Press Release

VIS Reaffirms Entity Ratings of Meezan Bank Limited at AA+/A-1+

Karachi, June 30, 2020: VIS Credit Rating Company Limited has reaffirmed the entity ratings of Meezan Bank Limited (MBL) at 'AA+/A-1+' (Double A Plus/ A-One Plus). The long-term rating of 'AA+' indicates high credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions. The short-term rating of 'A-1+' denotes 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. VIS has also reaffirmed ratings of the outstanding Basel 3 Compliant Tier 1 and Tier 2 Sukuk of MBL at 'AA-' (Double A Minus) and 'AA' (Double A) respectively. Outlook on the assigned ratings is 'Stable'. The previous rating action on the entity was announced on June 28, 2019.

The assigned ratings are underpinned by MBL's position as the largest Islamic bank in the country, well-established domestic franchise, sound governance practices, healthy growth in profitability and strong funding base with deposits crossing 1 trillion during ongoing year. In 2019, MBL's net profit increased by 70% to Rs. 15.2b as compared to Rs. 9.0b in 2018. With addition of 100 branches in the outgoing year, the bank has been able to grow its market share in domestic banking sector deposits from 5.9% in 2018 to 6.4% at end-2019. Liquidity profile remains good and draws support from bank's ability to attract and retain deposit base. Individual customer deposits to total deposits increased to 67.4% in 2019 from 66.4% in 2018. The Bank has the highest percentage of individual customer deposits amongst all banks in Pakistan depicting a granular deposit base, which compares favorably to peers. Total assets of the bank grew by 20% to reach Rs. 1.1 trillion from Rs. 938 billion in 2018. Asset quality indicators were maintained at better than industry averages with a limited increase in gross infection to 1.78% (2018: 1.30%).However, for the banking industry as whole, ongoing uncertainty and slowdown in the economic activity may adversely impact repayment capacity of borrowers; thus asset quality indicators may witness pressure in the medium to long run along with margin compression and lower profitability. The bank maintains provisions against non-performing financings at 142%, which is considered prudent from a ratings' perspective.

Reading the anticipated economic slowdown, the bank followed a prudent lending strategy in 2019, as a result, financing portfolio stood slightly lower compared to same period last year. The portfolio continues to be dominated by corporate clientele, which comprises about two-thirds of the financing exposures. However, given the strong focus on corporate clientele, the portfolio does depict counterparty concentration, this has decreased in December 19 vis a vis December 18. Some comfort can be derived from the fact that exposures comprise government guaranteed and blue-chip corporate clientele.

Increasing interest rate scenario and volumetric growth in advances contributed to healthy growth in profitability during 2019. Rise in expenses due to branch expansion was sufficiently absorbed by growth in the bank's funded and non-funded income resulting in improvement in efficiency ratio. Maintaining conservative lending strategy to maintain asset quality and cost efficiencies would be important rating drivers. Going forward, the oncoming pandemic-induced headwinds are expected to test the portfolio asset quality of the Banking Industry in Pakistan. So far, SBP has taken notable measures to ensure continued credit supply to the economy and maintain confidence in the banking system to ease the expected credit crisis, resulting from the pandemic. These measures are expected to mask the impact of prevailing headwinds on portfolio asset quality indicators. Given the current economic situation, VIS will continue to closely monitor the Bank's performance metrics on quarterly basis.

For further information on this rating announcement, please contact the undersigned (Ext: 306) at 92-21-35311861 or fax to 92-21-35311873.

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Deputy CEO

Applicable rating criterion: Commercial Banks Methodology – March 2018
http://vis.com.pk/kc-meth.aspx