Askari Bank Limited

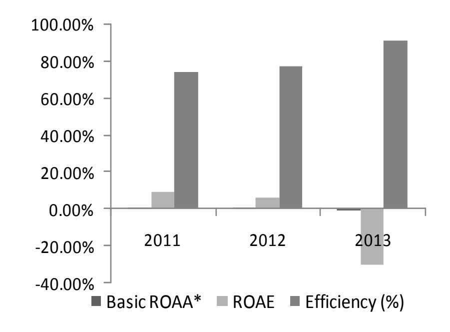
Chairman: Lt. Gen. (Retd.) Muhammad Mustafa Khan;
President and CEO: Syed Majeedullah Husaini

July 14, 2014

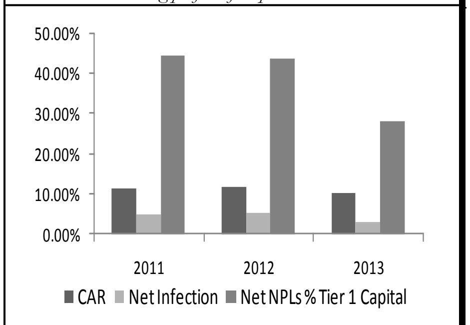
Analyst: Maimoon Rasheed
Syed Adil Hussain

Category	Latest	Previous
Entity	AA/A-1+ *Jul 7,'14*	-
Outlook	Stable *Jul 7,'14*	-

Key Financial Trends



** based on recurring profit before provision and taxation*



	2011	2012	2013
Net Advances (Rs. in b)	150.7	143.7	163.6
Deposits (Rs.in b)	291.5	306.9	335.2
Deposit Cost (%)	6.9	6.4	5.3
Profit / (Loss) (Rs.in m)	1,628	1,263	(5,480)
Equity (Rs. in b)	17.7	19.6	18.7
CAR (%)	11.35	11.81	10.39
Liquid Assets % Deposits & Borrowings – adjusted for repo	52.4	58	54
Net Infection (%)	4.87	5.36	2.95

Rating Rationale

The ratings of Askari Bank Limited (AKBL) take into account implicit support from its principal shareholder, Fauji Foundation Group (FFG). Since the bank's acquisition, the group has demonstrated its capacity and willingness to support AKBL through equity injection. FFG is one of the largest business conglomerates in Pakistan with well diversified and strong presence in various sectors of the economy. Moreover, entities operating under the umbrella of FFG largely have robust financial profile.

Following the change in shareholding, there was a change at the top management position. Over the years, risk profile of the institution had witnessed deterioration. The bank's relative positioning among peers had also weakened on a timeline basis. The incumbent President has taken various initiatives to strengthen financial profile of the bank. These include cleansing of balance sheet by making substantial provisions to cover prior losses and enhancement of recovery efforts by revitalizing Special Asset Management division. A well rounded strategy on the business front is also being rolled out which entails penetration in reputable corporate groups/entities with clean repayment history; to enhance bank's fee based income, the management intends to tap commercial clientele in trade related activities. Meanwhile, the bank is also venturing into public infrastructural projects. In order to ensure that credit risk remains within the bank's defined appetite, the risk management framework has also been strengthened, including revamp of the Obligor Risk Rating model. These initiatives while enhancing core profitability are expected to keep asset quality under check. Stability in top management and the new board of directors is considered pivotal in effective implementation of the bank's long-term strategy.

With limited network expansion over the years, the bank's market share in deposits has witnessed a declining trend. The new management plans to enhance the bank's footprint, with 431 branches targeted by end 2016 relative to 281 at end FY13. Although deposit profile features relatively high concentration, deposits related to armed forces maintained with the bank have remained stable which somewhat mitigates concentration related risk. Recently, the management has shed some high cost deposits, which has enabled the bank to improve proportion of CASA in 1Q14. AKBL, in line with peers, has also been able to achieve reduction in cost of deposits in FY13.

The bank's investment portfolio is mainly concentrated in T-bills. The PIBs portfolio is close to one fifth of aggregate investments that poses interest rate risk; decline in portfolio duration has reduced the bank's exposure to interest rate risk on a timeline basis. Given the interest rate volatility in the market, this may be considered a prudent strategy. The management's strategy regarding equity portfolio entails investment in high volume stocks using a target price selling discipline. The listed equity portfolio largely comprised dividend yielding scrips with strong fundamentals. Income from capital market operations has supported the bank's bottom line.

Reported non-performing loans peaked at end June 2013; there has been some decline subsequently. As part of the balance sheet cleansing exercise, provisioning coverage was enhanced during the outgoing year, which resulted in a sizeable loss while core earnings also came under significant pressure. Despite a loss of Rs. 5.5b incurred in FY13, the erosion in equity was contained as the new sponsors injected fresh capital to the tune of Rs. 4.5b in the bank.

The strategic initiatives taken by the new management are likely to enable the bank to maintain current level of capital adequacy ratio (CAR) through internal capital generation while allowing the bank to undertake a measured pace of growth. However, further meaningful capital injection from the primary sponsor will help in realizing the growth targets laid down by the bank, providing impetus to earnings stream and enhancing the risk absorption capacity.

Overview of the Institution

AKBL, a scheduled bank, was incorporated in October 1991 as a Public Limited Company and commenced operations in April 1992. The bank is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The collective shareholding of FFG in the bank was 71.9% at end-Dec'13. Financial statements for FY13 were audited by KPMG Taseer Hadi & Co. Chartered Accountants who have been reappointed as external auditors for FY14. JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: ENTITY		
07-Aug-14	AA	Stable	A-1+	Initial
		RATING TYPE: TFC-5		
09-Oct-14	AA-	Stable		Final
		RATING TYPE: TFC		
23-Sep-14	AA+	Stable		Preliminary
		RATING TYPE: TFC-4		
09-Sep-14	AA-	Stable		Initial