

RATING REPORT

Meezan Bank Limited (MEBL)

REPORT DATE:

June 29, 2022

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+	AAA	A-1+
	<i>June 29' 2022</i>		<i>June 30' 2021</i>	
Sukuk 4 (Tier-II)	AAA		AAA	
	<i>June 29' 2022</i>		<i>Dec 31', 2021</i>	
Sukuk 3 (Tier-II)	AAA		AAA	
Sukuk 2 (ADT-I)	AA+		AA+	
Rating Outlook	Stable		Stable	
Rating Date	<i>June 29' 2022</i>		<i>Nov 24' 2021</i>	

COMPANY INFORMATION

Incorporated in 1997

External auditors: M/S A.F. Ferguson & Co.,
Chartered Accountants

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://docs.vis.com.pk/docs/Meth-CommercialBanks202006.pdf>

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

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 27 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.

Meezan Bank Limited ('MEBL' or 'the Bank') is the first and largest Islamic commercial bank in Pakistan. Over the last decade, MEBL has significantly expanded its operations. As of Dec'21, MEBL was the 4th largest bank of Pakistan in terms of domestic deposits and the 3rd largest in terms of financings. As of Mar'22, MEBL's distribution network is spread across 908 branches, operating in more than 293 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%).

The assigned rating incorporates market position of MEBL

As of Mar'22, MEBL held market share of 7.34% and 7.11% in terms of financings & deposits respectively (Dec'20: 6.26% & 7.02%). As of Dec'21, in terms of domestic financings and deposits, MEBL was the 3rd and the 4th largest Bank in the country, respectively.

Rating derives support from adequate liquidity buffers and strong deposit generation ability

Given the pressure on spreads faced by the banking industry in 2021, MEBL's asset moved from Cash & Cash Equivalents (CCEs) to financings & investment portfolio, wherein asset deployment increased from 62.2%, as of Dec'20, to 78.7%, as of Mar'22. The Bank's (gross) Financing to Deposit Ratio (FDR) increased from 42.4% (Dec'20) to 52.1% as of Mar'22, while liquid assets to deposits and borrowings remained stable at 67%. The liquid assets coverage of deposits and borrowings is considered to be adequately high.

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.

Assets quality indicators remain comfortable and compare favorably to other large-sized banks

MEBL's asset quality indicators depicted improvement on a YoY basis, which was a result of portfolio growth, as well as an absolute decline in NPLs. As of Dec'21, MEBL's gross infection was the 2nd lowest amongst 'Large Banks'. MEBL's credit quality is characterized by its strong control on NPLs and prudent provisioning, wherein (inclusive of general provisions), provisioning coverage was very strong at 137% as of Mar'22. Going forward, given the 400 bpts cumulative increase in SBP Policy rate during April – May 2022, credit risk headwinds are emerging for the banking industry. However, MEBL is relatively better placed than peers to withstand the higher credit risk environment.

Profitability indicators compare favorably to peers.

In line with the industry trend, wherein average benchmark rate prevailing during 2021 was lower than 2020, MEBL's spread depicted contraction. Nevertheless, given strong growth in assets deployed along with an increase in FDR, the Bank's bottom line was up by 28% and 51% in 2021 and Q1'22 respectively. MEBL's RoAA was highest among the 'Large Banks'.

MEBL's capital adequacy complies with VIS benchmark for the assigned rating

MEBL's capitalization buffers remained strong as of Mar'22. Dividend payout was restricted to 32.2% (2020: 38.3%) in 2021. The net equity depicted notable improvement, given sizable growth in profitability and lower payout ratio. MEBL's CAR is expected to remain comfortable through the rating horizon. The comfort, in terms of stability in CAR, is premised on credit quality indicators of financings portfolio, provisioning coverage of 1.4x and lower exposure to market risk vis-à-vis peers.

