

FOR IMMEDIATE RELEASE

November 20, 2017

**ICRA Lanka reaffirms the [SL]A+ Issuer Rating of
MCB Bank Limited (Sri Lanka Branch)**

ICRA Lanka Limited, Subsidiary of ICRA Limited, Group company of Moody's Investors Service, has reaffirmed the issuer rating of [SL]A+ (Pronounced SL A plus) with a stable outlook to MCB Bank Limited's Sri Lanka Branch (MCBSL or the Bank).

The rating factors in the financial, managerial and operational support provided by MCB Bank Limited (MCB; rated Caa1/ NP by Moody's) to its Sri Lankan branch operations. MCB is among the large commercial banks in Pakistan with market share of about 7% in terms of the share of customer deposits, as in December 2016. MCB directly overlooks the credit, compliance and internal audit functions of MCBSL. The rating takes note of MCBSL's reasonable asset quality with gross NPA of 2.9% as in June 2017; 2.4% as in December 2016 (2.7% as in December 2015). The rating takes note of the comfortable capitalization (total capital adequacy at 29.1% as in June 2017) and adequate profitability indicators (RoAA¹ 2.36% in CY2016 vis-à-vis 1.52% in CY2015). The rating however takes cognizance of the small size and franchise, geographically concentrated presence, and its concentrated deposit and advances profile.

MCBSL started its operations in 1994 with the acquisition of the Middle East Bank's local operations in Sri Lanka. The bank currently focuses on corporate and SME customers; as on June 30, 2017 the corporate exposure² accounted for about 77% of the total portfolio, while SME and retail exposures stood at 19% and 4% respectively. MCBSL's portfolio is quite concentrated with top 20 exposures accounting for about 68% as in June 2017. Over the medium-long term, the bank is expected to increase its share of retail exposure (to about 25% of the total portfolio over the next 3-4 years) by focusing on products such as housing loans, vehicle loans and personal loans for the salaried segment. Bank's ability to expand the retail exposures in a steady manner, while maintaining asset quality, would be crucial from a rating point of view.

MCBSL's asset quality indicators remain in-line with systemic levels, with the gross NPAs at 2.86% as in June 2017 vis-à-vis 2.40% in December 2016. Increase in NPA levels during H1CY2017 was mainly on the account of one large facility slipping into non-performing category during the period. MCBSL's provision coverage is moderate at 32.5% as in December 2016; however, the solvency is comfortable at about 4.5% (Net NPA/Net worth).

Deposits constituted to about 71% (70% in December 2016) of the total debt as on March 31, 2017; fixed deposits accounted for about 52% (51% in December 2016) of the total debt. ICRA Lanka continues to factor in the concentrated deposit profile, with top 10 deposits accounting for about 44% of the total deposits as in June 2017. Fixed deposit base of the bank is largely short term in nature, with over 75% of the fixed deposits having maturity period of 6 months or less, as in March 2017. Liquidity risk stemming from the deposit base is partly mitigated by the relatively short tenured loan profile of the bank; as on March 31, 2017 MCBSL reported a positive cumulative ALM mismatch of 8% in less than one year maturity bucket (positive mismatch of 5% in March 2016). Further, ICRA Lanka takes

¹ RoAA is calculated as PAT/ Average total assets

² During CY2016 bank revised its segment classification framework, where clients with annual turn-over of more than LKR 750 Mn are now considered as corporate clients; previously, only the listed companies were considered as corporate clients

cognisance of the existing contingency funding arrangements with the parent and ICRA Lanka expects MCB to extend timely liquidity support to MCBSL, when required.

The bank's capital profile is comfortable with overall capital adequacy ratio (CAR) at about 29.1% as on June 30, 2017. The current capital profile along with an expected steady internal generation would support the envisaged portfolio growth of about 20% per annum for the next 2-3 years.

MCBSL's net interest margins expanded during CY2016 (4.82%) and Q1CY2017 (5.44%) compared to the previous year (3.65% in CY2015), as the increasing systemic rates enabled the bank to favorably re-price its loan portfolio; about 80% of the total advances as in June 2017 were on a floating rate basis. The credit costs (Loan impairment expenses/ ATA) have remained moderate at about 0.2-0.4% over the last 2-3, while the operating expenses/ATA increased from 2.3% in CY2016 to 2.9%(annualized) in Q1CY2017 because of the on-going branch renovation and system improvements. Going forward, MCBSL's ability to maintain a conservative cost structure as business expands, and keeping its credit costs under control would be crucial for incremental profitability.

Bank Profile

MCB Bank Sri Lanka ("MCBSL") was established in Sri Lanka with the acquisition of Middle East Bank Limited's Colombo operations in 1994. Currently, MCBSL operates with 8 branches at Kollupity, Maradana, Pettah, Wellawatte, Kandy, Galle and Batticaloa with its Head Office branch in Colombo.

The bank currently focuses on corporate and SME lending (about 96% of the portfolio as on June 30, 2017) and is expected to steadily increase the share of retail lending over the next 3-4 years. MCBSL also operates an Islamic Banking division.

In CY2016, MCBSL reported a PAT of LKR 439 Mn on a total asset base of LKR 23.1 Bn, as compared to PAT of LKR 301 Mn on a total asset base of LKR 22.9 Bn in CY2015.

For the three months ended March 2017, the bank reported a PAT of LKR 144 Mn on a total asset base of LKR 24.9 Bn.

November 2017

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