

CORPORATE GOVERNANCE REPORT

Allied Bank Limited (ABL)

REPORT DATE:

February 7, 2019

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Corporate Governance	Corporate Governance
Entity	CGR 9+	CGR 9+
Rating Date	February 11, '19	January 11, '18

COMPANY INFORMATION

Established in 1942	External auditors: KPMG Taseer Hadi & Co., Chartered Accountants
Listed on Pakistan Stock Exchange	Chairman of the Board: Mr. Mohammad Naeem Mukhtar
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Tahir Hassan Qureshi
Ibrahim Holdings Private Limited – 84.53%	Staff Strength 11,153
General Public – 3.63%	Branches: 1,341
Others – 11.84%	

APPLICABLE METHODOLOGY

JCR-VIS Corporate Governance Rating (August 2017)
<http://jcrvis.com.pk/docs/CGR-Methodology-201708.pdf>

Allied Bank Limited

RATING RATIONALE

Allied Bank Limited (ABL) is one of the leading commercial banks in Pakistan. The bank provides a wide range of financial services with a nation-wide coverage and consumer reach. A well-established corporate governance framework is implemented at ABL supplemented by effectively functioning board and management level committees. Management team of the institution comprises seasoned professionals. The institution maintains healthy stakeholder relations and actively engages in social and welfare causes. Overall control environment of the institution is considered satisfactory with adequate internal audit, sound risk management measures and largely effective compliance in place.

Ibrahim Holdings (Private) Limited the parent company of ABL with 84.53% stake in the bank and is represented by three non-executive sponsoring directors on the Board. The board consists of eight (8) members, including three (3) sponsor Directors, three (3) Independent Directors, one (1) non-executive directors, and the CEO i.e. an executive director. Board members carry with them diversified experience in financial and industrial related sectors. The bank in its most recent EOGM held on August 27th, 2018, elected a female independent director; Ms. Nazrat Bashir in line with the Revised Code of Corporate Governance (CCG), 2017 which has made at least one female representation on the board mandatory. Appropriate arrangements are made for the orientation of new directors to acquaint them with their duties and responsibilities. Five members among the BoD including the CEO are Certified Directors from the Pakistan Institute of Corporate Governance (PICG) and ICAP while the remaining are exempt on the basis of their experience. The Bank also encourages board members' participation in seminars and workshops conducted on different forums.

In order to oversee and review overall performance of the bank, the Board has established five Board level committees. Ibrahim Group IG has representation on all of these committees. To remain in line with the CCG 2017, the Bank's human resource board committee, currently being chaired by a non-executive director, has to be chaired by an independent director. Overall attendance of all board committee meetings was satisfactory and the minutes of these committee meetings are considered comprehensive with follow up in place on actionable items. Management committees are also in place consisting of various group chiefs and mostly chaired by the CEO. The management committees also report to their respective board committees.

Level of financial and qualitative disclosures in the public domain is considered satisfactory. Clear reporting lines are defined within the Bank. Barring Chief Audit & Risk Review, all Group Chiefs report to the CEO. Chief Audit & Risk Review functionally reports to Audit Committee of the Board (ACOB) which is chaired by an independent director. The meetings of ACOB were held at least once in every quarter prior to approval of interim and annual results of the bank as required by the CCG. Reshuffling at Group Chief's level is done from time to time to ensure maximum management efficacy.

Human Resource Group (HRG) continues to ensure induction of quality workforce to support expanding branch network and functional groups of the bank. In terms of selection, the annual Management Trainee Officer (MTO) Program which is aimed to attract young professionals from top business schools. The bank has an Allied Bank Professionals Internship Program for fresh graduates with no banking experience in order to ensure seamless integration of new employees with the bank. Salary increments, performance awards and grade promotions are reviewed by the HRG and Human Resource & Remuneration Committee (HRRC) annually on the basis of employee performance.

ABL has maintained relations with its customers both locally and internationally. ABL currently operates with 1,224 conventional branches and 117 Islamic branches including 24 booths, 4 sub-branches and 10 Islamic Banking Windows (IBWs). The Bank has a Wholesale Banking Branch in Bahrain and a branch in Karachi Export Processing Zone. Additionally, ABL has Representative Office in Dubai, UAE and Beijing, China. The bank has surpassed SBP's condition regarding 1:1 Branch to ATM ratio with total number of ATM's at 1,388.

ABL's internal controls are considered sound on account of effective implementation and monitoring of internal controls on a bank wide basis. Comprehensive policies and manuals are in place to implement and ensure effective governance. Manuals, procedures and policies are reviewed/revised regularly. The board has set-up an effective Internal Audit Function (IAF) under the supervision of the Audit Committee of the Board (ACOB). The procurement of the eAudit (Audit Management System) which is being optimized to suit the unique requirement of all functions of ABL's IAF from a vendor to replace the internally developed branch audit management system will put ABL in line with other peer banks which are already using it. The proactive and forward looking nature of the Audit & Risk Review Group (ARRG) is demonstrated by the fact that it was already adequately compliant with SBP's Draft Guidelines on Internal Audit Functions at the time of issuance of these guidelines.

The Compliance Group has taken several initiatives during the period in review to strengthen internal control and ensure effectiveness of compliance culture across the bank. Implementation of the name screening software which can screen against a global or private watch-list, is being updated on a real time basis. FCCM, the bank's transaction monitoring tool for AML/KYC, is being upgraded and scheduled to go live by end-1QFY19. This update will allow implementation of multiple new scenarios and enhance parameters of existing scenarios, which will help the bank to timely address AML/CFT requirements.

During the period under review, RMG was able to implement Oracle Basel and Market Risk Management solution. The group has ensured compliance with swift security standards and also compliance of SBP Enterprise Technology Governance Risk Management framework. The group has also been given the task to lead the green banking initiative as per SBP Green banking guidelines. Due to intra group requirements and to improve efficiency of sub functions, RMG re-aligned various functions without increase in the overall strength of the group.

With enhanced focus towards digital banking, Information Technology Software Development Group has been divided into two groups on February 21, 2018, namely, Core Banking & BSDI and Digital Banking & Business Intelligence. The core banking application Release 16 went live on February 5, 2018. The Bank is also striving to obtain Payment Card Industry Data Security Standard (PCIDSS) certification; a certification for security standards related to payment card industry. The bank was also able to grow its digital banking customer base by more than 100% during the period in review.

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix III

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 IV
Name of Rated Entity	Allied Bank Limited (ABL)				
Sector	Commercial Bank				
Type of Relationship	Solicited				
Purpose of Rating	Corporate Governance Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	11-FEB-19	CGR 9+	-	-	Reaffirmed
	11-JAN-18	CGR 9+	-	-	Reaffirmed
	9-NOV-16	CGR 9+	-	-	Upgrade
	4-DEC-15	CGR 9	-	-	Reaffirmed
	28-NOV-14	CGR 9	-	-	Reaffirmed
	22-OCT-13	CGR 9	-	-	Upgrade
	1-OCT-12	CGR 8++	-	-	Upgrade
	17-OCT-11	CGR 8+	-	-	Reaffirmed
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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