

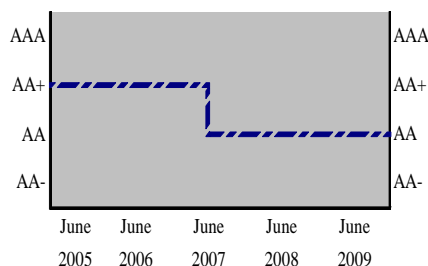
RATINGS (JUNE 2009)

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-

*The ratings are placed on Rating Watch

LT ENTITY RATING – HISTORY



FINANCIAL DATA

PKR (mln)

	Mar09 [^]	Dec08	Dec07
Total Assets	204,571	206,191	182,171
Equity	12,352	12,034	12,099
Net Income	317	386	2,681
ROA %	0.2*	0.2	1.5
Equity/Assets %	6	5.8	6.6
SBP CAR	9.37	9.22	9.35

[^] Based on unaudited results for 3 months ended Mar09

* Non annualized

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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 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.
- In addition to organic growth, management is exploring acquisition of My Bank Limited. In view of this, the ratings of the bank have been placed under *Rating Watch*. With the completion of the acquisition, PACRA will review its ratings taking into account the impact on strategy of AKBL and integration of the two entities. Moreover, the bank has initiated discussions for the proposed merger with Askari Leasing Limited.

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. However, improved core performance could not be translated into the bottom line due to higher provisioning against NPLs and growth in operating expenses as the bank opened 50 new branches during the year. Going forward, the profitability of the bank is expected to remain subdued given pressure in the macroeconomic environment and conservative growth projected in the advances portfolio.
- Rising trend in NPLs which started during 2007 is not subsiding and AKBL’s NPLs as a percentage of gross advances have reached to 9.45% at end-Mar09 (end-08: 8.36%, end-07: 6.38%). 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-Mar09: 6.13%). 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 and proposed acquisition could necessitate the need to inject fresh capital into the bank. In anticipation of these losses, the bank plans to raise Tier-1 and Tier-2 capital to augment its capital structure.

PROFILE

- AKBL, with a branch network of 206 branches (Conventional: 186, Islamic: 18) at end-Mar09, 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%).