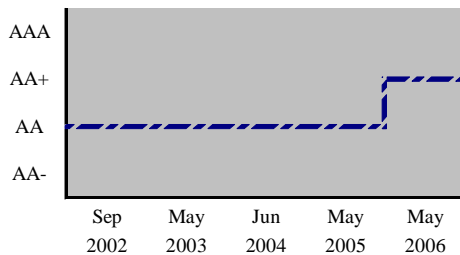


**MCB BANK LIMITED (MCB)****RATINGS (MAY 2006)****MCB BANK LIMITED**

	NEW	PREVIOUS
ENTITY		
Long Term	AA+	AA
Short Term	A1+	A1+
TFCs		
Unsecured, Subordinated (PKR 1,600mln)	AA	AA-

HISTORY – LT ENTITY RATING**FINANCIAL DATA**

PKR (mln)	31-Dec-05	31-Dec-04
Total Assets	298,776.8	259,173.8
Equity	17,884.0	9,198.6
Net Income	8,922.4	2,431.5
ROA %	3.20	0.91
ROE %	65.89	28.73
Equity / Total Assets %	5.99	3.55
CAR	12.64	9.65

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TFC ISSUE

MCB issued unsecured subordinated TFCs during August 2002 of PKR 1,600mln for a tenor of 5½ years at a floating rate of latest cut-off yield on 5-year PIBs plus 1.50% with a floor of 11.75% and a cap of 15.75%. Major principal redemption will be in three unequal installments commencing from February 2007. The TFC holders are exposed to a relatively higher risk, as the obligations towards the TFC holders are subordinate to those of the other creditors including depositors of the bank.

RATING RATIONALE**ASSESSMENT**

- MCB's ratings reflect the bank's very strong risk absorption capacity emanating from its strengthened capital structure supplemented by a sound asset quality. The ratings also take into account the management's demonstrated ability of aligning the operations in line with the changing dynamics of the sector enabling the bank to remain well positioned to face competitive pressures.
- In recent years, MCB, unlike most other banks focusing on growth in the overall size, concentrated on a broad-based restructuring aimed at improving core profitability. The strategy included a) optimal utilization of resources by increasing the proportion of advances in total assets, b) re-profiling of the deposit base in favor of relatively low-cost deposits while maintaining the overall size, c) identification of avenues to enhance non-fund based income, and d) a stricter control over operating expenditure. The implementation of this strategy has resulted in a marked improvement both in terms of the bank's risk profile and performance prospects.
- MCB achieved an unprecedented profitability – ROA and ROE – during 2005 on the back of substantial growth in the advances portfolio coupled with one of the highest spreads in the sector. Non-fund based income also improved, though its proportionate contribution to the total revenue declined due to substantial growth in net interest income. The bank's bottom line was also flattered by a significant reversal of PKR 2bln relating to pension fund of the bank. The bank's cost structure is also rationalized and is now in line with its peers. During 1Q-2006 the bank maintained the trend in performance. It has geared up its deposit mobilization efforts that have helped in reducing the reliance on money-market borrowings.
- Going forward, the bank is targeting a reasonable growth in total assets, while maintaining the credit-to-deposit ratio at around the current level. Considering MCB's extensive geographical outreach with a large customer base and increasing emphasis on service quality, deposit mobilization is not likely to pose a major challenge. The bank is also planning to expand its branch network on selective basis with the primary objective of low-cost deposit mobilization. In terms of credit expansion, the bank intends to maintain its focus on the working capital needs of the corporate sector in the near-term. However, to achieve a sustainable credit growth over the medium-term, it has identified consumer and SME segments. While further developing its already launched products for consumer segment, MCB is also planning to launch its credit card during the current year. MCB intends to gradually enhance its exposure to the SME segment, but after developing an adequate understanding and capability to manage the associated risks. The management is cognizant of the importance of fee based income and intends to leverage on its technology platform – including ATM and POS network, internet banking – to further enhance its revenues.
- The bank's net NPLs as a percentage of the equity declined substantially to as low as 3% at end-05 (04: 23%, 03: 54%). Meanwhile the strong profitability enabled the bank to augment the provision coverage in addition to strengthening the equity base. The bank is continuously improving its risk assessment and monitoring skills as well as the segregation of major functions of the credit process. The impairment is, therefore, expected to remain controlled.
- MCB's capital structure – both in terms of equity-to-assets and capital adequacy ratio – had improved significantly with retention of substantially higher profits and a right issue of PKR 1.4bln during 2005. The bank is now well placed amongst peers and, going forward, the management intends to further strengthen the capital structure to provide support to its growth initiatives while maintaining its risk absorption capacity.

SUPPORT

- Given the large size of the bank and its strategic importance, implicit support of the central bank in any contingency, could be assumed.

BACKGROUND

- A number of distinguished corporate groups, led by Nishat group, jointly own majority stake in MCB since its privatization in 1991. Nishat Group, a prominent conglomerate of the country, has interests in textile, cement, finance and insurance. Mian Mohammed Mansha, the chairman of the bank, is an eminent businessman and a successful entrepreneur. MCB continues to derive substantial benefits from the resourcefulness, financial strength and business acumen of the members of Board of Directors. The President & Chief Executive has extensive banking experience locally and abroad and has been in this position for the last six years. A highly experienced and distinguished team of senior management assists him.
- MCB currently operates an extensive network of 947 domestic and 5 overseas branches with a leading position in automated banking services. The bank has a market share of around 9% in the total deposits of the scheduled banking system.