RATING REPORT

Askari Bank Limited

REPORT DATE:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AA	A-1+	AA	A-1+
TFC-4	AA-		AA-	
TFC-5	AA-		AA-	
Rating Outlook	Positive		Positive	
Rating Date	*June 30, '15*		*February 18, '15*	

COMPANY INFORMATION

Incorporated in 1991	External auditors: **M/s A.F. Ferguson & Co.**
Public Limited Company	Chairman of the Board: **Lt. Gen Khalid Nawaz Khan (Retd.)**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Syed M. Husaini**
Fauji Foundation – 7.19%	
Fauji Fertilizer Company Limited – 43.15%	
Fauji Fertilizer Bin Qasim Limited – 21.57%	

APPLICABLE METHODOLOGY(IES)

PRIMER - Commercial Banks (December 2001): http://jcrvis.com.pk/images/primercb.pdf
Rating the Issue (Sept 2014): http://www.jcrvis.com.pk/Images/criteria_instrument.pdf
Governing Linkages between Parent and Subsidiary Companies (Jan 2015):
http://www.jcrvis.com.pk/Images/criteria_parent.pdf

Askari Bank Limited

OVERVIEW OF THE INSTITUTION

AKBL was incorporated in 1991. Fauji Consortium is the major shareholder of the bank. At end-1Q15, the bank was operating through a network of 320 branches across Pakistan and 1 wholesale banking branch in Bahrain.

RATING RATIONALE

The ratings assigned to Askari Bank Limited (AKBL) take into account the strong financial profile of the principal shareholder, Fauji Foundation Group (FFG) and the support extended to AKBL post acquisition. FFG is one of the largest business conglomerates in Pakistan with strong presence in various sectors of the economy. Corporate governance infrastructure of the bank is considered satisfactory. A number of positive changes have been witnessed at the senior management level during 2014 and subsequently. New inductions comprised experienced personnel. Stability in the same will be tested overtime.

Capitalization of the bank has improved on a timeline basis as reflected in an increase in Capital Adequacy Ratio (CAR), achieved both on account of profit retention and issuance of additional Basel III compliant tier-2 debt instrument. However, CET1 to risk weighted assets of 8.69% remains lower than peer group median of 10.25% while net NPLs in relation to tier-1 capital of 18.2% is higher than peer group median of 15.1%. Enhanced retention may be required to increase Tier-1 capital, particularly to support growth as regulatory requirements increase with the onset of Basel 3.

During 2014, AKBL pursued a selective disbursement strategy towards high credit quality clients, along with a steady accumulation of exposure to the sovereign. At end-14, exposure to the sovereign via advances and investments accounted for 61% (2013: 55%) of the asset base. Anticipated interest rate cuts triggered an industry wide accumulation of fixed rate PIBs. By end-14, the banks investment in PIBs increased by more than three folds. With continuous decline in discount rate, this has resulted in substantial unrealized gains for the bank. Going forward, the bank is interested in exploring growth opportunities in government related infrastructure projects and potential opportunities arising from Pak-China economic corridor. A conservative lending stance will be carried forward with respect to SME & commercial portfolios.

During the outgoing year, the bank took measures to curtail cost of funding. The call option on relatively costly TFC-3 was exercised, with some costly deposits also being off-loaded by end-14. While cost of deposits of 5.9% for 2014 was slightly higher than peer group, the management expects the measures taken to have a favorable impact on the same as depicted by a 26% growth in non-remunerative current deposits in 2014. Continued expansion in footprint may facilitate the bank in improving its deposit mix and reducing deposit concentration.

Core earnings have depicted notable improvement in 2014 while bottom line has also posted complete turnaround. Profitability of AKBL is expected to remain healthy for 2015 and 2016. However, the bank may face redeployment challenges for funds from maturing PIBs if low interest rate scenario persists.

Askari Bank Limited **Appendix III**

FINANCIAL SUMMARY

(amounts in PKR billions)

BALANCE SHEET	31-Dec-12	31-Dec-13	31-Dec-14
Total Investments	145.4	165.9	217.2
Advances	143.7	163.6	170.5
Total Assets	353.0	394.8	447.1
Borrowings	8.4	24.5	13.7
Deposits & other accounts	306.9	335.2	387.6
Subordinated Loans	7.0	4.0	8.0
Tier-1 Equity	17.6	16.6	19.3
Net Worth	19.6	18.7	23.7

INCOME STATEMENT	31-Dec-12	31-Dec-13	31-Dec-14
Net Mark-up Income	9.4	8.6	11.9
Net Provisioning	2.7	11.1	0.3
Non-Markup Income	4.1	3.6	5.3
Operating Expenses	9.1	9.5	11.1
Profit Before Tax	1.7	-8.4	5.8
Profit After Tax	1.3	-5.5	4.0

RATIO ANALYSIS	31-Dec-12	31-Dec-13	31-Dec-14
Market Share (Advances) (%)	4.2%	4.7%	4.5%
Market Share (Deposits) (%)	4.6%	4.5%	4.6%
Gross Infection (%)	16.3%	17.2%	15.8%
Provisioning Coverage (%)	70.9%	85.4%	88.6%
Net Infection (%)	5.4%	3.0%	2.1%
Cost of deposits (%)	6.4%	5.6%	5.9%
Net NPLs to Tier-1 Capital (%)	43.2%	28.5%	18.2%
Capital Adequacy Ratio (C.A.R (%))	11.8%	10.4%	13.0%
Markup Spreads (%)	3.9%	2.8%	3.2%
Efficiency (%)	72.2%	86.7%	74.6%
Basic ROAA (%)	0.5%	-2.3%	1.4%
ROAA (%)	0.4%	-1.5%	1.0%
ROAE (%)	6.8%	-28.6%	18.9%
Liquid Assets to Deposits & Borrowings (%)	58%	54%	60%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix IV

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix V

Name of Rated Entity	Askari Bank Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity & TFC Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
30-Jun-15	AA	A-1+	Positive	Reaffirmed
18-Feb-15	AA	A-1+	Positive	Reaffirmed
08-Jul-14	AA	A-1+	Stable	Initial
		RATING TYPE: TFC-4		
30-Jun-15	AA-		Positive	Maintained
18-Feb-15	AA-		Positive	Maintained
9-Sept-14	AA-		Stable	Initial
		RATING TYPE: TFC-5		
30-Jun-15	AA-		Positive	Maintained
18-Feb-15	AA-		Positive	Maintained
9-Oct-14	AA-		Stable	Final
23-Sept-14	AA-		Stable	Preliminary

Instrument Structure

TFC-4 of Rs. 1b was issued in 2011, with a ten year term, repayable almost entirely in the last year in two equal semi-annual installments. The instrument is set to mature on December 23, 2021 and carries profit rate of average 6M KIBOR + 175 bps in the first 5 years, with the spread to be enhanced to 220 bps in the subsequent 5 years. The TFC is an unsecured, privately placed, subordinated debt obligation, which has a call option that is exercisable after the first 5 years, subject to approval of SBP.

TFC-V of Rs. 4b was issued in 2014, with a ten year term, repayable almost entirely in the last year in two equal semi-annual installments. The instrument is set to mature on September 30, 2024 and carries coupon rate of average 6M KIBOR + 120bps. The TFC is an unlisted, privately placed subordinated debt obligation, which is convertible to common equity Tier-1, subject to approval by SBP. The instrument also has a call option which is exercisable after 5 years of issuance, subject to approval by SBP.

Statement by the Rating Team

JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.

Probability of Default

JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.

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