The Pakistan Credit Rating Agency Limited

Rating Report

MCB Bank Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Jun-2021	AAA	A1+	Stable	Maintain	-
26-Jun-2020	AAA	A1+	Stable	Maintain	-
27-Dec-2019	AAA	A1+	Stable	Maintain	-
27-Jun-2019	AAA	A1+	Stable	Maintain	-
27-Dec-2018	AAA	A1+	Stable	Maintain	-
27-Jun-2018	AAA	A1+	Stable	Maintain	-
29-Dec-2017	AAA	A1+	Stable	Maintain	-
19-Jun-2017	AAA	A1+	Stable	Maintain	-
24-Jun-2016	AAA	A1+	Stable	Maintain	-
24-Jun-2015	AAA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings take comfort from MCB's sustained market and financial position, reflected in capitalization – among the strongest CARs (20.98%) in the industry, sound liquidity and diverse deposit base. This has been enabled by the bank's able parentage, wherein a diverse mix of sponsors - mainly led by Nishat Group - have been providing an effective oversight. The rating factors in MCB's strong market positioning, supported by its well established brand name and substantial out-reach. MCB holds the highest CASA in the industry, wherein further augmentation was observed. The bank continues with its current strategy of lending to premier corporates with a key focus on government securities. MCB has marked its position as the bank with notable profit base since the last few years. The bank has made, on a proactive basis, huge general provisioning, which will provide an aid against unforeseen risk due to the uncertainties prevailing in the market. The bank remained focused on taking a cautious yet balanced approach with respect to its advances portfolio, where advances observed attrition, during CY20, and there has been a dip in ADR. From risk perspective, it is favorable, especially when it is supplemented by a sizeable investment book, reaching a trillion rupee mark. The bank has established an Islamic Banking subsidiary, thereby, becoming the first conventional bank to do so. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. As a result, the banking industry remained protected and in fact posted record profits. Vigilance is required as the loan repayment cycle remains amid variants of the pandemic continue to re-emerge.

The ratings are dependent on the bank's ability to hold its existing position in the banking sector. Any deterioration in the perceived strength of the bank or ownership with consequent impact upon its governance efficacy would have negative implication. Further strengthening of human resource would be vital.

Disclosure

Name of Rated Entity	MCB Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | FI (Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Commercial Bank(Jun-20)
Rating Analysts	Ahmad Saad Siddiqi | ahmad.saad@pacra.com | +92-42-35869504

Profile

Structure MCB Bank Limited (hereinafter referred as "MCB" or "the bank") was incorporated as a public limited company, in 1947, and is listed on Pakistan Stock Exchange (PSX).

Background Bank commenced operations in 1947 and was privatized in 1991. In 2008, the Bank entered into a strategic partnership with Maybank, Malaysia, which owns 18.78% stake in MCB through Maybank International Trust (Labuan) Berhad. Further in 2017, MCB has expanded its domestic footprint by acquisition of NIB Bank Limited and 170 branches have been merged with and into MCB Bank Limited. Subsequently in 2018, 90 branches have been transferred to MCB Islamic Bank, a wholly owned subsidiary company.

Operations MCB offers a wide range of products and services hence ensuring ease and freedom for the customer to bank from any of the 1400+ branches across the country and a wide array of digital channels.

Ownership

Ownership Structure MCB Bank is majority owned (~36%) by Nishat group, through individuals of Mansha family and corporates of the group.

Stability The Bank ensures development and retention of high potential employees to create a talent pool to fill key positions in the organization. This is a continuous process, which in turn ensures that the organization's management can keep up with the changing business environment.

Business Acumen Nishat Group, including individual holdings and holding through group corporates, is a premier business house of Pakistan. The Group is one of the leading and most diversified in South East Asia, having presence in numerous industries and sectors.

Financial Strength The group has a strong equity and asset base, with its foothold in numerous sectors and industries in Pakistan. Further, Maybank holds ~18.78% stake in MCB through Maybank International Trust (Labuan) Berhad and 5.49% shares are held by Bugis Investment (Mauritius) PTE Limited.

Governance

Board Structure The Board includes 13 members, which consists of four independent directors as at 1QCY21.

Members' Profile Chairman of the board, Mr. Mian M Mansha, is a well-known and seasoned businessperson with over 46 years' experience. The board of directors (BoD) includes prominent industrialists and financial sector specialists, who have a plethora of rich experience in the business world by demonstrating outstanding entrepreneurial ability.

