

CORPORATE GOVERNANCE REPORT

Allied Bank Limited (ABL)

REPORT DATE:

Oct 25, 2023

RATING ANALYSTS

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	Latest Rating	Previous Rating
Rating Category	Corporate Governance	Corporate Governance
Entity	CGR 9++	CGR 9++
Rating Date	Oct 25, 2023	Nov 25, 2022

COMPANY INFORMATION

Established in 1942	External auditors: EY Ford Rhodes, Chartered Accountants
Listed on Pakistan Stock Exchange	Chairman of the Board: Mr. Mohammad Naeem Mukhtar
Key Shareholders (major):	Chief Executive Officer: Mr. Aizid Razzaq Gill
Ibrahim Holdings Private Limited – 90.00%	Staff Strength Oct'23: 12,115
	Branches Sep'23: 1,474

APPLICABLE METHODOLOGY**Rating Criteria: Corporate Governance Ratings (August, 2017)**<https://docs.vis.com.pk/docs/CGR-Methodology-201708.pdf>**VIS Rating Scale**<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

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 around four decades 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 26 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. The Bank has a strong corporate governance framework with well-structured Board and its Committees. The Board promotes and adheres to the best governance practices. Notably, all members of the Audit Committee of the Board are independent directors. Overall attendance record of Board and its Committees' meetings was satisfactory. Board Members possess highly diversified profile and maintain effective oversight and supervision. Minutes of Board & its Committees' meetings were observed to be well drafted and comprehensive. Level of financial and qualitative disclosures in the public domain is satisfactory. Agenda items and material information were timely disseminated to Board Members to facilitate effective decision making. Additionally, the rating takes into account significant strides in enhancing information security and information technology through digitalization and automation. These advancements enable the Bank to better address the ever-changing cyber landscape and are expected to play a pivotal role in realizing growth opportunities and optimizing costs over the medium to long-term rating horizon. The rating draws comfort from the stability of the management team, which consists of experienced professionals. This confidence is further bolstered by implementation of a robust conflict-of-interest policy. The rating also takes into account a well-structured succession plan which is in place for the key positions, resulting in smooth transition of responsibilities at the top of the hierarchical pyramid.

Total consolidated assets of the Bank were reported at Rs. 2.36 trillion as at June 30, 2023. The Bank caters to a wide-ranging customer base by offering a comprehensive selection 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 1,453 branches comprising of 1,334 domestic conventional branches including 8 digital self-service branches 117 Islamic branches covering all the regions of Pakistan and 1 wholesale banking branch in Bahrain and 1 branch in Karachi Export Processing Zone, supported by employee base of 11,929 as of Dec'22. The Bank has advanced e-banking channels, which handles over 74% of total banking transactions. These channels comprise of 1,572 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 the year ending 2022 were audited by M/s. EY Ford Rhodes Chartered Accountants and reappointed as sole statutory auditors for next term as well.

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. Mr. Aizid Razzaq Gill, being CEO, is the only Executive Director on the Board (Deemed Director). He is serving as non-executive director on the Board of ABL Asset Management Company Limited. 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 its Committees is compliant with the Code of Corporate Governance Regulations (CoCG), 2019 and SBP's Corporate Governance Regulatory Framework, including presence 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. Members of the BoD are regularly updated on changes in laws and regulations and important news relating to financial sector and economic environment of the Country. Further, the BoD is fully adhered to the directors' training arrangements under the regulations, whereby six members of the Board of Directors (including CEO) are certified directors from SECP's approved institution The Pakistan Institute of Corporate Governance; while, the remaining two directors are exempted from such requirement on account of their experience and qualifications as per CoCG. During 2022, the Bank also arranged Seminar on 'Leadership for Transformation' for its Board members which was conducted by Dr. Ishrat Hussain (Former Governor SBP).

The Bank uses SBP criteria for in-house annual evaluation of overall Board of Directors, Chairman, Members of the Board, Board Committees and CEO. Consolidated results of Board Evaluation Process along with Performance

Report and actionable plan was placed before BoD for review and consideration in its 261st Meeting dated February 16, 2023, wherein the results for Board Annual Evaluation for CY22 were discussed and deemed satisfactory. An external evaluation is also being carried out once in every three years to further augment the evaluation process for continuous improvement and refinement. An independent external evaluation was conducted for CY21 and next such independent evaluation will be carried out for the year CY24. A full scope review of Board Remuneration Policy was conducted in the outgoing year. The Bank's Board Remuneration Policy has been formulated in line with the SBP guidelines for Board Remuneration, and was approved by the shareholders of the Bank.

