The Pakistan Credit Rating Agency Limited

ALLIED BANK LIMITED (ABL)

ENTITY RATINGS REPORT

	NEW [JUN-16]	PREVIOUS [JUN-15]
Long-Term	AA+	AA+
Short-Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS

JUNE 2016

Profile & Ownership

- Allied Bank Limited (ABL) formed in 1942; and listed on Pakistan Stock Exchange, operates with a network of 1,050 branches and 1,011 ATMs
- Ibrahim Group (IG) – through family & Associated company – holds controlling stake (84%), remaining held by general public and others
- IG is engaged in manufacturing of yarn and polyester staple fiber
- ABL subsidiary – ABL Asset Management Company – has AUM close to PKR33 billion; with a market share of ~6.65% share in AUM's of industry at end-March'16

Governance and Management

- Eight member board of directors including the CEO
- Three directors represent IG Family, while four are Non-Executive directors including two independent directors
- The CEO, Mr. Tariq Mahmood, carries over 40 years of banking experience; supported by COO, Mr. Tahir Hassan Qureshi
- Mr. Qureshi, FCA, associated with the bank for the last eight years, had previously been the CFO of the bank
- The management team comprises seasoned professionals

Risk Management

- Automated Loan Originating System provide strategic edge to bank
- Net advances constitute around 32% of the total assets at end-Dec15
- Credit disbursement increased 5%; mainly to public sector for commodity finances and working capital
- Loan book dominated by corporate sector (~78%), followed by Commodity finance (~13%), SMEs (~5%), Agriculture (~2%), Staff Loans (~2%) and Consumer sector (~0.1%)
- Top 20 exposure concentration high 47% (end-Dec14: 27%); exposures increased to PARCO, Fauji, Nishat, Sapphire, and Engro (comprising 22% of the loan book at end-Dec-15)
- Deposits increased by ~10% YoY; CASA sustained at 62% meanwhile retail deposits contribution improved (43%)
- Top 20 depositors' concentration remained steady at 18%

Performance

- Net interest income before provision registered 28% YoY growth on the back of volumetric increase in earning assets coupled with curtailed cost of funds
- Spreads remained intact, despite lowering interest rate environment in the country, boding well for the profitability
- Non-markup income declined by 23%; as gain on sale of securities decreased
- Operating expenses increased by 10%, due to the fact that company opened 50 new branches
- Pre-provision operating profit clocked in at PKR 27bln; increase of 14%
- Tax expense higher at PKR 10bln (CY14: PKR 7.2bln), due to super tax (PKR 1.5bln)

Business Strategy

- 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
- Support would come from capitalizing recently upgraded IT infrastructure – T-24; providing strategic edge to ABL
- Bank envisages cautious approach towards lending growth to continue. Herein, concentration risk remains a key challenge

Capital and Liquidity

- Penetration in retail deposits improved to 43%
- Overall liquidity position strengthened YoY basis (68%)
- Capitalization remained healthy with CAR standing at 20.9% at end-Dec15; herein dominant portion is tier-I (17%)

RATING RATIONALE

The ratings reflect demonstrated efficacy of ABL's strategy aimed at ensuring consistent profitability without compromising quality of other key variables. The bank remains focused on strengthening its footprints in the retail deposit market, enabling further improvement in deposit granularity in terms of concentration as well as funding cost. The deposit growth has been consistent, outpacing peers. While focusing on new to bank (NTB) relationships, there is also emphasis on deepening of link with the current customer base. The ratings recognize the management's concerted efforts in sustaining the sound asset quality, while selectively expanding its advances portfolio. The concentration in lending portfolio is relatively high, inline with bank's strategy of lending to public sector entities and large sized financially strong private groups with emphasis on their working capital and trade business needs.

KEY RATING DRIVERS

Pakistan's banking landscape, particularly for banks like ABL, remains highly competitive and dynamic. ABL's ratings are dependent on further diversification in its revenue stream. Enhancement in system's share alongwith increased penetration in retail deposits and dilution in concentration of lending portfolio is crucial.

