

CHAIRMAN'S MESSAGE

Mohammad Naeem Mukhtar

Chairman Board of Directors

Global and National Economic Overview

The global economy demonstrated notable resilience in 2024, achieving moderate growth despite challenging conditions. Central banks' monetary policy measures successfully began to curb inflationary pressures worldwide. While we're witnessing encouraging signs of stabilization, potential risks remain due to ongoing geopolitical tensions and trade disputes. The International Monetary Fund (IMF) forecasts global GDP growth at 3.2% for 2024—a moderate figure compared to the pre-pandemic average of 3.7%. Global inflation projections have been slightly revised downward from 5.8% to 5.7%, according to the October 2024 World Economic Outlook.

Pakistan's economy showed resilience and positive momentum throughout 2024, with improving macroeconomic fundamentals. Tightened monetary policy effectively eased inflationary pressures, while disciplined fiscal management facilitated a shift toward fiscal surplus. Improved export performance and increased remittance inflows strengthened our current account position, reflecting a more stable external sector. The IMF revised Pakistan's GDP growth forecast to 2.5% for 2024—slightly higher than its earlier 2.4% estimate—marking a significant turnaround from the 0.2% contraction recorded in 2023. The State Bank of Pakistan (SBP) similarly projects 2.5% economic growth.

Against this backdrop, the domestic banking sector delivered strong performance in 2024, with increases in total assets, investments, and deposits.

Digital Transformation in Banking

The banking industry has undergone a profound transformation with the adoption of digital technologies, driven by customer demand for convenience, speed, and personalized experiences. Competition from fintech firms and evolving regulatory requirements have further accelerated innovation. In response, the banking sector has strategically integrated technological advancements including artificial intelligence (AI),

generative AI, blockchain, and cloud computing to enhance operational efficiency, improve customer experience, strengthen information security, optimize decision-making, and promote financial inclusion.

Digital advancements are crucial for expanding access to banking services for underserved populations while strengthening business resilience during disruptions and supporting sustainability goals by reducing our carbon footprint. Several key technologies are reshaping the industry:

- **Artificial Intelligence:** AI utilizes algorithms and neural networks to process vast data amounts, enabling more informed decisions. AI-driven machine learning models continuously improve fraud detection, credit scoring, and customer segmentation. AI-powered chatbots and virtual assistants efficiently handle customer queries, reducing reliance on human agents while improving service quality.
- **Quantum Computing:** By processing data significantly faster than classical systems and analysing millions of market variables in real-time, quantum computing enables advanced solutions for complex calculations, precise investment recommendations, and enhanced portfolio management.
- **Cryptography:** Banks extensively use cryptography to secure transactions, protect customer data, and authenticate users. It forms the foundation for technologies such as blockchain and tokenization, ensuring secure and transparent financial operations.
- **Blockchain and Distributed Ledger Technology (DLT):** These enhance data transparency, immutability, and decentralization, addressing inefficiencies in traditional banking. They enable cost-effective cross-border payments and streamline global trade through smart contracts. Central Bank Digital Currencies (CBDCs) built on DLT offer secure, efficient transactions, accelerating remittances and digital payments in underserved regions.

- **Regulatory Technology (RegTech):** To mitigate compliance risks, banks leverage RegTech innovations to automate processes, reduce costs, and ensure adherence to legal standards. These technologies streamline KYC procedures using AI for identity validation and enhance anti-money laundering efforts through real-time detection of suspicious transactions.
- **Green Fintech:** This focuses on technologies promoting environmental sustainability and aligning financial practices with Environmental, Social, and Governance (ESG) goals. Platforms like Stripe Climate help assess carbon footprints of financed projects, while AI algorithms evaluate and prioritize funding for renewable energy initiatives.

National Payment Ecosystem Advancements

The national payment ecosystem has experienced significant advancements, with continued growth in digital payments driven by increasing accessibility and adoption. Electronic Money Institutions (EMIs) and Branchless Banking (BB) providers are introducing innovative products and services that pave the way for a more digitalized economy. The introduction of QR-based payments through Raast is reducing transaction costs for merchants while contributing to broader adoption of digital payments.

The SBP has initiated several measures to accelerate economic digitization, including:

- Onboarding various private and public sector entities onto the Raast platform
- Integrating Raast-Buna for cross-border payment settlement in the Arab region
- Launching interoperable Raast P2M (Person to Merchant) services to facilitate digital payment acceptance through QR codes, Raast Alias, IBAN, and Request to Pay (RTP)

During FY'24, digital platforms experienced notable growth, with significant increases in retail sector digital payments, internet and mobile app banking users, Branchless Banking mobile app users, and e-wallet customers.

Allied Bank's Digital Innovations

Recognizing AI's transformative potential, Allied Bank has developed a Large Language Model (LLM) using the OpenAI ChatGPT platform. By integrating Retrieval Augmented Generation (RAG), this initiative enables Generative AI solutions for various applications. We've introduced an AI-powered chatbot, ABL - معاون (ABL Assistant), which provides precise, up-to-date information by referencing the Bank's instruction circulars, HR policies, procedure manuals, and related documents—generating responses automatically without human intervention.

Understanding compliance's critical role, we've developed an AI-driven Compliance Model. This tool enables employees to access compliance-related information by leveraging training on regulatory documents, circulars, policies, procedures, and guidelines from the SBP and other regulatory bodies, strengthening our overall compliance framework.

