



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
23-Jun-2023	AAA	A1+	Stable	Maintain	-
23-Jun-2022	AAA	A1+	Stable	Maintain	-
23-Jun-2021	AAA	A1+	Stable	Maintain	-
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	-

#### Rating Rationale and Key Rating Drivers

MCB's ratings derive reassurance from its resilient market position and strong financial standing. This resilience has been facilitated by the bank's parentage, wherein a diverse consortium of sponsors, primarily led by the Nishat Group, contribute effective oversight. The ratings reflect MCB's robust market standing, which is bolstered by its well-established brand recognition and extensive outreach. Notably, MCB has maintained its status as the leading player in the banking industry, boasting the highest CASA ratio. However, in deposits, the bank has experienced a deceleration in its growth momentum by 2% (CY22: PKR 1,379bln, CY21: PKR 1,412bln) due to a strategic focus on generating no-cost current accounts and tapering off high-cost deposits. The cessation of ADR-related regulations would benefit the bank's profits. MCB continues to execute its current strategy, which entails lending to premier corporate entities and maintaining a prominent exposure in government securities. MCB has consistently demonstrated a notable profit base in recent years, establishing its position in the banking industry. As at end-Mar'23, the bank's Capital Adequacy Ratio stood at 18% (end-Dec'22: 18.8%). Moreover, the bank has established an Islamic banking subsidiary, making it the first conventional bank to do so. Pakistan's economy has traversed diverse phases in the past year, marked by political upheaval, an economic crisis, and devastating floods. The country has grappled with daunting challenges such as soaring inflation, currency depreciation, and precarious foreign reserves. However, the banking sector has persevered, showcasing high profitability. Looking ahead, the macroeconomic landscape is fraught with numerous challenges, including elevated interest rates, demand tightening, rupee depreciation, and heightened inflation, all of which reverberate across all sectors of the economy.

The ratings are contingent upon the bank's capability to sustain its current position within the banking sector. Any erosion in the perceived stability of the bank or changes in ownership that adversely affect its governance effectiveness would have unfavorable implications.

#### Disclosure

<b>Name of Rated Entity</b>	MCB Bank Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Financial Institution Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Commercial Bank(Jun-23)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@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.

**Operations** MCB offers a wide range of products and services hence ensuring ease and freedom for the customer to bank from any of the 1,445 branches as of Mar'23 (as at Dec'22 1,448) across the country and a wide array of digital channels.

## Ownership

**Ownership Structure** MCB Bank is substantially owned by Nishat group, through (direct and indirect holdings) individuals of the Mansha family and corporates of the group.

**Stability** The ownership of the bank is expected to stay stable in the foreseeable future as the bank is one of the flagship entities of Nishat Group.

**Business Acumen** Nishat Group, including individual holdings and holding through group corporates, is a premier business house of Pakistan and is one of the leading and most diversified in South East Asia, having a presence in Textile, Cement, Insurance, Banking, Financial Services, Power Generation, Hotel & Hospitality, Dairy, Paper Products, Retail Commerce, Real Estate, Agriculture, Aviation and Automotive sectors.

**Financial Strength** The Nishat Group holds a prominent position as a highly diversified and influential conglomerate in South East Asia. The group has a strong equity and asset base.

## Governance

**Board Structure** MCB encourages representation of independent directors, non-executive directors, and directors representing minority interests on its board of directors. At present, apart from CEO, the Board includes four independent directors and seven non-executive directors. All the directors on the Board are non-executive except for the CEO of the Bank. The non-executive directors provide independent oversight to the Board.

**Members' Profile** Mian Mohammad Mansha is the Chairman of the Board. Mr. Shoaib Mumtaz is the President and CEO of the Bank.

**Board Effectiveness** The board with its active engagement with the stakeholders is well poised to govern the bank and oversee the implementation of its strategy. To ensure effective and independent oversight of the bank's overall operations, the Bank has eight board committees.

**Financial Transparency** The external auditors of the bank, A. F. Ferguson & Co., Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for CY22. Furthermore, the Board has set up an effective internal audit function that reports independently to the Audit Committee.

