RATING REPORT

Meezan Bank Limited (MEBL)

REPORT DATE:
June 30, 2021

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AAA	A-1+	AA+	A-1+
Sukuk (Tier-2)	AA+		AA	
Sukuk (Tier-1)	AA		AA-	
Rating Outlook	Stable		Stable	
Rating Date	*June 30' 2021*		*June 30' 2020*	

COMPANY INFORMATION	
Incorporated in 1997	External auditors: **M/S EY Ford Rhodes**
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 – 35.25%	
Pakistan Kuwait Investment Co. (Pvt.) Ltd. – 30.00%	
Islamic Development Bank, Jeddah – 9.32%	
***as of the report date**	

APPLICABLE METHODOLOGY(IES)

Rating Methodology - Commercial Banks (June 2020)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Meth-CommercialBanks202006.pdf

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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 MEBL

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 MEBL Mr. Siddiqui is a qualified Chartered Accountant from the Institute of Chartered Accountants of England & Wales.

RATING RATIONALE

Meezan Bank Limited ('MEBL' or 'the Bank') is the first and largest Islamic commercial bank of the country. Over the last decade, MEBL has significantly expanded its operations. In terms of domestic deposits and financings, MEBL was the 4th largest bank in the country, as of Dec'20. As of Mar'21, MEBL's distribution network is spread across 825 branches, operating in more than 255 cities across Pakistan.

Major shareholding of MEBL rests with Noor Financial Investment Company (NFIC) (35.25%), Pakistan Kuwait Investment Company (Pvt.) Ltd (PKICL) (30.00%) and Islamic Development Bank, Jeddah (IDB) (9.32%).

In terms of market positioning, MEBL has transformed from a medium-sized to large-sized category

As of Mar'21, MEBL held market share of 6.30% and 6.97% in terms of financings & deposits respectively (Dec'19: 6.21% & 6.37%). During 2020, in terms of domestic deposits and financings, MEBL was the 4th largest Bank in the country, as of Dec'20. Subsequently, the classification of MEBL has been revised from a medium-sized bank to a large-sized bank.

Akin to the banking industry, asset mix depicts higher tilt towards liquid assets

Akin to the banking industry, MEBL altered its asset mix, which now features a higher tilt towards sovereign securities, as reflected by the proportionate share of investment portfolio growing from 20% as of Dec'19 to 30% as of Mar'21. Resultantly, the Bank's ADR has reduced from 54.3% as of Dec'19, to 43.4% as of Mar'21, while liquid assets to deposits & borrowings increased from 54.5%, as of Dec'19, to 67.0% as of Mar'21.

Assets quality indicators remain comfortable and compare favorably to other large-sized banks.. **Deferments, under SBP's Covid relief measures, were also limited.**

Corporate financing remains the mainstay of the Bank's financings operations. Amidst a heightened credit risk environment, MEBL's infection ratio remained low, faring notably better than the industry. As a Mar'21, MEBL's gross infection of 2.7% was lower than industry gross infection by 3.4x. Overall gross infection also compares favorably to other large-sized banks.

Given the onset of the pandemic in 2020, SBP rolled out relief measures, which allowed deferment of profit payments. As per management, total deferments under Covid relief, was availed on only 6% of the financing portfolio. Majority of these customers have already repaid the deferred amount. As per management, the outstanding deferred financing portfolio is almost entirely performing and amounts to only 1.7% of the total financing portfolio as of Mar'21.

Rating derives support from strong deposit generation ability

MEBL's liquidity profile is considered strong, as reflected by the Bank's ability to post strong growth in deposits along with an improvement in deposit composition whilst maintaining the lowest cost of funding amongst peers. During the outgoing year, the Bank's deposit base posted a growth of 35%, eclipsing the industry growth rate by about 2x. Of the growth, 72% emanated from retail deposits, which constituted 69% of the deposits as of Dec'20 (Dec'19: 67%). Deposit composition has also depicted notable improvement, as reflected by the proportionate increase in both current and saving accounts, which increased by 49% and 30% respectively. Deposit granularity has improved on a timeline.

With the diversion of excess liquidity towards investment portfolio, liquid assets to deposits and borrowings has risen, from 54.5% as of Dec'19, to 67.0% as of Mar'21. The LCR and NSFR also stand comfortable at 229% and 181% respectively. These measures are aligned with similar-sized banks in the industry.

Profitability indicators compare favorably to peers.

MEBL's profitability indicators, like RoAA & RoAE, depicted growth and these compare favorably to peers. As the branch expansion slowed down during 2020 and on the back of strong volumetric growth in deposits, particularly current deposits, which positively affected the net spread income, the efficiency ratio depicted notable improvement during 2020. At 39.2%, for 2020, the Bank's efficiency ratio was only inferior to 2 banks in the large to medium-sized banks category. Overall provisioning coverage of the NPLs stands higher than 1x. Any material increase in provisioning burden going forward is unlikely. As per management, current provisioning coverage is adequate to cover any additional IFRS 9 related provisions.

Capitalization is comfortable & adequate, albeit CAR lags the large-sized banks

MEBL's capitalization metrics have continued to depict improvement on the back of strong profitability, adequate profit retention, and deployment of excess liquidity in low risk weight assets. The Bank's CAR has continued to increase on a timeline, and is considered to be strong. As of Mar'21, the Bank was maintaining a comfortable cushion over the minimum CAR requirement, set by SBP for D-SIBs.

