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
22-Jun-2024	AAA	A1+	Stable	Maintain	-
23-Jun-2023	AAA	A1+	Stable	Maintain	-
23-Jun-2022	AAA	A1+	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The ratings reflect MCB's robust market standing, which is bolstered by its well-established brand recognition and extensive outreach. MCB remains one of the leading player in the banking industry. A key strategic strength of the bank is its low cost of funding, enabled by the highest CASA ratio in the industry. Non-remunerative deposits grew by 28%, reaching PKR 871bln by the end of Dec'23. The bank has consistently demonstrated a notable profit base, further solidifying its industry position. With a strong buildup in core earnings, the bank reported a historic PBT of PKR 125.2bln in 2023. The bank's assets grew by 16% over the past year, reaching PKR 2.43trln as at CY 2023. An analysis of the asset mix shows that net investments increased by 28% (PKR 271bln), while gross advances decreased by 22% (PKR 175bln) due to subdued domestic demand by the end of Dec'23. Net interest income increased to PKR 148bln registering an impressive growth of 69% during CY23. Despite exceptional inflationary pressures, the Bank continues to manage an efficient operating expense base with an increase of 25% during CY23. Efforts to reduce the delinquent portfolio have led to continuing improvements in credit quality across major consumer, commercial, and corporate portfolios. During the year, MCB Bank attracted home remittance inflows of USD 3.2bln to further consolidate its position as an important contributor to the national cause of improving the flow of remittances through banking channels. Along with its wholly-owned Islamic Bank subsidiary, MCB operates the second-largest network of branches across Pakistan. The bank is demonstrating increasing focus in Islamic banking, in terms of expansion and providing a full spectrum of banking statistics to Islamic banking customers. MCB’s Digital Platform “MCB Live” is a comprehensive, stable, and flexible payment ecosystem that welcomed more than 375k new customers during the year 2023. With a well-framed infrastructure in place, the Bank constantly upgrades innovative digital solutions for enhanced user experience. The Capital Adequacy Ratio (CAR) saw an increase in Dec'23, standing at 20.4%, well above the required limit of 11.5% (with a 1% relaxation due to Covid-19).

The ratings are contingent upon the bank's capability to sustain its current position within the banking sector. Any erosion in the perceived stability of the bank or changes in ownership that adversely affect its governance effectiveness would have unfavorable implications.

Disclosure

Name of Rated Entity	MCB Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Financial Institution Rating(Oct-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Commercial Banks(Jun-24)
Rating Analysts	Madiha Sohail | madiha.sohail@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 the Pakistan Stock Exchange (PSX).

Background Bank commenced operations in 1947 and was privatized in 1991.

Operations MCB offers a wide range of products and services hence ensuring ease and freedom for the customer to bank from any of the 1,438 branches as of Dec'23 (as of Dec'22 1,448) across the country and a wide array of digital channels.

Ownership

Ownership Structure MCB Bank is substantially owned by Nishat group, through (direct and indirect holdings) individuals of the Mansha family and corporates of the group.

Stability The ownership of the bank is expected to stay stable in the foreseeable future as the bank is one of the flagship entities of Nishat Group.

Business Acumen Nishat Group, including individual holdings and holding through group corporates, is a premier business house of Pakistan and is one of the leading and most diversified in South East Asia, having a presence in Textile, Cement, Insurance, Banking, Financial Services, Power Generation, Hotel & Hospitality, Dairy, Paper Products, Retail Commerce, Real Estate, Agriculture, Aviation, and Automotive sectors.

Financial Strength The Nishat Group holds a prominent position as a highly diversified and influential conglomerate in South East Asia. The group has a strong equity and asset base.

Governance

Board Structure MCB encourages the representation of independent directors, non-executive directors, and directors representing minority interests on its board of directors. At present, apart from the CEO, the Board includes four independent directors and eight non-executive directors. All the directors on the Board are non-executive except for the CEO of the Bank. The non-executive directors provide independent oversight to the Board.

Members' Profile Mian Mohammad Mansha is the Chairman of the Board. Mr. Shoaib Mumtaz is the President and CEO of the Bank.

Board Effectiveness The board with its active engagement with the stakeholders is well poised to govern the bank and oversee the implementation of its strategy. To ensure effective and independent oversight of the bank's overall operations, the Bank has eight board committees.

