RATING REPORT

Meezan Bank Limited (MBL)

REPORT DATE:
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RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	AA	A-1+	AA	A-1+
Sukuk	AA-		AA-	
Rating Outlook	Stable		Stable	
Rating Date	*Jun 22, '17*		*Jun 2, '16*	

COMPANY INFORMATION

Incorporated in 1997	External auditors: **M/s EY Ford Rhodes (Previously M/s A.F. Ferguson & Co.)**
Public Limited Company	Chairman of the Board: **Mr. Riyadh S.A.A. Edrees**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Mr. Irfan Siddiqui**
Noor Financial Investment Co, Kuwait – 49.1%	
Pakistan Kuwait Investment Co. (Pvt.) Ltd. – 30.0%	
Islamic Development Bank, Jeddah – 9.3%	

APPLICABLE METHODOLOGY(IES)

PRIMER - Commercial Banks (November 2015): *http://www.jcrvis.com.pk/Images/Meth-CommercialBanks201511.pdf*

OVERVIEW OF THE INSTITUTION

Meezan Bank Limited is the largest Islamic commercial bank in Pakistan, which commenced operations in March'2002, after being issued the first ever Islamic commercial banking license by the State Bank of Pakistan (SBP)

Noor Financial Investment Company Limited, Pakistan Kuwait Investment Company (Pvt.) Limited and Islamic Development Bank are the primary shareholders of the bank

Profile of Chairman

Mr. Riyadh Edrees serves as Chairman of the Board. Mr. Edrees holds more than 26 years of experience at various organizations

Profile of CEO

Mr. Irfan Siddiqui is the founding President and CEO of the Bank. Mr. Siddiqui is a qualified Chartered Accountant from the Institute of Chartered Accountants of England & Wales.

RATING RATIONALE

Meezan Bank Limited (MBL) is the largest Islamic Bank in the country having a market share of 35.9% in total Islamic banking deposits. With aggressive branch expansion pursued over the last 5 years, branch network has more than doubled to 571 (2011: 275) branches at end-Dec'2016. Resultantly, deposit base has grown at a CAGR of 27% over the last five years. Effective implementation of strategy and monitoring branch performance is ensured through branch performance monitoring tool namely; balanced scorecard comprising of financial and non-financial KPIs.

Key Rating Drivers

Financing portfolio: Gross Financing portfolio of the bank witnessed a growth of 48% during 2016. While corporate portfolio continues to represent three-fourth of financing portfolio, management continued to diversify its lending operations with sizeable growth in consumer and commercial & SME segment. Despite increase in the number of clients over time, concentration in the corporate portfolio is on the higher side and is a function of strategy of lending to top-tier names. Moreover, large counterparties include government guaranteed/public sector exposure representing one-fourth of the financing portfolio. Commercial banking portfolio primarily features diversified commodity related short-term self-liquidating exposures. Increase in consumer financing has been driven by auto and home loans with infection in the portfolio being well below industry norms. Asset quality indicators compare favorably to peer banks. Maintaining asset quality indicators in line with benchmarks for the assigned ratings is considered important.

Liquidity: Liquidity profile of the bank draws support from a healthy customer franchise and a solid funding base, largely comprising cost effective retail deposits. Moreover, liquid assets in relation to deposits and borrowings were sizeable. Depositor concentration levels have increased slightly on a timeline basis but are still amongst the lowest in the industry. Focus on new-to-bank and current accounts will continue to drive deposit strategy, going forward.

Profitability: Despite pressure on spreads, profit before tax increased by 5.8% due to volumetric growth in earning assets and higher fee based income. Although, efficiency ratio (excluding capital gain & other income and adjusted for takaful and tracker expense on Ijarah) for full year 2016 was higher at 65.6% vis-a-vis 59.9% for 2015 (excluding capital gain and other income), the same has depicted an improvement during 1Q17 vis-à-vis 1Q16 and is primarily attributable to increase in fee income. Growth in fee income was supported by increase in income from ADCs and healthy growth in trade and remittance business. In the backdrop of forecasted mid-term economic scenario and policy rate regime and low lending rates due to excess liquidity, spreads and profitability growth of the banking sector are expected to remain under pressure during 2017.

Capitalization: Equity base of the bank has consistently grown over the last five years with average rate of internal capital generation being 11.5%. This has allowed the bank to maintain capitalization indicators at adequate levels over the last few years. While remaining above regulatory requirements, Tier-1 CAR and leverage declined on a timeline basis with significant growth in financing portfolio. However, overall CAR increased with issuance of Tier-2 Sukuk in the outgoing year. In the backdrop of increasing Tier-1 and overall CAR requirements, JCR-VIS will continue to track buffer over regulatory requirement in line with benchmark for the assigned rating.

Meezan Bank Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR billions)*
BALANCE SHEET	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Total Investments	130.2	146.3	114.1
Gross Advances	319.6	215.8	183.3
Total Assets	657.8	531.8	437.5
Borrowings	32	13.6	15.5
Deposits & other accounts	564	471.8	380.4
Subordinated Sukuk (Tier II)	7	-	-
Tier-1 Equity	27.5	24.8	22.3
Net Worth	30.5	26.3	23.3
INCOME STATEMENT	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Net Mark-up Income	18.6	18.2	13.4
Net (reversal) Provisioning	(0.18)	0.56	0.47
Non-Markup Income	5.8	4.6	4.8
Administrative Expenses	15.5	13.6	10.5
Profit Before Tax	8.9	8.5	6.9
Profit After Tax	5.6	5.0	4.6
RATIO ANALYSIS	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Market Share (Advances) (%)	5.7%	4.4%	4.1%
Market Share (Deposits) (%)	5%	4.9%	4.5%
Gross Infection (%)	2.1%	3.3%	3.8%
Provisioning Coverage (%)	118%	116.2%	109.6%
Net Infection (%)	0.08%	0.1%	0.4%
Cost of deposits (%)	2.4%	3.5%	4.6%
Net NPLs to Tier-1 Capital (%)	0.88%	0.86%	2.7%
Capital Adequacy Ratio (C.A.R (%)	12.9%	10.9%	11.8%
Markup Spreads (%)	3.97%	4.8%	4.1%
Efficiency (%)	65.6%	59.9%	61.3%
ROAA (%) (based on 5 pt. averages)	1%	1.1%	1.2%
ROAE (%)(based on 5 pt. averages)	20.9%	20.4%	21.9%
Liquid Assets to Deposits & Borrowings (%)	53.6%	60.9%	54.9%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES Appendix III

Name of Rated Entity	Meezan Bank Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity and Sukuk Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
6/22/2017	AA	A-1+	Stable	Reaffirmed
6/2/2016	AA	A-1+	Stable	Reaffirmed
6/29/2015	AA	A-1+	Stable	Reaffirmed
6/24/2014	AA	A-1+	Stable	Reaffirmed
6/26/2013	AA	A-1+	Stable	Upgrade
6/1/2012	AA-	A-1+	Stable	Reaffirmed
6/1/2011	AA-	A-1+	Stable	Maintained

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: SUKUK			
6/22/2017	AA-	Stable	Reaffirmed
8/31/16	AA-	Stable	Preliminary
6/29/16	AA-	Stable	Preliminary

Instrument Structure	Basel III compliant Tier 2, privately placed, unsecured & subordinated Sukuk amounting to Rs. 7.0b and has a tenor of 10 years.
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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