The Pakistan Credit Rating Agency Limited

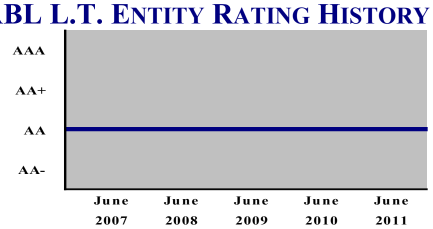
BANKING

RATINGS (JUNE 2011)

ALLIED BANK LIMITED [ABL]

ENTITY	NEW	PREVIOUS
LONG TERM	AA	AA
SHORT TERM	A1+	A1+
OUTLOOK	Positive	
Unsecured, Listed, subordinated		
TFC II – PKR 3,000MLN	AA-	AA-

ABL L.T. ENTITY RATING HISTORY



FINANCIAL DATA

PKR (MLN)

	1Q2011*	2010	2009
Total Assets	450,308	449,932	418,374
Finances	279,620	290,928	272,815
NPLs	19,393	18,688	16,281
Equity	33,685	31,167	25,891
Net Income	2,511	8,225	7,122
ROA	2.2 %	1.9 %	1.8 %
ROE	31.0 %	28.8 %	30.5 %
Equity / Assets	7.5 %	6.9 %	6.2 %
Loan loss coverage	81.4 %	82.6 %	77.0 %
SBP CAR	N.A.	13.8 %	13.5 %
Capital formation rate	32.2 %	20.8 %	24.9 %

**** Based on un-audited accounts***

ANALYSTS

Aahyan Mumtaz
+92 42 35869504
aahyan.mumtaz@pacra.com

Jhangeer Hanif
+92 42 35869504
jhangeer@pacra.com

TFCs Issues

ABL issued listed, unsecured, subordinated TFC(II), of PKR 3,000mln in Aug09. The instrument has a tenor of 10 years and carries a profit rate of 6MK+0.85% for the first 5 years and 6MK+1.3% thereafter, payable semi-annually in arrears. A call option is available on any profit payment date starting 60th month from the issue date. Principal repayment will be in bullet form at maturity.

The bank has issued another TFC(I) of PKR 2,500mln which is rated AA- (Double A minus) by JCR-VIS.

RATING RATIONALE & KEY DRIVERS

- The ratings reflect ABL's robust performance emanating from increasing asset base and sound asset quality. ABL continues to leverage its extensive network for mobilizing low cost deposits, while simultaneously expanding its advances portfolio, though it continues to have relatively high credit concentration. The bank remains focused on strengthening its infrastructure and control environment – pre-requisites to withstand increasingly tough and competitive operating environment in the country.
- The positive outlook on ratings recognize ABL's improving profile in the peer universe; wherein deepening of client relationships, further dilution of credit and deposit concentration, and full scale benefits of advanced technology platform would be key essentials.

ASSESSMENT

- ABL is a large sized bank, with a network of 806 branches at end-Dec10. The bank maintains a relatively high ADR (68.3%) in comparison to peer banks, though this has declined slightly YoY attributed to growth in deposits outpacing the increase in advances. ABL's system share of advances decreased marginally to ~6.8% (Dec09: ~6.9%), while deposit share improved to stand at ~7.6% (Dec09: ~7.3%) as at Dec10. The loan book is currently concentrated in the corporate sector (70% – including commodity financing of about 18%), with remaining major portion deployed in SMEs and commercial sector. The heavy proportion of corporates in the loan book gives rise to concentration risk – also indicated by ABL's top 20 exposure concentration, which increased considerably to ~35% (Dec09: 27%). However, credit risk is mitigated to a certain extent, due to most of these being public sector entities and financially strong private groups. The portfolio of retail finances is targeted to increase though its extent remains dependent upon prevailing economic conditions.
- Lower cost of funds emanating from a higher proportion of current accounts enabled ABL to hold its spreads, which led to improved net interest revenue, therefore fully translating the benefit of volume growth. Despite a slight fall in fee income, other income grew, mainly due to increase in dividend income and gain on equity investments. Given an inflationary environment, the bank was able to largely maintain its cost-to-net revenue at 40%, which remains better than most peers. The bank's provision expense, with significant reversals (PKR 1,440mln), stayed the same YoY due to a hike in the infected portfolio. Nevertheless, profits for the bank increased to PKR 8,225mln for 2010. The trend of healthy profitability has continued in 1QCY11.
- ABL's medium term strategy is to curtail NPL accretion in an effort to enhance the credit quality of its loan portfolio. The bank intends to achieve this by strengthening its risk management framework and replacing weaker credit profile clients with sound customers. While this may have an impact on asset yield, the bank intends to maintain spreads by lowering its cost-of-funds through enhanced focus on CASA deposits. Given limited market size and increasing competition, the extent of the bank's success in this regard remains to be seen. Moreover, the impact of continuing depressed socio-economic environment on the ABL's existing client base, would be another challenge for the bank to manage.
- The bank's core banking software, Temenos T-24, after encountering some delays, is being rolled out in a phased manner. Since most technological initiatives currently underway are Temenos dependent, its timely implementation is critical for progress in these initiatives. The bank has strengthened its Risk Management Group in terms of human resource as well as scope, with ongoing implementation of the SAS Risk Management Suite. Further initiatives being pursued include updating of Obligor Risk Rating Models and automation of the Loan Origination System.
- ABL witnessed noticeable growth in NPLs. Accordingly, the bank's NPLs as a percentage of gross advances increased slightly to 7.5% at Mar11. Nevertheless, the ratio remains the lowest amongst ABL's peers. Meanwhile, with accretion in the NPLs, loan loss coverage declined – albeit slightly – to 81% at Mar11. The bank has restructured a modest portion of its loan book to manage infection. Given the persistent challenges in the operating environment impacting borrowers' repayment capacity, the risk of accretion in NPL's remains.
- Investments of PKR 80bln constituted ~18% of total assets at Dec10. A major proportion has been deployed in T-Bills (75%), signifying low credit and interest rate risk, and PIBs (10%). The remaining investment book comprises equity investments (11%), as well as a small proportion of open-end mutual funds. The equity portfolio is mainly dominated by listed, dividend-yielding stocks.
- The bank's capitalization improved slightly on the back of healthy profitability during 2010. Nonetheless, ABL's equity-to-total-assets lags behind its peers, signifying need for improvement.

PROFILE

- Ibrahim Group (IG), through its different companies and family members, owns 80% of shareholding in ABL. Apart from interest in financial sector, IG is engaged in manufacturing of yarn and polyester staple fibre. State Bank of Pakistan also has a shareholding of around 10% in ABL. With a sizeable network spanning over 300 cities and towns of Pakistan, ABL offers a full range of banking services. The bank has one of the country's largest ATM network with 587 terminals.
- The eight member BoD include three sponsor directors, one executive directors, three independent directors, and the CEO as a deemed director. The various sub-committees include 1) Audit, 2) Strategic Planning & Monitoring, 3) Human Capital, 4) E-Vision and 5) Board Risk Management committee. Mr. Khalid A. Sherwani re-joined ABL in Jun10 as CEO. He is a seasoned banker with 43 years of banking experience, including being CEO of ABL previously. He is in charge of a stable and experienced management team.