

## CORPORATE GOVERNANCE REPORT

### Allied Bank Limited (ABL)

**REPORT DATE:**

April 02, 2020

**RATING ANALYSTS:**

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#### RATING DETAILS

	Latest Rating	Previous Rating
<b>Rating Category</b>	Corporate Governance	Corporate Governance
<b>Entity</b>	CGR 9+	CGR 9+
<b>Rating Date</b>	April 02, '20	February 11, '19

#### COMPANY INFORMATION

<b>Established in 1942</b>	<b>External auditors:</b> KPMG Taseer Hadi & Co., Chartered Accountants
<b>Listed on Pakistan Stock Exchange</b>	<b>Chairman of the Board:</b> Mr. Mohammad Naeem Mukhtar
<b>Key Shareholders (with stake 5% or more):</b> Ibrahim Holdings Private Limited – 84.93%	<b>Chief Executive Officer:</b> Mr. Tahir Hassan Qureshi
	<b>Staff Strength:</b> 11,665
	<b>Branches:</b> 1,389

#### APPLICABLE METHODOLOGY

VIS Corporate Governance Rating Criteria: Corporate Governance Ratings (August, 2017)

<http://vis.com.pk/kc-meth.aspx>

**Allied Bank Limited**

**OVERVIEW OF THE INSTITUTION**

Allied Bank Limited (ABL) is scheduled Bank engaged in commercial Banking and related services. The Bank is listed on Pakistan Stock Exchange (PSX). At year end-2019, ABL operated a total of 1,389 branches in Pakistan, including 117 Islamic Banking branches, 1 branch in Karachi Export Processing Zone and 1 wholesale Banking branch in Bahrain.

**Profile of Chairman**

Mr. Mohammad Naeem Mukhtar has been Chairman of the Board of ABL since 2004. He has done MBA from Cardiff Business School UK, Post Graduate diploma in Textiles from UK and Chartered Textile Engineer (CText ATT) from The Textile Institute in Manchester UK. He has over 34 years of experience of finance and industrial manufacturing.

**Profile of CEO**

Mr. Tahir Hassan Qureshi is a seasoned professional Banker and Fellow member (FCA) of the Institute of Chartered Accountants of Pakistan (ICAP) with a diversified experience of more than 31 years including over 26 years of experience in the Banking industry where he has held senior management positions. He joined ABL in 2008 and served as Chief, Audit & Risk Review (A&RR), Chief Financial Officer and Chief Operating Officer (COO).

**RATING RATIONALE**

Allied Bank Limited (ABL) is one of the leading commercial Banks in Pakistan. The Bank operates through its head office located in Lahore and 1,389 full-fledge branches as at end-2019 all over Pakistan. . The Bank has a wholesale Banking branch in Bahrain, a branch in Karachi Export Processing Zone, and representative offices in Dubai, UAE and Beijing, China. Ibrahim Holdings (Private) Limited has - 84.93% stake in the Bank and is represented by three non-executive sponsoring directors on the Board. The Bank has implemented a well-established corporate governance framework which is supplemented by effectively functioning Board and Management Committees. The Board comprises (8) members, including three (3) sponsor directors, three (3) Independent directors, one (1) non-executive director, and the CEO. The Independent directors meet the independence criteria implied by regulations. Five members of the Board are "Certified Directors" from the Pakistan Institute of Corporate Governance (PICG) and ICAP while three are exempt on the basis of their experience.

The Bank encourages participation of Board members in seminars and workshops on different forums. A two days study tour in Dubai was arranged for four directors, whereby they visited four Banks to get first-hand knowledge of latest Banking techniques and digital technology. During the period under review, the Board approved appointment of Chief Financial Officer, and the Company Secretary including their remuneration and terms and conditions of employment and complied with relevant requirements of the regulations. The Bank has defined an in-house process for reviewing performance of Board of directors, including Chairman, CEO and Board Committees. An independent external evaluation is carried out every three years for continuous improvement and refinement; such an evaluation was arranged in 2018.

ABL has established five Board Committees to oversee and review overall performance of the Bank; including Audit Committee of Board (ACOB), Board Risk Management Committee (BRMC), Strategic Planning & Monitoring Committee (SPMC), Human Resources & Remuneration Committee (HR&RC) and e-Vision Committee. No reconstitution of the Board and Board Committees was observed during the period under review. Clear reporting lines are defined in the organogram that was revised during the year, as General Services & Security and Real Estate & Infrastructure Development Groups were merged and renamed as General Services & Real Estate Group.

