

The Pakistan Credit Rating Agency Limited
RATINGS (DECEMBER 2011)
ASKARI BANK LIMITED (AKBL)

RATINGS	NEW	PREVIOUS
ENTITY		
Long Term	AA	AA
Short Term	A1+	A1+
TFCs (Unsecured, subordinated)		
1 st Issue (PKR 1,500mln)	AA-	AA-
2 nd Issue (PKR 1,500mln)	AA-	AA-
3 rd Issue (PKR 3,000mln)	AA-	AA-
4th Issue (Proposed - PKR1,000mln)	AA-	-

FINANCIAL DATA

PKR (mln)

	Sep11 [^]	Dec10	Dec09
Total Assets	328,167	314,745	254,327
Equity	15,885	14,821	13,143
Net Income	1,004	943	1,098
ROA %	0.4	0.3	0.5
Equity/Assets %	4.8	4.7	5.2
SBP CAR	11.0	10.3	11.8

[^] Based on unaudited results for 9 months ended Sep11

ANALYSTS

Ahmed Ali Ehsan
+92 42 35869504
ahmed.ehsan@pacra.com

Rana Muhammad Nadeem
+92 42 35869504
nadeem@pacra.com

TFC ISSUES

- Askari Bank issued three unsecured and subordinated TFCs, two of PKR 1,500mln each in February 2005, October 2005 for a tenor of 8 years and one of PKR 3,000mln for a term of 10 years in November 2009. The profit payments on first two TFCs are made semi-annually in arrears, based on 6 month K+150bps and for third TFC K+250bps for the first five years after which a profit rate of 6-month K+295bps will be paid for the remaining term.

PROPOSED TFC

- AKBL intends to issue fourth TFC of PKR 1,000mln. The proposed issue is based upon ten no-call five structure, whereby the tenor would be 10 years and would be callable after first five years. The profit payment is made semi-annually in arrears, based on 6-month K + 175bps for the first five years after which it is payable at the rate of 6-month K + 220bps. The issue is structured to redeem major amount of principal in four equal semiannual payments after 96 months.

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect AKBL's established market position strengthened by its brand - Askari. This has helped in developing a strong deposit base. The bank has achieved gradual improvement in its performance trend. Although this is supplementing its equity base, to support its growth plans and replace the winding down tier II capital, AKBL intends to issue fresh, unsecured and subordinated TFC. The bank has witnessed a continuous rise in its NPLs. The management, cognizant of this, has adopted a comprehensive strategy to improve its asset quality. The rating takes into account the steps taken by the bank to improve its technological infrastructure.
- The management's ability to maintain spreads at appropriate level while effectively managing its liquidity remains important. At the same time, curtailing the rising trend in NPL's while maintaining the risk profile at appropriate level remains a challenge.

ASSESSMENT

- During 9M11, deposit mix experienced variance though the overall quantum stayed the same. In the initial months, high cost time deposits jumped up, but lately this has been rationalized. Notably, deposit concentration has reduced; depositors holding more than 1% of total deposits constituted 7% of total deposits (CY10: 22%). Finances-to-deposits ratio witnessed a slight decline (9MCY11: 64.7%, 2010: 65.5%), showing cautious stance of the bank towards credit expansion. The bank has significant non-fund exposure (37% of total assets). However, strong portfolio of liquid assets provides comfort in case of any contingency.
- Bank's interest revenue grew by 22% when compared to same period last year, due increase in other earning assets mainly driven by government securities. While, net interest income registered a rise of only 3%, on account of increase in interest expense on upsurge in time deposits and increased borrowings from financial institutions. Administrative expenses increased by 6% due to branch network expansion and inflation. The provision expense declined by 12% on account of low provision on diminution of investment, supporting the bottom line resulting in net profit of PKR 1,004mln (9MCY11: PKR 943mln).
- AKBL's advances concentration in top 20 clients increased (9MCY11: 34%, 2010: 25%) though dominated by fundamentally sound sectors; power and energy, oil and gas and public sector borrowings. As at end Sep-11, ~85% of the bank's exposures were internally classified as having adequate or better quality. Going forward, it remains critical that the bank maintains the overall risk level of its lending portfolio at a comfortable level while it expands. Although the bank accumulated further NPLs during 3Q2011, the pace has slowed down and management expects to arrest this with significant focus on recoveries. The bank has portfolio of listed and unlisted TFCs and sukuk which represents 9% of finances – nevertheless, a small amount (~1%) represents below investment grade.
- AKBL's investment portfolio, witnessed a growth of 22% during 9MCY11, mainly dominated by government securities (96%) while remaining portion consists of investment in equity market and mutual funds. A significant portion of government securities represented investments in MTBs implying low interest rate risk. Meanwhile, owing to lower exposure in stock market, market risk is expected to remain limited.
- The bank is in the process of implementing core banking software, Flexcube. The system has been implemented in 69 branches at end Nov-2011, against the target of 60 branches till end-Dec11. AKBL plans to implement this system to all branches till end-2013. At the same time phase II of the technological update project has begun, which includes implementation of Islamic banking and treasury modules. In this regard functional walkthrough of project is completed and gap analysis is being carried out.
- AKBL is currently adequately capitalized. The bank's CAR is marginally above the statutory requirement. The benefit available for the calculation of CAR on account of TFC I & II will be reduced to the extent of 20% of the size of the issue at end-Dec11. Therefore, the bank is considering to issue another TFC of PKR 1,000mln to support its Tier 2 capital. However, any significant credit expansion and unprecedented rise in assets infection may necessitate the need to inject fresh capital (Net NPLs-to-equity- 9M11: 41%, 10: 40%, 09: 39%).

PROFILE

- AKBL, with a branch network of 235 at end-Sep11, commenced its operations in 1992. AKBL is sponsored by the Army Welfare Trust (AWT), which remains the principal shareholder. AWT has business interests across a wide range of sectors. AWT is in negotiation with another Army welfare entity – Fauji Foundation – for possible divesture of its stake in AKBL. However, this is at initial stage and is not likely to have immediate major implications.
- The overall control of the bank vests in the ten-member Board of Directors. Mr. M.R. Mehkari, the President and Chief Executive of AKBL since 2008, joined the bank in 1992 and carries significant international and domestic banking experience. The bank's senior management team comprises experienced professionals.