

Date

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Applicable Criteria

- Methodology | Financial Institution Rating | Jun-22
- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jun-22
- Methodology | Rating Modifiers | Jun-22

Related Research

- Sector Study | Commercial Bank | Jun-23

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PACRA Maintains Entity Ratings of MCB Islamic Bank Limited

Rating Type	Entity	
	Current (23-Jun-23)	Previous (23-Jun-22)
Action	Maintain	Maintain
Long Term	A	A
Short Term	A1	A1
Outlook	Stable	Stable
Rating Watch	-	-

MCB Islamic Bank Limited (MCB Islamic) is a wholly owned subsidiary of MCB Bank Limited (MCB). MCB has a long-term rating of "AAA" reflecting its robust profile, duly supplemented by its strong market position in the local banking landscape, established brand equity, and sound financial profile. The area of growth is the supply chain vendors, where the group has a good understanding and also a presence in one form or the other. The deposit expansion is expected to be exacerbated with a renewed emphasis on Islamic banking and optimal use of the network. MCB Islamic is a small-sized bank and has witnessed an increase of 20.3% in its customers' deposits. During CY22, recorded an inched uptick in its system share (Dec: 0.7%; Dec21: 0.6%). There is heightened focus on deposit mobilization, wherein the parent's footprints would help. The continuous focus on the accumulation of low-cost deposits has resulted in a healthy current and savings (CASA) deposit mix. However, the deposit mix and concentration need further improvement. Advances to Deposit Ratio (ADR) remain on the higher side, relative to peers. The financing portfolio in CY22 grew slightly lower than the industry, leading to a nominal change in market share. Exposures comprise largely private sector, mid-tier clients, concentrated in the Transportation, Textiles, Food & Beverages, and Services sectors. Asset quality indicators have recorded a decline over time, although they remain better than the peer average. The Bank's equity base increased after a capital injection of PKR 4bln. The bank's CAR recorded a sizable increase in Dec-22 and stood at 20.4%, which has a sizable cushion in place above the required limit of CAR at 11.5%. Profitability in CY22 was supported by growth in non-markup income. Going forward, under the new leadership, the management is positive regarding securing growth. The management intends to continue with its strategy of long-term sustainable profitability by focusing on mobilizing no and low-cost deposits along with high-earning assets and containment of operating costs. However, the ability to manage the asset quality will be critical for the Bank. The envisaged strategy will encompass a documented vision for the bank.

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

MCB Islamic Bank Limited was formed as a banking company in May 2014. MIB is a wholly owned subsidiary of MCB - one of Nishat Group's major concerns - having a strong presence in the financial sector. It started its commercial operations in October 2015. The Bank is operating through 201 branches including one sub-branch in Pakistan as of Mar23 (Dec 22: 198 branches; Dec 21: 177 branches) branches including one sub-branch in Pakistan.

The overall control of the Bank vests with eight members of the Board of Directors (BoD), including the CEO & President. Board consists of two independent directors and five non-executive members. Mr. Raza Mansha (son of Mian Mansha) is the Chairman of the Board. He is accompanied by over two decades of diversified experience in various business sectors including Banking, Textile, Power, Cement, Insurance, Hotels, Properties, Natural Gas, Agriculture, Dairy, etc. Mr. Zargham Khan Durrani is the new president of the Bank since 22nd Feb 2023. He has an extensive banking career spanning over 27 years. He was the Group Head of Retail Banking (SEVP) at MCB Bank. The 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.