Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

RATING REPORT

Askari Bank Limited

REPORT DATE:
June 30, 2017

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
TFC-4	AA-		AA-	
TFC-5	AA-		AA-	
Rating Outlook	Stable		Positive	
Rating Date	*June 30, '17*		*June 29, '16*	

COMPANY INFORMATION

Incorporated in 1991	External auditors: **M/s A.F. Ferguson & Co., Chartered Accountants**
Public Limited Company	Chairman of the Board: **Lt. Gen Khalid Nawaz Khan, HI (M), 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://jcrvis.com.pk/kc-meth.aspx*
Rating the Issue (June 2016): *http://jcrvis.com.pk/kc-meth.aspx*
Governing Linkages between Parent and Subsidiary Companies (Jan 2015): *http://jcrvis.com.pk/kc-meth.aspx*

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-FY16, the Bank has 501 branches including 94 Islamic banking branches and a wholesale bank branch in Kingdom of Bahrain.

Profile of Chairman

Lt Gen Khalid Nawaz Khan, HI (M) Sitara-i-Esar (Retd) became the Chairman of AKBL in January, 2015. He is a graduate of Armed Forces War College and Command & General Staff College, USA. He also holds a Masters Degree in War Studies, Art and Science of Warfare and General Studies.

Profile of President & CE

Syed M. Husaini joined the Bank as President & Chief Executive on June 03, 2013. He is a seasoned banker with over 30 years of domestic and international banking experience.

Financial Snapshot:

Net equity: FY16 – Rs.32.6b, FY15- Rs.26.9b

Net profit: FY16 – Rs. 5.2b; FY15: Rs. 5.0b

RATING RATIONALE

The ratings assigned to Askari Bank Limited (AKBL) incorporate association with its primary shareholder, Fauji Foundation, a large conglomerate operating across diversified sectors of the country. As per plan, the bank added 77 new branches including 16 Islamic branches, taking total branches to above 500 in number. Execution of branch expansion has a drag on profitability. Going forward, the bank plans to consolidate its existing network in order to rationalize its cost structure. Moreover, the bank intends to increase financing in high yielding assets, pursue low cost deposits while maximizing recovery of classified portfolio.

Advances: The bank's asset deployment strategy has remained conservative with focus on maintaining credit quality of the advances portfolio. Gross advances portfolio increased on a timeline basis. Asset quality indicators also exhibited improvement in line with reduction in classified book and higher loan portfolio. In recent years, lending to the corporate sector has remained the primary focus of the bank. However, lending to mid-tier corporates and consumer financing is expected to increase in an effort to alleviate pressure on spreads.

Investments: Overall risk profile of the investment portfolio remained conservative with over 95% of the portfolio comprising exposure to sovereign; however, the same is exposed to interest rate risk. Overall exposure of the bank in listed equities stood at almost 14% of the bank's own equity base; the bank maintains relatively low capital buffer in an event of any adverse fluctuation in stock market. During FY16, the Board approved disposal of Askari Investment Management Limited and Askari Securities Limited - subsidiaries of the bank.

Liquidity: Overall liquidity profile of the bank remained adequate underpinned by largely maintained liquid assets in relation to total deposits and borrowings and higher share of CASA in deposit mix. However, deposit concentration increased on a timeline basis.

Profitability: Core earnings of AKBL declined primarily on account of higher operating expenses during FY16. Despite lower cost of funds, spreads witnessed a decline on account lower benchmark rates. Non-markup income increased on the back of higher fee based income and capital gains. This along with reversal in provision charge during FY16 resulted in modestly higher net profit (FY16: Rs. 5.2b; Rs: Rs. 5.0b) of the bank.

Capitalization: Overall Capital Adequacy Ratio (CAR) remained stable at 12.4% (FY16: 12.5%; FY15: 12.5%) by end-1QFY17. The bank's Tier-1 capital to risk weighted assets along with leverage ratio has remained relatively low. Given prevailing regulatory requirements and plans to gradually explore relatively riskier avenues, the bank may need strengthen its tier-I equity, going forward

Management: Overall stability at the senior management level has transpired into effective implementation of the business strategy for the bank.

Askari Bank Limited — Annexure I

FINANCIAL SUMMARY *(amounts in PKR billions)*

BALANCE SHEET	**31-Mar-17**	**31-Dec-16**	**31-Dec-15**
Total Investments	283.2	295.8	268.0
Advances- (net)	241.6	235.2	199.9
Total Assets	598.1	619.1	535.9
Borrowings	66.0	89.3	57.3
Deposits & other accounts	473.5	472.8	433.2
Subordinated Loans	5.0	5.0	5.0
Tier-1 Equity	24.7	25.4	21.8
Net Worth	32.4	32.6	26.9
INCOME STATEMENT	**31-Mar-17**	**31-Dec-16**	**31-Dec-15**
Net Mark-up Income	3.8	15.0	14.9
Net Provisioning/(Reversal)	(0.4)	(0.7)	0.9
Non-Markup Income	1.3	7.1	6.7
Operating Expenses	3.6	14.3	12.3
Profit Before Tax	1.9	8.5	8.4
Profit After Tax	1.2	5.2	5.0
RATIO ANALYSIS	**31-Mar-17**	**31-Dec-16**	**31-Dec-15**
Market Share (Advances) (%)	-	4.7%	4.7%
Market Share (Deposits) (%)	-	4.2%	4.5%
Gross Infection (%)	10.5%	10.9%	13.8%
Provisioning Coverage (%)	91.9%	92.4%	89.1%
Net Infection (%)	0.9%	0.9%	1.7%
Cost of deposits (%)	-	3.7%	4.6%
Net NPLs to Tier-1 Capital (%)	9.2%	8.6%	15.7%
Capital Adequacy Ratio (%)	12.4%	12.5%	12.5%
Markup Spreads (%)	-	2.4%	2.8%
Efficiency (%)	78.9%	77.7%	67.5%
ROAA (%)	0.8%	0.9%	1.0%
ROAE (%)	15.5%	17.5%	19.8%
Liquid Assets to Deposits & Borrowings –repo adjusted (%)	-	56.4%	58.5%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure II

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	Annexure III
Name of Rated Entity	Askari Bank Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity& Instrument Rating
Rating History	see table below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: TFC-4		
30-Jun-17	AA-		Stable	Maintained
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		
30-Jun-17	AA-		Stable	Maintained
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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