The Pakistan Credit Rating Agency Limited

Rating Report

Allied Bank Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jun-2019	AAA	A1+	Stable	Maintain	-
27-Dec-2018	AAA	A1+	Stable	Maintain	-
06-Jul-2018	AAA	A1+	Stable	Upgrade	-
29-Dec-2017	AA+	A1+	Stable	Maintain	-
23-Jun-2017	AA+	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Allied Bank Limited is one of the top five banks of the country in terms of its deposit share. The bank’s franchise, spread over a network of 1,345 branches, has enabled sustainable footprints into the country’s deposit base. The bank’s risk absorption capacity, as reflected in its sound equity base, has grown more than the market average over the years. This is supplemented by a significantly higher CAR (22.8% at Mar19), beyond the industry average. The bank has adopted a multi-faceted approach to augment its relative standing in the market. Increased attention is being diverted towards deepening of current business relationships and an enduring emphasis has been laid on building trade business. The bank’s technology platform is a strength. This has facilitated fast and effective decision making while extending quality conventional and digital services to its customers. The related benefits would continue to unfold over the years. The ratings recognize the management's concerted efforts in sustaining the sound asset quality, while expanding its advances portfolio. The low infection ratio and high coverage ratio are considered positive. The continued strengthening in retail deposit market would enable further improvement in deposit granularity in terms of concentration as well as funding cost. The market share needs to be harnessed. At the same time, achieving efficiency in terms of utilization of its healthy CAR may help in further boosting ABL’s market share and profitability.

The management’s ongoing concerted efforts towards enhancing diversification in its revenue stream, achieving reduction in overall concentration, higher penetration in retail deposits and continuous improvement in cost structure remain important.

Disclosure	
Name of Rated Entity	Allied Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Financial Institution(Jun-18),Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study | Commercial Bank(Jun-19)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Structure Allied Bank Limited (ABL), incorporated as a public limited company, commenced operations as a Scheduled Commercial Bank in 1942. The bank is quoted on Pakistan stock exchange under the category of commercial banks.

Background ABL was re-capitalized under a scheme of reconstruction by State Bank of Pakistan in 2004 and thereafter renamed Allied Bank Limited (ABL) in 2005. Since then, the bank has taken significant growth and has the fifth position in terms of deposit market share among large banks of Pakistan, at end-Dec18. It's head office is located in lahore.

Operations The Bank is engaged in commercial banking and related services. As of end-Dec18, ABL operates with 1,344 branches (end-Dec17: 1,250 branches) in Pakistan. ABL has a growing subsidiary – ABL Asset Management Company – which has AUM close to PKR 40bln at end-Mar19 (end-Mar18: PKR 47.2bln) with a market share of 6.4%.

Ownership

Ownership Structure Ibrahim Group (IG), through Ibrahim Holdings (Pvt). Limited owns 84.66% of shareholding in ABL. Previously, the same had been owned through Ibrahim Fibers Limited and sponsor family members. The rest is dispersed between individuals and corporates.

Stability Ownership structure of the bank is seen stable as no ownership changes are expected in near future. Majority stake will rest with the Ibrahim Group.

Business Acumen The business acumen is considered strong as the sponsors has diversified interests in various sectors since many years. Apart from interest in financial sector; IG is engaged in manufacturing of yarn and polyester staple fibre.

Financial Strength The willingness towards the business is evident from the steadfast approach used by the management.

Governance

Board Structure The eight members BoD include the CEO, three sponsors/non-executive directors, three independent directors and one non-executive director. Mr. Tahir Hassan Qureshi has been designated as the CEO since Jan-17.

Members' Profile In accordance with requirements of Listed Companies (Code of Corporate Governance) Regulations, 2017, all members of BoD are "Certified Directors". Three directors have prescribed education and experience required for exemption from training programs of Directors pursuant to clause 20 of CCG. The participation of all board members has remained high, as reflected by attendance in CY18.

Board Effectiveness The board is currently assisted with five board committees. Namely, Audit Committee of the Board (ACOB); Board Risk Management Committee (BRMC); e-Vision Committee; Strategic Planning & Monitoring Committee (SPMC) and Human Resource & Remuneration Committee (HR&RC).

Financial Transparency KPMG Taseer Hadi and Company, Chartered Accountants, classified in category 'A' by SBP and having a satisfactory QCR rating are the external auditors for ABL. They have expressed an unqualified opinion on the financial reports for the year ended December 31, 2018.

Management

Organizational Structure ABL is functionally divided into seventeen groups, each governed by respective chief and all reports to CEO. Company Secretary and Chief ARR report directly to BoD and Audit Committee of Board respectively.

Management Team Mr. Tahir Hassan, carrying over 30 years of banking experience, is the CEO of ABL since Jan-17. He has previously been associated with the bank in capacity of COO and CFO. Mr. Qureshi, FCA, has been associated with the bank for about last one decade. ABL has a management team of experienced executives.

