



The Pakistan Credit Rating Agency Limited

Rating Report

MCB Bank Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2020	AAA	A1+	Stable	Maintain	-
27-Dec-2019	AAA	A1+	Stable	Maintain	-
27-Jun-2019	AAA	A1+	Stable	Maintain	-
27-Dec-2018	AAA	A1+	Stable	Maintain	-
27-Jun-2018	AAA	A1+	Stable	Maintain	-
29-Dec-2017	AAA	A1+	Stable	Maintain	-
19-Jun-2017	AAA	A1+	Stable	Maintain	-
24-Jun-2016	AAA	A1+	Stable	Maintain	-
24-Jun-2015	AAA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings take comfort from MCB's sustained market and financial position, reflected in capitalization – among the strongest CARs (18.86%) in the industry, 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 - have been providing an effective oversight. The rating factors in MCB's strong market positioning, supported by its well established brand name and substantial out-reach. MCB holds the highest CASA in the industry. The bank continues with its current strategy of lending to premier corporates with a key focus on government exposure. MCB has marked its position as the bank with notable profit base for a good two years, with the highest profit before tax among industry players in 2019. The Bank remained focused on taking a cautious yet balanced approach with respect to its advances, however there has been a slight dip in ADR. The bank has established an Islamic Banking subsidiary, thereby, becoming the first conventional bank to do so. With the beginning of current year 2020, Covid-19 has posed challenges to the banking sector, almost all segments of the economy, worldwide and domestically, are getting negatively impacted. The ramifications would continue to unfold, warranting vigilance and timely actions where needed.

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.

Disclosure

Name of Rated Entity	MCB Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_FI(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Commercial Bank(Jun-20)
Rating Analysts	Raniya Tanawar raniya.tanawar@pacra.com +92-42-35869504



Profile

Structure MCB Bank Limited (hereinafter referred as “MCB” or “the bank”) was incorporated as a public limited company, in 1947, and is listed on Pakistan Stock Exchange (PSX).

Background Bank commenced operations in 1947 and was privatized in 1991. In 2008, the Bank entered into a strategic partnership with Maybank, Malaysia, which owns 18.78% stake in MCB through Maybank International Trust (Labuan) Berhad. Further in 2017, MCB has expanded its domestic footprint by acquisition of NIB Bank Limited and 170 branches have been merged with and into MCB Bank Limited. Subsequently in 2018, 90 branches have been transferred to MCB Islamic Bank, a wholly owned subsidiary company

Operations MCB offers a wide range of products and services hence ensuring ease and freedom for the customer to bank from any of the 1400 and above branches across the country and a wide array of digital channels.

Ownership

Ownership Structure MCB Bank is majority owned (~36%) by Nishat group, through individuals of Mansha family and corporates of the group

Stability The Bank ensures development and retention of high potential employees to create a talent pool to fill key positions in the organization. This is a continuous process, which in turn ensures that the organization’s management can keep up with the changing business environment.

Business Acumen Nishat Group, including individual holdings and holding through group corporates, is a premier business house of Pakistan. The Group is one of the leading and most diversified in South East Asia, having presence in numerous industries and sectors.

Financial Strength The group has a strong equity and asset base, with its foothold in numerous sectors and industries in Pakistan. Further, Maybank holds ~18.78% stake in MCB through Maybank International Trust (Labuan) Berhad and 5.49% shares are held by Bugis Investment (Mauritius) PTE Limited.

Governance

Board Structure The Board includes 13 members, which consists of four independent directors as at CY19.

Members’ Profile Chairman of the board, Mr. Mian M Mansha, is a well-known and seasoned businessperson with over 46 years’ experience. The board of directors (BoD) includes prominent industrialists and financial sector specialists, who have a plethora of rich experience in the business world by demonstrating outstanding entrepreneurial ability.

Board Effectiveness To ensure effective and independent oversight of the bank’s overall operations, the Bank has constituted eight committees each with defined terms of reference. During the period, five (5) board meetings were conducted with good level of attendance.

Financial Transparency The external auditors of the company, KPMG Taseer Hadi & Co., Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for CY19.

