

CORPORATE GOVERNANCE REPORT

Allied Bank Limited (ABL)

REPORT DATE:

December 12, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Corporate Governance	Corporate Governance
Entity	CGR-9+	CGR-+
Rating Date	Jan 11, 18	Nov 09, 16

COMPANY INFORMATION

Incorporated in 1942	External auditors: M/s. KPMG Taseer Hadi & Co
Public Limited Company	Chairman of the Board: Mr. Muhammad Naeem Mukhtar
Key Shareholders (with stake 5% or more):	Managing Director: Mr. Tahir Hassan Qureshi
Ibrahim Holding (PVT) Limited – 84.35%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Corporate Governance Ratings (August 2017)

<http://jcrvis.com.pk/docs/CGR-Methodology-201708.pdf>

Allied Bank Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
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ABL is a public limited bank incorporated in 1942. Majority shareholding is of Ibrahim family members which is held through a holding company namely Ibrahim holding (Pvt.) company.

Allied Bank Limited (ABL) is one of the leading commercial banks with a market share of 7.2% in total deposits of banking sector as at end-FY16. The bank provides a wide range of services with a nation-wide coverage and consumer reach. During FY16, Ibrahim Group (IG), the primary sponsors of ABL, incorporated a holding company by the name of Ibrahim Holding (Pvt.) Limited (IHL). Subsequently, individual shareholding of sponsor directors and Ibrahim Fibers Limited, (an associate company) in Allied Bank was transferred to IHL with 84.35% stake in the bank

There has been a change at the helm of affairs during FY16; the Chief Operating Officer (COO) was promoted to the position of Chief Executive Officer (CEO). Otherwise, the Board of Directors (BoD) remained the same. The Bank is compliant with the SBP requirement stipulating minimum one third members of the Board members to be independent directors. In August’16, SBP issued detailed guidelines regarding performance evaluation of BoD. According to these guidelines, performance evaluation of different categories of the Board members and Board Committees was completed.

In order to oversee overall banking activities, the Board has established five Board level Committees. Deliberations in Board and its Committees’ meetings are considered comprehensive with follow-up mechanism on actionable items. All Board meetings were conducted with satisfactory attendance of the members and detailed documentation of the minutes. Terms of Reference (TORs) are in place for all the Board Committees which are reviewed at least once in every three years. The review of TORs is done according to the revision in regulatory requirements.

The Bank’s organization structure has changed over the preceding year. With the promotion of COO to the position of CEO, the position of COO has been abolished. Previously, support functions were reporting to the CEO while the rest were reporting to the COO. Currently, 16 Groups are reporting to the CEO while Audit and Risk Review Group (A&RRG) reports to ACOB. General Services Group, now General Services & Security Group, which was merged with Human Resource Group in FY16 has been separated in FY17 in order to strengthen the specialized functions with more focused approach. Service Excellence Group, a support function reporting to the CEO, has now been merged with CEO’s Secretariat. As per the Bank’s policy, reshuffling has been witnessed at the group chiefs’ level. All the Chief level positions and various other important functions were filled through internal selections/elevations, as part of succession planning.

ABL has provided sufficient transparency and disclosures regarding financial reporting and other relevant company’s affair. ABL’s website is the integral part of providing information to the stakeholders. The Bank has hired the services of M/s. KPMG Taseer Hadi & Co. Chartered Accountants (KPMG) as external auditors. KPMG is one of the top audit practicing firm having satisfactory Quality Control Review (QCR) rating by ICAP while it also falls in the ‘A’ category of SBP’s panel of auditors.

Human Resource Group (HRG) remained focused to ensure induction of quality workforce to support expanding branch network and business groups of the Bank. The group has implemented strategic plan to increase employee productivity, devised and documented processes, procedures and job descriptions for more clarity and guidance of more than 11,000 FTEs, revised, introduced and improved employee’s career paths for their internal growth and motivation.

Human Resource (HR) Policy of the Bank was updated to assist the employees in establishing and

maintaining consistent practices in the workplace. Various steps were taken to improve the workforce efficiency and performance while some changes were made in the calculation of KPIs. Management Trainee Officer Program was revamped with a special focus on digital banking products, concepts and related technological advancements and FINTECH solutions, during the period under review. ABL has signed a MOU with ICAP which will enable the Bank to hire CA students and train them according to banking environment during their article-ship period. The Bank has arranged several trainings including training on financial inclusion and Islamic Banking to broaden the knowledge and skill set of the employees.

