Group financial performance

Group financial highlights

Resilient **Profitability** amidst the COVID-19 crisis

Rs 7.9 billion
Profit

13.3%
Return on Equity

1.6%
Return on Assets

Solid **Capital** Adequacy ratios

18.6%
BIS ratio
*(Minimum regulatory requirement: **14.375%**)*

17.2%
Tier 1 ratio
*(Minimum regulatory requirement: **12.375%**)*

Strong **Liquidity** position

50.7%
Liquid assets to funding base ratio[1]

503%
Liquidity coverage ratio[2]
*(Minimum regulatory requirement: **100%**)*

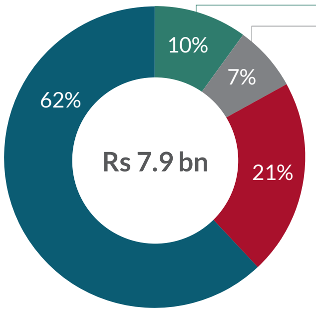
Slightly deteriorating **Asset Quality**

4.2%
Gross NPL ratio

2.9%
Net NPL ratio

[1]Liquid assets comprise cash, balances with BoM, placements, T-Bills, bonds and Government securities
[2] Relates to MCB Ltd

Contribution to Group profit

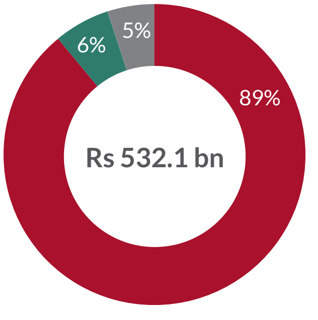


Associates	5.4%
MCB Seychelles	2.7%
MCB Maldives	1.1%
MCB Madagascar	0.7%

MCB Capital Markets	2.1%
MCB Equity Fund	1.8%
MCB Real Assets	1.4%
MCB ICPS	0.8%
MCB Leasing	0.5%
MCB Factors	0.4%

■ MCB Ltd – Domestic ■ Foreign banking subsidiaries & associates
■ MCB Ltd – Foreign sourced ■ Non-banking financial & other investments

Asset breakdown by cluster



■ MCB Ltd
■ Overseas banking
■ Non-banking financial & Other investments

Note: The domestic profit contribution has been impacted by a substantial rise recorded in Expected Credit Losses therein.

Overview of results

Profit

Rs 7,912 million (-1,522 million)

Attributable profit to ordinary shareholders dropped by 16.1% to reach Rs 7,912 million, essentially due to a substantial increase in Expected Credit Losses (ECL), resulting from the high level of uncertainty engendered by the COVID-19 crisis. However, in spite of the impact of the difficult economic context and confinement measures across markets, operating income increased by 8.5% to reach Rs 21,954 million.This is essentially attributable to the effective execution of our diversification strategy.

Financial soundness

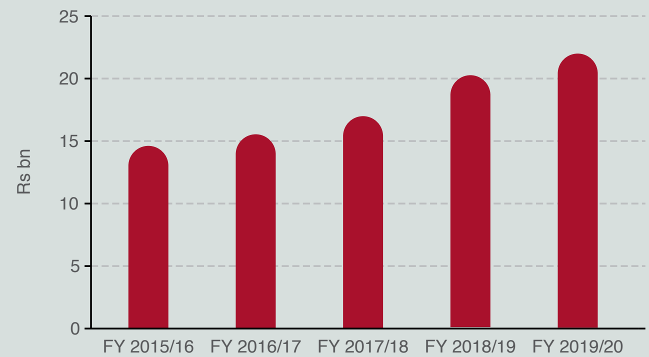
The Group has maintained its financial soundness in the face of the demanding environment. It continues to display comfortable capital adequacy ratios as well as strong funding and liquidity positions whilst asset quality has deteriorated slightly, with the gross NPL ratio rising by some 10 basis points for the period under review.