Effectiveness The management operates through four committees at management level including 1) Management Committee (MANCO), 2) Assets & Liabilities Committee (ALCO), 3) Risk Management and Compliance Committee (RMCC), 4) Fair Treatment of Customers Committee (FTC). MANCO is further assisted by Human Resource Committee, IT Steering Committee and Anti-Harassment Committee.

MIS Comprehensive MIS reports are generated on daily, weekly and monthly basis which are viewed by management on regular basis.

Risk Management Framework The bank manages risk through a framework of sound principles, which includes an optimum organizational structure, and well-designed risk assessment and monitoring processes. The Risk Management Group (RMG) is mandated to implement this framework as a function working independently of business lines.

Business Risk

Industry Dynamics The year 2018 was a marked year as the industry saw an expansion of ~22% in advances, although the deposit growth rate stayed in single digit. As a result the industry saw a rise in the ADR ratio from 50% to 55%. In terms of advances expansion, a predominant portion went in to energy sector followed by textile, individuals and agriculture. Corporate sector claimed the major portion of the borrowings with small amounts going into commodity, consumer and SME sectors. Profitability of the banks has taken a hit due to incremental costs and provisioning on account of NPLs. After a lapse of few years the industry NPLs have seen an accretion which is a concern going forward.

Relative Position ABL, a large sized bank, holds a strong position in the industry with a customer deposit base of PKR 932bln at end-Mar19 (CY18: PKR 903bln; CY17: PKR 830bln).

Revenues During CY18, ABL's interest earned augmented by 12% YOY to PKR 73bln (CY17: PKR 65bln). However, NIMR witnessed a meagre increase of 2% on YOY basis. On the other hand, mark-up expenses increased by 21% YOY. The bank's asset yield remained largely same at 6.5% (end-Dec17: 6.7%). Cost of funds stood at 3.8% (CY17: 3.6%). Hence, Bank's spread inched down (CY18: 2.7%; CY17: 3.1%). During the 1QCY19, NIMR jumped by 20% YOY (1QCY19: PKR 9.5bln; 1QCY18: PKR 8.0bln) as there was a massive 54% increase in markup income when compared to the corresponding period under review, this was due to YOY growth of 9% in loans and advances. The spread inched up to 3.1%.

Performance During CY18, non-mark-up income recorded an increase of 30% YOY to stand at PKR 11.2bln (CY17: PKR 8.7bln) mainly emanating from an increase in unrealized gain on sale of investments (CY18: PKR 2,382mln; CY17: PKR 643mln) and income from foreign currencies. The rise in non-mark-up expense (6%) stood at PKR 23.3bln (CY17: PKR 21.9bln) primarily due to the fact that bank has been expanding its branches - The management plans to open 50 new branches including 2 sub-branch in 2019. Bank recorded net reversal against provision and write-offs amounting to PKR 1bln (CY17: PKR 2.5bln).Hence, bottom-line stood at PKR 12.8bln (CY17: PKR 12.7bln).

Sustainability Going forward, ABL continues focus in increasing its deposit base by leveraging its branch network and digitizing its products. Initiatives like mobile banking and branchless banking remain core to the strategy. Bank envisages cautious approach towards lending growth to continue. Herein, concentration risk remains a key challenge.

Financial Risk

Credit Risk During CY18, ABL's advances have grown by 18% (CY18: PKR 438bln; CY17: PKR 372bln). Growth in advances was slightly below industry average of large banks (CY18: 22%). The Bank's ADR increased to 45% (end-Dec17: 42%); still below industry average indicating room for growth in future years.

Market Risk During CY18, ABL invested majorly in Government securities, which are T Bills (81%), whereas rest of the book is invested in strategic and non-strategic equity investments. ABL's exposure in Foreign Currency Bonds has increased to ~0.84% at end-Dec18 (end-Dec17: ~0.73%), while exposure in PIBs reduced to 10% (end-Dec17: 34%). This trend has been witnessed throughout the industry in the wake of rising interest rate environment.

Liquidity And Funding During CY18, ABL's customer deposits increased to PKR 903bln (CY17: PKR 830bln), up 9% against 10% growth achieved by the industry. CASA proportion slightly inched up to 81% at end-Dec18 (end-Dec17: ~78%) driven by growth in CA deposits. Coupled with a stable and growing deposit base, liquidity management has not been a major concern for the bank.

Capitalization As at end-Dec18, the bank's equity base strengthened on account of consistent profitability. ABL's Capital Adequacy Ratio (CAR) is robust (1QCY19: 22.8%; CY18: 22.2%), herein dominant portion is Tier-I (1QCY19: 17.9%; CY18: 17.3%) while Tier II stood at 4.9% (CY18: 4.9%).

