

# AKBL: Structural shift toward Islamic banking; Reiterate Buy

Muhammad Waqas Ghani, CFA

[waqas.ghani@js.com](mailto:waqas.ghani@js.com)

+92 21 111-574-1111

Ext: 3096

**Bloomberg Code:** AKBL PA

**Target Price:** Rs140

**Market Price:** Rs107.85

**Market Cap:** Rs156bn,  
US\$562mn

**1-yr ADTO:** 4.0mn shares,  
Rs342mn, US\$1.2mn

**1-yr High / Low:** Rs125.29 / 49.09

**Free float:** 435mn shares (30%)

## Potential catalysts

- Stronger growth in low-cost CA deposits
- Continued growth in Islamic banking franchise and deposit base expansion
- Higher contribution from fee and commission income
- Improving funding efficiency
- Dividend upside with capital buffer stability

## Potential risks

- Spread compression risk from interest rate volatility
- Slowdown in deposit growth or deterioration in CASA mix
- High sovereign exposure increasing sensitivity to government securities

We reiterate our Buy on **Askari Bank Limited (AKBL)** with a TP of Rs140 (~30% upside), supported by its **diversified deposit franchise, improving liquidity profile, and gradual earnings improvement**. The bank is positioned to benefit from a stabilizing interest rate environment, strong deposit mobilization momentum, and increasing contribution from non-interest income.

- **Strong and expanding deposit franchise**, with total deposits reaching Rs 1.6trn in 1QCY26, implying 22% YoY growth and a CA ratio of 33%, with focus toward a low-cost and stable funding base.
- **Resilient liquidity and investment positioning**, with a significantly expanded investment book of Rs 2.2trn (up 34% YoY), largely deployed in government securities, providing stable accrual income and supporting earnings visibility in a high sovereign exposure environment.
- **Comfortable asset quality profile with strong coverage buffer**, as declining NPLs and a coverage ratio of 119% provide resilience against potential credit cycle volatility, while provisioning buffers enhance earnings stability in the near term.
- **Structural shift toward Islamic banking franchise expansion**, with continued conversion of conventional branches and rapid growth in Islamic deposits, enhancing long-term franchise depth.
- **Key risks** include pressure on spreads from interest rate volatility, normalization of general provisioning buffers post CY26, slower credit growth amid low ADR levels, and potential earnings sensitivity to sovereign exposure concentration.

## AKBL: Key statistics

(Rs mn)	CY23	CY24	CY25	CY26F	CY27F
<b>Net Interest Income</b>	<b>59,420</b>	<b>63,280</b>	<b>87,374</b>	<b>91,130</b>	<b>113,689</b>
NIMs	3.49%	2.92%	3.47%	3.03%	3.48%
Total Income	72,355	78,721	105,186	113,008	136,922
Operating expenses	29,348	36,021	50,083	59,660	68,666
<b>PAT</b>	<b>21,431</b>	<b>21,023</b>	<b>22,803</b>	<b>25,531</b>	<b>32,220</b>
<b>EPS (Rs)</b>	<b>14.79</b>	<b>14.51</b>	<b>15.73</b>	<b>17.62</b>	<b>22.23</b>
EPS growth	52%	-2%	8%	12%	26%
DPS (Rs)	2.50	3.00	5.00	8.50	11.00
P/B (x)	0.25	0.31	0.65	1.01	0.94
P/E (x)	1.13	1.80	4.08	6.12	4.85
DY	15%	12%	8%	8%	10%
<b>Policy Rate (avg)</b>	<b>20.83%</b>	<b>19.38%</b>	<b>11.29%</b>	<b>11.25%</b>	<b>10.75%</b>

Source: Company Accounts, JS Research

## Askari Bank Limited (AKBL)

### Company description

Askari Bank Limited (AKBL), incorporated in 1991, is one of Pakistan's leading commercial banks, offering conventional and Islamic banking products across retail, corporate, commercial, consumer and agricultural segments through extensive nationwide branch networking. The bank is part of the Fauji Group and operates with a diversified business model supported by a growing digital footprints and a strong presence in the country's banking landscape. Associated companies and related parties hold 72.6% of the bank's outstanding shares, with Fauji Fertilizer Company Limited (FFC) being the largest shareholder with a 64.7% stake, followed by Fauji Foundation holding 7.2%. The remaining shareholding is distributed among mutual funds, Financial Institutions, insurance companies and the general public, providing an adequate free float and liquidity in the secondary market.