Apart from carrying out its fiduciary duties as required under relevant regulations, primary objectives of the Board of Directors, 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 aims 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 meticulous and thorough, exhibiting noteworthy quality. The minutes depicted proactive approach of the Board in understanding the uncertainty 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. There has been no reconstitution in Board committees over the review period. 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 TOR's were further strengthened during the 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.

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 Committee for Facilitation to Persons with Different Abilities (CFPDA). During the review period, ITSC has been reconstituted to align with recent changes in organogram, entailing addition of Chief Technology & Digital Transformation as Chairman, ITSC. 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 or upgradation of evolving technologies in order to provide new customer centric products and services and to improve internal control environment.

The Bank is continuously striving to enhance operational efficiencies for provision of services to customers, reduction of resolution turnaround time and cost optimization through implementing 'Robotic Process Automation' across multiple areas. During the review period, SBP governed Trade Base Money Laundering (TBML) Solutions has been implemented for transaction monitoring, involving monitoring customer transaction behavior for any possible money laundering and restricted deals. Oracle SIEBEL Customer Relationship Management (CRM) Solution implementation is underway and expected to be completed in last quarter of 2023. The CRM aims to help manage targeted customer experiences, streamline processes, and increase sales.

The Bank is in process of its core release upgrade to T-24 through Temenos, which is expected to be completed in a year time. In addition, the Bank is working on Data Lifecycle Management (DLM) with Temenos by splitting

Volatile and non-volatile data sets to reduce data size.. ABL has implemented 'Data Lake' for structured and unstructured data by leveraging Big Data Technologies to foster the data driven decision making culture. Data Science companies have been engaged for implementing multiple use cases through Machine Learning Models, to improve and personalize customers' experience. Moreover, in order to accelerate application deployment lifecycle and shift workloads across multiple frameworks, and at the same time, counter emerging risks and improve governance, the Bank has implemented Cisco ACI, the industry's most secure, open and comprehensive Software Defined Networking (SDN) Solution for data center networks.

ABL has upgraded the financial switch IRIS with latest infrastructure along with the compatibility of Oracle 19c database, which has helped ABL to maintain 98% uptime of ATM. To support digital transformation, ABL has upgraded the Enterprise Service Bus (ESB) with latest version and infrastructure. This enables to lower number of point-to-point connection necessary to allow communication between applications. It also facilitates digital business by exposing our services to external clients through Open API (Application Programming Interface) platform. In pursuit of enhancement in digital transformation, ABL has implemented Centralized cheque clearing through RPA, which is a time-bound activity and a repetitive task where one has to interact with multiple systems (i.e., NIFT, INCHEQS, T-24) for cheque clearing received from 27 different regions throughout the country. Using RPA in Centralized Clearing System will free up employees from this repetitive task, prone to human error and give them opportunity to focus on more productive tasks.

ABL's Network infrastructure for branches and ATMs have ample footprint of fiber optic across the country. Resultantly, ABL branch Connectivity uptime remained above 99% despite having infrastructural issues, including flood disaster countrywide specifically in south and north regions in Aug'22. Furthermore, the Bank has developed cross platform Android & iOS based Mobile application that has the capability to monitor ATM Network in real time, which has delivered following benefits:

- Optimization of Field force staff and Workload Management
- Real time visibility of ATM Cash Status
- Improved Service Level Turn Around Times (TATs)

Further, the Bank has implemented IBM Business Process Manager (BPM) which focuses on automating and streamlining the internal processes through digitized workflows. The objective of the BPM is 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 RPA implemented use cases wherever required. In a bid to take part in initiatives by Pakistan Bankers Association (PBA), to implement Blockchain Technology in Banking Industry, ABL volunteered itself for the first phase, in which three banks did the proof of concept of Blockchain based National eKYC Solution. This solution is currently in implementation phase, and upon its completion, KYC data will be available on Blockchain platform with complete trail and sequence of activities, which will eventually bring transparency and help curtailing the fake accounts with suspicious transactions.

