

**The Pakistan Credit Rating Agency Limited**
**RATINGS (JUNE 2011)**
**ASKARI BANK LIMITED (AKBL)**

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

**FINANCIAL DATA**

PKR (mln)

	Mar11 ^	Dec10	Dec09
Total Assets	308,137	314,745	254,327
Equity	15,430	14,821	13,143
Net Income	538	943	1,098
ROA %	0.7	0.3	0.5
Equity/Assets %	5.0	4.7	5.2
SBP CAR	10.4	10.3	11.75

^ Based on unaudited results for 3 months ended Mar11

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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 bullet 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 semiannual payments after 96 months (i.e. beginning 2017).

**RATING RATIONALE AND KEY DRIVERS**

- The ratings reflect AKBL's strong franchise supported by its brand "Askari" and association with Army Welfare Trust. Although the bank experienced sizable infection to its assets quality mainly driven by tough socio-economic environment, also impacting profitability due to high provisioning and suspended income. However, the rising trend has lately been arrested and recovery prospects are sanguine. Askari Bank continues to have strong risk absorption capacity emanating from robust equity base, supplemented by a sound liquidity profile. The ratings recognize established organizational structure and focus of the management on improvement in system and control environment.
- The management's ability to curtail rising trend in NPLs and effectively manage its risk profile while exploring new avenues for credit expansion remains a challenge. At the same time, implementation of technological infrastructure as envisaged would be important to achieve overall operational efficiencies.

**ASSESSMENT**

- During 2010, AKBL's deposit base increased significantly. Deposit mix slightly changed in favor of time deposits. However, finances-to-deposits ratio rationalized in line with relatively lower growth in finances, showing cautious stance of the bank towards credit expansion. Around two-thirds of advances are deployed in corporate / commercial sector with a major share arising from the textile and power sectors, followed by consumer (10%) The bank has portfolio of TFCs and Sukuks representing 9% of total performing finances at end-10. Although the portfolio is well diversified, only a moderate portion (20%) is invested in A- and above rated instruments. The bank has significant non-fund exposure (38% of total assets). However, strong portfolio of liquid assets provides comfort in case of any contingency.
- AKBL's interest revenue grew (24%) on account of high interest rate scenario in general and substantial increase in earning assets mainly driven by government securities in particular. However, spreads squeezed due to higher cost of funds. Other operating income decreased a result of significant decline in income from foreign currency dealings. The cost-to-total net revenue further increased on YoY basis owing to branch expansion mainly during last year, up-gradation of existing network and inflationary factors. Meanwhile, overall provision expense was higher as compared to last year. However, AKBL has reduced the effect of increase in provision by availing FSV benefit and changing the criteria of charging subjective general provision, which is now being charged at 0.1% (2009: 0.5%). During 1Q11 bank earned profit of PKR 538mln; 64% increase on YoY basis. This was mainly attributable to improvement in asset yield and relatively low provisioning requirement.
- Going forward, the bank intends to diversify its revenue stream by concentrating on non-funded facilities, structure finance, and income from capital markets. On lending side, bank focus will be on growing sectors of the economy, which inter-alia include agriculture and power sectors. AKBL intends to cautiously expand its loan book to SME clients with sound collateral and healthy cash flows. For deposit mobilization, the bank plans to increase its market share in deposits, while enhancing low-cost accounts in overall deposit mix, which is expected to result in improved spreads.
- The asset quality of the bank was affected during 2010. This is partly due to merger with Askari Leasing Limited (Contribution in total increase: 40%) and the rest is owing to subdued economic conditions. Major contribution came from textile sector. Meanwhile, advances concentration in top 20 clients increased (2010: 25%, 2009: 22%) though dominated by fundamentally sound sectors, mainly power and energy, oil and gas and public sector borrowings. Although the bank accumulated further NPLs during 1Q2011, the pace has slowed down and management expects to arrest this with significant focus on recoveries.

- AKBL's investment portfolio, with a growth of 74% during 2010, mainly dominated by government securities (97%) while remaining portion consists of investment in equity market and mutual funds. A significant portion of government securities represented investments in MTBs implying low interest rate risk. Meanwhile, owing to lower exposure in stock market, market risk is expected to remain limited.
- The bank is in the process of implementing core banking software, Flexcube. The system has been implemented in 19 branches at end Dec-2010. AKBL plans to implement this system to all branches till end-2012. A data center and a disaster recovery center are in place for uninterrupted banking operations in the event of any disaster.
- AKBL is currently adequately capitalized. However, any unprecedented rise in assets infection may necessitate the need to inject fresh capital (Net NPLs-to-equity- 1Q11: 38%, 10: 40%, 09: 39%).

**PROFILE**

- AKBL, with a branch network of 235 at end-Mar11, commenced its operations in 1992. AKBL is sponsored by the Army Welfare Trust (AWT), which remains the principal shareholder with a holding of 50.6% at end-Dec10. AWT has business interests across a wide range of sectors.
- The overall control of the bank vests in the ten-member Board of Directors. 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.