



The Pakistan Credit Rating Agency Limited

Rating Report

Allied Bank Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2020	AAA	A1+	Stable	Maintain	-
27-Dec-2019	AAA	A1+	Stable	Maintain	-
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	-
24-Jun-2016	AA+	A1+	Stable	Maintain	-
26-Jun-2015	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 1,395 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 over the years. Another reflection of this is ABL's significantly robust CAR (22% as at Dec19), beyond the industry average. While ABL has realistic approach towards lending, increased attention is being diverted towards deepening of current business relationships and an enduring emphasis is laid on building trade business. The bank's technology platform is a strength. This has facilitated fast and effective decision making while extending quality counter banking and e-banking services to its customers, additionally this also has enabled itself to operate with high efficiency and capacity even in current pandemic situation. The related benefits would continue to unfold over the years. The ratings recognize the management's concerted efforts in sustaining the sound asset quality, which covered the high advances concentration comparatively to financially sound groups; ensuring that aggregate risks are within Bank's overall risk appetite. The low infection ratio and good 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 as CA has reported significant growth during the year. 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. As due to ongoing COVID-19 pandemic, profits are expected to take slight dip however, overall costs would not experience much growth. Covid-19 has posed challenges to the banking sector, as almost all segments of the economy, worldwide & domestically, are getting negatively impacted. The ramifications would continue to unfold, warranting vigilance and timely actions where needed.

The management's ongoing concerted efforts towards enhancing diversification in its revenue stream, enrichment of customer profile, further penetration in retail deposits and continuous optimization 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	PACRA_Methodology_FI(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Commercial Bank(Jun-20)
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-Dec19. It's head office is located in Lahore.

Operations ABL operates with 1,393 branches including 117 Islamic banking branches, 6 Digital/ Self Service branches (end-Dec18: 1,343 branches including 117 Islamic banking branches) in Pakistan & 2 overseas branches (Dec-18: 2 branches). ABL has a growing subsidiary – ABL Asset Management Company – which has AUM close to PKR 57bln at end-Mar20 (end-Mar19: PKR 40bln).

Ownership

Ownership Structure Ibrahim Group (IG) owns ~85% of shareholding in ABL, through Ibrahim Holdings (Pvt). Ltd. 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 fiber.

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 independent directors, three sponsors nominated non-executive directors & 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, 2019, five members of BoD are "Certified Directors". Three directors are exempted from this requirement having prescribed education and experience in accordance with Regulation 19 of CCG. The participation of all board members has remained high, as reflected by attendance in CY19.

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 M/s 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, 2019.

Management

Organizational Structure ABL is functionally divided into sixteen groups, each governed by respective chief reporting to CEO except for Chief Audit & Risk Review reporting directly to Audit Committee of Board.

Management Team Mr. Tahir Hassan, carrying over 31 years of experience (including 26 years of banking experience), is the CEO of ABL since Jan-17. Mr. Mehmud ul Hassan has been designated as CFO since Sep-19 & Mr. Shaikh Raashed Rauf joined the team as Chief Islamic banking- since Mar-20. ABL has a management team of experienced executives.

Effectiveness The management operates through five committees at management level including 1) Management Committee (MANCO), 2) Assets & Liabilities Committee (ALCO), 3) Risk Management Committee (RMC), 4) Compliance Committee (CC), 5) Fair Treatment Committee (FTC). MANCO is further assisted by Human Resource Committee (HRC) & IT Steering Committee (ITSC). HRC is further assisted by Central Administrative Action Committee (CAAC).

MIS Comprehensive MIS reports are generated on daily, weekly and monthly basis which are viewed by management on regular basis. During CY19, major highlight in this specific area was installation of Oracle Big Data Appliance in partnership with IBM which will further enhance the functioning of system.

Risk Management Framework ABL conducts various security assessment exercises including vulnerability assessments, penetration testings' and technical risk assessments together with compromise assessment activity as mandated by SBP. PCI DSS Certification was also achieved; depicting a major security milestone along with compliance to swift customer security program as mandated by Swift International.

Business Risk

Industry Dynamics As a result of general economic slowdown most indicators of the banking sector reflected mixed trend. Deposits of the banking sector stood at (CY19: PKR 15,953bln; CY18: PKR 14,254bln), showing a growth of ~12% as compared to 9.5% growth in CY18. Deployment of funds was largely skewed towards investments and particularly towards government instruments due to favorable interest rate dynamics (CY19: PKR 8,939bln; CY18: PKR 7,914bln). Meanwhile, advances witnessed a slowdown owing to subdued demand, cautious lending approach and monetary tightening. This was only a growth of 3.7% as compared to expansion of 22.2% in CY18. Asset quality saw deterioration – increased NPLs (CY19: PKR 761bln; CY18: PKR 680bln). The profitability of the banking sector improved due to an increase in Net Interest Income, which translated positively in other profitability indicators. The overall risk profile of the banking sector remained satisfactory.

Relative Position ABL, a large sized bank, holds a strong position in the industry with a customer deposit base of PKR 1049bln at end-Dec19 (CY18: PKR 984bln; CY17: PKR 884bln).

Revenues During CY19, ABL's interest earned increased to PKR 123bln (CY18: PKR 73bln), up by ~67% YOY. However, NIMR witnessed increase of 29% on YOY basis mainly driven by the high interest rate environment and volumetric rise in advances. The bank's asset yield also increased and stood at 10.3% (CY18: 6.7%). Cost of funds stood at 6.4% (CY18: 3.6%). Hence, Bank's spread inched up (1QCY20: 4.2%; CY19: 3.8%; CY18: 3.1%).

