

RATINGS (JUNE 2009)

ALLIED BANK LIMITED (ABL)

RATINGS	NEW	PREVIOUS
Entity		
Long Term	AA	AA
Short Term	A1+	A1+
Instrument (TFCs 2nd Issue)		
(Listed, Unsecured, Subordinated) PKR 3,000mln	AA-	AA-*

* Issue size at the time of the assigned rating was PKR 5,000mln.

FINANCIAL DATA

PKR (mln)

	Dec-08	Dec-07
Total Assets	366,680.2	320,109.7
Equity	20,805.1	18,408.4
Net Income	4,156.7	4,076.1
ROA %	1.21	1.42
ROE %	21.2	23.54
Equity / Assets (%)	5.67	5.75
SBP CAR %	10.9	9.29

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TFC ISSUE

ABL plans to issue its second listed, unsecured, subordinated TFCs of upto PKR 3,000mln for a tenor of 10 years. The profit payment, to be made semi-annually in arrears, will be based on 6 months KIBOR plus 85bps for the first 5 years of the TFC Issue, and 6 months KIBOR plus 130bps from the start of the 6th year. The instrument is structured to redeem 0.02% of the principal at every repayment date, with the remaining principal to be redeemed at maturity through a bullet payment. The TFCs have a call option, exercisable on any profit payment date starting 60th month from the issue date.

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect ABL’s good performance prospects emanating from its extensive outreach, sound capital structure and initiatives to tap growth. While seeking to strengthen its infrastructure and control environment, the management intends to withstand an increasingly competitive environment through achieving diversification in loan book and leveraging the extensive outreach to expand its retail universe – both for credit expansion and low cost deposit mobilization.
- The ratings are dependent on the bank’s effective execution of its business strategy to improve its competitive position. Meanwhile retention and cohesiveness of senior management is critical to ensure consistency in policies and strategy. Although the bank is working in a structured manner to strengthen its risk management framework and IT infrastructure, any inordinate delay in implementation would impact its ability to effectively tap emerging opportunities. Meanwhile, any material deterioration in the asset quality of the bank leading to weakening of its risk absorption capacity, could also adversely affect the ratings.

ASSESSMENT

- ABL is a large sized bank, with a network of 766 branches at end-Mar09. The bank has improved its system share of advances and deposits with finances-to-deposits ratio of around 79% at end-Mar09. The loan book is currently concentrated in the corporate sector (76%), with remaining major portion being deployed in SME sector (11%) and commercial sector (8.7%). The proportion of consumer financing is currently negligible.
- The bank’s net interest revenue increased during 2008 on the back of substantial growth in earning assets and higher spreads. The contribution of fee-based income towards total net revenue declined during the year. Cost-to-net revenue, though on a higher side, was maintained in 08. The bank’s YoY performance, in terms of ROE and ROA, registered a moderate decline over the year due to additional provisioning against rising NPLs. Moreover there was a 50% provisioning of around PKR1.7bln on account of diminution in value of AFS equity investments.
- ABL’s initiatives to tap the growth potential include (i) launch of bancassurance products, (ii) launch of consumer banking and retail products (iii) aggressive mobilization of deposits with a focus on reducing cost and (iii) expansion of asset management operations launched through a wholly owned subsidiary. While maintaining the finances-to-deposit ratio at around 75%, the management plans to diversify the loan book by increasing the combined share of Commercial, SME & Consumer segment to around 45% of the targeted portfolio in the medium term. These initiatives, along-with ABL’s participation in corporate/investment banking and trade-related activities, would help in enhancing fee-based income, and hence profitability.
- ABL witnessed noticeable growth in NPLs in 08. The bank’s net NPLs as a percentage of gross advances increased to 7.4% at end-Mar09 (end-08: 6.2%, end-07: 6.4%). Going forward, given the relative pressure on the macroeconomic environment, management forecasts increase in NPLs during the medium term, thus putting further pressure on asset quality. Concentration of top-20 borrowers is relatively high, but the risk is mitigated, as most of these are public sector entities and reputable private groups.
- Implementation of core banking software, Temenos, has met with continuous delays and as per revised timeline the first branch is expected to go live by Nov 2009. As most of the technological initiatives currently underway are Temenos dependent, effective and timely implementation of the core banking software is critical to mitigate operational risks.
- ABL maintains adequate liquidity with a major proportion of investment portfolio deployed in T-Bills. ABL’s modest investments in PIBs mitigates interest rate risk. Investment in fixed income funds decreased substantially during the year. The significant increase in equity investments led to a substantial revaluation deficit on the listed equity portfolio.
- The bank’s capitalization increased marginally during the year, primarily derived from Tier-I capital. The bank plans to issue TFCs (2nd issue) of PKR3bln in near future to strengthen Tier-II capital, which would provide the requisite cushion in CAR for planned growth.

PROFILE

- Ibrahim Group (IG), through its different companies and family members, owns 77% of shareholding in ABL. Apart from interest in the financial sector, the IG is engaged in manufacturing of yarn and polyester staple fibre, trading, and generation of electric energy. SBP is also a shareholder with around 10% holding.
- The eleven member BoD is dominated by nominees of IG and also includes 2 government nominees. The various sub-committees include 1) Audit, 2) Strategic Planning & Monitoring, 3) Human Capital, 4) E-Vision and 5) Risk Management committee. The CEO, Mr. Mohammad Aftab Manzoor is a seasoned banker with almost 27 years of banking experience. He is assisted by an experienced senior management team.