In addition to modernization, the Bank is also aware of the complex security landscape and the sophistication of new upcoming cyber threats. As part of this awareness, a dedicated IT is geared up to not only mitigating these risks but also continually crafting and upkeeping systems and software that offer supplementary layers of protection. On April 14, 2023, SBP rolled out a new and detailed set of guidelines on enhancing security of digital banking products and services amidst rise in social engineering and other digital banking frauds. In order to comply with SBP objective regarding, ensuring risk identification of digital fraud risk controls through compliance assurance and implementation of fraud control related KPIs, ABL has issued request for proposal (RFP) for an Enterprise Risk Solution for Digital Frauds, which is expected to take off in Q4, 2023 and will be rolled out in Q1, 2024. Furthermore, the Bank has already implemented an Endpoint Detection and Response (EDR) system, facilitating prompt detection of attacks, incident response, and ongoing monitoring and response to advanced threats targeting endpoints. With the aim to protect sensitive information, Bank is evaluating for implementation of Data Loss and Prevention (DLP) solution before which a detailed information classification and asset classification exercise will be taken underway for monitoring, detection and blocking of potential data breaches and data ex-filtration. The Bank has developed state of the art Security Operations Center (SOC) enabling the Bank to detect, analyze and respond to cyber security incidents using a combination of technology solutions and a strong set of processes. ABL has also implemented Information Security Awareness Program through a Cloud based e-learning platform for its staff to keep them abreast of latest information security concepts.

Additionally, a comprehensive disaster recovery plan is in place. In order to provide centralized, reliable and secure business services, ABL has two critical Data Center facilities. These facilities are designed, built and operated to meet international standards while ensuring round the clock availability of banking services for customers. 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. The Bank is also in process of construction of another DR site at Faisalabad, which is expected to be completed by Dec'24.

Digital Banking Governance: ABL prioritizes keeping pace with the fast-moving, fiercely competitive financial market by continuously enhancing its technology platforms and digital solutions. This ongoing effort aims to elevate the customer experience and streamline operational efficiencies. To foster innovation and the adoption of digital technologies within the ecosystem, ABL and the National Incubation Center (NIC), Islamabad, formalized a Memorandum of Understanding (MOU). As a part of this collaboration, ABL hosted a fintech hackathon of more than 1200 participants from diverse backgrounds. Leveraging ABL's open banking APIs, these individuals worked together to provide innovative solutions to a variety of problem statements. The attendees presented various innovative solutions, including Metaverse banking, cutting-edge data analytics, intelligent ERP solutions etc. In a bid to provide these solutions with an opportunity to become part of the mainstream financial industry, ABL is currently exploring potential partnerships with these emerging fintech companies.

In order to ensure a seamless customer experience and empower customers to meet their day-to-day banking requirements, there is a significant focus on enhancing the digital banking platform. This platform is divided into three distinct areas:

- i. myABL Mobile & Internet Banking: This segment has undergone a comprehensive overhaul to facilitate a wide range of both financial and non-financial transactions.
- ii. myABL Business: Tailored to the self-service banking needs of business customers, this segment addresses their specific requirements.
- iii. WhatsApp Banking: Offering basic banking services to a substantial customer base, this feature utilizes the WhatsApp messaging platform.

This strategic approach is aimed at improving customer convenience and accessibility within the digital banking landscape. As of December 2022, the Digital Banking Group has successfully achieved more than 1,288,521 registrations for myABL, with transaction volumes totaling Rs. 1.6 trillion +. Moreover, the number of debit card issues reached 2.5 Million + by the end-2022. The Bank has achieved over 850,000 registrations on Whatsapp since its launch and expects to reach 1 million mark by the end of 2023. Scope of Whatsapp banking has also been enhanced from non-financial to financial transactions like mobile top-ups and bill payments etc. Through its ongoing commitment to invest in digital financial channels and the deliberate strategy of diversifying revenue sources, ABL achieved a robust 29% growth in fee income. This growth resulted in fee income reaching Rs. 5,055 million during the first half of the fiscal year ending on June 30, 2023, as opposed to Rs. 3,932 million during the same period in the previous year.