Performance During CY19, non-markup income recorded meager decline of ~3% YOY to stand at PKR 10.9bln (CY18: PKR 11.3bln) mainly emanating from decrease in unrealized gain on sale of investments (CY19: PKR 1.6bln; CY18: PKR 2.4bln). The rise in non-markup expense by ~17%, stood at PKR 27.6bln (CY18: PKR 23.5bln) which includes the amount of penalty from SBP (CY19: PKR 120.9mln; CY18: PKR 38.1mln). Bank recorded a provision of PKR 546.6mln (Reversal: CY18: PKR 1089.6mln) & taxes reported as (CY19: PKR 10,129mln; CY18: PKR 8,136mln) which affected the bottom-line to stand at PKR 14.1bln (CY18: PKR 12.9bln).

Sustainability Going forward, ABL continues focus on 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 CY19, ABL's advances reported growth of 11% (CY19: PKR 485bln; CY18: PKR 438bln). Growth in loans and investment in finance leases contributed to the increase in advances. The Bank's ADR followed the same inclining trend as per overall industry and stated as 46% (CY18: 44%).

Market Risk ABL has followed the same composition in investment to CY19 (end Dec19: 758bln; end Dec18: 671bln). The major exposure lies within Govt. Securities (i-e T-bills & PIB's) of 92% and rest of the exposure is in strategic and non-strategic equity investments. ABL's exposure in PIBs has immensely increased by 146% during CY19 resultantly, ABL will book gain in upcoming periods as investment made in fix rate PIBs.

Liquidity And Funding During CY19, ABL's customer deposits increased to PKR 963bln (CY18: PKR 904bln), up ~7% against ~11% growth achieved by the industry. CASA proportion slightly inched up to ~81% at end-Dec18 (end-Dec18: ~79%) 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-Dec 19, the bank's equity base (end-Dec: PKR115bln; end-Dec 18: PKR 107bln) strengthened on account of consistent profitability. ABL's Capital Adequacy Ratio (CAR) is robust (CY19: 21.7%; CY18: 22.2%), herein dominant portion is Tier-I (CY19: 17%; CY18: 17.3%) while Tier II inched down and stood at 4.7% (CY18: 4.9%).



PKR mln

Allied Bank Ltd.
Listed Public Limited

Mar-20	Dec-19	Dec-18	Dec-17
3M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	475,431	497,889	449,467	379,848
2 Investments	659,294	744,383	659,565	688,933
3 Other Earning Assets	48,177	30,419	73,118	9,343
4 Non-Earning Assets	179,322	207,729	167,941	170,203
5 Non-Performing Finances-net	606	701	515	1,338
Total Assets	1,362,830	1,481,121	1,350,606	1,249,665
6 Deposits	1,041,881	1,049,043	984,475	883,741
7 Borrowings	157,603	266,448	225,883	223,556
8 Other Liabilities (Non-Interest Bearing)	50,048	50,279	32,943	35,652
Total Liabilities	1,249,532	1,365,770	1,243,301	1,142,949
Equity	113,298	115,351	107,305	106,716

B INCOME STATEMENT

1 Mark Up Earned	32,071	122,637	73,274	65,709
2 Mark Up Expensed	(20,454)	(81,130)	(41,159)	(34,130)
3 Non Mark Up Income	2,850	10,891	11,289	8,712
Total Income	14,466	52,399	43,405	40,291
4 Non-Mark Up Expenses	(7,204)	(27,610)	(23,478)	(21,938)
5 Provisions/Write offs/Reversals	(681)	(547)	1,090	2,526
Pre-Tax Profit	6,581	24,242	21,016	20,879
6 Taxes	(2,563)	(10,129)	(8,136)	(8,145)
Profit After Tax	4,018	14,113	12,881	12,734

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	3.3%	2.9%	2.5%	2.7%
Non-Mark Up Expenses / Total Income	49.8%	52.7%	54.1%	54.4%
ROE	14.1%	12.7%	12.0%	12.3%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	8.3%	7.8%	7.9%	8.5%
Capital Adequacy Ratio	23.0%	21.7%	22.2%	22.4%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	59.5%	59.7%	56.7%	69.7%
(Advances + Net Non-Performing Advances) / Deposits	44.3%	46.2%	44.5%	42.1%
CA Deposits / Deposits	36.0%	37.0%	33.7%	35.8%
SA Deposits / Deposits	46.2%	43.7%	45.2%	42.4%

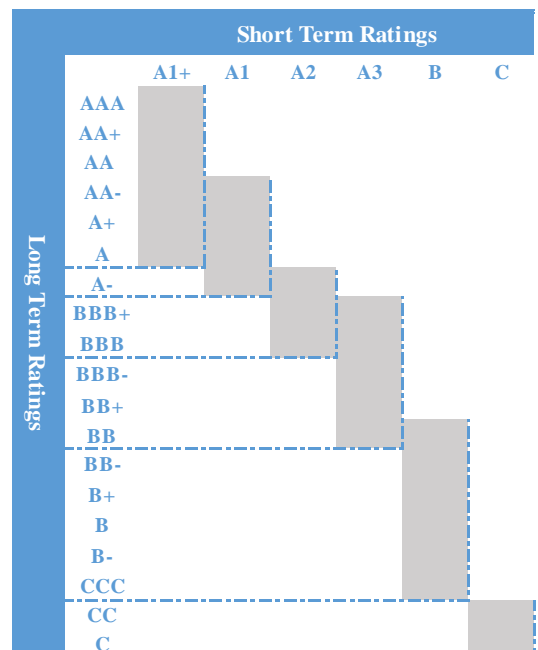
4 Credit Risk

Non-Performing Advances / Gross Advances	3.3%	3.2%	3.5%	4.6%
Non-Performing Finances-net / Equity	0.5%	0.6%	0.5%	1.3%

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		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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 surveil the opinion due to lack of requisite information.

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

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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)

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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 | 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)

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