

RATING REPORT

Meezan Bank Limited (MEBL)

REPORT DATE:

June 28, 2024

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+
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Sukuk 4 (Tier-II) Rating	AAA		AAA	
Sukuk 4 Outlook	Stable		Stable	
Sukuk 3 (Tier-II) Rating	AAA		AAA	
Sukuk 3 Outlook	Stable		Stable	
Sukuk 2 (ADT-I) Rating	AA+		AA+	
Sukuk 2 Outlook	Stable		Stable	
Rating Date	June 28' 2024		June 27' 2023	

COMPANY INFORMATION

Incorporated in 1997	External auditors: M/S A.F. Ferguson & Co., Chartered Accountants
Listed 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 – 35.22%	
Pakistan Kuwait Investment Co. (Pvt.) Ltd. – 29.97%	
Islamic Development Bank, Jeddah – 9.31%	

APPLICABLE METHODOLOGY(IES)

Rating Methodology – Financial Institution

<https://docs.vis.com.pk/Methodologies%202024/Financial-Institution-v2.pdf>

VIS Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.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 29 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.

Banking Sector

The banking sector in Pakistan has been navigating a challenging macroeconomic landscape. Despite facing headwinds such as high inflation, elevated interest rates, and geopolitical uncertainties, the sector has demonstrated resilience and adaptability in supporting economic stability.

One of the important factors contributing to the sector's resilience has been its strong capitalization and liquidity. Banks in Pakistan remain well-capitalized, with an industry-wide CAR of 19.7%. This ensures that banks are equipped to absorb potential shocks and maintain financial stability. Moreover, profitability metrics remain healthy, with a return on equity (ROE) of 27.1% based on CY-23 results, underscoring the sector's ability to generate sustained returns amidst challenging operating conditions.

The government's successful negotiation of the IMF's Stand-By Arrangement (SBA) program, culminating in a Staff-Level Agreement and disbursement of funds, has provided additional support to market confidence and exchange rate stability, with positive implications for the banking sector. In terms of monetary policy dynamics, the State Bank of Pakistan (SBP) has maintained a cautious stance, balancing the imperative of containing inflationary pressures while supporting economic growth. Even as headline inflation has moderated from peak levels, it remains elevated, prompting the SBP to retain the policy rate for an extended time and only reducing it by 1.5% from 22% in June 2024. This stance reflects the central bank's commitment to anchoring inflation expectations and safeguarding macroeconomic stability.

Looking ahead, the banking sector faces both challenges and opportunities. Continued vigilance in managing credit quality and liquidity risks will be vital, especially amidst evolving macroeconomic dynamics and policy uncertainties. Moreover, the sector's role in supporting the Government's reform agenda, particularly in areas such as taxation, energy, and privatization of state-owned enterprises, will be critical in fostering sustainable economic growth and financial stability.

Key Rating Drivers

Strong market position and franchise of MEBL

Meezan Bank has emerged as a significant player in the banking sector of Pakistan, primarily known for its pioneering role in Islamic banking. It is the first and largest Islamic commercial bank in Pakistan. Meezan Bank has been able to successfully establish a brand identity built around providing riba-free and Islamic financial solutions, supported by a highly respected Shariah Board. Over the last decade, MEBL has significantly expanded its operations and was the 4th largest bank of Pakistan in terms of deposits and the 3rd largest in terms of financings as of Mar'24, with a market share of 7.8% and 8.01% in terms of financings & deposits respectively (Dec'22: 8.5% & 7.4%).

Lowest cost of deposit is a competitive edge

The bank continued to exhibit strong deposit growth with an increase of 34% in CY23, exceeding the industry growth rate. The bank's deposit composition, with 89% in CASA accounts and nearly 50% of Current account, results in a lower cost of deposit. Consequently, the bank boasts one of the lowest deposit cost in the sector at 6.5%. This provides a strong competitive edge to the Bank, reflective in wider spreads and higher profitability.

Sound asset quality vis a vis peers

Meezan Bank has consistently maintained a gross infection ratio of less than 2% over the years and a net infection ratio of just 0.1%, one of the lowest in the industry. This positions the bank favorably compared to other large banks. The bank's credit quality is indicative of its effective management of non-performing loans and strong provisioning coverage. Despite heightened credit risk, Meezan Bank remained well-positioned regarding asset quality, supported by a strong client base and substantial provisioning coverage of 179%.

Favorable funding profile supports wider spreads and higher efficiency

Compared to its peers, Meezan Bank's favorable funding profile, with the asset book primarily funded through deposits, has enabled it to expand its net profit/return income. Consequently, the efficiency ratio improved. By relying mainly on deposit-led funding, the bank avoided pressure on spreads despite falling yields in Q1'24, unlike peers with higher borrowing proportions. Combined with adequate provisioning coverage, this led to strong profitability for the bank.