More information on financial soundness is available in the 'Risk and Capital Management Report' on pages 142 to 198

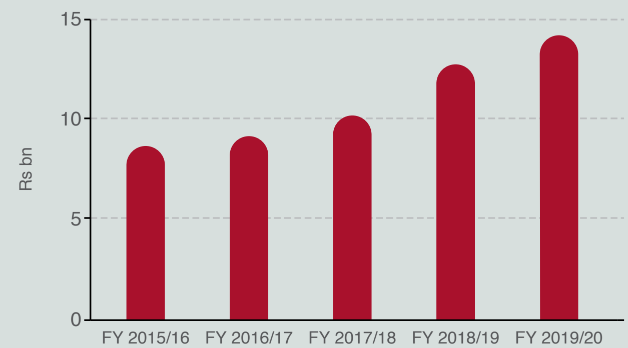
Outlook for FY 2020/21

The operating context remains particularly challenging, with low visibility on the evolution of the situation going forward. Difficult market and economic conditions are expected to continue taking their toll on customer segments across markets, albeit to varying degrees. Whilst some business segments, notably on the international front, are anticipated to be resilient, our operating results are likely to be down in view of restrained business activities amidst the economic slump and resulting dampened investor confidence as well as squeezed margins. Pressures on asset quality are likely to intensify with the degree of the impact remaining highly dependent on the duration and severity of the COVID-19 pandemic and the effectiveness of the support measures from the authorities, including financial assistance from the Mauritius Investment Corporation to economic operators. Against this backdrop, the Group will maintain its market vigilance and monitor the situation closely with regular assessment of potential scenarios. We will seek to maintain adequate buffers in terms of capital adequacy as well as funding and liquidity ratios, thus preserving our financial soundness. Concurrently, while reviewing its short-term priorities, the Group will continue to invest for the future and create the necessary conditions to bounce back when economic conditions start to heal.

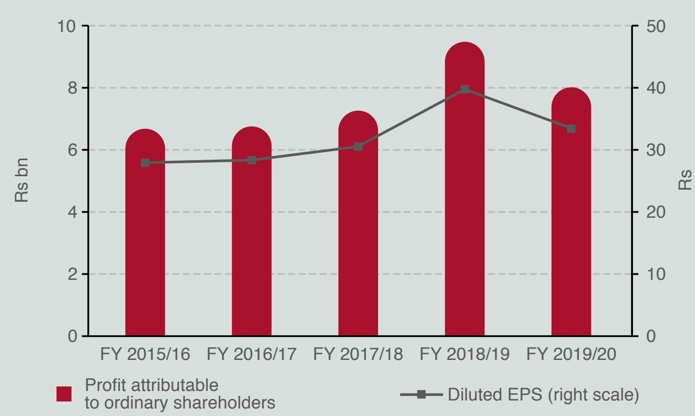
Operating income



Operating profit before impairment



Profit attributable to ordinary shareholders



Group financial performance

Income statement analysis

Net interest income	As a % of average earning assets	
Rs 14,409 million	**FY 2018/19**	**FY 2019/20**
(+1,452 million)	3.6%	3.4 %

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 our international activities.

Non-interest income	As a % of operating income	
Rs 7,546 million	**FY 2018/19**	**FY 2019/20**
(+276 million)	35.9%	34.4 %

Non-interest income went up by 3.8%, with a dampened performance in net fee and commission income being more than compensated for by growth in 'other income' as explained below:

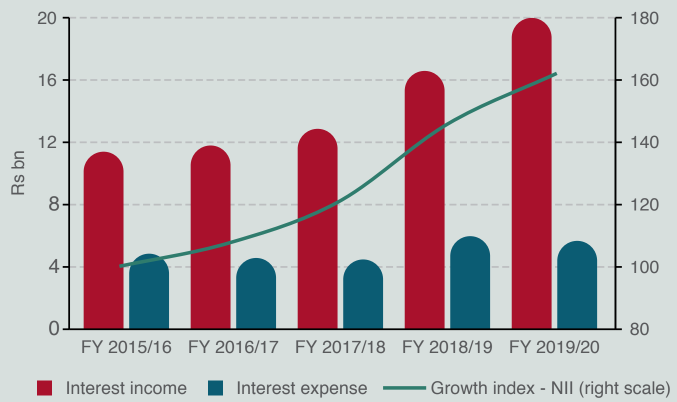
- Net fee and commission income declined by 4.7% to stand at Rs3,937 million reflecting difficult market conditions and dampened activity levels due to confinement measures. Reduced contribution from MCB Capital Markets Ltd was observed and lower fees were recorded by banking subsidiaries, with the performance of MCB Ltd being impacted by decreased revenues from trade finance,cards and wealth management activities, especially during the last quarter of FY 2019/20.

