

## CORPORATE GOVERNANCE REPORT

### Allied Bank Limited (ABL)

**REPORT DATE:**

Nov 25, 2022

**RATING ANALYSTS**

Maham Qasim

[maham.qasim@vis.com.pk](mailto:maham.qasim@vis.com.pk)

**RATING DETAILS**

	Latest Rating	Previous Rating
Rating Category	Corporate Governance	Corporate Governance
Entity	CGR 9++	CGR 9++
Rating Date	Nov 25, 22	Dec 17, '21

**COMPANY INFORMATION**

Established in 1942	<b>External auditors:</b> EY Ford Rhodes, Chartered Accountants
Listed on Pakistan Stock Exchange	<b>Chairman of the Board:</b> Mr. Mohammad Naeem Mukhtar
<b>Key Shareholders (major):</b>	<b>Chief Executive Officer:</b> Mr. Aizid Razzaq Gill
Ibrahim Holdings Private Limited – 90.00%	<b>Staff Strength (October'22):</b> 11,670
	<b>Branches:</b> 1,429

**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 a scheduled Bank engaged in commercial Banking and related services. The Bank is listed on Pakistan Stock Exchange (PSX).

**Profile of Chairman**

Mr. Mohammad Naem 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 ATI) certification from The Textile Institute in Manchester UK. He has over 36 years of experience of finance and industrial manufacturing.

**Profile of CEO**

Mr. Aizid Razzaq Gill took the charge of CEO effective from January 01, 2021. Prior to his current role, Mr. Aizid held the position of Chief Risk Officer of ABL. He is a seasoned professional banker with over 25 years of experience in Financial Management, Risk Analysis & Research and expertise in Portfolio Management of Corporate and Commercial Banking Obligor. He is a graduate from The University of Engineering and Technology (UET), Lahore and holds Master's degree in Business Administration from California State University, Fullerton (CSUF), USA and Business Economics from University of Manchester Institute of Science & Technology (UMIST), UK.

## 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 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 rating derives strength from continued efficient and productive two-way communication amongst stakeholders, directors and management, for mitigation of any change adversely impacting the operating dynamics of the Bank. Corporate Governance framework of the Bank is considered adequate, with Board & Board Committees being in place and their compositions being aligned with best practices; all members of Board Audit Committee are independent directors. Overall attendance record of Board and its Committees' meetings was satisfactory with comprehensive discussions regarding various aspects of the Bank. Minutes of Board & its committees' meetings were observed to be well drafted and comprehensive. Third party evaluation of the Board was conducted which assessed performance of the Board on the higher end of the scale. Level of financial and qualitative disclosures in the public domain is satisfactory. Agenda items and material information's were timely disseminated to Board Members for effective decision making. Moreover, the rating incorporates major headways made on information security and information technology fronts through digitalization and automation to assist the Bank in catering to evolving cyber landscape, materialization of growth prospects coupled with cost rationalization during the medium to long-term rating horizon. The ratings draw comfort from the stability in the management team comprising of seasoned professionals along with formulation of conflict-of-interest policy. The rating takes comfort from structured succession plan which is in place for the key positions, resulting in smooth transition of responsibilities at the top of the hierarchical pyramid. Moreover, standard operating procedures for appointment of the Board members/key executives were developed during the ongoing year. During the rating review period, the Bank has emphasized upon and implemented green banking initiatives to promote and attain environmental compliance. However, internal mechanism for reviewing business risks and evaluating their impact may be further enhanced.