## Management

**Organizational Structure** MCB has a lean organizational structure that clearly defines responsibilities, authority, and reporting lines with proper monitoring and compliance mechanism. The bank, with a largely horizontal organizational structure, has multiple 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** Mr. Shoaib Mumtaz - President and CEO - a business graduate from the United States, is a seasoned banker with almost three decades of experience with MCB. He has served at various key positions in Branch Banking, Credit Risk, Corporate Finance, and International Banking. MCB's senior management team comprises experienced bankers having national and international exposure.

**Effectiveness** MCB Bank operates with a comprehensive governance structure that includes fourteen management committees and three sub-committees, each with specific terms of reference. These committees consist of senior officials, including the President, and conduct regular meetings to address various aspects of the Bank's operations.

**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 the Information Security (IS) Team. ITG is headed by CIO who in turn reports functionally and administratively to the CEO.

**Risk Management Framework** Prudent risk management aspects are embedded in the bank's strategy, organizational structure, processes, and systems and controls. 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** Pakistan's economy has gone through several varied phases in the last two years. The economic activity revived and Pakistan posted a GDP growth rate of ~6.10% in FY22. Total banking assets posted growth of ~19% YoY whilst investments surged by 26% YoY to PKR ~18trln (end-Dec21: PKR ~14trln). Gross Advances of the sector recorded growth (16%) to stand at PKR ~12.6trln (end-Dec21: PKR ~9.0trln). Non-performing loans witnessed a slight uptick of 7% to PKR ~924bln. The capital Adequacy Ratio stood at 17.0% (regulatory requirement of 11.5%).

**Relative Position** MCB Bank's position among the top-5 banks in terms of customer deposits market share has dropped, and it currently holds the 8th position in this category. As of end-Dec'22, the absolute value of customer deposits for MCB stands at approximately PKR 1,344.0bln (end-Dec'21: PKR 1,383.0bln), reflecting a decline of 2.8%.

**Revenues** In CY22, the bank's markup earnings surged to PKR 200.8bln (CY21: PKR 123.3bln) with investments contributing significantly (CY22: PKR 130.4bln, CY21: PKR 89.5bln). The net markup income increased by 36.2% to PKR 87.2bln from CY21's PKR 64.0bln. The asset yield rose sharply to 10.5% in CY22 compared to 7.1% in CY21 due to higher policy rate. In 1QCY23, markup earnings surged by 60.8% to PKR 63.9bln, surpassing 1QCY22's PKR 39.7bln.

**Performance** In CY22, the Bank's non-markup income reached PKR 24.6bln (CY21: PKR 20.0bln) with fee and commission income driving growth (CY22: PKR 14.1bln, CY21: PKR 12.4bln). Dividend and foreign exchange income also grew significantly, reaching PKR 2.4bln (CY21: PKR 2.3bln) and PKR 9.2bln (CY21: PKR 3.7bln) respectively. The non-markup income to total income ratio slightly declined to 22% (CY21: 23.9%). Non-markup expenses increased to PKR 43.2bln in CY22 from PKR 36.9bln in CY21 due to exceptionally high inflation, the impact of currency devaluation, and continued investments in technological upgradation. Net profit for CY22 was PKR 32.7bln, a 6.3% increase from CY21's PKR 30.8bln. 1QCY23 net profits were PKR 13.1bln, exceeding 46% over 1QCY22's PKR 8.9bln.

**Sustainability** MCB remained financially strong despite declining market share in deposits; current account concentration enhanced to 49% through strategic measures.

## Financial Risk

**Credit Risk** The Bank's efforts to enhance asset quality resulted in a decline in the infection ratio to 6.4% in CY22 (CY21: 7.9%). This improvement was driven by the expansion of the advance base, despite a slight increase in (NPLs). However, in 1QCY23, the infection ratio experienced a resurgence, rising to 7.9%, primarily due to a notable increase in NPLs (End-Mar23: 55.3bln, end-Dec22: 51.2bln, end-Dec21: 50.4bln). Additionally, the coverage ratio declined YoY (end-Mar23: 81.9%, end-Dec22: 86.2%, end-Dec21: 90.8%).

**Market Risk** The bank's investment portfolio witnessed a 5.6% decline in CY22, amounting to PKR 968bln (CY21: PKR 1,026.5bln). Government securities remained the dominant component, making up 96% of the total and representing 46.4% of the bank's overall assets. The bank incurred excessive unrealized losses on PIBs in CY22, due to interest rate movement, which increased in 1QCY23.