Business Development Officers (BDOs) are recruited on contract arrangements for business mobilization. As per Bank's policy of providing maximum chances to grow within the organization, HR introduced BDOs Career Path to build a pool of motivated employees for future utilization as RMs/BMs. This initiative is expected to enhance retention thereby strengthening the business team, while attracting new candidates.

ABL has maintained relations with its customers both locally and internationally. ABL currently operates with 1167 domestic branches. The Bank has one export processing branch in Karachi and one wholesale banking branch in Bahrain. Moreover, ABL has representative offices in UAE-Dubai and Peoples Republic of China. ABL has achieved a 1:1 Branch to ATM ratio.

Self-regulation in any institute highlights the strength in the internal control of the institute. Similarly, ABL's internal controls are considered satisfactory on account of effective implementation and monitoring of internal controls in all departments. Comprehensive policies and manuals are in place to implement and ensure effective governance. Manuals, procedures and policies are reviewed/revised regularly.

Overall internal control at ABL is considered strong. ABL has embarked upon digitalization/automation of all key functions in order to enhance efficacy of the Bank's operations. In this regard, automation process is currently underway in Compliance & Risk Management Group. As a first step, the Compliance Group has enabled the Bank to track all compliance related issues through better control. Audit and Risk Review Group has already started using technology in their processes which has increased efficiency in terms of cost and time. IT Group also took several initiatives including up-gradation of the core banking system to a more advanced version, implementation of which is expected soon. The Bank has put in place a comprehensive business continuity mechanism and disaster recovery plan to keep its operations running 24/7. An IT Steering Committee has been revived to oversee and steer activities carried out by the IT Group. Banking Service Group has implemented various automated solutions through core banking to streamline the banking operations and to augment combating against AML/CFT. Sound internal controls in banking operations is underpinned by monitoring through multiple MIS reports maintained at Core banking system and application of Biometric authentication for banking transactions. Moreover, the Bank has also implemented Common Reporting Standards (CRS).

ISSUE/ISSUER RATING SCALE & DEFINITIONS**Appendix IV**

CGR 10 Highest level of corporate governance	CGR 4, CGR 4+, CGR 4++ Moderately low level of corporate governance
CGR 9, CGR 9+, CGR 9++ Very high level of corporate governance	CGR 3, CGR 3+, CGR 3++ Low level of corporate governance
CGR 8, CGR 8+, CGR 8++ High level of corporate governance	CGR 2, CGR 2+, CGR 2++ Very low level of corporate governance
CGR 7, CGR 7+, CGR 7++ Moderately high level corporate governance	CGR 1, CGR 1+, CGR 1++ Lowest level of corporate governance
CGR 6, CGR 6+, CGR 6++ Satisfactory level of corporate governance	
CGR 5, CGR 5+, CGR 5++ Adequate level of corporate governance	

Governance Watch: ‘Governance Watch’ may be assigned to highlight identifiable governance events that necessitate re-evaluation of the assigned rating. A ‘Governance Watch’ announcement means that the status of the assigned rating is uncertain and an event or deviation from an expected trend has occurred or is expected and additional information is necessary to take a rating action.

JCR-VIS Credit Rating Company Limited

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

REGULATORY DISCLOSURES		Appendix V		
Name of Rated Entity	Allied Bank Limited			
Sector	Commercial Bank			
Type of Relationship	Solicited			
Purpose of Rating	Corporate Governance Rating			
Rating History	Rating Type	Rating Date	Long Term Rating	Rating Action
	CGR	11/01/2018	CGR-9+	Reaffirmed
	CGR	09/11/2016	CGR-9+	Upgrade
	CGR	04/12/2015	CGR-9	Reaffirmed
	CGR	11/28/2014	CGR-9	Reaffirmed
	CGR	10/22/2013	CGR-9	Upgrade
	CGR	10/1/2012	CGR-8++	Upgrade
	CGR	10/17/2011	CGR-8+	Reaffirmed
CGR	12/2/2010	CGR-8+	Upgrade	
Instrument Structure	N/A			
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.			
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