Total consolidated assets of the bank were reported at Rs. 2.1 trillion at September 30, 2022. The Bank has an extensive customer base which is served with comprehensive array of retail, SME, corporate, commercial, and private banking products and services. The Bank also provides asset management services through its wholly owned subsidiary ABL Asset Management Company. ABL's network consists of 1,429 branches comprising of 1,305 conventional branches, 117 Islamic branches and 7 digital branches covering all the regions of Pakistan and 1 wholesale banking branch in Bahrain, supported by employee base of 11,670. The Bank has advanced e-banking channels, which handles over 70% of total banking transactions. These channels comprise of 1,569 ATMs, including 5 Mobile Banking Units, Internet Banking, Mobile Banking, Voice-Assisted Banking, WhatsApp Banking, Self-Service Kiosks, Call Center, and POS Machines. Ibrahim Holdings (Pvt.) Limited holds around 90% shares of the Bank, and the remaining about 10% shares are publicly traded on the Pakistan Stock Exchange. The financial statements of the Bank for 2021 were audited by M/s. KPMG Taseer Hadi & Co. Chartered Accountants and M/s. EY Ford Rhodes Chartered Accountants. Joint Auditors M/s. KPMG Taseer Hadi & Co., have completed their five years term and two years extension period therefore are not eligible for reappointment for the next term, however, M/s. EY Ford Rhodes Chartered Accountants, being eligible for re-appointment, have submitted their consent to continue as statutory auditors.

**Key Ratings Drivers**

**Corporate Governance Framework:** The Board of the Directors (BoD) of the Bank comprises of eight members including three non-executive sponsor directors, one non-executive director, three independent directors and the CEO. The independent directors meet the independence criteria implied by regulations. There has been no change in the composition of the Board during the rating review period. The structure and experience profile of the Board and Board Committees is compliant with the Code of Corporate Governance Regulations (CoCG), 2019 and SBP's Corporate Governance Regulatory Framework, including clause of one female director and none of the directors serves on the board for more than seven listed companies. The Bank has put in place a formal procedure to make appropriate arrangements to carry out orientation of the Directors to acquaint them with the CoCG regulations, applicable laws, their duties and responsibilities to enable them to effectively govern the affairs of the Bank. 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 for FY21. The results for Board Annual Evaluation for FY21 along with external consultant's recommendations were discussed in Feb'22 meeting; the results were deemed satisfactory while the overall score exhibited improvement. Further, the BoD is fully adhered to the directors training arrangements under the regulations with six members of the Board including the CEO attended Director's Training Program from SECP's approved

institutions while the remaining two are exempted from such requirement on account of their experience and qualifications in accordance with the requirements of CoCG. In addition, detailed and comprehensive Standard Operating Procedures (SoPs) are developed for induction of directors and key executives during the rating review period.

Primary objectives of the Board of Directors, apart from carrying out its fiduciary duties as required under relevant regulations, includes providing strategic direction, oversight and supervision of the affairs and business of the Bank and to ensure compliance with applicable laws and regulation and ethical conduct. The Board approves and monitors overall objectives, strategic goals, business plans, risk acceptance criteria, control frameworks, and culture of the Bank. The strategic decisions of the Board aim to manage the Bank's risk, growth, and return balance at an appropriate level and conduct a rational and cautious risk management approach with view to the long-term interests of the Bank. All the policies and procedure manuals are reviewed and updated as per its review frequency or on need basis. The minutes were precise yet comprehensive exhibiting noteworthy quality. The minutes depicted proactive approach of the Board in understanding the volatility prevailing in the economy and the need for heightened information security; the same resulted in the Bank opting for a comprehensive strategy in mitigating the unforeseen operational challenges and threats to keep the organization afloat.

To maintain effective oversight and supervision, BoD has formed five committees namely Audit Committee of the Board (ACOB), Board Risk Management Committee (BRMC), Strategic Planning & Monitoring Committee (SPMC), Human Resources & Remuneration Committee (HR&RC) and e-Vision Committee. The Board Committees were reconstituted following the new election and satisfy the composition criteria laid out by the CoCG. The main change in composition of committees pertained to ACOB where all members are now independent directors. Terms of Reference (TORs) of the Board Committees and their members are designated by the Board and disclosed to the public on the corporate website and annual report. 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. e-Vision Committee's TORs were further strengthened during the rating review period. The Board committees' meetings are held at least quarterly, and information on agenda items is automated and made available to the members prior to the meeting date. The attendance record is satisfactory with active participation from the members, and the minutes of these meetings are considered comprehensive with follow-up mechanism in place on actionable items. The Board meetings deliberate on strategic planning, approval of financial statements & related party transactions, policy framework, risk assessments at varying levels, internal controls, appointment & evaluation of management performance & succession planning, information security, governance and management information systems. Further, none of the Board meetings were held outside Pakistan during the period under review.

