The Pakistan Credit Rating Agency Limited

Rating Report

Askari Bank Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Jun-2023	AA+	A1+	Stable	Maintain	-
25-Jun-2022	AA+	A1+	Stable	Maintain	-
25-Jun-2021	AA+	A1+	Stable	Maintain	-
26-Jun-2020	AA+	A1+	Stable	Maintain	-
28-Dec-2019	AA+	A1+	Stable	Maintain	-
28-Jun-2019	AA+	A1+	Stable	Maintain	-
27-Dec-2018	AA+	A1+	Stable	Maintain	-
20-Jun-2018	AA+	A1+	Stable	Maintain	-
29-Dec-2017	AA+	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Askari Bank has an impeccable ownership structure. The rating of the bank incorporates the same. The bank has a very strong brand image, flanked by its affiliation with one of the strongest conglomerates, Fauji Group. This represents the strength of the bank. This association has provided fruits in terms of market penetration, customer confidence, sustainable funding sources, and avenues for generating mark-up and non-mark-up-based income streams. Lately, the retention of dividends in the bank to bolster the capital structure is also a testimonial of support. During CY22, net markup income increased to PKR 39.9bln (CY21: PKR 32.4bln) where the mix is sizably tilted towards markup earned from investments. The foreign exchange income has a major share of non-mark-up income followed by Fee & Commission income. The provisioning expenses declined to PKR 1bln (CY21: PKR 4.9bln) which further augmented the profitability. The net profit increased to PKR 14bln (CY21: PKR 9.7bln). Subsequently, the spread of the bank inched up to 3.6% (CY21: 3.5%). During 1QFY23, the net profit of the bank inclined to PKR 4.7bln (1QFY22: PKR 3.6bln). At end-Dec22, the bank grew its deposit base by 13% to stand at PKR 1,143bln - where deposits remained tilted towards saving. Askari Bank has shown a stable growth rate over the years; share in terms of deposits clocking in at 5.1% (end-Dec21: 5.1%).
The expensive funding avenues of the bank will remain a challenge. A significant increase has been witnessed in the advances base of the bank, along with a volumetric surge in the investment book of the bank. The asset quality improved as the infection ratio declined to 5.1% (end-Dec21: 6.1%). The Bank's CAR inclined to 15.9% (end-Dec21: 13.4%) where Tier I capital concentration stands at 13.7% (end-Dec21: 11.7%). At end-Mar23, the total CAR of the bank stands at 14.6% with Tier I capital concentration clocking in at 12.7%, reflecting a sizable cushion for growth. The leadership is looking forward to focusing on strengthening business sustainability. Bank's updated strategy is to focus on growing its market share in the retail segment, particularly low-cost deposits. The rating draws comfort from the Bank's experienced management team, prudent risk management policies, and deep-rooted relationship with clients. The country’s economy has gone through several varied phases in the last few years. Looking ahead, the macroeconomic landscape is fraught with numerous challenges, including macroeconomic stability, elevated interest rates, demand tightening, sizable rupee depreciation, and heightened inflation, all of which reverberate across all sectors of the economy.

The ratings are dependent upon the sustainability of the bank's relative positioning. Prudent management of funding costs remains vital, going forward. Meanwhile, holding the asset quality is a prerequisite.

Disclosure

Name of Rated Entity	Askari Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Financial Institution Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Commercial Bank(Jun-23)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Structure Askari Bank Limited (AKBL), incorporated as a public limited company, commenced operations as a Scheduled Commercial Bank in 1992.

Background The registered office of the Bank is situated at AWT Plaza, the Mall, Rawalpindi, and the head office is located in Islamabad. The bank has a steady presence in Islamic banking as well. Started in 2006, the bank provides a range of shariah-compliant products under its Islamic brand name 'Ikhlas'.

Operations The Bank is a scheduled commercial bank and is principally engaged in the business of banking as defined in the Banking Companies Ordinance, 1962. The Bank, with its head office in Islamabad, operates with a network of 601 branches at end-Mar23 (end-Dec22: 600 branches); 600 in Pakistan and Azad Jammu and Kashmir including 120 (end-Dec22: 120) Islamic Banking branches and 58 (end-Dec22: 57) sub-branches and a Wholesale Bank Branch (WBB) in the Kingdom of Bahrain.

Ownership

Ownership Structure The current sponsors, Fauji Foundation Group, own a 71.91% stake in the Bank. The remaining stake 28.09% is widely spread among financial institutions and the general public.

Stability Over the years, FF has emerged as one of the leading conglomerates of the country with established business interests in numerous sectors and industries.

Business Acumen The Fauji Foundation Group comprising several industrial/commercial projects in various sectors including energy, gas supply, fertilizer, cement, food, etc, includes wholly-owned as well as partly-owned ventures.

Financial Strength Fauji Foundation is one of the leading and most diversified groups in Pakistan. The group has a very strong equity and asset base. Over the years the group has stretched its business profile by entering into new industries, providing it diversity; in revenue streams, a very strong brand image, and increased hands-on knowledge of the various sectors of the economy.

