

# CHAIRMAN'S MESSAGE

In 2023, global economic activities continued at a moderate pace despite facing several challenges. Factors such as geopolitical instability, high commodity prices, climate-related issues and the implementation of restrictive monetary policies in both developed and emerging economies to tackle rising inflation hindered the global economy's recovery.

However, there are positive developments amidst these challenges. The initial inflationary shocks triggered by the rise in energy and food prices are gradually easing and there are signs of an earlier-than-expected recovery in the global economy. As a result, the International Monetary Fund (IMF) has revised its estimate for global GDP growth in 2023 to 3.1%, slightly higher than its previous projection of 3.0%, but lower compared to the 3.5% growth seen in 2022. Additionally, global headline inflation has steadily decreased from its peak of 8.7% in 2022 (annual average) to 6.8% in 2023.

In recent years, there has been a significant shift in the banking industry towards embracing digital technologies. This transition is largely influenced by the changing needs and behaviors of customers and has been further accelerated by the Covid-19 pandemic. Customers now prioritize speed, immediacy and convenience when selecting financial service providers. As a response, the banking sector has been leveraging technological advancements to improve operational efficiency, enhance customer experiences and strengthen information security measures, while promoting financial inclusion. Key drivers of this innovation include Artificial Intelligence (AI), Application Programming Interface (API), Cloud Computing and Distributed Ledger Technology. These technologies play crucial roles in driving forward the digital transformation of banking services.

AI-based technologies, such as machine learning, natural language processing and computer vision can be utilized to develop personalized financial services, improve operational efficiencies and automate back-office processes. AI-driven tools like virtual assistants and chatbots streamline customer interactions with financial institutions, enhancing user experience and minimizing the need for human intervention.

Advanced Machine Learning (ML) algorithms can be utilized to improve credit scoring models by integrating macroeconomic and financial variables. This empowers banks to develop robust and inclusive business models while evaluating credit lending decisions.

Computer vision-enabled tools streamline document analysis, enabling systems to extract information from digital images, videos and other visual inputs. By deploying this technology, banks can progressively automate and integrate their Know Your Customer (KYC) and customer onboarding processes into the existing systems, achieving synchronization across the banking platform.

APIs enable non-banking entities and third-party developers to seamlessly integrate banking platforms with their apps and services while upholding data integrity and privacy

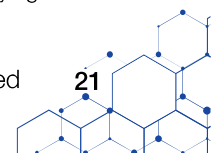
standards. Open banking and APIs support banking-as-a-service (BaaS), enabling financial service providers to reach new customers through intermediary entities. These technologies have broadened access to the financial services by expanding distribution channels, introducing new services products, reducing transaction costs and thereby promoting financial inclusion. Leveraging these new technologies has also empowered financial institutions to increase their revenue streams. Furthermore, it has allowed for deeper customer insights, facilitating personalization of financial services based on individual customer preferences. Blockchain technology, often associated with cryptocurrencies, has advanced highly secure and immutable records of all financial transactions, offering enhanced transparency in transactions. By utilizing blockchain for financial transactions and smart contracts, the need for intermediaries is minimized, enabling peer-to-peer (P2P) payments with the advantage of lower transaction and compliance costs.

Pakistan's economy faced significant challenges both from domestic and external macroeconomic factors, compounded by political unrest and high inflation. These issues contributed to a decline in domestic GDP. However, despite these difficulties, there have been some short-term signs of improvement. The IMF has revised its estimate for negative growth in domestic GDP for FY'23 to -0.2% which is slightly better than previous estimates of -0.5% published in both July and October updates. Persistent high commodity prices and ongoing pressure on the external account have visible impact on the exchange rate and inflation levels. Consequently, annual average inflation rate for FY'23 stood at 29.18%, a significant increase from the 12.15% recorded in FY'22.

Pakistan's Banking Sector remained resilient against macroeconomic and operating challenges and demonstrated a healthy performance. The asset base of the banking sector expanded by 31% by the end of December 31, 2023, reaching Rs. 54,183 billion. This growth trajectory was primarily driven by 41% increase in investments and a 4% rise in advances compared to the previous year. The growth has been further reinforced by a consistent rise in deposits, which increased by 24% over previous year.

Over the last decade, Pakistan's digital payments ecosystem has experienced significant growth particularly during and after the pandemic. There has been a transformative shift from traditional models towards the adoption of advanced technologies. This transition has been facilitated by enabling regulations, increased participation in technology-oriented markets and the introduction of innovative digital products leading to a more progressive financial landscape. During FY'23, digital transactions contributed to 85% of total payments processed by Banks and Microfinance Banks compared to 80% in FY'22. This increase indicates that customers are embracing digital channels for their financial transactions.