- Notwithstanding lower contribution from MCB Real Assets Ltd,partly reflecting reduced rental income linked to the COVID-19 situation, 'other income' increased by 15.0%, driven by:

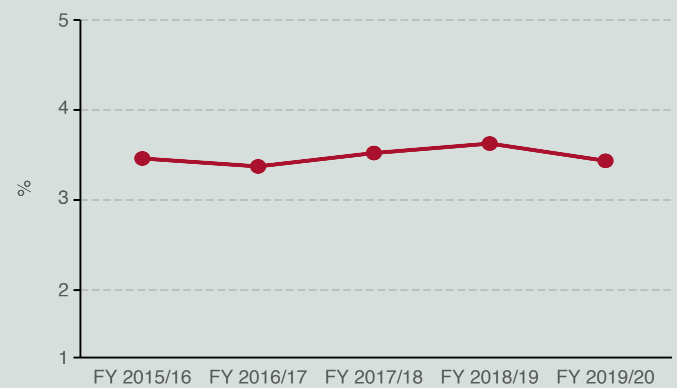
  - A growth of 22.2% in profit on exchange and net gain from financial instruments carried at fair value, notably at the level of MCB Ltd, and partly boosted by the depreciation of the rupee against major currencies.

  - Net gains on sale of financial instruments realised at Bank level and by MCB Equity Fund Ltd as well as higher contribution from International Card Processing Services Ltd.

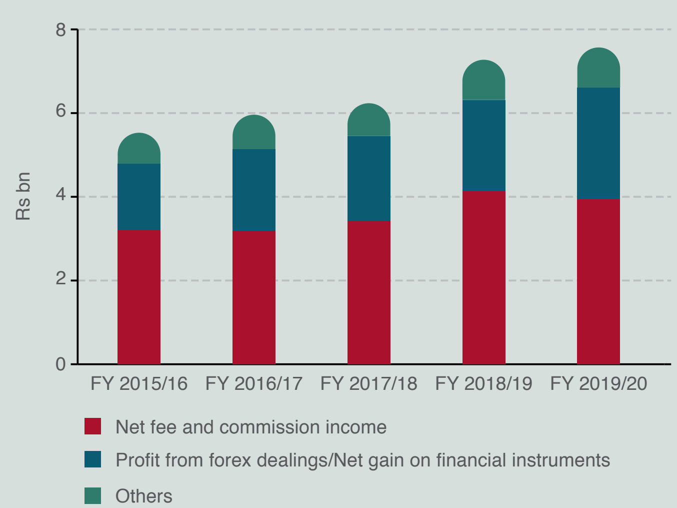
Net interest income



Net interest income to average earning assets



Breakdown of non-interest income



Operating expenses	Cost to income ratio	
	FY 2018/19	FY 2019/20
Rs 7,792 million (+281 million)	37.1%	35.5.%

Operating expenses increased by 3.7%, mainly attributable to the rise of 2.7% in staff costs, on the back of sustained efforts to upgrade human capital and continued investment in technology for the year under review.

Given the growth of 8.5% in operating income, the cost to income ratio improved by 164 basis points.

Impairment charges	As a % of loans and advances	
Rs 5,076 million (+3,479 million)	FY 2018/19	FY 2019/20
	0.59%	1.84%

Impairment charges reached Rs 5,076 million, representing an annualised cost of risk of 184 basis points of gross loans and advances. Specific provisions net of recoveries amounted to Rs 1,712 million, representing 66 basis points of total credit, broadly in line with historical trends. On the other hand, additional ECL on the Group's performing asset portfolio stood at Rs 3,364 million, reflecting the inherent increase in credit risks on a forward-looking basis.

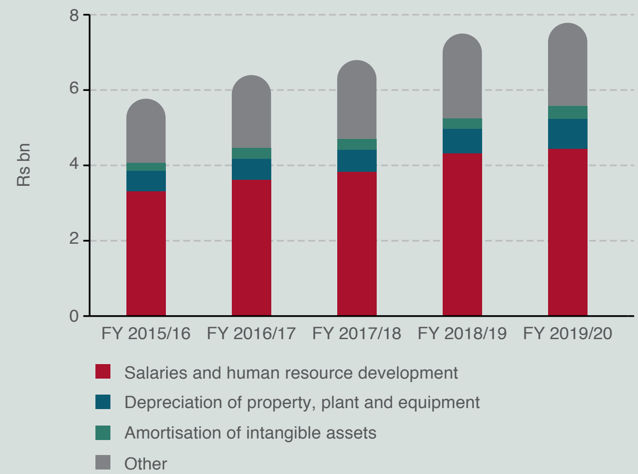
Share of profit of associates	As a % of profit for the year	
Rs 401 million (-3 million)	FY 2018/19	FY 2019/20
	4.2%	5.0%

The share of profit of associates decreased marginally with improved results posted by BFCOI being offset by a subdued performance recorded at the level of Promotion and Development Ltd.