### Buy intact with ~30% capital upside

We reiterate our Buy rating for Askari Bank Ltd (AKBL) with a Jun-2027 Target Price of Rs140. Our Target Price implies an upside of around 30%, while the stock trades at a compelling CY26E P/B of 1.0x vs industry's P/B of 1.3x. The stock also offers stable D/Y of 8% as per CY26 estimates. Going forward, we assume a payout ratio of ~45-50%.

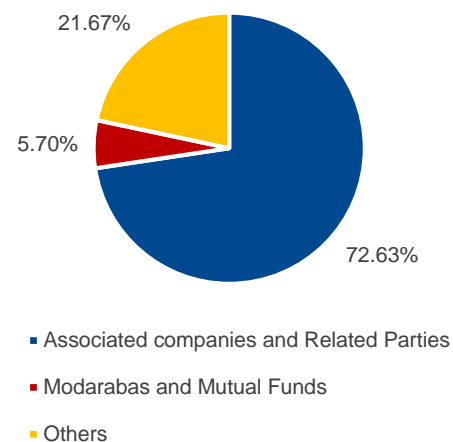
The target price is derived using a justified Price-to-Book method, with key assumptions including a 12% risk-free rate, 6% equity risk premium, and an equity beta of 1.0, resulting in a cost of equity of 18%. Assuming a payout ratio of 47.2% (retention rate of 52.8%) and a sustainable return on equity of 20.8%, this implies a growth rate of 11.0% and a justified P/B multiple of 1.39x.

We expect the stock to outperform the KSE-100 benchmark this year on the back of strong growth in both core and non-core operations.

### Deposit franchise remains well anchored

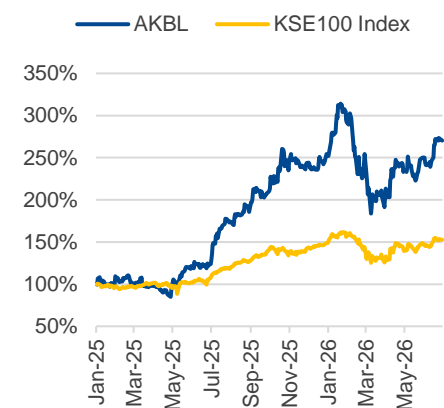
AKBL's deposit base continues to post healthy growth, with total deposits closing at Rs 1.6trn as of 1QCY26, up 22% YoY compared to Rs 1.3trn in the corresponding period last year. The growth is primarily driven by strong deposit mobilization and continued balance sheet expansion. Importantly, the deposit mix remains tilted towards low-cost funding, with the CASA ratio at 87.2% as of 1QCY26. Within this,

