The Pakistan Credit Rating Agency Limited

ASKARI BANK LIMITED

	NEW [JUNE-16]	PREVIOUS [JUNE-15]
Unlisted, Unsecured TFC (*PKR 1,000mln*)	AA	AA-
Outlook	Stable	Stable

REPORT CONTENTS

JUNE 2016

Profile & Ownership

- Askari Bank Limited, incorporated in Oct-91, is a medium size commercial bank operating with a network of 424 branch at end-Mar16; sizeable increase in CY15
- In May13, Fauji Foundation Group (FF) acquired majority stake (~72%) in the bank, while remaining shareholding is held by various FIs and general public
- FF is one of the leading conglomerates in the country with business interests in energy, fertilizer, cement, food, and oil sectors

Governance & Management

- Post-acquisition of stake in Askari bank, the board was reconstituted. BoD comprises eleven members including the President & the CEO; five directors represent FF, one is NIT nominee, while four are independent members.
- Syed Majeedullah Husaini, President & the CEO, assumed the charge in Jun13. He is a seasoned banker and is supported by an experienced management team. The bank revamped its organogram to bring efficiency

Risk Management

- The bank has established Risk Management Division which complements Credit function along-side overseeing market, and operational risk
- Askari bank is in growth mode. Gross advances registered ~15% increase, mainly financed through deposits; corporate segment dominated the portfolio (67%); exposure to top-3 sectors increased (CY15: 27%) with textile on top
- Advances to Deposit ratio slightly increased (end-CY15: 46%); though remained relatively lower than the banking industry average
- Top-20 private performing clients' concentration improved to 24% (CY14: 26%); need further attention
- The new management, after asset cleansing, has focused on quality lending and recoveries. Hence, despite growth, overall asset quality has improved; yet the infection ratio (end-1QCY16: 13%) is considered high
- Investment portfolio, comprising 54% of total earning assets, remained dominated by government securities (98%) mainly PIBs. Amid prevailing low interest rates, the bank carries sizeable unrealized gains (~PKR 8bln at end-1QCY16) on PIBs portfolio.

Business Risk

- Askari bank's performance has shown consistent improvement post CY13. The bank turned into profits in CY14.
- During CY15, earning assets registered growth. Hence, net interest income registered 25% YoY increase arresting the impact of decline in benchmark rate; spreads were largely maintained (CY15: 3.1%)
- Non-markup income showed significant improvement on account of one-off gains on PIBs book, augmenting revenue base. Resultantly, cost as a %age of total net revenue rationalized (CY15: ~57%, CY14: ~65%)
- Despite significant increase in provisioning expense, healthy revenue base translated in notable profits (PKR 5bln; up ~26%)
- Going forward, management is eyeing to capitalize on CPEC opportunities in collaboration with other banks. To avert pressure on spreads, the bank is focused to mobilize low cost deposit through concerted efforts and expansion of network (target CY16: 500 branches).

Capital and Funding

- Customer deposits grew in line with the industry (11%) to report at PKR 428bln at end-CY15. CASA proportion improved (end-CY15: ~80%) with major contribution from current account (up 19%); high cost deposits shrunk
- The bank managed to improve top-20 depositors' concentration; reduced to 8% as against 27% at endCY14; sustainability remains to be seen
- Liquidity position remained adequate
- The bank though adequately capitalized (CAR 12.5% at end-CY15), Tier-I (8.9%) is considered low. Going forward, the bank intends to adjust dividend payout for capital augmentation

RATING RATIONALE

The ratings reflect AKBL's strong ownership structure whereby Fauji Foundation Group - an established business conglomerate with strong financial muscle - holds majority stake. The bank's standalone profile has significantly improved on the back of (i) healthy growth in low cost deposits wherein added granularity has reduced concentration level significantly, and (ii) volumetric increase in earning assets; loan portfolio augmentation coupled with expansion in treasury operations resulted in sizeable increase in revenues. Hence, the bank managed to report robust profitability ratios compared to past. Meanwhile, the bank has improved its overall risk profile - net accretion to NPLs curtailed supplemented by comfortable liquidity position. The bank maintains adequate level of CAR; however, the management is cognizant of the need of further augmentation in Tier I and has a plan in place for improvement. Going forward, the management is eyeing CPEC as an opportunity to capitalize and build its business through a dedicated China Desk and Representative office in China. This would be supported by extending outreach and on-going focus on generating non-fund income and mobilizing low-cost deposits. Hence, the current performance trend is expected to be maintained.

KEY RATING DRIVERS

The management has ably improved the bank's market penetration while sustaining an acceptable risk profile through strengthened systems and internal controls. Effective management of spreads, amid low interest rates scenario, remains important. Meanwhile, notable improvement in CAR, particularly Tier-I, is expected through profit retention and/or support from sponsors.

TFCs ISSUE

Askari bank has two unsecured, unlisted, and subordinated TFCs in issue. TFC-IV of PKR 1,000mln and TFC-V of PKR 4,000mln were issued in Dec11 and Sep14, respectively.

