MCB Group results for the nine months to 31 March 2020

PORT LOUIS, 14 May 2020: MCB Group Limited today announced its unaudited results for the nine months ended 31 March 2020.

HIGHLIGHTS

- Growth of 11.4% in net interest income
- Rise of 3.5% in net fee and commission income
- 'Other income' up by 6.4%
- Increase of 5.1% in operating expenses
- Impairment charges rose to Rs 2.8 billion, with additional ECL of Rs 1.5 billion for the quarter; gross NPL ratio standing at 4.0%
- Share of profit of associates higher by Rs 93 million
- Y-o-y growth of 22.0% in deposits and of 9.1% in gross loans

PROFIT ATTRIBUTABLE TO SHAREHOLDERS	OPERATING INCOME	ASSETS
Rs 6.1 bn	**Rs 16.0 bn**	**Rs 520.5 bn**
▼ **9.3%**	▲ **9.1%**	▲ **17.3%**

Commenting on the results, Pierre Guy Noël (Chief Executive - MCB Group Ltd) said:

"Except for the fair value loss amounting to Rs 301 million recorded this quarter on the Group's equity investments resulting from the impact of Covid-19 on global and local stock markets, operating profit before provisions for the nine months ended 31 March 2020 increased in line with expectations to Rs 10,001 million, up 11.7% compared to last year.

Despite the above good performance, profit after tax dropped by Rs 624 million to Rs 6,129 million over the same period, down 9.2% compared to last year. Profit after tax for the quarter to 31 March 2020 amounted to only Rs 799 million (2019: Rs 2,454 million) with impairment charges for that period alone amounting to Rs 1,943 million compared to Rs 874 million for the six months period to 31 December 2019. Specific provisions net of recoveries for this quarter amounted to Rs 404 million whereas additional expected credit losses (ECL) on the performing asset portfolio amounted to Rs 1,539 million.

This substantial increase in ECL on the Group's performing asset portfolio reflects the inherent increase in credit risks and our forward-looking assessment of the impact of the Covid-19 pandemic on our operations, based on certain assumptions made in our credit modelling exercise amidst significant uncertainties on how future developments will unfold.

Indeed, Mauritius has not been spared by the pandemic. Our frontiers have been closed since 18 March 2020 and the country has been in sanitary confinement since 20 March 2020. Whilst facing up to the unprecedented circumstances linked to the Covid-19 pandemic, the Group managed to maintain its operations backed by the effective deployment of its business continuity plans, while taking necessary actions for the protection of its employees and customers.

The outbreak of Covid-19 has brought considerable uncertainty and economic disruptions around the globe. The adverse consequences for Mauritius are significant, with extensive potential impact on most sectors of the economy and, in particular, on tourism and hospitality, export oriented manufacturing and textile, construction and property development as well as the small and medium-sized enterprises. The full extent of the impact of this pandemic is difficult to assess at this stage since it is dependent upon the duration and the magnitude of the economic slowdown, not only locally but also in our major markets.

Like most governments worldwide, the Mauritian Government has put in place a number of measures to accompany businesses and citizens, to assist them in sustaining the shock of the current lockdown. The measures implemented during the sanitary confinement period are primarily aimed at providing lines of credit and government guarantees for working capital purposes as well as direct wage assistance to ensure that employment is maintained. It is however evident that businesses in certain sectors will need continued support from Government beyond the sanitary confinement period and we await to obtain more visibility on the form of government's response and accompanying measures to address the vulnerabilities of these sectors.

The easing down of the lockdown measures as from 15 May 2020 should enable the resumption of certain business activities in a phased manner although certain sectors will take longer to bounce back in view of external dependencies.

After a sustained portfolio growth in the first half of the financial year, the sharp drop in oil prices in the quarter under review will have some impact on the trade finance and structured debt related revenues generated by the Energy and Commodities business line. Despite the challenging conditions prevailing in oil markets, we however expect the loan book from this segment to remain resilient while we keep on adopting our selective deal origination policy. This segment is well positioned to resume growth as oil markets recover.

Likewise, despite the turbulent market situation, the International Structured Finance portfolio remains resilient. While we continue to adhere to our risk management principles, this segment is actively monitoring risk levels across markets and stands ready to pick up momentum when global markets show sustained sign of recovery.

The Group continues to display healthy liquidity position, notably in foreign currency terms, while remaining well capitalised with capital adequacy ratios being comfortably above advocated norms. That said, in the light of the current uncertainties, the Board has judged it prudent to defer the payment of the interim ordinary dividend until such time that we have better visibility on the evolution of the pandemic.

The Board will continue to monitor the situation closely as worldwide developments unfold and as we take stock of the various Governments' support measures to address the impact of the pandemic in Mauritius and in the other countries where the Group operates."