### AKBL Shareholding Structure



Source: Company Accounts, JS Research

### Price performance relative to KSE100

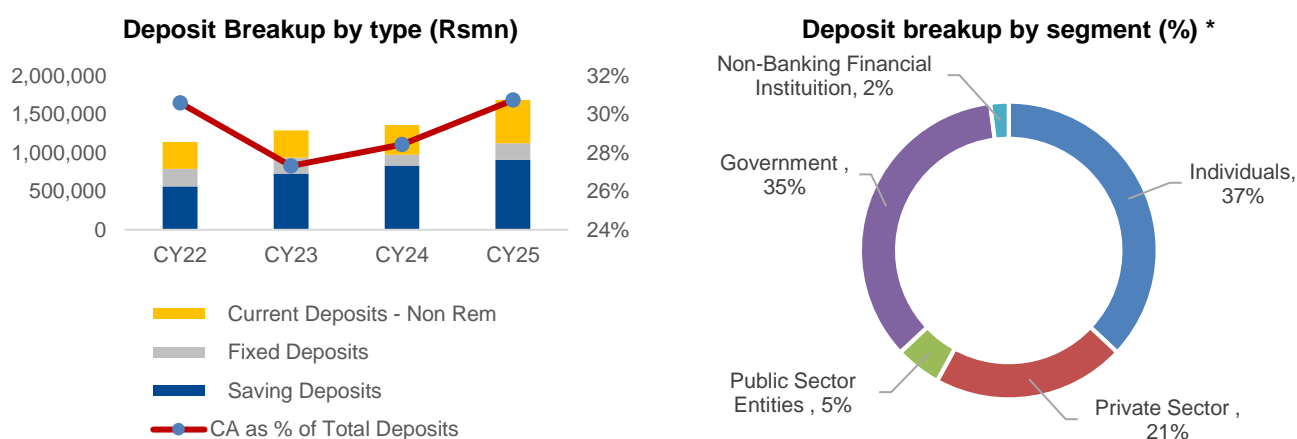


Source: PSX, JS Research

non-remunerative current deposits clocked in at Rs564bn, up 47% YoY (33.4% of the total deposits), supporting the funding base.

A 5-year deposit CAGR at 15.6% (CY25 end) along with market share of ~4.2% reflects sustained growth momentum. Deposits composition remained broadly balanced, with individual's deposits constituting 37% of the total base, followed by government deposits at 35%. Private sector deposits represented 21%, while exposure to public sector entities and non-bank financial institutions stood at 5% and 2%, respectively, providing a relatively diversified funding profile.

### AKBL Deposit mix

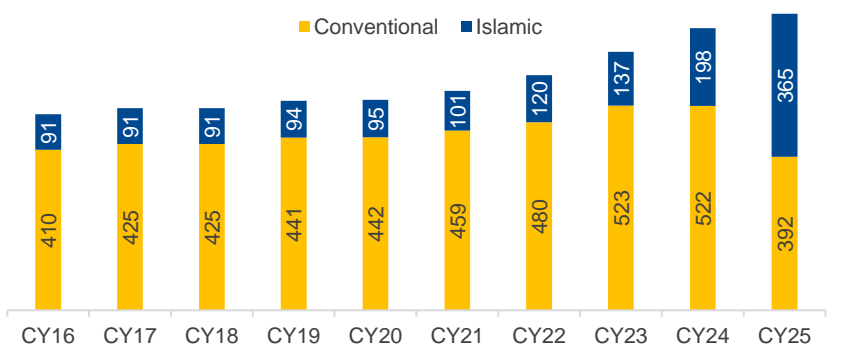


Source: Company accounts, JS Research \*CY25

### Transition toward Islamic banking continues

AKBL has been focusing on expanding Islamic branch network with 125 branches being converted from conventional to Islamic in the last 1.25 years taking Islamic banking branch network to 368 branches, total branch network stands at 760 branches.

### Expanding Islamic branch network



Source: Company accounts, JS Research

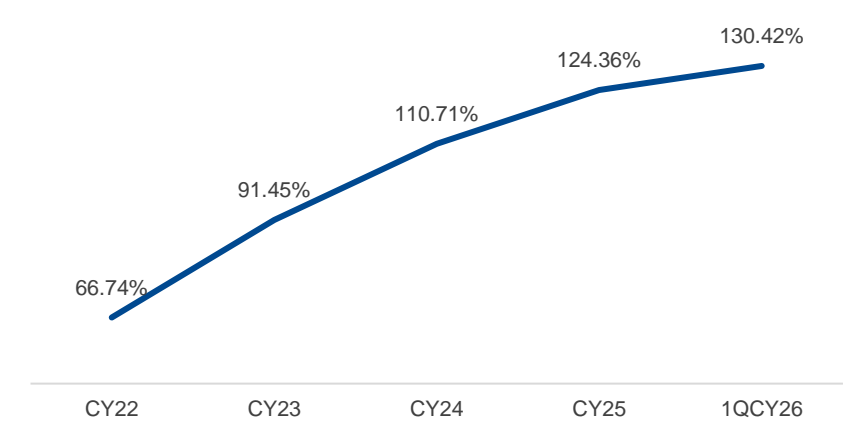
Islamic Banking deposits grew 2.53x YoY as 1QCY26 deposits clocked in at Rs324bn. Management continues to target a complete conversion of the conventional franchise into Islamic banking over the next 2–2.5 years, subject to prevailing market conditions.