The Management Committees are also in place, which consist of various group chiefs and mostly chaired by the CEO. Management Committees at ABL include, Management Committee (MANCO), Assets and Liabilities Committee (ALCO), Risk Management Committee (RMC), Compliance Committee (CC), IT Steering Committee (ITSC), Fair Treatment of Customers (FTC) Committee, Human Resource Committee (HRC), Anti-Harassment Committee (AHC) and Central Administrative Action Committee (CAAC). Meetings of Management Committees held at regular intervals with satisfactory attendance record while terms of references (TORs) were updated as per internal and regulatory requirements.

ACOB comprises three non-executive directors, including two Independent directors, with one being chairman of Audit Committee. Chief Audit and Risk Review Group (ARRG) reports directly to the ACOB. Six meetings of ACOB were held during 2019 with high attendance record. The deliberations pertained to review of annual and interim financial statements, review of quarterly reports on financial reporting controls, monitoring of compliance status of observations highlighted in the State Bank of Pakistan (SBP's) inspection reports, analysis related to fraud & forgeries, approval of framework for assessment of efficacy of Internal Controls over Financial Reporting (ICFR) by ARRG, and review and approval of risk-based audit approach along with annual audit plan 2020. The Committee also reviewed and recommended to the Board of directors the statement of Internal Controls, activity review report of ACOB, Charter of ACOB, Internal Audit Policy, external Shari'ah audit report and compliance status, and accounting, disclosures, and Related Party Transaction Policy of the Bank.

The Committee ensured independence and supervision of internal control system by conducting separate meetings with external auditors, Chief ARRG and internal audit staff. ACOB recommended to the Board of directors the re-appointment of M/s KPMG Taseer Hadi & Co. Chartered Accountants, as statutory auditors for 2020 for 6<sup>th</sup> term after obtaining approval of SBP and SECP.

The Bank has comprehensive compliance policy, procedures and automated systems to manage & mitigate Compliance Risk via ensuring regulatory compliance & implementation of internal processes. Compliance Universe of the bank covers key aspects like KYC/ AML/ CFT requirements, FATF recommendations, TBML guidelines, International Tax Requirements like FATCA/ CRS & Bank's Internal Controls. The Bank has adopted Integrated Framework on Internal Controls issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission and same is been implemented & followed on continuing basis. For comprehensive implementation of Internal Controls, the bank has developed Control Review and Testing Framework (CRTF) that outlines overall

control objectives and approach towards implementation and testing of Internal Control System on entity wide basis covering all three types of risks & controls i.e. Financial Report (FRC), Operations & Compliance. Furthermore, with respect to FRC the Bank has implemented all stages of ICFR as specified by the Regulator and same are functioning on recurring/continuing basis. In view of the same, the Bank has been accorded exemption by SBP from submission of Long Form Report of FRC from External Auditors of the Bank.

To comply with the SBP's guidelines of Internal Audit Function, ACOB reviewed and approved revised Charter of ARR, which describes scope of work of ARR and extends responsibilities of Chief ARR. The approval of said Charter was previously under the ambit of Board of directors. In addition, Credit Risk Review audit methodology was revamped to meet evolving dynamics of enterprise risk.

Implementation of Quality Assurance & Improvement Program was also initiated, which requires an independent external assessment of ARR after every 5 years to ensure compliance with IIA Standards and establishment of robust "quality assurance mechanism" by Chief ARR. Self-assessment of ARR was also conducted to identify the gaps vis-à-vis the requirements of IAF guidelines and certain additional requirements of SBP were included in ARR documents to ensure meticulous compliance with the regulations.

The Board of directors manages risk through a framework of risk principals, including establishment of risk tolerance limits, identification of potential risks & impact assessments and formulation of mitigation strategies while ensuring continuous monitoring. Risk mitigation strategies were recommended monitored through the Board of directors' Committee, BRMC, while implementation of those strategies was ensured by management sub-Committees, namely RMC, CC, and ALCO.