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), Central Administrative Action Committee (CAAC) and Committee for Facilitation to Persons with Different Abilities (CFPDA). Meetings of Management Committees were held at regular intervals with satisfactory attendance record, comprehensive discussions and deriving of remedial actions; the TORs were updated as per internal and regulatory requirements. All the business groups frequently disseminate various reports to Management Committees for analysis and decision-making purpose.

**Information Technology (IT):** The Board has established IT governance framework, policies and procedures, ensuring compliance with statutory and regulatory requirements, alignment of significant IT investments with the long-term objectives of the Bank; while ensuring conformity with industry's best practices. IT governance framework has clearly defined roles and responsibilities for smooth delivery of business requirements and services. e-Vision Committee of the Board supervises the IT Governance in the Bank and provides strategic direction for adoption/upgrading of evolving technologies in order to provide new customer centric products and services and to improve internal control environment. The rating reflects technological advancements - made during the review period in Big Data, Artificial Intelligence, Machine Learning, Integrated Ledgers, Virtual Currencies and Blockchains.

Amid Covid-19 pandemic, ABL continued to make significant advancement in serving its customers using advanced technology and by enhancing its digital footprint so that customers are provided with all "digital and networked banking services' on the go. In order to support data driven business decisions for customers by using Big Data technologies, the Bank has created Data Lake comprising of structured and unstructured data. The Bank is also working with multiple Data Science Companies to capitalize on the investment of Big Data for implementing multiple use cases through machine learning models, and in turn, improve and personalize customer experiences. The Bank is in the process of implementing additional use cases on "Robotic Process Automation Solution" for improving operational efficiency, control and cost saving. Automation of these manual processes resulted in timely availability of services to the customers and reduction in turn-around time.

Moreover, ABL has also implemented “Robocall” (a computerized auto-dialler) to deliver a pre-recorded message. This service has dual functionality of “Message Intimation” and “Campaign Feedback” to obtain customer consent on the Bank’s offering. Further, biometric cash withdrawal facility for its customers to facilitate them in emergent situations where they do not possess cheque book or debit cards. As a result, ABL witnessed a year-on-year increase in business internet banking users by 34% during FY21. All ABL branches and ATMs are on network media having ample foot print of fiber optic across the country. Due to the robust design, ABL branches connectivity uptime was recorded at 99.6% nationwide for FY22. Furthermore, the Bank has developed cross platform Android & iOS based Mobile application that has the capability to monitor ATM Network in real time. The application has derived following benefits:

- Optimization of field force staff and workload management.
- Real time visibility of ATM cash status.
- Improved service level turnaround times.

Further, the Bank has also procured IBM Business Process Manager (BPM) which focuses on automating and streamlining the internal processes through digitized workflows. The objective of the BPM will be to discover, document, automate and continuously improve the business processes in order to increase organizational efficiency and reduced costs. BPM also offers native connector that allows seamless integration with Robotics Process Automation (RPA) implemented use cases wherever required. ABL has also implemented Artificial Intelligence (AI) based algorithm through Convolutional Neural Network and procured hi-tech printers from Olivetti Company to identify fake cheque by recognizing the ultra violet mark and ABL Logo. There is plan to introduce AI in 400 branches by end-FY23.

In addition to modernization, the Bank is also aware of the complex security landscape and the sophistication of new upcoming cyber threats and thus has developed a separate segment under ITG which is not only engaged in mitigating such risks but is also in the continuous process of developing and maintaining systems and softwares that provide added layers of protection. For that matter, the Bank has implemented Endpoint Detection and Response (EDR) to enable timely detection of attacks and incident response and providing continuous monitoring for and response to advanced threats on endpoints. With the aim to protect sensitive information, Bank is evaluating Data Loss and Prevention (DLP) solution to monitor, detect and block potential data breaches and data ex-filtration.