Board Effectiveness To ensure effective and independent oversight of the bank's overall operations, the Bank has constituted eight committees. During the period, attendance of board meetings remained high.

Financial Transparency The external auditors of the company, KPMG Taseer Hadi & Co., Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for CY20.

Management

Organizational Structure The Bank, with a largely horizontal organizational structure, has seventeen groups & divisions reporting to the CEO, except Internal Audit and Corporate Affairs which report to the Board's Audit Committee and the Board respectively.

Management Team MCB's senior management team comprises experienced bankers having national and international exposure. Mr. Imran Maqbool, CEO, is a seasoned banker with over three decades of diverse, international banking experience.

Effectiveness The Bank has 13 management committees in place each with defined terms of reference. Comprising of senior officials including the President, meetings are held on a regular basis and agenda items include developing business plans, reviewing the performance of the Bank on standalone basis as well as compared to the sector.

MIS MCB management has centralized the authority, direction, management, and monitoring of Information Security activities for the entire organization in the Information Technology Group (ITG) under the umbrella of Information Security (IS) Team.

Risk Management Framework Risk Management & Portfolio Review Committee remains responsible to ensure that appropriate risk management policies are developed and implemented to mitigate the key risks to which the bank is exposed.

Business Risk

Industry Dynamics The indicators of the banking sector reflected mixed trend where economy is recovering from the effects of COVID-19 pandemic. Despite challenging economic conditions prevailing in CY20 due to COVID-19 outbreak, the banking sector managed to grow by a decent pace. Deposits of the banking sector grew by 16.1% to PKR 18,519bln (CY19: PKR 15,953bln) as compared to 11.9% growth in CY19. The surge in deposits provided the necessary funding support to finance the robust rise in investments (CY20: PKR 11,935bln; CY19: PKR 8,939bln) and particularly towards government instruments. During CY20, advances witnessed a mild contraction owing to slackness amid COVID-19 pandemic outbreak. The policy measures rolled out by the SBP enabled the sector to enhance profitability, improve resilience and limit the credit risk. With the completion of deferment period allowed, the aftermath is yet to be comprehended by the industry.

Relative Position MCB was marked as the bank with one of the highest profit base in recent years. During CY20, Bank's customer deposits (PKR 1,258bln) increased by 13% as against the sector's growth of 16%. MCB retained its position in top 5 banks based on advances, deposits and profitability with share in total deposits of the sector at 7.5% (CY19: 7.7%).

Revenues On the net markup income side (CY20: PKR 71.3bln), bank reported an increase of 20% (CY19: PKR: 59.6bln) on the back of decreased cost of deposits (CY20: 4.5%, CY19: 6.0%). Non-markup income block of the Bank was reported at PKR 18.1bln (CY19: PKR 16.7bln) with major contributions coming in from fee and commission income (PKR 10.9bln). During 1QCY21, the Bank reported net markup income of PKR 15.2bln (1QCY20: PKR 16.3bln), indicating a decrease of 7%.

Performance PAT of the Bank grew by 21% over last year and was reported at PKR 29.0bln (CY19: 23.9bln). The Bank also reported increased net income during 1QCY21 at PKR 6.8bln (1QCY20: PKR 6.5bln) despite a fall in net markup income.

Sustainability Despite fragile economic conditions resulting in subdued business activity, the Bank delivered exceptional results to its shareholders in CY20. MCB has the history of paying highest dividend per share to its shareholders. MCB is continually expanding its network of branches to meet customer's expectations with parallel investment on the digital infrastructure. Recovery from infected portfolio remains essential.

Financial Risk

Credit Risk Net advances of the Bank constitute 27% of the total assets at CY20. Gross performing advances were PKR 462bln. The coverage and infection ratios of the Bank were reported at 98.9% (CY19: 87.8%) and 10.0% (CY19: 9.2%) respectively. Credit risk for the period remained at largely the same level with slight increase in NPLs. The Bank's strategy of decreasing advances exposure is evident from its position at 1QCY21, which stands at PKR 436.9bln.

Market Risk On investment side, the Bank is strategically profiling its investments based on the interest rate which will be a gradual shift from shorter to longer term investments. The investment portfolio showed an increase of 28.8% as it stood at PKR 1,005bln during CY20 (CY19: PKR 738bln). The bank's investment portfolio constitutes 57% of total asset base whereas government securities continue to dominate the overall investment book (96%). Investment mix continued to shift off from long-term PIBs during the year in the wake of rising interest rate scenario, as market risk enhanced. During 1QCY21, the Bank further enhanced the investment book by 8% to PKR 1,083bln.