BRMC comprises four members, who met five times with high attendance record during 2019. The members deliberated on quality of asset portfolio and suggested vigilance through Early Warnings System amidst challenging economic environment, reviewed quarterly Operational Loss Risk and Interest Rate Risk reports, monitored management's adherence to prudent and sound risk policies and changes in Credit Approval Matrix levels of Islamic Banking Group. BRMC also deliberated on updated Risk Acceptance Criteria Statement, full-scope reviews of Credit Policy & Procedures, Strategic Risk Management Policy, and Operational Risk Management Policy that were carried out by Risk Management Group (RMG) in the light of new guidelines of SBP and the Bank's internal requirements as well as key focus area of RMG's Operational Plan 2020.

RMG leverages an in-house developed Risk Assessment and Management System (RAMS) for loan processing and monitoring, which has resulted in effective management of credit risk and one of the lowest infection ratios in the industry. Major enhancements were made in RAMS to provide additional tools and information to risk approvers and monitoring teams. The implementation of Bench Matrix Solution has enabled automation of various functions of Operational and Compliance risk management. The project of Oracle Financial Services Analytical Appliance for Enterprise Risk Management was completed during the year with the implementation of Assets Liability Management (ALM) and Liquidity Risk Management (LRM) modules, which will enable the Bank to measure and meet risk-adjusted performance objectives and lower compliance & regulation costs.

Various security assessments, including vulnerability & compromise assessments, penetration testing, and technical risk assessments, as per mandated by SBP. In accordance with the SBP's guidelines, the responsibility of IFRS-9 implementation was delegated to BRMC, and subsequently an IFRS-9 Project Steering Committee of the management was constituted, comprising members of finance, risk, IT and business groups, who will present quarterly progress report to BRMC.

The Bank has also strengthened its governance mechanism with respect to Compliance Controls (CC). The oversight of CC was previously assigned to the Risk Management Committee (RMC); however, a dedicated Compliance Committee (CC) of management was formed under MANCO to comply with the SBP's requirements. The CC is responsible for promoting high compliance culture by reviewing implementation of Compliance Program, periodically reviewing status of AML/CFT, TMBL, CDD and KYC with regular reporting to Board Risk Management Committee while Board of Directors are updated annually on the effectiveness of the Bank's overall management of compliance risk. Compliance Group (CG) maintained focus on enhancing compliance at all levels, including compliance risk management and monitoring, entity and process level controls to avoid money laundering, terrorist and proliferation financing, adherence to regulatory promulgations and frameworks, maintenance and updating of Bank-wide policies and procedures, coordinating with the regulator and resolution of issues identified during internal and external reviews and audits.

Technology supported controls were enhanced with the implementation of Operational and Compliance Risk solution. Implementation of C-link, a name-screening solution, was also completed, and it was integrated with Core Banking System to enhance due-diligence measures, effectively screen out sanctioned entities, politically exposed persons, other high-risk entities, and over-the-counter home remittance transactions. Oracle Financial Crime and Compliance Management solution was upgraded and customer jurisdiction for risk assessment were enhanced, e-KYC form was redesigned to capture trade related business information of customers, and Entity Risk Rating

Mechanism for terrorist financing & money laundering was developed and two assessments were conducted, as per revised National Risk Assessment (NRA) report of Pakistan. Likewise, the Bank implemented tailor-made Risk Nucleus System for automation of the compliance function as per the SBP Compliance Risk Management Guidelines.

HR&RC met six times with high attendance record during 2019. The Committee is headed by a non-executive director, though latest CCG requires an Independent director to be the chairman of HR&RC. The Committee is responsible for defining organizational structure, functional responsibilities, staff strength, key appointments, salaries revision, bonuses and special allowances, as well as recommends terms and conditions of employment and other benefits of the key position holders, except Chief ARRG, whose appointment, salary revisions, performance awards, and grade promotions are recommended by ACOB to the Board of directors. Besides making recommendation on Remuneration Policy and other Human Resource related policies to the Board, HR&RC monitors performance of management's Human Resource Committee (HRC) and Human Resource Group (HRG).