The initiatives introduced by State Bank of Pakistan (SBP), including digital onboarding, Raast (instant payment system) and Real-Time Gross Settlement (RTGS), are playing a



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crucial role in advancing financial inclusion, promoting innovation and offering affordable digital financial services to individuals and businesses.

The industry wide digital transactions achieved a healthy growth of 28.6% by volume and 21.4% by value in FY'23. The number of users for mobile phone banking and internet banking surpassed 16.1 million and 9.6 million, respectively, marking year-on-year growth of 30.2% and 15.1%, during the FY'23.

Financial service providers are swiftly harnessing new technologies to enhance transactional efficiency through process automation. In line with its digital vision, Your Bank is set to expand its fleet of industry-first Cash Recycling ATMs. These ATMs not only facilitate cash withdrawals but also accept cash deposits, instantly sorting, authenticating, and storing deposited currency notes for disbursement to other customers. Additionally, selected ATMs feature a Talking ATM function specifically designed to assist visually impaired customers. To further augment its ATM fleet, Your Bank has introduced Interactive Teller Machines (ITMs) at strategic locations. ITMs represent an innovative banking technology enabling customers to conduct a wide array of teller-related transactions via video conferencing.

Your Bank has systematically implemented the live electronic journal feature for onsite ATMs. This initiative enables the retrieval of electronic journals and transaction images for each ATM, eliminating the need for paper rolls for journals and promoting paperless banking.

To minimize downtime in ATM services, the ATM Monitoring Unit operates 24/7. This commitment has led to maintaining an average ATM uptime of over 96% in the last five years, solidifying Your Bank's position as a leading acquirer in the banking industry.

Robotic process automation (RPA) software replicates rule-based digital tasks typically performed by humans. In the banking industry, RPA is utilized to eliminate time-consuming and repetitive tasks. Enhanced with improved handwriting recognition, natural language processing and other AI technologies, RPA bots have evolved into intelligent process automation tools capable of managing wide range of banking workflows previously handled by humans. Your Bank has implemented RPA for auto fetching of commodity price data from different websites for its price verification system and extraction of statements of account on daily basis from the system.

Your Bank has deployed Cisco ACI to expedite the application deployment lifecycle, facilitate workload migration across multiple frameworks and proactively address emerging risks. It is the industry's foremost secure, open and comprehensive Software-Defined Networking (SDN) solution for data center networks. Additionally, the Bank has upgraded its Enterprise Service Bus (ESB) to the latest version and infrastructure to support digital transformation initiatives. The ESB enables core applications to communicate with each other resulting in lowering the

number of point-to-point connections necessary to allow communication between applications. It has also facilitated the digital businesses by exposing ABL's services to external clients through an Open API platform.

Your Bank's WhatsApp channel presently caters to one million users, and there is a concerted effort to broaden its reach by integrating additional services. These enrichments aim to enhance customer experiences and offer a more convenient platform for banking transactions. Recent notable additions to the WhatsApp menu include:

- 1- Mobile top up
- 2- Withholding tax certificate
- 3- Account statement.

Through continuous improvement of its digital touchpoints and the successful pilot launch of its Point-of-Sale (POS) acquiring business, Your Bank has effectively cultivated an ecosystem that enhances Business to Business (B2B), Business to Person (B2P) and Business to Merchant (B2M) transactions.

The establishment of hybrid/smart branches and onboarding of 1.6 million registered myABL users serve to strengthen the digital ecosystem of Your Bank. This strategic approach has enabled the Bank to improve its Digital vs. Counter Transaction Mix to 81:19 as of December 31, 2023, compared to 74:26 as of December 31, 2022.

Your Bank has demonstrated prudent management of its strong capital position by leveraging consistent growth in low-and-no cost deposits while making reduction in high-cost deposits. This strategy has been complemented by maintaining a superior quality asset base. Notably, the Bank's low infection ratio, high coverage ratio and resilient Capital Adequacy Ratio, reflect positively on its robust risk management framework, continuous enrichment of innovative solutions and well-diversified positioning of earning assets.

Your Bank is committed towards proactive contributions to society. Throughout the year, it has undertaken a series of Corporate Social Responsibility (CSR) initiatives. Emphasizing an agile and professional work environment, the Bank aims to augment gender diversity and uphold principles of equal opportunity. Another key focus is fostering environmental sustainability through green practices and tree plantations. Additionally, Your Bank conducts awareness sessions for customers and obligors, organizes cleanliness drives at public locations and engages in academic and sponsorship activities. These activities demonstrate the Bank's dedication to promoting socially responsible citizenship.

Your Bank's unwavering commitment to providing digitally-led integrated solutions to its customers, supporting the growth of digital ecosystem in the financial sector and promoting environmentally friendly green banking practices as a responsible corporate citizen has received global recognition. The Banker, a world-renowned financial affairs



publication of Financial Times Group, U.K., published since 1926, has awarded Your Bank “Bank of the Year 2023 – Pakistan” accolade for the third consecutive year.

Pakistan’s Credit Rating Agency (PACRA) has re-affirmed Your Bank’s Long Term and Short Term ratings at the highest level of “AAA” (Triple A) and “A1+” (A One plus), respectively. Your Bank has solidified its position as one of the select group of financial institutions in the Country to maintain highest entity credit ratings. This rating reflects, robust capital position, adequate capital buffers to withstand economic and financial shocks and overall financial resilience.

Your Bank’s corporate governance practices undergo annual review by an independent evaluator. VIS Credit Rating Company Limited has maintained Your Bank’s Corporate Governance Rating of ‘CGR-9 ++’. This reaffirms the unwavering commitment of the board and management to maintaining a robust governance framework. The corporate governance framework of Your Bank aims to establish an efficient and strong management structure to effectively translate the Bank’s goals into tangible achievements.

## FUTURE OUTLOOK

The global economy is displaying indications of recovery as risks concerning future outlook are gradually diminishing. As a result, the IMF has revised its estimate of global growth at 3.1% in January 2024, marking an increase of 0.2% from the earlier estimate made in October 2023. Furthermore, the IMF has projected a decrease in global inflation to 5.8% in 2024 and 4.4% for 2025.

On the domestic front, improvements in political and macroeconomic conditions are anticipated. The IMF has projected GDP to grow by 2.0% in FY’24 and 3.5% in FY’25. Similarly, SBP has forecasted domestic growth to be around 2-3% in FY’24 with inflation expected to range between 5-7% by the end of FY’25.

Generative AI tools have the potential to significantly enhance customer satisfaction, optimize decision making processes and reduce risks by enabling better monitoring of fraud and risk. With AI backed anti-money laundering and know-your-customer solutions, it becomes feasible to screen new customers more rapidly and accurately. According to McKinsey, Generative AI could contribute an additional US\$ 200 billion to US\$ 340 billion in revenue to the global banking industry through heightened productivity. As we enter 2024, the banking industry finds itself on the brink of a digital revolution, with AI leading the change. Economic uncertainties and evolving digital needs have elevated technology from a peripheral element to

a cornerstone in the strategies of the financial sector. This new era is not just about adopting technology; it is about integrating AI into the core of banking services to establish resilient, innovative and customer-centric financial ecosystems. AI led cybersecurity solutions are poised to revolutionize security measures in several key areas:

1. Boost Security Operations Center (SCO) analysis
2. Breach risk predictions
3. Enhance cybersecurity posture
4. Assets inventory management
5. Prioritize vulnerability remediations
6. Solutions based on Generative AI
7. Accelerate resolution time

Overall, AI-driven cybersecurity solutions hold the promise of strengthening defenses, mitigating risks, and safeguarding the integrity and trust of banking systems in an increasingly digital landscape.

Your Bank’s resilient risk management system will persist in maintaining risk appetite within defined limits, effectively mitigating emerging cybersecurity threats and enhancing data governance.

Your Bank remains dedicated to achieving its vision and creating sustainable value through growth, efficiency and diversity for all stakeholders. With a focus on financial inclusion, low-cost deposit mobilization, high quality advances and enhanced customers’ experience through digitally-led solutions, Your Bank is committed to promoting advancement of digital ecosystem in financial sector. These endeavors reflect Your Bank’s ongoing commitment to innovation, inclusivity, and excellence in serving its customers and contributing to the broader financial community.

On behalf of the Board of Directors, I would like to express my appreciation to the regulatory bodies including State Bank of Pakistan, Securities and Exchange Commission of Pakistan and Federal Board of Revenue for their consistent guidance and assistance. I would also like to commend our esteemed shareholders for having confidence in the Bank’s long-term strategic goals.

Finally, I would like to extend my gratitude to Allied Bank’s management team and over 11,000 Allied Bankers, for their resolute endeavors, unwavering commitment and invaluable contributions in building a resilient and technologically advanced Allied Bank.

**Mohammad Naeem Mukhtar**  
Chairman Board of Directors

