

The Pakistan Credit Rating Agency Limited
RATINGS (JULY 2010)
ASKARI BANK LIMITED (AKBL)

RATINGS	NEW	PREVIOUS
ENTITY		
Long Term	AA	AA
Short Term	A1+	A1+
TFCs (Unsecured, subordinated)		
1 st Issue (PKR 1,500mln)	AA-	AA-
2 nd Issue (PKR 1,500mln)	AA-	AA-
3 rd Issue (PKR 3,000mln)	AA-	AA-

FINANCIAL DATA

PKR (mln)

	Mar10 [^]	Dec09	Dec08
Total Assets	268,311	254,327	206,191
Equity	14,149	13,142	12,034
Net Income	328	1,108	386
ROA %	0.5	0.5	0.2
Equity/Assets %	5.3	5.2	5.8
SBP CAR	11.80	11.75	9.22

[^] Based on unaudited results for 3 months ended Mar10

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TFC ISSUES

- Askari Bank issued two unsecured and subordinated TFCs of PKR 1,500mln each in February 2005 and October 2005 for a tenor of 8 years. The profit payments are made semi-annually in arrears, based on 6 month KIBOR plus 150bps. The principal redemption would be in a balloon payment at the maturity of each instrument in February and October 2013.
- The bank issued a third unsecured subordinated TFCs of PKR 3,000mln for a tenor of 10 years in November 2009. The profit payment is made semi-annually in arrears, based on 6-month KIBOR plus 250bps for the first five years after which a profit rate of 6-month KIBOR plus 295bps will be charged for the remaining term. The issue is structured to redeem major amount of principal in four equal semi annual payments after 96 months (i.e. beginning 2017).

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect AKBL's strong parentage and established brand name that help the bank in maintaining its market standing. Although the bank's profitability was relatively constrained due to high provisioning, it maintains an adequate capital base. Nonetheless, adequate collateralization mitigated, to some extent, the impact of residue provisioning drag on equity. The bank has continued its focus to improve asset quality by enhancing recovery efforts and strengthening risk management controls.
- The bank's success in containing material erosion in its asset quality, which may impact its risk absorption capacity, would be critical. Meanwhile, timely and effective implementation of the new core banking system "flexcube" would help in increasing efficiency of operations.

ASSESSMENT

- During 2009, AKBL's deposit base witnessed robust growth (23%) while finances increased only moderately, owing mainly to the bank's cautious lending strategy due to prevailing economic conditions in the country. The bank's fund based exposure is focused towards corporate / commercial sector (70%), with consumer and SME segments representing 13% and 9%, respectively, at end-Dec09. The bank is targeting relatively higher growth in SME segment. However, overall finances mix is expected to remain concentrated in the corporate / commercial sector. AKBL's advances are fairly diversified in various sectors, highest being textile (~18%) followed by chemicals (~5%) and electronic and electrical appliances (4%). Deposit mix remained largely unchanged on YoY basis (Time deposits: 23%, CASA: 77%)
- The banks net interest revenue continued to increase on the back of significant growth in earning assets, supplemented a slight improvement in spreads. Meanwhile, the contribution of other operating income remained adequate, benefiting from the bank's fee-based trade related services. The bank's cost-to-total net revenue further increased mainly on account of significant branch expansion (end-09: 26 branches; end-08: 50 branches) and technology and infrastructure related developments. Meanwhile, comparatively low provisioning expense on account of the FSV benefit – PKR2,814mln, availed by the bank supported the reported profitability.
- During 1Q10, amalgamation of Askari Leasing Limited (ALL) with and into AKBL has taken place. By virtue of it, the bank strengthened its asset base while issuing new shares to ALL's shareholders with a swap ratio of 1:1.83. Meanwhile, during the quarter, the bank managed to limit further deterioration in asset quality in its own book, which helped in sustaining its profitability at adequate level.
- Going forward, AKBL plans to pursue selective finances growth without compromising the risk profile of the bank. In this regard, AKBL would target blue chip companies in identified sectors while strengthening its foothold in short-term self-liquidating trade related business. Furthermore, the bank aims to focus on middle-tier commercial and SME business segments. To further strengthen its deposit mix, the bank would continue to attract low cost deposits benefiting from its established brand image.
- The asset quality of the bank has witnessed deterioration beginning from 2007, with NPLs as a percentage of gross advances rising to 13% at end-Mar10 (end-09: 12%, end-08: 8.4%). The recent rise is attributed to the merger with ALL, which resulted in additional NPLs of PKR 1,731mln. The bank has taken several initiatives to arrest the rising trend in the classified portfolio through escalating recovery efforts and introducing new risk management systems and procedures while improving the credit appraisal and monitoring processes.
- AKBL is in the process of implementing core banking system "Flexcube" and its allied modules including Oracle Financial, Peoplesoft, and Sieble CRM. The complete implementation of the software is expected by end of next year. Effective and timely implementation of the core banking software is critical to mitigate operational risks involved, while boosting efficiency.
- AKBL is currently adequately capitalized. The bank has met its CAR by raising additional tier-2 capital, retained earnings which contributes significantly to CAR. Nonetheless, available room for further growth is expected to remain limited in the absence of fresh equity.
- The NPL coverage ratio of the bank has declined (end-09: 71%; end-08: 94%), mainly due to the FSV benefit availed by the bank. Although potential drag on equity is high with net NPL to equity rising to 39% at end-Dec09, the loans are adequately collateralized limiting significant additional provisioning requirement.

PROFILE

- AKBL, with a branch network of 227 branches at end-Mar'10, 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% at end-Dec09. AWT has business interests across a wide range of sectors.
- AKBL BoD recently inducted various experienced professionals carrying extensive experience in the field of finance, education and IT. 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.