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
24-Jun-2024	AA+	A1+	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Askari Bank's ownership structure is distinguished, lending credence to its assigned rating. The Bank's solid brand reputation is notably bolstered by its affiliation with the Fauji Group conglomerate. This partnership has yielded significant benefits, including increased market penetration, heightened customer confidence, diversified and sustainable funding sources, and avenues for generating both interest-based and non-interest-based income streams. The Bank has made concentrated efforts to promote business from China, and leveraged on the positive spillover of Chinese investment in Pakistan. In order to boost international trade and remittances, the Bank, by utilizing the correspondent relationship with 670 Banks in 88 countries around the world, focused on tapping new markets in Europe Southeast Asia, and the Middle East. In CY23, net markup income increased by 48.7% clocked at PKR 59.4 bln, with a substantial portion derived from investment earnings. The Foreign exchange income constitutes the largest share of non-mark-up income, followed by fee and commission income. As of Dec'23, Askari Bank experienced a 13% growth in its rock-solid deposit given its exclusive franchise, reaching PKR 1,293bln, with a predominant focus on savings deposits. However, the Bank's share of customer deposits decreased to 4.5% (from 5.1% in CY22).

The Bank's strategic use of funding sources has supported its growth initiatives. Notably, there has been a substantial expansion in the Bank's loan portfolio, at the end of Dec'23 the gross advances stood at PKR ~661.3bln (CY22: PKR~ 614.9bln), accompanied by a significant increase in its investment book, which stood at PKR ~1,182.5bln majorly invested in Government securities compared to (CY22:762.6bln). The Bank's asset quality demonstrated improvement, with the infection ratio declining to 4.4% in CY23 (CY22: 5.1%). The Bank's CAR improved to 18.35% (CY22: 15.9%). The management is actively pursuing initiatives to enhance business sustainability, with a strategic focus on Islamic Banking and the expansion of Shariah-compliant product offerings. Under the guidance of its Shariah Board and professional Bankers, Askari Ikhlas Islamic Banking offers a diversified range of Shariah-compliant products and services to its valued customers to fulfill their Banking needs. Presently working with 140 dedicated Islamic Banking branches. While prioritizing digital transformation, the Bank has taken steps to strengthen its digital footprints. With user-friendly interfaces and robust security measures, the Bank provides seamless access to a wide range of Banking services from account management to funds transfer and bill payments, from educational payments to charity & donations, Personal Finance Management (PFM), transaction Banking, and employee Banking.

The ratings depend on the Bank's ability to maintain its competitive position. Going forward, prudent management of funding costs is crucial, and maintaining asset quality remains essential.

Disclosure	
Name of Rated Entity	Askari Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Financial Institution Rating(Oct-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Commercial Banks(Jun-24)
Rating Analysts	Madiha Sohail | madiha.sohail@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 has 660 branches (2023: 660 branches); 659 in Pakistan and Azad Jammu and Kashmir including 137 (2023: 137) Islamic Banking branches 63 (2023: 63) 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 Ten-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. Lt General Mr. Anwar Ali Hyder, HI(M) (Retd) is new Chairman of Board.

Members' Profile The members carry a diversified experience with quality education. Members have experience in Financial Institutions, 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) Risk Management Committee, ii) Audit Committee, iii) Human Resource and Remuneration Committee, and iv) 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, 2023.

Management

Organizational Structure Mr. Atif Riaz Bokhari has resigned and ceased to be President and CEO of Askari Bank, Mr. Saleem Anwar has been appointed as acting President and CEO of the Bank.

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 The Bank's operations are currently divided into 17 functions, out of which 16 are directly reporting to the President. Chief Internal Auditor reports to the Board Audit Committee.

MIS The Bank's 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. The 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 CY23 remained a challenging year for the economy inclusive of a drop in exchange reserves, currency devaluation, and peak inflation. To combat inflation and curb aggregate demand, the Central Bank maintained a tight monetary policy stance. Despite these challenges, CY23 was a remarkably successful year for the banking industry. The sector outperformed historical statistics, with two-thirds of net markup income coming from investments in government securities and the remainder from advances. During the year, Pakistan's banking sector's total assets posted growth of ~30% YoY whilst investments surged by ~42% to PKR ~25.6trln (end-Dec22: PKR ~18trln). Gross Advances of the sector recorded growth of ~4% to stand at PKR ~13.101trln (end-Dec22: PKR ~12.645trln). Non-performing loans witnessed an increase of 8.3% YoY to PKR ~881bln (end-Dec22: ~812bln). The CAR averaged at 19.7% (end-Dec22: 16.7%). Looking ahead, with the expected monetary rate cut, banks are likely to sustain some dilution in profitability by CY24.

Relative Position AKBL, holds a customer deposit base of PKR 1,273bln other than financial institutions at end-Dec23 (end-Dec22: PKR 1,130.8bln). On such basis, the market share of deposits of the bank dip to 4.8% (end-Dec22: 5.1%).

Revenues During CY23, AKBL's NIMR witnessed an increase of 48.8% YoY to stand at PKR 59.4bln (CY22: PKR 39.9bln), where markup income recorded an exceptional increase of 84.4% YoY to stand at PKR 305.6bln (CY22: PKR 165.7bln). The bank's asset yield inclined to 19.2% (CY22: 13.5%), and the same was reflected in the spread of the bank which inched up to 4.5% (CY22: 3.6%).