Financial Transparency The external auditors of the bank, A. F. Ferguson & Co., Chartered Accountants, issued an unqualified audit opinion about annual financial statements for CY23. Furthermore, the Board has set up an effective internal audit function that reports independently to the Board Audit Committee.

Management

Organizational Structure MCB has a lean organizational structure that clearly defines responsibilities, authority, and reporting lines with proper monitoring and compliance mechanisms. The bank, with a largely horizontal organizational structure, has multiple groups & divisions reporting to the CEO, except Internal Audit and Corporate Affairs which reports to the Board's Audit Committee and the Board respectively.

Management Team Mr. Shoaib Mumtaz - President and CEO - a business graduate from the United States, is a seasoned banker with almost three decades of experience with MCB. He has served in various key positions in Branch Banking, Credit Risk, Corporate Finance, and International Banking. MCB's senior management team comprises experienced bankers having national and international exposure.

Effectiveness MCB Bank operates with a comprehensive governance structure that includes multiple management committees and sub-committees, each with specific terms of reference. These committees consist of senior officials, including the President, and conduct regular meetings to address various aspects of the Bank's operations.

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 the Information Security (IS) Team. ITG is headed by CIO who in turn reports functionally and administratively to the CEO.

Risk Management Framework Prudent risk management aspects are embedded in the bank's strategy, organizational structure, processes, and systems and controls. Risk Management & Portfolio Review Committee remains responsible for ensuring that appropriate risk management policies are developed and implemented to mitigate the key risks to which the bank is exposed.

Business Risk

Industry Dynamics CY23 remained a challenging year for the economy due to lower exchange reserves, currency devaluation, and peak inflation. To combat inflation and curb aggregate demand, the Central Bank maintained a tight monetary policy stance. Despite these challenges, CY23 was a remarkably successful year for the banking industry. The sector outperformed historical statistics, with two-thirds of net markup income coming from investments in government securities and the remainder from advances. During the year, Pakistan's banking sector's total assets posted growth of ~30% YoY whilst investments surged by ~42% to PKR ~25.6trln (end-Dec22: PKR ~18trln). Gross Advances of the sector recorded growth of ~4% to stand at PKR ~13.101trln (end-Dec22: PKR ~12.645trln). Non-performing loans witnessed an increase of 8.3% YoY to PKR ~881bln (end-Dec22: ~812bln). The CAR averaged at 21.6% (end-Dec22: 16.9%). Looking ahead, with the expected monetary rate cut, banks are likely to sustain some dilution in profitability by CY24.

Relative Position In CY23, the bank reported market share at 6.5% in customer deposits, and it currently holds the 7th position in this category. As of end-Dec'23, the absolute value of customer deposits for MCB stands at approximately PKR 1,753.8bln (end-Dec'22: PKR 1,344.0bln), reflecting an increase of 30.48%.

Revenues In CY23, the bank's markup earnings surged to PKR 328.1bln (CY22: PKR 200.8bln) with investments contributing significantly (CY23: PKR 203.6bln, CY22: PKR 130.4bln). The net markup income increased by 69.47% to PKR 147.7bln from CY22's PKR 87.2bln. The asset yield rose sharply to 17.8% in CY23 compared to 11.7% in CY22 due to a higher policy rate.

Performance In CY23, the Bank's non-markup income reached PKR 32.9bln (CY22: PKR 24.6bln) with fee and commission income driving growth to PKR 20.2bln (CY22: PKR 14.1bln). Dividend income grew significantly, reaching PKR 3.0bln (CY22: PKR2.4bln) while foreign exchange income diluted to PKR 8.5bln (CY22: PKR 9.2bln). The non-markup income to total income ratio declined to 18.2% (CY22: 22.0%). Non-markup expenses increased to PKR 55.0bln in CY23 from PKR 43.2bln in CY22 due to exceptionally high inflation, the impact of currency devaluation, and continued investments in technological upgradation. Net profit for CY23 was PKR 59.6bln, an 82.13% increase from CY22's PKR 32.7bln.

Sustainability MCB remained financially strong having a healthy market share and sound balance sheet footings; current account concentration stood at 45.4% as at Dec 23 through strategic measures.