Allied Bank Limited

PKR mln

BALANCE SHEET	31-Mar-19	31-Dec-18	31-Dec-17	31-Dec-16
	1Q	*Annual*	*Annual*	*Annual*
Earning Assets				
Advances	420,970	437,804	370,700	328,583
Debt Instruments	6,888	12,030	9,517	24,348
Total Finances	427,858	449,834	380,217	352,931
Investments	470,132	659,565	688,934	565,899
Others	182,085	70,221	20,684	19,356
	1,080,075	**1,179,620**	**1,089,835**	**938,187**
Non Earning Assets				
Non-Earning Cash	73,224	85,328	74,027	65,039
Deferred Tax	-	-	-	-
Net Non-Performing Finances	168	148	969	1,266
Fixed Assets & Others	88,754	85,510	84,835	65,123
	162,146	**170,986**	**159,831**	**131,428**
TOTAL ASSETS	**1,242,221**	**1,350,606**	**1,249,666**	**1,069,614**
Interest Bearing Liabilities				
Deposits	1,007,542	984,475	883,741	805,111
Borrowings	89,851	225,883	223,556	126,369
	1,097,393	1,210,358	1,107,297	931,480
Non Interest Bearing Liabilities	37,249	32,943	35,652	37,461
TOTAL LIABILITIES	**1,134,642**	**1,243,301**	**1,142,949**	**968,941**
EQUITY (including revaluation surplus)	**107,579**	**107,305**	**106,717**	**100,674**
Total Liabilities & Equity	**1,242,221**	**1,350,606**	**1,249,666**	**1,069,614**

INCOME STATEMENT	31-Mar-19	31-Dec-18	31-Dec-17	31-Dec-16
	1Q	*Annual*	*Annual*	*Annual*
Interest / Mark up Earned	24,344	73,274	65,709	64,606
Interest / Mark up Expensed	(14,759)	(41,159)	(34,130)	(31,345)
Net Interest / Markup revenue	**9,585**	**32,115**	**31,578**	**33,261**
Other Income	2,537	11,289	8,712	11,210
Total Revenue	**12,122**	**43,405**	**40,291**	**44,471**
Non-Interest / Non-Mark up Expensed	(6,076)	(23,306)	(21,938)	(20,900)
Pre-provision operating profit	**6,046**	**20,099**	**18,353**	**23,571**
Provisions	204	1,090	2,526	260
Pre-tax profit	6,250	21,016	20,879	23,831
Taxes	(3,265)	(8,136)	(8,145)	(9,404)
Net Income	**2,985**	**12,881**	**12,734**	**14,427**

Ratio Analysis	31-Mar-19	31-Dec-18	31-Dec-17	31-Dec-16
	1Q	*9M*	*Annual*	*Annual*
Performance				
ROE	14.1%	15.8%	16.6%	20.3%
Cost-to-Total Net Revenue	50.1%	53.7%	54.4%	47.0%
Provision Expense / Pre Provision Profit	-3.4%	-5.4%	-13.8%	-1.1%
Capital Adequacy				
Equity/Total Assets	6.8%	6.2%	6.3%	7.0%
Capital Adequacy Ratio as per SBP	22.8%	22.2%	21.9%	20.8%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	69.1%	66.4%	74.0%	73.7%
Advances / Deposits	41.8%	44.5%	42.1%	41.0%
CASA deposits / Total Customer Deposits	79.5%	81.1%	77.7%	76.0%
Intermediation Efficiency				
Asset Yield	8.6%	6.5%	6.6%	7.5%
Cost of Funds	5.5%	3.8%	3.6%	3.7%
Spread	3.1%	2.7%	3.1%	3.8%
Outreach				
Branches	1,345	1,345	1,250	1,150

Rating Scale

Credit Rating Scale & Definitions

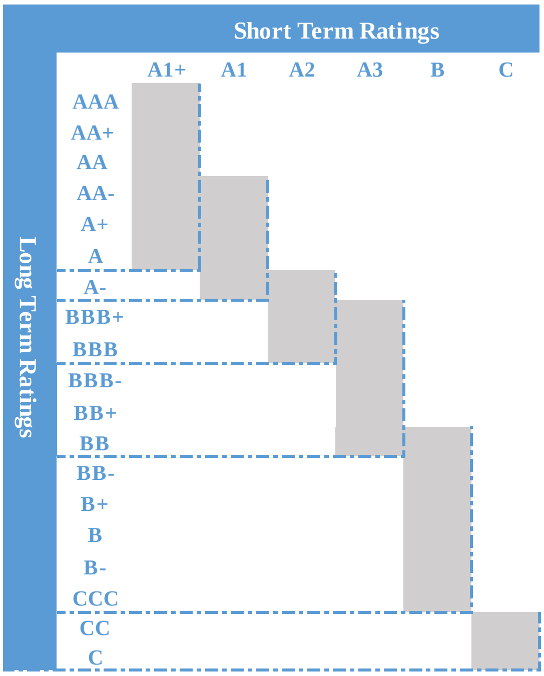
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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 conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) 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.

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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.

(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