During the rating review period, the Bank also initiated my Pakistan Digital Account (myPDA) which is an ABL’s initiative to start customer on-boarding digitally. This banking solution facilitates Pakistani residents to digitally open an account through an online process. Moreover, for non-resident Pakistanis, Roshan Digital Account (RDA) is a major initiative of SBP in collaboration with local commercial banks, seeking to undertake banking, payment and investment activities in Pakistan. Further, in order to conduct Know Your Customer (KYC) of overseas and local customers, Bank is in process of implementing video conferencing software solution to ensure customer genuineness through picture liveliness. The solution will compare live image with CNIC/NICOP/POC picture facilitating customers without visiting a Bank branch. The Bank has also been on the forefront for implementing SBP initiative Raast, Pakistan’s first instant payment system. This has enabled end-to-end digital payments among individuals, businesses and government entities. ABL is a member Bank in this project of SBP that has successfully implemented the First Phase (bulk credit) and Second Phase (P2P transactions); ABL was one of first 12 banks who achieved these milestones.

Further, a comprehensive disaster recovery plan is in place. In order to maintain business activities as usual, the bank has alternate data center in place with computational power equal to the main center. The core infrastructure is fault tolerant by design and can replicate data from primary to alternate data center on a real time basis, maintaining the recovery point objective (RPO). For the availability of critical services to the customers’ even in case of a disaster, the Bank annually conducts one week long mock exercise to monitor the security and robustness of the DR site.

#### **Digital Banking Governance:**

Allied Bank strives to remain at the forefront of digital transformation in banking with strategic partnerships. Technology driven transformation remains the bank’s top priority in offering innovative solutions. In order to develop digital ecosystems, Allied Bank hosts an Innovation Lab. Through the launch of Open Banking Platform, third parties including Fintechs can become ecosystem partners to collaborate and innovate, leading to new revolutionary products for clients.

To provide seamless customer experience and empowering customer to meet their day-to-day banking needs, major emphasis is being placed in digital banking platform which is divided into three areas, namely myABL mobile & Internet Banking which has been revamped to enable wide range of financial and non-financial transactions. myABL Business caters to self-service banking needs for business customers and WhatsApp banking enables basic service

to large number of customers. Digital Banking Group has managed to achieve over 1,117,958+ registrations for myABL Digital Banking and 404,984+ registrations for myABL WhatsApp Banking till Jun-22. ABL has reported an aggregate growth of 7% in their fee-based income through internet banking app as transactions amounting to Rs. 439b and Rs. 528b were made through banking apps during FY21 and 3QFY22 respectively. The Bank has extended loans to over 40 thousand people during the period under review via their digital lending platforms which is a reflection of bank's objective to enhance financial inclusion and subsequently facilitate its customers in their day-to-day banking.

ABL has introduced various Self-Service branches with the concept of "Smart Branch" at different region across the country. These smart branches offer a wide array of self-service banking facility including account opening with instant debit card issuance, fund transfers, fee payments, withdrawals, cash/cheque deposit and variety of other financial & non-financial transactions with video assisted as well as self-service banking mode. Further; ABL is the first bank providing a facility of Digital lockers in Pakistan which provide customers with a sense of security along with accessibility and convenience 24/7. In addition, above 100 Self Service Kiosks were installed to improve customer experience at branches. These Kiosks enable customers to perform banking services including account opening of Allied Asaan Accounts, performing balance inquiry, mini statement of account, cheque book requests, customer demographic update, subscribing to alerts, e-statement of account and Debit card activation. All these services are biometrically authenticated and can be performed in a completely secure environment at customer's convenience. In addition, the Bank has also introduced electronic queue management systems in 305 branches, facilitating customers to conduct transactions conveniently.

