CHAIRMAN’S MESSAGE
Year 2017 was a historic year for the Bank; as the entire ABL team celebrated the successful completion of 75 years of banking services to the nation. Originating from modest beginnings, Your Bank has transformed into a dynamic and innovative organization; overcoming multitude of challenges with resolve and fortitude. Recognition by the prestigious Banker Magazine, UK as ‘Bank of the Year – Pakistan 2017’ made this anniversary year more fulfilling for the entire team. Your Bank has now initiated digital transformation which shall assist in shaping the future for decades to come.

Technology is rapidly changing the dynamics of banking. Despite technology driven advancements, according to World Bank, still two billion people around the world do not have a bank account. In order to enhance financial inclusion and boost sustainability in a business environment engulfed with disruptive forces, Banks need to embrace a decisive and forward-looking technology driven strategy striving towards reducing operating costs and risks in the digital era; while facilitating agility and deeper penetration in existing and untapped markets.

After protracted periods of depressed growth and subdued macroeconomic fundamentals, global economic activity displayed stable performance during 2017. IMF projects global growth at 3.7% in 2017; 0.1% higher than earlier projections and 0.5% higher than 2016. Global growth forecasts for 2018 and 2019 have also been revised upward by 0.2% to 3.9%; reflective of higher growth momentum and the expected impact of the recently approved U.S. tax policy changes.

Major support to recovery came from global trade, favorable financial conditions, stabilized commodity prices and improved business sentiments.

The pickup in growth has been broad based, with notable upside surprises in Europe and Asia. Key emerging and developing economies, including Brazil, China, and South Africa, also posted growth stronger than originally forecasted.

Driven by improvement in global growth outlook, extension of the OPEC agreement to limit oil production and geopolitical tensions in the Middle East, crude oil prices rebounded towards US$ 70 per barrel mark from US$ 53 at the start of the year; providing fiscal relief to the oil exporting countries while pressurizing the Balance of Payment of oil importing countries like Pakistan.

Domestically, sustaining a population of approximately 208 million requires overcoming barriers to growth which have hindered progress historically. Lackluster pace of structural and macroeconomic reforms especially with reference to fiscal revenue collection, absence of long term dynamic strategic planning and its follow-up, one of the lowest private sector credit to GDP ratio in the world, high unbanked population levels, lack of cost effective factors of production and secure operating environment remain key challenges in accomplishing the desired growth targets.

With rising young population and rapid technology driven advancements in a highly competitive global environment; creation of jobs cannot be accomplished without broad based and planned expansion in manufacturing sector and industrial parks with simultaneous enhancement in skillset levels of the domestic labour force.

The gradual progress made during 2017 to address the adverse exports trend which declined by 3% during the last five years, yielded results whereby exports of goods and services registered a growth of 7% during the year.

On the contrary, despite measures by the government through imposition of regulatory duties on import of non-essential items, growth in imports failed to relent with overall increase of 21% during the year. This mismatch in exports and imports growth resulted in burgeoning trade deficit.

Home Remittances another historically reliable source of funding remained constrained during the year with 1% decline to US$ 19,591 million on account of adverse economic conditions in Middle East; largest contributor to domestic remittances.

Foreign Direct Investment inflows during 2017 remained encouraging at US$ 2,691 million primarily related to CPEC related projects. However, foreign investors in the equity market remained disenfranchised due to brewing uncertainty over the political climate as well as the fluctuating exchange rate outlook. Resultantly, positive sentiments in equity market from achieving MSCI Emerging Market status in 2016 were wiped away and benchmark index fell by 15% to close at 40,471 points.

As a result of uptick in momentum in existing infrastructure projects and new projects being initiated, Large Scale Manufacturing remained robust during the year with 4.9% growth in FY 2016-17 and 7.2% growth in first four month of FY 2017-18.

Managing Public Debt and Liabilities largely stemming from borrowings from multilateral donors, foreign and local banks remain a key challenge for the economy. The overall debt surpassed Rs.24,000 billion or 75.3% of GDP during FY 2016-17; including USD borrowing of approximately US$ 5 billion acquired during 2017 to support rising trade deficit. With limited growth in exports and stagnant remittance position; debt servicing going forward remains a fundamental challenge ahead.