ABL has maintained its industry pioneer status in introducing innovative financial solutions. The Bank has launched Pakistan's first virtual touchpoint in metaverse by leveraging Web 3 technologies. In addition, the Bank has installed industry's first Cash Recycling ATMs; specialized teller machines, offering services like cash deposit, cash sorting and authenticating and reissuing cash for withdrawals. At present, the Bank has installed ten Cash Recycling ATMs. This makes cash management efficient and lowers the cost by reducing physical cash replenishment frequency.

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. In recognition of the influence of digitalization and a dedicated focus on addressing the banking requirements of millennials, ABL has expanded its network by introducing Smart branches at the University of Management & Technology (UMT) in Lahore. This addition brings the total count of Smart Branches to eight, including one located at the Head Office for the convenience of employees. The Bank also implemented Digital Onboarding of Resident Individual Customers through web portal and replaced paper-based Life certificate of Pensioners with biometric verification during the review period. As a result of number of such initiatives, the Bank has exhibited robust increase in its digital transactions. The mix of digital transactions to counter transactions stood at 74:26 (2021: 65:35) as of Dec 31, 2022, meanwhile, the same has increased to 80:20 by end-Sep'23.

The Bank has implemented Electronic Queue Management Systems in 544 branches, with a total investment of Rs. 212.30 million. This initiative has greatly enhanced customer convenience when conducting transactions. 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. Continuing on the path of digital transformation, the bank has also installed 105 Self-Service Kiosks. These Kiosks have been introduced to enhance the overall customer experience at branches. They empower customers to carry out various banking services, including opening Allied Asaan Accounts, checking balances, obtaining mini statements, requesting cheque books, and subscribing to alerts and e-statements, all of which are secured through biometric authentication. These services can be conveniently performed in a secure environment, allowing customers to activate their Debit Cards through the Self-Service Kiosks without requiring assistance from branch staff.

After successful implementation of RAAST, a SBP initiative aimed at driving digitalization within the economy, Allied Bank has been an active participant and has effectively implemented various components, including Bulk Payments (Receiving Side), Person-to-Person (P2P) payments, and QR payments. Recently, SBP deployed Person-

to-Merchant (P2M), which will enable people to pay directly to merchants for shopping, dining and pay monthly utility bills through QR code. Five banks including ABL, have already become part of this initiative.

Furthermore, ABL is the first bank in Pakistan to introduce Sprinklr across all of its digital communication platforms such as Facebook, Instagram, Twitter, YouTube, LinkedIn and App Stores. Sprinklr provides a tailored AI-powered software platform designed to assist ABL in revolutionizing its social media and digital customer experience while also gaining invaluable customer insights. It is a complete social media solution to enable a unified process for monitoring, publishing, benchmarking and engaging customers across all social platforms. Going forward, ABL is going to enter into payment acceptance services by launching Merchant Acquiring business & in order to enrich customers' experience introducing Enterprise Loyalty Program also; plans to extend the network of Smart branches, self-service kiosks, virtual cards and other digital products and services to enhance efficiency of customer services. 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.

Green Banking and Environment Protection: The Green Banking has remained integral part of the Bank's long-term strategy. Within its Green Banking Policy, ABL is dedicated to augmenting the influence of Green Financing on environmental safety as a means to direct the Bank's financing toward environmentally friendly projects and activities within the country. Oversight of this initiative falls under the purview of the Green Banking Office (GBO) and is monitored through the Environmental Risk Management System (EnvRM). In the year 2022, the Bank has financed Rs. 4.18b (CY21: 3.12b) to its obligors for installation of Green Energy projects while total outstanding Green Financing of the Bank, primarily including wind, solar and hydel power and solid waste management projects, stood at Rs. 12.52b at end-CY22. Moreover, as a part to reduce carbon emission by direct operational impact, the Bank has been investing in installation of solar panels. Resultantly, total internal solar power generation capacity of the Bank has increased to 534 KW installed at 64 locations. By maintaining a relentless commitment to process automation, the Bank has successfully decreased its reliance on paper-based procedures. This reduction in paper consumption has not only lowered the Bank's carbon footprint but also bolstered the efficiency of customer services. Furthermore, administrative initiatives, such as the maintenance of electrical equipment throughout the year, have yielded a notable 15% decrease in electricity consumption. In addition, ABL conducted a tree plantation campaign in line with national drive for 'Clean and Green Pakistan'. In this regard, efforts are also collaborated with Forest Division, Government of Pakistan.