Profit or loss statement

Net interest income

Net interest income grew by 11.4% to reach Rs 10,721 million, on the back of an expansion in loans and advances across most banking subsidiaries and increased receipts from investments in Government securities within the context of high liquidity in Mauritius.

Non-interest income

Notwithstanding dampened performances recorded by MCB Capital Markets Ltd, net fee and commission income increased by 3.5%, backed by higher revenues from payment and financing activities in the banking cluster. In spite of fair value losses recorded on equity instruments, 'other income' went up by 6.4% to Rs 2,386 million mainly driven by a rise of 15.3% in profit on exchange and fair value gains on financial instruments.

Share of profit of associates

Our share of profit of associates increased by Rs 93 million on account of an enhanced performance at the level of BFCOI.

Operating expenses

Growth in operating expenses was contained at 5.1%, leading to a fall in the cost to income ratio to 37.4%, compared to 38.8% for the corresponding period in the previous year.

Impairment

Impairment charges reached Rs 2,817 million, representing an annualised cost of risk of 133 basis points of gross loans and advances. Specifically, impairment charges for the quarter amounted to Rs 1,943 million, with related additional expected credit losses (ECL) of Rs 1,539 million. This increase in ECL reflected the inherent increase in credit risks and our forward looking view of the impact of the Covid-19 pandemic on our operations. For its part, the NPL ratios remained stable at 4.0% and 2.6% in gross and net terms respectively.

Profit

Group profits declined by 9.3% to reach Rs 6,091 million for the nine months ended March 2020 mainly reflecting the impact of the significant rise in impairment charges over the quarter.

Financial position statement

Loans and advances

Total gross loans for the Group recorded a year-on-year growth of 9.1% to reach Rs 257.9 billion as at 31 March 2020, with an increase recorded across most banking subsidiaries. When including Corporate Notes, gross loans and advances grew by 12.7% over the period under review. Specifically, gross loans at the level of MCB Ltd grew by 8.2% on the back of a rise in foreign exposures linked to structured project financing activities while also being boosted by the depreciation of the rupee against the dollar.

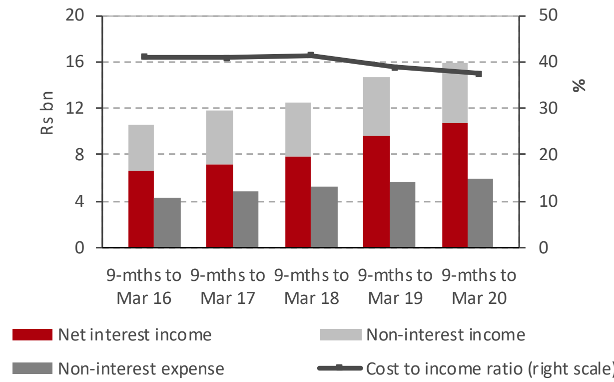
Funding and liquidity

Total deposits rose by 22.0% to Rs 389.3 billion, driven by an increase in foreign currency deposits of some 39% and rupee deposits of around 11%. Specifically, MCB Ltd has a comfortable liquidity position notably in foreign currency terms with the Bank's foreign currency loans representing 65% of the funding base while its US dollar Liquidity Coverage Ratio stood at more than 180% as at 31 March 2020, that is, well above the Basel III regulatory norm.

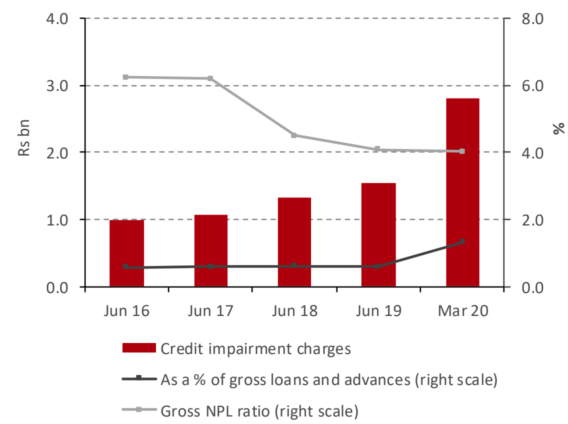
Capital position

Shareholders' funds went up by 17.0% to reach Rs 64.6 billion as at 31 March 2020 on the back of the rise in retained earnings and in stated capital following the successful conversion of more than 75% of the Subordinated Debt into convertible Preference shares amounting to Rs 3.4 billion, which qualify as Tier 1 capital. The Group thus continues to maintain comfortable buffers with its BIS ratio and Tier 1 ratios standing at 17.3% and 16.0% respectively.

