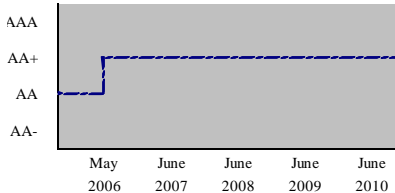


MCB BANK LIMITED (MCB) RATINGS (JUNE 2010)

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

HISTORY – LT ENTITY RATING



FINANCIAL DATA PKR (mln)

	Mar-10	Dec-09	Dec-08
Total Assets	497,524	509,223	443,615
Equity	62,802	61,075	52,244
Net Income	4,141	15,495	15,374
ROA %	3.5	3.2	3.6
ROE %	29.1	27.3	31.4
Equity/Total	12.6	11.9	11.7
Assets %			
CAR	20.2	19.0	16.4

* Based on unaudited accounts for three months ended March 31, 2010

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect MCB's strong risk absorption capacity emanating from sound capital structure supplemented by consistently robust performance. The bank is well positioned to sustain its competitive edge in the sector owing to its quality management team, established franchise and extensive outreach equipped with requisite technology infrastructure. The ratings recognize the bank's prudence in aligning its business strategy with challenging operating environment.
- The ratings are dependent on the bank's ability to maintain its relative positioning in the sector. As the bank recently faced significant increase in NPLs, further strengthening of the risk management systems and control would remain important.

ASSESSMENT

- Given heightened credit risk, MCB adopted a cautious lending strategy in line with industry. Consequently, advances portfolio remained stagnant during 2009. However, with a moderate growth in deposits, finances to deposit ratio improved (Dec09: 70%, Dec08: 81%). The bank continues to benefit from its low cost deposits mix, skewed (83%) towards both saving and demand deposits with a minimal top-20 depositor's concentration at 5% at end Dec09. In the absence of expansion, the bank remained active in treasury operations and expanded deposits base was routed towards investments, improving the bank's liquidity profile.
- The bank's performance in terms of ROA and ROE remained robust. During 2009, MCB showed strong net revenues mainly owing to higher spreads. The share of non-fund based revenues towards total net revenues (1Q10: 12%, 09: 10%, 08: 13%) was lower. The bank continued to benefit from a surplus in a reversal of pay roll expenses (09: PKR 3,577mln, 08: PKR 5,328mln), emanated from its defined contribution employee pension fund. However, sizeable rise in operating costs coupled with higher provisioning expenses on account of increasing NPLs largely masked the impact of increase in total net revenue. The bank continued its strong performance trend in 1QCY10.
- Going forward, the bank intends to follow cautious lending stance while continuing to mobilize low cost deposits. The bank would tap potential growth opportunities through identifying sectors offering promising business prospects while optimizing its branch banking platform. MCB's strategy 2012 envisages transformation of existing branch network into sales and service centres with a prime focus on increasing efficiency and improving service quality. It includes interalia streamlining branch operations, strengthening of banking platform mainly for consumer banking, SME and privilege banking. The bank's initiatives, while further strengthening its interest based income, would help in enhancing its fee based revenues.
- MCB's advances mix is dominated by corporate (52%), followed by commodity (29%), consumer (11%) and SME (7%). MCB's top 20 exposures remain on the higher side (09: 31%, 08: 26%) of the total advances. The worsening credit environment impacted the bank's asset quality, deteriorated significantly though remained better than industry. Although further addition in NPLs may not be ruled out, these are expected to remain under control with the management's continuing stringent recovery efforts and vigilant monitoring of watch-list accounts.
- The bank is continuously striving to strengthen and improve its risk management framework particularly internal control functions. Furthermore, the bank has implemented Symbol – the new core banking software – in all of its branches, which is expected to enhance efficiency in overall operations.
- MCB holds a sizeable proportion of government securities in its investment portfolio (Dec09: 96%, Dec-08: 94%). However, given that a substantial portion is in the form of short-term treasury bills, while PIBs represents around 5% in total government securities, minimizing interest rate risk. Meanwhile, the investment in listed equity securities remained low, thereby limiting any significant impact on bottom-line due to market fluctuation.
- MCB has a robust capital structure, which is expected to remain strong, being supplemented by healthy profitability. The bank has the highest capital adequacy ratio amongst peers, offering ample room for credit expansion. With a relatively limited drag of unprovided NPLs (Net NPLs to equity: 1Q10: 9.5%), MCB retains strong cushion to absorb any unforeseen losses.

PROFILE

- MCB is the fourth largest bank in terms of its share in total banking assets (8%) in the country. The bank has a distinct franchise with 1,072 branches including 7 overseas, 1 representative office in Dubai and 11 Islamic banking branches at end-Mar10. MCB has received awards in 2009 as "the best domestic bank in Pakistan" consecutively for the last two years and "the strongest bank in Asia" by Asia Money and Asian Banker respectively.
- 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 has over 450 offices in 14 countries mainly in Asia, besides having presence in the UK and the USA. Maybank has a rating of 'A-' from Fitch (Mar09) and Standard & Poors (Dec08). MCB is expected to benefit from Maybank's expertise in operational and technological matters particularly in Islamic banking and risk management segment. Maybank is the largest financial services group in Malaysia.
- 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.
- Currently, Mr. M.U.A Usmani, possessing over four decades of banking experience, is the acting CEO of MCB. It remains to be seen how quickly the new CEO, yet to be finalized, manages to develop cohesiveness in the management team for meeting the challenges ahead, while maintaining the past performance trends.