



The Pakistan Credit Rating Agency Limited

MCB BANK LIMITED (MCB) RATINGS REPORT

	NEW [JUNE-17]	PREVIOUS [JUNE-16]
Entity		
Long Term	AAA	AAA
Short Term	A1+	A1+
Outlook	Stable	Stable

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JUNE 2017

Profile & Ownership

- MCB Bank Limited (MCB), incorporated in 1947, is listed and is the fourth largest bank in terms of its share in total customer deposits (7%) as at end-Dec16
- Fourth largest branch network with a distinct franchise (1,227 domestic online branches at end-Dec16)
- MCB Bank is majority owned by Nishat group (~38%), a prominent business conglomerate, followed by Malayan Banking Berhad (Maybank) of Malaysia, has 20% stake in MCB since May-08
- The bank is in the process of amalgamating NIB Bank Limited, wherein, 1 ordinary share of MCB is being offered for every 140.043 shares of NIB

Governance

- Mian Mohammad Mansha – one of the leading businessman and the man behind Nishat Group – is the chairman of MCB's thirteen-member board of directors
- President & CEO Mr. Imran Maqbool is an executive director while others are non-executive directors including two representatives of Maybank
- To improve its governance structure, the board ensures effective monitoring of the bank's overall operations through its eight committees

Management

- Mr. Imran Maqbool joined MCB in 2002 and has been the CEO since December 22, 2012. He possesses over three decades of commercial banking experience
- Assembled an experienced team of senior management to assist the CEO
- The bank, with a largely horizontal organizational structure, includes business and support groups along with divisions reporting to CEO

Risk Management

- Assets Rehabilitation Group (ARG) currently handles non-performing loan portfolio with a recovery yield of ~20%
- Top twenty funded exposure rose by 2% on YoY basis to 32% (CY15: 30%), although in line with peers, remains high. However, asset quality is good
- Proportion of short term loans including working capital and trade finance loans in the total advances declined to 44% (CY15: 48%)
- Gross NPLs witnessed rise in CY16 owing to classification of one large client. However, the infection ratio of the bank has been continuously improving (CY16: 5.9%, CY15: 6.1%) signifying focus on stringent recovery efforts
- MCB's new ORR model, implemented last year; bringing the bank in line with peers
- Investment portfolio trimmed by 2% to PKR 551bln during CY16 (CY15: PKR 564bln). The bank's investment portfolio constitutes 52% of the asset base and government securities continue to dominate the overall investment book
- The banks PIBs have matured early as compared to its peers, hence, giving it first advantage over competitors to park its excess liquidity in other avenues

Business Risk

- Decent growth was witnessed in gross finances
- Interest revenue witnessed a decline of 16% (CY15: +4%), attributable to low volumetric growth, low interest rate and maturity of high yielding bonds
- Improvement in cost of funds was not sufficient enough to sustain NIMR at last year's level, hence recorded a decline of 11%
- The decline in revenue stream resulted in increase in the cost to total net revenue on a YoY basis (CY16: 39%, CY15: 36%)
- MCB will continue with its current strategy of lending to premier corporates with sustained focus on government exposure. At the same time, beefing up of the consumer and SME book is also anticipated amidst improving macro fundamentals

Financial Risk

- Stable deposit base, exhibited a growth of 12% during CY16 (CY15: 2%), less than the industry's growth of 14%
- Top 20 depositors contribution, witnessed a slight increase, still, accounting for only 8% of total deposits, reflecting bank's strategy to spread risk
- Established brand and extensive branch network, helped in reporting a high CASA of 94%, highest in the industry
- One of the highest CAR in the industry, positioned at 19.3%. 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 sustained financial profile, reflected in very strong 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 out reach. MCB has the highest CASA in the industry, with lowest cost of funds amongst all players. The bank lately has added sizeable chunk to its deposit base, slightly inching it up. The bank continues with its current strategy of lending to premier corporates with sustained focus on government exposure. At the same time, beefing up of the consumer and SME book is also anticipated amidst improving macro fundamentals. The prevailing interest rate environment is a challenge especially with the drying stream of PIBs. The bank has established an Islamic Banking subsidiary, thereby, becoming the first conventional bank to do so. The bank is in the process of merging NIB Bank with and into itself.