Performance During CY23, non-mark-up income increased by 11.3% to stand at PKR 12.9bln (CY22: PKR 11.6bln). Non-markup expenses increased by 27.4% YoY to stand at PKR 29.3bln (CY22: PKR 23bln). The non-markup income to total income inched up to 17.1% (CY22: 22.5%). Subsequently, The net profit increased by 52.4% and stood at PKR 21.4bln (CY22: PKR 14bln).

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-Dec23, AKBL's gross advances registered a growth of 7.5% YoY to stand at PKR 661bln (end-Dec22: PKR 615bln). The Bank's gross Advances to Deposits ratio (ADR) reported at 51.13% (end-Dec22: 53.82%). Asset quality improved as the infection ratio decreased to 4.39% (end-Dec22: 5.06%).

Market Risk At end-Dec23, the investment portfolio reflected an expansion of 55% to PKR 1,182.5bln (end-Dec22: PKR 762.5bln). Government securities continue to dominate the overall investment book (end-Dec23: 98.05%, end-Dec22: 97.72%).

Liquidity And Funding AKBL, holds a customer deposit base of PKR 1,273bln other than financial institutions at end-Dec23 (end-Dec22: PKR 1,130.8bln). On such basis, the market share of deposits of the bank dip to 4.8% (end-Dec22: 5.1%). CA and SA proportions stood at 27% (end-Dec22: 31%) and 57% (end-Dec22: 49.5%).

Capitalization At end-Dec23, the bank reported CAR of 18.35% (end-Dec22: 15.9%), comprising Tier I CAR of 16.1% (end-Dec21: 13.68%), remaining compliant with the minimum requirement by SBP.

PKR mln

Askari Bank Limited Listed Public Limited	Dec-23	Dec-22	Dec-21	Dec-20
	12M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	646,694	595,653	488,643	402,827
2 Investments	1,168,049	750,666	604,369	439,944
3 Other Earning Assets	25,102	6,668	10,853	13,019
4 Non-Earning Assets	283,273	173,124	154,342	134,437
5 Non-Performing Finances-net	888	24	937	2,290
Total Assets	2,124,006	1,526,134	1,259,144	992,517
6 Deposits	1,293,146	1,142,575	1,015,430	791,187
7 Borrowings	655,363	245,432	135,564	96,164
8 Other Liabilities (Non-Interest Bearing)	78,375	64,805	52,248	50,620
Total Liabilities	2,026,883	1,452,811	1,203,242	937,971
Equity	97,123	73,322	55,902	54,546
B INCOME STATEMENT				
1 Mark Up Earned	305,636	165,796	77,550	79,105
2 Mark Up Expensed	(246,214)	(125,834)	(45,140)	(48,842)
3 Non Mark Up Income	12,936	11,620	9,370	9,694
Total Income	72,359	51,582	41,779	39,957
4 Non-Mark Up Expenses	(29,348)	(23,080)	(21,194)	(20,215)
5 Provisions/Write offs/Reversals	(966)	(1,042)	(4,940)	(1,975)
Pre-Tax Profit	42,044	27,459	15,645	17,767
6 Taxes	(20,610)	(13,398)	(5,944)	(6,967)
Profit After Tax	21,435	14,062	9,701	10,800
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	3.3%	2.9%	2.9%	3.3%
Non-Mark Up Expenses / Total Income	40.6%	44.7%	50.7%	50.6%
ROE	25.2%	21.8%	17.6%	22.3%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	4.6%	4.8%	4.4%	5.5%
Capital Adequacy Ratio	18.3%	15.9%	13.4%	15.5%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	55.3%	53.9%	58.7%	57.3%
(Advances + Net Non-Performing Advances) / Deposits	49.0%	51.1%	47.0%	50.0%
CA Deposits / Deposits	27.3%	30.6%	30.5%	31.8%
SA Deposits / Deposits	56.6%	49.5%	49.2%	55.3%
4 Credit Risk				
Non-Performing Advances / Gross Advances	4.4%	5.1%	6.1%	6.8%
Non-Performing Finances-net / Equity	0.9%	0.0%	1.7%	4.2%

Credit Rating

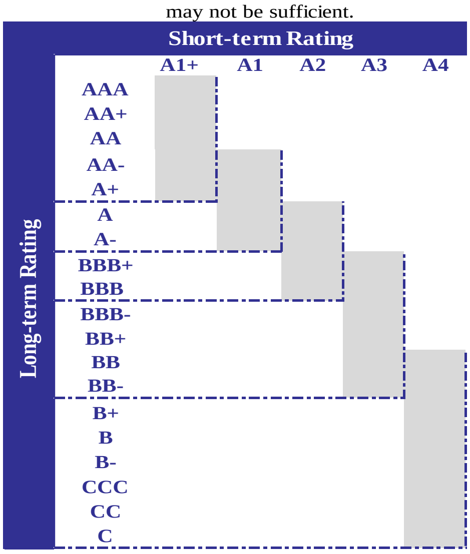
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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(Credit Rating Companies Regulations,2016)

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(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

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(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).
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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
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