Financial Risk

Credit Risk The Bank's infection ratio has increased to 8.7% in CY23 (CY22: 6.4%). This was driven primarily by the reduction of the advance base, while the NPLs reported at 53.9bln in CY23 (CY22: 51.3bln). Additionally, the coverage ratio declined to 82.7% in CY23 (CY22: 86.2%).

Market Risk The bank's investment portfolio witnessed a 27.9% increase in CY23, amounting to PKR 1,238.1bln (CY22: PKR 968.2bln). Government securities remained the dominant component, making up 95.3% of the total and representing 61.1% of the bank's total earning assets.

Liquidity And Funding In CY23, the bank experienced a 30.9% gain in its deposit base, totaling PKR 1,805.4bln, compared to the previous year's PKR 1,378.7bln. However, MCB Bank achieved an impressive CASA ratio of 96.8% at the end of 2023.

Capitalization The bank has consistently maintained a commendable Capital Adequacy Ratio (CAR) that exceeds regulatory requirements, ensuring a secure financial position. In CY23, the CAR reached a comfortable 20.4%, exhibiting improvement from the previous year's 18.8%.

PKR mln

MCB Bank Limited Listed Public Limited	Dec-23 12M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Total Finances - net	579,885	756,826	594,211	472,941
2 Investments	1,238,097	968,217	1,026,458	1,005,289
3 Other Earning Assets	122,092	57,587	52,803	19,371
4 Non-Earning Assets	477,784	295,637	292,369	259,280
5 Non-Performing Finances-net	9,321	7,088	4,628	581
Total Assets	2,427,179	2,085,355	1,970,468	1,757,462
6 Deposits	1,805,387	1,378,717	1,411,852	1,289,502
7 Borrowings	216,611	340,237	269,526	164,002
8 Other Liabilities (Non-Interest Bearing)	174,474	176,906	114,684	113,857
Total Liabilities	2,196,472	1,895,861	1,796,061	1,567,361
Equity	230,707	189,495	174,407	190,102
B INCOME STATEMENT				
1 Mark Up Earned	328,057	200,763	123,334	136,076
2 Mark Up Expensed	(180,356)	(113,607)	(59,347)	(64,741)
3 Non Mark Up Income	32,916	24,613	20,074	18,136
Total Income	180,617	111,769	84,061	89,470
4 Non-Mark Up Expenses	(55,003)	(43,186)	(36,894)	(33,908)
5 Provisions/Write offs/Reversals	(373)	2,782	4,823	(7,313)
Pre-Tax Profit	125,241	71,365	51,989	48,249
6 Taxes	(65,609)	(38,624)	(21,178)	(19,212)
Profit After Tax	59,631	32,741	30,811	29,037
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	6.5%	4.3%	3.4%	4.4%
Non-Mark Up Expenses / Total Income	30.5%	38.6%	43.9%	37.9%
ROE	28.4%	18.0%	16.9%	16.2%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	9.5%	9.1%	8.9%	10.8%
Capital Adequacy Ratio	20.4%	18.8%	17.0%	21.0%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	68.9%	56.6%	69.0%	76.9%
(Advances + Net Non-Performing Advances) / Deposits	32.0%	54.6%	41.8%	35.9%
CA Deposits / Deposits	45.4%	46.5%	37.8%	35.9%
SA Deposits / Deposits	48.6%	46.6%	53.0%	55.0%
4 Credit Risk				
Non-Performing Advances / Gross Advances	8.7%	6.4%	7.9%	10.0%
Non-Performing Finances-net / Equity	4.0%	3.7%	2.7%	0.3%

Credit Rating

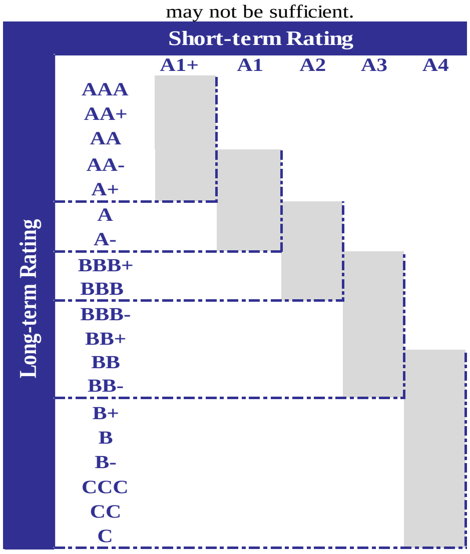
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information