Despite accommodative monetary policy stance by SBP, Private Sector Credit as a percentage of GDP remains one of the lowest in the world at 15% from a high of 28% in 2007. Repercussions of this dreary state of private sector credit have been overwhelming for the economy, in the form of financial and social exclusion of a large segment of the population, lower than projected GDP growth rate, subdued exports performance and lack of growth in tax revenues.

The size of undocumented economy continues to grow in the wake of aversion by the business community.
to withholding tax imposed on banking transactions. Recent impact analysis by SBP in its Annual Report FY 2016-17 also highlighted this fact: “While the WHT on non-cash banking transactions seems to have had a negligible impact on revenue collections and incentivizing tax filing, it instead led to an increase in currency in circulation and a decline in private business deposits.”

The challenges emanating from these hindrances along with change witnessed in earning asset mix and continuation of Super tax, adversely impacted banking sector bottom line performance.

Your Bank while remaining cognizant of the aforementioned challenges and associated risks adopted a prudent approach to achieve stable performance while continuing to strengthen the balance sheet.

During the year, the overall Balance Sheet and total Equity size of the Bank crossed the significant milestone of Rs.1,246 billion and Rs.107 billion mark respectively.

The contribution by Your Bank to enhance access to financial services by country’s population remained on course during the year with addition of 100 branches during the year, expanding overall branch network to 1,250 branches including 117 Islamic Banking branches. Similarly, the vast ATM network by the Bank increased from 1,150 ATMs to 1,239 ATMs including 249 off-site ATMs.

Committed to gradually introducing Digital Banking initiatives, Your Bank initiated pilot project through launch of digital branches in Lahore and Karachi.

Your Bank believes that commercial success is intrinsically linked with progress of all our stakeholders. Recognizing Your Bank’s role as an enabler of sustainable progress in society the Bank generously contributed towards Corporate Social Responsibility projects through active assistance in community building, healthcare, education and environment related projects.

Acknowledging the role in nation building, Your Bank arranged series of awareness sessions across Pakistan to facilitate SBP’s National Financial Inclusion Strategy initiative. Highlight of these sessions was seminar in Lahore on “Private Sector Credit and Growth in Tax Revenue”; highlighting the role of private sector credit in achieving growth in tax revenues and broad based economic growth. In addition, awareness sessions on SME, Agriculture and Islamic Banking were also held across Pakistan; actively attended by obligors, regulators and potential customers.

In this transforming business environment of Artificial Intelligence, Cognitive Computing and Machine Learning; employees in an organization need to be well-versed with latest technology trends. Your Bank has placed immense emphasis on these learning aspects through e-Learning and purpose-built Management Development Centers. Your Bank views this investment in technology and people as the foundation of future success.

Your Bank’s sound business, compliance and governance practices safeguards against any oversights locally and internationally and as a result, translating in to robust entity rating by Pakistan Credit Rating Agency (PACRA); which maintained the long-term rating of Allied Bank at “AA+” and short-term rating at “A1+”.

During 2017, JCR-VIS Credit Rating Company Limited maintained Your Bank’s Corporate Governance rating to “CGR-9+” indicating very high level of corporate governance; the only Bank in industry to be rated on Corporate Governance.

Future Outlook

The growth in real economic activity is expected to maintain the momentum in FY 2017-18. However, elevated levels of external and fiscal accounts deficit, enhanced rates of imports growth and increased public spending in order to achieve completion of development projects before the upcoming general elections in the country may diminish chances of achieving the targeted GDP growth of 6%.

Recent adjustment of Policy rate by SBP using monetary policy tool; keeping in view the PKR depreciation, increasing oil prices, PKR interest rate differential and buildup of demand pressure is positive omen, depicting real time adjustment of the economy.

Sustainable development, jobs creation and equitable broadening of the tax base remain imperative to reap benefits from growing economy. Achievement of these objectives, rest upon successful implementation of economic reforms, instilling fiscal discipline and improving access to factors of production.

While the undocumented segment of the economy continues to grow thereby discouraging SME financing growth, documented formal sector continues to bear the brunt of tax burden. Therefore, formalizing the informal sector on war footing is the need of the hour to create fiscal breathing room through accumulation of higher tax revenues and reducing the burden on already heavily taxed segments.

