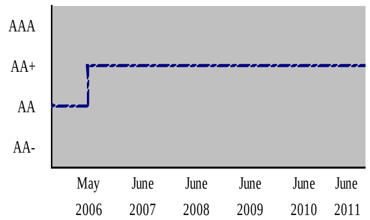
MCB BANK LIMITED (MCB)
RATINGS (JUNE 2011)

	NEW	PREVIOUS
ENTITY		
Long Term	AA+	AA+
Short Term	A1+	A1+

HISTORY – LT ENTITY RATING



FINANCIAL DATA

PKR (mln)

	Mar-11	Dec-10	Dec-09
Total Assets	604,697	567,553	509,223
Equity	64,335	69,180	61,075
Net Income	5,024	16,873	15,495
ROA %	3.7	3.3	3.2
ROE %	30.7	26.8	27.3
Equity/Total Assets %	11.9	12.1	11.9
CAR	23.2	22.1	19.0

** Based on unaudited accounts for three months ended March 31, 2011*

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect MCB's strong financial profile mainly emanating from its sound liquidity, solid capitalization, and robust profitability. The bank, while following a cautious lending strategy, has maintained good asset quality. The ratings factor in the bank's strong market position, characterized by its established brand, and extensive branch network equipped with requisite technology infrastructure. This benefits the bank in maintaining a low cost deposit base as compared to its peers.
- The ratings are dependent on the bank's ability to uphold its existing positioning in the banking sector. At the same time, maintaining asset quality while reviewing its risk management systems on a continuous basis in line with changing market conditions would remain important to cater future challenges.

ASSESSMENT

- The macroeconomic landscape of Pakistan remains uncertain. Although a few indicators have improved as reflected in current account surplus of the country, prolonged energy crisis, stubborn inflationary pressure and burgeoning fiscal imbalance continue to pose major challenges to economic growth. This is also reflected in continuing weakening in the asset quality of the banks. The pace of accumulation of NPLs has stalled lately, but it would be challenging for the banks to maintain asset quality amidst subdued business sentiments.
- MCB adopted a cautious strategy towards lending while focusing on improving its asset quality during 2010. Finances portfolio witnessed a meager increase (1.7%). Advances mix is dominated by corporate (53%), followed by commodity (30%), consumer (8%) and SME (6%). MCB's top 20 exposures remained on the higher side (10: 31%, 09: 31%). Top five sectors contributed 65% to total advances (09: 60%). Deposit base of the bank registered an impressive growth (17%), thus reducing finances (net of re-finance)-to-deposits ratio (Dec10: 58%, Dec09: 67%). The bank continues to benefit from its low cost deposits mix with a relatively lower top-20 depositor's concentration (9%) at end-Dec10.
- During 2010, despite 12% growth in earning assets of the bank, net interest revenue largely stagnated mainly owing to lowering of spreads on YoY basis. Although other operating income increased, pre-provision profit declined owing to a rise in non-markup expenses (CY10 PKR 13,249mln, CY09: 10,940mln) due to lower contribution of reversals from pension funds. Nevertheless, overall profitability was supported by lower provisioning expense as majority of the non-performing loans (NPLs) were in loss category against which a substantial provisioning was already made during previous years. The bank continued its strong performance trend in 1QCY11. Significantly higher operating expenses dented the bottom-line, nevertheless, overall profitability of MCB increased on the account of higher other income.
- Going forward, MCB would continue to follow a conservative growth approach in lending while focusing its efforts to improve its asset quality through further strengthening its systems and controls. The bank has identified few sectors offering promising business opportunities for credit expansion. Meanwhile, the bank is expected to maintain its low cost deposit base, capitalizing on its extensive outreach. Besides, technology based initiatives, mainly mobile banking, are expected to gradually improve the bank's non-fund base income.
- The bank's asset quality deteriorated marginally. However, it remained better than most of its peers. With the management's continuing recovery efforts and vigilant monitoring of watch-list accounts, the bank's impaired portfolio is expected to remain at current levels.
- The bank is continuously striving to strengthen and improve its risk management framework, while ensuring compliance with Basel-II requirements. The bank's newly implemented core banking software "Symbol" is playing important role in improving overall operational efficiencies. Moreover, the bank has rolled out knowledge manager application – an analytical tool capable of producing multiple reports – that would facilitate senior management in decision making as well as monitoring different functions across the bank.
- Robust deposit mobilization, with cautious credit expansion, further expanded the investment book – pre-dominated by government securities (Dec10: 97%, Dec09: 96%). Moreover, most of these securities comprise short-term treasury bills, while PIBs represents around 3% in total government securities and thus, minimizing interest rate risk, while providing strong liquidity profile. Meanwhile, the investment in listed equity securities remained low.
- MCB maintains a robust capital structure as capitalization level is significantly above regulatory requirements. Moreover, with a relatively controlled level of net NPLs-to-equity, resultant drag on equity remains lower.

PROFILE

- MCB is the fourth largest bank in terms of its share in total banking assets (9% at end-Mar11) in the country. The bank is operating with a distinct franchise with 1,132 branches at end-Dec10. The bank is majority owned (35%) by Nishat group, a prominent business conglomerate of the country. Nishat group has interests in textile, cement, power, finance, and insurance.
- Malayan Banking Berhad (Maybank) of Malaysia, incorporated in 1960 and listed on Bursa Malaysia, has 20% stake in MCB since May08. The group employs over 40,000 employees and has over 1,750 offices in 14 countries with concentration in ASEAN, besides having presence in the UK and the USA. Maybank has rating of 'A-' from Fitch and Standard & Poors. MCB is expected to benefit from Maybank's expertise mainly in Islamic banking and risk management.
- Mian Mohammed Mansha, the chairman of the bank, is an eminent businessman and a successful entrepreneur. The board of directors (BoD), with two representative of Maybank, includes prominent industrialists and financial sector specialists. Mr. M.U.A Usmani, possessing over four decades of banking experience, has been lately appointed as the CEO of MCB. Development of a stable and cohesive team that can ably build on MCB's intrinsic strengths remains important.

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