Liquidity And Funding During CY20 the deposit base of the Bank increased by 13%, clocking in at PKR 1,289bln (CY19: PKR 1,145bln). The Bank reported a high CASA ratio of 91% at CY20, one of the highest in the industry. MCB's average cost of funding has decreased to 4.8% (CY19: 6.3%), however it is relatively low compared to the industry. The liquidity of asset mix has improved as well. Deposit side showed improvement during 1QCY21, as it now stands at PKR 1,313bln.

Capitalization During 1QCY21, Banks's total CAR stood at 20.11% against the requirement of 12.50%. Quality of the capital is evident from Bank's Common Equity Tier-1 to total risk weighted assets ratio which comes to 16.56% against requirement of 6%. Bank reported Liquidity Coverage Ratio of 250% and Net Stable Funding Ratio of 188% against requirement of 100%.

PKR mln

MCB Bank Limited	Mar-21	Dec-20	Dec-19	Dec-18
Listed Public Limited	3M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	436,384	472,941	501,254	506,638
2 Investments	1,082,922	1,005,289	738,124	740,567
3 Other Earning Assets	29,839	29,587	19,259	50,375
4 Non-Earning Assets	226,849	249,064	250,449	194,805
5 Non-Performing Finances-net	968	581	6,066	5,745
Total Assets	1,776,962	1,757,462	1,515,152	1,498,130
6 Deposits	1,313,702	1,289,502	1,144,763	1,049,038
7 Borrowings	190,058	164,002	89,506	219,910
8 Other Liabilities (Non-Interest Bearing)	98,478	113,857	111,968	79,905
Total Liabilities	1,602,238	1,567,361	1,346,237	1,348,852
Equity	174,724	190,102	168,915	149,278
B INCOME STATEMENT				
1 Mark Up Earned	28,347	136,076	138,292	83,319
2 Mark Up Expensed	(13,107)	(64,741)	(78,676)	(37,305)
3 Non Mark Up Income	4,749	18,136	16,679	17,198
Total Income	19,989	89,470	76,295	63,212
4 Non-Mark Up Expenses	(8,891)	(33,908)	(33,709)	(32,902)
5 Provisions/Write offs/Reversals	177	(7,313)	(2,484)	1,753
Pre-Tax Profit	11,276	48,249	40,102	32,064
6 Taxes	(4,486)	(19,212)	(16,125)	(10,704)
Profit After Tax	6,790	29,037	23,977	21,360
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	3.4%	4.4%	4.0%	3.2%
Non-Mark Up Expenses / Total Income	44.5%	37.9%	44.2%	52.0%
ROE	14.9%	16.2%	15.1%	14.1%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	9.8%	10.8%	11.1%	10.0%
Capital Adequacy Ratio	20.1%	21.0%	18.9%	18.1%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	78.3%	76.9%	69.8%	61.4%
(Advances + Net Non-Performing Advances) / Deposits	32.7%	35.9%	43.4%	48.0%
CA Deposits / Deposits	37.2%	35.9%	34.9%	37.0%
SA Deposits / Deposits	53.4%	55.0%	53.3%	51.7%
4 Credit Risk				
Non-Performing Advances / Gross Advances	10.8%	10.0%	9.2%	9.0%
Non-Performing Finances-net / Equity	0.6%	0.3%	3.6%	3.8%

Credit Rating

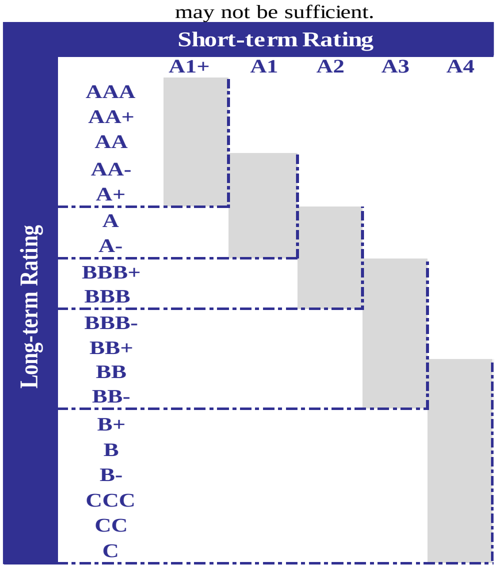
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information
(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent