Rapidly evolving digital technologies are challenging all business models including banking in this era of 4th industrial revolution. Banking sector’s intermediary role is being progressively transformed, with paradigm shifts witnessed in international and domestic trade transactions. Transaction volumes in virtual currencies are also gradually increasing, mainly in developed economies, though the required regulatory framework is still at a very nascent stage.

Banking sector’s future viability is linked with its ability to strategically transform legacy business processes and organization structures towards a ‘Digitalized’ and ‘Artificial Intelligence’ assisted pro-active and agile environment.

Global banking is rapidly adopting evolving mobile technologies along with Blockchain, Machine Learning, Big Data and Robotics resulting in a gradual yet visible strategic shift from traditional brick and mortar model to digitalization driven business models.

In view of the unique population demographics particularly with reference to lack of financial literacy and economic dynamics of Pakistan, threats emanating from digital disruptions to domestic banks are relatively diluted in the short term. However, there is little doubt that in the medium to long-term, the sector has to fully adopt digitization to the core.

Despite a robust GDP growth of 5.8% in FY 2017-18, country’s economic outlook is engulfed with challenges threatening the continuation of the growth momentum. Revenue shortfalls and continued reliance on imports led to broadening of the twin deficits to unsustainable levels.

Continuation of tough ongoing policy measures including monetary tightening, currency valuation adjustments, further escalation of imports and custom duties along with structured broadening of taxation base and optimization of development spending seem unavoidable in the short term to address the aforementioned economic imbalances.

Negligible progress in industrialization poses another significant threat to viable economic growth. Low investment in deployment of modern technologies along with obsolete management techniques has been prevalent among almost all sectors. High input costs, especially unviable energy related charges, further exacerbated the worsening situation.

As a consequence, most industries are fast becoming uncompetitive at the global level and export growth levels remain un-encouraging.

Infact, even in domestic consumption, a culture of trading activities instead of industrial manufacturing is rapidly overtaking the country and remained primary cause of the dwindling FX reserves. Without addressing this core issue, reliance on external funding also seems inevitable in the foreseeable future.

Growth in banking sector advances in 2018, which grew by 21%, is a positive sign for the country. However, recent benchmark interest rate hike of 425 bps along with 33% devaluation of PKR during 2018 may adversely impact the sustainability of advances growth outlook ahead and may also contribute towards potential increase related credit cost.

Despite the aforementioned growth, Pakistan continues to struggle in terms of Private Sector Credit (PSC) expansion; Country’s PSC to GDP ratio remains under 20%, well below the South Asian average of 46% and global average of 104%.

According to the World Bank, there are an estimated 1.7 billion adult unbanked individuals globally. Pakistan with 100 million such adults represents the 3rd highest level or 6% of the global unbanked population. The ratio is more abysmal for the female population across the world.

Undocumented economy continues to grow in view of the aforementioned issues, along with financial and social exclusion while stifling growth prospects of Small and Medium Enterprises (SME), which can play a pivotal role in the overall sustainable growth of the country and redressal of low financial inclusion levels.

Your Bank’s evolving 10 year rolling strategic plan takes into consideration the aforementioned changing operating environment and challenges while paving the Bank’s future roadmap.

The Bank’s primary focus is geared towards expanding its competitive positioning through significant investment towards customer onboarding, innovation and transformation, prudent risk management, augmented efficiency levels, enhanced service quality measures and talent pool retention.

In an environment requiring heightened focus on compliance culture, Your Bank continued to invest in technology driven compliance tools to further safeguard against compliance risk.

Your Bank is constantly working towards updating information systems and technology platforms to improve the customer experience and enhance operating effectiveness. The Bank has also successfully upgraded Core banking T-24 system to R-16 version during the year.

Opening of the state of the art ‘Innovation Lab’ in early 2018 is in line with Bank’s innovation strategy encompassing strong partnerships with leading technology platforms, solutions and partners to deliver the best financial services platform for our valuable customers while simultaneously playing a positive role in expanding the domestic innovation ecosystem.

Digital product suite is also being enriched on a continuous basis. A very favourable response to Your Bank’s mobile banking app ‘MyABL’ along with corporate digital banking solution “Business Internet Banking” is very encouraging.

Your Bank is continuing to invest in new innovative product offerings including digital lockers, digital signage, bulk account opening solutions, off-site account opening module, payment hubs, mobile ATMs, Interactive teller machines and SMART self-service branches.

Launch of new tailored deposit products including millennial focussed Youth Account and the Senior Citizen Account, with unique product offerings, has further strengthened the deposit products suite.

As a strategic measure, adoption of robust risk management framework by Your Bank assisted in achieving lowest infection ratio, strong Equity base, highest Capital Adequacy level along with an overall healthy Balance Sheet.

Your Bank remains well poised to take benefit of all quality credit expansion opportunities. Considering significance of the SME sector, Allied Bank participated and got selected in the Innovative Challenge Fund (ICF) titled “Transforming SME Financing, Innovative Credit Scoring Model of SMEs” launched by Karandaaz Pakistan (a non-profit organization). The project would pave way to strengthen capacity building and assist in gradual growth in selected SME sectors.