Legislative reforms to facilitate businesses in reducing costs and enhancing ease of doing business while improving the quality of information presented by the businesses can potentially assist in efforts to corporatize the informal sector and further improve the formal sector.

Recently promulgated Companies Act 2017 is the right step in such direction and further similar reforms pertaining to credit bureaus, bankruptcy, foreclosure etc. can further strengthen the functioning of economy.

There remains a distinct lack of long term strategic vision to develop local businesses into globally competitive large conglomerates. Accordingly, majority of businesses in Pakistan operate at the periphery of the official and legal frameworks.

Lack of corporatization in country is clearly demonstrated by the continuous growth in informal credit avenues, which are not only expensive source of funding but also a major cause of lack of growth in SME businesses and in tax revenues for the government.

Addressing the Real Estate valuation shall remain another key area of concern for the authorities. Undervalued real estate valuations as compared to market prices; limits the revenue streams for the tax authorities. In addition, the sector has since long been a mainstay for undocumented cash based economy proving more detrimental to nation’s development in general and hindering credit growth in particular.
Investment inflows from China Pakistan Economic Corridor (CPEC) have started to materialize with initiation of energy and infrastructure projects. Going forward, focus must be given to capitalizing on these opportunities and ensure favorable value creation for domestic entrepreneurs and labour force.

Predicting the future of evolving business environment is becoming more and more uncertain with the passage of time. However, the only certainty about future remains that banking shall perform as a function of variables including customer aspirations, application of appropriate technology, digital currency, blockchain, machine learning and predictive analysis. Data protection and information governance have become imperative to gaining customers’ trust and remain a key enabling factor in the digital era. Therefore, focus on ensuring robust information security, strengthening of controls and compliance functions remain a cornerstone of Your Bank’s strategy.

Understanding and continuously adapting business model and how value is delivered to key stakeholders through a dynamic strategy shall determine the success of banks in future.

Proactive mitigation of risks associated with evolving business environment shall remain at the forefront for banks sustainability.

Domestic banking landscape, already having been consolidated from 49 operational banks in 2000 to just 34 banks in 2017, shall continue to transform. Going forward, provision of quality services at the convenience of customer through multiple channels will determine the success for the banks.

Adherence to progressive supervisory framework developed in consultation with all stakeholders shall assist in further enriching the Digital Banking Age experience. Heightened compliance will shape digital banking of the future and expedite its arrival.

Your Bank remains fully cognizant of these complex global developments along with intricacies associated with local banking scenario.

Your Bank intends to remain at the forefront for improving access to quality financial services to the vast unbanked population in the country. Expansion in outreach through hybrid mix of conventional brick and mortar branches, ‘Smart Branches’ and digital kiosks shall assist in further improving the outreach. Initiation of “Branchless Banking” going forward shall further facilitate in accomplishing financial inclusion strategy of the Bank.

In addition, through enrichment of digital banking operations, Your Bank intends to further enhance experience of customers by providing full suite of services for individuals through ‘MyABL’ and for Corporates through ‘Business Internet Bank’ solution respectively.

Similarly, regular seminars on financial awareness which have received positive response from obligors, regulators and public shall further assist in enhancing the financial acumen of the general public.

Your Bank has achieved tremendous successes through hard work, dedication and commitment. With strong balance sheet and capital adequacy levels, robust risk management, high focus on compliance with domestic and international applicable regulatory requirements, high standards of corporate governance, transparency and commitment to globally accepted best business practices, Your Bank has achieved a position of strength which is recognized internationally as well as locally. Domestic accolades during 2017 included the prestigious “Corporate Excellence Award” by the Management Association of Pakistan and selection as one of “Top 25 Companies of the Year awards” given by the Pakistan Stock Exchange.

The Bank profoundly acknowledges the co-operation extended by regulatory bodies including State Bank of Pakistan, Securities and Exchange Commission of Pakistan and Federal Board of Revenue.

Our 75-year journey is nothing short of being remarkable; positively impacting lives of our valued customers as their trusted financial advisor and partner. We are constantly striving towards our goal of building a more robust Allied Bank and as a facilitator of change in our beloved homeland towards higher economic growth and social engagement. We shall continue our aspirations towards value creation for our stakeholders and positively serving our valued customers, Bank’s staff and the communities we serve.

Mohammad Naeem Mukhtar
Chairman