Financials [Summary]

Allied Bank Limited

PKR mln

BALANCE SHEET	31-Mar-16	31-Dec-15	31-Dec-14
Earning Assets			
Advances (Net of NPL)	302,040	318,866	302,903
Debt Instruments	16,495	7,509	7,163
Total Finances	318,535	326,375	310,066
Investments	590,727	536,939	421,999
Others	531	7,706	2,904
	909,793	**871,020**	**734,969**
Non Earning Assets			
Non-Earning Cash	53,135	56,712	41,255
Deferred Tax	-	-	-
Net Non-Performing Finances	1,926	2,369	2,740
Fixed Assets & Others	54,393	61,566	63,305
	109,454	**120,646**	**107,300**
TOTAL ASSETS	**1,019,247**	**991,666**	**842,269**
Interest Bearing Liabilities			
Deposits	734,484	734,596	667,878
Borrowings	157,585	137,960	69,090
	892,068	872,556	736,968
Non Interest Bearing Liabilities	33,515	29,853	24,411
TOTAL LIABILITIES	**925,583**	**902,409**	**761,379**
EQUITY (including revaluation surplus)	**93,664**	**89,257**	**80,890**
Total Liabilities & Equity	**1,019,247**	**991,666**	**842,269**

INCOME STATEMENT	31-Mar-16	31-Dec-15	31-Dec-13
	Quarterly	Annual	Annual
Interest / Mark up Earned	17,103	72,116	67,001
Interest / Mark up Expensed	(8,605)	(35,977)	(38,815)
Net Interest / Markup revenue	**8,498**	**36,140**	**28,186**
Other Income	3,789	9,755	12,736
Total Revenue	**12,287**	**45,895**	**40,922**
Non-Interest / Non-Mark up Expensed	(4,636)	(18,867)	(17,111)
Pre-provision operating profit	**7,651**	**27,028**	**23,811**
Provisions	276	(1,524)	(1,609)
Pre-tax profit	7,375	25,503	22,202
Taxes	(2,587)	(10,383)	(7,187)
Net Income	**4,788**	**15,120**	**15,015**

Ratio Analysis	31-Mar-16	31-Dec-15	31-Dec-14
	Quarterly	Annual	Annual
Performance			
ROE	28%	23%	26%
Cost-to-Total Net Revenue	38%	41%	42%
Provision Expense / Pre Provision Profit	4%	6%	7%
Capital Adequacy			
Equity/Total Assets	7%	7%	7%
Capital Adequacy Ratio as per SBP	21%	21%	20%
Funding & Liquidity			
Liquid Assets / Deposits and Borrowings	73%	68%	62%
Advances / Deposits	41%	44%	46%
CASA deposits / Total Customer Deposits	73%	72%	73%
Intermediation Efficiency			
Asset Yield	2%	9%	10%
Cost of Funds	1%	5%	6%
Spread	1%	5%	5%
Outreach			
Branches	1,050	1,050	1,000

STANDARD 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. This capacity is highly unlikely to be adversely affected by foreseeable events.
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-	**Speculative.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**Highly speculative.** Significant 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	**High default 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.

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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, or e) the entity/issuer defaults.

Rated Entity

Name of Rated Entity Allied Bank Limited
Sector Banking
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
24-Jun-16	AA+	A1+	Stable	Maintain
26-Jun-15	AA+	A1+	Stable	Maintain
27-Jun-14	AA+	A1+	Stable	Maintain
27-Jun-13	AA+	A1+	Stable	Maintain
30-Jun-12	AA+	A1+	Stable	Upgrade

Related Criteria and Research

Rating Methodology: Bank Rating Methodology
Sector Research: Banking Sector - Viewpoint | Dec-15

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Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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PACRA ensures that the credit rating assigned to an entity or instrument should 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
Surveillance
PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer
PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct
PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP
Confidentiality
PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties
Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter
Prohibition

Probability of Default (PD)

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