

Allied Bank Limited (ABL)

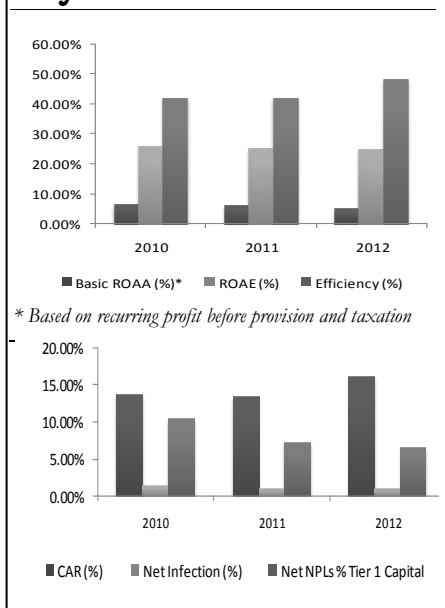
Chairman: Mr. Mohammad Naeem Mukhtar; CEO: Mr. Tariq Mahmood

October 07, 2013

Analysts: Maimoon Rasheed
Usman Ali Khan

Category	Latest	Previous
TFC-1 Rs. 2.5b	AA Oct 2, '13	AA Oct 1, '12
Outlook	Stable Oct 2, '13	Stable Oct 1, 12

Key Financial Trends



	2010	2011	2012
Net Advances (Rs. in b)	252.3	244.4	271.1
Deposits (Rs. in b)	371.3	399.6	514.7
Market Share %	7.2%	6.8%	7.7%
Deposit Cost (%)	5.2%	5.4%	5.4%
Profit / (Loss) (Rs. in b)	8.2	10.1	11.7
Net worth (Rs. in b)	31.2	37.6	42.9
CAR (%)	13.8%	13.4%	16.2%
Liquid Assets % Deposits & Borrowings	31.5%	47%	55%
Net Infection (%)	1.3%	1.1%	1.1%

Rating Rationale

On the back of internal capital generation and limited growth in risk weighted assets, capitalization level of Allied Bank Limited (ABL) has strengthened over the years, with a Capital Adequacy Ratio of 17.1% reported at end June 2013. Moreover, the impact of past credit losses has mostly been absorbed by the bank, with net NPLs to tier-1 equity recorded at 4.3%. Given the current capitalization level, the bank is well poised to take advantage of growth opportunities as economic conditions improve.

In-line with peer banks, liquidity profile of the bank also improved owing to deployment of incremental deposits in liquid avenues. Growth momentum in deposit mobilization has been higher than that of industry during 2012 and 1H13. Resultantly, market share of the bank enhanced to 7.8% by end-June'13 (end-Dec, 12: 7.7%; end-Dec'11: 6.8%). This has however been achieved at the expense of increasing concentration levels in the deposit mix. In the on-going year, the management's efforts are targeted towards replacement of large ticket deposits with retail deposits. The proportion of CASA deposits in overall deposit mix improved to 71% (end-Dec'12: 68%) by end June'13. Aggressive growth in deposits is envisaged for 2013, albeit at a slower pace as compared to prior year. In addition to expanding outreach further with the setup of 75 new branches in 2013, the bank has also launched new liability products for niche market segments. ABL is expected to launch Islamic Banking Operations during last quarter of 2013. Over time, the bank also plans to enhance its presence in the international markets.

Over the past few years, credit appetite of private sector has remained subdued mainly due to crowding out effect by the public sector and non-conducive business environment. In this challenging environment, lending strategy of ABL has remained focused on well established corporate entities carrying low business risk. Asset quality of the bank compares favorably to peers. Gross and net infection stood lower at 7.2% and 1.1% respectively at end-Dec'12 (end-Dec'11: 7.8% & 1.1%). Specific provisioning coverage of 89% against non-performing loans is one of the highest in the industry, as the bank has not availed benefit of forced sale value of collateral.

Growth in loan portfolio was primarily manifested in commodity financing. Growth in corporate loan book was largely an outcome of increased lending to public sector; proportion of the same has increased to 27% (end-Dec'11: 17%) of gross advances. In relation to the bank's own equity, lending to both public sector and the energy sector is considered on the higher side. The bank may benefit from expanding its lending activities in SME and retail segment, where at present the bank has low penetration.

Investment portfolio of ABL is tilted towards government securities while equity investments are largely in blue chip companies which have high dividend payout history. Downside risk emerging from the investment portfolio of the bank is considered moderate.

In line with falling discount rate, spreads of the bank squeezed during 2012 to 5.0% (2011: 7.3%); the placement of 6% floor on savings deposits has also adversely impacted spreads and the bank's ability to manage cost of deposits. However, strong growth in earnings was observed in 2012 mainly due to high dividend income and realization of gains on partial disposal of strategic investments. Profitability of the bank has declined in 1H13 as markup spreads compressed further. Fee based income may be enhanced to provide support to profitability. Moreover, efficiency indicators may be rationalized further.

Upon completion of term of outgoing CEO, the Board of Directors of Allied Bank has appointed Mr. Tariq Mahmood as new Chief Executive Officer of the bank in June, 2013, following all the statutory approvals from the State Bank of Pakistan. He was previously heading Banking System Implementation Group (BSIG).

Overview of the Institution

ABL is the fifth largest bank in Pakistan in terms of deposit size, with extensive network of 875 branches at end-Dec'12. The bank was privatized in 2004 whereby Ibrahim Group acquired management control and shareholding of the bank. 80.4% of the ownership rests with Ibrahim Group. Financial statements for 2012 were audited by M/s KPMG Taseer Hadi & Co. and M/s Ernst & Young Ford Rhodes Sidat Hyder. **JCR-VIS**

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: TFC - 1</u>				
02-Oct-13	AA	Stable		Reaffirmed
01-Oct-12	AA	Stable		Upgrade
05-Oct-11	AA-	Stable		Reaffirmed
12-Oct-10	AA-	Stable		Reaffirmed
02-Jul-09	AA-	Stable		Reaffirmed
22-Jul-08	AA-	Stable		Upgrade
25-Jun-07	A+	Stable		Upgrade
05-Oct-06	A	Positive		Final
07-Sep-06	A	Positive		Preliminary