Governance

Board Structure The overall control of the Bank vests in the eleven-member Board of Directors (BoD) including the President and CEO. Five of the board members are Fauji Foundation nominees; four are independent members, while one represents NIT.

Members' Profile The members carry a diversified experience with quality education. Members have experience in Financial Institutions (Banking, AMCs), public sector entities, Oil and Gas, Power, fertilizers, IT, etc. The key competencies have strong business correlation.

Board Effectiveness There are four board committees in place; i) Board Risk Management Committee, ii) Board Audit Committee, iii) Board Human Resource and Remuneration Committee, and iv) Board Information Technology Committee, which help the board in the effective oversight of the Bank's overall operations on relevant matters.

Financial Transparency KPMG Taseer Hadi & Co. Chartered Accountants are the external auditors of the bank. The auditors expressed an unqualified opinion on the bank's financial statements for the year ended December 31, 2022.

Management

Organizational Structure The President & CEO, Mr. Atif Riaz Bokhari has extensive expertise, both local and international in the financial services industry.

Management Team The Bank has seven management committees in place, chaired by president, to oversee its day-to-day operational matters. The committees ensure, that the bank is aligned with its current strategy. Going forward, the sustainability and cohesiveness of the team would remain important to continue the growth trend.

Effectiveness AKBL's operations are currently divided into 14 functions, out of which 13 are directly reporting to the President. Chief Internal Auditor reports to the Board Audit Committee.

MIS AKBL has made considerable investment in the IT infrastructure. The bank has implemented Flexcube (developed by Oracle financial services and installed at multiple sites worldwide), as its core banking software. Bank has implemented an Oracle based risk solution. Furthermore, the bank has implemented loan origination system.

Risk Management Framework The Bank has a robust Risk Management Framework driven by the Board Risk Management Committee and managed by Risk Management Group. Risk Management Group is headed by the Chief Risk Officer (CRO), who is overseeing the management of Credit, Market/Liquidity, Information Security, Policy, and Operational Risk.

Business Risk

Industry Dynamics The country's economy has gone through several varied phases in the last few years. Pakistan posted a GDP growth rate of 1.69% in 9MFY23 and 4.71% in FY22 (GDP growth figures were revised after the base year was changed from FY05-06 to FY15-16). The banking sector continues to flourish with high profitability. Total banking assets posted growth of 18.5% YoY whilst investments surged by 25% YoY to PKR 18.0trln (end-Dec21: PKR 14.4trln). Gross Advances of the sector recorded growth (16%) to stand at PKR 12.6trln (end-Dec21: PKR 10.9trln). Non-performing loans witnessed an increase to PKR 924bln. The Capital Adequacy Ratio remained intact at 17% (regulatory requirement of 11.5%). However, declined in Mar-23 to 15%.

Relative Position AKBL, holds a customer deposit base of PKR 1,130.8bln other than financial institutions at end-Dec22 (end-Dec21: PKR 1,008.4bln). On such basis, the market share of deposits of the bank remained stagnant at 5.1% (end-Dec21: 5.1%).

Revenues During CY22, AKBL's NIMR witnessed an increase of 23% YoY to stand at PKR 39.9bln (CY21: PKR 32.4bln), where markup income recorded an exceptional increase of 114% YoY to stand at PKR 165.7bln (CY21: PKR 77.5bln). The bank's asset yield inclined to 13.5% (CY21: 7.9%), and the same was reflected in the spread of the bank which inched up to 3.6% (CY21: 3.5%). During 1QCY23, NIMR increased by 41% YoY to stand at PKR 11.9bln (1QCY22: PKR 8.4bln). Asset yield clocked in at 16.4% and the Spread moved to 4%.

Performance During CY22, non-mark-up income increased by 24% to stand at PKR 11.6bln (CY21: PKR 9.3bln). Non-markup expenses increased by 9% YoY to stand at PKR 23bln (CY21: PKR 21.1bln). The non-markup income to total income inched up to 22.5% (CY21: 22.4%). Subsequently, The net profit increased by 45% and stood at PKR 14bln (CY21: PKR 9.7bln). During 1QCY23, the bottom line is strengthened by 31% YoY to stand at PKR 4.7bln (1QCY22: PKR 3.6bln).

Sustainability AKBL will continue to focus on the growth of core revenues, current accounts, and return on assets by optimizing and reallocating assets and resources to their full potential and will pursue acquiring high-quality assets while enhancing relationship yields and maintaining an optimal risk profile using technology at its best. People development will be a key pillar along with technology enablement to provide deeper insights while planned upgrades of enabling systems, payment, cash management system, and card systems are expected to create considerable enhancements to the Bank's overall customer value proposition.

