RATING REPORT

Askari Bank Limited

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	AA	A-1+	AA	A-1+
TFC-4	AA-		AA-	
TFC-5	AA-		AA-	
Rating Outlook	Positive		Positive	
Rating Date	*June 29, '16*		*June 30, '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 Sitara-i-Esar (Retd.)**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Syed M. Husaini**
Fauji Fertilizer Company Limited – 43.15%	
Fauji Fertilizer Bin Qasim Limited – 21.57%	
Fauji Foundation – 7.19%	

APPLICABLE METHODOLOGY(IES)

Commercial Banks Methodology - November 2015
http://www.jcrvis.com.pk/Images/Meth-CommercialBanks201511.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. The parent company of the Bank is Fauji Foundation which collectively owns 71.91% shares in the Bank. At end-1Q16, the Bank has 424 branches including 75 Islamic banking branches, 32 sub-branches and a wholesale bank branch in Kingdom of Bahrain

RATING RATIONALE

The rating assigned to Askari Bank Limited (AKBL) take into account its association with Fauji Foundation, a large conglomerate operating across diversified sectors of the country. Pursuing an aggressive branch expansion plan, the bank added 103 new branches during 2015, including 25 Islamic banking branches while another 77 new branches are targeted to be added during the ongoing year taking the total branches to above 500 locations. Execution of branch expansion plan may impact the positive momentum in profitability in the medium term. To protect profitability in low interest rate regime, the bank plans to increase financing in high yielding assets and pursue aggressive growth in low cost deposits. Moreover, profitability may get impetus from provisioning reversal incase of already classified accounts.

Advances: Inline with banking sector trends, AKBL's asset deployment strategy remained conservative with focus on maintaining credit quality of the advances portfolio. Within corporate portfolio, focus remained on mid tier corporate customers to manage overall yields on the portfolio. With the announcement of CPEC projects, lending activities are expected to gain momentum to finance Chinese investment in the country. Going forward, the management plans to increase the proportion of high yielding advances portfolio including consumer to mitigate the impact of declining yields. In view of this, consumer sales structure has been revamped. Asset quality indicators have exhibited improvement in line with growth in lending portfolio.

Investments: Overall risk profile of the investment portfolio remained conservative with over 95% of the portfolio comprising exposure to the sovereign; the same is exposed to interest rate risk. Exposure to listed equities stood at almost 11% of the bank's own equity base; the associated risk is considered manageable given the composition of the portfolio.

Liquidity: The overall liquidity profile of the bank remains strong underpinned by largely maintained liquid assets in relation to total deposits and borrowings, improved granularity of deposits and higher share of CASA in deposit base. Liquid assets in relation to total deposits and borrowings (repo adjusted) were reported at 59% (FY14: 61%) at end-FY15.

Profitability: Core earnings of AKBL increased by 43% during FY15 and amounted to Rs. 4.9b (FY14: Rs. 3.4b) primarily on account of volumetric growth in earning assets. The decline in cost of funds positively reflected on the spreads which increased to 3.1% (FY14: 2.8%). Share of recurring income in non-markup income has declined on a year-on-year basis. Administrative expenses of the bank increased by 9% on account of increase in staff strength and annual salary adjustments.

Capitalization: Capitalization indicators of the bank were largely sustained with Capital Adequacy Ratio reported at 12.5% at end-FY15 (FY14: 13.0%). Net NPLs to Tier-1 capital improved on a timeline basis however they continue to be higher in comparison to most of the peer banks. Bank's Tier-1 Capital to RWA is lowest amongst peer commercial banks. Moreover, leverage ratio is also low at 2.6% at end-FY15 (FY14: 2.8%). Increase in tier-1 equity may be warranted to ease pressure on capitalization indicators as regulatory requirements tighten. Moreover, higher profit retention will assist the bank in facilitation of future growth in advances portfolio as PIBs and interest rate scenario reverses.

Management: Overall senior management team depicted stability. As per the revised organogram, number of groups/division reporting directly to the President/Chief Executive was reduced.

Askari Bank Limited **Appendix III**

FINANCIAL SUMMARY *(amounts in PKR billions)*

BALANCE SHEET	**31-Mar-16**	**31-Dec-15**	**31-Dec-14**
Total Investments	273.4	268.0	217.2
Advances	208.8	199.9	170.7
Total Assets	548.0	535.9	447.1
Borrowings	47.3	57.3	13.7
Deposits & other accounts	448.8	433.2	387.6
Subordinated Loans	5.0	5.0	8.0
Tier-1 Equity	23.0	21.8	19.3
Net Worth	30.6	26.9	23.7
INCOME STATEMENT	**31-Mar-16**	**31-Dec-15**	**31-Dec-14**
Net Mark-up Income	3.6	14.9	11.9
Net Provisioning	0.008	0.9	0.3
Non-Markup Income	1.6	6.7	5.4
Operating Expenses	3.2	12.0	11.1
Profit Before Tax	1.9	8.4	5.8
Profit After Tax	1.2	5.0	4.0
RATIO ANALYSIS	**31-Mar-16**	**31-Dec-15**	**31-Dec-14**
Market Share (Advances) (%)	4.9%	4.8%	4.5%
Market Share (Deposits) (%)	4.7%	4.5%	4.2%
Gross Infection (%)	13.0%	13.8%	15.8%
Provisioning Coverage (%)	90.6%	89.1%	88.6%
Net Infection (%)	1.4%	1.7%	2.1%
Cost of deposits (%)	-	4.3%	5.2%
Net NPLs to Tier-1 Capital (%)	12.6%	15.7%	18.5%
Capital Adequacy Ratio (%)	12.4%	12.5%	13.0%
Markup Spreads (%)	-	3.1%	2.8%
Efficiency (%)	76.1%	67.6%	74.8%
ROAA (%)	0.2%	1.0%	1.0%
ROAE (%)	4.3%	19.9%	19.1%
Liquid Assets to Deposits & Borrowings –repo adjusted (%)	-	58.5%	61.1%

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 & Instrument Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
29-Jun-16	AA	A-1+	Positive	Reaffirmed
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		
29-Jun-16	AA-		Positive	Reaffirmed
30-Jun-15	AA-		Positive	Reaffirmed
18-Feb-15	AA-		Positive	Maintained
9-Sept-14	AA-		Stable	Initial
		RATING TYPE: TFC-5		
29-Jun-16	AA-		Positive	Reaffirmed
30-Jun-15	AA-		Positive	Reaffirmed
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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