Strong capital adequacy

The bank remains well capitalized with a CAR of 24% at the end of March 2024 led by strong profitability. CAR is expected to remain comfortable, supported by strong internal capital generation potential and robust credit quality indicators.

Expanding digital presence

Meezan Bank's digital presence stands out due to its mobile banking app, which processed over 275 million transactions totaling Rs 12.2 trillion in 2023 and serves around 2.3 million users. With more than 68% of its customers utilizing digital platforms, the bank demonstrates strong digital penetration. Meezan Bank also leads the industry in debit card usage with its debit cards, capturing over 35% of the market share according to the SBP - Payment Systems Review for Q1 2023-24. The bank also excelled in digital fund transfers, processing transactions worth Rs 5.06 trillion, with the next closest competitor handling Rs 2.1 trillion.

Meezan Bank Limited

FINANCIAL SUMMARY (Rs. in millions)			Annexure I
<u>BALANCE SHEET</u>	Dec'22	Dec'23	Mar'24
Total Investments	1,283,210	1,572,388	1,626,292
Islamic financing and related assets - Gross	1,018,102	992,027	930,822
Islamic financing and related assets - Net	995,508	961,673	896,555
Total Assets	2,577,398	3,012,109	3,042,655
Due to Financial Institutions	573,326	377,495	332,839
Deposits & other accounts	1,658,490	2,217,474	2,270,072
Subordinated Sukuks	20,990	20,990	20,990
Tier-1 Equity	120,340	178,599	187,750
Paid-up Capital	17,896	17,913	17,913
Net Shareholders Equity (excl. revaluation surplus)	115,984	173,987	183,088
<u>INCOME STATEMENT</u>	CY22	CY23	1QCY24
Net Spread Earned	121,704	226,429	67,564
Net Provisioning / (Reversal)	4,177	7,340	(344)
Total Other Income	19,103	22,107	6,358
Operating expenses	46,240	67,877	19,957
Profit/ (Loss) Before Tax	88,385	169,408	53,058
Profit / (Loss) After Tax	45,007	84,476	25,407
<u>RATIO ANALYSIS</u>	CY22	CY23	1QCY24
Market Share (Domestic Gross Advances) (%)	8.5%	8.0%	7.8%
Market Share (Domestic Deposits) (%)	7.4%	8.0%	8.0%
Non-Performing Financings (NPFs)	13,628	16,939	17,634
Gross Infection (%)	1.3%	1.7%	1.9%
Total Provisioning Coverage (%) (incl. general prov.)	165.8%	179.2%	194.3%
Net Infection (%)	0.1%	0.1%	0.1%
Cost of Deposits (%)	3.8%	5.8%	6.5%*
Gross Financings to Deposits Ratio*** (%)	55.0%	38.5%	35.0%
Net NPFs to Tier-1 Capital (%) (adj. for general prov.)	0.6%	0.4%	0.4%
Tier 1 CAR (%)	15.7%	18.9%	20.5%
Capital Adequacy Ratio (CAR) (%)	18.4%	22.4%	24.1%
Spread (%)	6.1%	9.4%	10.7%*
Efficiency (%)	33.1%	27.4%	27.1%*
Liquidity Coverage Ratio (%) (LCR)	284.0%	283.0%	321.0%
Net Stable Funding Ratio (%) (NSFR)	157.0%	206.0%	192.0%
ROAA (%)	2.0%	3.0%	3.4%*
ROAE (%) (Net Shareholder Equity)	45.4%	58.3%	56.9%*
Liquid Assets to Deposits & Borrowings** (%)	55.7%	68.2%	70.1%

* Annualized

** Adjusted for Shariah Compliant Open Market Operations and Collateral

*** Adjusted for SBP refinancing schemes

REGULATORY DISCLOSURES					Appendix II
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>					
	6/28/2024	AAA	A-1+	Stable	Reaffirmed
	6/27/2023	AAA	A-1+	Stable	Reaffirmed
	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>					
	6/28/2024	AAA		Stable	Reaffirmed
	6/27/2023	AAA		Stable	Reaffirmed
	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>					
	6/28/2024	AAA		Stable	Reaffirmed
	6/27/2023	AAA		Stable	Reaffirmed
	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>					
	6/28/2024	AA+		Stable	Reaffirmed
	6/27/2023	AA+		Stable	Reaffirmed
	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	<p>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> <p>Sukuk 3: Basel III compliant Tier 2, privately placed, unsecured & subordinated Sukuk amounting to 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	<p>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.</p>			
Probability of Default	<p>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.</p>			
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Due Diligence Meetings Conducted	Name	Designation	Date	
	Mr. Syed Imran Ali Shah	Chief Financial Officer	12 th June 2024	
	Mr. Syed Tariq Hassan	Chief Risk Officer		
	Mr. Shariq Mubeen	Chief Digital Officer		
	Mr. Urooj ul Hasan Khan	Head of Corporate, and Investment Banking		
	Mr. Ammar Khalid	Deputy Treasurer		