Financial Risk

Credit Risk At end-Dec22, AKBL's gross advances registered a growth of 21% YoY to stand at PKR 615bln (end-Dec21: PKR 508bln). The Bank's gross Advances to Deposits ratio (ADR) increased and was reported at 53.82% (end-Dec21: 50.01%). Asset quality improved as the infection ratio decreased to 5.1% (end-Dec21: 6.1%). At end-Mar23, gross advances grew to PKR 612bln. Where the infection ratio remained the same at 5.1%

Market Risk At end-Dec22, the investment portfolio reflected an expansion of 24% to PKR 762.5bln (end-Dec21: PKR 616.3bln). The Investment book of the bank increased by 24% to PKR 762.5bln from PKR (end-Dec21: 616.3bln). Government securities continue to dominate the overall investment book (end-Dec22: 97.72%, end-Dec21: 97.05%). At end-Mar23, the investment book inclined to PKR 842.6bln.

Liquidity And Funding At end-Dec22, customer deposits other than financial institutions increased to PKR 1,130.8bln (end-Dec21: PKR 1,008.4bln), up by 12%. However, on such basis, the bank's deposit share in the market remained stagnant at 5.1% (end-Dec21: 5.1%). CA and SA proportions stood at 30.6% (end-Dec21: 30.5%) and 49.5% (end-Dec21: 49.2%). At end-Mar23, the customer's deposit other than financial institutions was recorded at PKR 1,184bln. CA and SA proportions stood at 26.8% and 52.4% respectively.

Capitalization At end-Dec22, the bank reported CAR of 15.9% (end-Dec21: 13.4%), comprising Tier I capital of 13.7% (end-Dec21: 11.7%), remaining compliant with the minimum requirement by SBP. At end-Mar23, the bank reported a capital adequacy ratio of 14.6%.

PKR mln

Askari Bank Limited	Mar-23	Dec-22	Dec-21	Dec-20
Listed Public Limited	3M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	593,985	595,653	488,643	402,827
2 Investments	829,508	750,666	604,369	439,944
3 Other Earning Assets	24,193	6,668	10,853	13,019
4 Non-Earning Assets	214,250	173,124	154,342	134,437
5 Non-Performing Finances-net	146	24	937	2,290
Total Assets	1,662,081	1,526,134	1,259,144	992,517
6 Deposits	1,192,676	1,142,575	1,015,430	791,187
7 Borrowings	335,113	245,432	135,564	96,164
8 Other Liabilities (Non-Interest Bearing)	62,495	64,805	52,248	50,620
Total Liabilities	1,590,285	1,452,811	1,203,242	937,971
Equity	71,797	73,322	55,902	54,546
B INCOME STATEMENT				
1 Mark Up Earned	57,147	165,796	77,550	79,105
2 Mark Up Expensed	(45,212)	(125,834)	(45,140)	(48,842)
3 Non Mark Up Income	3,141	11,620	9,370	9,694
Total Income	15,076	51,582	41,779	39,957
4 Non-Mark Up Expenses	(6,783)	(23,080)	(21,194)	(20,215)
5 Provisions/Write offs/Reversals	58	(1,042)	(4,940)	(1,975)
Pre-Tax Profit	8,352	27,459	15,645	17,767
6 Taxes	(3,648)	(13,398)	(5,944)	(6,967)
Profit After Tax	4,703	14,062	9,701	10,800
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	3.0%	2.9%	2.9%	3.3%
Non-Mark Up Expenses / Total Income	45.0%	44.7%	50.7%	50.6%
ROE	25.9%	21.8%	17.6%	22.3%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	4.3%	4.8%	4.4%	5.5%
Capital Adequacy Ratio	14.6%	15.9%	13.4%	15.5%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	53.8%	53.9%	58.7%	57.3%
(Advances + Net Non-Performing Advances) / Deposits	48.7%	53.8%	50.0%	50.0%
CA Deposits / Deposits	26.8%	30.6%	30.5%	31.8%
SA Deposits / Deposits	52.4%	49.5%	49.2%	55.3%
4 Credit Risk				
Non-Performing Advances / Gross Advances	5.1%	5.1%	6.1%	6.8%
Non-Performing Finances-net / Equity	0.2%	0.0%	1.7%	4.2%

Credit Rating

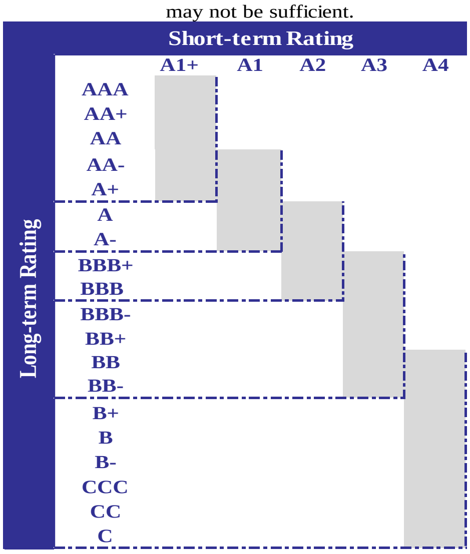
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information