Management

Organizational Structure The bank, with a largely horizontal organizational structure, has fifteen groups & divisions reporting to the CEO, except Internal Audit and Corporate Affairs which report to the Board’s Audit Committee and the Board respectively.

Management Team MCB’s senior management team comprises experienced bankers having national and international exposure. Heading the Bank for a good long period, Mr. Imran Maqbool-President & CEO, is a seasoned banker with over three decades of diverse, international banking experience and long associated with MCB.

Effectiveness The Bank has fifteen management committees, comprising of senior officials including the President. Meetings are held on a regular basis and agenda items include developing business plans, reviewing the performance of the Bank on standalone basis as well as compared to the sector.

MIS MCB management has centralized the authority, direction, management, and monitoring of Information Security activities for the entire organization in the Information Technology Group (ITG) under the umbrella of Information Security (IS) Team.

Risk Management Framework Risk Management & Portfolio Review Committee remains responsible to ensure that appropriate risk management policies are developed and implemented to mitigate the key risks to which the bank is exposed.

Business Risk

Industry Dynamics As a result of general economic slowdown most indicators of the banking sector reflected mixed trend. Deposits of the banking sector stood at (CY19: PKR 15,953bln; CY18: PKR 14,254bln), showing a growth of ~12% as compared to 9.5% growth in CY18. Deployment of funds was largely skewed towards investments and particularly towards government instruments due to favorable interest rate dynamics (CY19: PKR 8,939bln; CY18: PKR 7,914bln). Meanwhile, advances witnessed a slowdown owing to subdued demand, cautious lending approach and monetary tightening .This was only a growth of 3.7% as compared to expansion of 22.2% in CY18. Asset quality saw deterioration – increased NPLs (CY19: PKR 761bln; CY18: PKR 680bln). The profitability of the banking sector improved due to an increase in Net Interest Income, which translated positively in other profitability indicators. The overall risk profile of the banking sector remained satisfactory.

Relative Position MCB has remarkably positioned itself as the highest profit base bank for over a course of consecutive two (2) years. During CY19, Bank’s customer deposits (PKR 1,111bln) increased by ~8.8% as against the sector’s deposit growth of 12%. MCB retained its position in the list of top 5 banks based on advances, deposits and profitability, with a share of 7.7% (CY18: 7.9%) in customer deposit to total deposits of the sector.

Revenues On the net markup income side, bank reported an increase of 29.6%. Non-markup income block of the Bank was reported at PKR 16.7bln with major contributions coming in from fee and commission income (PKR 11.3bln) and income from dealing in foreign currencies (PKR 2.9bln).

Performance During CY19, PBT of the Bank grew by 25% over last year and was reported at PKR 40bln (CY18: 32bln). Growth in PAT was muted to ~12% YoY on account of increased taxes, reported at PKR 23.97bln for CY19 (CY18: PKR 21.36bln). In line with the industry, MCB’s average cost of funding witnessed a notable increase reaching to 6.3% (CY18: 3.1%) on account of increase in policy rate by SBP.

Sustainability Despite fragile economic conditions resulting in subdued business activity, the Bank delivered exceptional results to its shareholders in 2019. MCB has the history of paying highest dividend per share to its shareholders. MCB focuses towards expanding its outreach through network of branches to meet customer’s expectations with parallel investment on the digital infrastructure. Recovery from infected portfolio will remain a foreground especially after the COVID-19 outbreak.

Financial Risk

Credit Risk Net advances of the Bank constitute ~33% of the total assets at CY19. Gross performing advances were PKR 491bln. The liquid asset to deposit and infection ratios of the Bank were reported at 67.8% (CY18: 61%) and 9.2% (CY18: 9%) respectively. Credit risk is well managed for the period, remained largely at the same level with slight increase in NPLs.

Market Risk On investment side, the Bank is strategically profiling its investments based on the interest rate movements, which will be a gradual shift from shorter to longer term investments. as the risk weighted assets (~14.5%) of the Bank gained momentum during 2019 from last year (~7.3%). The investment portfolio showed a stagnation as it stood at PKR 749bln during CY19 - nearly the same to last year. The bank’s investment portfolio constitutes 49% of total asset base whereas government securities continue to dominate the overall investment book (94%).

