

CORPORATE GOVERNANCE REPORT

Allied Bank Limited (ABL)

REPORT DATE:

December 22, 2020

RATING ANALYSTS:

Maham Qasim

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Corporate Governance	Corporate Governance
Entity	CGR 9+	CGR 9+
Rating Date	Dec 21, 2020	April 02, 2020

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 – 84.93%	Staff Strength (Sept'20): 11,509
General Public – 3.78%	Branches: 1,380
Others – 11.29%	

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). As on 30.09.2020, ABL operated a total of 1,380 branches in Pakistan.

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 30 years including over 25 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 top-five commercial banks in Pakistan with sizable and sustainable market footprint in provision of financial intermediation services. The bank has sound financial risk profile entailing sizable loss absorption capacity underpinned by augmented equity base and comfortable capital adequacy, moderate risk appetite reflected by low infection ratios and adequate liquidity profiling. The ratings incorporate a well-established corporate governance framework rolled out by the bank supplemented by strong financial transparency and effectively functioning board and management level committees. Management team of the institution comprises seasoned professionals; stability in the same is a key rating contributor. Level of financial and qualitative disclosures in the public domain is satisfactory. Moreover, overall control environment of the institution is considered strong.

The rating reflects effective and proactive approach of the Board for strategic alignment of the bank's manifestos with implementation of the same by the management on both operational and tactical levels. The ratings incorporate efficient and productive two-way communication amongst stakeholders, directors and management, for mitigation of any change adversely impacting the operating dynamics of the bank; the same has been imperative in maintaining ABL's risk profile during the current pandemic crisis. The rating derives strength from major headways made on information technology (IT) front through digitalization and automation to assist the banks' growth prospects along with cost rationalization during the medium to long-term. IT and network support extended to the entire workforce during lockdown while maintaining information security played a significant role in keeping the institution afloat during unprecedented pandemic situation. Moreover, risk rating of branches showed improvement during the period under review with increased focus on rectification of recurring issues along with no major fraud instances reported. The rating takes comfort from structured succession plan in place resulting in smooth transition of responsibilities at the top of the hierarchical pyramid; the incumbent chief executive is poised to be replaced by his identified successor by the start of next year.

Key Ratings Drivers

Corporate Governance Framework: Ibrahim Holdings (Pvt). Limited has approximately 85% stake in the Bank and is represented by three non-executive sponsoring directors on the Board. The Board comprises (8) members, including three (3) sponsor directors, three (3) Independent directors, one (1) non-executive director, and the CEO. There has been no change in the composition of the Board during the rating review period. The directors have confirmed that none of them is serving as a director on more than seven listed companies including ABL. The Independent directors meet the independence criteria implied by regulations. In accordance with the requirements of Code of Corporate Governance (CoCG), five members of the Board including the CEO are Certified Directors from The Pakistan Institute of Corporate Governance (PICG) and Institute of Chartered Accountants of Pakistan (ICAP). Whereas three directors are exempted from such requirement on account of their experience and qualifications in accordance with the requirements of CoCG. As per SBP's Performance Evaluation of Board Guidelines, ABL opted for in-house approach with quantitative techniques and evaluation by an external independent evaluator every three years. Accordingly, independent assessment was conducted in FY18 and for FY19, in-house approach was exercised. The results for Board Annual Evaluation for FY19 were discussed during Feb'20 meeting and were deemed satisfactory.

Board meetings deliberated on strategic planning, approval of financial statements & related party transactions, policy framework, internal controls, appointment & evaluation of management performance & succession planning, governance and management information systems. The minutes were precise yet comprehensive exhibiting notable quality. The minuting depicted prospective approach of the Board in understanding the volatility prevailing in the economy amid COVID-19; the same resulted in the bank opting a rigorous strategy in mitigating the unforeseen operational challenges to

keep the organization afloat. To maintain effective foresight Board has established five Board level committees. The structure of all Board level committees remained the same during the period under review. Terms of References (TORs) of all the Board Committees have been duly approved by the Board of Directors and are reviewed every three years or as and when needed due to changes in regulatory requirements. The Board committees' meetings were held in accordance with frequency defined in their respective TORs. Overall attendance of all board committees' meetings was satisfactory and the minutes of these committees' meetings are considered comprehensive with follow up in place on actionable items.