Audit Governance: The Board has taken proactive steps to establish a robust internal audit function, along with the implementation of procedures for managing risk, overseeing the internal control framework, and defining the scope of acceptable principal risks, all aligned with the Bank's risk acceptance criteria. On a regular basis, the Board conducts assessments of the bank's internal control system, at least once a year. The outcomes of these assessments are documented and included in the annual report. The internal control system serves the purpose of ensuring the effectiveness and efficiency of operations, the reliability of financial reporting, the safeguarding of assets, and compliance with regulatory requirements. Additionally, any irregularities uncovered during various audits and inspections are duly reported to the Audit Committee of the Board of Director (ACOB) to maintain transparency and adherence to compliance standards. Audit & Risk Review Group (ARR) works under direct supervision of the ACOB. The committee is chaired by independent director and comprises entirely of independent directors, as per corporate governance best practices. 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, ARR is preparing "Annual Assessment Report on Efficacy of Bank's Internal Controls over Financial Reporting (ICFR)" under ICFR framework which is approved by ACOB.

During the year 2022, Mechanism for Annual Risk Assessment of branches have been revised by incorporating risk factors related to branch operations such as transaction types, customers, embedded controls and regulatory requirements. In addition, framework for efficacy of Internal Control Over Financial Reporting (ICFR), Internal Audit Policy and Charter of ACOB have been revised to align with the current practice in audit and regulatory requirements to streamline processes through standardization across ARR. Previously, ARR Group procedures were documented in seven manuals covering Branch Audit, Management Audit, Information System & Continuous Auditing, Risk Review, Internal Shariah Audit, and Audit Planning, Monitoring & Quality Assurance. During the year 2023, a comprehensive review of all existing ARR procedures manuals, except the "Whistle Blowing Procedures Manual," was conducted to identify and consolidate overlapping procedures. Accordingly, a comprehensive 'Internal Audit Procedures Manual' was prepared, encompassing standardized practices for all audit functions. Existing processes were thoroughly reviewed to align with current practices, address additional scenarios and to align with prevailing regulatory requirements.

During the ongoing year, multiple Power BI-based Dashboards have been developed in-house and implemented which serves as a BI tool, providing comprehensive insights and real-time monitoring for efficient completion of audits. It offers audit performance insights, exceptions analysis, obligor insights, fee-based income analysis, and

audit resource management details. The dashboard is published across the Bank's network for use by all relevant stakeholders through role-based access, aiding in risk assessment, control monitoring, and talent management. In addition, Robotic Process Automation has been implemented during the ongoing year for automation of routine tasks. The automation has been done through in-house development of multiple bots using Microsoft Power Automate for automating routine audit tasks, including automated updates of standardized audit observations library in the Audit Management System and filling the First Information Request during the Engagement planning stage, streamlining manual processes and improving efficiency.

The Bank complies with the requirement of in-house Control Review and Testing Framework (CRTF). The pre-review risk rating criteria developed by ARR group has been adopted for Operational Plan to conduct testing of Financial Reporting Controls (FRCs) for both branches and Non-Branch Entities (NBE) on quarterly basis. Where, NBEs include general services, real estate, Banking Service Group, Corporate & Financial Institution risk, Commercial & Retail risk and Credit Administration. In Q4, 2022, a total of 266 branches and five NBEs were covered for testing of FRCs, wherein average control implementation deviation of branches was reported at 0.11% while no significant gap or control deviation was observed for NBEs. Internal auditors rate the branches on scale of A to D (A being the highest grade and D being the worst grade). During 2022, ARR group conducted 747 branch audits, 22 Information Security Audits, 10 Shariah Audits, 13 Management Audits of Groups, 69 Management Audits of Controlling offices, 52 Risk Review Assignments 78 Quality Assurance Reviews and 03 Overseas Reviews, including 1 off-site. As per management, branches with 'very high risk' are audited annually and branches with 'high, medium and low risk' are audited over a cycle of two years. Furthermore, systems audits, IT assets risk assessment is performed for systems/applications in production environment. The frauds have been timely reported to senior management and SBP in accordance with the regulatory requirements. During the period under review, no major events of fraud and forgery were recorded. ARR complied with all IA related regulatory requirements (certifications, validations, compliance audits etc.) without obtaining relaxations. In addition, as per guidelines of SBP, ACOB annually obtains an independent assessment on the state of the Bank's internal controls based on the audit conducted over the period. Further the department was successful in achieving all targets as set out by Risk Based Annual Audit Plan 2022.