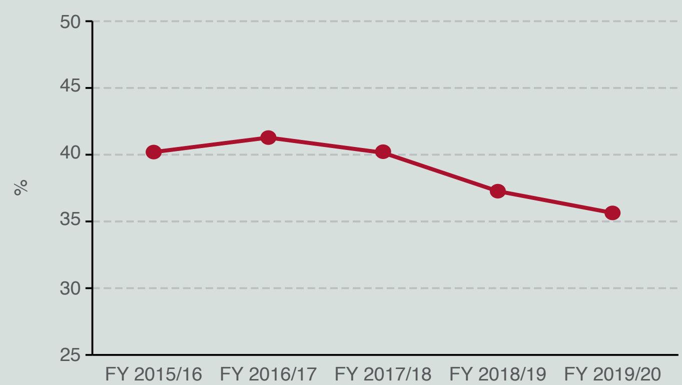
Tax expenses	Effective tax rate	
Rs 1,494 million (-484 million)	FY 2018/19	FY 2019/20
	17.2%	15.7%

Whereas profit before tax declined by 17.7%, a drop of 24.5% was recorded in tax expenses partly due to the fact that the tax charge in FY 2018/19 included a provision for tax assessments of some Rs 163 million.

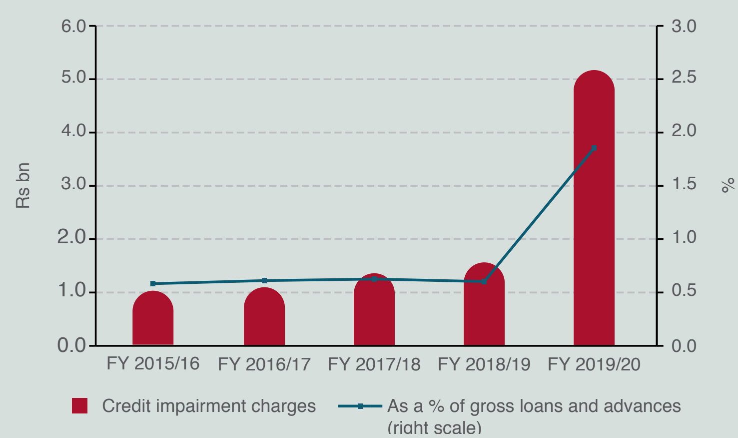
Breakdown of operating expenses



Cost to income ratio



Credit impairment charges*



**Relate to loans & advances (including corporate notes)*

Group financial performance

Financial position statement analysis

Gross loans	Gross NPL ratio	
	FY 2018/19	FY 2019/20
Rs 255.0 billion (+13.4 billion)	4.1%	4.2%

Gross loans of the Group registered a year-on-year growth of 5.6% in FY 2019/20, supported by a broad-based increase across banking subsidiaries. Specifically, a similar growth rate was recorded in gross loans at the level of MCB Ltd over the period under review. This performance was essentially linked to an expansion in its international loan book. Associated credit to customers increased by 15.6%, with structured project financing activities, in particular, witnessing a significant growth while rupee depreciation also weighed in the balance. At domestic level, the overall loan portfolio rose by only 2.1% in line with the challenging operating context. The retail segment exposure remained relatively flat in spite of an expansion in mortgages. In the corporate segment, whereas the loan portfolio grew by 3.3%, the Bank's exposures through corporate notes rose by some 20% to Rs 20.8 billion.

The quality of our credit portfolio deteriorated slightly during the year, with gross NPL ratio increasing from 4.1% to 4.2%, while net NPL ratio stood at 2.9% as at June 2020.

