The Pakistan Credit Rating Agency Limited

MCB BANK LIMITED (MCB)

	NEW [JUNE-16]	PREVIOUS [JUNE-15]
Entity		
Long Term	AAA	AAA
Short Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS

JUNE 2016

Profile & Ownership

- MCB Bank Limited (MCB), incorporated in 1947, is the fifth largest bank in terms of its share in total banking deposits (7.1%) in the country as at end-Dec15
- Listed on the Pakistan Stock Exchange; while it's Global Depository Receipts (GDRs) are listed on the London Stock Exchange
- Operates through fourth largest network of (1,257 branches), while overseas operations are limited compared to peers
- MCB Bank is majority owned by Nishat group (~42%), a prominent business conglomerate, followed by Malayan Banking Berhad (Maybank) of Malaysia having 20% stake in MCB since May-08

Governance and Management

- Mian Mohammad Mansha – one of the leading businessman of the country and the man behind Nishat Group – is the chairman of MCB's thirteen-member board of directors; except President & CEO all are non-executive directors; including two representatives of MayBank
- President & CEO, Mr. Imran Maqbool, has been at this position since Dec12, carries three decades of extensive and diversified banking experience. He is supported by an able team
- The bank, with a largely horizontal organizational structure, includes business and support groups & divisions reporting to the CEO

Funding and Assets

- Slow deposits growth in CY15, lower than peers. It added CASA deposits (PKR 26bln) while shredded high cost deposits. This enabled MCB to capture 6% (CY14: 11%) of the CASA deposits added by large banks (PKR 450bln)
- CASA deposits dominates (93%) the deposit mix, while top 20 deposits concentration is very low; superior funding profile
- Small growth in advances portfolio, thereby maintaining the advances to deposits ratio at 45%

Credit Risk

- Top twenty funded exposure rose by 5% on YoY basis with concentration level at 30% (CY14: 25%); although in line with peers, remains high. Nevertheless, these are premium customers with low credit risk
- The advances portfolio is dominated by corporates (72%), followed by commodity financing (18%), consumer financing (6%), and others
- Low infection ratio (6.1%); gross NPLs witnessed decline in CY15 with continued recovery efforts

Market Risk

- Investment portfolio, constituting 56% of the asset base, increased by 11% to PKR 562bln at CY15
- Heavily deployed in PIBs (50%); amidst low interest rate environment, benefit is accrued in the form of unrealized capital gain of PKR 14bln at year end CY15

Performance

- Interest revenue grew by mere 4%, due to low volume growth and decline in yield (CY15: 8.78%, CY14: 10.79%)
- Improved cost of funds (CY15: 3.96%, CY14: 4.76%) on account of higher proportion of CASA deposits, translating into decline in interest expense
- Higher income from fee commission and brokerage by 16%, and capital gains doubled due to strategic positioning of PIBs amidst low interest rates
- The cost to total net revenue superior amongst peers (36%)

Business Strategy

- Envisages moderate organic growth, while taking benefit from the borrowing appetite of the government and focusing on premier corporate clients
- Any further softening in interest rate environment would challenge its business margins, as further room to cost efficiency is limited

Capital

- Robust capitalization level in the banking sector, its capital adequacy ratio (CAR) clocks in at 19% at end-Dec15. It is pre-dominantly constituted of Tier-I capital (16.8%) – a factor of healthy profitability and reserves

RATING RATIONALE

The ratings take note of MCB's strong financial profile, reflected in solid capitalization, 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 - has been providing an effective oversight. The ratings factor in MCB's strong market positioning, supported by its well established brand name and substantial outreach; helping in maintaining a sizeable low cost deposit base. However, given that the bank has already achieved good cost efficiency in its deposit base, extending it further would be difficult. Hence, any further softening in interest rate environment would challenge its business margins. The bank continues with its current strategy of lending to premier corporates with sustained focus on government exposure. The bank has established an Islamic Banking subsidiary, thereby, becoming the first conventional bank to do so.