Notably, the entire branch network in Khyber Pakhtunkhwa and Balochistan has already been converted, reflecting the Bank's focused approach toward expanding its Islamic footprint and enhancing network-wide accessibility to Islamic financial services.

**Investment book expands to Rs2.2trn**

AKBL's investment book expanded significantly, growing to Rs 2.2trn as of 1QCY26, up 34% YoY (1QCY25: Rs 1.65trn), reflecting continued balance deployment in sovereign instruments. The investment mix remains predominantly skewed towards government securities, including PIBs, T-bills, and Ijarah Sukuk. Within PIBs, the portfolio is largely positioned towards floating-rate instruments 92%, with the remaining 8% in fixed rate, carrying a weighted average maturity (WAM) of 2.5yrs and yield of around 12%. The expansion in investments has been funded through OMO borrowings. As a result, the investment to deposit ratio (IDR) stood at 130.4% as at 1QCY26. Going forward, bank would gradually reduce reliance on OMO borrowings, which should further normalize the funding mix. To note, every 100bp change in interest rates impacts the MTM gains by Rs3.5bn.

**AKBL: Increasing IDR over years**

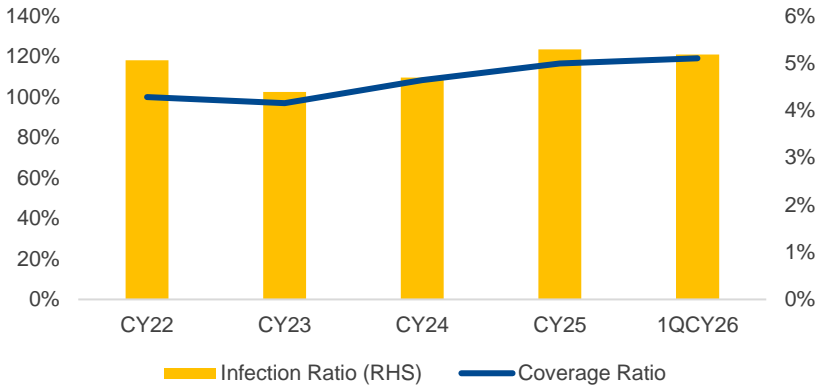


Source: Company accounts, JS Research

**Asset quality remains comfortable with strong buffer**

**AKBL's asset quality continues to improve, gross NPLs have declined 2.5% YoY to Rs 33.3bn as at 1Q end, translating into a lower infection ratio of 5.18% versus 5.80% in the same period last year** and a reduced NPL ratio of 5.52% versus 6.19%. This improvement was supported by healthy growth in gross advances, which expanded 9.2% YoY to Rs642.1bn, outpacing the pace of incremental stress formation and indicating better portfolio absorption capacity. The bank's coverage ratio also strengthened to 119.1% in 1QCY26 from 107.8% in 1QCY25, reflecting a conservative provisioning stance and providing a strong buffer against potential credit cycle volatility. Overall, the asset quality trajectory remains stable, underpinned by improving coverage and controlled formation of non-performing assets.

**Asset quality ratios (%)**

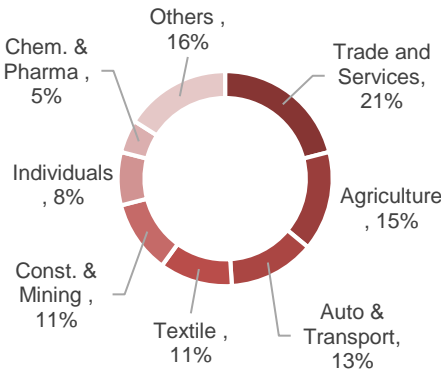


Source: Company accounts, JS Research

**Provisioning buffers and portfolio resilience**

Bank maintains general provisioning of Rs39.6bn as of 1QCY26, providing a cushion over and above IFRS 9 expected credit loss requirements. This buffer enhances earnings stability by absorbing potential credit shocks and reducing volatility in provisioning cycles, particularly during periods of macro stress. However, in the absence of an extension beyond Dec-2026, the gradual unwinding of these general provisions from CY27 could normalize overall provisioning levels, potentially exerting pressure on earnings and capital buffers for banks with relatively higher reserves. Meanwhile, the loan book remains well diversified, with exposure spread across trade and services (21%), agriculture (15%), automobiles and transport (13%), and textile and construction/mining (11% each), while individual lending contributes 8%, supporting overall portfolio resilience and limiting concentration risk.

