MARC RATINGS BERHAD

P R E S S   A N N O U N C E M E N T

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MARC RATINGS AFFIRMS MBSB BANK'S RATINGS WITH STABLE OUTLOOK

MARC Ratings has affirmed its financial institution (FI) rating of **A+** on MBSB Bank Berhad and its **A+*IS*** rating on the bank's RM5.0 billion Sustainability Sukuk Wakalah Programme. Concurrently, the rating agency has assigned ratings on MBSB Bank's existing Sukuk Wakalah Programme of up to RM10.0 billion as follows:

- Senior Sukuk Wakalah at **A+*IS***
- Tier-2 Sukuk Wakalah at **A-*IS***
- Additional Tier-1 Capital Sukuk Wakalah (AT-1 Sukuk Wakalah) at **BBB*IS***

The outlook on all ratings is **stable**. The rating on the Senior Sukuk Wakalah is equalised with MBSB Bank's long-term FI rating. The Tier-2 Sukuk Wakalah's and the AT-1 Sukuk Wakalah's two-notch and four-notch rating differentials reflect structural subordination in accordance with MARC Ratings' methodology.

The FI rating affirmation has factored in MBSB Bank's long track record in banking and financing, particularly in personal financing, along with healthy capitalisation levels and strong shareholder support from its ultimate shareholder, Employees Provident Fund (EPF). The FI rating is mainly moderated by the bank's weaker-than-industry-average asset quality metrics.

MBSB Bank's total financing grew by 4.0% year-to-date to RM41.2 billion as at end-June 2024, largely from financing to small- and medium-sized enterprises as well as the retail segment. The bank is aiming for an overall financing book growth of approximately 8% y-o-y in 2024, with retail customer financing currently accounting for 71% of total financing.

The bank's gross impaired financing ratio declined to 5.4% as at end-1H2024 (end-2023: 5.7%) but remained above the industry average of 1.5% for Islamic banks, due to weak legacy assets. Under its new management, MBSB Bank is expected to strengthen its origination and underwriting standards to improve its asset quality, focusing on increasing its financing to less risky government-linked entities. Meanwhile, the rating agency views the financing loss coverage of 51.2% as adequate, supported by collateral for all impaired financing. This notwithstanding, MARC Ratings notes that the realisation of collateral may pose challenges and could necessitate additional provisioning.

In 1H2024, MBSB Bank's net financing income rose by 24.5% y-o-y to RM662.5 million, alongside an improved net financing margin of 2.4%. Pre-tax profit of RM180.3 million for this period is projected to exceed 2023's RM249.1 million on an annualised basis. Cost-to-income ratio stood at 53.7% and is likely to remain at around this level in the near term as the bank continues to invest in transformative initiatives.

MARC Ratings notes that the bank's Current Account and Savings Account deposits of 9.3% of total customer deposits remains low compared to the Islamic banking sector average of 28%. This is attributable to the bank's moderate-sized franchise, resulting in the reliance on pricier wholesale funding. This stood at 71% of total funding as at end-1H2024. The rating agency views that as these deposits are largely from government-related entities, they are relatively sticky and should support stability. The recent changes in the bank's senior leadership, comprising professionals with extensive experience in key local financial institutions, would also strengthen MBSB Bank's franchise moving forward, in MARC Ratings' view. MBSB Bank also has ready access to long-term financing through its RM5.0 billion Sustainability Sukuk Wakalah Programme and RM10.0 billion Sukuk Wakalah Programme.

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