

## RATING REPORT

### Askari Bank Limited

**REPORT DATE:**

July 07, 2020

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
TFC-V		AA-		AA-
Rating Outlook		Stable		Stable
Rating Date		June 30, '20		June 26, '19

#### COMPANY INFORMATION

Incorporated in 1991	External auditors: <b>M/s KPMG Taseer Hadi &amp; Co., Chartered Accountants</b>
Public Limited Company	Chairman of the Board: <b>Mr. Waqar Ahmed Malik</b>
Key Shareholders (with stake 5% or more):	Chief Executive Officer: <b>Mr. Abid Sattar</b>
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-FY19, the Bank had 534 (FY18: 516) branches including 94 (FY18: 91) Islamic banking branches and a wholesale bank branch in Kingdom of Bahrain and a representative office in Beijing, China.

**Profile of Chairman**

Mr. Waqar Ahmed Malik joined the Board in April, 2020. Mr. Waqar has spent over 27 years with ICI Group, where his last assignments were as Chief Executive, ICI Pakistan Limited and Chairman, Pakistan PTA Limited (now Lotte Chemical Pakistan Limited). He is a fellow of the Institute of Chartered Accountants from England and Wales and an Alumnus of the Harvard Business School and INSEAD. He has also served at the Board of State Bank of Pakistan, President of the Overseas Chamber of Commerce & Industry, among other engagements.

**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: FY19: Rs. 833b;  
FY18: Rs. 707b; FY17: Rs.  
657b

Total equity: FY19: Rs. 42.3;  
FY18: Rs. 33.5b; FY17: Rs.  
32.4b

Net profit: FY19: Rs. 7.0b;  
FY18: Rs. 4.4b; FY17: Rs. 5.3b

## RATING RATIONALE

The assigned rating takes into account Askari Bank Limited's (AKBL's) 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 and maintained footprint with a market share of 4.2% and 4.6% in domestic banking deposits and advances, respectively. While net infection has increased marginally, overall asset quality indicators have remained largely intact despite economic slowdown. The ratings also derive strength from improving trend in efficiency ratio. Capitalization indicators have also improved on a timeline basis. Moreover, risk profile of the institution is supported by sound liquidity indicators.

The current pandemic and resultant lockdowns have impacted the macro-economic environment, implying potentially higher credit risk and liquidity constraints. In the wake of prevalent circumstances, the bank is closely monitoring the evolving situation and will initiate due measures to mitigate the risk of potential defaults. Relaxation provided by State Bank of Pakistan (SBP) with respect to CAR has also provided some respite.

**Selective growth of loan portfolio amidst economic slowdown; asset quality indicators remained largely intact, though provisioning coverage has trended downward:** Gross loan portfolio increased by 8% to Rs. 398.5b (FY18: Rs. 369.3b) by end-FY19. Around two-thirds of the advances book comprised financing to private sector while the rest of the portfolio pertained to public sector entities. The loan growth strategy remained focused on acquiring high quality assets while enhancing relationship yield and maintaining an efficient profile of risk weighted assets. Corporate and Commercial portfolio remained the main driver towards credit expansion constituting around 82% (FY18: 81%) of the advances book at end-FY19; meanwhile, high yielding consumer segment (FY19: 5.3%; FY18: 5.5%) supported the topline of the bank on a timeline basis. The advances portfolio of the bank mainly comprises exposure to textile, power, chemicals and pharmaceuticals, services, sugar, wholesale and retail trade, iron and financial services sectors.

Concentration of top-20 funded groups in the advances portfolio increased to 16% (FY18: 13%) by end-FY19. Non-performing loans (NPLs) were recorded higher at Rs. 28.1b (FY18: Rs. 26.7b) at end-FY19. Slight decrease in gross infection was witnessed to 7.1% (FY18: 7.2%). However, with lower provision charge, net infection increased to 1% (FY18: 0.4%) by end-FY19. Gross and net infection improved slightly to 6.8% and 0.9%, respectively, largely in line with some decrease in infected portfolio and increase in advances by end-1QFY20.

Given large number of payment deferral requests are being received by the bank during 2QFY20, the management has formulated a three-pronged strategy to deal with the issue, which constitutes development of a stress impact risk model to analyze portfolio-wide vulnerabilities; analyze sector-wise payment behavior; and scrutiny and intensive monitoring of the mobilization of unutilized credit lines available with the clients. The projected growth numbers have been adjusted downwards slightly in the backdrop of current scenario with primary focus on government backed projects, going forward.