**CY25 Advances- Sector Wise (%)**



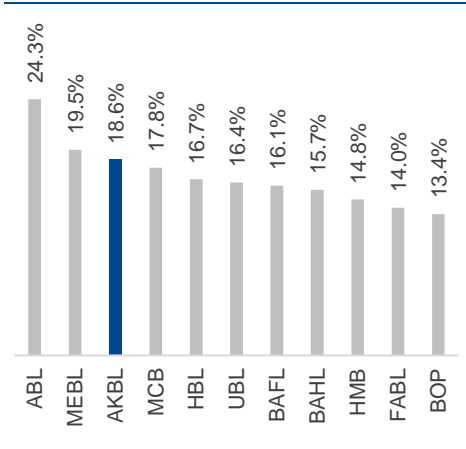
Source: Company Accounts, JS Research

**Capital position provides room for dividend**

Bank maintains a healthy capital position with CAR of 18.6% and tier-1 ratio of 16.7% as of 1QCY26, comfortably above the regulatory requirement of 12.5%. Strong internal capital generation coupled with prudent balance sheet growth has helped the bank to preserve sufficient space to support future asset. Leverage ratio stands at 3.48%. The current capitalization levels provide enough room for credit growth and dividend payouts while preserving resilience against potential macroeconomic and regulatory headwinds.

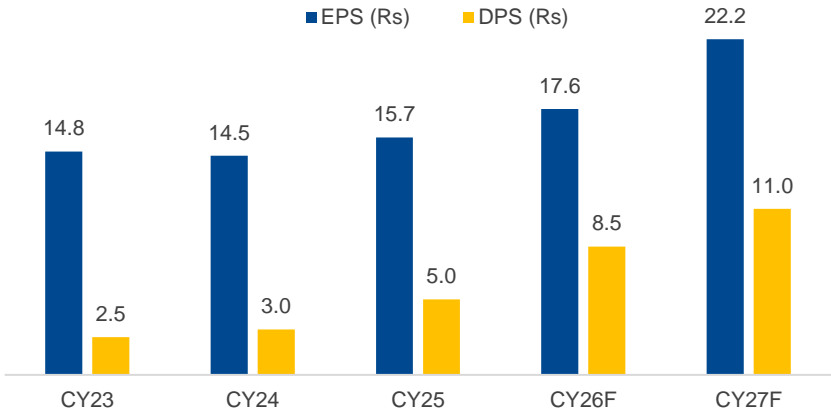
Bank's strong capital base has also supported a disciplined dividend policy. Cash dividend payouts increased from Rs2.5/share in CY23 to Rs3.0/share in CY24 and further to Rs5.0/share in CY25. The declaration of an interim cash dividend of Rs2.0/share in 1QCY26 reflects management's confidence in the Bank's earnings outlook while maintaining adequate capital buffers to support future growth.

**CAR - 1QCY26**



Source: Company Accounts, JS Research

**Earnings & Payout trend (Rs/share)**



Source: Company accounts, JS Research

## Key Risks

### 1. Higher-than-expected credit costs

A deterioration in asset quality could lead to higher provisioning expenses, weighing on profitability ratios. Slower economic activity or stress in key borrower segments could accelerate non-performing loan formation.

The management highlights every 100bp change in interest rates impacts the MTM gains by Rs3.5bn.

### 2. Investment in digital and branch expansion to increase costs

Continued investment in digital infrastructure and branch expansion may keep operating expenses elevated in the near term. If revenue growth fails to offset these investments, cost-to-income ratio would worsen.

### 3. Competitive deposit market

Intensifying competition for deposits may increase funding costs as banks offer more attractive deposit rates to retain and attract customers. This could compress net interest margins despite continued deposit growth.