TFC-IV, issued for a tenor of 10 years carries a profit rate of 6M-K plus 1.75% (Dec11-16) and 6M-K plus 2.2% (Dec16 onwards) payable semi-annually; Principal (99.7%) redemption to commence after Dec19. TFC carries call option, exercisable after Dec16, subject to approval from SBP

Askari Bank Limited

PKR mln

BALANCE SHEET	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
Earning Assets				
Advances (Net of NPL)	206,330	196,929	167,471	159,051
Debt Instruments	3,961	4,022	3,052	4,030
Total Finances	210,292	200,952	170,523	163,081
Investments	270,075	264,529	214,426	161,877
Others	17,136	13,360	14,914	15,582
	497,502	**478,840**	**399,862**	**340,540**
Non Earning Assets				
Non-Earning Cash	21,530	25,434	14,712	22,084
Deferred Tax	-	-	875	2,977
Net Non-Performing Finances	1,810	2,471	2,997	4,461
Fixed Assets & Others	27,197	29,121	28,636	24,765
	50,536	**57,026**	**47,220**	**54,287**
TOTAL ASSETS	**548,038**	**535,867**	**447,083**	**394,827**
Interest Bearing Liabilities				
Deposits	448,810	433,172	387,587	335,241
Borrowings	52,333	62,320	21,735	28,540
	501,143	495,492	409,321	363,781
Non Interest Bearing Liabilities	16,320	13,522	14,054	12,317
TOTAL LIABILITIES	**517,462**	**509,014**	**423,375**	**376,099**
EQUITY (including revaluation surplus)	**30,576**	**26,853**	**23,707**	**18,729**
Total Liabilities & Equity	**548,038**	**535,867**	**447,083**	**394,827**

INCOME STATEMENT	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
	1QCY16	Annual	Annual	Annual
Interest / Mark up Earned	8,404	36,592	34,604	27,961
Interest / Mark up Expensed	(4,839)	(21,690)	(22,711)	(19,363)
Net Interest / Markup revenue	**3,565**	**14,902**	**11,893**	**8,597**
Other Income	1,597	6,690	5,434	3,598
Total Revenue	**5,162**	**21,591**	**17,328**	**12,196**
Non-Interest / Non-Mark up Expensed	(3,273)	(12,281)	(11,224)	(9,533)
Pre-provision operating profit	1,889	9,311	6,103	2,663
Provisions	(8)	(879)	(322)	(11,103)
Pre-tax profit	1,882	8,432	5,781	(8,441)
Taxes	(659)	(3,388)	(1,766)	2,961
Net Income	**1,223**	**5,043**	**4,015**	**(5,480)**

Ratio Analysis	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
Performance				
ROE	21.8%	24.5%	22.4%	-32.1%
Cost-to-Total Net Revenue	63.4%	56.9%	64.8%	78.2%
Provision Expense / Pre Provision Profit	0.4%	9.4%	5.3%	417.0%
Capital Adequacy				
Equity/Total Assets	4.2%	4.1%	4.3%	4.2%
Capital Adequacy Ratio as per SBP	12.4%	12.5%	13.0%	10.4%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	58.2%	57.4%	59.4%	52.9%
Advances / Deposits	46.5%	46.2%	44.0%	48.8%
CASA deposits / Total Customer Deposits	77.0%	79.6%	76.4%	74.8%
Intermediation Efficiency				
Asset Yield	6.9%	8.4%	9.4%	8.8%
Cost of Funds	3.9%	4.8%	5.9%	5.6%
Spread	3.0%	3.6%	3.5%	3.2%
Outreach				
Branches	424	424	321	281

The Pakistan Credit Rating Agency Limited

STANDARD RATING SCALE & DEFINITIONS

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 Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
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-	**Speculative.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**Highly speculative.** Significant 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	**High default 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 Ratings

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 conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Regulatory and Supplementary Disclosure

Rated Entity

Name of Issuer	Askari Bank Limited
Name of Issue	Askari Bank Limited | TFC
Sector	Banking
Type of Relationship	Solicited

Purpose of the Rating

Regulatory Requirement
Independent Risk Assessment

Rating History

Dissemination Date	TFC	Rating Action
25-Jun-16	AA	Upgrade
30-Jun-15	AA-	Maintain
30-Jun-14	AA-	Maintain
5-Jul-13	AA-	Maintain
14-Jun-12	AA-	Maintain
3-Jan-12	AA-	Initial

Instrument Details

Nature of Instrument	Size of Issue	Tenor	Trustee	Security
TFC (Sub-ordianted, Unlsited)	PKR 1,000mln	10 years	Pak Brunei Investment Company Limited	Unsecured

Amortization Schedule: See Annexure A

Related Criteria and Research

Specific Methodology: Banks Methdology [2005]
Research: Banking Sector Review -2014

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Rating Team Statement

Rating is an opinion on relative creditworthiness of an entity or debt instrument. It does not contitute recommendation to buy, hold or sell any security. The rating team for this assignment do not have any beneficial interest, direct or indirect in the rated entity/instrument.

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PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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Prohibition

Probability of Default (PD)

PACRA's Rating Scale reflects the expectation of credit risk. The highest rating have 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.

Regulatory and Supplementary Disclosure
Annexure A

Loan Amount (PKR)	1,000,000,000	
Tenor (Years)	10 years	
Rate	6MK + 1.75%	(Dec11-16)
	6MK + 2.20%	(Dec19-21)

PKR mln

Installment	Post Issuance	Principal	Mark Up	Total Installment	Outstanding
	Dec-11				1,000
1	Jun-12	0.2	69	69	1,000
2	Dec-12	0.2	69	69	1,000
3	Jun-13	0.2	56	56	999
4	Dec-13	0.2	56	56	999
5	Jun-14	0.2	60	60	999
6	Dec-14	0.2	60	60	999
7	Jun-15	0.2	57	57	999
8	Dec-15	0.2	57	57	998
9	Jun-16	0.2	41	41	998
10	Dec-16	0.2	44	44	998
11	Jun-17	0.2	46	46	998
12	Dec-17	0.2	46	46	998
13	Jun-18	0.2	46	46	997
14	Dec-18	0.2	46	46	997
15	Jun-19	0.2	46	46	997
16	Dec-19	0.2	46	46	997
17	Jun-20	249.2	46	295	748
18	Dec-20	249.2	46	295	498
19	Jun-21	249.2	34	284	249
20	Dec-21	249.2	31	280	0

Call option exercisable date