The Committee deliberated on Bank-wide rationalization and resource optimization exercise that was conducted by HRG during the year to reengineer and digitize business processes, enhance alignment of operational activities across various groups, and effective utilization of resources. Organograms of all functional groups were updated accordingly. HR&RG also deliberated on HRG's Training Needs Assessment, Allied Leadership Talent Pipeline Program (ALTP), Digital Transformation Trainings and utilization of trainings budget. The Committee reviewed and approved enhancements in Key Performance Indicators of branch performance management matrix to incorporate the relationship management segment. Career progression opportunities were offered to employees at all levels through merit-based elevations to layout cross functional exposures at Chief, Group Head, Divisional Head, Regional Head and Unit Head positions.

Psychometric Assessments was made mandatory for promotions from MG7 to MG6 positions. ALTP was introduced to ensure effective succession at the mid-level management, under which young leaders were categorized in three echelons; high potential successor, intrinsic potential successor and extrinsic potential successor. Human Resource policy was revamped to align annual performance appraisal scores with underlying risk adjustments in line with best international practices. Remuneration structure relating to Material Risk Takers (MRTs) and Material Risk Controllers (MRCs) across the Bank was defined and implemented under revised HR policy. In line with the SBP's Prudential regulations, TORs of HR&RC were updated to include that the Committee is responsible for formulating/reviewing Directors Remuneration Policy.

e-Vision Committee is responsible for providing strategic direction for e-Banking, adoption of new technologies to enhance customer value and internal control environment, reviewing strategic plans to improve IT infrastructure and automation of processes and systems, and oversee performance of IT Steering Committee (ITSC) and functions of Information Technology Group. The Bank has established an IT Governance framework to ensure that significant investments in IT infrastructure are duly aligned with the long-term strategies and objectives. IT Governance at ABL is regulated by the IT Governance Policy that is approved by the Board of directors. Four meetings of e-Vision Committee were convened with full attendance record during 2019, whereby the members deliberated on implementation and progress of several initiatives, including Oracle Enterprise Risk Management Solution, evaluation & preparation of implementation roadmap of CRM solution, pay anyone transaction through ATMs, upgradation of T24 hardware infrastructure, Phase II of Human Resource Management System, Integration Framework Studio, various projects under Data Governance, Big Data, and Artificial Intelligence (AI), and implementation of local e-commerce services (NIFT – ePay, 1LINK and Avanza). The Committee also deliberated on Annual Operational and Rolling Strategic plans of ITG and DBG and recommended the same to the Strategic Planning & Monitoring Committee (SPMC).

The Committee reviewed and approved procurement and implementation of several software and hardware solutions exceeding invoice value of Rs.15m. During 2019, ITG strengthened its infrastructure, including systems, networks, applications and robust data centers underpinned by Big Data, AI and Robotic Process Automation (RPA) to ensure seamless Banking services and enhance control environment. It implemented Oracle Big Data Appliance in collaboration with IBM and started building Data Lake to enhance consumer experience by leveraging machine learnings capabilities. Multiple use-cases of RPA were also introduced during the year to improve operational efficiency, controls and cost savings. ITG also executed measures to gauge network efficiency, resulting in over 97% ATM uptime and related network services, and performed head office functions from disaster recovery sites for a week's time during which more than 80 services and applications were delivered to the customers. ITG has implemented cost-effective and secure Open Banking Initiative IBM API Platform to create, expose, manage and 'monetize' socializing APIs for partners and customers.

ITG is also implementing IBM BPM platform that is going to enable us to choreograph processes across disparate organizational silos, applications, people, and systems. This will help to remove inefficiencies, optimize costs, ensure compliance, and boost productivity through process automation. In addition, ITG is planning to develop cross platform Android & iOS based mobile application, which will have the capability to monitor ATM network

operational status. A new division namely Data Architecture & BI Reporting has been formed under ITG. The role of this said Division is to manage Big Data architecture and ETL in addition to CDB.

The Bank values the importance of its relationship with its customer, and service quality is a strategic priority of the Bank. Customer complaints are handled in a systematic and timely manner. The Bank has a centralized Complaint Management Division in place to resolve customer complaints. As a part of the Bank's initiatives for Fair Treatment of Customers (FTC), information about the complaint lodgment process lodgment channels were disseminated to bring an awareness among customers through SMS, email, corporate website, digital signages and ATMs.

Security Operation Centre (SOC) has been established as a centralized function within the Bank employing people, processes and technology to continuously monitor and improve the security posture while preventing, detecting, analyzing and responding to cyber security incidents.