## DISCLOSURES

JS Global hereby discloses that all its Research Analysts meet with the qualification criteria as given in the Research Analysts Regulations 2015 ('Regulations'). Each Analyst reports to the Head of Research and the Head of Research reports directly to the CEO of JS Global only. No person engaged in any non-research department has any influence over the research reports issued by JS Global and/or no person engaged in any non-research department (other than the CEO) has any influence on the performance of the Research Analysts or on their remuneration/compensation matters.

The Research Analyst(s), author of this report hereby certify that all of the views expressed in this research report accurately reflect their personal, unbiased and independent views about any and all of the subject issuer(s) or securities, and such views are based on analysis of various information compiled from multiple sources, including (but not limited to) annual reports, newspapers, public disclosures, financial models etc. The given sources appear to be and consequently are deemed to be reliable for forming an opinion and preparation of this report. Such information may not have been independently verified or checked by JS Global or the Research Analyst, and therefore, all such information as given in this report may or may not prove to be correct. It is hereby certified that no part of the compensation of JS Global or the Research Analyst was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

### Rating System

JS Global Capital Limited uses a 3-tier rating system i.e. Buy, Hold and Sell, based on the level of expected return. Time horizon is usually the annual financial reporting period of the company.

'Buy': Stock will outperform the average total return of stocks in our universe  
'Hold': Stock will perform in line with the average total return of stocks in our universe  
'Sell': Stock will underperform the average total return of stocks in our universe

### Target price risk

Company may not achieve its target price for various reasons including company specific risks, competition risks, sector related risks, change in laws, rules and regulations pertaining to the business of the Company as well as a change in any governmental policy. The results of operations may also be materially affected by global and country-specific economic conditions, including but not limited to commodity prices, prices of similar products internationally and locally, changes in the overall market dynamics, liquidity and financial position of the Company and change in macro-economic indicators. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company may enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

### Research Dissemination Policy

JS Global Capital Limited endeavours to make all reasonable efforts to disseminate research to all clients (without any preference, prejudice or biasness) in a timely manner through either physical or electronic distribution such as mail, fax and/or email.

### Disclosure Pertaining To Shareholding/Conflict of Interest

The Research Analyst has not directly or indirectly received any compensation from the Subject Company for preparation of this report or for the views expressed herein, and the Subject Company is not associated with the Research Analyst in any way whatsoever.

No other material information (other than the one specifically disclosed in this report) exists (for JS Global as well as the Research Analyst) which could be a cause of conflict of interest in issuing this report.

### Disclaimer of Liability

No guaranty, representation or warranty, expressed or implied, is made as to the accuracy, completeness, reasonableness, correctness, usability, suitability or purposefulness of the information contained in this report or of the sources used to compile the information contained in this report.

All information as given in this report may or may not prove to be correct, and is subject to change without notice due to market forces and/or other factors not in the knowledge of or beyond the control of JS Global or the Research Analyst(s), and neither JS Global nor any of its analysts, traders, employees, executives, directors, sponsors, officers or advisors accept any responsibility for updating this report and therefore, it should not be assumed that the information contained herein is necessarily complete, accurate, reliable or up-to-date at any given time.

The client is solely responsible for making his/her own independent investigation, appraisal, usability, suitability or purposefulness of the information contained in this report. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors who should seek further professional advice or rely upon their own judgment and acumen before making any investment. This report should also not be considered as a reflection on the concerned company's management and its performances or ability, or appreciation or criticism, as to the affairs or operations of such company or institution

Consequently, JS Global and its officers, directors, sponsors, employees, executives, consultants, advisors and analysts accept no responsibility or liability towards the Client, and assume no obligation to do (or not to do) anything with respect to the information contained in this report. Research Analyst(s) and JS Global shall also not be liable in any way and under any circumstances whatsoever for any loss, penalty, expense, charge or claim that may be suffered/incurred by the client as a result of receiving, using, or having complied and distributing this report.

**Warning: This report may not be reproduced, distributed or published by any person for any purpose whatsoever. Action will be taken for unauthorized reproduction, distribution or publication.**