



RATINGS (JUNE 2010)

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-

FINANCIAL DATA

PKR (mln)

	Mar-10*	Dec-09	Dec-08
Total Assets	399,837	418,374	366,680
Equity	26,254	25,891	20,805
Net Income	1,777	7,122	4,156
ROA %	1.74	1.81	1.21
ROE %	27.3	30.5	21.2
Equity / Assets (%)	6.6	6.2	5.7
SBP CAR %	13.6	13.5	10.9

*based on unaudited accounts

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TFC ISSUE

ABL issued its second listed, unsecured, subordinated TFCs of PKR 3,000mln for a tenor of 10 years in August 2009. 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 robust performance emanating from increasing asset base and sound asset quality. Additionally, ABL has leveraged its extensive network for mobilizing low cost deposits, while simultaneously expanding its advances portfolio, though it continues to have high credit concentration. The bank has remained focused on strengthening its infrastructure and control environment – pre-requisites to withstand increasingly tough and competitive operating environment in the country.
- The ratings are dependent on the bank's effective execution of its business strategy to sustain its competitive position through continuing depressed macro-economic fundamentals. Implementation of the core banking software within the revised timeline, while reinvigorating the bank's risk management framework, remains critical for the bank's future growth. Nevertheless, material deterioration in the asset quality, impacting both ABL's profitability and risk absorption capacity, would have negative implications for the ratings.

ASSESSMENT

- ABL is a large sized bank, with a network of 784 branches at end-Apr10. Due to increased focus on enhancing ADR, the bank has improved its system share of advances to ~7.8% (end-08: ~7.3%), but deposits share reduced slightly to ~7.5% (end-08: ~7.7%) at end-09. The loan book is currently concentrated in the corporate sector (78%, including commodity financing at 18%), with remaining major portion being deployed in SME sector (12%) and commercial sector (8%). ABL's top 20 exposures concentration, though improved, remained on the higher side (end-Dec09: 27%). However, credit risk is mitigated, due to most of these being public sector entities and financially strong private groups. The proportion of consumer financing is not projected to increase in view of the prevailing economic conditions. ABL has a diversified deposit base, with a moderately low top 20 deposit concentration (12%) at end-09.
- The bank's net interest revenue increased on the back of substantial growth in earning assets, higher average ADR and enhanced asset yield. Moreover, other income also grew, mainly due to increase in fee-based income and gain on equity investments. Consequently, cost-to-net revenue declined during the year to 39%, and is better than most peers. Owing to increased profitability, the YoY performance in terms of RoE and RoA registered a substantial increase. The trend of healthy profitability has continued in 1QCY10.
- ABL's strategy is to consolidate its position, along with reasonable focus on reducing cost of funds through enhanced CASA deposits. While achieving the advances-to-deposit ratio at around 70% in three years, the bank plans to diversify the loan book by increasing the combined share of Commercial, SME & Consumer segment to around 35% 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 total net revenue, and hence profitability.
- Implementation of core banking software, Temenos, has met with recurring delays. Nevertheless, the first branch in Lahore went live during May10. As most of the technological initiatives currently underway are Temenos dependent, early implementation of the core banking software is critical to mitigate operational risks. Meanwhile, the bank has strengthened its Risk Management Group in terms of human resource as well as scope, with ongoing implementation of the SAS Risk Management Suite. Further initiatives include updating Obligor Risk Rating Models and automating Loan Origination System.
- ABL witnessed noticeable growth in NPLs (09: PKR16.2bln, 08: PKR13.8bln). However, the bank's NPLs as a percentage of gross advances increased slightly to 6.5% at end-09 (end-08: 6.2%). The ratio is the lowest amongst ABL's peers. Given the pressure on the macroeconomic environment, fresh infections may not be ruled out, putting pressure on the bank's asset quality.
- ABL's investment of PKR54.2bln forms ~14% of total assets at end-Mar10. A major proportion is deployed in T-Bills (61%), signifying low credit and interest rate risk. PIB forms ~15% of the investments. Mutual funds' proportion fell substantially (end-Mar10: 6% end-08: 21%), owing to liquidity constraints and uncertain market situation. Resultantly, the realized liquidity was invested in equity investments, increasing their portion in the investment pie (end-Mar10: 17%, end-08: 7%). They are mainly high credit quality stocks dominated by strategic investments.
- The bank's capitalization increased considerably with healthy profits and issuance of TFCs (2nd issue) of PKR3bln in Aug-09, strengthening Tier-II capital. Nonetheless, banks' equity-to-total-assets lag behind its peers, signifying need for improvement.

PROFILE

- Ibrahim Group (IG), through its different companies and family members, owns ~80% of shareholding in ABL. Apart from interest in the financial sector, the IG is engaged in manufacturing of yarn and polyester staple fibre. SBP also has a shareholding of around 10%.
- The nine members BoD include three sponsor directors, two executive directors, one government nominee and three independent directors. The various sub-committees include 1) Audit, 2) Strategic Planning & Monitoring, 3) Human Capital, 4) E-Vision and 5) Risk Management committee. Mr. Khalid Sherwani would be joining ABL as its CEO, after SBP's approval. He is a seasoned banker with almost 25 years of banking experience, including being CEO of ABL previously. He would be in charge of a stable and experienced management team.