JCR-VIS Credit Rating Company Limited
Press Release

VIS Reaffirms Instrument Rating of Askari Bank Limited

Karachi, June 26, 2019: VIS Credit Rating Company Limited (VIS) has reaffirmed the rating assigned to Tier-II instrument of Askari Bank Limited (AKBL) -5th (fifth) Issue of Term Finance Certificate (TFC-V) at 'AA-' (Double A Minus). The long term rating of 'AA-' signifies high credit quality; protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions. Outlook on the assigned rating is 'Stable'. The previous rating action was announced on June 29, 2018.

The ratings assigned to AKBL incorporate its association with the primary sponsor, Fauji Foundation Group, a diversified conglomerate with strong financial muscle having business interests in different sectors of the country. The ratings draw comfort from the bank having a consistent market share in domestic deposits and advances. The ratings also derive strength from continuous improvement in asset quality, efficient cost of funds, effective management of spreads and satisfactory capitalization. Moreover, the ratings draw comfort from the low risk profile of the institution supported by sound liquidity indicators.

The bank continues to follow a prudent growth approach in order to maintain credit quality of loan book. Around two-thirds of the advances book comprised financing to private sector while the remaining were disbursed to public sector entities. The loan growth strategy majorly entailed acquiring high quality assets while enhancing relationship yields and maintaining an efficient and optimal profile of risk weighted assets. Corporate and Commercial portfolio remained the main driver towards credit expansion constituting around three fourth of advances book; meanwhile, high yielding consumer segment supported the topline of the bank on a timeline basis. Improving trend in the credit risk profile of the bank continued during the outgoing year on account of decline in gross infection and a slight increase in provisioning coverage.

Credit risk originating from investment portfolio is considered manageable given the sizeable proportion of government securities at end-FY18. Although reduction in duration of PIBs portfolio has been witnessed, the bank remains exposed to related market risk in an increasing interest rate scenario. Overall exposure in government securities was reduced during FY18 as compared to preceding year. While major exposure comprises blue chip companies, the bank remains exposed to market risk in a highly volatile stock market. Moreover, a sizeable provision was booked against equity investments during FY18 as the slump in the stock market performance continued for the second consecutive year. Moreover, liquidity profile of the bank is supported by presence of sizeable liquid assets in relation to deposits and borrowings.

Capital Adequacy Ratio improved slightly by end-FY18. The increase in risk weighted assets was largely manifested in credit and operational risk weighted assets. During FY18, the bank issued additional Tier I capital in the form of listed, perpetual, unsecured, subordinated and non-cumulative debt instrument to support its capital base. Net NPLs to tier-I equity depicted improvement on the back of lower NPLs and higher tier-1 equity. The liability of the TFC-V holders' rank inferior to all other bank obligations including deposits. TFC-V carries an inbuilt call option exercisable after 5 years of issuance given SBP's approval; while the maturity of the instrument is in Sep'24.

For further information on this rating announcement, please contact the undersigned at 021-35311861-70 or Mr. Maimoon Rasheed at 042-35723411-13.

Javed Callea
Advisor

Applicable rating criteria: 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

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