The Pakistan Credit Rating Agency Limited

Rating Report

Askari Bank Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Jun-2021	AA+	A1+	Stable	Maintain	-
26-Jun-2020	AA+	A1+	Stable	Maintain	-
28-Dec-2019	AA+	A1+	Stable	Maintain	-
28-Jun-2019	AA+	A1+	Stable	Maintain	-
27-Dec-2018	AA+	A1+	Stable	Maintain	-
20-Jun-2018	AA+	A1+	Stable	Maintain	-
29-Dec-2017	AA+	A1+	Stable	Maintain	-
22-Jun-2017	AA+	A1+	Stable	Maintain	-
25-Jun-2016	AA+	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The bank has a strong brand image, flanked by its affiliation with one of the strongest conglomerate, Fauji Foundation Group. This represents strong ownership of the bank. This association has provided fruits in terms of market penetration, customer confidence, sustainable funding sources and avenues for generating mark-up and non mark-up based income stream. Askari Bank has shown stable growth rate over the years as evident by significant increase of 54% in profit after tax in CY20. Volumetric increase in earning assets, led by investments provided support to profitability. CY20 proved to be a very prosperous year for the Bank in terms of both PBT and PAT. The net spread has increased on the back of lower cost of funds. The Bank increased its customer deposits by 16.2% to hold its market share intact at 4.7% (CY19: 4.7%). A noticeable rise is seen in both CA and SA, ultimately boosting CASA by a decent margin. In CY20, AKBL’s gross advances grew by 6.2% YoY and asset quality improved as infection ratio decreased to 6.7% (CY19: 7.1%). The Bank's CAR stood at 15.5% at end-Dec20 where Tier 1 capital enhanced to 12.3%. The Bank has issued tier II TFC of PKR 6bln which has enhanced its capital base, thereby boosting its lending capacity. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. As a result, the banking industry remained protected and in fact posted record profits. Vigilance is required as the loan repayment cycle resumes amid variants of the pandemic continue to re-emerge.

The ratings are dependent upon sustainability of the bank's relative positioning. Equity base of the Bank and CAR are satisfactory and may continually be enhanced. Meanwhile, holding the asset quality is a pre-requisite.

Disclosure

Name of Rated Entity	Askari Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | FI (Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Commercial Bank(Jun-20)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Structure Askari Bank Limited (AKBL), incorporated as a public limited company, commenced operations as a Scheduled Commercial Bank in 1992.

Background The registered office of the Bank is situated at AWT Plaza, the Mall, Rawalpindi and head office is located in Islamabad. The bank has a steady presence in Islamic banking as well. Started in 2006, the bank provides a range of shariah compliant products under its Islamic brand name 'Ikhlas'.

Operations The Bank is a scheduled commercial bank and is principally engaged in the business of banking as defined in the Banking Companies Ordinance, 1962. The Bank, with its head office in Islamabad, operates with a network of 537 branches at end-Dec20 (CY19: 535 branches); 536 in Pakistan and Azad Jammu and Kashmir including 95 (CY19: 94) Islamic Banking branches and 49 (2019: 50) sub-branches and a Wholesale Bank Branch (WBB) in the Kingdom of Bahrain.

Ownership

Ownership Structure Fauji Foundation Group, own 71.9% stake of the Bank. The remaining stake (28.1%) is widely spread among financial institutions, and general public.

Stability Over the years, Fauji Foundation Group has emerged as one of the leading conglomerates of the country with established business interests in numerous sectors and industries.

Business Acumen The Fauji Foundation Group comprising several industrial/commercial projects in various sectors including energy, gas supply, fertilizer, cement, food etc, includes wholly owned as well as partly owned ventures.

Financial Strength Fauji Foundation is one of the leading and most diversified groups in Pakistan. The group has a strong equity and asset base. Over the years the group has stretched its business profile by entering into new industries, providing it diversity; in revenue streams, strong brand image and an increased hands-on knowledge of the various sectors of the economy.

Governance

Board Structure overall control of the Bank vests in the eleven-member Board of Directors (BoD) including the President and CE. Five of the board members are Fauji Foundation nominees; four are independent members, while one represents NIT.

Members' Profile The members carry diversified experience with quality education. Members have experience in Financial Institutions (Banking, AMCs), public sector entities, Oil and Gas, Power, Fertilizer, IT etc. The key competencies have strong business correlation.

Board Effectiveness There are four board committees in place; i) Board Audit Committee, ii) Board Risk Management Committee, iii) Board Human Resource and Remuneration Committee, and iv) Board Information Technology Committee, which help the board in effective oversight of the Bank's overall operations on relevant matters.