The Bank has also started implementation of globally recognized Customer Relationship Management (CRM) solution "Oracle SIEBEL" that will enable ABL to communicate effectively with customers and prospects, providing essential information when needed. This will provide a unified and integrated platform to serve ABL's customers across all touchpoints. CRM will also help internal departments to stay synchronized by virtue of having access to consistent and cohesive information. In line with technology driven banking solutions, all ATMs are equipped with biometric access facility to allow various banking services 24/7. All ATMs are also equipped with anti-skimming devices to enhance security of transactions. ABL has also introduced debit card for foreign currency (FCY) accountholders which ensures all time accessibility to FCY accounts around the globe. The main goal for such measures is to make banking easier for all customer segments with innovative products and multichannel transformation of processes, products and services.

ABL also implemented Big Data and Robotic Process Automation (RPA) with a view to derive critical data insights to make business-oriented decisions and automate business processes. In this respect, Digital Banking and Information Technology Groups have implemented various use cases to support Operations & Business. Below are few examples;

- Cash optimization at Branches & ATMs.
- Customers churn prediction.
- Customer segmentation & next best offer.
- Product wise customer sentiment analysis.

ABL has also introduced Sprinklr customer experience management platform which enables a unified process for monitoring, publishing, benchmarking and engaging customers on all social platforms such as Facebook, Instagram, Twitter, YouTube, LinkedIn and App Stores. Further, discount campaigns have been executed during the year with leading retailers including OLX Mall, AirSial, Daraz.pk, Serene Air, Pearl Continental Hotels, Marriot, Nike, Body Shop and other leading restaurants in order to encourage card-based transactions and promote a cashless economy. Going forward, ABL plans on to extend the network of Smart branches, self-service kiosks, virtual cards and other digital products and services to enhance efficiency of customer services. JIRA solution is being used to streamline workflow and achieving efficient project management. Further, to strengthen the global eco-system, bank has started building strategic partnerships with various organizations through cross department collaboration in order to foster internal incubation and external partnerships. ABL has continued to safeguard data and information technology assets including compliance of PCI DSS and Customer Security Program (CSP) by SWIFT. In addition, vulnerability assessment and penetration testing are also conducted to ensure a controlled environment for customers' related information. Furthermore, all major internal functions such as implementation of new processes and product approvals, Software Change Management System, Financial approvals, Performance Appraisals, HR Self Service portal and corporate communications are being processed electronically. The traditional pre-printed Account Opening Forms have also been replaced with electronic Forms to promote green banking.

**Audit Governance:** The Board has set-up an effective internal audit function and established procedures to manage risk, oversee the internal control framework, and determine the nature and extent of principal risks to be taken in accordance with the appetite. The Board monitors the Bank's internal control system, at least annually, and their effectiveness is reported in the annual report. The internal control system ensures effectiveness and efficiency of operations, reliability of financial reporting, safety of assets and regulatory compliance. The compliance status of all irregularities identified during various audits and inspections is reported to ACOB. ABL has completed all the stages



of Internal Control over Financial Reporting as specified by the SBP which has granted exemption from the requirement of preparation of Long Form Report by the External Auditors. As a result, A&RRG is preparing “Annual Assessment Report on Efficacy of Bank’s Internal Controls over Financial Reporting (ICFR)” under ICFR framework which is approved by ACOB since FY19 onwards.

Further, a significant change in the branch audit rating model have been made which was in practice for the last six years. The updated model takes into account the recent developments in the cotemporary banking environment and thus is more rigorous in terms of its evaluations. The same is aligned with the ABL’s core values and is more objective as it’s backed by numbers and resultantly captures different aspects of banking in a more holistic manner. This allows management to comprehend the branch under review in a more detailed fashion and subsequently take specific remedial measures to improve control environment of the branch. Internal auditors rate the branches on scale of A to D (A being the highest grade and D being the worst grade). In addition, 503 branches (456: FY’20) were categorized as ‘very high’ to ‘high’ risk by the end of FY21. As per management, branches with ‘very high risk’ are evaluated annually and branches with ‘high, medium and low risk’ are evaluated over a cycle of two years.

