

RATING REPORT

Meezan Bank Limited (MEBL)

REPORT DATE:

December 31, 2021

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Sukuk 4 (Tier-II)	AAA		AAA *	
<i>Rating Date</i>	<i>December 31' 2021</i>		<i>November 24' 2021</i>	
<i>* Preliminary</i>				

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/backupsqvis/docs/Meth-CommercialBanks202006.pdf>

Rating the Issue - July 2020

<https://docs.vis.com.pk/docs/Notchingtheissue202007.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 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.

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 Sep'21, MEBL's distribution network is spread across 849 branches, operating in more than 265 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%).

Rating Rationale

Tier II Sukuk – Sukuk 4

The Instrument: The Bank has raised its third Shariah Compliant Tier II Capital of upto Rs. 10b (inclusive of a Rs. 3b green shoe option) by way of issuing Mudarabah based Sukuk Certificates. 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.

The arrangement involves recalling the Sukuk issued previously on September 22, 2016 amounting to Rs. 7b, and issuing fresh Sukuk with a face value of Rs. 10b (Inclusive of Rs. 3b green shoe option). The Issue shall contribute towards MBL's Tier II Capital for complying with the Capital Adequacy Ratio (CAR) requirements prescribed by SBP under its Basel III framework. The Issue proceeds will contribute towards the Bank's Tier-2 capital and will be utilized towards enhancement of the bank's business operations.

Priority: In terms of priority of claims, MBL's Tier II Sukuk ranks superior to the claims of ordinary shareholders.

Non-performance risk: Non-performance risk for the instrument is characterized by presence of point of lock-in and loss absorbency clause. While the regulatory framework may not consider a missed coupon payment as a default; the credit rating methodology employed by VIS would treat such missed payments as an event of default. In normal course of business, VIS believes that chances of non-performance risk are considered remote given healthy capital buffers which will be enhanced further post issuance of the Tier II instrument.

Rating Finalization: VIS had earlier issued a preliminary rating of 'AAA' to proposed Sukuk 4 issuance. Given conclusion of the issuance process and review of legal documentation, Sukuk 4 rating has been finalized at 'AAA'.

Meezan Bank Limited
Appendix I

FINANCIAL SUMMARY (Rs. in billions)				
BALANCE SHEET	31-Dec-18	31-Dec-19	31-Dec-20	30-Sep-21
Total Investments	123.7	225.6	434.2	476.4
Gross Financings	522.2	506.5	531.6	623.1
Total Assets	937.9	1,121.3	1,521.6	1,697.7
Borrowings	36.4	42.0	94.5	139.3
Deposits & other accounts	785.5	932.6	1,254.4	1,344.2
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	11.7	12.9	14.1	16.3
Tier-1 Equity	46.6	55.8	69.4	81.4
Net Worth	40.3	59.0	69.2	81.8
INCOME STATEMENT	2019	2020	9M'2020	9M'2021
Net Spread Earned	46.5	64.8	49.8	48.5
Net Provisioning charge	4.2	8.2	4.2	0.5
Non-Markup Income	9.3	10.1	7.2	10.3
Administrative Expenses	24.8	28.8	21.9	24.9
Profit Before Tax	26.2	36.9	30.1	32.6
Profit After Tax	15.2	22.2	18.1	19.6
RATIO ANALYSIS	31-Dec-18	31-Dec-19	31-Dec-20	30-Sep-21
Market Share (Advances) (%)	6.62%	6.21%	6.26%	6.71%
Market Share (Deposits) (%)	5.88%	6.37%	7.02%	6.78%
Advances to Deposits Ratio (%)	66.5%	54.3%	42.4%	46.4%
Liquid Assets to Deposits & Borrowings (%)	43.0%	54.5%	67.0%	66.2%
NPLs	7.0	9.0	14.9	14.4
Gross Infection (%)	1.34%	1.78%	2.81%	2.32%
Provisioning Coverage (%) (incl. general prov)	138.9%	141.6%	127.6%	131.4%
Net Infection (%)	0.04%	0.14%	0.26%	0.21%
Cost of deposits (%)	2.48%	5.04%	3.68%	NA
Net NPLs to Tier-1 Capital (%)	0.43%	1.27%	1.78%	1.49%
Tier-1 CAR (%)	12.00%	12.92%	13.63%	15.16%
Capital Adequacy Ratio (C.A.R) (%)	14.55%	16.58%	17.82%	18.98%
LCR (%)	147.0%	192.0%	263.0%	222.0%
NSFR (%)	130.0%	163.0%	180.0%	170.0%
Markup Spreads (%)	4.55%	6.32%	6.16%	NA
Efficiency (%)	54.6%	44.5%	39.2%	43.0%
ROAA (%)	1.0%	1.5%	1.7%	1.6%*
ROAE (%)	23.8%	30.7%	34.6%	34.5%*
* 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
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: Sukuk 4 (Planned Tier II of Rs. 10b)					
	12/31/2021	AAA		Stable	Final
	11/24/2021	AAA		Stable	Preliminary
	Rating Date	Medium to Long Term		Rating Outlook	Rating Action
RATING TYPE: Sukuk 1 (Tier II Sukuk of Rs. 7b)					
	12/31/2021	-		-	Matured
	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
RATING TYPE: Sukuk 3 (Tier II Sukuk of Rs. 4b)					
	11/24/2021	AAA		Stable	Upgrade
	6/30/2021	AA+		Stable	Upgrade
	6/30/2020	AA		Stable	Upgrade
	1/21/2020	AA		Stable	Reaffirmed
	11/19/2019	AA		Stable	Reaffirmed
	Rating Date	Medium to Long Term		Rating Outlook	Rating Action
RATING TYPE: Sukuk 2 (ADT-I Sukuk of Rs. 7b)					

	11/24/2021	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><u>Existing</u> Additional Tier I Sukuk - Unsecured Basel III compliant Tier I Sukuk, subordinated 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.</p> <p><u>Planned</u> The Bank is planning to raise its third Shariah Compliant Tier II Capital of upto Rs. 10b (inclusive of a Rs. 3b green shoe option) by way of issuing Mudarabah based Sukuk Certificates. The Issue will be unsecured & sub-ordinated. Tenor of the issue is 10 years and repayment structure is bullet payment at the end of the tenor.</p> <p>The arrangement involves recalling the Sukuk issued previously on September 22, 2016 amounting to Rs. 7b, and issuing fresh Sukuk with a face value of Rs. 10b (Inclusive of Rs. 3b green shoe option).</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	<p>NA</p>			