Financial Transparency KPMG Taseer Hadi & Co. Chartered Accountants are the external auditors of the bank. The auditors expressed an unqualified opinion on the bank's financial statements for the year ended December 31, 2020.

Management

Organizational Structure The President & CE Mr, Abid Sattar has extensive expertise, both locally and overseas, in the financial services industry.

Management Team The Bank has thirteen management committees in place to oversee its day-to-day operational matters. The committees ensure, that the bank is aligned with its current strategy. Going forward, sustainability and cohesiveness of the team would remain important to continue the growth trend.

Effectiveness AKBL's operations are currently divided in 26 functions, out of which 12 are directly reporting to the President. Chief Internal Auditor reports to the Board Audit Committee.

MIS AKBL has made considerable investment in the IT infrastructure. The bank has implemented Flexcube (developed by Oracle financial services and installed at multiple sites worldwide), as its core banking software. Further, the Bank is in process of implementation of Enterprise Risk Management Solution and Loan Origination System.

Risk Management Framework The Bank has a robust Risk Management Framework driven by the Board Risk Management Committee and managed by Risk Management Group. Risk Management Group is headed by the Chief Risk Officer (CRO), who is overseeing independent functions for management of Credit, Market/Liquidity, Information Security, Policy and Operational Risk.

Business Risk

Industry Dynamics The indicators of the banking sector reflected mixed trend where economy is recovering from the effects of COVID-19 pandemic. Despite challenging economic conditions prevailing in CY20 due to COVID-19 outbreak, the banking sector managed to grow by a decent pace. Deposits of the banking sector grew by 16.1% to PKR 18,519bln (CY19: PKR 15,953bln) as compared to 11.9% growth in CY19. The surge in deposits provided the necessary funding support to finance the robust rise in investments (CY20: PKR 11,935bln; CY19: PKR 8,939bln) and particularly towards government instruments. During CY20, advances witnessed a mild contraction owing to slackness amid COVID-19 pandemic outbreak. The policy measures rolled out by the SBP enabled the sector to enhance profitability, improve resilience and limit the credit risk. With the completion of deferment period allowed, the aftermath is yet to be comprehended by the industry.

Relative Position AKBL, a medium sized bank, holds a customer deposit base of PKR 783.5bln at end-Dec20 (CY19: PKR 674.4bln). The market share of deposits of the bank remained stagnant at 4.7% (CY19: 4.7%).

Revenues During CY20, AKBL's NIMR witnessed an increase of ~36.7% YOY to stand at PKR 30.3bln (CY19: PKR 22.1bln), with Markup income witnessing an increase of ~8% YOY to stand at PKR 77.3bln (CY19: PKR 71.4bln), driven by significant increase in investments in government securities. Markup expenses decreased (CY20: PKR ~47.1bln; CY19: PKR ~49.6bln). Hence, Bank's spread increased to to 4.1% (CY19: 3.7%). During 1QCY21, NIMR increased by ~30% YoY (1QCY21: PKR 7.6bln; 1QCY20: PKR 5.8bln) and spread stood at 3.7%.

Performance During CY20, non-mark-up income increased considerably by 31%, mainly due to realized capital gain of PKR 2,556mln (CY19: PKR 739mln). Non-markup expenses increased by ~10% YoY, to stand at PKR 20.2bln (CY19: PKR 18.4bln). However non-markup expenses to total income decreased to 50.6% (CY19: 62.2%) on account of increased total income. Net profit increased by ~54% and stood at PKR 10.8bln (CY19: PKR 7.0bln). During 1QCY21, bottom line is further strengthened by 46.6% YoY to stand at PKR 2.7bln (1QCY20: PKR 1.9bln).

Sustainability AKBL will continue to focus on growth of core revenues, current accounts and return on assets by optimizing and reallocating assets and resources to their full potential and will pursue acquiring high quality assets while enhancing relationship yields and maintaining an optimal risk profile using technology at its best.

Financial Risk

Credit Risk CY20, AKBL's gross advances registered a growth of ~6.2% YoY to stand at PKR 393bln, mainly financed through deposits. At end-Dec20, 23% of the total portfolio (w.r.t. number of obligors) came under low risk categories of 1-3; 39% exposure falls in medium risk categories (4-6); and 38% falls in high risk category (7-12). ADR decreased and was reported at 50.0% at the year-end 2020 (CY19: 54.9%). During the year, asset quality improved as infection ratio decreased to 6.7% (CY19: 7.1%). During 1QCY21, advances grew to PKR 412.8bln. Infection ratio further decreased to 6.3%.

