Meezan Bank Limited

Chairman: H.E. Sheikh Ebrahim bin Khalifa Al-Khalifa; CEO: Mr. Irfan Siddiqui

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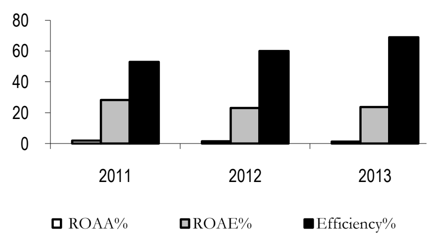
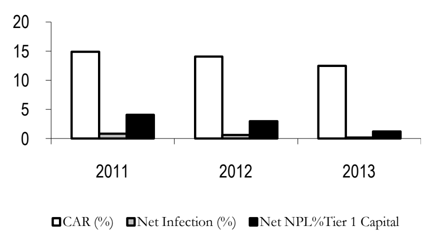
Analysts: Moiz Badshah
Talha Iqbal

Category	Latest	Previous
Entity	AA/A-1+ *June 24, '14*	AA/A-1+ *June 26,'13*
Outlook	Stable *June 24, '14*	Stable *June 26,'13*

Key Financial Trends



** Based on recurring profit before provision and taxation*



	2011	2012	2013
Net Financings* (Rs. in b)	70.4	88.7	127.6
Deposits(Rs.in b)	170.0	230.4	289.8
Market Share %	2.7	3.2	3.5
Deposit Cost (%)	5.6	5.6	4.5
Profit / (Loss) (Rs.in b)	3.4	3.5	4.0
Equity (Rs. in b)	13.3	15.5	17.9
CAR (%)	14.89	14.08	12.48
Liquid Assets % Deposits & Borrowings	65	68	61
Net Infection (%)	0.8	0.6	0.2

Rating Rationale

The ratings of Meezan Bank Limited (MBL) reflect a healthy customer franchise and a solid funding base, largely comprising cost effective retail deposits. Accordingly, deposit concentration is low while liquidity remains sound. Ratings also draw strength from the strong asset quality indicators. Although core earnings have witnessed a decline as cost to income ratio has increased, overall profitability levels have improved.

MBL has posted impressive growth in asset base over the last five years with total assets of the bank increasing at a CAGR of 31% over this period. Growth in asset base has been funded by sizeable increase in deposits on the back of rapid branch expansion strategy being pursued by the bank. In contrast to the preceding three years, where growth in investments had outpaced increase in financing portfolio, financing portfolio witnessed significant growth of 44% in FY13 while investment portfolio remained stagnant at prior year level on account of limited GoP Ijarah Sukuk issuances since Mar'13. Credit and market risk from the bank's sizeable holding in GoP Ijarah Sukuk (29% of the asset base at end-1Q14) is considered manageable.

Corporate lending continues to be the mainstay of MBL's financing operations with fresh exposure taken against reputed names. While the strategy of focusing on established names has resulted in limited asset quality pressures, this has also translated into concentration in the portfolio and pressure on yields. Selective growth within the consumer and commercial segments is being pursued for broadening the client base.

Liquidity is strong but not easy to manage because of lack of avenues for deployment. Resultantly, exposure towards relatively low yielding assets, such as placements with financial institutions, has showed a rising trend and affected the bank's yield on earning assets. Maturities of a sizeable proportion of GoP Ijarah Sukuk fall due within the ongoing year; in the absence of sizeable fresh issuances redeployment may be a challenge. Moreover, Islamic banks are at a disadvantage as they do not have the discount window option akin to conventional counter parts.

Despite pressure on yields, MBL posted profit before tax of Rs. 5.6b (2012: Rs. 5.2b) in 2013; translating into return on equity of 23%. Improvement in profitability was on account of volumetric growth in earning assets, higher capital gains on sale of investments and lower provisions against non-performing assets. Operating profits have witnessed a declining trend due to lower return on earning assets and growth in operating expenses due to continuous branch expansion.

As part of the bank's strategic blue print, rapid branch expansion is planned to continue with the addition of 150 additional branches over the course of the next three years. Deposit base is projected to reach Rs. 500b by end-2016 while financing to deposit ratio is targeted at 50%. This implies that financing portfolio will be doubled over the next three years; this may be a challenging target and achievement of the same depends on economic environment.

Current risk adjusted capitalization levels are adequate; although CAR has declined on account of growth in financing portfolio in unrated clients. As per management, internal capital generation is expected to be sufficient to achieve the planned growth in business without affecting the bank's risk adjusted capitalization level. The management considers CAR at around 10.5% as prudent, given the quality of exposures.

Overview of the Institution

Meezan Bank Limited is the first and the largest Islamic commercial bank in Pakistan. Sponsors of the bank include Noor Financial Investment Co. Kuwait, Pakistan Kuwait Investment Company (Pvt.) Limited and Islamic Development Bank. The financial statements for 2013 have been audited by M/s A.F Ferguson & Co. JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: ENTITY		
24-Jun-14	AA	Stable	A-1+	Reaffirmed
26-Jun-13	AA	Stable	A-1+	Upgrade
1-Jun-12	AA-	Stable	A-1+	Reaffirmed
1-Jun-11	AA-	Stable	A-1+	Maintained
18-Apr-10	AA-	Stable	A-1	Upgrade