

## Date

22-Jun-24

## Analyst

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## Applicable Criteria

- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jul-23
- Methodology | Financial Institution Rating | Oct-23
- Methodology | Rating Modifiers | Apr-24

## Related Research

- Sector Study | Commercial Banks | Jun-24

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## PACRA Upgrades the Entity Ratings of MCB Islamic Bank Limited

Rating Type	Entity	
	Current (22-Jun-24)	Previous (23-Jun-23)
<b>Action</b>	Upgrade	Maintain
<b>Long Term</b>	A+	A
<b>Short Term</b>	A1	A1
<b>Outlook</b>	Stable	Stable
<b>Rating Watch</b>	-	-

MCB Islamic Bank Limited (MCB Islamic) is a wholly owned subsidiary of MCB Bank Limited (MCB). The parent Bank, 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. MCB Islamic is a small-sized bank and has witnessed an increase of ~28.7% in its customers' deposits during CY23. While the system share in terms of deposits was reported at 0.7% at the end of Dec'23 (Dec 22: 0.65%). There is an increased emphasis on deposit mobilization, with strong support from the parent company aiding the expansion of Islamic branches nationwide. This support includes a plan to convert 39 conventional branches of MCB Bank into Islamic branches. Additionally, MCB Islamic banking customers can now utilize MCB Bank's counters, cash management services, POS machines, and e-payment services. The continuous focus on the accumulation of low-cost deposits has resulted in a healthy current and savings (CASA) deposit mix. In CY23, the Advances to Deposit Ratio (ADR) aligned with peers, showing improvement in 1QCY24. The financing portfolio in CY23 declined slightly, however, increased by 21% during 1QCY24 leading to a slight increase in market share. The financing portfolio is largely comprised of private sector, mid-tier clients, with concentrations in the Transportation, Textiles, Food & Beverages, and Services sectors. The Asset quality indicators remain above the peer average. The bank's equity base grew following a PKR 4 billion capital injection, reaching PKR 22 billion at the end of Dec'23 on the back of significant growth in profitability. The Capital Adequacy Ratio (CAR) saw a significant increase in Dec'23, standing at 23.8%, well above the required limit of 11.5%. Profitability in CY23 increased by 2.32 times, driven by a significant rise in net markup income, influenced by a high interest rate environment and lower deposit costs compared to the MDR for Islamic banking. The management aims for long-term sustainable profitability by focusing on mobilizing no and low-cost deposits, acquiring high-earning assets, and controlling operating costs. However, managing asset quality will be crucial. The bank's strategy includes a documented vision for its future.

The rating upgrade reflects the strong support from the ultimate sponsor for increased deposit mobilization, growing and sustainable profitability, an improved cost structure leading to better net interest margins (NIM), enhanced market risk management, a sufficient cushion in the Capital Adequacy Ratio (CAR), and a stable equity base.

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. MCIB 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 230 branches including two sub-branch in Pakistan as of Mar24 (Dec 23: 226, Dec 22: 198 branches) including two 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. Mr. Zargham Khan Durrani is the president of the Bank.

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.