



## Rating Action

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## PACRA Assigns Ratings to MCB Islamic Bank Limited

The Pakistan Credit Rating Agency (PACRA) has assigned a long-term entity rating of "A" (Single A) and short-term rating of "A1" (A One) to MCB Islamic Bank Limited (MCBIBL). These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

MCBIBL is a wholly owned subsidiary of MCB Bank Limited. MCB Bank 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. MCB Bank has Islamic banking operations since 2004, though the size has been limited. Incorporation of separate Islamic Bank - MCBIBL - that would also have current Islamic banking branches of MCB Bank highlights the clarity of direction. This should help MCBIBL to establish its market position relatively expeditiously. MCBIBL has put in place a standard management structure alongside a preliminary governance framework. The management has designed a conservative business strategy, which envisages a gradual growth in assets while maintaining sound asset quality. In initial years, the bank would focus its efforts on establishing primary banking infrastructure, including branch network, technology platform, and a comprehensive risk management framework. The ratings incorporate inherent constraints faced by MCBIBL, mainly limited branch network, small deposit base, and high cost structure particularly in early years.

Islamic banking industry offers healthy growth opportunities. However, MCBIBL's prospects are dependent upon the management's ability to establish its position. Effective implementation of business strategy is important. Healthy deposit mobilization and building a quality asset book will remain key to meet performance targets.

**The Company:** MCBIBL was formed as a banking company in May, 2014. The bank is awaiting approval for demerger of Islamic Banking Group (IBG) of MCB Bank from The Lahore High Court. After the approval, the bank will acquire the existing 34 branches of MCB IBG. Currently with 6 branches, MCBIBL is planning to have a 66 branch network by end-Dec16.

Mr. Ali Muhammad Mahoon is the President of MCBIBL. He is supported by an experienced management, most of them having prior association with MCB. MCBIBL is a wholly owned subsidiary of MCB - one of Nishat Group's major concerns having strong presence in the financial sector. BoD comprises eight members. The board composition would change soon in favor of an improved skill mix with high degree of independence from MCB Bank.

## Applicable Criteria and Related Research

- Islamic Banking - Viewpoint | Feb-16
- Bank Rating Methodology

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