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
23-Jun-2021	AAA	A1+	Stable	Maintain	-
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’s franchise, spread over a network of 1,402 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 (25.2% as at Dec20), beyond the industry average. While ABL has realistic approach towards lending, increased attention is being diverted towards deepening of current business relationships. An enduring emphasis is laid on building trade business. Also, more diversification is being planned to be achieved by enhancing portfolio in consumer, housing finance and auto loans. 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. A more focused digital drive is one of the pillars of the envisaged strategy. In order to encourage seamless flow of payments transaction between consumers and merchants through digital channels ABL launched NIFT ePay, a domestic e-commerce gateway service launched by National Institutional Facilitation Technologies under “Digital Financial Services Platform” with a focus to re-align digital transformation and augment e-Banking ecosystem in the Country. Ratings also reflect strong financial profile as evident from robust liquidity, and sound asset quality indicators. 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 the Bank’s overall risk acceptance limits. 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. Going forward, enhanced focus on digitalization and process automation to enhance efficiency and reduce cost, would augment the banking’s risk profile.

COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. As a result, the Banking industry remained protected and in fact posted record profits. Continued focus on strengthening its credit review procedures as exhibited earlier is required as the loan repayment cycle remains stretched amid variants of the pandemic continue to re-emerge.

Disclosure

Name of Rated Entity	Allied Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | FI (Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
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 sixth position in terms of deposit market share among large banks of Pakistan, at end-Dec20. Its head office is located in Lahore.

Operations ABL operates with 1,400 including 117 Islamic banking branches, 6 Digital/ Self Service branches (end-Dec19: 1,393) branches including 117 Islamic banking branches) in Pakistan & 2 overseas branches (Dec-19: 2 branches). ABL has a growing subsidiary – ABL Asset Management Company – which has AUM close to PKR 77bln at end-Mar21 (end-Mar20: PKR 57bln).

Ownership

Ownership Structure Ibrahim Group (IG), through Ibrahim Holdings (Pvt). Limited owns 85% of shareholding in ABL. Previously, the same had been owned through Ibrahim Fibres 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 sponsors/non-executive directors, three independent directors and one non-executive director. Mr. Aizid Razzaq Gill has been designated as the CEO since Jan-21.

Members' Profile In accordance with requirements of Listed Companies (Code of Corporate Governance) Regulations, 2019, four 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 whereas CEO shall attend the Director's Training Program in due time. The participation of all board members has remained high, as reflected by attendance in CY20.

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 were the external auditors for ABL for CY20. They have expressed an unqualified opinion on the financial reports for the year ended December 31, 2020. KPMG Taseer Hadi and Company, Chartered Accountants and EY Ford Rhodes Chartered Accountants shall be the joint external auditors for CY21.

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. Aizid Razzaq Gill, carrying over 24 years of experience of Financial Management, Risk Analysis and Research and expertise in Portfolio Management of Corporate and Commercial Banking obligors, has been appointed as CEO since Jan21.Mr. Moin Khalid and Mr. Muhammad Atif Mirza have been designated as CRO & CFO since Jan21 & Feb21 respectively. 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 CY20, major highlight in this specific area was the creation of a Data Lake where data from structured and unstructured sources is being stored to support data-driven business decisions based on meaningful insights.

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 The indicators of the banking sector reflected mixed trend where economy is recovering from the effects of COVID-19 pandemic. Despite challenging economic conditions prevailing in CY20 due to COVID-19 outbreak, the banking sector managed to grow by a decent pace. Deposits of the banking sector grew by 16.1% to PKR 18,519bln (CY19: PKR 15,953bln) as compared to 11.9% growth in CY19. The surge in deposits provided the necessary funding support to finance the robust rise in investments (CY20: PKR 11,935bln; CY19: PKR 8,939bln) and particularly towards government instruments. During CY20, advances witnessed a mild contraction owing to slackness amid COVID-19 pandemic outbreak.

Relative Position ABL, a large-sized bank, holds a strong position in the industry with a customer deposit base of PKR 1,076bln at end-Dec20 (Dec19: PKR 963bln).

Revenues During CY20, ABL's interest earned dropped by 9.8% from Dec-19 to PKR 111bln (CY19: PKR 123bln). However, markup earned witnessed a notable decline of 13.20% during CY20, mainly driven by the low-interest rate environment and volumetric decline in advances. The bank's asset yield also decreased and stood at 8.6% (CY19: 10.3%). Cost of funds stood at 4.6% (CY19: 6.4%). Hence, Bank's spread inched up (CY20: 4.0%; CY19: 3.8%). While as of Mar21, NIMR stood at PKR 10.8bln.

Performance During CY20, non-markup income recorded increase of 15.16% YOY to stand at PKR 12.5bln (CY19: PKR 10.9bln) mainly emanating from increase in realized gain on sale of investments (CY20: PKR 3.4bln; CY19: PKR 1.6bln). Bank recorded a provision of PKR 844mln (CY19: PKR 547mln) & taxes reported as (CY20: PKR 11,486mln; CY19: PKR 10,129mln) which improved the bottom-line to stand at PKR 18.03bln (CY19: PKR 14.1bln). Furthermore in 3MCY21, Pre-tax stood at PKR 6.7bln.