Risk Governance: The Board has implemented an extensive framework for risk management and governance. It is responsible for endorsing risk management objectives, strategies, policies, and product programs that align with the financial stability, risk profile, and risk tolerance of the Bank. These policies are effectively communicated to all relevant levels involved in executing risk management guidelines. The management committees, in turn, authorize procedural guidelines in accordance with the Policies approved by the Board. 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. 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;
- Enterprise Risk.

These functions 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 remains committed to enhancing and optimizing its risk monitoring and assessment procedures by leveraging cutting-edge technologies. The Bank has partnership with Karandaz Pakistan (a non-profit organization) for two innovative Challenge Funds; ICF3-Transforming SME Financing, Innovative Credit Scoring Model of SMEs and ICF5-Small Distributor Lending through digital platform in collaboration with Fintech. In order to comply with smooth transition towards the SBP's directives for implementation of International Financial Reporting Standards 9 (IFRS 9), 'Financial Instruments', the Bank has ensured its readiness through implementation of IFRS 9. However, due to further extension of IFRS 9 implementation till Jan 2024, the Bank is running it in parallel while it has been successfully submitting the impact of Expected Credit Loss under these standards to SBP.

Further, in line with Basel Guidelines and best practices, the Bank has arranged validation and recalibration of Obligor Risk Rating Models through external consultants. For efficient and effective Credit Risk Management ABL has in-house developed Risk Assessment and Management System (RAMS) for loan processing and monitoring. This system has proven highly effective in managing Credit Risk, as evidenced by one of the industry's lowest infection ratios. The bank maintains an ongoing process for upgrading RAMS to further bolster its efficacy. As part of the Bank's ongoing commitment to engage with its obligors and offer them valuable insights into business

management and strategies, ABL organized an interactive webinar and five seminars tailored for Corporate, Commercial, and SME obligors. These events featured Dr. Ishrat Hussain, a renowned speaker and former Governor of the State Bank, who delivered enlightening sessions on "Corporate Governance for Sustainable Economic/Business Growth" and "Transitioning from Family-Owned Business Structures to Corporate Models" in the year 2022-2023.

The Bank also conducted various security assessment exercises in 2022 and the ongoing year on the information assets of the Bank, which included Vulnerability Assessment (VA) and Penetration Testing (PT) activities. This entailed a comprehensive White Box Vulnerability Assessment for Critical Application Servers of the Bank. The Bank achieved Payment Card Industry Data Security Standard (PCI DSS) Certification for the 4th year in 2022 along with receiving compliance to Swift Customer Security Program (CSP) as mandated by SWIFT International. In a bid to increase awareness of security threats, the Bank arranged various Information Security Awareness campaigns during the review period. Additionally, a Cloud based E-learning platform was acquired for training of team members to educate and enhance awareness of various Cybersecurity threats. During the review period, ABL's majorly remained focused on the Capacity Building and Enhancement of SOC (Security Operations Center). Major highlights included establishment of a dedicated SOC facility and onboarding of a Threat Intelligence and Digital Risk Protection Platform for receiving enriched and timely Threat Intelligence for protection of Information Assets. Moreover, some processes for detection and prevention of Indicator of Compromises (IOCs) were automated through IBM's Incident Response Platform.

In the course of the year, the deployment of an End Point Detection and Response (EDR) solution successfully facilitated the detection and prevention of behavior-based threats and anomalies. The Bank has embarked on a project aimed at developing an Information Security Risk Management Program to realign its governance structure in accordance with international standards and industry best practices. Key milestones in this endeavor include the formulation of an Information Security Strategy and the development of policies, procedures, and frameworks. Furthermore, ABL conducted Cyber Hygiene and Data Leakage self-assessment exercises to evaluate the overall cyber health and security posture of the Bank and has developed a roadmap to further strengthen and improve it.