Meezan Bank Limited
Appendix I

FINANCIAL SUMMARY (Rs. in billions)				
BALANCE SHEET	31-Dec-19	31-Dec-20	31-Dec-21	31-Mar-22
Total Investments	225.6	434.2	620.1	927.5
Gross Advances	506.5	531.6	777.3	758.6
Total Assets	1,121.3	1,521.6	1,903.0	2,118.5
Borrowings	42.0	94.5	220.4	419.5
Deposits & other accounts	932.6	1,254.4	1,455.9	1,455.4
Subordinated Sukuk (Tier II)	7.0	11.0	14.0	14.0
Subordinated Sukuk (Tier I)	7.0	7.0	7.0	7.0
Tier-1 Equity	55.8	69.4	87.9	94.7
Paid up Capital	12.9	14.1	16.3	16.3
Net Worth	59.0	69.2	86.6	90.0
INCOME STATEMENT	2020	2021	Q1'21	Q1'22
Net Mark-up Income	64.8	68.9	15.1	21.4
Net Provisioning charge	8.2	1.0	0.3	0.2
Non-Markup Income	10.1	14.9	3.6	4.3
Administrative Expenses	28.8	34.4	7.8	10.0
Profit Before Tax	36.9	47.5	10.2	15.1
Profit After Tax	22.2	28.4	6.1	9.2
RATIO ANALYSIS	31-Dec-19	31-Dec-20	31-Dec-21	31-Mar-22
Market Share (Advances) (%)	6.21%	6.26%	7.66%	7.34%
Market Share (Deposits) (%)	6.37%	7.02%	6.94%	7.11%
Advances to Deposits Ratio (%)	54.3%	42.4%	53.4%	52.1%
Liquid Assets to Deposits & Borrowings (%)	54.5%	67.0%	60.6%	67.2%
NPLs	9.0	14.9	14.4	14.0
Gross Infection (%)	1.78%	2.81%	1.86%	1.85%
Provisioning Coverage (%) (incl. general prov)	141.6%	127.6%	132.9%	137.0%
Net Infection (%)	0.14%	0.26%	0.15%	0.10%
Cost of Deposits (%)	5.04%	3.68%	2.33%	3.00%
Net NPLs to Tier-1 Capital (%)	1.27%	1.78%	1.26%	0.75%
Tier-1 CAR (%)	12.92%	13.63%	14.00%	14.78%
Capital Adequacy Ratio (C.A.R) (%)	16.58%	17.82%	17.81%	17.99%
LCR (%)	192.0%	263.0%	222.0%	251.0%
NSFR (%)	163.0%	180.0%	165.0%	162.0%
Markup Spreads (%)	6.32%	6.16%	5.04%	5.38%
Efficiency (%)	44.55%	39.17%	41.58%	39.28%
ROAA (%)	1.5%	1.7%	1.7%	1.8%*
ROAE (%)	30.7%	34.6%	36.4%	41.7%*
* 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 moderate 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
<u>RATING TYPE: ENTITY</u>					
	6/29/2022	AAA	A-1+	Stable	Reaffirmed
	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
<u>RATING TYPE: Sukuk 4</u>					
	6/29/2022	AAA		Stable	Reaffirmed
	12/31/2021	AAA		Stable	Final
	6/30/2021	AAA		Stable	Preliminary
	Rating Date	Medium to Long Term		Rating Outlook	Rating Action
<u>RATING TYPE: Sukuk 3</u>					
	6/29/2022	AAA		Stable	Reaffirmed
	11/24/2021	AAA		Stable	Upgrade
	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
<u>RATING TYPE: Sukuk 2</u>					
	6/29/2022	AA+		Stable	Reaffirmed
	11/24/2022	AA+		Stable	Upgrade
	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	Sukuk 2: 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.				

	<p>Sukuk 3: Basel III compliant Tier 2, privately placed, unsecured & subordinated Sukuk amounting to Rs. Rs. 4b issued Jan'20 respectively featuring maturity of 10 years from issue date.</p> <p>Sukuk 4: Tier II Capital of Rs. 10b (inclusive of a Rs. 3b green shoe option). The Issue is unsecured & sub-ordinated. Tenor of the issue is 10 years and repayment structure is bullet payment at the end of the tenor.</p>												
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	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.												
Due Diligence Meetings Conducted	<table border="1"> <thead> <tr> <th>Name</th> <th>Designation</th> <th>Date</th> </tr> </thead> <tbody> <tr> <td>Mr. Shabbir Hamza Khandwala</td> <td>CFO</td> <td>June 9th 2022</td> </tr> <tr> <td>Mr. Muhammad Abdullah Ahmed</td> <td>Head of Corporate Banking</td> <td>May 31st 2022</td> </tr> <tr> <td>Mr. Syed Tariq Hassan</td> <td>CRO</td> <td>June 3rd 2022</td> </tr> </tbody> </table>	Name	Designation	Date	Mr. Shabbir Hamza Khandwala	CFO	June 9 th 2022	Mr. Muhammad Abdullah Ahmed	Head of Corporate Banking	May 31 st 2022	Mr. Syed Tariq Hassan	CRO	June 3 rd 2022
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