



ASKARI COMMERCIAL BANK LIMITED

RATINGS (DECEMBER 2004)

ASKARI COMMERCIAL BANK LIMITED (ACBL)

	NEW	PREVIOUS
ENTITY*		
Long Term	AA+	AA+
Short Term	A1+	A1+

TFCs

Unsecured, subordinated		
1 st Issue	AA	n.a.
PKR 1,500mln		

* Applicable to senior unsecured creditors (depositors).

FINANCIAL DATA

PKR (mln)

	30-Sep-04*	31-Dec-03
Total Assets	107,675.8	85,386.9
Equity	5,414.3	3,901.3
Net Income	1,513.0	1,103.1
ROA %	1.53	1.42
ROE %	31.45	31.84
Equity/ Total Assets %	5.03	4.57
SBP CAR	9.11	9.95

* Un-audited results for nine months ended Sep 30, 2004.

ANALYSTS

Maimoon Rasheed
+92 42 5869504
maimoon@pacra.com

Shahzad Saleem
+92 42 5869504
shahzad@pacra.com

TFC ISSUE

ACBL is planning to issue unsecured subordinated TFCs of PKR 1,500mln in the near-term for a tenor of 8 years. The profit payment, to be made semi-annually, will be based on 6 month KIBOR plus 150bps. The principal will be redeemed in a bullet payment at the maturity of the instrument. While the senior unsecured creditors (depositors) derive additional comfort from the structure of these TFCs, the TFC holders are exposed to a relatively higher risk, as the obligations towards the TFC holders are subordinate to those of the senior unsecured creditors (depositors) of the bank. Consequently, PACRA assigns a rating of AA (Double A) to the TFCs.

RATING RATIONALE

ASSESSMENT

- The ratings reflect ACBL's demonstrated ability of sustaining its performance while maintaining a moderate growth trend in the increasingly competitive operating environment. The ratings also take into account the effectiveness of the risk management system, which has helped in maintaining very good asset quality of the bank. The ratings also factor in the benefits accruing to ACBL from its association with Pakistan armed forces.
- The steady growth over the years has been maintained during first nine months of 2004. The bank deployed additional deposits into core lending activities and, as planned, managed to further increase its credit-to-deposit ratio. As a result, net interest revenue, with largely maintained spreads, improved in line with volume growth. Other operating income, mainly emanating from services related to foreign trade business, also improved during the period on the back of increase in trade volume handled by the bank with stable contribution towards the total revenue. Additionally, ACBL realized sizeable capital gains on redemption of its portfolio of NIT units during the period. This has substantially bolstered the bank's profitability and, though non-recurring, has also benefited its equity base. Going forward, the bank is likely to maintain its performance from core sources.
- The management is pursuing a strategy of diversification in the credit portfolio by increased focus on second tier clients. This, while providing the potential for volume growth, is expected to help in spread management. The bank, with continuing thrust on trade finance and SME lending, is planning to expand its consumer-financing base (card, mortgage, personal and home). Given its inherent advantage in terms of geographical outreach and strong technology platform, ACBL is well positioned to make significant inroads in this segment. Furthermore, the bank plans to tap relatively new areas, particularly the agriculture sector. The management recognizes the importance of non-fund based sources for stability of the bank's income stream and, despite pressure on margins, plans to maintain the proportion of non-fund based income in total net revenue by volume growth to be achieved through increased focus on treasury operations.
- ACBL continues to maintain very good asset quality. The bank, with a combination of recoveries and limited incidence of fresh infection, managed to further reduce the impaired portfolio. The management has continued with its policy of augmenting the provision coverage, particularly through making additional general provision against consumer financing portfolio. Going forward, with enhanced focus on SME sector and consumer financing, the bank would require more stringent system of credit appraisal and administration. The management, being cognizant of the fact, is working to further strengthen risk management and internal control systems with the help of a consultancy firm, while enhancing human resource expertise with rigorous in-house training.
- The bank's equity base, with relatively lower cash dividend distribution in the last year and substantial profitability in the current period, has further strengthened. However, the Capital Adequacy Ratio has declined marginally due to change in asset mix towards risk-weighted assets. The bank has reduced the proportion of zero-risk weighted government securities, while largely maintaining the overall liquidity position. Going forward, the bank is planning to issue an unsecured subordinated TFC, which with its relatively longer tenor is expected to provide support to the bank's CAR for an extended period.

BACKGROUND

- ACBL, operating with a countrywide network of 60 branches plus one offshore banking unit (end-Sep 04), commenced its operations in 1992. Army Welfare Trust (AWT) remains its principal shareholder controlling the Board of Directors through its nominees. AWT has business interests spread across a wide range of economic and industrial sectors.
- ACBL offers a full range of commercial banking services to the corporate, middle market and retail segments. The bank has established an image of efficiency and professionalism, attributable in part to its policy of maximum technology utilization – offering facilities such as online real-time banking, ATM's, internet and telephone banking, and cash management services. Offshore banking unit in Bahrain, established with the primary objective of capacity building of the bank, has started generating profits, though the contribution is modest.
- The current President & Chief Executive has over 35 years of international and domestic banking experience. A senior management team of distinguished professionals assists him.

PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. Our reports and ratings constitute opinions, not recommendations to buy or to sell.