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 CY20, ABL's advances have grown by 2.3% and stood at PKR 496bln(3MCY21: PKR 429 bln; CY19: PKR 485bln). Growth in Islamic Financing and related assets contributed to the increase in advances during CY20.

Market Risk ABL has followed the same composition in investment to 3MCY21 and CY20 (end-Mar21: PKR 1034bln; end-Dec20: PKR 830bln; end Dec19: PKR 758bln). The major exposure (94.6%) lies within Govt. Securities (i-e T-bills & PIBs) while the rest of the exposure is in strategic and non-strategic equity investments and in other non-govt. debt securities & subsidiary.

Liquidity And Funding The bank's liquidity, measured in Liquid Assets / Deposits and Borrowings, increased by 64.1% in CY20 (CY19: 59.7%). During CY20, ABL's total deposits viewed ample incline of 16% to (CY20: PKR 1216bln CY19: PKR 1049bln).

Capitalization As at end-Dec20, the bank's equity base strengthened on account of consistent profitability. ABL's Capital Adequacy Ratio (CAR) is robust (CY20: 25.2%; CY19: 21.7%), herein dominant portion is Tier-I (CY20: 19.4%; CY19: 17.0%) while Tier II inched up and stood at 5.8% (CY19: 4.7%). While as at Mar21 CAR of the bank stood at 26.2%.

PKR mln

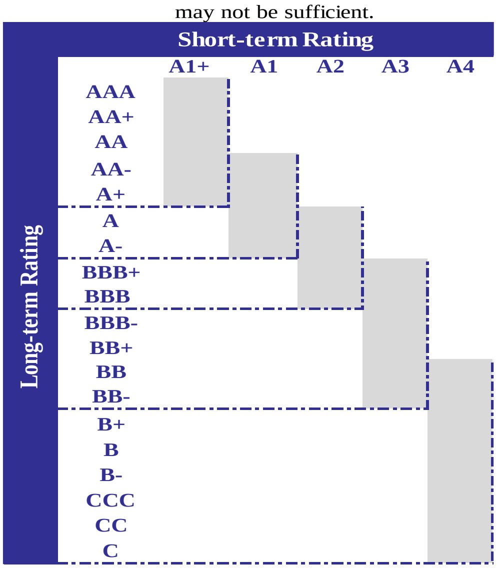
Allied Bank Ltd.	Mar-21	Dec-20	Dec-19	Dec-18
Listed Public Limited	3M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	448,666	517,344	497,889	449,467
2 Investments	1,013,356	808,290	744,383	659,565
3 Other Earning Assets	63,498	32,872	30,419	73,118
4 Non-Earning Assets	197,633	231,533	207,729	167,941
5 Non-Performing Finances-net	422	419	701	515
Total Assets	1,723,576	1,590,458	1,481,121	1,350,606
6 Deposits	1,232,482	1,216,678	1,049,043	984,475
7 Borrowings	315,559	193,928	266,448	225,883
8 Other Liabilities (Non-Interest Bearing)	50,213	48,292	50,279	32,943
Total Liabilities	1,598,254	1,458,898	1,365,770	1,243,301
Equity	125,521	131,560	115,351	107,305
B INCOME STATEMENT				
1 Mark Up Earned	23,774	110,547	122,637	73,274
2 Mark Up Expensed	(12,980)	(62,126)	(81,130)	(41,159)
3 Non Mark Up Income	3,830	12,542	10,891	11,289
Total Income	14,624	60,963	52,399	43,405
4 Non-Mark Up Expenses	(8,064)	(30,604)	(27,610)	(23,478)
5 Provisions/Write offs/Reversals	139	(844)	(547)	1,090
Pre-Tax Profit	6,699	29,515	24,242	21,016
6 Taxes	(2,670)	(11,486)	(10,129)	(8,136)
Profit After Tax	4,029	18,029	14,113	12,881
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	2.6%	3.2%	2.9%	2.5%
Non-Mark Up Expenses / Total Income	55.1%	50.2%	52.7%	54.1%
ROE	12.5%	14.6%	12.7%	12.0%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	7.3%	8.3%	7.8%	7.9%
Capital Adequacy Ratio	26.2%	25.2%	21.7%	22.2%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	66.7%	64.1%	59.7%	56.7%
(Advances + Net Non-Performing Advances) / Deposits	34.3%	40.8%	46.2%	44.5%
CA Deposits / Deposits	38.5%	38.4%	37.0%	33.7%
SA Deposits / Deposits	46.9%	46.9%	43.7%	45.2%
4 Credit Risk				
Non-Performing Advances / Gross Advances	3.2%	2.8%	3.2%	3.5%
Non-Performing Finances-net / Equity	0.4%	0.4%	0.6%	0.5%

Credit Rating

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 Rating	
Scale	**Definition**
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 Rating	
Scale	**Definition**
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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