**Continued high exposure to government securities in total investment mix:** Credit risk originating from investment portfolio is considered manageable given the sizeable proportion of government securities (95%) in total investment mix at end-FY19. Investment in PIBs increased by 37% during the review period while investment in T-bills, GoP Bai Muajjal, Euro Bonds and

foreign government securities also stood higher. The bank's treasury department manages consolidated foreign exchange exposure by matching foreign currency assets and liabilities in spot and forward. While foreign currency exposures are maintained within regulatory limits, VaR is calculated for consolidated exposure on a daily basis and impact of change in USD/PKR parity on net open positions is determined regularly through sensitivity analysis. Some increase in non-government debt securities was also witnessed during the period under review. AKBL's listed equities stood at almost 11% (FY18: 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 net provision of Rs. 0.9b (FY18: Rs. 1.0b) was booked against equity investments as stock market regression continued till third quarter of FY19. However, with some rebound in stock market in last quarter, the bank booked certain gains.

Overall exposure in government securities remained stable at end-1QFY20. Meanwhile, modified duration of government securities was 1.41yrs (FY19: 1.36yrs; FY18: 0.65yrs) at end-1QFY20. With the decrease in discount rate, deficit on government securities held as available for sales has been converted into a surplus of Rs. 2b (FY19: (3.1)b; FY18: (6.1b)) by end-1QFY20. The management plans to maintain exposure to listed equity at around current levels, going forward.

**Sound liquidity profile under a stable market share of deposits:** While deposit base increased around 18% during FY19, the bank was able to maintain its market share. The CASA deposits represented around 82% (FY18: 85%) of the deposit base at end-1QFY20. Concentration in top 20 deposits increased slightly to 16% (FY18: 14%) by end-FY19. Moreover, liquidity profile of the bank is supported by further improvement in advances to deposit ratio (ADR) to 54.9% (FY18: 59.8%) along with presence of adequate liquid assets in relation to deposits and borrowings of 52.3% (FY18: 46.9%) at end-1QFY20. As per management, deposit growth is expected to remain modest, going forward.

Increase in other assets was mainly due to higher markup accrued, acceptances and advance taxation at end-FY19. These also include non-banking assets acquired in satisfaction of claims amounting to Rs. 2.6b (FY18: Rs. 3.2b), while market value of such assets stood at Rs. 4.8b (FY18: Rs. 5.3b) at end-FY19. Meanwhile, the increase in other liabilities mainly pertained to lease liability against Right of Use (ROU) assets as per IFRS-16, amounting Rs. 7.4b (FY18: Nil) at end-FY19.

**Improved profitability supported mainly by volume expansion, higher fee based income and improved efficiency:** The net markup income registered a growth of 19% amounting to Rs. 22.1b (FY18: Rs. 18.6b) with main contribution from credit portfolio of 60% (FY18: 55%) followed by revenue from investments of 38% (FY18: 42%) during FY19. Markup spreads improved slightly to 2.7% (FY18: 2.6%) during FY19. Non-markup income exhibited an increase of 32% mainly on back of higher fee based and foreign exchange income during FY19. Moreover, gain on sale of securities also increased to Rs. 0.7b (FY18: Rs. 0.3b) during FY19.

Operating expenses increased by 16% during FY19 mainly due to inflationary adjustment in salaries, higher deposit protection premium along with higher depreciation expense with adoption of IFRS 16 – (ROU). As a result of increased core income and largely rationalized admin expenses, efficiency ratio (admin cost to income) improved during FY19. The bank's profitability is further supported by lower provisioning charge of Rs. 0.8b (FY18: Rs. 1.5b) during FY19. Net profit augmented to Rs. 7b (Rs. 4.4b) during FY19 while net profit amounted to Rs. 1.9b in 1QFY20.

**Adequate capitalization indicators:** Higher statutory reserves and profit retention led to higher eligible tier-1 capital of Rs. 42.2b (FY18: Rs. 34.7b) by end-FY19. The bank's tier-1 capital to Risk Weighted Assets (RWA) was recorded higher at 11.5% (FY18: 10.9%) by end-

FY19. Capital Adequacy Ratio (CAR) improved to 13.4% (FY18: 12.5%) by end-FY19. The increase in risk weighted assets was manifested in all credit, market and operational risk weighted assets. Net NPLs to tier-I ratio of the bank increased to 9.8% (FY18: 4.8%) by end-FY19.

AKBL has raised tier-II unsecured, unlisted, sub-ordinated loan through issuance of TFC-VII amounting to Rs. 6.0b in March'20 to further improve capital adequacy of the bank. TFC-VII carries markup of 3 months KIBOR *plus* 1.2% with an in-built call option exercisable after 5 years of issuance given SBP's approval. The maturity of TFC-VII is March 16, 2030. Further, as a result of prevailing scenario, SBP has relaxed the Capital Conservation Buffer (CCB) requirements for the banks to 1.5%, resulting in an overall CAR requirement of 11.5%. In addition to the measures by SBP, the bank is continuously monitoring the impacts of various decisions of its CAR and taking further lending decisions based on overall impact on RWA. CAR improved to 13.9% by end-1QFY20.