Market Risk The investment portfolio showed an expansion of 49.3% to PKR 439.9bln during CY20 (CY19: PKR 294.6bln). Government securities continue to dominate the overall investment book (CY20: 97.7%, CY19: 96.7%). Exposure in PIBs increased to 63% (CY19: 45%).

Liquidity And Funding As at end-Dec20, customer deposits increased to PKR 783.5bln (end-Dec19: PKR 674.4bln), up by 16.2%. The bank's liquidity, in terms of Liquid Assets-to-Deposits and Borrowings ratio stands at 57.3% (CY19: 47.7%). Herein, the bank's leverage ratio stood at 5.5%.

Capitalization At end-Dec20, the bank reported CAR of 15.5%, comprising of Tier I capital (12.3%), remaining compliant with the minimum requirement by SBP. During 1QCY21, risk weighted assets increased by ~ 2%, resulting in CAR of 14.5% at end-Mar21.

PKR mln

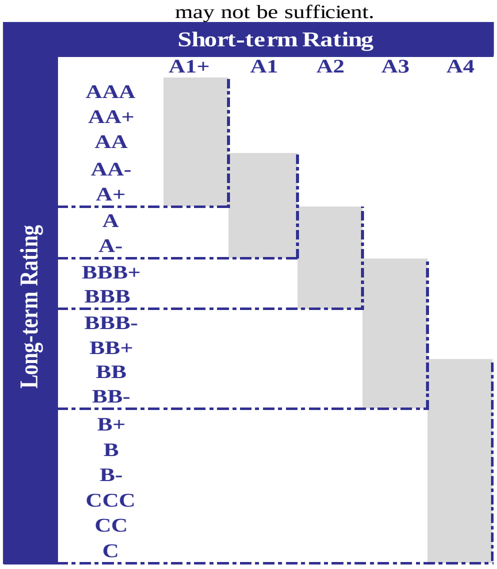
Askari Bank Limited Listed Public Limited	Mar-21 3M	Dec-20 12M	Dec-19 12M	Dec-18 12M
A BALANCE SHEET				
1 Total Finances - net	424,262	404,685	382,834	349,669
2 Investments	440,371	439,944	294,616	254,818
3 Other Earning Assets	10,897	13,019	35,754	10,639
4 Non-Earning Assets	127,957	134,437	119,104	92,552
5 Non-Performing Finances-net	100	432	900	(1,146)
Total Assets	1,003,586	992,517	833,208	706,532
6 Deposits	802,732	791,187	679,299	573,636
7 Borrowings	90,542	96,164	61,180	62,696
8 Other Liabilities (Non-Interest Bearing)	58,760	50,620	50,473	36,691
Total Liabilities	952,034	937,971	790,952	673,023
Equity	51,553	54,546	42,256	33,509
B INCOME STATEMENT				
1 Mark Up Earned	17,062	77,322	71,704	43,670
2 Mark Up Expensed	(9,452)	(47,059)	(49,569)	(25,060)
3 Non Mark Up Income	2,595	9,694	7,404	5,622
Total Income	10,205	39,957	29,540	24,232
4 Non-Mark Up Expenses	(5,883)	(20,215)	(18,377)	(15,892)
5 Provisions/Write offs/Reversals	170	(1,975)	(773)	(1,461)
Pre-Tax Profit	4,492	17,767	10,389	6,879
6 Taxes	(1,750)	(6,967)	(3,372)	(2,448)
Profit After Tax	2,743	10,800	7,017	4,431
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	3.0%	3.3%	2.9%	2.7%
Non-Mark Up Expenses / Total Income	57.6%	50.6%	62.2%	65.6%
ROE	20.7%	22.3%	18.5%	13.4%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	5.1%	5.5%	5.1%	4.7%
Capital Adequacy Ratio	14.5%	15.5%	13.4%	12.5%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	56.4%	57.3%	47.7%	46.6%
(Advances + Net Non-Performing Advances) / Deposits	51.6%	50.0%	54.9%	59.8%
CA Deposits / Deposits	31.0%	31.8%	28.7%	29.6%
SA Deposits / Deposits	56.0%	55.3%	53.4%	55.2%
4 Credit Risk				
Non-Performing Advances / Gross Advances	6.3%	6.7%	7.1%	7.2%
Non-Performing Finances-net / Equity	0.2%	0.8%	2.1%	-3.4%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating	
Scale	**Definition**
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating	
Scale	**Definition**
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information