Developments in IT: ABL has successfully configured Oracle Big Data Appliance in partnership with IBM as the system implementer, Data lake creation from 16 source systems has been successfully built on Big Data Appliance. Moreover, the Bank is implementing Machine Learning Model catering to Artificial Intelligence (AI) based predictions. The Bank has also handshake with multiple Data Science companies to capitalize on Data Lake through use of Machine / Deep Learning. Allied Bank has embarked its journey on Robotic Process Automation (RPA) in 2019 and now in process to automate trade specific module's integration with core banking and automate data entry into International Transaction Reporting System (ITRS). The Bank is also using AI based Intelligent Character Recognition (ICR) technology to read hand writing data from multiple documents for data analytics. The Bank has also jumped into the role of Bill Aggregator in collaboration with 1Link's 1Bill which would facilitate customers to pay their Bill using 1Link's platform. The implementation of International Financial Reporting Standard (IFRS)-9 system and Trade Based Money Laundering solution are in progress to strengthen Bank's Risk Management and Compliance.

To automate bank internal audit process, ABL has implemented the E-audit system and integrated it with bank's eco system during rating review period. In order to implement international best practices and harvest benefits of technological advancements in Human resource management, ABL has upgraded the existing system with Oracle HRMS (Human Resource Management System) during the rating review period. Another Major initiative towards a paperless environment is the implementation of Business Process Automation platform (BPM – Business Process Manager). Furthermore, to maintain customer's data confidentiality and integrity, bank has implemented Web Application Firewall (WAF) to secure web applications by filtering and monitoring the traffic between a web application and the internet. Furthermore, to combat with the cyber threats, ABL has implemented TrendMicro Virtual Patch Management (VPM) solution which protects information assets from hacking attempts. ABL initiated digitalized control process implementation in branches through Artificial intelligence (AI) based convolutional algorithm to detect fake cheques during scanning.

Developments in Digital Banking Framework: ABL introduced branchless banking along with large agent networks to enable wide range transactions for branchless banking customers. Key features of myABL Wallet app include funds transfers, bill payments, mobile top-ups, online shopping, tickets & QR payments. Moreover, voice assisted banking was initiated during FY20 whereby myABL Digital Banking customers (iPhone users) can check their accounts balance, make instant payments to any bank account and enquire credit card outstanding balance through simple voice requests. The bank launched NFC (Near Field Communication) Debit Cards on VISA, UPI & PayPak card schemes. Furthermore, ABL has also launched open banking API portal to provide collaboration opportunities to Fintechs and Startups. ABL has Launched Basic Debit card to cater needs of non-educated customers. The card provides Chip & PIN security and freedom to use anywhere in Pakistan on ATMs and POS terminals. Digital Banking Group (DBG) launched its First Digital Lending product "Payday Finance" (Advance Salary Loan). Payday Finance is an alternative lending methodology for ABL customers maintaining a salary account at ABL. On digital investment front, DBG has collaborated with ABL Asset Management Company (AMC) to offer mutual fund investment services through myABL Digital Banking platform. With this integration ABL customer can invest, redeem or transfer funds with convenience. In addition, biometric ATM services was expanded on all ATMs bank-wide. DBG has also powered top 100 branches with Self Service Kiosks (SSK) providing biometric verification, balance inquiry, cheque book request, mini statements, myABL digital banking,

complaint services, customer feedback, various promotions and discounts offers. Allied Asaan Account opening facility is also available on SSK. Customers at top 100 branches can now initiate an Allied Asaan Account opening request by themselves using SSK. DBG has rolled out “Customer’s 360° View” for branches. BISE Fee payment through SSK has been launched to facilitate thousands of students for their board examinations. In addition, Cash & Cheque Deposit Machines (CCDM) services have been enhanced to accept cash and cheque deposits for other ABL accountholders as well.