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.

INDUSTRY SNAPSHOT

The banking sector experienced substantial expansion in its deposit base (2016: 14%). Building on the uptick in the economy, advances also grew by a sizeable margin after a lag of many years. Given GDP growth in FY17 and other macro-economic fundamentals, credit expansion is foreseen. Hence, CAR is going to be a challenge, as profits would also suffer due to PIBs maturities.



The Pakistan Credit Rating Agency Limited

Financials [Summary]

MCB Bank Limited

PKR mln

BALANCE SHEET	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14
	1Q	Annual	Annual	Annual
Earning Assets				
Advances (Net of NPLs)	351,275	345,990	312,258	300,410
Debt Instruments	5,891	5,899	9,927	8,246
Total Finances	357,165	351,888	322,185	308,656
Investments	741,697	550,030	558,876	502,891
Others	10,476	10,063	12,651	8,083
	1,109,338	911,981	893,711	819,630
Non Earning Assets				
Non-Earning Cash	72,955	71,313	57,372	43,105
Net Non-Performing Finances	2,231	1,990	1,867	3,149
Fixed Assets & Others	62,027	66,529	63,679	68,747
	137,212	139,833	122,918	115,001
TOTAL ASSETS	1,246,551	1,051,814	1,016,630	934,632
Interest Bearing Liabilities				
Deposits	818,950	781,430	708,091	688,330
Borrowings	227,516	74,515	118,459	59,543
	1,046,467	855,945	826,551	747,872
Non Interest Bearing Liabilities	57,116	54,242	52,279	56,655
TOTAL LIABILITIES	1,103,583	910,187	878,829	804,527
EQUITY (including revaluation surplus)	142,968	141,627	137,800	130,104
Total Liabilities & Equity	1,246,551	1,051,814	1,016,630	934,632
INCOME STATEMENT	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14
	1Q	Annual	Annual	Annual
Interest / Mark up Earned	17,320	67,422	80,532	77,269
Interest / Mark up Expensed	(7,585)	(23,655)	(31,210)	(33,757)
Net Interest / Markup revenue	9,735	43,767	49,322	43,512
Other Operating Income	5,112	15,901	16,705	12,747
Total Revenue	14,847	59,668	66,027	56,259
Other Income / (Loss)	72	320	410	197
Non-Interest / Non-Mark up Expensed	(6,326)	(23,260)	(23,560)	(21,668)
Pre-provision operating profit	8,593	36,728	42,877	34,788
Provisions	880	(654)	(544)	1,941
Pre-tax profit	9,473	36,075	42,333	36,729
Taxes	(3,326)	(14,184)	(16,782)	(12,405)
Net Income	6,147	21,891	25,550	24,325
Ratio Analysis	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14
	1Q	Annual	Annual	Annual
Performance				
ROE	21%	19%	23%	24%
Cost-to-Total Net Revenue	43%	39%	36%	39%
Provision Expense / Pre Provision Profit	10%	2%	1%	6%
Capital Adequacy				
Equity/Total Assets	10%	11%	11%	11%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	74%	73%	75%	75%
Advances / Deposits	43%	45%	44%	44%
CASA deposits / Total Customer Deposits	94%	94%	93%	91%
Intermediation Efficiency				
Asset Yield	7%	8%	10%	10%
Cost of Funds	3%	3%	4%	5%
Spread	4%	5%	6%	6%
Outreach				
Branches	1,241	1,238	1,246	1,232

CREDIT 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		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	A1+: The highest capacity for timely repayment.
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.	A1: A strong capacity for timely repayment.
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.	A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High 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.	C: An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit 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.	

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’.	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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.	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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information
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[Rated Entity](#)

Name of Rated Entity
Sector
Type of Relationship

MCB Bank Limited
Banking
Solicited

Purpose of the Rating

Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
19-Jun-17	AAA	A1+	Stable	Maintain
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

Related Criteria and Research

Rating Methodology
Sector Research

Bank Rating Methodology
Banking Sector - Viewpoint | Jun-17

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[Rating Team Statement](#)**Rating Procedure**

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or issuer of the debt instrument, and ii) fee mandate - signed with the payer, which can be different from the entity

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PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance

PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

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[Probability of Default \(PD\)](#)

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