Income and expenditure evolution

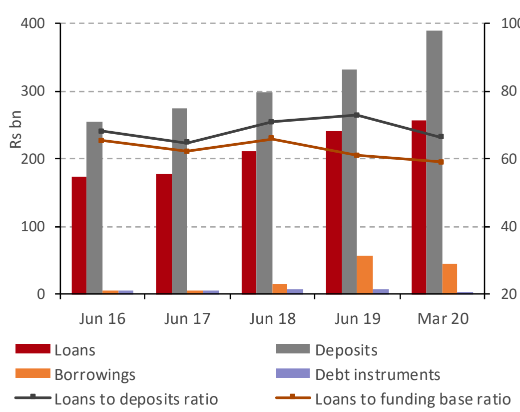


Impairment charges and credit quality

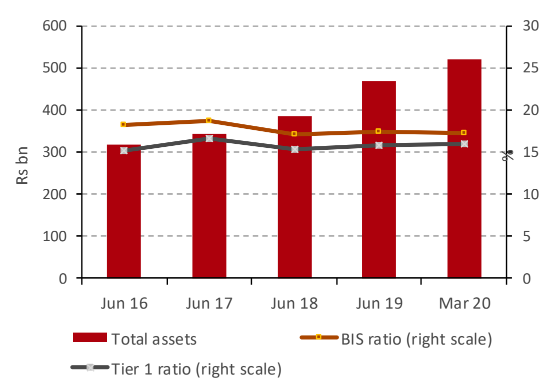


Note: Impairment charges for March 2020 relate to nine months while the ratio has been annualised. The impairment charges relate to loans & advances, including corporate notes.

Loans and funding base



Total assets and capital adequacy



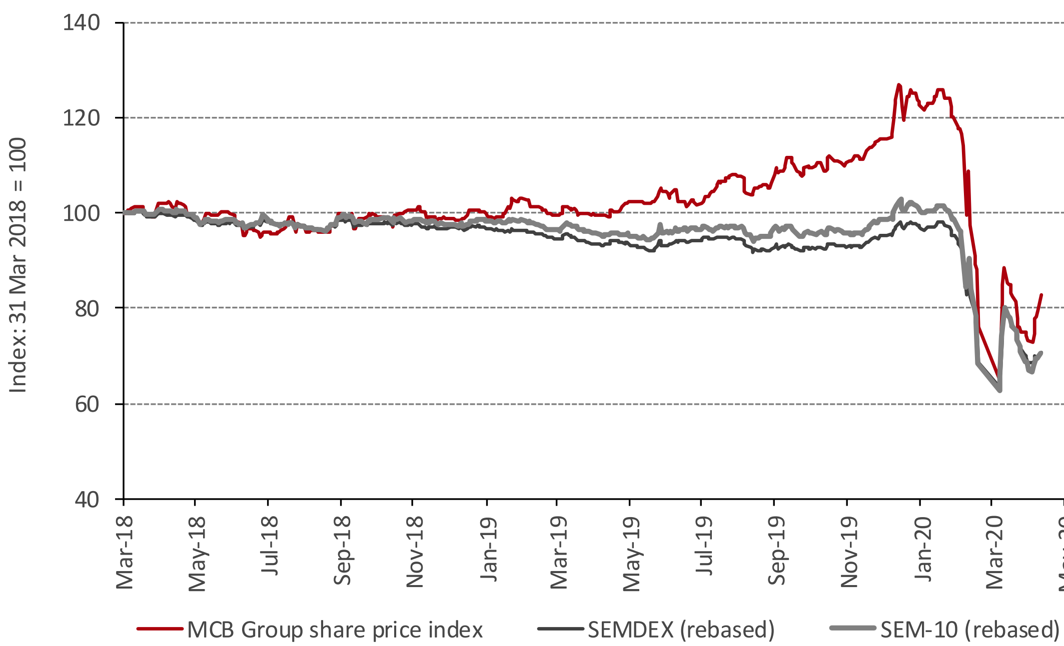
Note: Capital adequacy ratios are based on Basel III

Financial soundness indicators (%)

	Mar-20	Mar-19	Jun-19
Profitability			
Return on average total assets[1]	1.6	2.2	2.2
Return on average equity[1]	13.4	16.8	17.6
Return on average Tier 1 capital[1]	13.8	17.5	18.2
Efficiency			
Cost-to-income	37.4	38.8	37.1
Asset quality			
Gross NPL/Gross loans and advances	4.0	4.0	4.1
Net NPL/Net loans and advances	2.6	2.8	2.9
Liquidity			
Liquid assets[2]/Total assets	41.4	38.8	38.8
Loans to deposits	66.2	74.1	72.9
Loans to deposits and borrowings[3]	58.9	63.6	61.0
Capital adequacy			
Shareholders equity to assets	12.4	12.5	11.9
BIS risk adjusted ratio[4]	17.3	17.6	17.4
o/w Tier 1[4]	*16.0*	*16.0*	*15.8*

[1] Annualised rate for March
[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



Note: SEMDEX was closed for trading as from 20 March 2020 and resumed on 6 April 2020 www.mcbgroup.com

For more information, please contact the Investor Relations Unit on (230) 202-5134 / (230) 202-5558 or investor.relations@mcbgroup.com