KEY RATING DRIVERS

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.

MCB Bank Limited

PKR mln

BALANCE SHEET	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
Earning Assets				
Advances (Net of NPL)	309,529	313,719	300,410	244,925
Debt Instruments	11,224	7,101	4,084	3,547
Total Finances	320,753	320,820	304,494	248,472
Investments	616,842	561,702	507,053	445,459
Others	8,313	12,651	8,083	7,238
	945,908	**895,173**	**819,630**	**701,169**
Non Earning Assets				
Non-Earning Cash	55,804	57,372	43,105	55,469
Deferred Tax	-	-	-	-
Net Non-Performing Finances	2,720	1,867	3,149	3,318
Fixed Assets & Others	55,843	62,218	68,747	55,552
	114,367	**121,457**	**115,001**	**114,339**
TOTAL ASSETS	**1,060,275**	**1,016,630**	**934,631**	**815,508**
Interest Bearning Liabilities				
Deposits	733,239	708,091	688,330	632,330
Borrowings	136,462	118,459	59,543	38,543
	869,701	826,550	747,872	670,873
Non Interest Bearing Liabilities	50,225	52,279	56,655	34,404
TOTAL LIABILITIES	**919,926**	**878,829**	**804,527**	**705,277**
EQUITY (including revaluation surplus)	**140,349**	**137,801**	**130,103**	**110,231**
Total Liabilities & Equity	**1,060,275**	**1,016,630**	**934,631**	**815,508**

INCOME STATEMENT	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
	1QCY16	Annual	Annual	Annual
Interest / Mark up Earned	17,896	80,532	77,269	65,064
Interest / Mark up Expensed	(6,427)	(31,210)	(33,757)	(27,196)
Net Interest / Markup revenue	**11,469**	**49,322**	**43,512**	**37,868**
Other Income	2,969	17,115	12,944	11,171
Total Revenue	**14,438**	**66,437**	**56,456**	**49,039**
Non-Interest / Non-Mark up Expensed	(5,805)	(23,560)	(21,668)	(19,586)
Pre-provision operating profit	8,633	42,877	34,789	29,453
Provisions	446	(544)	1,941	2,836
Pre-tax profit	9,079	42,333	36,730	32,288
Taxes	(3,057)	(16,782)	(12,405)	(10,793)
Net Income	**6,022**	**25,551**	**24,325**	**21,496**

Ratio Analysis	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
Performance				
ROE	21%	23%	24%	23%
Cost-to-Total Net Revenue	40%	36%	38%	40%
Provision Expense / Pre Provision Profit	-5%	1%	-6%	-10%
Capital Adequacy				
Equity/Total Assets	11%	11%	11%	12%
Capital Adequacy Ratio as per SBP	18%	19%	20%	22%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	75%	73%	74%	75%
Advances / Deposits	43%	45%	44%	39%
CASA deposits / Total Customer Deposits	94%	93%	91%	90%
Intermediation Efficiency				
Asset Yield	8%	10%	10%	10%
Cost of Funds	3%	4%	5%	4%
Spread	5%	6%	6%	6%
Outreach				
Branches - Domestic	1,246	1,246	1,222	1,208

The Pakistan Credit Rating Agency Limited

STANDARD RATING SCALE & DEFINITIONS

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 Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
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-	**Speculative.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**Highly speculative.** Significant 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	**High default 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 Ratings

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 conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity MCB Bank Limited
Sector Banking
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
24-Jun-16	AAA	A1+	Stable	Maintain
24-Jun-15	AAA	A1+	Stable	Maintain
26-Jun-14	AAA	A1+	Stable	Maintain
4-Feb-13	AAA	A1+	Stable	Upgrade
29-Jun-12	AA+	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology Bank Rating Methodology
Sector Research Banking Sector - Viewpoint | Dec-15

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Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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