An increased focus on reporting corporate wrongdoing/whistle blowing has also been witnessed in the recent years. The Bank has been in a process of developing automated systems for whistle blowing to ensure fair and just work place environment. Whistle blowing forms have been made available on the Bank’s website which are directly received by the committee. The committee received 3 whistle blowing complaints during 1QFY22 involving misconduct and violation of Bank policies; corrective action has been duly taken on the same. Furthermore, systems audits, IT security & risk assessments are performed for systems before and after the deployment into production environment. Fraud prevention, deterrence and detection also comes under the ambit of A&RRG. 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 2022 as applicable till date.

**Risk Governance:** The Board has established a comprehensive risk management and governance framework. The Board approves risk management objectives, strategies, policies and product programs that are consistent with the Bank’s financial health, risk profile and risk tolerance. Such policies are communicated at all levels involved in the implementation of risk management guidelines. The management committees approve the procedural guidelines in light of Board approved Policies. The Board also approves limits on aggregate financing and investment exposures to avoid concentration of risk and ensure that adequate capital is held against these exposures. As per the management, there has been no breach in the portfolio in terms of limits defined internally. Oversight of entire risk universe is kept under guidance of the Board, BRMC, RMC, and ALCO. During period under review, increased focus was made on augmentation of risk management practices, including emphasis on maintaining optimal organizational structure for effective resource utilization and continued enhancement of risk assessment models and monitoring systems in the IT enabled environment. Dedicated functions in Risk Management include Corporate and Financial Institutions Risk; Commercial, SME and Consumer Risk; Credit Administration and Monitoring; Technical Appraisal; Information Security & Governance and Enterprise Risk which operate cohesively to continuously augment the risk monitoring and assessment architecture, ensuring quality of asset portfolio while keeping the aggregate risks well within the Bank’s overall risk acceptance criteria.

The Bank has implemented sound systems for measuring, monitoring, reporting and controlling risk exposures. ABL carried out Risk Control Self-Assessment (RCSA) during the review period to assess design of controls and to evaluate the operational effectiveness of controls. In addition, incidents of loss data were gathered for analysis, reporting and suggesting improvements in existing control structure. Further, Key Risk Indicators on bank-wide basis are defined in coordination with the stakeholders for effective monitoring of potential risks and taking proactive measures for mitigating these risks.

During FY21, ABL has taken various initiatives for digital banking. The Bank has launched salary advance enabled through digital platform, and has inked an agreement with Karandaz Pakistan for developing an innovative, machine learning based, credit scoring model for lending to the merchants using automated straight through process. Moreover, the Bank has also been selected for developing a digitally enabled collateral free lending model for Small and Medium Enterprises (SME) under SBP SME Asaan Finance Scheme. These projects are assisting 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 been successfully submitting the impact of Expected Credit Loss under IFRS9 to SBP. The Bank has hired EY Ford Rhodes to perform GAAP analysis to ensure transparent financial reporting. ABL has already met the hardware and software requirement for the application of this accounting standard and is completely ready for the implementation of IFRS 9 before the SBP deadline of January 2023. 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.

In line with Basel guidelines and best practices, ABL has also arranged validation and recalibration of Obligor Risk Rating Models through external consultant during the rating review period. Moreover, automation of a wide spectrum of enterprise risk management is supported by Bench Matrix Solution for Operational & Compliance Risk Management and Oracle Financial Services Analytical Application (OFSAA) running Basel Capital Calculation, Market Risk, Assets Liability Management (ALM) and Liquidity Risk Management (LRM) modules. Going forward, upgrades and improvements in certain Oracle modules are in the pipeline which will resultantly ensure the protection of informational assets and timely detection of loopholes. Further, the risk department has taken various initiatives, including establishment of Security Operation Center with 24/7 working, for securing information assets of the bank. The risk department also plans to introduce machine learning and Artificial Intelligence to not only counter the complex security landscape but also to improve risk governance and efficient anomalies detection. The effectiveness of risk management systems and activities is periodically reviewed and appropriate changes are made as and when necessary.

