



The Pakistan Credit Rating Agency Limited

RATINGS (OCTOBER 2009)

ASKARI BANK LIMITED (AKBL)

| RATINGS | NEW | PREVIOUS |
|---------------|-----|----------|
| ENTITY | | |
| Long Term | AA | AA |
| Short Term | A1+ | A1+ |

INSTRUMENT**TFCs**

Unsecured, subordinated

| | | |
|---|-----|-----|
| 1 st Issue (PKR 1,500mln) | AA- | AA- |
| 2 nd Issue (PKR 1,500mln) | AA- | AA- |
| 3rd Issue (PKR 3,000mln) | AA- | |

FINANCIAL DATA

PKR (mln)

| | Jun09 [^] | Dec08 | Dec07 |
|-----------------|--------------------|---------|---------|
| Total Assets | 222,179 | 206,191 | 182,171 |
| Equity | 12,620 | 12,034 | 12,099 |
| Net Income | 585 | 386 | 2,681 |
| ROA % | 0.3* | 0.2 | 1.5 |
| Equity/Assets % | 5.7 | 5.8 | 6.6 |
| SBP CAR | 9.13 | 9.22 | 9.35 |

[^] Based on unaudited results for 6 months ended Jun09

* Non annualized

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Askari Bank has issued two unsecured subordinated TFCs of PKR 1,500mln each for a tenor of 8years in February 2005 and October 2005. The profit payment is made semiannually in arrears, based on 6 month KIBOR plus 150bps. Askari Bank plans to shortly issue a third unsecured subordinated TFCs of PKR 3,000mln for a tenor of 10 years in October 2009. The profit payment is to be made semi-annually in arrears, based on 6-month KIBOR plus 250bps for the first five years afterwhich a profit rate of 6-month KIBOR plus 295bps will be charged for the remaining term. The issue will be structured to redeem 0.32% of the principal in the first 96 months and the remaining amount will be paid in four equal semi annual payments.

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect AKBL's ability to withstand tough operating environment and maintain its market standing. Despite material contraction in the post tax profitability of the bank due to provisioning against NPLs, AKBL's financial profile remains intact. Moreover, residue drag on equity remains within acceptable limits, as the bank has made sufficient provisioning against NPLs. Meanwhile, the bank has increased focus to improve its asset quality by streamlining the recovery efforts and tightening of risk management controls. AKBL continues to benefit from the implied support and goodwill that emanates from its link with the Army and the use of the name 'Askari'.
- The ratings are dependent on the bank's success to sustain its relative standing in the wake of intense competition in the banking sector, while improving its risk management systems in tandem with its expansion. Meanwhile, any material deterioration in its asset quality, weakening its risk absorption capacity would have negative implications for the ratings.

ASSESSMENT

- AKBL's fund base exposure is concentrated in the corporate sector (71%), with remaining major portion being deployed in consumer (13%) and SME sector (11%) at end-Dec08. Meanwhile, AKBL's advances are well diversified in terms of various industries, as the highest exposure (textile) contributes 20% towards the total advances.
- AKBL's net interest revenue increased during 2008 on the back of notable growth in earning assets and higher spreads. Non-interest income, after witnessing a huge rise in 2007 due to investment gain, normalized in 2008 though remaining a major contributor towards the profitability due to bank's presence in trade related banking services. During IH09, the bank largely consolidated its loan book, while deploying additional deposits – ~8% growth in 6 months – towards government securities and money market. Comparatively low provisioning expense has positively impacted the bottom line of the bank. Meanwhile, Askari Bank sustained its spreads and contribution of non interest income remained robust. Going forward, the bank is expected to sustain its profitability trend while focusing on consolidating its operations.
- Rising trend in NPLs which started during 2007 is not subsiding and AKBL's NPLs as a percentage of gross advances have reached to 9.2% at end-Jun09 (end-08: 8.4%, end-07: 6.4%). Cognizant of this fact, the management has intensified its efforts to arrest the trend by expediting the recovery efforts and adopting cautious lending approach. Moreover, the bank's provisioning against rising NPLs has remained sufficient through internally generated funds, with net NPLs-to-equity remaining within acceptable limits (end-Jun09:10.0%). Adequate provisioning against NPLs is expected to put lesser pressure on the risk absorption capacity of the bank, going forward.
- AKBL is in the process of implementing core banking system "Flexcube" and its allied modules including Oracle financial, Peoplesoft and Sieble CRM. First branch is expected to go online by Dec 2009. As most of the technological initiatives are currently underway, effective and timely implementation of the core banking software is critical to mitigate operational risks involved.
- Although AKBL's finances-to-deposit ratio is above the historical levels (2008: 83%, 2007: 72%), AKBL maintains adequate liquidity as the bank carries significant inventory of government securities in the form of T-bills and PIBs.
- AKBL is currently adequately capitalized. However, ensuing losses from worsening asset quality could necessitate the need to inject fresh capital into the bank. AKBL's CAR is hovering around minimum regulatory requirements and it is in the process of raising Tier-2 capital to augment its capital structure and create room for asset growth.

PROFILE

- AKBL, with a branch network of 205 branches at end-Jun09, commenced its operations in 1992. AKBL is sponsored by the Army Welfare Trust (AWT), which remains the principal shareholder with a holding of 50.2%. AWT has business interests spread across a wide range of sectors.
- AKBL BoD was revamped during the year and the board inducted various experienced professionals carrying extensive experience in the field of finance, education and IT as against serving and retired army officials dominating the bank's BoD previously. The change in BoD is expected to provide valuable strategic guidance to the bank going forward.
- Mr. M.R. Mehkari, the President and Chief Executive of AKBL since 2008, joined the bank in 1992 and carries significant international and domestic banking experience. The bank's senior management team comprises experienced professionals. AKBL has diversified its investments in different dimensions of financial industry including, Askari Securities Limited (shareholding: 74%) and Askari Investment Management Limited (shareholding: 100%).