RATING REPORT

Askari Bank Limited

REPORT DATE:
July 05, 2019

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-V	AA-		AA-	
Rating Outlook	Stable		Stable	
Rating Date	*June 26, '19*		*June 29, '18*	

COMPANY INFORMATION

Incorporated in 1991	External auditors: **M/s A.F. Ferguson & Co., Chartered Accountants**
Public Limited Company	Chairman of the Board: **Lt. Gen Syed Tariq Nadeem Gilani HI (M)(Retd)**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Mr. Abid Sattar**
Fauji Fertilizer Company Limited – 43.15%	
Fauji Fertilizer Bin Qasim Limited – 21.57%	
Fauji Foundation – 7.19%	

APPLICABLE METHODOLOGY(IES)

Commercial Banks Methodology (March 2018)-https://www.vis.com.pk/kc-meth.aspx
Notching the Issue (June 2016): https://www.vis.com.pk/kc-meth.aspx
Governing Linkages between Parent and Subsidiary Companies (June 2017): https://www.vis.com.pk/kc-meth.aspx

Askari Bank Limited

OVERVIEW OF THE INSTITUTION

AKBL was incorporated in 1991. The parent entity of the Bank is Fauji Foundation which collectively owns 71.91% shares in the Bank. At end-FY18, the Bank has 516 branches including 91 Islamic banking branches and a wholesale bank branch in Kingdom of Bahrain.

Profile of Chairman

Lt. Gen Syed Tariq Nadeem Gilani HI (M) (Retd) became the Chairman of AKBL. He retired from armed forces in October 2015. He holds Masters degrees in War Studies from Quaid-I-Azam University, Islamabad and Strategic Studies from US Army War College, USA

Profile of CEO

Mr. Abid Sattar was appointed by the Board of Directors as President & Chief Executive of Askari Bank Limited in June'2018 He is a seasoned banker with more than 35 years of domestic and international banking experience.

Financial Snapshot

Total assets: FY18 – Rs. 707b; FY17– Rs. 657b; FY16 – Rs. 619b

Total equity: FY18 – Rs. 34.0b; FY17 – Rs. 32.4b, FY16 – Rs. 32.6b

Net profit: FY18 – Rs. 4.4b; FY17 – Rs. 5.3b; FY16: Rs. 5.2b

RATING RATIONALE

The ratings assigned to Askari Bank Limited (AKBL) incorporate association with its primary shareholder, Fauji Foundation Group, a diversified conglomerate with strong financial muscle and presence in various sectors of the country. Operating as a mid-tier bank in Pakistan, AKBL enjoys a moderate footprint with a market share of 4.2% and 4.6% in domestic deposits and advances respectively. The ratings also derive strength from continuous improvement in asset quality, efficient cost of funds, effective management of spreads and satisfactory capitalization. Moreover, the ratings draw comfort from moderate financial risk profile of the institution supported by sound liquidity indicators.

Given concentration in advances to private sector, asset quality indicators remain sound: The bank maintained a cautious advances growth strategy in order to conserve credit quality of loan book. Around two-thirds of the advances book comprised financing to private sector while the remaining were related to public sector entities. The loan growth strategy majorly entailed acquiring high quality assets while enhancing relationship yields and maintaining an efficient and optimal profile of risk weighted assets. Corporate and Commercial portfolio remained the main driver towards credit expansion constituting around 73% of the advances book; meanwhile, high yielding consumer segment supported the topline of the bank on a timeline basis. The advances portfolio of the bank mainly comprises textile, fuel/energy, chemicals and pharmaceuticals, sugar, transport & communication, iron and financial services. Given moderate exposure in sugar, stringent monitoring is required owing to overall depressed retail prices. Increase in consumer financing was a function of higher disbursement to secured auto and home loans. Going forward, the management plans to sustain low risk appetite while expanding business volumes with major focus on government backed infrastructure projects.

Investments size reduced in line with increasing interest rate scenario: Aggregate exposure in the sovereign / public sector manifested in investments & advances represents about 53% of total assets. On the other hand, barring textile and power in private sector financing, overall sectoral exposures remained diversified. Concentration of top-20 customers in the advances portfolio decreased to 13% (FY17: 15%) by end-FY18. Improving trend in the credit risk profile of the bank continued during the outgoing year on account of decline in gross infection and a slight increase in provisioning coverage. Credit risk originating from investment portfolio is considered manageable given the sizeable proportion of government securities (96%) at end-FY18. Although reduction in duration of PIBs portfolio has been witnessed, the bank remains exposed to related market risk in an increasing interest rate scenario. Therefore, the overall exposure in government securities was reduced during FY18 as compared to preceding year. AKBL's listed equities stood at almost 12% of the bank's own equity base. While major exposure comprises blue chip companies, the bank remains exposed to market risk in a highly volatile stock market. Moreover, a provision amounting to Rs. 1.0b was booked against equity investments during FY18 as the slump in the stock market performance continued for the second consecutive year with KSE 100 index losing 8.9% by end of the year.

Sound Liquidity profile under a stable market share of deposits: Deposit base of the bank exhibited a growth of around 9% during FY18. In view of deposit growth, AKBL's current accounts increased by 13.3% reflecting the focus of branch banking strategy that plans on achieving cost efficiencies in the deposit portfolio by expanding current accounts and shedding expensive non-core deposits.. The CASA deposits represented almost 84% (FY17: 85%) of the deposit base; the bank largely maintained its market share in system deposits. Concentration in top 20 deposits decreased to 14% (FY17: 15%) by end-FY18. Moreover, liquidity profile of the bank is supported by presence of sizeable liquid assets in relation to deposits and borrowings and low advances to deposit ratio (ADR).