ABL has a specialized unit in place to have independent reviews of plant, machinery and buildings at the time of initial credit as well as periodic reviews of the relationships. The unit also maintains repository about import prices of the items for reference to avoid over / under invoicing. This has strengthened the credit risk assessment process of the Bank. As reflected by Capital Adequacy Ratio, ABL has very good capital base to support expansion in their assets i.e., credit / investment portfolios as well as cushion available to absorb the impact of risk associated with these assets.

**Human Resource Management:** The responsibility of developing and implementing Bank-wide remuneration policy rests with the Board. The HR&RC recommends to the Board, the structure of compensation package of the CEO, executive management and other group of employees, and reviews the remuneration policy and remuneration setting mechanism as and when needed. The Board Remuneration Policy has also been formulated in accordance with the SBP guidelines and is approved by the shareholders on a post facto basis. Primarily the remuneration package of ABL is divided in basic pay and benefits/perks which make up 45% and 55% of the entire salary package respectively. Notably, there is an increased focus on perks/benefits which includes home loans, car insurance, educational loans and medical insurance etc. An industry wide comparison of remuneration package reveals that ABL stands on 65<sup>th</sup> percentile with regards to basic pay and on 95<sup>th</sup> percentile with regards to benefits and perks. Overall remuneration structure of the Bank is considered in line with the industry standards.

There was no major change in the Bank's organogram during the rating review period; however, to achieve resource efficacy aligned with operational work scope, HR committee realigned the compliance Group's Organogram with the reduction of a Group Head position. The succession planning has been implemented in the Bank up to the level of 'Divisional Heads'; trainings have also been conducted to prepare the second in command for the upcoming roles. In addition, clear reporting lines are defined within the Bank. As per management, the attrition rate of ABL is among the lowest in the industry with an average employment span at key positions ranging between 8-10 years. Further, the remuneration structure of Material Risk Takers (MRT) and Material Risk Controllers (MRC) fulfils the criteria set out by the SBP guidelines. The Key Risk Indicators (KRIs) are used for the assessment of major types of risks undertaken by identified MRTs; the same are reviewed and updated annually as per the approved guidelines. Since quality and management of human resources has a direct impact on the performance of organization, the Bank's Human Resource Group (HRG) plays an active role in organizational development through strategic capacity building, trainings, and retention of quality human capital. The Bank's human resources practices are based on the policies and guidelines approved by the Board. The organograms of HRG, RMG, Digital Banking Group (DBG), and Corporate & Investment Banking Group were reviewed and updated with focus on efficiencies, adoption of digitalization, and efficient resource allocation.

ABL also stresses over capacity building and human resource development. For that matter, Allied Leadership Talent Pipeline (ALTP) phase 2 was introduced to ensure effective succession at the mid-level management during the period under review. ALTP is a critically designed & focused training program for employees from MG4 – MG6, excluding the Group Heads. A comprehensive training cycle based on identified individual needs in each echelon was delivered to enhance employee leadership skills and build their capacity for senior level assignments, in the coming years. Focused learning interventions were executed under ALTP, through engaging in-house mentors, and external industry experts. Moreover, the Bank also focuses on the training and development of its directors therefore an interactive session was held during the period addressed by Dr. Ishrat ul Ibad (longest and youngest former Governor of Sindh, Pakistan) to converse over human resource management, banking environment and the way forward. Further, HRG has signed an agreement with Oxford University and aims to send their employees at different hierarchal levels for training purposes.

Career growth opportunities were offered to employees at all hierarchal levels through merit-based elevations of the Bank's own resources to provide cross functional exposures at Chief, Group Head, Divisional Head, Regional Head and Unit Head positions. Through effective career progression at junior management levels, 651 cadre change elevations were made along with 1,757 grade promotions during the year 2022 to provide adequate growth

opportunities within the organization. With 1,587 new recruitments during the period under review, the total number of employees stood at 11,670 at end- Oct, 2022; the overall turnover rate was recorded at 10% during 2022.