With over 60% population under 25 years of age, Pakistan needs significant investment in human capital development. In the age of digitization, organizations shall only be thriving with lean and agile teams; while technology is rapidly reshaping the skill set requirements of Banking sector’s workforce as well.

Your Bank is fully cognizant to keep on developing human resource skills to meet the digital banking transformation challenges proactively, through conventional and e-learning trainings; while simultaneously inculcating an organizational culture to promote empathy in human resources.
CHAIRMAN’S MESSAGE

It gives me immense pleasure that Your Bank’s strong fundamentals were independently acknowledged by Pakistan Credit Rating Agency (PACRA), with the upgrade of long-term credit rating to highest rating scale level of ‘AAA’.

Solid capital base complemented by lowest loan loss ratio and highest coverage ratio amongst peer banks, were internationally recognized by one of the most prestigious Euromoney Magazine, UK, which awarded Your Bank as “Bank of the year 2018 – Pakistan”.

Your Bank continued to generously contribute towards Corporate Social Responsibility (CSR) activities across the homeland. These efforts are well recognised internationally as prestigious Asiamoney magazine awarded Your Bank as “Best Bank for CSR - Pakistan” during the year.

Future Outlook

The Banking sector’s future success clearly depends on its ability to continuously transforming the developing banking ecosystem and provide integrated services according to the multi-faceted needs of customers.

In order to provide real-time interactive user experiences similar to tech giants like Amazon, Google, Alipay and Tencent, technologies like Artificial Intelligence, Advanced Machine Learning and Cloud Computing are beginning to have a marked impact on traditional banking processes including credit expansion, low cost funding mobilization, risk management, compliance and operations which traditionally required excessive human involvement.

Regulatory and supervisory frameworks will need to keep pace with the adoption of the aforementioned inevitable technology driven automations.

Pakistan remains at a critical juncture whereby concurrent focus on implementation of structural reforms and introducing global technological advancements is expected to reshape the economy.

According to World Bank, in a country of over 200 million population, a staggering 80% of population survives on a mere US $5.50 per day or less; highlighting the enormity of the task at hand in achieving sustainable development goals.

Across the board reforms together with long term strategic planning remains imperative to eradicate massive poverty levels, creation of jobs, social welfare and achieve growth necessary to sustain growing population levels.

Various taxation reforms have already been undertaken but there still remains room for further improvement through reforms such as enhanced tax breaks for new tax filers to encourage growth in documented economy.

Recent improvement in Pakistan’s “ease of Doing Business” ranking from 147 to 136 is indicative of the steps in the right direction. However, further steps are required in improving underlying criteria including credit information systems, taxation compliance and broadening, contractual enforcements and insolvency treatment to encourage corporatization in the country.

Similarly, Industrial entities dependent upon depleting natural resources particularly natural gas projects need to re-align their long-term strategies. A comprehensive long-term strategy for alternate energy solutions must be put in place to ensure judicious and efficient usage of country’s limited natural resources.

Going forward, development of Industrial Parks along CPEC route must be ensured to provide mutually beneficial growth opportunities to both local businesses and Chinese investors respectively. At the same time enabling environment must also be ensured for banking sector to play its primary role of lending to private sector.

Encouraging corporatization in country and developing framework to protect local businesses from unfair trade practices including anti-dumping measures is essential.

Your Bank remains at the forefront in adoption of latest technology initiatives from developing automated Risk Assessment Management System (RAMS) to planned deployment of Big Data analytics for data driven decision making in future. I am very optimistic about the Big Data project that the Bank is planning to undertake in 2019, with the assistance of IBM and Oracle.
Your Bank’s strategic priorities in years ahead include continuous focus on broad based digitalization and transformation through adoption of cutting-edge technologies to enhance user interfaces and customer service experiences.

Launch of Branchless banking including instant account opening is expected to boost the Bank’s customer onboarding levels.

While simultaneous focus on Data Governance along with enhanced info-sec measures shall remain a strategic priority.

Further, expansion in the Bank managed warehouses for pledge financing will be maintained. The current operational six warehouses will be increased to 20 locations going forward.

The rapid pace of global transformation in legal and compliance culture is persuading the banking sector to adopt de-risking policies. The complex and growing requirements are being accomplished through the strict implementation of technology driven compliance in a phased manner to manage risk at the enterprise level; ensuring meticulous compliance with local as well as international regulations.

Your Bank continues to invest in developing workforce for the ‘Digital Banking Age’. With advanced e-learning portal, collaborations with leading universities across Pakistan and dedicated management trainee programs, Your Bank remains in a position of strength to develop requisite skillsets for the future.

Looking towards 2019, I am confident that Your Bank remains poised to post sustainable growth in shareholders’ value.

On behalf of the Board of Directors, I would like to extend appreciation for the continuous co-operation extended by regulatory bodies including State Bank of Pakistan, Securities and Exchange Commission of Pakistan and Federal Board of Revenue.

I would also like to thank our shareholders, for their continued commitment and confidence in our long-term strategic vision.

Finally, I want to extend my sincere thanks to Allied Bank’s management team and the 11,000+ Allied bankers, for their utmost commitment towards building a robust and technology enabled Allied Bank.

Mohammad Naeem Mukhtar
Chairman