As part of our "Data Strategy," we've initiated customer data collection and analysis from our data lake using Big Data technologies. We prioritized "Customer Segmentation" to classify customers into distinct personas based on demographics, behaviours, and psychographics, enhancing personalization and delivering more tailored banking experiences.

To enhance digital platform security, we've introduced advanced features including:

- Two-factor authentication (2FA)
- Touchless biometric authentication
- Device registration with cooling-off periods
- End-to-end encryption for all digital transactions

Our redesigned myABL Digital Banking App offers enhanced user experience with intuitive navigation, faster transactions, and seamless digital account opening. Recent advancements include:

- Instant VISA virtual debit card creation
- RAAST P2M transfers
- Dormant account activation
- Temporary transaction limit enhancements
- Simplified complaint lodging and refund request processes

The myABL Coins loyalty program incentivizes customer engagement by allowing users to earn points for transactions made through ABL Debit and Credit Cards, both locally and internationally. The launch of NFC Tap&Pay marks a significant milestone in digital payments, offering enhanced convenience and security by allowing users to complete transactions by simply tapping their smartphones on NFC-enabled terminals.

Our WhatsApp banking service currently serves over 1.6 million customers, with ongoing initiatives to expand its reach through additional value-added services. Recent additions include Account Maintenance Certificate and Cheque Status Inquiry features.

The implementation of hybrid and smart branches, along with the successful onboarding of over 2 million registered myABL users, has optimized our Digital-to-Counter Transaction Mix, maintaining an impressive ratio of 85:15 as of December 31, 2024.

Financial Strength and Recognition

Allied Bank has maintained prudent stewardship of its strong capital position by consistently growing low and no-cost deposits while optimizing funding structure through reduction in high-cost deposits. This approach is reinforced by our commitment to maintaining a high-quality asset portfolio. Our low infection ratio, strong coverage ratio, and resilient Capital Adequacy Ratio collectively highlight our robust risk management framework.

The Pakistan Credit Rating Agency (PACRA) has reaffirmed Allied Bank's Long-Term and Short-Term credit ratings at the highest levels of "AAA" (Triple A) and "A1+" (A One Plus), respectively. This recognition places us among an exclusive group of financial institutions consistently maintaining the highest entity credit ratings.

VIS Credit Rating Company Limited has reaffirmed our Corporate Governance Rating at 'CGR-9++', reflecting the Board and management's commitment to maintaining strong and effective governance structures.

Corporate Social Responsibility

Allied Bank remains committed to meaningful societal contributions through comprehensive Corporate Social Responsibility (CSR) initiatives. With a focus on fostering an agile and professionally enriching work environment, we prioritize gender diversity and uphold principles of equitable opportunity.

We reinforce our commitment to environmental sustainability through eco-friendly operational practices and extensive tree plantation programs. Additionally, we engage stakeholders through customer awareness sessions, organize cleanliness campaigns in public spaces, and actively invest in academic collaborations and sponsorship ventures.

FUTURE OUTLOOK

The IMF expects global economic growth to remain stable despite ongoing macroeconomic challenges, projecting global GDP growth at 3.3% for both 2025 and 2026.

Domestically, the IMF has revised Pakistan's GDP growth projection for 2025 to 3.0%, a slight downward adjustment from its earlier 3.2% estimate. The SBP's Monetary Policy Committee expects GDP growth for FY25 to remain between 2.5% and 3.5%. For 2026, the IMF maintains its growth forecast at 4.0%.

The future of banking relies on a platform-based operating model integrating advanced technologies with core systems. This approach seamlessly connects financing, payments,

and wealth management with core banking infrastructure to boost efficiency and innovation. Moving toward modular, API-driven frameworks and cloud technology is key for future technological transformation, necessitating scalable data products and machine learning operations (MLOps) implementation.

Allied Bank's robust risk management framework will continue to maintain risk appetite within well-defined parameters, proactively mitigate emerging cybersecurity threats, and strengthen control processes to safeguard organizational integrity.

We remain steadfast in our commitment to achieving our strategic vision and delivering sustainable value through growth, operational efficiency, and diversification. Our continued efforts to develop a digitally empowered financial ecosystem, prioritizing financial inclusion, mobilization of low-cost deposits, and high-quality credit expansion, remain central to our strategic priorities.

Acknowledgments

On behalf of the Board of Directors, I extend profound gratitude to the regulatory authorities, including the State Bank of Pakistan, Securities and Exchange Commission of Pakistan, and Federal Board of Revenue, for their guidance and support. Their collaborative engagement remains integral to our adherence to excellence in governance and compliance.

I convey my deepest appreciation to our valued shareholders for their enduring trust and unwavering confidence in the Bank's long-term strategic aspirations.

Finally, I acknowledge the leadership of Allied Bank's management team and the dedication of our more than 13,000 Allied Bankers. Their efforts, unwavering commitment, and invaluable contributions have been instrumental in strengthening Allied Bank's resilience and enhancing its stature as a technologically advanced financial institution.

Mohammad Naeem Mukhtar
Chairman Board of Directors

February 04, 2025

SCREENING ALLIED BANK'S CLIMATE CHANGE DOCUMENTARY - INVISIBLE AVALANCHE