In accordance with the BoD approved Operational Risk Management (ORM) policy, the Bank maintains a system of internal controls designed to keep operational risks at appropriate levels. These internal controls are periodically updated to conform to the industry best practices. The Bank has implemented workflow based system 'Risk Nucleus' for Operational Risk Loss data Collection & Reporting, Risk Control & Self-Assessment (RCSA) and Key Risk Indicators (KRIs) monitoring. ABL carried out 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, KRIs 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 the review period, RMG conducted RCSA of 5 groups and performed control testing of 8 different groups through Risk Nucleus (RN) system. Furthermore, KRIs along its breaches were reported to relevant Chiefs and process owners on approved frequencies for taking corrective actions against breaches where required and were also presented to RMC. The Bank has also been implementing internationally accepted Integrated Framework on Internal Control issued by the Committee of Sponsoring Organizations of the Tread Way Commission (COSO), with a view to consolidate and enhance the existing internal control processes. With the approval of SBP, ABL is currently undertaking a parallel run for the Alternate Standardized Approach (ASA) in the context of Basel II - Operational Risk Capital Charge Reporting. This initiative underscores the Bank's commitment to advancing its approach in this area.

The Board of Directors has delegated the Asset and Liability Committee (ALCO) with the responsibility of ensuring the continuous adherence to the Bank's liquidity management policy. The Bank uses gap analysis, liquidity ratios, liquidity stress testing, contingency funding plan and Risk Control Limits (RCLs) to identify and mitigate liquidity risks. Funding and liquidity management strategies are regularly discussed during ALCO meetings, along with monitoring the liquidity position of the Bank in view of emerging risks. 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 risks associated with these assets.

Human Resource Management: The development and implementation of the Bank's comprehensive remuneration policy fall under the purview of the Board. The HR&RC (Human Resources and Remuneration Committee) advises the Board on the compensation structure for the CEO, executive management, and various employee groups. Additionally, the HR&RC regularly conducts reviews to ensure that its human resource policies, covering all facets of remuneration, remain in sync with the continuously evolving internal and external dynamics. 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. Overall remuneration structure of the Bank is considered in line with the industry standards.

In May 2023, the Board approved the revamping of DBG proposed by HR&RC in order to align it with international digital banking practices. New additions in head count across RMG, Compliance Group (CG), and Human resource Group (HRG) were approved to achieve synergies in revised working model of DBG. In addition, a number of new positions have been created in various DBG functions, to expand the work scope and achieve operational synergy. Subsequent to changes in DBG's organogram, organograms of Banking Services Group (BSG), CEO office, RMG, CG and HR have also been revised. According to the proposed restructuring, approved headcount of DBG has increased to 613 from 68. In addition, Treasury Group and Finance Groups organograms have been revamped while headcount has been rationalized due to use of technology across the Bank. Going forward, with implementation of digital transformation at grass root level, headcount is expected to reduce.

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. The retention rate of ABL is among the highest in the industry at 86.16% as of Dec'22, 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 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. Given that the quality and management of human resources significantly influence the organization's performance, the Bank's Human Resource Group (HRG) actively contributes to organizational development by focusing on strategic capacity building, training initiatives, and retaining high-quality human capital. The Bank's human resources practices adhere to policies and guidelines sanctioned by the Board.

In order to ensure effective succession at senior-level management, Allied Leadership Talent Pipeline (ALTP) was introduced. This program entails, categorization of young leaders in three echelons based on individual leadership potential, i.e., High Potential Successor, Intrinsic Potential Successor and Extrinsic Potential Successor. 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 management level assignments in coming year. Focused learning interventions were implemented within the framework of the ALTP by involving internal mentors and external industry experts during the review period. The scope of this program was further enhanced with the introduction of Allied Leadership Recognition and Investment in Sustaining Employees (ABL-RISE Program), which effectively assess employees from Middle management grades to identify and develop pool of future leaders.

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, 653 cadre change elevations were made along with 1,757 grade promotions during the year 2022 to provide adequate growth opportunities within the organization. With 2,334 new recruitments during 2022, the total number of employees stood at 11,929 at end- Dec, 2022. Furthermore, ABL acknowledges its duty in promoting sustainable economic and social development, recognizing the importance of a diverse workforce in attaining these objectives. A well-defined strategy, complete with measurable goals, has been established to enhance Human Resource diversity further. 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 20.69% at year end-CY22. Additionally, for persons with different abilities, the Bank has a specially designed internship program leading towards permanent employment has also been initiated by HR function in co-ordination with relevant stakeholders to improve employment experience. 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. In accordance with the authorized document, a Crisis Management Team (CMT), led by the Chief of General Services and Real Estate, has been established to address a range of safety and security issues. This includes but is not limited to external and internal hazards, evacuation plans, medical emergencies, and firefighting. Additionally, an Emergency Response Team (ERT), which reports to the CMT, has been put in place. The ERT is responsible for alerting building occupants during emergencies, managing fire incidents, providing first aid, and executing building evacuations to address critical situations.

