

## RATING REPORT

### Meezan Bank Limited (MBL)

**REPORT DATE:**

June 3, 2016

**RATING ANALYSTS:**

Mohammad Ibad Desmukh  
*ibad.desbmukh@jcrvis.com.pk*

Jazib Ahmed, CFA

*jazib,ahmed@jcrvis.com.pk*

#### RATING DETAILS

| Rating Category       | Latest Rating |            | Previous Rating |            |
|-----------------------|---------------|------------|-----------------|------------|
|                       | Long-term     | Short-term | Long-term       | Short-term |
| <b>Entity</b>         | AA            | A-1+       | AA              | A-1+       |
| <b>Rating Outlook</b> | Stable        |            | Stable          |            |
| <b>Rating Date</b>    | Jun 2, '16    |            | Jun 24, '15     |            |

#### COMPANY INFORMATION

|  |   |
|--|---|
| <b>Incorporated in 1997</b>                        | External auditors: M/s A.F. Ferguson & Co.,<br><b>Chartered Accountants</b> |
| <b>Public Limited Company</b>                      | Chairman of the Board: <b>Mr. Riyadh S.A.A. Edrees</b>                      |
| <b>Key Shareholders (with stake 5% or more):</b>   | Chief Executive Officer: <b>Mr. Irfan Siddiqui</b>                          |
| 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/Method-CommercialBanks201511.pdf>

OVERVIEW OF  
THE  
INSTITUTION

## RATING RATIONALE

*Meezan Bank Limited is the largest Islamic commercial bank in Pakistan. Sponsors of the bank include Noor Financial Investment Company Limited, Pakistan Kuwait Investment Company (Pvt.) Limited and Islamic Development Bank.*

Incorporated in 1997, Meezan Bank Limited (MBL) is the largest Islamic bank in the country. MBL has pursued an aggressive branch expansion strategy which has allowed the bank to increase its market share to 5.1% (CY14: 4.6%) in banking sector deposits. As part of the bank's Vision 2020, management endeavors to expand branch network to 800 while deposit base is targeted to grow to Rs. 1 trillion.

Product suite of the bank has been enhanced with the introduction of new offerings in CY15, aimed to serve untapped market segments. Selective growth within the consumer and commercial segments is being pursued for broadening the client base. Resultantly, proportion of the same in financing portfolio has increased to 21.7% (CY14: 17.1%) as at end-CY15.

**Key Rating Drivers**

- **Governance:** Assigned ratings incorporate sound governance structure of the bank. Board of Directors includes individuals with extensive experience in different sectors. Board oversight is maintained through effectively functioning Board and management level committees. Senior management team comprises experienced professionals and has largely remained stable over last few years. A comprehensive policy framework is in place, which exhibits strong disposition towards self-regulation.
- **Deposits:** Ratings of MBL also reflect its strong franchise which has allowed the bank to build a sizeable, low cost and granular deposit base. In line with branch expansion strategy being undertaken by the bank, total deposits have witnessed sizeable growth. Depositor concentration level is amongst the lowest and proportion of retail deposits is amongst the highest in the industry.
- **Liquidity:** Liquidity profile of the bank is considered strong. Limited avenues for deployment of funds continue to pose liquidity management challenges. As a result, exposure to relatively low yielding assets, such as placement with financial institutions based on Bai Muajjal has depicted sizeable increase.
- **Financing Portfolio:** In line with trend observed over past two years, financing portfolio has showcased healthy growth; corporate segment continues to represent the highest share in the portfolio. Although risk profile of loan book remains sound on account of large exposures being taken against top-tier entities, financing portfolio continues to feature concentration. Share of consumer portfolio has grown on a timeline basis while asset quality for the same compares favorably to peers. Overall infection indicators have witnessed improvement in the outgoing year; gross infection stands at one of the lowest levels in the industry while provisioning coverage of 116.2% (CY14: 109.6%) has been maintained on the higher side in relation to peers.
- **Profitability:** Despite decline in interest rates and aggressive branch expansion, profitability of MBL depicted growth during CY15 on account of volumetric growth in earning assets as well as improving spreads.
- **Capitalization:** Net equity has demonstrated growth due to internal capital generation. Cushion of Capital Adequacy Ratio (CAR) against regulatory limit has witnessed reduction on account of sizeable growth in Risk Weighted Assets. Moreover, growth in profitability of the bank has remained constrained by limited availability of profitable risk-free investments in contrast to conventional peers. In order to strengthen its capitalization levels, MBL is in process of issuing unsecured, subordinated Tier 2 Sukuk amounting to Rs. 4.0b. The Sukuk will have a tenor of 10 years.