Further, ABL also recognizes its responsibility towards sustainable economic and social development and role of a diverse human resource in achieving these goals. A clear roadmap along with measurable objectives is in place to further improve the Human Resource diversity. Gender diversity is supported and equal employment opportunities are offered to female and candidates belonging to minority groups across the Bank. The ratio of female employees stood at 20% at year end-FY22. In-house Psychometric Assessment Center carries out competency assessment for new Management Trainee Officers (MTOs), learning curve assessment, personality profiling of existing MTOs, and aptitude test for new Tellers. Psychometric assessment for posting of regional heads is in place to find the best organization-employee fit for critical middle management position and is mandatory for promotions from MG7 to MG6 cadre. Training and Development function reviews learning and developments requirement and devises a comprehensive training program every year. Specialized trainings were conducted for various functions including audit, digital banking, risk management, information technology, and human resources. Online trainings, webinars, and live streams from top-ranked universities were also arranged.

**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, periodic review of initiatives for Anti-Money Laundering (AML)/ Combating financing terrorism (CFT), TMBL, CDD and KYC, and reporting to the Board. The Compliance Group (CG) is entrusted with the responsibility to minimize compliance risk with reference to regulatory framework; internal, external and regulatory audit compliance; control self-assessment, monitoring completeness and maintaining up to date inventory of the Bank's policies, procedures and controls. In order to further strengthen the control environment, the Bank has automated the compliance processes especially related to Anti Money Laundering and Combatting the Financing of Terrorism to ensure compliance with the local and international regulations. Further, the compliance department is also looking forward to the implementation of blockchain based eKYC, which is customer information sharing-platform among the member banks. This would translate into swiftly accessible common risk data sharing which would result in more efficient customer onboarding. ABL also achieved PCI DSS Certification depicting a major security milestone along with compliance to swift customer security program being mandated by Swift International. 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. Further, as part of implementation for Trade-Based Money Laundering (TBML) framework; upgrade of Name Screening Solution and Transaction Monitoring System will remain key priority of CG. Further, to comply with SBP TBML framework, Compliance Function through its risk-based approach will deploy and implement Trade Customer and Entity wide Risk Profiling Model to mitigate TBML related risks along with implementation of Liability Customer Risk Profiling Model during the next twelve months.

**Stakeholders Communication:** The Bank maintains adequate levels of communication with its stakeholders through Annual Report, quarterly and half yearly published financial statements, quarterly investor calls, annual investor presentations 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 comprehensive and in line with the industry practices. 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, stakeholder engagement, 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. Voting rights are provided to all common shareholders. Quality and flow of information to shareholders is considered at par with industry standards. ABL considers profit maximization as one of its primary objectives, and dividends are distributed to shareholders on an interim and annual basis. 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, as required by the PSX.



**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix I**

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

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

<b>REGULATORY DISCLOSURES</b>		<b>Appendix II</b>			
<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>				
	25-Nov-22	CGR 9++	-	-	Reaffirmed
	17-DEC-21	CGR 9++	-	-	Upgrade
	21-DEC-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
<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.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Meeting Date</b>		
	Mr. Aizid Razzaq Gill	CEO	13.10.2022		
	Mr. Sohail Aziz Awan	Chief DBG	03.10.2022		
	Mr. Ahmad Mansoor	Chief Compliance	03.10.2022		
	Mr. Moin Khalid	Chief RMG	03.10.2022		
	Mr. Shaffa Hussain	Chief A&RRG	03.10.2022		
	Mr. Mujahid Ali	Chief ITG	03.10.2022		
	Mr. Adeel Javaid	Company Secretary	03.10.2022		
	Ms. Saira Shahid Hussain	Chief-HRG	06.10.2022		

