

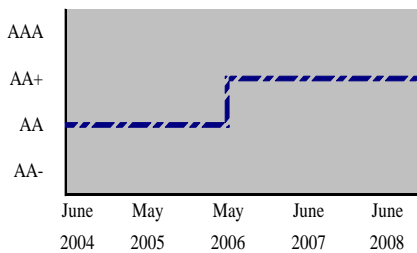
MCB BANK LIMITED (MCB)

**RATINGS (JUNE 2008)
MCB BANK LIMITED**

	NEW	PREVIOUS
ENTITY		
Long Term	AA+	AA+
Short Term	A1+	A1+
TFCs		
<i>Unsecured, and subordinated</i>		
PKR 1,600mln	n.a.*	A1+

* The TFC was fully redeemed in Feb08.

HISTORY – LT ENTITY RATING



FINANCIAL DATA

PKR (mln)

	31-Dec-07	31-Dec-06
Total Assets	410,485.5	342,108.2
Equity	45,414.2	35,656.7
Net Income	15,265.6	12,142.4
ROA %	4.06	3.79
ROE %	37.66	45.00
Equity / Total Assets %	11.06	10.42
CAR	17.88	18.65

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RATING RATIONALE AND KEY DRIVERS

- The ratings of MCB reflect its leading position in the banking sector, evident from the bank's robust financial profile, extensive outreach, and established franchise. Recently, Maybank – Malaysia's largest banking group – acquired stake in MCB. The association with Maybank, besides unveiling new business opportunities, is expected to institute further efficiencies and advancement in overall operations of the bank, while strengthening the governance framework.
- The ratings are dependent on the bank's ability to maintain its standing in the sector. At the same time, given the bank's increasing penetration in consumer and SME segments, strengthening of risk management and related information systems would be critical. Meanwhile, any significant deterioration in asset quality leading to a decline in its profitability, in turn, putting pressure on the bank's risk absorption capacity may negatively impact the ratings.

ASSESSMENT

- The bank, during 2007, maintained its overall performance trends in terms of growth in total assets and profitability. While advances and deposits showed consistent growth pattern, finances (net of ERF) to deposit ratio remained largely stable. The bank's overall deposit base continued to be dominated by saving deposits in line with its policy to maintain low cost deposit mix. On assets side, the bank, following a cautious growth strategy, primarily focused on high quality corporate advances, as well as strengthening its presence in consumer segment.
- MCB witnessed robust profitability during the year. Growing business volumes, with the bank's exceptionally high spreads, translated into significant increase in net interest income. Meanwhile, reversals of payroll expenses emanating from the bank's defined benefit pension plan, further boosted the bottom line. However, since the pension plan has divested its ownership in MCB, mainly contributing towards increase in its assets with increasing market value of the stock, such reversals (07: PKR 5,769mln, 06: PKR 2,907mln) may not be available, going forward. The bank's ROE and ROA remained the highest in the sector, exhibiting efficient utilization of available resources by the bank. During 1Q08, the bank maintained its performance in terms of spreads and overall profitability. Given the bank's high concentration in saving deposits, the spreads may come under pressure attributable to the recent change in regulations requiring a minimum return on saving deposits. However, the bank is expected to draw comfort from rising trend in lending rates, thus maintaining its profitability, going forward.
- The management has developed a long-term business plan to achieve its overall growth targets. The cornerstone of this strategy would be revamping of the bank's branch network. As against current practice of all services being offered by all branches, the management intends to bring specialization with each branch having a distinct focus in terms of its targeted customers. In this regard, as a first step, the bank has consolidated its lending business in 375 branches and now intends to further rationalize with reference to target market – corporate, SME, and consumer. Although deposit mobilization would be a common objective across the branch network, range of products and services would vary. In line with its plan, the bank would increase its focus on consumer and SME segments by offering new products. Moreover, the bank is entering into a business cooperation agreement with its new shareholder – Maybank. Under the agreement, Maybank would help the bank in all areas of business especially in consumer, SME, and Islamic banking segments. Meanwhile, operational and technological support to the bank from its new strategic partner is also in the offing.

- The bank registered 25% increase in its NPLs during 2007 mainly on account of worsened credit environment coupled with the change in regulations. However, the bank benefiting from its robust profitability provided for all the impairment during the year, thus eliminating any negative impact of these NPLs on future profitability. The bank has switched around 40% of its total branches to Symbols – the new core banking software – while targeting complete implementation by end-08. Meanwhile, the bank is in the process of bringing in further improvement and automation in its risk management framework.

- MCB has a robust capital structure, which is expected to remain strong in line with the healthy profitability.

PROFILE

- MCB is the fourth largest bank in terms of its share in total banking assets in the country. The bank has a robust franchise with 1026 branches including 6 overseas branches at end-Dec07, with plans to add another 41 branches during 2008. The bank is majority owned (around 32%) by Nishat group, a prominent conglomerate of the country. Nishat group has interests in textile, cement, finance and insurance.
- During May08, a few of key shareholders including members of Nishat family, and the bank's employees retirement fund sold 15% of stake in the bank to Malayan Banking Berhad (Maybank) of Malaysia. Maybank, incorporated in 1960 and listed on Bursa Malaysia, is the largest financial services group in Malaysia. The group offers a wide range of financial services including commercial banking, investment banking, Islamic banking, leasing and hire purchase, insurance, asset management, and brokerage. The group has over 450 offices in 14 countries mainly in Asia, besides having presence in the UK and the USA. The group has a total asset base of around US\$ 81bln (US\$ 66bln for Maybank on standalone basis) as on end-Mar08. Maybank has a rating of 'A-' from Standard & Poors.
- Mian Mohammed Mansha, the chairman of the bank, is an eminent businessman and a successful entrepreneur. Mr. Atif Aslam Bajwa is the chief executive officer of the bank. Mr. Bajwa, appointed in 2007, has 25 years of distinguished national and international banking experience.

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