Meezan Bank Limited **Appendix I**

FINANCIAL SUMMARY (Rs. in billions)				
BALANCE SHEET	**31-Dec-18**	**31-Dec-19**	**31-Dec-20**	**31-Mar-21**
Total Investments	123.7	225.6	434.2	464.3
Gross Advances	522.2	506.5	531.6	541.8
Total Assets	937.9	1,121.3	1,521.6	1,545.2
Borrowings	36.4	42.0	94.5	107.9
Deposits & other accounts	785.5	932.6	1,254.4	1,248.6
Subordinated Sukuk (Tier II)	7.0	7.0	11.0	11.0
Subordinated Sukuk (Tier I)	7.0	7.0	7.0	7.0
Share Capital	11,692	12,861	14,147	14,147
Tier-1 Equity	46.6	55.8	69.4	72.5
Net Worth	40.3	59.0	69.2	72.5
INCOME STATEMENT	**2019**	**2020**	**Q1'20**	**Q1'21**
Net Mark-up Income	46.5	64.8	14.7	15.1
Net Provisioning charge	4.2	8.2	1.6	0.3
Non-Markup Income	9.3	10.1	3.2	3.6
Administrative Expenses	24.8	28.8	6.8	7.8
Profit Before Tax	26.2	36.9	9.2	10.2
Profit After Tax	15.2	22.2	5.5	6.1
RATIO ANALYSIS	**31-Dec-18**	**31-Dec-19**	**31-Dec-20**	**31-Mar-21**
Market Share (Advances) (%)	6.62%	6.21%	6.26%	6.30%
Market Share (Deposits) (%)	5.88%	6.37%	7.02%	6.97%
Advances to Deposits Ratio (%)	66.5%	54.3%	42.4%	43.4%
Liquid Assets to Deposits & Borrowings (%)	43.0%	54.5%	67.0%	67.1%
NPLs	7.0	9.0	14.9	14.9
Gross Infection (%)	1.34%	1.78%	2.81%	2.74%
Provisioning Coverage (%) (incl. general prov)	138.9%	141.6%	127.6%	130.2%
Net Infection (%)	0.04%	0.14%	0.26%	0.24%
Cost of deposits (%)	2.48%	5.04%	3.68%	2.38%
Net NPLs to Tier-1 Capital (%)	0.43%	1.27%	1.78%	1.61%
Tier-1 CAR (%)	12.00%	12.92%	13.63%	14.16%
Capital Adequacy Ratio (C.A.R) (%)	14.55%	16.58%	17.82%	18.37%
LCR (%)	147.0%	192.0%	263.0%	229.0%
NSFR (%)	130.0%	163.0%	180.0%	181.0%
Markup Spreads (%)	4.55%	6.32%	6.16%	4.88%
Efficiency (%)	54.63%	44.55%	39.17%	42.99%
ROAA (%)	1.0%	1.5%	1.7%	1.6%*
ROAE (%)	23.8%	30.7%	34.6%	34.4%*
* Annualized				

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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				
6/30/2021	AAA	A-1+	Stable	Upgrade
6/30/2020	AA+	A-1+	Stable	Reaffirmed
6/28/2019	AA+	A-1+	Stable	Reaffirmed
5/30/2018	AA+	A-1+	Stable	Upgrade
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: Tier II Sukuk			
6/30/2021	AA+	Stable	Upgrade
6/30/2020	AA	Stable	Reaffirmed
6/28/2019	AA	Stable	Reaffirmed
5/30/2018	AA	Stable	Upgrade
6/22/2017	AA-	Stable	Reaffirmed
8/31/2016	AA-	Stable	Preliminary
6/29/2016	AA-	Stable	Preliminary

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: Tier I Sukuk			
6/30/2021	AA	Stable	Upgrade
6/30/2020	AA-	Stable	Reaffirmed
6/28/2019	AA-	Stable	Reaffirmed
8/20/2018	AA-	Stable	Final
6/5/2018	AA-	Stable	Preliminary

Instrument Structures	Additional Tier I Sukuk - Unsecured Basel III compliant Tier I Sukuk, sub-ordinated privately placed based on Mudaraba of Rs. 7b as instrument of redeemable capital under section 66 of the Companies Act, 2017. Tier II Sukuk: Basel III compliant Tier 2, privately placed, unsecured & subordinated Sukuk amounting to Rs. 7.0b and Rs. 4b issued in Sep'16 and Jan'20 respectively featuring maturity of 10 years from issue date.
Statement by the Rating Team	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	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.

Disclaimer	
Due Diligence Meetings Conducted	

Name	Designation	Date
Mr. Shabbir Hamza Khandwala	CFO	June 3, 2021
Mr. Syed Tariq Hassan	CRO	
Mr. Muhammad Abdullah Ahmed	Head – Corporate Banking	
Mr. Ijaz Farooq	Head – Retail Banking	
Mr. Ebrahim Yaqoob	Head of Internal Audit	
Mr. Faizur Rehman & Mr. Fahd Azam	Head of Information Technology and Head of Information Security	