Compliance Framework: The Compliance Group serves as a key component of the Bank's second line of defense, responsible for managing regulatory compliance, as well as risks related to money laundering and terrorism financing. Its primary role is to guarantee the Bank's adherence to all relevant laws and regulations by implementing the necessary controls within internal policies and procedures. The Bank's leadership is dedicated to cultivating a robust compliance culture by collaborating with all stakeholders, effectively integrating regulatory guidance, and

persistently enhancing a comprehensive risk mitigation framework. The Compliance Committee (CC), tasked with fostering a strong culture of compliance by overseeing the execution of the Compliance Program, operates within MANCO (Management Committee) in compliance with SBP (State Bank of Pakistan) regulations. . This includes conducting regular assessments of initiatives related to Anti-Money Laundering (AML)/ Combating Financing Terrorism (CFT), Trade Base Money Laundering (TBML), Customer Due Diligence (CDD), and Know Your Customer (KYC), and subsequently reporting to the Board.

The Bank has further improved its monitoring of Trade-Based Money Laundering (TBML) and harmonized e-KYC (Know Your Customer) methods. This enhancement includes the incorporation of crucial trade due diligence criteria and the creation of a Trade Customer Risk Profiling Model. These measures are aimed at mitigating the risks associated with trade-based money laundering, particularly in cases involving the dual use of goods and vessel tracking. The Bank has also reorganized e-KYC functionality, which has been harmonized with the core banking system. In order to access, identify and evaluate the inherent AML, CFT (Counteracting Proliferation Financing), CPF and TBML risks at the entity level, the Bank is in practice of updating its Entity Level Internal Risk Assessment (IRA) in accordance with the regulatory requirements and the National Risk Assessment (NRA) of Pakistan on biannual basis.

During the review period, the CG has undertaken several regulatory compliance reviews to verify adherence to the required standards. They have also performed Gap Analysis on significant regulatory modifications, amendments, and updates in comparison to the existing bank documentation and practices. To keep the Bank's abreast with the latest rules and regulations issued by the regulators, CG conducts "Regulatory Impact Analysis (RIA)" of all new and revised instruction and disseminates these to the relevant stakeholder in the bank through a system for arranging compliance there against. Determined initiatives are taken, with the coordination of all Bank functions, to enhance the control environment through ongoing reviews and the refinement of policies and procedures to prevent and identify control weaknesses. To fortify this control environment further, the Bank has automated compliance processes using a state-of-the-art and globally recognized Transaction Monitoring System and Name Screening utility.

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, disclosures on Pakistan Stock Exchange 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 adequate disclosures related to corporate governance, statement of compliance with code of corporate governance, statement on 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, products and services, Chairman's message and CEO's review, Group reviews, comparison of performance vis-a-vis KPI's, and stakeholder engagement process, 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. Moreover, a comprehensive SWOT (Strength, Weaknesses, Opportunities and Threats) and PESTEL (Political, Economic, Social, Technological, and Environmental) analysis are also presented for stakeholders. 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 Sessions are also conducted, as required by the PSX. The Bank has won various awards and recognitions by multiple national and international prestigious institutions on account of robust regulatory compliance of local and international requirements, sound business strategy, strong technological infrastructure and digital services excellence.

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
	RATING TYPE: ENTITY				
	25-OCT-23	CGR 9++	-	-	Reaffirmed
	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
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.				
Disclaimer	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 2023 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted	Name	Designation		Meeting Date	
	Syed Hassan Rizvi	Group Head ITG		02.10.2023	
	Mr. Adeel Javaid	Company Secretary			
	Mr. Tariq Mehmood Shahid	Chief CG			
	Ms. Saira Shahid Hussain	Chief-HRG			
	Mr. Mohsin Mithani	Chief Digital Officer			
	Mr. Moin Khalid	Chief RMG			
	Mr. Shaffa Hussain	Chief A&RRG		03.10.2023	