



## Rating Action

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## Applicable Criteria and Related Research

- Banking Sector - Viewpoint | Dec-15
- Bank Rating Methodology

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## PACRA Assigns Entity Ratings to Askari Bank Limited; Upgrades TFCs Rating

The Pakistan Credit Rating Agency Limited (PACRA) has assigned a long-term rating of "AA+" (Double A Plus) and short-term rating of "A1+" (Single A one plus) to Askari Bank Limited. The rating of unsecured, subordinated, unlisted TFC issue of PKR 1,000mln has been upgraded to "AA" [previous: AA-]. These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings reflect AKBL's strong ownership structure whereby Fauji Foundation Group - an established business conglomerate with strong financial muscle - holds majority stake. The bank's standalone profile has significantly improved on the back of (i) healthy growth in low cost deposits wherein added granularity has reduced concentration level significantly, and (ii) volumetric increase in earning assets; loan portfolio augmentation coupled with expansion in treasury operations resulted in sizeable increase in revenues. Hence, the bank managed to report robust profitability ratios compared to past. Meanwhile, the bank has improved its overall risk profile - net accretion to NPLs curtailed supplemented by comfortable liquidity position. The bank maintains adequate level of CAR; however, the management is cognizant of the need of further augmentation in Tier I and has a plan in place for gradual improvement. Going forward, the management is eyeing CPEC as an opportunity to capitalize and build its business through a dedicated China Desk and an exclusive Rep Office in China. This would be supported by extending outreach and on-going focus on generating non-fund income and mobilizing low-cost deposits. Hence, the current performance trend is expected to be maintained.

The management has ably improved the bank's market penetration while sustaining an acceptable risk profile through strengthened systems and internal controls. Effective management of spreads, amid low interest rates scenario, remains important. Meanwhile, notable improvement in CAR, particularly Tier-I, is expected through profit retention and/or support from sponsors.

**About the TFC:** AKBL issued unsecured, subordinated, unlisted TFCs of PKR 1,000mln in Dec11. With ten years tenor, TFCs carry profit rate of 6M-K Plus 175bps payable semi-annually in arrears (till Dec16), and 6M-K Plus 220bps subsequently. Major principal repayment (99.7%) from Jan20-Dec21. Call option is exercisable after Dec16, subject to SBP approval.

**About The Bank:** Askari Bank Limited, incorporated in 1991, operates with a network of 424 branches (at end-Mar16). With change in ownership in 2013, Fauji Group (FF) emerged as the key sponsor (~72% stake). The remaining shareholding is widely spread.

The overall control vests in an eleven-member board of directors including the President. Five members represent FF, four are independent, while one is NIT nominee. Syed M. Husaini assumed the position of CEO in June13 and is supported by an experienced and professional management team.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

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