In terms of services, the Bank has maintained a little over 1:1 branch to ATM ratio with entire network equipped with biometric verification system, working and improving on branchless Banking and digital Banking channels, and steadily increasing number of its Islamic branches including Islamic Banking Windows (IBWs) to make sure that maximum customer satisfaction is achieved. The Bank offers full-service Saturday Banking to its customer via 165 branches and extended working hours through 25 branches. ABL is also building in-house capabilities and collaborating with fintech partners, including EasyTickets, Golootlo, 1-LINK, and Avanza Premier Payment Services, for new digital offerings. myABL, the Bank's personal internet Banking application, works across all devices and offers a wide array of customer features, available 24/7 on internet and mobile. ABL has also launched Pakistan first Co-Badged Union Pay & PayPak Debt Cards in Pakistan for local and international transaction. Top 100 branches have been enabled with Electronic Queue Management System, feedback tablets, and Internet Banking Kiosks in a bid to rollout self-service Banking.

To maintain adequate levels of communication with its stakeholders, ABL primarily communicates through the Annual Report, quarterly and half yearly published financial statements, quarterly investors call, annual investor's presentation and its website. All the financial results and any other material developments within the Bank are communicated through these channels. The financial and qualitative disclosures in the public domain are considered satisfactory. Annual Report is fairly descriptive and contains disclosures about corporate governance, statement of compliance, statement of internal controls, information technology governance, investor grievance, remuneration report, report of Shariah Board, corporate social responsibility policy, corporate sustainability report, and whistle blowing policy.

Other disclosures include company information, corporate structure, services products, Chairman's message and CEO's review, Group reviews, comparison of performance vis-a-vis KPI's, stakeholders engagement, our commitment to sustainable development goals, profile of the Board members, performance evaluation criteria of the Board, TORs and composition of all Board level Committees along with frequency of meetings and attendance records. The Director's Report is also comprehensive as it includes an overall view of Pakistan's economy, financial results, risk management framework, credit and corporate governance rating of the Bank, appropriation of profit between statutory reserve and dividend, performance overview of its subsidiary, changes in Board and its Committees and pattern of shareholding.

Investors calls and Investors Presentation are conducted on quarterly and yearly frequency respectively to discuss and present the Bank's latest reported financial performance. Investor presentations are also uploaded on "Investor Relations" section of Bank's website. Corporate Briefing Session is also conducted once a year as required by Pakistan Stock Exchange.

Corporate Affairs Group (CAG) is solely responsible for communication with the shareholders. AGM notices are initially circulated at least 21 days before the general meetings and are also shared on mediums such as newspapers, website and also communicated via email. Shareholders are invited to the AGM and are provided with full access to question regarding any aspect of the business from the representative of the Board, Chairman Audit Committee, Management and external auditors. The Bank also offers all possible facilitation to minority shareholders whenever required. Voting rights are provided to all common shareholders. Quality and flow of information to shareholders is considered in par with industry standards. ABL considers profit maximization as one of its primary objectives, and dividends are distributed to shareholders on an annual as well as on an interim basis.

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix I**

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

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**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.

REGULATORY DISCLOSURES		Appendix II				
<b>Name of Rated Entity</b>	Allied Bank Limited (ABL)					
<b>Sector</b>	Commercial Bank					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Corporate Governance Rating					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>	
	<b>RATING TYPE: ENTITY</b>					
	02-APR-20	CGR 9+	-	-	Reaffirmed	
	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		
<b>Instrument Structure</b>	N/A					
<b>Statement by the Rating Team</b>	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.					
<b>Probability of Default</b>	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.					
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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Meeting Date</b>			
	Ms. Saira Shahid Hussain	Chief HR&RG	20-02-2020			
	Mr. Tariq Mehmood Shahid	Group Head CG	21-02-2020			
	Mr. Imran Maqsood	Chief ARRG	24 -02-2020			
	Mr. Sohail Aziz Awan	Chief DBG	24-02-2020			
	Mr. Mujahid Ali	Chief ITG	24-02-2020			
	Mr. Muhammad Raffat	Company Secretary	24-02-2020			
	Mr. Moin Khalid	Group Head Enterprise Risk	24-02-2020			