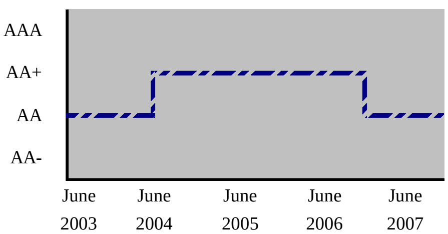
ASKARI BANK LIMITED (AB)

RATINGS (JUNE 2007)

ASKARI BANK LIMITED

	NEW	PREVIOUS
ENTITY		
Long Term	AA	AA+
Short Term	A1+	A1+
TFCS		
Unsecured, subordinated		
1st Issue (*PKR 1,500mln*)	AA-	AA
2nd Issue (*PKR 1,500mln*)	AA-	AA

LT ENTITY RATING - HISTORY



FINANCIAL DATA

PKR (mln)

	31-Dec-06	31-Dec-05
Total Assets	166,033.6	145,099.9
Equity	9,619.1	7,595.1
Net Income	2,250.0	2,022.0
ROA %	1.45	1.59
ROE %	26.14	27.50
Equity/ Total Assets %	5.79	5.23
SBP CAR	10.93	11.18

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TFC ISSUE

Askari bank has issued unsecured subordinated TFCs of PKR 1,500mln each for a tenor of 8 years in February 2005 and October 2005. The profit payment is made semi-annually, based on 6-month KIBOR *plus* 150bps. The principal will be redeemed in a bullet payment at the maturity of each instrument in February and October 2013.

ASSESSMENT

- The ratings reflect AB's strong capital structure supported by sound profitability, though lately under pressure mainly due to higher provisioning against NPLs. At the same time, the ratings recognize the slippage in the bank's relative standing compared to some peer banks, which have demonstrated superior performance - both in terms of profitability and asset quality. Even more importantly, the peers have demonstrated this capacity to maintain that edge going forward. Nevertheless, the management, taking note of the fast changing banking dynamics, has put in place a well-conceived strategy, which, while improving the bank's performance and strengthening its risk management framework, is expected to help AB in ensuring its strong standing within the sector.
- The bank's profitability remained subdued compared to most peers during 2006. However, the performance based on core operations showed a marginal improvement. The bank, with continued expansion in its network (22 new branches during 2006), achieved a moderate growth in its size. However, the growth in advances was more pronounced as against deposits, resulting in a slightly higher credit-to-deposit ratio, which also benefited spreads to some extent. The non-fund based income exhibited improvement mainly on account of services related to foreign trade business with enhanced trade volume. At the same time, the bank maintained a strict control over operating costs resulting in a marginal improvement in cost-to-total net revenue pattern. Nevertheless, the benefit of these improvements could not be translated to the bottom line due to significant provisioning, which was around 25% (05: 17%) of the pre-provision profit. During 1Q07, though the growth in total assets was restrained, the bank shed certain high cost deposits lending support to its spreads. Moreover, in the absence of significant provisions, net income witnessed a slight improvement.
- Going forward, the management has designed a multi-pronged strategy to re-position the bank and enhance its franchise value. This strategy is expected to provide a fresh momentum to the growth, particularly in the retail segment. This is also expected to facilitate low cost deposit mobilization. In addition to consumer financing, the bank is focusing on SME segment for achieving credit expansion. In this regard, the management plans to offer programmed lending products designed for specific industry clusters, albeit after comprehensive analysis for each sector. Encouraged by relatively high recovery rates, the bank plans to further increase its agricultural financing portfolio by expanding to new geographical locations. Islamic banking, which is currently being offered through 8 branches, is identified as yet another area offering growth potential. At the same time, the bank is in the process of designing a comprehensive medium-term business strategy covering a time-period of 3 years as against current practice of formulating strategic targets on a year-to-year basis.
- In contrast to most other banks, AB's asset quality, as measured by NPLs to finances, showed moderate deterioration in 06 with the trend continuing in 1Q07. However, due to adequate provisioning, the drag of net impairment on equity remains limited. Moreover, a sizable revaluation surplus of PKR 2,227mln (as on June 27, 2007) on the bank's equity investment in Allied Bank Limited significantly adds to AB's risk absorption capacity. In any event, the infection is not widespread and is outcome of a few cases, in which the management is aggressively pursuing restructuring/recovery. Meanwhile, the bank is developing a risk management strategy that would expand into a comprehensive framework of risk management policies and procedures for assessing and monitoring potential risks. The management is also planning to decentralize credit risk evaluation process, while dividing the country into three regions. However, in terms of up-gradation of its technology infrastructure to support growth initiatives, the bank is behind most of its peers and is currently in the final stage of selecting a comprehensive core banking software. The management is targeting full implementation of this software by end-08.
- AB's capitalization, with strong profit retention policy, has remained strong. Going forward, the bank, with higher level of CAR, retains sufficient cushion for future growth.

KEY RATING DRIVERS

- The ratings are dependent on the bank's ability to effectively implement its various planned measures to manage increasing competition in the banking sector, thereby helping AB to protect its relative standing in the sector, more specifically, performance prospects and system share. Meanwhile, any further deterioration in the asset quality, in turn, affecting the risk absorption capacity would have implications for the ratings.

PROFILE

- AB, operating with a countrywide network of hundred and twenty-one branches and an offshore banking unit, commenced its operations in 1992. Army Welfare Trust (AWT) remains its principal shareholder. AWT has business interests spread across a wide range of sectors. Serving and retired army officials nominated by AWT dominate the bank's Board of Directors. However, while BODs of most other banks have higher representation of professionals and/or successful entrepreneurs, AB's board is relatively constrained in terms of offering strategic guidance to the management.
- The current President & Chief Executive, who assumed this position in early 2006, has extensive banking experience. The bank's senior management team, though witnessing certain changes recently, comprises distinguished professionals. AB has formed a wholly owned asset management company to tap the growing potential in that segment. The company has launched an income fund with assets under management of around PKR 8bln at end-May 07. The bank is also exploring possibilities of international expansion.