Internal Audit: A&RRG tailored its audit programs to cover operational risks caused by the impact of COVID-19 during the period under review. As a result of early adoption of SBP’s Enterprise Technology Governance and Risk Management Framework, Information System (IS) Audit Plan is aligned to mitigate the technology risk including cybersecurity and data protection loss. Crisis management and business continuity risk is being covered in management audit of BCP function. Further, alternate delivery channels are also adequately being reviewed. Enhanced audit testing will be made during branch audit relating to Anti-money laundering/ know your customers (AML/KYC) and various SBP circulars in the wake of COVID-19. A&RRG has developed Quality Assurance & Audit Policy (QA&AP) function in line with Institute of Internal Auditors (IIA) standards to ensure compliance with SBP’s guidelines. In addition, A&RRG has introduced thematic audits with an objective to test a particular process, activity or type of transactions across multiple auditable entities which is expected to result in timely identification of issues & system & process gaps. Audit plan for FY21 is to be developed and approved by ACOB in 4QFY20. During the period under review, no major events of fraud and forgery were recorded. A&RRG complied with all IA related regulatory requirements (certifications, validations, compliance audits etc.) without obtaining relaxations. Further the department was successful in achieving all targets as set out by Risk Based Annual Audit Plan 2020. Staff on key positions continued to attend office during pandemic and ensured compliance of defined SOPs to contain the spread of COVID-19. Staff working from home were provided VPN facility to ensure continuity of assignments.

Developments in Risk Management: ABL has inked an agreement with Karandaz Pakistan for developing an innovative, cash-flow based, credit scoring model for Small and Medium Enterprises (SMEs). The project is expected to assist the bank in fulfilling its social responsibility of financial inclusion along with creation of business opportunities for the bank. In line with implementation of IFRS-9 system, ABL has formed management level Steering Committee governed by BRMC to oversee system implementation progress. The bank has Selected Ernst & Young as implementation partner of automated IFRS-9 system. Further, hardware and software requirement for test environment communicated by EY have been implemented by ITG. Based on standardized draft guidelines of SBP on revamping of expected credit loss calculations and accounting classifications is now under process. Currently, system onboarding and validation are in its final stages; go live deployment timeline is end-FY20. Further, IFRS-9 policy and framework will be developed after issuance of SBP guidelines; the timeline for the same is end-FY20. RMG has implemented Bench Matrix Solution for Operational and Compliance Risk Management. ABL has an in-house developed Risk Assessment and Management System (RAMS) for loans processing and monitoring. The system has enabled the bank towards effective management of credit risk, also reflected by one of the lowest infection ratios in the sector. The Project of Oracle Financial Services Analytical Application (OFSAA) for Enterprise Risk Management was completed during the year 2019 with the implementation of Assets Liability Management (ALM) and Liquidity Risk Management (LRM) modules. With the successful completion of OFSAA and Bench Matrix practices, a wide spectrum of Enterprise Risk now stands automated; enabling effective monitoring of the underlying risks. RMG has reviewed Asset Customers’ Risk Rating Model, Control Testing Framework, Bank’s Internal Risk Assessment Report on the directives of SBP and Risk Rating Model for Branchless Banking.