**Changes at the board and senior management level:** There are 11 members at the board of directors including CEO. Four directors are nominees of Fauji Foundation, one NIT nominee, and five independent directors including a female director. Chairman of the board is a well-qualified seasoned professional having considerable experience of corporate sector. Some changes were also witnessed at the senior management level during FY19. New Country Head – Credit, Commercial & SME, Country Head – Consumer Banking Division and Country Head – Compliance Division were hired during FY19.

The previous auditors of the bank, M/s A. F. Ferguson & Co., Chartered Accountants have retired upon completion of their five years' term. M/s KPMG Taseer Hadi & Co., Chartered Accountants have been appointed as statutory auditors by the Board of Directors during FY20.

**Rating the Instrument:** The bank raised unsecured sub-ordinated loans through issuance of 10-year Term Finance Certificate (TFC), TFC-V in 2014, to support its capital adequacy ratio. The outstanding amount for TFC-V at end-FY19 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 6 months KIBOR *Plus* 1.2% with an inbuilt call option exercisable after 5 years of issuance, i.e., Sep'19, given SBP's approval. The maturity of TFC-V is in Sep'24.

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

<b>BALANCE SHEET</b>	<b>31-Dec-17</b>	<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>31-Mar-20</b>
Cash and Balances	47.4	53.3	70.9	67.1
Lending to financial Institution	2.2	-	20.4	19.8
Total Investments	315.0	260.2	305.4	339.3
Advances (net)	258.7	343.1	372.9	381.4
Fixed Assets	9.9	12.8	19.7	19.6
Other Assets	29.5	37.1	43.8	40.8
Total Assets	662.7	706.5	833.2	868.0
Borrowings	71.6	52.7	51.2	61.4
Deposits & other accounts	525.8	573.6	679.3	699.9
Subordinated Loans	5.0	10.0	10.0	16.0
Bills Payables	10.8	15.5	15.8	11.5
Other Liabilities	17.1	21.2	34.7	32.9
Tier-1 Equity	27.4	31.9	38.0	39.9
Net Worth	32.4	33.5	42.3	46.4
Paid-Up Capital	12.6	12.6	12.6	12.6
<b>INCOME STATEMENT</b>	<b>31-Dec-17</b>	<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>31-Mar-20</b>
Net Mark-up Income	16.2	18.6	22.1	5.8
Net Provisioning/(Reversal)	(1.2)	1.5	0.8	(0.7)
Non-Markup Income	6.3	5.6	7.4	1.9
Non-Markup Expenses	15.2	15.9	18.4	4.8
Profit Before Tax	8.5	6.9	10.4	3.0
Profit After Tax	5.3	4.4	7.0	1.9
<b>RATIO ANALYSIS</b>	<b>31-Dec-17</b>	<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>31-Mar-20</b>
Market Share (Advances) (%)	4.3	4.6	4.6	N.A
Market Share (Deposits) (%)	4.3	4.2	4.2	N.A
Gross Infection (%)	9.4	7.2	7.1	6.8
Provisioning Coverage (%)	93.3	94.2	86.8	87.5
Net Infection (%)	0.7	0.4	1.0	0.9
Cost of deposits (%)	3.4	4.0	7.0	N.A
Net NPLs to Tier-1 Capital (%)	6.5	4.8	9.8	8.7
Capital Adequacy Ratio (%)	12.1	12.5	13.4	13.9
Markup Spreads (%)	2.4	2.6	2.7	N.A
Efficiency (%)	74.6	69.0	63.9	66.8
ROAA (%)	0.8	0.7	0.9	0.9*
ROAE (%)	16.2	13.4	18.5	16.8*
Liquid Assets to Deposits & Borrowings –repo adjusted (%)	57.3	46.7	50.4	52.3

\*Annualized



**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](http://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](http://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](http://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					Appendix III
<b>Name of Rated Entity</b>	Askari Bank Limited				
<b>Sector</b>	Commercial Banks				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Instrument Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: TFC-V</b>				
	30-Jun-20	AA-		Stable	Reaffirmed
	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	
<b>Instrument Structure</b>	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.				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>		<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1	Mr. Muhammad Hassan Sajjad	Unit Head-Policies & Procedures	15 <sup>th</sup> June, 2020	
	2	Mr. Raza Bashir	Head Policies & Operational Risk	16 <sup>th</sup> June, 2020	