Stable profitability supported by enhanced spreads and asset quality: AKBL's profit before provisions and taxation was recorded higher at Rs. 8.3b during FY18 as compared to Rs. 7.2b in preceding year on account of increase in scale of operations coupled with rising interest rates resulting in improved spreads. Markup spreads improved slightly to 2.6% (FY17: 2.4%) during FY18. Moreover, higher fee based income as a result of successful implementation of strategies in trade finance and transaction banking together with sizeable growth in foreign exchange income supplemented the top line of the bank. Income from foreign exchange exhibited almost a two fold increase to Rs. 1.6b in line with exchange rate volatility and well managed positions together with improved clients forex flows through the treasury desk. However, the impact of growth in business volumes and higher non-interest income was offset by net aggregate provision charge amounting to Rs. 1.5b on portfolio of equity investments and non-performing advances during FY18 in comparison to net reversal of Rs. 1.3b in preceding year.

The net mark-up income registered a growth of 14.9% amounting to Rs. 18.6b (FY17: 16.2b) with main contribution from credit portfolio whereas revenue from investments declined by 3.0% reflecting a yield enhancement strategy together with increased focus on shorter tenor securities. Operating expenses increased as an outcome of annual salary adjustments; meanwhile other expenses stood considerably higher at Rs. 191.1m (FY17: Rs. 23.6m) on account of premium to Deposit Protection Corporation levied during the review year. As a result of increased core income and largely rationalized admin expenses, efficiency (Admin cost to income) improved during FY18. Going forward, the bank's primary focus will remain on maintenance of low cost deposits to contribute to improvement in spreads.

Capitalization level adequate; Tier I capital issued to the tune of Rs. 6.0b: Capital Adequacy Ratio (CAR) improved slightly to 12.5% (FY17: 12.1%) at end-FY18. The increase in risk weighted assets was largely manifested in credit and operational risk weighted assets. The bank's tier-1 capital to risk weighted assets was recorded higher at 10.9% (FY17: 9.3%) by end-FY18. With Basel III impending full implementation until Dec 2019, regulatory requirement of CAR, inclusive of capital conservation buffer, will be 12.5%. The Bank issued additional Tier I capital in the form of listed, perpetual, unsecured, subordinated and non-cumulative debt instrument amounting to Rs. 6.0b to support its capital base. Net NPLs to tier-I ratio of the bank depicted improvement on the back of lower NPL and higher tier-1 equity.

Management strengthening ongoing: Overall stability at the senior management level was witnessed which has resulted in effective implementation of the business strategy for the bank. Subsequent to the resignation of previous CEO, Mr. Majeed Ullah Husaini, Mr. Abid Sattar was appointed as CEO of the bank during the review period.

Rating the Instrument: The bank has raised unsecured sub-ordinated loans through issuance of 10-year Term Finance Certificate (TFC), TFC-V, to support its capital adequacy ratio. The outstanding amount for TFC-V at end-FY18 stood at Rs. 4.0b. The liability of the TFC holders rank inferior to all other bank obligations including deposits. TFC-V carries a markup rate of 6m Kibor + 1.2% with an inbuilt call option exercisable after 5 years of issuance given SBP's approval. The maturity of TFC-V is Sep'24.

Askari Bank Limited (AKBL) *(amounts in PKR billions)* Annexure I

BALANCE SHEET	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
Total Investments	268.0	295.8	315.0	260.2
Advances- (net)	199.9	235.2	258.7	343.1
Total Assets	535.9	619.1	656.7	706.5
Borrowings	57.3	89.3	71.6	52.7
Deposits & other accounts	433.2	472.8	525.8	573.6
Subordinated Loans	5.0	5.0	5.0	10.0
Tier-1 Equity	21.8	25.4	27.4	31.9
Net Worth	26.9	32.6	32.4	33.5
INCOME STATEMENT	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
Net Mark-up Income	14.9	15.0	16.2	18.6
Net Provisioning/(Reversal)	0.9	-0.7	-1.2	1.5
Non-Markup Income	6.7	7.2	6.3	5.6
Operating Expenses	12.3	14.3	15.2	15.9
Profit Before Tax	8.4	8.5	8.5	6.9
Profit After Tax	5	5.2	5.3	4.4
RATIO ANALYSIS	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
Market Share (Advances) (%)	4.7%	4.7%	4.3%	4.6%
Market Share (Deposits) (%)	4.5%	4.2%	4.3%	4.2%
Gross Infection (%)	13.8%	10.9%	9.4%	7.2%
Provisioning Coverage (%)	89.1%	92.4%	93.3%	94.2%
Net Infection (%)	1.7%	0.9%	0.7%	0.4%
Cost of deposits (%)	4.6%	3.7%	3.5%	4.0%
Net NPLs to Tier-1 Capital (%)	15.7%	8.6%	6.5%	4.8%
Capital Adequacy Ratio (%)	12.5%	12.5%	12.1%	12.5%
Markup Spreads (%)	2.8%	2.4%	2.4%	2.6%
Efficiency (%)	67.5%	77.7%	74.6%	69.0%
ROAA (%)	1.0%	0.9%	0.8%	0.7%
ROAE (%)	19.8%	17.5%	16.2%	13.4%
Liquid Assets to Deposits & Borrowings –repo adjusted (%)	58.5%	56.4%	56.8%	46.2%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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	Instrument Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
			RATING TYPE: TFC-V		
	26-Jun-19	AA-		Stable	Reaffirmed
	29-Jun-18	AA-		Stable	Reaffirmed
	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-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	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	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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