

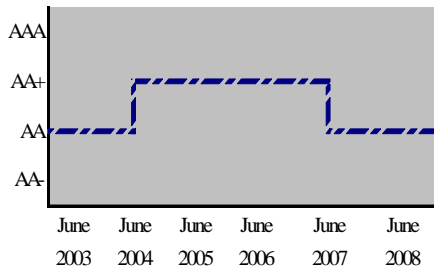
ASKARI BANK LIMITED (AKBL)

RATINGS (JUNE 2008)
ASKARI BANK LIMITED

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

TFCs

	NEW	PREVIOUS
Unsecured, subordinated		
1 st Issue	AA-	AA-
(PKR 1,500mln)		
2 nd Issue	AA-	AA-
(PKR 1,500mln)		

LT ENTITY RATING – HISTORY

FINANCIAL DATA

PKR (mln)	31-Dec-07	31-Dec-06
Total Assets	182,171.9	166,033.6
Equity	12,099.6	9,619.1
Net Income	3,572.6	2,250.0
ROA %	2.05	1.45
ROE %	32.90	26.14
Equity/ Total Assets %	6.64	5.79
SBP CAR	12.25	10.93

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TFC ISSUE

Askari Bank has issued two 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 in arrears, 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.

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect AKBL's strong capital structure supported by sound profitability, though lately under pressure due to higher provisioning against rising NPLs. While focusing on strengthening the risk management framework and recovery efforts to safeguard its asset quality, the management has adopted a multifaceted strategy to forge ahead in an increasingly competitive banking industry.
- The ratings are dependent on the management's ability to effectively revitalize the bank's operations and strengthen the credit management process, thereby helping AKBL to protect its relative standing in the sector, more specifically, system share and performance prospects. Meanwhile, any further deterioration in the asset quality, in turn, affecting the risk absorption capacity would have negative connotations for the ratings.

ASSESSMENT

- During 2007, the growth in assets was moderate. This together with marginal improvement in spreads translated into modest increase in net interest revenue. A similar trend was observed for fee-based income. However, due to substantial cost relating to re-branding of AKBL, along with ongoing branch expansion, sizeable increase in non-interest expense was experienced during the year, thereby leading to rise in cost to net revenue (2007: 43%). This trend is expected to continue during the year 2008, due to planned up gradation of technology infrastructure and further branch expansion. The increasing trend in NPLs continued during the year. The change in provisioning criteria against NPLs-withdrawal of FSU benefit by SBP-led to substantially high YoY provisioning expense. Nonetheless, AKBL managed to post improved profitability, attributable to substantial capital gain realized (PKR 2,100mln) on sale of shares of Allied Bank Limited. During 1Q08, the bank's profitability was significantly dampened by substantial provision against fresh NPLs.

- Going forward, AKBL realizing the need to maintain the relative standing of the bank in an increasingly competitive industry, has orchestrated a 3-year strategic business plan. The strategy, while expanding in traditional corporate and commercial segments, emphasizes on growth of SME financing and agriculture credit. Islamic banking, which is currently being offered through 14 branches, is identified as another area offering growth potential. Furthermore, AKBL aims to contain the ratio of NPLs to total assets within the acceptable industry range, by strengthening risk management framework. AKBL, in order to enhance its outreach, has laid down an aggressive network expansion plan to open 38 regular and 35 sub-branches in the near-term. The sub-branches would be retail centric, with main focus on mobilizing stable low-cost deposits, while also offering consumer products. However, management's success in materializing the initiatives into desired results remain to be seen.

- The increasing trend in NPLs that commenced in 2006, continued during 2007 and 1Q08 (NPLs to Finances: 1Q08: 8%, Dec07: 6%, Dec06: 4%). However, due to additional provisioning, arising from change in SBP's prudential regulation and increase in equity through profit retention, the drag of net impairment on equity remains limited. In any event, the infection is not widespread and is outcome of a few cases, in which the management is aggressively pursuing recovery. Meanwhile, the management is putting special emphasis on strengthening credit risk management system. Additionally, AKBL is rationalizing its client as well as sector exposures, and wherever deemed necessary, the bank is working towards gradual reduction of its respective exposures.

- Investment portfolio comprises 21% of the total assets at end-1Q08. The portfolio is predominantly concentrated in government securities (87%) with higher proportion of treasury bills, implying low interest rate risk. The bank also actively participates in the equity market, wherein it is close to the maximum permissible regulatory limit. The associated risk is managed by following clearly defined investment policies.

- In terms of up-gradation of its technology infrastructure to support growth initiatives, the bank is in process to implement FLEXCUBE, core-banking software, developed by Oracle financial services. AKBL has also acquired other software to be implemented in the risk management and human resource department.

- AKBL's CAR, mainly the Tier 1, strengthened during the year through profit retention. The capital base, while providing strong risk absorption capacity, provides ample room for further growth.

PROFILE

- AKBL, operating a countrywide network of hundred and fifty branches (including 14 Islamic branches) and an offshore banking unit, commenced its operations in 1992. 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'. 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 (BOD). However, while BODs of most other banks have higher representation of professionals and/or successful entrepreneurs, AKBL's board is relatively constrained in terms of offering strategic guidance to the management.

- During the 1Q08, the board removed the bank's president, though his contractual term was not completed. Mr. M.R. Mehkari has been recently confirmed as the President and Chief Executive of the bank. Mr. Mehkari joined the bank in 1992 and carries 37 years of international and domestic banking experience. The bank's senior management team comprises experienced professionals. AKBL intends to diversify in different dimensions of financial industry. Accordingly, it has recently acquired 74% stake in Askari Securities Limited from AWT. The bank also has a wholly owned asset management company, to tap the growing potential in that segment.