**Liquidity And Funding** In CY22, the bank experienced a 2% contraction in its deposit base, totaling PKR 1,378.7bln, compared to the previous year's PKR 1,412bln. However, MCB Bank achieved an impressive CASA ratio of 95.9% during the same period.

**Capitalization** The bank has consistently maintained a commendable Capital Adequacy Ratio (CAR) that exceeds regulatory requirements, ensuring a secure financial position. In CY22, the CAR reached a comfortable 18.8%, exhibiting improvement from the previous year's 17%. In 1QCY23, the CAR slightly declined to 18%.



PKR mln

MCB Bank Limited  
Listed Public Limited

Mar-23	Dec-22	Dec-21	Dec-20
3M	12M	12M	12M

## A BALANCE SHEET

1 Total Finances - net	657,399	756,826	594,211	472,941
2 Investments	935,826	968,217	1,026,458	1,005,289
3 Other Earning Assets	140,883	57,587	63,353	29,587
4 Non-Earning Assets	370,284	295,637	281,818	249,064
5 Non-Performing Finances-net	10,019	7,088	4,628	581
<b>Total Assets</b>	<b>2,114,410</b>	<b>2,085,355</b>	<b>1,970,468</b>	<b>1,757,462</b>
6 Deposits	1,539,758	1,378,717	1,411,852	1,289,502
7 Borrowings	229,458	340,237	269,526	164,002
8 Other Liabilities (Non-Interest Bearing)	153,035	176,906	114,684	113,857
<b>Total Liabilities</b>	<b>1,922,251</b>	<b>1,895,861</b>	<b>1,796,061</b>	<b>1,567,361</b>
<b>Equity</b>	<b>192,159</b>	<b>189,495</b>	<b>174,407</b>	<b>190,102</b>

## B INCOME STATEMENT

1 Mark Up Earned	63,855	200,763	123,334	136,076
2 Mark Up Expensed	(33,785)	(113,607)	(59,347)	(64,741)
3 Non Mark Up Income	5,922	24,613	20,074	18,136
<b>Total Income</b>	<b>35,991</b>	<b>111,769</b>	<b>84,061</b>	<b>89,470</b>
4 Non-Mark Up Expenses	(12,351)	(43,186)	(36,894)	(33,908)
5 Provisions/Write offs/Reversals	(624)	2,782	4,823	(7,313)
<b>Pre-Tax Profit</b>	<b>23,016</b>	<b>71,365</b>	<b>51,989</b>	<b>48,249</b>
6 Taxes	(9,960)	(38,624)	(21,178)	(19,212)
<b>Profit After Tax</b>	<b>13,056</b>	<b>32,741</b>	<b>30,811</b>	<b>29,037</b>

## C RATIO ANALYSIS

### 1 Performance

Net Mark Up Income / Avg. Assets	5.7%	4.3%	3.4%	4.4%
Non-Mark Up Expenses / Total Income	34.3%	38.6%	43.9%	37.9%
ROE	27.4%	18.0%	16.9%	16.2%

### 2 Capital Adequacy

Equity / Total Assets (D+E+F)	9.1%	9.1%	8.9%	10.8%
Capital Adequacy Ratio	18.0%	18.8%	17.0%	21.0%

### 3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	59.3%	56.6%	69.0%	76.9%
(Advances + Net Non-Performing Advances) / Deposits	42.7%	54.6%	41.8%	35.9%
CA Deposits / Deposits	49.6%	46.5%	37.8%	35.9%
SA Deposits / Deposits	43.2%	46.6%	53.0%	55.0%

### 4 Credit Risk

Non-Performing Advances / Gross Advances	7.9%	6.4%	7.9%	10.0%
Non-Performing Finances-net / Equity	5.2%	3.7%	2.7%	0.3%

### Credit Rating

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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	
BB	<b>Moderate risk.</b> 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.
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	
CC	<b>Very high credit risk.</b> 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) 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.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):  
 a) Broker Entity Rating  
 b) Corporate Rating  
 c) Debt Instrument Rating  
 d) Financial Institution Rating  
 e) Holding Company Rating  
 f) Independent Power Producer Rating  
 g) Microfinance Institution Rating  
 h) Non-Banking Finance Companies Rating

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(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

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(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)

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(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 | Clause 11-(A)(p).

(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)

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(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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