Liquidity And Funding During CY19, the deposit base of the Bank largely remained the same, clocking in at PKR 1,145bln (PKR 1,049bln). The Bank reported CASA ratio of 88% at CY19, one of the highest in the industry. The liquidity of asset mix has improved as well. With a more balanced approach towards the funding mix, Banks Liquidity coverage ratio was reported at ~197.13% and Net Stable Funding Ratio ~140.7% against requirement of 100%.

Capitalization Quality of the capital is evident from Bank’s Common Equity Tier-1 to total risk weighted assets ratio which comes to 15.7% against requirement of 6%. Banks’s total CAR stood at 18.86% against the regulatory requirement of 12.50%, among the strongest CARs in the industry.



PKR mln

MCB Bank Limited
Listed Public Limited

Dec-19	Dec-18	Dec-17
12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	501,254	506,638	473,991
2 Investments	738,124	740,567	649,277
3 Other Earning Assets	19,259	50,375	15,507
4 Non-Earning Assets	250,449	194,805	201,411
5 Non-Performing Finances-net	6,066	5,745	3,051
Total Assets	1,515,152	1,498,130	1,343,238
6 Deposits	1,144,763	1,049,038	968,483
7 Borrowings	89,506	219,910	136,962
8 Other Liabilities (Non-Interest Bearing)	111,968	79,905	84,227
Total Liabilities	1,346,237	1,348,852	1,189,672
Equity	168,915	149,278	153,566

B INCOME STATEMENT

1 Mark Up Earned	138,292	83,319	74,091
2 Mark Up Expensed	(78,676)	(37,305)	(31,429)
3 Non Mark Up Income	16,679	17,198	18,118
Total Income	76,295	63,212	60,780
4 Non-Mark Up Expenses	(33,709)	(32,902)	(28,721)
5 Provisions/Write offs/Reversals	(2,484)	1,753	(1,045)
Pre-Tax Profit	40,102	32,064	31,014
6 Taxes	(16,125)	(10,704)	(8,555)
Profit After Tax	23,977	21,360	22,459

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	4.0%	3.2%	3.5%
Non-Mark Up Expenses / Total Income	44.2%	52.0%	47.3%
ROE	15.1%	14.1%	15.2%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	11.1%	10.0%	11.4%
Capital Adequacy Ratio	18.9%	18.1%	16.4%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	67.8%	61.4%	62.4%
(Advances + Net Non-Performing Advances) / Deposits	43.4%	48.0%	48.5%
CA Deposits / Deposits	34.9%	37.0%	39.1%
SA Deposits / Deposits	53.3%	51.7%	53.0%

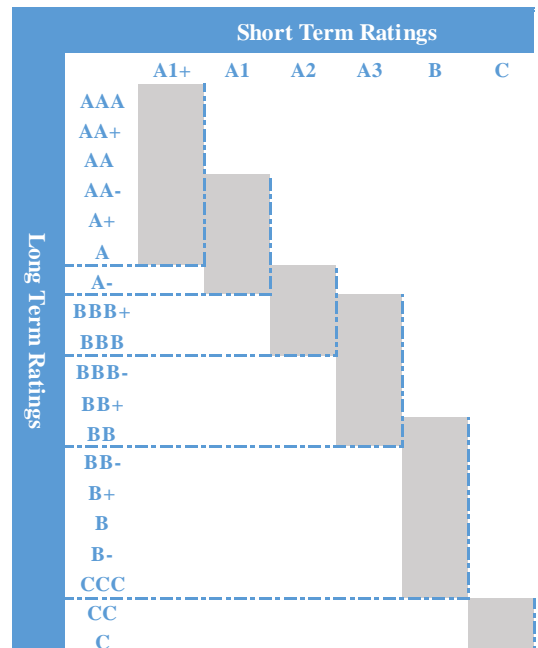
4 Credit Risk

Non-Performing Advances / Gross Advances	9.2%	9.0%	9.5%
Non-Performing Finances-net / Equity	3.6%	3.8%	2.0%

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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA’s ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA’s opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security’s market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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