Funding	Loans to funding ratio	
	FY 2018/19	FY 2019/20
Rs 447.2 billion (+51.3 billion)	61.0%	57.0%

Total deposits of the Group increased by 17.8% to attain Rs 390.7 billion as at 30 June 2020, supported by growth within most subsidiaries. In particular, MCB Ltd recorded a rise of 18.2% in itsdeposit base, driven by an increase of 26.2% in foreign currency deposits in line with initiatives undertaken by the Bank, while being also boosted by the depreciation of the rupee against majorcurrencies. Besides, 'other borrowed funds' declined to reach Rs 52.4 billion, following the repayment at the level of MCB Ltd of the Tranche A of the syndicated term loan facility that matured during the year amounting to USD 240 million.

June 2020	Exposures	
	Rs m	Y.o.y. growth (%)
Loans to customers	**252,134**	**7.5**
Agriculture and fishing	7,088	(24.7)
Manufacturing	17,184	32.3
of which EPZ	*2,978*	*(24.1)*
Tourism	25,283	7.7
Transport	8,659	4.2
Construction	18,699	5.2
Traders	47,460	6.3
Financial and business services	48,704	22.8
Personal and professional	44,818	1.2
of which credit cards	*790*	*(35.5)*
of which housing	*31,812*	*4.3*
Global Business Licence holders	19,292	8.0
Others	14,948	(7.5)
Loans to banks	**2,890**	**(58.9)**
Total	**255,023**	**5.6**

Note: Figures may not add up to totals due to rounding.

Loans and advances as at June 2020	Rs m	Y.o.y. growth (%)	Mix (%)
Retail customers	46,670	2.6	18.3
Credit cards	*797*	*(35.3)*	*0.3*
Mortgages	*31,812*	*4.3*	*12.5*
Other retail loans	*14,062*	*2.1*	*5.5*
Corporate customers	120,197	3.7	47.1
Entities outside Mauritius*	83,782	17.1	32.9
Government	1,485	(9.7)	0.6
Banks	2,890	(58.9)	1.1
Total loans	**255,023**	**5.6**	**100.0**
Corporate notes	23,668	25.7	-
Total loans and advances	**278,692**	**19.4**	**-**

** Relate to MCB Ltd*

Off balance sheet items as at 30 June 2020	Rs m	Y.o.y. growth (%)
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	65,477	(5.1)
Commitments	7,318	12.5
Others	107	18.8
Total	**72,901**	**(3.6)**

Investment securities and Cash & cash equivalents	Liquid assets to total assets	
Rs 226.6 billion	**FY 2018/19**	**FY 2019/20**
(+43.7 billion)	38.8%	42.6%

Liquid assets of the Group grew by 23.9% during the financial year. This was due to: (i) an increase of 39.9% in cash and cash equivalents, including placements, mainly through balances with banks abroad and unrestricted balances with Central Bank (ii) a rise of 17.9% in investment securities (excluding shares and corporate notes); and (iii) a growth of 5.4% in mandatory balances with Central Bank.

Overall, the above-mentioned liquid assets as a percentage of funding base stood at 50.7% as at 30 June 2020 (FY 2018/19: 46.2%). Banking subsidiaries generally maintained healthy liquidity positions with MCB Ltd displaying comfortable liquidity ratios in both rupee terms and foreign currencies.

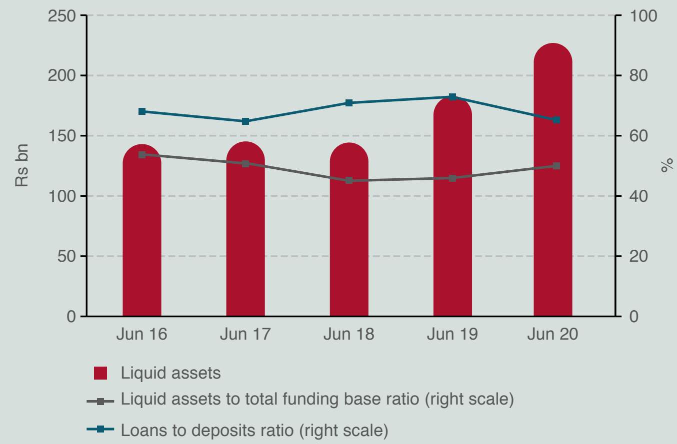
Shareholders' funds	Return on equity	
Rs 62.5 billion	**FY 2018/19**	**FY 2019/20**
(+6.0 billion)	17.5%	13.3%

Shareholders' funds increased by 10.7% on the back of a rise in retained earnings of Rs 5.7 billion. Capital base was further consolidated 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 overall capital adequacy ratio and Tier 1 ratio improved to 18.6% and 17.2% respectively, thus remaining comfortably above the minimum regulatory requirements.