**Meezan Bank Limited**
**Appendix II**

| <b>FINANCIAL SUMMARY</b>                   |                                  |                     |                     |
|--|----------------------------------|---------------------|---------------------|
|  | <i>(amounts in PKR billions)</i> |                     |                     |
|  | <b>DEC 31, 2015</b>              | <b>DEC 31, 2014</b> | <b>DEC 31, 2013</b> |
| <b><u>BALANCE SHEET</u></b>                |                                  |                     |                     |
| Total Investments                          | 76.9                             | 114.1               | 151.6               |
| Advances                                   | 215.8                            | 183.3               | 133.5               |
| Total Assets                               | 531.8                            | 437.5               | 329.7               |
| Borrowings                                 | 13.6                             | 15.5                | 11.4                |
| Deposits & other accounts                  | 471.8                            | 380.4               | 289.8               |
| Subordinated Loans                         | -                                | -                   | -                   |
| Tier-1 Equity                              | 24.8                             | 22.3                | 17.6                |
| Net Worth                                  | 25.6                             | 23.3                | 17.9                |
| <b><u>INCOME STATEMENT</u></b>             |                                  |                     |                     |
|  | <b>DEC 31, 2015</b>              | <b>DEC 31, 2014</b> | <b>DEC 31, 2013</b> |
| Net Mark-up Income                         | 17.7                             | 12.9                | 10.6                |
| Net Provisioning                           | 0.62                             | 0.56                | 0.09                |
| Non-Markup Income                          | 4.6                              | 4.8                 | 3.5                 |
| Operating Expenses                         | 13.6                             | 10.5                | 8.4                 |
| Profit Before Tax                          | 8.5                              | 6.9                 | 5.6                 |
| Profit After Tax                           | 5.0                              | 4.6                 | 4.0                 |
| <b><u>RATIO ANALYSIS</u></b>               |                                  |                     |                     |
|  | <b>DEC 31, 2015</b>              | <b>DEC 31, 2014</b> | <b>DEC 31, 2013</b> |
| Market Share (Advances) (%)                | 4.5%                             | 4.1%                | 3.3%                |
| Market Share (Deposits) (%)                | 5.1%                             | 4.6%                | 3.8%                |
| Gross Infection (%)                        | 3.3%                             | 3.8%                | 3.6%                |
| Provisioning Coverage (%)                  | 116.2%                           | 109.6%              | 120.9%              |
| Net Infection (%)                          | 0.1%                             | 0.4%                | 0.2%                |
| Cost of deposits (%)                       | 3.5%                             | 4.6%                | 4.5%                |
| Net NPLs to Tier-1 Capital (%)             | 0.9%                             | 2.7%                | 1.2%                |
| Capital Adequacy Ratio (C.A.R (%))         | 10.98%                           | 11.88%              | 12.31%              |
| Markup Spreads (%)                         | 4.5%                             | 4.1%                | 5.1%                |
| Efficiency (%)                             | 60.8%                            | 62.1%               | 59.2%               |
| Basic ROAA (%)                             | 1.9%                             | 2.0%                | 1.9%                |
| ROAA (%)                                   | 1.1%                             | 1.2%                | 1.3%                |
| ROAE (%)                                   | 20.4%                            | 21.9%               | 22.6%               |
| Liquid Assets to Deposits & Borrowings (%) | 57.1%                            | 54.9%               | 54.7%               |

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix III

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

**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](http://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](http://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

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.

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](http://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 IV           |                      |
|-------------------------------------|---|----------------------------|-------------------|-----------------------|----------------------|
| <b>Name of Rated Entity</b>         | Meezan Bank Limited   |                            |                   |                       |                      |
| <b>Sector</b>                       | Commercial Banks  |                            |                   |                       |                      |
| <b>Type of Relationship</b>         | Solicited   |                            |                   |                       |                      |
| <b>Purpose of Rating</b>            | Entity Rating   |                            |                   |                       |                      |
| <b>Rating History</b>               | <b>Rating Date</b>  | <b>Medium to Long Term</b> | <b>Short Term</b> | <b>Rating Outlook</b> | <b>Rating Action</b> |
|                                     | <b><u>RATING TYPE: ENTITY</u></b>   |                            |                   |                       |                      |
|                                     | 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           |
| <b>Instrument Structure</b>         | N/A   |                            |                   |                       |                      |
| <b>Statement by the Rating Team</b> | 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.  |                            |                   |                       |                      |
| <b>Probability of Default</b>       | 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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