



Date

23-Jun-21

Analyst

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Applicable Criteria

- Methodology | FI | Jun-20
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun-20
- Criteria | Rating Modifier | Jun-20

Related Research

- Sector Study | Commercial Bank | Jun-21

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PACRA Maintains Entity Ratings of MCB Islamic Bank Limited

Rating Type	Entity	
	Current (23-Jun-21)	Previous (25-Jun-20)
Action	Maintain	Maintain
Long Term	A	A
Short Term	A1	A1
Outlook	Stable	Stable
Rating Watch	-	-

MCB Islamic Bank Limited (MIB) is a wholly owned subsidiary of MCB Bank Limited (MCB). MCB has long term rating of "AAA" reflecting its robust profile duly supplemented by its strong market position in local banking landscape, established brand equity, and sound financial profile. MIB's standalone risk profile is improving. The management's strategy is to consolidate the financing book of corporate clients; curtailed financing book in CY19 to support the same. MIB has set relatively high targets for deposit growth and plans to focus on maintaining its financing book quality. MIB is a small-sized bank with sustainable growth and has witnessed an increase of 22.6% in its customer's deposit, improving its system share. The Bank's continuous focus on the accumulation of low-cost deposit has resulted in a healthy current and savings (CASA) deposit mix. Despite many economic challenges owing to the pandemic, the Bank witnessed a robust growth in its loan book. Moreover, borrowers, having aggregate outstanding exposure of PKR 5,052mln, have availed regulatory relief; the risk of increase in credit losses persists. During CY20, the earnings marked significant improvement this time after incurring losses over the past many years. Capitalization remains comfortable as reflected by Tier I and overall capital adequacy ratio (CAR) of 11.32% and 12.01%, respectively, as on Dec'20. The ratings incorporate the sponsor's willingness to support MIB in the time of need.

COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. As a result, the banking industry remained protected and in fact posted record profits. Vigilance is required as the loan repayment cycle remains amid variants of the pandemic continue to re-emerge.

The ratings are dependent on Bank's ability to hold its risk profile, while maintaining its relative market position in the banking industry. Any weakening in asset quality will in turn put pressure on the Bank's profitability and risk absorption capacity.

About the Entity

MIB was formed as a banking company in May, 2014. MIB is a wholly owned subsidiary of MCB - one of Nishat Group's major concern - having strong presence in the financial sector. It started its commercial operations in October, 2015. The Bank is operating through 183 branches in Pakistan. The overall control of the Bank vests with eight members of the Board of Directors (BoD), including CEO & President. Board consists of two independent directors and five non-executive members. Currently, one position is vacant after resignation of an independent director in Mar'21. Mr. Raza Mansha (son of Mian Mansha) is the Chairman of the Board. He is accompanied with over two decades of diversified experience in various business sectors including Banking, Textile, Power, Cement, Insurance, Hotels, Properties, Natural Gas, Agriculture, Dairy etc. Majority of the Board members possess extensive national and international banking and financial services industry experience.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA 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.