to-deposit and loan-to-funding base ratios stood at 65.5% and 56.0% respectively.

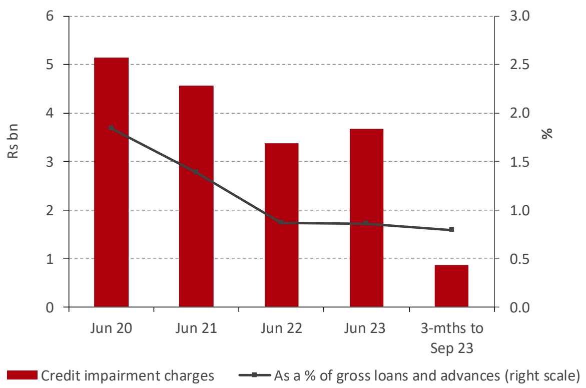
Capital Position

Shareholders’ funds grew by 15.6% to Rs 91.0 billion on the back of increased retained earnings, the conversion of preference shares into ordinary shares and new shares issued under the Group’s scrip dividend scheme. Overall, the BIS and Tier 1 ratios remain comfortably above minimum regulatory requirements at 19.7% and 17.1% respectively.

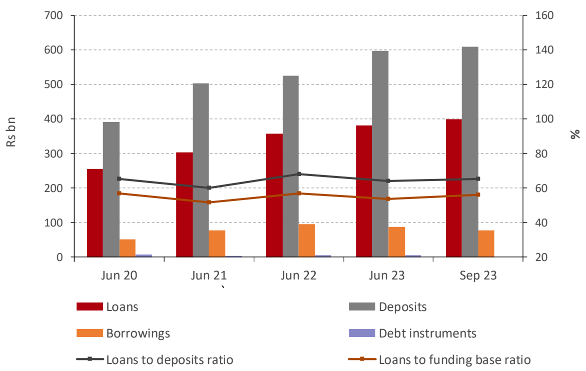
Income and expenditure evolution



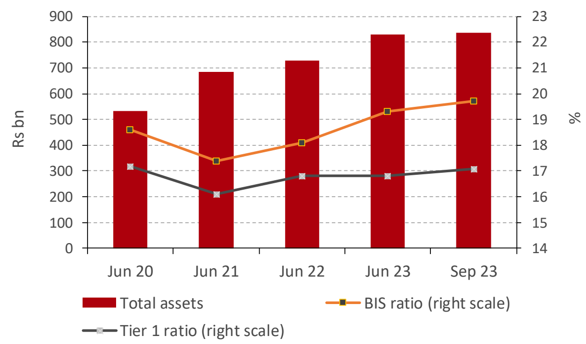
Credit impairment charges and credit quality



Loans and funding base



Total assets and capital adequacy



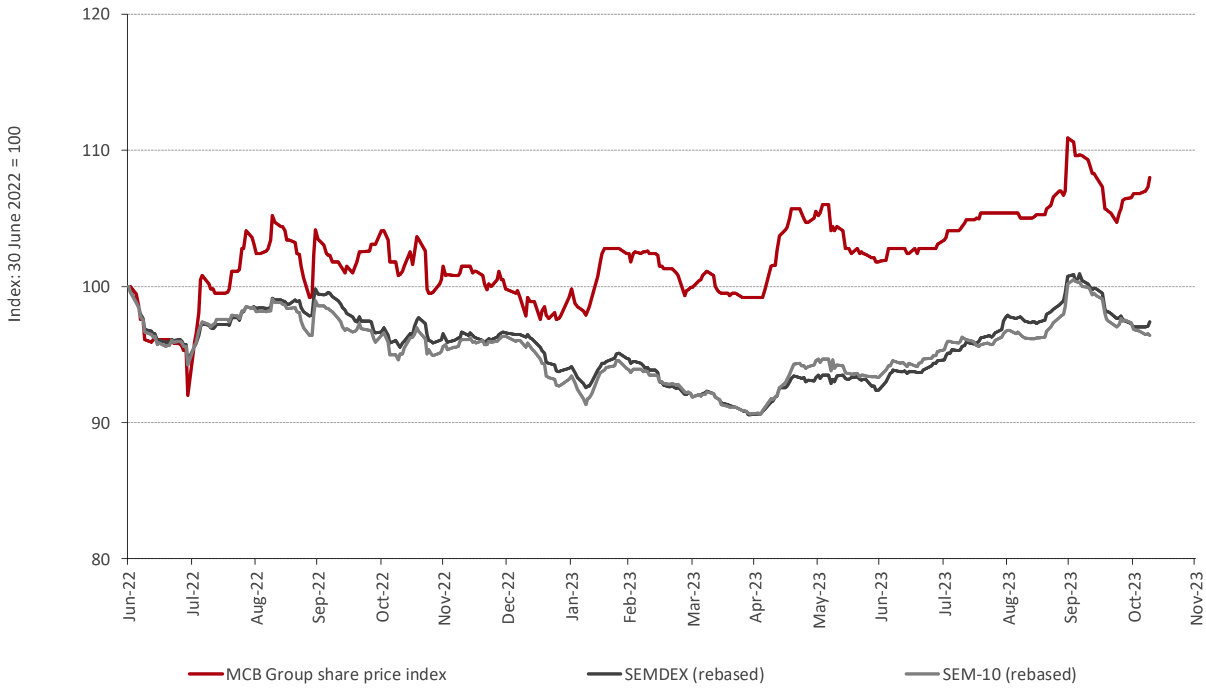
Note: Capital adequacy ratios are based on Basel III

Financial soundness indicators (%)

	Sep-23	Jun-23	Sep-22
Profitability			
Return on average total assets[1]	1.7	1.8	1.5
Return on average equity[1]	15.7	16.9	14.1
Return on average Tier 1 capital[1]	17.2	17.1	14.3
Efficiency			
Cost-to-income	36.9	35.4	39.9
Asset quality			
Gross NPL/Gross loans and advances	3.1	3.2	3.6
Net NPL/Net loans and advances	1.0	1.1	2.1
Liquidity			
Liquid assets[2]/Total assets	43.8	44.5	44.6
Loans to deposits	65.5	64.0	66.4
Loans to deposits and borrowings[3]	56.0	53.9	55.3
Capital adequacy			
Shareholders equity to assets	10.9	10.8	10.7
BIS risk adjusted ratio[4]	19.7	19.2	18.1
o/w Tier 1[4]	17.1	16.7	16.8

[1] Annualised for September
[2] In the computation, liquid assets comprise cash, balances with BoM, placements, T-Bills, Government securities and bonds
[3] Borrowings include debt instruments
[4] Based on Basel III

MCB Group share price performance



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