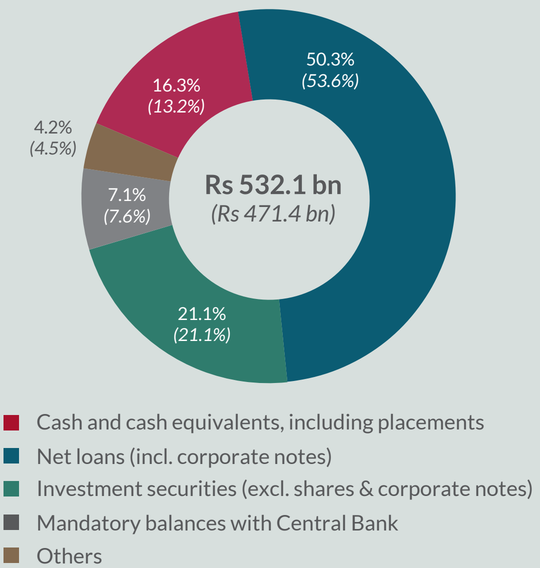
Dividend

For the period under review, in line with directives from banking regulators across presence countries, the Group did not declare any dividend for the period under review amidst the ongoing crisis.

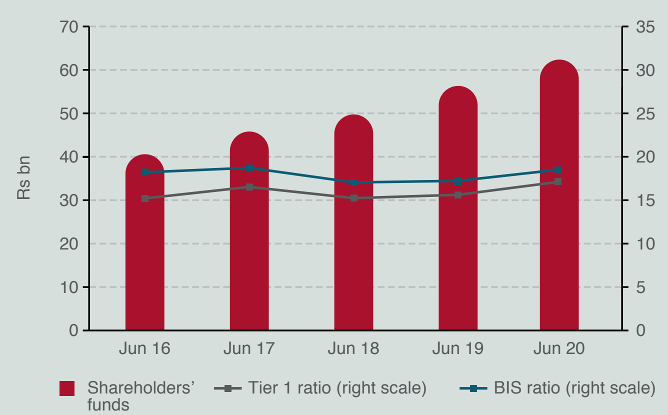
Liquidity position



Assets mix as at 30 June 2020
(Figures in brackets relate to 2019)



Shareholders' funds and capital adequacy



Group financial performance

Group financial summary

Key financial indicators

Statement of profit or loss (Rs m)	Jun-20	Jun-19	Jun-18	Jun-17	Jun-16
Operating income	21,954	20,226	16,951	15,506	14,404
Operating profit before impairment	14,163	12,716	10,149	9,118	8,629
Operating profit	9,087	11,119	8,819	8,054	7,607
Profit before tax	9,488	11,523	9,126	8,392	8,342
Profit attributable to ordinary equity holders of the parent	7,912	9,434	7,221	6,702	6,626
Statement of financial position (Rs m)					
Total assets	532,114	471,418	386,370	345,210	317,705
Total loans (net)	243,821	234,007	204,236	171,887	166,697
Investment securities	148,858	126,204	88,747	74,730	62,735
Total deposits	390,659	331,500	297,719	274,863	255,262
Subordinated liabilities	2,122	5,572	5,592	5,587	5,620
Other borrowed funds	52,444	56,886	14,373	5,968	5,193
Shareholders' funds	62,545	56,509	51,306	45,949	40,730
Performance ratios (%)					
Return on average total assets	1.6	2.2	2.0	2.0	2.2
Return on average equity	13.3	17.5	14.8	15.5	17.3
Loans to deposits ratio	65.3	72.9	70.9	64.8	68.1
Cost to income ratio	35.5	37.1	40.1	41.2	40.1
Capital adequacy ratios (%)					
BIS risk adjusted ratio	18.6	17.3	17.1	18.8	18.3
of which Tier 1	*17.2*	*15.7*	*15.3*	*16.6*	*15.3*
Asset quality					
Non-performing loans (Rs m)	11,722	10,559	9,734	10,882	10,704
NPL ratio (%)	*4.2*	*4.1*	*4.5*	*6.2*	*6.2*

Note: Capital adequacy ratios are based on Basel III