Developments in Human Resource Management: There was no change in the bank organogram during the rating review period; the functional reporting of all departments remained unchanged. Successors for all key positions have been identified; trainings have also been conducted to prepare the second in command for the upcoming roles. 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 ACOB. During the period under review, the scope of KPIs was enhanced to cover the relationship management segment and to bring in the right mix of over the counter transactions and digital platform. Human Resource (HR) 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. As per the management, ABL focuses more on internal elevations rather than headhunting from the market in order to inculcate sense of job security; around 80% of the positions are filled internally. Human Resource Group (HRG) supports gender diversity; equal employment opportunities were offered to females and candidates belonging to minority groups across the Bank, at end-Sep'20 the female employees' ratio stood at 18%. Further, various strategic initiatives were introduced including competency assessment for new Management Trainee Officers (MTOs), learnability curve assessment and personality profiling of existing MTOs and aptitude test for new tellers. MTO Reconnect program was launched for existing MTOs, working across various functions in the bank to provide platform for sharing insights, professional experience and journey within the bank, thereby providing mature feedback for further improvement in bank's processes, policies and working environment. Moreover, psychometric assessment for posting of regional heads is in place to find the best organization-employee fit for critical middle management position. Psychometric Assessments are mandatory for promotions from Management Grade 7 (MG7) to MG6.

During FY19, HRG introduced Allied Leadership Talent Pipeline (ALTP) to ensure effective succession at the mid-level management. Further, HRG implemented modern technology solutions involving e Learning, gamification modules, online assessments, webinars, online tutorials, bite-sized learning to achieve the training milestones. As a result, the department achieved 96% employee coverage. Beta version of e-learning was expected to be launched by end-3QFY20; however the timeline has been revised to end-FY20 due to ongoing pandemic. Going forward, the next man power plan would be developed according to bank's vision of digital transformation therefore a cost saving of Rs. 500m is expected by end-FY20. ABL continued training initiatives in unbanked areas focusing on National Financial Inclusion Strategy. In addition, ABL won the prestigious award of 'Best Place to Work' under the category of 'Financial Services' for the Year FY19.

Compliance Framework: The Compliance Committee (CC) is functioning under MANCO in adherence with SBP requirements. CC is responsible for promoting high compliance culture by reviewing implementation of Compliance Program, periodically reviewing initiatives for Anti-Money Laundering (AML)/ Combating financing terrorism (CFT), TBML, CDD and KYC, and reporting to the Board. 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 upgradation of Bank-wide policies and procedures, coordination with the regulator and LEAs, and tracking and resolution of issues identified during internal and external reviews and audits. CG upgraded Financial Crime and Compliance Management (FCCM) application and reviewed the benchmarks associated with it during the period under review besides, the Compliance Link is now integrated with Core Banking System for effective control. CFT desk has also been established in accordance with SBP AML/CFT Guidelines on Risk Based Approach. ABL uses key Risk Indicators (KRIs) to identify, assess and monitor compliance risk. Going forward, CG plans to use artificial intelligence-based solution for enterprise wide compliance, transaction monitoring and sanction screening together with development of live risk matrix for managing bank wide AML and CFT risk. ABL also achieved PCI DSS Certification depicting a major security milestone along with compliance to swift customer security program being mandated by Swift International. Further, deployment of IT based systems for monitoring of TBML is also in process and planned to be completed in FY21.

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix I

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

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				
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	
	<u>RATING TYPE: ENTITY</u>					
	21-DEC-20	CGR 9+	-	-	-	Reaffirmed
	02-April-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	
Instrument Structure	N/A					
Statement by the Rating Team	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.					
Probability of Default	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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Due Diligence Meetings Conducted	Name	Designation	Meeting Date			
	Ms. Saira Shahid Hussain	Chief HRG	08-10-2020			
	Mr. Mr. Ahmad Mansoor	Chief-CG	07-10-2020			
	Mr. Imran Maqsood	Chief A&RRG	07-10-2020			
	Mr. Sohail Aziz Awan	Chief DBG	07-10-2020			
	Mr. Mujahid Ali	Chief ITG	07-10-2020			
	Mr. Muhammad Raffat	Company Secretary	12-10-2020			
	Mr. Moin Khalid	Group Head Enterprise Risk, RMG	07-10-2020			